

POHNPEI PORT AUTHORITY

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2002 AND 2001



INDEPENDENT AUDITORS' REPORT

Board of Directors
Pohnpei Port Authority:

We have audited the accompanying balance sheets of the Pohnpei Port Authority (the Authority), a component unit of the State of Pohnpei, as of September 30, 2002 and 2001, and the related statements of revenues, expenses and changes in fund equity and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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.

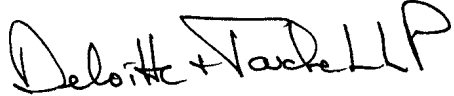
We were not able to examine evidence substantiating a recorded payable amounting to \$390,000 and \$534,084 in 2002 and 2001, respectively, for the acquisition of a master plan. In addition, the Authority commenced payments relating to the disputed invoice based on an out-of-court settlement approved 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 has not capitalized buildings and improvements totaling \$570,884 in 2002 from construction in progress nor has depreciation expense been recorded on those assets.

In our opinion, except for our inability to examine evidence substantiating payables relating to the master plan and other expenses, as described in the third and fourth paragraphs and the non-capitalization and non-depreciation of fixed assets specified in the fifth paragraph, such financial statements present fairly, in all material respects, the financial position of the Pohnpei Port Authority, as of September 30, 2002 and 2001, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2003, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, slightly stylized font.

March 5, 2003

POHNPEI PORT AUTHORITY

Balance Sheets
September 30, 2002 and 2001

<u>ASSETS</u>	<u>2002</u>	<u>2001</u>
Current assets:		
Cash and equivalents	\$ 191,792	\$ 170,890
Restricted cash (note 2)	317,261	308,841
Accounts receivable, net (notes 4 and 8)	140,471	94,834
Advances, net (note 3)	11,655	10,934
Interest receivable	6,628	6,628
Prepaid expenses	<u>7,882</u>	<u>3,273</u>
Total current assets	675,689	595,400
Property and equipment, net (notes 5 and 8)	<u>5,470,759</u>	<u>6,297,643</u>
	<u>\$ 6,146,448</u>	<u>\$ 6,893,043</u>
 <u>LIABILITIES AND FUND EQUITY</u> 		
Current liabilities:		
Current portion of note payable (note 8)	\$ 66,860	\$ 95,705
Accounts payable	475,679	559,218
Accrued liabilities and others	129,428	124,801
Accrued annual leave	44,105	44,105
Deferred revenues	<u>306,250</u>	<u>306,250</u>
Total current liabilities	1,022,322	1,130,079
Long-term note payable, net of current portion (note 8)	<u>-</u>	<u>12,283</u>
Total liabilities	<u>1,022,322</u>	<u>1,142,362</u>
Fund equity:		
Retained earnings	<u>5,124,126</u>	<u>5,750,681</u>
Total fund equity	<u>5,124,126</u>	<u>5,750,681</u>
Contingencies and commitment (notes 6 and 7)	<u>\$ 6,146,448</u>	<u>\$ 6,893,043</u>

See accompanying notes to financial statements.

POHNPEI PORT AUTHORITY

Statements of Revenues, Expenses, and Changes in Fund Equity
Years Ended September 30, 2002 and 2001

	2002	2001
Operating revenues:		
Seaport charges	\$ 572,296	\$ 572,259
Departure fees	193,001	193,052
Land leases and space rentals (note 6)	258,528	248,113
Landing fees	99,164	109,819
Other	15,670	17,046
Total operating revenues	1,138,659	1,140,289
Operating expenses:		
Depreciation	881,503	664,113
Salaries	610,971	581,660
Utilities	54,134	35,336
Travel	43,368	20,182
Supplies and materials	22,332	37,912
Doubtful debt expense	20,190	31,428
Repairs	19,650	22,645
Contractual services	15,857	11,179
Communications	15,378	17,097
Fuel	11,099	8,899
Training	618	-
Miscellaneous and others	19,153	18,210
Total operating expenses	1,714,253	1,448,661
Loss from operations	(575,594)	(308,372)
Nonoperating revenues (expenses):		
Interest income	2,878	12,710
Other nonoperating revenues	-	11,211
Other nonoperating expenses (note 6)	(53,839)	(640,409)
Nonoperating expenses, net	(50,961)	(616,488)
Net loss	(626,555)	(924,860)
Retained earnings at beginning of year	5,750,681	6,675,541
Retained earnings at end of year	\$ 5,124,126	\$ 5,750,681

See accompanying notes to financial statements.

POHNPEI PORT AUTHORITY

Statements of Cash Flows Years Ended September 30, 2002 and 2001

	2002	2001
Cash flows provided by operating activities:		
Cash received from customers	\$ 1,067,504	\$ 1,093,204
Cash paid to suppliers and employees	(953,733)	(819,409)
Net cash provided by operating activities	113,771	273,795
Cash flows used for capital and related financing activities:		
Acquisition of property and equipment	(54,619)	(63,245)
Repayment of debt	(41,128)	(95,167)
Net cash used for capital and related financing activities	(95,747)	(158,412)
Cash flows provided by investing activities:		
Interest income	2,878	12,710
Other nonoperating revenues	-	2,370
Net cash provided by investing activities	2,878	15,080
Net increase in cash and equivalents	20,902	130,463
Cash and equivalents at beginning of year	170,890	40,427
Cash and equivalents at end of year	\$ 191,792	\$ 170,890
<u>Reconciliation of loss from operations to net cash provided by operating activities</u>		
Loss from operations	\$ (575,594)	\$ (308,372)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Doubtful debt expense	20,190	31,428
Depreciation	881,503	664,113
Other non-operating expense	(53,839)	(640,409)
Changes in working capital:		
Increase in accounts receivable	(65,827)	(78,513)
(Increase) decrease in advances	(721)	2,990
Decrease (increase) in investments	(8,421)	-
(Increase) decrease in prepaid expenses	(4,609)	6,890
Increase (decrease) in accounts payable	(83,538)	552,993
Increase in accrued liabilities	4,627	42,675
Net cash provided by operating activities	\$ 113,771	\$ 273,795

See accompanying notes to financial statements.

POHNPEI PORT AUTHORITY

Notes to Financial Statements
September 30, 2002 and 2001

(1) Summary of Significant Accounting Policies

A. Reporting Entity

The Pohnpei Port Authority (the Authority) was established by Pohnpei State Public Law 2L-224-91. The primary purpose of the Authority is to oversee the use and maintenance of Pohnpei State's sea and air ports. The Authority began operating as a separate entity in fiscal year 1993 although the accounting for the Authority was not transferred from the Pohnpei State Department of Treasury until January 1994.

The affairs of the Authority are managed by a seven-member board, consisting of representatives of the Pohnpei State Government appointed by the Governor to four year terms. Daily operation of the Authority is delegated to a General Manager, who is appointed by and serves at the pleasure of the Board.

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

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

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

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

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

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

POHNPEI PORT AUTHORITY

Notes to Financial Statements
September 30, 2002 and 2001

(1) Summary of Significant Accounting Policies, Continued

C. Budget

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

D. Cash and Equivalents

For the purposes of the balance sheets and statements of cash flows, cash and equivalents are defined as cash in checking accounts, savings accounts and cash on hand, but excludes restricted cash. At September 30, 2002, the Authority has \$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.

E. Property, Plant and Equipment

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

F. Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefit accrues to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. The related sick pay expense is recorded when the benefit is actually taken. The value of accumulated sick leave was not available at September 30, 2002.

G. Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

POHNPEI PORT AUTHORITY

Notes to Financial Statements
September 30, 2002 and 2001

(1) Summary of Significant Accounting Policies, Continued

H. 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.

(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, 2002, the \$300,000 cash advanced to the Authority was invested in a time certificate of deposit. See Note 1H.

(3) Advances

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

	<u>2002</u>	<u>2001</u>
Travel advances	\$ 64,880	\$ 63,972
Less allowance for doubtful debts	<u>(53,124)</u>	<u>(53,424)</u>
	<u>11,756</u>	<u>10,548</u>
Credit card and other charges	19,213	19,173
Less allowance for doubtful debts	<u>(19,473)</u>	<u>(19,173)</u>
	<u>(260)</u>	<u>-</u>
Receivable from employees	<u>159</u>	<u>386</u>
Total	\$ <u>11,655</u>	\$ <u>10,934</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, 2002 and 2001, is as follows:

	<u>2002</u>	<u>2001</u>
Accounts receivable	\$ 230,190	\$ 164,363
Less allowance for doubtful debts	<u>(89,719)</u>	<u>(69,529)</u>
	\$ <u>140,471</u>	\$ <u>94,834</u>

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

POHNPEI PORT AUTHORITY

Notes to Financial Statements
September 30, 2002 and 2001

(5) Property and Equipment

A summary of the Authority's property and equipment at September 30, 2002 and 2001, is as follows:

	<u>Estimated Useful Lives</u>	<u>2002</u>	<u>2001</u>
Land		\$ 2,776,034	\$ 2,776,034
Building, infrastructure and improvements	7 to 70 years	12,726,445	12,930,752
Machinery and equipment	3 years	485,183	463,290
Construction in progress		570,884	548,807
Less accumulated depreciation		<u>(11,087,787)</u>	<u>(10,421,240)</u>
Property and equipment, net		\$ <u>5,470,759</u>	\$ <u>6,297,643</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) Contingency and Commitment

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 2001, 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 loss, if any, 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.

(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, 2002 and 2001

(8) Notes Payable

	<u>2002</u>	<u>2001</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.	\$ 54,676	\$ 53,635
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>
	66,860	107,988
Less current maturities	<u>(66,860)</u>	<u>(95,705)</u>
Long-term portion of notes payable	\$ <u>-</u>	\$ <u>12,283</u>



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

The Board of Directors
Pohnpei Port Authority:

We have audited the financial statements of the Pohnpei Port Authority (the Authority), as of and for the year ended September 30, 2002, and have issued our report thereon dated March 5, 2003, which report was qualified due to our inability to examine evidence substantiating payables relating to the master plan and other expenses, and the non-capitalization and non-depreciation of fixed assets. 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 one instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Findings and Questioned Costs as item 2002-02.

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 2002-01 through 2002-09.

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, of the reportable conditions described above, we consider finding 2002-02 to be 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 + Tatchell LLP

March 5, 2003

POHNPEI PORT AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

Disputed Invoice

Finding No. 2002-1

Criteria: Management should ensure that disputed liabilities undergo appropriate due diligence prior to being paid.

Condition: A disputed liability concerning a master plan has remained unpaid for approximately five years. The Authority has agreed to make payments against this liability based on advice from the State's acting Attorney General. The management of the Authority elected not to follow the advice of its external legal counsel.

Cause: The cause of this condition is not known.

Effect: The effect of this condition is that the Authority may be incurring expenses that it may not be legally responsible for.

Recommendation: The Authority should obtain an independent legal assessment relative to its liability for this matter.

Auditee Response: Agree. Immediate compliance shall be ensured.

POHNPEI PORT AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

Potential Noncompliance

Finding No. 2002-2

Criteria: State Law 2L-244-91, section 2-5, requires concurrence of four members of the Board of Directors for any official action.

Condition: An out of court settlement authorized payment against disputed invoices for a master plan, which was approved by only two members of the Board of Directors.

Cause: The management of the Authority elected not to follow the advice of its external legal counsel.

Effect: The effect of the above condition is potential noncompliance with State Law 2L-244-91, section 2-5.

Recommendation: The Authority should ensure compliance with its enabling act.

Auditee Response: Agree as mandated by the Port Authority Act.

POHNPEI PORT AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

Other Expenses

Finding No. 2002-3

Criteria: Management should ensure that its financial statements are not materially misstated.

Condition: There is no documentary evidence, such as invoices, to substantiate other expenses amounting to \$53,330.

Cause: The Authority elected not to reconcile its financial records prior to the commencement of the audit. The \$53,330 expense arose in conjunction with the subsequent reconciliation of the financial statements. However, there is no documentation supporting the underlying basis of the expense.

Effect: The effect of the above condition is a material misstatement of the financial statements.

Recommendation: The Authority should ensure that accurate financial records are maintained.

Auditee Response: Agree. A MAS90 error was cited and corrective action has been taken.

POHNPEI PORT AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

Fixed Assets

Finding No. 2002-4

Criteria: Management should ensure that assets acquired are capitalized and depreciated over their estimated useful lives.

Condition: Airport and building improvements completed prior to September 30, 2002 amounting to \$570,884 were not transferred from construction in progress to fixed assets in use and depreciated over their estimated useful lives.

Cause: The Authority did not capitalize items that were completed prior to the end of the fiscal year.

Effect: The effect of the above condition is a potential material misstatement of the financial statements.

Recommendation: The Authority should ensure that accurate fixed asset records are maintained.

Auditee Response: Agree. Management shall ensure that all fixed assets acquired are capitalized upon receipt and depreciated accordingly.

POHNPEI PORT AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

Fixed Assets

Finding No. 2002-5

Criteria: Management should ensure that the fixed asset subsidiary ledger is updated and reconciled with the general ledger on a timely manner.

Condition: The fixed asset register did not include current year depreciation expense.

Cause: The cause of this finding is that management underestimated the importance of the reconciliation process.

Effect: The effect of the above condition was a material misstatement of the financial statements. However, depreciation expense was recorded through the audit process.

Recommendation: The Authority should ensure that accurate financial records are maintained.

Auditee Response: Agree. Management is taking immediate corrective measures to ensure the subsidiary and general ledgers are reconciled in a timely manner.

POHNPEI PORT AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

Accounts Receivable

Finding No. 2002-6

Criteria: Management should ensure that the accounts receivable subsidiary ledger is updated and reconciled with the general ledger on a timely manner.

Condition: The accounts receivable subsidiary ledger was \$37,992 greater than the general ledger at September 30, 2002.

Cause: The cause of this finding is that management underestimated the importance of the reconciliation process.

Effect: The effect of the above condition was a material misstatement of the financial statements.

Recommendation: The Authority should ensure that accurate financial records are maintained.

Auditee Response: Agree. Done.

POHNPEI PORT AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

Cash and Equivalents

Finding No. 2002-7

Criteria: Management should ensure that bank accounts are properly reconciled at the end of each fiscal year.

Condition: The following cash in bank balances did not agree with the general account balance.

	<u>Bank Balance</u>	<u>Ledger</u>	<u>Variance</u>
General checking	\$ (33,647)	\$ -	\$ (33,647)
Payroll	(7,284)	-	(7,284)
Savings	<u>230,745</u>	<u>190,592</u>	<u>40,153</u>
	\$ <u>189,814</u>	\$ <u>190,592</u>	\$ <u>778</u>

Cause: The cause of this finding is that management underestimated the importance of the reconciliation process by commingling the reconciliation of all cash accounts.

Effect: The effect of the above condition is a potential misstatement of the financial statements.

Recommendation: The Authority should perform separate bank reconciliations for the general checking, payroll checking, and cash savings accounts on a monthly basis.

Auditee Response: Agree. Done.

POHNPEI PORT AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

Accounts Payable

Finding No. 2002-8

Criteria: Management should ensure that the accounts payable subsidiary ledger is updated and reconciled with the general ledger in a timely manner.

Condition: The accounts payable subsidiary ledger was \$4,657 greater than the general ledger at September 30, 2002.

Cause: The cause of this finding is that management underestimated the importance of the reconciliation process.

Effect: The effect of the above condition is a potential misstatement of the financial statements.

Recommendation: The Authority should ensure that accurate financial records are maintained.

Auditee Response: Agree. Done.

POHNPEI PORT AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

Advances

Finding No. 2002-9

Criteria: Management should ensure that amounts owed the Authority are collected.

Condition: Advance payments owed by ex-board members and employees remain uncollected.

Cause: The cause of this finding is that management has not addressed the collection of advances.

Effect: The effect of the above condition is a likely misstatement of the financial statements.

Recommendation: The Authority should refer delinquent receivables to its legal counsel for collection.

Auditee Response: Agree. New collection measures are being carried out. PPA finance is working closely with State Attorney General's Office on the recovery of these past due accounts.