

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

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

**YEAR ENDED SEPTEMBER 30, 1994**

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA  
YEAR ENDED SEPTEMBER 30, 1994**

**INDEX**

	<u>Page No.</u>
INDEPENDENT AUDITORS' REPORT, GENERAL-PURPOSE FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION	1 - 50
INDEPENDENT AUDITORS' REPORTS ON COMPLIANCE WITH LAWS AND REGULATIONS	51 - 102
INDEPENDENT AUDITORS' REPORT ON THE INTERNAL CONTROL STRUCTURE	103 - 125

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA  
YEAR ENDED SEPTEMBER 30, 1994**

TABLE OF CONTENTS

	<u>Page No.</u>
I. INDEPENDENT AUDITORS' REPORT	1
II. GENERAL-PURPOSE FINANCIAL STATEMENTS:	
Combined Balance Sheet - All Fund Types Account Groups and Discretely Presented Component Units	4
Combined Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) - All Governmental Fund Types	6
Statement of Revenues, Expenditures and Changes in Deficit - Budget and Actual, Budgetary Basis - General Fund	7
Combined Statement of Revenues, Expenses and Changes in Fund Equity - All Discretely Presented Component Units	8
Combined Statement of Cash Flows - All Discretely Presented Component Units	9
Notes to Financial Statements	10
III. ADDITIONAL INFORMATION	
Independent Auditors' Report on Additional Information	31
Combining Schedule of Expenditures by Account - All Governmental Fund Types	32
General Fund:	
Statement of Revenues, Expenditures by Function and Department and Changes in Deficit	33
Statement of Revenues, Expenditures and Changes in Deficit - Budget and Actual, Budgetary Basis	36
Special Revenue Funds:	
Introduction to Special Revenue Funds	39
Combining Balance Sheet	41
Combining Statement of Revenues, Expenditures by Function and Changes in Fund Balances (Deficit)	42

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA  
YEAR ENDED SEPTEMBER 30, 1994**

**TABLE OF CONTENTS  
(CONTINUED)**

	<u>Page No.</u>
III. ADDITIONAL INFORMATION, CONTINUED	
Special Revenue Funds, Continued:	
Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balances (Deficit)	43
Capital Projects Funds:	
Introduction to Capital Projects Funds	44
Combining Balance Sheet	45
Combining Statement of Revenues, Expenditures by Function and Changes in Fund Balances (Deficit)	46
Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balances (Deficit)	47
Component Units-Proprietary Funds:	
Introduction to Component Units-Proprietary Funds	48
Combining Balance Sheet	49
Combining Statement of Revenues, Expense, and Changes in Fund Equity	50
IV. INDEPENDENT AUDITORS' REPORTS ON COMPLIANCE WITH LAWS AND REGULATIONS	
Independent Auditors' Report on Compliance Based on an Audit of General-Purpose Financial Statements Performed in Accordance with Government Auditing Standards	52
Independent Auditors' Report on Compliance with Specific Requirements Applicable to Major Federal Financial Assistance Programs	54
Independent Auditors' Report on Compliance with the General Requirements Applicable to Federal Financial Assistance	56
Independent Auditors' Report on Compliance with Requirements Applicable to Nonmajor Federal Financial Assistance Program Transactions	58
Independent Auditors' Report on the Internal Control Structure used in Administering Federal Financial Assistance	60
Independent Auditors' Report on the Supplementary Schedule of Federal Financial Assistance	64

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA  
YEAR ENDED SEPTEMBER 30, 1994**

**TABLE OF CONTENTS  
(CONTINUED)**

	<u>Page No.</u>
IV. INDEPENDENT AUDITORS' REPORTS ON COMPLIANCE WITH LAWS AND REGULATIONS, CONTINUED	
Schedule of Federal Financial Assistance:	
FSM Federal Assistance Fund	66
TTPI Capital Projects Fund	68
CFSM Special Revenue Fund	69
Compact of Free Association Capital Projects Fund Section 211 (A) (2)	70
Compact of Free Association Other Grants Fund	80
Compact of Free Association Special Block Grant Fund Section 221 (B)	81
CFSM Capital Projects Fund	82
Notes to Schedule of Federal Financial Assistance	83
Schedule of Programs Selected for Audit in Accordance With OMB Circular A-128	85
Schedule of Findings and Questioned Costs	86
Resolutions of Prior Years' Questioned Costs	102
V. INDEPENDENT AUDITORS' REPORT ON THE INTERNAL CONTROL STRUCTURE	
Independent Auditors' Report on the Internal Control Structure Based on an Audit of General-Purpose Financial Statements Performed in Accordance with Government Auditing Standards	104
Schedule of Internal Control Findings	107

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

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

**YEAR ENDED SEPTEMBER 30, 1994**

**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 foregoing Table of Contents, as of September 30, 1994, 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, 1994, nor have existing records been adequately assembled to permit the application of auditing procedures and verification of the detail of account balances. Accordingly, a statement of changes in general fixed assets has not been included within the accompanying general-purpose financial statements.

As discussed in Note 1A, the accompanying general-purpose financial statements do not include the State's eleven development authorities, which in our opinion, should be included to conform with generally accepted accounting principles. The development authorities would be reported as blended component units - special revenue funds.

We were unable to obtain audited financial statements supporting the State of Chuuk's investments in three corporations stated at \$3,160,000, \$40,000 and \$1,375,000, respectively, in the Governmental Fund Type - Capital Projects Fund at September 30, 1994, as described in Note 9 to the general-purpose financial statements. The State of Chuuk has not adjusted the investments to reflect the equity in the investees' earnings or losses. We were not able to satisfy ourselves as to the carrying value of these investments or the equity in their earnings or losses by other auditing procedures.

The State has yet to determine whether Chuuk Organization for Community Action (COCA) should be accounted for as a component unit - governmental fund. Therefore COCA's financial statements are not included in the accompanying general-purpose financial statements. The impact of the non-inclusion in the accompanying general-purpose financial statements is not determinable.

In connection with our audit of the general-purpose financial statements for the year ended September 30, 1994, we were unable to obtain a response from the State of Chuuk's Attorney General to certain audit inquiries concerning litigation, claims and assessments that might affect such general-purpose financial statements.

In our opinion, except for the effects on the general-purpose financial statements of such adjustments, if any, as might have been determined to be necessary had we been able to assure ourselves as to the propriety of the General Fixed Assets Account Group, audited financial statements of the State of Chuuk's eleven development authorities been available, the propriety of investments of the Governmental Fund Type - Capital Projects Funds been determinable, and had we been able to obtain a response from the State of Chuuk's Attorney General concerning litigation, claims and assessments, as discussed in the third, fourth, fifth and seventh paragraphs above, and the omission of the Component Units - Governmental Funds, as discussed in the sixth paragraph above, the accompanying general-purpose financial statements, as set forth in Section II of the Table of Contents, with the exception of the General Fixed Assets Account Group upon which we are unable to express an opinion because of the matters set forth in the third paragraph above, present fairly, in all material respects, the financial position of the State of Chuuk as of September 30, 1994, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

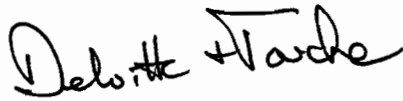
As discussed in Note 11, the State of Chuuk has been named the defendant in various legal actions. The State of Chuuk is vigorously defending all claims, but the ultimate outcome is uncertain at this time. Accordingly, no provision for any liability that may result has been recorded in the accompanying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

As discussed in Note 11, \$8,817,107 of costs for operation of U.S. federal programs to the State of Chuuk have been questioned as of September 30, 1994, and their disposition is still pending. If such questioned costs are ultimately disallowed, the General Fund will absorb the amount so disallowed. No provision for any potential loss or disallowance of federal financial assistance which may result upon resolution has been made in the accompanying general-purpose financial statements.



The accompanying general-purpose financial statements have been prepared assuming that the State of Chuuk will continue as a going concern. The State of Chuuk's general fund has an unreserved fund deficit of \$12,601,087, a condition that raises substantial doubt about the ability of the State of Chuuk to meet its debts as they come due. The general-purpose financial statements do not include any adjustment relating to the amounts and classification of liabilities that might be necessary if the State of Chuuk is not able to meet its debts as they come due.

In accordance with Government Auditing Standards, we have also issued a report dated February 23, 1995, on our consideration of the State of Chuuk's (primary Government only) internal control structure and a report dated February 23, 1995 on its compliance with laws and regulations.

A handwritten signature in cursive script that reads "Deloitte + Tatche".

February 23, 1995

**CHUUK STATE GOVERNMENT**  
**Combined Balance Sheet – All Fund Types, Account Groups and Discretely Presented Component Units**  
**September 30, 1994**  
**(With Comparative Totals as of September 30, 1993)**

	Governmental Fund Types			Account Groups		Totals	Component	Totals		
	General	Special Revenue	Capital Projects	General Fixed Assets	General Long-Term Debt	Primary Government (Memorandum Only)	Units Proprietary	Reporting Entity (Memorandum Only)		
								1994	1993	
<u>Assets</u>										
Cash and equivalents (Notes 1D and 2)	\$ 228,308	\$ 188,609	\$ 958,667	\$ --	\$ --	\$ 1,375,584	\$ 419,161	\$ 1,794,745	\$ 1,561,018	
Investments (Note 1M and 2)	458,048	--	15,051,146	--	--	15,509,194	--	15,509,194	19,672,989	
Investments – other (Notes 1M and 9)	--	--	7,137,000	--	--	7,137,000	--	7,137,000	6,262,000	
Receivables from other governments (Note 3)	402,270	2,263,306	1,181,121	--	--	3,846,697	132,958	3,979,655	4,072,820	
Receivables, federal agencies (Note 3)	--	585,176	--	--	--	585,176	--	585,176	747,260	
General receivables, net (Note 1E)	105,627	1,900	--	--	--	107,527	9,087	116,614	216,145	
Loans receivable, net of allowance for doubtful accounts of \$523,269 (Note 1F)	--	--	--	--	--	--	1,159,151	1,159,151	898,818	
Loans receivable, other (Note 14)	--	--	7,000,000	--	--	7,000,000	--	7,000,000	7,000,000	
Dividends and interest receivable	74,910	--	--	--	--	74,910	--	74,910	129,848	
Advances	167,756	124,716	186,699	--	--	479,171	--	479,171	441,959	
Due from other funds (Note 8)	--	2,364,862	4,097,788	--	--	6,462,650	--	6,462,650	5,037,190	
Inventories (Note 1K)	--	--	--	--	--	--	62,484	62,484	76,662	
Other assets	--	--	--	--	--	--	48,470	48,470	17,825	
Reserve for doubtful interfund receivable (Note 16)	(504,234)	--	--	--	--	(504,234)	--	(504,234)	(617,952)	
Fixed assets, net (Note 4)	--	--	--	67,581,884	--	67,581,884	1,015,024	68,596,908	68,634,718	
Amount to be provided for retirement of long-term debt	--	--	--	--	12,035,652	12,035,652	--	12,035,652	12,035,652	
<b>Total assets</b>	<b>\$ 932,685</b>	<b>\$ 5,528,569</b>	<b>\$ 35,612,421</b>	<b>\$ 67,581,884</b>	<b>\$ 12,035,652</b>	<b>\$ 121,691,211</b>	<b>\$ 2,846,335</b>	<b>\$ 124,537,546</b>	<b>\$ 126,186,952</b>	

See accompanying notes to financial statements.

**CHUUK STATE GOVERNMENT**  
**Combined Balance Sheet – All Fund Types, Account Groups and Discretely Presented Component Units, Continued**  
**September 30, 1994**  
**(With Comparative Totals as of September 30, 1993)**

	Governmental Fund Types			Account Groups		Totals	Component	Total	
	General	Special Revenue	Capital Projects	General Fixed Assets	General Long-Term Debt	Primary Government (Memorandum Only)	Units Proprietary	Reporting Entity (Memorandum Only)	
								1994	1993
<b>Liabilities and Fund Equity (Deficiency)</b>									
<b>Liabilities:</b>									
Bank overdraft	\$ 2,090,533	\$ 57,885	\$ –	\$ –	\$ –	\$ 2,148,418	\$ –	\$ 2,148,418	\$ 1,519,188
Accounts payable	5,826,760	1,978,618	1,801,756	–	–	9,607,134	53,761	9,660,895	7,507,480
Accrued payroll and annual leave (Note 1H)	325,605	–	–	–	1,607,782	1,933,387	–	1,933,387	2,282,451
Due to other funds (Note 8)	3,562,657	1,627,738	1,272,255	–	–	6,462,650	–	6,462,650	5,037,190
Payable to other governments	92,798	323,008	–	–	–	415,806	–	415,806	472,302
Notes payable (Notes 5 and 13)	–	–	329,179	–	10,427,870	10,757,049	755,646	11,512,695	11,522,739
Deferred revenue	–	277,320	–	–	–	277,320	–	277,320	277,321
<b>Total liabilities</b>	<b>11,898,353</b>	<b>4,264,569</b>	<b>3,403,190</b>	<b>–</b>	<b>12,035,652</b>	<b>31,601,764</b>	<b>809,407</b>	<b>32,411,171</b>	<b>28,618,671</b>
<b>Commitments and contingencies (Note 11)</b>									
<b>Fund equity (deficiency):</b>									
Contributed capital	–	–	–	–	–	–	1,670,266	1,670,266	1,670,266
Investment in general fixed assets (Note 4)	–	–	–	67,581,884	–	67,581,884	–	67,581,884	67,581,884
Retained earnings	–	–	–	–	–	–	366,662	366,662	344,620
<b>Fund balances (deficit):</b>									
<b>Reserved for (Note 11) :</b>									
Related assets (Note 15)	105,627	352,999	14,161,831	–	–	14,620,457	–	14,620,457	14,855,447
Encumbrances	989,360	1,005,790	4,873,022	–	–	6,868,172	–	6,868,172	7,057,637
Continuing appropriations (Note 6)	540,432	–	22,774,898	–	–	23,315,330	–	23,315,330	11,084,307
Unreserved	(12,601,087)	(94,789)	(9,600,520)	–	–	(22,296,396)	–	(22,296,396)	(5,025,880)
<b>Total fund equity (deficiency)</b>	<b>(10,965,668)</b>	<b>1,264,000</b>	<b>32,209,231</b>	<b>67,581,884</b>	<b>–</b>	<b>90,089,447</b>	<b>2,036,928</b>	<b>92,126,375</b>	<b>97,568,281</b>
<b>Total liabilities and fund equity (deficiency)</b>	<b>\$ 932,685</b>	<b>\$ 5,528,569</b>	<b>\$ 35,612,421</b>	<b>\$ 67,581,884</b>	<b>\$ 12,035,652</b>	<b>\$ 121,691,211</b>	<b>\$ 2,846,335</b>	<b>\$ 124,537,546</b>	<b>\$ 126,186,952</b>

See accompanying notes to financial statements.

**CHUUK STATE GOVERNMENT**  
**Combined Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) –**  
**All Governmental Fund Types**  
**Year Ended September 30, 1994**  
(With comparative totals for the year ended September 30, 1993)

	Governmental Fund Types			Totals Reporting Entity (Memorandum Only)	
	General	Special Revenue	Capital Projects	1994	1993
<b>Revenues:</b>					
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	4,945,776	–	3,446,774	8,392,550	7,820,340
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	–	527,912	–	527,912	491,918
Section 212 – base grant	–	250,000	–	250,000	250,000
Section 216(a)(3) – FSM	–	433,063	–	433,063	445,352
U.S. Department of the Interior grants	–	–	111,754	111,754	646,580
FSM revenue sharing	2,501,894	–	–	2,501,894	2,569,453
Other federal contributions	–	2,235,041	841	2,235,882	1,851,489
State taxes and licenses	1,399,703	–	–	1,399,703	1,496,048
Investment income (Note 2)	1,077,347	–	–	1,077,347	2,106,421
Other	1,489,960	259,394	–	1,749,354	1,422,387
<b>Total revenues</b>	<b>22,655,080</b>	<b>7,846,297</b>	<b>11,392,969</b>	<b>41,894,346</b>	<b>42,314,875</b>
<b>Expenditures:</b>					
General government	5,354,589	–	–	5,354,589	5,348,610
Health services	3,326,334	1,534,473	–	4,860,807	5,822,290
Education	8,012,462	4,033,954	–	12,046,416	11,981,672
Economic development	1,124,525	146,032	–	1,270,557	1,411,509
Public safety	837,711	153,027	–	990,738	935,530
Transportation	1,245,865	–	–	1,245,865	1,282,779
Public works and utilities	1,446,804	1,340,792	–	2,787,596	2,836,411
Community affairs	260,487	382,981	–	643,468	647,425
Capital projects	–	–	12,463,674	12,463,674	12,231,673
Debt service – principal	–	–	–	–	668,032
Debt service – interest	–	–	556,315	556,315	32,437
Other (Note 17)	4,861,245	10,801	–	4,872,046	5,981,113
<b>Total expenditures</b>	<b>26,470,022</b>	<b>7,602,060</b>	<b>13,019,989</b>	<b>47,092,071</b>	<b>49,179,481</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(3,814,942)</b>	<b>244,237</b>	<b>(1,627,020)</b>	<b>(5,197,725)</b>	<b>(6,864,606)</b>
<b>Other financing sources (uses):</b>					
Operating transfers in (Note 7)	–	144,276	–	144,276	383,113
Operating transfers out (Note 7)	(368,406)	–	(155,812)	(524,218)	(810,730)
Recovery of doubtful interfund receivable	113,719	–	–	113,719	–
Proceeds from notes payable (Note 5)	–	–	–	–	10,300,000
Other income (expense), net	–	–	–	–	11,172
<b>Total other financing sources (uses), net</b>	<b>(254,687)</b>	<b>144,276</b>	<b>(155,812)</b>	<b>(266,223)</b>	<b>9,883,555</b>
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses</b>	<b>(4,069,629)</b>	<b>388,513</b>	<b>(1,782,832)</b>	<b>(5,463,948)</b>	<b>3,018,949</b>
<b>Fund balances (deficit), beginning of year</b>	<b>(6,896,039)</b>	<b>875,487</b>	<b>33,992,063</b>	<b>27,971,511</b>	<b>24,952,562</b>
<b>Fund balances (deficit), end of year</b>	<b>\$ (10,965,668)</b>	<b>\$ 1,264,000</b>	<b>\$ 32,209,231</b>	<b>\$ 22,507,563</b>	<b>\$ 27,971,511</b>

See accompanying notes to financial statements.

**CHUUK STATE GOVERNMENT**  
**Statement of Revenues, Expenditures and Changes in Deficit –**  
**Budget and Actual, Budgetary Basis – General Fund**  
**Year Ended September 30, 1994**  
(With comparative totals for the year ended September 30, 1993)

	1994 General Fund			1993 General Fund		
	Budget	Actual	Variance	Budget	Actual	Variance
<b>Revenues:</b>						
Compact of Free Association						
Section 211 and 217	\$ 15,848,964	\$ 16,186,176	\$ 337,212	\$ 17,511,752	\$ 17,848,964	\$ 337,212
FSM revenue sharing	2,972,487	2,501,894	(470,593)	3,139,164	2,569,453	(569,711)
State taxes and licenses	2,000,000	1,399,703	(600,297)	2,300,000	1,496,048	(803,952)
Investment income	1,500,000	1,077,347	(422,653)	1,550,000	1,215,017	(334,983)
Public service charges	2,050,000	1,489,960	(560,040)	1,555,008	2,106,421	551,413
<b>Total revenues</b>	<b>24,371,451</b>	<b>22,655,080</b>	<b>(1,716,371)</b>	<b>26,055,924</b>	<b>25,235,903</b>	<b>(820,021)</b>
<b>Expenditures – budgetary basis:</b>						
General government	5,425,000	5,469,810	(44,810)	5,424,600	5,473,350	(48,750)
Health Services	3,122,893	3,350,313	(227,420)	3,134,003	4,902,168	(1,768,165)
Education	8,618,442	8,100,287	518,155	8,060,520	7,909,895	150,625
Economic development	1,162,100	1,119,035	43,065	1,138,200	1,083,405	54,795
Public safety	817,800	837,829	(20,029)	805,300	796,669	8,631
Transportation	1,271,341	1,275,375	(4,034)	1,258,441	1,255,241	3,200
Public works and utilities	1,326,700	1,239,192	87,508	1,930,200	1,731,329	198,871
Community affairs	279,100	263,004	16,096	282,100	272,138	9,962
Board and Commissions	458,900	502,553	(43,653)	653,100	666,374	(13,274)
Special programs	386,800	394,306	(7,506)	249,107	238,467	10,640
Legislative external appropriations	2,166,893	2,282,893	(116,000)	3,639,073	3,820,169	(181,096)
Other	–	1,824,312	(1,824,312)	–	825,251	(825,251)
<b>Total expenditures</b>	<b>25,035,969</b>	<b>26,658,909</b>	<b>(1,622,940)</b>	<b>26,574,644</b>	<b>28,974,456</b>	<b>(2,399,812)</b>
Deficiency of revenues under expenditures	(664,518)	(4,003,829)	(3,339,311)	(518,720)	(3,738,553)	(3,219,833)
<b>Other financing sources (uses):</b>						
Operating transfers out	(301,100)	(368,405)	(67,305)	(523,200)	(596,977)	(73,777)
Other (expense) income	–	113,719	113,719	–	(1,190)	(1,190)
Deficiency of revenues and other financing sources under expenditures and other financing uses	(965,618)	(4,258,515)	(3,292,897)	(1,041,920)	(4,336,720)	(3,294,800)
Deficit, unreserved, beginning of year	(8,220,279)	(8,220,279)	–	(3,802,670)	(3,802,670)	–
<b>Other changes in unreserved fund balance:</b>						
(Increase) decrease in reserve for related assets	–	258,172	258,172	–	(68,414)	(68,414)
(Increase) in reserve for continuing appropriations	–	(380,465)	(380,465)	–	(12,475)	(12,475)
<b>Deficit, unreserved, end of year</b>	<b>\$ (9,185,897)</b>	<b>\$ (12,601,087)</b>	<b>\$ (3,415,190)</b>	<b>\$ (4,844,590)</b>	<b>\$ (8,220,279)</b>	<b>\$ (3,375,689)</b>

See accompanying notes to financial statements.

**CHUUK STATE GOVERNMENT**  
Combined Statement of Revenues, Expenses and Changes in  
Fund Equity – All Discretely Presented Component Units  
Year Ended September 30, 1994

	<u>Component Units Proprietary</u>
Operating revenues:	
Interest income	\$ 84,517
Coconut product sales	<u>35,898</u>
Total operating revenues	<u>120,415</u>
 Operating expenses:	
Cost of sales	145,596
Payroll and personnel	107,085
Travel	29,869
Bad debt	65,858
Depreciation	19,167
Rent	10,608
Other	<u>70,461</u>
Total operating expenses	<u>448,644</u>
Operating loss	<u>(328,229)</u>
 Nonoperating revenues (expenses):	
Transfers in (Note 7)	313,933
Payment to Coconut Development Authority	(15,000)
Federal contributions—HUD Section 8	36,926
Recovery of bad debt	33,623
Interest expense	<u>(19,211)</u>
Total nonoperating revenues (expenses), net	<u>350,271</u>
Net income	22,042
Retained earnings, beginning of year	<u>344,620</u>
Retained earnings, end of year	366,662
Contributed capital	<u>1,670,266</u>
Total fund equity	<u>\$ 2,036,928</u>

See accompanying notes to financial statements.

**CHUUK STATE GOVERNMENT**  
**Combined Statement of Cash Flows –**  
**All Discretely Presented Component Units**  
Year Ended September 30, 1994

	<u>Component Units Proprietary</u>
Increase (Decrease) in Cash and Equivalents:	
Cash flows from operating activities:	
Cash received from customers	\$ 119,772
Cash payment to suppliers and employees	<u>(374,934)</u>
Net cash used for operating activities	<u>(255,162)</u>
Cash flows from noncapital financing activities:	
Chuuk State Legislature appropriations	313,933
Federal contributions	36,926
Copra subsidy	<u>(15,000)</u>
Net cash provided by noncapital financing activities	<u>335,859</u>
Cash flows from capital and related financing activities:	
Acquisition of fixed assets	(30,064)
Interest paid	(11,497)
Repayments of debt	<u>(10,044)</u>
Net cash used for capital and related financing activities	<u>(51,605)</u>
Cash flows from investing activities:	
Increase in loans receivable	(339,824)
Recovery of bad debts	<u>33,623</u>
Net cash used for investing activities	<u>(306,201)</u>
Decrease in cash and equivalents	(277,109)
Cash and equivalents, beginning of year	<u>696,270</u>
Cash and equivalents, end of year	<u>\$ 419,161</u>
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (328,229)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Bad debts	65,009
Depreciation	69,279
Interest expense	(7,714)
Increase in receivables	(15,994)
Decrease in inventories	14,178
Increase in other assets	(1,702)
Decrease in accounts payable	<u>(49,989)</u>
Total adjustments	<u>73,067</u>
Net cash used for operating activities	<u>\$ (255,162)</u>

See accompanying notes to financial statements.

**CHUUK STATE GOVERNMENT**  
Notes to Financial Statements  
September 30, 1994

(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 government accounting and financial reporting principles. The more significant of the State's accounting policies are described below.

A. Reporting Entity

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

1. Blended Component Unit

Chuuk Visitors Bureau

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



**CHUUK STATE GOVERNMENT**  
Notes to Financial Statements, Continued  
September 30, 1994

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

2. Discretely Presented Component Units

(a) Chuuk Coconut Authority

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

(b) Chuuk Housing Authority

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

(c) Chuuk Organization for Community Action

The State is currently reviewing this entity to determine whether it should be included as a component unit of the State.

3. Omitted Component Units

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

**CHUUK STATE GOVERNMENT**  
Notes to Financial Statements, Continued  
September 30, 1994

(1) Summary of Significant Accounting Policies, Continued

B. Fund Accounting and Basis of Presentation

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

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

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

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

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

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

**CHUUK STATE GOVERNMENT**  
Notes to Financial Statements, Continued  
September 30, 1994

(1) Summary of Significant Accounting Policies, Continued

B. Fund Accounting and Basis of Presentation, Continued

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

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (e.g. revenues) and decreases (e.g., expenses) in net total assets.

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

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

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

**CHUUK STATE GOVERNMENT**  
Notes to Financial Statements, Continued  
September 30, 1994

(1) Summary of Significant Accounting Policies, Continued

B. Fund Accounting and Basis of Presentation, Continued

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

C. Budgetary Process

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

During fiscal year 1994, supplemental appropriations were made for both operating and capital purposes, to reflect revised financial priorities of Chuuk State Government.

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

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

**CHUUK STATE GOVERNMENT**  
Notes to Financial Statements, Continued  
September 30, 1994

(1) Summary of Significant Accounting Policies, Continued

C. Budgetary Process, Continued

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

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

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

D. Cash and Equivalents

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

E. Receivables

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

**CHUUK STATE GOVERNMENT**  
Notes to Financial Statements, Continued  
September 30, 1994

(1) Summary of Significant Accounting Policies, Continued

F. Loans Receivable

Loans receivable of the component units-proprietary funds consist of Community Development Block Grant (CDBG) loans and general loans extended to qualifying Federated States of Micronesia (FSM) citizens. CDBG loans are for the purpose of acquiring new homes and general loans are for the purpose of financing renovation, rehabilitation or extension of existing homes. In order to qualify for both types of loans, the citizen must own or acquire the land where the home will be located, the home or additions must be approved with regard to compliance with building codes, the applicant must fall within low-income eligibility parameters as established by the U.S. Department of Housing and Urban Development (HUD), and the applicant must exhibit the ability to repay the loans. Interest on both types of loans is charged at 4%. The loans are collateralized by land and improvements. The principal amounts of loans range between \$2,000 and \$25,000. Loan maturities range between 1 and 7 years.

G. Interfund Transactions

The State has three types of interfund transactions:

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

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 Financial Statements, Continued  
September 30, 1994

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

K. Inventories

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

L. Reclassifications

Certain items in the 1993 general-purpose financial statements have been reclassified to conform with the 1994 presentation.

M. Investments

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

**CHUUK STATE GOVERNMENT**  
Notes to Financial Statements, Continued  
September 30, 1994

(2) Cash and Equivalents and Investments

Cash and Equivalents

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

Cash Deposits

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

At September 30, 1994, the State had deposits as follows; in each situation, cost approximated market value.

General Fund

Cash in checking accounts and savings account with FDIC insured banks	\$ 154,951
Cash on deposit with trustee	<u>73,357</u>
	<u>\$ 228,308</u>

Special Revenue Funds

Cash in checking accounts with FDIC insured banks	\$ 118,621
Cash on deposit with trustee	<u>69,988</u>
	<u>\$ 188,609</u>

Capital Projects Funds

Cash on deposit with Trustee	<u>\$ 958,667</u>
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Component Units

Cash in checking and savings accounts with FDIC insured banks	<u>\$ 419,161</u>
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Investments

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



**CHUUK STATE GOVERNMENT**  
Notes to Financial Statements, Continued  
September 30, 1994

(2) Cash and Equivalents 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 Financial Statements, Continued  
September 30, 1994

(2) Cash and Equivalents 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, 1994, are summarized below:

	<u>Carrying Amount</u>	<u>Market Value</u>
<u>Cash on Deposit with Trustee</u>		
Cash management fund	<u>\$ 1,102,012</u>	<u>\$ 1,102,012</u>
<u>Investments</u>		
Equity funds	<u>\$15,509,194</u>	<u>\$16,356,585</u>

- D. The State's investment income as of September 30, 1994, is summarized below:

Interest	\$ 698,929
Dividends	189,958
Realized gains	679,678
Realized losses	(294,806)
Management fees	(187,316)
Other expenses	<u>(9,096)</u>
	<u>\$1,077,347</u>

**CHUUK STATE GOVERNMENT**  
Notes to Financial Statements, Continued  
September 30, 1994

(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 for U.S. grants, U.S. Department of the Interior (DOI) grants, and those earned reimbursements resulting from Congress of the Federated States of Micronesia appropriations. Additionally, amounts due from the Office of Transition, Trust Territory Government (TTG), are for DOI Capital Projects.

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

(4) Fixed Assets

Chuuk State did not update the balances in the General Fixed Assets Account Group during fiscal year 1994.

A summary of the general fixed assets accounted for in the General Fixed Assets Account Group as of September 30, 1994, follows:

Roads	\$10,257,016
Port facilities	6,537,700
Airport facilities	24,506,300
Public utilities	22,961,621
Other	<u>3,319,207</u>
	<u>\$67,581,844</u>

A summary of fixed assets accounted for in the component units-proprietary funds as of September 30, 1994, follows:

	Estimated Useful Lives	
Housing units	25-50 years	\$ 243,964
Equipment	7-10 years	723,076
Building	20-30 years	301,649
Automobile	3- 5 years	44,342
Office equipment	7-10 years	34,054
Other	5-10 years	<u>19,746</u>
		1,366,831
Less accumulated depreciation		<u>(351,807)</u>
		<u>\$1,015,024</u>

**CHUUK STATE GOVERNMENT**  
Notes to Financial Statements, Continued  
September 30, 1994

(5) Notes Payable

Capital Projects Fund

The State entered into a separate agreement with a contractor for payment of prior services performed. The agreement was not executed by the Attorney General's office and some amounts due are being renegotiated. Until a mutual settlement occurs, payment will not be made. The note is to be repaid from the State's Compact 211 (a)(2) Capital Projects Fund. As of September 30, 1994, 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

General Fund

The State signed a promissory note with the Federal Emergency Management Agency (FEMA) for the State's matching share of funds for the Typhoon Owen disaster as of September 30, 1994. 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 the above notes payable for subsequent years ending September 30, are as follows:

September 30, 1995 \$ 457,049

Notes Payable

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

**CHUUK STATE GOVERNMENT**  
Notes to Financial Statements, Continued  
September 30, 1994

(5) Notes Payable, Continued

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, 1994, was comprised 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.

Upon receipt of the Compact payments, the Trustee is responsible for withdrawal of amounts necessary for payments of principal and interest. Various other restrictive covenants exist and are detailed in the Trust Agreement dated April 1, 1990, as amended by a Supplemental Trust Agreement dated March 15, 1994. Management is of the opinion that it has complied with such covenants through September 30, 1994.

(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.

\$ 540,432

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.

\$22,774,898

**CHUUK STATE GOVERNMENT**  
Notes to Financial Statements, Continued  
September 30, 1994

(7) Operating Transfers In/Out

Material General Fund, Special Revenue Fund, Capital Projects Fund and Component Units - Proprietary Funds transfers in/out for the year ended September 30, 1994, are discussed below:

A. General Fund Transfers to the Chuuk Housing Authority and the Chuuk Coconut Authority (Component Units-Proprietary Funds)

The Chuuk Legislature appropriated operational subsidies to the Chuuk Housing Authority and Chuuk Coconut Authority. During fiscal year 1994, \$87,122 and \$86,000, respectively, was expended under this appropriation. The general fund has recorded this expenditure as an operating transfer out, and the component unit - proprietary funds have recorded the receipt of funds as nonoperating revenue, transfers in, within the accompanying general-purpose financial statements.

B. General Fund Transfer to the Chuuk Visitor's Bureau (Special Revenue Fund/A Blended Component Unit)

The Chuuk Legislature appropriated an operational subsidy to the Chuuk Visitor's Bureau. During fiscal year 1994, \$90,231 was expended under this appropriation. In addition to the operational subsidy \$42,277 was transferred out to Chuuk Visitor's Bureau for the Aluminum Recycling Program. The general fund has recorded these expenditures as operating transfers out, and the special revenue fund has recorded receipts as operating transfers in.

C. General Fund Transfer to the Development Authorities

The Chuuk Legislature appropriated operational subsidies to the development authorities. During fiscal year 1994, \$62,776 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.

**CHUUK STATE GOVERNMENT**  
Notes to Financial Statements, Continued  
September 30, 1994

(7) Operating Transfers In/Out, Continued

D. Compact CIP Fund Transfer to Chuuk Coconut Authority  
(A Component Unit-Proprietary Fund)

The Chuuk State Legislature appropriated \$150,000 to the Chuuk Coconut Authority. During fiscal year 1994, \$140,811 was expended under this appropriation. The Compact CIP Fund has recorded the expenditure as transfer out, and the component unit has recorded the receipt of funds as nonoperating revenue, transfers in, within the accompanying general-purpose financial statements.

E. Compact CIP Fund Transfer to Chuuk Visitors' Bureau  
(Special Revenue Fund/A Blended Component Unit)

The Chuuk State Legislature appropriated \$15,000 to the Chuuk Visitors' Bureau. During the fiscal year 1994, \$15,000 was expended under this appropriation. The Compact CIP Fund has recorded the expenditure as a transfer out, and the Bureau has recorded the receipt of the funds as non-operating revenue, transfers in, within the accompanying financial statements.

(8) Interfund Assets/Liabilities

The following summarizes due from/to other funds as of September 30, 1994:

<u>Fund</u>	<u>Receivable Amount</u>	<u>Payable Amount</u>
<b>Special Revenue Funds:</b>		
Chuuk Airport Authority	\$ 413,419	\$ -
Compact - Special Block Grant	775,805	-
Federal Grant Assistance Fund	-	1,248,097
Compact - Other Grants Fund	1,175,638	-
Other Grant Assistance Fund	-	22,819
CFSM Grant Fund	-	356,822
<b>Capital Projects Funds:</b>		
TTG Capital Projects Fund	-	1,049,257
Compact Capital Projects Fund	4,097,788	-
CFSM State Project Fund	-	222,998
General Fund	-	3,562,657
	<u>\$6,462,650</u>	<u>\$6,462,650</u>

**CHUUK STATE GOVERNMENT**  
Notes to Financial Statements, Continued  
September 30, 1994

(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, 1994, which represents an interest of 16.114%.

During fiscal year 1991, the State also purchased \$250,000 of common stock in the Pacific Islands Regional Development Bank (a 10.4% interest at September 30, 1994).

During fiscal year 1994, the State purchased \$875,000 of common stock in a joint venture with the National Fisheries Corporation for a longline base. The State also purchased \$130,000 and \$370,000 of common stock in fiscal years 1993 and 1991, respectively in the same joint venture, thus aggregating a cumulative investment of \$1,375,000 as of September 30, 1994, which represents an interest of 46.22%.

During fiscal year 1993, the State purchased \$812,000 of common stock in the Bank of Guam (a .007% interest as of September 30, 1994).

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

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 reserve 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 interest in the joint venture, there is no impact on appropriable fund balance reserves due to the aforementioned related asset designation.



**CHUUK STATE GOVERNMENT**  
Notes to Financial Statements, Continued  
September 30, 1994

(10) Segment Data for Component Units-Proprietary Funds

The following represents key data extracted from the financial statements of the two material component units - proprietary funds of the State as of September 30, 1994, and for the year then ended:

	<u>Chuuk Coconut Authority</u>	<u>Chuuk Housing Authority</u>
Total assets	<u>\$1,085,990</u>	<u>\$1,760,345</u>
Total equity	<u>\$ 367,606</u>	<u>\$1,669,322</u>
Net fixed assets	<u>\$ 841,218</u>	<u>\$ 173,806</u>
FY94 operating loss	<u>\$ (170,368)</u>	<u>\$ (157,861)</u>
FY94 net income (loss)	<u>\$ 29,946</u>	<u>\$ (7,904)</u>
FY94 operating revenues	<u>\$ 35,898</u>	<u>\$ 84,517</u>
FY94 operating transfers in	<u>\$ 226,811</u>	<u>\$ 87,122</u>

(11) Commitments and Contingencies

Federal Programs

The State participates in a number of U.S. federally assisted grant programs. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Currently, \$8,817,107 in cumulative questioned costs exist for the operation of fiscal years 1984-1994 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.

**CHUUK STATE GOVERNMENT**  
Notes to Financial Statements, Continued  
September 30, 1994

(11) Commitments and Contingencies, Continued

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, 1994, was \$3,542,694.

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 5).

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. These funds have 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.

Loan to Western Pacific Tuna Group (WESTPAC)

During the year ended September 30, 1994, the State financed an equity investment in WESTPAC. (See Notes 9 and 14). WESTPAC has received a \$3,000,000 loan from the FSM Development Bank for which Chuuk State is the guarantor.

**CHUUK STATE GOVERNMENT**  
Notes to Financial Statements, Continued  
September 30, 1994

(12) Fund Deficits

The following represents material fund deficits as of September 30, 1994. If operation of these funds cannot cover prior losses, the State's General Fund may have to absorb these amounts or a portion thereof:

Special Revenue Funds:	
CFSM Grant Fund	<u>\$137,144</u>
Chuuk Visitors' Bureau	<u>\$ 57,885</u>
Capital Projects Funds:	
TTG Capital Projects Fund	<u>\$ 95,061</u>

(13) Notes Payable - Component Units-Proprietary Funds

The Chuuk Housing Authority, as of September 30, 1994, 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.	<u>\$ 60,436</u>
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Chuuk Coconut Processing Authority, as of September 30, 1994, 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, 1994, represents drawdowns to date on a credit facility with the Bank.	<u>\$695,210</u>
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Future minimum payments on the above notes payable for subsequent years ending September 30, are as follows:

<u>Years ending</u> <u>September 30,</u>	<u>Amount</u>
1995	\$ 55,733
1996	63,013
1997	66,732
1998	48,836
1999	51,335
Thereafter	<u>469,997</u>
	<u>\$755,646</u>

**CHUUK STATE GOVERNMENT**

Notes to Financial Statements, Continued  
September 30, 1994

(14) Loans Receivable - Related Party

As of September 30, 1994, 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. However, an amortization schedule has yet to be formulated.

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 Balances Reserved For Related Assets

Fund balance reserves for related assets are comprised of the following as of September 30, 1994:

	General Fund	Special Revenue Funds	Capital Projects Funds
Advances	\$ -	\$ -	\$ 24,831
Receivables	105,627	352,999	-
Loans	-	-	7,000,000
Investments - other	-	-	7,137,000
	<u>\$ 105,627</u>	<u>\$ 352,999</u>	<u>\$14,161,831</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).

(17) Expenditures - Other

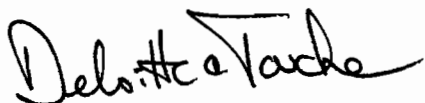
Other general fund expenditures are comprised of the following:

Boards and commissions	\$ 493,674
Legislative external appropriations	2,155,560
Unfunded programs - medical referral	1,819,505
Special programs	392,506
	<u>\$4,861,245</u>

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 February 23, 1995, in our opinion, is fairly presented in all material respects when considered in relation to the general-purpose financial statements taken as a whole.



February 23, 1995

**CHUUK STATE GOVERNMENT**  
**Combining Schedule of Expenditures by Account—**  
**All Governmental Fund Types**  
**Year Ended September 30, 1994**  
(With comparative totals for the year ended September 30, 1993)

	<u>Governmental Fund Types</u>			<u>Totals</u>	
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>(Memorandum Only)</u>	
				<u>1994</u>	<u>1993</u>
Expenditures:					
Personnel	\$ 18,333,112	\$ 1,725,026	\$ 254,439	\$ 20,312,577	\$ 21,295,083
Travel	896,747	408,710	275,600	1,581,057	1,716,921
Contractual services	794,750	1,263,544	6,018,941	8,077,235	6,809,615
POL	623,953	1,201,078	36,024	1,861,055	2,031,292
Other :					
Equipment	291,187	498,214	2,395,308	3,184,709	3,578,102
Medical supplies	331,163	282,192	—	613,355	520,110
Medical referral	1,933,479	—	—	1,933,479	1,237,108
Supplies and materials	524,340	300,607	554,687	1,379,634	1,325,935
Scholarships	89,499	433,063	—	522,562	505,388
Official allowance	93,680	—	—	93,680	2,735
Food	40,735	1,069,188	8,273	1,118,196	338,727
Books	3,826	4,701	—	8,527	5,339
All others	1,509,269	223,889	1,541,006	3,274,164	6,325,638
Debt service—principal	—	—	—	—	668,032
Debt service—interest	—	—	556,315	556,315	32,437
Miscellaneous	1,004,282	191,848	1,379,396	2,575,526	2,787,019
<b>Total expenditures</b>	<b><u>\$ 26,470,022</u></b>	<b><u>\$ 7,602,060</u></b>	<b><u>\$ 13,019,989</u></b>	<b><u>\$ 47,092,071</u></b>	<b><u>\$ 49,179,481</u></b>

**CHUUK STATE GOVERNMENT  
GENERAL FUND**

Statement of Revenues, Expenditures by Function and Department and Changes in Deficit  
Year Ended September 30, 1994

(With comparative totals for the year ended September 30, 1993)

	1994	1993
<b>Revenues:</b>		
U.S. Compact of Free Association:		
Section 211(a)(2) – base grant	\$ 11,240,400	\$ 11,240,400
Section 217 – inflation adjustment	4,945,776	6,608,564
FSM revenue sharing	2,501,894	2,569,453
State taxes and licenses:		
Cigarette tax	\$ 52,488	\$ 63,399
General sales tax	825,539	714,544
Alcohol	240,335	396,087
Hotel	128,296	135,300
Delinquent tax collections	26,509	13,206
License and fees	28,899	15,654
Other	97,637	157,858
	1,399,703	1,496,048
Other revenues:		
Hospital and utilities collections	550,136	556,193
Transportation collections	421,499	376,210
Leases	252,307	145,475
Miscellaneous	266,018	137,139
Investment income	1,077,347	2,106,421
	1,077,347	2,106,421
<b>Total revenues</b>	22,655,080	25,235,903
<b>Expenditures by department:</b>		
General government:		
Executive branch:		
Governor and staff	502,486	501,531
Attorney General	265,374	219,562
State Finance	286,392	317,274
ADP	86,514	35,366
Tax and revenue	103,543	82,058
Program and budget	149,476	114,981
Property and supply	145,393	135,390
Personnel	168,247	147,683
Planning	140,570	137,252
	1,847,995	1,691,097
<b>Total executive branch</b>	1,847,995	1,691,097
Legislative internal operations:		
President and members	520,955	579,600
Speakers and members	1,273,975	1,476,016
Legislative committees	149,509	106,033
Legislative legal office	277,623	293,562
Legislative administration	280,566	220,987
Legislative budget office	107,693	132,075
Chief clerk	306,021	307,490
APIL	29,817	–
	2,946,159	3,115,763
<b>Total legislative internal operations</b>	2,946,159	3,115,763
Judicial operations	560,435	541,750
<b>Total general government</b>	5,354,589	5,348,610

**CHUUK STATE GOVERNMENT  
GENERAL FUND**

Statement of Revenues, Expenditures by Function and Department and Changes in Deficit, Continued  
Year Ended September 30, 1994

(With comparative totals for the year ended September 30, 1993)

	1994	1993
Expenditures by department, continued:		
Health services:		
Hospital and dispensaries	\$ 2,450,661	\$ 2,291,169
Environmental health	200,694	76,258
Dental services	265,144	229,372
Medical supplies	226,578	400,195
Medical referrals	169,528	1,845,342
Hospital patients food	13,729	52,593
Total health services	3,326,334	4,894,929
Education:		
Administration	377,489	676,897
Elementary	4,404,985	4,535,219
Secondary	1,641,894	1,579,683
Nutrition	1,156,973	1,109,376
Curriculum and instruction	385,191	-
P.R.E.L.	45,930	51,525
Total education	8,012,462	7,952,700
Economic development:		
Administration	109,931	101,646
Land management	71,742	72,133
Marine resources	468,104	465,265
Agriculture	303,892	296,664
Labor	45,997	36,832
Historic preservation	23,997	-
Business and trades	100,862	96,745
Total economic development	1,124,525	1,069,285
Public safety	837,711	814,665
Transportation:		
Administration	782,175	794,410
Micro Vessels	335,592	368,437
Airport	128,098	119,932
Total transportation	1,245,865	1,282,779
Public works and utilities:		
Operations and maintenance	482,335	535,476
Utilities	814,446	991,967
Purchase of POL	150,023	201,683
Total public works and utilities	1,446,804	1,729,126



**CHUUK STATE GOVERNMENT  
GENERAL FUND**  
Statement of Revenues, Expenditures by Function and Department and Changes in Deficit, Continued  
Year Ended September 30, 1994  
(With comparative totals for the year ended September 30, 1993)

	1994	1993
Expenditures by department, continued:		
Community affairs:		
Division of public affairs	\$ 129,681	\$ 138,423
Division of youth affairs	25,740	19,935
Division of information and broadcast	105,066	111,884
Total community affairs	260,487	270,242
Boards and commissions:		
Investment board	4,381	6,059
Election commission	72,723	88,166
Education board	29,134	27,340
Recreation board	18,076	38,828
Land commission	184,296	200,827
General election commission	750	143,275
Micro olympics	172,628	-
State constitution day	5,000	-
Re-election Tonoas municipality	6,686	-
ABC board	-	1,997
Total boards and commissions	493,674	506,492
Medical referrals	1,819,505	693,781
Special programs	392,506	402,184
Legislative external appropriations	2,155,560	3,999,907
Total other	4,367,571	5,095,872
Total expenditures	26,470,022	28,964,700
Deficiency of revenues under expenditures	(3,814,942)	(3,728,797)
Other financing sources (uses):		
Operating transfers out	(368,406)	(596,927)
Recovery of doubtful interfund receivables	113,719	(1,190)
Deficiency of revenues and other financing sources under expenditures and other financing uses	(4,069,629)	(4,326,914)
Deficit, beginning of year	(6,896,039)	(2,569,125)
Deficit, end of year	\$ (10,965,668)	\$ (6,896,039)

**CHUUK STATE GOVERNMENT**  
**GENERAL FUND**  
Statement of Revenues, Expenditures and Changes In  
Deficit – Budget and Actual, Budgetary Basis  
Year Ended September 30, 1994

	Budget	Actual	Variance
<b>Revenues:</b>			
Compact of Free Association Section 211 and 217	\$ 15,848,964	\$ 16,186,176	\$ 337,212
FSM revenue sharing	2,972,487	2,501,894	(470,593)
State taxes and licenses	2,000,000	1,399,703	(600,297)
Investment income	1,500,000	1,077,347	(422,653)
Public service charges	2,050,000	1,489,960	(560,040)
<b>Total revenues</b>	<b>24,371,451</b>	<b>22,655,080</b>	<b>(1,716,371)</b>
<b>Expenditures – budgetary basis:</b>			
<b>General government:</b>			
<b>Executive branch:</b>			
Office of the Governor	445,500	500,965	(55,465)
Office of the Attorney General	250,000	249,773	227
State Finance	370,300	362,887	7,413
Budget	154,000	152,606	1,394
Supply	153,700	143,519	10,181
Personnel	165,500	173,429	(7,929)
Planning	160,100	141,952	18,148
Tax and Revenue	105,400	97,765	7,635
<b>Total executive branch</b>	<b>1,804,500</b>	<b>1,822,896</b>	<b>(18,396)</b>
<b>Legislative branch:</b>			
President and members	530,900	563,505	(32,605)
Speakers amd members	135,000	143,066	(8,066)
Legislative committees	1,289,900	1,364,187	(74,287)
Legislative legal office	341,300	274,029	67,271
Legislative administration	290,400	284,127	6,273
Budget	133,600	108,511	25,089
Chief clerk	311,700	317,583	(5,883)
APIL	30,000	29,817	183
<b>Total legislative branch</b>	<b>3,062,800</b>	<b>3,084,825</b>	<b>(22,025)</b>
State Court	557,700	562,089	(4,389)
<b>Total general government</b>	<b>5,425,000</b>	<b>5,469,810</b>	<b>(44,810)</b>
<b>Health Services:</b>			
Hospitals and dispensaries	2,365,700	2,428,124	(62,424)
Environmental health	200,600	202,666	(2,066)
Dental services	263,400	262,869	531
Medical supplies	293,193	284,562	8,631
Medical referrals	–	172,092	(172,092)
<b>Total health services</b>	<b>3,122,893</b>	<b>3,350,313</b>	<b>(227,420)</b>
<b>Education:</b>			
Administration – education	327,100	371,802	(44,702)
Elementary	4,560,400	4,503,921	56,479
Secondary	1,637,900	1,646,397	(8,497)
Curriculum and instruction	411,600	385,619	25,981
Nutrition	1,218,800	1,155,571	63,229
P.R.E.L.	462,642	36,977	425,665
<b>Total education</b>	<b>8,618,442</b>	<b>8,100,287</b>	<b>518,155</b>

**CHUUK STATE GOVERNMENT  
GENERAL FUND**  
Statement of Revenues, Expenditures and Changes In  
Deficit – Budget and Actual, Budgetary Basis, Continued  
Year Ended September 30, 1994

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Economic development:			
C & I administration	106,500	111,196	(4,696)
Land management	68,600	72,213	(3,613)
Marine resources	517,000	464,246	52,754
Agriculture	299,900	304,405	(4,505)
Labor	44,300	43,921	379
Historic Preservation	22,400	23,640	(1,240)
Business and trades	103,400	99,414	3,986
Total economic development	<u>1,162,100</u>	<u>1,119,035</u>	<u>43,065</u>
Public safety	<u>817,800</u>	<u>837,829</u>	<u>(20,029)</u>
Transportation	<u>1,271,341</u>	<u>1,275,375</u>	<u>(4,034)</u>
Public works and utilities:			
Operation and maintenance	505,100	471,288	33,812
Electric utilities	821,600	816,118	5,482
Purchase of POL	–	(48,214)	48,214
Total public works and utilities	<u>1,326,700</u>	<u>1,239,192</u>	<u>87,508</u>
Community affairs :			
Public affairs	135,000	131,586	3,414
Youth affairs	112,300	26,275	86,025
Broadcasting	31,800	105,143	(73,343)
Total community affairs	<u>279,100</u>	<u>263,004</u>	<u>16,096</u>
Boards and commissions:			
Investment board	5,000	4,380	620
National election commission	–	1,004	(1,004)
Election commission	74,900	75,094	(194)
Education board	25,000	28,356	(3,356)
Recreation board	19,900	18,451	1,449
Land commission	206,100	182,550	23,550
General Election	–	750	(750)
Scholarship Board	–	(2,346)	2,346
Micro olympics lagoon	123,000	29,898	93,102
Micro olympics – Northwest	–	10,000	(10,000)
Micro olympics – Mortlocks	–	10,000	(10,000)
Micro olympics	–	122,730	(122,730)
State constitution	5,000	5,000	–
Re–election Tonoas Municipality	–	6,686	(6,686)
EPA 2–94–01	–	10,000	(10,000)
Total board and commissions	<u>458,900</u>	<u>502,553</u>	<u>(43,653)</u>

**CHUUK STATE GOVERNMENT  
GENERAL FUND**  
Statement of Revenues, Expenditures and Changes In  
Deficit – Budget and Actual, Budgetary Basis, Continued  
Year Ended September 30, 1994

	Budget	Actual	Variance
Special programs:			
Small industry	28,800	29,117	(317)
Non–Public Schools	25,000	25,000	–
Chuuk Peace Corps.	13,000	13,000	–
Micro Legal Services	30,000	30,000	–
4–H Youth	20,000	20,000	–
Youth Program	–	835	(835)
Home Economics Program	20,000	20,000	–
Farmer’s home administration	20,000	23,481	(3,481)
COCA	50,000	50,000	–
Community resources development	20,000	20,000	–
Population census	–	8,861	(8,861)
Construction skills	–	10,928	(10,928)
Fire disaster program	10,000	800	9,200
Truk scholarship fund	150,000	142,284	7,716
Total special programs	<u>386,800</u>	<u>394,306</u>	<u>(7,506)</u>
Legislative external appropriations:			
Court judgements	–	(7,000)	7,000
Medical Referral	350,000	330,930	19,070
COLA	–	(2,449)	2,449
Municipalities and election districts	1,816,893	1,961,412	(144,519)
Total legislative external appropriations	<u>2,166,893</u>	<u>2,282,893</u>	<u>(116,000)</u>
Unfunded expenditures:			
Typhoon Owen disaster fund	–	18,767	(18,767)
Unfunded medical billings	–	39,525	(39,525)
Travel advance bad debts	–	(878)	878
Medical billings	–	1,766,898	(1,766,898)
Total unfunded expenditures	<u>–</u>	<u>1,824,312</u>	<u>(1,824,312)</u>
Total expenditures–budgetary basis	<u>25,035,969</u>	<u>26,658,909</u>	<u>(1,622,940)</u>
Deficiency of revenues under expenditures	(664,518)	(4,003,829)	(3,339,311)
Other financing sources (uses):			
Other	–	113,719	113,719
Operating transfers out	(301,100)	(368,405)	(67,305)
Deficiency of revenues and other financing sources under expenditures and other financing uses	(965,618)	(4,258,515)	(3,292,897)
Deficit, beginning of year	(8,220,279)	(8,220,279)	–
Other changes in unreserved fund balance:			
Decrease in reserve for related assets	–	258,172	258,172
Increase in reserve for continuing appropriations	–	(380,465)	(380,465)
Deficit, end of year	<u>\$ (9,185,897)</u>	<u>\$ (12,601,087)</u>	<u>\$ (3,415,190)</u>

**CHUUK STATE GOVERNMENT**  
**SPECIAL REVENUE FUNDS**  
September 30, 1994

Specific revenues that are legally restricted to expenditures for particular purposes are accounted for in the Special Revenue Funds. A brief discussion of the State's Special Revenue Funds as of September 30, 1994, 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.

**CHUUK STATE GOVERNMENT**  
**SPECIAL REVENUE FUNDS, CONTINUED**  
September 30, 1994

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, 1994

(With comparative totals as of September 30, 1993)

<u>Assets</u>	Chuuk	Chuuk	Federal	Other	CFSM	Compact	Compact	<u>Totals</u>	
	Visitors'	Airport	Grant	Grant		Other	Special	1994	1993
	Bureau	Authority	Assistance	Assistance	Grant	Grants	Block Grant Section 221(b)		
Cash and equivalents	\$ -	\$ -	\$ 118,621	\$ -	\$ -	\$ 69,988	\$ -	\$ 188,609	\$ 283,771
Receivables:									
General, net	-	-	1,900	-	-	-	-	1,900	1,900
FSM National Gov't	-	-	1,832,909	21,928	241,530	79,298	87,641	2,263,306	2,063,886
Federal agencies, direct	-	-	585,176	-	-	-	-	585,176	617,953
Due from other funds	-	413,419	-	-	-	1,175,638	775,805	2,364,862	1,458,458
Advances	-	-	91,872	891	12,468	9,662	9,823	124,716	102,418
<b>Total assets</b>	<b>\$ -</b>	<b>\$ 413,419</b>	<b>\$ 2,630,478</b>	<b>\$ 22,819</b>	<b>\$ 253,998</b>	<b>\$ 1,334,586</b>	<b>\$ 873,269</b>	<b>\$ 5,528,569</b>	<b>\$ 4,528,386</b>
<u>Liabilities and Fund</u>									
<u>Balances (Deficit)</u>									
Liabilities:									
Bank overdraft	\$ 57,885	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 57,885	\$ 60,153
Accounts payable	-	-	782,053	-	34,320	692,397	469,848	1,978,618	1,459,115
Payable to other governments	-	-	323,008	-	-	-	-	323,008	379,503
Due to other funds	-	-	1,248,097	22,819	356,822	-	-	1,627,738	1,467,522
Accrued payroll	-	-	-	-	-	-	-	-	9,285
Deferred revenue	-	-	277,320	-	-	-	-	277,320	277,321
<b>Total liabilities</b>	<b>57,885</b>	<b>-</b>	<b>2,630,478</b>	<b>22,819</b>	<b>391,142</b>	<b>692,397</b>	<b>469,848</b>	<b>4,264,569</b>	<b>3,652,899</b>
Fund balances (deficit):									
Reserved for related assets	-	-	1,900	21,928	241,530	-	87,641	352,999	526,002
Reserved for encumbrances	-	-	411,155	985	30,419	507,387	55,844	1,005,790	554,854
Unreserved	(57,885)	413,419	(413,055)	(22,913)	(409,093)	134,802	259,936	(94,789)	(205,369)
<b>Total fund balances (deficit)</b>	<b>(57,885)</b>	<b>413,419</b>	<b>-</b>	<b>-</b>	<b>(137,144)</b>	<b>642,189</b>	<b>403,421</b>	<b>1,264,000</b>	<b>875,487</b>
<b>Total liabilities and fund balances (deficit)</b>	<b>\$ -</b>	<b>\$ 413,419</b>	<b>\$ 2,630,478</b>	<b>\$ 22,819</b>	<b>\$ 253,998</b>	<b>\$ 1,334,586</b>	<b>\$ 873,269</b>	<b>\$ 5,528,569</b>	<b>\$ 4,528,386</b>

**CHUUK STATE GOVERNMENT  
SPECIAL REVENUE FUNDS**

Combining Statement of Revenues, Expenditures by Function and Changes in Fund Balances (Deficit)  
Year Ended September 30, 1994  
(With comparative totals for the year ended September 30, 1993)

	Chuuk Visitors' Bureau	Chuuk Airport Authority	Federal Grant Assistance	Other Grant Assistance	CFSM Grant	Compact Other Grants	Compact Special Block Grant Section 221(b)	Totals	
								1994	1993
<b>Revenues:</b>									
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	–	–	–	–	–	527,912	–	527,912	491,918
Section 212–base grant	–	–	–	–	–	250,000	–	250,000	250,000
Section 216(a)(3)–FSM	–	–	–	–	–	433,063	–	433,063	445,352
Federal contributions	–	–	2,235,041	–	–	–	–	2,235,041	1,848,045
Other	–	106,367	–	–	153,027	–	–	259,394	207,370
<b>Total revenues</b>	<b>–</b>	<b>106,367</b>	<b>2,235,041</b>	<b>–</b>	<b>153,027</b>	<b>2,621,862</b>	<b>2,730,000</b>	<b>7,846,297</b>	<b>7,383,572</b>
<b>Expenditures:</b>									
Public works and utilities	–	–	154,719	–	–	1,186,073	–	1,340,792	1,107,285
Health services	–	–	361,200	–	–	504,416	668,857	1,534,473	927,361
Education	–	–	1,668,850	–	–	433,063	1,932,041	4,033,954	4,028,972
Economic development	142,008	–	4,024	–	–	–	–	146,032	342,224
Community affairs	–	–	35,447	–	–	347,534	–	382,981	377,183
Public safety	–	–	–	–	153,027	–	–	153,027	120,865
Other	–	–	10,801	–	–	–	–	10,801	378,749
<b>Total expenditures</b>	<b>142,008</b>	<b>–</b>	<b>2,235,041</b>	<b>–</b>	<b>153,027</b>	<b>2,471,086</b>	<b>2,600,898</b>	<b>7,602,060</b>	<b>7,282,639</b>
Excess (deficiency) revenues over (under) expenditures	(142,008)	106,367	–	–	–	150,776	129,102	244,237	100,933
<b>Other financing sources (uses):</b>									
Operating transfers in	144,276	–	–	–	–	–	–	144,276	383,113
Operating transfers out	–	–	–	–	–	–	–	–	(33,167)
<b>Total other financing sources (uses), net</b>	<b>144,276</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>144,276</b>	<b>349,946</b>
<b>Excess of revenues and other financing sources over expenditures and other financing uses</b>	<b>2,268</b>	<b>106,367</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>150,776</b>	<b>129,102</b>	<b>388,513</b>	<b>450,879</b>
<b>Fund balances (deficit), beginning of year</b>	<b>(60,153)</b>	<b>307,052</b>	<b>–</b>	<b>–</b>	<b>(137,144)</b>	<b>491,413</b>	<b>274,319</b>	<b>875,487</b>	<b>424,608</b>
<b>Fund balances (deficit), end of year</b>	<b>\$ (57,885)</b>	<b>\$ 413,419</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ (137,144)</b>	<b>\$ 642,189</b>	<b>\$ 403,421</b>	<b>\$ 1,264,000</b>	<b>\$ 875,487</b>



**CHUUK STATE GOVERNMENT  
SPECIAL REVENUE FUNDS**

Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balances (Deficit)  
Year Ended September 30, 1994  
(With comparative totals for the year ended September 30, 1993)

	Chuuk	Chuuk	Federal	Other	CFSM	Compact	Compact	Totals	
	Visitors' Bureau	Airport Authority	Grant Assistance	Grant Assistance		Other Grants	Grant Section 221(b)	1994	1993
<b>Revenues:</b>									
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	–	–	–	–	–	527,912	–	527,912	491,918
Section 212–base grant	–	–	–	–	–	250,000	–	250,000	250,000
Section 216(a)(3)–FSM	–	–	–	–	–	433,063	–	433,063	445,352
Federal contributions	–	–	2,235,041	–	–	–	–	2,235,041	1,848,045
Other	–	106,367	–	–	153,027	–	–	259,394	207,370
<b>Total revenues</b>	<b>–</b>	<b>106,367</b>	<b>2,235,041</b>	<b>–</b>	<b>153,027</b>	<b>2,621,862</b>	<b>2,730,000</b>	<b>7,846,297</b>	<b>7,383,572</b>
<b>Expenditures:</b>									
Personnel	80,154	–	463,500	–	13,648	–	1,167,724	1,725,026	2,028,708
Travel	15,593	–	348,494	–	20,783	–	23,840	408,710	481,155
Contractual services	721	–	617,381	–	3,320	372,936	269,186	1,263,544	1,049,071
POL	994	–	16,715	–	7,268	1,176,101	–	1,201,078	964,180
Other :									
Equipment	–	–	249,247	–	22,619	194,288	32,060	498,214	393,225
Medical supplies	–	–	8,415	–	–	172,090	101,687	282,192	154,497
Supplies and materials	13,504	–	258,130	–	19,939	3,192	5,842	300,607	198,849
Scholarships	–	–	–	–	–	433,063	–	433,063	431,078
Food	–	–	108,660	–	–	108,660	851,868	1,069,188	97,850
Books	–	–	4,701	–	–	–	–	4,701	4,999
All others	31,042	–	28,783	–	59,361	10,039	94,664	223,889	1,257,170
Miscellaneous	–	–	131,015	–	6,089	717	54,027	191,848	221,857
<b>Total expenditures</b>	<b>142,008</b>	<b>–</b>	<b>2,235,041</b>	<b>–</b>	<b>153,027</b>	<b>2,471,086</b>	<b>2,600,898</b>	<b>7,602,060</b>	<b>7,282,639</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(142,008)</b>	<b>106,367</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>150,776</b>	<b>129,102</b>	<b>244,237</b>	<b>100,933</b>
<b>Other financing sources (uses):</b>									
Operating transfers in	144,276	–	–	–	–	–	–	144,276	383,113
Operating transfers out	–	–	–	–	–	–	–	–	(33,167)
<b>Total other financing sources (uses), net</b>	<b>144,276</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>144,276</b>	<b>349,946</b>
<b>Excess of revenues and other financing sources over expenditures and other financing uses</b>	<b>2,268</b>	<b>106,367</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>150,776</b>	<b>129,102</b>	<b>388,513</b>	<b>450,879</b>
<b>Fund balances (deficit), beginning of year</b>	<b>(60,153)</b>	<b>307,052</b>	<b>–</b>	<b>–</b>	<b>(137,144)</b>	<b>491,413</b>	<b>274,319</b>	<b>875,487</b>	<b>424,608</b>
<b>Fund balances (deficit), end of year</b>	<b>\$ (57,885)</b>	<b>\$ 413,419</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ (137,144)</b>	<b>\$ 642,189</b>	<b>\$ 403,421</b>	<b>\$ 1,264,000</b>	<b>\$ 875,487</b>

**CHUUK STATE GOVERNMENT**  
**CAPITAL PROJECTS FUNDS**  
September 30, 1994

The acquisition and construction of major capital facilities, other than those financed by proprietary funds are accounted for in the Capital Projects Funds. A brief discussion of the State's Capital Projects Funds as of September 30, 1994, 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, 1994  
(With comparative totals as of September 30, 1993)

<u>Assets</u>	<u>TTG Capital Projects</u>	<u>CFSM State Projects</u>	<u>Compact 211(a)(2) Capital Projects</u>	<u>Totals</u>	
				1994	1993
Cash and equivalents	\$ -	\$ -	\$ 958,667	\$ 958,667	\$ 227,797
Investments	-	-	15,051,146	15,051,146	18,390,146
Investments – other	-	-	7,137,000	7,137,000	6,262,000
Receivable from:					
Dept. of the Interior grants – TTG	956,623	-	-	956,623	1,638,479
FSM National Government	-	224,498	-	224,498	238,967
Prepaid expenses	-	-	24,831	24,831	24,801
Advances	11,841	830	149,197	161,868	148,278
Loans receivable, other	-	-	7,000,000	7,000,000	7,000,000
Due from other funds	-	-	4,097,788	4,097,788	3,578,732
<b>Total assets</b>	<b>\$ 968,464</b>	<b>\$ 225,328</b>	<b>\$ 34,418,629</b>	<b>\$ 35,612,421</b>	<b>\$ 37,509,200</b>
 <u>Liabilities and Fund Balances (Deficit)</u>					
Liabilities:					
Notes payable	\$ -	\$ -	\$ 329,179	\$ 329,179	\$ 329,179
Accounts payable	14,268	2,330	1,785,158	1,801,756	1,214,723
Due to other funds	1,049,257	222,998	-	1,272,255	1,969,474
Accrued payroll	-	-	-	-	3,761
<b>Total liabilities</b>	<b>1,063,525</b>	<b>225,328</b>	<b>2,114,337</b>	<b>3,403,190</b>	<b>3,517,137</b>
Fund balances (deficit):					
Reserved for:					
Related assets	-	-	14,161,831	14,161,831	13,965,646
Encumbrances	457,107	-	4,415,915	4,873,022	5,702,308
Continuing appropriations	-	-	22,774,898	22,774,898	10,924,341
Unreserved	(552,168)	-	(9,048,352)	(9,600,520)	3,399,768
<b>Total fund balances (deficit)</b>	<b>(95,061)</b>	<b>-</b>	<b>32,304,292</b>	<b>32,209,231</b>	<b>33,992,063</b>
<b>Total liabilities and fund balances (deficit)</b>	<b>\$ 968,464</b>	<b>\$ 225,328</b>	<b>\$ 34,418,629</b>	<b>\$ 35,612,421</b>	<b>\$ 37,509,200</b>

**CHUUK STATE GOVERNMENT  
CAPITAL PROJECTS FUNDS**  
Combining Statement of Revenues, Expenditures by Function And Changes in Fund Balances (Deficit)  
Year Ended September 30, 1994  
(With comparative totals for the year ended September 30, 1993)

	TTG Capital Projects	CFSM State Projects	Compact 211(a)(2) Capital Projects	Totals	
				1994	1993
<b>Revenues:</b>					
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	–	–	3,446,774	3,446,774	1,211,776
U.S. Department of the Interior grants	111,754	–	–	111,754	646,580
Other federal contributions	–	841	–	841	3,444
<b>Total revenues</b>	<b>111,754</b>	<b>841</b>	<b>11,280,374</b>	<b>11,392,969</b>	<b>9,695,400</b>
<b>Expenditures:</b>					
Capital projects	111,754	841	12,351,079	12,463,674	12,231,673
Debt service—principal	–	–	–	–	668,032
Debt service—interest	–	–	556,315	556,315	32,437
<b>Total expenditures</b>	<b>111,754</b>	<b>841</b>	<b>12,907,394</b>	<b>13,019,989</b>	<b>12,932,142</b>
Deficiency of revenues under expenditures	–	–	(1,627,020)	(1,627,020)	(3,236,742)
<b>Other financing sources (uses):</b>					
Other income	–	–	–	–	46,066
Other expenses	–	–	–	–	(33,704)
Proceeds from notes payable	–	–	–	–	10,300,000
Operating transfers out	–	–	(155,812)	(155,812)	(180,636)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	–	–	(1,782,832)	(1,782,832)	6,894,984
Fund balances (deficit), beginning of year	(95,061)	–	34,087,124	33,992,063	27,097,079
Fund balances (deficit), end of year	<u>\$ (95,061)</u>	<u>\$ –</u>	<u>\$ 32,304,292</u>	<u>\$ 32,209,231</u>	<u>\$ 33,992,063</u>

**CHUUK STATE GOVERNMENT  
CAPITAL PROJECTS FUNDS**

Combining Statement of Revenues, Expenditures by Account And Changes in Fund Balances (Deficit)  
Year Ended September 30, 1994  
(With comparative totals for the year ended September 30, 1993)

	TTG Capital Projects	CFSM State Projects	Compact 211(a)(2) Capital Projects	Totals	
				1994	1993
<b>Revenues:</b>					
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	–	–	3,446,774	3,446,774	1,211,776
U.S. Department of the Interior grants	111,754	–	–	111,754	646,580
Other federal contributions	–	841	–	841	3,444
<b>Total revenues</b>	<b>111,754</b>	<b>841</b>	<b>11,280,374</b>	<b>11,392,969</b>	<b>9,695,400</b>
<b>Expenditures:</b>					
Personnel	20,381	–	234,058	254,439	299,777
Travel	3,089	–	272,511	275,600	205,837
Contractual services	78,283	300	5,940,358	6,018,941	4,826,420
POL	–	–	36,024	36,024	45,228
<b>Other:</b>					
Equipment	–	–	2,395,308	2,395,308	2,897,095
Supplies and materials	–	–	554,687	554,687	545,220
All others	10,001	541	1,530,464	1,541,006	2,103,798
Food	–	–	8,273	8,273	165,248
Debt service – principal	–	–	–	–	668,032
Debt service – interest	–	–	556,315	556,315	32,437
Miscellaneous	–	–	1,379,396	1,379,396	1,143,050
<b>Total expenditures</b>	<b>111,754</b>	<b>841</b>	<b>12,907,394</b>	<b>13,019,989</b>	<b>12,932,142</b>
Deficiency of revenues under expenditures	–	–	(1,627,020)	(1,627,020)	(3,236,742)
<b>Other financing sources (uses) :</b>					
Other income	–	–	–	–	46,066
Other expenses	–	–	–	–	(33,704)
Proceeds from notes payable	–	–	–	–	10,300,000
Operating transfers out	–	–	(155,812)	(155,812)	(180,636)
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses</b>	<b>–</b>	<b>–</b>	<b>(1,782,832)</b>	<b>(1,782,832)</b>	<b>6,894,984</b>
Fund balances (deficit), beginning of year	(95,061)	–	34,087,124	33,992,063	27,097,079
Fund balances (deficit), end of year	<u>\$ (95,061)</u>	<u>\$ –</u>	<u>\$ 32,304,292</u>	<u>\$ 32,209,231</u>	<u>\$ 33,992,063</u>

**CHUUK STATE GOVERNMENT**  
**COMPONENT UNITS-PROPRIETARY FUNDS**  
September 30, 1994

Component units - proprietary funds are legally separate organizations for which the elected officials of the State of Chuuk are financially accountable. Proprietary funds are used to account for a government's ongoing organizations and activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses and transfers relating to the government's business and quasi - business activities - where net income and capital maintenance are measured - are accounted for through proprietary funds. The generally accepted accounting principles here are generally those applicable to similar businesses in the private sector; the measurement focus is on determination of net income, financial position and cash flows. A brief discussion of the State's Component Units-Proprietary Funds as of September 30, 1994, follows:

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 Authority

The Chuuk Coconut Authority manufactures soap and soap by-products for resale.

**CHUUK STATE GOVERNMENT**  
**COMPONENT UNITS—PROPRIETARY FUNDS**  
Combining Balance Sheet  
September 30, 1994

<u>Assets</u>	<u>Chuuk Housing Authority</u>	<u>Chuuk Coconut Authority</u>	<u>Totals 1994</u>
Cash and equivalents	\$ 393,682	\$ 25,479	\$ 419,161
Receivables from other governments	160	132,798	132,958
General receivables, net of allowance for doubtful accounts for \$10,291	—	9,087	9,087
Loans receivables, net of allowance for doubtful accounts of \$523,269	1,159,151	—	1,159,151
Other assets	33,546	14,924	48,470
Inventories	—	62,484	62,484
Fixed assets, net	<u>173,806</u>	<u>841,218</u>	<u>1,015,024</u>
 Total assets	 <u>\$ 1,760,345</u>	 <u>\$ 1,085,990</u>	 <u>\$ 2,846,335</u>
 <u>Liabilities and Fund Equity</u>			
Liabilities:			
Accounts payable	\$ 30,587	\$ 23,174	\$ 53,761
Notes payable	<u>60,436</u>	<u>695,210</u>	<u>755,646</u>
 Total liabilities	 <u>91,023</u>	 <u>718,384</u>	 <u>809,407</u>
Fund equity:			
Contributed capital	1,217,431	452,835	1,670,266
Retained earnings (deficit)	<u>451,891</u>	<u>(85,229)</u>	<u>366,662</u>
 Total fund equity	 <u>1,669,322</u>	 <u>367,606</u>	 <u>2,036,928</u>
 Total liabilities and fund equity	 <u>\$ 1,760,345</u>	 <u>\$ 1,085,990</u>	 <u>\$ 2,846,335</u>

**CHUUK STATE GOVERNMENT**  
**COMPONENT UNITS—PROPRIETARY FUNDS**  
Combining Statement of Revenues, Expenses and Changes in Fund Equity  
Year Ended September 30, 1994

	Chuuk Housing Authority	Chuuk Coconut Authority	Totals 1994
<b>Operating revenues:</b>			
Interest income	\$ 84,517	\$ —	\$ 84,517
Coconut product sales	—	35,898	35,898
	<u>84,517</u>	<u>35,898</u>	<u>120,415</u>
<b>Total operating revenues</b>			
	<u>84,517</u>	<u>35,898</u>	<u>120,415</u>
<b>Operating expenses:</b>			
Cost of sales	—	145,596	145,596
Payroll and personnel	77,894	29,191	107,085
Travel	26,269	3,600	29,869
Bad debt	65,009	849	65,858
Depreciation	12,935	6,232	19,167
Rent	2,208	8,400	10,608
Other	58,063	12,398	70,461
	<u>242,378</u>	<u>206,266</u>	<u>448,644</u>
<b>Total operating expenses</b>			
	<u>242,378</u>	<u>206,266</u>	<u>448,644</u>
<b>Operating loss</b>	<u>(157,861)</u>	<u>(170,368)</u>	<u>(328,229)</u>
<b>Nonoperating revenues (expenses) :</b>			
Transfers in	87,122	226,811	313,933
Payment to Coconut Development Authority	—	(15,000)	(15,000)
Federal contributions—HUD Section 8	36,926	—	36,926
Recovery of bad debt	33,623	—	33,623
Interest expense	(7,714)	(11,497)	(19,211)
	<u>149,957</u>	<u>200,314</u>	<u>350,271</u>
<b>Total nonoperating revenues (expenses), net</b>			
	<u>149,957</u>	<u>200,314</u>	<u>350,271</u>
<b>Net income (loss)</b>	<u>(7,904)</u>	<u>29,946</u>	<u>22,042</u>
<b>Retained earnings (deficit), beginning of year</b>	<u>459,795</u>	<u>(115,175)</u>	<u>344,620</u>
<b>Retained earnings (deficit), end of year</b>	<u>451,891</u>	<u>(85,229)</u>	<u>366,662</u>
<b>Contributed capital</b>	<u>1,217,431</u>	<u>452,835</u>	<u>1,670,266</u>
<b>Total fund equity</b>	<u>\$ 1,669,322</u>	<u>\$ 367,606</u>	<u>\$ 2,036,928</u>



**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA  
INDEPENDENT AUDITORS' REPORTS ON COMPLIANCE  
WITH LAWS AND REGULATIONS  
YEAR ENDED SEPTEMBER 30, 1994**



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE**  
**BASED ON AN AUDIT OF GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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, 1994, and have issued our report thereon dated February 23, 1995. Our report on the audit of the general-purpose financial statements was modified as a result of our inability to form an opinion on the General Fixed Assets Account Group, the omission of the financial statements of the State's eleven development authorities, our inability to obtain audited financial statements from investees of the State of Chuuk supporting related investments recorded in the Governmental Fund Type - Capital Projects Fund, the noninclusion of a potential component unit - governmental fund and our inability to obtain legal representations from the State's Attorney General.

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 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 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, the objective of our audit of the general-purpose financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

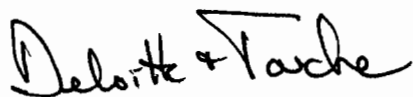
Material instances of noncompliance consist of failures to follow requirements or violations of prohibitions, contained in statutes, regulations, contracts, or grants, that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the general-purpose financial statements. The results of our tests of compliance disclosed the following material instances of noncompliance detailed in the accompanying Schedule of Findings and Questioned Costs (pages 86 through 101) in Federal Findings 1 through 7 and Local Finding 1, the ultimate resolution of which cannot be presently determined. Accordingly, no provision for any liability that may result has been recognized in the State of Chuuk's 1994 general-purpose financial statements.

We considered these material instances of noncompliance in forming our opinion on whether the 1994 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 February 23, 1995, on those general-purpose financial statements.

We also noted certain immaterial instances of noncompliance detailed in the accompanying Schedule of Findings and Questioned Costs in Federal Findings 8 through 10 and Local Finding 2, that we have reported to the management of the State of Chuuk.

We also noted matters involving compliance with laws and regulations related to federal financial assistance which we reported to the management of the State of Chuuk in our reports dated February 23, 1995 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.



February 23, 1995



**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, 1994, and have issued our report thereon dated February 23, 1995. Our report on the audit of the general-purpose financial statements was modified as a result of our inability to form an opinion on the General Fixed Assets Account Group, the omission of the financial statements of the State's eleven development authorities, our inability to obtain audited financial statements from investees of the State of Chuuk supporting related investments recorded in the Governmental Fund Type - Capital Projects Fund, the noninclusion of a potential component unit - governmental fund and our inability to obtain legal representations from the State's Attorney General.

We have also audited the State of Chuuk's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; claims for advances and reimbursements; and special tests and provisions related to the Compact of Free Association that are applicable to its two major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance (pages 66 through 82), for the year ended September 30, 1994. 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 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.

As described in the accompanying Schedule of Findings and Questioned Costs (pages 86 through 101) in Federal Findings 4 through 7, the results of our audit procedures for the major programs of the State of Chuuk disclosed material instances of noncompliance with the requirements referred to above, the ultimate resolution of which cannot be presently determined. In our opinion, the State of Chuuk's adherence to recommendations made in those findings are necessary for the State of Chuuk to comply with the requirements applicable to its major programs.

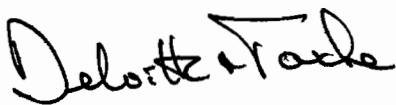
The results of our audit procedures disclosed an immaterial instance of noncompliance with the requirements referred to above, which is described in the accompanying Schedule of Findings and Questioned Costs (Federal Finding 8). We considered this instance of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, except for those instances of noncompliance with the requirements applicable to the State of Chuuk's major programs referred to in the fourth paragraph of this report and identified in the accompanying Schedule of Findings and Questioned Costs, the State of Chuuk complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions related to the Compact of the Free Association that are applicable to each of its major federal financial assistance programs for the year ended September 30, 1994.

Resolving instances of noncompliance identified in the fourth and fifth paragraphs of this report is the responsibility of the grantor agencies. The determination of whether the identified instances of noncompliance will ultimately result in a disallowance of costs cannot presently be determined. Accordingly, no adjustment for any disallowances that may result has been made to the federal program amounts listed in the accompanying Schedule of Federal Financial Assistance and no provision for any liability that may result has been recognized in the State of Chuuk's 1994 financial statements.

We considered these instances of noncompliance in forming our opinion on whether the State of Chuuk's 1994 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 February 23, 1995, on those financial statements.

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.



February 23, 1995



**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, 1994, and have issued our report thereon dated February 23, 1995. Our report on the audit of the general-purpose financial statements was modified as a result of our inability to form an opinion on the General Fixed Assets Account Group, the omission of the financial statements of the State's eleven development authorities, our inability to obtain audited financial statements from investees of the State of Chuuk supporting related investments recorded in the Governmental Fund Type - Capital Projects Fund, the noninclusion of a potential component unit - governmental fund and our inability to obtain legal representations from the State's Attorney General. 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 February 23, 1995.

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 66 through 82), for the year ended September 30, 1994: cash management, federal financial 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 State of Chuuk, which are identified in the Schedule of Federal Financial Assistance.

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.

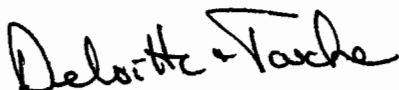
Material instances of noncompliance consists of failures to follow the general requirements that caused us to conclude that the misstatements resulting from those failures are material to the Schedule of Federal Financial Assistance. As described in the accompanying Schedule of Findings and Questioned Costs (pages 86 through 101) in Federal Finding 7, the results of our tests of compliance disclosed material instances of noncompliance.

We considered these material instances of noncompliance in forming our opinion on whether the State of Chuuk's 1994 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 February 23, 1995, on those financial statements.

Except as described above, the results of our procedures to determine compliance indicate that, with respect to the items tested, the State of Chuuk complied, in all material respects, 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.

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 February 23, 1995.

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.

A handwritten signature in black ink that reads "Deloitte Touche". The signature is written in a cursive, flowing style.

February 23, 1995



**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, 1994, and have issued our report thereon dated February 23, 1995. Our report on the audit of the general-purpose financial statements was modified as a result of our inability to form an opinion on the General Fixed Assets Account Group, the omission of the financial statements of the State's eleven development authorities, our inability to obtain audited financial statements from investees of the State of Chuuk supporting related investments recorded in the Governmental Fund Type - Capital Projects Fund, the noninclusion of a potential component unit - governmental fund and our inability to obtain legal representations from the State's Attorney General. We have also audited the State of Chuuk's compliance applicable to requirements of major federal financial assistance programs and applied procedures to test compliance with general requirements applicable to federal financial assistance programs and have issued our reports thereon dated February 23, 1995.

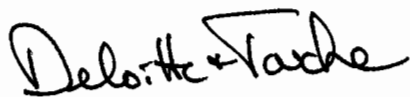
In connection with our audit of the 1994 general-purpose financial statements of the State of Chuuk and with our consideration of the State of Chuuk's control structure used to administer federal financial assistance programs and assessment of control risk, as required by Office of Management and Budget (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, 1994.

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, except as described in the accompanying Schedule of Findings and Questioned Costs (pages 86 through 101) in Federal Findings 1, 2, 3 and 7, 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, except as discussed in the preceding sentence, 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. The results of our procedures also disclosed immaterial instances of noncompliance with those requirements, which are also described in the accompanying Schedule of Findings and Questioned Costs in Federal findings 9 and 10.

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.

A handwritten signature in black ink that reads "Deloitte + Touche". The signature is written in a cursive, flowing style.

February 23, 1995



**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, 1994, and have issued our report thereon dated February 23, 1995. Our report on the audit of the general-purpose financial statements was modified as a result of our inability to form an opinion on the General Fixed Assets Account Group, the omission of the financial statements of the State's eleven development authorities, our inability to obtain audited financial statements from investees of the State of Chuuk supporting related investments recorded in the Governmental Fund Type - Capital Projects Fund, the noninclusion of a potential component unit - governmental fund and our inability to obtain legal representations from the State's Attorney General. We have also audited the State of Chuuk's compliance applicable to requirements of major federal financial assistance programs and applied procedures to test compliance with general requirements applicable to federal financial assistance programs and have issued our reports thereon dated February 23, 1995.

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, 1994, 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 February 23, 1995.

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:

#### Controls Used in Administering Federal Programs

##### 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

## Claims for Advances and Reimbursements

### Accounting Controls

- Revenue/receipts
- Purchases/disbursements
- Payroll
- External financial reporting
- Cash and equivalents
- Receivables

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, 1994, Chuuk State expended 86% of its total federal financial assistance under two major federal financial assistance programs.

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 that are applicable to Chuuk State's two major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance (pages 66 through 82). 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, which are presented in the accompanying Schedule of Findings and Questioned Costs (pages 86 through 101), in Federal Findings 1 through 10 and Local Findings 1 and 2, 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. However, the matters set forth in Federal Findings 1 through 7 and Local Finding 1 involving the internal control structure and its operation are considered to be material weaknesses. These conditions were considered in determining the nature, timing and extent of the procedures to be performed in our audit of the State of Chuuk's compliance with requirements applicable to its major federal financial assistance programs for the year ended September 30, 1994 and this report does not affect our report thereon dated February 23, 1995.

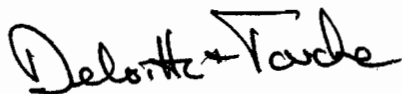
Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the State of Chuuk's ability to administer federal financial assistance programs in accordance with applicable laws and regulations.

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.

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 February 23, 1995.

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.

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

February 23, 1995

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

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

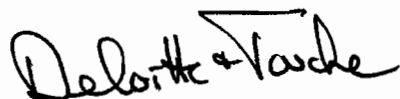
We have audited the general-purpose financial statements of the State of Chuuk as of and for the year ended September 30, 1994, and have issued our report thereon dated February 23, 1995. Our report on the audit of the general-purpose financial statements was modified as a result of our inability to form an opinion on the General Fixed Assets Account Group, the omission of the financial statements of the State's eleven development authorities, our inability to obtain audited financial statements from investees of the State of Chuuk supporting related investments recorded in the Governmental Fund Type - Capital Projects Fund, the noninclusion of a potential component unit - governmental fund and our inability to obtain legal representations from the State's Attorney General. 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 66 through 82) for the year ended September 30, 1994, 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 our audit of the general-purpose financial statements and, in our opinion, except for the matters discussed in the following paragraph, is fairly presented in all material respects when considered in relation to the general-purpose financial statements taken as a whole.

The results of our tests of compliance disclosed material instances of noncompliance which are identified in the accompanying Schedule of Findings and Questioned Costs (pages 86 through 101) in Federal Findings 1 through 7, the ultimate resolution of which cannot presently be determined. No adjustment has been made to the amounts reported in the Schedule of Federal Financial Assistance for any potential loss or disallowance of federal financial assistance that may result because of this noncompliance.

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.

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

February 23, 1995

CHUUK STATE GOVERNMENT  
 FEDERATED STATES OF MICRONESIA  
 SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE  
 FSM FEDERAL ASSISTANCE FUND  
 YEAR ENDED SEPTEMBER 30, 1994

(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>1994 Fiscal Year Expenditures</u>
<u>U.S. Department of Agriculture</u>			
FY93 Forestry Project	7708	10.664	\$ <u>4,024</u>
<u>U.S. Department of Education</u>			
FY92 Teacher Training	3025	84.124	\$ 15,891
FY88 Chapter I	3118	84.151	480
FY89 Chapter I	3147	84.151	882
PREL "Umbrella" Project	3803	84.256	217,793
FY93 Special Education Program	7732	84.027	520,100
FY94 Special Education Program	7743	84.027	177,261
FY93 Teacher Training Program	7746	84.124	<u>61,882</u>
Total U.S. Department of Education			\$ <u>994,289</u>
<u>U.S. Department of Health and Human Services</u>			
FY94 Tuberculosis Control	7363	93.116	\$ 12,809
FY95 Family Planning	7365	93.217	2,443
FY93 MCH	7454	93.994	85,154
FY93 MCH/Dental	7455	93.994	5,453
FY93 AIDS Prevention	7459	93.118	2,161
Family Planning	7463	93.217	30,997
FY93 Preventive Health	7472	93.991	15,180
FY93 Substance Abuse Prevention & Treatment	7473	93.959	113,086
FY94 Mental Health Information System	7478	93.128	1,329
FY94 State System Development	7481	93.110	18,532
FY94 Family Planning	7478	93.217	614
FY94 MCH Program	7489	93.994	12,000
FY94 Immunization Program	7494	93.268	41,871
FY94 Aids Prevention Program	7499	93.940	2,669
FY91 MCHIP	7648	93.994	2,911
FY92 MCH	7754	93.994	335
FY92 PH & PH	7766	93.991	592
FY93 Family Planning	7768	93.217	4,078
FY92 ADAMHS	7771	93.992	977
FY93 Immunization Program	7793	93.268	<u>4,818</u>
Total U.S. Department of Health and Human Services			\$ <u>358,009</u>
<u>U.S. Environmental Protection Agency</u>			
Truk Rural Sanitation Program	7576	66.600	\$ <u>22,247</u>

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, CONTINUED  
 YEAR ENDED SEPTEMBER 30, 1994

(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>1994 Fiscal Year Expenditures</u>
<u>U.S. Department of the Interior</u>			
FY93 Historic Preservation	7303	15.904	\$ 30,112
FY94 Historic Preservation	7326	15.904	498
FY92 Historic Preservation	7877	15.904	4,837
Department of Education O & M	7894	15.875	5,168
Public Utilities Corporation	7316	15.875	10,616
Water and Sewer O & M	7895	15.875	<u>24,020</u>
Total U.S. Department of the Interior			<u>\$ 75,251</u>
<u>U.S. Department of Labor</u>			
FY89 JTPA Education Grant	3296	17.250	\$ 289
FY92 JTPA Admin.	3420	17.250	2,421
FY92 JTPA Adult Program	3421	17.250	810
FY92 JTPA Participant Support	3423	17.250	1,013
FY92 JTPA Ed. Coordination	3424	17.250	289
FY93 JTPA Administration	3430	17.250	117,119
FY93 JTPA Adult Program	3431	17.250	139,719
FY93 JTPA Youth Program	3432	17.250	179,032
FY93 JTPA Participant Support	3433	17.250	97,705
FY93 JTPA/Education Coord.	3434	17.250	12,508
FY93 JTPA Elderly Program	3435	17.250	20,000
FY94 JTPA Administration	3440	17.250	<u>25,559</u>
Total U.S. Department of Labor			<u>\$ 596,464</u>
<u>Federal Emergency Management Agency</u>			
Typhoon Owen Public Assistance	3820	83.516	\$ 10,801
Hazard Mitigation Management Cost	3864	83.519	<u>4,980</u>
Total Federal Emergency Management Agency			<u>\$ 15,781</u>
<u>U.S. Department of Transportation – Federal Aviation Administration</u>			
Chuuk Fueling Apron	6365	20.106	\$ 101,844
Chuuk International Airport	6661	20.106	<u>1,441</u>
Total U.S. Federal Aviation Administration			<u>\$ 103,285</u>
<u>Other Grants</u>			
P.R.E.L. Vocational Educ. Imprv. Prog.	3801	84.994S	\$ 43,981
Family Food Nutrition Project	3959	UNICEF	1,619
FY93 Child Abuse & Neglegence	7844	U.O.G.	1,572
School V & D Program	3802	N/A	<u>18,519</u>
Total Other U.S. Grants			<u>\$ 65,691</u>
Total Federal Financial Assistance Fund			<u>\$ 2,235,041</u>

See accompanying notes to schedule of federal financial assistance.

**CHUUK STATE GOVERNMENT  
 FEDERATED STATES OF MICRONESIA  
 SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED  
 TTPI CAPITAL PROJECTS FUND  
 YEAR ENDED SEPTEMBER 30, 1994**

(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>1994 Fiscal Year Expenditures</u>
Moen Power Generation	6283	15.875	\$ 76,086
Chuuk Sanitary Facility	6366	15.875	17,031
Wichen River	6368	15.875	2,729
Chuuk International Airport	6661	15.875	2,818
Weno Dock Rehabilitation	6662	15.875	<u>13,090</u>
Total TTPI Capital Projects Fund			<u>\$ 111,754</u>

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, 1994**

(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>1994 Fiscal Year Expenditures</u>
Chuuk Joint Law Enforcement	9437	N/A	\$ <u>153,027</u>
Total CFSM Special Revenue Fund			\$ <u>153,027</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)**  
**YEAR ENDED SEPTEMBER 30, 1994**

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1994 Fiscal Year Expenditures
<u>Section 211 (A)(2)</u>			
Uman Mwanukun F. Proj.	6016	15.875	\$ 2,703
Newotes (Weno) S. Hall	6017	15.875	154
State Court Judgement	6018	15.875	124,000
Chuuk State Hospital Renov.	6019	15.875	55,900
Unanu Housing Proj.	6020	15.875	1,444
Chuuk State Rad. & Tel. Brod.	6027	15.875	48,950
Mech. Weno/P. Bldg. Renov.	6029	15.875	7,839
Wonei Sapitiw Water Catchment	6030	15.875	14,750
Chuuk High School Fac. Upgrade	6033	15.875	98,712
Lukunoch Ice Maker	6037	15.875	5,167
Longline Base Fishing Operations	6038	15.875	875,000
Etten/Nechap Youth Center	6044	15.875	10,310
Nepukos Fishing Dev. Proj.	6046	15.875	3,800
Tonoas Road Upgrade	6048	15.875	26,482
Tonoas Office Complex	6049	15.875	91,303
Tonoas Power Generator	6050	15.875	17,412
Tonoas Lease/Claim	6051	15.875	148,228
Tonoas CIP 1.5% Admin. Cost	6052	15.875	3,612
Sup. Paata Fish Proj.	6054	15.875	7,200
N. Nanom Econ. & Soc. Dev.	6055	15.875	83,669
Houk Housing Proj.	6059	15.875	15,308
Elin & Sangku Farming Sup.	6060	15.875	13,636
Restoration Program	6141	15.875	2,483
Onoun Fishing Cooperative	6142	15.875	2,989
Sewer System FY88	6150	15.875	51,123
Garment Industry	6152	15.875	4,857
Toleisom Ice Plant	6154	15.875	39,400
Magur Coop. Association	6160	15.875	2,265
Moch School Project	6161	15.875	1,809
Toleisom Market	6162	15.875	59,100
Tol Rd. Supply & CIP Claims	6165	15.875	194,845
Oneop Fishing Dev.	6168	15.875	4,852
Tol Recreation Facilities & School Repair	6169	15.875	78,800
Ono Cooperation Association	6170	15.875	1,606
Ta Municipal Land Survey	6172	15.875	7,487
Typhoon Owen Dis. Rel. Fund	6175	15.875	102,271
Nepukos Water Tanks	6176	15.875	302
Mechitiw Seawall Support	6178	15.875	190
Romallm Offic Const. & School Repair	6179	15.875	8,957
Major Roof Repair Court	6181	15.875	5,000
Udot Water Project	6186	15.875	3,223
Ufo Elementary School Project Supp.	6189	15.875	2,180
Epin Fishing Project	6197	15.875	162
Udot Water Project	6199	15.875	7,618
Onou Housing Project	6201	15.875	13,143
Subtotal			<u>2,250,241</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, 1994**

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1994 Fiscal Year Expenditures
Balance forwarded			\$ 2,250,241
Mechitiw Sewing	6203	15.875	498
Etiamar Dock Repair	6207	15.875	17
Winipis Fishing Project	6208	15.875	109
Uman Office Complex Renovation	6209	15.875	3,576
Tunnuk Fishing Dev. Proj.	6214	15.875	1,300
Tunnuk Fishing Dev. Proj.	6216	15.875	3,300
Tunnuk Fishing Dev. Proj.	6217	15.875	900
Weno Primary Road	6218	15.875	15,462
Iras Fishing Proj.	6230	15.875	162
Romalum Village Off. Const.	6231	15.875	7,008
Tanuk Water Project	6233	15.875	1,464
Foupo Dsp. & Water Catchment	6235	15.875	15,750
Tanuk Water Project	6237	15.875	2,322
Tonoas Dis. Proj.	6246	15.875	(3,000)
Peniesene Sewing Proj.	6247	15.875	1,849
Tunnuk M. Hall & Water	6249	15.875	1,139
Peniesene Fish Proj.	6250	15.875	10,015
Tol Road Upgrade	6254	15.875	26,105
Tol Road Upgrade Sup.	6255	15.875	1,522
Eor Basketball/Water	6256	15.875	59
Nefon (Uman) Water Catchment Tanks	6269	15.875	5,098
Nama Fishing Proj.	6270	15.875	754
Pollap Piggery Project	6276	15.875	5,013
Pisemwar Pass. Boat	6278	15.875	1,600
Losap Housing Project	6279	15.875	36,503
SSB Fishing Proj. Fefan	6282	15.875	17,535
Preliminary Engineering Design	6284	15.875	94,081
Tsiis Fish Market	6289	15.875	14,553
Uman Fishing Proj.	6290	15.875	8,259
Tonoas Jailhouse	6291	15.875	14,727
CIP Administration	6292	15.875	11,818
Ununo(Fefan) Pub. Bldg.	6294	15.875	402
Const. Equip. Acqui. Shop	6295	15.875	3,000
Tonoas Econ. Dev. Proj.	6296	15.875	458
Mechitiw Seawall Proj.	6297	15.875	2,504
Moen J.H.S. Voc. Ed.	6304	15.875	9,728
Faichuk Junior High	6306	15.875	51,316
Neauo Administration Building	6309	15.875	1,749
Winikep Village Office (Wonei)	6311	15.875	1,259
Kuttu Fishing Project	6314	15.875	13,271
Udot Road/Dock Upgrade	6321	15.875	35,860
Power Generation & Distribution	6327	15.875	111,574
Weno Fishing Boat	6333	15.875	7,483
Weno Fishing Project	6335	15.875	1,985
Tamatam Market	6342	15.875	2,451
Wonei Economic Project	6343	15.875	2,006
Unanu Housing Proj.	6352	15.875	27,137
Neauo Women Garment Man.	6353	15.875	400
Subtotal			<u>2,822,322</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, 1994**

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1994 Fiscal Year Expenditures
Balance forwarded			\$ 2,822,322
Oneop Municipal Building	6355	15.875	5,010
Oneop Multi-purpose	6356	15.875	22,379
Sanumy Piggery Project	6357	15.875	896
Iras P. Water Catchment	6359	15.875	4,234
Etiamar Village Office	6370	15.875	5,814
Fefan Mun. Office Complex	6374	15.875	1,252
Fefan Pub. Road Upgrade	6375	15.875	36
Fefan Pub. Road Upgrade	6378	15.875	41,500
Fanapanges Sch. Bldg.	6383	15.875	100
Iras Water Catchment	6402	15.875	1,043
Nukenpinuk Shoreline	6403	15.875	705
Typhoon Owen Disaster	6404	15.875	7,850
Road (Tunnuk-Sapuk)	6405	15.875	20,000
Extensionn OP Health Services	6406	15.875	47,983
Water Project	6408	15.875	6,000
Romonum Mun. Office & Site	6409	15.875	963
Romalum Road Improvement	6414	15.875	1,686
Longline Fishing Training	6420	15.875	1,496
Satowan Road Improvement	6421	15.875	1,525
Satowan Road Improvement	6422	15.875	5,745
State CIP Implementation/Trade/Crops	6425	15.875	2,150
Project Admin. Cost	6426	15.875	4,260
Tol 12 Village Offices	6430	15.875	8,375
Chuuk Air Terminal Expansion	6436	15.875	90,000
Sefin Seawall	6456	15.875	1,513
Dublon Fisheries Complex	6490	15.875	92,320
UFO (Fefan) Water System	6496	15.875	1,400
Penia Water Project	6499	15.875	820
Fanapanges Market Project	6500	15.875	9,757
Dublon Capital Support	6501	15.875	532
EOT Mun. Social Project	6503	15.875	2,950
Pulap Economic Development	6504	15.875	732
Polle Marketing Project	6506	15.875	1,596
Tamatam Coop. Association	6507	15.875	1,620
Weno Village Admin./Office	6515	15.875	2,515
Airport Fuel Aprons Sup.	6542	15.875	26,576
Weno Village Sewing Project	6549	15.875	155
Satawan Sub-State Center	6551	15.875	2,142
Unupukar Community Hall-Sapuk	6552	15.875	554
Tonowas-Nemete Road/Dock	6554	15.875	3,711
Romalum Sewing Project	6556	15.875	308
Handicraft Market	6568	15.875	28
Chukram Dock Polle	6570	15.875	5,315
Neirenom Dock-Polle	6575	15.875	4,203
Peniesene Secondary Road	6577	15.875	1,950
Lukunor Civic Complex	6596	15.875	4,000
Nechap Dock Project-Tonoas	6605	15.875	4,451
Subtotal			<u>3,272,472</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, 1994

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1994 Fiscal Year Expenditures
Balance forwarded			\$ 3,272,472
Satawan Fisheries Dev.	6607	15.875	720
Sangkumi Artisanal Fish	6611	15.875	457
Airport Terminal Parking	6619	15.875	65,571
Water Sys. Improv. Div.	6622	15.875	849
Satawan Substate Center	6623	15.875	1,000
Land Fill/Land Ext. Kutti	6624	15.875	16,581
Weno Road Improvement Proj.	6626	15.875	731
Dublon Taro Patch Development	6627	15.875	6,856
Weno Admin. Cost	6628	15.875	780
Power Generation	6638	15.875	1,346
Road Construction	6643	15.875	125,514
CIP Contingency	6644	15.875	77,642
Fefan Municipal Office	6654	15.875	590
Referral Facilities--Hawaii	6659	15.875	2,587
Mechitiw Community Youth	6666	15.875	1,113
Tol Municipal Road Improvement	6668	15.875	4,417
Project Administration	6675	15.875	50
Tuna Longline Fishing	6678	15.875	163
Satowan Sub--State Sup.	6691	15.875	2,433
Murilo Dry Docking	6703	15.875	6,045
N. Nam P. School Renov.--Weno	6705	15.875	598
Road Bridge Upgrade	6708	15.875	246
St. Rd. Sewer Power Supp.	6716	15.875	287,309
Upgrade--Weno Secondary Road	6824	15.875	11,720
Ufo School Building Extension	6827	15.875	3,000
Siis Fishing Proj.	6831	15.875	948
Romalum Fish/Market Supp.	6832	15.875	13,950
Uman Road & Dock Major Upgrade	6833	15.875	6,747
Nepukos Wall Supplies	6836	15.875	1,393
Fono Fishing Proj.	6838	15.875	1,985
Udot Off. Complex Suppl.	6840	15.875	18,101
Ruo Fish Proj. Supple.	6841	15.875	54,494
Ruo School Supp.	6843	15.875	18,497
Uman Roof/Floor Neimon Soc.	6844	15.875	(9,900)
Uman Nesarau Water Catchment	6845	15.875	976
Oneop Ice Plant Supp.	6848	15.875	10,125
Houk School Cookhouse	6852	15.875	4,868
Houk Runway & Cap. Equip.	6853	15.875	762
Pattiw J.H. School Suppl.	6854	15.875	22,995
Fuun Metaw Revolving Fund	6856	15.875	370
Pollap Dispensary Project	6858	15.875	10,400
Pollap School Proj.	6859	15.875	1,650
Pollap Office Bldg. Improvement	6861	15.875	798
Tamatam Disp. Site Purchase	6862	15.875	3,268
Subtotal			4,053,217

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, 1994**

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1994 Fiscal Year Expenditures
Balance forwarded			\$ 4,053,217
Kuttu Public Building Construction	6865	15.875	24,951
MS Micro Dawn Dry Docking	6866	15.875	442,899
Fefan Social Development	6867	15.875	204,515
Polowat Dry Docking	6868	15.875	83,658
Satowan Sub. Power & Facilities	6870	15.875	89,943
Mechitiw Sewing Project	6871	15.875	1,600
Uman Nesarau Water Project	6873	15.875	1,883
Namoluk Runway Construction	6874	15.875	42,823
Polle Public Building Construction	6875	15.875	2,880
Manaio (Polle) Sea Wall	6876	15.875	15,000
Polle Water Project	6877	15.875	38,211
Fongen (Fefan) Public Building	6878	15.875	3,000
Onoun Sub-State Center	6881	15.875	8,648
Namolul Public Building & 1.5% Admin.	6883	15.875	1,607
Pollap Community Center	6884	15.875	11,816
Weno Municipal Economic Development	6885	15.875	50,171
Weno Municipal Major Social Development	6886	15.875	41,886
Weno Mun. Project Admin.	6888	15.875	1,252
Weno Municipal Court/Jailhouse	6889	15.875	107,250
Nukanap Weno Water Supp.	6890	15.875	2,118
Sefin Weno Bake Shop Proj.	6891	15.875	910
Tonoas Garment Man.	6892	15.875	5,400
Tonoas Garment Man.	6893	15.875	2,275
Chuuk State Mun. L. Con.	6894	15.875	101,127
Tonoas Fishing Project	6895	15.875	185,725
Wichap Fishing Proj.	6896	15.875	(4,315)
Eor Sapuk Women Sewing Proj.	6897	15.875	4,210
Mween (Fefan) Village Office Supplies	6899	15.875	3,999
Parem Water Catchment	6901	15.875	4,615
Polle Fishing Market Supplies	6902	15.875	138,690
Fish. Proj. Pwene Dev. Corp.	6904	15.875	1,500
Tolensom Fishing Project	6905	15.875	118,200
Uman Sapou Dock Repair	6908	15.875	2,673
Uman Sapou Water Tank	6909	15.875	2,605
Etten Farming Proj.	6911	15.875	6,663
Piherarh Fishing Project	6912	15.875	29,870
Siis Public Water	6913	15.875	11,200
Siis Public Water	6914	15.875	5,600
Siis Public Water	6915	15.875	5,600
Siis Public Water	6916	15.875	5,600
Nukanap Water Project	6918	15.875	499
Nepukos Piggery Project	6919	15.875	5,033
Namoluk Public Land Purchase	6921	15.875	25,000
Onoun Housing Project	6922	15.875	9,513
Eot Comm Cl. Frm. Training	6926	15.875	3,477
Eot Municipal Government Comm. Equip.	6927	15.875	4,746
Subtotal			<u>5,909,743</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, 1994**

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1994 Fiscal Year Expenditures
Balance forwarded			\$ 5,909,743
Fefan Garment Manufacture Project	6928	15.875	5,821
Magur Housing Project	6929	15.875	41,842
Sefin Bake Shop	6930	15.875	2,090
Pwene School Facilities Improvement	6931	15.875	9,313
Onoun Housing Project	6932	15.875	4,579
Neauo Shoreline Project	6933	15.875	3,612
Neauo Farming Proj.	6934	15.875	4,250
Tol School Renovation	6935	15.875	50,001
Eot Water Project	6937	15.875	19,005
Eot Mun. Off. & School Supp.	6940	15.875	22,636
Magur Housing Project	6942	15.875	45,382
Chuuk Tuna Cannery	6943	15.875	1,090,947
Paata Housing Loan Fund	6944	15.875	18,000
Rad Communication Equipment Northwest	6945	15.875	22,846
Sefin Fishing Proj.	6946	15.875	17,491
Mechitiw Auto Repair	6950	15.875	8,205
Sefin Auto Repair	6951	15.875	10,000
Tol Dispensary Renovation	6952	15.875	800
Tol School Site Lease	6953	15.875	7,001
L. Ls. Nukanap School	6954	15.875	5,000
Penia Fishing Project	6955	15.875	20,466
Penia Fishing Project	6956	15.875	13,114
Penia Fishing Project	6957	15.875	16,450
Penia Fishing Project	6958	15.875	4,000
Polle Community Water	6959	15.875	25,139
Wichap Market	6960	15.875	23,325
Wichap Market	6961	15.875	15,000
Mechitiw Piggery	6962	15.875	4,014
Nukanap Weno Sewing Project	6964	15.875	4,831
Kukku Fefan School Exp.	6965	15.875	180
Murilo Fishing Vessel	6966	15.875	6,000
Kuttu Ice Plant	6967	15.875	750
Unanu Public Land Purchase	6968	15.875	38,000
Nomwin Fishing Development Project	6969	15.875	17,947
Nomwin Fishing Development Project	6970	15.875	56,550
Nomwin Fishing Development Project	6973	15.875	6,890
Piis Paneu Fishing Project	6974	15.875	41,375
Peniesene Fishing Project	6975	15.875	28,172
Onoun Housing Project	6977	15.875	32,100
Piis Paneu Fishing Project	6978	15.875	9,923
Sefin Mud Retention Wall	6979	15.875	5,406
Chuuk CIP Scholarships	6980	15.875	144,151
Siis Road/Seawall Maintenance	6981	15.875	2,842
Onou Water Project	6983	15.875	7,073
Fefan Fishing Project	6984	15.875	134,870
Fefan Market Project	6985	15.875	62,512
Subtotal			8,019,644

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, 1994

<u>Grantor Account Title</u>	<u>Chuuk Org. #</u>	<u>CFDA I.D. #</u>	<u>1994 Fiscal Year Expenditures</u>
Balance forwarded			\$ 8,019,644
Neauo Village Office Site	6986	15.875	10,000
Nama Housing Renovation	6987	15.875	50,000
Parem Fishing Project	6988	15.875	41,998
Onou Housing Project	6990	15.875	43,265
Oneop Peri Road/Seawall	6991	15.875	52,448
Peniesene Pulic Water	6992	15.875	40,000
Paata Cooperative Market	6993	15.875	9,992
Paata Fishing Project	6994	15.875	30,000
Paata Coop.	6995	15.875	16,200
Polowat Fishing Project	6996	15.875	13,150
Losap Public Building Construction	6997	15.875	31,000
Onoun Housing Project	6998	15.875	73,606
Electricity & Solar Power Generator	6999	15.875	288,688
Onoun Airstrip Matching	8500	15.875	315
Fanapanges Housing Project	8501	15.875	89,000
Fanapanges Fishing Project	8502	15.875	22,000
Miss Nama Supp.	8503	15.875	15,000
Chuuk Tuna Cannery	8504	15.875	651,308
Sewer System Rehabilitation	8505	15.875	43,813
Chuuk US/EDA Water Upgrade	8506	15.875	26,980
Rel. P. Works/Agriculture/Transportation	8507	15.875	41,252
New Adm. Of. Bld. Comp.	8509	15.875	50,000
Chuuk Hospital Renovation	8510	15.875	60,530
Deep Wl. Chlor. & Upd.	8511	15.875	61,276
Road Paving Supplement	8513	15.875	22,412
Udot B. Bl. Ct. & P. Bld.	8514	15.875	8,187
Romallum Sewing Project	8515	15.875	9,625
Kuttu Local Market	8516	15.875	8,700
Kuttu Office Complex	8517	15.875	30,198
Penia Public Building	8521	15.875	4,749
CIP R. Damage Claims	8522	15.875	45,500
Court Judgement	8523	15.875	200,000
Nemwan Water Tanks	8524	15.875	15,000
Iras Sewing Project Sup.	8525	15.875	2,934
Iras Sewing Project Sup.	8526	15.875	3,700
Oneop Seawall Road/Com.	8527	15.875	139,800
Tamatam Market Sup.	8528	15.875	3,904
Tamatam Solar System	8529	15.875	25,670
Winipis Water Project	8530	15.875	10,002
Udot Public Building Renovation	8531	15.875	816
Udot Water Project Sup.	8532	15.875	2,398
Piherarh Housing Project	8533	15.875	29,176
Houk Runway Project	8534	15.875	11,731
Micro Trader Dry Docking	8535	15.875	356,877
Houk Runway Project	8536	15.875	750
Fuun Metaw Dry Docking	8537	15.875	62,000
Subtotal			<u>10,775,594</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, 1994

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1994 Fiscal Year Expenditures
Balance forwarded			\$ 10,775,594
Chuuk Agriculture Development	8541	15.875	76,987
Chuuk Coconut Authority	8542	15.875	140,812
Murillo Fishing Boat	8543	15.875	58,221
Ettal Long Line Vessels	8544	15.875	49,760
Fefan School Project Supplies	8545	15.875	5,284
Chuuk Hono. PA. Housing	8546	15.875	26,649
Ettal Long Line Vessels	8549	15.875	75,933
S & F Sewing Project	8550	15.875	5,000
Soponong Community Mental Health	8551	15.875	3,747
Ettal Long Line Vessels	8552	15.875	77,713
Ettal Long Line Vessels	8553	15.875	67,569
Ettal Long Line Vessels	8554	15.875	65,548
Ettal Long Line Vessels	8555	15.875	148,750
Unanu Marketing Outlet	8556	15.875	13,925
Wonei Fishing Project	8560	15.875	72,900
Fono Fishing Market Project	8561	15.875	42,583
Onou Solar Light System	8562	15.875	55,998
Makur Solar Light System	8563	15.875	49,997
Weito Island Sup. Disp.	8564	15.875	2,587
Unanu Solar Light System	8565	15.875	55,997
Mizpah Reconstruction & Equipment	8567	15.875	3,600
Losap Public Water System	8568	15.875	23,000
Nemwan Fishing Market	8569	15.875	30,000
Epenimw Sewing Project	8570	15.875	4,940
Romalum Market Supplies	8571	15.875	3,970
Romalum Market Supplies	8572	15.875	12,750
Romalum Market Supplies	8574	15.875	3,725
Moch Land Reclaim	8575	15.875	16,100
Fanapanges Public Building	8576	15.875	17,122
Uman Nukanap Water Supply	8577	15.875	2,580
Paata Housing Project	8578	15.875	45,000
Weno Housing Rev. Fund	8580	15.875	110,000
Weno D. Claim Sup.	8581	15.875	148,700
Nepukos Sewing Project	8582	15.875	2,544
Neauo Market	8583	15.875	2,005
Neauo Fishing Project	8584	15.875	18,990
Safuk (Nuk) Fishing Project	8585	15.875	5,000
Parem Boat Building Project	8586	15.875	6,925
Peniesene Public Transportation	8588	15.875	14,000
Losap Municipal Government Vehicle	8589	15.875	16,000
Weno Road Supplies and Equipment	8591	15.875	47,000
IK #1 Dry Dock – Polowat	8593	15.875	12
Fono Typhoon Shelter	8595	15.875	9,628
Nama Fishing Project	8596	15.875	11,670
Pollap Market	8597	15.875	29,538
Siis Swine Project	8599	15.875	5,699
Subtotal			<u>12,462,052</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, 1994

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1994 Fiscal Year Expenditures
Balance forwarded			\$ 12,462,052
Payment of MTN interest	-	15.875	556,315
Fuun Metaw Dry Docking	8600	15.875	11,294
INS/ACT/COV	8601	15.875	24,000
Nepukos Water Project	8602	15.875	5,000
Moch Fishing Project	8603	15.875	5,311
Namoluk Ice Plant	8604	15.875	7,000
Sefin Fishing Project	8605	15.875	5,000
Mechitiw Water Project	8607	15.875	15,925
Lukunor Runway Project	8610	15.875	10,946
Fananu Fishing Supplies	8611	15.875	25,000
Nomwin Solar Project	8612	15.875	19,800
Polle Chukuram Fish	8616	15.875	10,000
Unanu Pick-up truck	8619	15.875	10,500
Wonei Fishing Project	8620	15.875	157,970
Paata Fishing Project	8621	15.875	25,500
Toku (Supplement)	8623	15.875	8,864
Iras Auto Repair Shop	8624	15.875	254
Uman Social Development Project	8625	15.875	76,777
Uman Economic Development Project	8626	15.875	89,876
Udot Dispensary Project	8627	15.875	87
Udot CIP Administration Cost	8628	15.875	2,189
Tourism Promotion Development	8629	15.875	15,000
Unanu Comm. Equipment	8631	15.875	2,200
Houk Reefer Plant.	8632	15.875	2,431
Fefan FSN Fishing Project	8638	15.875	2,000
Fefan FSN Fishing Project	8639	15.875	166
Magur Housing Project Supp.	8643	15.875	4,899
Admin. Cost/Weno	8647	15.875	3,387
Neauo Public Land Purchase	8649	15.875	10,000
Kuttu Office Complex	8650	15.875	22,530
Kuttu Power Generator Acquisition	8651	15.875	36,982
Piis Paneu Meeting Hall	8659	15.875	1,406
Piisemwar Fishing Development Project	8660	15.875	42,870
Miss Nama Supp.	8661	15.875	8,000
Tunnuk (Weno) Youth Project	8662	15.875	8,337
Fono Land Lease Payment	8666	15.875	5,000
Oneop Road/Seawall Project	8669	15.875	90,926
Polle/Neirenom Fishing Project	8670	15.875	3,500
Polle Chukram Fishing Project	8673	15.875	2,007
Polle Chukram Fishing Project	8675	15.875	500
Onoun Road/Runway Maintenance	8686	15.875	1,000
Onou Municipal Vehicle Purchase	8691	15.875	17,000
Nomwin Fishing Project	8692	15.875	28,405
Chuuk State Fire Truck	8705	15.875	100,000
Total Compact of Free Association Capital Projects Fund - Section 211(A)(2)			<u>\$ 13,938,206</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, 1994**

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

Audited expenditures per the general-purpose financial statements	\$ 12,907,394
Investment in common stock of Chuuk Fresh Tuna	875,000
Operating transfer out to Chuuk Coconut Authority	140,812
Operating transfer out to Chuuk Visitors' Bureau	<u>15,000</u>
Expenditures per page 77	<u>\$ 13,938,206</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 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, 1994**

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

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1994 Fiscal Year Expenditures
Section 212—Civic Action Team	2182	15.875	<u>\$ 347,534</u>
Section 214—Energy			
–Energy	2780	15.875	1,176,073
–Truk Electrical Needs	2782	15.875	<u>10,000</u>
			<u>1,186,073</u>
Section 216(a)(2)			
–Health & Medical	2901	15.875	<u>504,416</u>
Section 216(a)(3)			
–Post Secondary Education	2613	15.875	<u>433,063</u>
Total Compact of Free Association—Other Grants Fund			<u>\$ 2,471,086</u>

These funds are disbursed through the Office of Territorial and International Affairs (OTIA), U.S. 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.

**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, 1994**

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1994 Fiscal Year Expenditures
EPA	2003	15.875	\$ 58,394
Communicable Diseases	2004	15.875	115,541
Mental Health	2005	15.875	48,734
Geriatric Health	2006	15.875	820
Health Education	2117	15.875	105
Medical Referral	2120	15.875	266,495
Medical Supplies	2123	15.875	178,767
Bilingual Education	2126	15.875	(140)
Food Services	2128	15.875	947,129
Elementary Education	2129	15.875	828,042
VRS	2135	15.875	62,867
Secondary Education	2142	15.875	<u>94,144</u>
Total Compact of Free Association Block Grant Fund—Section 221(b)			<u>\$ 2,600,898</u>

These funds are disbursed through the Office of Territorial and International Affairs (OTIA), U.S. 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.

See accompanying notes to schedule of federal financial assistance.

**CHUUK STATE GOVERNMENT**  
**FEDERATED STATES OF MICRONESIA**  
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED  
CFSM CAPITAL PROJECTS FUND  
YEAR ENDED SEPTEMBER 30, 1994

<u>Grantor Account Title</u>	<u>Chuuk Org. #</u>	<u>CFDA I.D. #</u>	<u>1994 Fiscal Year Expenditures</u>
Pierarh Fish. Proj.	6401	N/A	\$ <u>841</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**  
Notes to Schedule of Federal Financial Assistance  
Year Ended September 30, 1994

(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.

Programs Subject to Single Audit

Expenditures 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

(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.

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." However, the State is currently reviewing whether the Chuuk Organization for Community Action should be included as a component unit. This entity currently separately satisfies its Single Audit requirements.

C. Subgrantees

Certain program funds are passed through the State to subgrantee organizations. The Schedule of Federal Financial Assistance does not disclose how the subgrantee outside of the State's control utilizes these funds (See Note 3).

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**  
Notes to Schedule of Federal Financial Assistance, Continued  
Year Ended September 30, 1994

(2) Summary of Significant Accounting Policies, Continued

D. Indirect Cost Allocation

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

(3) Component Units

Chuuk Housing Authority

The Chuuk Housing Authority, a component unit-proprietary fund, receives federal funding and separately satisfies its OMB Circular A-128 audit requirements. The audit report of the Chuuk Housing Authority did not note the presence of any questioned costs or material noncompliance during the year ended September 30, 1994. Chuuk Housing Authority's audit report, dated February 7, 1995, included the following Schedule of Federal Financial Assistance:

<u>Grant Title</u>	<u>Grantor Agency</u>	<u>CFDA No.</u>	<u>1994 Expenditures</u>
Section 8 Housing Assistance Program	HUD	14.156	\$ <u>36,926</u>
Total U.S. Department of Housing and Urban Development			\$ <u><u>36,926</u></u>

This funding was received in a direct capacity.

Loan Funds:

As of September 30, 1994, \$1,037,671 of loans made out of U.S. federal financial assistance, CFDA #14.219, were outstanding. The assistance provided by the U.S. Department of Housing and Urban Development was made to the State of Chuuk and passed through to the Authority.

Additionally, as of September 30, 1994, the Authority administered a loan program consisting of funds provided by the U.S. Department of the Interior, CFDA #15.875, which funds were received by the State of Chuuk and were passed through to the Authority. As of September 30, 1994, \$644,749 of loans were outstanding under this program.

**CHUUK STATE GOVERNMENT**  
**FEDERATED STATES OF MICRONESIA**  
Schedule of Programs Selected for Audit  
in Accordance with OMB Circular A-128  
Year Ended September 30, 1994

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

U.S. Department of the Interior, CFDA #15.875

Compact of Free Association Capital Projects Fund, Title Two, Article I, Section 211 (a) (2)	\$13,938,206
Compact of Free Association, Section 214 Energy Grant	1,176,073
Compact of Free Association Block Grant, Title Two, Article I, Section 221 (b)	<u>2,600,898</u>
Total CFDA #15.875	<u>17,715,177</u>

U.S. Department of Education, CFDA #84.027

Special Education Program	<u>697,361</u>
Total CFDA #84.027	<u>697,361</u>
Total Programs Selected for Audit	<u>\$18,412,538</u>
Total Federal Grant Assistance Expenditures	<u>\$21,335,275</u>
Percentage of Program Assistance Expenditures Tested	<u>86%</u>

CHUUK STATE GOVERNMENT  
 FEDERATED STATES OF MICRONESIA  
Schedule of Findings and Questioned Costs  
Year Ended September 30, 1994

**Federal Findings**

Program	Reason for Questioned Cost	Questioned Costs																																	
1. U.S. Dept. of Labor/Job Training Partnership Act/CFDA #17.250	<p><u>Criteria:</u> Per OMB Circular A-87, Attachment A, Section A, paragraph 2(b), the grantee assumes the responsibility for ensuring that federally assisted program funds have been expended and accounted for consistently with underlying agreements and program objectives.</p> <p><u>Condition:</u> In fiscal year 1994, the following expenditures were incurred for summer training by JTPA. We are unable to determine if this project meets JTPA program objectives. Additionally, adequate supporting documentation could not be provided for the listed transactions:</p> <table border="0" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: left; border-bottom: 1px solid black;">ORG. NO.</th> <th style="text-align: left; border-bottom: 1px solid black;">APV NO.</th> <th style="text-align: right;"></th> </tr> </thead> <tbody> <tr><td style="text-align: center;">3432</td><td style="text-align: center;">940343</td><td style="text-align: right;">\$ 19,800</td></tr> <tr><td style="text-align: center;">3432</td><td style="text-align: center;">940346</td><td style="text-align: right;">14,236</td></tr> <tr><td style="text-align: center;">3432</td><td style="text-align: center;">940345</td><td style="text-align: right;">12,690</td></tr> <tr><td style="text-align: center;">3431</td><td style="text-align: center;">940511</td><td style="text-align: right;">14,700</td></tr> <tr><td style="text-align: center;">3432</td><td style="text-align: center;">940341</td><td style="text-align: right;">19,500</td></tr> <tr><td style="text-align: center;">3432</td><td style="text-align: center;">940347</td><td style="text-align: right;">19,800</td></tr> <tr><td style="text-align: center;">3432</td><td style="text-align: center;">942573</td><td style="text-align: right;">18,050</td></tr> <tr><td style="text-align: center;">3432</td><td style="text-align: center;">940342</td><td style="text-align: right;">19,650</td></tr> <tr><td style="text-align: center;">3432</td><td style="text-align: center;">940344</td><td style="text-align: right;">19,150</td></tr> <tr> <td></td><td></td><td style="text-align: right; border-top: 1px solid black;"><u>157,576</u></td></tr> </tbody> </table>	ORG. NO.	APV NO.		3432	940343	\$ 19,800	3432	940346	14,236	3432	940345	12,690	3431	940511	14,700	3432	940341	19,500	3432	940347	19,800	3432	942573	18,050	3432	940342	19,650	3432	940344	19,150			<u>157,576</u>	
ORG. NO.	APV NO.																																		
3432	940343	\$ 19,800																																	
3432	940346	14,236																																	
3432	940345	12,690																																	
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3432	940342	19,650																																	
3432	940344	19,150																																	
		<u>157,576</u>																																	

(The above is drawn from a sample of 25 items aggregating \$207,133 out of total program expenditures aggregating \$484,459, \$107,760 of which relates to payroll.)

Cause: The cause of the above condition is a lack of control over follow-up procedures dealing with cash advances to JTPA participants for expected expenses.

**CHUUK STATE GOVERNMENT**  
**FEDERATED STATES OF MICRONESIA**  
Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1994

**Federal Findings, Continued**

<u>Program</u>	<u>Reason for Questioned Cost</u>	<u>Questioned Costs</u>
1. U.S. Dept. of Labor/Job Training Partnership Act/CFDA #17.250, Continued	<p><u>Effect:</u> The effect of the above condition is the possibility of disallowed costs.</p> <p><u>Recommendation:</u> We recommend policies and procedures surrounding source documentation be upgraded to ensure documentation for expenditures is retained and properly filed.</p> <p><u>Auditee Response:</u> See corrective action plan.</p> <p><u>Corrective Action Plan:</u> This finding will be resolved by the grantor agency through FSM National JTPA Office.</p>	

CHUUK STATE GOVERNMENT  
 FEDERATED STATES OF MICRONESIA  
Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1994

**Federal Findings, Continued**

<u>Program</u>	<u>Reason for Questioned Cost</u>	<u>Questioned Costs</u>						
2. U.S. Dept. of Labor/Job Training Partnership Act/CFDA # 17.250	<p><u>Criteria:</u> Per OMB Circular A-87, Attachment A, Section A, paragraph 2(b), the grantee assumes the responsibility for ensuring that federally assisted program funds have been expended and accounted for consistently with underlying agreements and program objectives.</p> <p><u>Condition:</u> We noted no supporting source documents for the following contractual services payment:</p> <table style="margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: center;"><u>ORG. NO.</u></td> <td style="text-align: center;"><u>APV NO.</u></td> <td></td> </tr> <tr> <td style="text-align: center;">3431</td> <td style="text-align: center;">940665</td> <td style="text-align: right; vertical-align: bottom;">\$ <u>7,204</u></td> </tr> </table> <p>(Refer sample size and universe on page 85)</p> <p><u>Cause:</u> The cause of the above condition is a lack of control over source documentation and a lack of administrative control over expenditures charged to federal grants.</p> <p><u>Effect:</u> The effect of the above condition is a possible liability to the grantor agency.</p> <p><u>Recommendation:</u> We recommend that policies and procedures surrounding source documentation be upgraded to ensure documentation for expenditures is retained and properly filed.</p> <p><u>Auditee Response:</u> See corrective action plan.</p> <p><u>Corrective Action Plan:</u> This finding will be resolved by the Chuuk JTPA Office with the grantor agency through the FSM National JTPA Office.</p>	<u>ORG. NO.</u>	<u>APV NO.</u>		3431	940665	\$ <u>7,204</u>	
<u>ORG. NO.</u>	<u>APV NO.</u>							
3431	940665	\$ <u>7,204</u>						

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**  
Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1994

**Federal Findings, Continued**

<u>Program</u>	<u>Reason for Questioned Cost</u>	<u>Questioned Costs</u>						
3. U.S. Dept. of Labor/Job Training Partnership Act/CFDA # 17.250	<p><u>Criteria:</u> Per OMB Circular A-87, Attachment A, Section A, paragraph 2(b), the grantee assumes the responsibility for ensuring that federally assisted program funds have been expended and accounted for consistently with underlying agreements and program objectives.</p> <p><u>Condition:</u> We noted no supporting source documents for equipment purchased under the following contractual services payment:</p> <table style="margin-left: auto; margin-right: auto; border: none;"> <tr> <td style="text-align: center; padding: 5px;"><u>ORG. NO.</u></td> <td style="text-align: center; padding: 5px;"><u>APV NO.</u></td> <td style="width: 100px;"></td> </tr> <tr> <td style="text-align: center; padding: 5px;">3431</td> <td style="text-align: center; padding: 5px;">940955</td> <td style="text-align: right; padding: 5px;">\$ <u>971</u></td> </tr> </table> <p>(Refer sample size and universe on page 85)</p> <p><u>Cause:</u> The cause of the above condition is a lack of control over source documentation and a lack of administrative control over expenditures charged to federal grants.</p> <p><u>Effect:</u> The effect of the above condition is a possible liability to the grantor agency.</p> <p><u>Recommendation:</u> We recommend policies and procedures surrounding source documentation be upgraded to ensure documentation for expenditures is retained and properly filed.</p> <p><u>Auditee Response:</u> See corrective action plan.</p> <p><u>Corrective Action Plan:</u> This finding will be resolved by the Chuuk JTPA Office with the grantor agency through the FSM National JTPA Office.</p>	<u>ORG. NO.</u>	<u>APV NO.</u>		3431	940955	\$ <u>971</u>	\$ <u>971</u>
<u>ORG. NO.</u>	<u>APV NO.</u>							
3431	940955	\$ <u>971</u>						
Total U.S. Department of Labor Questioned Costs		\$ <u><u>165,751</u></u>						

CHUUK STATE GOVERNMENT  
 FEDERATED STATES OF MICRONESIA  
Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1994

Federal Findings, Continued

Program	Reason for Questioned Cost	Questioned Costs																		
4. U.S. Dept. of Education/ Special Education/CFDA #84.027	<p><u>Criteria:</u> Per OMB Circular A-87, Attachment A, Section A, paragraph 2(b), the grantee assumes the responsibility for ensuring that federally assisted program funds have been expended and accounted for consistent with underlying program objectives.</p> <p><u>Condition:</u> Adequate supporting documentation could not be obtained to determine if the following travel and training related expenditures meet program objectives:</p> <table style="margin-left: 40px; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; border-bottom: 1px solid black;">Org. No.</th> <th style="text-align: left; border-bottom: 1px solid black;">APV No.</th> <th style="text-align: right; border-bottom: 1px solid black;">\$</th> </tr> </thead> <tbody> <tr> <td>7732</td> <td>40342</td> <td style="text-align: right;">2,684</td> </tr> <tr> <td>7732</td> <td>40688</td> <td style="text-align: right;">3,112</td> </tr> <tr> <td>7743</td> <td>42188</td> <td style="text-align: right;">2,317</td> </tr> <tr> <td>7732</td> <td>946055</td> <td style="text-align: right; border-top: 1px solid black;">4,575</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">12,688</td> </tr> </tbody> </table> <p>(The above is drawn from a sample of 25 items aggregating \$159,750 out of total program expenditures aggregating \$622,831, \$124,404 of which relate to payroll.)</p> <p><u>Cause:</u> The cause of this condition is unknown.</p> <p><u>Effect:</u> The effect of the above condition is the possibility of disallowed costs.</p> <p><u>Recommendation:</u> We recommend that complete supporting documentation be obtained. We also recommend that travel advance requests not be allowed until complete documentation is obtained.</p> <p><u>Auditee Response:</u> The above expenditures relate to training which is approved in the Special Education program proposal.</p> <p><u>Corrective Action Plan:</u> See Auditee Response.</p>	Org. No.	APV No.	\$	7732	40342	2,684	7732	40688	3,112	7743	42188	2,317	7732	946055	4,575			12,688	
Org. No.	APV No.	\$																		
7732	40342	2,684																		
7732	40688	3,112																		
7743	42188	2,317																		
7732	946055	4,575																		
		12,688																		



CHUUK STATE GOVERNMENT  
 FEDERATED STATES OF MICRONESIA  
Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1994

Federal Findings, Continued

<u>Program</u>	<u>Reason for Questioned Cost</u>	<u>Questioned Costs</u>		
5. U.S. Dept. of Education/ S p e c i a l Education/CFDA #84.027	<p><u>Criteria:</u> Per OMB Circular A-87, Attachment A, Section A, paragraph 2(b), the grantee assumes the responsibility for ensuring that federally assisted program funds have been expended and accounted for consistent with the underlying program objectives.</p> <p><u>Condition:</u> Adequate supporting documentation could not be obtained to determine if the following expenditure to repair a vehicle meets program objectives:</p> <table style="margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: center;"><u>Org. No.</u> 7732</td> <td style="text-align: center;"><u>APV No.</u> 947054</td> </tr> </table> <p>(Refer sample size and universe on page 89)</p> <p><u>Cause:</u> The cause of this condition is unknown.</p> <p><u>Effect:</u> The effect of the above condition is the possibility of disallowed costs.</p> <p><u>Recommendation:</u> We recommend that complete supporting documentation be obtained. We also recommend that payment requests not be allowed until complete documentation is obtained.</p> <p><u>Auditee Response:</u> The above pertains to expenditures related to repair and maintenance of Special Education vehicles, under the object class for repair and maintenance of special education vehicles, a lump sum amount was earmarked for that specific purpose and the amount allocated for that in the FY94 proposal was \$15,000. The amount was set aside taking into consideration the number of vehicles the Special Education program has depreciation on them.</p>	<u>Org. No.</u> 7732	<u>APV No.</u> 947054	\$ <u>5,000</u>
<u>Org. No.</u> 7732	<u>APV No.</u> 947054			

CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA  
Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1994

Federal Findings, Continued

<u>Program</u>	<u>Reason for Questioned Cost</u>	<u>Questioned Costs</u>
5. U.S. Dept. of Education/ S p e c i a l Education/CFDA #84.027, Continued	<u>Corrective Action Plan:</u> See Auditee Response.	

CHUUK STATE GOVERNMENT  
 FEDERATED STATES OF MICRONESIA  
Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1994

**Federal Findings, Continued**

<u>Program</u>	<u>Reason for Questioned Cost</u>	<u>Questioned Costs</u>						
6. U.S. Dept. of Education/ S p e c i a l Education/CFDA #84.027	<p><u>Criteria:</u> Per OMB Circular A-87, Attachment A, Section A, paragraph 2(b), the grantee assumes the responsibility for ensuring that federally assisted program funds have been expended and accounted for consistent with underlying program objectives.</p> <p><u>Condition:</u> Adequate supporting documentation could not be obtained to determine if the following expenditure to purchase a sport fishing boat meets program objectives:</p> <table style="margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: center;"><u>Org. No.</u></td> <td style="text-align: center;"><u>APV No.</u></td> <td></td> </tr> <tr> <td style="text-align: center;">7732</td> <td style="text-align: center;">940730</td> <td style="text-align: right;"><u>\$ 25,000</u></td> </tr> </table> <p>(Refer sample size and universe on page 89)</p> <p><u>Cause:</u> The cause of this condition is unknown.</p> <p><u>Effect:</u> The effect of the above condition is the possibility of disallowed costs.</p> <p><u>Recommendation:</u> We recommend that complete supporting documentation be obtained. We also recommend that payment requests not be allowed until complete documentation is obtained.</p>	<u>Org. No.</u>	<u>APV No.</u>		7732	940730	<u>\$ 25,000</u>	<u>\$ 25,000</u>
<u>Org. No.</u>	<u>APV No.</u>							
7732	940730	<u>\$ 25,000</u>						

CHUUK STATE GOVERNMENT  
 FEDERATED STATES OF MICRONESIA  
Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1994

Federal Findings, Continued

<u>Program</u>	<u>Reason for Questioned Cost</u>	<u>Questioned Costs</u>
6. U.S. Dept. of Education/ S p e c i a l Education/CFDA # 8 4 . 0 2 7 , Continued	<u>Auditee Response:</u> APV #940730 in the amount of \$25,000 was for a boat purchased for the Special Education program. This particular item was requested in FY93 and FY94 proposal for the purpose of evaluation of and/or monitoring of programs to ensure conformity with program rules and regulations. Even though the boat maybe called a "sport fishing" boat it certainly is not used for fishing or sport. It serves the specific purpose of going to the schools on the islands in the lagoon.  <u>Corrective Action Plan:</u> See Auditee Response.	\$ <u>42,688</u>
Total U.S. Department of Education Questioned Costs		\$ <u>42,688</u>

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**  
Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1994

**Federal Findings, Continued**

7. 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 1993**

**Local Finding**

1	91	Use of Compact Capital Fund
2	92	Municipalities
3	93	Use of Compact Capital Fund

**Federal Findings**

1	89	Reimbursement in excess of expenditures (CFDA # 84.003)
2	90	Reimbursement in excess of expenditures (CFDA # 10.560)

**FISCAL YEAR 1992**

**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
5	96	Improper Classification of Expenditures
6	99	Code of Federal Regulations
7	100	Scholarship Application

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**  
Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1994

7. Previous Years' Findings, continued

FISCAL YEAR 1991, CONTINUED

Federal Findings

5	95	Training Programs for JTPA
8	103	Job Placement Requirement - JTPA
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

Cause: The cause of this condition is 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 its 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**  
Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1994

**Federal Findings, Continued**

Program  
8. U.S. Dept.  
of Education/  
S p e c i a l  
Education/CFDA  
#84.027

Criteria: Adequate records should be maintained by the grantee to support the number of handicapped recipients of the Education for the Handicapped program.

Condition: Records maintained by Special Education only support 245 of the 1,700 recipients reported to the grantor agency.

Cause: The cause of this condition is unknown.

Effect: Noncompliance with program requirements could be the result of this finding.

Recommendation: We recommend that documentation be obtained to properly support the eligibility of the 1,700 program recipients.

Auditee Response: See corrective action plan.

Corrective Action Plan: This finding will be resolved by the Chuuk State Special Education administration with the grantor agency through the FSM National Government.

CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA  
Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1994

Federal Findings, Continued

Program

9. U.S. Dept. of Education/  
CFDA #84.027      Criteria: All recipient files should contain adequate documentation to support eligibility requirements of the Special Education program.

Condition: Of twenty recipient files reviewed, adequate documentation could not be found to determine the eligibility of seven participants.

Cause: The cause of this condition is unknown.

Effect: The effect of the above condition is unknown.

Recommendation: We recommend that documentation supporting recipient eligibility be properly documented in the files.

Auditee Response: See corrective action plan.

Corrective Action Plan: This finding will be resolved by the Chuuk State Special Education administration with the grantor agency through the FSM National Government.



CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA  
Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1994

**Federal Findings, Continued**

Program

10. U.S. Dept. of Education /CFDA # 84.027      Criteria: All Individualized Education Programs (IEP's) should contain projected dates for initiation of services under the program and the anticipated duration of these services.

Condition: Of twenty files reviewed, we noted that none of the files contained the above information.

Cause: The cause of this condition is unknown.

Effect: Possible noncompliance with program requirements could be the result of this finding.

Recommendation: We recommend that all IEP's are updated to include all the information required under the Special Education Program.

Auditee Response: See corrective action plan.

Corrective Action Plan: This finding will be resolved by the Chuuk State Special Education administration with the grantor agency through the FSM National Government.

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**  
Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1994

**Local Findings**

**Use of Compact Capital Funds**

1. **Criteria:** Compact Capital expenditures should be in compliance with the uses outlined in the Compact Agreement between the FSM and the United States.

**Condition:** We are unable to determine if dry docking for the Micro Trader and Micro Dawn is an allowable use of Compact CIP funds.

**Cause:** The cause of this condition is unknown.

**Effect:** Possible noncompliance with allowable use of Compact funds could be the result of this finding.

**Recommendation:** We recommend that the State resolve this finding through the FSM and the Chuuk Attorney General's office.

**Auditee Response:** See corrective action plan.

**Corrective Action Plan:** We will resolve this issue with the Office of the Chuuk State Attorney General and the FSM Attorney General. Once we receive the opinion, a copy will be forwarded to the auditors.

CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA  
Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1994

Local Findings, Continued

Bidding Procedures

2. Criteria: Per Chuuk State law, bidding procedures should be performed on all contracts over \$20,000 and all personal property purchases over \$50,000.

Condition: State management has been unable to provided bidding documents for items meeting the criteria within a reasonable period of time.

Cause: The cause of this condition is unknown.

Effect: Possible noncompliance with local and federal regulations could be the result of this finding.

Recommendation: We recommend that documentation pertaining to bidding procedures be made readily available for review.

Auditee Response: We agree with this finding.

Corrective Action Plan: We will ensure that the bidding procedure documents are properly attached to the accounts payable voucher prior to approval for payment. Bidding documents were not forwarded to finance in fiscal year 1994.

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

**INDEPENDENT AUDITORS' REPORT  
ON THE INTERNAL CONTROL STRUCTURE**

**YEAR ENDED SEPTEMBER 30, 1994**

**CHUUK STATE GOVERNMENT**  
**FEDERATED STATES OF MICRONESIA**  
Resolution of Prior Years' Questioned Costs  
Year Ended September 30, 1994

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 1994 questioned costs	<u>208,439</u>
Total unresolved questioned costs	<u><u>\$8,817,107</u></u>



**INDEPENDENT AUDITORS' REPORT ON THE INTERNAL  
CONTROL STRUCTURE BASED ON AN AUDIT OF GENERAL-  
PURPOSE FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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, 1994, and have issued our report thereon dated February 23, 1995. Our report on the audit of the general-purpose financial statements was modified as a result of our inability to form an opinion on the General Fixed Assets Account Group, the omission of the financial statements of the State's eleven development authorities, our inability to obtain audited financial statements from investees of the State of Chuuk supporting related investments recorded in the Governmental Fund Type - Capital Projects Fund, the noninclusion of a potential component unit - governmental fund and our inability to obtain legal representations from the State's Attorney General.

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.

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, 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.

In planning and performing our audit of the general-purpose financial statements of the State of Chuuk for the year ended September 30, 1994, we obtained an understanding of the internal control structure. With respect to the internal control structure, 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

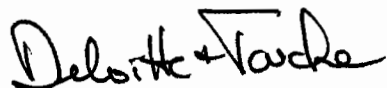
We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect Chuuk State'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 107 through 111 in findings 1 through 4.

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 other matters involving the internal control structure and its operation that we have reported to the management of Chuuk State in the accompanying Schedule of Internal Control Findings (pages 112 through 125) in Findings No. 5 through 18.

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.

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

February 23, 1995



**CHUUK STATE GOVERNMENT**  
Schedule of Internal Control Findings  
Year Ended September 30, 1994

**Prior Year Internal Control Findings**

**Finding No. 1**

**Criteria:** Findings from the Report on Internal Control for prior years should be adequately resolved by Chuuk State Management.

**Condition:** The following findings from the Report on Internal Controls for prior years, were not resolved during the year ending September 30, 1994:

<u>Finding No.</u>	<u>Heading</u>	<u>Page No.</u>
<b>Fiscal Year 1990</b>		
1	Payroll account reconciliations	94
19	Filing of contracts	104
21	Segregation of duties - payroll	105
27	Untimely forwarding of documents	109
33	Nonintegration of budgeted revenues	112
35	Fire alarms in EDP	114
<b>Fiscal Year 1991</b>		
2	Other investments	121
5	Receiving reports	124
6	Federal requirements	125
13	Personnel policies	132
14	Sales tax return	133
16	Segregation of duties, Revenues Division	135
17	Filing system - tax returns	136
21	Insurance coverage - EDP	140
	Chuuk Visitor's Bureau:	
23	Subsidiary ledger	142
24	Accounting system	143
<b>Fiscal Year 1993</b>		
9	Due from FEMA	110
11	Payable & accrued liabilities	111

**CHUUK STATE GOVERNMENT**  
Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1994

**Prior Year Internal Control Findings, Continued**

Cause: The cause of this condition is 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, 1994

**Revenue/Receipts**

**Finding No. 2**

**Criteria:** Daily Cash Receipt Reports should be reviewed by the Chuuk State Treasurer upon receipt from the Department of Revenue and Taxation.

**Condition:** The Treasurer did not sign the December 7, 1993, September 22, 1994 and September 15, 1994 reports as being reviewed.

**Cause:** The cause of this condition is unknown.

**Effect:** Possible misuse of State funds could occur if established internal control procedures are not followed.

**Recommendation:** We recommend review of daily cash receipt reports and signing of these reports after review.

**Auditee Response:** The Supervisor of the Treasury Section agrees with this finding.

**Corrective Action Plan:** Last April, 1995, there was a change in personnel in the Treasury Section. Since then, the Supervisor of the Treasury Section has been very strict in the review of all daily cash receipts. Additionally, the reconciliation section does not post any cash receipt if the signature of the supervisor of the Treasury Section is not in the Daily Cash Report.

**CHUUK STATE GOVERNMENT**  
Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1994

**Revenue/Receipts**

**Finding No. 3**

**Criteria:** Deposit of cash receipts should be made within a timely manner.

**Condition:** Deposits for the following cash receipts were made in an untimely manner as follows:

TCR # 26890	5 days after receipt of funds
TCR # 26929	3-31 days after receipt of funds
TCR # 26936	62 days after receipt of funds
TCR # 26905	16 days after receipt of funds
TCR # 27606	7 days after receipt of funds
TCR # 27024	11 days after receipt of funds
TCR # 27064	4 days after receipt of funds

**Cause:** The cause of this condition is unknown.

**Effect:** Possible misuse or loss of State funds could be the result of this finding.

**Recommendation:** Cash receipts should be deposited to the bank in a timely manner.

**Auditee Response:** The Supervisor of the Treasury Section agrees with this finding.

**Corrective Action Plan:** Last April, 1995, there was a change in personnel in the Treasury Section. The two employees in that section were made aware of the responsibilities attached to their respective positions. Since April, 1995, all daily receipts have been deposited on the next banking day. The two employees remain committed to implement the recommendation on a daily basis.

**CHUUK STATE GOVERNMENT**  
Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1994

**Purchases/Disbursements**

**Finding No. 4**

**Criteria:** All anticipated expenditures of the State should be encumbered and the encumbrance liquidated upon payment.

**Condition:** The State does not encumber its medical referral expenditures.

**Cause:** The cause of this condition is unknown.

**Effect:** A possible understatement of Chuuk State encumbrances/fund balance reserves could be the result of this finding.

**Recommendation:** We recommend that the State estimate costs of its medical referrals and ensure that such are properly encumbered.

**Auditee Response:** We agree with this finding.

**Corrective Action Plan:** The Department of Health Services will establish a fee schedule based on previous medical referral billings. From this schedule, we will be able to estimate roughly how much a new case may cost the State. This will be the basis of encumbrance.

**CHUUK STATE GOVERNMENT**  
Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1994

**Purchases/Disbursements**

**Finding No. 5**

**Criteria:** All medical referral billings should be thoroughly reviewed to ensure that services rendered are indeed necessary to properly treat the patient.

**Condition:** Chuuk State does not have formal review procedures in place for its medical billings.

**Cause:** The cause of this condition is unknown.

**Effect:** The effect of the finding is that unnecessary medical referral expenditures may be incurred by the State.

**Recommendation:** We recommend that the State establish procedures to ensure that all medical referral billings are reviewed thoroughly prior to payments.

**Auditee Response and Corrective Action Plan:** The Director of Treasury will initiate this procedure in fiscal year 1996.

**CHUUK STATE GOVERNMENT**  
Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1994

**Revenues/Receipts**

**Finding No. 6**

**Criteria:** Cash receipts entered into DILOG should be supported by documents indicating the nature of the payment.

**Condition:** Cash receipts reviewed lacked supporting documents.

**Cause:** The cause of this condition is unknown.

**Effect:** Possible misclassification of revenue collections could be the result of this finding.

**Recommendation:** State management should ensure that each cash receipt is supported by a document detailing the basis for the collection.

**Auditee Response and Corrective Action Plan:** The Director of Treasury will initiate this procedure in fiscal year 1996.

**CHUUK STATE GOVERNMENT**  
Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1994

**Payroll**

**Finding No. 7**

**Criteria:** Personnel files should be updated when changes occur to an employee's status.

**Condition:** Most current allotment documents are not yet filed in personnel files and allotment documents that have been superseded are not signed off as discontinued.

**Cause:** The cause of this condition is unknown.

**Effect:** The effect of the above condition is that allotment deductions may be miscalculated.

**Recommendation:** We recommend that as changes are made to an employee's status, current documents should be filed and superseded documents should be properly designated as such.

**Auditee Response and Corrective Action Plan:** The Director of Treasury will initiate this procedure in fiscal year 1996.



**CHUUK STATE GOVERNMENT**  
Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1994

**Payroll**

**Finding No. 8**

Criteria: As pay rate increases are approved, new pay rates should be entered in the computer system in a timely manner.

Condition: Of 25 files tested, we noted two which were entered in the system four months and one year, respectively, after new pay rates became effective.

Cause: The cause of this condition is unknown.

Effect: The effect of this condition is that payroll payments may be incorrect.

Recommendation: We recommend that payroll employees enter pay rate increases in a timely fashion.

Auditee Response and Corrective Action Plan: The Director of Treasury will initiate this procedure in fiscal year 1996.

**CHUUK STATE GOVERNMENT**  
Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1994

**Cash and Equivalents**

**Finding No. 9**

**Criteria:** An accurate and up to date record/log should be maintained of all replacement checks.

**Condition:** Our review of replacement checks, detailed on the outstanding check listing, indicated the log was not current.

**Cause:** The cause of this condition is unknown.

**Effect:** A possible misuse of funds could be the result of this condition.

**Recommendation:** We recommend that the check log be updated as checks are issued.

**Auditee Response and Corrective Action Plan:** The Director of Treasury will initiate this procedure in fiscal year 1996.

**CHUUK STATE GOVERNMENT**  
Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1994

**Receivables**

**Finding No. 10**

**Criteria:** A signature of the approving officer is required authorizing travel advance vouchers.

**Condition:** On two of six travel advance vouchers tested, there was no signature of the approving officer.

**Cause:** The cause of this condition is unknown.

**Effect:** Possible misuse of State funds could result from this condition.

**Recommendation:** We recommend that measures be taken to ensure that travel advances are approved prior to payment.

**Auditee Response and Corrective Action Plan:** The Director of Treasury will initiate this procedure in fiscal year 1996.

**CHUUK STATE GOVERNMENT**  
Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1994

**Receivables**

**Finding No. 11**

**Criteria:** Timely liquidation of travel claims against balances in accounts payable should occur.

**Condition:** One of six items tested from the accounts payable ledger was not listed on the encumbrance report as it had already been liquidated. No corresponding liquidation was noted in the accounts payable ledger.

**Cause:** The cause of this condition is unknown.

**Effect:** The result of this condition is a variance between the general ledger and accounts payable systems.

**Recommendation:** We recommend that timely liquidation of travel claims against both general ledger and accounts payable be performed.

**Auditee Response and Corrective Action Plan:** The Director of Treasury will initiate this procedure in fiscal year 1996.

**CHUUK STATE GOVERNMENT**  
Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1994

**Receivables**

**Finding No. 12**

**Criteria:** The value of travel advances reported in the general ledger should be supported by a detailed subsidiary ledger of travel advances outstanding at September 30, 1994.

**Condition:** No subsidiary ledger supporting the value of outstanding travel advances was available at September 30, 1994.

**Cause:** The cause of this condition is unknown.

**Effect:** The effect of the above condition is the possible misstatement of travel advances outstanding as of September 30, 1994, and a lack of control over the clearing of long outstanding advances.

**Recommendation:** We recommend that a subsidiary ledger be prepared to provide a detailed record of amounts recorded in the general ledger.

**Auditee Response and Corrective Action Plan:** The Director of Treasury will initiate this procedure in fiscal year 1996.

**CHUUK STATE GOVERNMENT**  
Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1994

**External Financial Reporting**

**Finding No. 13**

**Criteria:** Original encumbrances that are required to be cancelled or replaced should be appropriately voided or liquidated on the general ledger reports.

**Condition:** Our review of manual files determined an encumbrance had been replaced and had not been removed from the general ledger system.

**Cause:** The cause of this condition is unknown.

**Effect:** An over statement of encumbrances results from this condition.

**Recommendation:** We recommend that all replaced encumbrances be voided on the system prior to entering the replacement encumbrance.

**Auditee Response and Corrective Action Plan:** The Director of Treasury will initiate this procedure in fiscal year 1996.

**CHUUK STATE GOVERNMENT**  
Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1994

**External Financial Reporting**

**Finding No. 14**

Criteria: All encumbrance liquidations are required to be properly authorized by the funds control section prior to being processed for payment.

Condition: Of a sample of fourteen encumbrances tested, two were found to have been updated on the general ledger system prior to manual updating, indicating that proper funds authorization had not been obtained prior to being processed.

Cause: The cause of this condition is unknown.

Effect: A possible misuse of State funds could occur.

Recommendation: We recommend that all encumbrance liquidations be properly certified for funds availability prior to payment being processed.

Auditee Response and Corrective Action Plan: The Director of Treasury will initiate this procedure in fiscal year 1996.

**CHUUK STATE GOVERNMENT**  
Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1994

**External Financial Reporting**

**Finding No. 15**

**Criteria:** All amendments to original encumbrances require appropriate documentation in the manual files.

**Condition:** On one occasion, the original encumbrance was adjusted and reissued with the same encumbrance number. However, the original encumbrance form had not been voided.

**Cause:** The cause of this condition is unknown.

**Effect:** A possible misstatement of encumbrances could occur.

**Recommendation:** Management should ensure that all amendments/adjustments are recorded in the manual files on a timely basis.

**Auditee Response and Corrective Action Plan:** The Director of Treasury will initiate this procedure in fiscal year 1996.



**CHUUK STATE GOVERNMENT**  
Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1994

**Purchases/Disbursements**

**Finding No. 16**

**Criteria:** All checks not delivered or picked up as of September 30, 1994 should be reclassified to accounts payable so as to not misstate cash as of that date.

**Condition:** Checks on hand totalling \$696,274 existed as of September 30, 1994.

**Cause:** The cause of this condition is unknown.

**Effect:** A possible misstatement of cash and accounts payable balances could occur.

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

**Auditee Response and Corrective Action Plan:** The Director of Treasury will initiate this procedure in fiscal year 1996.

**CHUUK STATE GOVERNMENT**  
Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1994

**Cash and Equivalents**

**Finding No. 17**

Criteria: Stale dated checks should be returned to cash until such time as the payable is to be liquidated.

Condition: Checks outstanding for more than twelve months exist which are still included in the outstanding checklist.

Cause: The cause of this condition is unknown.

Effect: A possible understatement of cash in the State's checking account results.

Recommendation: We recommend that the Chief Accountant periodically review outstanding checks to ensure all stale items are returned to cash.

Auditee Response and Corrective Action Plan: The Director of Treasury will initiate this procedure in fiscal year 1996.

**CHUUK STATE GOVERNMENT**  
Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1994

**Receivables**

**Finding No. 18**

**Criteria:** All amounts recorded as accounts receivable should be supported by subsidiary detail and must be considered collectible. Otherwise, the balance should be provided for in an allowance for doubtful accounts.

**Condition:** A receivable in the general fund for returned checks from fiscal year 1992 is recorded. However, the State was not able to provide a detail of this amount.

**Cause:** The cause of this condition is unknown.

**Effect:** The effect of the above condition is the overstatement of receivables.

**Recommendation:** We recommend that the amount be investigated to determine its collectibility.

**Auditee Response and Corrective Action Plan:** The Director of Treasury will initiate this procedure in fiscal year 1996.