

**KOSRAE PORT AUTHORITY
(A COMPONENT UNIT OF THE STATE OF KOSRAE)**

**FINANCIAL STATEMENTS AND
OTHER INFORMATION AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2021 AND 2020

INDEPENDENT AUDITORS' REPORT

Board of Directors
Kosrae Port Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Kosrae Port Authority (the Authority), a component unit of the State of Kosrae, which comprise the statements of net position as of September 30, 2021 and 2020, 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 the Kosrae Port Authority as of September 30, 2021 and 2020, and the changes in its net position and its cash flows, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 6 to the financial statements, the Authority performed limited airport and seaport operations due to COVID-19 travel restrictions and generated limited revenues from operations during the fiscal years ended September 30, 2021 and 2020. No provision for this matter has been made in the accompanying financial statements. Resolution of this matter may have a material impact on the Authority's financial statements due to the inability to predict the ultimate outcome. Our opinion is not modified with respect to these matters.

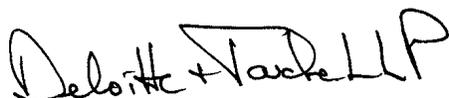
Other Matters

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 4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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 December 6, 2022, on our consideration of the Kosrae Port 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 Kosrae Port Authority's internal control over financial reporting and compliance.



December 6, 2022

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

Management's Discussion and Analysis
Years Ended September 30, 2021 and 2020

This analysis prepared by Kosrae Port Authority (Authority) offers readers of the Authority's financial statements a narrative overview of its activities for fiscal year ended September 30, 2021. This analysis is required by the Government Accounting Standards Board (GASB), which provides guidelines on what must be included and excluded from the analysis.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position provides an indication of the Authority's financial condition. The Authority's net position reflects the difference between assets and liabilities. An increase in net position over time typically indicates an improvement in the Authority's financial condition.

The following summarizes the financial position and results of operations of Kosrae Port Authority for the fiscal years 2021, 2020 and 2019.

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Assets:			
Current assets	\$ 199,733	\$ 49,768	\$ 47,395
Property and equipment, net	<u>13,324,216</u>	<u>14,027,043</u>	<u>14,648,317</u>
Total assets	\$ <u>13,523,949</u>	\$ <u>14,076,811</u>	\$ <u>14,695,712</u>
Liabilities and Net position:			
Current liabilities	\$ <u>92,411</u>	\$ <u>99,698</u>	\$ <u>108,806</u>
Net position:			
Net investment in capital assets	13,324,216	14,027,043	14,648,317
Unrestricted	<u>107,322</u>	<u>(49,930)</u>	<u>(61,411)</u>
Total net position	<u>13,431,538</u>	<u>13,977,113</u>	<u>14,586,906</u>
Total liabilities and net position	\$ <u>13,523,949</u>	\$ <u>14,076,811</u>	\$ <u>14,695,712</u>
Revenues, Expenses and Changes in Net position			
Operating revenues	\$ 520,258	\$ 411,038	\$ 468,652
Operating expenses	<u>1,065,833</u>	<u>1,093,603</u>	<u>1,226,978</u>
Net operating loss	<u>(545,575)</u>	<u>(682,565)</u>	<u>(758,326)</u>
Subsidies and capital contributions	<u>-</u>	<u>72,772</u>	<u>54,947</u>
Total non-operating income	<u>-</u>	<u>72,772</u>	<u>54,947</u>
Change in net position	(545,575)	(609,793)	(703,379)
Net position at beginning of the year	<u>13,977,113</u>	<u>14,586,906</u>	<u>15,290,285</u>
Net position at the end of the year	\$ <u>13,431,538</u>	\$ <u>13,977,113</u>	\$ <u>14,586,906</u>

**KOSRAE PORT AUTHORITY
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Management's Discussion and Analysis, Continued
Years Ended September 30, 2021 and 2020

Financial Highlights

The Authority's total assets as of September 30, 2021 comprised of the net amount of its cash, accounts receivable, and property and equipment net of accumulated depreciation. The property and equipment were transferred from the Kosrae State Government in July 2008. In fiscal year 2013, the Authority received an additional capital contribution of \$3,322,632 from Kosrae State for various airport improvement projects which were jointly funded by the US Federal Aviation Administration and the FSM National Government. For additional information with respect to capital assets, please see Note 4 to the financial statements.

Current liabilities comprise accounts payable, accrued liabilities and others, and the due to primary government of \$72,174. There were payments for this debt during the fiscal year 2022.

Operating revenues are mainly from airport landing fees, sea port charges and departure fees. Fiscal year 2021 revenues registered an increase of 27% compared to fiscal year 2020.

Depreciation expense comprised 66% of total operating expenses while salaries and benefits registered 21%. Other expenses such as utilities, contractual services, supplies and materials and others totaling \$143,068 comprised 13% of the total operating expenses.

Management's Discussion and Analysis for the year ended September 30, 2020 is set forth in the Authority's report on the audit of financial statements, which is dated February 1, 2022. That Discussion and Analysis explains the major factors impacting the 2020 financial statements and can be viewed at the Office of the Public Auditor's website at www.fsmopa.fm.

Economic factors and Next Year's Budget

The Kosrae Port Authority continuously experiences economic and financial challenges as it relies heavily on revenues realized from both airport and seaport operations. Airport revenues were affected because of the reduction in the flight schedule of the carriers flying into Kosrae State. The expenditures, on the other hand are expected to increase, particularly utilities due to the usage of donated facilities.

Management has been in process of evaluating the impact that will result from COVID-19. Management believes that such evaluation is reasonable based on available information and that the expected outcome of uncertainties has been adequately discussed internally.

Management realizes the problem and has looked to the Port tariff restructuring as means of increasing revenues. In addition, leases will be reviewed as to reasonableness for possible increases as well.

Contacting the Authority's Financial Management

This financial report is designed to provide our customers, creditors, and other interested parties a general overview of Kosrae Port Authority's finances. If you have questions about this report or need additional financial information, contact the Office of the General Manager at P. O. Box 960, Tofol, Kosrae FM 96944.

KOSRAE PORT AUTHORITY
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Statements of Net Position
September 30, 2021 and 2020

<u>ASSETS</u>	<u>2021</u>	<u>2020</u>
Current assets:		
Cash	\$ 125,050	\$ 33,049
Prepaid expense	27,500	-
Accounts receivable, net	<u>47,183</u>	<u>16,719</u>
Total current assets	199,733	49,768
Property and equipment, net	<u>13,324,216</u>	<u>14,027,043</u>
	<u>\$ 13,523,949</u>	<u>\$ 14,076,811</u>
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Accounts payable	\$ 2,441	\$ 11,819
Accrued liabilities and others	17,796	15,705
Due to primary government	<u>72,174</u>	<u>72,174</u>
Total liabilities	<u>92,411</u>	<u>99,698</u>
Contingencies		
Net position:		
Net investment in capital assets	13,324,216	14,027,043
Unrestricted	<u>107,322</u>	<u>(49,930)</u>
Total net position	<u>13,431,538</u>	<u>13,977,113</u>
	<u>\$ 13,523,949</u>	<u>\$ 14,076,811</u>

See accompanying notes to financial statements.

KOSRAE PORT AUTHORITY
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Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2021 and 2020

	2021	2020
Operating revenues:		
Charges for services	\$ 520,258	\$ 411,038
Total operating revenues	520,258	411,038
Operating expenses:		
Depreciation	702,827	698,793
Salaries and benefits	219,938	273,086
Utilities	40,824	47,269
Supplies and materials	34,152	11,782
Contractual services	23,750	28,700
Representation and entertainment	11,587	9,950
Travel	11,541	8,704
Fuel	11,508	8,068
Communication	8,104	5,164
Repairs	765	916
Bank service charges	432	1,069
Freight and handling	95	65
Miscellaneous and others	310	37
Total operating expenses	1,065,833	1,093,603
Loss from operations	(545,575)	(682,565)
Nonoperating income:		
Capital contributions from the FSM National Government	-	72,772
Total nonoperating income	-	72,772
Change in net position	(545,575)	(609,793)
Net position at beginning of year	13,977,113	14,586,906
Net position at end of year	\$ 13,431,538	\$ 13,977,113

See accompanying notes to financial statements.

KOSRAE PORT AUTHORITY
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Statements of Cash Flows
Years Ended September 30, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Cash received from customers	\$ 489,794	\$ 437,122
Cash paid to suppliers for goods and services	(179,946)	(134,702)
Cash paid to employees	(217,847)	(269,216)
Net cash provided by operating activities	92,001	33,204
Cash flows from capital and related financing activities:		
Acquisition of property and equipment	-	(4,747)
Net cash used in capital and related financing activities	-	(4,747)
Net change in cash	92,001	28,457
Cash at beginning of year	33,049	4,592
Cash at end of year	\$ 125,050	\$ 33,049
Reconciliation of loss from operations to net cash provided by operating activities:		
Loss from operations	\$ (545,575)	\$ (682,565)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Depreciation	702,827	698,793
(Increase) decrease in assets:		
Prepaid expense	(27,500)	-
Accounts receivable	(30,464)	26,084
Increase (decrease) in liabilities:		
Accounts payable	(9,378)	(12,978)
Accrued liabilities and others	2,091	3,870
Net cash provided by operating activities	\$ 92,001	\$ 33,204

Non-cash capital financing activities:

During the year ended September 30, 2020, the Authority received \$72,772 of capital assets from the FSM National Government.

See accompanying notes to financial statements.

KOSRAE PORT AUTHORITY
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Notes to Financial Statements
September 30, 2021 and 2020

(1) Reporting Entity

The Kosrae Port Authority (the Authority), a component unit of the Kosrae State Government, was established by Kosrae State Public Law 7-91. The primary purpose of the Authority is to oversee the use and maintenance of Kosrae State's sea and air ports. The Authority began operating as a separate entity in fiscal year 2008, although the accounting for the Authority was not transferred from the Kosrae State Department of Administration and Finance until July 1, 2008.

The Authority is governed by a five-member Board of Directors. The Board is composed of four directors appointed by the Governor with the advice and consent of the Legislature, and, ex-officio, the Director of the Department of Transportation and Infrastructure. An appointed director serves for a term of four years, subject to reappointment, and until his successor has been appointed and qualifies.

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

(2) Summary of Significant Accounting Policies

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental entities, specifically proprietary funds.

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by GASB Statement No. 37, *Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and modified by GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, establish financial reporting standards for governmental entities which require that management's discussion and analysis of the financial activities be included with the basic financial statements and notes and modifies certain other financial statement disclosure requirements.

The Authority's equity is presented in the following net position categories:

- 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.

**KOSRAE PORT AUTHORITY
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Notes to Financial Statements
September 30, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

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.

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, interest income, federal program revenue, 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.

Cash

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, 2021 and 2020, the cash balance was \$125,050 and \$33,049, respectively, and the corresponding bank balances were \$146,001 and \$53,854, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2021 and 2020, bank deposits were fully FDIC insured.

Receivables

The Authority's accounts receivable are mostly with businesses and individuals that relate to space rentals, landing fees, port and handling charges, and other fees. The allowance for uncollectible 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 collectibility of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense. Bad debts are written off against the allowance on the specific identification method.

KOSRAE PORT AUTHORITY
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Notes to Financial Statements
September 30, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

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. The Authority utilizes a capitalization threshold of \$100,000, which was set by Kosrae State Government upon transfer of these assets to the Authority.

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

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.

New Accounting Standards

In 2020, GASB issued Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance, which postponed the effective dates of GASB Statement No. 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.

During the year ended September 30, 2021, the Authority implemented the following pronouncements:

- GASB Statement No. 84, Fiduciary Activities, which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.
- GASB Statement No. 90, Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61, which improves 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.
- GASB Statement No. 93, Replacement of Interbank Offered Rates, which establishes accounting and reporting requirements related to the replacement of Interbank Offered Rates such as the London Interbank Offered Rate (LIBOR) for hedging derivative instruments. The provision removing LIBOR as an appropriate benchmark interest rate for the evaluation of the effectiveness of derivative instruments is effective for the year ended September 30, 2022.

The implementation of these statements did not have a material effect on the accompanying financial statements.

**KOSRAE PORT AUTHORITY
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Notes to Financial Statements
September 30, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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 ending September 30, 2022.

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. In accordance with GASB Statement No. 95, the remaining requirements of GASB Statement No. 92 is effective for the 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.

KOSRAE PORT AUTHORITY
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Notes to Financial Statements
September 30, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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.

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. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

In October 2021, GASB issued Statement No. 98, The Annual Comprehensive Financial Report. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 98 will be effective for fiscal year ending September 30, 2022.

(3) Accounts Receivable

The detail of accounts receivable, net of the allowance for uncollectible accounts, at September 30, 2021 and 2020, is as follows:

	<u>2021</u>	<u>2020</u>
Accounts receivable	\$ 62,956	\$ 32,492
Less allowance for uncollectible accounts	<u>(15,773)</u>	<u>(15,773)</u>
	\$ <u>47,183</u>	\$ <u>16,719</u>

**KOSRAE PORT AUTHORITY
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Notes to Financial Statements
September 30, 2021 and 2020

(4) Property and Equipment

Capital asset activity for the years ended September 30, 2021 and 2020, is as follows:

	Estimated Useful <u>Lives</u>	Balance at October <u>1, 2020</u>	Transfers and <u>Additions</u>	Transfers and <u>Deletions</u>	Balance at September <u>30, 2021</u>
Depreciable:					
Buildings and improvements	10 to 50 years	\$ 12,016,141	\$ -	\$ -	\$ 12,016,141
Machinery and equipment	5 years	924,968	-	-	924,968
Infrastructure	7 to 80 years	37,976,732	-	-	37,976,732
Vehicles	3 years	<u>128,308</u>	<u>-</u>	<u>-</u>	<u>128,308</u>
		51,046,149	-	-	51,046,149
Less accumulated depreciation		<u>(37,019,106)</u>	<u>(702,827)</u>	<u>-</u>	<u>(37,721,933)</u>
Property and equipment, net		\$ <u>14,027,043</u>	\$ <u>(702,827)</u>	\$ <u>-</u>	\$ <u>13,324,216</u>
	Estimated Useful <u>Lives</u>	Balance at October <u>1, 2019</u>	Transfers and <u>Additions</u>	Transfers and <u>Deletions</u>	Balance at September <u>30, 2020</u>
Depreciable:					
Buildings and improvements	10 to 50 years	\$ 11,943,369	\$ 72,772	\$ -	\$ 12,016,141
Machinery and equipment	5 years	924,968	-	-	924,968
Infrastructure	7 to 80 years	37,976,732	-	-	37,976,732
Vehicles	3 years	<u>123,561</u>	<u>4,747</u>	<u>-</u>	<u>128,308</u>
		50,968,630	77,519	-	51,046,149
Less accumulated depreciation		<u>(36,320,313)</u>	<u>(698,793)</u>	<u>-</u>	<u>(37,019,106)</u>
Property and equipment, net		\$ <u>14,648,317</u>	\$ <u>(621,274)</u>	\$ <u>-</u>	\$ <u>14,027,043</u>

(5) Risk Management

The Authority purchases insurance to cover life insurance risks. However, the Authority does not purchase insurance to cover risks associated with its buildings and other fixed assets. Management is of the opinion that no material losses have been sustained as a result of this practice since the inception of its operations in July 2008.

(6) Contingencies

The Authority continued periodic airport and seaport operations due to COVID-19 travel restrictions and generated limited revenues from operations during the fiscal years ended September 30, 2021 and 2020. No provision for this matter has been made in the accompanying financial statements. Resolution of this matter may have a material impact on the Authority's financial statements due to the inability to predict the ultimate outcome.

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
Kosrae Port Authority:

We have audited, 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, the financial statements of the Kosrae Port Authority (the Authority), which comprise the statement of net position as September 30, 2021, 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 December 6, 2022.

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) as this basis for designing 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.

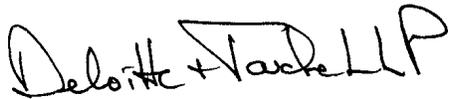
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

December 6, 2022