

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

**REPORT ON THE AUDIT OF
FINANCIAL STATEMENTS IN ACCORDANCE
WITH OMB CIRCULAR A-133**

YEAR ENDED SEPTEMBER 30, 2000

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA
YEAR ENDED SEPTEMBER 30, 2000**

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FEDERATED STATES OF MICRONESIA**

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**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

**INDEPENDENT AUDITORS' REPORT,
GENERAL PURPOSE FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION**

YEAR ENDED SEPTEMBER 30, 2000

INDEPENDENT AUDITORS' REPORT

Honorable Ansito Walter
Governor, State of Chuuk
Federated States of Micronesia:

We have audited the accompanying general purpose financial statements of the State of Chuuk, as set forth in Section II of the foregoing table of contents, as of September 30, 2000, and for the year then ended. These general purpose financial statements are the responsibility of the management of the State of Chuuk. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

Except as discussed in the following paragraphs, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Chuuk State has not assessed possible leases payable that should be accrued in the general fund as of September 30, 2000. We were unable to calculate the amount of payables that should be so accrued through the use of alternative auditing procedures.

Property comprising the State of Chuuk's General Fixed Assets Account Group has not been inventoried as of September 30, 2000, nor have existing records been adequately assembled to permit the application of auditing procedures and verification of the detail of account balances. Accordingly, a statement of changes in general fixed assets has not been included within the accompanying general purpose financial statements.

As discussed in Note 1A, the accompanying general purpose financial statements do not include the State's development authorities, which in our opinion, should be included to conform with generally accepted accounting principles in the United States of America. The development authorities would be reported as blended Component Units - Special Revenue Funds.

We were unable to perform audit procedures on the Chuuk Coconut Authority (CCA) as of September 30, 2000, as financial statements were not provided to us for inspection. The general purpose financial statements referred to above do not include CCA, a Component Unit – Proprietary Fund of the State of Chuuk, which in our opinion, should be included to conform with accounting principles generally accepted in the United States of America.

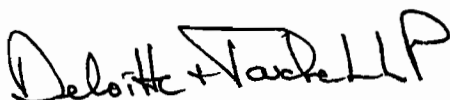
The State did not provide a schedule detailing continuing appropriations of the Compact Capital Project Fund as of September 30, 2000. We were unable to perform adequate alternative audit procedures with respect to continuing appropriations set forth in the accompanying general purpose financial statements.

We were unable to obtain audited financial statements supporting the State of Chuuk's investment in Chuuk Fresh Tuna (CFTI), in the Governmental Fund Type - Capital Projects Funds at September 30, 2000, as described in note 9 to the general purpose financial statements. The State of Chuuk has not adjusted this investment to reflect the equity in the investee's earnings or losses. We were not able to satisfy ourselves as to the carrying value of this investment or the equity of its earnings or loss by other auditing procedures.

In our opinion, except for the effects on the general purpose financial statements of such adjustments, if any, as might have been determined to be necessary had we been able to 1) determine the amount of leases payable that should be accrued in the general fund; 2) determine balances that should be reported in the General Fund Fixed Assets Account Group; 3) determine the impact of the omission of the State's development authorities; 4) determine the balances of CCA that should be included; 5) determine the correct continuing appropriations of the Capital Projects Fund; and 6) examine evidence regarding the investment in CFTI, as discussed in the third through eighth paragraphs above, such general purpose financial statements, as set forth in Section II of the table of contents, with the exception of the General Fixed Assets Account Group, upon which we are unable to express an opinion because of the matters set forth in the fourth paragraph above, present fairly, in all material respects, the financial position of the State of Chuuk as of September 30, 2000, and the results of its operations and the cash flows of its proprietary fund types for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund financial statements and schedules listed in Section III of the foregoing table of contents, which are also the responsibility of the management of the State of Chuuk, are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the State of Chuuk. Such additional information has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, except for the items described in the third and fifth through eighth paragraphs above, in our opinion, is fairly stated in all material respects when considered in relation to the general purpose financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2001, on our consideration of the State of Chuuk's (primary Government only) 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.



July 31, 2001

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Units
September 30, 2000
(With Comparative Totals as of September 30, 1999)

Assets	Governmental Fund Types			Account Groups		Totals	Discretely	Totals	
	General	Special Revenue	Capital Projects	General	General	Primary	Presented	Reporting	
				Fixed Assets	Long-Term Debt	Government (Memorandum Only)	Component Units	Entity (Memorandum Only)	
								2000	1999
Cash and equivalents (note 2)	\$ 314,248	\$ 11,230	\$ -	\$ -	\$ -	\$ 325,478	\$ 837,258	\$ 1,162,736	\$ 3,437,144
Restricted cash	-	-	-	-	-	-	-	-	923,420
Investments (note 2)	3,804,288	-	14,476,041	-	-	18,280,329	-	18,280,329	25,294,652
Early Retirement Trust Fund (note 2)	3,238,260	-	-	-	-	3,238,260	-	3,238,260	1,649,105
Investments - other (note 9)	-	-	4,064,005	-	-	4,064,005	-	4,064,005	14,264,005
Receivables from other governments (note 3)	1,242,521	2,921,195	-	-	-	4,163,716	-	4,163,716	3,967,670
General receivables, net	-	12,802	-	-	-	12,802	618,016	630,818	527,446
Allowance for uncollectibles	(79,933)	(2,167,957)	-	-	-	(2,247,890)	-	(2,247,890)	(2,350,196)
Advances	531,113	-	-	-	-	531,113	-	531,113	341,210
Loans receivable, net of an allowance for doubtful accounts of \$921,010 in 2000	-	-	-	-	-	-	1,037,642	1,037,642	1,134,555
Loans receivable, other (note 14)	1,795,680	-	-	-	-	1,795,680	-	1,795,680	467,202
Due from other funds (note 8)	-	7,316,801	-	-	-	7,316,801	-	7,316,801	7,218,025
Other assets	-	-	24,831	-	-	24,831	50,734	75,565	28,971
Fixed assets, net (note 4)	-	-	-	67,581,884	-	67,581,884	9,701,041	77,282,925	76,091,236
Amount to be provided for retirement of long-term debt	-	-	-	-	16,598,987	16,598,987	-	16,598,987	13,965,639
Total assets	\$ 10,846,177	\$ 8,094,071	\$ 18,564,877	\$ 67,581,884	\$ 16,598,987	\$ 121,685,996	\$ 12,244,691	\$ 133,930,687	\$ 146,960,084

See accompanying notes to financial statements.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Units, Continued
September 30, 2000
(With Comparative Totals as of September 30, 1999)

<u>Liabilities and Fund Equity</u>	Governmental Fund Types			Account Groups		Totals	Discretely	Totals	
	General	Special Revenue	Capital Projects	General Fixed Assets	General Long-Term Debt	Primary Government (Memorandum Only)	Presented Component Units	Reporting Entity (Memorandum Only)	
								2000	1999
Liabilities:									
Accounts payable	\$ -	\$ 3,220,743	\$ 5,414,703	\$ -	\$ -	\$ 8,635,446	\$ 567,756	\$ 9,203,202	\$ 9,625,799
Accrued payroll and annual leave	447,749	35,062	-	-	829,208	1,312,019	115,300	1,427,319	1,374,459
Due to other funds (note 8)	6,260,011	458,221	598,569	-	-	7,316,801	-	7,316,801	7,218,025
Payable to other governments	92,680	372,202	-	-	-	464,882	-	464,882	504,785
Notes payable (notes 5, 13 and 14)	3,482,390	-	329,179	-	8,420,779	12,232,348	1,825,048	14,057,396	14,397,480
Claims payable (note 11)	-	-	-	-	7,349,000	7,349,000	-	7,349,000	-
Deferred revenue	1,000	277,320	-	-	-	278,320	-	278,320	278,320
Total liabilities	10,283,830	4,363,548	6,342,451	-	16,598,987	37,588,816	2,508,104	40,096,920	33,398,868
Fund equity:									
Investment in general fixed assets (note 4)	-	-	-	67,581,884	-	67,581,884	-	67,581,884	67,581,884
Contributed capital	-	-	-	-	-	-	9,198,772	9,198,772	9,054,173
Retained earnings	-	-	-	-	-	-	537,815	537,815	1,078,627
Fund balances:									
Reserved for:									
Related assets (note 15)	4,004,350	-	4,064,005	-	-	8,068,355	-	8,068,355	16,886,625
Encumbrances	931,863	325,104	1,628,329	-	-	2,885,296	-	2,885,296	1,464,733
Continuing appropriations (note 6)	271,691	-	6,530,092	-	-	6,801,783	-	6,801,783	4,776,955
Unreserved	(4,645,557)	3,405,419	-	-	-	(1,240,138)	-	(1,240,138)	12,718,219
Total fund equity	562,347	3,730,523	12,222,426	67,581,884	-	84,097,180	9,736,587	93,833,767	113,561,216
Commitments and contingencies (notes 11 and 16)									
Total liabilities and fund equity	\$ 10,846,177	\$ 8,094,071	\$ 18,564,877	\$ 67,581,884	\$ 16,598,987	\$ 121,685,996	\$ 12,244,691	\$ 133,930,687	\$ 146,960,084

See accompanying notes to financial statements.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Combined Statement of Revenues, Expenditures and Changes in Fund Balances -
All Governmental Fund Types
Year Ended September 30, 2000
(With comparative totals for the year ended September 30, 1999)

	Governmental Fund Types			Totals Reporting Entity (Memorandum Only)	
	General	Special Revenue	Capital Projects	2000	1999
Revenues:					
U.S. Compact of Free Association:					
Section 211(a)(2) - base grant	\$ 8,816,000	\$ -	\$ 6,144,000	\$ 14,960,000	\$ 14,960,000
Section 217 - inflation adjustment	4,760,640	-	3,317,760	8,078,400	7,928,800
Section 221(b) - base grant	-	2,730,000	-	2,730,000	2,730,000
Section 216(a)(2) - base grant	-	461,087	-	461,087	461,087
Section 214(c) - base grant	-	949,800	-	949,800	949,800
Section 217 - inflation adjustment	-	512,892	-	512,892	635,894
Section 212 - base grant	-	385,000	-	385,000	250,000
FSM revenue sharing	4,376,074	-	-	4,376,074	3,401,968
Other federal contributions	-	963,856	-	963,856	2,565,316
State taxes and licenses	2,339,570	-	-	2,339,570	1,690,738
Other	1,139,023	3,103,859	-	4,242,882	1,502,555
Investment income (note 2)	3,560,287	-	-	3,560,287	7,294,734
Total revenues	24,991,594	9,106,494	9,461,760	43,559,848	44,370,892
Expenditures:					
General government	6,616,417	485,798	-	7,102,215	5,095,564
Education	5,159,993	2,256,345	-	7,416,338	7,466,032
Health services	2,743,810	1,731,838	-	4,475,648	4,235,574
Economic development	1,017,371	-	-	1,017,371	801,977
Public works and utilities	327,369	3,289,126	12,434,814	16,051,309	1,631,853
Public safety	1,060,062	8,130	-	1,068,192	995,979
Transportation	891,120	-	-	891,120	754,061
Community affairs	187,512	274,737	-	462,249	448,103
Boards and commissions	743,491	-	-	743,491	756,057
Special programs	1,267,926	-	-	1,267,926	18,671,390
Debt service - principal (note 5)	-	-	3,000,000	3,000,000	4,700,000
Debt service - interest	-	-	320,000	320,000	492,600
Acquisition of equipment (note 9)	-	-	4,450,000	4,450,000	-
Loss on investment (note 9)	-	-	5,350,000	5,350,000	-
Other	6,278,709	137,292	-	6,416,001	7,345,646
Total expenditures	26,293,780	8,183,266	25,554,814	60,031,860	53,394,836
Excess (deficiency) of revenues over (under) expenditures	(1,302,186)	923,228	(16,093,054)	(16,472,012)	(9,023,944)
Other financing sources (uses):					
Loan proceeds	-	-	-	-	2,128,335
Chuuk recovery loan accrual (note 5)	(1,686,710)	-	-	(1,686,710)	-
Operating transfers in (note 7)	-	96,140	-	96,140	165,192
Operating transfers out (note 7)	(268,654)	(1,000,000)	-	(1,268,654)	(1,647,976)
Other income	-	-	-	-	33,314
Total other financing sources (uses), net	(1,955,364)	(903,860)	-	(2,859,224)	678,865
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(3,257,550)	19,368	(16,093,054)	(19,331,236)	(8,345,079)
Fund balances at beginning of year	3,819,897	3,711,155	28,315,480	35,846,532	44,191,611
Fund balances at end of year	\$ 562,347	\$ 3,730,523	\$ 12,222,426	\$ 16,515,296	\$ 35,846,532

See accompanying notes to financial statements.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures and Changes in Fund Balance (Deficit) -
Budget and Actual, Budgetary Basis - General Fund
Year Ended September 30, 2000
(With comparative totals for the year ended September 30, 1999)

	2000			1999		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Compact of Free Association Section 211 and 217	\$ 13,576,640	\$ 13,576,640	\$ -	\$ 13,576,640	\$ 13,488,480	\$ (88,160)
Local revenue	11,900,163	11,414,954	(485,209)	6,294,000	13,453,082	7,159,082
Total revenues	25,476,803	24,991,594	(485,209)	19,870,640	26,941,562	7,070,922
Expenditures-budgetary basis:						
General government	6,630,745	6,879,226	(248,481)	4,655,075	4,670,513	(15,438)
Health services	2,796,169	2,764,552	31,617	2,420,467	2,383,027	37,440
Education	5,202,154	5,171,892	30,262	4,859,649	4,698,633	161,016
Economic development	908,214	1,023,256	(115,042)	840,850	798,257	42,593
Public safety	971,800	1,082,292	(110,492)	752,700	764,157	(11,457)
Transportation	905,050	894,084	10,966	743,700	734,467	9,233
Public works	336,234	327,358	8,876	332,500	311,246	21,254
Community affairs	170,200	188,952	(18,752)	179,600	164,439	15,161
Board and commissions	770,224	785,708	(15,484)	764,370	763,861	509
Special programs	1,530,571	1,340,567	190,004	3,852,523	3,965,480	(112,957)
Legislative external appropriations	5,669,768	6,325,152	(655,384)	1,601,131	1,572,288	28,843
Early retirement	1,388,500	219,074	1,169,426	974,312	974,312	-
Debt service	-	-	-	3,336,300	1,700,000	1,636,300
Total expenditures	27,279,629	27,002,113	277,516	25,313,177	23,500,680	1,812,497
Excess (deficiency) of revenues over (under) expenditures	(1,802,826)	(2,010,519)	(207,693)	(5,442,537)	3,440,882	8,883,419
Other financing sources (uses):						
Loan proceeds	-	-	-	2,128,335	2,128,335	-
Chuuk recovery loan accrual (note 5)	(500,000)	(1,686,710)	(1,186,710)	-	-	-
Operating transfers out (note 7)	(315,800)	(267,477)	48,323	(238,300)	(309,887)	(71,587)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(2,618,626)	(3,964,706)	(1,346,080)	(3,552,502)	5,259,330	8,811,832
Fund balance (deficit) at beginning of year	232,270	232,270	-	(4,092,440)	(4,092,440)	-
Other changes in deficit:						
Increase in reserve for related assets	(1,388,500)	(1,431,825)	(2,820,325)	-	(2,241,994)	(2,241,994)
Decrease in reserve for continuing appropriations	-	518,704	518,704	-	1,307,374	1,307,374
Fund balance (deficit) at end of year	\$ (3,774,856)	\$ (4,645,557)	\$ (3,647,701)	\$ (7,644,942)	\$ 232,270	\$ 7,877,212

See accompanying notes to financial statements.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Combined Statement of Revenues, Expenses and Changes in Fund Equity -
All Discretely Presented Component Units - Proprietary Fund Types
Year Ended September 30, 2000
(With comparative totals for the year ended September 30, 1999)

	<u>2000</u>	<u>1999</u>
Operating revenues:		
Sales	\$ 2,951,167	\$ 1,902,672
Total operating revenues	<u>2,951,167</u>	<u>1,902,672</u>
Operating expenses:		
Payroll and personnel	1,700,542	1,894,074
Fuel	2,067,529	1,297,195
Depreciation	1,086,123	243,910
Bad debt	427,840	306,678
Rent	2,560	1,475
Other	51,109	96,381
Total operating expenses	<u>5,335,703</u>	<u>3,839,713</u>
Operating loss	<u>(2,384,536)</u>	<u>(1,937,041)</u>
Nonoperating revenues (expenses):		
Transfers in (note 7)	1,082,774	1,381,871
Federal contributions	710,950	437,704
Other income (expense)	50,000	(80,302)
Total nonoperating revenues, net	<u>1,843,724</u>	<u>1,739,273</u>
Net loss	(540,812)	(197,768)
Retained earnings at beginning of year	<u>1,078,627</u>	<u>1,276,395</u>
Retained earnings at end of year	<u>537,815</u>	<u>1,078,627</u>
Contributed capital at beginning of year	9,054,173	1,840,270
Contributions	<u>144,599</u>	<u>7,213,903</u>
Contributed capital at end of year	<u>9,198,772</u>	<u>9,054,173</u>
Total fund equity	<u>\$ 9,736,587</u>	<u>\$ 10,132,800</u>

See accompanying notes to financial statements.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Combined Statement of Cash Flows -
All Discretely Presented Component Units - Proprietary Fund Types
Year Ended September 30, 2000

Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ <u>(2,384,536)</u>
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	1,086,123
Decrease in receivables	431
Increase in accounts payable	483,449
Decrease in other liabilities	<u>(55,317)</u>
Total adjustments	<u>1,514,686</u>
Net cash used for operating activities	<u>(869,850)</u>
Cash flows from noncapital financing activities:	
Operating grants received	1,843,724
FSM contribution	<u>99,596</u>
Net cash provided by noncapital financing activities	<u>1,943,320</u>
Cash flows from capital and related financing activities:	
Acquisition of utility plant	(2,217,576)
Acquisition of building	(63,518)
Proceeds from notes payable	<u>1,311,396</u>
Net cash used for capital and related financing activities	<u>(969,698)</u>
Net increase in cash and equivalents	103,772
Cash and equivalents at beginning of year	<u>733,486</u>
Cash and equivalents at end of year	\$ <u><u>837,258</u></u>

See accompanying notes to financial statements.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(1) Summary of Significant Accounting Policies

The general purpose financial statements of the State of Chuuk (the State) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing government accounting and financial reporting principles. The more significant of the State's accounting policies are described below.

A. Reporting Entity

The general purpose financial statements of the State of Chuuk have been prepared in conformity with GAAP as applied to government units. 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 Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. The State of Chuuk has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

As required by GAAP, the general purpose financial statements of the State of Chuuk present the government and its component units; entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the governments' operations so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the general purpose financial statements to emphasize that they are legally separate from the government. Each blended and discretely presented component unit has a September 30 year end.

1. Blended Component Unit

Chuuk Visitors' Bureau

The Chuuk Visitor's Bureau (the Bureau) is used to account for all funds received by the Bureau. The Bureau was created in fiscal year 1988 by Truk State Law No. 6-39. The primary purpose of the Bureau is to improve and develop Chuuk's tourism industry. The Bureau is governed by a nine member board. Five of the Bureau's board members are appointed by the Governor and the remaining four are appointed by the Speaker of the Chuuk State Legislature. The Bureau is reported as a special revenue fund.

2. Discretely Presented Component Units

Chuuk State Public Utility Corporation

Chuuk State Public Utility Corporation (the Corporation) was established in 1992 by Chuuk State Law 192-12. The purpose of the Corporation is to provide electrical services to the public through the operation and the maintenance of the State's electrical power system. The affairs of the Corporation are managed by a five-member board, consisting of members of the Chuuk State Government and the private sector. The Corporation is reported as a discretely presented Component Unit-Proprietary Fund.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(1) Summary of Significant Accounting Policies, Continued

2. Discretely Presented Component Units, Continued

Chuuk State Housing Authority

Chuuk State Housing Authority (the Authority) was established in fiscal year 1980 by Truk State Law 3-30. The purpose of the Authority is to monitor the U.S. Department of Housing and Urban Development Section 8 and CDBG housing renovation loan program. Additionally, the Authority monitors the GLF loan fund of the State of Chuuk which provides low cost housing loans to the general public. The affairs of the Authority are managed by a five-member board, consisting of representatives of Chuuk State Government.

3. Omitted Component Units

Chuuk Coconut Authority

Chuuk Coconut Authority (the Authority) was established in 1979 by Truk State Law 1-1-12. The purpose of the Authority is to manufacture, process, buy, collect, market, sell, export and deal with, in general, all products derived from the coconut tree. The affairs of the Authority are managed by a five-member board, consisting of members of Chuuk State Government. The Authority would have been reported as a discretely presented component unit - proprietary fund.

Development Authorities

The accompanying general purpose financial statements do not include the State's development authorities (component units). The majority of these entities do not present financial information concerning their operations, thus precluding presentation of financial statements for these funds. The development authorities would be reported as blended Component Units - Special Revenue Funds.

Chuuk Public Fisheries Corporation

The Corporation was established to operate a fishing vessel received in the dissolution of the State's prior investment in WESTPAC (see note 9). The Corporation is governed by a five member Board of Directors who are determined pursuant to law. The Corporation would be reported as a discretely presented component unit – proprietary fund. However, the Corporation did not commence operations until late in fiscal year 2000 and its operating results are deemed immaterial to the accompanying general purpose financial statements.

B. Fund Accounting and Basis of Presentation

The State of Chuuk uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain Chuuk State functions or activities.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(1) Summary of Significant Accounting Policies, Continued

B. Fund Accounting and Basis of Presentation, Continued

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. They are concerned only with the measurement of financial position and are not involved with measurement of results of operations.

Funds are classified into two categories: governmental and proprietary. Each category, in turn, is divided into separate "fund types."

Governmental funds are used to account for all or most of government's general activities, including the collection and disbursement of earmarked monies (special revenue funds) and the acquisition or construction of general fixed assets (capital projects funds). The general fund is used to account for all activities of the general government not accounted for in some other fund.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprises funds) or to other departments or agencies primarily within the government (internal service funds).

There are two account groups. The General Fixed Assets Account Group is used to account for fixed assets not accounted for in proprietary funds. The General Long-Term Debt Account Group is used to account for general long-term debt and certain other long-term liabilities that are not specific liabilities of proprietary funds.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these 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 type operating statements present increases (e.g. revenues) and decreases (e.g., expenses) in net total assets.

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Those revenues susceptible to accrual are FSM shared revenues for business gross receipts tax, import tax, income tax, leases and interest revenue. Fine and permit revenues are not susceptible to accrual because they are generally not measurable until received in cash.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(1) Summary of Significant Accounting Policies, Continued

B. Fund Accounting and Basis of Presentation, Continued

The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The State of Chuuk reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the State of Chuuk before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the State of Chuuk has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

C. Budgetary Process

Legislation requires the Governor to present a proposed budget to the Legislature at the beginning of each annual session. The Legislature enacts the budget through passage of specific departmental appropriations, the sum of which may not exceed estimated revenues. Before signing the Appropriations Act, the Governor may veto or reduce any specific appropriation, subject to legislative override. Once passed and signed, the budget becomes the State's financial plan for the ensuing fiscal year.

During fiscal year 2000, supplemental appropriations were made for both operating and capital purposes, to reflect revised financial priorities of Chuuk State Government.

Budgetary control is maintained at the departmental level. Budget revisions during the year, reflecting program changes or intradepartmental transfers of an administrative nature, may be effected with certain Executive and Legislative branch approval.

Encumbrance accounting is utilized for budgetary control purposes. Encumbrances outstanding at year-end are reported as reservations of fund balance and will be funded as expenditures in the ensuing year. Encumbrances remain reservations of fund balance until becoming expended or canceled. If an encumbrance is subsequently canceled, the funds revert to the applicable unreserved fund balance unless otherwise required by law.

Budgetary expenditures, which are on a basis other than GAAP, represent current charges against appropriations; current charges consist of all current year liquidated and unliquidated encumbrances. Budgetary expenditures are therefore determined by subtracting both current year liquidations of prior year encumbrances and unliquidated prior year encumbrances from the combined total of current year. When reviewed in relation to respective budgets, budgetary expenditures provide the principal means of evaluating current year operating performance and management stewardship. Amounts included on the Statement of Revenues, Expenditures and Changes in Deficit - Budget and Actual, Budgetary Basis - General Fund (which are presented on a non-GAAP budgetary basis) are reconciled to unreserved fund balance of the Combined Balance Sheet within the other changes in unreserved fund balance section of that statement.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(1) Summary of Significant Accounting Policies, Continued

C. Budgetary Process, Continued

Chuuk State does not establish budgets for the operations of its Special Revenue Funds. Accordingly, a budget to actual presentation for Special Revenue Funds is not required or presented.

Unencumbered appropriations normally lapse at the end of each fiscal year unless they are designated by the Legislature as representing continuing appropriations.

D. Cash and Equivalents

Cash and equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the State of Chuuk.

E. Receivables

Receivables in the State's governmental funds primarily consist of taxes and federal revenues. Since few governmental fund revenues are susceptible to accrual prior to receipt, most taxes, licenses, fees, permits and similar revenues are recognized primarily on a cash basis.

F. Loans Receivable

Loans receivable of the component units-proprietary funds in 2000 (primarily Chuuk State Housing Authority) consisted of Community Development Block Grant (CDBG) loans and general loans extended to qualifying Federated States of Micronesia (FSM) citizens. CDBG loans are for the purpose of acquiring new homes and general loans are for the purpose of financing renovation, rehabilitation or extension of existing homes. In order to qualify for both types of loans, the citizen must own or acquire the land where the home will be located, the home or additions must be approved with regard to compliance with building codes, the applicant must fall within low-income eligibility parameters as established by the U.S. Department of Housing and Urban Development (HUD), and the applicant must exhibit the ability to repay the loans. Interest on both types of loans is charged at 4%. The loans are collateralized by land and improvements. The principal amounts of loans range between \$2,000 and \$75,000. Loan maturities range between 1 and 7 years.

G. Interfund Transactions

The State has three types of interfund transactions:

1. Operating appropriations/subsidies are accounted for as operating transfers in the funds involved.
2. Equity contributions are accounted for as equity transfers (additions to or deductions from beginning governmental fund balances or component unit contributed capital).
3. The majority of the State's financial operations are centrally administered, and this administration is facilitated by the use of a "pooled" cash account; for practical purposes, cash is primarily maintained in a single bank account which is considered to be an asset of the State's general fund.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(1) Summary of Significant Accounting Policies, Continued

G. Interfund Transactions, Continued

As a result of this cash pooling practice, cash transactions normally include entries which adjust the relative balances of affected interfund asset/liability accounts; each fund's interfund balance therefore represents a net interest in the State's actual cash. Income derived from pooling of cash generally accrues to the general fund.

H. Compensated Absences

Vested or accumulated vacation leave that is liquidated with expendable available financial resources is reported as an expenditure of the general fund. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the general long-term debt account group. The liability as of September 30, 2000 is \$829,208. No expenditure is reported for these amounts.

I. Fund Balance Reserves and Designations

The State's fund balance reserves represent those portions of fund balance which are legally segregated for a specific future use. Reserves for encumbrances, contracts and continuing appropriations are examples of this legal segregation.

J. Totals - Memorandum Only

The "Totals - Memorandum Only" columns represents an aggregate of the individual combined financial statements. The totals column is presented for overview informational purposes and does not represent consolidated financial information.

K. Inventories

Inventories of supplies and raw materials of discretely presented component units-proprietary funds are carried at the lower of cost (first-in-first-out method) or market.

L. Investments

Investments are recorded at fair value. Investments in the equity of companies are carried at cost if less than twenty percent of the companies' total equity, on the equity method if greater than twenty percent and less than fifty percent and on a consolidated basis if greater than fifty percent. (See Notes 2 and 9).

M. Estimates

The preparation of financial statements in conformity with GAAP 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 expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(2) Cash and Equivalents and Investments

Cash and Equivalents

The State considers cash and equivalents to be cash on hand, cash in checking and savings accounts, cash on deposit with trustee, and unrestricted time certificates of deposit with initial maturities of less than ninety days.

Cash Deposits

All of the State's certificates of deposit and cash-in-bank accounts are held with FDIC insured banks. The State of Chuuk does not require collateralization of its bank accounts. Therefore \$300,000 is subject to FDIC insurance with the remaining balance being uncollateralized.

At September 30, 2000, the State had deposits as follows; in each situation, cost approximated fair value.

General Fund

Restricted cash in early retirement trust fund	\$ 3,238,260
Cash on deposit with trustee and in checking and savings accounts with FDIC insured banks	<u>314,248</u>

\$ 3,552,508

Special Revenue Funds

Cash in checking accounts with FDIC insured banks	\$ <u>11,230</u>
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Capital Projects Funds

Cash on deposit with trustee	\$ <u>754,650</u>
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Component Units

Cash in checking and savings accounts with FDIC insured banks	\$ <u>837,258</u>
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Investments

The State has appointed the Federated Development Authority (the Authority) as the agency to implement the overall development goals, policies and strategies of funds received and invested pursuant to the Compact of Free Association. The Federated States of Micronesia Secretary of Finance maintains the accounting system and records necessary to account for investment funds placed with the Authority on behalf of the State.

The Authority has selected investment managers who are given authority to buy and sell securities as follows:

A. Investment managers may invest in stocks, bonds and cash equivalents. Minimum standards of quality for investments at the time of purchase shall be:

1. Stocks - A "B" rating by a national rating service. Non-rated stocks such as banks or insurance companies must be equal in quality or higher.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(2) Cash and Equivalents and Investments, Continued

Investments, Continued

2. Bonds - Confined to issues rated "A" or higher by a national rating service, except in the case of U.S. Treasury or Agency Securities which are not rated.
3. Cash and equivalents - The manager may engage in all normally accepted short-term investment practices including, but not limited to: U.S. Treasury and Agency securities, banker's acceptances, certificates of deposit, commercial paper and repurchase agreements using any of the foregoing as collateral. The following restrictions apply:
 - a. Commercial paper must be rated A-1/P-1 or higher by Standard & Poors Corporation and Moodys Investor Services.
 - b. Certificates of deposit must be from FDIC insured banks which must have assets in excess of two billion dollars. Deposits in smaller institutions are acceptable, but must not exceed the amount of the insurance unless collateralized by U.S. Treasury Securities at 102%.
- B. The equity portfolio shall be diversified among issues and industry classifications. No more than 25% of the equity portfolio may be invested in any single classification, as described by the Standard and Poors 500 Index, unless prior approval is received from the FSM Secretary of Finance.
- C. No investment may be made in a single corporate entity which exceeds 5% of the total assets of the fund at the time of purchase without prior approval by the FSM Secretary of Finance.

Statement No. 3 of the Governmental Accounting Standards Board requires government entities to categorize investments to give an indication of the level of risk assumed by the entity at year end. Category 1 includes investments that are insured or registered or for which securities are held by the State or its agent in the name of the State. Category 2 includes uninsured and unregistered investments for which securities are held by the broker's or dealer's trust department or agent in the name of the State. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the State's name. All of the State's investments are classified as Category 2 as all investments are held in the name of the Federated Development Authority.

Funds invested on behalf of the State as of September 30, 2000, are summarized below:

<u>Investments</u>	
Pooled investment debt and equity securities	\$ <u>18,280,329</u>

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(2) Cash and Equivalents and Investments, Continued

The State's investment income as of September 30, 2000, is summarized below:

Interest	\$ 1,432,963
Dividends	136,650
Realized gains	2,580,135
Unrealized losses	(427,037)
Management fees	(107,959)
Other expenses	<u>(54,465)</u>
	\$ <u>3,560,287</u>

(3) Receivables From Other Governments

Amounts due from other governments include those funds which are earned and have yet to be reimbursed by the FSM National Government for U.S. grants, U.S. Department of the Interior (DOI) grants, and those earned reimbursements resulting from Congress of the Federated States of Micronesia appropriations. Additionally, amounts due from the Office of Transition, Trust Territory Government (TTG), are for DOI Capital Projects.

Amounts due from federal agencies are those funds earned which are reimbursed directly from United States federal agencies.

(4) Fixed Assets

Chuuk State did not update the balances in the General Fixed Assets Account Group during fiscal year 2000.

A summary of the general fixed assets accounted for in the General Fixed Assets Account Group as of September 30, 2000, follows:

Roads	\$ 10,257,016
Port facilities	6,537,700
Airport facilities	24,506,300
Public utilities	22,961,621
Other	<u>3,319,247</u>
	\$ <u>67,581,884</u>

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(4) Fixed Assets, Continued

A summary of fixed assets accounted for in the component units-proprietary funds as of September 30, 2000, follows:

	<u>Estimated Useful Lives</u>	
General plant in service	3-7 years	\$ 257,494
Electric plant in service	3-20 years	13,996,584
Water and sewer in service	3-20 years	6,315,282
Buildings and improvements	3-20 years	335,483
Equipment and furniture	3-5 years	38,225
Vehicles	3-5 years	32,934
Other assets	3 years	<u>12,772</u>
		20,988,774
Less accumulated depreciation		<u>(12,684,675)</u>
		8,304,099
Construction in progress		<u>1,396,942</u>
		<u>\$ 9,701,041</u>

(5) Notes Payable

Capital Projects Fund

The State entered into a separate agreement with a contractor for payment of prior services performed. The agreement was not executed by the Attorney General's office and some amounts due are being renegotiated. Until a mutual settlement occurs, payment will not be made. The note is to be repaid from the State's Compact 211 (a)(2) Capital Projects Fund. As of September 30, 2000, the note is as follows:

Principal due in six monthly installments commencing on July 1, 1988,
with interest payments due in monthly installments at 12% per annum. \$ 329,179

The State has yet to determine when or if repayments of this note will occur.

General Long-Term Debt Account Group

During the year ended September 30, 1993, the State undertook a single issue of notes payable under the Medium-Term Note (MTN) program entered into by the FSM National Government on behalf of itself and the four FSM states.

On June 14, 1993, Chuuk State issued four (4) notes for \$10,300,000 to finance Chuuk State's prior equity investment in Western Pacific Tuna Group (WESTPAC), a fishing joint venture, and a loan to Bonjenvall Holdings Ltd. The outstanding notes payable balance as of September 30, 2000, is as follows:

<u>Maturity</u>	<u>Interest Rate % P.A.</u>	<u>Principal Amount</u>
10/16/2000	6.75	\$ <u>3,000,000</u>

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(5) Notes Payable, Continued

Payments of principal and interest are entrusted to Bankers Trust, as Trustee. The FSM has pledged, as security for payments by the Trustee, a first priority lien on, and security interest in, all Compact of Free Association payments from the U.S. Government. Upon receipt of the Compact payments, the Trustee is responsible for withdrawal of amounts necessary for payments of principal and interest. Various other restrictive covenants exist and are detailed in the Trust Agreement dated April 1, 1990, as amended by a Supplemental Trust Agreement dated March 15, 1994. Management is of the opinion that it has complied with such covenants through September 30, 2000.

During the fiscal year ended September 30, 1999, Chuuk State Government and the FSM National Government entered into a loan agreement whereby the FSM National Government agreed to loan the State of Chuuk the sum of \$5,000,000 dollars ("Chuuk Recovery Loan"). The primary purpose of this loan was to assist the State in satisfying amounts due to various vendors for payroll allotments and the principal portion of the State's tax liabilities to the FSM Revenue and Taxation and the FSM Social Security Administration.

The loan is to be repaid in quarterly allotments of \$416,667 including interest thereon beginning October 1, 1998. Interest is at 1% per annum. The total amount outstanding on this loan at September 30, 2000 was \$1,959,230. The State paid \$1,700,000 against this loan during fiscal year 1999, which was charged against the general fund. No payments were made during fiscal year 2000. However, \$1,686,710 has been accrued in the general fund as notes payable as this amount matured during that period. Of this amount, \$19,924 represents accrued interest. The General Long-Term Debt Account Group holds \$292,444 of this debt as of September 30, 2000.

During the fiscal year ended September 30, 1998, Chuuk State Government implemented an early retirement program for all eligible public service system employees. This program is funded through a loan from the Asian Development Bank through the FSM National Government. A total loan amount of \$5,300,000 is available to the State of Chuuk for this purpose. Under the terms of its loan agreement with the FSM National Government, the State shall pay the FSM National Government a service charge at the rate of (1%) per annum calculated based on the total loan balance outstanding from time to time.

Pursuant to the terms of the financing agreement between the State of Chuuk and the FSM National Government, the State is required to deposit into the Early Retirement Scheme Trust Account held in the name of the State within the FSM National Government's investment portfolio, 100% of the outstanding principal balance by September 30, 2001. Funds for the repayment of the loan are expected to be derived from annual appropriations for salaries and wages earmarked for the positions abolished under the Early Retirement Scheme. The Chuuk State Legislature has authorized for appropriation from the general fund certain percentages of amounts borrowed under the loan in each fiscal year until the Early Retirement Scheme Trust Account is fully replenished in fiscal year 2001. The loan is to be repaid by the FSM National Government in semi-annual installments commencing February 1, 2008. The total amount outstanding on this loan at September 30, 2000 was \$5,128,335.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(5) Notes Payable, Continued

Future minimum payments on all notes payable outstanding in the General Long-Term Debt Account Group as of September 30, 2000, are as follows:

<u>Year ending September 30,</u>	<u>Amount</u>
2001	\$ 3,292,444
Thereafter (principal payments commence in 2008)	<u>5,128,335</u>
	<u>\$ 8,420,779</u>

The State was not able to provide a schedule of future interest expense attendant to the debt maturities.

(6) Continuing Appropriations

Continuing appropriations are summarized as follows:

General Fund

Each fiscal year, Chuuk State Legislature appropriates funds for various programs, municipal projects and other projects which are available until fully expended or until project completion. \$ 271,691

Capital Projects

Each fiscal year, Chuuk State appropriates funds towards Capital Projects and Economic Development Projects. These funds are available until fully expended or project completion. \$ 6,530,092

(7) Operating Transfers In/Out

Material General Fund, Special Revenue Fund and Component Units - Proprietary Funds transfers in/out for the year ended September 30, 2000, are as follows:

	<u>Transfers Out</u>	<u>Transfers In</u>
General Fund:		
Transfers out to Component Units:		
Chuuk State Housing Authority	\$ 82,774	\$ -
Chuuk Coconut Authority	<u>89,740</u>	<u>-</u>
Total transfers out to Component Units	<u>172,514</u>	<u>-</u>
Transfers out to Special Revenue Funds:		
Chuuk Visitors' Bureau	<u>96,140</u>	<u>-</u>
Total General Fund	<u>268,654</u>	<u>-</u>

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(7) Operating Transfers In/Out, Continued

	<u>Transfers Out</u>	<u>Transfers In</u>
Special Revenue Funds:		
Transfers out to Component Units:		
Chuuk Public Utility Corporation	1,000,000	-
Total Special Revenue Funds	<u>1,000,000</u>	<u>-</u>
Transfers in to Component Units:		
Chuuk State Housing Authority	-	82,774
Chuuk Coconut Authority	-	-
Chuuk Public Utility Corporation	<u>-</u>	<u>1,000,000</u>
Total transfers in to Component Units	<u>-</u>	<u>1,082,774</u>
Transfers in to Special Revenue Funds:		
Chuuk Visitors' Bureau	<u>-</u>	<u>96,140</u>
	<u>\$ 1,268,654</u>	<u>\$ 1,178,914</u>

(8) Interfund Assets/Liabilities

The following summarizes due from/to other funds as of September 30, 2000:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
Special Revenue Funds:		
Chuuk Airport Authority	\$ 1,061,820	\$ -
Compact - Special Block Grant	3,828,426	-
Federal Grant Assistance Fund	987,543	-
Compact - Other Grants Fund	1,439,012	-
CFSM Grant Fund	-	458,221
Capital Projects Funds:		
Compact Capital Projects Fund	-	598,569
General Fund	<u>-</u>	<u>6,260,011</u>
	<u>\$ 7,316,801</u>	<u>\$ 7,316,801</u>

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(9) Investments - Other

During fiscal year 1993, the State purchased \$1,000,000 of common stock in the Bank of the Federated States of Micronesia. The State purchased \$250,000 of common stock in fiscal year 1990 and fiscal year 1989. This represents an interest of 16.08% as of September 30, 2000. The above investment is carried at cost since there is no method of ascertaining related value.

\$ 1,500,000

During fiscal year 1991, the State purchased \$250,000 of common stock in the Pacific Islands Development Bank (a 7.36% interest at September 30, 2000). The above investment is carried at cost since there is no method of ascertaining related value.

250,000

During fiscal year 1996, the State purchased \$125,000 of common stock in a joint venture with the National Fisheries Corporation for a longline base. The State also purchased \$875,000, \$130,000 and \$370,000 of common stock in fiscal years 1994, 1993 and 1991, respectively in the same joint venture. This represents an interest of 50% as of September 30, 2000. Under the equity method of accounting, which has been adopted for Chuuk's investment in Chuuk Fresh Tuna, Incorporated (CFTI), Chuuk State's share of earnings and losses incurred by the entity should be deducted from the carrying value. However as audited financial information was not available for this purpose, the carrying value as of September 30, 2000 does not reflect such adjustments, if any.

1,202,005

During fiscal year 1993, the State purchased \$812,000 of common stock in the Bank of Guam, which represents a .007% interest as of September 30, 2000. The above investment is carried at cost since there is no method of ascertaining related market value.

812,000

During fiscal year 1996, Chuuk State purchased \$300,000 of common stock in the FSM Development Bank (an interest of approximately 1% interest at September 30, 2000). The above investment is carried at cost since there is no method of ascertaining related value.

300,000

Total other investments \$ 4,064,005

Since the investments are considered unavailable to finance expenditures of the ensuing fiscal year, the investments are restricted in the reserve for related assets component of fund balance.

During fiscal year 2000, the investment in WESTPAC for \$10,200,000 was dissolved. The State received proceeds from the investment totaling \$400,000 in cash and one fishing vessel. Per WESTPAC, the Net Book Value (NBV) of the fishing vessel based on 1994 and 1995 reports was \$6,429,301, less depreciation expense of \$3,037,130 or \$3,392,171. An appraisal made on May 31, 1999 states the value of the vessel at \$5,500,000. The NBV of the vessel has been determined using 50% of NBV and 50% of the appraised value as the transfer was made from a 50% related party and a 50% unrelated party. Therefore, the vessel is valued at \$4,450,000 using the net book value method. The loss of \$5,350,000 and the acquisition of the \$4,450,000 vessel are expended under the Capital Projects Fund.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(10) Segment Data for Component Units - Proprietary Funds

The following represents key data extracted from the financial statements of the component units - proprietary funds presented by the State as of September 30, 2000, and for the year then ended:

	<u>Chuuk Public Utility Corporation</u>	<u>Chuuk State Housing Authority</u>
Total assets	\$ <u>10,306,721</u>	\$ <u>1,937,970</u>
Total fund equity	\$ <u>7,799,035</u>	\$ <u>1,937,552</u>
Net fixed assets	\$ <u>9,524,398</u>	\$ <u>176,643</u>
FY00 operating loss	\$ <u>(2,232,120)</u>	\$ <u>(152,416)</u>
FY00 net loss	\$ <u>(471,170)</u>	\$ <u>(69,642)</u>
FY00 operating revenues	\$ <u>2,737,740</u>	\$ <u>213,427</u>
FY00 operating transfers in	\$ <u>1,000,000</u>	\$ <u>82,774</u>

(11) Commitments and Contingencies

Federal Programs

The State participates in a number of U.S. federally assisted grant programs. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Currently, \$401,515 in cumulative questioned costs exist for the operation of fiscal years 1997 through 2000 grants.

If the grantor agencies ultimately disallow these costs or a portion thereof, the General Fund will bear responsibility for reimbursing the affected agencies. Accordingly, no provision for any liability that may result from this matter has been recorded in the accompanying general purpose financial statements. Pursuant to Title I, Section 105 of United States Public Law 99-239 the Government of the Federated States of Micronesia (FSM) is no longer liable for debts to U.S. federal agencies arising prior to the date of the implementation of the Compact of Free Association. This matter has not yet been officially resolved with the U.S. Government.

Sick Leave

It is the policy of the State to record the cost of sick leave when leave is actually taken and a liability is actually incurred. The accumulated estimated amount of unused sick leave at September 30, 2000, was \$2,841,918.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(11) Commitments and Contingencies, Continued

Committed Compact Funding

Under Chuuk State Law No. 193-16, which amended State Law No. 193-06, the Legislature has appropriated future cash flows of the Compact of Free Association. The amounts will be used by the State to repay current and future borrowings under the Medium-Term Note program (Refer Note 5). Appropriations totaling \$14,813,000 have been committed up to and including fiscal year 2001. These funds have been appropriated from Compact Section 211 (a) Capital Account Funds for this purpose.

Pending Litigation and Other Matters

The State of Chuuk is a party to various legal proceedings. The State's Attorney General is of the opinion that a reasonable estimate of the amount of judgements against the State of Chuuk is approximately \$7,349,000. However, the State is currently negotiating with judgement creditors to arrive at settlement amounts favorable to both parties. Claims must be adjudicated and are not recognized as current liabilities of the State as they cannot be paid without an underlying appropriation from the State Legislature. Additionally, no appropriation currently exists to finance these judgements. The State's Attorney General asserts that these claims, although it is possible they will be resolved in an amount less than as adjudicated, represent valid liabilities of the State. Accordingly, the balance is recorded in the General Long-Term Debt Account Group.

(12) Fund Deficits

The following represents material fund deficits as of September 30, 2000. If operation of these funds cannot cover prior losses, the State's General Fund may have to absorb these amounts or a portion thereof:

Special Revenue Funds:	
CFSM Grant Fund	\$ (137,144)

(13) Notes Payable - Component Units-Proprietary Funds

Chuuk Public Utility Corporation, as of September 30, 2000, had the following notes payable:

Note payable to a vendor interest at 16%	\$ 29,368
--	-----------

Amount drawn on a note payable to the State of Chuuk, facilitated by an Asian Development Bank loan to the FSM, interest at 6.28% due in semi-annual principal installments commencing August 2007. The loan is ultimately collateralized by a Chuuk State pledge of Compact of Free Association revenues to the FSM National Government. The State has not imposed collateralization on the Corporation. Until the loan is fully drawn, it is not possible to determine estimated interest expense payable to maturity.

	<u>1,795,680</u>
	\$ <u>1,825,048</u>

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(14) Loans Receivable - Related Parties

At September 30, 2000, the State had an outstanding loan of \$1,795,680 due from the Chuuk Public Utility Corporation, a component unit of the State. The loan to the Chuuk Public Utility Corporation is facilitated through a loan from the Asian Development Bank to the FSM National Government, which in turn lent the money to the State (see note 13).

(15) Fund Balances Reserved For Related Assets

Fund balance reserves for related assets are comprised of the following as of September 30, 2000:

	General Fund	Capital Projects Funds
Early Retirement Trust Fund	\$ 3,077,001	\$ -
Revenue share – 20%	334,114	-
Receivables	587,783	-
Other	<u>5,452</u>	<u>4,064,005</u>
	\$ <u>4,004,350</u>	\$ <u>4,064,005</u>

(16) Risk Management

Chuuk State Government does not purchase commercial insurance to cover its potential risks. Chuuk State Government is substantially self-insured for all risks. Management is of the opinion that no material losses have been sustained as a result of this practice.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Combining Schedule of Expenditures by Account-
All Governmental Fund Types
Year Ended September 30, 2000
(With comparative totals for the year ended September 30, 1999)

	Governmental Fund Types			Totals	
	General	Special Revenue	Capital Projects	(Memorandum Only)	
				2000	1999
Expenditures:					
Personnel	\$ 15,457,632	\$ 1,362,491	\$ 198,604	\$ 17,018,727	\$ 15,211,797
Travel	1,140,138	177,005	69,181	1,386,324	1,292,702
Contractual services	762,194	3,469,395	4,414,932	8,646,521	5,241,787
POL	196,465	5,143	12,264	213,872	214,869
Other :					
Equipment	402,120	89,255	2,810,619	3,301,994	4,220,202
Medical supplies	18,593	399,196	-	417,789	472,476
Medical referral	108,498	-	-	108,498	15,184
Supplies and materials	384,085	141,171	462,592	987,848	1,994,422
Scholarships	145,030	-	-	145,030	122,320
Food	3,785	482,175	-	485,960	701,616
Books	3,580	369	-	3,949	10,424
All others	7,671,660	2,057,066	4,466,622	14,195,348	17,734,712
Debt service-principal	-	-	3,000,000	3,000,000	4,700,000
Debt service-interest	-	-	320,000	320,000	492,600
Acquisition of fishing vessel	-	-	4,450,000	4,450,000	-
Loss on investment	-	-	5,350,000	5,350,000	-
Miscellaneous	-	-	-	-	969,725
Total expenditures	\$ 26,293,780	\$ 8,183,266	\$ 25,554,814	\$ 60,031,860	\$ 53,394,836

See Accompanying Independent Auditors' Report.

**CHUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

GENERAL FUND

Statement of Revenues, Expenditures by Function and Department and Changes in Fund Balance (Deficit)

Year Ended September 30, 2000

(With comparative totals for the year ended September 30, 1999)

	2000	1999
Revenues:		
U.S. Compact of Free Association:		
Section 211(a)(2) - base grant	\$ 8,816,000	\$ 8,816,000
Section 217 - inflation adjustment	4,760,640	4,672,480
FSM revenue sharing	4,376,074	3,401,968
State taxes and licenses:		
Cigarette tax	\$ 67,526	\$ 68,308
General sales tax	1,067,253	830,198
Alcohol	353,913	170,432
Hotel	135,454	119,276
Delinquent tax collections	19,686	9,401
License and fees	105,628	138,404
Other	590,110	354,719
	2,339,570	1,690,738
Other revenues:		
Hospital and utilities collections	47,042	61,494
Transportation collections	663,938	331,793
Leases	60,541	43,404
Miscellaneous	367,502	628,951
Investment income	3,560,287	7,294,734
	24,991,594	26,941,562
Expenditures by department:		
General government:		
Executive branch:		
Governor and staff	959,580	560,095
Attorney General	245,196	178,376
State Finance	118,193	204,777
ADP	47,905	85,087
Tax and revenue	293,257	104,600
Program and budget	142,650	123,318
Property and supply	97,007	72,257
Personnel	104,141	71,300
Planning	248,587	146,210
	2,256,516	1,546,020
Legislative internal operations:		
President and members	702,472	343,884
Speakers and members	2,043,633	852,211
Legislative committees	93,012	556,481
Legislative legal office	273,892	225,709
Legislative administration	173,944	224,011
Legislative budget office	163,246	82,125
Chief clerks	285,475	238,855
	3,735,674	2,523,276
Judicial operations	604,198	527,279
Independent Prosecutor	-	17,581
Office of the Public Auditor	20,029	18,076
	6,616,417	4,632,232
Education:		
Administration	207,616	176,635
Elementary	3,356,661	3,039,363
Secondary	1,430,817	1,340,344
Curriculum and instruction	164,899	144,599
	5,159,993	4,700,941
Health services:		
Hospital and dispensaries	2,408,266	2,213,929
Environmental health	104,956	90,907
Dental services	230,588	217,843
	2,743,810	2,522,679

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

GENERAL FUND

Statement of Revenues, Expenditures by Function and Department and Changes in Fund Balance (Deficit), Continued
Year Ended September 30, 2000

(With comparative totals for the year ended September 30, 1999)

	2000	1999
Expenditures by department, continued:		
Economic development:		
Administration	\$ 202,536	\$ 129,059
Land management	44,449	39,830
Marine resources	375,605	310,813
Agriculture	288,252	238,043
Labor	33,031	25,822
Historic preservation	26,182	10,195
Business and trades	47,316	48,215
Total economic development	1,017,371	801,977
Public works:		
Operations and maintenance	327,369	312,968
Total public works	327,369	312,968
Public safety	1,060,062	767,259
Transportation:		
Administration	774,579	591,047
Airport	116,541	163,014
Total transportation	891,120	754,061
Community affairs:		
Division of public affairs	96,667	87,745
Division of youth affairs	21,775	16,409
Division of information and broadcast	69,070	62,115
Total community affairs	187,512	166,269
Boards and commissions:		
Investment board	26,433	3,241
Election commission	83,369	256,874
Education board	17,910	10,899
Recreation board	174,535	149,189
Land commission	128,682	105,004
Environmental Protection Agency	85,485	73,106
ABC Board	-	129
Facilities	52,091	-
Truk Scholarship Board	174,986	157,615
Total boards and commissions	743,491	756,057
Chuuk Early Retirement Program	219,074	974,312
Debt service - principal	-	1,700,000
Special programs	1,267,926	4,004,621
Legislative external appropriations	6,059,635	1,641,751
Uncollectible grants fund reserve and other	-	-
Total other	7,546,635	8,320,684
Total expenditures	26,293,780	23,735,127
Excess (deficiency) of revenues over (under) expenditures	(1,302,186)	3,206,435
Other financing sources (uses):		
Loan proceeds	-	2,128,335
Chuuk recovery loan accrual	(1,686,710)	-
Operating transfers out	(268,654)	(311,576)
(Deficiency) excess of revenues and other financing sources (under) over expenditures and other financing uses	(3,257,550)	5,023,194
Fund balance (deficit) at beginning of year	3,819,897	(1,203,297)
Fund balance at end of year	\$ 562,347	\$ 3,819,897

See Accompanying Independent Auditors' Report.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Special Revenue Funds
September 30, 2000

Specific revenues that are legally restricted to expenditures for particular purposes are accounted for in the Special Revenue Funds. A brief discussion of the State's Special Revenue Funds as of September 30, 2000, follows:

Chuuk Visitors' Bureau

This fund accounts for funds received by the Visitor's Bureau, to improve and develop Chuuk's tourism industry.

Chuuk Airport Authority

This fund accounts for funds received by the Airport Authority for the maintenance of Chuuk Airport.

Federal Grant Assistance Fund

This fund accounts for all activities of United States special federal assistance grants utilized by the State to finance general governmental operations. Federal grants are administered by the Federated States of Micronesia National Government with the State as the subrecipient.

CFSM Grant Fund

This fund accounts for activities received from FSM congressional appropriations utilized by the State to finance general governmental operations.

Compact Other Grants Fund:

Compact Section 212 - Special Development Assistance Fund

This grant is restricted for special development assistance and is granted under the Compact of Free Association with the United States.

Compact 214(c) - Energy Grant Fund

This fund accounts for funds, granted under the Compact of Free Association with the United States, specifically restricted for energy programs.

Compact 216 (a)(2) Health and Medical Fund

This fund accounts for funds granted under the Compact of Free Association with the United States, specifically restricted for health and medical programs including referrals to hospital and treatment centers.

Compact Section 216(a)(3)

This fund accounts for funds granted under the Compact of Free Association with the United States to the FSM National Government which are subgranted to the State and are specifically restricted for educational scholarships at U.S. and Micronesian higher education institutions.

Compact 221 (b) Special Block Grant Fund

This fund accounts for funds granted under the Compact of Free Association with the United States, specifically restricted for health and education.

See Accompanying Independent Auditors' Report.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

SPECIAL REVENUE FUNDS

Combining Balance Sheet

September 30, 2000

(With comparative totals as of September 30, 1999)

<u>ASSETS</u>	Chuuk	Chuuk	Federal	CFSM	Compact	Compact	Totals	
	Visitors' Bureau	Airport Authority	Grant Assistance	Grant	Other Grants	Special Block Grant Section 221(b)	2000	1999
Cash and equivalents	\$ 1,414	\$ -	\$ 9,816	\$ -	\$ -	\$ -	\$ 11,230	\$ 30,793
Receivables:								
FSM National Government	-	-	2,451,947	455,700	13,548	-	2,921,195	3,061,585
General, net	10,902	-	1,900	-	-	-	12,802	1,900
Due from other funds	-	1,061,820	987,543	-	1,439,012	3,828,426	7,316,801	7,218,025
Allowance for uncollectibles	-	-	(2,093,093)	(74,864)	-	-	(2,167,957)	(2,167,957)
Total assets	\$ 12,316	\$ 1,061,820	\$ 1,358,113	\$ 380,836	\$ 1,452,560	\$ 3,828,426	\$ 8,094,071	\$ 8,144,346
 <u>LIABILITIES AND FUND BALANCES (DEFICIT)</u>								
Liabilities:								
Accounts payable	\$ 2,752	\$ -	\$ 673,529	\$ 59,759	\$ 910,053	\$ 1,574,650	\$ 3,220,743	\$ 3,314,111
Accrued liabilities	-	-	35,062	-	-	-	35,062	35,062
Due to other funds	-	-	-	458,221	-	-	458,221	394,711
Payable to other governments	-	-	372,202	-	-	-	372,202	411,987
Deferred revenue	-	-	277,320	-	-	-	277,320	277,320
Total liabilities	2,752	-	1,358,113	517,980	910,053	1,574,650	4,363,548	4,433,191
Fund balances (deficit):								
Reserved for related assets	-	-	-	-	-	-	-	25,264
Reserved for encumbrances	-	-	173,271	7,505	41,966	102,362	325,104	662,372
Unreserved	9,564	1,061,820	(173,271)	(144,649)	500,541	2,151,414	3,405,419	3,023,519
Total fund balances (deficit)	9,564	1,061,820	-	(137,144)	542,507	2,253,776	3,730,523	3,711,155
Total liabilities and fund balances (deficit)	\$ 12,316	\$ 1,061,820	\$ 1,358,113	\$ 380,836	\$ 1,452,560	\$ 3,828,426	\$ 8,094,071	\$ 8,144,346

See Accompanying Independent Auditors' Report.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

SPECIAL REVENUE FUNDS

Combining Statement of Revenues, Expenditures by Function and Changes in Fund Balances (Deficit)

Year Ended September 30, 2000

(With comparative totals for the year ended September 30, 1999)

	Chuuk Visitors' Bureau	Chuuk Airport Authority	Federal Grant Assistance	CFSM Grant	Compact Other Grants	Compact Special Block Grant Section 221(b)	Totals	
							2000	1999
Revenues:								
U.S. Compact of Free Association:								
Section 221(b)-base grant	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,730,000	\$ 2,730,000	\$ 2,730,000
Section 216(a)(2)-base grant	-	-	-	-	461,087	-	461,087	461,087
Section 214(c)-base grant	-	-	-	-	949,800	-	949,800	949,800
Section 217-inflation adjustment	-	-	-	-	512,892	-	512,892	635,894
Section 212-base grant	-	-	-	-	385,000	-	385,000	250,000
Federal contributions	-	-	963,856	-	-	-	963,856	2,565,316
Other	2,354	46,625	-	3,054,880	-	-	3,103,859	436,913
Total revenues	2,354	46,625	963,856	3,054,880	2,308,779	2,730,000	9,106,494	8,029,010
Expenditures:								
General government	-	-	-	-	451,500	34,298	485,798	463,332
Education	-	-	728,712	-	-	1,527,633	2,256,345	2,765,091
Health services	-	-	32,500	-	489,012	1,210,326	1,731,838	1,712,895
Public works and utilities	-	-	177,907	3,000,000	111,219	-	3,289,126	1,318,885
Public safety	-	-	-	8,130	-	-	8,130	228,720
Community affairs	-	-	24,737	-	250,000	-	274,737	281,834
Other	90,542	-	-	46,750	-	-	137,292	724,962
Total expenditures	90,542	-	963,856	3,054,880	1,301,731	2,772,257	8,183,266	7,495,719
Excess (deficiency) of revenues over (under) expenditures	(88,188)	46,625	-	-	1,007,048	(42,257)	923,228	533,291
Other financing sources (uses):								
Operating transfers in	96,140	-	-	-	-	-	96,140	165,192
Operating transfers out	-	-	-	-	(1,000,000)	-	(1,000,000)	(950,000)
Total other financing sources (uses), net	96,140	-	-	-	(1,000,000)	-	(903,860)	(784,808)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	7,952	46,625	-	-	7,048	(42,257)	19,368	(251,517)
Fund balances (deficit) at beginning of year	1,612	1,015,195	-	(137,144)	535,459	2,296,033	3,711,155	3,962,672
Fund balances (deficit) at end of year	\$ 9,564	\$ 1,061,820	\$ -	\$ (137,144)	\$ 542,507	\$ 2,253,776	\$ 3,730,523	\$ 3,711,155

See Accompanying Independent Auditors' Report.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

SPECIAL REVENUE FUNDS

Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balances (Deficit)

Year Ended September 30, 2000

(With comparative totals for the year ended September 30, 1999)

	Chuuk	Chuuk	Federal	CFSM	Compact	Compact	Totals	
	Visitors' Bureau	Airport Authority	Grant Assistance	Grant	Other Grants	Special Block Grant Section 221(b)	2000	1999
Revenues:								
U.S. Compact of Free Association:								
Section 221(b)-base grant	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,730,000	\$ 2,730,000	\$ 2,730,000
Section 216(a)(2)-base grant	-	-	-	-	461,087	-	461,087	461,087
Section 214(c)-base grant	-	-	-	-	949,800	-	949,800	949,800
Section 217-inflation adjustment	-	-	-	-	512,892	-	512,892	635,894
Section 212-base grant	-	-	-	-	385,000	-	385,000	250,000
Federal contributions	-	-	963,856	-	-	-	963,856	2,565,316
Other	2,354	46,625	-	3,054,880	-	-	3,103,859	436,913
Total revenues	2,354	46,625	963,856	3,054,880	2,308,779	2,730,000	9,106,494	8,029,010
Expenditures:								
Personnel	53,422	-	215,790	2,777	-	1,090,502	1,362,491	1,588,616
Travel	-	-	120,570	2,553	26,303	27,579	177,005	370,642
Contractual services	-	-	123,474	3,046,750	298,957	214	3,469,395	1,332,501
POL	1,168	-	-	-	-	3,975	5,143	1,038
Other :								
Equipment	22,301	-	59,867	-	-	7,087	89,255	132,575
Medical supplies	-	-	-	-	54,468	344,728	399,196	270,298
Supplies and materials	1,481	-	110,309	-	(22,177)	51,558	141,171	392,040
Food	-	-	-	-	100,474	381,701	482,175	683,855
Books	-	-	-	-	369	-	369	-
All others	12,170	-	333,846	2,800	843,337	864,913	2,057,066	2,164,583
Miscellaneous	-	-	-	-	-	-	-	559,571
Total expenditures	90,542	-	963,856	3,054,880	1,301,731	2,772,257	8,183,266	7,495,719
Excess (deficiency) of revenues over (under) expenditures	(88,188)	46,625	-	-	1,007,048	(42,257)	923,228	533,291
Other financing sources (uses):								
Operating transfers in	96,140	-	-	-	-	-	96,140	165,192
Operating transfers out	-	-	-	-	(1,000,000)	-	(1,000,000)	(950,000)
Total other financing sources (uses), net	96,140	-	-	-	(1,000,000)	-	(903,860)	(784,808)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	7,952	46,625	-	-	7,048	(42,257)	19,368	(251,517)
Fund balances (deficit) at beginning of year	1,612	1,015,195	-	(137,144)	535,459	2,296,033	3,711,155	3,962,672
Fund balances (deficit) at end of year	\$ 9,564	\$ 1,061,820	\$ -	\$ (137,144)	\$ 542,507	\$ 2,253,776	\$ 3,730,523	\$ 3,711,155

See Accompanying Independent Auditors' Report.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Combining Balance Sheet
Discretely Presented Component Units
September 30, 2000
(With Comparative Totals as of September 30, 1999)

	Chuuk Public Utility Corporation	Chuuk State Housing Authority	<u>Totals</u>	
			<u>2000</u>	<u>1999</u>
<u>Assets</u>				
Cash and equivalents	\$ 24,431	\$ 812,827	\$ 837,258	\$ 733,486
General receivables, net	579,115	38,901	618,016	525,546
Loans receivable, net	129,762	907,880	1,037,642	1,134,555
Fixed assets, net	9,524,398	176,643	9,701,041	8,509,352
Other assets	<u>49,015</u>	<u>1,719</u>	<u>50,734</u>	<u>4,140</u>
Total assets	<u>\$ 10,306,721</u>	<u>\$ 1,937,970</u>	<u>\$ 12,244,691</u>	<u>\$ 10,907,079</u>
<u>Liabilities and Fund Equity</u>				
Liabilities:				
Accounts payable	\$ 567,338	\$ 418	\$ 567,756	\$ 84,307
Accrued payroll and annual leave	115,300	-	115,300	176,320
Notes payable	<u>1,825,048</u>	<u>-</u>	<u>1,825,048</u>	<u>513,652</u>
Total liabilities	<u>2,507,686</u>	<u>418</u>	<u>2,508,104</u>	<u>774,279</u>
Fund equity:				
Retained earnings	440,533	97,282	537,815	1,078,627
Contributed capital	<u>7,358,502</u>	<u>1,840,270</u>	<u>9,198,772</u>	<u>9,054,173</u>
Total fund equity	<u>7,799,035</u>	<u>1,937,552</u>	<u>9,736,587</u>	<u>10,132,800</u>
Total liabilities and fund equity	<u>\$ 10,306,721</u>	<u>\$ 1,937,970</u>	<u>\$ 12,244,691</u>	<u>\$ 10,907,079</u>

See Accompanying Independent Auditors' Report.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Combining Statement of Revenues, Expenses and Changes in Fund Equity -
Discretely Presented Component Units
Year Ended September 30, 2000
(With comparative totals for the year ended September 30, 1999)

	Chuuk Public Utility Corporation	Chuuk State Housing Authority	Totals Memorandum Only	
			2000	1999
Operating revenues:				
Sales	\$ 2,737,740	\$ 213,427	\$ 2,951,167	\$ 1,902,672
Total operating revenues	<u>2,737,740</u>	<u>213,427</u>	<u>2,951,167</u>	<u>1,902,672</u>
Operating expenses:				
Payroll and personnel	1,607,262	93,280	1,700,542	1,894,074
Fuel	2,067,529	-	2,067,529	1,297,195
Depreciation	1,065,002	21,121	1,086,123	243,910
Bad debt	230,067	197,773	427,840	306,678
Rent	-	2,560	2,560	1,475
Other	-	51,109	51,109	96,381
Total operating expenses	<u>4,969,860</u>	<u>365,843</u>	<u>5,335,703</u>	<u>3,839,713</u>
Operating loss	<u>(2,232,120)</u>	<u>(152,416)</u>	<u>(2,384,536)</u>	<u>(1,937,041)</u>
Nonoperating revenues (expenses):				
Transfers in	1,000,000	82,774	1,082,774	1,381,871
Federal contributions	710,950	-	710,950	437,704
Other income (expense)	50,000	-	50,000	(80,302)
Total nonoperating revenues, net	<u>1,760,950</u>	<u>82,774</u>	<u>1,843,724</u>	<u>1,739,273</u>
Net loss	<u>(471,170)</u>	<u>(69,642)</u>	<u>(540,812)</u>	<u>(197,768)</u>
Retained earnings at beginning of year	<u>911,703</u>	<u>166,924</u>	<u>1,078,627</u>	<u>1,276,395</u>
Retained earnings at end of year	<u>440,533</u>	<u>97,282</u>	<u>537,815</u>	<u>1,078,627</u>
Contributed capital at beginning of year	7,213,903	1,840,270	9,054,173	1,840,270
Contributions	<u>144,599</u>	<u>-</u>	<u>144,599</u>	<u>7,213,903</u>
Contributed capital at end of year	<u>7,358,502</u>	<u>1,840,270</u>	<u>9,198,772</u>	<u>9,054,173</u>
Total fund equity	<u>\$ 7,799,035</u>	<u>\$ 1,937,552</u>	<u>\$ 9,736,587</u>	<u>\$ 10,132,800</u>

See Accompanying Independent Auditors' Report.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Combining Statement of Cash Flows -
Discretely Presented Component Units
Year Ended September 30, 2000

	<u>Chuuk Public Utility Corporation</u>	<u>Chuuk State Housing Authority</u>	<u>Totals</u>
Reconciliation of operating loss to net cash (used for) provided by operating activities:			
Operating loss	\$ (2,232,120)	(152,416)	\$ (2,384,536)
Adjustments to reconcile operating loss to net cash (used for) provided by operating activities:			
Depreciation	1,065,002	21,121	1,086,123
(Increase) decrease in receivables	(194,135)	194,566	431
Increase (decrease) in accounts payable	483,449	-	483,449
(Decrease) increase in other liabilities and other assets	(61,020)	5,703	(55,317)
Total adjustments	<u>1,293,296</u>	<u>221,390</u>	<u>1,514,686</u>
Net cash (used for) provided by operating activities	<u>(938,824)</u>	<u>68,974</u>	<u>(869,850)</u>
Cash flows from noncapital financing activities:			
Operating grants received	1,760,950	82,774	1,843,724
FSM contribution	99,596	-	99,596
Net cash provided by noncapital financing activities	<u>1,860,546</u>	<u>82,774</u>	<u>1,943,320</u>
Cash flows from capital and related financing activities:			
Acquisition of utility plant	(2,217,576)	-	(2,217,576)
Acquisition of building	-	(63,518)	(63,518)
Proceeds from notes payable	<u>1,311,396</u>	<u>-</u>	<u>1,311,396</u>
Net cash used for capital and related financing activities	<u>(906,180)</u>	<u>(63,518)</u>	<u>(969,698)</u>
Net increase in cash and equivalents	15,542	88,230	103,772
Cash and equivalents at beginning of year	<u>8,889</u>	<u>724,597</u>	<u>733,486</u>
Cash and equivalents at end of year	<u>\$ 24,431</u>	<u>812,827</u>	<u>\$ 837,258</u>

See Accompanying Independent Auditors' Report.



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Ansito Walter
Governor, State of Chuuk
Federated States of Micronesia:

We have audited the general purpose financial statements of the State of Chuuk as of and for the year ended September 30, 2000, and have issued our report thereon dated July 31, 2001, which report was qualified due to 1) our inability to determine that accounts payable and expenditures of the Governmental Fund Types were fairly stated; 2) our inability to form an opinion on the General Fixed Assets Account Group; 3) the omission of the State's development authorities; 4) the omission of the State's component unit - Chuuk Coconut Authority; 5) our inability to obtain audited financial statements from an investee of the State of Chuuk supporting investments recorded in the Governmental Fund Type - Capital Projects Fund; and 6) our inability to determine that continuing appropriations of the Capital Projects Fund were fairly stated. Except as discussed in the preceding sentence, 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

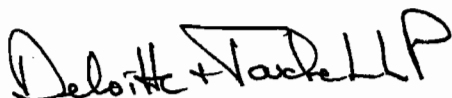
As part of obtaining reasonable assurance about whether the State of Chuuk's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and 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 instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings and Questioned Costs (pages 62 through 79) in findings 00-04, 00-06 and 00-08.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Chuuk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose 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 State of Chuuk's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 00-04 through 00-16.

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 of 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 items 00-04 through 00-08, 00-14 and 00-16 to be material weaknesses.

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

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

July 31, 2001



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL
OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM
AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Honorable Ansito Walter
Governor, State of Chuuk
Federated States of Micronesia:

Compliance

We have audited the compliance of the State of Chuuk with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2000. The State of Chuuk's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 62 through 79). Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of State of Chuuk's management. Our responsibility is to express an opinion on State of Chuuk's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State of Chuuk's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the State of Chuuk's compliance with those requirements.

As described in items 00-01 through 00-03 and 00-16 in the accompanying Schedule of Findings and Questioned Costs, the State of Chuuk did not comply with requirements regarding allowable costs/cost principles (CFDA #84.256A and 15.875), procurement and suspension and debarment (CFDA #84.256A), equipment and real property management (all programs), and unresolved prior years' federal findings (CFDA #84.003 and 10.560). Compliance with such requirements is necessary, in our opinion, for State of Chuuk to comply with requirements applicable to its federal programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the State of Chuuk, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2000.

Internal Control Over Compliance

The management of the State of Chuuk is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the State of Chuuk's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

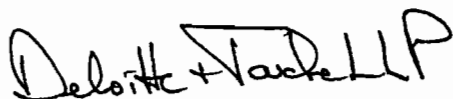
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Chuuk State's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 00-01 through 00-04 and 00-17.

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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 of the internal control over compliance 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 item 00-01, 00-02, 00-03 and 00-16 (99-4) to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the general purpose financial statements of the State of Chuuk as of and for the year ended September 30, 2000, and have issued our report thereon dated July 31, 2001, which report was qualified due to 1) our inability to determine that accounts payable and related expenditures of the Governmental Fund Types were fairly stated; 2) our inability to form an opinion on the General Fixed Assets Account Group; 3) the omission of the State's development authorities; 4) the omission of the State's component unit - Chuuk Coconut Authority; 5) our inability to obtain audited financial statements from an investee of the State of Chuuk supporting investments recorded in the Governmental Fund Type - Capital Projects Fund; and 6) our inability to determine that continuing appropriations of the Capital Projects Fund were fairly stated. Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards (pages 40 through 57) is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the general purpose financial statements. This schedule is the responsibility of the management of the State of Chuuk. Such information has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the propriety of accounts payable and related expenditures of the Governmental Fund Type been determinable, is fairly stated, in all material respects when considered in relation to the general purpose financial statements taken as a whole.

This report is intended for the information of the State of Chuuk, federal awarding agencies, pass-through entities, and 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.



July 31, 2001

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards
FSM Federal Assistance Fund
Year Ended September 30, 2000

Grantor Account Title	Org./Cost Center #	CFDA I.D. #	2000 Fiscal Year Expenditures
<u>Direct Grants:</u>			
<u>U.S. Department of Education</u>			
School Improvement Project	FG3001	84.256A	\$ 494,635
School Improvement Project	FG3002	84.256A	112,895
School Improvement Project	TA3806	84.256A	5,675
96 School Improvement Project	TA3808	84.256A	4,283
96 School Improvement Project	TX4010	84.256A	33,088
Total U.S. Department of Education			\$ 650,576
<u>U.S. Department of the Interior - Office of Insular Affairs</u>			
Road Drainage Master Plan OMIP	TH9507	15.875	\$ 47,000
School Based Maintenance Plan	TH9508	15.875	2,224
Pediatric Ward (OMIP)	TH9512	15.875	32,500
Water Quality Monitoring	TH9513	15.875	11,132
Total Office of Insular Affairs (CFDA #15.875)			\$ 92,856
<u>Received in a Pass through Capacity From:</u>			
<u>Pacific Resources for Education and Learning (PREL)</u>			
Vocational Education Improvement Project	3870	84.994	\$ 3,285
Vocational Education Improvement Project	3871	84.994	74,851
Total Pacific Resources for Education and Learning (CFDA #84.994)			\$ 78,136
<u>FSM National Government:</u>			
<u>Federal Emergency Management Agency</u>			
Typhoon Yuri Public Assistance	TX2800	83.516	\$ 7,896
El Nino Drought/Public Assistance	TX8500	83.516	22,930
El Nino Drought/Sub-Grantee	TX8501	83.516	550
El Nino Drought/Sub-Grantee	TX8513	83.516	64,781
Total CFDA #83.516			96,157
Hazard Mitigation Management Cost	3864	83.519	13,605
Hazard Mitigation Management Cost	FM4010	83.519	2,069
Hazard Mitigation Management Cost	FM4020	83.519	578
HMGP/Broadcast Building	TX4011	83.519	29,879
Total CFDA #83.519			46,131
Total Federal Emergency Management Agency			\$ 142,288
Total Federal Financial Assistance Fund			\$ 963,856
Reconciliation of the FSM Federal Assistance Fund consists of:			
			FY 2000 Expenditures
Fund 30 - Federal Grant Assistance Fund			\$ 914,632
Fund 37 - Other Federal Assistance			49,224
			\$ 963,856

See accompanying notes to schedule of expenditures of federal awards.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
CFSM Special Revenue Fund
Year Ended September 30, 2000

<u>Grantor Account Title</u>	<u>Chuuk Org. #</u>	<u>CFDA I.D. #</u>	<u>2000 Fiscal Year Expenditures</u>
Chuuk Joint Law Enforcement	101234	N/A	\$ 1,800
Land Commission Survey Equipment	120107	N/A	2,800
Land Commission Survey Equipment	C9437	N/A	3,530
Chuuk International Airport	012201	N/A	46,750
Construction and repair - Chuuk Int'l. Airport	014602	N/A	2,000,000
Chuuk Airport Repair	136023	N/A	<u>1,000,000</u>
Total CFSM Special Revenue Fund			<u>\$ 3,054,880</u>

(The above grants are received in a subrecipient capacity through the FSM National Government)

See accompanying notes to schedule of expenditures of federal awards.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Compact of Free Association Capital Projects Fund
Section 211 (A)(2)
Year Ended September 30, 2000

Grantor Account Title	Org./Cost Center #	CFDA I.D. #	2000 Fiscal Year Expenditures
<u>Section 211 (A)(2)</u>			
COCONUT REHABILITATION	6139	15.875	\$ 10,830
WENO JR. HIGH SCHOOL RENOV.	6148	15.875	30,191
MOEN FARMING PROJ./6-24(R)	6154	15.875	14,352
MAGUR COOP ASSOC.	6160	15.875	1,209
WONEI MARKETING COOP	6164	15.875	6,237
ONOU COOP ASSOCIATION (M)	6170	15.875	1,226
NEPUKOS WATER TANK	6176	15.875	663
MOEN FISHING BOAT	6177	15.875	4,940
SARAMEN CHUUK ACADEMY	6185	15.875	5,953
WENO MUN NUKANAP FISHING PROJ	6188	15.875	5,607
WENO FISHING PROJECT	6335	15.875	2,331
TUNUK SAPUK ROAD PROJECT	6405	15.875	14,201
WINPIS VILLAGE OFFICE	6417	15.875	2,093
SATOWAN ROAD PROJECT	6421	15.875	6,283
SATOWAN ELEMENTARY SCHOOL PROJ	6423	15.875	20,504
TOL 12 VILLAGE OFFICE	6430	15.875	1,700
NEPUKOS ELECTRIC SHOP	6454	15.875	6,486
NEPUKOS WATER CATCHMENT	6489	15.875	258
PULUWAT SOCIAL & DEVELOP. PROJ	6505	15.875	35,760
NEMWAN PIGGERY	6514	15.875	7,033
WENO VILLAGE ADMINIST.PROJECT	6515	15.875	1,905
NOMWIN ADMINISTRATION BLDG.	6532	15.875	1,880
LOSAP AGRICULTURE PROJ/6-24/6	6537	15.875	1,505
ONEISOM CLRM CONSTRUCTION PROJ	6547	15.875	1,576
WENO VILLAGE SEWING PROJECT	6549	15.875	9,230
POLLE MUNICIPAL OFFICE	6564	15.875	1,584
NEIRENOM DOCK- POLLE	6575	15.875	7,724
UMAN FISHING DEVELOPMENT	6581	15.875	144,585
LOSAP SUPPLEMENTAL OPERATION	6584	15.875	14,592
BROILER/HATCHERY	6586	15.875	1,838
ADMIN COST	6604	15.875	2,982
SATOWAN FISHERIES DEVELOPMENT	6607	15.875	5,000
AIRPORT TERMINAL PARKING	6619	15.875	90
ONOU HOUSING PROJ/6-81	6631	15.875	5,060
AGRI. SWINE, CROP DEV. PROJ.	6632	15.875	1,893
TRUK COCONUT AUTHORITY	6641	15.875	1,340
CIP CONTIGENCY	6644	15.875	1,469
SEWER SYSTEM	6685	15.875	36,941
POLLAP FISHING PROJECT	6706	15.875	278
UPGRADE WENO SEC. ROAD	6823	15.875	4,226
UPGRADE WENO SEC. RD.	6824	15.875	4,740
FUUN METAW REVOLVING FUND	6856	15.875	801
WONEI ECONOMIC PROJECT	C0022	15.875	25,066
WENO PHYS. CUP. SUP.	C0037	15.875	1,001
TAMATAM MARKET	C0045	15.875	2,638
WONEI ECONOMIC PROJ.	C0052	15.875	15,204
UNANU HOUSING PROJECT	C0057	15.875	8,841
WENO SOC/DEV PRAMARY ROAD PROJ	C0070	15.875	16,780
MAJOR ROOF REPAIR COURTHOUSE	C0078	15.875	56,849
FEFAN MUN. OFFICE COMPLEX	C0088	15.875	5,000
Subtotal			560,475

See accompanying notes to schedule of expenditures of federal awards.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Compact of Free Association Capital Projects Fund
Section 211 (A)(2), Continued
Year Ended September 30, 2000

Grantor Account Title	Org./Cost Center #	CFDA I.D. #	2000 Fiscal Year Expenditures
Balance forwarded			560,475
FEFEN INAKA ELEMENTARY SCHOOL	C0090	15.875	750
TONOAS PROJ. ADMIN. COST	C0094	15.875	1,750
TUNNUK FISHING DEV. PROJECT	C0118	15.875	417
TUNNUK(WENO) WATER PROJ.	C0138	15.875	3,725
PENIESENE FISHING PROJ.	C0142	15.875	385
WENO MUN.SOC.DEV SUPPLEMENTAL	C0148	15.875	30,000
EOR BASKETBALL/WATER	C0149	15.875	1,923
TOL ROAD UPGRADE	C0151	15.875	17,148
TUNUK FISHING DEV.	C0163	15.875	2,032
POLLAP PIGGERY PROJECT	C0173	15.875	378
UMAN SAPOTA FISHING PROJ.	C0183	15.875	3,337
UMAN MWANUKUN FISHING PROJ.	C0196	15.875	6,353
TAMATAM FISHING PROJECT	C0233	15.875	1,381
HOUK HOUSING PROJECT	C0235	15.875	6,671
TOL MUN. OFF. & POLICE COMPLEX	C0239	15.875	37,513
TOL CNT. DISP. & COMM.	C0242	15.875	600
TA AIRPORT & DOCK EXPANSION/93	C0244	15.875	35,000
UDOT ROAD & DOCK SUPPLEMENT	C0257	15.875	4,016
UDOT OFFICE COMPLEX. SUPP.	C0258	15.875	7,155
FUUN METAW REV.FUND	C0286	15.875	801
HOUK SCHOOL COOKHOUSE	C0287	15.875	660
SEFIN WENO BAKE SHOP PROJ.	C0299	15.875	152
NAMOLUK PUBLIC BUILDING RENOV.	C0301	15.875	3,491
WICHAP FISHING PROJECT	C0321	15.875	10,150
TOLENSOM ROAD	C0326	15.875	38,282
TOLENSOM RD. PROJECT SUPPLEMNT	C0327	15.875	16,500
PIHERAHR FISHING PROJECT	C0334	15.875	751
SEFIN BAKE SHOP	C0355	15.875	1,093
WENO N.N FARMING PRJECT 93(R)	C0356	15.875	7,091
EAT SEWALL PROJECT	C0366	15.875	12,979
FOUP DISP. RENOVATION	C0376	15.875	1,930
POLLE COMMUNITY WATER/6-81M	C0385	15.875	4,071
FEFEN KUKKU SCHOOL EXPANSION	C0392	15.875	1,689
C0414	C0414	15.875	1,446
CHUUK ST. MUN. LEADERSHIP CONF	C0418	15.875	1,530
ROAD PAVING SUPPLEMENT	C0442	15.875	129,000
IRAS SEWING PROJECT	C0451	15.875	1,263
CIP RELATED DAMAGE CLAIMS	C0463	15.875	30,500
NEPUKOS SEWING PROJECT	C0515	15.875	412
WENO DAMAGE CLAIM SETTLEMENT	C0517	15.875	1,300
MOCH FISHING PROJECT	C0530	15.875	864
PIHARAR HOUSING PHASE III SUPP	C0535	15.875	8,466
PISEMWAR PUB.BLDG.& WATER PROJ	C0537	15.875	4,748
UDOT WATER PROJECT SUPPLY	C0543	15.875	20,108
FOOD & MEAT	C0544	15.875	52,460
WONEI FISHING PROJECT	C0547	15.875	27,159
UDOT DISPENSARY	C0559	15.875	7,655
UDOT VILLAGE MEETING HALL	C0569	15.875	2,100
UUUUUUUUUUU	C0593	15.875	740
Subtotal			<u>1,110,400</u>

See accompanying notes to schedule of expenditures of federal awards.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Compact of Free Association Capital Projects Fund
Section 211 (A)(2), Continued
Year Ended September 30, 2000

Grantor Account Title	Org./Cost Center #	CFDA I.D. #	2000 Fiscal Year Expenditures
Balance forwarded			1,110,400
PENIA (WENO) WATER PROJECT	C0608	15.875	1,443
UMAN SANNUK WATER PROJECT	C0612	15.875	1,587
UDOT ROAD UPGRADING SUPPL.	C0655	15.875	5,418
TOL PUBLIC ROAD UPGRADE	C0658	15.875	26,700
TAMATAM SOLAR SYSTEM SUPPLE.	C0668	15.875	728
LOSAP (WENO) CIVIC CENTER	C0671	15.875	4,964
PAATA WATER PROJECT SUPPLE.	C0676	15.875	5,366
CHUUK STATE EPA/2-94-23 STATE	C0680	15.875	52,729
DEPT. OF AGRIL.FACIL.RECON.	C0686	15.875	17,900
FEFAN ROAD SUPPLEMENTAL	C0688	15.875	26,190
SEFIN WATER TANKS SUPPLY	C0704	15.875	1,812
PENIESENE (WENO) ACCESS RD.	C0707	15.875	3,858
PAATA COMMUNITY CENTER SUPPL.	C0720	15.875	3,634
NOMUIN HOUSING PROJECT	C0731	15.875	7,058
WICHAP OFFICE BLD. W/SITE PUR	C0735	15.875	879
ONEOP FISHING PROJECT	C0763	15.875	3,000
UDOT RD.UPGRADE SUPPL.	C0769	15.875	10,832
TOL PUB.BUILDING PROJECT	C0787	15.875	1,957
TAMATAM MUN. OFF. CONSTRUCT	C0817	15.875	7,195
WENO COURT /JAIL COMPLEX	C0823	15.875	15,240
TONOAS LANDSLIDE PREVENTION	C0830	15.875	2,070
FONO FISHING PROJ. COMPLEX	C0834	15.875	5,699
ST. CECILIA TOILET REPAIR	C0838	15.875	9,326
MIZPAH SCHOOL CONSTRUCTION	C0839	15.875	8,482
TOLEISOM REGIONAL FISHING PROJ	C0841	15.875	63,021
TONOAS FISHING PROJECT	C0845	15.875	4,848
FEFAN PUBLIC BUILDING	C0850	15.875	5,183
EOR (WENO) PUB. BULD. REPAIR	C0852	15.875	791
WENO WATER CATCHMENTS	C0858	15.875	1,584
FEFEN RD. MAJOR UPGRADE SUPPLE	C0859	15.875	56,105
UDOT SCHOOL CONSTRUCTION	C0885	15.875	34,135
UDOT WATER SUPPLY SYSTEM	C0886	15.875	6,083
FONO NEPONO FISHING PROJECT	C0909	15.875	390
PATTIW JHS CONSTRUCTION	C0913	15.875	8,988
FEFAN AGRICULTUR PROJECT	C0930	15.875	1,672
WONEI COMMUNITY CENTER	C0933	15.875	2,616
WENO YOUTH BEAUTIFICATION	C0935	15.875	8,158
EPINUP/WENO ADMIN. BLDG.	C0946	15.875	14,995
EPINUP/WENO ADMIN. BLDG.	C0947	15.875	4,980
FEFAN HOUSING AUTHORITY	C0981	15.875	10,000
FUUN METAW DRYDOCKING	C1004	15.875	13,015
MS. TOKU DRYDOCKING	C1006	15.875	4,118
TUNNUK-WENO WATER PROJECT	C1011	15.875	4,532
MECHITIW SCH. SITE LS. 3-95-17	C1012	15.875	20,000
POLLE COMM.CENTER/PUB.FACIL.	C1033	15.875	1,723
FEFAN DOCK REPAIR /3-95-24	C1043	15.875	7,609
NIEKEWE WOMEN SEWING ASSOC.95R	C1046	15.875	7,420
SEFIN WENO WATER/3-95-17(M)	C1056	15.875	498
SANGKUMI WENO FISHING/3-95-24R	C1058	15.875	232
Subtotal			<u>1,617,163</u>

See accompanying notes to schedule of expenditures of federal awards.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Compact of Free Association Capital Projects Fund
Section 211 (A)(2), Continued
Year Ended September 30, 2000

Grantor Account Title	Org./Cost Center #	CFDA I.D. #	2000 Fiscal Year Expenditures
Balance forwarded			1,617,163
TONOAS POWER GENERATION	C1062	15.875	10,507
CHUUK STATE WATER PROJ/4-97-18	C1071	15.875	194,755
ROAD REPAVEMENT AND PAVEMENT	C1073	15.875	299,891
TONOAS PUB.BLDNG.REP.RENOV.96R	C1074	15.875	866
HALL ISLANDS AGR/3-95-17(R)	C1075	15.875	6,274
WICHAP WENO WATER PROJ 3-95-17	C1078	15.875	890
TONOAS PUB.BLDG.REP/RENO.97R	C1090	15.875	2,823
PUKOS-NAMOLUK P.M.H/2-94-23(R)	C1091	15.875	1,686
WATER AND SANITATION 4-97-01	C1093	15.875	117,985
LEGISLATURE RENOVATION4-97-20	C1097	15.875	13,140
HS DORMS RENOVATION 4-97-10	C1099	15.875	25,396
WICHAP WENO WATER/3-95-17(M)	C1102	15.875	1,400
TONOAS WATER SYS./3-95-17(M)	C1104	15.875	2,429
TONOAS FISHING PROJ/95-97	C1113	15.875	1,041
UFO FEFAN SCHL.CONST./2-94-23	C1117	15.875	9,863
ROMALUM COMMUNITY BLDG/3-95-17	C1120	15.875	4,889
N. NAMONEAS WATER 4-97-10(R)	C1122	15.875	622
WONIP FISHING PROJ/4-97-10(R)	C1125	15.875	8,000
TONOAS ROAD IMPROV./2-49-23(M)	C1147	15.875	12,211
TONOAS 1.5% ADMIN. 2-94-23(M)	C1150	15.875	650
UMAN EL NINO WATER PROJ./95M	C1157	15.875	500
NOMWIN EL NINO WATER PROJ.	C1160	15.875	2,500
POLLE PUBLIC BUILDING CONST.	C1163	15.875	29,932
HOUK HOUSING PROJ./4-97-10(M)	C1168	15.875	3,900
SATOWAN PUB.TOILET SEPTIC/95R	C1185	15.875	22,756
NOMWIN FISH. SUPPLE/2-94-23(M)	C1188	15.875	1,000
IONG-KUMI/TOL BLDG.CONST./96R	C1196	15.875	612
AMWACHANG TOL SEAWALL/4-97-10R	C1199	15.875	263
TONOAS WATER SYS.DEV./97(R)	C1200	15.875	1,059
ONOUN EL NINO WATER/3-95-17(M)	C1216	15.875	1,641
TAMATAM SEA WATER CONVERSION/97	C1217	15.875	8,858
MURILO TYPHOON SHELTER/3-95-24	C1221	15.875	6,914
ONOU COMM.HALL CENTER/193-08/M	C1226	15.875	1,500
TONOAS PUB.BLDG.REPAIR/RENOV.	C1239	15.875	1,729
TONOAS FISHING PROJ/4-97-10M	C1249	15.875	3,942
PIIS PANEU FISHING/3-95-24(M)	C1259	15.875	217
HALLS JH SCHL. PROJ.CONTIN/96R	C1277	15.875	525
LM SOLAR LIGHT.SYS.EQUIP./96R	C1278	15.875	59,642
FANANU DISPENSARY PROJ/3-97-07	C1280	15.875	3,090
YONGKUMI SEWING PROJ.TOL/96R	C1288	15.875	2,920
LUKUNOCH LAND SURVEY SUPP./95R	C1300	15.875	5,636
L.M ELDERLY HOME IMPROVEMENT	C1306	15.875	6,591
PENIA FARMING PROJ.	C1307	15.875	1,800
SISTERS & COUSIN SEWING/96R	C1309	15.875	3,500
NAMOLUK PUB.BLDG. CONST./96R	C1322	15.875	534
EON. DEV. SANGKUMI FARMING	C1323	15.875	1,241
UMAN EL NINO WATER SUPPLE/92M	C1338	15.875	15,600
POLLAP SEA WATER CONVERSION/97M	C1340	15.875	500
POLLAP SCHL.REPAIR & WATER/97R	C1351	15.875	1,000
Subtotal			<u>2,522,383</u>

See accompanying notes to schedule of expenditures of federal awards.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Compact of Free Association Capital Projects Fund
Section 211 (A)(2), Continued
Year Ended September 30, 2000

Grantor Account Title	Org./Cost Center #	CFDA I.D. #	2000 Fiscal Year Expenditures
Balance forwarded			2,522,383
RUO FISHING PROJ./2-94-23(M)	C1358	15.875	15,717
TOLEISOM ICHKUMI C.CENTER/96R	C1361	15.875	670
PIIS PANEU FISHING PROJ/95M	C1380	15.875	1,220
SANGKUMI WENO GARMENT MANUF/96	C1388	15.875	556
S.NAMONEAS JHS LIBRARY/97R	C1410	15.875	3,080
NEAUO FISHING PROJ./4-97-10M	C1413	15.875	2,500
TONOAS (NEWEN/WINECH)DOCK REP.	C1416	15.875	7,384
UMAN SANNUK FISHING/3-95-17M	C1418	15.875	204
RUO EL NINO WATER SYSTEM/93M	C1421	15.875	25,111
ROMANUM FISHING PROJ/96R	C1425	15.875	12,000
POLLAP LAND REGISTRATION/96R	C1434	15.875	2,000
HALLS EMERGENCY TRANS./96R	C1442	15.875	28,973
FEFAN FISHING PROJ/191-07M	C1443	15.875	1,607
NECHAP TONOAS DISPEN./2-94-23R	C1448	15.875	2,209
WENO MULTI PURPOSE BLDG/95M	C1450	15.875	1,925
RUO/FANANU/NOMWIN COURT BLD/96	C1461	15.875	2,880
MOCH TYPHOON SHELTER/4-97-10R	C1464	15.875	2,855
KUTTU TYPHOON&COMMUNITY CENTER	C1465	15.875	1,211
UMAN EL NINO WATER UPGRDE/91M	C1489	15.875	20,800
NIKUMI TOLENSOM C.C.REPAIR/96R	C1503	15.875	7,500
MACHEWEICHUN FISH.PROJ/98(R)	C1507	15.875	2,661
NEIRENOM POLLE SEWING/95(M)	C1510	15.875	9,980
CHUUK EL NINO W. TOILET CONST.	C1518	15.875	(89)
FANAPANGES FISH. PROJ. 3-95-17	C1523	15.875	280
LEPULA MURILO FISHING/4-97-10R	C1531	15.875	2,400
NAMOLUK COMMUNITY HALL/97R	C1533	15.875	4,589
SIS FARMING PROJ/4-97-10M	C1534	15.875	2,269
RENOV.PAATA MUN.BLDG./4-97-10M	C1539	15.875	8,240
SHALOAN TONOAS JH SCHL.EXPAN.	C1540	15.875	500
CHUUK INTERNATIONAL AIRPORT/98S	C1544	15.875	46,750
CHUUK DRY-DOCKING FUNDS/98S	C1545	15.875	(413,532)
PPW HOUSING DEV.PROJ./4-97-10R	C1548	15.875	(100)
UMAN WATER WELL SOLAR/4-98-29R	C1551	15.875	11,332
MACHEWEICHUN FISHING PROJ/98R	C1555	15.875	6,933
TOL FOUPO C.CENTERS/98R	C1558	15.875	6,506
NEMUNONG ONONGOCH C.CENTER/98R	C1561	15.875	7,829
EOT PUBLIC BLDG.IMPRVMNT/97R	C1566	15.875	868
RUO TYPHOON SHELTER/3-95-17R	C1573	15.875	8,796
UMAN SAPOTA FISH.PROJ./95M	C1578	15.875	15,064
SOPUTU UMAN DOCK IMPROVE/95M	C1579	15.875	825
FAICHUK SEA-WALL PROJ./4-98-29	C1588	15.875	1,505
UNANU HOUSING SUPPLE./4-97-10M	C1597	15.875	1,701
UNANU HOUSING SUPPLE. PROJECT	C1601	15.875	183
PAATA GYM. CONST./4-98-32M	C1608	15.875	853
PAATA SEAWALL PROJ./4-98-32M	C1609	15.875	4,940
FAICHUK PENIETA COMM.CENTER/97	C1612	15.875	700
PIHERARH FISHING SUPPLE/98M	C1617	15.875	10,000
FEFAN SEA WALL PROJ/4-98-29R	C1622	15.875	1,000
POLLE NEIRENOM FARMING/94M	C1629	15.875	989
HOUK OFFICE BLDG.SUPPLE./98M	C1630	15.875	3,463
Subtotal			<u>2,410,220</u>

See accompanying notes to schedule of expenditures of federal awards.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Compact of Free Association Capital Projects Fund
Section 211 (A)(2), Continued
Year Ended September 30, 2000

Grantor Account Title	Org./Cost Center #	CFDA I.D. #	2000 Fiscal Year Expenditures
Balance forwarded			2,410,220
SIIS CULTURAL CENTER/3-95-17M	C1638	15.875	14,167
SIIS CULTURAL CENTER/4-97-10M	C1639	15.875	9,996
SIIS PUBLIC ROAD REPAIR/96M	C1641	15.875	1,199
SIIS FISHING PROJECT/2-94-23M	C1644	15.875	1,030
SIIS FISHING PROJECT/2-94-23M	C1644	15.875	2,858
FANAPANGES PIGGERY/2-94-23M	C1645	15.875	592
U.MORTLOCKS PUB.FACIL.RENOV.98	C1646	15.875	2,859
PIIS PANEU MUN.SOCIAL PROJ/98M	C1649	15.875	9,348
PIIS PANEU SEWING PROJ/98M	C1650	15.875	2,000
SAINOAM TONOAS SCHL.SUPPLIES	C1651	15.875	663
UMAN DISASTER RELIEF WATER/88M	C1653	15.875	4,200
UMAN OXYGEN BOTTLING SUPPLE/98	C1654	15.875	7,200
TONOWAS TOURISM SITE INFRA./98	C1662	15.875	1,000
UMAN SANNUK FISHING SUPPLE/98M	C1668	15.875	412
UMAN NEPON FISHING SUPPLE/98M	C1670	15.875	413
UMAN SAPOTA FISHING/4-97-10M	C1674	15.875	9,892
UMAN EPINOOM KUMI PUB.BLDG/98M	C1678	15.875	9,381
WENO CIP RELATED OBLIGATION/97	C1683	15.875	15,000
WICHAP WENO OFFICE BLDG SUPPLE	C1693	15.875	3,000
MURILO SOLAR SYSTEM/4-97-10M	C1695	15.875	4,288
WENO M97 FARMING PROJ/4-97-10R	C1696	15.875	900
UMAN FISHING PROJ/4-97-10R	C1697	15.875	3,731
MORTLOCKS WATER PROJ./4-98-29R	C1698	15.875	14,320
MOCH PASSENGERS BOAT/198-08M	C1700	15.875	2,159
MURILO HOUSING PROJ./3-95-17M	C1703	15.875	33,746
NAMOLUK PASSENGER OR CARGO VES	C1704	15.875	340,000
GOV'T.LEASE OPTION FUND/4-99-1	C1710	15.875	16,380
GOV'T. LAND PURCHASE/4-99-01	C1711	15.875	500
NEPUKOS WATER DEV.M96-1/96R	C1716	15.875	201
SEFIN ROAD IMPROVE.M96-4/96R	C1718	15.875	5,253
PENIA WENO ROAD FENCING/96M	C1723	15.875	3,245
WENO SAIPAN/GUAM/HON.ASSOC/96M	C1724	15.875	30,000
SANNUK UMAN FARMING/4-97-10M	C1731	15.875	3,307
MANAIO NEPPI,POLLE COM.CENTER	C1732	15.875	700
WENO 1.5% ADMIN.COST/2-94-23M	C1735	15.875	370
MIIS PISEMWAR MAJOR REPAIR/98M	C1736	15.875	13,071
UMAN MUN.SUB-OFFICE LEASE SUPP	C1740	15.875	25,000
UMAN EL NINO WATER UPGRDE/93M	C1743	15.875	85,461
UMAN EL NINO WATER UPGRDE/94M	C1744	15.875	70,888
WENO MARINE ENGINEERING TRNG.	C1752	15.875	3,105
TOLENSOM MAJOR SOC.DEV.PROJ/96	C1757	15.875	69,622
TOLENSOM FISHING PROJ/4-97-10M	C1763	15.875	3,197
FEFAN FISHING PROJ/2-93-05 (M)	C1771	15.875	22,441
S.N. JR.SCHOOL FEFAN/2-94-23R	C1773	15.875	218,374
FAISEWAL FEFAN FARMING/97R	C1781	15.875	3,906
MORTLOCKS JHS. RENOV./4-99-01S	C1784	15.875	17,141
NEMONGU FANAPANGES PUB.BLDG.95	C1786	15.875	1,292
ONEISOM WOMEN SEWING/4-99-01M	C1788	15.875	9,995
ONEISOM HOUSING SUPP.REV./99M	C1791	15.875	1,854
WENO LAND LEASE PURCHASE/97M	C1794	15.875	15,000
Subtotal			<u>3,524,877</u>

See accompanying notes to schedule of expenditures of federal awards.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Compact of Free Association Capital Projects Fund
Section 211 (A)(2), Continued
Year Ended September 30, 2000

Grantor Account Title	Org./Cost Center #	CFDA I.D. #	2000 Fiscal Year Expenditures
Balance forwarded			3,524,877
WEIPAT JHS RENOVATION/4-99-01	C1798	15.875	7,179
WICHAP EL NINO WATER CATCH/97M	C1799	15.875	14,869
WICHAP EL NINO WATER CATCH/97M	C1799	15.875	7,945
WICHAP EL NINO WATER CATCHMENT	C1800	15.875	9,270
FONOTON FISHING SUPPL/98M	C1813	15.875	2,078
FONOTON FISHING PROJ/97M	C1814	15.875	21,600
TUNUK FISHING PROJ/4-98-32M	C1816	15.875	9,994
NEAUO WATER PROJECT	C1822	15.875	8,240
PAREM FISHING PROJ/2-94-23R	C1831	15.875	6,013
TONOWAS FISHING PROJ/4-97-10M	C1832	15.875	5,256
PENIESENE WENO WATER TANKS/97M	C1833	15.875	272
FEFAN ROAD UPGRADE/4-98-32M	C1838	15.875	23,848
UNUNNO FEFAN DOCK REPAIR/98	C1839	15.875	11,808
FEFAN PUB. FACIL. REPAIR/98M	C1840	15.875	25,497
TOL DISPENSARY PASTUSE COMPEN.	C1841	15.875	2,500
FEFAN SANG FISHING PROJ/96M	C1843	15.875	1,110
FEFAN NEKOTIW FISHING/3-95-17M	C1844	15.875	9,212
CHUUK RECREATION OFFICE REPAIR	C1852	15.875	4,680
UMAN CAPITAL EQUIP. ACQUL/99M	C1854	15.875	133,742
PAATA MULTI PURPOSE SPORT/99M	C1859	15.875	3,147
PAATA FISHING PROJ./4-99-01M	C1862	15.875	30,336
PAATA FARMING PROJECT	C1863	15.875	2,000
TOLENSOM FISHING PROJ./4-97-10	C1869	15.875	16,022
TOLENSOM FISHING PROJ/3-95-17M	C1870	15.875	37,866
TOLENSOM POOCHU REV.FUND/96M	C1871	15.875	20,000
PAATA MUN.MAJOR FACIL.REPAIR	C1874	15.875	9,703
NEPIONG UMAN METNG.H./2-93-05M	C1878	15.875	1,199
FEFAN FISHING PROJ./3-95-17M	C1883	15.875	1,583
FEFAN HANDICRAFT PROJ/4-98-32M	C1884	15.875	2,410
NORTHWEST EQUIP. PURCHASE/98R	C1885	15.875	6,819
OPUN PAREM SOC.DEV.PRO./96M	C1887	15.875	1,009
TA COMMUNITYCENTER/4-97-10R	C1889	15.875	9,428
CHUUK AIRPORT REPAIR/P.MWAR/98	C1894	15.875	354
CHUUK AIRPORT REPAIR/ONOU/99M	C1896	15.875	11,778
CHUUK AIRPORT REPAIR/HOUK/99M	C1897	15.875	27,000
CHUUK AIRPORT REPAIR/LOSAP/99M	C1899	15.875	62,936
CHUUK AIRPORT REPAIR/UNANU/99M	C1900	15.875	22,687
CHUUK AIRPORT REPAIR/LEKINIOCH	C1901	15.875	5,420
CHUUK AIRPORT REPAIR/LEKINIOCH	C1902	15.875	35,080
CHUUK AIRPORT REPAIR/LEKINIOCH	C1903	15.875	47,448
CHUUK AIRPORT REPAIR/LEKINIOCH	C1904	15.875	48,501
CHUUK AIRPORT REPAIR/PIHERARH	C1905	15.875	12,906
CHUUK AIRPORT REPAIR/KUTTU/96M	C1907	15.875	153,890
CHUUK AIRPORT REPAIR/TONOAS/99	C1908	15.875	150,000
MOCH MULTI PURPOSE COMPLEX/97M	C1913	15.875	70,817
TONOAS ROAD UPGRADE/4-99-01 S	C1914	15.875	122,244
UNANU HOUSING REVOL.FUND/99M	C1915	15.875	11,748
TONOAS CIP RELATED DAMAGES/96M	C1916	15.875	27,429
TIUN PAREM COMMUNITY CENTER	C1917	15.875	4,094
Subtotal			<u>4,785,844</u>

See accompanying notes to schedule of expenditures of federal awards.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Compact of Free Association Capital Projects Fund
Section 211 (A)(2), Continued
Year Ended September 30, 2000

Grantor Account Title	Org./Cost Center #	CFDA I.D. #	2000 Fiscal Year Expenditures
Balance forwarded			4,785,844
WENO SCHL.FACIL.SUBSIDY/98R	C1919	15.875	11,620
FANAPANGES ICE MAKER/4-98-32M	C1922	15.875	3,253
SATOWAN COMM.CENTERS(10)/89M	C1923	15.875	14,553
SATOWAN SCHL.PROJ.SUPPLE/89M	C1924	15.875	15,968
KUTTU POWER GEN./DIST./4-97-10	C1927	15.875	6,380
KUTTU POWER GENER./DIST./98M	C1929	15.875	325
KUTTU POWER/ICE PLANT BLD/97M	C1930	15.875	8,812
EOT SOLAR LIGHTING SYSTEM/99M	C1936	15.875	25,000
PIIS-EMWAR LAND LEASE/2-94-23M	C1942	15.875	10,675
ENIN/TONOAS BSKTBALL COURT/96R	C1947	15.875	8,952
SIIS MUN.LEADERSHIP CONF./99M	C1950	15.875	6,305
FAICHUK UDOT ROAD CONST./97R	C1952	15.875	10,000
UDOT ROAD CONSTRUCTION/4-99-01	C1953	15.875	97,305
TONOAS FARMING PROJ/4-97-10R	C1954	15.875	9,043
NEPUNU MEETING HALL	C1955	15.875	160
WONEI & POLLE COMM.CENTER/98R	C1956	15.875	6,655
FANAPANGES LAND PURCHASE/95M	C1959	15.875	40,000
CHUUK AIRPORT REPAIR(NAMA)/91M	C1961	15.875	1,654
CHUUK AIRPORT REPAIR/LEKINIOCH	C1962	15.875	22,265
CHUUK AIRPORT REPAIR/P. PANEU	C1966	15.875	10,000
CHUUK AIRPORT REPAIR(P.PANEU)	C1967	15.875	2,378
CHUUK AIRPORT REPAIR/SATOWAN	C1969	15.875	15,112
CHUUK AIRPORT REPAIR(FONOTON)	C1970	15.875	139
CHUUK AIRPORT REPAIR/FONOTON	C1971	15.875	91
CHUUK AIRPORT REPAIR FONOTON	C1972	15.875	1,510
CHUUK AIRPORT REPAIR(FONOTON)	C1973	15.875	11,558
CHUUK AIRPORT REPAIR/FONOTON	C1975	15.875	47,203
ONOUN FISHING PROJ./4-97-10M	C1976	15.875	36,896
WEITTO FISHING PROJ/3-95-24R	C1977	15.875	5,500
WENO LAND LEASE PURCH.EPINUP	C1979	15.875	35,000
PIIS PANEWU FISHING PROJ/95R	C1980	15.875	2,009
CHUUK AIRPORT REPAIR(ONEISOM)	C1983	15.875	13,812
CHUUK AIRPORT REPAIR(ONEISOM)	C1984	15.875	660
MORTLOCKS FISHING PROJ./96R	C1985	15.875	49,724
MORTLOCKS PUB.FACIL.IMPROV/96R	C1986	15.875	35,952
MORTLOCKS SEWING PROJ/3-95-17R	C1987	15.875	19,999
PENIA PUBLIC BUILDING	C1988	15.875	9,994
POLLE RENTAL & SERV.CONTRACT	C1989	15.875	25,000
LOSAP HANDICRAFT TRAINING/99M	C1990	15.875	39,597
UMAN SOPOTIW AMOSON FISHING/90	C1991	15.875	9,986
RUO 1.5% ADMIN.COSTS/4-97-10M	C1992	15.875	756
CHUUK AIRPORT REPAIR(ONEISOM)	C1996	15.875	14,177
MORTLOCK HUMAN RESOURCES DEV.	C1998	15.875	31,100
WEITTO FISHING PROJ. 4-98-38R	C1999	15.875	40,110
CHUUK INTER.AIRPORT REPAIR/96M	C2000	15.875	2,125
MAGUR FISHING PROJ./4-98-32M	C2001	15.875	2,995
MAGUR HOUSING PROJ./4-98-32M	C2002	15.875	29,413
NORTHWEST NAVIGATION AIDS/99R	C2003	15.875	10,000
NECHENGEK COMM.HALL/FANAPANGES	C2004	15.875	3,499
FANAPANGES FISHING PROJ/99M	C2005	15.875	24,092
Subtotal			<u>5,615,156</u>

See accompanying notes to schedule of expenditures of federal awards.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Compact of Free Association Capital Projects Fund
Section 211 (A)(2), Continued
Year Ended September 30, 2000

Grantor Account Title	Org./Cost Center #	CFDA I.D. #	2000 Fiscal Year Expenditures
Balance forwarded			5,615,156
FANAPANGES MARKETING PROJ/99M	C2006	15.875	13,502
WEITTO FISHING PROJ/4-97-10R	C2007	15.875	515
LIEN PUKIAL MAJOR REPAIR/98M	C2008	15.875	36,462
LIEN ARANI DRY DOCKING/99M	C2009	15.875	25,000
CHUUK AIRPORT REP/NAMOLUK/6-12	C2010	15.875	25,859
CHUUK AIRPORT REP/NAMOLUK/6-24	C2011	15.875	58,976
AIRPORT REPAIR/PAATA/4-97-10M	C2018	15.875	2,500
AIRPORT REPAIR/PAATA/4-99-01M	C2019	15.875	21,322
AIRPORT REPAIR (POLLE)/191-07M	C2020	15.875	3,250
AIRPORT REPAIR(POLLE)/191-30M	C2021	15.875	1,779
AIRPORT REPAIR(POLLE)/294-23M	C2022	15.875	3,080
AIRPORT REPAIR (POLLE)4-99-01M	C2023	15.875	107,864
AIRPORT REPAIR (TA)/2-94-23M	C2025	15.875	58,820
AIRPORT REPAIR(TA)/3-95-17M	C2026	15.875	28,914
AIRPORT REPAIR(MOCH)/4-99-01M	C2027	15.875	73,688
AIRPORT REPAIR/FANAPANGES/92M	C2029	15.875	29,997
CHUUK AIRPORT REP/FANAPANGES	C2030	15.875	18,192
AIRPORT REPAIR(FANAPANGES)94M	C2031	15.875	6,650
AIRPORT REPAIR (EOT)/4-99-01M	C2036	15.875	46,400
AIRPORT REPAIR (EOT)/4-98-32M	C2037	15.875	20,195
AIRPORT REPAIR(EOT)/2-93-05M	C2038	15.875	26,799
AIRPORT REPAIR(FEFAN)4-98-32M	C2039	15.875	40,150
CHUUK AIRPORT/FEFAN/499-01M	C2040	15.875	79,432
AIRPORT REPAIR(WENO)4-99-01M	C2048	15.875	501,506
NUKUNO CREDIT UNION/4-98-32M	C2056	15.875	12,000
SOPUTIW PAREM WATER TANK/91M	C2057	15.875	2,663
NEFO/NUKAN UMAN MTNG.HALLS/91M	C2059	15.875	17,534
NEMA FISHING PROJ./4-98-32M	C2060	15.875	30,137
CHUUK STATE GOV'T.LEASE PURCH.	C2061	15.875	499,944
MOCH MULTI PURPOSE BLDG/96M	C2062	15.875	88,948
CHUUK AIRPORT REPAIR/5-99-15S	C2063	15.875	633,617
CHUUK AIRPORT REPAIR/ONEISOM	C2064	15.875	1,895
CHUUK AIRPORT REPAIR/TONOAS/90	C2065	15.875	174,223
CHUUK AIRPORT REPAIR/LEKINIOCH	C2067	15.875	47,444
CHUUK AIRPORT REPAIR/LEKINIOCH	C2068	15.875	22,265
CHUUK AIRPORT REPAIR(ETTAL)95M	C2069	15.875	65,548
CHUUK AIRPRT.RPAIR(ETTAL)96M	C2070	15.875	45,233
CHUUK AIRPORT REPAIR/ONEOP/97M	C2072	15.875	20,102
LEKINIOCH MTNG.HALL/3-95-17M	C2073	15.875	11,037
N.N. WATER IMPROV./5-99-15R	C2076	15.875	28,387
SATOWAN PUB.FACIL.REPAIR/98M	C2077	15.875	68,582
UDOT MAJOR DOCKS IMPROV/98M	C2078	15.875	30,000
TONOAS NECHAP,SAAFEI FISHING	C2079	15.875	86,660
CHUUK AIRPORT REPAIR/NAMA 6-56	C2080	15.875	51,505
PAREM ROAD MAINTENANCE/4-97-10	C2081	15.875	4,499
PAREM SEAWALL PROJ/4-97-10M	C2082	15.875	5,702
PAREM DISP. RENOV./191-07 M	C2083	15.875	4,497
PAREM COMMUNITY BLDG./2-93-05M	C2084	15.875	11,379
PAREM FEIOCH SEAWALL/2-93-05	C2085	15.875	15,014
Subtotal			<u>8,824,823</u>

See accompanying notes to schedule of expenditures of federal awards.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Compact of Free Association Capital Projects Fund
Section 211 (A)(2), Continued
Year Ended September 30, 2000

Grantor Account Title	Org./Cost Center #	CFDA I.D. #	2000 Fiscal Year Expenditures
Balance forwarded			8,824,823
CHUUK AIRPORT REPAIR(NAMA)M	C2086	15.875	24,531
FANAPWECH UMAN SEAWALL/2YK(BN)	C2087	15.875	5,000
N.N.FISHING PROJ./5-99-15(DW)R	C2088	15.875	37,617
U.MORTLOCKS SOLAR SYSTEM/2YK	C2089	15.875	20,230
UDOT ROAD UPGRD.SUPPL/2-94-23M	C2090	15.875	5,000
FAICHUK REG.FISHING PRO/TA/2YK	C2091	15.875	12,230
FAICHUK REG.FISHING BOAT REPAI	C2092	15.875	15,000
MID.MORTLOCKS FISHING/498-29KL	C2093	15.875	29,658
TOLENSOM FISHING PROJ.(WW)R	C2094	15.875	7,092
UMAN REGIONAL FISHING PRO/YF	C2095	15.875	32,030
FEFAN SEAWALL PROJ/(CHR)R	C2096	15.875	4,875
FISHING PROJ. TOLENSOM/(BR)R	C2097	15.875	7,231
FEFAN SEWING PROJ/5-99-15R(PK)	C2098	15.875	1,967
MACHEWEICHUN MARKET/5-99-15 PK	C2099	15.875	9,961
MACHEWEICHUN FARMING/5-99-15PK	C2100	15.875	10,000
MACHEW FAMILY FISHING/599-15PK	C2101	15.875	5,230
PPO FISHING PROJECT 5-99-15KN	C2103	15.875	20,511
TONOAS &ETTEN FISH. P/4-98-29R	C2106	15.875	1,501
ETTAL &KUTTU WATER TANKS/96R	C2107	15.875	74,810
MACHEW SMALL ENGIN.REP.TRNING	C2108	15.875	5,000
WENO OUT-OF-COURT SETTLE.PYMNT.	C2109	15.875	20,000
WENO OUT-OF-COURT STTLE.PYMNT.	C2110	15.875	75,000
WENO OUT-OF-COURT SETTLE.PYMNT	C2111	15.875	14,176
PATTIW JR.HIGH SCHL/4-98-29R	C2112	15.875	34,290
NAMA FISHING PROJ/4-99-01M	C2113	15.875	12,889
L.M.TOILET FACILITY/5-99-15/SH	C2114	15.875	16,293
LOSAP LAND LEASE PURCH/499-01M	C2115	15.875	8,000
UMAN LAND LEASE PURCHASE (R)	C2117	15.875	27,230
SAPETA AKISAN FISHING PROJ(M)	C2118	15.875	23,245
WENO FARMING PROJECT/M	C2119	15.875	25,000
WENO SEWING PROJ./4-98-32 M	C2120	15.875	14,941
SATAWAN CULTURAL RENO (SH)	C2121	15.875	15,231
PENIAS UDOT BRIDGE REPAIR (OS)	C2122	15.875	3,782
EOT DOCK REPAIR (OS)	C2123	15.875	9,995
TONOAS SEWING PROJ. (JS)	C2124	15.875	6,000
KUTTU MULTI-PURPOSE REPAIR(PW)	C2125	15.875	32,685
ROMOLUM SEWING	C2126	15.875	21,622
NOMUNWEITO FISH.PROJ. (MR)R	C2128	15.875	3,206
NOMUNWEITO FISH.PROJ. (MR)R	C2128	15.875	31,548
NAMOLUK WATER SYSTEM/KL/98R	C2129	15.875	25,729
SN/SEWING PROJ.5-99-15(WM)R	C2130	15.875	4,996
SN. FARMING PROJ.	C2131	15.875	5,020
SN/FISHING PROJ./5-99-15(WM)R	C2132	15.875	4,994
MORTLOCKS FISHING PROJ/(ICH)R	C2133	15.875	13,900
MORTLOCKS SEWING PROJ/(ICH)R	C2134	15.875	12,930
NOMUSOFO MTNG. HALLS/5-99-15R	C2135	15.875	10,990
PPO REGIONAL FISHING (KN)R	C2136	15.875	5,459
PPO WATER PROJ./5-99-15 (KN)R	C2137	15.875	5,211
FANIPETIW PAREM COMM. CTR./M	C2139	15.875	12,122
Subtotal			<u>9,650,781</u>

See accompanying notes to schedule of expenditures of federal awards.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Compact of Free Association Capital Projects Fund
Section 211 (A)(2), Continued
Year Ended September 30, 2000

Grantor Account Title	Org./Cost Center #	CFDA I.D. #	2000 Fiscal Year Expenditures
Balance forwarded			9,650,781
SN/PUB.FACIL. RENOV.(WM)R	C2140	15.875	9,484
SN/WATER DEV. PROJ. (WM) R	C2141	15.875	8,770
U/MORT.FISHING PROJ/(AS)R	C2142	15.875	6,229
U/MORTLOCKS SEWING/(AS)R	C2143	15.875	7,877
FANANU ICE MAKER SITE LEASE CO	C2144	15.875	42,458
FANANU ICE MAKER SITE LEASE CO	C2145	15.875	8,890
SATOWAN SUPER DISP. COMMUN. SY	C2146	15.875	3,606
SATOWAN LEASE PURCHSE	C2147	15.875	18,000
N.N/SOCIAL PROJECT (MM)R	C2149	15.875	14,688
FOUPO/TOL COMM. HALL(TA)R	C2150	15.875	3,353
TOLENSOM FISHING PJECET/(BW)R	C2151	15.875	50,000
TOLENSOM FISH. PROJ. (KB)R	C2152	15.875	7,230
MACHEW PUB. FACIL./FEFAN(CR)R	C2153	15.875	16,758
MACHEW PUB. FACIL. IMP./PAREM	C21543	15.875	4,197
MACHEW PUB.FACIL.IMP./SIIS	C2155	15.875	7,355
MS MICRO DAWN DRYDOCKING	C2157	15.875	566,896
CHUUK WESTPAC CAPITALIZATION	C2158	15.875	135,375
PAATA GYMNASIUM SUPPL/599-15M	C2159	15.875	24,163
ONEI OUTRIGHT LAND PURCH./Y2KM	C2160	15.875	20,000
ONEISOM FISHING EQUIP/599-15M	C2161	15.875	18,275
WENO NEAUO SEWING/599-15M	C2163	15.875	4,000
TONOAS HOUSING REVOL/599-15/R	C2164	15.875	6,000
PPO SEWING PROJECT/5-99-15/OB	C2165	15.875	9,850
NAMUSOFO FISHING PROJ/599-15R	C2166	15.875	16,470
MORTLOCKS FISHING PROJ/599-15R	C2167	15.875	12,160
KP WATER SYS.MORTLOCKS/599-15	C2168	15.875	19,905
FAICHUK REGIONAL HOUSING/00/SP	C2169	15.875	7,281
LOSAP DISPEN.SOALR/5-99-15AK	C2170	15.875	4,120
PISEMWAR DISPEN SOLAR/599-15R	C2171	15.875	4,120
NAMA DISPENSARY SOLAR/599-15AK	C2172	15.875	4,120
NEAUO WATER PROJ./5-99-15M	C2173	15.875	2,910
SEFIN SEWING PROJ./5-99-15M	C2174	15.875	6,998
PULOWAT SUPER DISPENSARY/96R	C2175	15.875	49,901
WENO PENIESENE VIP TOILET/00M	C2176	15.875	9,888
NAMA FISHING PROJ/4-98-32M	C2177	15.875	32,389
ELIN,KUCHUA,&NECHAP FISHING/98	C2179	15.875	15,955
NEFONU FISHING PROJECT	C2180	15.875	4,466
NEAUO FISHING PROJ/2-94-23M	C2181	15.875	5,001
LEKINIOCH LEASE PURCHASE/97M	C2184	15.875	30,000
ROMANUM FISHING PROJ/4-97-10M	C2186	15.875	45,176
SATOWAN NUKANAP SOLAR LIGHT/97	C2188	15.875	8,000
TOLENSOM FISHING PROJ./6-81M	C2189	15.875	1,205
NORTHERN NAMONEAS FISHING/00AC	C2191	15.875	19,879
NN PUB.FACIL.REPAIR/599-15R/MM	C2193	15.875	999
NOMUSOFO SEWING/5-99-15R/KK	C2194	15.875	10,000
NOMUSOFO FISHING/5-99-15R/KK	C2195	15.875	10,230
TONOAS CULTURAL CENTER REPAIR	C2196	15.875	3,898
TONOAS HOUSING REVOL/4-98-29R	C2198	15.875	7,579
MACHEWEICHUN FISHING/599-15R	C2200	15.875	9,991
Subtotal			<u>10,986,876</u>

See accompanying notes to schedule of expenditures of federal awards.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Compact of Free Association Capital Projects Fund
Section 211 (A)(2), Continued
Year Ended September 30, 2000

Grantor Account Title	Org./Cost Center #	CFDA I.D. #	2000 Fiscal Year Expenditures
Balance forwarded			10,986,876
ONOU COMMUNITY CENTER/599-15M	C2203	15.875	6,391
LOSAP DOCK TRANSP.&MOBILIZ/00M	C2204	15.875	7,937
MOCH OFFICE COMPLEX SUPPLE/00M	C2206	15.875	30,000
ONEISOMW SEA WALL/5-99-15M	C2207	15.875	15,775
ONEISOM WINIKEP COMM.CENTER/00	C2208	15.875	2,500
ONEISOM SUPER DISPEN./599-15M	C2210	15.875	3,497
ONEISOM SCHL.FACIL.RENOV/00M	C2212	15.875	7,500
TAMATAM MUNI. OFFICE/5-99-15M	C2213	15.875	28,684
SOC.PROJ.WENO PENIA C-HALL/00	C2215	15.875	6,997
WENO EQPINUP COMM.HALL/599-15M	C2216	15.875	7,069
WENO PHYSICAL SUPPORT ACQUI/00	C2217	15.875	49,615
ONOU ICE MACHINE ACQUI/599-15M	C2218	15.875	9,272
WENO OFFICE COMPLX.REPAIR/00M	C2219	15.875	15,508
P/PANEWU FISHING/5-99-15M	C2220	15.875	9,197
ICHKUMI WENO FISHING/5-99-15M	C2221	15.875	7,000
MECHITIW WENO FARMING PROJ/00M	C2222	15.875	21,309
WICHAP SEWING PROJ/5-99-15M	C2224	15.875	3,605
P/PANEWU COMM.CENTER/5-99-15M	C2226	15.875	7,507
WINIPIS WENO WATER TANKS/00/M	C2227	15.875	6,922
WENO NEMWAN WATER DEV/599-15M	C2228	15.875	6,999
WICHAP CHENETEPUT WATER/00/M	C2229	15.875	6,984
PAATA WATER CATCHMENT/599-15M	C2230	15.875	49,837
FONO SOPOTA FISHING/5-99-15M	C2231	15.875	6,766
FONO SOPOTIW FISHING/5-99-15M	C2232	15.875	10,118
NEPUKOS FISHING PROJ/5-99-15M	C2233	15.875	7,000
LOSAP FIBER GLASS BOAT REPAIR	C2235	15.875	25,750
WENO NIKUMY FISHING/5-99-15M	C2236	15.875	6,891
FEFAN SAPORE FARMING/599-15M	C2237	15.875	55,289
WICHAP WENO FISHING PROJ/00/M	C2238	15.875	16,710
ONEISOM ADMIN. COST/599-15M	C2239	15.875	1,268
WENO NIKUMI PUB.MTNG.HALL/00/R	C2240	15.875	6,445
WENO SANGKU MTNG.HALL REPAIR/R	C2241	15.875	6,445
WENO IONGKUMI MTNG.HALL REPAIR	C2242	15.875	6,444
WENO ICHKUMI PUB.MTNG.HALL REP	C2243	15.875	6,044
WENO HOUSING REV.FUNDS/5-99-15	C2244	15.875	120,000
CHUUK STATE LAND LEASE SUPPLE.	C2245	15.875	50,000
ONEOP SCHOOL SITE LEASE/98/M	C2248	15.875	7,500
ONEOP DOCK REPAIR PROJ/498-32M	C2249	15.875	15,000
ONEOP ICE PLANT RENOV./98/M	C2250	15.875	5,000
ONEOP OFFICE SITE LEASE/98M	C2251	15.875	7,500
UMAN DAMAGE CLAIM & OTHER REL.	C2252	15.875	53,500
FEFAN FARMING PROJ/5-99-15M	C2253	15.875	31,735
MURILO TYPHOON SHELTER/96R/RM	C2254	15.875	7,791
ONARI/UNANU/DESILINATION PLANT	C2255	15.875	24,998
WENO NEAUO WATER PROJ/5-99-15M	C2256	15.875	4,000
FAICHUK COMMUNITY BLDG/599-15R	C2258	15.875	9,895
FEFAN SAPETA FARMING/5-99-15M	C2259	15.875	33,279
TOL LAND LEASE PURCHASE/6-12M	C2260	15.875	2,000
FEFAN SAPETA FISHING/5-99-15M	C2262	15.875	34,629
Subtotal			<u>11,858,978</u>

See accompanying notes to schedule of expenditures of federal awards.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Compact of Free Association Capital Projects Fund
Section 211 (A)(2), Continued
Year Ended September 30, 2000

Grantor Account Title	Org./Cost Center #	CFDA I.D. #	2000 Fiscal Year Expenditures
Balance forwarded			11,858,978
UDOT RADIO/PHONE SYS.IMPROV/00	C2264	15.875	25,412
UDOT S.WALL/EROSION CONTROL/00	C2265	15.875	36,930
UDOT MONOUE SCHL. FENCING/00M	C2266	15.875	3,250
TUNUK WATER DEV PROJ./5-99-15M	C2267	15.875	7,000
WENO NEAUO FISHING/5-99-15M	C2268	15.875	3,000
FEFAN PUB.FACIL.REPAIR/599-15R	C2270	15.875	10,232
NN.PUB.FACIL.RENOV/599-15R/TK	C2271	15.875	22,785
PENIA WENO FISHING PROJ/599-15	C2272	15.875	5,001
PIHERARH FARMING PROJ/599-15M	C2274	15.875	10,000
PIHERARH FISHING PROJ/599-15M	C2275	15.875	5,000
FUUN METAW SPARE PARTS/599-15M	C2276	15.875	2,685
TONOAS FISHING PROJ/599-15/R	C2277	15.875	21,231
INNUK UMAN FISHING/5-99-15M	C2280	15.875	14,959
UMAN EPINA FISHING MARKET/94M	C2282	15.875	17,087
WENO FISHING PROJ/4-98-32M	C2283	15.875	27,720
TOLENSOM FISHING PROJ/4-98-32M	C2284	15.875	30,384
FOUP TOL LEASE PURCHASE/498-32	C2285	15.875	40,000
TUNNUK FISHING PROJ/5-99-15M	C2286	15.875	6,953
WENO NEPUKOS FISHING/5-99-15M	C2289	15.875	7,000
WENO EOR VILL. WATER/599-15M	C2293	15.875	14,000
FEFAN UFO FARMING/5-99-15M	C2295	15.875	16,220
FEFAN LAND LEASE PURCH/599-15M	C2298	15.875	6,000
PIIS-EMWAR SCHOOL SOLAR/599-12	C2300	15.875	5,998
LOSAP SCHOOL SOLAR/5-99-12R	C2301	15.875	6,997
NAMA SCHOOL SOLAR/5-99-12R	C2302	15.875	6,997
EOR WATER TANK/5-99-15M	C2303	15.875	9,443
SN SEWING PROJECT/5-99-15	C2304	15.875	7,588
NEON(WENO)SEWING P./5-99-15M	C2305	15.875	3,497
MECHITIW FISHING PROJECT	C2306	15.875	4,996
APINIKI ECONOMIC DEV. PROJ. M	C2307	15.875	6,996
FANIP FEFAN FARMING	C2308	15.875	45,063
FANIP FEFAN FARMING	C2308	15.875	8,000
TOLENSOM FISH. PROJ./2-94-23	C2309	15.875	58,000
WICHAP WENO FISHING PROJ.	C2310	15.875	6,790
NEAUO WENO FISHING PROJ.	C2311	15.875	4,996
SEFIN BBEAUTIFICATION PROJECT	C2312	15.875	6,999
LIWIS OS, MAYOR	C6562	15.875	2,311
SEFIN SEA WALL PROJECT (M)	C6702	15.875	8,111
NORTHERN NAMONEAS FISHING/98RC	CR015	15.875	31,427
TONOAS ELDERLY HOUSING REPAIR	CR018	15.875	4,010
TONOAS SMALL ENGINE REPAIR SHO	CR072	15.875	450
NWR LAND TRANSPORTATION/98RC	CS021	15.875	7,580
S.N.MAJOR PUB.FACIL.REPAIR/98C	CS023	15.875	160
POLOWAT MUNICIPAL	CS026	15.875	471
ETTAL COOP. SUPPLE./4-98-29R	CS031	15.875	1,891
S.NAMONEAS EL NINO REL.RELIEF	CS065	15.875	1,250
FAICHUK REG.FARMINIG/(SP)IIE	CS5420	15.875	1,500
POLLE FISHING PROJECT	TN6494	15.875	1,466
Subtotal			<u>12,434,814</u>

See accompanying notes to schedule of expenditures of federal awards.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Compact of Free Association Capital Projects Fund
Section 211 (A)(2), Continued
Year Ended September 30, 2000

Grantor Account Title	Org./Cost Center #	CFDA I.D. #	2000 Fiscal Year Expenditures
Balance forwarded			12,434,814
Loss on Investment	N/A	15.875	5,350,000
Expenditures to acquire fishing vessel	N/A	15.875	4,450,000
Debt Service - Principal	N/A	15.875	3,000,000
Debt Service - Interest	N/A	15.875	<u>320,000</u>
Total Compact of Free Association Capital Projects Fund-Section 211 (A)(2)			<u>\$ 25,554,814</u>

Note: These funds are made available by Title Two, Article I, Section 211 of the Compact of Free Association.

These funds are disbursed through the Office of Insular Affairs (OIA), U.S. Department of the Interior and bear CFDA #15.875. The National Government of the FSM receives all grant awards on behalf of the FSM and reallocates such to the component States.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Compact of Free Association-Other Grants Fund
Year Ended September 30, 2000

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	2000 Fiscal Year Expenditures
Chuuk Public Utility Corp.	272783	15.875	\$ 1,000,000
Government Utility	CT2783	15.875	451,500
Medical and Health 216(A)(2)	HM6091	15.875	489,012
Civic Action Team and other costs	N/A	15.875	<u>361,219</u>
Total Compact of Free Association - Other Grants Fund			<u>\$ 2,301,731</u>

These funds are disbursed through the Office of Insular Affairs (OIA), U.S. Department of the Interior and bear CFDA #15.875. The National Government of the FSM receives all grant awards on behalf of the FSM and reallots such to the component States.

See accompanying notes to schedule of expenditures of federal awards.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Compact of Free Association
Special Block Grant Fund - Section 221(B)
Year Ended September 30, 2000

Grantor Account Title	Cost Center #	CFDA I.D. #	2000 Fiscal Year Expenditures
GOVERNOR'S OFFICE SBG	152151	15.875	\$ 34,298
HEALTH CARE PLAN	152099	15.875	72,902
HEALTH SERV./DOCTORS PROF.FEES	TI8121	15.875	3,930
MENTAL HEALTH SBG 221B	TI8116	15.875	119
PUBLIC HEALTH SBG	TI8121	15.875	552,770
DEFICIT REDUCTION (MED. DEBTS)	TI8122	15.875	1,446
VOCATIONAL REHABILITATION 22B	TI8207	15.875	29,077
PUBLIC HEALTH SBG	TI8121	15.875	22,000
DOCTOR PROFESSIONAL FEES	TI8123	15.875	9,849
SUBSTANCE ABUSE & M.HEALTH/SBG	TI8116	15.875	2,763
HEALTH SERV./DOCTORS PROF.FEES	TI8121	15.875	5,470
MENTAL HEALTH SBG 221B	TI8116	15.875	43,156
PUBLIC HEALTH SBG	TI8121	15.875	122,118
MEDICAL SUPPLY 221B SBG	HM6092	15.875	344,727
FOOD SERVICES(NUTRITION)/SBG	TI8205	15.875	32,940
FOOD SERVICES (NUTRITION)	TI8205	15.875	417,716
EDUCATION SPECIAL SERV 221B	TI8208	15.875	25,565
ELEMENTARY EDUCATION/SBG	TI8206	15.875	3,891
ELEMENTARY EDUCATION SBG 221B	TI8206	15.875	715,041
GOVERNOR'S OFFICE SBG	152151	15.875	16,234
ASSIST JR. HIGH SCHOOL	152153	15.875	210,139
SECONDARY EDUCATION/SBG	TI8202	15.875	2,206
SECONDARY EDUCATION 221B SBG	TI8202	15.875	103,900
Total Compact of Free Association Block Grant Fund-Section 221(b)			\$ 2,772,257

These funds are disbursed through the Office of Insular Affairs (OIA), U.S. Department of the Interior and bear CFDA #15.875. The National Government of the FSM receives all grant awards on behalf of the FSM and reallots such to the component States.

See accompanying notes to schedule of expenditures of federal awards.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2000

1. Scope of Review

The State of Chuuk is one of the four States of the Federated States of Micronesia. All significant operations of the State are included in the scope of the OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior has been designated as the State's cognizant agency for Single Audit.

A. Programs Subject to Single Audit

Schedules of expenditures of federal awards are presented for each federal program related to the following agencies:

- U.S. Department of Education
- U.S. Department of the Interior
- U.S. Federal Emergency Management Agency

2. Summary of Significant Accounting Policies

A. Basis of Accounting

For purposes of this report, certain accounting procedures were followed which help illustrate the expenditures of the individual programs. All expenses and capital outlays are reported as expenditures on the accrual method of accounting.

B. Reporting Entity

The State of Chuuk, for purposes of the general-purpose financial statements, includes all of the funds of the primary government as defined by Governmental Accounting Standards Board (GASB) Statement 14, "The Financial Reporting Entity."

C. Subgrantees

Certain program funds are passed through the State to subgrantee organizations. The Schedule of Expenditures of Federal Awards does not contain separate schedules disclosing how all the subgrantees outside of the State's control utilize these funds, with the exception of the Chuuk Utilities Corporation and the Chuuk State Housing Authority.

D. Indirect Cost Allocation

The State does not receive any indirect cost allocation and does not charge indirect costs against federal programs.

3. Component Units

The State of Chuuk's component units are to separately satisfy the requirements of OMB Circular A-133. The following presents information concerning component units which have satisfied their A-133 requirements.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2000

3. Component Units, Continued

Chuuk Public Utilities Corporation

The Chuuk Public Utilities Corporation, a component unit - proprietary fund, is the recipient of various pass-through funds from Chuuk State and one grant from the U.S. Department of Commerce. No material instances of noncompliance or questioned costs were presented in its audit reports and are therefore not contained in the accompanying Schedule of Findings and Questioned Costs. The Chuuk Public Utilities Corporation's Schedule of Expenditures of Federal Awards is as follows:

<u>Grantor Agency/Program</u>	<u>CFDA#</u>	<u>Fiscal Year 2000 Expenditures</u>
U.S. Department of the Interior: Compact of Free Association	15.875	\$ 1,050,000
U.S. Department of Commerce: Economic Development Administration: Weno Water Improvement Project	11.300	38,781
Trust Territory of the Pacific Islands	15.875	527,262
Operations and Maintenance Improvement Programs (OMIP) Grants	15.875	<u>144,907</u>
Total expenditures		\$ <u>1,760,950</u>

Compact of Free Association funds are received in a subrecipient capacity thru the State of Chuuk. All other grants are received in a direct capacity.

Chuuk State Housing Authority

The Chuuk State Housing Authority, a component unit - proprietary fund, is the recipient of various pass-through funds from Chuuk State and certain direct grants. The Chuuk State Housing Authority's Schedule of Expenditures of Federal Awards is as follows:

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2000

3. Component Units, Continued

Chuuk State Housing Authority, Continued

Loan Funds:

As of September 30, 2000, some \$1.1 million of loans previously made out of U.S. federal financial assistance CFDA #14.219, were outstanding. The assistance provided by the U.S. Department of Housing and Urban Development was made to the State of Chuuk and passed through to the Authority. The federal requirement attendant to these funds have expired and therefore, these funds now are only subject to State requirements.

Additionally, as of September 30, 2000, the Authority administered \$710,752 of loan funds provided by the U.S. Department of the Interior, CFDA #15.875, which funds were received by the State of Chuuk and were passed through to the Authority.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Schedule of Programs Selected For
Audit in Accordance with OMB Circular A-133
Year Ended September 30, 2000

<u>Grantor Program Title</u>	<u>CFDA No.</u>	<u>2000 Fiscal Year Expenditures</u>
<u>U.S. Dept. of the Interior</u>		
Compact of Free Association:		
211(A) Capital Account	15.875	\$ 25,554,814
221(B) Special Block Grants	15.875	<u>2,772,257</u>
Total Major Programs Under CFDA # 15.875 excluding Compact Section 211 (A) Current Account expenditures		28,327,071
 <u>U.S. Department of Education</u>		
School Improvement Project	84.256A	<u>650,576</u>
Total U.S. Federal program expenditures selected excluding Compact Section 211 (A) Current Account expenditures		\$ <u>28,977,647</u>
Total U.S. Federal program expenditures excluding Compact Section 211 (A) Current Account expenditures		\$ <u>31,592,658</u>
% of total U.S. Federal expenditures covered by major programs excluding Compact Section 211 (A) Current Account expenditures		<u>91.7%</u>

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2000

Part I - Summary of Auditors' Results

1. The Independent Auditors' Report on the financial statements expressed a qualified opinion.
2. Reportable conditions in internal control over financial reporting were identified, some of which are considered to be material weaknesses.
3. Instances of noncompliance considered to be material to the financial statements were disclosed by the audit.
4. Reportable conditions in internal control over compliance with requirements applicable to major federal award programs were identified, some of which are considered to be a material weaknesses.
5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed a qualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. The State's major programs were:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
U.S. Department of the Interior - Compact of Free Association Capital Account	15.875
U.S. Department of Education - School Improvement Project	84.256A

8. A threshold of \$947,780 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The State did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

Part II - Financial Statement Findings Section

<u>Reference Number</u>	<u>Findings</u>
00-04	Employment Ceilings and Contract Employees
00-05	Accounting for Matured Debt
00-06	Continuing Appropriations and Budgetary Reconciliations
00-07	Timelines of Investment Related Information
00-08	Review of Encumbrance Detail
00-09	Review of Outstanding Check Lists
00-10	Fishing Vessel Utilized by Chuuk Public Fisheries Corporation (CPFC)
00-11	Reconciliation of Personnel Action Forms and Payroll Rates Applied
00-12	Reconciliation of Accounts Payable
00-13	Chuuk State Housing Authority (CSHA) – Accounting for Loans
00-14	Chuuk State Housing Authority (CSHA) – Collection of Loans Receivable
00-15	Chuuk State Housing Authority (CSHA) – FHMA Deed of Trust Agreement
00-16	Resolution of Prior Year Findings

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Part III - Federal Award Findings and Questioned Cost Section

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
00-01	Compact of Free Association Compact Capital Funds – Allowable Costs/Cost Principles	\$169,006
00-02	Health and Education Funds – Allowable Costs/ Cost Principles	\$ 72,902
00-03	School Improvement Project – Procurement and Suspension and Debarment	\$ 59,981
00-16	Resolution of Prior Year Findings	\$ -

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Federal Award Findings and Questioned Costs Section

U. S. Department of the Interior – Compact of Free Association Compact Capital Funds – Allowable Costs/Cost Principles

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
00-01	15.875	Compact Capital Funds should be expended for allowable purposes.	\$ 169,006
		<u>Condition:</u> During fiscal year 2000, the State transferred certain Compact Capital Funds to the following entities that have not been audited or reviewed as to compliance with underlying criteria.	
		Nukuno Credit Union – 601802 – C2056	\$ 12,000
		Fefean Housing Authority – 601803 – C0981	10,000
		Weno Association of Guam, Weno Association of Saipan, Weno Association of Honolulu – 601801 – C0148	30,000
		Weno Housing Authority – 601801 – C2244	<u>117,006</u>
		Total	\$ <u>169,006</u>

Cause: The cause of this condition is unknown.

Effect: The effect of this condition is questioned costs of \$169,006.

Recommendation: We recommend that the Office of the Public Auditor of the FSM National Government review the use of these funds and determine the manner that such are allowable costs under the Compact of Free Association.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Federal Award Findings and Questioned Costs Section

U.S. Department of the Interior – Health and Education Funds – Allowable Costs/Cost Principles

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
00-02	15.875	Compact Health and Education Funds should be expended for allowable purposes.	\$ 72,902

Condition: The State commenced a Health Care Plan during fiscal year 2000. Employees were hired, space rented and equipment acquired. However, no Plan was actually undertaken and the resulting expenditures do not appear health related since no actual health related activities were undertaken. The Health Care Plan has not commenced operating in fiscal year 2001.

Cause: The cause of this condition appears to be due to different opinions with respect to the allowability of this cost.

Effect: The effect of this condition is questioned costs of \$72,902.

Recommendation: In the event that different opinions could exist with respect to the allowability of the costs, the National Government should be consulted in writing since it is the grantor of the funds.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Federal Award Findings and Questioned Costs Section

U.S. Department of Education - School Improvement Plan Project –Procurement and Suspension and Debarment

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
00-03	84.256A	Competitive procurement should be performed in accordance with applicable federal guidelines.	\$ 59,981

Condition: No competitive procurement procedures were performed in the administration of the program during fiscal year 2000. The following are specific items that are accordingly questioned.

<u>Check No.</u>	<u>PO #</u>	<u>Amount</u>
74260	L9492001	\$ 2,850
91730	L0233101	6,000
102300	P0009901	3,881
106020-7	P0010101-7	7,165
470901	L0160101	1,475
478701	L0116701	4,475
478702	L0116702	3,250
734601	L0025801	2,850
739502	L9479502	3,285
742401	L9510101	2,800
988101	C0036201	12,000
1187301	N/A	3,000
1015001	C0036801	2,225
1301901	C0036701	2,500
1015401	C0036801	<u>2,225</u>
		\$ <u>59,981</u>

Cause: Program officials were of the opinion that the State Procurement Office was performing this function whereas the State Procurement Office does not perform this function.

Effect: The effect is questioned costs of \$59,981.

Recommendation: The Governor of the State of Chuuk should specify the responsibility for performing competitive procurement activities.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Financial Statement Findings Section

Employment Ceilings and Contract Employees

Finding No. 00-04

Criteria: The Chuuk State Legislature imposed employment ceilings by department in the fiscal year 2000 budget.

Condition: Various individuals were hired in the Executive Branch as contract employees during fiscal year 2000. The Department of Education hired certain teachers under contract during the year. Several concerns arise from these actions:

1. It is not possible to determine whether hiring such contract employees is contrary to law as the Legislature did not impose a full-time equivalency (FTE) requirement in the budget bill. It is customary to include such FTE requirements to guard against hiring contract employees.
2. Contract employees were not treated as contract employees. Contract employees are self-employed. Each should acquire a business license and pay gross receipts taxes on their earnings. Each should pay social security as a self-employed individual. Contract employees are not normally entitled to annual leave, sick leave, or holiday pay. However, the State treated these contract employees as regular employees as the State withheld all taxes and provided all benefits normally associated with employment with the State.

Cause: The cause of this condition is that the Legislature has not fully defined the requirements of its employment ceilings and the Executive Branch has not treated contract employees as such.

Effect: The effect of this condition is that it is not possible to determine if the hiring of the contract employees circumvents State Law and if applicable tax laws of the Federated States of Micronesia have been circumvented.

Recommendation: Legal counsel of the Legislature and the Executive Branch should be consulted to determine the appropriateness of the hiring of contract employees. Additionally, counsel should be consulted to determine the correct manner of payment to contract employees.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Financial Statement Findings Section

Accounting for Matured Debt

Finding No. 00-05

Criteria: Accounting principles generally accepted in the United States of America (GAAP) requires that matured debt be recorded in the general fund, despite whether an underlying appropriation has occurred to effectuate repayment.

Condition: The State agreed to repay the FSM National Government in excess of \$1.6 million during fiscal year 2000. The State did not repay these funds. However, this amount has been treated as an other financing use and this amount has been recorded as notes payable of the general fund.

Cause: The cause of this condition is that the financial statements only record amounts as appropriated by the Legislature.

Effect: The effect of this condition is that the general fund deficit increased by in excess of \$1.6 million.

Recommendation: This same condition will most likely occur in fiscal year 2001 and the State should record the necessary entries. Additionally, since the debt is in default, discussions with the FSM National Government should occur as to arriving at a mutually agreed upon repayment schedule.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Financial Statement Findings Section

Continuing Appropriations and Budgetary Reconciliations

Finding No. 00-06

Criteria: Budgetary amounts in the financial statements should be reconcilable to underlying appropriations. Additionally, continuing appropriations should be differentiated to allow for ease in roll forward of unexpended balances to the succeeding year.

Condition: Continuing appropriations have not been differentiated and therefore, substantial amounts of time were required to determine the amount to be reflected in the financial statements. Additionally, no reconciliation of continuing appropriations, by account, of the Compact Capital Funds has occurred. This means that various balances could be available for alternative purposes

Cause: The cause of this condition, as specified in prior year audits, is the lack of reconciliation by the Budget Office.

Effect: The effect of this condition is that expenditures can and did occur, in excess of appropriation limitations.

Recommendation: The Budget Office should differentiate account numbers for continuing appropriations. Additionally, reconciliation of the continuing appropriations of the Compact Capital Funds should occur. Finally, a reconciliation of the budget balances in the financial statements to the underlying appropriations should occur on a quarterly basis.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Financial Statement Findings Section

Timeliness of Investment Related Information

Finding No. 00-07

Criteria: Information should be received in a timely manner to facilitate the preparation of financial statements.

Condition: Information on the State's investments from the FSM National Government has not been timely and has assisted in creating substantial delays in the preparation of the State's financial statements.

Cause: The cause of this condition appears to be the non-timely receipt of investment information from the FSM National Government.

Effect: The effect of this condition appears to be delays in preparation of the State's financial statements.

Recommendation: Discussions should be held with the National Government to ensure the timely receipt of the information or alternative methods should be explored.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Financial Statement Findings Section

Review of Encumbrance Detail

Finding No. 00-08

Criteria: Encumbrances should be periodically reviewed to determine the validity of the underlying obligations.

Condition: No such review occurred during fiscal year 2000. During the audit process, we found local purchase orders that remain unliquidated for almost two years. The State has commenced a review in 2001 based on the audit finding. As a result of this review, it is evident that encumbrances were overstated and should have been cancelled. The majority of the cancellations will occur in fiscal year 2001.

Cause: The cause of this condition appears to be the lack of periodic review of the validity of recorded encumbrances.

Effect: The effect of this condition is that encumbrances appear to be overstated.

Recommendation: Encumbrances should be reviewed quarterly and consultation with applicable department should occur to document the validity of long outstanding encumbrances. A more formal review should occur as of year end.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Financial Statement Findings Section

Review of Outstanding Check Lists

Finding No. 00-09

Criteria: Monthly bank reconciliations note the presence of long outstanding checks. Checks in excess of six months are normally stale dated. These items should be reclassified to a liability account and should be investigated as to their non-encashment.

Condition: We noted the presence of approximately \$125,000 of long outstanding checks that should be reclassified to a liability account, should be written-off, and should be subject to investigation as to their non-encashment.

Cause: The cause of this condition is due to inadequate follow-up on bank reconciliations.

Effect: There is an immaterial potential impact on the financial statements as a result of this condition.

Recommendation: At least quarterly, outstanding checks should be reviewed for stale-dated items and necessary adjustments and investigation should occur as applicable in the circumstances.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Financial Statement Findings Section

Fishing Vessel Utilized by Chuuk Public Fisheries Corporation (CPFC)

Finding No. 00-10

Criteria: CPFC utilizes the State's vessel that was acquired from the dissolution of its joint venture in WESTPAC and WESTOP. However, a formal agreement should be executed between the State and CPFC relative to the terms and conditions of the use.

Condition: The State has not formally transferred the vessel to CPFC or executed a contract for the use of its vessel.

Cause: The cause of this condition is unknown.

Effect: The effect of this condition is that uncertainty exists relative to the duties and responsibilities of each party with respect to the fishing vessel.

Recommendation: A formal contract or transfer document should be executed with CPFC to resolve this matter.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Financial Statement Findings Section

Reconciliation of Personnel Action Forms to Payroll Rates Applied

Finding No. 00-11

Criteria: Personnel Action Forms (PAF's) should reconcile with underlying payroll payments made.

Condition: In four of forty-five examples tested, we could not reconcile the PAF to the underlying payroll rates used.

Cause: The cause of this condition appears to be inadequate maintenance of the employee personnel files.

Effect: The effect of this condition is that employees could be paid at rates that differ from the rate specified on the PAF.

Prior Year Status: This finding was present in the 1999 Single Audit Report. However, it is evident that some improvement in this finding has occurred.

Recommendation: Continued attention to ensuring the adequacy of personnel files appears warranted.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Financial Statement Findings Section

Reconciliation of Accounts Payable

Finding No. 00-12

Criteria: Accounts payable per the general ledger should be reconcilable to the detailed subsidiary ledgers.

Condition: The State evidenced substantial improvement in its accounting for accounts payable during fiscal year 2000. The State compiled a detailed list of medical referral liabilities and maintained its accounts payable subsidiary in an improved manner. However, the State Finance Office has not been provided data from the Land Management Office sufficient to ensuring that all lease payments due have been recorded.

Cause: The cause of this condition appears to be that Land Management has not provided the necessary information to the Finance Office.

Effect: Payables may exist that have not been recorded in the financial statements.

Recommendation: The State Finance Office, at each year end, should obtain a listing of leases payable from the Land Management Office and determine adjustments, if any, that should be made.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Financial Statement Findings Section

Chuuk State Housing Authority (CSHA) – Accounting for Loans

Finding No. 00-13

Criteria: CSHA should possess an accounting system that accounts for its financial activities and its loans in a complete and timely manner.

Condition: The CSHA employs a manual system of accounting that is prone to error that does not account for its activities in a timely manner. Additionally, the system does not facilitate timely communication of transaction histories with borrowers

Cause: The CSHA has not made an investment in its accounting system.

Effect: The effect of this condition is untimely and inaccurate financial information is being produced.

Recommendation: The CSHA should consider alternative accounting systems. Alternatives could be a stand-alone system, contracting out the maintenance of the loan subsidiary ledgers or some combination of the two.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Financial Statement Findings Section

Chuuk State Housing Authority (CSHA) – Collection of Loans Receivable

Finding No. 00-14

Criteria: CSHA management is charged with the responsibility of collecting loans receivable.

Condition: It is evident that more and more borrowers are discontinuing allotments and are not repaying their loans. However, the CSHA has not initiated foreclosure proceedings and has not otherwise aggressively utilized remedies set forth in the loan agreements to ensure collection.

Cause: The cause of this condition is unknown.

Effect: The effect of this condition is that inadequate cash flows result, which prevents the financing of additional loans.

Recommendation: The CSHA management should aggressively take steps to ensure collection of loans and document those steps that it will take to achieve this end.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Financial Statement Findings Section

Chuck State Housing Authority (CSHA) – FMHA Deed of Trust Agreement

Finding No. 00-15

Criteria: Loan guarantees are to be disclosed by the CSHA in its financial statements and depending on the condition of the underlying loans, provision for an allowance for doubtful loans (ALL) should be made in the financial statements.

Condition: The CSHA management is not receiving adequate information under the FMHA Deed of Trust Agreement to make the necessary disclosure and adjustment in its financial statements, if required.

Cause: The cause of this condition is that the necessary information has not been requested or obtained from the FMHA office in Chuuk.

Effect: The effect of this condition is that inadequate provisions may be made in the CSHA financial statements.

Recommendation: We recommend that the aforementioned information be obtained from the FMHA office on at least a semi-annual basis.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Financial Statement Findings Section

Resolution of Prior Year Findings

Finding No. 00-16

Criteria: Findings from the prior year Single Audit should be resolved in a timely manner.

Condition: The following federal, internal control and local compliance findings remain unresolved and may be reiterated above.

99-4	Equipment and Real Property Management	Federal
99-5	Resolution of Payable to Grantor Agency	Federal
99-7	Payroll	Internal Control
99-8	Filing of Accounts Payable Vouchers	Internal Control
99-10	Continuing Appropriations	Internal Control
99-11	Prior Year Findings (1, 2 and 3)	Internal Control
99-L-1	Use of Compact Capital Funds	Local
99-L-2	Compact Capital Funds	Local
99-L-3	Bidding Procedures	Local
99-L-4	Use of Compact Capital Funds	Local

Cause: The cause of this condition appears to be failure to address the specified issues.

Effect: The effect on the general purpose financial statements is the same as in the prior years.

Recommendation: The State should prioritize and commence resolution of the above matters.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Resolution of Prior Years' Findings and Questioned Costs
Year Ended September 30, 2000

For the year ended September 30, 2000, the following questioned costs were noted and prior questioned costs resolved:

	Questioned Costs Set Forth in Prior Audit Report <u>1999</u>	Questioned Costs Resolved in Fiscal Year <u>2000</u>	Questioned Costs at <u>September 30, 2000</u>
Unresolved Questioned Costs FY 97	\$ 16,125	\$ -	\$ 16,125
Unresolved Questioned Costs FY 98	54,882	-	54,882
Unresolved Questioned Costs FY 99	28,619	-	28,619
Unresolved Questioned Costs FY 00	<u>-</u>	<u>-</u>	<u>301,889</u>
	\$ <u>99,626</u>	\$ <u>-</u>	\$ <u>401,515</u>



DEPARTMENT OF TREASURY

FEDERATED STATES OF MICRONESIA
Office of the Governor
STATE OF CHUUK
CHUUK, EASTERN CAROLINE ISLANDS 96942

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November 16, 2001

Deloitte & Touche
Responses to Fiscal Year 2000
Single Audit Findings

The following represent our responses to the fiscal year 2000 audit findings.

1. We concur that the payments were made to the noted entities in accordance with appropriations made by the Chuuk State Legislature. We concur that such funds should be audited and monitored. Unfortunately, the State has not been able to hire a Public Auditor, despite repeated efforts to do so. Therefore, we concur that the FSM National Government Office of the Public Auditor should be petitioned to audit these funds. Therefore, we are immediately requesting the National Government to assist for the arrangement of these audits and that such be undertaken as soon as possible.
2. The Director of Treasury will write the FSM National Government, the grantor, and ask for their opinion with respect to the allowability of the specified payments. This request will be forwarded to the FSM National Government no later than December 15, 2001. No further action can be undertaken until such communication occurs.
3. We do not agree with the finding's conclusions. It is true that a Health Care Plan office has been formed to operate the State's health care plan. However, the plan, for local reasons, has yet to formally commence operations. The Plan has been formed solely to address health care issues in the State and does not relate to any other purpose. Therefore, we believe that such is an allowable use of the specified Compact Health and Education funds and no further action need be taken by the State.
4. We agree with the finding. The Director of Treasury will write a letter to the Governor by November 30, 2001 with his recommendations for resolution of the issue. This letter will also be copied to the Director of Education. The Governor of the State of Chuuk will then have to appoint the entity responsible for ensuring that competitive procurement has occurred.
5. We will address this finding with our legal counsel. By December 15, 2001, the Director of Treasury will pass this issue to legal counsel for resolution. Once legal counsel has opined on this matter, the Chuuk State Legislature will be informed.

6. We agree with this finding and will record the necessary adjustments in the 2001 financial statements. No further action is required by Chuuk State.
7. The Chuuk State Budget office will be requested by the Director of Treasury, in writing, no later than December 15, 2001 to perform such reconciliation. The Governor of the State of Chuuk will be copied on this request. We will also address this matter with the leadership of the Chuuk State Legislature as it is possible that certain prior year appropriations may have to be deappropriated.
8. The FSM National Government has been requested many times to provide this information in a timely manner. The Governor of the State of Chuuk will write the President of the Federated States of Micronesia by December 15, 2001 and inquire as to the estimated date of completion of the necessary investment information for fiscal year 2001.
9. An encumbrance review is and has been occurring for the last two months. We expect to complete such by December 15, 2001 and at that time, all necessary adjustments to the encumbrance accounts should be made in our accounting systems. The Chief of Accounting is responsible for ensuring that this task is completed.
10. The Chief of Accounting is tasked with the responsibility for ensuring that necessary adjustments are recorded based on review of the outstanding checklist. This task will be performed in connection with the ensuing 2001 single audit and should be completed at the same time as our September 30, 2001 bank reconciliations.
11. The Director of Treasury will write the Governor of the State of Chuuk with respect to this issue by December 15, 2001 to determine if a lease or other contract is to be executed with the CPFC. This matter will be resolved by the conclusion of the 2001 Single Audit.
12. The personnel action files for the specified individuals are under review by the Chief of Accounting and resolution will occur during the fiscal year 2001 audit.
13. The Director of Treasury will forward a formal letter to the Director of Land Management by December 15, 2001 again requesting for the payable/expense related information. The Governor of the State of Chuuk will also be copied in this communication. We cannot at this time give a firm date as to when resolution will occur but we are hopeful that such will occur during the fiscal year 2001 audit.
14. Please see the response from the Chuuk Housing Authority.
15. Please see the response from the Chuuk Housing Authority.

16. Please see the response from the Chuuk Housing Authority.

17. Relative to prior year findings:

- a. The State has requested technical assistance from the FSM National Government if performance of such an inventory and readying for GASB 34 requirements. The National Government has not addressed this issue and therefore, by December 15, 2001, the State again will address, in writing, this issue with the FSM National Government.
- b. We understand that this issue has been communicated to the grantor agencies in the audit of the FSM National Government for the fiscal year 1999 and we are awaiting their determination.
- c. The payroll issue is being studied in conjunction with finding number 12 and resolution will occur simultaneously.
- d. The Chief of Accounting has directed affected staff to take greater care in ensuring that all APV's are appropriately filed.
- e. The accounts payable department has been instructed to maintain such a log. We will review the internal control issue on payroll with affected staff but due to current staffing shortages, we believe that this finding will not be addressed in the near term. Due to budgetary concerns, there are no funds for preparation of policy and procedural aids and therefore, we are not hopeful of resolution of this matter in the near term.
- f. Please see our response to finding 2.
- g. Please see our response to finding 1.
- h. The Chief of Accounting has been instructed to ensure that prior to filing, the payment package contains all applicable bidding instructions.
- i. Please see our response to finding 2.

Very truly yours,



Nakama Sana
Director, Department of Treasury