

POHNPEI PORT AUTHORITY

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2000 AND 1999

Deloitte & Touche LLP
361 South Marine Drive
Tamuning, Guam 96913-3911

Tel: (671)646-3884
Fax: (671)649-4932
www.dttguam.com



INDEPENDENT AUDITORS' REPORT

Board of Directors
Pohnpei Port Authority:

We have audited the accompanying balance sheets of the Pohnpei Port Authority (the Authority), a component unit of the State of Pohnpei, as of September 30, 2000 and 1999, and the related statements of revenues, expenses and changes in fund equity and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Pohnpei Port Authority, as of September 30, 2000 and 1999, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2001, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is stylized and appears to be written in a cursive or semi-cursive script.

January 15, 2001

POHNPEI PORT AUTHORITY

Balance Sheets
September 30, 2000 and 1999

<u>ASSETS</u>	<u>2000</u>	<u>1999</u>
Current assets:		
Cash and equivalents	\$ 40,427	\$ 76,245
Restricted cash (notes 2 and 9)	300,000	300,000
Accounts receivable, net (notes 4 and 9)	47,749	111,120
Advances, net (note 3)	13,924	12,105
Interest receivable	6,628	1,201
Prepaid expenses	<u>10,163</u>	<u>3,373</u>
Total current assets	418,891	504,044
Property and equipment, net (notes 5 and 9)	<u>6,898,511</u>	<u>7,224,960</u>
	<u>\$ 7,317,402</u>	<u>\$ 7,729,004</u>
 <u>LIABILITIES AND FUND EQUITY</u> 		
Current liabilities:		
Current portion of note payable (note 9)	\$ 97,828	\$ 65,916
Accounts payable	6,225	25,818
Accrued liabilities and others	50,863	19,299
Accrued annual leave	75,368	64,816
Deferred revenues	<u>306,250</u>	<u>306,250</u>
Total current liabilities	536,534	482,099
Long-term note payable, net of current portion (note 9)	<u>105,327</u>	<u>19,553</u>
Total liabilities	<u>641,861</u>	<u>501,652</u>
Fund equity:		
Contributed capital	6,228,538	6,816,429
Retained earnings	<u>447,003</u>	<u>410,923</u>
Total fund equity	<u>6,675,541</u>	<u>7,227,352</u>
Contingencies and commitment (notes 7 and 8)	<u>\$ 7,317,402</u>	<u>\$ 7,729,004</u>

See accompanying notes to financial statements.

POHNPEI PORT AUTHORITY

Statements of Revenues, Expenses, and Changes in Fund Equity
Years Ended September 30, 2000 and 1999

	2000	1999
Operating revenues:		
Seaport charges	\$ 316,675	\$ 374,449
Departure fees	201,280	95,096
Land leases and space rentals (note 9)	252,924	257,235
Landing fees	130,960	142,162
Other	8,809	21,826
Total operating revenues	910,648	890,768
Operating expenses:		
Depreciation	663,105	668,907
Salaries	605,006	560,756
Travel	67,196	55,310
Utilities	51,061	35,316
Supplies and materials	31,023	43,119
Repairs	17,518	38,791
Contractual services	15,448	25,306
Communications	10,542	12,826
Fuel	10,040	8,925
Training	4,340	6,636
Doubtful debt expense	-	12,758
Miscellaneous and others	18,563	17,069
Total operating expenses	1,493,842	1,485,719
Loss from operations	(583,194)	(594,951)
Nonoperating revenues (expenses):		
Interest income	19,415	15,645
Other nonoperating revenues	23,023	274
Other nonoperating expenses	(11,055)	(2,556)
Nonoperating revenues, net	31,383	13,363
Net loss	(551,811)	(581,588)
Add recovery of depreciation on contributed fixed assets	587,891	587,891
Retained earnings at beginning of year	410,923	404,620
Retained earnings at end of year	447,003	410,923
Contributed capital at beginning of year	6,816,429	7,291,408
Contributed capital additions (note 6)	-	112,912
Depreciation charged against contributed fixed assets	(587,891)	(587,891)
Contributed capital at end of year	6,228,538	6,816,429
Fund equity at end of year	\$ 6,675,541	\$ 7,227,352

See accompanying notes to financial statements.

POHNPEI PORT AUTHORITY

Statements of Cash Flows Years Ended September 30, 2000 and 1999

	2000	1999
Cash flows provided by operating activities:		
Cash received from customers	\$ 974,022	\$ 901,471
Cash paid to suppliers and employees	(822,249)	(804,391)
Net cash provided by operating activities	151,773	97,080
Cash flows used for capital and related financing activities:		
Acquisition of property and equipment	(336,656)	(302,723)
Capital contributions from Japan Government	-	112,912
Repayment of debt	(64,000)	-
Net cash used for capital and related financing activities	(400,656)	(189,811)
Cash flows provided by noncapital financing activities:		
Acquisition of debt	181,682	85,469
Net cash provided by noncapital financing activities	181,682	85,469
Cash flows provided by investing activities:		
Interest income	19,415	15,645
Other nonoperating revenues	11,968	274
Net cash provided by investing activities	31,383	15,919
Net (decrease) increase in cash and equivalents	(35,818)	8,657
Cash and equivalents at beginning of year	76,245	67,588
Cash and equivalents at end of year	\$ 40,427	\$ 76,245
<u>Reconciliation of loss from operations to net cash provided by operating activities</u>		
Loss from operations	\$ (583,194)	\$ (594,951)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Doubtful debt expense	-	12,758
Depreciation	663,105	668,907
Nonoperating expenses	-	(2,556)
Changes in working capital:		
(Increase) decrease in advances	(1,819)	3,076
(Increase) in prepaid expenses	(6,790)	(3,273)
Decrease in accounts receivable	63,374	10,709
(Increase) in other receivables	(5,427)	(565)
Decrease in accounts payable	(19,593)	(622)
Increase in accrued liabilities	42,117	3,597
Net cash provided by operating activities	\$ 151,773	\$ 97,080

See accompanying notes to financial statements.

POHNPEI PORT AUTHORITY

Notes to Financial Statements
September 30, 2000 and 1999

(1) Summary of Significant Accounting Policies

A. Reporting Entity

The Pohnpei Port Authority (the Authority) 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 is a component unit (a discretely presented proprietary fund) of the Pohnpei State Government. The financial statements in this report do not represent the financial position, results of operations or cash flows of the State of Pohnpei as a whole.

B. Fund Structure, Measurement Focus, and Basis of Accounting

The accounts of the Authority are organized as a discretely presented component unit - proprietary fund of the Pohnpei State Government. Proprietary funds are used by governmental units to account for operations that are financed and operated in a manner similar to private business enterprises. The purpose of a proprietary fund is to provide periodic determination of revenues, expenses and net income, with maintenance of capital.

Proprietary funds are accounted for on a flow of economic resources measurement focus, whereby all assets and liabilities associated with the operations of the funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. This is in contrast to "governmental" fund type accounting, which are accounted for using a current financial resources measurement focus whereby only current assets and current liabilities generally are included on the balance sheet.

Basis of accounting refers to when revenues and expenses are recorded in the accounts and reported in the financial statements. The Authority utilizes the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when cash is received or payment is made.

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. The Government Accounting Standards Board (GASB) Statement No. 20 "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting", requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. The Authority has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

POHNPEI PORT AUTHORITY

Notes to Financial Statements
September 30, 2000 and 1999

(1) Summary of Significant Accounting Policies, Continued

C. Budget

A detailed statement of the Authority's proposed annual budget is required to be prepared and submitted to the Governor on or before March 15th of each year. The annual budget is adopted upon the Governor's approval. In the event of the Governor's disapproval of the proposed budget, the Authority and the Governor, or their representatives, shall within 10 days after notification by the Governor, meet and discuss the proposed budget in order to reach an agreement. If a satisfactory agreement is not reached within 10 days thereafter, the proposed budget shall be submitted for consideration and decision to a board of arbiters, whose decision shall be final.

D. Cash and equivalents

For the purposes of the balance sheets and statements of cash flows, cash and equivalents are defined as cash in checking accounts, savings accounts and cash on hand. Of these amounts, \$300,000 is insured through the Federal Deposit Insurance Corporation (FDIC), with the balance exceeding insurable limits. The Authority does not require collateralization of its deposits by its banks. Therefore, the amounts which exceed the FDIC insurable limits are characterized as uncollateralized.

E. Property, Plant and Equipment

Property, plant and equipment are stated at cost or at estimated appraised values as of the transfer date (note 5), less accumulated depreciation. Depreciation is based on the straight-line method over the estimated useful lives of the respective assets.

F. 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. The value of accumulated sick leave at September 30, 2000 approximates \$31,187.

G. Management 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 disclosures 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.

H. Contributed Capital

The Authority has adopted the generally accepted accounting principle of reducing contributed capital for depreciation on related assets acquired through capital grants. Port facilities transferred from Pohnpei State to the Pohnpei Port Authority comprise this balance.

POHNPEI PORT AUTHORITY

Notes to Financial Statements
September 30, 2000 and 1999

(1) Summary of Significant Accounting Policies, Continued

I. Deferred Revenue

Deferred revenues represent funds received from a grantor (the Federated States of Micronesia National Government) that will be used for a capital project. Therefore, this balance will ultimately be recorded as contributed capital.

(2) Restricted Cash

Restricted cash represents a 1995 FSM Congress continuing appropriation of \$300,000 for the purpose of constructing an air strip for Kapingamarangi Municipal Government. As of September 30, 2000, the \$300,000 cash advanced to the Authority was invested in a time certificate of deposit. See Note II.

(3) Advances

Advances represent travel advances and credit cards and other charges at September 30, 2000 and 1999, and are summarized as follows:

	<u>2000</u>	<u>1999</u>
Travel advances	\$ 66,474	\$ 70,266
Less allowance for doubtful debts	<u>(53,124)</u>	<u>(61,810)</u>
	<u>13,350</u>	<u>8,456</u>
Credit card and other charges	19,548	20,623
Less allowance for doubtful debts	<u>(19,472)</u>	<u>(19,873)</u>
	<u>76</u>	<u>750</u>
Receivable from employees	<u>498</u>	<u>2,899</u>
Total	\$ <u>13,924</u>	\$ <u>12,105</u>

(4) Accounts Receivable, Net

Accounts receivable represent receivables from businesses and individuals related to public land leases, space rentals, landing fees, port and handling charges, wharfage, gross receipts fees and other fees. The detail of accounts receivable, net, at September 30, 2000 and 1999, is as follows:

	<u>2000</u>	<u>1999</u>
Accounts receivable	\$ 85,850	\$ 148,472
Less allowance for doubtful debts	<u>(38,101)</u>	<u>(37,352)</u>
	\$ <u>47,749</u>	\$ <u>111,120</u>

All of the Authority's accounts receivable are with businesses and individuals based in Pohnpei State.

POHNPEI PORT AUTHORITY

Notes to Financial Statements
September 30, 2000 and 1999

(5) Property and Equipment

A summary of the Authority's property and equipment at September 30, 2000 and 1999, is as follows:

	<u>Estimated Useful Lives</u>	<u>2000</u>	<u>1999</u>
Land		\$ 2,776,034	\$ 2,776,034
Building, infrastructure and improvements	7 to 70 years	12,928,957	12,924,481
Machinery and equipment	3 years	455,075	391,109
Construction in progress		495,291	227,077
Less accumulated depreciation		<u>(9,756,846)</u>	<u>(9,093,741)</u>
Property and equipment, net		\$ <u>6,898,511</u>	\$ <u>7,224,960</u>

During fiscal year 1996, an appraisal of the Authority's facilities was made by an independent contractor and the resultant appraised values of the land are reflected in the accompanying financial statements.

(6) Contributed Capital

During the year ended September 30, 1995, property and equipment comprising the Pohnpei State seaport and airport and ancillary assets were transferred to the legal custody of the Authority. The following represent increases to contributed capital during the year ended September 30, 2000 and 1999:

	<u>2000</u>	<u>1999</u>
Japan Grant	\$ <u>-</u>	\$ <u>112,912</u>

(7) Contingency and Commitment

The amount payable for a master plan is in dispute. Management of the Authority has determined that it does not owe the contractor the disputed amount of \$524,177 and therefore, has written off the liability simultaneous with the expensing of the cost of the master plan. In early December, 1997, the Contractor filed a suit against the Authority. In return, the Authority has filed a motion to dismiss the suit based on the statute of limitations. The motion is still pending in court. It is not possible to determine the ultimate impact of this dispute on the accompanying financial statements and therefore, no provision for any loss which may result from resolution of this matter has been made in the accompanying financial statements.

The Company leases certain of its land to a private corporation under a twenty-five year lease commencing September 1, 1997. Annual lease receipts for the first five years are \$75,380. Lease receipts increase in 10% intervals at the end of every five year period.

POHNPEI PORT AUTHORITY

Notes to Financial Statements
September 30, 2000 and 1999

(8) Risk Management

Pohnpei Port Authority purchases insurance to cover workmen's compensation and life insurance risks. Pohnpei Port Authority 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.

(9) Notes Payable

	<u>2000</u>	<u>1999</u>
Loan of \$264,600 from the FSM Development Bank, interest at 9%, due in monthly installments of principal and interest of \$5,493, collateralized by a chattel mortgage and an assignment of lease revenue.	\$ 109,540	\$ 85,469
Notes payable to Bank of the FSM, interest at 6.6%, due in monthly installments of principal and interest of \$3,700, collateralized by TCD #404-4086066, accounts receivable, inventory, furniture fixtures and equipment, and assignment of Continental Micronesia lease proceeds.	<u>93,615</u>	<u>-</u>
	203,155	85,469
Less current maturities	<u>(97,828)</u>	<u>(65,916)</u>
Long-term portion of notes payable	\$ <u>105,327</u>	\$ <u>19,553</u>
Future maturities are as follows:		
2001	\$ 97,828	
2002	93,191	
2003	<u>12,136</u>	
	\$ <u>203,155</u>	



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

The Board of Directors
Pohnpei Port Authority:

We have audited the financial statements of the Pohnpei Port Authority (the Authority), as of and for the year ended September 30, 2000, and have issued our report thereon dated January 15, 2001. We conducted our audit 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.

Compliance

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 grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Directors and management of the Pohnpei Port Authority, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and is not intended to be, and should not be, used by anyone other than those specified parties.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is stylized and appears to be written in a cursive or semi-cursive script.

January 15, 2001