

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

**REPORT ON THE AUDIT OF
FINANCIAL STATEMENTS IN ACCORDANCE
WITH OMB CIRCULAR A-128**

FOR THE YEAR ENDED SEPTEMBER 30, 1993

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA
FOR THE YEAR ENDED SEPTEMBER 30, 1993**

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**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA
GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 1993**

**INDEPENDENT AUDITORS' REPORT**

Honorable Sasao Gouland
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 Table of Contents, as of September 30, 1993, and for the year then ended. These general purpose financial statements are the responsibility of the State of Chuuk's management. 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 generally accepted auditing standards and 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.

Property comprising the State of Chuuk's General Fixed Assets Account Group has not been inventoried as of September 30, 1993, nor have existing records been adequately assembled to permit the application of auditing procedures and verification of the detail of account balances.

As discussed in Note 1A, the accompanying general purpose financial statements do not include the State's eleven development authorities, which in our opinion, should be included to conform with generally accepted accounting principles.

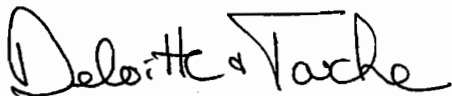
In our opinion, except for the effects of such adjustments which may be required as a result of changes in the inventory of fixed assets and the omission of the State's eleven development authorities, the accompanying general purpose financial statements, as set forth in Section II of the Table of Contents, present fairly, in all material respects, the financial position of the State of Chuuk, as of September 30, 1993, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 11, the State of Chuuk has been named the defendant in various legal actions. The State of Chuuk is vigorously defending all claims, but the ultimate outcome is uncertain at this time. Accordingly, no provision for any liability that may result has been recorded in the accompanying general purpose financial statements.

As discussed in Note 11, \$8,608,668 of costs for operation of U.S. Federal programs to the State of Chuuk have been questioned as of September 30, 1993 and their disposition is still pending. If such costs are ultimately disallowed, the General Fund will absorb the amount so disallowed. No provision for any liability that may result upon the ultimate resolution of these matters has been made in the accompanying general purpose financial statements.

As discussed in Note 11, Chuuk State expended \$2,000,000 of fiscal year 1993 Compact Capital funds for General Fund operating purposes and \$700,469 of Compact Capital funds for a repayment of a loan. The FSM Attorney General is of the opinion that the above transfer was not performed in accordance with local laws and the loan repayment is not a valid use of Compact Capital funds. The ultimate outcome of these transactions could have a material impact on the General Fund and Capital Projects Fund in the accompanying general purpose financial statements.

December 20, 1993, except for Note 11
as to which date is February 24, 1994



Certified Public Accountants

CHUUK STATE GOVERNMENT
Combined Balance Sheet – All Fund Types and Account Groups
September 30, 1993
(With comparative totals as of September 30, 1992)

	Governmental Fund Types			Proprietary Fund Type	Account Groups		Totals (Memorandum Only)	
	General Fund	Special Revenue Funds	Capital Projects Funds	Enterprise Funds	General Fixed Assets	General Long-Term Debt	1993	1992
<u>Assets</u>								
Cash and equivalents (Note 2)	\$ 353,180	\$ 283,771	\$ 227,797	\$ 696,270	\$ –	\$ –	\$ 1,561,018	\$ 2,267,189
Investments (Note 1M and 2)	1,282,843	–	18,390,146	–	–	–	19,672,989	26,062,312
Investments – other (Notes 1M and 9)	–	–	6,262,000	–	–	–	6,262,000	1,120,000
Receivables from other governments (Note 3)	131,488	2,063,886	1,877,446	–	–	–	4,072,820	3,392,372
Receivables, federal agencies (Note 3)	–	617,953	–	129,307	–	–	747,260	852,191
General receivables, net (Note 1E)	201,635	1,900	–	12,610	–	–	216,145	138,280
Loans receivable, net of allowance for doubtful accounts of \$458,260 in 1993 (Note 1F)	–	–	–	898,818	–	–	898,818	1,209,696
Loans receivable, other (Note 14)	–	–	7,000,000	–	–	–	7,000,000	–
Dividends and interest receivable	129,848	–	–	–	–	–	129,848	134,822
Advances	166,462	102,418	173,079	–	–	–	441,959	376,962
Due from other funds (Note 8)	–	1,458,458	3,578,732	–	–	–	5,037,190	3,171,758
Inventories (Note 1K)	–	–	–	76,662	–	–	76,662	79,824
Other assets	–	–	–	17,825	–	–	17,825	47,143
Reserve for doubtful interfund receivable (Note 16)	(617,952)	–	–	–	–	–	(617,952)	–
Fixed assets, net of accumulated depreciation (Note 1C and 4)	–	–	–	1,052,834	67,581,884	–	68,634,718	68,685,660
Amount to be provided for retirement of long-term debt	–	–	–	–	–	12,035,652	12,035,652	2,403,685
Total assets	\$ 1,647,504	\$ 4,528,386	\$ 37,509,200	\$ 2,884,326	\$ 67,581,884	\$ 12,035,652	\$ 126,186,952	\$ 109,941,894

See accompanying notes to combined financial statements.

CHUUK STATE GOVERNMENT
Combined Balance Sheet – All Fund Types and Account Groups
September 30, 1993
(With comparative totals as of September 30, 1992)

	Governmental Fund Types			Proprietary	Account Groups		Totals	
	General Fund	Special Revenue Funds	Capital Projects Funds	Enterprise Funds	General Fixed Assets	General Long-Term Debt	(Memorandum Only)	
							1993	1992
Liabilities and Fund Equity (Deficiency)								
Liabilities:								
Bank overdraft	\$ 1,459,035	\$ 60,153	\$ –	\$ –	\$ –	\$ –	\$ 1,519,188	\$ 684,713
Accounts payable	4,729,892	1,459,115	1,214,723	103,750	–	–	7,507,480	6,373,598
Accrued payroll and annual leave (Note 1C)	661,623	9,285	3,761	–	–	1,607,782	2,282,451	2,366,158
Due to other funds (Note 8)	1,600,194	1,467,522	1,969,474	–	–	–	5,037,190	3,171,758
Payable to other governments	92,799	379,503	–	–	–	–	472,302	441,246
Notes payable (Notes 1C, 5 and 13)	–	–	329,179	765,690	–	10,427,870	11,522,739	1,886,807
Deferred revenue	–	277,321	–	–	–	–	277,321	277,321
Total liabilities	8,543,543	3,652,899	3,517,137	869,440	–	12,035,652	28,618,671	15,201,601
Commitments and contingencies (Note 11)								
Fund equity (deficiency):								
Contributed capital	–	–	–	1,670,266	–	–	1,670,266	1,670,266
Investment in general fixed assets (Note 1C and 4)	–	–	–	–	67,581,884	–	67,581,884	67,581,844
Retained earnings	–	–	–	344,620	–	–	344,620	535,621
Fund balance (deficit):								
Reserved for :								
Investments	–	–	–	–	–	–	–	541,660
Related assets (Note 15)	363,799	526,002	13,965,646	–	–	–	14,855,447	2,112,531
Encumbrances	800,475	554,854	5,702,308	–	–	–	7,057,637	3,071,675
Continuing appropriations (Note 6)	159,966	–	10,924,341	–	–	–	11,084,307	8,492,768
Unreserved fund balance (deficit)	(8,220,279)	(205,369)	3,399,768	–	–	–	(5,025,880)	10,733,928
Total fund equity (deficiency)	(6,896,039)	875,487	33,992,063	2,014,886	67,581,884	–	97,568,281	94,740,293
Total liabilities and fund equity (deficiency)	\$ 1,647,504	\$ 4,528,386	\$ 37,509,200	\$ 2,884,326	\$ 67,581,884	\$ 12,035,652	\$ 126,186,952	\$ 109,941,894

See accompanying notes to combined financial statements.

CHUUK STATE GOVERNMENT
Combined Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)
All Governmental Fund Types
Year Ended September 30, 1993
(With comparative totals for the year ended September 30, 1992)

	Governmental Fund Types			Totals (Memorandum Only)	
	General Fund	Special Revenue Funds	Capital Projects Funds	1993	1992
Revenues:					
U.S. Compact of Free Association:					
Section 211(a)(2) – base grant	\$ 11,240,400	\$ –	\$ 7,833,600	\$ 19,074,000	\$ 19,074,000
Section 217 – inflation adjustment	6,608,564	–	1,211,776	7,820,340	7,248,120
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	–	491,918	–	491,918	455,924
Section 212 – base grant	–	250,000	–	250,000	250,000
Section 216(a)(3) – FSM	–	445,352	–	445,352	449,356
U.S. Department of the Interior grants	–	–	646,580	646,580	764,684
FSM revenue sharing	2,569,453	–	–	2,569,453	2,128,570
Other federal contributions	–	1,848,045	3,444	1,851,489	3,010,124
State taxes and licenses	1,496,048	–	–	1,496,048	1,568,240
Investment income (Note 2)	2,106,421	–	–	2,106,421	2,846,028
Other	1,215,017	207,370	–	1,422,387	1,688,992
Total revenues	25,235,903	7,383,572	9,695,400	42,314,875	43,624,925
Expenditures:					
General government	5,348,610	–	–	5,348,610	4,975,182
Health services	4,894,929	927,361	–	5,822,290	5,943,949
Education	7,952,700	4,028,972	–	11,981,672	11,041,889
Economic development	1,069,285	342,224	–	1,411,509	1,435,562
Public safety	814,665	120,865	–	935,530	957,675
Transportation	1,282,779	–	–	1,282,779	1,252,294
Public works and utilities	1,729,126	1,107,285	–	2,836,411	3,849,644
Community affairs	270,242	377,183	–	647,425	299,414
Capital projects	–	–	12,231,673	12,231,673	9,917,769
Debt service – principal	–	–	668,032	668,032	646,031
Debt service – interest	–	–	32,437	32,437	53,673
Other	5,602,364	378,749	–	5,981,113	5,034,870
Total expenditures	28,964,700	7,282,639	12,932,142	49,179,481	45,407,952
Revenues in excess of (less than) expenditures	(3,728,797)	100,933	(3,236,742)	(6,864,606)	(1,783,027)
Other sources (uses):					
Operating transfers in (Note 7)	–	383,113	–	383,113	1,359,709
Operating transfers out (Note 7)	(596,927)	(33,167)	(180,636)	(810,730)	(2,000,677)
Proceeds from notes payable (Note 13)	–	–	10,300,000	10,300,000	–
Other income (expense), net	(1,190)	–	12,362	11,172	–
Total other sources (uses), net	(598,117)	349,946	10,131,726	9,883,555	(640,968)
Excess (deficiency) of revenues and other sources over expenditures and other uses	(4,326,914)	450,879	6,894,984	3,018,949	(2,423,995)
Fund balances (deficit), beginning of year	(2,569,125)	424,608	27,097,079	24,952,562	27,376,557
Fund balances (deficit), end of year	\$ (6,896,039)	\$ 875,487	\$ 33,992,063	\$ 27,971,511	\$ 24,952,562

See accompanying notes to combined financial statements.

CHUUK STATE GOVERNMENT
Statement of Revenues, Expenditures and Changes in Deficit –
Budget and Actual, Budgetary Basis – General Fund
Year Ended September 30, 1993
(With comparative totals for the year ended September 30, 1992)

	1993 General Fund			1992 General Fund		
	Budget	Actual	Variance	Budget	Actual	Variance
Revenues:						
Compact of Free Association						
Section 211 and 217	\$ 17,511,752	\$ 17,848,964	\$ 337,212	\$ 15,062,136	\$ 15,511,752	\$ 449,616
FSM revenue sharing	3,139,164	2,569,453	(569,711)	2,200,000	2,128,570	(71,430)
State taxes and licenses	2,300,000	1,496,048	(803,952)	2,543,601	1,568,240	(975,361)
Public service charges	1,550,000	1,215,017	(334,983)	1,550,000	1,362,140	(187,860)
Investment income	1,555,008	2,106,421	551,413	1,906,914	2,846,028	939,114
Total revenues	26,055,924	25,235,903	(820,021)	23,262,651	23,416,730	154,079
Expenditures – budgetary basis:						
General government	5,424,600	5,473,350	(48,750)	4,969,250	5,032,312	(63,062)
Health Services	3,134,003	4,902,168	(1,768,165)	3,161,787	3,885,417	(723,630)
Education	8,060,520	7,909,895	150,625	7,097,241	7,160,465	(63,224)
Economic development	1,138,200	1,083,405	54,795	1,161,000	1,066,548	94,452
Public safety	805,300	796,669	8,631	849,700	849,405	295
Transportation	1,258,441	1,255,241	3,200	1,321,200	1,204,726	116,474
Public works and utilities	1,930,200	1,731,329	198,871	1,683,908	1,561,262	122,646
Community affairs	282,100	272,138	9,962	248,400	259,762	(11,362)
Board and Commissions	653,100	666,374	(13,274)	389,300	362,858	26,442
Special programs	249,107	238,467	10,640	428,500	469,635	(41,135)
Legislative external appropriations	3,639,073	3,820,169	(181,096)	3,426,720	2,899,278	527,442
Other	–	825,251	(825,251)	–	130,015	(130,015)
Total expenditures	26,574,644	28,974,456	(2,399,812)	24,737,006	24,881,683	(144,677)
Revenues less than expenditures	(518,720)	(3,738,553)	(3,219,833)	(1,474,355)	(1,464,953)	9,402
Other uses:						
Operating transfers out	(523,200)	(596,977)	(73,777)	(1,302,135)	(585,722)	716,413
Other expense	–	(1,190)	(1,190)	–	–	–
Deficiency of revenues over expenditures and other uses	(1,041,920)	(4,336,720)	(3,294,800)	(2,776,490)	(2,050,675)	725,815
Deficit, unreserved, beginning of year	(3,802,670)	(3,802,670)	–	(1,540,557)	(1,540,557)	–
Other changes in deficit – unreserved:						
(Decrease) in reserve for related assets	–	(68,414)	(68,414)	–	(295,385)	(295,385)
(Decrease) in reserve for continuing appropriations	–	(12,475)	(12,475)	–	83,947	83,947
Deficit – unreserved, end of year	\$ (4,844,590)	\$ (8,220,279)	\$ (3,375,689)	\$ (4,317,047)	\$ (3,802,670)	\$ 514,377

See accompanying notes to combined financial statements.

CHUUK STATE GOVERNMENT
Combined Statement of Revenues, Expenses and Changes in
Retained Earnings/Contributed Capital – Proprietary Fund Type
Year Ended September 30, 1993
(With comparative totals for the year ended September 30, 1992)

	Proprietary Fund Type	
	Enterprise Funds	
	1993	1992
Operating revenues:		
Interest income	\$ 73,535	\$ 70,840
Coconut product sales	42,918	49,961
Federal contributions	32,959	36,352
Other	130,734	29,808
Total operating revenues	280,146	186,961
 Operating expenses:		
Cost of sales	144,999	151,707
Payroll and personnel	98,954	99,314
Travel	27,634	39,671
Bad debt	253,431	29,883
Depreciation	24,338	28,220
Rent	9,985	17,627
Other	58,200	84,834
Total operating expenses	617,541	451,256
Operating loss	(337,395)	(264,295)
 Non–operating revenues (expenses):		
Transfers in (Note 8)	158,740	380,870
Interest expense	(12,346)	(7,288)
Total non–operating revenues (expenses), net	146,394	373,582
Net loss	(191,001)	109,287
 Retained earnings, beginning of year	535,621	426,334
Retained earnings, end of year	\$ 344,620	\$ 535,621
Contributed capital, beginning of year	\$ 1,670,266	\$ 1,670,266
Additions	–	–
Contributed capital, end of year	\$ 1,670,266	\$ 1,670,266
Total fund equity	\$ 2,014,886	\$ 2,205,887

See accompanying notes to combined financial statements.

CHUUK STATE GOVERNMENT
Combined Statement of Cash Flows –
Proprietary Fund Type
Year Ended September 30, 1993
(With comparative totals for the year ended September 30, 1992)

	Proprietary Fund Type	
	Enterprise Funds	
Increase (Decrease) in Cash and Equivalents:	1993	1992
Cash flows from operating activities:		
Cash received from customers	\$ 275,432	\$ 124,503
Cash payment to suppliers and employees	(275,437)	(490,036)
Interest expense	(12,346)	(7,288)
Net cash used by operating activities	(12,351)	(372,821)
Cash flows from noncapital financing activities:		
(Increase) decrease in loans receivable	84,091	(65,914)
Transfers in	158,740	380,870
Net cash provided by noncapital financing activities	242,831	314,956
Cash flows from capital and related financing activities:		
Acquisition of fixed assets	–	(194,204)
Proceeds from debt, net of repayments	5,288	286,022
Net cash provided by noncapital financing activities	5,288	91,818
Net increase in cash and equivalents	235,768	33,953
Cash and equivalents, beginning of year	460,502	426,549
Cash and equivalents, end of year	\$ 696,270	\$ 460,502
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (337,395)	\$ (264,295)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Bad debt	253,431	29,883
Depreciation	24,338	28,220
Interest expense	(12,346)	(7,288)
Increase in receivable	(4,714)	(63,512)
Change in inventories	3,162	(4,504)
Change in prepaid expenses	34,149	–
Change in other assets	(4,831)	(30,625)
Change in accounts payable	31,855	(60,700)
Total adjustment	325,044	(108,526)
Net cash used by operating activities	\$ (12,351)	\$ (372,821)

See accompanying notes to combined financial statements.

CHUUK STATE GOVERNMENT
Notes to Combined Financial Statements
September 30, 1993

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

In evaluating how to define the State, for financial reporting purposes, management has considered all potential components units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the State and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the State is able to exercise oversight responsibilities.

Based on the application of these criteria, the following component units are included within the reporting entity:

Special Revenue Funds:
Chuuk Visitors' Bureau

Enterprise Funds:
Chuuk Coconut Processing Authority
Chuuk Housing Authority

CHUUK STATE GOVERNMENT
Notes to Combined Financial Statements, Continued
September 30, 1993

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

The accompanying general purpose financial statements do not include the State's eleven development authorities (special revenue funds) nor the State's 39 municipalities, separate and distinct legal entities which receive 8% of all Compact current account monies and 40% of all Compact CIP monies. The majority of these entities do not present financial information concerning their operations, thus precluding presentation of financial statements for these funds.

B. Fund Structure and Basis of Accounting

The accompanying general purpose financial statements are structured into two categories of funds and two account groups. The fund categories include governmental funds and proprietary funds.

The State's governmental funds include:

1. The General Fund - used to account for all financial transactions not accounted for in another fund;
2. The Special Revenue Funds - used to account for specific revenues earmarked to finance particular programs and activities;
3. The Capital Projects Funds - used to account for the acquisition or construction of all major governmental general fixed assets.

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 the funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

CHUUK STATE GOVERNMENT
Notes to Combined Financial Statements, Continued
September 30, 1993

(1) Summary of Significant Accounting Policies, Continued

B. Fund Structure and Basis of Accounting, Continued

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 (i.e., revenues) and decreases (i.e., expenses) in net total assets.

All of the governmental funds are presented on the modified accrual basis of accounting. In accordance with the modified accrual basis, revenues are recognized when they become susceptible to accrual; that is, when they become both measurable and available to finance expenditures of the current period. Measurable means that the amount of the transaction can be determined and available means that it is collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded at the time liabilities are incurred except:

- a. Inventories generally are considered expenditures at acquisition.
- b. Prepayments are usually considered expenditures at the time of payment.

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 cancelled.

The proprietary fund is accounted for on the accrual basis of accounting and at September 30, 1993, included two Enterprise funds which account for the operations of the Chuuk Housing Authority and the Chuuk Coconut Processing Authority. Both are designed to be self-sufficient and render services to the general public on a user charge basis. Under the accrual method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

CHUUK STATE GOVERNMENT
Notes to Combined Financial Statements, Continued
September 30, 1993

(1) Summary of Significant Accounting Policies, Continued

C. Fixed Assets and Long-Term Liabilities

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received.

It is Chuuk State's policy to capitalize public domain or infrastructure assets such as roads, drainage systems, lighting systems, and similar assets that are immovable and of value only to the State. However, interest costs are not capitalized on such assets.

Costs for normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized.

Assets in the general fixed assets account group are not depreciated. Depreciation of fixed assets in the proprietary fund type is computed using the straight-line method.

General Long-Term Debt is not accounted for in a fund, but rather in an Account Group. Accrued annual leave represents a portion of the General Long-Term Debt Account Group (GLTDAG) as of September 30, 1993. Due to the immateriality of the current portion of accrued annual leave, the State is of the opinion that this liability, in its entirety, may be classified as long-term.

The long-term payable to the Federal Emergency Management Agency (FEMA) (See Note 5) is accounted for in the GLTDAG. A 25% matching share contribution was required by FEMA of Chuuk State upon granting of the disaster funds.

As Chuuk State did not have sufficient available cash, FEMA advanced funds to Chuuk and allowed the State to sign a promissory note for the required matching share.

The long-term notes payable for MTN recorded in the GLTDAG relate to the State's participation in a Medium Term Note program through the FSM National Government (See Note 13).

CHUUK STATE GOVERNMENT
Notes to Combined Financial Statements, Continued
September 30, 1993

(1) Summary of Significant Accounting Policies, Continued

F. Loans Receivable

Loans receivable of the enterprise fund consist of Community Development Block Grant (CDBG) loans and general loans extended to qualifying 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 \$25,000. Loan maturities range from 1 to 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 proprietary fund 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.

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.

CHUUK STATE GOVERNMENT
Notes to Combined Financial Statements, Continued
September 30, 1993

(1) Summary of Significant Accounting Policies, Continued

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. 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" column 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 for enterprise funds are carried at the lower of cost (first-in-first-out method) or market.

L. Reclassifications

Certain items in the 1992 combined financial statements have been reclassified to conform with 1993 presentation.

M. Investments

Investments are generally carried at the lower of cost at market. (See Notes 2 and 9).

CHUUK STATE GOVERNMENT
Notes to Combined Financial Statements, Continued
September 30, 1993

(1) Summary of Significant Accounting Policies, Continued

N. Actual Expenditures Contrasted With Budgetary Expenditures

1. Actual expenditures are charges which represent the total of all current year liabilities incurred which were attributable to the operations of the respective functional areas; such liabilities may represent liquidations of either current or prior year encumbrances.
2. In contrast, budgetary expenditures represent current charges against appropriations; current charges consist of all current year liquidated and unliquidated encumbrances. For each functional area, budgetary expenditures are determined by subtracting both current year liquidations of prior year encumbrances and unliquidated prior year encumbrances from the combined total of current year actual expenditures and all unliquidated encumbrances. When viewed in relation to respective budgets, budgetary expenditures provide the principal means of evaluating current year operating performance and management stewardship.

(2) Cash and Equivalents and Investments

Cash and Equivalents

For the purposes of the combined balance sheet and the combined statements of cash flows of its proprietary fund type, the State considers cash and equivalents to be cash on hand, and cash in checking and savings accounts, cash on deposit with trustee, and unrestricted time certificates of deposit with initial maturities of less than 90 days.

Cash Deposits

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

CHUUK STATE GOVERNMENT
Notes to Combined Financial Statements, Continued
September 30, 1993

(2) Cash and Equivalents and Investments, Continued

Cash Deposits, Continued

At September 30, 1993, the State had deposits as follows; in each situation, cost approximated market value.

General Fund

Cash in checking accounts and time certificates of deposit with FDIC insured banks	\$ 235,400
Cash on deposit with trustee	<u>117,780</u>
	<u>\$ 353,180</u>

Special Revenue Funds

Cash in checking accounts with FDIC insured banks	\$ 11,717
Cash on deposit with trustee	<u>272,054</u>
	<u>\$ 283,771</u>

Capital Projects Funds

Cash on deposits with Trustee	<u>\$ 227,797</u>
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Enterprise Funds

Cash in checking and savings accounts with FDIC insured banks	<u>\$ 696,270</u>
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Investments

The State has adopted 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 (FSM), Secretary of Finance, maintains the accounting system and records necessary to account for investment funds placed with the Authority on behalf of the State.

CHUUK STATE GOVERNMENT
Notes to Combined Financial Statements, Continued
September 30, 1993

(2) Cash and Investments, Continued

Investments, Continued

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.
 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 stated.
 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 or FSLIC insured savings and loan associations, both of 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.

CHUUK STATE GOVERNMENT
Notes to Combined Financial Statements, Continued
September 30, 1993

(2) Cash and Investments, Continued

Investments, Continued

- 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, 1993, are summarized below:

	<u>Carrying Amount</u>	<u>Market Value</u>
<u>Cash on Deposit with Trustee</u>		
Cash management fund	<u>\$ 551,335</u>	<u>\$ 551,335</u>
<u>Investments</u>		
Equity funds	<u>\$19,672,989</u>	<u>\$21,581,157</u>

- D. The State's investment income as of September 30, 1993 is summarized below:

Interest	\$1,139,409
Dividends	117,451
Realized gains	1,195,151
Realized losses	(150,728)
Management fees	(116,766)
Other expenses	<u>(78,096)</u>
	<u>\$2,106,421</u>

CHUUK STATE GOVERNMENT
Notes to Combined Financial Statements, Continued
September 30, 1993

(3) Receivables From Other Governments and Federal Agencies

Amounts due from other governments include those funds which are earned and have yet to be reimbursed by the FSM National Government (FSM) 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) Changes in General Fixed Assets

Chuuk State did not update the balances in the General Fixed Assets Account Group for fiscal year 1993.

A summary of the general fixed assets accounted for in the General Fixed Assets Account Group as of September 30, 1993, follows:

	Estimated Useful Life	Balance at September 30, 1993
Roads	30-50 years	\$10,257,016
Port facilities	30-40 years	6,537,700
Airport facilities	30-40 years	24,506,300
Public utilities	30-50 years	22,961,621
Other	30-50 years	<u>3,319,207</u>
		<u>\$67,581,844</u>

A summary of fixed assets accounted for in the Enterprise Funds as of September 30, 1993, follows:

Housing units	25-50 years	\$ 243,001
Equipment	7-10 years	741,499
Building	20-30 years	301,649
Automobile	3- 5 years	30,404
Office equipment	7-10 years	13,415
Other	5-10 years	<u>6,799</u>
		1,336,767
Less accumulated depreciation		<u>283,933</u>
		<u>\$1,052,834</u>

CHUUK STATE GOVERNMENT
Notes to Combined Financial Statements, Continued
September 30, 1993

(5) Notes Payable

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, 1993, 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 Chuuk Housing Authority, an Enterprise Fund, as of September 30, 1993, had the following note payable:

Payable to bank, principal and interest of \$1,634, due in 250 monthly installments maturing on January 8, 1999, at 10% per annum, collateralized by L043-A02 in Nepung, Chuuk \$ 78,802

Chuuk Coconut Processing Authority, an Enterprise Fund as of September 30, 1993 had the following note payable:

Payable to FSM Development Bank, after an initial grace period of 18 months which was extended to 24 months, principal and interest are due in monthly installments of \$3,221 until December, 1995 then monthly installments of \$6,442 maturing in 2006 at 5% per annum, collateralized by 15.442 hectares of land, buildings, and soap making equipment. The outstanding balance at September 30, 1993, represents drawdowns to date on a credit facility totalling \$737,131. \$ 686,888

CHUUK STATE GOVERNMENT
Notes to Combined Financial Statements, Continued
September 30, 1993

(5) Notes Payable, Continued

The State signed a promissory note with the Federal Emergency Management Agency for the State's matching share of funds for the Typhoon Owen disaster as of September 30, 1993. The principal amount was originally estimated at \$2,500,000. The current principal amount is determined by calculating 25% of the FEMA grants less principal payments already made. The note is as follows:

Payable to FEMA, principal and interest due in 10 quarterly installments of \$233,234 maturing on April 1, 1994, at 7 1/8% per annum. \$ 127,870

Future minimum payments on all notes payable for subsequent years ending September 30, are as follows:

<u>Years ending September 30,</u>	<u>Amount</u>
1994	\$ 473,985
1995	55,048
1996	66,431
1997	70,781
1998	50,635
Thereafter	<u>505,859</u>
	<u>\$1,222,739</u>

See additional notes payable set forth in Note 13.

(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. \$ 159,966

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. \$10,924,341

CHUUK STATE GOVERNMENT
Notes to Combined Financial Statements, Continued
September 30, 1993

(7) Operating Transfers In/Out

Material General Fund, Special Revenue Fund, and Capital Projects Fund transfers in/out for the year ended September 30, 1993, are discussed below:

A. General Fund Transfers to the Chuuk Housing Authority and the Chuuk Coconut Processing Authority (Enterprise Funds)

The Chuuk Legislature appropriated operational subsidies to the Chuuk Housing Authority and Chuuk Coconut Processing Authority. During fiscal year 1993, \$72,740 and \$86,000, respectively, was expended under this appropriation. The general fund has recorded this expenditure as an operating transfer out, and the enterprise funds have recorded the receipt of funds as a non-operating revenue, transfer in, within the accompanying general purpose financial statements.

B. General Fund Transfer to the Chuuk Visitor's Bureau (Special Revenue Fund)

The Chuuk Legislature appropriated an operational subsidy to the Chuuk Visitor's Bureau. During fiscal year 1993, \$99,000 was expended under this appropriation. In addition to the operational subsidy \$70,310 was transferred out to Chuuk Visitor's Bureau for the Aluminum Recycling Program. The general fund has recorded these expenditures as operating transfer out, and the special revenue fund has recorded receipts as operating transfer in.

C. General Fund Transfer to the Development Authorities

The Chuuk Legislature appropriated an operational subsidy to the development authorities. During fiscal year 1993, \$268,877 was expended under this appropriation.

The general fund has recorded this expenditure as an operating transfer out; however, the majority of the developmental authorities do not present financial information concerning their operations, thus precluding presentation of financial statements for these entities.

D. Compact Special Block Grant (Special Revenue Fund)
Transfer to Federal Grants (Special Revenue Fund)

During fiscal year 1993, \$33,167 was expended under the Rural Sanitation Program. The Compact Special Block Grant Fund has recorded the expenditure as operating transfer out to the Federal Grant Fund.

CHUUK STATE GOVERNMENT
Notes to Combined Financial Statements, Continued
September 30, 1993

(7) Operating Transfers In/Out, Continued

E. Compact CIP Fund Transfer to Chuuk Visitor's Bureau
(Special Revenue Fund)

The Chuuk State Legislature appropriated \$100,000 to the Chuuk Visitor's Bureau for tourism related promotions. The Compact CIP has recorded the expenditure as transfer out, and the special revenue fund has recorded the receipt of funds as a non-operating revenue, transfer in, within the accompanying general purpose financial statements.

F. TTPI Capital Projects Fund Transfers to the Federal
Grants Fund (Special Revenue Fund)

During the year 1993, \$80,636 was expended under the TTPI CIP fund for the Chuuk International Airport. Such an expenditure has been recorded in the TTPI CIP as operating transfer out to the U.S. Federal Grants Fund.

(8) Interfund Assets/Liabilities

The following summarizes due from/to other funds as of September 30, 1993:

<u>Fund</u>	<u>Receivable Amount</u>	<u>Payable Amount</u>
Special Revenue Funds:		
Chuuk Airport Authority	\$ 307,052	\$ -
Compact - Special Block Grant	514,806	-
Federal Grant Assistance Fund	-	937,567
Compact - Other Grants Fund	636,600	-
Other Grant Assistance Fund	-	22,819
CFSM Grant Fund	-	507,136
Capital Projects Funds:		
TTG Capital Projects Fund (CIP)	-	1,731,887
Compact Capital Projects Fund (CIP)	3,578,732	-
CFSM State Projects Fund (CIP)	-	237,587
General Fund (GF)	-	1,600,194
	<u>\$5,037,190</u>	<u>\$5,037,190</u>

CHUUK STATE GOVERNMENT
Notes to Combined Financial Statements, Continued
September 30, 1993

(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, thus aggregating a cumulative investment in the Bank of the FSM of \$1,500,000 as of September 30, 1993, which represents an interest of 16.23%.

During fiscal year 1991, the State also purchased \$250,000 of common stock in the Pacific Islands Regional Development Bank, (a 12.6% interest at September 30, 1993).

During fiscal year 1993, the State purchased \$130,000 of common stock in a joint venture with the National Fisheries Corporation for a longline base. The State purchased \$370,000 of common stock in fiscal year 1991 in the same joint venture, thus aggregating a cumulative investment of \$500,000 as of September 30, 1993, which represents an interest of 50%.

During fiscal year 1993, the State purchased \$812,000 of common stock in the Bank of Guam, (a .007% interest as of September 30, 1993).

During the fiscal year 1993, the State invested \$3,160,000 for a 40% interest in Western Pacific Tuna Group (WESTPAC), a fishing joint venture. Additionally, during the fiscal year 1993, Chuuk State invested \$40,000 for a 45% interest in Western Pacific Operating Group (WESTOP). The WESTPAC commenced fishing operations in fiscal year 1994.

The above investments are carried at cost since there is no method of ascertaining related market value. Since the investments are considered unavailable to finance expenditures of the ensuing fiscal year, the investments are restricted in the reserved for related assets, component of fund balance. Therefore, even though the State has been unable to obtain financial statements from the National Fisheries Corporation for its joint venture, there is no impact on appropriable fund balance reserves due to the aforementioned related asset designation.

CHUUK STATE GOVERNMENT
Notes to Combined Financial Statements, Continued
September 30, 1993

(10) Segment Data for Enterprise Funds

The following represents key data extracted from the financial statements of the two material enterprise funds of the State as of September 30, 1993, and for the year then ended:

	<u>Chuuk Coconut Processing</u>	<u>Chuuk Housing Authority</u>
Total assets	<u>\$1,096,526</u>	<u>\$1,787,800</u>
Total equity	<u>\$ 337,660</u>	<u>\$1,677,226</u>
Net fixed assets	<u>\$ 896,157</u>	<u>\$ 156,667</u>
FY93 operating loss	<u>\$ (205,333)</u>	<u>\$ (132,062)</u>
FY93 net loss	<u>\$ (119,333)</u>	<u>\$ (71,668)</u>
FY93 revenues	<u>\$ 45,507</u>	<u>\$ 234,639</u>
FY93 operating transfers in	<u>\$ 86,000</u>	<u>\$ 72,740</u>

(11) Commitments and Contingencies

Federal Grants

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, \$8,608,668 in cumulative questioned costs exist for the operation of fiscal years 1984-1992 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 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, 1993, was \$3,542,694.

CHUUK STATE GOVERNMENT
Notes to Combined Financial Statements, Continued
September 30, 1993

(11) Commitments and Contingencies, Continued

Compact of Free Association - Medical Referrals

During fiscal year 1989, the State reversed a previously recorded liability for unpaid medical referral billings amounting to \$2,937,704. The Compact of Free Association contains an authorization to pay for this debt. An appropriation has not been enacted by the U.S. Congress. Management is of the opinion that the Compact of Free Association clearly states the United States Government is responsible for this debt.

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 13).

The future appropriations have been made for Chuuk State's investment in Western Pacific Tuna Group (WESTPAC), a fishing joint venture. Appropriations totalling \$14,813,000 have been committed up to and including fiscal year 2001. Such has been appropriated from Compact Section 211 (a) Capital Account Funds for this purpose.

Litigation

The State has been named the defendant in numerous lawsuits. The State is vigorously defending all claims. The ultimate outcome of the claims is uncertain, and at this point it is difficult to estimate losses, if any, which may result upon resolution of these matters. Accordingly, no provision for potential claims is recorded in the accompanying general purpose financial statements. Additionally, no appropriation or fund has been established to pay liabilities arising from valid claims.

Compact Capital Funds

During the fiscal year ended September 30, 1993, Chuuk State expended \$2,000,000 of Compact Capital Funds for general fund operating purposes. The FSM Attorney General, in an opinion dated February 24 1994, asserts that the above transaction was not performed in accordance with FSM statutes. Additionally, the State expended \$700,469 of Compact Capital Funds for repayment of a FEMA loan, a transaction which the FSM Attorney General states is not a valid use of Compact funding. Chuuk State and the FSM National Government are in the process of resolving the above issue. The ultimate outcome of the issue is not predictable as this time but, could have a material impact on the foregoing general purpose financial statements of the General Fund and the Compact Capital Projects Fund.

CHUUK STATE GOVERNMENT
Notes to Combined Financial Statements, Continued
September 30, 1993

(11) Commitments and Contingencies, Continued

Loan to Western Pacific Tuna Group (Westpac)

During the year ended September 30, 1993, the State financed an equity investment in Westpac. (See Notes 11 and 13). Westpac has received a \$3,000,000 loan from the FSM Development Bank for which Chuuk State is the guarantor.

(12) Fund Deficits

The following represents material fund deficits as of September 30, 1993. If operation of these funds can not cover prior loss, the State's General Fund may have to absorb these amounts or a portion thereof:

Special Revenue Funds:		
CFSM Grant Fund		\$137,144
Chuuk Visitors' Bureau		<u>60,153</u>
		<u>\$197,297</u>
Capital Projects Funds:		
TTG Capital Projects Fund		<u>\$ 95,061</u>

(13) Notes Payable

During fiscal 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 equity investment in Western Pacific Tuna Group (WESTPAC), a fishing joint venture, and a loan to Bonjenva Holdings Ltd. Therefore the outstanding notes payable balance as of September 30, 1993, was composed of several notes with varying interest rates and maturities as follows:

<u>Maturity</u>	<u>Interest Rate % P.A.</u>	<u>Principal Amount</u>
10/15/97	6.02	\$ 1,300,000
10/15/98	6.30	3,000,000
10/15/99	6.52	3,000,000
10/16/2000	6.75	<u>3,000,000</u>
Total		<u>\$10,300,000</u>

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.

CHUUK STATE GOVERNMENT
Notes to Combined Financial Statements, Continued
September 30, 1993

(13) Notes Payable, Continued

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, 1993. Management is of the opinion that it has complied with such covenants through September 30, 1993.

(14) Loans Receivable - Related Party

As of September 30, 1993, Chuuk State has outstanding loans receivable from Bonjenvall Holdings Limited (BJL) of \$7,000,000 which was recorded in the Compact capital projects fund. The loan matures in fiscal year 2011, with interest being accrued semiannually at an interest rate of 7% per annum. The first payment on the loan is due on October 16, 1996.

Collateral for the loan is in the form of a first preferred mortgage over three fishing vessels to be purchased by WESTPAC, through the loan proceeds. The above loans receivable are being fully reserved for as a related asset within the Compact capital improvement projects fund balance.

(15) Fund Balance Reserved For Related Assets

Fund balance reserves for related assets are comprised of the following as of September 30, 1993:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>
Advances	\$ 162,319	\$ 102,418	\$ 147,328
Receivables	201,480	423,584	556,318
Loans	-	-	7,000,000
Investments- other	-	-	6,262,000
	<u>\$ 363,799</u>	<u>\$ 526,002</u>	<u>\$13,965,646</u>

(16) Reserve For Doubtful Interfund Receivable

The State General Fund advanced funds to a Special Revenue Fund in anticipation of receiving additional funding from a U.S. grantor agency for disaster relief. The additional funding has yet to materialize. The State has accordingly recognized a bad debt expense related to this advance in the General Fund and has recorded a reserve for doubtful interfund receivable. This reserve is not netted against the interfund receivables/payables in the accompanying combined balance sheet in order for the related interfund accounts to balance (See Note 8).

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

Honorable Sasao Gouland
Governor, State of Chuuk
Federated States of Micronesia:

Our audit was made 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 matters specified in our report dated December 20, 1993, in our opinion, is fairly presented in all material respects when considered in relation to the general purpose financial statements taken as a whole.

December 20, 1993

Certified Public Accountants

**CHUUK STATE GOVERNMENT
GENERAL FUND**

Statement of Revenue, Expenditures by Function and Department and Changes in Deficit
Year Ended September 30, 1993
(With comparative totals for the year ended September 30, 1992)

	1993	1992
Revenues:		
U.S. Compact of Free Association:		
Section 211(a)(2) – base grant	\$ 11,240,400	\$ 11,240,400
Section 217 – inflation adjustment	6,608,564	4,271,352
FSM revenue sharing	2,569,453	2,128,570
State taxes and licenses:		
Cigarette tax	\$ 63,399	\$ 75,344
General sales tax	714,544	821,211
Alcohol	396,087	447,800
Hotel	135,300	127,106
Delinquent tax collections	13,206	48,056
License and fees	15,654	11,167
Other	157,858	37,556
	1,496,048	1,568,240
Other revenues:		
Hospital and utilities collections	556,193	402,197
Transportation collections	376,210	383,263
Leases	145,475	64,876
Miscellaneous	137,139	511,804
Investment income	2,106,421	2,846,028
Total revenues	25,235,903	23,416,730
Expenditures by department:		
General government:		
Governor and staff	501,531	534,768
Attorney General	219,562	227,894
State Finance	317,274	330,489
ADP	35,366	32,148
Tax and revenue	82,058	85,878
Program and budget	114,981	127,874
Property and supply	135,390	138,500
Personnel	147,683	160,944
Planning	137,252	132,618
Legislative internal operations	3,115,763	2,679,549
Judicial operations	541,750	519,660
Total	5,348,610	4,970,322

CHUUK STATE GOVERNMENT
Combining Statement of Expenditures by Account—
All Governmental Fund Types
Year Ended September 30, 1993
(With comparative totals for the year ended September 30, 1992)

	Governmental Fund Types			Totals	
	General	Special	Capital	(Memorandum Only)	
	Fund	Revenue Funds	Projects Funds	1993	1992
Expenditures:					
Personnel	\$ 18,966,598	\$ 2,028,708	\$ 299,777	\$ 21,295,083	\$ 19,314,456
Travel	1,029,929	481,155	205,837	1,716,921	2,169,097
Contractual services	934,124	1,049,071	4,826,420	6,809,615	6,422,199
POL	1,021,884	964,180	45,228	2,031,292	2,023,355
Other :					
Equipment	287,782	393,225	2,897,095	3,578,102	3,396,803
Medical supplies	365,613	154,497	—	520,110	597,197
Medical referral	1,237,108	—	—	1,237,108	858,234
Supplies and materials	581,866	198,849	545,220	1,325,935	2,206,199
Scholarships	74,310	431,078	—	505,388	533,626
Official allowance	2,735	—	—	2,735	9,690
Food	75,629	97,850	165,248	338,727	147,844
Books	340	4,999	—	5,339	223,077
All others	2,964,670	1,257,170	2,103,798	6,325,638	4,646,497
Debt service—principal	—	—	668,032	668,032	646,031
Debt service—interest	—	—	32,437	32,437	53,673
Miscellaneous	1,422,112	221,857	1,143,050	2,787,019	2,159,974
Total expenditures	<u>\$ 28,964,700</u>	<u>\$ 7,282,639</u>	<u>\$ 12,932,142</u>	<u>\$ 49,179,481</u>	<u>\$ 45,407,952</u>

**CHUUK STATE GOVERNMENT
GENERAL FUND**

Statement of Revenue, Expenditures by Function and Department and Changes in Fund Deficit, Continued
Year Ended September 30, 1993

(With comparative totals for the year ended September 30, 1992)

	1993	1992
Expenditures by department, continued:		
Health services:		
Hospital and dispensaries	\$ 2,291,169	\$ 1,944,518
Environmental health	76,258	72,970
Dental services	229,372	208,082
Medical supplies	400,195	318,548
Medical referrals	1,845,342	1,287,667
Hospital patients food	52,593	-
Total	4,894,929	3,831,785
Education:		
Administration	676,897	483,467
Elementary	4,535,219	4,972,064
Secondary	1,579,683	1,639,336
Nutrition	1,109,376	-
P.R.E.L.	51,525	-
Total	7,952,700	7,094,867
Economic development:		
Administration	101,646	105,143
Land management	72,133	64,365
Marine resources	465,265	474,030
Agriculture	296,664	278,036
Labor	36,832	34,201
Commerce and industry	96,745	105,193
Total	1,069,285	1,060,968
Public safety	814,665	834,225
Transportation:		
Administration	794,410	851,093
Micro Vessels	368,437	301,207
Airport	119,932	99,994
Total	1,282,779	1,252,294
Public works and utilities:		
Operations and maintenance	535,476	628,972
Utilities	991,967	905,275
Purchase of POL	201,683	-
Total	1,729,126	1,534,247

**CHUUK STATE GOVERNMENT
GENERAL FUND**

**Statement of Revenue, Expenditures by Function and Department and Changes in Fund Deficit, Continued
Year Ended September 30, 1993**

(With comparative totals for the year ended September 30, 1992)

	1993	1992
Expenditures by department, continued:		
Community affairs:		
Division of Public Affairs	\$ 138,423	\$ 137,137
Division of Youth Affairs	19,935	-
Division of Information and Broadcast	111,884	116,500
Total	270,242	253,637
Boards and Commissions:		
Investment board	6,059	5,146
Election Commission	88,166	87,933
Education board	27,340	21,139
Recreation board	38,828	47,686
Land commission	200,827	-
General Election Commission	143,275	-
ABC Board	1,997	206,940
Total	506,492	368,844
Other	693,781	213,378
Special programs	402,184	497,896
Legislative external appropriations	3,999,907	2,819,746
Total	5,095,872	3,531,020
Total expenditures	28,964,700	24,732,209
Revenues (under) expenditures	(3,728,797)	(1,315,479)
Other uses:		
Operating transfer out	(596,927)	(585,722)
Other expense	(1,190)	-
(Deficiency) of revenues under expenditures and other uses	(4,326,914)	(1,901,201)
Deficit, beginning of year	(2,569,125)	(667,924)
Deficit, end of year	\$ (6,896,039)	\$ (2,569,125)

**CHUUK STATE GOVERNMENT
GENERAL FUND**
Statement of Revenues, Expenditures and Changes In
Deficit – Budget and Actual, Budgetary Basis
Year Ended September 30, 1993

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Compact of Free Association Section 211 and 217	\$ 17,511,752	\$ 17,848,964	\$ 337,212
FSM revenue sharing	3,139,164	2,569,453	(569,711)
State taxes and licenses	2,300,000	1,496,048	(803,952)
Investment income	1,555,008	2,106,421	551,413
Others	1,550,000	1,215,017	(334,983)
Total revenues	<u>26,055,924</u>	<u>25,235,903</u>	<u>(820,021)</u>
Expenditures – budgetary basis:			
General government:			
Executive branch:			
Office of the Governor	445,500	509,340	(63,840)
Office of the Attorney General	215,800	223,157	(7,357)
State Finance	361,200	363,139	(1,939)
Budget	129,600	113,578	16,022
Supply	153,700	138,378	15,322
Personnel	165,500	145,372	20,128
Planning	130,900	137,272	(6,372)
Tax and Revenue	95,500	89,068	6,432
Total executive branch	<u>1,697,700</u>	<u>1,719,304</u>	<u>(21,604)</u>
Legislative branch:			
President and members	607,646	590,757	16,889
Legislative committees	133,235	146,261	(13,026)
Speakers and members	1,473,100	1,485,084	(11,984)
Legislative legal office	300,850	293,263	7,587
Legislative administration	235,100	235,349	(249)
Budget	117,362	136,912	(19,550)
Chief clerk	315,407	321,185	(5,778)
Total legislative branch	<u>3,182,700</u>	<u>3,208,811</u>	<u>(26,111)</u>
State Court	<u>544,200</u>	<u>545,235</u>	<u>(1,035)</u>
Total general government	<u>5,424,600</u>	<u>5,473,350</u>	<u>(48,750)</u>
Health Services:			
Hospitals and dispensaries	2,189,110	2,293,297	(104,187)
Environmental health	78,100	77,501	599
Dental services	233,600	231,568	2,032
Medical supplies	293,193	417,737	(124,544)
Medical referrals	300,000	1,815,743	(1,515,743)
Hospital patients food	40,000	66,322	(26,322)
Total health services	<u>3,134,003</u>	<u>4,902,168</u>	<u>(1,768,165)</u>

**CHUUK STATE GOVERNMENT
GENERAL FUND
Statement of Revenues, Expenditures and Changes In
Deficit – Budget and Actual, Budgetary Basis, continued
Year Ended September 30, 1993**

	Budget	Actual	Variance
Education:			
Administration – education	\$ 744,300	\$ 679,945	\$ 64,355
Elementary	4,420,900	4,468,536	(47,636)
Secondary	1,627,300	1,589,121	38,179
Nutrition	1,202,100	1,111,815	90,285
P.R.E.L.	65,920	60,478	5,442
Total Education	8,060,520	7,909,895	150,625
Economic development:			
C & I administration	106,500	107,143	(643)
Land management	69,200	72,378	(3,178)
Marine resources	521,100	466,960	54,140
Agriculture	289,900	296,663	(6,763)
Labor	48,100	39,187	8,913
Business and trades	103,400	101,074	2,326
Total economic development	1,138,200	1,083,405	54,795
Public safety	805,300	796,669	8,631
Transportation	1,258,441	1,255,241	3,200
Public works and utilities:			
Operation and maintenance	533,200	529,579	3,621
Electric utilities	997,000	801,830	195,170
Purchase of POL	400,000	399,920	80
Total public works and utilities	1,930,200	1,731,329	198,871
Community affairs :			
Public affairs	133,700	139,187	(5,487)
Youth affairs	36,100	20,850	15,250
Broadcasting	112,300	112,101	199
Total community affairs	282,100	272,138	9,962
Boards and commissions:			
Investment board	5,000	5,792	(792)
Election commission	85,500	88,075	(2,575)
Education board	25,000	27,097	(2,097)
Recreation board	47,100	40,205	6,895
Land commission	206,500	202,746	3,754
General Election Commission	132,000	144,791	(12,791)
Scholarship Board	150,000	155,671	(5,671)
ABC Board	2,000	1,997	3
Total board and commissions	653,100	666,374	(13,274)
Special programs:			
Small industry	30,400	28,233	2,167
Education – Chapter I & II	–	612	(612)
Education – Food Services	–	(10,885)	10,885
Non–Public Schools	25,000	25,000	–
Chuuk Peace Corps.	13,000	13,000	–
4–H Youth	20,000	20,000	–
Sub–total special program	88,400	75,960	12,440

**CHUUK STATE GOVERNMENT
GENERAL FUND**
Statement of Revenues, Expenditures and Changes In
Deficit – Budget and Actual, Budgetary Basis, continued
Year ended September 30, 1993

	Budget	Actual	Variance
Special programs balance forwarded:	\$ 88,400	\$ 75,960	\$ 12,440
Home economic programs	20,000	20,024	(24)
Youth Program	–	138	(138)
Farmer's home administration	15,000	18,773	(3,773)
Community resources development	20,000	20,000	–
Historic preservation	20,607	21,652	(1,045)
Fire disaster program	5,000	1,600	3,400
Micro Legal Services	30,000	30,000	–
TOCA	50,100	50,320	(220)
Total special programs	<u>249,107</u>	<u>238,467</u>	<u>10,640</u>
Legislative external appropriations:			
Court judgements	–	204,225	(204,225)
COLA	1,500,000	1,490,394	9,606
Municipalities and election districts	1,944,073	1,931,970	12,103
FY1990 Governor's Inauguration	75,000	73,530	1,470
Canvasback	120,000	120,050	(50)
Total legislative external appropriations	<u>3,639,073</u>	<u>3,820,169</u>	<u>(181,096)</u>
Unfunded expenditures:			
Unfunded medical billings	–	6,138	(6,138)
Travel advance bad debts	–	65,365	(65,365)
Interfund receivable bad debts	–	617,953	(617,953)
Governmental travel org.	–	63,806	(63,806)
Other unfunded programs	–	71,989	(71,989)
Total unfunded expenditures	<u>–</u>	<u>825,251</u>	<u>(825,251)</u>
Total expenditures – budgetary basis	<u>26,574,644</u>	<u>28,974,456</u>	<u>(2,399,812)</u>
Revenues less than expenditures	(518,720)	(3,738,553)	(3,219,833)
Other uses:			
Other	–	(1,190)	(1,190)
Operating transfers out	(523,200)	(596,977)	(73,777)
Deficiency of revenues under expenditures and other uses	(1,041,920)	(4,336,720)	(3,294,800)
Deficit, beginning of year	(3,802,670)	(3,802,670)	–
Other changes in unreserved fund balance:			
(Decrease) in reserve for continuing appropriations	–	(12,475)	(12,475)
(Decrease) in reserve for related assets	–	(68,414)	(68,414)
Deficit, end of year	<u>\$ (4,844,590)</u>	<u>\$ (8,220,279)</u>	<u>\$ (3,375,689)</u>

CHUUK STATE GOVERNMENT
Special Revenue Funds
September 30, 1993

Specific revenues earmarked to finance particular operational activities of the government are accounted for in the Special Revenue Funds. A brief discussion of the State's Special Revenue Funds as of September 30, 1993, 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.

Other Grant Assistance Fund

This fund accounts for all grants received directly from non-U.S. sources.

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.

**CHUUK STATE GOVERNMENT
SPECIAL REVENUE FUNDS
Combining Balance Sheet
September 30, 1993
(With comparative totals as of September 30, 1992)**

<u>Assets</u>	Chuuk	Chuuk	Federal	Other	CFSM	Compact	Compact	<u>Totals</u>	
	Visitors' Bureau	Airport Authority	Grant Assistance Fund	Grant Assistance Fund	Grant Fund	Other Grant Fund	Block Grant Section 221(b)	1993	1992
Cash and equivalents	\$ -	\$ -	\$ 11,717	\$ -	\$ -	\$ 191,103	\$ 80,951	\$ 283,771	\$ 411,508
Receivables:									
General, net	-	-	1,900	-	-	-	-	1,900	1,900
FSM National Gov't	-	-	1,501,623	21,928	373,570	38,899	127,866	2,063,886	730,524
Federal agencies, direct	-	-	617,953	-	-	-	-	617,953	1,985,062
Due from other funds	-	307,052	-	-	-	636,600	514,806	1,458,458	781,234
Advances	-	-	59,039	891	12,485	9,935	20,068	102,418	92,769
Total assets	\$ -	\$ 307,052	\$ 2,192,232	\$ 22,819	\$ 386,055	\$ 876,537	\$ 743,691	4,528,386	\$ 4,002,997
Liabilities and Fund Balance (Deficit)									
Liabilities:									
Bank overdraft	\$ 60,153	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 60,153	\$ -
Accounts payable	-	-	634,807	-	16,063	385,124	423,121	1,459,115	1,037,668
Payable to other governments	-	-	333,252	-	-	-	46,251	379,503	353,793
Due to other funds	-	-	937,567	22,819	507,136	-	-	1,467,522	1,807,840
Accrued payroll	-	-	9,285	-	-	-	-	9,285	101,767
Deferred revenue	-	-	277,321	-	-	-	-	277,321	277,321
Total liabilities	60,153	-	2,192,232	22,819	523,199	385,124	469,372	3,652,899	3,578,389
Fund balance (deficit):									
Reserved for related assets	-	-	59,039	22,819	285,749	9,935	148,460	526,002	697,146
Reserved for encumbrances	-	-	153,389	985	15,573	346,094	38,813	554,854	208,696
Unreserved	(60,153)	307,052	(212,428)	(23,804)	(438,466)	135,384	87,046	(205,369)	(481,234)
Total fund balance (deficit)	(60,153)	307,052	-	-	(137,144)	491,413	274,319	875,487	424,608
Total liabilities and fund balance (deficit)	\$ -	\$ 307,052	\$ 2,192,232	\$ 22,819	\$ 386,055	\$ 876,537	\$ 743,691	\$ 4,528,386	\$ 4,002,997

**CHUUK STATE GOVERNMENT
SPECIAL REVENUE FUNDS**
Combining Statement of Revenues, Expenditures by Function and Changes in Fund Balances (Deficit)
Year Ended September 30, 1993
(With comparative totals for the year ended September 30, 1992)

	Chuuk Visitors' Bureau	Chuuk Airport Authority	Federal Grant Assistance Fund	Other Grant Assistance Fund	CFSM Grant Fund	Compact Other Grant Fund	Compact Special Block Grant Section 221(b)	Totals	
								1993	1992
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	–	–	–	–	–	491,918	–	491,918	455,924
Section 212–base grant	–	–	–	–	–	250,000	–	250,000	250,000
Section 216(a)(3)–FSM	–	–	–	–	–	445,352	–	445,352	449,356
Federal contributions	–	–	1,848,045	–	–	–	–	1,848,045	2,952,505
Other	–	85,522	–	983	120,865	–	–	207,370	326,852
Total revenues	–	85,522	1,848,045	983	120,865	2,598,157	2,730,000	7,383,572	8,575,524
Expenditures:									
General government	–	–	–	–	–	–	–	–	4,860
Public works and utilities	–	–	188,358	–	–	918,927	–	1,107,285	2,315,397
Health services	–	–	297,544	–	–	–	629,817	927,361	2,112,164
Education	–	–	1,061,040	983	–	923,151	2,043,798	4,028,972	3,947,022
Economic development	337,466	–	4,758	–	–	–	–	342,224	374,594
Community affairs	–	–	32,183	–	–	345,000	–	377,183	45,777
Public safety	–	–	–	–	120,865	–	–	120,865	123,450
Other	–	784	377,965	–	–	–	–	378,749	1,135,006
Total expenditures	337,466	784	1,961,848	983	120,865	2,187,078	2,673,615	7,282,639	10,058,270
Revenues over (under) expenditures	(337,466)	84,738	(113,803)	–	–	411,079	56,385	100,933	(1,482,746)
Other sources (uses):									
Operating transfers in	269,310	–	113,803	–	–	–	–	383,113	660,005
Operating transfers out	–	–	–	–	–	–	(33,167)	(33,167)	(258,751)
Total other sources (uses), net	269,310	–	113,803	–	–	–	(33,167)	349,946	401,254
Excess (deficiency) of revenues and other sources over expenditures and other uses	(68,156)	84,738	–	–	–	411,079	23,218	450,879	(1,081,492)
Fund balances (deficit), beg. of year	8,003	222,314	–	–	(137,144)	80,334	251,101	424,608	1,506,100
Fund balances (deficit), end of year	\$ (60,153)	\$ 307,052	\$ –	\$ –	\$ (137,144)	\$ 491,413	\$ 274,319	\$ 875,487	\$ 424,608

**CHUUK STATE GOVERNMENT
SPECIAL REVENUE FUNDS**

Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balances (Deficit)
Year ended September 30, 1993

(With comparative totals for the year ended September 30, 1992)

	Chuuk Visitors' Bureau	Chuuk Airport Authority	Federal Grant Assistance Fund	Other Grant Assistance Fund	CFSM Grant Fund	Compact Other Grant Fund	Compact Special Block Grant Section 221(b)	Totals	
								1993	1992
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	–	–	–	–	–	491,918	–	491,918	455,924
Section 212–base grant	–	–	–	–	–	250,000	–	250,000	250,000
Section 216(a)(3)–FSM	–	–	–	–	–	445,352	–	445,352	449,356
Federal contributions	–	–	1,848,045	–	–	–	–	1,848,045	2,952,505
Other	–	85,522	–	983	120,865	–	–	207,370	326,852
Total revenues	–	85,522	1,848,045	983	120,865	2,598,157	2,730,000	7,383,572	8,575,524
Expenditures:									
Personnel	74,537	–	607,824	983	34,445	11,942	1,298,977	2,028,708	2,966,104
Travel	45,618	–	338,968	–	35,473	17,559	43,537	481,155	760,051
Contractual services	8,650	–	486,135	–	7,715	250,871	295,700	1,049,071	1,562,913
POL	2,780	–	26,020	–	13,678	921,227	475	964,180	1,264,193
Other :									
Equipment	17,100	–	195,340	–	1,895	176,016	2,874	393,225	361,257
Medical supplies	–	–	1,041	–	1,500	138,583	13,373	154,497	479,175
Supplies and materials	78,920	–	84,678	–	8,295	19,882	7,074	198,849	293,536
Scholarships	–	–	–	–	–	431,078	–	431,078	449,355
Food	–	–	–	–	–	97,850	–	97,850	91,511
Books	–	–	4,999	–	–	–	–	4,999	216,925
All others	109,861	–	148,996	–	5,830	8,839	983,644	1,257,170	1,284,689
Miscellaneous	–	784	67,847	–	12,034	113,231	27,961	221,857	328,561
Total expenditures	337,466	784	1,961,848	983	120,865	2,187,078	2,673,615	7,282,639	10,058,270
Revenues over (under) expenditures	(337,466)	84,738	(113,803)	–	–	411,079	56,385	100,933	(1,482,746)
Other sources (uses):									
Operating transfers in	269,310	–	113,803	–	–	–	–	383,113	660,005
Operating transfers out	–	–	–	–	–	–	(33,167)	(33,167)	(258,751)
Total other sources (uses), net	269,310	–	113,803	–	–	–	(33,167)	349,946	401,254
Excess (deficiency) of revenues and other sources over expenditures and other uses	(68,156)	84,738	–	–	–	411,079	23,218	450,879	(1,081,492)
Fund balances (deficit), beg. of year	8,003	222,314	–	–	(137,144)	80,334	251,101	424,608	1,506,100
Fund balances (deficit), end of year	\$ (60,153)	\$ 307,052	\$ –	\$ –	\$ (137,144)	\$ 491,413	\$ 274,319	\$ 875,487	\$ 424,608

CHUUK STATE GOVERNMENT
Capital Projects Funds
September 30, 1993

Appropriations or grants earmarked to finance capital projects of the State are accounted for in the Capital Projects Funds. A brief discussion of the State's Capital Projects Funds as of September 30, 1993, follows:

TTG Capital Projects Fund

This fund accounts for various capital projects received under grant awards from the U.S. Department of the Interior, Office of Transition (formerly the Trust Territory Government).

CFSM State Projects Fund

This fund accounts for the various capital projects funded by the Congress of the Federated States of Micronesia.

Compact 211 (a) (2) Capital Projects Fund

This fund accounts for various capital projects funded by the Compact of Free Association with the United States, Title Two, Article I, Section 211.

**CHUUK STATE GOVERNMENT
CAPITAL PROJECTS FUNDS
Combining Balance Sheet
September 30, 1993
(With comparative totals as of September 30, 1992)**

<u>Assets</u>	TTG Capital Projects Fund	CFSM State Projects Fund	Compact 211(a)(2) Capital Projects Fund	<u>Totals</u>	
				1993	1992
Cash and equivalents	\$ -	\$ -	\$ 227,797	\$ 227,797	\$ 88,962
Investments	-	-	18,390,146	18,390,146	25,133,416
Investments - other	-	-	6,262,000	6,262,000	1,120,000
Receivable from:					
Dept. of the Interior grants - TTG	1,638,479	-	-	1,638,479	1,047,100
FSM National Government	-	238,967	-	238,967	235,523
Prepaid expenses	-	-	24,801	24,801	-
Advances	18,793	950	128,535	148,278	110,809
Loans receivable, other	-	-	7,000,000	7,000,000	-
Due from other funds	-	-	3,578,732	3,578,732	1,590,323
Total assets	\$ 1,657,272	\$ 239,917	\$ 35,612,011	\$ 37,509,200	\$ 29,326,133
 <u>Liabilities and Fund Balance (Deficit)</u>					
Liabilities:					
Notes payable	\$ -	\$ -	\$ 329,179	\$ 329,179	\$ 330,503
Accounts payable	19,875	2,330	1,192,518	1,214,723	531,239
Due to other funds	1,731,887	237,587	-	1,969,474	1,363,918
Accrued payroll	571	-	3,190	3,761	3,394
Total liabilities	1,752,333	239,917	1,524,887	3,517,137	2,229,054
Fund balance (deficit):					
Reserved for:					
Investments	-	-	-	-	541,660
Related assets	400,082	175,029	13,390,535	13,965,646	1,120,000
Encumbrances	637,364	160	5,064,784	5,702,308	2,072,310
Continuing appropriations	-	-	10,924,341	10,924,341	8,345,277
Unreserved fund balance (deficit)	(1,132,507)	(175,189)	4,707,464	3,399,768	15,017,832
Total fund balance (deficit)	(95,061)	-	34,087,124	33,992,063	27,097,079
Total liabilities and fund balance (deficit)	\$ 1,657,272	\$ 239,917	\$ 35,612,011	\$ 37,509,200	\$ 29,326,133

**CHUUK STATE GOVERNMENT
CAPITAL PROJECTS FUNDS**
Combining Statement of Revenues, Expenditures by Function And Changes in Fund Balances (Deficit)
Year ended September 30, 1993
(With comparative totals for the year ended September 30, 1992)

	TTG Capital Projects Fund	CFSM State Projects Fund	Compact 211(a)(2) Capital Projects Fund	Totals	
				1993	1992
Revenues:					
U.S. Compact of Free Association:					
Section 211 (a)(2) – base grant	\$ –	\$ –	\$ 7,833,600	\$ 7,833,600	\$ 7,833,600
Section 217 – inflation adjustment	–	–	1,211,776	1,211,776	2,976,768
U.S. Department of the Interior grants	646,580	–	–	646,580	764,684
Other federal contributions	–	3,444	–	3,444	57,619
Total revenues	646,580	3,444	9,045,376	9,695,400	11,632,671
Expenditures:					
Capital projects	565,944	3,444	11,662,285	12,231,673	9,917,769
Debt service – principal	–	–	668,032	668,032	–
Debt service – interest	–	–	32,437	32,437	–
Total expenditures	565,944	3,444	12,362,754	12,932,142	9,917,769
Revenues in excess of (less than) expenditures	80,636	–	(3,317,378)	(3,236,742)	1,714,902
Other sources (uses):					
Other income	–	–	46,066	46,066	–
Other expenses	–	–	(33,704)	(33,704)	–
Proceeds from notes payable	–	–	10,300,000	10,300,000	–
Operating transfers out	(80,636)	–	(100,000)	(180,636)	(1,156,204)
Excess of revenues over expenditures and other sources	–	–	6,894,984	6,894,984	558,698
Fund balances (deficit), beginning of year	(95,061)	–	27,192,140	27,097,079	26,538,381
Fund balances (deficit), end of year	<u>\$ (95,061)</u>	<u>\$ –</u>	<u>\$ 34,087,124</u>	<u>\$ 33,992,063</u>	<u>\$ 27,097,079</u>

**CHUUK STATE GOVERNMENT
CAPITAL PROJECTS FUNDS**
Combining Statement of Revenues, Expenditures by Account And Changes in Fund Balances (Deficit)
Year Ended September 30, 1993
(With comparative totals for the year ended September 30, 1992)

	TTG Capital Projects Fund	CFSM State Projects Fund	Compact 211(a)(2) Capital Projects Fund	Totals	
				1993	1992
Revenues:					
U.S. Compact of Free Association:					
Section 211 (a)(2) – base grant	\$ –	\$ –	\$ 7,833,600	\$ 7,833,600	\$ 7,833,600
Section 217 – inflation adjustment	–	–	1,211,776	1,211,776	2,976,768
U.S. Department of the Interior grants	646,580	–	–	646,580	764,684
Other federal contributions	–	3,444	–	3,444	57,619
Total revenues	646,580	3,444	9,045,376	9,695,400	11,632,671
Expenditures:					
Personnel	16,204	–	283,573	299,777	233,088
Travel	23,131	270	182,436	205,837	207,018
Contractual services	158,980	–	4,667,440	4,826,420	3,953,070
POL	131	223	44,874	45,228	26,352
Other:					
Equipment	–	–	2,897,095	2,897,095	2,551,021
Supplies and materials	26,695	–	518,525	545,220	1,407,413
All others	291,048	2,951	1,809,799	2,103,798	885,318
Food	–	–	165,248	165,248	1,476
Debt service – principal	–	–	668,032	668,032	–
Debt service – interest	–	–	32,437	32,437	–
Miscellaneous	49,755	–	1,093,295	1,143,050	653,013
Total expenditures	565,944	3,444	12,362,754	12,932,142	9,917,769
Revenues in excess of (less than) expenditures	80,636	–	(3,317,378)	(3,236,742)	1,714,902
Other sources (uses) :					
Other income	–	–	46,066	46,066	–
Other expenses	–	–	(33,704)	(33,704)	–
Proceeds from notes payable	–	–	10,300,000	10,300,000	–
Operating transfers out	(80,636)	–	(100,000)	(180,636)	(1,156,204)
Excess of revenues and other sources over expenditures and other uses	–	–	6,894,984	6,894,984	558,698
Fund balances (deficit), beginning of year	(95,061)	–	27,192,140	27,097,079	26,538,381
Fund balances (deficit), end of year	<u>\$ (95,061)</u>	<u>\$ –</u>	<u>\$ 34,087,124</u>	<u>\$ 33,992,063</u>	<u>\$ 27,097,079</u>

CHUUK STATE GOVERNMENT
ENTERPRISE FUNDS
September 30, 1993

Government entities which provide goods or services on a user fee basis are accounted for in the State's Enterprise Funds. A brief discussion of the State's Enterprise Funds as of September 30, 1993, follows:

Chuuk Housing Authority

This fund accounts for the operations of the Chuuk Housing Authority. The Chuuk Housing Authority receives rental subsidies from the U.S. Department of Housing and Urban Development to operate Section 8 housing renovation and income programs.

Chuuk Coconut Processing Authority

This fund accounts for the operations of the Chuuk Coconut Processing Authority. The Chuuk Coconut Processing Authority manufactures soap and soap by-products for resale.

**CHUUK STATE GOVERNMENT
ENTERPRISE FUNDS
Combining Balance Sheet
September 30, 1993**

(With comparative totals for the year ended September 30, 1992)

<u>Assets</u>	Chuuk Housing Authority	Chuuk Coconut Processing Authority	<u>Totals</u>	
			1993	1992
Cash and equivalents	\$ 689,046	\$ 7,224	\$ 696,270	\$ 460,502
Receivables from federal agencies	36,509	92,798	129,307	121,667
General receivables, net of allowance for doubtful accounts for \$41,034 in 1993	515	12,095	12,610	15,536
Loans receivables, net of allowance for doubtful accounts of \$458,260 in 1993	898,818	-	898,818	1,209,696
Other assets	6,235	11,590	17,825	12,994
Inventories	-	76,662	76,662	79,824
Prepaid expenses	-	-	-	34,149
Fixed assets, net	156,677	896,157	1,052,834	1,103,816
Total assets	<u>\$ 1,787,800</u>	<u>\$ 1,096,526</u>	<u>\$ 2,884,326</u>	<u>\$ 3,038,184</u>
<u>Liabilities and Fund Equity</u>				
Liabilities:				
Accounts payable	\$ 31,772	\$ 71,978	\$ 103,750	\$ 71,895
Notes payable	78,802	686,888	765,690	760,402
Total liabilities	<u>110,574</u>	<u>758,866</u>	<u>869,440</u>	<u>832,297</u>
Fund equity:				
Contributed capital	1,217,431	452,835	1,670,266	1,670,266
Retained earnings (deficit)	459,795	(115,175)	344,620	535,621
Total fund equity	<u>1,677,226</u>	<u>337,660</u>	<u>2,014,886</u>	<u>2,205,887</u>
Total liabilities and fund equity	<u>\$ 1,787,800</u>	<u>\$ 1,096,526</u>	<u>\$ 2,884,326</u>	<u>\$ 3,038,184</u>

**CHUUK STATE GOVERNMENT
ENTERPRISE FUNDS**
Combining Statement of Revenues, Expenses and Changes in Fund Equity
Year ended September 30, 1993
(With comparative totals for the year ended September 30, 1992)

	Chuuk Housing Authority	Chuuk Coconut Processing Authority	Totals	
			1993	1992
Operating revenues:				
Interest income	\$ 73,535	\$ —	\$ 73,535	\$ 70,840
Coconut product sales	—	42,918	42,918	49,961
Federal contributions	32,959	—	32,959	36,352
Other	128,145	2,589	130,734	29,808
Total operating revenues	<u>234,639</u>	<u>45,507</u>	<u>280,146</u>	<u>186,961</u>
Operating expenses:				
Cost of sales	—	144,999	144,999	151,707
Payroll and personnel	65,973	32,981	98,954	99,314
Travel	15,838	11,796	27,634	39,671
Bad debt	252,389	1,042	253,431	29,883
Depreciation	14,880	9,458	24,338	28,220
Rent	1,585	8,400	9,985	17,627
Other	16,036	42,164	58,200	84,834
Total operating expenses	<u>366,701</u>	<u>250,840</u>	<u>617,541</u>	<u>451,256</u>
Operating loss	<u>(132,062)</u>	<u>(205,333)</u>	<u>(337,395)</u>	<u>(264,295)</u>
Non—operating revenues (expenses) :				
Transfers in	72,740	86,000	158,740	380,870
Interest expense	(12,346)	—	(12,346)	(7,288)
Total non—operating revenues (expenses), net	<u>60,394</u>	<u>86,000</u>	<u>146,394</u>	<u>373,582</u>
Net loss	<u>(71,668)</u>	<u>(119,333)</u>	<u>(191,001)</u>	<u>109,287</u>
Retained earnings, beginning of year	<u>531,463</u>	<u>4,158</u>	<u>535,621</u>	<u>426,334</u>
Retained earnings (deficit), end of year	<u>\$ 459,795</u>	<u>\$ (115,175)</u>	<u>\$ 344,620</u>	<u>\$ 535,621</u>
Contributed capital, beginning of year	<u>\$ 1,217,431</u>	<u>\$ 452,835</u>	<u>\$ 1,670,266</u>	<u>\$ 1,670,226</u>
Additions	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Contributed capital, end of year	<u>\$ 1,217,431</u>	<u>\$ 452,835</u>	<u>\$ 1,670,266</u>	<u>\$ 1,670,226</u>
Total fund equity	<u>\$ 1,677,226</u>	<u>\$ 337,600</u>	<u>\$ 2,014,886</u>	<u>\$ 22,005,557</u>

CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA
INDEPENDENT AUDITORS' REPORTS ON COMPLIANCE
WITH LAWS AND REGULATIONS
YEAR ENDED SEPTEMBER 30, 1993



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
BASED ON THE AUDIT OF FINANCIAL STATEMENTS

Honorable Sasao Gouland
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, 1993, and have issued our report thereon dated December 20, 1993. Our report on the audit of the general purpose financial statements was modified as a result of our inability to form an opinion as to the fairness of presentation of the General Fixed Assets Account Group and the omission of the financial statements of the State's eleven development authorities from the Governmental Fund Type-Special Revenue Funds.

We conducted our audit in accordance with generally accepted auditing standards and 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.

Compliance with laws, regulations, contracts, and grants applicable to the State of Chuuk is the responsibility of Chuuk State management. As part of obtaining reasonable assurance about whether the general purpose financial statements are free of material misstatement, we performed tests of Chuuk State's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance consist of failures to follow requirements or violations of prohibitions, contained in statutes, regulations, contracts, or grants, that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the general purpose financial statements. The results of our tests of compliance disclosed the material instances of noncompliance detailed in the following paragraph, the effects of which has not been corrected in the 1993 general purpose financial statements of the State of Chuuk.

As explained in local finding no. 1 at page 91, Chuuk State expended \$2,000,000 of fiscal year 1993 Compact Capital funds for general fund operating purposes. The FSM Attorney General is of the opinion that the above transfer was not performed in accordance with FSM laws and regulations. Additionally, as explained in local finding No. 3 at page 93, Compact Capital funds were used for repayment of a FEMA loan. The FSM Attorney General is currently of the opinion that this transaction is not a valid use of Compact Capital funds.

We considered these material instances of noncompliance in forming our opinion on whether the 1993 general purpose financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated December 20, 1993 on those general purpose financial statements.

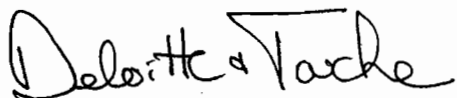
Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, the State of Chuuk complied, in all material respects, with the provisions referred to in the third paragraph of the report and with respect to items not tested, nothing came to our attention that caused us to believe that the State of Chuuk had not complied, in all material respects, with those provisions.

We noted certain immaterial instances of noncompliance that we have reported to the management of the State of Chuuk, which are described in the accompanying Schedule of Findings and Questioned Costs (pages 89 to 95).

We also noted matters involving compliance with laws and regulations related to federal financial assistance which we reported to the State of Chuuk's management in our reports dated December 20, 1993, on general requirements, specific requirements for major programs and specific compliance for nonmajor program transactions.

This report is intended for the information of the management of the State of Chuuk and the cognizant audit and other federal agencies. However, this report is a matter of public record and its distribution is not limited.

December 20, 1993



Certified Public Accountants



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH SPECIFIC REQUIREMENTS APPLICABLE
TO MAJOR FEDERAL FINANCIAL ASSISTANCE PROGRAMS

Honorable Sasao Gouland
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, 1993, and have issued our report thereon dated December 20, 1993. Our report on the audit of the general purpose financial statements was modified as a result of our inability to form an opinion as to the fairness of presentation of the General Fixed Assets Account Group and the omission of the financial statements of the State's eleven development authorities from the Governmental Fund Type-Special Revenue Funds.

We have also audited the State of Chuuk's compliance with the requirements governing the Compact of Free Association that are applicable to its one major federal financial assistance program, which is identified in the accompanying Schedule of Federal Financial Assistance (pages 68 through 85), for the year ended September 30, 1993. The management of the State of Chuuk is responsible for Chuuk State's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

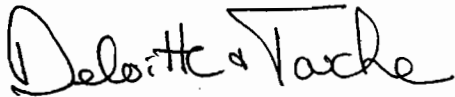
We conducted our audit of compliance with these requirements in accordance with generally accepted auditing standards; Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, "Audits of State and Local Governments." Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about Chuuk State's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying Schedule of Findings and Questioned Costs (pages 89 to 95). We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the State of Chuuk complied, in all material respects, with the requirements governing the Compact of Free Association that are applicable to its one major federal financial assistance program for the year ended September 30, 1993.

This report is intended for the information of the management of the State of Chuuk and the cognizant audit and other federal agencies. However, this report is a matter of public record and its distribution is not limited.

December 20, 1993

A handwritten signature in cursive script that reads "Deloitte & Touche".

Certified Public Accountants



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH THE GENERAL REQUIREMENTS APPLICABLE TO
FEDERAL FINANCIAL ASSISTANCE

Honorable Sasao Gouland
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, 1993, and have issued our report thereon dated December 20, 1993. Our report on the audit of the general purpose financial statements was modified as a result of our inability to form an opinion as to the fairness of presentation of the General Fixed Assets Account Group and the omission of the financial statements of the State's eleven development authorities from the Governmental Fund Type-Special Revenue Funds. We have also audited the State of Chuuk's compliance applicable to requirements of major federal financial assistance programs and have issued our report thereon dated December 20, 1993.

We have applied procedures to test the State of Chuuk's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance (pages 68 to 85), for the year ended September 30, 1993: cash management, federal assistance reports, allowable costs/cost principles, Drug-Free Workplace Act, and administrative requirements.

The requirements of political activity, Davis-Bacon Act, civil rights and relocation assistance and real property acquisition are not applicable to the federal financial assistance programs of the Federated States of Micronesia, which are identified in the Schedule of Federal Financial Assistance (pages 68 through 85).

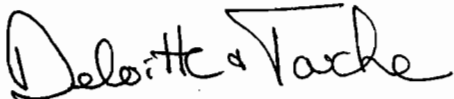
Our procedures were limited to the applicable procedures described in the Office of Management and Budget's Compliance Supplement for Single Audits of State and Local Governments. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on Chuuk State's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the State of Chuuk had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the accompanying Schedule of Findings and Questioned Costs (pages 89 to 95).

We also noted matters involving compliance with laws and regulations related to our audit of the general purpose financial statements and with requirements related to major and nonmajor federal financial assistance programs which we reported to the management of the State of Chuuk in our reports dated December 20, 1993.

This report is intended for the information of the management of the State Chuuk and the cognizant audit and other federal agencies. However, this report is a matter of public record and its distribution is not limited.

December 20, 1993

A handwritten signature in cursive script that reads "Deloitte & Touche".

Certified Public Accountants



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO NONMAJOR
FEDERAL FINANCIAL ASSISTANCE PROGRAM TRANSACTIONS

Honorable Sasao Gouland
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, 1993, and have issued our report thereon dated December 20, 1993. Our report on the audit of the general purpose financial statements was modified as a result of our inability to form an opinion as to the fairness of presentation of the General Fixed Assets Account Group and the omission of the financial statements of the State's eleven development authorities from the Governmental Fund Type-Special Revenue Funds. We have also audited the State of Chuuk's compliance applicable to requirements of its one major federal financial assistance program and applied procedures to test compliance with general requirements applicable to federal financial assistance programs and have issued our reports thereon dated December 20, 1993.

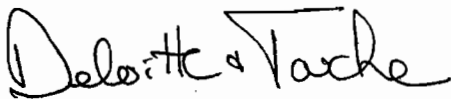
In connection with our audit of the 1993 general purpose financial statements of the State of Chuuk, and with our consideration of the State of Chuuk's control structure used to administer federal financial assistance programs, and assessment of control risk, as required by Office of Management and Budget (OMB) Circular A-128, Audits of State and Local Governments, we selected certain transactions applicable to certain nonmajor federal financial assistance programs for the year ended September 30, 1993.

As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing types of services allowed or unallowed; eligibility; the Compact of Free Association; matching, level of effort or earmarking; and reporting that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on Chuuk State's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the State of Chuuk had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the accompanying Schedule of Findings and Questioned Costs (pages 89 to 95).

This report is intended for the information of the management of the State of Chuuk and the cognizant audit and other federal agencies. However, this report is a matter of public record and its distribution is not limited.

December 20, 1993

A handwritten signature in cursive script that reads "Deloitte & Touche".

Certified Public Accountants



**INDEPENDENT AUDITORS' REPORT ON THE INTERNAL CONTROL
STRUCTURE USED IN ADMINISTERING
FEDERAL FINANCIAL ASSISTANCE**

Honorable Sasao Gouland
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, 1993, and have issued our report thereon dated December 20, 1993. Our report on the audit of the general purpose financial statements was modified as a result of our inability to form an opinion as to the fairness of presentation of the General Fixed Assets Account Group and the omission of the financial statements of the State's eleven development authorities from the Governmental Fund Type-Special Revenue Funds. We also have audited the State of Chuuk's compliance with requirements applicable to one major federal financial assistance programs and have issued our report thereon dated December 20, 1993.

We conducted our audits in accordance with generally accepted auditing standards; Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, Audits of State and Local Governments. Those standards and OMB Circular A-128 require that we plan and perform the audits to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement and about whether the State of Chuuk complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audits for the year ended September 30, 1993, we considered the State of Chuuk's internal control structure and assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinions on the State of Chuuk's general purpose financial statements and on its compliance with requirements applicable to major programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed

internal control structure policies and procedures relevant to our audit of the general purpose financial statements in a separate report dated December 20, 1993.

The management of the State of Chuuk is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles, and that federal financial assistance programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

General Requirements

- Cash management
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements

Specific Requirements

- Types of services allowed or unallowed
- Eligibility
- Matching, level of effort, or earmarking
- Reporting
- Compact of Free Association

Accounting Requirements

- Revenue/receipts
- Purchases/disbursements
- Payroll
- External financial reporting
- Cash
- Receivables
- Investments
- Payables and accrued liabilities
- Fund balance

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

During the year ended September 30, 1993, Chuuk State expended 82% of its total federal financial assistance under one major federal financial assistance program.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to Chuuk State Government's one major federal financial assistance program which is identified in the accompanying Schedule of Federal Financial Assistance (pages 68 to 85). Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the State of Chuuk's ability to administer federal financial assistance programs in accordance with applicable laws and regulations. A description of these matters is presented in the accompanying Schedule of Findings and Questioned Costs pages (89 to 95).

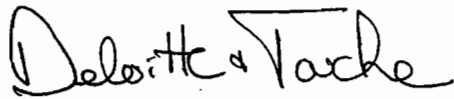
A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may 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 structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above are material weakness.

We also noted matters involving the internal control structure and its operation based on our audit of the general purpose financial statements which we reported to the management of the State of Chuuk in a report dated December 20, 1993.

This report is intended for the information of management of the State of Chuuk and the cognizant audit and other federal agencies. However, this report is a matter of public record and its distribution is not limited.

December 20, 1993

A handwritten signature in cursive script that reads "Deloitte & Touche". The signature is written in dark ink and is positioned above the printed name of the firm.

Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT ON THE SUPPLEMENTARY
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE**

Honorable Sasao Gouland
Governor, State of Chuuk
Federated States of Micronesia:

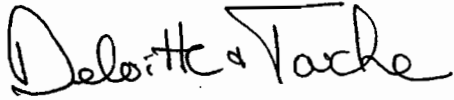
We have audited the general purpose financial statements of the State of Chuuk as of and for the year ended September 30, 1993, and have issued our report thereon dated December 20, 1993. Our report on the audit of the general purpose financial statements was modified as a result of our inability to form an opinion as to the fairness of presentation of the General Fixed Assets Account Group and the omission of the financial statements of the State's eleven development authorities from the Governmental Fund Type-Special Revenue Funds. These general purpose financial statements are the responsibility of Chuuk State's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements of the State of Chuuk taken as a whole. The accompanying Schedule of Federal Financial Assistance (pages 68 to 85) for the year ended September 30, 1993, which is also the responsibility of the management of the State of Chuuk, is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

This report is intended for the information of the management of the State of Chuuk and the cognizant audit and other federal agencies. However, this report is a matter of public record and its distribution is not limited.

December 20, 1993

A handwritten signature in cursive script that reads "Deloitte & Touche". The signature is written in dark ink and is positioned above the printed name of the firm.

Certified Public Accountants

CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA
INTRODUCTION TO COMPACT OF FREE ASSOCIATION FUNDING,
FEDERAL AND OTHER ASSISTANCE FUNDS
YEAR ENDED SEPTEMBER 30, 1993

Compact Funds

The Federated States of Micronesia (FSM) National Government and the Government of the United States implemented the Compact of Free Association during fiscal year 1987. The Compact funding replaced the Department of the Interior funding for general operations received through the Trust Territory of the Pacific Islands (TTPI) Government in previous fiscal years. Based on the terms of the Compact agreement, the FSM National Government receives funding in five year increments over a fifteen year period. The Compact funding is received in four different account classifications; current operations, capital projects, block grants, and inflation adjustments. A mutually agreed upon financial institution was selected as the trustee of the Compact funding to facilitate the FSM National Governments' and its four State entities' drawdown requirements.

During fiscal year 1993, the State of Chuuk Government submitted quarterly allocation requests to the FSM National Government for the current account. The current operation funds were transferred to State of Chuuk's designated banking institution based on the quarterly allocation requests. The capital project funds, which must comprise at least 40 percent of the total annual allocation, remain with the trustee institution and are drawdown upon request by State of Chuuk. Capital account funds are transferred in their annual base amounts on the first day of the fiscal year. Block grant funds are transferred with the initial quarterly current account allocation request and these funds were then appropriated by the Chuuk State Legislature in accordance with the guidelines of the Compact. The United States Government annually adjusts Compact funding for inflation.

Pursuant to section 233 of the Compact of Free Association and paragraph 1(d), Article IV of the Agreement Concerning Procedures for the Implementation of U.S. Economic Assistance, Programs, and Services provided in the Compact of Free Association between the Government of the U.S. and the Government of the FSM, audits of Compact funding shall be performed in compliance with Government Auditing Standards, issued by the Comptroller General of the United States, and the Single Audit Act of 1984. The above states that audits shall be performed in accordance with Circular A-128, but compliance testing of Compact funding shall not include specific federal guidelines applicable to federal program assistance grants, but rather shall be in conformance with local laws and regulations and the program intent as provided in the Compact of Free Association.

Federal Funds

The State of Chuuk Government applies to the FSM National Government for grant funds, or receives an allocation of funds awarded to the FSM National Government. The award of the subrecipient grant typically comes in the form of an allotment advice, rather than a formal notice. The allotment advice specifies any imposed expenditure limitations. However, the limitations are normally represented solely by object code authorization totals and not by detailed budgets.

Revenues are recorded and recognized on the basis of expenditures. Drawdowns, typically occurring after expenditures are recorded, are made upon request by the State of Chuuk Government to the FSM National Government.

Although program guidelines may not be specifically referenced in the allotment advice, subgrantees of federal programs other than Compact funding must adhere to the same cost principles as the grantee, as stated in the Office of Budget and Management Circular A-87. Additionally, beneficiaries and program objectives may not typically depart from the federal purpose, as may be determined by an Act of Congress, and in accordance with such program regulations which may be promulgated in the Code of Federal Regulations.

Introduction To Special Revenue and Capital Projects Funds

Receipt and use of monetary assistance from sources outside the general fund are accounted for in the following funds:

Special Revenue Funds:

- Federal Grants Assistance Fund
- Compact Other Grants Fund
 - Health and Medical
 - Post Secondary Education
 - Energy Block Grant
 - Special Development Assistance
- Compact Special Block Grant - Section 221 (b)
- Other Grant Assistance Fund

Capital Projects Funds:

- TTPI Capital Project Fund
- CFSM State Projects Fund
- Compact 211 (a)(2) Capital Projects Fund

As mentioned above, the Compact Major Block Grant, Compact Program and Compact Capital Project Funds are administered under the guidelines of the Compact of Free Association. With the exception of a few of the grants in the Other Grant Assistance Fund and the CFSM Special Revenue Fund, the revenue of the Special Revenue and Capital Projects Funds is derived through allotments from the TTPI or the FSM National Government for specific purposes. All TTPI allotments are originally derived from U.S. Congressional appropriations. As the subrecipient, the State of Chuuk reports to the FSM National Government. The CFSM Special Revenue Fund is funded by appropriations from the Congress of the Federated States of Micronesia, while the foreign assistance grants are received from various foreign governments and international organizations. The State of Chuuk, through the Federated States of Micronesia, reports to the applicable grantor concerning direct assistance grants.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
FSM FEDERAL ASSISTANCE FUND
YEAR ENDED SEPTEMBER 30, 1993**

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

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1993 Fiscal Year Expenditures
<u>U.S. Department of Agriculture</u>			
FY92 Forestry Project	7705	10.664	\$ 1,779
FY93 Forestry Project	7708	10.664	2,979
Total U.S. Department of Agriculture			\$ 4,758
 <u>U.S. Department of Education</u>			
FY92 Teacher Training	3025	84.124	\$ 48,179
FY93 Special Education Program	7732	84.027	361,510
Total U.S. Department of Education			\$ 409,689
 <u>U.S. Department of Health and Human Services</u>			
FY90 AIDS Program	7621	13.217	\$ 261
FY92 AIDS Prevention	7759	13.217	135
FY93 AIDS Prevention	7459	13.217	6,289
FY93 Family Planning	7768	13.217	26,598
Subtotal CFDA #13.217			33,283
FY90 Immunization Program	7617	13.268	431
FY92 Immunization Program	7692	13.268	12,722
FY93 Immunization Program	7793	13.268	44,277
Subtotal CFDA #13.268			57,430
FY91 MCH	7663	13.994	150
MCH/Dental Health	7664	13.994	5,100
FY91 MCHIP	7648	13.994	2,883
FY92 MCH	7754	13.994	85,751
Subtotal CFDA #13.994			93,884
FY92 PH & PH	7766	13.991	17,461
Subtotal CFDA #13.991			17,461
Balance forwarded			202,058

See accompanying notes to schedule of federal financial assistance.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
FSM FEDERAL ASSISTANCE FUND
YEAR ENDED SEPTEMBER 30, 1993**

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

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1993 Fiscal Year Expenditures
Balance forwarded			\$ 202,058
Family Food Nutrition Project	3959	UNICEF	5,133
FY92 ADAMHS	7771	93.992	83,521
FY93 Child Abuse & Neglect	7844	U. of Guam	6,830
Subtotal			95,484
Total U.S. Department of Health and Human Services			\$ 297,542
 <u>U.S. Department of the Interior</u>			
FY90 Historic Preservation	7667	15.904	\$ 661
FY91 Historic Preservation	7862	15.904	4,426
FY92 Historic Preservation	7877	15.904	27,096
Total U.S. Department of the Interior			\$ 32,183
 <u>U.S. Department of Labor</u>			
JTPA Adult Program	3262	17.250	\$ 5,723
FY89 JTPA Education Grant	3296	17.250	2,212
FY92 JTPA Admin.	3420	17.250	89,751
FY92 JTPA Adult Program	3421	17.250	258,225
FY92 JTPA Youth Program	3422	17.250	164,265
FY92 JTPA Participant Support	3423	17.250	82,025
FY92 JTPA Ed. Coordination	3424	17.250	30,234
FY92 JTPA Youth Program	3457	17.250	11,994
Total U.S. Department of Labor			\$ 644,429
 <u>Federal Emergency Management Agency</u>			
Typhoon Owen Public Assistance	3820	83.516	\$ 162,006
Typhoon Owen Public Assistance	3821	83.516	18,921
Typhoon Owen Ind. Family Grants	3826	83.516	75,176
Total Federal Emergency Management Agency			\$ 256,103

See accompanying notes to schedule of federal financial assistance.

CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
FSM FEDERAL ASSISTANCE FUND
YEAR ENDED SEPTEMBER 30, 1993

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

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1993 Fiscal Year Expenditures
<u>U.S. Environmental Protection Agency</u>			
S. Field/West Sewer	3572	66.600	\$ 68,887
Truk Rural Sanitation Program	7576	66.600	<u>119,474</u>
Total U.S. Environmental Protection Agency			<u>\$ 188,361</u>
 <u>U.S. Federal Aviation Administration</u>			
Chuuk International Airport	6661	20.106	<u>\$ 121,862</u>
 <u>Other U.S. Grants</u>			
P.R.E.L. Vocational Educ. Imprv. Prog.	3801	N/A	<u>\$ 6,921</u>
Total Federal Financial Assistance Fund			<u>\$ 1,961,848</u>

See accompanying notes to schedule of federal financial assistance.

**CHUUK STATE GOVERNMENT
 FEDERATED STATES OF MICRONESIA
 SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
 OTHER FEDERAL AND DIRECT ASSISTANCE FUND
 YEAR ENDED SEPTEMBER 30, 1993**

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

<u>Grantor Account Title</u>	<u>Chuuk Org. #</u>	<u>CFDA I.D. #</u>	<u>1993 Fiscal Year Expenditures</u>
<u>Non U.S. Grants</u>			
FY89 Population Education	3956	N/A	<u>\$ 983</u>
Total Other Federal and Direct Assistance Fund			<u>\$ 983</u>

See accompanying notes to schedule of federal financial assistance.

CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA
CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
TTPI CAPITAL PROJECTS FUND
YEAR ENDED SEPTEMBER 30, 1993

<u>Grantor Account Title</u>	<u>Chuuk Org. #</u>	<u>CFDA I.D. #</u>	<u>1993 Fiscal Year Expenditures</u>
Mowen Power Generation	6283	15.875	\$ 152,172
Airport Runway Seal Cost	6360	15.875	(76,869)
Dublon/Moen Water Sys. Impro.	6362	15.875	154,057
Moen Road Improvement	6363	15.875	3,244
Power Plant	6364	15.875	81,000
Airport Fuel Apron	6365	15.875	56,647
Chuuk Sanitary Facility	6366	15.875	17,157
Power Upgrade	6367	15.875	9,640
Wichen River	6368	15.875	(96,428)
Chuuk International Airport	6661	15.875	80,636
Weno Dock Rehabilitation	6662	15.875	260,324
Weno Power Gen. Rehab.	6663	15.875	<u>5,000</u>
 Total TTPI Capital Projects Fund			 <u>\$ 646,580 (A)</u>

(A) For the general purpose financial statements, total expenditures are reconciled as follows :

Audited expenditures	\$ 565,944
Add: Operating transfer out to federal grants Org. 6661	<u>80,636</u>
	<u>\$ 646,580</u>

The above funds are received in a subgrantee capacity through the Trust Territory of the Pacific Islands (TTPI) Government.

See accompanying notes to schedule of federal financial assistance.

**CHUUK STATE GOVERNMENT
 FEDERATED STATES OF MICRONESIA
 SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
 CFSM SPECIAL REVENUE FUND
 YEAR ENDED SEPTEMBER 30, 1993**

<u>Grantor Account Title</u>	<u>Chuuk Org. #</u>	<u>CFDA I.D. #</u>	<u>1993 Fiscal Year Expenditures</u>
Chuuk Joint Law Enforcement	9437	N/A	<u>\$ 120,865</u>
Total CFSM Special Revenue Fund			<u>\$ 120,865</u>

The above funds are received through the Congress of the Federated States of Micronesia and constitute local funds.

See accompanying notes to schedule of federal financial assistance.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
COMPACT OF FREE ASSOCIATION CAPITAL PROJECTS FUND
SECTION 211 (A)(2)
YEAR ENDED SEPTEMBER 30, 1993**

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1993 Fiscal Year Expenditures
<u>Section 211 (A)(2)</u>			
Murilo F. Coop. Proj.	6013	15.875	\$ 56,026
Murilo F. Coop. Proj.	6014	15.875	30,290
Murilo F. Coop. Proj.	6015	15.875	50,302
Uman Mwanukun F. Proj.	6016	15.875	10,350
Newotes (Weno) S. Hall	6017	15.875	2,610
State Court Judgement	6018	15.875	340,423
Chuuk State Hospital Renov.	6019	15.875	93,412
Unanu Housing Proj.	6020	15.875	18,661
Tourism Promotion	6021	15.875	100,000
Mech. Weno/P. Bldg. Renov.	6028	15.875	17,404
Mech. Weno/P. Bldg. Renov.	6029	15.875	10,381
Chuuk High School Fac. Upgrade	6033	15.875	89,207
Romoanum Market	6036	15.875	3,736
Lukunoch Ice Maker	6037	15.875	5,000
State CIP L. Damage Claim	6039	15.875	179,000
Contingent Fund	6040	15.875	17,691
Kuttu Munic. Office Expansion	6041	15.875	2,872
Polle (Tonoas) Youth Center	6043	15.875	5,450
Etten/Nechap Youth Center	6044	15.875	4,428
Nepukos Fishing Dev. Proj.	6046	15.875	27,783
Sup. Paata Housing Proj.	6047	15.875	90,996
Tonoas Road Upgrade	6048	15.875	153,257
Tonoas Lease Claim	6051	15.875	24,426
Tonoas CIP 1.5% Admin Cost	6052	15.875	4,640
Pollap L. Purchase & Bldg Sup.	6053	15.875	9,630
Sup. Paata Fish Proj.	6054	15.875	126,800
N. Nanom Econ. & Soc. Dev.	6055	15.875	1,680,530
Tamatam Fish Dev. Proj.	6056	15.875	23,578
Houk Housing Proj.	6059	15.875	4,940
Dublun F. Cold Storage	6122	15.875	8,000
Restoration Program	6141	15.875	197
Pattin Jr. High School FY88	6145	15.875	3,000
Sewer System FY88	6150	15.875	70,694
Garment Industry	6152	15.875	9,767
Agricultural Infrastructure	6153	15.875	3,000
Toleisom Ice Plant	6154	15.875	600
Tamatam Housing Project	6159	15.875	1,624
Magur Coop. Association	6160	15.875	1,800
Moch School Project	6161	15.875	34,621
Toleisom Market	6162	15.875	900
Tol Rd. Supply & CIP Claims	6165	15.875	130,337
Tol Ins. Is. Trns. Sys.	6166	15.875	310,000
Oneop Fishing Dev.	6168	15.875	21,640
Ono Cooperation Association	6170	15.875	(995)
Power Plant Generator	6173	15.875	92
Typhoon Owen Dis. Rel. Fund	6175	15.875	15,807
Subtotal			<u>3,794,907</u>

See accompanying notes to schedule of federal financial assistance.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
COMPACT OF FREE ASSOCIATION CAPITAL PROJECTS FUND
SECTION 211 (A)(2), CONTINUED
YEAR ENDED SEPTEMBER 30, 1993**

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1993 Fiscal Year Expenditures
Balance forwarded			\$ 3,794,907
Nukaf(Paata) Water Project	6183	15.875	9,192
Epin(Paata) Water Project	6184	15.875	9,766
Udot Water Project	6186	15.875	36,125
Nukanap Fishing Development	6187	15.875	5,608
Ufo Elem. School Proj.	6189	15.875	10,993
Ununo(Fefan) Village Office	6190	15.875	4,557
Dry Docking Micro	6191	15.875	216,378
Wichap Fishing Project	6192	15.875	22,950
Wichap Garment Manufacturing	6193	15.875	15,310
Winipis Fishing Project	6194	15.875	14,991
Onou Housing Project	6195	15.875	75,933
Epin Fishing Project	6197	15.875	13,922
Udot Water Proj.	6199	15.875	45,438
Mechitiw Fishing Development	6202	15.875	2,054
Mechitiw Sewing	6203	15.875	3,502
Onoun Housing Proj.	6205	15.875	77,067
Mechitiw Fish/Dev. Proj.	6206	15.875	6,000
Etiamar Dock Repair	6207	15.875	2,858
Winipis Fishing Project	6208	15.875	10,856
Uman Office Complex Renovation	6209	15.875	46,118
State Airport Equipment	6210	15.875	15,000
Nemwan Fishing Project	6211	15.875	2,519
Chuuk Sanitary Fac. Const.	6212	15.875	1,151
Tunnuk Fishing Dev. Proj.	6214	15.875	2,764
Tunnuk Fishing Dev. Proj.	6215	15.875	8,980
Tunnuk Fishing Dev. Proj.	6216	15.875	6,650
Tunnuk Fishing Dev. Proj.	6217	15.875	11,170
Weno Primary Road	6218	15.875	81,798
Neauo Fishing Proj.	6219	15.875	27,352
Public Facilities	6221	15.875	20,000
Wichap Comm. Bldg.	6222	15.875	5,840
Weno Housing	6223	15.875	149,338
Mechitiw Water Project	6225	15.875	2,045
Weno Office Complex Supp.	6226	15.875	30,000
Nepukos Erosion	6228	15.875	8,907
Iras Fishing Proj.	6229	15.875	4,900
Iras Fishing Proj.	6230	15.875	8,747
Romalum Village Off. Const.	6231	15.875	60,328
Moch Classroom Supply	6232	15.875	43,133
Siis G. Fact. Piis Pen.	6238	15.875	5,000
Piis/Panue Community Hall	6239	15.875	4,414
Udot Computer System	6242	15.875	3,985
Weno Office Com. Sup.	6243	15.875	37,245
Nepukos Sewing Project	6244	15.875	10,000
Tunuk Sewing Project	6245	15.875	5,000
Tonoas Dis. Proj.	6246	15.875	3,150
Subtotal			4,983,941

See accompanying notes to schedule of federal financial assistance.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
COMPACT OF FREE ASSOCIATION CAPITAL PROJECTS FUND
SECTION 211 (A)(2), CONTINUED
YEAR ENDED SEPTEMBER 30, 1993**

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1993 Fiscal Year Expenditures
Balance forwarded			\$ 4,983,941
Peniesene Sewing Proj.	6247	15.875	10,182
Tunnuk M. Hall & Water	6248	15.875	723
Tunnuk M. Hall & Water	6249	15.875	3,342
Peniesene Fish Proj.	6250	15.875	5,100
Kuttu 1.5% Admin. Cost	6252	15.875	2,065
Epinup Fish Proj.	6253	15.875	7,900
Tol Road Upgrade Sup.	6255	15.875	306,596
Eor Basketball/Water	6256	15.875	862
Eot Housing Authority	6257	15.875	10,660
Eot Housing Authority	6258	15.875	2,500
Kuttu Fishing Proj.	6259	15.875	50,000
Matching credit with FEMA	6260	15.875	466,469
Tunnuk Fishing Dev.	6261	15.875	5,000
Tunnuk Fishing Dev.	6262	15.875	12,998
Tunnuk Fishing Dev.	6263	15.875	15,000
Tunnuk Fishing Dev.	6264	15.875	20,000
Sapun(Uman) Pub. Bldg. Sup.	6565	15.875	3,534
Nepon(Uman) Dock Improv.	6267	15.875	3,000
Parem Handicraft Proj.	6268	15.875	4,314
Nama Fishing Proj.	6270	15.875	48,522
Chuuk State Share-BOFSM	6271	15.875	1,000,000
Bank of Guam-Stock Purchase	6272	15.875	812,000
Typhoon Elsie Relief Fund	6273	15.875	198,273
Romalum Fishing Market	6274	15.875	39,183
Install New Airconditioner	6275	15.875	178
Pollap Piggery Project	6276	15.875	40,811
Tol Road Proj. Supp.	6277	15.875	300,530
Pisemwar Pass. Boat	6278	15.875	45,550
Losap Fishing Proj.	6280	15.875	71,875
Losap Fishing Proj.	6281	15.875	79,375
SSB Fishing Proj. Fefan	6282	15.875	41,465
Preliminary Engineering Design	6284	15.875	495,379
Tsiis Fishing Market	6285	15.875	21,903
Tsiis Fishing Market	6286	15.875	27,379
Tsiis Fishing Market	6287	15.875	16,427
Tsiis Fishing Market	6288	15.875	8,991
Uman Fishing Proj.	6290	15.875	5,385
CIP Administration	6292	15.875	22,694
Nukan Soc. Hall/Village (Fono)	6293	15.875	4,992
Ununo(Fefan) Pub. Bldg.	6294	15.875	2,592
Const. Equip. Acqui. Shop	6295	15.875	6,790
Tonoas Econ. Dev. Proj.	6296	15.875	10,892
Mechitiw Seawall Proj.	6297	15.875	210
Murillo F. Coop. Proj.	6298	15.875	44,444
Ettal Fishing Project	6301	15.875	6,510
Parem Fishing Project	6303	15.875	16,755
Subtotal			<u>9,283,291</u>

See accompanying notes to schedule of federal financial assistance.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
COMPACT OF FREE ASSOCIATION CAPITAL PROJECTS FUND
SECTION 211 (A)(2), CONTINUED
YEAR ENDED SEPTEMBER 30, 1993**

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1993 Fiscal Year Expenditures
Balance forwarded			\$ 9,283,291
Chuuk High School	6305	15.875	147,538
Uman Dispensary Renovation	6308	15.875	4,564
Neauo Administration Building	6309	15.875	6,837
Nukanap Dock	6310	15.875	2,968
School Site Acquisition	6312	15.875	1,741
Kuttu Fishing Project	6314	15.875	13,202
Lukunoch Copra Coop.	6316	15.875	25,300
Wonei Economic Project	6318	15.875	511
Wonei Water Catchment	6319	15.875	2,717
Sapore Culture Center	6320	15.875	1,235
Udot Road/Dock Upgrade	6321	15.875	12,269
Udot Road/Dock Upgrade	6322	15.875	277
Udot Road/Dock Upgrade	6323	15.875	15,491
Power Generation & Distribution	6327	15.875	341,282
Tonoas Reg. Fishing	6328	15.875	2,130
Weno Phys. Cup. Sup.	6332	15.875	2,740
Weno Fishing Boat	6333	15.875	10,075
Weno Fishing Project	6335	15.875	786
Uman Fish/Supp. Proj.	6336	15.875	2,000
Nomwin Housing Proj.	6337	15.875	30,515
Fananu Public Facility	6340	15.875	20,000
Tamatam Market	6342	15.875	14,345
Wonei Economic Project	6343	15.875	(20,000)
Patta Fishing Project	6346	15.875	11,620
Patta Middle Shcool	6347	15.875	8,229
Nepukos Fishing Project	6348	15.875	2,560
Unanu Housing Proj.	6350	15.875	13,981
Unanu Housing Proj.	6351	15.875	42,903
Unanu Housing Proj.	6352	15.875	6,588
Neauo Women Garment Man.	6353	15.875	5,181
Oneop Municipal Building	6355	15.875	4,990
Sanumi Piggery Project	6357	15.875	2,386
Parem Shoreline	6358	15.875	2,151
Etiamar Village Office	6370	15.875	350
Fefan Pub. Road Upgrade	6375	15.875	51,984
Mechitiw Comm. Hall	6379	15.875	2,000
Sefin Fishing Development	6381	15.875	2,108
Winipis Fishing Dev. Proj.	6382	15.875	8,366
Fanapanges Sch. Bldg.	6383	15.875	6,931
Fanapanges Sch. Bldg.	6384	15.875	30,000
Iras Water Catchment	6402	15.875	400
Nukenpinuk Shoreline	6403	15.875	475
Typhoon Owen Disaster	6404	15.875	84,362
Extensionn OP Health Services	6406	15.875	79,823
Bou & Southfield Water/Sewer Water Project	6407	15.875	61,480
	6408	15.875	2,221
Subtotal			<u>10,352,903</u>

See accompanying notes to schedule of federal financial assistance.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
COMPACT OF FREE ASSOCIATION CAPITAL PROJECTS FUND
SECTION 211 (A)(2), CONTINUED
YEAR ENDED SEPTEMBER 30, 1993**

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1993 Fiscal Year Expenditures
Balance forwarded			\$ 10,352,903
Tol Marketing Enhancement	6415	15.875	88,802
Winipis Village Office	6417	15.875	776
Longline Fishing Training	6420	15.875	6,770
Project Admin. Cost	6426	15.875	2,210
Tol 12 Village Offices	6430	15.875	14,025
Moch School Building	6431	15.875	19,739
Polle Social Project	6434	15.875	17,500
Fefan Fishing Project	6435	15.875	2,235
Sefin Seawall	6456	15.875	4,898
Tonoas Econ. Development	6457	15.875	6,050
Fefan Fishing Project	6487	15.875	8,265
Nepukos Water Catchment	6489	15.875	283
Duplon Fisheries Complex	6490	15.875	161,157
Neworam Retaining Seawall	6493	15.875	4,995
Polle Fishing Project	6494	15.875	4,640
UFO (Fefan) Water System	6496	15.875	2,305
Fongon/Fefan Village Office	6497	15.875	2,481
Romanum Seawall Supp.	6498	15.875	1,038
Penia Water Project	6499	15.875	1,682
Fanapanges Market Project	6500	15.875	115
Dublon Capital Support	6501	15.875	59,003
EOT Mun. Social Project	6503	15.875	9,748
Pulap Economic Development	6504	15.875	122
Puluwat Social & Dev. Project	6505	15.875	15,550
Polle Marketing Project	6506	15.875	1,817
Weno Village Admin./Office	6515	15.875	6,425
Ulul Sub-State Center	6521	15.875	1,720
Tol Marketing Enhancement	6527	15.875	118,896
Losap Housing Loan Project	6538	15.875	1,789
Airport Fuel Aprons Sup.	6542	15.875	101,242
Romalum Dispensary	6544	15.875	1,000
Pollap Multi Purpose Center	6545	15.875	2,000
Satawan Sub-State Center	6551	15.875	20,222
Unupukar Community Hall-Sapuk	6552	15.875	1,592
Tonowas-Nemete Road/Dock	6554	15.875	5,097
Handicraft Market	6568	15.875	22,213
Oneop Fish Project	6569	15.875	6,645
Chukram Dock Polle	6570	15.875	23
Eppin Annuk Dock, Polle	6571	15.875	3,145
Contingency fund	6572	15.875	189
Project Admin. State CIP	6573	15.875	270
Oneop Taro Patch Project	6574	15.875	4,597
Uman Fisheries Development	6581	15.875	5,000
Oneop Tailor-Made Factory	6593	15.875	5,105
Lukunor Civic Complex	6596	15.875	11,254
Southern Namoneas JHS	6599	15.875	1,436
Subtotal			11,108,969

See accompanying notes to schedule of federal financial assistance.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
COMPACT OF FREE ASSOCIATION CAPITAL PROJECTS FUND
SECTION 211 (A)(2), CONTINUED
YEAR ENDED SEPTEMBER 30, 1993**

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1993 Fiscal Year Expenditures
Balance forwarded			\$ 11,108,969
Ronamun Seawall	6606	15.875	3,525
Satawan Fisheries Dev.	6607	15.875	6,525
Ettal Seawall/Taro Patch	6610	15.875	2,107
Sangkumi Artisanal Fish	6611	15.875	455
Saporenong Shoreline	6614	15.875	1,914
Coconut Rehab. Project	6615	15.875	2,449
Fisheries Development	6617	15.875	3,862
Water Sys. Improv. Div.	6622	15.875	154,287
Satawan Substate Center	6623	15.875	14,805
Land Fill/Land Ext. Kutti	6624	15.875	5,565
Weno Road Improvement Proj.	6626	15.875	411,474
Weno Admin. Cost	6628	15.875	5,613
Agriculture(Swine Dev. Proj.)	6632	15.875	2,539
Agriculture(Food Crop Dev. Proj.)	6633	15.875	9,520
Long Line Base	6636	15.875	130,000
Fanip Farming Project (Fefan)	6637	15.875	200
Power Generation	6638	15.875	5,228
Fein Basketball Court	6640	15.875	150
TA Airport	6642	15.875	4,041
Road Construction	6643	15.875	18,602
Pollap Seawall	6645	15.875	14,631
Pieis Shoreline Taro Patch	6646	15.875	1,519
Sapore Fishing Project	6648	15.875	455
Murilo Fishing Project	6653	15.875	139
Fefan Municipal Office	6654	15.875	189
Referral Facilities—Hawaii	6659	15.875	1,091
Uman Fishing Project	6660	15.875	31,491
Mechitiw Community Youth	6666	15.875	1,533
Tol Municipal Road Improvement	6668	15.875	80,402
Moch School Building	6670	15.875	6,951
Romalum Is. Wide Water Proj.	6671	15.875	20,611
Newon Dock Repair	6673	15.875	300
Tuna Longline Fishing	6678	15.875	1,998
Micro Vessels Dry Docking	6684	15.875	2,147
Paata Housing Proj.	6689	15.875	650
Satowan Sub—State Sup.	6691	15.875	3,856
Weipat Jr. High Solar System	6692	15.875	24,983
Fongon Agricultural Proj.	6696	15.875	66
Mechitiw Fishing Dev. Proj.	6700	15.875	1,443
Sefin Seawall	6702	15.875	1,812
Muriro Dry Docking	6703	15.875	46,603
N. Nam P. School Renov.—Weno	6705	15.875	4,949
Road Bridge Upgrade	6708	15.875	7,433
Unikup Fishing Project	6710	15.875	1,745
St. Rd. Sewer Power Supp.	6716	15.875	258,059
Subtotal			<u>12,406,886</u>

See accompanying notes to schedule of federal financial assistance.

CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
COMPACT OF FREE ASSOCIATION CAPITAL PROJECTS FUND
SECTION 211 (A)(2), CONTINUED
YEAR ENDED SEPTEMBER 30, 1993

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1993 Fiscal Year Expenditures
Balance forwarded			\$ 12,406,886
Upgrade— Weno Secondary Road	6824	15.875	16,075
Sopo Dock Project	6825	15.875	102
Anom Water Improvement	6830	15.875	200
Siis Fishing Proj.	6831	15.875	78,101
Romalum Fish/Market Supp.	6832	15.875	60,532
Parem Fanipwetiw Fish Market	6835	15.875	29,862
Fono Fishing Proj.	6838	15.875	17,004
Udot Rd. & Dock Suppl.	6839	15.875	135,800
Udot Off. Complex Suppl.	6840	15.875	9,503
Ruo Fish Proj. Supple.	6841	15.875	4,221
Ruo Housing Proj. Supp.	6842	15.875	43,000
Ruo School Supp.	6843	15.875	19,867
Uman Roof/Floor Neimon Soc.	6844	15.875	11,887
Uman Nesarau Water Catchment	6845	15.875	2,824
Wonei Fish Proj./Rekii Coop.	6846	15.875	165,000
Oneop MP. Bldg. Supp.	6847	15.875	70,595
Oneop Ice Plant Supp.	6848	15.875	10,075
Oneop Land Pur. Supp.	6849	15.875	15,788
Oneop Land Pur. Supp.	6850	15.875	29,222
Houk School Site Purchase	6851	15.875	49,934
Houk Runway & Cap. Equip.	6853	15.875	19,909
Pattiw J.H. School Suppl.	6854	15.875	38,334
Truck Purchase/Pattiw Fishing	6855	15.875	9,768
Fuun Metaw Revolving Fund	6856	15.875	14,641
Pollap Solar Polar Light	6857	15.875	7,500
Pollap School Proj.	6859	15.875	7,079
Pollap Seawall Supple.	6860	15.875	2,000
Pollap Office Bldg. Improvement	6861	15.875	2,253
Tamatam Disp. Site Purchase	6862	15.875	4,000
Chuuk State 25% Match—FEMA	6883	15.875	234,000
MS Micro Dawn Dry Docking	6866	15.875	53,627
Fefan Social Development	6867	15.875	120,614
Polowat IK#1 Dry Docking	6868	15.875	19,502
Murillo Fishing Coop. Proj.	6869	15.875	43,000
Paata Fishing Proj.	6872	15.875	9,838
Polle Public Bldg. Const.	6875	15.875	39,703
Polle Water Proj.	6877	15.875	14,740
Tamatam Fishing Market	6879	15.875	19,000
Nukanap (Fono) Fishing Proj.	6880	15.875	4,400
Onoun Sub—State Center	6881	15.875	5,150
Weno Housing Revolving Fund	6887	15.875	150,000
Weno Mun. Project Admin.	6888	15.875	7,289
Nukanap Weno Water Supp.	6890	15.875	1,882
Sefin Weno Bake Shop Proj.	6891	15.875	8,934
Wichap Fishing Proj.	6896	15.875	4,980
Subtotal			<u>14,018,621</u>

See accompanying notes to schedule of federal financial assistance.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
COMPACT OF FREE ASSOCIATION CAPITAL PROJECTS FUND
SECTION 211 (A)(2), CONTINUED
YEAR ENDED SEPTEMBER 30, 1993**

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1993 Fiscal Year Expenditures
Balance forwarded			\$ 14,018,621
Eor Sapuk Women Sewing Proj.	6897	15.875	4,833
Namoluk Fishing Proj. Supp.	6898	15.875	34,281
Parem Water Catchment	6901	15.875	1,598
Onoun Mun. Obligation	6903	15.875	12,000
Fish. Proj. Pwene Dev. Corp.	6904	15.875	98,500
Etten Farming Proj.	6911	15.875	2,615
Neauo Sewing Proj.	6924	15.875	1,000
Sefin Bake Shop	6930	15.875	14,815
Neauo Farming Proj.	6934	15.875	750
Eot Mun. Off. & School Supp.	6940	15.875	1,690
South Field Fishing Proj.	6941	15.875	5,000
Chuuk Tuna Cannery	6943	15.875	200,816
Sefin Fishing Proj.	6946	15.875	7,485
Sefin Auto Repair	6951	15.875	750
Total Compact of Free Association Capital Projects Fund—Section 211(A)(2)			<u>\$ 14,404,754</u>

The above funds are received in a subrecipient capacity through the
FSM National Government.

See accompanying notes to schedule of federal financial assistance.

CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
COMPACT OF FREE ASSOCIATION CAPITAL PROJECTS FUND
SECTION 211 (A)(2), CONTINUED
YEAR ENDED SEPTEMBER 30, 1993

For general purpose financial statement presentation, total expenditures are reconciled as follows:

Audited expenditures per the general purpose financial statements	\$12,362,754
Investment in common stock of the Bank of the FSM	1,000,000
Investment in common stock of the Bank of Guam	812,000
Investment in common stock of Chuuk Fresh Tuna	130,000
Operating transfer out to Chuuk Visitors Bureau	<u>100,000</u>
Expenditures per statement of expenditures and questioned costs and budgetary position by grantor	<u>\$14,404,754</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 Territorial and International Affairs (OTIA), 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 then reallots such to the component States.

See accompanying notes to schedule of federal financial assistance.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
COMPACT OF FREE ASSOCIATION OTHER GRANTS FUND
YEAR ENDED SEPTEMBER 30, 1993**

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

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1993 Fiscal Year Expenditures
Section 212—Civic Action Team	2182	15.875	\$ 345,000
Section 214(b)—Energy	2780	15.875	<u>918,927</u>
Section 216(a)(2) —Health & Medical	2901	15.875	<u>477,799</u>
Section 216(a)(3) —Post Secondary Educ. '87	2609	15.875	(60,255)
Section 216(a)(3) —Post Secondary Education	2613	15.875	424,788
Section 216(a)(3) —Post Secondary Education	2614	15.875	<u>80,819</u>
Subtotal Section 216(a)(3)			<u>445,352</u>
Total Compact of Free Association—Other Grants Fund			<u>\$ 2,187,078</u>

These funds are disbursed through the Office of Territorial and International Affairs (OTIA), Department of the Interior and bear CFDA No. 15.875. The FSM National Government receives all grant awards on behalf of the FSM and reallots such to the component States.

See accompanying notes to schedule of federal financial assistance.

**CHUUK STATE GOVERNMENT
 FEDERATED STATES OF MICRONESIA
 SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
 COMPACT OF FREE ASSOCIATION
 SPECIAL BLOCK GRANT FUND – SECTION 221(B)
 YEAR ENDED SEPTEMBER 30, 1993**

<u>Grantor Account Title</u>	<u>Chuuk Org. #</u>	<u>CFDA I.D. #</u>	<u>1993 Fiscal Year Expenditures</u>
Health Planning	2001	15.875	\$ 600
EPA	2003	15.875	51,759
Communicable Diseases	2004	15.875	54,165
Mental Health	2005	15.875	46,156
Geriatric Health	2006	15.875	80,217
Health Education	2117	15.875	51,763
Medical Referral	2120	15.875	331,784
Medical Supplies	2123	15.875	13,373
Food Services	2128	15.875	933,617
Elementary Education	2129	15.875	888,912
VRS	2135	15.875	67,657
Secondary Education	2142	15.875	113,112
TOCA	2146	15.875	<u>40,500</u>
Total Compact of Free Association Block Grant Fund–Section 221(b)			<u>\$ 2,673,615</u>

These funds are disbursed through the Office of Territorial and International Affairs (OTIA), Department of the Interior and bear CFDA No. 15.875. The FSM National Government 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 FEDERAL FINANCIAL ASSISTANCE, CONTINUED
 CFSM CAPITAL PROJECTS FUND
 YEAR ENDED SEPTEMBER 30, 1993**

<u>Grantor Account Title</u>	<u>Chuuk Org. #</u>	<u>CFDA I.D. #</u>	<u>1993 Fiscal Year Expenditures</u>
Pierarh Fish. Proj.	6401	N/A	\$ 3,174
Project Admin.	6604	N/A	<u>270</u>
Total CFSM CIP			<u>\$ 3,444</u>

The above funds are received through the Congress of the Federated States of Micronesia and constitute local funds.

CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA
Notes to Schedule of Federal Financial Assistance
Year Ended September 30, 1993

(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-128 audit (the "Single Audit"). The U.S. Department of the Interior has been designated as the State's cognizant agency for the Single Audit.

A. Programs Subject to Single Audit

Statement of expenditures and questioned costs by grantor are presented for each federal program related to the following agencies:

- . U.S. Department of Agriculture
- . U.S. Department of Education
- . U.S. Department of Health and Human Services
- . U.S. Department of the Interior
- . U.S. Department of Labor
- . U.S. Environmental Protection Agency
- . U.S. Federal Emergency Management Agency
- . U.S. Federal Aviation Administration

At the request of the FSM Office of the Public Auditor, funds received from the U.S. Federal Emergency Management Agency were not subject to the Single Audit and as such, were not included in the calculation of a major program.

B. Fiscal Period Audited

Single audit testing procedures were performed for program transactions during the fiscal year ended September 30, 1993.

(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.

CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA
Notes to Schedule of Federal Financial Assistance, Continued
Year Ended September 30, 1993

(2) Summary of Significant Accounting Policies, continued

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 statement of expenditures and questioned costs by grantor does not contain separate schedules disclosing how the subgrantee outside of the State's control utilize these funds.

D. Indirect Cost Allocation

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

(3) Findings of Noncompliance

The findings of noncompliance identified in connection with the 1993 Single Audit are discussed in the Schedule of Findings and Questioned Costs. In determining compliance with requirements of awards received by the State, a representative sample was selected from 1993 expenditures for testing each major program as shown on the Schedule of Programs Selected for Audit in Accordance with OMB Circular A-128.

(4) Loan Funds

Chuuk Housing Authority

As of September 30, 1993 \$752,715 of loans made out of U.S. federal assistance were outstanding. The assistance was made to the Chuuk Housing Authority (the Authority) by the U.S. Department of Housing and Urban Development (CFDA #14.219). For the year ended September 30, 1993, \$232,067 in doubtful accounts have been recorded. In accordance with OMB Circular A-87, these bad debts have been questioned; however, such costs are not included in the accompanying schedules. All of the above grants pass through Chuuk State government and are reported in Chuuk State's Federal Financial Assistance.

CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA
Schedule of Programs Selected for Audit
in Accordance with OMB Circular A-128
For the Year Ended September 30, 1993

The following list specifies grants selected for detailed compliance testing in accordance with applicable OMB Circular A-128 requirements.

U.S. Department of Interior, CFDA #15.875

Compact of Free Association Capital Projects Fund, Title Two, Article I, Section 211 (a) (2)	\$14,404,754
Compact of Free Association, Section 214 Energy Grant	918,927
Compact of Free Association Block Grant, Title Two, Article I, Section 221 (b)	<u>2,673,615</u>
Total CFDA #15.875	<u>17,997,296</u>
Total Programs Selected for Audit	<u>\$17,997,296</u>
Total Federal Grant Assistance Expenditures	<u>\$21,873,875</u>
Percentage of Program Assistance Expenditures Tested	<u>82%</u>

CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA
Schedule of Findings and Questioned Costs
Year Ended September 30, 1993

Federal Findings:

Program

1. U.S. Dept.
of Education/
CFDA #84.003

Criteria: All federal programs funds received in excess of incurred expenditures should be refunded to the grantor agency within 90 days of the program closeout.

Condition: Chuuk State, in fiscal year 1991, received approximately \$311,292 in excess of expenditures incurred for its DOE Bilingual Education Program, which remains as a payable on a Chuuk State books as of September 30, 1993.

Cause: Unknown.

Effect: There is no effect on the financial statements as a result of this condition.

Recommendation: We recommend that Chuuk State attempt to resolve the issue with the Grantor Agency and determine the proper treatment of this payable.

Auditee Response: It is true that the amount received was in excess of the expenditures during fiscal year 1991 so it was classified as a payable then. Further verification was not easy because record keeping for the Bilingual Program was poor. As part of the audit procedures of fiscal year 1991, the auditors requested a confirmation of the amount from U.S. Department of Education. No reply was received.

Corrective Action Plan: Chuuk State Departments of Treasury and Education intend to resolve this issue with the U.S. Department of Education this fiscal year 1994.

CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1993

Federal Findings, Continued

Program

2. U.S. Dept. of Agriculture /CFDA # 10.560 Criteria: All Federal programs funds received in excess or incurred expenditures should be refunded to the grantor agency within 90 days of the program closeout.

Condition: Chuuk State, in fiscal year 1991, received approximately \$277,320 in excess of expenditures incurred for its Food Services Program, which is recorded as deferred revenue as of September 30, 1993. No additional expenditures were incurred on the program in fiscal year 1993.

Cause: Unknown.

Effect: There is no effect on the financial statements as a result of this condition.

Recommendation: We recommend that Chuuk State attempt to resolve the issue with the Grantor Agency and determine the proper treatment of the same.

Auditee Response: It is true that the amount received was in excess of the expenditures during fiscal year 1991. Further verification was not easy because record keeping was poor.

Corrective Action Plan: Chuuk State Departments of Treasury and Education will resolve this issue with the FSM National Government this fiscal year 1994.

CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1993

Local Findings

Use of Compact Capital Funds

1. Criteria: Compact Capital funds should be expended in accordance with local laws and regulations.

Condition: During the fiscal year ended September 30, 1993, Chuuk State expended \$2,000,000 of Compact Capital funds for General Fund operating purposes. The FSM attorney general, in an opinion dated February 24, 1994, asserts that the above transaction was not performed in accordance with FSM local laws and regulations.

Cause: Unknown.

Effect: The non-resolution of this noncompliance finding could have a material impact on the general purpose financial statements of the General Fund and Compact Capital Fund.

Recommendation: It is recommended that the State management resolve this finding through the FSM attorney general.

Auditee Response: See corrective action plan.

Corrective Action Plan: This matter have been endorsed to the Chuuk State Attorney General. Since timing is of essence on this issue, resolution is expected to be on or before August 31, 1994.

CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1993

Local Findings, Continued

Municipalities

2. Criteria: Adequate accounting records supporting use of compact funds should be maintained for future review.

Condition: Chuuk State municipalities do not maintain adequate records to facilitate the application of audit procedures to determine if municipal operation funds are expended in accordance with local laws and regulations.

Cause: Unknown.

Effect: The noncompliance with local laws and regulations could be the result of this condition.

Recommendation: It is recommended that the State management ensure that accounting records are maintained at the municipal level.

Auditee Response: See corrective action plan.

Corrective Action Plan: Government Accounting courses for municipalities have been made available by the State through the Pacific Islands Training Initiative program administered by the USDA Graduate School. The program started on the latter part of fiscal year 1993, continuing up to the present. Most if not all treasurers/finance officers of the municipalities do not have a formal accounting education so they will need time to apply what they have learned. Although no definite time frame can be given to resolve this finding, Chuuk State Department of Treasury, starting in fiscal year 1995, will now impose the submission of financial report as a requisite for requesting municipal operation funds from the state.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1993

Local Findings, Continued

Use of Compact Capital Funds

3. Criteria: Compact Capital funds should be expended in accordance with intent of the Compact.

Condition:

During the fiscal year ended September 30, 1993, Chuuk State expended \$700,469 of Compact Capital funds for repayment of a loan from FEMA. The FSM Attorney General, in an opinion dated February 24, 1994, asserts that the above transaction is not an allowable use of Compact Capital funds.

Cause: Unknown.

Effect: The non-resolution of this noncompliance finding could have a material impact on the general purpose financial statements of the General Fund and Compact Capital Fund.

Recommendation: It is recommended that the State management resolve this finding through the FSM attorney general. If this matter is not resolved in Chuuk State's favor, this amount will be a charge on the general fund in fiscal year 1994.

Auditee Response: See corrective action plan.

Corrective Action Plan: This matter have been endorsed to the Chuuk State Attorney General. Since timing is of essence on this issue, resolution is expected to be on or before August 31, 1994.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1993

Previous Years' Findings

Criteria: Findings from prior audit reports should be resolved.

Condition: The following findings from previous years' Single Audit Reports remain unresolved.

Finding No.	Page No.	Description
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FISCAL YEAR 1992

Local Finding

1	89	Use of 1.5% Compact Administration Allowance
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Federal Findings

2	88	Subrecipient Audits - JTPA
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FISCAL YEAR 1991

Local Findings

1	87	Residual Inventory
2	92	Acquisition of Fixed Assets
3	93	Proper Monitoring of subrecipient
4	94	Proper Supporting documentation
5	96	Improper Classification of Expenditures
6	99	Code of Federal Regulations
7	100	Scholarship Application
9	102	Municipal Projects
10	108	Annual Assessment of Educational Needs
11	109	Private Schools

Federal Findings

1	88	Grant benefit - JTPA
2	89	Fund Certification - JTPA
3	90	Procurement - Chapter I
4	91	Fund Certification - Chapter I
5	95	Training Programs for JTPA
6	97	Grant Master Plan - Chapter I
7	98	Transfer of Funds - Chapter I
8	103	Job Placement Requirement - JTPA

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1993

Previous Years' Findings, continued

FISCAL YEAR 1991

Federal Findings, Continued

9	104	Course and Instructor Evaluations - JTPA
10	105	Drug-Free Workplace
11	107	Matching - Chapter I

FISCAL YEAR 1990

Local Findings

Accounting

1	80	Fixed Assets
2	80	Compliance

Administrative

1	81	Expenditures/Disbursements
2	81	Expenditures/Disbursements
5	82	Budget
6	83	Payroll

Cause: Unknown.

Effect: Lack of timely resolution of audit findings hinders the effectiveness of the Chuuk State's administrative controls over federal financial assistance.

Recommendation: Administrative control findings from previous Single Audit Reports should be satisfactorily resolved in a timely manner.

Auditee Response: See Corrective Action Plan.

Corrective Action Plan: For the unresolved findings, the State is maximizing efforts to resolve them. No specific time frame can be given but resolution of some findings can be expected every fiscal year end.

CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA
Resolutions to Prior Years' Questioned Costs
Year Ended September 30, 1993

The following questioned costs from prior years audit reports have not been resolved:

Unresolved 1984 questioned costs	\$ 221,836
Unresolved 1985 questioned costs	193,164
Unresolved 1986 questioned costs	685,713
Unresolved 1987 questioned costs	833,896
Unresolved 1988 questioned costs	4,350,427
Unresolved 1989 questioned costs	779,850
Unresolved 1990 questioned costs	1,337,063
Unresolved 1991 questioned costs	167,352
Unresolved 1992 questioned costs	<u>39,367</u>
Total unresolved questioned costs for prior years	8,608,668
Fiscal year 1993 questioned costs	<u>-</u>
Total unresolved questioned costs	<u><u>\$8,608,668</u></u>

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

**INDEPENDENT AUDITORS' REPORT
ON THE INTERNAL CONTROL STRUCTURE
YEAR ENDED SEPTEMBER 30, 1993**



INDEPENDENT AUDITORS' REPORT ON
THE INTERNAL CONTROL STRUCTURE BASED ON
THE AUDIT OF THE FINANCIAL STATEMENTS

Honorable Sasao Gouland
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, 1993, and have issued our report thereon dated December 20, 1993. Our report on the general purpose financial statements was modified as a result of our audit of the inability to form an opinion as to the fairness of presentation of the General Fixed Assets Account Group and the omission of the financial statements of the State's eleven development authorities from the Governmental Fund Type-Special Revenue Funds.

We conducted our audit in accordance with generally accepted auditing standards and 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.

In planning and performing our audit of the general purpose financial statements of the State of Chuuk for the year ended September 30, 1993, we considered its internal control structure 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 structure.

The management of the State of Chuuk, is responsible for establishing and maintaining the internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose

financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories.

- Revenue/receipts
- Purchases/disbursements
- Payroll
- External financial reporting
- Cash
- Receivables
- Investments
- Payables and accrued liabilities
- Fund balance

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. A description of these matters is presented in the following pages 101 through 112.

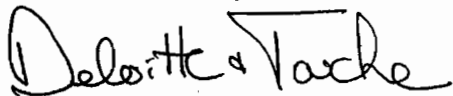
A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose financial 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 structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above are material weaknesses.

We also noted matters involving the internal control structure and its operation used to administer federal financial assistance programs which we have reported to the management of the State of Chuuk in a report dated December 20, 1993.

This report is intended for the information of the management of the State of Chuuk and the cognizant audit and other federal agencies. However, this report is a matter of public record and its distribution is not limited.

December 20, 1993

A handwritten signature in cursive script that reads "Deloitte & Touche". The signature is written in dark ink and is positioned above the printed name of the firm.

Certified Public Accountants

CHUUK STATE GOVERNMENT
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Prior Year Internal Control Findings, continued

Fiscal Year 1991
(continued)

	Chuuk Housing Authority:	
41	Board allowance	160
42	Insurance payment	161
43	Loans subledger	162
45	Interest on loans	164
48	Municipalities	167

Fiscal Year 1992

5	Subsidiary ledger for Travel Advances	101
10	Timely deposits of cash collections	104
11	Payroll	105
12	Receivables	106
14	Tax collections	107

Cause: Unknown.

Effect: The non-resolution of these prior year findings will continue to hinder the effective maintenance of the State's accounting records.

Recommendation: Chuuk State management should take action to resolve these prior year audit findings.

Auditee Response: See Corrective Action Plan.

Corrective Action Plan: For the unresolved findings, the State is maximizing efforts to resolve them. No specific time frame can be given but resolution of some findings can be expected every fiscal year end.

CHUUK STATE GOVERNMENT
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Purchases/Disbursements

Finding No. 2

Criteria: All checks not delivered or picked up as of September 30, 1993 should be reclassified to accounts payable so as to not misstate cash as of that date.

Condition: We noted checks totalling \$510,377 on hand as of September 30, 1993.

Cause: Unknown.

Effect: Possible misstatement of cash and accounts payable could occur.

Recommendation: We recommend that all written be delivered to the vendor in a timely manner and any checks not delivered as of year end be properly reclassified to cash.

Auditee Response: Of the \$510,377, \$404,933 were allotments to vendors which were claimed almost immediately after September 30, 1993. As to the \$105,433, we have announced on the local radio that these checks were unclaimed, yet they remained unclaimed up to the time of audit.

Corrective Action Plan: Quarterly announcements of unclaimed checks will be done. If they still remain unclaimed after four successive announcements (by then these checks will be stale dated), they will be reclassified as accounts payable. The announcements will be done by the treasury section, the reclassification will be done by reconciliations section. This plan should already be in effect in fiscal year 1994.

CHUUK STATE GOVERNMENT
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Purchases/Disbursements. Continued

Finding No. 3

Criteria: All disbursements are required to have proper authorization by the funds control section prior to being processed for payments.

Condition: Of a random selection of 25 disbursements, two did not have evidence of proper funds certification.

Cause: Unknown.

Effect: State funds could possibly be incorrectly expended.

Recommendation: We recommend that measures be taken to ensure that all payables are properly certified for funds availability prior to payment being processed.

Auditee Response: APV # 933012 AND 932955 pertain to COLA payments which were processed on a non-PO basis. The supporting document to the APV is a list, the total of which is the one deducted against the appropriations for COLA. What was missing was the stamp mark (for fund certification). COLA payments are controlled by the Payroll Section.

Corrective Action Plan: Payroll has been instructed to put the stamp of funds certification on the individual APV of COLA payments. We are confident that this weakness will no longer reoccur.

CHUUK STATE GOVERNMENT
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Revenue/Receipts

Finding No. 4

Criteria: All cash collections should be deposited to the bank account on a daily basis.

Condition: Of a random sample of 25 cash receipts selected, we noted that on four (4) occasions that collections were not deposited into the bank account for more than three working days.

Cause: Unknown.

Effect: Possible misuse of State funds could occur.

Recommendation: We recommend that all collections be deposited to the State's bank accounts on a daily basis.

Auditee Response: We agree to this finding.

Corrective Action Plan: The Treasury Section have already implemented the recommendation since April, 1994.

CHUUK STATE GOVERNMENT
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Revenue/Receipts

Finding No. 5

Criteria: Security measures should be taken to ensure that all cash collections are properly safeguarded prior to deposit into the State bank account.

Condition: Of a random sample of 25 cash receipts selected, on three (3) occasions, collections made at Revenue did not reconcile with the amount remitted to State Treasury by an immaterial variance. Additionally we noted cash collections at revenue were kept in a drawer prior to being remitted to the Treasury safe.

Cause: Unknown.

Effect: Possible misuse of State funds could occur.

Recommendation: We recommend that measures be taken to ensure that all State collections are properly safeguarded and deposited into the bank on regular basis.

Auditee Response: We agree to this finding.

Corrective Action Plan: The chief of revenue now reviews the cash report submitted by revenue division to treasury section on a regular basis. In this case, discrepancies, if any, are noted right away. As to the collections at revenue before remittance to treasury , collections will be kept in a small handy safe instead of in the cash custodian's drawer.

CHUUK STATE GOVERNMENT
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Receivables

Finding No. 6

Criteria: All receivables should be properly supported by a subsidiary detail.

Condition: During our test of travel advances, we noted that Dilog balances did not reconcile to the CAPPs (subsidiary detail) and no reconciliations were noted for the same during the year.

Cause: Unknown.

Effect: Possible misstatement of State funds could occur.

Recommendation: We recommend that Chuuk State personnel investigate the variances and ensure that periodic reconciliations of the balance are performed.

Auditee Response: We agree to this finding.

Corrective Action Plan: One personnel at the travel section will reconcile travel advances in Dilog against CAPP's, and this will be done quarterly. Hopefully by the end of fiscal year 1994 we can support the Dilog travel advances by a CAPPs subsidiary detail.

CHUUK STATE GOVERNMENT
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Cash

Finding No. 7

Criteria: Periodic reconciliations should be performed of all the State checking accounts.

Condition: Chuuk State has failed to perform reconciliations of its payroll checking account throughout fiscal year 1993.

Cause: Unknown.

Effect: Possible misstatement of cash in payroll checking account could occur.

Recommendation: We recommend that Chuuk State personnel attempt to perform periodic reconciliations of their payroll checking account.

Auditee Response: We agree to this finding. The resolution of this weakness is the responsibility of the reconciliations section of the Department of Treasury. However, due to the limited personnel in the Section (only 2) against the responsibilities attached to it, this area is considered the lesser priority. The request of the Chief of Reconciliations for one more personnel has not yet been granted due to budget constraints.

Corrective Action Plan: Hire one more personnel for reconciliations section to do this job. The existing personnel have the knowledge to reconcile the accounts but does not have the time to do it as there are other greater priorities. No time frame can be given to correct this weakness. It will depend on when the third person will be on board.

CHUUK STATE GOVERNMENT
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Receivables

Finding No. 8

Criteria: Receivables should be reviewed periodically to determine collectibility and necessary steps taken to collect long outstanding receivables.

Condition: Chuuk State has several long outstanding receivables from FSM National Government which have not been resolved as of September 30, 1993.

Cause: Unknown.

Effect: Possible overstatement of Chuuk State receivable balances could occur.

Recommendation: We recommend that Chuuk State attempt to resolve all outstanding receivables with the FSM National Government and other agencies or determine if such should be written off.

Auditee Response: We have written to the Secretary of Finance, FSM regarding the offsetting of amounts owed by Chuuk State to FSM National Government against the receivables of Chuuk from FSM National Government (letter dated 30 March 1993). We received no response to date.

Corrective Action Plan: The Department of Treasury through the Office of the Governor plan to elevate the matter to the proper FSM executive and legislative channels.

CHUUK STATE GOVERNMENT
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Receivables

Finding No. 9

Criteria: Receivables should be reviewed periodically to determine collectibility and necessary steps taken to collect long outstanding receivables.

Condition: Chuuk State has long outstanding receivables from the Federal Emergency Management Agency (FEMA) for which we noted no collections made in fiscal year 1993.

Cause: Unknown.

Effect: Possible overstatements of Chuuk State receivable balances could occur.

Recommendation: We recommend that Chuuk State attempt to resolve the issue with the Grantor Agency, FEMA, or determine if such should be written off.

Auditee Response: There were no collections in fiscal year 1993 but there were collections this fiscal year 1994.

Corrective Action Plan: Chuuk State Disaster Office through the FSM Disaster Office have been doing as recommended. There have been additional requirements imposed on Chuuk, some have already been submitted, others are still to be submitted. We hope to resolve this issue this fiscal year 1994.

CHUUK STATE GOVERNMENT
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Payables and Accrued Liabilities

Finding No. 10

Criteria: All payables should be periodically reviewed and amounts liquidated when they become due.

Condition: Chuuk State has a long outstanding notes payable to MAEDA on which no movements were noted in fiscal year 1993.

Cause: Unknown.

Effect: Possible misstatements of Chuuk State payable balances could occur.

Recommendation: We recommend that Chuuk State attempt to resolve this issue with MAEDA and determine the proper treatment of this recorded note.

Auditee Response: We agree to this finding.

Corrective Action Plan: The Director of Treasury will correspond with MAEDA to resolve this issue. We plan to resolve this issue this fiscal year 1994.

CHUUK STATE GOVERNMENT
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Fund Balance

Finding No. 11

Criteria: System Encumbrance balances should be periodically updated to reflect actual amount outstanding at any given date and accurate manual ledgers should be maintained on all encumbrance balances.

Condition: Per our review of the 16 largest encumbrance balances as of September 30, 1993, we noted on six (6) occasions that encumbrances were not being properly updated by Funds Control personnel.

Cause: Unknown.

Effect: A possible misstatement of Chuuk State reserve for encumbrances could occur.

Recommendation: We recommend that Chuuk State take adequate measures to ensure that Funds Control personnel update encumbrance balances on a periodic basis.

Auditee Response: We verified the six instances stated in this finding. No liquidations were indicated in two of the instances because the purchase orders were cancelled and replaced. Our mistake lies in the first purchase order not being cancelled in the system. Of the other four instances, the liquidations on the source documents were delayed but were updated when the fund org. was reconciled.

Corrective Action Plan: The Director of Treasury (by a memorandum) have directed the Funds Control Section to reconcile all fund orgs. Once the fund orgs are reconciled, the encumbrances are also reconciled. The Payables Section were also instructed not to input any APV without the mark of encumbrance liquidation. This corrective action is now in effect.