

*Financial Statements and
Required Supplementary Information*

Kosrae Port Authority

(A Component Unit of the State of Kosrae)

*Year Ended September 30, 2022
with Report of Independent Auditors*



Kosrae Port Authority
(A Component Unit of the State of Kosrae)

Financial Statements and Required Supplementary Information

Year Ended September 30, 2022

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Report of Independent Auditors

The Board of Directors
Kosrae Port Authority:

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of Kosrae Port Authority (the Authority), a component unit of the State of Kosrae, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of September 30, 2022, and the changes in financial position and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 6 be presented to supplement the financial statements. Such information is the responsibility of management and, 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 GAAS, 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 November 1, 2023, 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 solely 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 the effectiveness of the Authority's 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.

Ernst + Young LLP

November 1, 2023

Kosrae Port Authority
(A Component Unit of the State of Kosrae)

Management's Discussion and Analysis

Year Ended September 30, 2022

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 (FY) ended September 30, 2022. 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 FY 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets:		
Current assets	\$ 224,642	\$ 199,733
Capital assets, net	<u>13,463,693</u>	<u>13,324,216</u>
Total assets	<u>\$13,688,335</u>	<u>\$13,523,949</u>
Liabilities, Deferred Inflow of Resources and Net position:		
Current liabilities	\$ <u>17,018</u>	\$ <u>92,411</u>
Deferred inflow of resources	<u>47,002</u>	<u>---</u>
Net position:		
Net investment in capital assets	13,439,761	13,324,216
Unrestricted	<u>184,554</u>	<u>107,322</u>
Total net position	<u>13,624,315</u>	<u>13,431,538</u>
Total liabilities and net position	<u>\$13,688,335</u>	<u>\$13,523,949</u>
Revenues, Expenses and Changes in Net position		
Operating revenues	\$ 561,800	\$ 520,258
Operating expenses	<u>1,245,166</u>	<u>1,065,833</u>
Net operating loss	(<u>683,366</u>)	(<u>545,575</u>)
Subsidies and capital contributions	<u>876,143</u>	<u>---</u>
Change in net position	192,777	(<u>545,575</u>)
Net position at beginning of the year	<u>13,431,538</u>	<u>13,977,113</u>
Net position at the end of the year	<u>\$13,624,315</u>	<u>\$13,431,538</u>

Kosrae Port Authority
(A Component Unit of the State of Kosrae)

Management's Discussion and Analysis, continued

Financial Highlights

The Authority's total assets as of September 30, 2022 comprised of the net amount of its cash, accounts receivable, and capital assets net of accumulated depreciation. A significant portion of the capital assets were transferred from the Kosrae State Government in July 2008. In FY 2013, the Authority received an additional capital contribution of \$876,143 from Kosrae State for various airport improvement projects which were jointly funded by the US Federal Aviation Administration (FAA) and the FSM National Government (FSMNG). In FY 2022, the Authority received a fire truck and other related assets totaling \$876,143. 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 \$20,000 net of receivable of \$7,320. Due to primary government relates to the final payment due on a settlement reached during FY 2022 with which payments commenced during FY 2022.

Operating revenues are mainly from airport landing fees, sea port charges and departure fees. FY 2022 revenues registered an increase of 8% compared to FY 2021.

Depreciation expense comprised 63% of total operating expenses while salaries and benefits registered 21%. Other expenses such as utilities, contractual services, supplies and materials and others totaling \$201,495 comprised 16% of the total operating expenses.

Management's Discussion and Analysis for the year ended September 30, 2021 is set forth in the Authority's report on the audit of financial statements, which is dated December 6, 2022. That Discussion and Analysis explains the major factors impacting the 2021 and 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.

Kosrae Port Authority
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Management's Discussion and Analysis, continued

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
(A Component Unit of the State of Kosrae)

Statement of Net Position

September 30, 2022

Assets

Current assets:

Cash	\$ 123,931
Accounts receivable, net	48,253
Parts and materials	29,000
Lease receivable	<u>23,458</u>

Total current assets 224,642

Non-current assets:

Capital assets, net	13,439,761
Lease receivable	<u>23,932</u>

Total non-current assets 13,463,693

Total assets \$13,688,335

Liabilities and Net Position

Current liabilities

Accounts payable and accrued liabilities	\$ 4,338
Due to primary government, net	<u>12,680</u>

Total current liabilities 17,018

Deferred inflow of resources

Lease revenue	47,002
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Commitments and contingency

Net position:

Net investment in capital assets	13,439,761
Unrestricted	<u>184,554</u>

Total net position 13,624,315

\$13,688,335

See accompanying notes.

Kosrae Port Authority
(A Component Unit of the State of Kosrae)

Statement of Revenues, Expenses, and Changes in Net Position

Year Ended September 30, 2022

Operating revenues:	
Charges for services	\$ 550,182
Recovery of bad debts	10,538
Interest Income - lease	<u>1,080</u>
Total operating revenues	<u>561,800</u>
Operating expenses:	
Depreciation	779,082
Salaries and benefits	264,589
Repairs	45,138
Utilities	44,611
Supplies and materials	32,120
Contractual services	23,932
Representation and entertainment	21,190
Travel	12,167
Fuel	11,904
Communication	6,877
Freight and handling	836
Bank service charges	110
Miscellaneous and others	<u>2,610</u>
Total operating expenses	<u>1,245,166</u>
Loss from operations	(<u>683,366</u>)
Capital contributions:	
Capital contributions from FSM National Government	<u>876,143</u>
Change in net position	192,777
Net position at beginning of year	<u>13,431,538</u>
Net position at end of year	<u>\$13,624,315</u>

See accompanying notes.

Kosrae Port Authority
(A Component Unit of the State of Kosrae)

Statement of Cash Flows

Year Ended September 30, 2022

Cash flows from operating activities:	
Cash received from customers	\$ 531,340
Cash paid to suppliers for goods and services	(169,814)
Cash paid to employees	(283,167)
Net cash provided by operating activities	<u>78,359</u>
Cash flows from capital and related financing activities:	
Acquisition of property and equipment	(19,984)
Cash flows from noncapital financing activities:	
Payments to primary government	(59,494)
Net change in cash	(1,119)
Cash at beginning of year	<u>125,050</u>
Cash at end of year	\$ <u>123,931</u>
Reconciliation of loss from operations to net cash provided by operating activities:	
Loss from operations	\$(683,366)
Adjustments to reconcile loss from operations to net cash provided by operating activities:	
Depreciation	779,082
Recovery of bad debts	(10,538)
(Increase) decrease in assets:	
Accounts receivable	9,468
Lease receivable	(47,390)
Increase (decrease) in liabilities:	
Accounts payable and accrued liabilities	(15,899)
Increase in deferred inflow of resources – lease revenue	<u>47,002</u>
Net cash provided by operating activities	\$ <u>78,359</u>

Non-cash capital financing activities:

During the year ended September 30, 2022, the Authority received contribution assets and related parts and material valued at \$847,143 and \$29,000, respectively from the FSM National Government.

During the year ended September 30, 2022, the Authority recorded capital asset of \$27,500 from a repayment as of September 30, 2021.

See accompanying notes.

Kosrae Port Authority
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Notes to Financial Statements

Year Ended September 30, 2022

1. Organization

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 FY 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, continued

2. Summary of Significant Accounting Policies, Continued

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.

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.

Cash

For purposes of the statements of net position and cash flows, cash is defined as cash on hand and cash held in a bank checking account.

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, 2022, the cash balance was \$123,931, and the corresponding bank balance was \$135,397, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2022, bank deposits were fully subject to the FDIC insurance coverage limit.

Kosrae Port Authority
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, Continued

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 recorded against operating revenues. Bad debts are written off against the allowance on the specific identification method.

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.

Deferred Outflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. As of September 30, 2022, the Authority has no items that qualify for reporting in this category.

Deferred Inflows of Resources

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. As of September 30, 2022, the Authority has recorded deferred inflow of resources of lease revenue.

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.

Kosrae Port Authority
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, Continued

Taxes

The Authority exists and operates solely for the benefit of the public and shall be exempted from any State or Municipal taxes or assessments on any of its property, operations or activities. The Authority shall be liable for employees' contributions to the National Social Security System or other employees' benefits of the State of Kosrae or FSM National Government, if any, in such manner as provided by law.

Operating and Nonoperating Revenues and Expenses

Operating revenues and expenses generally result directly from the operation and maintenance of systems to provide services to the state of Kosrae. Non-operating revenues and expenses result from capital; financing and investing activities, costs and related recoveries from natural disasters, operating grants, and certain other non-recurring income and costs.

Revenue Recognition

The Authority's revenues are derived primarily from providing various services to major shipping and airline customers under an approved tariff rate schedule. Revenue is recognized on the accrual basis and is recorded upon billing when services have been completed.

Recently Adopted Accounting Pronouncements

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. The adoption of GASB Statement No. 87 did not result in an effect on beginning net position. At October 1, 2021, the Authority recorded lease receivable and related deferred inflow of resources of \$70,502 for its lease agreements as a lessor.

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. The adoption of GASB Statement No. 89 did not result in a material effect on the accompanying financial statements.

Kosrae Port Authority
(A Component Unit of the State of Kosrae)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, Continued

Recently Adopted Accounting Pronouncements, continued

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The requirements of this Statement will enhance comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. More comparable reporting will improve the usefulness of information for users of state and local government financial statements. This Statement addresses a variety of topics and includes specific provisions about leases; reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; applicability of Statement no. 73 and 84 for postemployment benefits, measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature and terminology used to refer to derivative instruments. The adoption of GASB Statement No. 92 did not have an effect on the accompanying financial statements.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate (IBOR) – most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates by either (a) changing the reference rate or (b) adding or changing fallback provisions related to the reference rate. The objective of this Statement is to address the accounting and financial reporting effects that result from the replacement of IBORs with other reference rates in order to preserve the reliability, consistency, and comparability of reported information. The adoption of GASB Statement No. 93 did not have an effect on the accompanying financial statements.

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 (a) 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; (b) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution OPEB plans, and employee benefit plans other than pension plans or OPEB plans as fiduciary component units in fiduciary fund financial statements; and (c) 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. The adoption of GASB Statement No. 97 did not have an effect on the accompanying financial statements.

Kosrae Port Authority
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements

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 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. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

Kosrae Port Authority
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. The requirements of this Statement will enhance comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. Consistent authoritative literature enables governments and other stakeholders to more easily locate and apply the correct accounting and financial reporting provisions, which improves the consistency with which such provisions are applied. The comparability of financial statements also will improve as a result of this Statement. Better consistency and comparability improve the usefulness of information for users of local government financial statements. GASB Statement No. 99 will be effective for fiscal year ending September 30, 2023.

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability. In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections. GASB Statement No. 100 will be effective for fiscal year ending September 30, 2024.

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave. The model also will result in a more robust estimate of the amount of compensated absences that a government will pay or settle, which will enhance the relevance and reliability of information about the liability for compensated absences. GASB Statement No. 101 will be effective for fiscal year ending September 30, 2025.

The Authority is currently evaluating the effects the above upcoming accounting pronouncements might have on its financial statements.

Kosrae Port Authority
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Notes to Financial Statements, continued

3. Accounts Receivable

The detail of accounts receivable, net of the allowance for uncollectible accounts, at September 30, 2022, is as follows:

Accounts receivable	\$ 53,488
Less allowance for uncollectible accounts	(5,235)
	<u>\$ 48,253</u>

4. Capital Assets

Capital asset activity for the year ended September 30, 2022, is as follows:

	Estimated Useful <u>Lives</u>	Balance at October <u>1, 2021</u>	Transfers and <u>Additions</u>	Transfers and <u>Deletions</u>	Balance at September <u>30, 2022</u>
Depreciable:					
Buildings and improvements	10 to 50 years	\$12,016,141	\$ ---	\$ ---	\$12,016,141
Machinery and equipment	5 years	924,968	16,359		941,327
Infrastructure	7 to 80 years	37,976,732	---	---	37,976,732
Vehicles	3 years	<u>128,308</u>	<u>878,268</u>	<u>---</u>	<u>1,006,576</u>
		51,046,149	894,627	---	51,940,776
Less accumulated depreciation		<u>(37,721,933)</u>	<u>(779,082)</u>	<u>---</u>	<u>(38,501,015)</u>
Capital assets, net		<u>\$13,324,216</u>	<u>\$115,545</u>	<u>\$ ---</u>	<u>\$13,439,761</u>

5. Leases

The Authority, as a lessor, recognizes a lease receivable and a deferred inflow of resources at the commencement of the lease term, with exceptions for certain short-term leases. As lessor, the asset underlying the lease is not derecognized. The lease receivable is measured at the present value of the lease payments expected to be received during the lease term. The deferred inflow of resources is measured at the value of the lease receivable in addition to any payments received at or before the commence of the lease term that relate to future periods.

In October 2021, the Authority entered into a lease agreement with United Airlines. The lease agreement commenced beginning October 1, 2021 and ending September 30, 2024. The lease requires a base rent at a fixed rate of \$2,016 per month.

Rental and interest income amounting to \$23,501 and \$1,080, respectively, were recognized during the year ended September 30, 2022.

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Notes to Financial Statements, continued

5. Leases, continued

Lease receivable due from the lease is as follows:

<u>Year ending September 30,</u>	
2023	\$ 24,192
2024	<u>24,192</u>
	48,384
Less interest portion	(<u>994</u>)
	<u>\$47,390</u>

6. Related Party Transactions

At September 30, 2022, due to primary government of \$12,680 is comprised of \$20,000 final settlement payable to the Kosrae State Government, net of departure fee receivable of \$7,320.

7. Grants and Subsidies

The Authority receives grants from the United States Government and other foreign governments or organizations either as a direct recipient or as a sub-recipient from the Kosrae State Government (CSG) and FSM National Government (FSMNG). In May 2022, the Authority received the title of a fire truck and camera equipment valued at \$847,143 from the FSMNG which was through a grant of the United States Federal Aviation Authority. Additionally, the Authority received related parts and materials totaling \$29,000.

8. 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.

Report of Independent Auditors 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*

Management and the Board of Directors
Kosrae Port Authority

We have audited, in accordance with auditing standards generally accepted in the United States 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 of September 30, 2022, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 1, 2023.

Report on 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 a 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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses, that we consider to be a significant deficiency as item 2022-001.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of 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.

Ernst + Young LLP

Kosrae Port Authority
(A Component Unit of the State of Kosrae)

Schedule of Findings and Responses

Finding No.: 2022-001

Area: Capital assets and related depreciation

Criteria: Detailed lapsing schedule should be maintained for the Authority's proper recording of capital assets and related depreciation expense. The Authority should ensure completeness and accuracy of this schedule. Errors caused by unrecorded and or overstated asset/expense need to be investigated by management and corrected in the subsidiary ledger and the general ledger (GL).

Condition: The Authority does not maintain a detailed capital asset lapsing schedule. The Authority only maintains a report that shows debits and credits (e.g., transaction files) for the movement in fixed assets that are recorded into the GL. Depreciation expense reflected in the preliminary GL only relates to certain assets and is significantly understated.

Furthermore, errors were noted in the recording of capital asset additions and disposals, where capitalizable costs were expensed and repair and maintenance costs were capitalized. Significant assets through capital contributions from the FSM National Government were received and placed in service during the year but were not recorded in the GL.

Audit adjustments were made at year-end to correct these balances.

Cause: The cause of this condition is primarily the lack of proper monitoring of fixed asset which were not investigated or corrected. An implemented manual workaround is time consuming and as such, is not implemented for all affected fixed asset.

Effect: The effect of this condition is the potential under/overstatement of capital assets and related depreciation.

Recommendation: The Authority should maintain a lapsing schedule containing at least the following details:

- description of fixed assets
- in service date
- acquisition cost
- estimated useful life
- monthly depreciation and total depreciation.

Recording of monthly depreciation expense should be based on the lapsing schedule. A regular reconciliation between the lapsing schedule and the GL should be performed.

The Authority should follow up with the FSM National Government to obtain formal asset transfer document to evidence ownership of the contributed assets.

Auditee View of the Finding: Management agrees. To correct this, the Authority will prepare lapsing schedule in future years.