

POHNPEI PORT AUTHORITY
(A COMPONENT UNIT OF THE STATE OF POHNPEI)

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2020 AND 2019

POHNPEI PORT AUTHORITY
(A COMPONENT UNIT OF THE STATE OF POHNPEI)

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Years Ended September 30, 2020 and 2019

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Pohnpei Port Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Pohnpei Port Authority (the Authority), a component unit of the State of Pohnpei, which comprise the statements of net position as of September 30, 2020 and 2019, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pohnpei Port Authority as of September 30, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 to 7 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2021, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Deloitte & Touche LLP

October 11, 2021

POHNPEI PORT AUTHORITY
(A Component Unit of the State of Pohnpei)

Management's Discussion and Analysis
Years Ended September 30, 2020 and 2019

Our discussion and analysis of the Pohnpei Port Authority's ("the Authority" or "PPA") financial performance provides an overview of the Authority's financial activities for fiscal year (FY) ended September 30, 2020.

Please read it in conjunction with the Authority's financial statements, which follow this section.

Financial Highlights

- Net operating revenues decreased by \$1,195,325 or 29.6% from last year.
- Operating expenses were \$618,657 or 16.8% lower compared to fiscal year 2019.
- Current assets decreased by \$43,455 or 0.7%.
- Liabilities decreased by \$397,290 or 55.5%.
- Net position decreased by \$172,644 or 1.4%.

Overview of the Financial Statements

The financial statements presented herein include all of the activities of the Authority. Included in this report are the Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position. These financial statements present the complete financial picture of the Authority from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets and liabilities of the Authority and current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The accounts of the Authority are organized as a proprietary fund. Governmental units that are operated in a manner similar to private business enterprises use proprietary funds. The Authority prepares and submits a detailed statement of its proposed annual budget to the Governor on or before March 15th of each year. An annual budget may be amended at any time in the same manner as the adoption of the initial budget for that fiscal year. The Authority depends mainly on its generated revenues to sustain its operations. Seaport charges, departure fees, landing fees, land leases and space rentals are the major sources of revenues.

The Statement of Net Position and the Statements of Revenues, Expenses and Changes in Net Position

The Statement of Net Position and Statements of Revenues, Expenses and Changes in Net Position report the financial condition or position and results of operations of the Authority. They present the assets, liabilities and the difference between assets and liabilities. They report the information whether the Authority has sufficient resources to meet its current and long-term obligations as well. They present whether the Authority's financial health is improving, deteriorating or remaining steady as prior year. They report the revenues earned and expenses incurred and whether the revenues are more or less than the expenses.

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Management's Discussion and Analysis
Years Ended September 30, 2020 and 2019

A Financial Analysis of the Authority as a Whole

Net Position

Current assets decreased by \$43,455 or 0.7%. Investments increased by \$18,918 or 7.0%. Capital assets decreased by \$315,529 or 4.6%. On the other hand, liabilities decreased by \$397,290 or 55.5%. Overall, net position decreased by \$172,644.

The following summarizes the Authority's financial condition for fiscal years 2018 to 2020:

	2020	2019	FY 20 vs FY 19		2018
			Increase(decrease)		
Current assets	\$ 6,128,967	\$ 6,172,422	\$ (43,455)	0.7%	\$ 6,039,594
Advance to FSMNG	-	229,868	(229,868)	100%	229,868
Capital assets, net	6,500,842	6,816,371	(315,529)	4.6%	6,542,657
Investment	<u>291,222</u>	<u>272,304</u>	<u>18,918</u>	<u>6.9%</u>	<u>242,088</u>
Total assets	\$ <u>12,921,031</u>	\$ <u>13,490,965</u>	(569,934)	4.2%	\$ <u>13,054,207</u>
Current liabilities	<u>318,037</u>	<u>715,327</u>	(397,290)	55.5%	<u>401,412</u>
Total liabilities	<u>318,037</u>	<u>715,327</u>	(397,290)	55.5%	<u>401,412</u>
Net Position:					
Invested in capital assets	6,500,842	6,816,371	(315,529)	4.6%	6,542,657
Unrestricted	<u>6,102,152</u>	<u>5,959,267</u>	<u>142,885</u>	<u>2.4%</u>	<u>6,110,138</u>
Total net position	<u>12,602,994</u>	<u>12,775,638</u>	(172,644)	1.4%	<u>12,652,795</u>
Total liabilities and net position	\$ <u>12,921,031</u>	\$ <u>13,490,965</u>	\$(569,934)	4.2%	\$ <u>13,054,207</u>

The Authority's net position from fiscal years 2017 to 2020 are as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Current assets	\$ 6,128,967	\$ 6,172,422	\$ 6,039,594	\$ 4,720,212
Capital assets, net	6,500,842	6,816,371	6,542,657	6,505,111
Other assets	0	229,868	229,868	229,868
Investment	291,222	272,304	242,088	234,790
Current liabilities	<u>(318,037)</u>	<u>(715,327)</u>	<u>(401,412)</u>	<u>(341,412)</u>
Net Position	<u>\$12,602,994</u>	<u>\$12,775,638</u>	<u>\$12,652,795</u>	<u>\$11,348,569</u>

POHNPEI PORT AUTHORITY
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Management's Discussion and Analysis
Years Ended September 30, 2020 and 2019

Changes in Net Position

Seaport revenues decreased by \$530,570 or 22% compared to fiscal year 2019. Overall revenues decreased by \$1,668,525 or 35.8% while operating expenses decreased by \$618,657 or 16.8% from last year. The decrease of expenses by 16.8% did have an impact to the revenue decrease of 25.9% resulting in net earnings of \$(172,644). The Authority's changes in Net Position for fiscal years 2018 to 2020 are as follows:

	<u>2020</u>	<u>2019</u>	FY 2020 vs FY 2019		<u>2018</u>
			<u>Increase</u>	<u>(decrease)</u>	
Operating revenues:					
Seaport charges	\$ 1,886,044	\$ 2,416,614	\$ (530,570)	(22 %)	\$ 3,100,121
Land leases and space rentals	646,601	610,052	36,549		599,548
Departure fees	218,195	532,885	(314,690)		516,115
Landing fees	73,997	117,933	(43,936)		114,319
Other	<u>165,879</u>	<u>356,471</u>	<u>(190,592)</u>		<u>329,138</u>
Total operating revenues	2,990,716	4,033,955	(1,043,239)	(25.9 %)	4,659,241
Bad debt (expense) recoveries	<u>152,086</u>	-	<u>152,086</u>	(100%)	<u>(36,641)</u>
Net operating revenue	<u>2,838,630</u>	<u>4,033,955</u>	<u>(1,195,325)</u>	<u>(29.6 %)</u>	<u>4,628,600</u>
Operating expenses:					
Salaries and benefits	1,678,516	1,666,852	11,664		1,517,313
Contractual services	242,454	510,300	(267,846)		533,998
Depreciation	425,874	448,343	(22,469)		417,595
Utilities	197,934	257,966	(60,032)		221,639
Repairs	102,627	181,324	(78,697)		154,321
Supplies and materials	118,903	139,391	(20,488)		96,463
Travel	49,551	98,828	(49,277)		84,548
Training	47,641	95,441	(47,800)		141,115
Fuel	84,823	90,872	(6,049)		74,118
Equipment rental	1,900	51,308	(49,408)		6,325
Communication	33,185	32,518	667		31,974
Miscellaneous and others	<u>74,567</u>	<u>103,489</u>	<u>(28,922)</u>		<u>74,832</u>
Total operating expenses	<u>3,057,975</u>	<u>3,676,632</u>	<u>(618,657)</u>	(16.8 %)	<u>3,354,241</u>
(Loss) Income from operations	<u>(219,345)</u>	<u>357,323</u>	<u>(576,668)</u>	(161.4 %)	<u>1,274,359</u>
Non-operating revenues (expenses):					
Litigation settlement loss		(300,000)	300,000		-
Interest income	39,400	57,321	(17,921)		26,674
Other nonoperating income	7,301	-	7,301		-
Gain from sale of property	-	<u>8,199</u>	<u>(8,199)</u>		<u>3,193</u>
Total non-operating (expense) revenues, net	<u>46,701</u>	<u>(234,480)</u>	<u>281,181</u>	<u>119.9%</u>	<u>29,867</u>
Change in net position	<u>\$ (172,644)</u>	<u>\$ 122,843</u>	<u>\$ (295,487)</u>	<u>(240.5 %)</u>	<u>\$1,304,226</u>

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Years Ended September 30, 2020 and 2019

Capital Assets

Capital assets decreased by \$315,529 during FY 2020. Net investment in capital assets totaled \$6,500,842 at September 30, 2020.

Additions for capital assets for FY 2020 include renovation of PPA hangar, construction of Seaport workshop, terminal repainting project; Seaport office renovation; Search room construction; Departure re-varnish project and Admin repainting project.

Summary of capital assets as of September 30, 2020:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Buildings and improvements	\$18,001,678	\$14,848,451	\$3,153,227
Machinery and equipment	4,064,499	3,504,365	560,134
Land	2,776,034	-	2,776,034
Construction in Progress	<u>11,447</u>	<u>-</u>	<u>11,447</u>
Total	<u>\$24,853,658</u>	<u>\$18,352,816</u>	<u>\$6,500,842</u>

Long-Term Debt

The Authority did not have any long-term debt or long-term liabilities existing at September 30, 2020, 2019, and 2018.

Management's Discussion and Analysis for the year ended September 30, 2019 set forth in the Authority's report on the audit of financial statements, which is dated June 9, 2020. That Discussion and Analysis explains the major factors impacting the 2019 financial statements and can be viewed at the FSM Office of the National Public Auditors' website at www.fsmopa.fm.

FY 2021 Economic Outlook

PPA will continue to see increase in cost of utilities and fuel with the completion of the terminal departure lounge enclosure. PPA received a check for \$64,472 from the Japan Embassy to construct and guard house at the Seaport entrance. Depreciation is anticipated to increase upon completion of this Capital Improvement Projects and additions.

Due to the COVID-19 pandemic, PPA is faced with challenges of decreased number of flights coming into Pohnpei that have caused a significant decrease in airport revenues. FSM borders are still closed as of September 2021, and although the number of out-going passengers have slightly increased from last year, these out-going passengers are citizens migrating to live outside of the FSM. Repatriations flights are only bringing in FSM citizens who have been stranded abroad for the past year or so. There are also interstate flights; however, the capacity of these flights are only 15 passengers. Governor's declaration has banned incoming passengers and limited out-going passengers as well.

Seaport activities are also minimized due to COVID-19 where only FSM flag carrier vessels are allowed to do transshipment activities in the anchorage area.

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Years Ended September 30, 2020 and 2019

The COVID-19 pandemic is not expected to disappear anytime soon and until then, PPA will continue to face challenges with decreased revenue for both Airport and Seaport. PPA must use its limited resources prudently in order to secure vital equipment, upgrade infrastructure, subsidize the Airport operation and maintain positive trends in results of operation.

Contacting the Authority's Financial Management

This financial report is designed to provide our customers, creditors, Board of Directors and other interested parties with the general overview of the Authority's financial activities. Questions or additional financial information can be asked or obtained from Finance Division with the permission of the General Manager at P.O. Box 1150, Pohnpei, FM 96941.

POHNPEI PORT AUTHORITY
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Statements of Net Position
September 30, 2020 and 2019

<u>ASSETS</u>	<u>2020</u>	<u>2019</u>
Current assets:		
Cash and cash equivalents	\$ 5,781,421	\$ 5,559,782
Accounts receivable, net	229,640	460,191
Advances	58,345	49,637
Prepaid expenses	<u>59,561</u>	<u>102,812</u>
Total current assets	<u>6,128,967</u>	<u>6,172,422</u>
Noncurrent assets:		
Investments	291,222	272,304
Advances to FSM National Government	-	229,868
Depreciable property and equipment, net	3,713,361	4,040,337
Non-depreciable property and equipment	<u>2,787,481</u>	<u>2,776,034</u>
Total noncurrent assets	<u>6,792,064</u>	<u>7,318,543</u>
	<u>\$ 12,921,031</u>	<u>\$ 13,490,965</u>
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Accounts payable	\$ 22,042	\$ 23,587
Accrued liabilities and others	190,437	506,129
Accrued annual leave	105,558	98,116
Due to FSM National Government	-	77,782
Due to Pohnpei State Government	<u>-</u>	<u>9,713</u>
Total current liabilities	<u>318,037</u>	<u>715,327</u>
Commitments and contingency		
Net position:		
Net investment in capital assets	6,500,842	6,816,371
Unrestricted	<u>6,102,152</u>	<u>5,959,267</u>
Total net position	<u>12,602,994</u>	<u>12,775,638</u>
	<u>\$ 12,921,031</u>	<u>\$ 13,490,965</u>

See accompanying notes to financial statements.

POHNPEI PORT AUTHORITY
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Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2020 and 2019

	2020	2019
Operating revenues:		
Seaport charges	\$ 1,886,044	\$ 2,416,614
Land leases and space rentals	646,601	610,052
Departure fees	218,195	532,885
Landing fees	73,997	117,933
Other	165,879	356,471
Total operating revenues	2,990,716	4,033,955
Bad debt expense	152,086	-
Net operating revenues	2,838,630	4,033,955
Operating expenses:		
Salaries and benefits	1,678,516	1,666,852
Depreciation	425,874	448,343
Contractual services	242,454	510,300
Utilities	197,934	257,966
Supplies and materials	118,903	139,391
Repairs	102,627	181,324
Fuel	84,823	90,872
Travel	49,551	98,828
Training	47,641	95,441
Communication	33,185	32,518
Equipment rental	1,900	51,308
Miscellaneous	74,567	103,489
Total operating expenses	3,057,975	3,676,632
(Loss) income from operations	(219,345)	357,323
Nonoperating (expense) revenues, net:		
Litigation settlement loss	-	(300,000)
Interest and investment income	39,400	57,321
Gain from sale of assets	-	8,199
Other nonoperating income	7,301	-
Total nonoperating revenues (expense), net	46,701	(234,480)
Change in net position	(172,644)	122,843
Net position at beginning of year	12,775,638	12,652,795
Net position at end of year	\$ 12,602,994	\$ 12,775,638

See accompanying notes to financial statements.

POHNPEI PORT AUTHORITY
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Statements of Cash Flows
Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Cash received from customers	\$ 3,379,211	\$ 4,171,841
Cash paid to suppliers for goods and services	(1,403,934)	(1,790,853)
Cash paid to employees	<u>(1,671,076)</u>	<u>(1,661,303)</u>
Net cash provided by operating activities	<u>304,201</u>	<u>719,685</u>
Cash flows from capital and related financing activities:		
Proceeds from sale of property and equipment	-	8,199
Acquisition of property and equipment	<u>(110,345)</u>	<u>(722,057)</u>
Net cash used in capital and related financing activities	<u>(110,345)</u>	<u>(713,858)</u>
Cash flows from investing activities:		
Interest and investment income	<u>27,783</u>	<u>27,105</u>
Net cash provided by investment activities	<u>27,783</u>	<u>27,105</u>
Net change in cash and cash equivalents	221,639	32,932
Cash and cash equivalents at beginning of year	<u>5,559,782</u>	<u>5,526,850</u>
Cash and cash equivalents at end of year	<u>\$ 5,781,421</u>	<u>\$ 5,559,782</u>
Reconciliation of income from operations to net cash provided by operating activities:		
(Loss) income from operations	\$ (219,345)	\$ 357,323
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	425,874	448,343
Bad debt expense	152,086	-
Litigation settlement loss	-	(300,000)
Increase in assets:		
Accounts receivable	230,551	(11,600)
Advances	(8,708)	(17,166)
Prepaid expenses	43,251	(71,130)
Increase (decrease) in liabilities:		
Accounts payable	(1,545)	2,114
Accrued liabilities and others	(315,692)	317,224
Due to Pohnpei State Government	(9,713)	(10,972)
Accrued annual leave	<u>7,442</u>	<u>5,549</u>
Net cash provided by operating activities	<u>\$ 304,201</u>	<u>\$ 719,685</u>

See accompanying notes to financial statements.

POHNPEI PORT AUTHORITY
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Notes to Financial Statements
September 30, 2020 and 2019

(1) Reporting Entity

The Pohnpei Port Authority (the Authority), a component unit of the Pohnpei State Government, was established by Pohnpei State Public Law 2L-224-91. The primary purpose of the Authority is to oversee the use and maintenance of Pohnpei State's sea and air ports. The Authority began operating as a separate entity in fiscal year 1993, although the accounting for the Authority was not transferred from the Pohnpei State Department of Treasury until January 1994.

The affairs of the Authority are managed by a seven-member board, consisting of representatives of the Pohnpei State Government appointed by the Governor to four-year terms. Daily operation of the Authority is delegated to a General Manager, who is appointed by and serves at the pleasure of the Board.

The Authority's financial statements are incorporated into the financial statements of the Pohnpei State Government as a component unit.

(2) Summary of Significant Accounting Policies

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the fund are included in the statements of net position. Proprietary fund operating statements present increases and decreases in net position. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The Authority's revenues are derived primarily from providing various services to major shipping and airline customers under an approved tariff rate schedule and are reported as operating revenues. Capital, grants, financing or investing related transactions are reported as non-operating revenues. Revenue is recognized on the accrual basis and is recorded upon billing when services have been completed. All expenses related to operating the Authority are reported as operating expenses. Interest income or federal program revenues are the primary components of non-operating expenses and revenues.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net Position

Net position represents the residual interest in the Authority's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted and consists of the following sections:

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Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

Net Position, Continued

- Net investment in capital assets; capital assets, net of accumulated depreciation, plus construction or improvement of those assets, less related debt.
- Unrestricted; net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Cash and Cash Equivalents

For purposes of the statements of net position and of cash flows, cash and cash equivalents is defined as cash on hand, cash in banks and cash in time certificates of deposit with initial maturities of ninety days or less.

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The Authority does not have a deposit policy for custodial credit risk.

As of September 30, 2020 and 2019, the carrying amount of the Authority's total cash and cash equivalents was \$5,781,421 and \$5,559,782, respectively, and the corresponding bank balances were \$5,869,357 and \$5,640,416, respectively, which are primarily maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2020 and 2019, bank deposits in the amount of \$500,000 were FDIC insured. The Authority does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk. The Authority has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on its deposits.

Receivables

Accounts receivable are due from businesses and individuals based in Pohnpei State that relate to public land leases, space rentals, landing fees, port and handling charges, wharfage, gross receipts fees and other fees. The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense. Bad debts are ultimately written-off against the allowance on the specific identification method. At September 30, 2020 and 2019, receivables are net of an allowance for doubtful accounts of \$105,858 and \$488,460, respectively.

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Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

Investments

Investments and related investment earnings are recorded at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability (i.e. the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.

An equity investment in the common stock of Bank of FSM (investee) is stated at net asset value (NAV). The NAV is used as a practical expedient to estimate fair value. The NAV is determined based on the total shareholder's equities reported by the investee.

Property and Equipment

Property and equipment are stated at cost or at estimated appraised values as of the transfer date, less accumulated depreciation. Depreciation is based on the straight-line method over the estimated useful lives of the respective assets. All assets have an estimated useful life of three to seventy years. The Authority utilizes a capitalization threshold of \$1,000. Land is recorded based on an appraisal of the Authority facilities performed during the year ended September 30, 1996.

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefit accrues to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. The related sick pay expense is recorded when the benefit is actually taken.

Taxes

Corporate profits are not subject to income tax in the Federated States of Micronesia. The Government of the Federated States of Micronesia imposes a gross receipts tax of 3% on revenues. The Authority is specifically exempt from this tax.

Advances to/from FSM National Government

The FSM National Government (FSMNG) administers various construction grants that require a matching share. The Authority provided the match in advance which will be capitalized into capital assets upon the turnover of the final project to the Authority. During the year ended September 30, 2020, the Authority and FSMNG have determined that the net advances due from FSMNG totaling \$152,086 are no longer valid and as such the balances have been written off as bad debt in the accompanying 2020 financial statements.

New Accounting Standards

During the year ended September 30, 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement Nos. 84, 89, 90, 91, 92 and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

POHNPEI PORT AUTHORITY
(A Component Unit of the State of Pohnpei)

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 84 will be effective for fiscal year ending September 30, 2021.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. Management believes that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 will be effective for fiscal year ending September 30, 2022.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 89 will be effective for fiscal year ended September 30, 2022.

In March 2018, GASB issued Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 90 will be effective for fiscal year ending September 30, 2021.

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Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefits. The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance. The remaining requirements of GASB Statement No. 92 are effective for the fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The primary objective of this Statement is to address those and other accounting and financial reporting implications of the replacement of an IBOR. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 93 will be effective for fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

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Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

(3) Investments

At September 30, 2020 and 2019, investments represent 10,000 common shares in Bank of FSM (BFSM), which approximated 1% ownership interest. The total shareholders' equity reported by BFSM approximated \$27,217,000 and \$25,449,000 at September 30, 2020 and 2019, respectively.

(4) Property and Equipment

Capital asset activities for the years ended September 30, 2020 and 2019, were as follows:

	Estimated Useful Lives	Balance at October 1 2019	Transfers and Additions	Transfers and Deletions	Balance at September 30, 2020
Non-depreciable:					
Land		\$ 2,776,034	\$ -	\$ -	2,776,034
Construction in progress		-	<u>11,447</u>	-	<u>11,447</u>
		<u>2,776,034</u>	<u>11,447</u>	-	<u>2,787,481</u>
Depreciable:					
Buildings and improvements 7 - 70 years		17,971,115	30,563	-	18,001,678
Machinery and equipment 3 - 5 years		<u>3,996,164</u>	<u>68,335</u>	-	<u>4,064,499</u>
		21,967,279	98,898	-	22,066,177
Less accumulated depreciation		<u>(17,926,942)</u>	<u>(425,874)</u>	-	<u>(18,352,816)</u>
		<u>4,040,337</u>	<u>(326,976)</u>	-	<u>3,713,361</u>
Property and equipment, net		\$ <u>6,816,371</u>	\$ <u>(315,529)</u>	\$ -	\$ <u>6,500,842</u>

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Notes to Financial Statements
September 30, 2020 and 2019

(4) Property and Equipment, Continued

	Estimated Useful Lives	Balance at October 1 2018	Transfers and Additions	Transfers and Deletions	Balance at September 30, 2019
Non-depreciable:					
Land		\$ 2,776,034	\$ -	\$ -	\$ 2,776,034
Construction in progress		<u>14,820</u>	<u>(14,820)</u>	<u>-</u>	<u>-</u>
		<u>2,790,854</u>	<u>(14,820)</u>	<u>-</u>	<u>2,776,034</u>
Depreciable:					
Buildings and improvements	7 - 70 years	17,760,090	211,025	-	17,971,115
Machinery and equipment	3 - 5 years	<u>3,524,322</u>	<u>525,852</u>	<u>(54,010)</u>	<u>3,996,164</u>
		21,284,412	736,877	(54,010)	21,967,279
Less accumulated depreciation		<u>(17,532,609)</u>	<u>(448,343)</u>	<u>54,010</u>	<u>(17,926,942)</u>
		<u>3,751,803</u>	<u>288,534</u>	<u>-</u>	<u>4,040,337</u>
Property and equipment, net		\$ <u>6,542,657</u>	\$ <u>273,714</u>	\$ <u>-</u>	\$ <u>6,816,371</u>

(5) Related Party Transactions

During the years ended September 30, 2020 and 2019, the Authority recorded, as net of seaport charges, \$82,799 and \$117,309 due to the Pohnpei State Government (PSG), respectively. The amount represents 30% of anchorage fees which are required to be remitted to PSG pursuant to Public Law 8L-83-15, effective October 1, 2015. At September 30, 2020 and 2019, unremitted balance of \$0 and \$9,713, respectively, is presented as due to PSG in the accompanying financial statements.

(6) Risk Management

The Authority purchases insurance to cover workmen's compensation and life insurance risks and is substantially self-insured for all other risks. Management is of the opinion that no material losses have been sustained as a result of this practice during the past three years.

(7) Future Rental Revenues

The Authority is a party to operating lease agreements for land and concession stands that expire in various dates through 2044 with other component units of the Pohnpei State Government or the FSM National Government and private corporations. Some of the agreements contain options to renew. The approximate future minimum rental revenues are as follows:

Year ending <u>September 30,</u>	
2021	\$ 437,000
2022	801,000
2023	762,000
2024	672,000
2025	254,000
Thereafter	<u>2,171,000</u>
	<u>\$ 5,097,000</u>

POHNPEI PORT AUTHORITY
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Notes to Financial Statements
September 30, 2020 and 2019

(8) Retirement Plan

The Authority's retirement plan (the Plan) is a self-administered program established to pay retirement, disability and survivor income to employees and their survivors to supplement similar benefits that employees receive from the FSM Social Security System. The Plan is a contributory plan in which the Authority contributes a maximum of 7.5 percent of participants' annual salary. Participation is optional. Vesting of the Authority's contributions occurs over a six-year period. The Authority's Human Resources Manager is the designated Plan administrator. Contributions to the Plan during the years ended September 30, 2020 and 2019 were \$44,179 and \$44,979, respectively. Management is of the opinion that the Plan does not represent an asset or a liability of the Authority. As of September 30, 2020 and 2019, plan assets were \$847,452 and \$812,686, respectively.

(9) Contingency

The Authority is subject to certain legal complaints that have arisen in the normal course of business. Management is of the opinion that resolution of these matters will not have a material effect on the Authority's results of operations, and as such, no adjustments have been recorded in the accompanying financial statements.

During the year ended September 30, 2019, the Authority entered into a legal settlement discussion with a former tenant. The settlement of \$300,000 was paid in October 2019 and recorded in the accompanying 2019 financial statements.

(10) Risks and Uncertainties

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. In response, governments all over the world implemented actions which impacted the macroeconomic environment, increased economic uncertainty and reduced economic activities. The Authority's business and earnings are closely tied to the economies of the FSM. The impacts of travel restrictions and have resulted in immediate adverse impact to the Authority's operations. During the year ended September 30, 2020, the Authority generated reduced earnings from its seaport and airport operations, as well as granting rent abatements to concessionaries. These impacts are expected to continue throughout the year ending September 30, 2021. The length of time such conditions will continue to exist as well as the significance of the impact to the Authority's operations is presently not determinable

(11) Subsequent Event

Management has considered subsequent events through October 11, 2021, upon which the financial statements were available to be issued. There were no other material subsequent events that would require recognition or disclosure in the financial statements for the year-ended September 30, 2020.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Board of Directors
Pohnpei Port Authority:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Pohnpei Port Authority (the Authority), which comprise the statements of net position as September 30, 2020, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated October 11, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte & Touche LLP

October 11, 2021

POHNPEI PORT AUTHORITY
(A Component Unit of the State of Pohnpei)

Schedule of Prior Audit Findings
Year Ended September 30, 2020

There are no unresolved questioned costs or prior year findings of the Authority as of September 30, 2020.