

**POHNPEI PORT AUTHORITY**

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**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

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**YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

## **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, 2004 and 2003, 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.

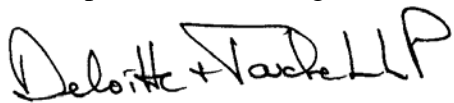
Except as discussed in the following paragraph, we conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United 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 consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 \$330,000 in 2003 for the acquisition of a master plan. 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. The settlement was approved in 2004 by a fully constituted Board of Directors.

In our opinion, except for our inability to examine evidence substantiating payables relating to the acquisition of a master plan at September 30, 2003, as described in the third paragraph, such financial statements present fairly, in all material respects, the financial position of the Pohnpei Port Authority, as of September 30, 2004 and 2003, 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.

The Management's Discussion and Analysis on pages 3-7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the management of the Authority. 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 May 31, 2005, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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 + Tatchell LLP". The signature is written in a cursive, stylized font.

May 31, 2005

# POHNPEI PORT AUTHORITY

## Management's Discussion and Analysis Year Ended September 30, 2004

Our discussion and analysis of the Pohnpei Port Authority's financial performance provides an overview of the Authority's financial activities for the fiscal year ended September 30, 2004. Please read it in conjunction with the Authority's financial statements, which follow this section.

### **Financial Highlights**

- For the fiscal year ended September 30, 2004, the Authority's total operating revenues increased by \$291,394 or 25.68% from the prior year.
- During the year, the Authority's total operating expenses were \$1,444,188 which was \$11,085 or less than 1% higher from the prior year.
- For fiscal year 2004, the Authority recorded no bad debt expense for its accounts receivable instead a recovery of \$37,262.
- The Authority reflected a total net assets increase of \$47,536 in fiscal year 2004 as compared to a total net assets decrease of \$327,702 in fiscal year 2003.
- For fiscal year 2004, total operating revenues is \$18,089 less than the total operating expenses.

### **Overview of the Financial Statements**

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

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

### **The Statement of Net Assets and the Statements of Revenues, Expenses and Changes in Net Assets**

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

# POHNPEI PORT AUTHORITY

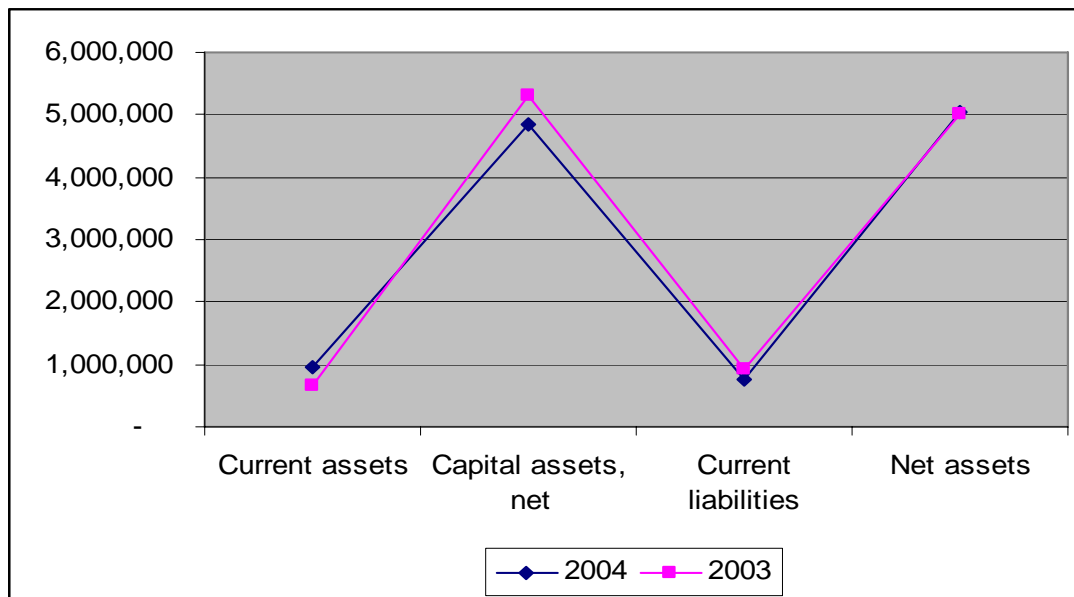
## Management's Discussion and Analysis Year Ended September 30, 2004

### A Financial Analysis of the Authority as a Whole

#### Net Assets

The Authority's net assets increased by \$47,536 or 0.95% during fiscal year 2004 as compared to fiscal year 2003. Current assets increased by \$306,470 or 46.91% while capital assets decreased by \$434,271 or 8.20% and total liabilities decreased by \$175,337 or 18.75%.

	2004	2003
Current assets	\$ 959,754	\$ 653,284
Capital assets, net	4,858,755	5,293,026
<b>Total assets</b>	<b>5,818,509</b>	<b>5,946,310</b>
Current liabilities	759,592	934,929
<b>Total liabilities</b>	<b>759,592</b>	<b>934,929</b>
<b>Net assets</b>		
Invested in capital assets, net of related debt	4,858,755	5,293,026
Restricted net assets	322,959	319,967
Deficit	(122,797)	(601,612)
<b>Total net assets</b>	<b>\$5,058,917</b>	<b>\$5,011,381</b>



# POHNPEI PORT AUTHORITY

## Management's Discussion and Analysis Year Ended September 30, 2004

### Changes in Net Assets

For the year ended September 30, 2004, net assets of the Authority changed as follows with comparison from prior year:

	<u>2004</u>	<u>2003</u>
Operating revenues:		
Seaport charges	\$ 748,644	\$ 553,040
Land leases and space rentals	317,021	285,911
Departure fees	191,918	191,418
Landing fees	98,671	92,667
Other	69,845	11,669
	<u>1,426,099</u>	<u>1,134,705</u>
Total operating revenues		
Operating expenses:		
Salaries	668,122	599,797
Depreciation	498,427	419,955
Bad debt	-	154,368
Utilities	58,882	70,765
Supplies and materials	39,336	43,715
Repairs	41,137	37,823
Travel	58,878	33,953
Contractual services	27,472	23,545
Fuel	12,929	12,761
Communication	18,156	11,588
Training	-	5,146
Miscellaneous and others	20,849	19,687
	<u>1,444,188</u>	<u>1,433,103</u>
Total operating expenses		
Income (loss) from operations	<u>(18,089)</u>	<u>(298,398)</u>
Non-operating revenues (expenses):		
Recovery of bad debt	37,262	-
Interest income	1,707	14,575
Other non-operating income	26,881	-
Other non-operating expenses	(225)	(43,879)
	<u>65,625</u>	<u>(29,304)</u>
Total non- operating revenues (expenses)		
Increase (decrease) in net assets	<u>\$ 47,536</u>	<u>\$ (327,702)</u>

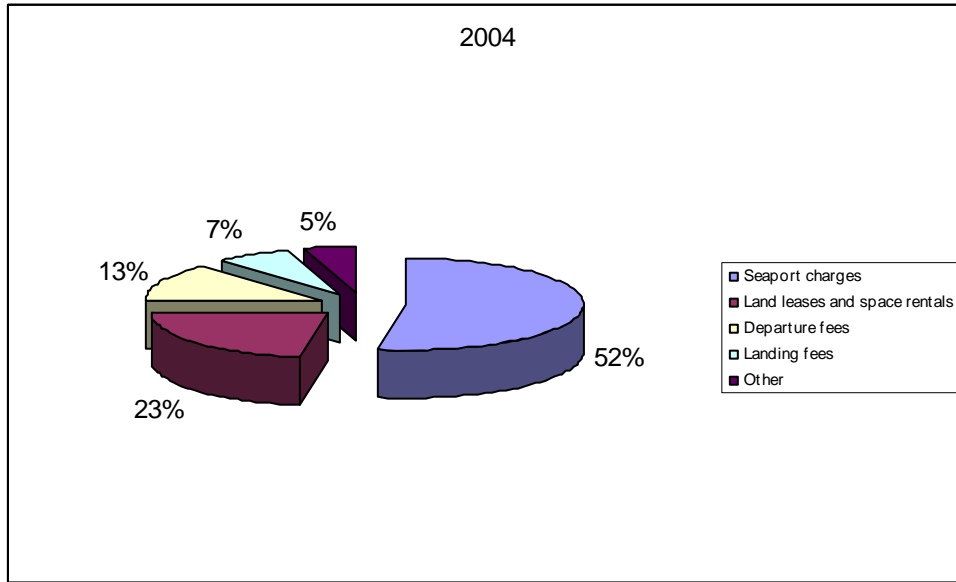
The Authority's operations for fiscal year 2004 reflected an increase in net assets of \$47,536 which represents a 114.50% positive change and improvement of its financial condition from prior year.

# POHNPEI PORT AUTHORITY

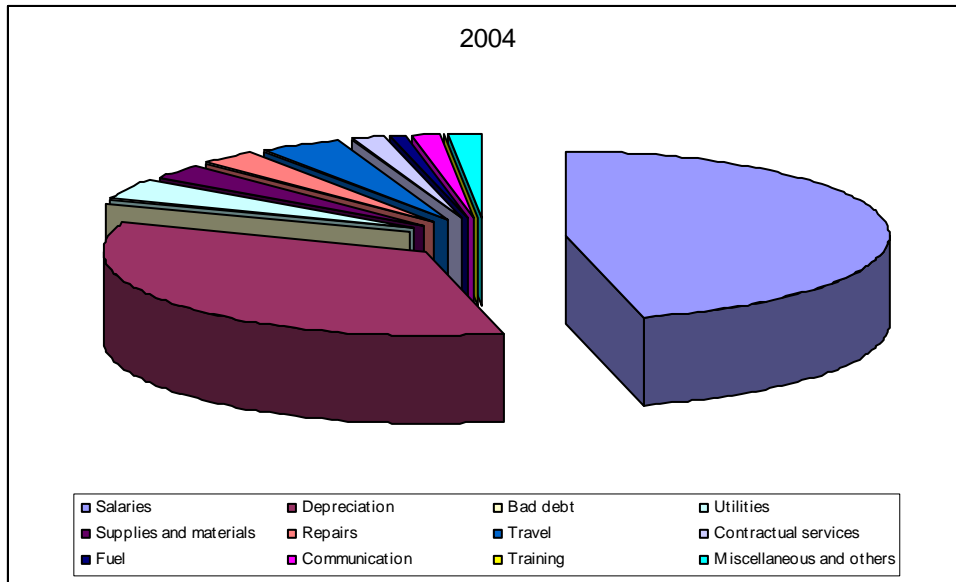
## Management's Discussion and Analysis Year Ended September 30, 2004

For the year ended September 30, 2004, the Authority's operating revenues and expenses are as follow:

### Operating Revenues



### Operating Expenses



Of the total operating revenues of \$1,426,099 for fiscal year ended September 30, 2004, seaport activities contributed \$748,644 while land leases and space rentals was \$317,021 and departure and landing fees was \$290,589. The biggest operating expenses were salaries in the amount of \$668,122 and depreciation in the amount of \$498,427.

## **POHNPEI PORT AUTHORITY**

Management's Discussion and Analysis  
Year Ended September 30, 2004

### **Next Year's Projections and Budget**

The Authority will continue and complete some projects which have started during fiscal year 2004 like the terminal building improvement, terminal parking lot extension and development of the Authority's website. The Authority included in its fiscal year 2005 budget, \$60,292 and \$15,000 for pavement of Misko Beach road and design of the Authority's administration building, respectively. The Authority is planning to obtain a \$500,000 loan for the construction of its administration building.

### **Contacting the Authority's Financial Management**

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



**POHNPEI PORT AUTHORITY**

Statements of Net Assets  
September 30, 2004 and 2003

<u>ASSETS</u>	<u>2004</u>	<u>2003</u>
Current assets:		
Cash and equivalents	\$ 251,318	\$ 184,739
Restricted cash	322,959	319,967
Accounts receivable, net	381,072	108,820
Advances, net	705	22,615
Interest receivable	-	6,628
Prepaid expenses	<u>3,700</u>	<u>10,515</u>
Total current assets	959,754	653,284
Property and equipment, net	<u>4,858,755</u>	<u>5,293,026</u>
	<u>\$ 5,818,509</u>	<u>\$ 5,946,310</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Note payable	\$ -	\$ 12,542
Accounts payable	234,525	348,852
Accrued liabilities and others	120,265	139,495
Accrued annual leave	43,250	44,105
Deferred revenues	<u>361,552</u>	<u>389,935</u>
Total current liabilities	<u>759,592</u>	<u>934,929</u>
Commitments and contingencies		
Net assets:		
Invested in capital assets, net of related debt	4,858,755	5,293,026
Restricted	322,959	319,967
Unrestricted	<u>(122,797)</u>	<u>(601,612)</u>
Total net assets	<u>5,058,917</u>	<u>5,011,381</u>
	<u>\$ 5,818,509</u>	<u>\$ 5,946,310</u>

See accompanying notes to financial statements.

**POHNPEI PORT AUTHORITY**

Statements of Revenue, Expenses, and Changes in Net Assets  
Years Ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Operating revenues:		
Seaport charges	\$ 748,644	\$ 553,040
Land leases and space rentals	317,021	285,911
Departure fees	191,918	191,418
Landing fees	98,671	92,667
Other	<u>69,845</u>	<u>11,669</u>
Total operating revenues	<u>1,426,099</u>	<u>1,134,705</u>
Operating expenses:		
Salaries	668,122	599,797
Depreciation	498,427	419,955
Utilities	58,882	70,765
Travel	58,878	33,953
Repairs	41,137	37,823
Supplies and materials	39,336	43,715
Contractual services	27,472	23,545
Communication	18,156	11,588
Fuel	12,929	12,761
Doubtful debt expense	-	154,368
Training	-	5,146
Miscellaneous and others	<u>20,849</u>	<u>19,687</u>
Total operating expenses	<u>1,444,188</u>	<u>1,433,103</u>
Loss from operations	<u>(18,089)</u>	<u>(298,398)</u>
Nonoperating revenues (expenses):		
Recovery of bad debts	37,262	-
Interest income	1,707	14,575
Other nonoperating income	26,881	-
Other nonoperating expenses	<u>(225)</u>	<u>(43,879)</u>
Total nonoperating expenses, net	<u>65,625</u>	<u>(29,304)</u>
Increase (decrease) in net assets	47,536	(327,702)
Total net assets at beginning of year	<u>5,011,381</u>	<u>5,339,083</u>
Total net assets at end of year	<u>\$ 5,058,917</u>	<u>\$ 5,011,381</u>

See accompanying notes to financial statements.

**POHNPEI PORT AUTHORITY**

Statements of Cash Flows  
Years Ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities		
Cash received from customers	\$ 1,183,915	\$ 1,011,988
Cash paid to suppliers and employees for goods and services	<u>(1,048,973)</u>	<u>(952,033)</u>
Net cash provided by operating activities	<u>134,942</u>	<u>59,955</u>
Cash flows from noncapital financing activities		
Repayments of notes payable	<u>(12,542)</u>	<u>(54,318)</u>
Net cash used in noncapital financing activities	<u>(12,542)</u>	<u>(54,318)</u>
Cash flows from capital and related financing activities		
Acquisition of property and equipment	<u>(64,156)</u>	<u>(27,265)</u>
Net cash used in capital and related financing activities	<u>(64,156)</u>	<u>(27,265)</u>
Cash flows from investing activities		
Interest income	<u>8,335</u>	<u>14,575</u>
Net cash provided by investing activities	<u>8,335</u>	<u>14,575</u>
Net increase (decrease) in cash and equivalents	66,579	(7,053)
Cash and equivalents at beginning of year	<u>184,739</u>	<u>191,792</u>
Cash and equivalents at end of year	<u>\$ 251,318</u>	<u>\$ 184,739</u>
Reconciliation of loss from operations to net cash provided by operating activities:		
Loss from operations	\$ (18,089)	\$ (298,398)
Other non-operating income (expense)	63,918	(43,879)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Depreciation	498,427	419,955
Doubtful debt expense	-	154,368
Changes in working capital:		
Increase in accounts receivable	(272,252)	(122,717)
Decrease (increase) in advances	21,910	(10,960)
Increase in restricted cash	(2,992)	(2,706)
Decrease (increase) in prepaid expenses	6,815	(2,633)
(Decrease) increase in deferred revenue	(28,383)	83,685
Decrease in accounts payable	(114,327)	(126,827)
(Decrease) increase in accrued liabilities	<u>(20,085)</u>	<u>10,067</u>
Net cash provided by operating activities	<u>\$ 134,942</u>	<u>\$ 59,955</u>

See accompanying notes to financial statements.

# POHNPEI PORT AUTHORITY

Notes to Financial Statements  
September 30, 2004 and 2003

## (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 implemented 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*. The Authority has not evaluated the financial statement impact of GASB Statement No. 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.

The Authority has 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, 2004 and 2003

## (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, 2004 and 2003, 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. Cash per bank balances exceed book balances by \$77,867 at September 30, 2004. At September 30, 2004, 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, 2004 and 2003

### (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.

#### 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 and Pohnpei State Government) that will be used for capital projects. 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 2003 financial statements have been reclassified to conform to the 2004 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, 2004, the \$300,000 cash advanced to the Authority was invested in a time certificate of deposit.

## POHNPEI PORT AUTHORITY

Notes to Financial Statements  
September 30, 2004 and 2003

### (3) Advances

Advances represent travel advances, credit card, and other charges at September 30, 2004 and 2003, and are summarized as follows:

	<u>2004</u>	<u>2003</u>
Travel advances	\$ -	\$ 74,863
Less allowance for doubtful debts	<u>-</u>	<u>(53,124)</u>
	<u>-</u>	<u>21,739</u>
Credit card and other charges	-	19,333
Less allowance for doubtful debts	<u>-</u>	<u>(19,473)</u>
	<u>-</u>	<u>(140)</u>
Receivable from employees	<u>705</u>	<u>1,016</u>
Total	\$ <u><u>705</u></u>	\$ <u><u>22,615</u></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, 2004 and 2003, is as follows:

	<u>2004</u>	<u>2003</u>
Accounts receivable	\$ 575,084	\$ 340,095
Less allowance for doubtful debts	<u>(194,012)</u>	<u>(231,275)</u>
	\$ <u><u>381,072</u></u>	\$ <u><u>108,820</u></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, 2004 and 2003, is as follows:

	<u>Estimated Useful Lives</u>	<u>Balance at October 1, 2003</u>	<u>Transfers and Additions</u>	<u>Transfers and Deletions</u>	<u>Balance at September 30, 2004</u>
Land		\$ 2,776,034	\$ -	\$ -	\$ 2,776,034
Buildings and improvements	7 to 70 years	13,512,040	6,024	-	13,518,064
Machinery and equipment	3 years	<u>509,064</u>	<u>58,132</u>	<u>-</u>	<u>567,196</u>
		16,797,138	64,156		16,861,294
Less accumulated depreciation		<u>(11,504,112)</u>	<u>(498,427)</u>	<u>-</u>	<u>(12,002,539)</u>
Net investment in plant		\$ <u><u>5,293,026</u></u>	\$ <u><u>(434,271)</u></u>	\$ <u><u>-</u></u>	\$ <u><u>4,858,755</u></u>

## POHNPEI PORT AUTHORITY

Notes to Financial Statements  
September 30, 2004 and 2003

### (5) Property and Equipment, Continued

	<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>

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 Contingencies

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 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.



**POHNPEI PORT AUTHORITY**

Notes to Financial Statements  
September 30, 2004 and 2003

(8) Notes Payable

	<u>2004</u>	<u>2003</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
Less current portion	<u>-</u>	<u>12,542</u>
	\$ <u>-</u>	\$ <u>-</u>

(9) Future Rental Revenues

The approximate future minimum annual rental revenue receivable by Pohnpei Port Authority for lease contracts currently held with certain private corporations are as follows:

<u>Fiscal year ending December 31,</u>	<u>Total</u>
2005	\$ 272,848
2006	205,597
2007	193,965
2008	193,965
2009	193,965
2010 – 2014	968,306
2015 – 2019	915,334
2020 – 2024	<u>327,549</u>
	\$ <u>3,271,529</u>

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT 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, 2004, and have issued our report thereon dated May 31, 2005, which report was qualified due to an inability to examine evidence substantiating certain payables. 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.

Internal Control Over Financial Reporting

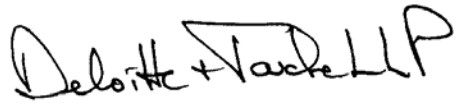
In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. 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.

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 noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted another matter involving the internal control over financial reporting, which we have reported to management of the Authority in a separate letter dated May 31, 2005.

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*.

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 + Tuckers LLP". The signature is written in a cursive, slightly stylized font.

May 31, 2005