

**POHNPEI PORT AUTHORITY**

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**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

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**YEARS ENDED SEPTEMBER 30, 2003 AND 2002**

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## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Pohnpei Port Authority:

We have audited the accompanying statements of net assets of the Pohnpei Port Authority (the Authority), a component unit of the State of Pohnpei, as of September 30, 2003 and 2002, and the related statements of revenues, expenses and changes in net assets 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.

Except as discussed in the following paragraphs, 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.

We were not able to examine evidence substantiating a recorded payable amounting to \$300,000 and \$390,000 in 2003 and 2002, respectively, for the acquisition of a master plan. In addition, the Authority commenced payments relating to the disputed invoice based on an out-of-court settlement approved by two members of the Board of Directors. Such approval may be in violation of State Law 2L-244-91, section 2-5, which requires concurrence of four members of the Board of Directors for any official action.

We are not able to assure ourselves as to the validity of other expenses of \$53,330 due to the nature of the Company's records for the year ended September 30, 2002.

The Authority did not capitalize buildings and improvements totaling \$570,884 from construction in progress nor was depreciation expense recorded on those assets as of September 30, 2002.

In our opinion, except for our inability to examine evidence substantiating payables relating to the master plan at September 30, 2003 and 2002 and the validity of other expenses and the non-capitalization and non-depreciation of fixed assets for the year ended September 30, 2002, as described in the third, fourth and fifth paragraphs, such financial statements present fairly, in all material respects, the financial position of the Pohnpei Port Authority, as of September 30, 2003 and 2002, 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.

As described in note 1 to the accompanying financial statements, the Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

The Management Discussion and Analysis on pages 1-2 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2004, 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.

  
August 27, 2004

## POHNPEI PORT AUTHORITY

### Management Discussion and Analysis September 30, 2003 and 2002

Pohnpei Port Authority's annual financial report presents our discussion and analysis of the Authority's financial performance for the years ended September 30, 2003. Please read it in conjunction with the financial statements, which follow this section.

The Authority was established as an autonomous agency of Pohnpei State Government in 1991 by Pohnpei State Law No. 2L-224-91, also known as the "Pohnpei Port Authority Act of 1991". This act established an Authority to facilitate use of available transportation systems, and to promote Pohnpei as a natural crossroad for north and south as well as east and west travel and transport throughout the Pacific region. It is authorized and have exclusive jurisdiction of both airports and seaports within the State of Pohnpei.

The seaport division of the Authority operates one of the four deepwater ports in the Federated States of Micronesia and currently handles about 100,000 tons of cargo a year. The Authority operates the only commercial seaport in the state of Pohnpei and serves as a transshipment point for the entire State of Pohnpei. A new fisheries dock was constructed by the Government of Japan and Pohnpei Port Authority does have the beneficial use of the dock, however, it is yet to be formally transferred to the Authority. The seaport provides connected cargo services to and from Hawaii, the U.S. Mainland, Asia and the rest of Micronesian Island countries.

The airport division of the Authority operates one of the four international airports in the Federated States of Micronesia currently serving one and sometimes two flights a day east and west bound. Continental Airlines is the only airline serving the State of Pohnpei on a regular basis. Revenue for the airport operations are generated from the utilization of the runway and the terminal facilities, which include landing fees, parking fees, terminal space rentals and passenger departure fees.

The Authority experienced continued economic slowdown in the operations of both the seaport and the airport due to decrease in the incoming and outgoing flight services and shifting of fishing fleets away from Pohnpei. Revenues steadily declined over the past two years. However, the transshipment activities for fiscal year 2003 are slowly increasing. The Authority was operating without the benefit of a full Board of Directors and the position of the Authority General Manager was not filled until August 2003.

The following table summarizes the financial condition and operations of the Authority for fiscal year 2003 and 2002.

	<u>2003</u>	<u>2002</u>
Assets:		
Current assets	\$ 653,284	\$ 675,689
Property and equipment, net	<u>5,293,026</u>	<u>5,685,716</u>
Total assets	\$ <u>5,946,310</u>	\$ <u>6,361,405</u>
Liabilities:		
Current liabilities	\$ <u>934,929</u>	\$ <u>1,022,322</u>
Net assets:		
Invested in capital assets, net of related debt	5,293,026	5,685,716
Restricted net assets	319,967	317,261
Deficit	<u>(601,612)</u>	<u>(663,894)</u>
Total net assets	<u>5,011,381</u>	<u>5,339,083</u>
Total liabilities and net assets	\$ <u>5,946,310</u>	\$ <u>6,361,405</u>

# POHNPEI PORT AUTHORITY

## Management Discussion and Analysis September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Operating revenues	\$ 1,134,705	\$ 1,138,659
Operating expenses	<u>1,433,103</u>	<u>1,499,296</u>
Loss from operations	(298,398)	(360,637)
Nonoperating revenues (expenses)	<u>(29,304)</u>	<u>(50,961)</u>
Increase (decrease) in net assets	\$ <u>(327,702)</u>	\$ <u>(411,598)</u>

### **Financial Highlights**

Revenues from operations decreased in 2003 by approximately .3% from \$1,138,659 in fiscal year 2002. The revenue decrease is attributed to the following events: Decreases in number of scheduled weekly flights and the movement of fishing fleet to and from Pohnpei.

Expenses from operations decreased in 2003 by approximately 4.4% from the prior year total of \$1,499,296. The decrease in operational expenses is attributed to the top management position that was budgeted but remained vacant for the year.

The Authority's trade receivables had a decrease of 23% from \$140,471 to \$108,820. The September 11 incident had an effect in the island's businesses whereby customers proposed a deferred payment plan to meet their obligations to the Authority.

The Authority has continuously met its financial obligations to its vendors, salaries, employee payroll deductibles and other commitments.

### **Plan of Action for 2004**

In August of 2003, Pohnpei Port Authority had a change in top management and the board of directors. The following is the course of action taken by the new team in resolving the issues of the Authority:

1. Re-examine the budget and made straightforward assessments of revenues and expenses
2. Promote customer relations and accountability
3. Advocate teamwork in Authority's operations to accomplish efficiency and enhance employee morale
4. Stopped all non essential expenses and promote cost saving measures
5. Aggressive collection of the Authority's aging receivables.

The liabilities of the Authority are comprised of non-current accrued payroll and taxes and the Authority's Master Plan.

**POHNPEI PORT AUTHORITY**

Statements of Net Assets  
September 30, 2003 and 2002

<u>ASSETS</u>	<u>2003</u>	<u>2002</u> As restated
Current assets:		
Cash and equivalents	\$ 184,739	\$ 191,792
Restricted cash	319,967	317,261
Accounts receivable, net	108,820	140,471
Advances, net	22,615	11,655
Interest receivable	6,628	6,628
Prepaid expenses	10,515	7,882
Total current assets	<u>653,284</u>	<u>675,689</u>
Property and equipment, net	<u>5,293,026</u>	<u>5,685,716</u>
	<u>\$ 5,946,310</u>	<u>\$ 6,361,405</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Current liabilities:		
Note payable	\$ 12,542	\$ 66,860
Accounts payable	348,852	475,679
Accrued liabilities and others	139,495	129,428
Accrued annual leave	44,105	44,105
Deferred revenues	389,935	306,250
Total current liabilities	<u>934,929</u>	<u>1,022,322</u>
Commitments and contingencies		
Net assets:		
Invested in capital assets, net of related debt	5,293,026	5,685,716
Restricted net assets	319,967	317,261
Deficit	<u>(601,612)</u>	<u>(663,894)</u>
Total net assets	<u>5,011,381</u>	<u>5,339,083</u>
	<u>\$ 5,946,310</u>	<u>\$ 6,361,405</u>

See accompanying notes to financial statements.

**POHNPEI PORT AUTHORITY**

Statements of Revenue, Expenses, and Changes in Net Assets  
Years Ended September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u> As restated
Operating revenues:		
Seaport charges	\$ 553,040	\$ 572,296
Land leases and space rentals	285,911	258,528
Departure fees	191,418	193,001
Landing fees	92,667	99,164
Other	<u>11,669</u>	<u>15,670</u>
Total operating revenues	<u>1,134,705</u>	<u>1,138,659</u>
Operating expenses:		
Salaries	599,797	610,971
Depreciation	419,955	666,546
Doubtful debt expense	154,368	20,190
Utilities	70,765	54,134
Supplies and materials	43,715	22,332
Repairs	37,823	19,650
Travel	33,953	43,368
Contractual services	23,545	15,857
Fuel	12,761	11,099
Communication	11,588	15,378
Training	5,146	618
Miscellaneous and others	<u>19,687</u>	<u>19,153</u>
Total operating expenses	<u>1,433,103</u>	<u>1,499,296</u>
Loss from operations	<u>(298,398)</u>	<u>(360,637)</u>
Nonoperating revenues (expenses):		
Interest income	14,575	2,878
Other nonoperating expenses	<u>(43,879)</u>	<u>(53,839)</u>
Total nonoperating expenses, net	<u>(29,304)</u>	<u>(50,961)</u>
Decrease in net assets	(327,702)	(411,598)
Total net assets at beginning of year	<u>5,339,083</u>	<u>5,750,681</u>
Total net assets at end of year	<u>\$ 5,011,381</u>	<u>\$ 5,339,083</u>

See accompanying notes to financial statements.

**POHNPEI PORT AUTHORITY**

Statements of Cash Flows  
Years Ended September 30, 2003 and 2002

	2003	2002 As restated
Cash flows from operating activities		
Cash received from customer:	\$ 1,011,988	\$ 1,067,504
Cash paid to suppliers and employees for goods and service	(354,423)	(355,351)
Cash paid to employees for service:	(597,610)	(598,382)
Net cash provided by operating activities:	59,955	113,771
Cash flows from noncapital financing activities		
Repayments of notes payable	(54,318)	(41,128)
Net cash used in noncapital financing activities:	(54,318)	(41,128)
Cash flows from capital and related financing activities		
Acquisition of property and equipment:	(27,265)	(54,619)
Net cash used in capital and related financing activities:	(27,265)	(54,619)
Cash flows from investing activities		
Interest income	14,575	2,878
Net cash provided by investing activities:	14,575	2,878
Net (decrease) increase in cash and equivalent	(7,053)	20,902
Cash and equivalents at beginning of year:	191,792	170,890
Cash and equivalents at end of year	\$ 184,739	\$ 191,792
Reconciliation of loss from operations to net cash provided by operating activities		
Loss from operations	\$ (298,398)	\$ (360,637)
Other non-operating expense	(43,879)	(53,839)
Adjustments to reconcile loss from operation: to net cash provided by operating activities		
Depreciation	419,955	666,546
Doubtful debt expense	154,368	20,190
Changes in working capital		
Increase in accounts receivable	(122,717)	(65,827)
Increase in advances:	(10,960)	(721)
Increase in investment	(2,706)	(8,421)
Increase in prepaid expenses:	(2,633)	(4,609)
Increase in deferred revenue:	83,685	-
Decrease in accounts payable:	(126,827)	(83,538)
Increase in accrued liabilities:	10,067	4,627
Net cash provided by operating activities:	\$ 59,955	\$ 113,771

See accompanying notes to financial statements.

# POHNPEI PORT AUTHORITY

Notes to Financial Statements  
September 30, 2003 and 2002

## (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. New Accounting Standards

In fiscal year 2004, the Authority will be implementing GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3). In fiscal year 2005, the Authority will be implementing GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. As of the date of the opinion, the Authority has not evaluated the financial statements impact of GASB Statement No.'s 39, 40 and 42.

### C. Basis of Accounting

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. Governmental 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 Principle 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.

For the year ended September 30, 2003, the Authority adopted GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" (GASB 34) as amended by GASB Statement No. 37, "Basic Financial Statements – Management's Discussion and Analysis for State and Local Governments: Omnibus" and GASB Statement No. 38, "Certain Financial Statement Disclosures" and applied those standards on a retroactive basis. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following four net asset categories:

# POHNPEI PORT AUTHORITY

Notes to Financial Statements  
September 30, 2003 and 2002

## (1) Summary of Significant Accounting Policies, Continued

### C. Basis of Accounting, Continued

- Invested in capital assets, net of related debt:

Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- Restricted:

- Nonexpendable – Net assets subject to externally imposed stipulations that require the Authority to maintain them permanently. For the years ended September 30, 2003 and 2002, the Authority does not have nonexpendable net assets.

- Expendable – Net assets whose use by the Authority is subject to externally imposed stipulations that can be fulfilled by actions of the Authority pursuant to those stipulations or that expire by the passage of time.

- Unrestricted:

Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action by management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

### Net Assets

Net assets represent the residual interest in the Authority's assets after liabilities are deducted and consist of three sections: invested in capital assets, net of related debt; restricted and unrestricted. Net assets classified as invested in capital assets net of debt, include capital assets, restricted and unrestricted, net of accumulated depreciation and reduced by outstanding debt net of debt service reserve. Net assets are reported as restricted when constraints are imposed by third parties or enabling legislation. The Authority's restricted assets are expendable. All other net assets are unrestricted.

### D. 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.

### E. 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, but excludes restricted cash. At September 30, 2003, the Authority had \$300,000 of cash and unrestricted cash 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.

# POHNPEI PORT AUTHORITY

Notes to Financial Statements  
September 30, 2003 and 2002

## (1) Summary of Significant Accounting Policies, Continued

### F. Property and Equipment

Property 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.

### G. 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 was not available at September 30, 2003.

### H. 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.

### 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 other income upon use of these funds for the intended purpose.

### J. Reclassifications

Fixed assets and net assets in the 2002 financial statements have been reclassified to conform to the 2003 financial statement presentation.

## (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, 2003, the \$300,000 cash advanced to the Authority was invested in a time certificate of deposit.

## (3) Advances

Advances represent travel advances, credit card, and other charges at September 30, 2003 and 2002, and are summarized as follows:

	<u>2003</u>	<u>2002</u>
Travel advances	\$ 74,863	\$ 64,880
Less allowance for doubtful debts	<u>(53,124)</u>	<u>(53,124)</u>
	<u>21,739</u>	<u>11,756</u>

**POHNPEI PORT AUTHORITY**

Notes to Financial Statements  
September 30, 2003 and 2002

(3) Advances, Continued

	<u>2003</u>	<u>2002</u>
Credit card and other charges	19,333	19,213
Less allowance for doubtful debts	<u>(19,473)</u>	<u>(19,473)</u>
	<u>(140)</u>	<u>(260)</u>
Receivable from employees	<u>1,016</u>	<u>159</u>
Total	\$ <u>22,615</u>	\$ <u>11,655</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, 2003 and 2002, is as follows:

	<u>2003</u>	<u>2002</u>
Accounts receivable	\$ 340,095	\$ 230,190
Less allowance for doubtful debts	<u>(231,275)</u>	<u>(89,719)</u>
	\$ <u>108,820</u>	\$ <u>140,471</u>

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

(5) Property and Equipment

A summary of the Authority's property and equipment at September 30, 2003 and 2002, is as follows:

	<u>Estimated Useful Lives</u>	<u>Balance at October 1, 2002</u>	<u>Transfers and Additions</u>	<u>Transfers and Deletions</u>	<u>Balance at September 30, 2003</u>
Land		\$ 2,776,034	\$ -	\$ -	\$ 2,776,034
Buildings and improvements	7 to 70 years	12,941,156	570,884		13,512,040
Machinery and equipment	3 years	<u>481,799</u>	<u>27,265</u>	<u>-</u>	<u>509,064</u>
		16,198,989	598,149		16,797,138
Less accumulated depreciation		<u>(11,084,157)</u>	<u>(419,955)</u>	<u>-</u>	<u>(11,504,112)</u>
		5,114,832	178,194	-	5,293,026
Construction work in progress		<u>570,884</u>	<u>-</u>	<u>(570,884)</u>	<u>-</u>
Net investment in plant		\$ <u>5,685,716</u>	\$ <u>178,194</u>	\$ <u>(570,884)</u>	\$ <u>5,293,026</u>

## POHNPEI PORT AUTHORITY

Notes to Financial Statements  
September 30, 2003 and 2002

### (5) Property and Equipment, Continued

	<u>Estimated Useful Lives</u>	<u>Balance at October 1, 2001</u>	<u>Transfers and Additions</u>	<u>Transfers and Deletions</u>	<u>Balance at September 30, 2002</u>
Land		\$ 2,776,034	\$ -	\$ -	\$ 2,776,034
Buildings and improvements	7 to 70 years	12,930,752	10,404	-	12,941,156
Machinery and equipment	3 years	<u>459,661</u>	<u>22,138</u>	<u>-</u>	<u>481,799</u>
		16,166,447	32,542	-	16,198,989
Less accumulated depreciation		<u>(11,750,703)</u>	<u>666,546</u>	<u>-</u>	<u>(11,084,157)</u>
		4,415,744	699,008		5,114,832
Construction work in progress		<u>548,807</u>	<u>22,077</u>	<u>-</u>	<u>570,884</u>
Net investment in plant		\$ <u>4,964,551</u>	\$ <u>721,165</u>	\$ <u>-</u>	\$ <u>5,685,716</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) Commitments and Contingency

The amount payable for a master plan was in dispute. However, two out of seven board members have determined that the Authority owes the contractor the disputed amount of \$534,084 and therefore, in 2002, the Authority re-established the liability simultaneous with expensing the cost of the master plan. In December 1997, the contractor filed suit against the Authority. In return, the Authority filed a motion to dismiss the suit based on the statute of limitations. The motion is still pending in court. However, no provision for additional losses, other than the initial liability, that may result from resolution of this matter has been made in the accompanying financial statements.

The Authority leases certain 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.

The Authority is subject to certain legal complaints that have arisen in the normal course of business. Management is of the opinion that resolution of these matters will not have a material effect on the financial statements.

### (7) 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.

### (8) Notes Payable

	<u>2003</u>	<u>2002</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.	\$ 12,542	\$ 54,676

**POHNPEI PORT AUTHORITY**

Notes to Financial Statements  
September 30, 2003 and 2002

(8) Notes Payable, Continued

	<u>2003</u>	<u>2002</u>
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 an assignment of Continental Micronesia lease proceeds.	-	<u>12,184</u>
	12,542	66,860
Less current portion	<u>12,542</u>	<u>66,860</u>
	\$ -	\$ -

The annual principal payments subsequent to September 30, 2003, are as follows:

	<u>Principal</u>	<u>Interest</u>
Year ending September 30, 2004	\$ 12,542	\$ 159

During the year ended September 30, 2003 and 2002, the following changes occurred in liabilities reported as part of the Authority's long-term liabilities in the statement of net assets:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Notes payable:					
2003	\$ 66,860	\$ -	\$ 54,318	\$ 12,542	\$ 12,542
2002	107,988	-	41,128	66,860	54,318

(9) Prior Period Adjustment

Depreciation expense in the 2002 financial statements has been restated as follows:

<u>As previously stated</u>	<u>As restated</u>
\$881,503	\$666,546



**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, 2003, and have issued our report thereon dated August 27, 2004. 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 instance of noncompliance that is 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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Authority's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as Findings 2003-01 through 2003-03.

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. Our consideration on the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

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.

*Deloitte + Touche LLP*

August 27, 2004

# POHNPEI PORT AUTHORITY

## Schedule of Findings and Questioned Costs Year Ended September 30, 2003

### Fixed Assets

#### Finding No. 2003-01

Criteria: Fixed asset additions and disposals should be recorded to the detailed fixed assets register and to the general ledger. The balances should be reconciled on a monthly basis.

Condition: Fixed asset additions in fiscal year 2001 and 2002 were recorded in the register as one entry. We are unable to verify the physical existence of these assets as there is no indication of the asset description and grouping of these assets. Also, tools and accessories were recorded twice in the register. One entry included the total balance while another entry contained a detailed listing.

Cause: There appears to be weak internal control over maintaining the fixed asset register.

Effect: Differences exist between the general ledger and the fixed asset register.

Recommendation: The Authority should ensure that accurate fixed asset records are maintained and should reconcile the register to the general ledger.

Auditee Response: An automated Fixed Asset Register (FAR) is now put in place. The FAR should be regularly updated.

**POHNPEI PORT AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2003

Accounts Payable

Finding No. 2003-02

Criteria: Accounts payable listings should include current liabilities.

Condition: 100% of the invoices per payable listings provided us were from prior years.

Cause: There appears to be weak internal controls over ensuring payments and expenses are recorded to the accounts payable subsidiary ledger.

Effect: The effect of the above condition is a potential misstatement of liabilities and expenses.

Recommendation: The Authority should record all invoices and payments to the accounts payable subsidiary ledger, which should interface with the general ledger. A monthly reconciliation of the accounts payable listing to the general ledger should be performed.

Auditee Response: Management shall ensure that all invoices and payments are duly recorded in the accounts payable subsidiary ledger and interface the subsidiary ledger with the general ledger.

## POHNPEI PORT AUTHORITY

### Schedule of Findings and Questioned Costs Year Ended September 30, 2003

#### Accounts Receivable

#### Finding No. 2003-03

Criteria: Invoices should be processed and accounts receivable recorded once services are provided and income is earned.

Condition: Revenue of \$113,974 was not recorded. The ability to collect the amount from the customers is uncertain, as the customers were not billed for this amount.

Cause: There appears to be weak internal control over ensuring that all revenue is recorded.

Effect: Collection of the receivables may be compromised due to weak controls.

Recommendation: The Authority should invoice all customers through the accounts receivable subsidiary ledger.

Auditee Response: The shipping proforma documents were not submitted to finance for recording and invoicing. The finding is corrected and the shipping agencies are billed accordingly. An internal routing control is in place whereby all proforma invoices are processed by the Seaport Division and submitted to the division of Finance on a weekly basis to ensure that the official invoices are processed and recorded in a timely manner. PPA management will ensure that the personnel directly responsible for creating this problem are adversely dealt with.