

**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, 1995**

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Year Ended September 30, 1995

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**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

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

**YEAR ENDED SEPTEMBER 30, 1995**

**INDEPENDENT AUDITORS' REPORT**

Honorable Marcelino Umwech  
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, 1995, 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, 1995, 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 investment in Western Pacific Tuna Group (WESTPAC), in the Governmental Fund Type - Capital Projects Funds at September 30, 1995, as described in Note 9 to the general-purpose financial statements. The State of Chuuk has not adjusted this investment to reflect the equity in the investees' earnings or losses. We were not able to satisfy ourselves as to the carrying value of this investment or the equity in its earnings or losses by other auditing procedures.

Because of inadequacies in the accounting records, we were unable to determine whether inventories of the Chuuk Coconut Authority (CCA) were fairly stated. CCA is included within the Component Units-Proprietary Funds and represents 100% of the inventory of the Component Units-Proprietary Funds.

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.

As discussed in Note 1A, the accompanying general-purpose financial statements do not include the Chuuk State Public Utilities Corporation, which in our opinion, should be included to conform with generally accepted accounting principles. Chuuk State Public Utilities Corporation would be reported as a discretely presented Component Unit - Proprietary Fund.

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 the WESTPAC investment of the Governmental Fund Type - Capital Projects Funds been determinable and had we been able to determine the propriety of inventory of CCA, as discussed in the third, fourth, fifth and sixth paragraphs above, and the omission of the Component Units - Governmental Funds and Proprietary Fund, as discussed in the seventh and eighth paragraphs 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, 1995, 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.

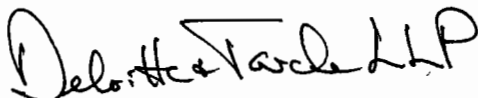
As discussed in Note 11, the State of Chuuk has been named the defendant in various legal actions. The State of Chuuk is vigorously defending all claims, but the ultimate outcome is uncertain at this time. Accordingly, no provision for any liability that may result has been recorded in the accompanying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

As discussed in Note 11, \$8,876,238 of costs for operation of U.S. federal programs to the State of Chuuk have been questioned as of September 30, 1995, 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 \$15,606,061, 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 March 18, 1996, on our consideration of the State of Chuuk's (primary Government only) internal control structure and a report dated March 18, 1996 on its compliance with laws and regulations.

Our audit was conducted for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The combining and individual fund financial statements and schedules listed in Section III of the foregoing table of contents, which are also the responsibility of the management of the State of Chuuk, are presented for purposes of additional analysis and are not a required part of the general-purpose financial statements of the State of Chuuk. Such additional information has been subjected to the auditing procedures applied in our audit of the general-purpose financial statements and, except for the matters specified in our report dated March 18, 1996, in our opinion, is fairly stated in all material respects when considered in relation to the general-purpose financial statements taken as a whole.



March 18, 1996



CHUUK STATE GOVERNMENT

Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Units  
September 30, 1995  
(With Comparative Totals as of September 30, 1994)

	Governmental Fund Types			Account Groups		Totals	Component	Totals	
	General	Special Revenue	Capital Projects	General	General	Primary	Units	Reporting	
				Fixed Assets	Long-Term Debt	Government (Memorandum Only)	Proprietary	Entity (Memorandum Only)	
								1995	1994
<b>Assets</b>									
Cash and equivalents (note 2)	\$ 1,266,311	\$ 411,028	\$ 3,107,658	\$ -	\$ -	\$ 4,784,997	\$ 566,917	\$ 5,351,914	\$ 1,794,745
Investments (note 2)	1,115,903	-	15,051,146	-	-	16,167,049	-	16,167,049	15,509,194
Investments - other (note 9)	-	-	7,643,660	-	-	7,643,660	-	7,643,660	7,137,000
Receivables from other governments (note 3)	166,433	3,278,853	736,059	-	-	4,181,345	-	4,181,345	3,846,697
Receivables, federal agencies (note 3)	-	555,175	-	-	-	555,175	-	555,175	585,176
General receivables, net	41,038	39,969	-	-	-	81,007	3,649	84,656	116,614
Advances	194,470	151,759	192,306	-	-	538,535	-	538,535	479,171
Loans receivable, net of allowance for doubtful accounts of \$630,795	-	-	-	-	-	-	1,155,003	1,155,003	1,159,151
Loans receivable, other (note 14)	-	-	7,000,000	-	-	7,000,000	-	7,000,000	7,000,000
Due from other funds (note 8)	-	2,501,328	3,922,214	-	-	6,423,542	-	6,423,542	6,462,650
Inventories	-	-	-	-	-	-	72,785	72,785	62,484
Other assets	-	-	-	-	-	-	61,393	61,393	48,470
Fixed assets, net (note 4)	-	-	-	67,581,884	-	67,581,884	974,617	68,556,501	68,596,908
Dividends and interest receivable	112,898	-	-	-	-	112,898	-	112,898	74,910
Reserve for doubtful interfund receivable (note 16)	(577,105)	-	-	-	-	(577,105)	-	(577,105)	(504,234)
Amount to be provided for retirement of long-term debt	-	-	-	-	12,071,161	12,071,161	-	12,071,161	12,035,652
Due from primary government	-	-	-	-	-	-	277,240	277,240	132,958
<b>Total assets</b>	<b>\$ 2,319,948</b>	<b>\$ 6,938,112</b>	<b>\$ 37,653,043</b>	<b>\$ 67,581,884</b>	<b>\$ 12,071,161</b>	<b>\$ 126,564,148</b>	<b>\$ 3,111,604</b>	<b>\$ 129,675,752</b>	<b>\$ 124,537,546</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, 1995**  
**(With Comparative Totals as of September 30, 1994)**

	Governmental Fund Types			Account Groups		Totals	Component	Totals	
	General	Special Revenue	Capital Projects	General	General	Primary	Units	Reporting	
				Fixed Assets	Long-Term Debt	Government (Memorandum Only)	Proprietary	Entity (Memorandum Only)	
								1995	1994
<b>Liabilities and Fund Equity (Deficiency)</b>									
<b>Liabilities:</b>									
Bank overdraft	\$ 1,717,514	\$ 47,963	\$ -	\$ -	\$ -	\$ 1,765,477	\$ -	\$ 1,765,477	\$ 2,148,418
Accounts payable	9,137,867	2,563,944	1,660,912	-	-	13,362,723	112,370	13,475,093	9,660,895
Accrued payroll and annual leave	437,818	-	-	-	1,771,161	2,208,979	10,659	2,219,638	1,933,387
Due to other funds (note 8)	4,264,621	1,331,818	827,103	-	-	6,423,542	-	6,423,542	6,462,650
Payable to other governments	92,798	1,073,155	-	-	-	1,165,953	-	1,165,953	415,806
Notes payable (notes 5 and 13)	127,870	-	329,179	-	10,300,000	10,757,049	733,538	11,490,587	11,512,695
Deferred revenue	-	277,320	-	-	-	277,320	-	277,320	277,320
<b>Total liabilities</b>	<b>15,778,488</b>	<b>5,294,200</b>	<b>2,817,194</b>	<b>-</b>	<b>12,071,161</b>	<b>35,961,043</b>	<b>856,567</b>	<b>36,817,610</b>	<b>32,411,171</b>
<b>Fund equity (deficiency):</b>									
Investment in general fixed assets (note 4)	-	-	-	67,581,884	-	67,581,884	-	67,581,884	67,581,884
Retained earnings	-	-	-	-	-	-	234,771	234,771	366,662
Contributed capital	-	-	-	-	-	-	2,020,266	2,020,266	1,670,266
<b>Fund balances (deficit):</b>									
<b>Reserved for:</b>									
Related assets (note 15)	971,856	75,343	14,799,294	-	-	15,846,493	-	15,846,493	14,620,457
Encumbrances	636,882	1,717,018	3,562,240	-	-	5,916,140	-	5,916,140	6,868,172
Continuing appropriations (note 6)	538,783	-	17,157,231	-	-	17,696,014	-	17,696,014	23,315,330
Unreserved	(15,606,061)	(148,449)	(682,916)	-	-	(16,437,426)	-	(16,437,426)	(22,296,396)
<b>Total fund equity (deficiency)</b>	<b>(13,458,540)</b>	<b>1,643,912</b>	<b>34,835,849</b>	<b>67,581,884</b>	<b>-</b>	<b>90,603,105</b>	<b>2,255,037</b>	<b>92,858,142</b>	<b>92,126,375</b>
<b>Commitments and contingencies (note 11)</b>									
<b>Total liabilities and fund equity (deficiency)</b>	<b>\$ 2,319,948</b>	<b>\$ 6,938,112</b>	<b>\$ 37,653,043</b>	<b>\$ 67,581,884</b>	<b>\$ 12,071,161</b>	<b>\$ 126,564,148</b>	<b>\$ 3,111,604</b>	<b>\$ 129,675,752</b>	<b>\$ 124,537,546</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, 1995  
(With comparative totals for the year ended September 30, 1994)

	Governmental Fund Types			Totals Reporting Entity (Memorandum Only)	
	General	Special Revenue	Capital Projects	1995	1994
<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	5,170,584	-	3,603,456	8,774,040	8,392,550
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	-	551,908	-	551,908	527,912
Section 212 - base grant	-	250,000	-	250,000	250,000
Section 216(a)(3) - FSM	-	405,560	-	405,560	433,063
U.S. Department of the Interior grants	-	-	61,927	61,927	111,754
FSM revenue sharing	2,376,027	-	-	2,376,027	2,501,894
Other federal contributions	-	2,572,488	90	2,572,578	2,235,882
State taxes and licenses	1,261,877	-	-	1,261,877	1,399,703
Investment income (note 2)	1,436,393	-	-	1,436,393	1,077,347
Other	1,390,334	210,710	-	1,601,044	1,749,354
<b>Total revenues</b>	<b>22,875,615</b>	<b>8,131,553</b>	<b>11,499,073</b>	<b>42,506,241</b>	<b>41,894,346</b>
<b>Expenditures:</b>					
General government	4,991,756	-	-	4,991,756	5,354,589
Education	8,744,219	3,996,916	-	12,741,135	12,046,416
Health services	3,725,429	1,667,882	-	5,393,311	4,860,807
Economic development	1,176,272	227,296	-	1,403,568	1,270,557
Public works and utilities	545,889	1,616,496	-	2,162,385	2,787,596
Public safety	855,711	9,940	-	865,651	990,738
Transportation	1,259,207	-	-	1,259,207	1,245,865
Community affairs	233,641	372,131	-	605,772	643,468
Boards and commissions:	482,325	-	-	482,325	-
Capital projects	-	-	8,229,566	8,229,566	12,463,674
Debt service - interest	-	-	665,360	665,360	556,315
Other (note 17)	2,651,244	59,220	-	2,710,464	4,872,046
<b>Total expenditures</b>	<b>24,665,693</b>	<b>7,949,881</b>	<b>8,894,926</b>	<b>41,510,500</b>	<b>47,092,071</b>
Excess (deficiency) of revenues over (under) expenditures	(1,790,078)	181,672	2,604,147	995,741	(5,197,725)
<b>Other financing sources (uses):</b>					
Operating transfers in (note 7)	-	198,240	-	198,240	144,276
Operating transfers out (note 7)	(1,140,405)	-	(59,189)	(1,199,594)	(524,218)
Recovery of doubtful interfund receivable	-	-	-	-	113,719
Other income (expense), net	437,611	-	81,660	519,271	-
<b>Total other financing sources (uses), net</b>	<b>(702,794)</b>	<b>198,240</b>	<b>22,471</b>	<b>(482,083)</b>	<b>(266,223)</b>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(2,492,872)	379,912	2,626,618	513,658	(5,463,948)
Fund balances (deficit) at beginning of year	(10,965,668)	1,264,000	32,209,231	22,507,563	27,971,511
Fund balances (deficit) at end of year	\$ (13,458,540)	\$ 1,643,912	\$ 34,835,849	\$ 23,021,221	\$ 22,507,563

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, 1995  
(With comparative totals for the year ended September 30, 1994)

	1995 General Fund			1994 General Fund		
	Budget	Actual	Variance	Budget	Actual	Variance
<b>Revenues:</b>						
Compact of Free Association						
Section 211 and 217	\$ 16,186,176	\$ 16,410,984	\$ 224,808	\$ 15,848,964	\$ 16,186,176	\$ 337,212
FSM revenue sharing	2,863,100	2,376,027	(487,073)	2,972,487	2,501,894	(470,593)
State taxes and licenses	1,581,500	1,261,877	(319,623)	2,000,000	1,399,703	(600,297)
Investment income	2,991,800	1,436,393	(1,555,407)	1,500,000	1,077,347	(422,653)
Public service charges	1,809,975	1,390,334	(419,641)	2,050,000	1,489,960	(560,040)
	<u>25,432,551</u>	<u>22,875,615</u>	<u>(2,556,936)</u>	<u>24,371,451</u>	<u>22,655,080</u>	<u>(1,716,371)</u>
<b>Expenditures-budgetary basis:</b>						
General government	5,231,000	4,917,809	313,191	5,425,000	5,469,810	(44,810)
Health Services	3,209,498	3,662,705	(453,207)	3,122,893	3,350,313	(227,420)
Education	8,829,500	8,656,393	173,107	8,618,442	8,100,287	518,155
Economic development	1,228,500	1,179,102	49,398	1,162,100	1,119,035	43,065
Public safety	850,500	856,306	(5,806)	817,800	837,829	(20,029)
Transportation	1,236,241	1,227,236	9,005	1,271,341	1,275,375	(4,034)
Public works and utilities	508,400	505,500	2,900	1,326,700	1,239,192	87,508
Community affairs	279,500	238,868	40,632	279,100	263,004	16,096
Board and Commissions	477,648	496,724	(19,076)	458,900	502,553	(43,653)
Special programs	561,300	564,803	(3,503)	386,800	394,306	(7,506)
Legislative external appropriations	1,890,464	1,776,003	114,461	2,166,893	2,282,893	(116,000)
Other unfunded expenditures (note 19)	-	254,159	(254,159)	-	1,824,312	(1,824,312)
	<u>24,302,551</u>	<u>24,335,608</u>	<u>(33,057)</u>	<u>25,035,969</u>	<u>26,658,909</u>	<u>(1,622,940)</u>
Excess (deficiency) of revenues over (under) expenditures	1,130,000	(1,459,993)	(2,589,993)	(664,518)	(4,003,829)	(3,339,311)
<b>Other financing sources (uses):</b>						
Operating transfers out	(1,130,000)	(1,118,012)	11,988	(301,100)	(368,405)	(67,305)
Other income	-	437,611	437,611	-	113,719	113,719
	<u>(1,130,000)</u>	<u>(1,118,012)</u>	<u>11,988</u>	<u>(301,100)</u>	<u>(368,405)</u>	<u>(67,305)</u>
Deficiency of revenues and other financing sources under expenditures and other financing uses	-	(2,140,394)	(2,140,394)	(965,618)	(4,258,515)	(3,292,897)
Deficit, unreserved at beginning of year	(12,601,087)	(12,601,087)	-	(8,220,279)	(8,220,279)	-
<b>Other changes in unreserved fund balance:</b>						
(Increase) decrease in reserve for related assets	-	(866,229)	(866,229)	-	258,172	258,172
Decrease (increase) in reserve for continuing app.	-	1,649	1,649	-	(380,465)	(380,465)
	<u>(1,130,000)</u>	<u>(1,118,012)</u>	<u>11,988</u>	<u>(301,100)</u>	<u>(368,405)</u>	<u>(67,305)</u>
Deficit, unreserved at end of year	\$ <u>(12,601,087)</u>	\$ <u>(15,606,061)</u>	\$ <u>(3,004,974)</u>	\$ <u>(9,185,897)</u>	\$ <u>(12,601,087)</u>	\$ <u>(3,415,190)</u>

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, 1995  
(With comparative totals for the year ended September 30, 1994)

	Totals	
	(Memorandum Only)	
	1995	1994
Operating revenues:		
Interest income	\$ 98,479	\$ 84,517
Coconut product sales	42,062	35,898
	140,541	120,415
Operating expenses:		
Payroll and personnel	128,992	107,085
Travel	27,289	29,869
Depreciation	22,806	19,167
Cost of sales	121,102	145,596
Bad debt	157,430	65,858
Rent	7,810	10,608
Other	50,956	70,461
	516,385	448,644
Operating loss	(375,844)	(328,229)
Nonoperating revenues (expenses):		
Transfers in (note 7)	206,473	313,933
Payment to Coconut Development Authority	(5,000)	(15,000)
Federal contributions-HUD Section 8	38,306	36,926
Recovery of bad debt	38,360	33,623
Gain on sale of fixed assets	3,610	-
Interest expense	(37,796)	(19,211)
	243,953	350,271
Total nonoperating revenues (expenses), net	243,953	350,271
Net (loss) earnings	(131,891)	22,042
Retained earnings at beginning of year	366,662	344,620
Retained earnings at end of year	234,771	366,662
Contributed capital at beginning of year	1,670,266	1,670,266
Contributions (note 18)	350,000	-
Contributed capital at end of the year	2,020,266	1,670,266
Total fund equity	\$ 2,255,037	\$ 2,036,928

See accompanying notes to financial statements.

**CHUUK STATE GOVERNMENT**

Combined Statement of Cash Flows -  
All Discretely Presented Component Units  
Year Ended September 30, 1995

(With comparative totals for the year ended September 30, 1994)

	Totals	
	(Memorandum Only)	
	<u>1995</u>	<u>1994</u>
<b>Increase (Decrease) in Cash and Equivalents:</b>		
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 167,503	\$ 119,772
Cash payment to suppliers and employees	<u>(563,210)</u>	<u>(432,229)</u>
Net cash used for operating activities	<u>(395,707)</u>	<u>(312,457)</u>
<b>Cash flows from noncapital financing activities:</b>		
Chuuk State Legislature appropriations	206,473	313,933
Federal contributions	38,306	36,926
Copra subsidy	<u>(5,000)</u>	<u>(15,000)</u>
Net cash provided by noncapital financing activities	<u>239,779</u>	<u>335,859</u>
<b>Cash flows from capital and related financing activities:</b>		
Interest paid	(37,796)	(19,211)
Repayments of debt	(22,108)	(10,044)
Increase in contributed capital	<u>350,000</u>	<u>-</u>
Net cash provided by (used for) capital and related financing activities	<u>290,096</u>	<u>(29,255)</u>
<b>Cash flows from investing activities:</b>		
(Decrease) Increase in loans receivable	4,148	(274,815)
Recovery of bad debts	38,360	33,623
Aquisition of fixed assets	(32,530)	(30,064)
Gain on sale of fixed assets	<u>3,610</u>	<u>-</u>
Net cash provided by (used for) investing activities	<u>13,588</u>	<u>(271,256)</u>
Increase (decrease) in cash and equivalents	147,756	(277,109)
Cash and equivalents at beginning of year	<u>419,161</u>	<u>696,270</u>
Cash and equivalents at end of year	<u>\$ 566,917</u>	<u>\$ 419,161</u>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>		
Operating loss	\$ (375,844)	\$ (328,229)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	72,937	69,279
(Increase) in receivables	(155,323)	(15,994)
(Increase) decrease in inventories	(10,301)	14,178
(Increase) decrease in other assets	3,556	(1,702)
Increase (decrease) in accounts payable	65,694	(47,857)
Increase (decrease) in other liabilities	<u>3,574</u>	<u>(2,132)</u>
Total adjustments	<u>(19,863)</u>	<u>15,772</u>
Net cash used for operating activities	<u>\$ (395,707)</u>	<u>\$ (312,457)</u>

See accompanying notes to financial statements.

# CHUUK STATE GOVERNMENT

Notes to Financial Statements  
September 30, 1995

## (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.

#### 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.

# CHUUK STATE GOVERNMENT

Notes to Financial Statements  
September 30, 1995

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

### (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

### Development Authorities

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 Public Utilities Corporation

The accompanying general-purpose financial statements do not include the financial statements of the Chuuk State Public Utilities Corporation (a component unit). The Corporation would be reported as a discretely presented Component Unit - Proprietary Fund.

## 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).



# CHUUK STATE GOVERNMENT

Notes to Financial Statements  
September 30, 1995

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

### B. Fund Accounting and Basis of Presentation, Continued

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

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

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

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

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

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

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

# CHUUK STATE GOVERNMENT

Notes to Financial Statements  
September 30, 1995

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

### 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 1995, 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.

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.

# CHUUK STATE GOVERNMENT

Notes to Financial Statements  
September 30, 1995

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

### E. Receivables

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

### F. Loans Receivable

Loans receivable of the component units-proprietary funds 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.

### 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.

# CHUUK STATE GOVERNMENT

Notes to Financial Statements  
September 30, 1995

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

### 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 1994 general-purpose financial statements have been reclassified to conform with the 1995 presentation.

### M. Investments

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

### N. Estimates

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

## (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, 1995, the State had deposits as follows; in each situation, cost approximated market value.

# CHUUK STATE GOVERNMENT

Notes to Financial Statements  
September 30, 1995

## (2) Cash and Equivalents and Investments, Continued

### Cash Deposits, Continued

#### General Fund

Cash in checking accounts and savings account with FDIC insured banks	\$ 614,029
Cash on deposit with trustee	<u>652,282</u>
	\$ <u>1,266,311</u>

#### Special Revenue Funds

Cash in checking accounts with FDIC insured banks	\$ 118,621
Cash on deposit with trustee	<u>292,407</u>
	\$ <u>411,028</u>

#### Capital Projects Funds

Cash on deposit with Trustee	\$ <u>3,107,658</u>
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#### Component Units

Cash in checking and savings accounts with FDIC insured banks	\$ <u>566,917</u>
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### Investments

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

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

- A. Investment managers may invest in stocks, bonds and cash equivalents. Minimum standards of quality for investments at the time of purchase shall be:
1. Stocks - A "B" rating by a national rating service. Non-rated stocks such as banks or insurance companies must be equal in quality or higher.
  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.

# CHUUK STATE GOVERNMENT

Notes to Financial Statements  
September 30, 1995

(2) Cash and Equivalents and Investments, Continued

Investments, Continued

- b. Certificates of deposit must be from FDIC insured banks which must have assets in excess of two billion dollars. Deposits in smaller institutions are acceptable, but must not exceed the amount of the insurance unless collateralized by U.S. Treasury Securities at 102%.
- B. The equity portfolio shall be diversified among issues and industry classifications. No more than 25% of the equity portfolio may be invested in any single classification, as described by the Standard and Poors 500 Index, unless prior approval is received from the FSM Secretary of Finance.
- C. No investment may be made in a single corporate entity which exceeds 5% of the total assets of the fund at the time of purchase without prior approval by the FSM Secretary of Finance.

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

Funds invested on behalf of the State as of September 30, 1995, are summarized below:

	<u>Carrying Amount</u>	<u>Market Value</u>
<u>Cash on Deposit with Trustee</u>		
Cash management fund	\$ <u>3,314,298</u>	\$ <u>3,314,298</u>
<u>Investments</u>		
Equity funds	\$ <u>16,167,049</u>	\$ <u>18,250,332</u>

Cash on deposit with Trustee as of September 30, 1995 is comprised of the following:

General fund	\$ 652,282
Compact other grants fund	292,407
Compact special revenue fund	(738,049)
Compact capital project fund	<u>3,107,658</u>
	\$ <u>3,314,298</u>

# CHUUK STATE GOVERNMENT

Notes to Financial Statements  
September 30, 1995

## (2) Cash and Equivalents and Investments, Continued

### Investments, Continued

D. The State's investment income as of September 30, 1995, is summarized below:

Interest	\$1,052,737
Dividends	154,367
Realized gains	541,567
Realized losses	(100,691)
Management fees	(197,692)
Other expenses	<u>(13,895)</u>
	\$ <u>1,436,393</u>

## (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 1995.

A summary of the general fixed assets accounted for in the General Fixed Assets Account Group as of September 30, 1995, follows:

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

A summary of fixed assets accounted for in the component units-proprietary funds as of September 30, 1995, follows:

**CHUUK STATE GOVERNMENT**

Notes to Financial Statements  
September 30, 1995

(4) Fixed Assets, Continued

	Estimated Useful Lives	
Housing units	25-50 years	\$ 266,644
Equipment	7-10 years	727,699
Building	20-30 years	301,648
Automobiles	3- 5 years	44,392
Office equipment	7-10 years	37,036
Other	5-10 years	<u>19,746</u>
		1,397,165
Less accumulated depreciation		<u>(422,548)</u>
		<u>\$ 974,617</u>

(5) Notes Payable

Capital Projects Fund

The State entered into a separate agreement with a contractor for payment of prior services performed. The agreement was not executed by the Attorney General's office and some amounts due are being renegotiated. Until a mutual settlement occurs, payment will not be made. The note is to be repaid from the State's Compact 211 (a)(2) Capital Projects Fund. As of September 30, 1995, 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, 1995. 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, 1995, 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



**CHUUK STATE GOVERNMENT**

Notes to Financial Statements  
September 30, 1995

(5) Notes Payable, Continued

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.

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 Bonjenvall Holdings Ltd. Therefore the outstanding notes payable balance as of September 30, 1995, 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, 1995.

(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.

\$ 538,783

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.

\$ 17,157,231

# CHUUK STATE GOVERNMENT

Notes to Financial Statements  
September 30, 1995

(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, 1995, are as follows:

	<u>Transfer Out</u>	<u>Transfer In</u>
<b>General Fund</b>		
Transfers out to Component Units:		
Chuuk Housing Authority	\$ 86,284	\$ -
Chuuk Coconut Authority	86,000	-
Chuuk State Development Authorities	65,509	-
Chuuk State Public Utilities Corporation	<u>729,372</u>	<u>-</u>
Total transfers out to Component Units	<u>967,165</u>	<u>-</u>
Transfers out to Special Revenue Funds:		
Chuuk Visitors' Bureau	<u>173,240</u>	<u>-</u>
Total General Fund	<u>1,140,405</u>	<u>-</u>
<b>Capital Projects Fund</b>		
Transfers out to Component Units:		
Chuuk Coconut Authority	<u>34,189</u>	<u>-</u>
Transfers out to Special Revenue Funds:		
Chuuk Visitors' Bureau	<u>25,000</u>	<u>-</u>
Total Capital Projects Fund	<u>59,189</u>	<u>-</u>
Transfers in Component Units		
Chuuk Housing Authority	-	86,284
Chuuk Coconut Authority	-	120,189
Chuuk State Development Authorities	-	65,509
Chuuk State Public Utilities Corporation	<u>-</u>	<u>729,372</u>
Total transfers in Component Units	<u>-</u>	<u>1,001,354</u>
Transfers in Special Revenue Funds:		
Chuuk Visitors' Bureau	<u>-</u>	<u>198,240</u>
	<u>\$ 1,199,594</u>	<u>\$ 1,199,594</u>

(8) Interfund Assets/Liabilities

The following summarizes due from/to other funds as of September 30, 1995:

**CHUUK STATE GOVERNMENT**

Notes to Financial Statements  
September 30, 1995

<u>Fund</u>	<u>Receivable Amount</u>	<u>Payable Amount</u>
<b>Special Revenue Funds:</b>		
Chuuk Airport Authority	\$ 529,664	\$ -
Compact - Special Block Grant	1,585,239	-
Federal Grant Assistance Fund	-	1,085,749
Compact - Other Grants Fund	386,425	-
Other Grant Assistance Fund	-	22,759
CFSM Grant Fund	-	223,310
<b>Capital Projects Funds:</b>		
TTG Capital Projects Fund	-	735,612
Compact Capital Projects Fund	3,922,214	-
CFSM State Project Fund	-	91,491
General Fund	<u>-</u>	<u>4,264,621</u>
	<u>\$ 6,423,542</u>	<u>\$ 6,423,542</u>

(9) Investments - Other

During fiscal year 1993, the State purchased \$1,000,000 of common stock in the Bank of the Federated States of Micronesia. The State purchased \$250,000 of common stock in fiscal year 1990 and fiscal year 1989. This represents an interest of 16.088% as of September 30, 1995. The above investment is carried at cost since there is no method of ascertaining related market value.

\$1,500,000

During fiscal year 1991, the State purchased \$250,000 of common stock in the Pacific Islands Regional Development Bank (a 7.9% interest at September 30, 1995). The above investment is carried at cost since there is no method of ascertaining related market value.

250,000

During fiscal year 1995, the State purchased \$125,000 of common stock in a joint venture with the National Fisheries Corporation for a longline base. The State also purchased \$875,000, \$130,000 and \$370,000 of common stock in fiscal years 1994, 1993 and 1991, respectively in the same joint venture. This represents an interest of 50% as of September 30, 1995. Under the equity method of accounting, which has been adopted for Chuuk's investment in Chuuk Fresh Tuna, Incorporated (CFTI), Chuuk State's share of earnings and losses incurred by the entity have been deducted from the carrying value. Therefore, this investment is carried at its net value

1,581,660

During fiscal year 1993, the State purchased \$812,000 of common stock in the Bank of Guam, which represents a .7% interest as of September 30, 1995. The above investment is carried at cost since there is no method of ascertaining related market value.

812,000

During fiscal year 1994, the State invested \$3,160,000 for a 40% interest in Western Pacific Tuna Group (WESTPAC), a fishing joint venture. 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 as there is no method of ascertaining related market value.

3,200,000

## CHUUK STATE GOVERNMENT

Notes to Financial Statements  
September 30, 1995

(9) Investments - Other, Continued

During fiscal year 1995, Chuuk State purchased \$300,000 of common stock in the FSM Development Bank (a less than 20% interest at September 30, 1995). The above investment is carried at cost since there is no method of ascertaining related market value.

	<u>300,000</u>
Total other investments	\$ <u>7,643,660</u>

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 WESTPAC for its interest in the partnership, there is no impact on appropriable fund balance reserves due to the aforementioned related asset designation.

(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, 1995, and for the year then ended:

	<u>Chuuk Coconut Authority</u>	<u>Chuuk Housing Authority</u>
Total assets	\$ <u>1,017,087</u>	\$ <u>2,094,517</u>
Total equity	\$ <u>296,113</u>	\$ <u>1,958,924</u>
Net fixed assets	\$ <u>794,728</u>	\$ <u>179,889</u>
FY95 operating loss	\$ <u>(153,284)</u>	\$ <u>(222,560)</u>
FY95 net loss	\$ <u>(71,493)</u>	\$ <u>(60,398)</u>
FY95 operating revenues	\$ <u>42,062</u>	\$ <u>98,479</u>
FY95 operating transfers in	\$ <u>120,189</u>	\$ <u>86,284</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, \$8,876,238 in cumulative questioned costs exist for the operation of fiscal years 1984-1995 grants. If the grantor agencies ultimately disallow these costs or a portion thereof, the General Fund will bear responsibility for reimbursing the affected agencies. Accordingly, no provision for any liability that may result from this matter has been recorded in the accompanying general-purpose financial statements. Pursuant to Title I, Section 105 of United States Public Law 99-239 the Government of the Federated States of Micronesia (FSM) is no longer liable for debts to U.S. federal agencies arising prior to the date of the implementation of the Compact of Free Association. This matter has not yet been officially resolved with the U.S. Government.

# CHUUK STATE GOVERNMENT

Notes to Financial Statements  
September 30, 1995

## (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, 1995, was \$3,846,934.

### 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 an additional \$3,000,000 loan from the FSM Development Bank for which Chuuk State is the guarantor.

# CHUUK STATE GOVERNMENT

## Notes to Financial Statements September 30, 1995

(12) Fund Deficits

The following represents material fund deficits as of September 30, 1995. 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>9,894</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, 1995, had the following note payable:

Payable to bank, principal and interest of \$1,634, due in monthly installments maturing on January 8, 1999, at 10% per annum, collateralized by L043-A02 in Nepung, Chuuk.	\$ <u>42,658</u>
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Chuuk Coconut Processing Authority, as of September 30, 1995, 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, 1995, represents drawdowns to date on a credit facility with the Bank.	\$ <u>690,880</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 September 30,</u>	<u>Amount</u>
1996	\$ 39,852
1997	66,344
1998	47,011
1999	49,416
2000	51,944
Thereafter	<u>478,971</u>
	\$ <u>733,538</u>

**CHUUK STATE GOVERNMENT**

Notes to Financial Statements  
September 30, 1995

(14) Loans Receivable - Related Party

As of September 30, 1995, 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 second preferred mortgage over three fishing vessels 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, 1995:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>
Advances	\$ 194,470	\$ -	\$ 155,634
Receivables	777,386	75,343	-
Loans	-	-	7,000,000
Investments - other	<u>-</u>	<u>-</u>	<u>7,643,660</u>
	<u>\$ 971,856</u>	<u>\$ 75,343</u>	<u>\$ 14,799,294</u>

(16) Reserve For Doubtful Interfund Receivable

The State General Fund advanced funds to certain Special Revenue Funds in anticipation of receiving additional funding from grantor agencies. This funding has yet to materialize. The State has accordingly recognized a bad debt expense related to these advances 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:

Legislative external appropriations	\$ 2,128,697
Unfunded programs - medical referral	6,767
Special programs	<u>515,780</u>
	<u>\$ 2,651,244</u>

# CHUUK STATE GOVERNMENT

Notes to Financial Statements  
September 30, 1995

(18) Contributions

During the year ended September 30, 1995, Chuuk State Government appropriated \$350,000 from the Compact CIP Fund to finance Chuuk State Housing Authority's matching for a new housing loan fund. The loan fund will be jointly funded by Chuuk State and a U.S. federal agency. The Authority has recorded this contribution as an addition to contributed capital as of September 30, 1995.

(19) Other Unfunded Programs

Other unfunded expenditures are comprised of the following:

Typhoon Owen disaster fund	\$ 683
Bad debt expense - doubtful receivable	123,048
Notes payable - FEMA	127,870
Other	<u>2,558</u>
	<u>\$ 254,159</u>



**CHUUK STATE GOVERNMENT**

Notes to Financial Statements  
September 30, 1995

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**CHUUK STATE GOVERNMENT**

Combining Schedule of Expenditures by Account-  
 All Governmental Fund Types  
 Year Ended September 30, 1995  
 (With comparative totals for the year ended September 30, 1994)

	Governmental Fund Types			Totals (Memorandum Only)	
	General	Special Revenue	Capital Projects	1995	1994
<b>Expenditures:</b>					
Personnel	\$ 19,775,841	\$ 2,112,882	\$ 166,093	\$ 22,054,816	\$ 20,312,577
Travel	388,921	418,336	159,754	967,011	1,581,057
Contractual services	557,474	968,129	2,778,003	4,303,606	8,077,235
POL	459,900	1,544,291	12,294	2,016,485	1,861,055
Other :					
Equipment	150,346	366,915	1,645,257	2,162,518	3,184,709
Medical supplies	151,883	585,285	-	737,168	613,355
Medical referral	370,087	-	-	370,087	1,933,479
Supplies and materials	426,536	410,803	1,060,183	1,897,522	1,379,634
Scholarships	199,975	403,560	-	603,535	522,562
Official allowance	158,777	-	-	158,777	93,680
Food	227,417	663,754	1,000	892,171	1,118,196
Books	5,702	12,128	-	17,830	8,527
All others	313,346	132,258	2,046,627	2,492,231	3,274,164
Debt service-principal	127,870	-	-	127,870	-
Debt service-interest	-	-	665,360	665,360	556,315
Miscellaneous	1,351,618	331,540	360,355	2,043,513	2,575,526
<b>Total expenditures</b>	<b>\$ 24,665,693</b>	<b>\$ 7,949,881</b>	<b>\$ 8,894,926</b>	<b>\$ 41,510,500</b>	<b>\$ 47,092,071</b>

**CHUUK STATE GOVERNMENT  
GENERAL FUND**

Statement of Revenues, Expenditures by Function and Department and Changes in Deficit  
Year Ended September 30, 1995  
(With comparative totals for the year ended September 30, 1994)

	1995		1994
<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	5,170,584		4,945,776
FSM revenue sharing	2,376,027		2,501,894
State taxes and licenses:			
Cigarette tax	\$ 56,192		\$ 52,488
General sales tax	801,909		825,539
Alcohol	152,118		240,335
Hotel	134,017		128,296
Delinquent tax collections	2,928		26,509
License and fees	18,378		28,899
Other	96,335	1,261,877	97,637
			1,399,703
Other revenues:			
Hospital and utilities collections	252,974		550,136
Transportation collections	863,862		421,499
Leases	165,092		252,307
Miscellaneous	108,406	1,390,334	266,018
Investment income		1,436,393	1,489,960
			1,077,347
Total revenues		22,875,615	22,655,080
<b>Expenditures by department:</b>			
General government:			
Executive branch:			
Governor and staff	416,082		502,486
Attorney General	248,439		265,374
State Finance	244,227		286,392
ADP	77,344		86,514
Tax and revenue	100,667		103,543
Program and budget	145,144		149,476
Property and supply	159,989		145,393
Personnel	109,771		168,247
Planning	157,978		140,570
		1,659,641	1,847,995
Legislative internal operations:			
President and members	509,461		520,955
Speakers and members	1,339,859		1,273,975
Legislative committees	58,217		149,509
Legislative legal office	260,374		277,623
Legislative administration	214,048		280,566
Legislative budget office	96,856		107,693
Chief clerk	276,818		306,021
APIL	-		29,817
		2,755,633	2,946,159
Judicial operations		576,482	560,435
Total general government		4,991,756	5,354,589

**CHUUK STATE GOVERNMENT  
GENERAL FUND**

Statement of Revenues, Expenditures by Function and Department and Changes in Deficit, Continued  
Year Ended September 30, 1995  
(With comparative totals for the year ended September 30, 1994)

	1995	1994
Expenditures by department, continued:		
Education:		
Administration	383,541	377,489
Elementary	4,811,767	4,404,985
Secondary	1,705,785	1,641,894
Nutrition	1,520,810	1,156,973
Curriculum and instruction	322,316	385,191
P.R.E.L.	-	45,930
	8,744,219	8,012,462
Total education		
Health services:		
Hospital and dispensaries	\$ 2,777,478	\$ 2,450,661
Environmental health	142,832	200,694
Dental services	281,749	265,144
Medical supplies	151,883	226,578
Medical referrals	371,487	169,528
Hospital patients food	-	13,729
	3,725,429	3,326,334
Total health services		
Economic development:		
Administration	124,495	109,931
Land management	64,783	71,742
Marine resources	497,978	468,104
Agriculture	341,376	303,892
Labor	47,914	45,997
Historic preservation	24,974	23,997
Business and trades	74,752	100,862
	1,176,272	1,124,525
Total economic development		
Public works and utilities:		
Operations and maintenance	545,889	482,335
Utilities	-	814,446
Purchase of POL	-	150,023
	545,889	1,446,804
Total public works and utilities		
Public safety		
	855,711	837,711
Transportation:		
Administration	748,280	782,175
Micro Vessels	365,023	335,592
Airport	145,904	128,098
	1,259,207	1,245,865
Total transportation		

**CHUUK STATE GOVERNMENT  
GENERAL FUND**

Statement of Revenues, Expenditures by Function and Department and Changes in Deficit, Continued  
Year Ended September 30, 1995  
(With comparative totals for the year ended September 30, 1994)

	1995	1994
Expenditures by department, continued:		
Community affairs:		
Division of public affairs	\$ 103,092	\$ 129,681
Division of youth affairs	35,573	25,740
Division of information and broadcast	94,976	105,066
Total community affairs	233,641	260,487
Boards and commissions:		
Investment board	5,795	4,381
Election commission	76,539	72,723
Education board	20,663	29,134
Recreation board	53,898	18,076
Land commission	201,354	184,296
General election	39,785	750
Micro olympics	-	172,628
State constitution day	-	5,000
Re-election Tonoas municipality	-	6,686
Environmental Protection Agency	84,291	-
Total boards and commissions	482,325	493,674
Medical referrals	6,767	1,819,505
Special programs	515,780	392,506
Legislative external appropriations	2,128,697	2,155,560
Total other	2,651,244	4,367,571
Total expenditures	24,665,693	26,470,022
Deficiency of revenues under expenditures	(1,790,078)	(3,814,942)
Other financing sources (uses):		
Operating transfers out	(1,140,405)	(368,406)
Other income (expense), net	437,611	-
Recovery of doubtful interfund receivables	-	113,719
Deficiency of revenues and other financing sources under expenditures and other financing uses	(2,492,872)	(4,069,629)
Deficit at beginning of year	(10,965,668)	(6,896,039)
Deficit at end of year	\$ (13,458,540)	\$ (10,965,668)

**CHUUK STATE GOVERNMENT  
GENERAL FUND**

Statement of Revenues, Expenditures and Changes In  
Deficit - Budget and Actual, Budgetary Basis  
Year Ended September 30, 1995

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Revenues:</b>			
Compact of Free Association Section 211 and 217	\$ 16,186,176	\$ 16,410,984	\$ 224,808
FSM revenue sharing	2,863,100	2,376,027	(487,073)
State taxes and licenses	1,581,500	1,261,877	(319,623)
Investment income	2,991,800	1,436,393	(1,555,407)
Public service charges	1,809,975	1,390,334	(419,641)
	<u>25,432,551</u>	<u>22,875,615</u>	<u>(2,556,936)</u>
<b>Total revenues</b>			
<b>Expenditures - budgetary basis:</b>			
<b>General government:</b>			
<b>Executive branch:</b>			
Office of the Governor	416,400	412,884	3,516
Office of the Attorney General	255,850	255,921	(71)
State Finance	364,300	364,275	25
Budget	147,500	144,403	3,097
Supply	160,400	159,116	1,284
Personnel	118,400	108,288	10,112
Planning	157,850	156,536	1,314
Tax and Revenue	109,800	103,169	6,631
	<u>1,730,500</u>	<u>1,704,592</u>	<u>25,908</u>
<b>Total executive branch</b>			
<b>Legislative branch:</b>			
President and members	536,900	456,365	80,535
Speakers and members	1,355,300	1,265,547	89,753
Legislative committees	73,000	75,110	(2,110)
Legislative legal office	298,100	261,932	36,168
Legislative administration	247,000	212,175	34,825
Budget	105,500	95,083	10,417
Chief clerk	301,900	273,473	28,427
	<u>2,917,700</u>	<u>2,639,685</u>	<u>278,015</u>
<b>Total legislative branch</b>			
State Court	<u>582,800</u>	<u>573,532</u>	<u>9,268</u>
<b>Total general government</b>	<u>5,231,000</u>	<u>4,917,809</u>	<u>313,191</u>
<b>Health Services:</b>			
Hospitals and dispensaries	2,695,905	2,781,380	(85,475)
Environmental health	135,950	139,151	(3,201)
Dental services	273,350	280,912	(7,562)
Medical supplies	104,293	91,079	13,214
Medical referrals	-	370,183	(370,183)
	<u>3,209,498</u>	<u>3,662,705</u>	<u>(453,207)</u>
<b>Total health services</b>			
<b>Education:</b>			
Administration - education	388,200	396,758	(8,558)
Elementary	4,830,600	4,710,833	119,767
Secondary	1,733,200	1,706,755	26,445
Curriculum and instruction	328,000	322,239	5,761
Nutrition	1,549,500	1,519,808	29,692
	<u>8,829,500</u>	<u>8,656,393</u>	<u>173,107</u>
<b>Total education</b>			

**CHUUK STATE GOVERNMENT  
GENERAL FUND**

Statement of Revenues, Expenditures and Changes In  
Deficit - Budget and Actual, Budgetary Basis, Continued  
Year Ended September 30, 1995

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Economic development:</b>			
C & I administration	128,100	128,267	(167)
Land management	72,500	64,838	7,662
Marine resources	536,600	495,831	40,769
Agriculture	343,100	341,392	1,708
Labor	45,250	48,973	(3,723)
Historic Preservation	24,800	25,124	(324)
Business and trades	78,150	74,677	3,473
<b>Total economic development</b>	<u>1,228,500</u>	<u>1,179,102</u>	<u>49,398</u>
<b>Public safety</b>	<u>850,500</u>	<u>856,306</u>	<u>(5,806)</u>
<b>Transportation</b>	<u>1,236,241</u>	<u>1,227,236</u>	<u>9,005</u>
<b>Public works and utilities</b>	<u>508,400</u>	<u>505,500</u>	<u>2,900</u>
<b>Community affairs :</b>			
Public affairs	137,200	103,222	33,978
Youth affairs	36,600	36,931	(331)
Broadcasting	105,700	98,715	6,985
<b>Total community affairs</b>	<u>279,500</u>	<u>238,868</u>	<u>40,632</u>
<b>Boards and commissions:</b>			
Investment board	5,000	5,795	(795)
Election commission	73,900	79,288	(5,388)
Education board	25,000	26,623	(1,623)
Recreation board	49,900	53,279	(3,379)
Land commission	203,848	200,924	2,924
General Election	-	43,335	(43,335)
EPA 2-94-01	120,000	87,480	32,520
<b>Total board and commissions</b>	<u>477,648</u>	<u>496,724</u>	<u>(19,076)</u>
<b>Special programs:</b>			
Small industry	-	6,213	(6,213)
Non-Public Schools	75,000	70,946	4,054
Chuuk Peace Corps.	13,000	13,000	-
Micro Legal Services	25,000	25,000	-
4-H Youth	20,000	20,000	-
Supper dispensary	2,000	-	2,000
Home Economics Program	20,000	20,000	-
Farmer's home administration	36,300	35,354	946
COCA	50,000	50,000	-
Community resources development	20,000	20,000	-
Population census	-	8,823	(8,823)
Construction skills	-	3,579	(3,579)
Fire disaster program	10,000	1,200	8,800
ANR	20,000	20,000	-
FSQ	20,000	20,000	-
Truk scholarship fund	250,000	250,688	(688)
<b>Total special programs</b>	<u>561,300</u>	<u>564,803</u>	<u>(3,503)</u>

**CHUUK STATE GOVERNMENT  
GENERAL FUND**

Statement of Revenues, Expenditures and Changes In  
Deficit - Budget and Actual, Budgetary Basis, Continued  
Year Ended September 30, 1995

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Legislative external appropriations:			
Medical referral	-	7,603	(7,603)
COLA	-	(233)	233
Municipalities and election districts	<u>1,890,464</u>	<u>1,768,633</u>	<u>121,831</u>
Total legislative external appropriations	<u>1,890,464</u>	<u>1,776,003</u>	<u>114,461</u>
Unfunded expenditures:			
Typhoon Owen disaster fund	-	683	(683)
Other unfunded expenditures	<u>-</u>	<u>253,476</u>	<u>(253,476)</u>
Total unfunded expenditures	<u>-</u>	<u>254,159</u>	<u>(254,159)</u>
Total expenditures-budgetary basis	<u>24,302,551</u>	<u>24,335,608</u>	<u>(33,057)</u>
Excess (deficiency) of revenues over (under) expenditures	1,130,000	(1,459,993)	(2,589,993)
Other financing sources (uses):			
Other	-	437,611	437,611
Operating transfers out	<u>(1,130,000)</u>	<u>(1,118,012)</u>	<u>11,988</u>
Deficiency of revenues and other financing sources under expenditures and other financing uses	-	(2,140,394)	(2,140,394)
Deficit at beginning of year	(12,601,087)	(12,601,087)	-
Other changes in unreserved fund balance:			
Increase in reserve for related assets	-	(866,229)	(866,229)
Decrease in reserve for continuing appropriations	<u>-</u>	<u>1,649</u>	<u>1,649</u>
Deficit at end of year	<u>\$ (12,601,087)</u>	<u>\$ (15,606,061)</u>	<u>\$ (3,004,974)</u>



## CHUUK STATE GOVERNMENT

### Special Revenue Funds September 30, 1995

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, 1995, follows:

#### Chuuk Visitors' Bureau

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

#### Chuuk Airport Authority

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

#### Federal Grant Assistance Fund

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

#### Other Grant Assistance Fund

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

#### CFSM Grant Fund

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

#### Compact Other Grants Fund:

##### Compact Section 212 - Special Development Assistance Fund

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

##### Compact 214(c) - Energy Grant Fund

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

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

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

##### Compact Section 216(a)(3)

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

##### Compact 221 (b) Special Block Grant Fund

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

**CHUUK STATE GOVERNMENT  
SPECIAL REVENUE FUNDS**

Combining Balance Sheet  
September 30, 1995  
(With comparative totals as of September 30, 1994)

ASSETS	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	
								1995	1994
Cash and equivalents	\$ -	\$ -	\$ 118,621	\$ -	\$ -	\$ 292,407	\$ -	\$ 411,028	\$ 188,609
Receivables:									
General, net	38,069	-	1,900	-	-	-	-	39,969	1,900
FSM National Gov't.	-	-	2,139,523	21,928	73,443	136,792	907,167	3,278,853	2,263,306
Federal agencies, direct	-	-	555,175	-	-	-	-	555,175	585,176
Due from other funds	-	529,664	-	-	-	386,425	1,585,239	2,501,328	2,364,862
Advances	-	-	116,987	831	12,983	10,352	10,606	151,759	124,716
<b>Total assets</b>	<b>\$ 38,069</b>	<b>\$ 529,664</b>	<b>\$ 2,932,206</b>	<b>\$ 22,759</b>	<b>\$ 86,426</b>	<b>\$ 825,976</b>	<b>\$ 2,503,012</b>	<b>\$ 6,938,112</b>	<b>\$ 5,528,569</b>
<b>LIABILITIES AND FUND BALANCES (DEFICIT)</b>									
Liabilities:									
Bank overdraft	\$ 47,963	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 47,963	\$ 57,885
Accounts payable	-	-	1,234,031	-	260	461,667	867,986	2,563,944	1,978,618
Payable to other governments	-	-	335,106	-	-	-	738,049	1,073,155	323,008
Due to other funds	-	-	1,085,749	22,759	223,310	-	-	1,331,818	1,627,738
Accrued payroll	-	-	-	-	-	-	-	-	-
Deferred revenue	-	-	277,320	-	-	-	-	277,320	277,320
<b>Total liabilities</b>	<b>47,963</b>	<b>-</b>	<b>2,932,206</b>	<b>22,759</b>	<b>223,570</b>	<b>461,667</b>	<b>1,606,035</b>	<b>5,294,200</b>	<b>4,264,569</b>
Fund balances (deficit):									
Reserved for related assets	-	-	1,900	-	73,443	-	-	75,343	352,999
Reserved for encumbrances	-	-	1,070,951	985	21,056	261,308	362,718	1,717,018	1,005,790
Unreserved	(9,894)	529,664	(1,072,851)	(985)	(231,643)	103,001	534,259	(148,449)	(94,789)
<b>Total fund balances (deficit)</b>	<b>(9,894)</b>	<b>529,664</b>	<b>-</b>	<b>-</b>	<b>(137,144)</b>	<b>364,309</b>	<b>896,977</b>	<b>1,643,912</b>	<b>1,264,000</b>
<b>Total liabilities and fund balances (deficit)</b>	<b>\$ 38,069</b>	<b>\$ 529,664</b>	<b>\$ 2,932,206</b>	<b>\$ 22,759</b>	<b>\$ 86,426</b>	<b>\$ 825,976</b>	<b>\$ 2,503,012</b>	<b>\$ 6,938,112</b>	<b>\$ 5,528,569</b>

**CHUUK STATE GOVERNMENT  
SPECIAL REVENUE FUNDS**

Combining Statement of Revenues, Expenditures by Function and Changes in Fund Balances (Deficit)  
Year Ended September 30, 1995  
(With comparative totals for the year ended September 30, 1994)

	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	
								1995	1994
<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	-	-	-	-	-	551,908	-	551,908	527,912
Section 212-base grant	-	-	-	-	-	250,000	-	250,000	250,000
Section 216(a)3)-FSM	-	-	-	-	-	405,560	-	405,560	433,063
Federal contributions	-	-	2,572,488	-	-	-	-	2,572,488	2,235,041
Other	75,000	116,245	-	-	9,940	-	9,525	210,710	259,394
<b>Total revenues</b>	<b>75,000</b>	<b>116,245</b>	<b>2,572,488</b>	<b>-</b>	<b>9,940</b>	<b>2,618,355</b>	<b>2,739,525</b>	<b>8,131,553</b>	<b>7,846,297</b>
<b>Expenditures:</b>									
Public works and utilities	-	-	105,516	-	-	1,510,980	-	1,616,496	1,340,792
Health services	-	-	487,283	-	-	631,420	549,179	1,667,882	1,534,473
Education	-	-	1,894,566	-	-	405,560	1,696,790	3,996,916	4,033,954
Economic development	225,249	-	2,047	-	-	-	-	227,296	146,032
Community affairs	-	-	23,856	-	-	348,275	-	372,131	382,981
Public safety	-	-	-	-	9,940	-	-	9,940	153,027
Other	-	-	59,220	-	-	-	-	59,220	10,801
<b>Total expenditures</b>	<b>225,249</b>	<b>-</b>	<b>2,572,488</b>	<b>-</b>	<b>9,940</b>	<b>2,896,235</b>	<b>2,245,969</b>	<b>7,949,881</b>	<b>7,602,060</b>
Excess (deficiency) of revenues over (under) expenditures	(150,249)	116,245	-	-	-	(277,880)	493,556	181,672	244,237
<b>Other financing sources:</b>									
Operating transfers in	198,240	-	-	-	-	-	-	198,240	144,276
<b>Total other financing sources</b>	<b>198,240</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>198,240</b>	<b>144,276</b>
Excess (deficiency) of revenues and other financing sources over (under) expenditures	47,991	116,245	-	-	-	(277,880)	493,556	379,912	388,513
Fund balances (deficit) at beginning of year	(57,885)	413,419	-	-	(137,144)	642,189	403,421	1,264,000	875,487
<b>Fund balances (deficit) at end of year</b>	<b>\$ (9,894)</b>	<b>\$ 529,664</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (137,144)</b>	<b>\$ 364,309</b>	<b>\$ 896,977</b>	<b>\$ 1,643,912</b>	<b>\$ 1,264,000</b>

**CHUUK STATE GOVERNMENT  
SPECIAL REVENUE FUNDS**

Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balances (Deficit)  
Year Ended September 30, 1995  
(With comparative totals for the year ended September 30, 1994)

	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	
								1995	1994
<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	-	-	-	-	-	551,908	-	551,908	527,912
Section 212-base grant	-	-	-	-	-	250,000	-	250,000	250,000
Section 216(a)(3)-FSM	-	-	-	-	-	405,560	-	405,560	433,063
Federal contributions	-	-	2,572,488	-	-	-	-	2,572,488	2,235,041
Other	75,000	116,245	-	-	9,940	-	9,525	210,710	259,394
<b>Total revenues</b>	<b>75,000</b>	<b>116,245</b>	<b>2,572,488</b>	<b>-</b>	<b>9,940</b>	<b>2,618,355</b>	<b>2,739,525</b>	<b>8,131,553</b>	<b>7,846,297</b>
<b>Expenditures:</b>									
Personnel	79,271	-	718,989	-	-	-	1,314,622	2,112,882	1,725,026
Travel	34,506	-	308,778	-	7,535	46,400	21,117	418,336	408,710
Contractual services	32,527	-	464,342	-	-	337,639	133,621	968,129	1,263,544
POL	958	-	31,528	-	-	1,510,980	825	1,544,291	1,201,078
Other :									
Equipment	-	-	298,309	-	-	68,606	-	366,915	498,214
Medical supplies	-	-	2,070	-	-	357,799	225,416	585,285	282,192
Supplies and materials	14,832	-	386,937	-	-	5,561	3,473	410,803	300,607
Scholarships	-	-	-	-	-	403,560	-	403,560	433,063
Food	-	-	-	-	-	130,511	533,243	663,754	1,069,188
Books	-	-	12,128	-	-	-	-	12,128	4,701
All others	63,155	-	40,367	-	2,405	12,679	13,652	132,258	223,889
Miscellaneous	-	-	309,040	-	-	22,500	-	331,540	191,848
<b>Total expenditures</b>	<b>225,249</b>	<b>-</b>	<b>2,572,488</b>	<b>-</b>	<b>9,940</b>	<b>2,896,235</b>	<b>2,245,969</b>	<b>7,949,881</b>	<b>7,602,060</b>
Excess (deficiency) of revenues over (under) expenditures	(150,249)	116,245	-	-	-	(277,880)	493,556	181,672	244,237
<b>Other financing sources:</b>									
Operating transfers in	198,240	-	-	-	-	-	-	198,240	144,276
<b>Total other financing sources</b>	<b>198,240</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>198,240</b>	<b>144,276</b>
Excess (deficiency) of revenues and other financing sources over (under) expenditures	47,991	116,245	-	-	-	(277,880)	493,556	379,912	388,513
Fund balances (deficit) at beginning of year	(57,885)	413,419	-	-	(137,144)	642,189	403,421	1,264,000	875,487
Fund balances (deficit) at end of year	\$ (9,894)	\$ 529,664	\$ -	\$ -	\$ (137,144)	\$ 364,309	\$ 896,977	\$ 1,643,912	\$ 1,264,000

## CHUUK STATE GOVERNMENT

Capital Projects Funds  
September 30, 1995

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, 1995, 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, 1995  
(With comparative totals as of September 30, 1994)

<u>Assets</u>	TTG Capital Projects	CFSM State Projects	Compact 211(a)(2) Capital Projects	<u>Totals</u>	
				1995	1994
Cash and equivalents	\$ -	\$ -	\$ 3,107,658	\$ 3,107,658	\$ 958,667
Investments	-	-	15,051,146	15,051,146	15,051,146
Investments - other	-	-	7,643,660	7,643,660	7,137,000
Receivable from:					
Dept. of the Interior grants - TTG	642,978	-	-	642,978	956,623
FSM National Government	-	93,081	-	93,081	224,498
Prepaid expenses	-	-	24,831	24,831	24,831
Advances	11,841	-	155,634	167,475	161,868
Loans receivable, other	-	-	7,000,000	7,000,000	7,000,000
Due from other funds	-	-	3,922,214	3,922,214	4,097,788
<b>Total assets</b>	<b>\$ 654,819</b>	<b>\$ 93,081</b>	<b>\$ 36,905,143</b>	<b>\$ 37,653,043</b>	<b>\$ 35,612,421</b>
 <u>Liabilities and Fund Balances (Deficit)</u>					
<b>Liabilities:</b>					
Notes payable	\$ -	\$ -	\$ 329,179	\$ 329,179	\$ 329,179
Accounts payable	14,268	1,590	1,645,054	1,660,912	1,801,756
Due to other funds	735,612	91,491	-	827,103	1,272,255
<b>Total liabilities</b>	<b>749,880</b>	<b>93,081</b>	<b>1,974,233</b>	<b>2,817,194</b>	<b>3,403,190</b>
<b>Fund balances (deficit):</b>					
Reserved for:					
Related assets	-	-	14,799,294	14,799,294	14,161,831
Encumbrances	13,313	-	3,548,927	3,562,240	4,873,022
Continuing appropriations	-	-	17,157,231	17,157,231	22,774,898
Unreserved	(108,374)	-	(574,542)	(682,916)	(9,600,520)
<b>Total fund balances (deficit)</b>	<b>(95,061)</b>	<b>-</b>	<b>34,930,910</b>	<b>34,835,849</b>	<b>32,209,231</b>
<b>Total liabilities and fund balances (deficit)</b>	<b>\$ 654,819</b>	<b>\$ 93,081</b>	<b>\$ 36,905,143</b>	<b>\$ 37,653,043</b>	<b>\$ 35,612,421</b>

**CHUUK STATE GOVERNMENT  
CAPITAL PROJECTS FUNDS**

Combining Statement of Revenues, Expenditures by Function And Changes in Fund Balances (Deficit)  
Year Ended September 30, 1995  
(With comparative totals for the year ended September 30, 1994)

	TTG Capital Projects	CFSM State Projects	Compact 211(a)(2) Capital Projects	Totals	
				1995	1994
<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	-	-	3,603,456	3,603,456	3,446,774
U.S. Department of the Interior grants	61,927	-	-	61,927	111,754
Other federal contributions	-	90	-	90	841
<b>Total revenues</b>	<b>61,927</b>	<b>90</b>	<b>11,437,056</b>	<b>11,499,073</b>	<b>11,392,969</b>
<b>Expenditures:</b>					
Capital projects	61,927	90	8,167,549	8,229,566	12,463,674
Debt service-interest	-	-	665,360	665,360	556,315
<b>Total expenditures</b>	<b>61,927</b>	<b>90</b>	<b>8,832,909</b>	<b>8,894,926</b>	<b>13,019,989</b>
Excess (deficiency) of revenues over (under) expenditures	-	-	2,604,147	2,604,147	(1,627,020)
<b>Other financing sources (uses):</b>					
Other income	-	-	81,660	81,660	-
Operating transfers out	-	-	(59,189)	(59,189)	(155,812)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	-	-	2,626,618	2,626,618	(1,782,832)
Fund balances (deficit) at beginning of year	(95,061)	-	32,304,292	32,209,231	33,992,063
Fund balances (deficit) at end of year	<u>\$ (95,061)</u>	<u>\$ -</u>	<u>\$ 34,930,910</u>	<u>\$ 34,835,849</u>	<u>\$ 32,209,231</u>

**CHUUK STATE GOVERNMENT  
CAPITAL PROJECTS FUNDS**

Combining Statement of Revenues, Expenditures by Account And Changes in Fund Balances (Deficit)  
Year Ended September 30, 1995  
(With comparative totals for the year ended September 30, 1994)

	TTG Capital Projects	CFSM State Projects	Compact 211(a)(2) Capital Projects	Totals	
				1995	1994
<b>Revenues:</b>					
U.S. Compact of Free Association:					
Section 211 (a)(2) - base grant					
Section 217 - inflation adjustment	\$ -	\$ -	\$ 7,833,600	\$ 7,833,600	\$ 7,833,600
U.S. Department of the Interior grants	-	-	3,603,456	3,603,456	3,446,774
Other federal contributions	61,927	-	-	61,927	111,754
	-	90	-	90	841
<b>Total revenues</b>	<u>61,927</u>	<u>90</u>	<u>11,437,056</u>	<u>11,499,073</u>	<u>11,392,969</u>
<b>Expenditures:</b>					
Personnel					
Travel	14,815	-	151,278	166,093	254,439
Contractual services	-	-	159,754	159,754	275,600
POL	38,043	-	2,739,960	2,778,003	6,018,941
Other:	-	-	12,294	12,294	36,024
Equipment	-	-	1,645,257	1,645,257	2,395,308
Supplies and materials	-	-	1,060,183	1,060,183	554,687
All others	9,069	90	2,037,468	2,046,627	1,541,006
Food	-	-	1,000	1,000	8,273
Debt service-interest	-	-	665,360	665,360	556,315
Miscellaneous	-	-	360,355	360,355	1,379,396
<b>Total expenditures</b>	<u>61,927</u>	<u>90</u>	<u>8,832,909</u>	<u>8,894,926</u>	<u>13,019,989</u>
Excess (deficiency) of revenues over (under) expenditures	-	-	2,604,147	2,604,147	(1,627,020)
<b>Other financing sources (uses) :</b>					
Other income	-	-	81,660	81,660	-
Operating transfers out	-	-	(59,189)	(59,189)	(155,812)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	-	-	2,626,618	2,626,618	(1,782,832)
Fund balances (deficit) at beginning of year	(95,061)	-	32,304,292	32,209,231	33,992,063
Fund balances (deficit) at end of year	<u>\$ (95,061)</u>	<u>\$ -</u>	<u>\$ 34,930,910</u>	<u>\$ 34,835,849</u>	<u>\$ 32,209,231</u>



## **CHUUK STATE GOVERNMENT**

Component Units-Proprietary Funds  
September 30, 1995

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, 1995, 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, 1995  
(With comparative totals as of September 30, 1994)

<u>ASSETS</u>	<u>Chuuk Housing Authority</u>	<u>Chuuk Coconut Authority</u>	<u>Totals (Memorandum Only)</u>	
			<u>1995</u>	<u>1994</u>
Cash and equivalents	\$ 525,314	\$ 41,603	\$ 566,917	\$ 419,161
Receivables from other governments	184,441	92,799	277,240	132,958
General receivables, net of allowance for doubtful accounts for \$21,835	-	3,649	3,649	9,087
Loans receivables, net of allowance for doubtful accounts of \$630,795	1,155,003	-	1,155,003	1,159,151
Other assets	49,870	11,523	61,393	48,470
Inventories	-	72,785	72,785	62,484
Fixed assets, net	179,889	794,728	974,617	1,015,024
Total assets	\$ 2,094,517	\$ 1,017,087	\$ 3,111,604	\$ 2,846,335
<u>Liabilities and Fund Equity</u>				
Liabilities:				
Accounts payable	\$ 92,935	\$ 19,435	\$ 112,370	\$ 46,676
Accrued payroll and others	-	10,659	10,659	7,085
Notes payable	42,658	690,880	733,538	755,646
Total liabilities	135,593	720,974	856,567	809,407
Fund equity:				
Contributed capital	1,567,431	452,835	2,020,266	1,670,266
Retained earnings (deficit)	391,493	(156,722)	234,771	366,662
Total fund equity	1,958,924	296,113	2,255,037	2,036,928
Total liabilities and fund equity	\$ 2,094,517	\$ 1,017,087	\$ 3,111,604	\$ 2,846,335

**CHUUK STATE GOVERNMENT  
COMPONENT UNITS-PROPRIETARY FUNDS**

Combining Statement of Revenues, Expenses and Changes in Fund Equity  
Year Ended September 30, 1995  
(With comparative totals for the year ended September 30, 1994)

	Chuuk Housing Authority	Chuuk Coconut Authority	Totals (Memorandum Only)	
			1995	1994
Operating revenues:				
Interest income	\$ 98,479	\$ -	\$ 98,479	\$ 84,517
Coconut product sales	-	42,062	42,062	35,898
Total operating revenues	98,479	42,062	140,541	120,415
Operating expenses:				
Payroll and personnel	106,678	22,314	128,992	107,085
Travel	19,910	7,379	27,289	29,869
Depreciation	18,829	3,977	22,806	19,167
Cost of sales	-	121,102	121,102	145,596
Bad debt	145,886	11,544	157,430	65,858
Rent	1,210	6,600	7,810	10,608
Other	28,526	22,430	50,956	70,461
Total operating expenses	321,039	195,346	516,385	448,644
Operating loss	(222,560)	(153,284)	(375,844)	(328,229)
Nonoperating revenues (expenses) :				
Transfers in	86,284	120,189	206,473	313,933
Payment to Coconut Development Authority	-	(5,000)	(5,000)	(15,000)
Federal contributions-HUD Section 8	38,306	-	38,306	36,926
Recovery of bad debt	38,360	-	38,360	33,623
Gain on sale of fixed assets	3,610	-	3,610	-
Interest expense	(4,398)	(33,398)	(37,796)	(19,211)
Total nonoperating revenues (expenses), net	162,162	81,791	243,953	350,271
Net earnings (loss)	(60,398)	(71,493)	(131,891)	22,042
Retained earnings (deficit) at beginning of year	451,891	(85,229)	366,662	344,620
Retained earnings (deficit) at end of year	391,493	(156,722)	234,771	366,662
Contributed capital at beginning of year	1,217,431	452,835	1,670,266	1,670,266
Contributions	350,000	-	350,000	-
Contributed capital at end of year	1,567,431	452,835	2,020,266	1,670,266
Total fund equity	\$ 1,958,924	\$ 296,113	\$ 2,255,037	\$ 2,036,928

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

**INDEPENDENT AUDITORS' REPORTS ON COMPLIANCE  
WITH LAWS AND REGULATIONS**

**YEAR ENDED SEPTEMBER 30, 1995**



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
BASED ON THE AUDIT OF GENERAL-PURPOSE FINANCIAL STATEMENTS**

Honorable Marcelino Umwech  
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, 1995, and have issued our report thereon dated March 18, 1996. 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 State's eleven development authorities and the Chuuk State Public Utilities Corporation, our inability to obtain audited financial statements from investees of the State of Chuuk supporting investments recorded in the Governmental Fund Type - Capital Projects Funds, our inability to determine the propriety of inventory of the Component Units - Proprietary Funds and the noninclusion of a potential Component Unit - Governmental Fund.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the State of Chuuk is the responsibility of Chuuk State management. As part of obtaining reasonable assurance about whether the general-purpose financial statements are free of material misstatement, we performed tests of Chuuk State's compliance with certain provisions of laws, regulations, contracts, and grants. However, 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.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

However, we noted certain immaterial instances of noncompliance that we have reported to the management of the State of Chuuk, which are described in the accompanying Schedule of Findings and Questioned Costs (pages 79 through 92) in Federal Findings 1 through 7 and Local Findings 1 through 6.

We also noted matters including compliance with laws and regulations related to federal financial assistance which we reported to the State of Chuuk's management in our reports dated March 18, 1996 on compliance related to federal financial assistance programs.

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.

*Deloitte + Touche LLP*

March 18, 1996



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

Honorable Marcelino Umwech  
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, 1995, and have issued our report thereon dated March 18, 1996. 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 State's eleven development authorities and the Chuuk State Public Utilities Corporation, our inability to obtain audited financial statements from investees of the State of Chuuk supporting investments recorded in the Governmental Fund Type - Capital Projects Funds, our inability to determine the propriety of inventory of the Component Units - Proprietary Funds and the noninclusion of a potential Component Unit - Governmental Fund.

We have also audited the State of Chuuk's compliance with the requirements governing types of services allowed or unallowed; eligibility; reporting; claims for advances and reimbursements; and special tests and provisions related to the Compact of Free Association that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance (pages 59 through 75), for the year ended September 30, 1995. The management of the State of Chuuk is responsible for Chuuk State's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

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

The results of our procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying Schedule of Findings and Questioned Costs (pages 79 through 92) in Federal Findings 1 through 7. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the State of Chuuk complied, in all material respects, with the requirements governing; types of services allowed or unallowed; eligibility; reporting; claims for advances and reimbursements; and special tests and provisions related to the Compact of Free Association that are applicable to each of its major federal financial assistance programs for the year ended September 30, 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.

*Deloitte + Tache LLP*

March 18, 1996





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

Honorable Marcelino Umwech  
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, 1995, and have issued our report thereon dated March 18, 1996. 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 State's eleven development authorities and the Chuuk State Public Utilities Corporation, our inability to obtain audited financial statements from investees of the State of Chuuk supporting investments recorded in the Governmental Fund Type - Capital Projects Funds, our inability to determine the propriety of inventory of the Component Units - Proprietary Funds and the noninclusion of a potential Component Unit - Governmental Fund.

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 59 through 75), for the year ended September 30, 1995: cash management, federal financial reports, allowable costs/cost principles, Drug-Free Workplace Act, and administrative requirements.

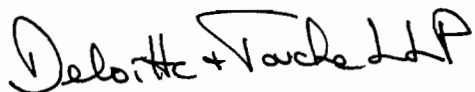
The requirements of political activity, Davis-Bacon Act, civil rights and relocation assistance and real property acquisition are not applicable to the federal financial assistance programs of the State of Chuuk, which are identified in the Schedule of Federal Financial Assistance.

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.

With respect to items tested, the results of those procedures disclosed no material instances of noncompliance with requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the State of Chuuk had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed one immaterial instance of noncompliance with those requirements, which is described in the accompanying Schedule of Findings and Questioned Costs (pages 79 through 92) in Federal Finding 6.

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 that we reported to the State of Chuuk's management in our report dated March 18, 1996

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 LLP". The signature is written in a cursive, flowing style.

March 18, 1996



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

Honorable Marcelino Umwech  
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, 1995, and have issued our report thereon dated March 18, 1996. 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 State's eleven development authorities and the Chuuk State Public Utilities Corporation, our inability to obtain audited financial statements for investees of the State of Chuuk supporting investments recorded in the Governmental Fund Type - Capital Projects Funds, our inability to determine the propriety of inventory of the Component Units - Proprietary Funds and the noninclusion of a potential Component Unit - Governmental Fund. 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 March 18, 1996.

In connection with our audit of the 1995 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, 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, 1995.

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; and reporting that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on Chuuk State's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the State of Chuuk had not complied, in all material respects, with those requirements.

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.

*Deloitte & Touche LLP*

March 18, 1996



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

Honorable Marcelino Umwech  
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, 1995, and have issued our report thereon dated March 18, 1996. 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 State's eleven development authorities and the Chuuk State Public Utilities Corporation, 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 Funds, our inability to determine the propriety of inventory of the Component Units - Proprietary Funds and the noninclusion of a potential Component Unit - Governmental Fund. We have also audited the State of Chuuk's compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated March 18, 1996.

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, 1995, 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 March 18, 1996.

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

- Compact of Free Association
- Types of services allowed or unallowed
- Eligibility
- Reporting

#### Claims for Advances and Reimbursements

#### Accounting Controls

- Revenue and receipt cycle
- Purchases and disbursement cycle
- Payroll and personnel cycle
- External financial reporting
- Cash and equivalents
- Receivables
- Fixed assets
- Payables and accrued liabilities

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, 1995, Chuuk State expended 88% of its total federal financial assistance under three 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 three major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance (pages 59 through 75). 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 79 through 92), in Federal Findings 1 through 7 and Local Findings 1 and 6, involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the 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. However, we believe none of the reportable conditions described above is a material weakness.

We also noted matters involving the internal control structure and its operation based on our audit of the general-purpose financial statements that we reported to management of the State of Chuuk, in a report dated March 18, 1996.

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.

*Deloitte + Touche LLP*

March 18, 1996

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

Honorable Marcelino Umwech  
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, 1995, and have issued our report thereon dated March 18, 1996. 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 State's eleven development authorities and the Chuuk State Public Utilities Corporation, our inability to obtain audited financial statements from investees of the State of Chuuk supporting investments recorded in the Governmental Fund Type - Capital Projects Fund, our inability to determine the propriety of inventory of the Component Units - Proprietary Funds and the noninclusion of a potential Component Unit - Governmental Fund. There 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 conducted 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 59 through 75) for the year ended September 30, 1995, 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 stated in all material respects when considered in relation to the general-purpose financial statements taken as a whole.

This report is intended for the information of the 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.

*Deloitte + Tatchell LLP*

March 18, 1996



**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Federal Financial Assistance  
FSM Federal Assistance Fund  
Year Ended September 30, 1995

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

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1995 Fiscal Year Expenditures
<u>U.S. Department of Agriculture</u>			
FY94 Forestry Project	7714	10.664	\$ 2,047
FY94 Fire Prevention	7895	10.664	1,530
			<u>\$ 3,577</u>
<u>U.S. Department of Education</u>			
PREL "Umbrella" Project	3803	84.256	\$ 193,426
FY95 PREL "Umbrella" Project	3804	84.256	191,825
Vocational Education Program	3805	84.027	56,686
FY95 Special Education Program	7729	84.027	68,847
FY93 Special Education Program	7732	84.027	19,477
FY94 Special Education Program	7743	84.027	755,058
FY93 Teacher Training Program	7746	84.124	417
FY94 Teacher Training	7724	84.124	59,592
			<u>\$ 1,345,328</u>
<u>U.S. Department of Health and Human Services</u>			
FY94 Preventive Health	7354	93.991	\$ 1,800
FY94 Tuberculosis Control	7363	93.116	1,918
FY95 Family Planning	7365	93.217	37,157
FY94 Substance Abuse Prevention & Treatment	7378	93.959	104,135
FY94 Diabetes Program	7384	93.988	18,974
FY94 Sapt/Siis Municipal	7385	93.959	17,758
FY95 State System Dev. Ini.	7388	93.110	9,382
FY95 Immunization Program	7394	93.268	55,386
FY96 Family Planning	7438	93.217	8,916
FY95 Aids Prevention	7441	93.940	10,581
FY95 MCH Program	7445	93.994	14,074
FY95 Tuberculosis & Aids	7448	93.116	15,291
FY93 MCH Program	7454	93.994	13,461
FY93 Substance Abuse Prevention & Treatment	7473	93.959	5,116
FY94 State System Dev. Ini.	7483	93.110	2,409
FY94 MCH Program	7489	93.994	84,459
FY94 Immunization Program	7494	93.268	(448)
			<u>\$ 400,369</u>
<u>U.S. Department of Transportation - Federal Aviation Administration</u>			
Chuuk International Airport	N/A	20.106	\$ 4,637
<u>U.S. Environmental Protection Agency</u>			
Truk Rural Sanitation Program	7576	66.418	\$ 486
Truk House Sewer Connection	7580	66.418	15,792
			<u>\$ 16,278</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, 1995

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

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1995 Fiscal Year Expenditures
<u>U.S. Department of the Interior</u>			
FY93 Historic Preservation	7303	15.904	\$ 1,835
FY94 Historic Preservation	7326	15.904	20,491
Road & Health Dispensary Repair	7893	15.875	54,190
Department of Education O & M	7894	15.875	6,095
Water and Sewer O & M	7895	15.875	24,317
Public Utilities Corporation	7316	15.875	12,683
Total U.S. Department of the Interior			\$ 119,611
<u>U.S. Department of Labor</u>			
FY93 JTPA Administration	3430	17.250	\$ 800
FY93 JTPA Adult Program	3431	17.250	4,500
FY93 JTPA Participant Support	3433	17.250	2,112
FY93 JTPA/Education Coord.	3434	17.250	16,316
FY93 JTPA Elderly Program	3435	17.250	15,000
FY94 JTPA Administration	3440	17.250	160,378
FY94 JTPA Adult Program	3441	17.250	245,208
FY94 JTPA Youth Program	3442	17.250	51,550
FY94 JTPA/Technical Assistance	3446	17.250	25,994
Total U.S. Department of Labor			\$ 521,858
<u>Federal Emergency Management Agency</u>			
Typhoon Owen Public Assistance	3820	83.516	\$ 59,220
Hazard Mitigation Broadcast	3854	17.250	70,474
Total Federal Emergency Management Agency			\$ 129,694
<u>Other Grants</u>			
P.R.E.L. Vocational Educ. Imprv. Prog.	3801	84.994S	\$ 8,612
School V & D Programs	3802	N/A	9,507
FY95 School Visions	3806	N/A	11,689
Family Food Nutrition Project		UNICEF	1,328
Total Other U.S. Grants			\$ 31,136
Total Federal Financial Assistance Fund			\$ 2,572,488

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, 1995

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

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1995 Fiscal Year Expenditures
Chuuk Airport Project	6661	15.875	\$ 9,069
Moen Power Generation	6283	15.875	38,043
Chuuk Sanitary Facility	6366	15.875	14,815
Total TTPI Capital Projects Fund			\$ <u>61,927</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, 1995

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

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1995 Fiscal Year Expenditures
FSM ConCon	4910	N/A	\$ 750
Chuuk Joint Law Enforcement	9437	N/A	9,190
Total CFSM Special Revenue Fund			\$ 9,940

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, 1995

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1995 Fiscal Year Expenditures
<u>Section 211 (A)(2)</u>			
Uman Mwanukun F. Proj.	6016	15.875	\$ 239
Newotes (Weno) S. Hall	6017	15.875	194
Chuuk State Hospital Renov.	6019	15.875	671
Chuuk State Rad. & Tel. Brod.	6027	15.875	29,508
Mech. Weno/P. Bldg. Renov.	6029	15.875	1,000
Wonei Sapitiw Water Catchment	6030	15.875	1,498
Chuuk High School Fac. Upgrade	6033	15.875	5,095
Polle (Tonoas) Youth Center	6043	15.875	5,018
Etten/Nechap Youth Center	6044	15.875	31
Lukunoch M/Cargo Pick-up	6045	15.875	15,000
Tonoas Road Upgrade	6048	15.875	20,261
Tonoas Power Generator	6050	15.875	49,782
N. Nanom Econ. & Soc. Dev.	6055	15.875	10,000
Houk Housing Proj.	6059	15.875	29,633
Elin & Sangku Farming Sup. Restoration Program	6060	15.875	6,597
Onoun Fishing Cooperative	6141	15.875	170
Sewer System FY88	6142	15.875	32
Garment Industry	6150	15.875	5,377
Magur Coop. Association	6152	15.875	6,918
Moch School Project	6160	15.875	277
Onary Cooperation Association	6161	15.875	57,614
Tol Rd. Supply & CIP Claims	6163	15.875	2,607
TA Municipal Land Survey	6165	15.875	(15,182)
Power Plant Generator	6172	15.875	513
Typhoon Owen Dis. Rel. Fund	6173	15.875	17,092
Romalum Office Const. & School Repair	6175	15.875	536
Nukaf (Paata) Water Project	6179	15.875	5,492
Udot Water Project	6183	15.875	808
Ufo Elementary School Project Supp.	6186	15.875	2,130
Dry Docking Micro Field	6189	15.875	1,470
Udot Water Project	6191	15.875	(76,869)
Etiamar Dock Repair	6199	15.875	704
Weno Primary Road	6207	15.875	2,850
Wichap Community Building	6218	15.875	9,246
Mechitiw Water Project	6222	15.875	68
Iras Fishing Proj.	6225	15.875	311
Romalum Village Off. Const.	6230	15.875	108
Tanuk Water Project	6231	15.875	9,163
Foupo Dsp. & Water Catchment	6233	15.875	287
Tanuk Water Project	6235	15.875	1,958
Tunnuk M. Hall & Water	6237	15.875	50
Tol Road Upgrade	6249	15.875	592
Tol Road Upgrade Sup.	6254	15.875	9,449
Eor Basketball/Water	6255	15.875	(17,838)
Nepon (Uman) Dock Improvement	6256	15.875	108
Nama Fishing Proj.	6267	15.875	3,532
Pollap Piggery Project	6270	15.875	1,983
Tol Road Project Supp.	6276	15.875	2,137
	6277	15.875	(530)
Subtotal			207,690

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, 1995

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1995 Fiscal Year Expenditures
Balance forwarded			\$ 207,690
Pisemwar Passenger Boat	6278	15.875	2,038
Losap Housing Project	6279	15.875	3,635
Losap Fishing Project	6280	15.875	6,000
Preliminary Engineering Design	6284	15.875	22,850
Tsiis Fishing Market	6288	15.875	6,223
Tsiis Fish Market	6289	15.875	12,826
Uman Fishing Proj.	6290	15.875	429
CIP Administration	6292	15.875	10,332
Tonoas Econ. Dev. Proj.	6296	15.875	3,987
Moen J.H.S. Voc. C.	6304	15.875	9,917
Neauo Administration Building	6309	15.875	808
Winikep Village Office (Wonei)	6311	15.875	1,999
Kuttu Fishing Project	6314	15.875	5,395
Udot Road/Dock Upgrade	6321	15.875	5,263
Udot Road/Dock	6322	15.875	14,835
Power Generation & Distribution	6327	15.875	18,737
Tonoas Reg. Fishing	6328	15.875	130
Unanu Housing Proj.	6352	15.875	2,547
Neauo Women Garment Manufacture	6353	15.875	400
Etiamar (Patta) Village Office	6370	15.875	1,336
Fefan Pub. Road Upgrade	6375	15.875	373
Fefan Pub. Road Upgrade	6377	15.875	14,000
Fefan Pub. Road Upgrade	6378	15.875	12,023
Fanapanges School Building	6383	15.875	4,273
Typhoon Owen Disaster	6404	15.875	2,058
Extension of Health Services	6406	15.875	6,600
Satowan Road Improvement	6422	15.875	1,783
Project Admin. Cost	6426	15.875	(2,279)
Moch School Building	6431	15.875	8,259
Sefin Seawall	6456	15.875	2,092
Tonoas Economic Development	6457	15.875	(2,451)
Nepukos Water Catchment	6489	15.875	1,948
Dublon Fisheries Complex	6490	15.875	(7,035)
Fanapanges Market Project	6500	15.875	(4,258)
EOT Mun. Social Project	6503	15.875	7,589
Puluwat Social Development Project	6505	15.875	4,916
Polle Marketing Project	6506	15.875	910
Tamatam Coop. Association	6507	15.875	1,257
Ulul Social Project	6511	15.875	24
Losap Garment Cottage Ind.	6539	15.875	23,000
Pollap Multi-purpose Center	6545	15.875	26,122
Satawan Sub-State Center	6551	15.875	3,760
Polle-Manaio Dispensary	6563	15.875	4,844
Tonoas/Nangko Road/Dock	6566	15.875	4,115
Epin Annuk Dock, Polle	6571	15.875	5,023
Project Admin. - State CIP	6573	15.875	3,433
Neirenom Dock-Polle	6575	15.875	544
Oneop Tailor-Made Factory	6593	15.875	5,148
Nechap Dock Project-Tonoas	6605	15.875	464
Subtotal			465,912

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, 1995

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1995 Fiscal Year Expenditures
Balance forwarded			\$ 465,912
Sangkumi Artisanal Fish	6611	15.875	4,058
Airport Terminal Parking	6619	15.875	6,656
Water Sys. Improv. Div.	6622	15.875	35,041
Dublon Taro Patch Development	6627	15.875	3,144
Power Generation	6638	15.875	5,580
Road Construction	6643	15.875	14,732
Fefan Municipal Office	6654	15.875	3,661
Tol Municipal Road Improvement	6668	15.875	115,990
Moch School Building Project	6670	15.875	(13,586)
Romalum Is-Wide Water Project	6671	15.875	25,500
Sewer System	6685	15.875	20,000
N. Nam P. School Renov.-Weno	6705	15.875	452
Upgrading Weno 2nd Road	6824	15.875	15,000
Ufo School Building Extension	6827	15.875	3,522
Siis Fishing Proj.	6831	15.875	(19,049)
Uman Road & Dock Major Upgrade	6833	15.875	327,122
Parem Fanipwetew Fish Market	6834	15.875	1,824
Parem Fanipwetew Fish Market	6835	15.875	156
Nepukos Wall Supp.	6836	15.875	3,269
Fono Fishing Proj.	6838	15.875	1,000
Udot Road and Dock Suppl.	6839	15.875	6,815
Houk School Cookhouse	6852	15.875	107
Pattiw J.H. School Suppl.	6854	15.875	1,482
Pollap Dispensary Project	6858	15.875	4,099
Pollap School Proj.	6859	15.875	1,421
Pollap Office Bldg. Improvement	6861	15.875	722
Tamatam Disp. Site Purchase	6862	15.875	215
MS Micro Dawn Dry Docking	6866	15.875	10,000
Fefan Social Development	6867	15.875	308
Satowan Sub. Power & Facilities	6870	15.875	638
Mechitiw Sewing Project	6871	15.875	400
Uman Nesarau Water Project	6873	15.875	300
Namoluk Runway Construction	6874	15.875	3,128
Polle Public Building Construction	6875	15.875	2,417
Manaio (Polle) Sea Wall	6876	15.875	9,995
Polle Water Project	6877	15.875	2,049
Pollap Community Center	6884	15.875	6,869
Weno Municipal Major Social Development	6886	15.875	5,401
Tonoas Garment Man.	6892	15.875	9,847
Tonoas Garment Man.	6893	15.875	8,485
Chuuk State Mun. L. Con.	6894	15.875	1,618
Eor Sapuk Women Sewing Project	6897	15.875	6,000
Etten Farming Project	6911	15.875	722
Onoun Housing Project	6922	15.875	40,261
Subtotal			<u>1,143,283</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, 1995

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1995 Fiscal Year Expenditures
Balance forwarded			\$ 1,143,283
Eot Municipal Government Comm. Equip.	6927	15.875	5,877
Fefan Garment Manufacturing Project	6928	15.875	1,885
Onoun Housing Project	6932	15.875	990
Neauo Shoreline Project	6933	15.875	150
Chuuk Tuna Cannery	6943	15.875	(77,426)
Rad/Communication Equipment Northwest	6945	15.875	892
Sefin Fishing Proj.	6946	15.875	30
Tol Dispensary Renovation	6952	15.875	7,533
Penia Fishing Project	6955	15.875	3,484
Penia Fishing Project	6956	15.875	1,887
Penia Fishing Project	6957	15.875	1,000
Penia Fishing Project	6958	15.875	1,000
Polle Community Water	6959	15.875	4,060
Mechitiw Piggery	6962	15.875	676
Fefan Housing Project	6963	15.875	73,000
Nukanap Weno Sewing Project	6964	15.875	169
Kukku Fefan School Exp.	6965	15.875	5,555
Nomwin Fishing Development Project	6969	15.875	14,922
Nomwin Fishing Development Project	6970	15.875	7,054
Nomwin Fishing Development Project	6971	15.875	3,080
Nomwin Fishing Development Project	6972	15.875	6,920
Nomwin Fishing Development Project	6973	15.875	600
Peniesene Fishing Project	6975	15.875	1,015
Sefin Mud Retention Wall	6979	15.875	2,714
Onou Water Project	6983	15.875	4,097
Fefan Fishing Project	6984	15.875	14,700
Fefan Market Project	6985	15.875	51,831
Onou Housing Project	6989	15.875	10,861
Onou Housing Project	6990	15.875	(10,647)
Paata Coop.	6995	15.875	1,074
Onoun Housing Project	6998	15.875	44,435
Electricity & Solar Power Generator	6999	15.875	18,705
Onoun Airstrip Matching	8500	15.875	5,224
Fanapanges Fishing Project	8502	15.875	(11,000)
Chuuk Tuna Cannery	8504	15.875	402,508
Sewer System Rehabilitation	8505	15.875	243,678
Chuuk US/EDA Water Upgrade	8506	15.875	244,871
Rel. P. Works/Agriculture/Transportation	8507	15.875	58,748
Public Safety Facilities Renovation	8508	15.875	49,105
Chuuk Hospital Renovation	8510	15.875	9,118
Deep Wl. Chlor. & Upd.	8511	15.875	11,299
Water Reservoir Rehab.	8512	15.875	29,460
Road Paving Supplement	8513	15.875	20,165
Udot B. Bl. Ct. & P. Bld.	8514	15.875	2,894
Romalum Sewing Project	8515	15.875	375
Subtotal			<u>2,411,851</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, 1995

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1995 Fiscal Year Expenditures
Balance forwarded			\$ 2,411,851
Kuttu Local Market	8516	15.875	22,300
Romalum Water Co. Sp.	8518	15.875	16,740
Fongen Meeting Hall	8519	15.875	4,625
Uman Nes. Water Project	8520	15.875	638
Iras Sewing Project Sup.	8525	15.875	800
Iras Sewing Project Sup.	8526	15.875	541
Piherarh Housing Project	8533	15.875	17,434
Houk Runway Project	8534	15.875	50,000
Micro Trader Dry Docking	8535	15.875	43,313
Houk Runway Project	8536	15.875	19,294
Fuun Metaw Dry Docking	8538	15.875	31,725
Polle Public Building Con.	8539	15.875	62,121
Polle Water Project	8540	15.875	14,060
Chuuk Agriculture Development	8541	15.875	21,993
Chuuk Coconut Authority	8542	15.875	9,189
Fefan School Project Supplies	8545	15.875	3,981
Chuuk Hono. PA. Housing	8546	15.875	5,408
Nema Port Channel	8547	15.875	5,000
Nema Court and Municipal	8548	15.875	10,132
Pafeng J.H.S. Con.	8557	15.875	82,803
Fono Fishing Market Project	8561	15.875	(7,528)
Weito Island Sup. Disp.	8564	15.875	29,774
Mizpah Reconstruction & Equipment	8567	15.875	21,400
Romalum Market Supplies	8571	15.875	1,740
Fanapanges Public Building	8576	15.875	5,285
Uman Nukanap Water Supply	8577	15.875	300
Romalum Market Sup.	8579	15.875	9,060
Nepukos Sewing Project	8582	15.875	927
Neauo Market	8583	15.875	1,883
Parem Boat Building Project	8586	15.875	3,075
Moch Public Land Purchase	8587	15.875	82,518
Peniesene Public Transportation	8588	15.875	1,000
Sefin School Construciton Supplies	8590	15.875	46,375
Weno Road Supplies and Equipment	8591	15.875	5,000
S. Namon J.H.S. Fence	8592	15.875	26,235
Fefan School Rep. Sup.	8594	15.875	9,628
Fono Typhoon Shelter	8595	15.875	2,280
Nama Fishing Project	8596	15.875	294
Pollap Market	8597	15.875	8,215
Fuun Metaw Drydocking	8600	15.875	(1,294)
INS/ACT/COV	8601	15.875	24,067
Fefan SSNP Sewing	8606	15.875	9,490
Mechitiw Water Project	8607	15.875	2,743
Piararh Housing	8608	15.875	21,544
Pisemwar P. Building & Water	8609	15.875	15,114
Subtotal			<u>3,153,073</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, 1995

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1995 Fiscal Year Expenditures
Balance forwarded			\$ 3,153,073
Lukunor Runway Project	8610	15.875	5,489
Nomwin Solar Project	8612	15.875	1,800
Satowan Dock Upgrade	8613	15.875	140
Satowan Road Repair Survey	8614	15.875	6,240
Udot Water Project Sup.	8617	15.875	78,477
Wonei Fishing Project	8620	15.875	7,940
Fefan Meseiku Market	8622	15.875	5,743
Toku (Supplement)	8623	15.875	4,999
Uman Social Development Project	8625	15.875	35,327
Uman Economic Development Project	8626	15.875	10,507
Losap Housing Supply	8630	15.875	33,886
Houk Reefer Plant.	8632	15.875	5,480
Unanu Housing Project Sup.	8633	15.875	22,256
Mechitiw Sewing Project	8635	15.875	900
Fefan Nukan Market	8636	15.875	16,000
Fefan Soppo Market	8637	15.875	750
Fefan FSN Fishing Project	8638	15.875	22,900
Fefan FSN Fishing Project	8639	15.875	42,477
Tunnuk Water Project Supp.	8640	15.875	5,000
Udot Village Meeting Hall	8641	15.875	36,663
Magur Handicraft Project	8642	15.875	6,000
Magur Housing Project Supp.	8643	15.875	9,108
Nepukos School Anx. Sup.	8645	15.875	10,000
Human Resources Dev. & Training	8646	15.875	35,028
Admin. Cost/Weno	8647	15.875	4,134
Weno Building Supp.	8648	15.875	45,006
Kuttu Office Complex	8650	15.875	8,332
Kuttu Power Generator Acquisition	8651	15.875	15,258
Eot Housing Project Sup.	8652	15.875	21,550
M/S Toku Supplement	8653	15.875	5,123
Fefan Rock Crushing Plant	8655	15.875	50,000
Penta Water Supply System	8658	15.875	5,174
Piis Paneu Meeting Hall	8659	15.875	10,869
Piisemwar Fishing Development Project	8660	15.875	32,890
Tunnuk (Weno) Youth Project	8662	15.875	1,663
Kuttu Land Lease	8663	15.875	14,900
Penia (Weno) Water Project	8665	15.875	917
Fanapanges Public Land Purchase	8667	15.875	23,750
Fefan Rock Crushing Plant	8668	15.875	24,976
Oneop Road/Seawall Project	8669	15.875	729
Polle Neirenom Fishing Project	8670	15.875	17,575
Polle Malaio Fishing Project	8671	15.875	14,335
Polle Sapou Fishing Project	8672	15.875	13,575
Polle Chukram Fishing Project	8673	15.875	6,000
Losape Women Sewing Association	8676	15.875	28,500
Subtotal			<u>3,901,439</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, 1995

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1995 Fiscal Year Expenditures
Balance forwarded			\$ 3,901,439
Siis Public Meeting Hall	8677	15.875	6,927
Eot Housing Project Sup.	8678	15.875	6,792
Eot Housing Project Sup.	8679	15.875	11,658
Uman Sannuk Water Project	8680	15.875	14,112
Niare (Paata) Water Project	8681	15.875	4,011
Poukochou Water Project	8682	15.875	9,597
Sapota (Paata) Water Project	8683	15.875	6,055
Polle Chukuram Fishing Project	8684	15.875	800
Onoun Road/Runway Maintenance	8686	15.875	500
Tonoas Passenger Boat	8689	15.875	35,779
Nomwin Fishing Project	8692	15.875	14,488
Lekinioch Beauty Sup.	8694	15.875	5,000
Nomwin Fishing Project Sup.	8695	15.875	8,000
Romalum Fishing Project	8697	15.875	8,275
Paata Municipal Office Supplies	8698	15.875	8,000
Fono Fishing Project	8699	15.875	26,849
Nomwin Fishing Project	8700	15.875	35,459
Tamatam Fishing Project	8702	15.875	12,000
Hall Islands Communication Equipment	8704	15.875	13,814
Chuuk State Fire Truck	8705	15.875	60,080
Fefan Faniwo Piggery Project	8706	15.875	1,970
Tonoas Livestock Project	8707	15.875	35,557
Oneop Drydocking-IKK	8708	15.875	5,042
Oneop Drydocking-IKK	8709	15.875	9,492
Fono Municipal Office	8710	15.875	9,580
Friendly Women Sewing Association	8711	15.875	3,000
Newotes (Nepukos) Public Bl. Su.	8713	15.875	1,287
Uman Sapota Sewing Project	8714	15.875	8,004
Nukaf (Paata) Community Center	8717	15.875	13,449
Tol School Construction & Improvement	8718	15.875	72,550
Fefan Municipal Government Debts	8720	15.875	13,500
Lukunoch Copra Warehouse	8723	15.875	17,391
Tol Fishing Supplemental Project	8724	15.875	89,144
Sapuk Nukenap Fishing/Supple.	8726	15.875	3,790
Tras (Weno) Water System	8727	15.875	8,000
Paata Etiamar Fishing Project	8728	15.875	9,800
Losap (Weno) Civic Center	8730	15.875	15,000
CIP Rel. Obl. Court Judgement	8731	15.875	428,632
Road Paving Supplemental	8732	15.875	324,513
Paata Coop Supplemental	8733	15.875	7,286
Paata Fishing Project Supplemental	8734	15.875	10,000
Paata Water Project Supplemental	7835	15.875	21,313
Tol School Sites Lease	8736	15.875	70,000
Paata Housing Project	8737	15.875	50,000
Purchase of Medical Equipment	8742	15.875	374,640
Subtotal			<u>5,792,575</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, 1995

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1995 Fiscal Year Expenditures
Balance forwarded			\$ 5,792,575
Dept. of Agriculture Facilities Reconstruction	8743	15.875	69,874
Chuuk Housing Matching Fund	8744	15.875	350,000
Fefan Road Supplemental	8745	15.875	3,598
Ta Runway Rep. & Land Survey Sup.	8747	15.875	5,519
Chuuk office FSMDB Equity	8749	15.875	300,000
Satuni Pwene Economic Project	8750	15.875	49,585
Rekii Wonei Fishing Project	8751	15.875	30,000
Romalum Land Transportation	8752	15.875	13,000
Tomalum Market Land Lease	8753	15.875	10,000
Wonei Sapetiw Disp. Lease	8755	15.875	10,000
Magur Public Land Purchase	8756	15.875	29,600
Magur Public Land Purchase	8757	15.875	10,340
Fananpanges Lease (Court Judgement)	8758	15.875	30,000
Peniesene (Weno) Access Road	8759	15.875	2,030
Sefin Water Tanks Supplemental	8760	15.875	26,000
Magur Road Repair	8761	15.875	5,000
Court Judgement Fananu Municipal	8762	15.875	10,000
Mechitiw Water Supplement	8763	15.875	14,936
Magur Communication Equipment	8764	15.875	6,997
Fefan Housing Loan Fund	8766	15.875	19,487
Fefan Housing Loan Fund	8768	15.875	115,811
Fishing Project Fefan	8769	15.875	7,310
Paata Housing Project Supplemental	8771	15.875	15,000
Paata Fishing Project	8772	15.875	25,864
Paata Land Transportation	8773	15.875	5,000
Paata Community Centers Suppl.	8775	15.875	6,807
Paata Taropatch and Seawall	8776	15.875	10,000
Paata Water Project	8778	15.875	2,561
Paata Baseball Field Claim	8780	15.875	5,000
Sefin Weno Piggery Project	8781	15.875	5,000
Wonei Community Centers	8782	15.875	20,000
Moch New Boat Acquisition	8783	15.875	120,429
Magur Classroom Instructors Training	8784	15.875	12,000
Weno Housing Revolving Fund Sup.	8785	15.875	100,000
Chuuk Coconut Authority	8786	15.875	25,000
Neauo (Weno) Water Project	8789	15.875	3,439
Paata Community Centers Sup.	8790	15.875	19,417
Tol CIP Project Related Comp.	8791	15.875	20,000
Weno Economic Development Authority	8792	15.875	9,500
Tol Public Road Renovation & Beauty	8793	15.875	60,830
Tol Fishing and Trans.	8794	15.875	96,000
Neauo Village Office Site Purchase	8795	15.875	5,000
Oneop Seawall and Road Project Supp.	8797	15.875	56,139
Miss Nama	8800	15.875	6,577
Tourism	8801	15.875	25,000
Subtotal			<u>7,566,225</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, 1995

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1995 Fiscal Year Expenditures
Balance forwarded			\$ 7,566,225
Pollap Dispensary Site Purchase	8803	15.875	10,000
Pattiw Dispensary Site Purchase	8804	15.875	1,987
Weno Secondary Road Repair	8805	15.875	2,000
Saramen Chuuk Academy School	8806	15.875	15,843
Piherarh Ice Making Machine	8807	15.875	6,365
Etten Tonoas Water Project	8808	15.875	3,170
Wonip (Tol) Seawall Project	8810	15.875	1,459
Faro (Tol) Seawall Project	8811	15.875	2,865
Wonip Elementary School B. Ball Court	8813	15.875	4,992
Amwachang (Tol) Seawall Construction	8814	15.875	6,282
Fuun Metaw Drydocking	8816	15.875	35,323
Nethon Dispensary Past Use Lease	8817	15.875	5,000
Polle Youth Centers	8819	15.875	3,700
U. Mortlocks Public Building Nama	8821	15.875	13,482
Pentecost Academy School	8822	15.875	4,866
Tamatam Dispensary Project	8826	15.875	4,500
Tonoas Road Upgrade Suppl.	8829	15.875	13,043
Tonoas Power Distribution	8830	15.875	341
Romalum Water System Site	8834	15.875	10,000
Romalum Fishing Project	8835	15.875	7,030
Mortlocks J.H.S. Land	8837	15.875	100,000
Iras Project (Loan)	8840	15.875	8,307
Tonoas Heavy Equipment	8842	15.875	7,446
Wonei Fishing Project Supp.	8845	15.875	30,480
Wonei Marketing Project	8846	15.875	10,366
Lease Payment (Ufo) Fefan	8847	15.875	2,000
Fefan School Site Lease & Claim	8850	15.875	21,200
Land Lease Comp. Ta Runway	8853	15.875	57,815
Land Lease Comp. Ta Runway	8854	15.875	56,026
Land Lease Comp. Ta Runway	8855	15.875	62,721
Land Lease Comp. Ta Runway	8856	15.875	64,191
Land Lease Comp. Ta Runway	8857	15.875	55,812
Land Lease Comp. Ta Runway	8858	15.875	41,248
Land Lease Comp. Ta Runway	8859	15.875	58,820
Land Lease Comp. Ta Runway	8860	15.875	56,026
Moch Passenger Boat Acquisition	8867	15.875	87,730
Moch Passenger Boat Acquisition	8871	15.875	37,370
Moch Passenger Boat Acquisition	8880	15.875	50,000
Payment of MTN - Interest	N/A	15.875	665,360
Other	N/A	15.875	707
Total Compact of Free Association Capital Projects Fund-Section 211(A)(2)			<u>\$ 9,192,098</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, 1995

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

Audited expenditures per the general-purpose financial statements	\$ 8,832,909
Investment in common stock of the FSM Development Bank	300,000
Operating transfer out to Chuuk Coconut Authority	34,189
Operating transfer out to Chuuk Visitors' Bureau	<u>25,000</u>
Expenditures per page 71	<u>\$ 9,192,098</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 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  
Compact of Free Association-Other Grants Fund  
Year Ended September 30, 1995

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

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1995 Fiscal Year Expenditures
Section 212			
-Civic Action Team	2182	15.875	\$ 318,606
-Chuuk Participant FSM Olympics	2184	15.875	29,669
			<u>348,275</u>
Section 214-Energy			
-Energy	2780	15.875	<u>1,510,980</u>
Section 216(a)(2)			
-Health & Medical	2901	15.875	<u>631,420</u>
Section 216(a)(3)			
-Post Secondary Education	2613	15.875	<u>405,560</u>
Total Compact of Free Association-Other Grants Fund			<u>\$ 2,896,235</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.

**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, 1995

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1995 Fiscal Year Expenditures
EPA	2003	15.875	\$ 9,098
Communicable Diseases	2004	15.875	127,551
Mental Health	2005	15.875	52,220
Geriatric Health	2006	15.875	250
Medical Referral	2120	15.875	135,211
Medical Supplies	2123	15.875	224,849
Food Services	2128	15.875	533,243
Elementary Education	2129	15.875	972,167
VRS-SBG	2135	15.875	57,270
PREL Conference	2136	15.875	10,500
Secondary Education	2142	15.875	113,610
Womens Conference	2185	15.875	10,000
Total Compact of Free Association Block Grant Fund-Section 221(b)			\$ 2,245,969

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  
CFSM Capital Projects Fund  
Year Ended September 30, 1995

<u>Grantor Account Title</u>	<u>Chuuk Org. #</u>	<u>CFDA I.D. #</u>	<u>1995 Fiscal Year Expenditures</u>
Pierarh Fish. Proj.	6401	N/A	\$ <u>90</u>

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

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Federal Financial Assistance  
Year Ended September 30, 1995

(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).

D. Indirect Cost Allocation

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

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Federal Financial Assistance  
Year Ended September 30, 1995

(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 report questioned costs or material noncompliance during the year ended September 30, 1995. Chuuk Housing Authority's audit report, dated March 7, 1996, included the following Schedule of Federal Financial Assistance:

<u>Grant Title</u>	<u>Grantor Agency</u>	<u>CFDA No.</u>	<u>1995 Expenditures</u>
Section 8 Housing Assistance Program	HUD	14.156	\$ <u>38,306</u>
Total U.S. Department of Housing and Urban Development			\$ <u>38,306</u>

This funding was received in a direct capacity.

Loan Funds:

As of September 30, 1995, \$1,122,444 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, 1995, 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, 1995, \$663,354 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, 1995

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)	\$ 9,192,098
Compact of Free Association, Section 214 Energy Grant	1,510,980
Compact of Free Association, Section 216 (a)(2) Health and Medical Grant	631,420
Compact of Free Association Block Grant, Title Two, Article I, Section 221 (b)	<u>2,245,969</u>
Total CFDA #15.875	<u>13,580,467</u>

U.S. Department of Education, CFDA #84.027

Special Education Program	<u>843,382</u>
Total CFDA #84.027	<u>843,382</u>

U.S. Department of Labor, CFDA #17.250

JTPA Program	<u>521,858</u>
Total CFDA #17.250	<u>521,858</u>

Total Programs Selected for Audit	\$ <u>14,945,707</u>
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Total Federal Program Assistance Expenditures (excluding \$16,410,984 of Compact of Free Association Section 211a Current Account and related funds)	\$ <u>16,946,193</u>
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Percentage of Program Assistance Expenditures Tested	<u>88%</u>
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**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 1995

**Federal Findings**

**Program**

**Questioned  
Costs**

1. U.S. Dept. of Labor/Job Training Partnership Act/CFDA #17.250 **Criteria:** 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.

**Condition:** In fiscal year 1995, the following travel expenditures were incurred for training by JTPA. We are unable to determine if these expenditures meet JTPA program objectives. Additionally, adequate supporting documentation could not be provided for the listed transactions:

<u>ORG. NO.</u>	<u>APV NO.</u>	
3431	50627	\$ 4,500
3440	50506	3,573
3441	50125	3,000
3441	50626	4,500
3446	51231	<u>3,050</u>
		<u>18,623</u>

(The above is drawn from a sample of 25 items aggregating \$84,982 out of total program expenditures aggregating \$521,858, \$137,740 of which relates to payroll expenses).

**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.

**Effect:** The effect of the above condition is the possibility of disallowed costs.

**Recommendation:** We recommend that policies and procedures concerning source documentation be upgraded to ensure documentation for expenditures is retained and properly filed.

**Auditee Response and Corrective Action Plan:** Management concurs with this finding and will attempt to resolve this matter with the grantor agency.

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Federal Findings, Continued**

<u>Program</u>	<u>Questioned Costs</u>
2. U.S. Dept. of Labor/Job Training Partnership Act/CFDA # 17.250	

Criteria: 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.

Condition: We noted that the following training contract did not result in the participant ultimately gaining employment, therefore we are not able to determine how this cost meets program objectives:

<u>ORG. NO.</u>	<u>APV NO.</u>	
3442	952854	\$ <u>1,300</u>

(Refer sample size and universe on page 79)

Cause: 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.

Effect: The effect of the above condition is a possible liability to the grantor agency.

Recommendation: We recommend that policies and procedures concerning source documentation be upgraded to ensure documentation for expenditures is retained and properly filed.

Auditee Response and Corrective Action Plan: Management concurs with this finding and will attempt to resolve this matter with the grantor agency.

Total U.S. Department of Labor Questioned Costs	\$ <u>19,923</u>
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**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Federal Findings, Continued**

Program

Questioned  
Costs

3. U.S. Dept. of Education/  
Special Education/CFDA #84.027

Criteria: 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.

Condition: Adequate supporting documentation could not be obtained to determine if the following travel and training related expenditures meet program objectives:

<u>ORG. NO.</u>	<u>APV NO.</u>	
7729	50754	\$ 1,804
7729	51499	2,226
7743	50201	2,040
7743	50464	2,426
7743	50529	4,777
7743	50685	<u>2,822</u>
		<b>\$ <u>16,095</u></b>

(The above is drawn from a sample of 25 items aggregating \$192,173 out of total program expenditures aggregating \$843,382, \$172,782 of which relates to payroll expenses).

Cause: The cause of this condition is unknown.

Effect: The effect of the above condition is the possibility of disallowed costs.

Recommendation: We recommend that complete supporting documentation be obtained. We also recommend that travel advance requests not be allowed until complete documentation is obtained.

Auditee Response and Corrective Action Plan: Management concurs with this finding and will attempt to resolve this matter with the grantor agency.

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Federal Findings, Continued**

Program

Questioned  
Costs

4. U.S. Dept. of Education/  
Special Education/CFDA #84.027

Criteria: 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.

Condition: Adequate supporting documentation could not be obtained to determine if the following expenditure for teacher training service contracts with the University of Guam meets program objectives.

ORG. NO.

APV NO.

7732

951862

\$ 8,125

(Refer sample size and universe on page 81)

Cause: The cause of this condition is unknown.

Effect: The effect of the above condition is the possibility of disallowed costs.

Recommendation: We recommend that complete supporting documentation be obtained. We also recommend that payment requests not be allowed until complete documentation is obtained.

Auditee Response and Corrective Action Plan: Management concurs with this finding and will attempt to resolve this matter with the grantor agency.



**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Federal Findings, Continued**

Program

Questioned  
Costs

5. U.S. Dept. of Education/  
Special Education/CFDA #84.027

Criteria: 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.

Condition: Adequate supporting documentation could not be obtained to determine if the following expenditures to purchase gasoline in bulk meets program objectives:

<u>ORG. NO.</u>	<u>APV NO.</u>	
7743	955706	\$ 9,988
7743	953487	<u>5,000</u>
		<u>14,988</u>

(Refer sample size and universe on page 81)

Cause: The cause of this condition is unknown.

Effect: The effect of the above condition is the possibility of disallowed costs.

Recommendation: We recommend that complete supporting documentation be obtained. We also recommend that payment requests not be allowed until complete documentation is obtained.

Auditee Response and Corrective Action Plan: Management concurs with this finding and will attempt to resolve this matter with the grantor agency.

Total U.S. Department of Education Questioned Costs      \$ 39,208

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Federal Findings, Continued**

**6. Previous Years' Findings**

Criteria: Findings from prior audit reports should be resolved.

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

<u>Finding No.</u>	<u>Page No.</u>	<u>Description</u>
<b><u>FISCAL YEAR 1994</u></b>		
<b><u>Federal Findings</u></b>		
8	97	Eligibility Documentation
<b><u>FISCAL YEAR 1993</u></b>		
<b><u>Federal Findings</u></b>		
1	89	Reimbursement in excess of expenditures (CFDA # 84.003)
2	90	Reimbursement in excess of expenditures (CFDA # 10.560)
<b><u>FISCAL YEAR 1992</u></b>		
<b><u>Federal Findings</u></b>		
2	88	Subrecipient Audits - JTPA
<b><u>FISCAL YEAR 1991</u></b>		
<b><u>Federal Findings</u></b>		
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

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 and Corrective Action Plan: Management concurs with this finding and will attempt to resolve this matter with the grantor agency.

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Federal Findings, Continued**

**Program**

7. U.S. Dept. of Education/  
Special 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 five files reviewed, only four 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 is updated to include all the information required under the Special Education Program.

**Auditee Response and Corrective Action Plan:** Management concurs with this finding and will attempt to resolve this matter with the grantor agency.

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**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 expenditures for dry docking of State vessels 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 and Corrective Action Plan: Management concurs with this finding and will attempt to resolve it with assistance from the State Attorney General.

**Use of Compact Capital Funds, Continued**

2. 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 expenditures for the purchase of beautification supplies 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 and Corrective Action Plan: Management concurs with this finding and will attempt to resolve it with assistance from the State Attorney General.

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Local Findings, Continued**

**Use of Compact Capital Funds, Continued**

3. 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 payments of court judgements for land leases 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 and Corrective Action Plan: Management concurs with this finding and will attempt to resolve it with assistance from the State Attorney General.

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Local Findings, Continued**

**Bidding Procedures**

4. 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 provide 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 and Corrective Action Plan: Management concurs with this finding and will attempt to resolve it with assistance from the State Attorney General.

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Local Findings, Continued**

**Compact Funds Subrecipients**

5. Criteria: Periodic audits should be performed of all major subrecipients of Compact funds.

Condition: The Weno housing loan fund appears to be a subrecipient of Compact funds and thus would be subject to audit. At this time no audit of this organization has been performed.

Cause: The cause of this condition is unknown.

Effect: Possible noncompliance with use of Compact funds could occur.

Recommendation: We recommend that Chuuk State ensure that periodic audits of all subrecipients be performed.

Auditee Response and Corrective Action Plan: Management concurs with this finding and will attempt to resolve it with assistance from the State Attorney General.

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Local Findings, Continued**

**Unresolved Prior Years' Findings**

6. **Criteria:** Findings from prior audit reports should be resolved.

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

<u>Finding No.</u>	<u>Page No.</u>	<u>Description</u>
<b><u>FISCAL YEAR 1993</u></b>		
<b><u>Local Findings</u></b>		
1	91	Use of Compact Capital Funds
2	92	Municipalities
3	93	Use of Compact Capital Funds
<b><u>FISCAL YEAR 1991</u></b>		
<b><u>Local Findings</u></b>		
1	87	Residual Inventory
2	92	Acquisition of Fixed Assets
5	96	Improper Classification of Expenditures
6	99	Code of Federal Regulations
7	100	Scholarship Application
<b><u>FISCAL YEAR 1990</u></b>		
<b><u>Local Findings</u></b>		
<b><u>Accounting</u></b>		
1	80	Fixed Assets
2	80	Compliance
<b><u>Administrative</u></b>		
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.



**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Local Findings, Continued**

**Unresolved Prior Years' Findings, Continued**

Auditee Response and Corrective Action Plan: Management concurs with this finding and will attempt to resolve it with assistance from the State Attorney General.

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Local Findings, Continued**

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FEDERATED STATES OF MICRONESIA**

Resolution of Prior Years' Questioned Costs  
Year Ended September 30, 1995

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	39,367
Unresolved 1994 questioned costs	<u>208,439</u>
 Total unresolved questioned costs for prior years	 8,817,107
 Fiscal year 1995 questioned costs	 <u>59,131</u>
 Total unresolved questioned costs	 \$ <u>8,876,238</u>

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

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

**YEAR ENDED SEPTEMBER 30, 1995**



**INDEPENDENT AUDITORS' REPORT ON THE INTERNAL  
CONTROL STRUCTURE BASED ON THE AUDIT OF THE GENERAL-  
PURPOSE FINANCIAL STATEMENTS**

Honorable Marcelino Umwech  
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, 1995, and have issued our report thereon dated March 18, 1996. 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 State's eleven development authorities and the Chuuk State Public Utilities Corporation, our inability to obtain audited financial statements from investees of the State of Chuuk supporting investments recorded in the Governmental Fund Type - Capital Projects Funds, our inability to determine the propriety of inventory of the Component Units - Proprietary Funds and the noninclusion of a potential Component Unit - Governmental Fund.

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 the 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, 1995, 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.

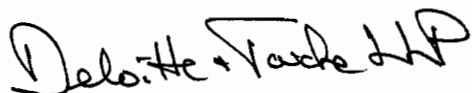
We noted certain matters, which are presented in the accompanying Schedule of Internal Control Findings (pages 97 through 108) in Findings 1 through 12, involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American 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 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 is a material weakness.

We also noted other matters involving the internal control structure and its operation used to administer federal financial assistance programs which we reported to the management of the State of Chuuk in a report dated March 18, 1996.

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 LLP". The signature is written in a cursive, stylized font.

March 18, 1996

# CHUUK STATE GOVERNMENT

## Schedule of Internal Control Findings Year Ended September 30, 1995

### 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, 1995:

<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
33	Nonintegration of budgeted revenues	112
35	Fire alarms in EDP	114
<b>Fiscal Year 1991</b>		
5	Receiving reports	124
13	Personnel policies	132
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 1994</b>		
7	Payroll	114
8	Payroll	115

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 and Corrective Action Plan: The Director will initiate procedure in fiscal year 1997.

**CHUUK STATE GOVERNMENT**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

**Travel Advances**

**Finding No. 2**

**Criteria:** Amounts advanced for travel should be clearly documented in the travel advance voucher.

**Condition:** Amounts advanced per the system under the following travel advances could not be traced to the travel advance voucher.

TA #A50254

TA #A40883

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

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

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

**Auditee Response and Corrective Action Plan:** Procedures will be initiated to ensure full documentation of travel advances prior to payment.



**CHUUK STATE GOVERNMENT**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

**Travel Advances**

**Finding No. 3**

Criteria: Amounts advanced for travel should be clearly documented in the travel advance voucher.

Condition: The amount advanced per travel authorization # 41225 was greater than the total amount authorized on the voucher.

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 accurate prior to payment.

Auditee Response and Corrective Action Plan: The Director of Finance will initiate this procedure in fiscal year 1997.

## CHUUK STATE GOVERNMENT

### Schedule of Internal Control Findings, Continued Year Ended September 30, 1995

#### Accounts Payable

##### Finding No. 4

Criteria: An accounts payable transaction which is subsequently canceled should be deleted from the system and the accounts payable voucher should be voided.

Condition: APV # 953578 had been deleted from the system but the related accounts payable voucher had not been physically voided.

Cause: The cause of this condition is unknown.

Effect: A lack of control exists over the accounts payable transaction cycle. This condition may result in a canceled transaction being erroneously re-entered.

Recommendation: We recommend that canceled transactions be voided on the accounts payable voucher prior to being deleted from the system.

Auditee Response and Corrective Action Plan: The Director of Finance will initiate this procedure in fiscal year 1997.

# CHUUK STATE GOVERNMENT

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

## **External Financial Reporting**

### **Finding No. 5**

**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 a different 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 Finance will initiate this procedure in fiscal year 1997.

## CHUUK STATE GOVERNMENT

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

### Payroll

#### Finding No. 6

Criteria: Timesheets should be authorized by department supervisors prior to being processed by the payroll department.

Condition: Timesheets for Org. 2142, Pay Period 4, 1995, were not authorized.

Cause: The cause of this condition is unknown.

Effect: A possible misuse of State funds could result from this condition.

Recommendation: We recommend that the State ensure that timesheets are authorized by the appropriate department supervisors prior to being processed.

Auditee Response and Corrective Action Plan: The Payroll section does not agree with said finding as timesheets for said payperiod were signed by the Director of Education.

Auditor's Response: We have yet to see evidence of the approval of the Director of Education. This evidence has been represented as having been mailed to us but we have yet to receive it.

## CHUUK STATE GOVERNMENT

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

### 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 filed in personnel files and allotment documents that have been superseded are not signed acknowledging that they have been superseded.

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.

Auditee Response and Corrective Action Plan: The finding is true as admitted by payroll section. There are more allotment documents coming in during each payperiod and the two payroll section employees were not able to file all of them. This problem has always been a finding during audit. The Director is trying to resolve this problem by transferring another employee to the Payroll section since it has been our request. With three payroll section employees on board, our personnel files and allotment documents should be updated.

## CHUUK STATE GOVERNMENT

### Schedule of Internal Control Findings, Continued Year Ended September 30, 1995

#### **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 three occasions where pay increases were not entered in the system up to four months 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:** Pay increases were not entered on the system in a timely manner simply because the increased pay rates were not received from the Personnel Office on time. Sometimes the payroll section received such documents after three to four years or longer.

## CHUUK STATE GOVERNMENT

### Schedule of Internal Control Findings, Continued Year Ended September 30, 1995

#### **Payroll**

##### **Finding No. 9**

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

**Condition:** Current personnel action forms are not filed in personnel files and personnel action forms that have been superseded are not so marked.

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

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

**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.

**Auditee Response and Corrective Action Plan:** This problem is similar to finding number 7 which should be addressed to both Personnel Office and Payroll section in order to correct this situation appropriately. The initiation of the documents of changes or increases at the Personnel office should be in a timely manner to help Payroll section eliminate such problem.

**CHUUK STATE GOVERNMENT**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

**Revenue/Receipts**

**Finding No. 10**

**Criteria:** Deposits of cash receipts should be made in a timely manner.

**Condition:** Six cash receipts were not deposited for up to four to seven days after receipt.

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

**Effect:** A 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 and Corrective Action Plan:** The Treasury section is presently making daily deposits for all cash receipts.



## CHUUK STATE GOVERNMENT

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

### General Disbursements

#### Finding No. 11

Criteria: All disbursement transactions should be initiated by an approved payment voucher which should be accompanied by relevant supporting invoices/documentation showing evidence of funds certification.

Condition: Two medical related disbursements did not show evidence of funds certification and one payment was made without evidence of approval on the payment voucher.

Cause: The cause of this condition is unknown.

Effect: A lack of controls exist over the disbursement transaction cycle. This condition may lead to a misuse of State funds.

Recommendation: Disbursement transactions should not be processed unless approved and should be accompanied by supporting invoices with evidence of funds certification.

Auditee Response and Corrective Action Plan: Procedures have already been established by the Director.

**CHUUK STATE GOVERNMENT**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

**External Financial Reporting**

Finding No. 12

Criteria: Original encumbrances that are required to be canceled or replaced should be appropriately voided or liquidated within the general ledger.

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

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 in the system prior to entering replacement encumbrances.

Auditee Response and Corrective Action Plan: Procedures have already been established by the Director.