

**POHNPEI PORT AUTHORITY  
A COMPONENT UNIT OF THE STATE OF POHNPEI**

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**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

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**YEARS ENDED SEPTEMBER 30, 2007 AND 2006**

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Pohnpei Port Authority:

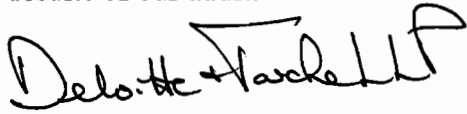
We have audited the accompanying statements of net assets of the Pohnpei Port Authority (the Authority), a component unit of the State of Pohnpei, as of September 30, 2007 and 2006, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These 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.

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.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Pohnpei Port Authority as of September 30, 2007 and 2006, and the changes in its net assets 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 measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2008, 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 considered in assessing the results of our audit.

A handwritten signature in black ink, appearing to read "Deloitte & Touche" with a stylized flourish at the end.

January 13, 2008

# POHNPEI PORT AUTHORITY

## Management's Discussion and Analysis Year Ended September 30, 2007

Our discussion and analysis of the Pohnpei Port Authority's ("the Authority") financial performance provides an overview of the Authority's financial activities for the fiscal year ended September 30, 2007. Please read it in conjunction with the Authority's financial statements, which follow this section.

### **Financial Highlights**

- For the fiscal year ended September 30, 2007, the Authority's total operating revenues increased by \$415,817 or 17.14% from the prior year.
- During the year, the Authority's total operating expenses were \$1,547,051, which was \$137,463 or 9.75% higher than the prior year.
- For fiscal year 2007, the Authority's bad debt expense decreased by \$120,004 or 66.53% lower from the prior year.
- The Authority reflected a total net assets increase of \$2,522,217 in fiscal year 2007 as compared to a \$921,412 increase in fiscal year 2006, including the \$1,240,825 capital contribution from the FSM National Government.
- For fiscal year 2007, the Authority posted earnings from operations of \$1,234,127 as compared to \$835,769 in fiscal year 2006.

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

The financial statements presented herein include all of the activities of the Authority. Included in this report are the Statements 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 Statements of Net Assets and the Statements of Revenues, Expenses, and Changes in Net Assets**

The Statements 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

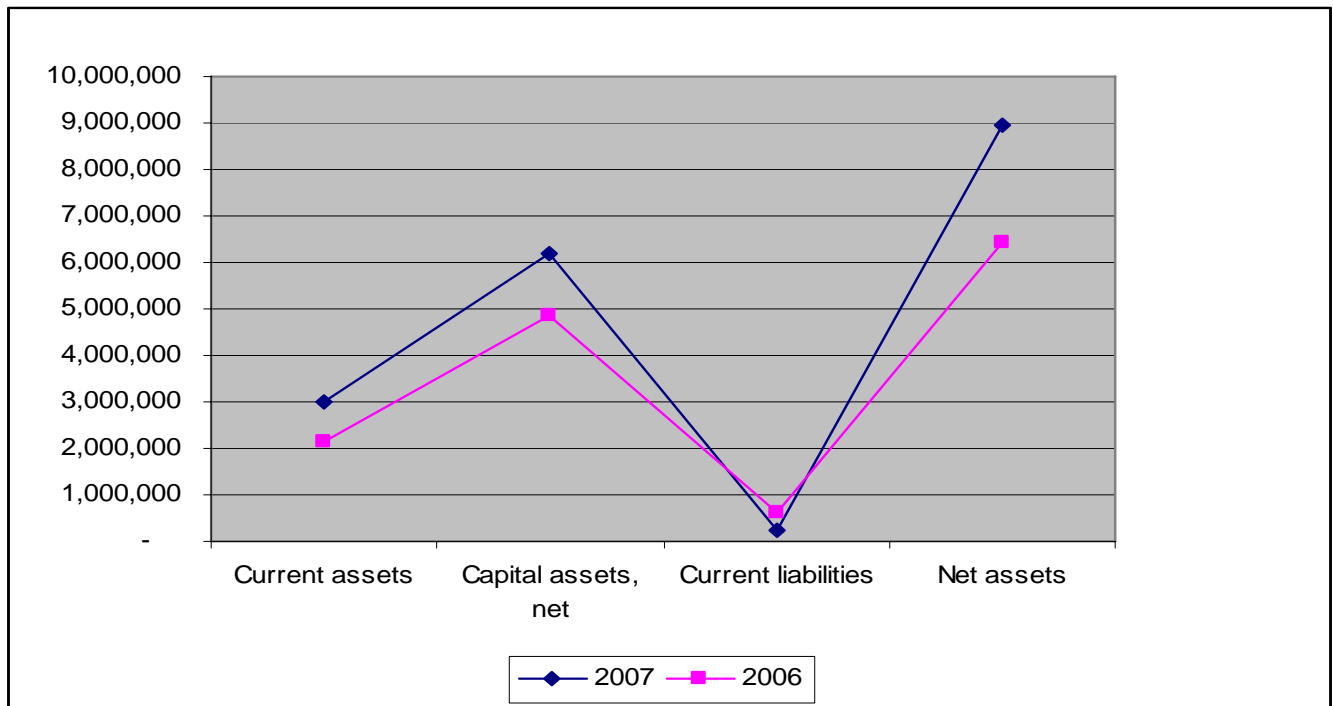
Management's Discussion and Analysis  
Year Ended September 30, 2007

## A Financial Analysis of the Authority as a Whole

### Net Assets

The Authority's net assets increased by \$2,522,217 or 39.20% during fiscal year 2007 as compared to fiscal year 2006. Current assets increased by \$843,459 or 39.03% while capital assets increased by \$1,333,899 or 27.37% which included the \$1,240,825 cost of two ARFF vehicles from the FSM National Government. Current and total liabilities decreased by \$344,859 or 57.43%.

|                            | 2007                | 2006                | 2005                |
|----------------------------|---------------------|---------------------|---------------------|
| Current assets             | \$ 3,004,573        | \$ 2,161,114        | \$ 1,269,403        |
| Capital assets, net        | 6,207,246           | 4,873,347           | 4,820,143           |
| <b>Total assets</b>        | <b>9,211,819</b>    | <b>7,034,461</b>    | <b>6,089,546</b>    |
| Current liabilities        | 255,596             | 600,455             | 576,952             |
| <b>Total liabilities</b>   | <b>255,596</b>      | <b>600,455</b>      | <b>576,952</b>      |
| Net assets:                |                     |                     |                     |
| Invested in capital assets | 6,207,246           | 4,873,347           | 4,820,143           |
| Unrestricted               | 2,748,977           | 1,560,659           | 692,451             |
| <b>Total net assets</b>    | <b>\$ 8,956,223</b> | <b>\$ 6,434,006</b> | <b>\$ 5,512,594</b> |



## POHNPEI PORT AUTHORITY

### Management's Discussion and Analysis Year Ended September 30, 2007

#### Changes in Net Assets

For the year ended September 30, 2007, net assets of the Authority changed as follows with comparison from prior year:

|   | <u>2007</u>         | <u>2006</u>       | <u>2005</u>       |
|---|---------------------|-------------------|-------------------|
| Operating revenues:                     |                     |                   |                   |
| Seaport charges                         | \$ 2,163,669        | \$ 1,808,164      | \$ 992,291        |
| Land leases and space rentals           | 381,823             | 337,498           | 332,744           |
| Departure fees                          | 181,360             | 185,710           | 191,890           |
| Landing fees                            | 101,880             | 86,651            | 87,263            |
| Other                                   | 12,820              | 7,712             | 16,546            |
|   | <u>2,841,552</u>    | <u>2,425,735</u>  | <u>1,620,734</u>  |
| <b>Total operating revenues</b>         |                     |                   |                   |
| Bad debt expense, net of recoveries     | 60,374              | 180,378           | 131,624           |
|   | <u>2,781,178</u>    | <u>2,245,357</u>  | <u>1,489,110</u>  |
| <b>Net operating revenues</b>           |                     |                   |                   |
| Operating expenses:                     |                     |                   |                   |
| Salaries and benefits                   | 817,397             | 780,881           | 670,743           |
| Depreciation                            | 255,581             | 229,182           | 204,183           |
| Utilities                               | 87,523              | 76,706            | 72,324            |
| Supplies and materials                  | 63,264              | 54,568            | 48,293            |
| Repairs                                 | 64,456              | 73,893            | 45,296            |
| Travel                                  | 75,912              | 56,834            | 44,687            |
| Contractual services                    | 61,777              | 46,508            | 46,237            |
| Fuel                                    | 43,859              | 22,811            | 16,177            |
| Communication                           | 25,984              | 22,917            | 19,752            |
| Training                                | 17,841              | 4,562             | 4,256             |
| Miscellaneous and others                | 33,457              | 40,726            | 23,875            |
|   | <u>1,547,051</u>    | <u>1,409,588</u>  | <u>1,195,823</u>  |
| <b>Total operating expenses</b>         |                     |                   |                   |
| <b>Earnings from operations</b>         | <u>1,234,127</u>    | <u>835,769</u>    | <u>293,287</u>    |
| Nonoperating revenues (expenses):       |                     |                   |                   |
| Federal grants                          | -                   | 2,961             | -                 |
| Interest income                         | 18,962              | 6,963             | 6,267             |
| Other nonoperating income               | 123                 | 686               | 154,123           |
|   | <u>19,085</u>       | <u>10,610</u>     | <u>160,390</u>    |
| <b>Total nonoperating revenues, net</b> |                     |                   |                   |
| Capital contributions                   | 1,269,005           | 75,033            | -                 |
|   | <u>\$ 2,522,217</u> | <u>\$ 921,412</u> | <u>\$ 453,677</u> |
| <b>Change in net assets</b>             |                     |                   |                   |

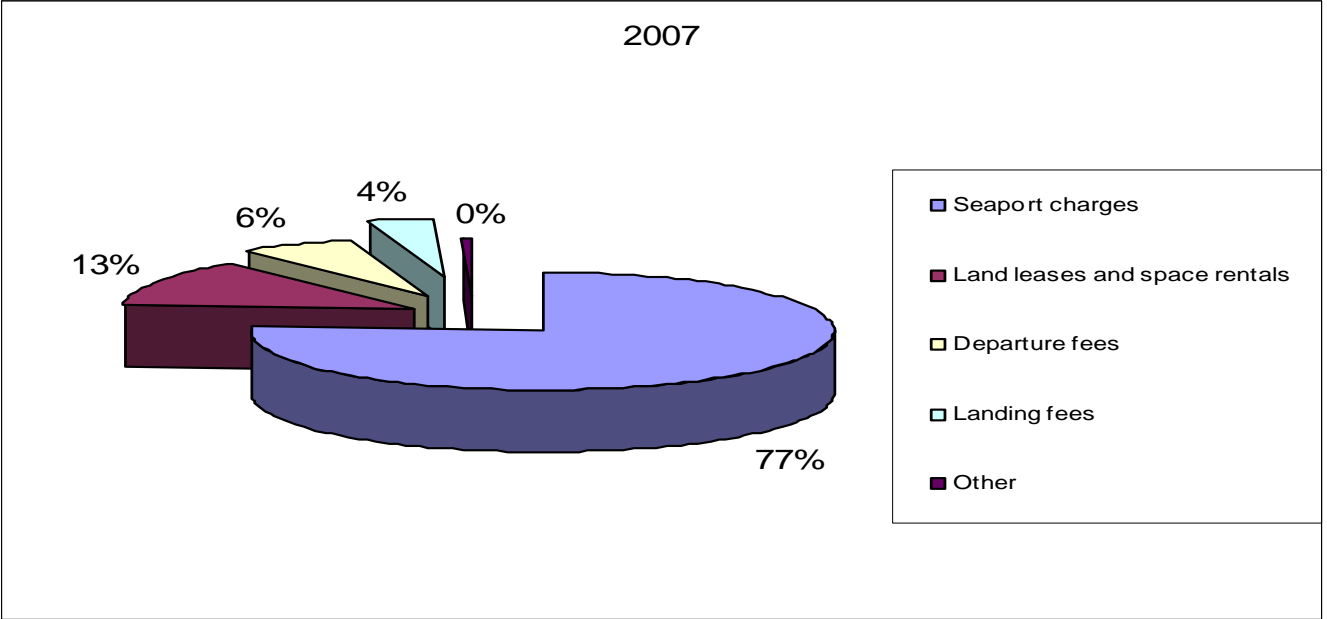
# POHNPEI PORT AUTHORITY

## Management's Discussion and Analysis Year Ended September 30, 2007

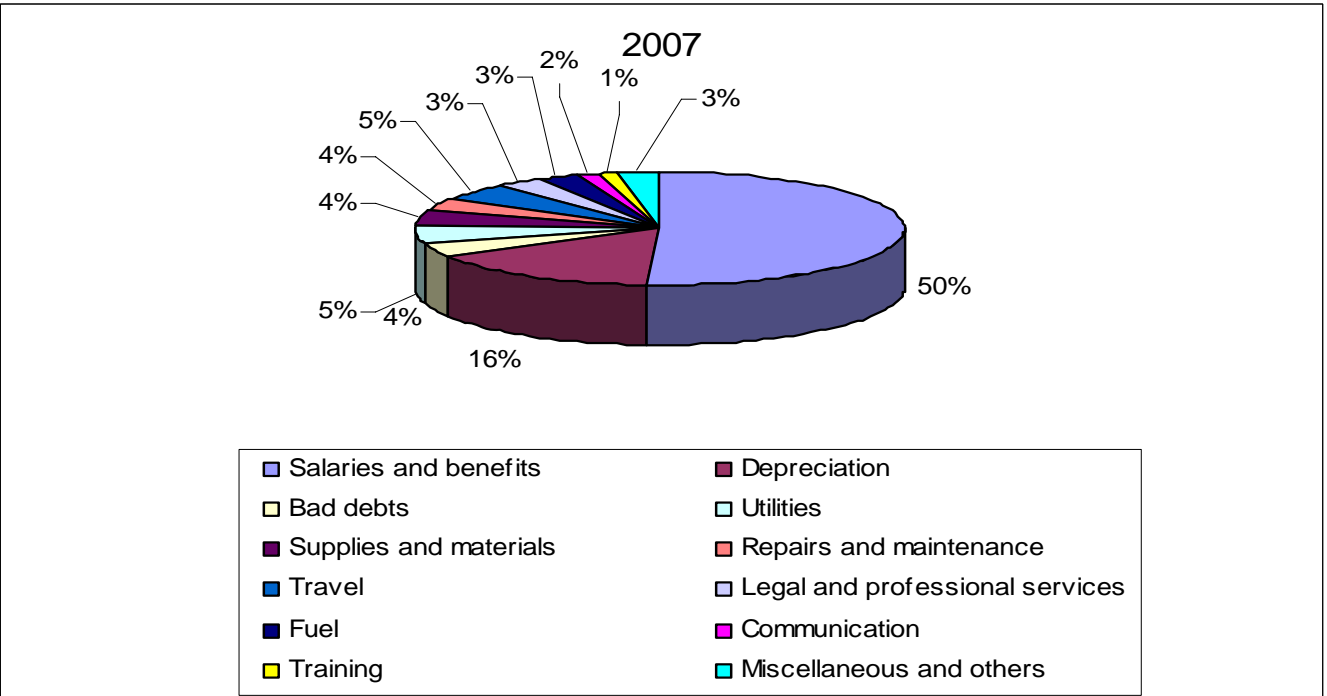
The Authority's operations for fiscal year 2007 reflected an increase in net assets of \$2,522,217 which is 39.20% higher from prior year and contributed to the continuous improvement of the Authority's financial condition.

For the year ended September 30, 2007, the Authority's operating revenues and expenses are as follows:

### Operating Revenues



### Operating Expenses



## **POHNPEI PORT AUTHORITY**

### **Management's Discussion and Analysis Year Ended September 30, 2007**

Of the total operating revenues of \$2,841,552 for fiscal year ended September 30, 2007, seaport activities contributed \$2,163,669 while land leases and space rentals were \$381,823 and departure and landing fees were \$283,240. The largest operating expenses were salaries and benefits, depreciation and utilities, in the amount of \$817,397, \$255,581 and \$87,523, respectively.

#### **Capital Assets**

The Authority's investment in capital assets as of September 30, 2007 amounts to \$6,207,246 (net of accumulated depreciation). This investment includes land, buildings and improvements, and machinery and equipment. The total increase in the Authority's investment in capital assets for the current year was 27.37% due to additions of \$1,589,801 (includes the \$1,240,825 ARFF vehicles from the FSM National government and construction of administration building which is in progress in the amount of \$240,284) less depreciation expense of \$255,581. Refer to note 4 of the financial statements for further information.

#### **Long-Term Debt**

The Authority did not have any long-term debt existing at September 30, 2007, 2006 and 2005.

Management's Discussion and Analysis for the year ended September 30, 2006 is set forth in the Authority's report on the audit of financial statements, which is dated January 30, 2007. That Discussion and Analysis explains the major factors impacting the 2006 financial statements and can be viewed at the FSM Office of the Public Auditors' website at [www.fsmpublicauditor.fm](http://www.fsmpublicauditor.fm).

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

The construction of the Authority's new administration building has already started and is expected to complete before the end of next fiscal year. The Authority has included a cost of living allowance (COLA) of \$75 per employee per payroll period in its fiscal year 2008 budget.

#### **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, 2007 and 2006

| <u>ASSETS</u>                             | <u>2007</u>         | <u>2006</u>         |
|---|---------------------|---------------------|
| Current assets:                           |                     |                     |
| Cash and equivalents                      | \$ 2,467,790        | \$ 1,355,411        |
| Restricted cash                           | -                   | 333,450             |
| Accounts receivable, net                  | 498,165             | 385,135             |
| Advances                                  | 10,438              | 9,124               |
| Due from Pohnpei State                    | <u>28,180</u>       | <u>77,994</u>       |
| Total current assets                      | 3,004,573           | 2,161,114           |
| Property and equipment, net               | <u>6,207,246</u>    | <u>4,873,347</u>    |
|   | <u>\$ 9,211,819</u> | <u>\$ 7,034,461</u> |
| <br><u>LIABILITIES AND NET ASSETS</u><br> |                     |                     |
| Current liabilities:                      |                     |                     |
| Accounts payable                          | \$ 85,416           | \$ 100,232          |
| Accrued liabilities and others            | 92,466              | 126,831             |
| Accrued annual leave                      | 72,746              | 64,893              |
| Deferred revenues                         | <u>4,968</u>        | <u>308,499</u>      |
| Total current liabilities                 | <u>255,596</u>      | <u>600,455</u>      |
| Contingency                               |                     |                     |
| Net assets:                               |                     |                     |
| Invested in capital assets                | 6,207,246           | 4,873,347           |
| Unrestricted                              | <u>2,748,977</u>    | <u>1,560,659</u>    |
| Total net assets                          | <u>8,956,223</u>    | <u>6,434,006</u>    |
|   | <u>\$ 9,211,819</u> | <u>\$ 7,034,461</u> |

See accompanying notes to financial statements.

**POHNPEI PORT AUTHORITY**

Statements of Revenue, Expenses, and Changes in Net Assets  
Years Ended September 30, 2007 and 2006

|                                     | 2007         | 2006         |
|-------------------------------------|--------------|--------------|
| Operating revenues:                 |              |              |
| Seaport charges                     | \$ 2,163,669 | \$ 1,808,164 |
| Land leases and space rentals       | 381,823      | 337,498      |
| Departure fees                      | 181,360      | 185,710      |
| Landing fees                        | 101,880      | 86,651       |
| Other                               | 12,820       | 7,712        |
| Total operating revenues            | 2,841,552    | 2,425,735    |
| Bad debt expense, net of recoveries | 60,374       | 180,378      |
| Net operating revenue               | 2,781,178    | 2,245,357    |
| Operating expenses:                 |              |              |
| Salaries and benefits               | 817,397      | 780,881      |
| Depreciation                        | 255,581      | 229,182      |
| Utilities                           | 87,523       | 76,706       |
| Travel                              | 75,912       | 56,834       |
| Repairs                             | 64,456       | 73,893       |
| Supplies and materials              | 63,264       | 54,568       |
| Contractual services                | 61,777       | 46,508       |
| Fuel                                | 43,859       | 22,811       |
| Communication                       | 25,984       | 22,917       |
| Training                            | 17,841       | 4,562        |
| Miscellaneous and others            | 33,457       | 40,726       |
| Total operating expenses            | 1,547,051    | 1,409,588    |
| Earnings from operations            | 1,234,127    | 835,769      |
| Nonoperating revenues (expenses):   |              |              |
| Federal grants                      | -            | 2,961        |
| Interest income                     | 18,962       | 6,963        |
| Other nonoperating income           | 123          | 686          |
| Total nonoperating revenues, net    | 19,085       | 10,610       |
| Capital contributions               | 1,269,005    | 75,033       |
| Change in net assets                | 2,522,217    | 921,412      |
| Net assets at beginning of year     | 6,434,006    | 5,512,594    |
| Net assets at end of year           | \$ 8,956,223 | \$ 6,434,006 |

See accompanying notes to financial statements.

## POHNPEI PORT AUTHORITY

### Statements of Cash Flows Years Ended September 30, 2007 and 2006

|   | <u>2007</u>         | <u>2006</u>         |
|---|---------------------|---------------------|
| Cash flows from operating activities:   |                     |                     |
| Cash received from customers  | \$ 2,666,479        | \$ 2,180,955        |
| Cash paid to suppliers for goods and services   | (488,135)           | (395,732)           |
| Cash paid to employees  | (814,390)           | (764,094)           |
| Net cash provided by operating activities   | <u>1,363,954</u>    | <u>1,021,129</u>    |
| Cash flows from capital and related financing activities:                                       |                     |                     |
| Net proceeds from disposal of property and equipment  | 444                 | 947                 |
| Cash received from Pohnpei State  | 77,994              | -                   |
| Reimbursement to FSM National Government  | (342,637)           | -                   |
| Acquisition of property and equipment   | (348,976)           | (282,647)           |
| Net cash used in capital and related financing activities                                       | <u>(613,175)</u>    | <u>(281,700)</u>    |
| Cash flows from investing activities:   |                     |                     |
| Interest income   | 18,962              | 6,963               |
| Interest received from restricted cash  | 9,188               | -                   |
| Net cash provided by investing activities   | <u>28,150</u>       | <u>6,963</u>        |
| Net change in cash and equivalents  | 778,929             | 746,392             |
| Cash and equivalents at beginning of year   | <u>1,688,861</u>    | <u>942,469</u>      |
| Cash and equivalents at end of year   | <u>\$ 2,467,790</u> | <u>\$ 1,688,861</u> |
| Reconciliation of earnings from operations to net cash provided by operating activities:        |                     |                     |
| Earnings from operations  | \$ 1,234,127        | \$ 835,769          |
| Adjustments to reconcile earnings from operations to net cash provided by operating activities: |                     |                     |
| Depreciation  | 255,581             | 229,182             |
| Bad debt expense  | 60,374              | 180,378             |
| Changes in working capital:   |                     |                     |
| Change in accounts receivable   | (175,073)           | (242,847)           |
| Change in advances  | (1,314)             | (4,856)             |
| Change in accounts payable  | (14,816)            | (8,085)             |
| Change in accrued liabilities   | 753                 | 11,878              |
| Change in accrued annual leave  | 7,853               | 21,643              |
| Change in deferred revenue  | (3,531)             | (1,933)             |
| Net cash provided by operating activities   | <u>\$ 1,363,954</u> | <u>\$ 1,021,129</u> |

#### Summary Schedule of Noncash Activity:

During the year ended September 30, 2007, the Authority received two ARFF vehicles from the FSM National Government totaling \$1,240,825.

See accompanying notes to financial statements.

# POHNPEI PORT AUTHORITY

Notes to Financial Statements  
September 30, 2007 and 2006

## (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 discretely presented component unit 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 April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this Statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of the Authority.

In July 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this Statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of the Authority.

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*. GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The Statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The provisions of this Statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of the Authority.

## POHNPEI PORT AUTHORITY

Notes to Financial Statements  
September 30, 2007 and 2006

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

#### B. New Accounting Standards, Continued

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. The provisions of this Statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of the Authority.

In May 2007, GASB issued Statement No. 50, *Pension Disclosures an Amendment of GASB Statements No. 25 and 27*. GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits. The provisions of this Statement are effective for periods beginning after June 15, 2007. Management does not believe the implementation of this Statement will have a material effect on the financial statements of the Authority.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this Statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of the Authority.

#### 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's revenues are derived primarily from providing various services to major shipping and airline customers under an approved tariff rate schedule and are reported as operating revenues. Capital, grants, financing or investing related transactions are reported as non-operating revenues. Revenue is recognized on the accrual basis and is recorded upon billing when services have been completed. All expenses related to operating the Authority are reported as operating expenses. Interest income or federal program revenues are the primary components of non-operating expenses and revenues.

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, 2007 and 2006

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

#### C. Basis of Accounting, Continued

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" 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 net asset categories:

- 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, 2007 and 2006, the Authority does not have nonexpendable restricted 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.

#### 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

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, disclosure is required of investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 40 also requires disclosure of formal policies related to deposit and investment risks.

## POHNPEI PORT AUTHORITY

Notes to Financial Statements  
September 30, 2007 and 2006

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

#### E. Cash and Equivalents, Continued

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

- Category 1 Deposits that are federally insured or collateralized with securities held by the Authority or its agent in the Authority's name;
- Category 2 Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name; or
- Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in the Authority's name and non-collateralized deposits.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution but not in the Authority's name. The Authority does not have a deposit policy for custodial credit risk.

As of September 30, 2007 and 2006, the carrying amount of the Authority's total cash and cash equivalents approximated the corresponding bank balances, all of which were maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2007 and 2006, bank deposits in the amount of \$100,000 and \$200,000, respectively were FDIC insured. The Authority does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk. The Authority has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on its deposits.

#### F. Receivables

The Authority's accounts receivable are with businesses and individuals based in Pohnpei State that relate to public land leases, space rentals, landing fees, port and handling charges, wharfage, gross receipts fees and other fees. The allowance for uncollectible accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectibility of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense.

# POHNPEI PORT AUTHORITY

Notes to Financial Statements  
September 30, 2007 and 2006

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

### G. Property and Equipment

Property and equipment are stated at cost or at estimated appraised values as of the transfer date (note 4), less accumulated depreciation. Depreciation is based on the straight-line method over the estimated useful lives of the respective assets. The Authority utilizes a capitalization threshold of \$300.

### H. 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.

### I. 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.

### J. 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.

## (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. During the year ended September 30, 2007, the Board of Directors resolved to return the \$300,000 appropriation including interest to the FSM Government. As of September 30, 2006, cash advanced to the Authority was invested in time certificates of deposit.

## (3) Accounts Receivable

The detail of accounts receivable, net of allowance for doubtful debts, at September 30, 2007 and 2006, is as follows:

|                                   | <u>2007</u>       | <u>2006</u>       |
|-----------------------------------|-------------------|-------------------|
| Accounts receivable               | \$ 1,064,554      | \$ 891,150        |
| Less allowance for doubtful debts | <u>(566,389)</u>  | <u>(506,015)</u>  |
|                                   | <u>\$ 498,165</u> | <u>\$ 385,135</u> |



## POHNPEI PORT AUTHORITY

Notes to Financial Statements  
September 30, 2007 and 2006

### (4) Property and Equipment

A summary of the Authority's property and equipment at September 30, 2007 and 2006, is as follows:

|  | <u>Estimated<br/>Useful<br/>Lives</u> | <u>Balance at<br/>October<br/>1, 2006</u> | <u>Transfers<br/>and<br/>Additions</u> | <u>Transfers<br/>and<br/>Deletions</u> | <u>Balance at<br/>September<br/>30, 2007</u> |
|--|---------------------------------------|---|--|--|--|
| Non-depreciable:                         |                                       |   |  |  |  |
| Land                                     |                                       | \$ 2,776,034                              | \$ -                                   | \$ -                                   | \$ 2,776,034                                 |
| Construction in progress                 |                                       | 60,305                                    | 240,284                                | -                                      | 300,589                                      |
| Depreciable:                             |                                       |   |  |  |  |
| Buildings and improvements               | 7 to 70 years                         | 13,646,798                                | 6,353                                  | -                                      | 13,653,151                                   |
| Machinery and equipment                  | 3 - 5 years                           | <u>791,757</u>                            | <u>1,343,164</u>                       | <u>(444)</u>                           | <u>2,134,477</u>                             |
|  |                                       | 17,274,894                                | 1,589,801                              | (444)                                  | 18,864,251                                   |
| Less accumulated depreciation            |                                       | <u>(12,401,547)</u>                       | <u>(255,581)</u>                       | <u>123</u>                             | <u>(12,657,005)</u>                          |
| Net investment in property and equipment |                                       | \$ <u>4,873,347</u>                       | \$ <u>1,334,220</u>                    | \$ <u>(321)</u>                        | \$ <u>6,207,246</u>                          |
|  |                                       |   |  |  |  |
|  | <u>Estimated<br/>Useful<br/>Lives</u> | <u>Balance at<br/>October<br/>1, 2005</u> | <u>Transfers<br/>and<br/>Additions</u> | <u>Transfers<br/>and<br/>Deletions</u> | <u>Balance at<br/>September<br/>30, 2006</u> |
| Non-depreciable:                         |                                       |   |  |  |  |
| Land                                     |                                       | \$ 2,776,034                              | \$ -                                   | \$ -                                   | \$ 2,776,034                                 |
| Construction in progress                 |                                       | -   | 60,305                                 | -                                      | 60,305                                       |
| Depreciable:                             |                                       |   |  |  |  |
| Buildings and improvements               | 7 to 70 years                         | 13,646,798                                | -                                      | -                                      | 13,646,798                                   |
| Machinery and equipment                  | 3 years                               | <u>583,199</u>                            | <u>222,342</u>                         | <u>(13,784)</u>                        | <u>791,757</u>                               |
|  |                                       | 17,006,031                                | 282,647                                | (13,784)                               | 17,274,894                                   |
| Less accumulated depreciation            |                                       | <u>(12,185,888)</u>                       | <u>(229,182)</u>                       | <u>13,523</u>                          | <u>(12,401,547)</u>                          |
| Net investment in property and equipment |                                       | \$ <u>4,820,143</u>                       | \$ <u>53,465</u>                       | \$ <u>(261)</u>                        | \$ <u>4,873,347</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.

### (5) Contingency

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.

### (6) 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, 2007 and 2006

(7) Future Rental Revenues

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

| <u>Fiscal year ending September 30,</u> | <u>Total</u> |
|---|--------------|
| 2008                                    | \$ 243,285   |
| 2009                                    | \$ 206,369   |
| 2010                                    | \$ 204,119   |
| 2011                                    | \$ 200,123   |
| 2012                                    | \$ 199,852   |
| 2013 - 2017                             | \$ 1,034,852 |
| 2018 - 2022                             | \$ 806,274   |

(9) Pension Plan

The Authority's retirement plan (the Plan) is a self-administered program established to pay retirement, disability and survivor income to employees and their survivors to supplement similar benefits that employees receive from the FSM Social Security System. The Plan is a contributory plan in which the Authority contributes a maximum of 5 percent of the participant's annual salary, and the participant contributes at least 3 percent from his or her annual salary. Participation is optional. Vesting occurs over a six year period. The Authority's Comptroller is the designated Plan administrator. Contributions to the Plan during the years ended September 30, 2007 and 2006 were \$18,448 and \$18,949, respectively. Management is of the opinion that the Plan does not represent an asset or liability of the Authority. For the years ended September 30, 2007 and 2006, plan assets were \$207,177 and \$158,573, respectively.

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

The Board of Directors  
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, 2007, and have issued our report thereon dated January 13, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

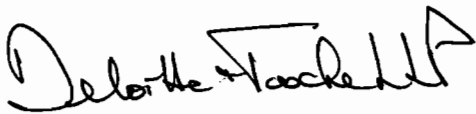
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority in a separate letter dated January 13, 2008.

This report is intended solely for the information and use of management and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Delbert Stachler", with a stylized flourish at the end.

January 13, 2008