

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

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

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**YEAR ENDED SEPTEMBER 30, 1997**

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

YEAR ENDED SEPTEMBER 30, 1997

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FEDERATED STATES OF MICRONESIA**

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**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

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

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**YEAR ENDED SEPTEMBER 30, 1997**



## INDEPENDENT AUDITORS' REPORT

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

We were engaged to audit the accompanying general purpose financial statements of the State of Chuuk, as of September 30, 1997, and for the year then ended, as set forth in Section II of the foregoing table of contents. These general purpose financial statements are the responsibility of the management of the State of Chuuk.

Because of inadequacies in the State of Chuuk's accounting records and internal control, we were unable to form an opinion on accounts payable and expenditures of the Governmental Fund Types as of and for the year ended September 30, 1997.

Property comprising the State of Chuuk's General Fixed Assets Account Group has not been inventoried as of September 30, 1997, 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.

Because of inadequacies in the accounting records, we were unable to express an opinion on the financial statements of the Chuuk Coconut Authority (CCA) and the Chuuk State Public Utility Corporation (CSPUC) as of and for the year ended September 30, 1997. CCA and CSPUC are included within the Component Units-Proprietary Funds and represent 43% and 95% of the assets and operating revenues, respectively, of the Component Units-Proprietary Funds.

We were unable to perform audit procedures on the Chuuk Visitors Bureau's (CVB) financial statements as of September 30, 1997, as such financial statements were not provided to us for inspection. Account balances of CVB in the accompanying general purpose financial statements do not include amounts accounted for by CVB management. CVB is presented as a Governmental Fund Type - Special Revenue Fund in the accompanying general purpose financial statements.

We were unable to obtain audited financial statements supporting the State of Chuuk's investments in Western Pacific Tuna Group (WESTPAC) and Chuuk Fresh Tuna (CFTI), in the Governmental Fund Type - Capital Projects Funds at September 30, 1997, as described in Note 9 to the general purpose financial statements. The State of Chuuk has not adjusted these investments to reflect the equity in the investees' earnings or losses. We were not able to satisfy ourselves as to the carrying value of these investments or the equity in their earnings or losses by other auditing procedures.

Because of inadequacies in the accounting records, we were unable to form an opinion on continuing appropriations of the Governmental Fund Type - Capital Projects 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 this matter on the accompanying general purpose financial statements is not determinable.

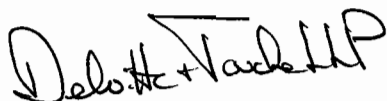
We were unable to obtain representation from the Chuuk State Attorney General regarding pending litigation and other legal matters outstanding as of September 30, 1997. Accordingly, no provision for any liability that may result from such matters, if any, has been made in the accompanying general purpose financial statements.

Because of the matters discussed in the preceding paragraphs, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the general purpose financial statements referred to in the first paragraph.

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 \$14,021,742, 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.

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 State of Chuuk's management, are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the State of Chuuk. The scope of our work was not sufficient to enable us to express, and we do not express, an opinion on this additional information.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 1998, on our consideration of the State of Chuuk's (primary Government only) internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.



September 9, 1998

**CHUUK STATE GOVERNMENT**

Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Units  
 September 30, 1997  
 (With Comparative Totals as of September 30, 1996)

	Governmental Fund Types			Account Groups		Totals	Component	Totals	
	General	Special Revenue	Capital Projects	General Fixed Assets	General Long-Term Debt	Primary Government (Memorandum Only)	Units Proprietary	Reporting Entity (Memorandum Only)	
								1997	1996
<u>Assets</u>									
Cash and equivalents (note 2)	\$ 658,499	\$ 261,296	\$ 360,079	\$ -	\$ -	\$ 1,279,874	\$ 824,108	\$ 2,103,982	\$ 2,842,473
Investments (note 2)	3,415,076	-	30,226,398	-	-	33,641,474	-	33,641,474	23,036,472
Investments - other (note 9)	-	-	7,264,005	-	-	7,264,005	-	7,264,005	7,264,005
Receivables from other governments (note 3)	222,229	2,587,755	92,991	-	-	2,902,975	-	2,902,975	3,639,286
Receivables, federal agencies (note 3)	-	79,933	766,415	-	-	846,348	-	846,348	173,267
General receivables, net	-	265,840	-	-	-	265,840	968,445	1,234,285	908,106
Advances, net	163,010	203,369	193,702	-	-	560,081	-	560,081	439,597
Loans receivable, net of allowance for doubtful accounts of \$601,095	-	-	-	-	-	-	1,117,428	1,117,428	1,071,213
Loan receivable, other (note 14)	-	-	7,000,000	-	-	7,000,000	-	7,000,000	7,000,000
Due from other funds (note 8)	-	6,039,488	2,356,681	-	-	8,396,169	-	8,396,169	6,221,959
Inventories	-	-	-	-	-	-	39,852	39,852	20,493
Other assets	-	-	24,831	-	-	24,831	12,702	37,533	58,189
Fixed assets, net (note 4)	-	-	-	67,581,884	-	67,581,884	994,535	68,576,419	68,487,088
Dividends and interest receivable	189,587	-	-	-	-	189,587	-	189,587	174,968
Reserve for doubtful interfund receivable (note 16)	(79,933)	-	-	-	-	(79,933)	-	(79,933)	(173,267)
Amount to be provided for retirement of long-term debt	-	-	-	-	12,125,057	12,125,057	-	12,125,057	12,071,161
Allowance for uncollectibles (note 16)	-	(2,278,052)	(855,430)	-	-	(3,133,482)	-	(3,133,482)	(3,133,482)
<b>Total assets</b>	<b>\$ 4,568,468</b>	<b>\$ 7,159,629</b>	<b>\$ 47,429,672</b>	<b>\$ 67,581,884</b>	<b>\$ 12,125,057</b>	<b>\$ 138,864,710</b>	<b>\$ 3,957,070</b>	<b>\$ 142,821,780</b>	<b>\$ 130,101,528</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, 1997

(With Comparative Totals as of September 30, 1996)

	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)	
								1997	1996
<b><u>Liabilities and Fund Equity (Deficiency)</u></b>									
<b>Liabilities:</b>									
Bank overdraft	\$ 181,699	\$ -	\$ -	\$ -	\$ -	\$ 181,699	\$ -	\$ 181,699	\$ 2,351,110
Accounts payable	8,463,520	3,055,634	3,170,407	-	-	14,689,561	131,461	14,821,022	12,642,533
Accrued payroll and annual leave	173,457	35,062	-	-	1,825,057	2,033,576	103,729	2,137,305	2,155,351
Due to other funds (note 8)	8,021,732	282,517	91,920	-	-	8,396,169	-	8,396,169	6,221,959
Payable to other governments	92,798	335,106	-	-	-	427,904	-	427,904	427,904
Notes payable (notes 5 and 13)	-	-	329,179	-	10,300,000	10,629,179	690,814	11,319,993	11,451,355
Deferred revenue	1,000	277,320	-	-	-	278,320	-	278,320	278,320
<b>Total liabilities</b>	<b>16,934,206</b>	<b>3,985,639</b>	<b>3,591,506</b>	<b>-</b>	<b>12,125,057</b>	<b>36,636,408</b>	<b>926,004</b>	<b>37,562,412</b>	<b>35,528,532</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
Contributed capital	-	-	-	-	-	-	2,238,106	2,238,106	2,238,106
Retained earnings	-	-	-	-	-	-	792,960	792,960	760,065
<b>Fund balances (deficit):</b>									
<b>Reserved for:</b>									
Related assets (notes 9, 14 and 15)	-	265,840	14,288,836	-	-	14,554,676	-	14,554,676	14,265,905
Encumbrances	712,362	522,206	313,798	-	-	1,548,366	-	1,548,366	4,709,932
Continuing appropriations (note 6)	943,642	-	17,406,152	-	-	18,349,794	-	18,349,794	20,638,719
Unreserved	(14,021,742)	2,385,944	11,829,380	-	-	193,582	-	193,582	(15,621,615)
<b>Total fund equity (deficiency)</b>	<b>(12,365,738)</b>	<b>3,173,990</b>	<b>43,838,166</b>	<b>67,581,884</b>	<b>-</b>	<b>102,228,302</b>	<b>3,031,066</b>	<b>105,259,368</b>	<b>94,572,996</b>
<b>Commitments and contingencies (note 11)</b>									
<b>Total liabilities and fund equity (deficiency)</b>	<b>\$ 4,568,468</b>	<b>\$ 7,159,629</b>	<b>\$ 47,429,672</b>	<b>\$ 67,581,884</b>	<b>\$ 12,125,057</b>	<b>\$ 138,864,710</b>	<b>\$ 3,957,070</b>	<b>\$ 142,821,780</b>	<b>\$ 130,101,528</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, 1997  
 (With comparative totals for the year ended September 30, 1996)

	Governmental Fund Types			Totals Reporting Entity (Memorandum Only)	
	General	Special Revenue	Capital Projects	1997	1996
<b>Revenues:</b>					
U.S. Compact of Free Association:					
Section 211(a)(2) - base grant	\$ 8,816,000	\$ -	\$ 6,144,000	\$ 14,960,000	\$ 19,074,000
Section 217 - inflation adjustment	4,408,000	-	3,072,000	7,480,000	9,155,495
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	-	599,900	-	599,900	575,905
Section 212 - base grant	-	250,000	-	250,000	250,000
Section 216(a)(3) - FSM	-	-	-	-	900
U.S. Department of the Interior grants	-	-	4,066	4,066	119,371
FSM revenue sharing	1,714,231	-	-	1,714,231	1,667,168
Other federal contributions	-	757,096	-	757,096	1,213,278
State taxes and licenses	1,258,042	-	-	1,258,042	1,130,388
Other	904,748	232,607	-	1,137,355	1,251,166
Investment income (note 2)	4,153,292	-	-	4,153,292	2,054,416
<b>Total revenues</b>	<b>21,254,313</b>	<b>5,980,490</b>	<b>9,220,066</b>	<b>36,454,869</b>	<b>40,632,974</b>
<b>Expenditures:</b>					
General government	3,552,216	36,767	-	3,588,983	4,253,051
Education	6,137,313	1,931,667	-	8,068,980	10,798,535
Health services	2,474,498	991,292	-	3,465,790	4,041,016
Economic development	923,241	-	-	923,241	1,138,662
Public works and utilities	371,964	280,304	-	652,268	983,939
Public safety	728,966	146,121	-	875,087	830,228
Transportation	889,424	-	-	889,424	985,449
Community affairs	190,606	234,267	-	424,873	520,135
Boards and commissions	698,156	-	-	698,156	471,437
Capital projects	-	-	2,120,210	2,120,210	6,855,178
Debt service - interest	-	-	665,360	665,360	665,360
Other	1,781,764	110,086	-	1,891,850	5,216,526
<b>Total expenditures</b>	<b>17,748,148</b>	<b>3,730,504</b>	<b>2,785,570</b>	<b>24,264,222</b>	<b>36,759,516</b>
<b>Excess of revenues over expenditures</b>	<b>3,506,165</b>	<b>2,249,986</b>	<b>6,434,496</b>	<b>12,190,647</b>	<b>3,873,458</b>
<b>Other financing sources (uses):</b>					
Operating transfers in (note 7)	-	130,888	-	130,888	142,946
Operating transfers out (note 7)	(252,950)	(1,415,108)	-	(1,668,058)	(2,669,944)
Other income	-	-	-	-	4,916
Loss on investment	-	-	-	-	(379,656)
<b>Total other financing sources (uses), net</b>	<b>(252,950)</b>	<b>(1,284,220)</b>	<b>-</b>	<b>(1,537,170)</b>	<b>(2,901,738)</b>
<b>Excess of revenues and other financing sources over expenditures and other financing uses</b>	<b>3,253,215</b>	<b>965,766</b>	<b>6,434,496</b>	<b>10,653,477</b>	<b>971,720</b>
<b>Fund balances (deficit) at beginning of year</b>	<b>(15,618,953)</b>	<b>2,208,224</b>	<b>37,403,670</b>	<b>23,992,941</b>	<b>23,021,221</b>
<b>Fund balances (deficit) at end of year</b>	<b>\$ (12,365,738)</b>	<b>\$ 3,173,990</b>	<b>\$ 43,838,166</b>	<b>\$ 34,646,418</b>	<b>\$ 23,992,941</b>

See accompanying notes to financial statements.

**CHUUK STATE GOVERNMENT**

Statement of Revenues, Expenditures and Changes in Deficit -  
Budget and Actual, Budgetary Basis - General Fund  
Year Ended September 30, 1997

(With comparative totals for the year ended September 30, 1996)

	1997			1996		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>						
Compact of Free Association Section 211 and 217	\$ 13,047,680	\$ 13,224,000	\$ 176,320	\$ 16,410,984	\$ 16,635,767	\$ 224,783
Local revenues	4,419,826	8,030,313	3,610,487	6,389,114	5,968,785	(420,329)
<b>Total revenues</b>	<b>17,467,506</b>	<b>21,254,313</b>	<b>3,786,807</b>	<b>22,800,098</b>	<b>22,604,552</b>	<b>(195,546)</b>
<b>Expenditures-budgetary basis:</b>						
General government	3,550,850	3,521,445	29,405	4,928,370	4,316,483	611,887
Health Services	2,530,600	2,506,324	24,276	3,080,300	2,990,568	89,732
Education	6,069,348	6,142,897	(73,549)	8,411,648	7,818,651	592,997
Economic development	935,350	930,695	4,655	1,165,250	1,132,607	32,643
Public safety	677,400	729,030	(51,630)	850,500	828,768	21,732
Transportation	788,400	915,221	(126,821)	997,100	984,730	12,370
Public works	381,100	374,352	6,748	489,500	490,115	(615)
Community affairs	185,200	193,098	(7,898)	228,500	223,286	5,214
Board and Commissions	622,650	686,968	(64,318)	531,850	612,583	(80,733)
Special programs	208,800	196,457	12,343	193,800	182,362	11,438
Legislative external appropriations	1,357,697	1,325,771	31,926	1,703,180	1,708,492	(5,312)
Uncollectible grants fund reserve and other	-	312,878	(312,878)	-	3,084,979	(3,084,979)
<b>Total expenditures</b>	<b>17,307,395</b>	<b>17,835,136</b>	<b>(527,741)</b>	<b>22,579,998</b>	<b>24,373,624</b>	<b>(1,793,626)</b>
Excess (deficiency) of revenues over (under) expenditures	160,111	3,419,177	3,259,066	220,100	(1,769,072)	(1,989,172)
<b>Other financing uses:</b>						
Operating transfers out	(194,500)	(248,698)	(54,198)	(214,500)	(384,084)	(169,584)
Excess (deficiency) of revenues over (under) expenditures and other financing uses	(34,389)	3,170,479	3,204,868	5,600	(2,153,156)	(2,158,756)
Deficit at beginning of year	(17,123,887)	(17,123,887)	-	(15,606,061)	(15,606,061)	-
<b>Other changes in deficit:</b>						
Decrease in reserve for related fixed assets	-	-	-	-	971,856	971,856
Increase in reserve for continuing appropriations	-	(68,333)	(68,333)	-	(336,526)	(336,526)
<b>Deficit at end of year</b>	<b>\$ (17,158,276)</b>	<b>\$ (14,021,741)</b>	<b>\$ 3,136,535</b>	<b>\$ (15,600,461)</b>	<b>\$ (17,123,887)</b>	<b>\$ (1,523,426)</b>

See accompanying notes to financial statements.

**CHUUK STATE GOVERNMENT**

Combined Statement of Revenues, Expenses and Changes in  
Fund Equity - All Discretely Presented Component Units  
Year Ended September 30, 1997  
(With comparative totals for the year ended September 30, 1996)

	Totals	
	1997	1996
Operating revenues:		
Interest income	\$ 113,614	\$ 115,790
Sales	2,299,624	687,099
Total operating revenues	2,413,238	802,889
Operating expenses:		
Payroll and personnel	890,175	717,000
Fuel	1,673,366	1,159,487
Travel	78,335	23,440
Depreciation	32,141	23,963
Cost of sales	45,413	155,267
Bad debt	984,934	61,416
Rent	92,776	27,585
Other	278,659	921,266
Total operating expenses	4,075,799	3,089,424
Operating loss	(1,662,561)	(2,286,535)
Nonoperating revenues (expenses):		
Transfers in (note 7)	1,536,787	2,520,131
Payment to Coconut Development Authority	-	(4,956)
Federal contributions	121,683	36,856
Recovery of bad debt	23,082	39,951
Interest expense	(1,178)	(3,474)
Other income	15,082	22,181
Total nonoperating revenues, net	1,695,456	2,610,689
Net earnings	32,895	324,154
Retained earnings at beginning of year	760,065	435,911
Retained earnings at end of year	792,960	760,065
Contributed capital at beginning of year	2,238,106	2,020,266
Contributions	-	217,840
Contributed capital at end of year	2,238,106	2,238,106
Total fund equity	\$ 3,031,066	\$ 2,998,171

See accompanying notes to financial statements.

**CHUUK STATE GOVERNMENT**

Combined Statement of Cash Flows -  
All Discretely Presented Component Units  
Year Ended September 30, 1997  
(With comparative totals for the year ended September 30, 1996)

	Totals	
	1997	1996
Increase (Decrease) in Cash and Equivalents:		
Cash flows from operating activities:		
Cash received from customers	\$ 2,207,091	\$ 890,687
Cash payment to suppliers and employees	(3,878,937)	(3,517,571)
Net cash used for operating activities	(1,671,846)	(2,626,884)
Cash flows from noncapital financing activities:		
Chuuk State Legislature appropriations	1,536,787	2,520,131
Federal contributions	121,683	39,951
Copra subsidy	-	(4,956)
Net cash provided by noncapital financing activities	1,658,470	2,555,126
Cash flows from capital and related financing activities:		
Interest paid	(1,178)	(3,474)
Repayments of debt	(3,492)	(39,232)
Increase in contributed capital	-	217,840
Net cash (used for) provided by capital and related financing activities	(4,670)	175,134
Cash flows from investing activities:		
(Increase) decrease in loans receivable	(46,215)	83,790
Recovery of bad debts	23,082	36,856
Aquisition of fixed assets, net of disposals	(121,472)	(5,320)
Net cash (used for) provided by investing activities	(144,605)	115,326
(Decrease) increase in cash and equivalents	(162,651)	218,702
Cash and equivalents at beginning of year	986,759	768,057
Cash and equivalents at end of year	\$ 824,108	\$ 986,759
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (1,662,561)	\$ (2,286,535)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	32,141	74,733
Other income	15,082	22,181
(Increase) in receivables	(221,229)	(424,588)
(Increase) decrease in inventories	(19,359)	52,292
Decrease (increase) in other assets	20,656	(13,704)
Increase (decrease) in accounts payable	65,874	(46,783)
Increase (decrease) in other liabilities	97,550	(4,480)
Total adjustments	(9,285)	(340,349)
Net cash used for operating activities	\$ (1,671,846)	\$ (2,626,884)

See accompanying notes to financial statements.

# CHUUK STATE GOVERNMENT

Notes to Financial Statements  
September 30, 1997

## (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, 1997

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

### (c) Chuuk State Public Utilities Corporation

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

### 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 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.

### 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.

# CHUUK STATE GOVERNMENT

Notes to Financial Statements  
September 30, 1997

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

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

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

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

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

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

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

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, 1997

## (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 1997, supplemental appropriations were made for both operating and capital purposes, to reflect revised financial priorities of Chuuk State Government.

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

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

Budgetary expenditures, which are on a basis other than 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, 1997

## (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, 1997

## (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 represent 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 1996 general purpose financial statements have been reclassified to conform with the 1997 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 expenditures/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, 1997, the State had deposits as follows; in each situation, cost approximated market value.

**CHUUK STATE GOVERNMENT**

Notes to Financial Statements  
September 30, 1997

(2) Cash and Equivalents and Investments, Continued

Cash Deposits, Continued

General Fund

Cash in checking accounts and savings account with FDIC insured banks	\$ 1,285
Cash on deposit with trustee	<u>657,214</u>

\$ 658,499

Special Revenue Funds

Cash in checking accounts with FDIC insured banks	\$ 9,816
Cash on deposit with trustee	<u>251,480</u>

\$ 261,296

Capital Projects Funds

Cash on deposit with Trustee	\$ <u>360,079</u>
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Component Units

Cash in checking and savings accounts with FDIC insured banks	\$ <u>824,108</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, 1997

(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, 1997, are summarized below:

	<u>Carrying Amount</u>	<u>Market Value</u>
<u>Cash on Deposit with Trustee</u>		
Cash management fund	\$ <u>1,268,773</u>	\$ <u>1,268,773</u>
<u>Investments</u>		
Equity funds	\$ <u>33,641,474</u>	\$ <u>38,517,888</u>

Cash on deposit with Trustee as of September 30, 1997 is comprised of the following:

General fund	\$ 657,214
Compact other grants fund	26,196
Compact special block grant fund	225,284
Compact capital project fund	<u>360,079</u>
	\$ <u>1,268,773</u>

# CHUUK STATE GOVERNMENT

Notes to Financial Statements  
September 30, 1997

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

### Investments, Continued

D. The State's investment income as of September 30, 1997, is summarized below:

Interest	\$ 1,482,510
Dividends	456,602
Realized gains	2,569,935
Management fees	(354,271)
Other expenses	<u>(1,484)</u>
	\$ <u>4,153,292</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 1997.

A summary of the general fixed assets accounted for in the General Fixed Assets Account Group as of September 30, 1997, follows:

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

# CHUUK STATE GOVERNMENT

Notes to Financial Statements  
September 30, 1997

## (4) Fixed Assets, Continued

A summary of fixed assets accounted for in the component units-proprietary funds as of September 30, 1997, follows:

	<u>Estimated Useful Lives</u>	
Housing units	25-50 years	\$ 271,964
Equipment	7-10 years	797,681
Building	20-30 years	301,649
Automobiles	3-5 years	32,934
Office equipment	7-10 years	47,709
Furniture and fixtures	3-5 years	59,228
Other	5-10 years	<u>12,772</u>
		1,523,937
Less accumulated depreciation		<u>(529,402)</u>
		<u>\$ 994,535</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, 1997, 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 Long-Term Debt Account Group

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

# CHUUK STATE GOVERNMENT

Notes to Financial Statements  
September 30, 1997

## (5) Notes Payable, Continued

### General Long-Term Debt Account Group, Continued

On June 14, 1993, Chuuk State issued four (4) notes for \$10,300,000 to finance Chuuk State's equity investment in Western Pacific Tuna Group (WESTPAC), a fishing joint venture, and a loan to Bonjerval Holdings Ltd. The outstanding notes payable balance as of September 30, 1997, is 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, 1997.

## (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.

\$ 943,642

### 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.

\$ 17,406,152



**CHUUK STATE GOVERNMENT**

Notes to Financial Statements  
September 30, 1997

(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, 1997, are as follows:

	<u>Transfer Out</u>	<u>Transfer In</u>
<b>General Fund:</b>		
Transfers out to Component Units:		
Chuuk Housing Authority	\$ 70,347	\$ -
Chuuk Coconut Authority	51,332	-
Chuuk State Development Authorities	<u>383</u>	<u>-</u>
Total transfers out to Component Units	<u>122,062</u>	<u>-</u>
Transfers out to Special Revenue Funds:		
Chuuk Visitors' Bureau	<u>130,888</u>	<u>-</u>
Total General Fund	<u>252,950</u>	<u>-</u>
<b>Special Revenue Funds:</b>		
Transfers out to Component Units:		
Chuuk Public Utilities Corporation	<u>1,415,108</u>	<u>-</u>
Total Special Revenue Funds	<u>1,415,108</u>	<u>-</u>
Transfers in to Component Units:		
Chuuk Housing Authority	-	70,347
Chuuk Coconut Authority	-	51,332
Chuuk State Development Authorities	-	383
Chuuk Public Utilities Corporation	<u>-</u>	<u>1,415,108</u>
Total transfers in to Component Units	<u>-</u>	<u>1,537,170</u>
Transfers in to Special Revenue Funds:		
Chuuk Visitors' Bureau	<u>-</u>	<u>130,888</u>
	<u>\$ 1,668,058</u>	<u>\$ 1,668,058</u>

**CHUUK STATE GOVERNMENT**

Notes to Financial Statements  
September 30, 1997

(8) Interfund Assets/Liabilities

The following summarizes due from/to other funds as of September 30, 1997:

<u>Fund</u>	<u>Receivable Amount</u>	<u>Payable Amount</u>
Special Revenue Funds:		
Chuuk Airport Authority	\$ 749,083	\$ -
Compact - Special Block Grant	2,711,051	-
Federal Grant Assistance Fund	1,107,485	-
Compact - Other Grants Fund	1,471,869	-
Other Grant Assistance Fund	-	831
CFSM Grant Fund	-	281,686
Capital Projects Funds:		
TTG Capital Projects Fund	-	91,920
Compact Capital Projects Fund	2,355,091	-
CFSM State Project Fund	1,590	-
General Fund	<u>-</u>	<u>8,021,732</u>
	<u>\$ 8,396,169</u>	<u>\$ 8,396,169</u>

(9) Investments - Other

The State has an approximate 16.08% ownership of the Bank of the Federated States of Micronesia. This 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 7.36% interest at September 30, 1997). The above investment is carried at cost since there is no method of ascertaining related market value. 250,000

During fiscal year 1996, the State purchased \$125,000 of common stock in a joint venture with the National Fisheries Corporation for a longline base. The State also purchased \$875,000, \$130,000 and \$370,000 of common stock in fiscal years 1994, 1993 and 1991, respectively in the same joint venture. This represents an interest of 50% as of September 30, 1997. 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. 1,202,005

During fiscal year 1993, the State purchased \$812,000 of common stock in the Bank of Guam, which represents a .007% interest as of September 30, 1997. The above investment is carried at cost since there is no method of ascertaining related market value. 812,000

## CHUUK STATE GOVERNMENT

Notes to Financial Statements  
September 30, 1997

(9) Investments - Other, Continued

During fiscal year 1995, the State invested \$3,160,000 for a 40% interest in Western Pacific Tuna Group (WESTPAC), a fishing joint venture. During fiscal year 1995, 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

During fiscal year 1996, Chuuk State purchased \$300,000 of common stock in the FSM Development Bank (an interest of approximately 1% interest at September 30, 1997). The above investment is carried at cost since there is no method of ascertaining related market value. 300,000

Total other investments \$ 7,264,005

Since the investments are considered unavailable to finance expenditures of the ensuing fiscal year, the investments are restricted in the reserve for related assets component of fund balance. 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 material component units - proprietary funds of the State as of September 30, 1997, and for the year then ended:

	<u>Chuuk Public Utility Corporation</u>	<u>Chuuk Coconut Authority</u>	<u>Chuuk Housing Authority</u>
Total assets	\$ <u>762,730</u>	\$ <u>920,054</u>	\$ <u>2,274,286</u>
Total fund equity	\$ <u>638,966</u>	\$ <u>129,601</u>	\$ <u>2,262,499</u>
Net fixed assets	\$ <u>55,299</u>	\$ <u>767,468</u>	\$ <u>171,768</u>
FY97 operating loss	\$ <u>(1,491,712)</u>	\$ <u>(100,045)</u>	\$ <u>(70,804)</u>
FY97 net (loss) earnings	\$ <u>(10,537)</u>	\$ <u>(16,259)</u>	\$ <u>59,691</u>
FY97 operating revenues	\$ <u>2,284,586</u>	\$ <u>15,038</u>	\$ <u>113,614</u>
FY97 operating transfers in	\$ <u>1,415,108</u>	\$ <u>51,332</u>	\$ <u>70,347</u>

# CHUUK STATE GOVERNMENT

Notes to Financial Statements  
September 30, 1997

## (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, \$65,231 in cumulative questioned costs exist for the operation of federal grants.

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

### Sick Leave

It is the policy of the State to record the cost of sick leave when leave is actually taken and a liability is actually incurred. The accumulated estimated amount of unused sick leave at September 30, 1997, was \$3,695,880.

### 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.

**CHUUK STATE GOVERNMENT**

Notes to Financial Statements  
September 30, 1997

(11) Commitments and Contingencies, Continued

Loan to Western Pacific Tuna Group (WESTPAC)

During the year ended September 30, 1995, 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.

(12) Fund Deficits

The following represent material fund deficits as of September 30, 1997. 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>
Capital Projects Funds:	
TTG Capital Projects Fund	\$ <u>(95,061)</u>

(13) Notes Payable - Component Units-Proprietary Funds

Chuuk Coconut Processing Authority, as of September 30, 1997, 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, 1997, represents drawdowns to date on a credit facility with the Bank. As the loan is in default as of September 30, 1997, the total loan amount has been classified as current and payable on demand. \$ 690,814

(14) Loan Receivable - Related Party

As of September 30, 1997, Chuuk State has an outstanding loan receivable from Bonjenva Holdings Limited (BJL) of \$7,000,000 which is 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 was 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 loan is fully reserved for as a related asset within the Compact Capital Improvement Projects fund balance.

**CHUUK STATE GOVERNMENT**

Notes to Financial Statements  
September 30, 1997

(15) Fund Balances Reserved For Related Assets

Fund balance reserves for related assets are comprised of the following as of September 30, 1997:

	Special Revenue <u>Fund</u>	Capital Projects <u>Funds</u>
Receivables	\$ 265,840	\$ -
Loans	-	7,000,000
Investments and Other	<u>-</u>	<u>7,288,836</u>
	\$ <u>265,840</u>	\$ <u>14,288,836</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).

**CHUUK STATE GOVERNMENT**

Notes to Financial Statements  
September 30, 1997

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**CHUUK STATE GOVERNMENT**

Combining Schedule of Expenditures by Account -  
 All Governmental Fund Types  
 Year Ended September 30, 1997  
 (With comparative totals for the year ended September 30, 1996)

	Governmental Fund Types			Totals (Memorandum Only)	
	General	Special Revenue	Capital Projects	1997	1996
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Expenditures:</b>					
Personnel	\$ 15,476,242	\$ 1,446,655	\$ 70,509	\$ 16,993,406	\$ 20,961,379
Travel	334,842	423,272	190,058	948,172	962,993
Contractual services	416,443	299,355	312,187	1,027,985	2,979,577
POL	81,089	1,827	15,336	98,252	524,106
<b>Other :</b>					
Equipment	83,865	31,294	119,941	235,100	1,747,090
Medical supplies	-	323,046	-	323,046	302,440
Medical referral	-	266,387	-	266,387	-
Supplies and materials	187,648	-	264,335	451,983	1,169,498
Scholarships	119,971	-	-	119,971	79,405
Food	914	260,722	7,615	269,251	819,260
Books	7,668	110,274	-	117,942	(8,403)
All others	673,661	359,841	778,564	1,812,066	3,743,389
Debt service-interest	-	-	665,360	665,360	665,360
Miscellaneous	365,805	207,831	361,665	935,301	2,813,422
<b>Total expenditures</b>	<u><u>\$ 17,748,148</u></u>	<u><u>\$ 3,730,504</u></u>	<u><u>\$ 2,785,570</u></u>	<u><u>\$ 24,264,222</u></u>	<u><u>\$ 36,759,516</u></u>

See Accompanying Independent Auditors' Report.



CHUUK STATE GOVERNMENT

GENERAL FUND

Statement of Revenues, Expenditures by Function and Department and Changes in Deficit

Year Ended September 30, 1997

(With comparative totals for the year ended September 30, 1996)

	1997	1996
<b>Revenues:</b>		
U.S. Compact of Free Association:		
Section 211(a)(2) - base grant	\$ 8,816,000	\$ 11,240,400
Section 217 - inflation adjustment	4,408,000	5,395,367
FSM revenue sharing	1,714,231	1,667,168
State taxes and licenses:		
Cigarette tax	\$ 35,572	\$ 55,923
General sales tax	656,415	779,830
Alcohol	152,783	113,872
Hotel	106,352	129,565
Delinquent tax collections	5,331	16,384
License and fees	80,204	18,551
Other	221,385	16,263
Other revenues:		
Hospital and utilities collections	24,658	66,880
Transportation collections	486,247	606,489
Leases	58,890	40,128
Miscellaneous	334,953	403,316
Investment income	4,153,292	2,054,416
Total revenues	<u>21,254,313</u>	<u>22,604,552</u>
<b>Expenditures by department:</b>		
General government:		
Executive branch:		
Governor and staff	336,678	377,649
Attorney General	148,199	203,915
State Finance	245,928	241,800
ADP	113,229	96,938
Tax and revenue	91,910	79,243
Program and budget	117,025	126,454
Property and supply	118,053	149,451
Personnel	83,608	96,968
Planning	108,255	131,995
Total executive branch	1,362,885	1,504,413
Legislative internal operations:		
President and members	297,114	353,453
Speakers and members	724,804	925,024
Legislative committees	72,138	115,498
Legislative legal office	173,440	289,429
Legislative administration	166,494	178,700
Legislative budget office	62,276	83,240
Chief clerks	198,779	251,982
Total legislative internal operations	1,695,045	2,197,326
Judicial operations	494,286	551,312
Total general government	<u>3,552,216</u>	<u>4,253,051</u>
Education:		
Administration	259,228	323,420
Elementary	4,147,543	4,994,970
Secondary	1,530,430	1,812,767
Nutrition	474	448,584
Curriculum and instruction	199,638	263,372
Total education	6,137,313	7,843,113
Health services:		
Hospital and dispensaries	2,148,309	2,617,233
Environmental health	95,674	122,940
Dental services	230,515	264,635
Medical supplies	-	9,882
Total health services	<u>2,474,498</u>	<u>3,014,690</u>

See Accompanying Independent Auditors' Report.

CHUUK STATE GOVERNMENT

GENERAL FUND

Statement of Revenues, Expenditures by Function and Department and Changes in Deficit, Continued  
Year Ended September 30, 1997

(With comparative totals for the year ended September 30, 1996)

	1997	1996
Expenditures by department, continued:		
Economic development:		
Administration	\$ 95,309	\$ 116,479
Land management	56,330	67,089
Marine resources	380,360	489,209
Agriculture	281,043	336,477
Labor	25,019	36,456
Historic preservation	20,130	24,341
Business and trades	65,050	68,611
Total economic development	923,241	1,138,662
Public works:		
Operations and maintenance	391,258	489,593
Electrical utilities	(19,294)	-
Total public works	371,964	489,593
Public safety	728,966	828,807
Transportation:		
Administration	435,032	506,109
Micro Vessels	334,480	348,491
Airport	119,912	130,849
Total transportation	889,424	985,449
Community affairs:		
Division of public affairs	97,844	103,297
Division of youth affairs	14,785	18,161
Division of information and broadcast	77,977	99,415
Total community affairs	190,606	220,873
Boards and commissions:		
Investment board	4,998	4,789
Election commission	73,172	176,975
Education board	18,000	20,438
Recreation board	18,031	16,162
Land commission	147,140	180,060
General election	222,856	(10,562)
Environmental Protection Agency	61,634	83,575
Truk Scholarship Board	152,325	-
Total boards and commissions	698,156	471,437
Other:		
Special programs	190,440	382,751
Legislative external appropriations	1,316,518	1,664,032
Uncollectible grants fund reserve and other	274,806	3,086,175
Total other	1,781,764	5,132,958
Total expenditures	17,748,148	24,378,633
Excess (deficiency) of revenues over (under) expenditures	3,506,165	(1,774,081)
Other financing sources (uses):		
Operating transfers out	(252,950)	(386,332)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	3,253,215	(2,160,413)
Deficit at beginning of year	(15,618,953)	(13,458,540)
Deficit at end of year	\$ (12,365,738)	\$ (15,618,953)

See Accompanying Independent Auditors' Report.

## CHUUK STATE GOVERNMENT

Special Revenue Funds  
September 30, 1997

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, 1997, 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.

See Accompanying Independent Auditors' Report.

**CHUUK STATE GOVERNMENT**

**SPECIAL REVENUE FUNDS**

Combining Balance Sheet

September 30, 1997

(With comparative totals as of September 30, 1996)

<u>ASSETS</u>	Chuuk	Chuuk	Federal	Other	CFSM	Compact	Compact Special	<u>Totals</u>	
	Visitors'	Airport	Grant	Grant		Other	Block Grant	1997	1996
	Bureau	Authority	Assistance	Assistance	Grant	Grants	Section 221(b)		
Cash and equivalents	\$ -	\$ -	\$ 9,816	\$ -	\$ -	\$ 26,196	\$ 225,284	\$ 261,296	\$ 516,032
Receivables:									
FSM National Gov't	-	-	2,243,127	21,928	220,985	13,548	88,167	2,587,755	2,471,438
Federal agencies, direct	-	-	79,933	-	-	-	-	79,933	173,267
General, net	263,940	-	1,900	-	-	-	-	265,840	134,952
Advances	-	-	117,665	831	58,636	11,490	14,747	203,369	137,073
Due from other funds	-	749,083	1,107,485	-	-	1,471,869	2,711,051	6,039,488	3,722,743
Allowance for uncollectibles	-	-	(2,093,093)	(21,928)	(74,864)	-	(88,167)	(2,278,052)	(2,278,052)
<b>Total assets</b>	<b>\$ 263,940</b>	<b>\$ 749,083</b>	<b>\$ 1,466,833</b>	<b>\$ 831</b>	<b>\$ 204,757</b>	<b>\$ 1,523,103</b>	<b>\$ 2,951,082</b>	<b>\$ 7,159,629</b>	<b>\$ 4,877,453</b>
<u>LIABILITIES AND FUND BALANCES (DEFICIT)</u>									
Liabilities:									
Accounts payable	\$ -	\$ -	\$ 819,345	\$ -	\$ 60,215	\$ 995,819	\$ 1,180,255	\$ 3,055,634	\$ 1,905,522
Accrued payroll and annual leave	-	-	35,062	-	-	-	-	35,062	-
Due to other funds	-	-	-	831	281,686	-	-	282,517	151,281
Payable to other governments	-	-	335,106	-	-	-	-	335,106	335,106
Deferred revenue	-	-	277,320	-	-	-	-	277,320	277,320
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>1,466,833</b>	<b>831</b>	<b>341,901</b>	<b>995,819</b>	<b>1,180,255</b>	<b>3,985,639</b>	<b>2,669,229</b>
Fund balances (deficit):									
Reserved for related assets	263,940	-	1,900	-	-	-	-	265,840	1,900
Reserved for encumbrances	-	-	156,413	985	41,028	182,158	141,622	522,206	1,388,131
Unreserved	-	749,083	(158,313)	(985)	(178,172)	345,126	1,629,205	2,385,944	818,193
<b>Total fund balances (deficit)</b>	<b>263,940</b>	<b>749,083</b>	<b>-</b>	<b>-</b>	<b>(137,144)</b>	<b>527,284</b>	<b>1,770,827</b>	<b>3,173,990</b>	<b>2,208,224</b>
<b>Total liabilities and fund balances (deficit)</b>	<b>\$ 263,940</b>	<b>\$ 749,083</b>	<b>\$ 1,466,833</b>	<b>\$ 831</b>	<b>\$ 204,757</b>	<b>\$ 1,523,103</b>	<b>\$ 2,951,082</b>	<b>\$ 7,159,629</b>	<b>\$ 4,877,453</b>

See Accompanying Independent Auditors' Report.

CHUUK STATE GOVERNMENT

SPECIAL REVENUE FUNDS

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

Year Ended September 30, 1997

(With comparative totals for the year ended September 30, 1996)

	Chuuk	Chuuk	Federal	Other	CFSM	Compact	Compact Special	Totals	
	Visitors'	Airport	Grant	Grant		Other	Block Grant	1997	1996
	Bureau	Authority	Assistance	Assistance	Grant	Grants	Section 221(b)		
<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	-	-	-	-	-	599,900	-	599,900	575,905
Section 212-base grant	-	-	-	-	-	250,000	-	250,000	250,000
Section 216(a)(3)-FSM	-	-	-	-	-	-	-	-	900
Federal contributions	-	-	757,096	-	-	-	-	757,096	1,213,278
Other	-	86,486	-	-	146,121	-	-	232,607	134,353
<b>Total revenues</b>	<b>-</b>	<b>86,486</b>	<b>757,096</b>	<b>-</b>	<b>146,121</b>	<b>2,260,787</b>	<b>2,730,000</b>	<b>5,980,490</b>	<b>6,315,323</b>
<b>Expenditures:</b>									
General government	-	-	-	-	-	36,767	-	36,767	-
Education	-	-	524,793	-	-	-	1,406,874	1,931,667	2,955,422
Health services	-	-	920	-	-	305,629	684,743	991,292	1,026,326
Public works and utilities	-	-	148,526	-	-	131,778	-	280,304	494,346
Public safety	-	-	-	-	146,121	-	-	146,121	1,421
Community affairs	-	-	(27,229)	-	-	261,496	-	234,267	299,262
Other	-	-	110,086	-	-	-	-	110,086	83,568
<b>Total expenditures</b>	<b>-</b>	<b>-</b>	<b>757,096</b>	<b>-</b>	<b>146,121</b>	<b>735,670</b>	<b>2,091,617</b>	<b>3,730,504</b>	<b>4,860,345</b>
<b>Excess of revenues over expenditures</b>	<b>-</b>	<b>86,486</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,525,117</b>	<b>638,383</b>	<b>2,249,986</b>	<b>1,454,978</b>
<b>Other financing sources (uses):</b>									
Operating transfers in	130,888	-	-	-	-	-	-	130,888	142,946
Operating transfers out	-	-	-	-	-	(1,415,108)	-	(1,415,108)	(1,033,612)
<b>Total other financing sources (uses), net</b>	<b>130,888</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,415,108)</b>	<b>-</b>	<b>(1,284,220)</b>	<b>(890,666)</b>
<b>Excess of revenues and other financing sources over expenditures and other financing uses</b>	<b>130,888</b>	<b>86,486</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>110,009</b>	<b>638,383</b>	<b>965,766</b>	<b>564,312</b>
<b>Fund balances (deficit) at beginning of year</b>	<b>133,052</b>	<b>662,597</b>	<b>-</b>	<b>-</b>	<b>(137,144)</b>	<b>417,275</b>	<b>1,132,444</b>	<b>2,208,224</b>	<b>1,643,912</b>
<b>Fund balances (deficit) at end of year</b>	<b>\$ 263,940</b>	<b>\$ 749,083</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (137,144)</b>	<b>\$ 527,284</b>	<b>\$ 1,770,827</b>	<b>\$ 3,173,990</b>	<b>\$ 2,208,224</b>

See Accompanying Independent Auditors' Report.

CHUUK STATE GOVERNMENT

SPECIAL REVENUE FUNDS

Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balances (Deficit)  
 Year Ended September 30, 1997  
 (With comparative totals for the year ended September 30, 1996)

	Chuuk	Chuuk	Federal	Other	CFSM	Compact	Compact Special	Totals	
	Visitors' Bureau	Airport Authority	Grant Assistance	Grant Assistance		Other Grants	Block Grant Section 221(b)	1997	1996
<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	-	-	-	-	-	599,900	-	599,900	575,905
Section 212-base grant	-	-	-	-	-	250,000	-	250,000	250,000
Section 216(a)(3)-FSM	-	-	-	-	-	-	-	-	900
Federal contributions	-	-	757,096	-	-	-	-	757,096	1,213,278
Other	-	86,486	-	-	146,121	-	-	232,607	134,353
<b>Total revenues</b>	<b>-</b>	<b>86,486</b>	<b>757,096</b>	<b>-</b>	<b>146,121</b>	<b>2,260,787</b>	<b>2,730,000</b>	<b>5,980,490</b>	<b>6,315,323</b>
<b>Expenditures:</b>									
Personnel	-	-	168,971	-	36,181	24,215	1,217,288	1,446,655	1,877,065
Travel	-	-	101,524	-	68,527	61,936	191,285	423,272	392,685
Contractual services	-	-	115,001	-	5,000	170,419	8,935	299,355	582,445
POL	-	-	-	-	1,731	-	96	1,827	406,640
Other :									
Equipment	-	-	28,433	-	525	-	2,336	31,294	89,830
Medical supplies	-	-	-	-	-	-	323,046	323,046	302,440
Supplies and materials	-	-	203,397	-	1,493	14,019	47,478	266,387	141,034
Scholarships	-	-	-	-	-	-	-	-	900
Food	-	-	-	-	-	-	260,722	260,722	746,950
Books	-	-	5,034	-	-	105,240	-	110,274	-
All others	-	-	-	-	-	359,841	-	359,841	25,482
Miscellaneous	-	-	134,736	-	32,664	-	40,431	207,831	294,874
<b>Total expenditures</b>	<b>-</b>	<b>-</b>	<b>757,096</b>	<b>-</b>	<b>146,121</b>	<b>735,670</b>	<b>2,091,617</b>	<b>3,730,504</b>	<b>4,860,345</b>
<b>Excess of revenues over expenditures</b>	<b>-</b>	<b>86,486</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,525,117</b>	<b>638,383</b>	<b>2,249,986</b>	<b>1,454,978</b>
<b>Other financing sources (uses):</b>									
Operating transfers in	130,888	-	-	-	-	-	-	130,888	142,946
Operating transfers out	-	-	-	-	-	(1,415,108)	-	(1,415,108)	(1,033,612)
<b>Total other financing sources (uses), net</b>	<b>130,888</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,415,108)</b>	<b>-</b>	<b>(1,284,220)</b>	<b>(890,666)</b>
<b>Excess of revenues and other financing sources over expenditures and other financing uses</b>	<b>130,888</b>	<b>86,486</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>110,009</b>	<b>638,383</b>	<b>965,766</b>	<b>564,312</b>
<b>Fund balances (deficit) at beginning of year</b>	<b>133,052</b>	<b>662,597</b>	<b>-</b>	<b>-</b>	<b>(137,144)</b>	<b>417,275</b>	<b>1,132,444</b>	<b>2,208,224</b>	<b>1,643,912</b>
<b>Fund balances (deficit) at end of year</b>	<b>\$ 263,940</b>	<b>\$ 749,083</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (137,144)</b>	<b>\$ 527,284</b>	<b>\$ 1,770,827</b>	<b>\$ 3,173,990</b>	<b>\$ 2,208,224</b>

See Accompanying Independent Auditors' Report.

## CHUUK STATE GOVERNMENT

Capital Projects Funds  
September 30, 1997

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, 1997, 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.

See Accompanying Independent Auditors' Report.

CHUUK STATE GOVERNMENT

CAPITAL PROJECTS FUNDS

Combining Balance Sheet

September 30, 1997

(With comparative totals as of September 30, 1996)

<u>Assets</u>	TTG Capital Projects	CFSM State Projects	Compact 211(a)(2) Capital Projects	Totals	
				1997	1996
Cash and equivalents	\$ -	\$ -	\$ 360,079	\$ 360,079	\$ 574,462
Investments	-	-	30,226,398	30,226,398	22,051,146
Investments - other	-	-	7,264,005	7,264,005	7,264,005
Receivable from:					
FSM National Government	-	92,991	-	92,991	-
Dept. of the Interior grants - TTG	766,415	-	-	766,415	855,430
Prepaid expenses	-	-	24,831	24,831	24,831
Advances	11,842	-	181,860	193,702	208,861
Loan receivable, other	-	-	7,000,000	7,000,000	7,000,000
Due from other funds	-	1,590	2,355,091	2,356,681	2,499,216
Allowance for uncollectibles	(762,349)	(93,081)	-	(855,430)	(855,430)
<b>Total assets</b>	<b>\$ 15,908</b>	<b>\$ 1,500</b>	<b>\$ 47,412,264</b>	<b>\$ 47,429,672</b>	<b>\$ 39,622,521</b>
<u>Liabilities and Fund Balances (Deficit)</u>					
<b>Liabilities:</b>					
Accounts payable	\$ 19,049	\$ 1,500	\$ 3,149,858	\$ 3,170,407	\$ 1,797,752
Due to other funds	91,920	-	-	91,920	91,920
Notes payable	-	-	329,179	329,179	329,179
<b>Total liabilities</b>	<b>110,969</b>	<b>1,500</b>	<b>3,479,037</b>	<b>3,591,506</b>	<b>2,218,851</b>
<b>Fund balances (deficit):</b>					
Reserved for:					
Related assets	-	-	14,288,836	14,288,836	14,264,005
Encumbrances	-	-	313,798	313,798	2,692,176
Continuing appropriations	-	-	17,406,152	17,406,152	19,763,410
Unreserved	(95,061)	-	11,924,441	11,829,380	684,079
<b>Total fund balances (deficit)</b>	<b>(95,061)</b>	<b>-</b>	<b>43,933,227</b>	<b>43,838,166</b>	<b>37,403,670</b>
<b>Total liabilities and fund balances (deficit)</b>	<b>\$ 15,908</b>	<b>\$ 1,500</b>	<b>\$ 47,412,264</b>	<b>\$ 47,429,672</b>	<b>\$ 39,622,521</b>

See Accompanying Independent Auditors' Report.



**CHUUK STATE GOVERNMENT**

**CAPITAL PROJECTS FUNDS**

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

Year Ended September 30, 1997

(With comparative totals for the year ended September 30, 1996)

	TTG Capital Projects	CFSM State Projects	Compact 211(a)(2) Capital Projects	Totals	
				1997	1996
<b>Revenues:</b>					
U.S. Compact of Free Association:					
Section 211 (a)(2) - base grant	\$ -	\$ -	\$ 6,144,000	\$ 6,144,000	\$ 7,833,600
Section 217 - inflation adjustment	-	-	3,072,000	3,072,000	3,760,128
U.S. Department of the Interior grants	4,066	-	-	4,066	119,371
<b>Total revenues</b>	<b>4,066</b>	<b>-</b>	<b>9,216,000</b>	<b>9,220,066</b>	<b>11,713,099</b>
<b>Expenditures:</b>					
Capital projects	4,066	-	2,116,144	2,120,210	6,855,178
Debt service-interest	-	-	665,360	665,360	665,360
<b>Total expenditures</b>	<b>4,066</b>	<b>-</b>	<b>2,781,504</b>	<b>2,785,570</b>	<b>7,520,538</b>
Excess of revenues over expenditures	-	-	6,434,496	6,434,496	4,192,561
<b>Other financing sources (uses):</b>					
Operating transfers out	-	-	-	-	(1,250,000)
Other income	-	-	-	-	4,916
Loss on investment	-	-	-	-	(379,656)
Excess of revenues and other financing sources over expenditures and other financing uses	-	-	6,434,496	6,434,496	2,567,821
Fund balances (deficit) at beginning of year	(95,061)	-	37,498,731	37,403,670	34,835,849
Fund balances (deficit) at end of year	\$ (95,061)	\$ -	\$ 43,933,227	\$ 43,838,166	\$ 37,403,670

See Accompanying Independent Auditors' Report.

CHUUK STATE GOVERNMENT

CAPITAL PROJECTS FUNDS

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

Year Ended September 30, 1997

(With comparative totals for the year ended September 30, 1996)

	TTG Capital Projects	CFSM State Projects	Compact 211(a)(2) Capital Projects	Totals	
				1997	1996
<b>Revenues:</b>					
U.S. Compact of Free Association:					
Section 211 (a)(2) - base grant	\$ -	\$ -	\$ 6,144,000	\$ 6,144,000	\$ 7,833,600
Section 217 - inflation adjustment	-	-	3,072,000	3,072,000	3,760,128
U.S. Department of the Interior grants	4,066	-	-	4,066	119,371
<b>Total revenues</b>	<b>4,066</b>	<b>-</b>	<b>9,216,000</b>	<b>9,220,066</b>	<b>11,713,099</b>
<b>Expenditures:</b>					
Personnel	-	-	70,509	70,509	94,961
Travel	4,066	-	185,992	190,058	300,569
Contractual services	-	-	312,187	312,187	2,100,584
POL	-	-	15,336	15,336	27,346
Other:					
Equipment	-	-	119,941	119,941	1,572,090
Supplies and materials	-	-	264,335	264,335	817,207
Food	-	-	7,615	7,615	-
All others	-	-	778,564	778,564	-
Debt service-interest	-	-	665,360	665,360	665,360
Miscellaneous	-	-	361,665	361,665	1,942,421
<b>Total expenditures</b>	<b>4,066</b>	<b>-</b>	<b>2,781,504</b>	<b>2,785,570</b>	<b>7,520,538</b>
Excess of revenues over expenditures	-	-	6,434,496	6,434,496	4,192,561
<b>Other financing sources (uses) :</b>					
Operating transfers out	-	-	-	-	(1,250,000)
Other income	-	-	-	-	4,916
Loss on investment	-	-	-	-	(379,656)
Excess of revenues and other financing sources over expenditures and other financing uses	-	-	6,434,496	6,434,496	2,567,821
Fund balances (deficit) at beginning of year	(95,061)	-	37,498,731	37,403,670	34,835,849
Fund balances (deficit) at end of year	\$ (95,061)	\$ -	\$ 43,933,227	\$ 43,838,166	\$ 37,403,670

See Accompanying Independent Auditors' Report.

## **CHUUK STATE GOVERNMENT**

### **Component Units-Proprietary Funds September 30, 1997**

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, 1997, 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 Public Utilities Corporation

The Chuuk Public Utilities Corporation provides electrical services to the public through the operation and maintenance of the State's electric power system.

See Accompanying Independent Auditors' Report.

CHUUK STATE GOVERNMENT

COMPONENT UNITS-PROPRIETARY FUNDS

Combining Balance Sheet

September 30, 1997

(With comparative totals as of September 30, 1996)

<u>ASSETS</u>	Chuuk Housing Authority	Chuuk Coconut Authority	Chuuk Public Utility Corporation	Totals	
				1997	1996
Cash and equivalents	\$ 795,054	\$ 1,630	\$ 27,424	\$ 824,108	\$ 986,759
General receivables, net of allowance for doubtful accounts for \$967,109	183,604	104,834	680,007	968,445	747,216
Loans receivables, net of allowance for doubtful accounts of \$601,095	1,117,428	-	-	1,117,428	1,071,213
Inventories	-	39,852	-	39,852	20,493
Other assets	6,432	6,270	-	12,702	33,358
Fixed assets, net	171,768	767,468	55,299	994,535	905,204
<b>Total assets</b>	<b>\$ 2,274,286</b>	<b>\$ 920,054</b>	<b>\$ 762,730</b>	<b>\$ 3,957,070</b>	<b>\$ 3,764,243</b>
<u>Liabilities and Fund Equity</u>					
Liabilities:					
Accounts payable	\$ 11,787	\$ 98,965	\$ 20,709	\$ 131,461	\$ 65,587
Accrued payroll and others	-	674	103,055	103,729	6,179
Notes payable	-	690,814	-	690,814	694,306
<b>Total liabilities</b>	<b>11,787</b>	<b>790,453</b>	<b>123,764</b>	<b>926,004</b>	<b>766,072</b>
Fund equity:					
Contributed capital	1,785,271	452,835	-	2,238,106	2,238,106
Retained earnings (deficit)	477,228	(323,234)	638,966	792,960	760,065
<b>Total fund equity</b>	<b>2,262,499</b>	<b>129,601</b>	<b>638,966</b>	<b>3,031,066</b>	<b>2,998,171</b>
<b>Total liabilities and fund equity</b>	<b>\$ 2,274,286</b>	<b>\$ 920,054</b>	<b>\$ 762,730</b>	<b>\$ 3,957,070</b>	<b>\$ 3,764,243</b>

See Accompanying Independent Auditors' Report.

**CHUUK STATE GOVERNMENT**

**COMPONENT UNITS-PROPRIETARY FUNDS**

Combining Statement of Revenues, Expenses and Changes in Fund Equity

Year Ended September 30, 1997

(With comparative totals for the year ended September 30, 1996)

	Chuuk Housing Authority	Chuuk Coconut Authority	Chuuk Public Utility Corporation	Totals	
				1997	1996
<b>Operating revenues:</b>					
Interest income	\$ 113,614	\$ -	\$ -	\$ 113,614	\$ 115,790
Sales	-	15,038	2,284,586	2,299,624	687,099
<b>Total operating revenues</b>	<b>113,614</b>	<b>15,038</b>	<b>2,284,586</b>	<b>2,413,238</b>	<b>802,889</b>
<b>Operating expenses:</b>					
Payroll and personnel	79,489	14,976	795,710	890,175	717,000
Fuel	2,075	1,323	1,669,968	1,673,366	1,159,487
Travel	26,074	2,884	49,377	78,335	23,440
Depreciation	21,764	1,294	9,083	32,141	23,963
Cost of sales	-	45,413	-	45,413	155,267
Bad debt	27,480	1,435	956,019	984,934	61,416
Rent	1,200	-	91,576	92,776	27,585
Other	26,336	47,758	204,565	278,659	921,266
<b>Total operating expenses</b>	<b>184,418</b>	<b>115,083</b>	<b>3,776,298</b>	<b>4,075,799</b>	<b>3,089,424</b>
<b>Operating loss</b>	<b>(70,804)</b>	<b>(100,045)</b>	<b>(1,491,712)</b>	<b>(1,662,561)</b>	<b>(2,286,535)</b>
<b>Nonoperating revenues (expenses) :</b>					
Transfers in	70,347	51,332	1,415,108	1,536,787	2,520,131
Payment to Coconut Development Authority	-	-	-	-	(4,956)
Federal contributions	38,244	-	83,439	121,683	36,856
Recovery of bad debt	23,082	-	-	23,082	39,951
Interest expense	(1,178)	-	-	(1,178)	(3,474)
Other income (expense)	-	32,454	(17,372)	15,082	22,181
<b>Total nonoperating revenues, net</b>	<b>130,495</b>	<b>83,786</b>	<b>1,481,175</b>	<b>1,695,456</b>	<b>2,610,689</b>
<b>Net earnings (loss)</b>	<b>59,691</b>	<b>(16,259)</b>	<b>(10,537)</b>	<b>32,895</b>	<b>324,154</b>
Retained earnings (deficit) at beginning of year	417,537	(306,975)	649,503	760,065	435,911
Retained earnings (deficit) at end of year	477,228	(323,234)	638,966	792,960	760,065
Contributed capital at beginning of year	1,785,271	452,835	-	2,238,106	2,020,266
Contributions	-	-	-	-	217,840
Contributed capital at end of year	1,785,271	452,835	-	2,238,106	2,238,106
<b>Total fund equity</b>	<b>\$ 2,262,499</b>	<b>\$ 129,601</b>	<b>\$ 638,966</b>	<b>\$ 3,031,066</b>	<b>\$ 2,998,171</b>

See Accompanying Independent Auditors' Report.



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

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

We were engaged to audit the general purpose financial statements of the State of Chuuk as of and for the year ended September 30, 1997. Our report dated September 9, 1998, stated that the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the general purpose financial statements due to; 1) our inability to determine that accounts payable and expenditures of the Governmental Fund Types were fairly stated; 2) our inability to form an opinion on the General Fixed Assets Account Group; 3) the omission of the State's eleven development authorities; 4) our inability to express an opinion on the Chuuk Coconut Authority, the Chuuk State Public Utility Corporation and the Chuuk Visitors Bureau; 5) 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; 6) the noninclusion of a potential Component Unit-Governmental Fund; 7) our inability to determine that continuing appropriations of the Capital Projects Funds were fairly stated, and; 8) our inability to obtain representation from the Chuuk State Attorney General regarding pending litigation and other legal matters.

### **Compliance**

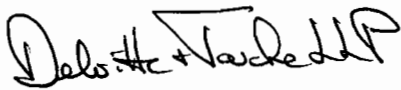
We performed tests of the State of Chuuk's compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, our objective was not to provide an opinion on compliance with those provisions and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings and Questioned Costs (pages 62 through 81) as items 97-13 and 97-L14 through 97-L18.

### **Internal Control Over Financial Reporting**

In planning the audit, we considered the State of Chuuk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of Chuuk's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 97-1 through 97-13.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions, and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 97-13 to be a material weakness.

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

A handwritten signature in black ink, appearing to read "Deloitte + Touche LLP". The signature is stylized and cursive.

September 9, 1998



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND  
INTERNAL CONTROL OVER COMPLIANCE APPLICABLE  
TO EACH MAJOR FEDERAL AWARD PROGRAM**

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

Compliance

We have audited the compliance of the State of Chuuk with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 1997. State of Chuuk's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 62 through 81). Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of State of Chuuk's management. Our responsibility is to express an opinion on State of Chuuk's compliance based on our audit.

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

As described in items 97-1 through 97-4 in the accompanying Schedule of Findings and Questioned Costs, the State of Chuuk did not comply with requirements regarding allowability (CFDA #84.256A), federal equipment standards (all programs), cash management (all programs) and unresolved prior years' federal findings (all programs). Compliance with such requirements is necessary, in our opinion, for State of Chuuk to comply with requirements applicable to its federal programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the State of Chuuk, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 1997.



### Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Chuuk State's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 97-1 through 97-4.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

### Schedule of Expenditures of Federal Awards

We were engaged to audit the general purpose financial statements of the State of Chuuk as of and for the year ended September 30, 1997. Our report dated September 9, 1998, stated that the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the general purpose financial statements due to; 1) our inability to determine that accounts payable and expenditures of the Governmental Fund Types were fairly stated; 2) our inability to form an opinion on the General Fixed Assets Account Group; 3) the omission of the State's eleven development authorities; 4) our inability to express an opinion on the Chuuk Coconut Authority, the Chuuk State Public Utility Corporation and the Chuuk Visitors Bureau; 5) 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; 6) the noninclusion of a potential Component Unit-Governmental Fund; 7) our inability to determine that continuing appropriations of the Capital Projects Funds were fairly stated, and; 8) our inability to obtain representations from the Chuuk State Attorney General regarding pending litigation and other legal matters. The accompanying schedule of expenditures of federal awards (pages 46 - 57) is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the general purpose financial statements. This schedule is the responsibility of the management of the Chuuk State Government. The scope of our work was not sufficient to enable us to express, and we do not express an opinion on the information in that schedule.

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

*Delo: H. + Vanda LLP*

September 9, 1998

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards  
FSM Federal Assistance Fund  
Year Ended September 30, 1997

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

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1997 Fiscal Year Expenditures
<u>U.S. Department of Education</u>			
FY-89 Chapter I	3147	84.151	\$ 5,754
Total CFDA #84.151			<u>5,754</u>
FY95 School Visions	3806	84.256A	595
PREL V.E.I.P. Year 4	3807	84.256A	22,346
Vocational Education Program	3805	84.256A	6,615
FY96 School Improvement Project	3808	84.256A	381,285
Vocation Education Improvement	3809	84.256A	23,431
Vocation Education Improvement	3810	84.256A	80,744
Total CFDA #84.256A			<u>515,016</u>
FY95 Special Education Program	7729	84.027	678
FY94 Special Education Program	7743	84.027	3,345
Total CFDA #84.027			<u>4,023</u>
Total U.S. Department of Education			<u>\$ 524,793</u>
<u>U.S. Department of Health and Human Services</u>			
FY93 Substance Abuse Prevention & Treatment	7473	93.959	\$ 80
Total CFDA #93.959			<u>80</u>
FY92 PH & PH	7766	93.991	120
Total CFDA #93.991			<u>120</u>
Total U.S. Department of Health and Human Services			<u>\$ 200</u>
<u>U.S. Department of the Interior</u>			
Road & Health Dispensary Repair	7893	15.875	\$ (29,929)
Total U.S. Department of the Interior			<u>\$ (29,929)</u>
<u>U.S. Department of Labor</u>			
FY90 JTPA Adult Program	3294	17.250	\$ 2,700
Total U.S Department of Labor (CFDA #17.250)			<u>\$ 2,700</u>

See accompanying notes to schedule of expenditures of federal awards.

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued  
FSM Federal Assistance Fund, Continued  
Year Ended September 30, 1997

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

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1997 Fiscal Year Expenditures
<u>Federal Emergency Management Agency</u>			
Hospital Auxiliary Generator	3869	83.516	\$ 54,190
Typhoon Owen Public Assistance	3820	83.516	80,015
FEMA PeaceSat Project	3825	83.516	4,222
Typhoon Yuri Public Assistance	3840	83.516	<u>25,850</u>
Total CFDA #83.516			<u>164,277</u>
Hazard Mitigation Broadcast	3854	83.519	<u>14,004</u>
Total CFDA #83.519			<u>14,004</u>
Total Federal Emergency Management Agency			<u>\$ 178,281</u>
<u>U.S. Environmental Protection Agency</u>			
Truk High School Connection Program	7580	66.418	<u>\$ 80,331</u>
Total Environmental Protection Agency (CFDA #66.418)			<u>\$ 80,331</u>
<u>Other Grants</u>			
TCP/Nutrition Program	3973	N/A	<u>\$ 720</u>
Total Other Grants			<u>\$ 720</u>
Total Federal Financial Assistance Fund			<u>\$ 757,096</u>

Notes: All the programs under CFDA #84.256A were received in a direct capacity from the U.S. Department of Education. All other programs are received in a subrecipient capacity through the FSM National Government.

N/A - The grant is provided by the United Nations and is not a U.S. program.

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures if Federal Awards, Continued  
TTPI Capital Projects Fund  
Year Ended September 30, 1997

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

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1997 Fiscal Year Expenditures
Weno Dock Rehabilitation	6662	15.875	\$ <u>4,066</u>
Total TTPI Capital Projects Fund			\$ <u><u>4,066</u></u>

See accompanying notes to schedule of expenditures of federal awards.

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued  
CFSM Special Revenue Fund  
Year Ended September 30, 1997

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

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1997 Fiscal Year Expenditures
Chuuk Joint Law Enforcement	9437	N/A	\$ <u>146,121</u>
Total CFSM Special Revenue Fund			\$ <u><u>146,121</u></u>

See accompanying notes to schedule of expenditures of federal awards.

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued  
Compact of Free Association Capital Projects Fund  
Section 211 (A)(2)  
Year Ended September 30, 1997

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1997 Fiscal Year Expenditures
<b>Section 211 (A)(2)</b>			
Tolensom Fishing Market	5001	15.875	\$ 390
Weno Fishing Project Supply	5002	15.875	3,091
Weno Water System Dev.	5004	15.875	41,723
Tonoas Farming Project	5009	15.875	12,431
Road Paving Repair	5011	15.875	21,629
Fefan Housing Project	5012	15.875	30,000
Paata Fishing Project	5013	15.875	3,500
Paata Seawall Project	5015	15.875	6,500
Paata Housing Revolving Loan Fund	5016	15.875	(39,139)
Paata Farming Project	5017	15.875	970
Houk Runway Supplemental	5019	15.875	1,795
Fefan Sapore Fishing Supplemental	5020	15.875	26,352
V6AK Radio & TV Complex	5022	15.875	16,106
Losap Water Project Supplemental	5025	15.875	15,000
Fefan Housing Supplemental	5030	15.875	20,000
Upper Mortlocks Sewing Project	5031	15.875	25,009
Pollap Dispensary Solar Lighting	5033	15.875	10,000
Winipo & IBM YTH. Beau. Project	5034	15.875	2,000
Fuun Metaw Drydocking	5035	15.875	26,955
MS. Toku Drydocking	5036	15.875	6,625
MS. Toku Drydocking	5037	15.875	1,030
Administration Cost/Paata Municipal Project	5040	15.875	2,537
Tunnuk-Weno Water Project	5043	15.875	5,468
Fefan Classroom Renovation Project	5045	15.875	2,274
Beautification-Fefan Mach	5046	15.875	48,800
Tunnuk-Weno Seawall	5049	15.875	3,576
Mechitiw Weno Seawall	5052	15.875	500
Disaster Typhoon Dale Relief	5053	15.875	71,093
Tunnuk (Weno) Sewing Project	5055	15.875	10,010
Tunnuk (Weno) Fishing Project	5057	15.875	20,693
Ufo Elementary School Basketball Court	5058	15.875	585
Feffan Kukku Fishing Project	5059	15.875	9,355
Land Lease Tonoas Nafou	5061	15.875	40,000
School Site Lease	5062	15.875	100,000
Sapore (Fefan) Fishing Project	5063	15.875	3,005
Mech. Weno/Public Building Renovation	6029	15.875	7,000
State CIP Land Damage Claim	6039	15.875	(1,000)
Tonoas CIP 1.5% Admin. Cost	6052	15.875	618
N. Namon E.C. & S.D. Dev.	6055	15.875	3,415
Restoration Program	6141	15.875	316
Moen Junior High School FY87	6148	15.875	9,519
Project Administration	6149	15.875	7,681
Sewer System FY88	6150	15.875	245
Garment Industry	6152	15.875	1,848
Power Plant Generator	6173	15.875	2,392
Typhoon Owen Dis. Rel. Fund	6175	15.875	8,702
Nepukos Water Tanks	6176	15.875	195
Saraman Chuuk Junior High School	6185	15.875	5,848
Nukanap (Weno) Fishing Development	6187	15.875	202
Tunuk Fishing Development Project	6215	15.875	1,880
Subtotal			<u>598,724</u>

See accompanying notes to schedule of expenditures of federal awards.

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued  
Compact of Free Association Capital Projects Fund  
Section 211 (A)(2), Continued  
Year Ended September 30, 1997

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1997 Fiscal Year Expenditures
Balance forwarded			\$ 598,724
Tunuk Water Project	6237	15.875	483
Epinup Fishing Project	6253	15.875	820
Tol Road Upgrade	6254	15.875	10,000
Typhoon Elsie Relief Fund	6273	15.875	130,682
Pollap Piggery Project	6276	15.875	453
Preliminary Engineering Design	6284	15.875	257
Parem Fishing Project	6303	15.875	1,993
Kuttu Fishing Project	6314	15.875	644
Power Generation & Distribution	6327	15.875	317
Weno Soc./Econ. Development Project	6352	15.875	440
Parem Shoreline	6358	15.875	305
Fono Site Lease & Purchase	6372	15.875	50
Fefan Municipal Office Complex	6374	15.875	805
Fefan Pub. Road Upgrade	6375	15.875	24,016
Fefan Pub. Road Upgrade	6377	15.875	65,253
Fefan Pub. Road Upgrade	6378	15.875	1,202
Typhoon Owen Disaster	6404	15.875	11,345
Road (Tunnuk-Sapuk)	6405	15.875	16,167
Water Project	6408	15.875	6,802
State CIP Implement/Tr. & Crops	6425	15.875	2,680
Project Admin. Cost	6426	15.875	(226)
Fefan Fishing Project	6487	15.875	(1,000)
Dublon Fisheries Complex	6490	15.875	579
Ufo (Fefan) Water System	6496	15.875	(125)
Polle Marketing Project	6506	15.875	24,599
Administrative Cost 1.5%	6518	15.875	840
Airport Fuel Aprons Sup.	6542	15.875	239
Polle Municipal Office	6564	15.875	6,707
Handicraft Market Promotion	6568	15.875	5,008
Chukram Dock- Polle	6570	15.875	4,403
Eppin Annuk Dock-Polle	6571	15.875	46,946
Contingency Fund	6572	15.875	616
Project Admin.-State CIP	6573	15.875	3,084
Broiler/Hatchery	6586	15.875	(1,675)
State Facilities Rehabilitation	6595	15.875	2,019
Nechap Dock Project-Tonoas	6605	15.875	2,631
Airport Terminal Parking	6619	15.875	190
Dublon Taro Patch Development	6627	15.875	1,568
Weno Administrative Cost	6628	15.875	3,699
Agriculture (Swin Development Project)	6632	15.875	714
Agriculture (Food Crop Development Project)	6633	15.875	(2,855)
Power Generation (Power Module)	6638	15.875	652
CIP Contingency	6644	15.875	4,833
Fefan Municipal Office	6654	15.875	2,847
Chuuk International Airport	6661	15.875	8,040
Paata Housing Project	6664	15.875	1,530
Uman Road & Dock Major Upgrade	6833	15.875	6,196
Pollap Dispensary Project	6858	15.875	(20,376)
Satowan Sub Power & Facilities	6870	15.875	2,295
Subtotal			977,416

See accompanying notes to schedule of expenditures of federal awards.



**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued  
Compact of Free Association Capital Projects Fund  
Section 211 (A)(2), Continued  
Year Ended September 30, 1997

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1997 Fiscal Year Expenditures
Balance forwarded			\$ 977,416
Manaio (Polle) Seawall	6876	15.875	(7,568)
Onoun Sub-State Center	6881	15.875	1,200
Pollap Community Center	6884	15.875	1,289
Wichap Fishing Project	6896	15.875	4,980
Tonesom Road Project Supplement	6907	15.875	13,995
Onoun Housing Project	6922	15.875	16,532
Nukanap (Parem) C.C.R.	6925	15.875	3,061
Chuuk Tuna Cannery	6943	15.875	88,902
Road/Community Equipment Northwest	6945	15.875	892
Nomwin Fishing Development Project	6971	15.875	1,709
Nomwin Fishing Development Project	6973	15.875	296
Sefin Mud Retention Wall	6979	15.875	339
Fefan Fishing Project	6984	15.875	2,580
Fefan Market Project	6985	15.875	4,969
Paata Coop.	6995	15.875	1,437
Electricity & Solar Power Generator	6999	15.875	1,104
Chuuk Tuna Cannery	8504	15.875	86,939
Chuuk US/EDA Water Upgrade	8506	15.875	6,631
Chuuk Hospital Renovation	8510	15.875	1,036
Road Paving Supplement	8513	15.875	41,899
Udot B. Bl. Ct. & P. Bld.	8514	15.875	(50)
Romalum Water Co. Sp.	8518	15.875	10,413
Polle Public Building Con.	8539	15.875	1,677
Polle Water Project	8540	15.875	2,818
Chuuk Agriculture Development	8541	15.875	1,500
Nema Court and Municipal	8548	15.875	2,139
Pafeng J.H.S. Con.	8557	15.875	23,527
Moch Land Reclaim	8575	15.875	3,757
Uman Nukanap Water Supply	8577	15.875	86
Nepukos Sewing Project	8582	15.875	7,129
S. Namon Junior High Fence	8592	15.875	6,883
Fuun Metaw Drydocking	8600	15.875	276
INS/ACT/COV	8601	15.875	726
Namoluk Ice Plant	8604	15.875	8,843
Lukunor Runway Project	8610	15.875	2,171
Satowan Dock Upgrade	8613	15.875	33,743
Fefan Meseiku Market	8622	15.875	5,452
Iras Auto Repair Shop	8624	15.875	964
Udot Dispensary Project	8627	15.875	(86)
Fefan FSN Fishing Project	8638	15.875	937
Udot Village Meeting Hall	8641	15.875	4,650
Nepukos School Anx. Sup.	8644	15.875	323
Human Resources Development & Training	8646	15.875	1,191
Administration Cost Weno	8647	15.875	1,932
Kuttu Office Complex	8654	15.875	3,402
Fefan Rock Crushing Plant	8668	15.875	929
Polle Sapou Farm Project	8674	15.875	1,574
Polle Chukram Fishing Project	8675	15.875	1,000
Subtotal			<u>1,377,544</u>

See accompanying notes to schedule of expenditures of federal awards.

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued  
Compact of Free Association Capital Projects Fund  
Section 211 (A)(2), Continued  
Year Ended September 30, 1997

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1997 Fiscal Year Expenditures
Balance forwarded			\$ 1,377,544
Polle Chukram Fishing Project	8684	15.875	6,218
Onoun Road/Runway Maintenance	8686	15.875	11,320
Tamatam Fishing Project Supplement	8702	15.875	112
Tonoas Livestock Project	8707	15.875	58
Oneop Drydocking-IKK	8708	15.875	4,238
Fono Municipal Office	8710	15.875	200
Newotes (Nepukos) Public Bl. Su.	8713	15.875	22,000
Tol School Construction Improvement	8718	15.875	15,000
Lukunoch Copra Warehouse	8723	15.875	3,100
Tol Fishing Supplement Project	8724	15.875	4,980
Road Paving Supplemental	8732	15.875	42,516
Paata Coop Supplemental	8733	15.875	714
Micro Vessels Drydocking	8740	15.875	116,605
Department of C & I Relocation	8741	15.875	40,000
Fefan Road Supplemental	8745	15.875	(250)
Ta Runway Repair & Land Surv. Sup.	8747	15.875	3,186
Peniesene (Weno) Access Road	8759	15.875	550
Soputiw Farming Project	8770	15.875	748
Paata/Etiemar/Nukaf Dispensary	8774	15.875	8,578
Paata Community Center Supplement	8775	15.875	1,193
Paata Water Project	8778	15.875	1,064
Wonei Community Centers	8782	15.875	4,000
Neauo (Weno) Water Project	8789	15.875	754
Oneop Seawall and Road Project Supp.	8797	15.875	7,745
Pattiw Dispensary Site Purchase	8804	15.875	9,083
Weno Secondary Road Repair	8805	15.875	1,935
Saramen Chuuk Academy School	8806	15.875	4,565
Amwachang (Tol) Seawall Construction	8814	15.875	325
Fuun Metaw Drydocking	8816	15.875	15,881
Polle Youth Centers	8819	15.875	1,380
Pentecost Academy School	8822	15.875	7,674
Weno Water Development & Upgrade	8824	15.875	4,450
Etten Water Project Suppl.	8827	15.875	2,500
Tonoas Road Upgrade Suppl.	8829	15.875	1,559
Tonoas Power Distribution	8830	15.875	1,762
Mwanukun Uman Road Repair	8832	15.875	24,307
Tol Public Building Project	8833	15.875	1,200
Wichap Office Building Site Purchase	8836	15.875	845
Iras Project (Loan)	8840	15.875	12
Tonoas Heavy Equipment Supplement	8842	15.875	2,372
Tonoas Public Facility Repair	8843	15.875	1,785
Inaka (Fefan)	8848	15.875	13,710
Fefan School Site Lease & Claim	8850	15.875	8,617
Winipis (Weno) Water Supp.	8852	15.875	5,000
Kuttu Dock Project	8861	15.875	1,637
Kuttu Municipal Complex Building	8863	15.875	11,250
Subtotal			<u>1,794,022</u>

See accompanying notes to schedule of expenditures of federal awards.

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued  
Compact of Free Association Capital Projects Fund  
Section 211 (A)(2), Continued  
Year Ended September 30, 1997

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1997 Fiscal Year Expenditures
Balance forwarded			\$ 1,794,022
West Fefan School Repair	8875	15.875	5,650
Weno Court/Jail Complex	8876	15.875	8,179
Sefin Piggery Project	8896	15.875	233
Tonoas Fishing Project	8898	15.875	7,056
Kuttu Road & Seawall Project	8899	15.875	697
St. Cecilia Toilet Repair	8900	15.875	(900)
Tol Community Cenetrs	8901	15.875	2,432
Fefan Water System	8904	15.875	400
Satowan Unpaid Claims	8906	15.875	6,000
Penia (Weno) Water Project Supplement	8910	15.875	6,600
Weno Public Building Repair	8914	15.875	1,500
Kuttu Island Power Supp.	8922	15.875	23,000
Nomwin Housing Supp.	8924	15.875	5,642
N. Namon Public Building Rep. & Sup.	8931	15.875	7,061
Lekinioch Runway Supp.	8932	15.875	800
Oneop Fishing Development Supp.	8933	15.875	4,310
Kukku Fefan Water Project	8937	15.875	1,500
Udot Ice Plant	8945	15.875	41,000
Udot Ice Plant Regional	8946	15.875	(11,000)
Epinup Fishing Project	8947	15.875	(30,000)
St. Julia School Repair	8949	15.875	7,771
Weno Sewing Project	8950	15.875	800
Tol CIP Related Claim	8952	15.875	10,000
Pattiw High School Construction	8959	15.875	21,935
Fono Nepono Fishing Project	8960	15.875	4,600
Siis Dispensary Construction	8969	15.875	8,120
Magur Housing Project	8970	15.875	10,960
Nomwin Toilet Facility	8971	15.875	11,507
Fefan Agriculture Project	8975	15.875	4,250
Fefan Handicraft Markets	8979	15.875	1,403
Eot Housing Loan Fund Supplement	8980	15.875	45,085
Fefan Housing Authority	8981	15.875	49,021
Fono Admin Cost 1.5% Project	8983	15.875	885
Fono Admin Cost 1.5% Project	8985	15.875	990
Fono Admin Cost 1.5% Project	8986	15.875	1,014
Fono Admin Cost 1.5% Project	8987	15.875	881
Fono Admin Cost 1.5% Project	8988	15.875	659
Fono Admin Cost 1.5% Project	8989	15.875	918
Fono Admin Cost 1.5% Project	8990	15.875	503
Nama Civic Center Project	8991	15.875	7,620
Epinup/Weno Administration Building	8992	15.875	1,670
Epinup/Weno Administration Building	8993	15.875	13,475
Epinup/Weno Administration Building	8995	15.875	250
Weno Youth Beautification	8996	15.875	9,029
Tonoas Fishing Project	8997	15.875	15,000
Payment of MTN-Interest	N/A	15.875	665,360
Other	N/A	15.875	13,616
Total Compact of Free Association Capital Projects Fund-Section 211(A)(2)			<u>\$ 2,781,504</u>

See accompanying notes to schedule of expenditures of federal awards.

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued  
Compact of Free Association Capital Projects Fund  
Section 211 (A)(2), Continued  
Year Ended September 30, 1997

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

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued  
Compact of Free Association - Other Grants Fund  
Year Ended September 30, 1997

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

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1997 Fiscal Year Expenditures
<b>Section 212</b>			
-Civic Action Team	2182	15.875	\$ 261,497
-Chuuk Airport	2186	15.875	<u>23,288</u>
			<u>284,785</u>
<b>Section 214-Energy</b>			
-Public Works Administration	2183	15.875	52,990
-Government utilities	2781	15.875	452,545
-Trans. Admin. Fuel	2783	15.875	55,500
-Chuuk Public Utility Corporation	2784	15.875	962,563
-Inauguration 1997	2786	15.875	<u>36,766</u>
			<u>1,560,364</u>
<b>Section 216(a)(2)</b>			
-Health & Medical	2901	15.875	<u>305,629</u>
<b>Total Compact of Free Association - Other Grants Fund</b>			<b><u>\$ 2,150,778</u></b>

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

Audited expenditures per the general purpose financial statements	\$ 735,670
Operating transfer out to Chuuk Public Utilities Corporation	<u>1,415,108</u>
	<b><u>\$ 2,150,778</u></b>

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

See accompanying notes to schedule of expenditures of federal awards.

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued  
Compact of Free Association  
Special Block Grant Fund Section 221(B)  
Year Ended September 30, 1997

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1997 Fiscal Year Expenditures
Communicable Diseases	2004	15.875	\$ 114,659
Mental Health	2005	15.875	32,336
Medical Supplies	2120	15.875	178,620
Medical Supplies & Materials	2121	15.875	536
Medical Supplies	2123	15.875	358,591
Food Services	2128	15.875	332,112
Elementary Education	2129	15.875	679,555
VRS-SBG	2135	15.875	42,902
Secondary Education	2142	15.875	91,761
Education Special Services	2148	15.875	<u>260,545</u>
Total Compact of Free Association Special Block Grant Fund Section 221(b)			<u>\$ 2,091,617</u>

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

See accompanying notes to schedule of expenditures of federal awards.

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards  
Year Ended September 30, 1997

1. Scope of Review

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

A. Programs Subject to Single Audit

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

- U.S. Environmental Protection Agency
- 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. Federal Emergency Management Agency

2. Summary of Significant Accounting Policies

A. Basis of Accounting

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

B. Reporting Entity

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

C. Subgrantees

Certain program funds are passed through the State to subgrantee organizations. The Schedule of Expenditures of Federal Awards does not contain separate schedules disclosing how all the subgrantees outside of the State's control utilize these funds.

D. Indirect Cost Allocation

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

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards  
Year Ended September 30, 1997

3. Component Units

The State of Chuuk's component units separately satisfy the requirements of OMB Circular A-133. The following presents information concerning the respective component units.

Chuuk Utilities Corporation

The Chuuk Utilities Corporation, a component unit - proprietary fund, is the recipient of various pass-through funds from Chuuk State and a direct grant from the U.S. Department of the Interior. No material instances of noncompliance or questioned costs are presented in the 1997 audit. The following Schedule of Expenditures of Federal Awards is extracted from the Authority's audit.

<u>Grantor Agency/Program</u>	<u>CFDA#</u>	<u>Fiscal Year 1997 Expenditures</u>
U.S. Department of the Interior: Compact of Free Association: Energy (214B)	15.875	\$ 1,415,108
Operations and Maintenance Improvement Programs (OMIP) Chuuk 91-1 (a direct grant)	15.875	<u>83,439</u>
Total expenditures		<u>\$ 1,498,547</u>

Chuuk State Housing Authority

The Chuuk State Housing Authority, a component unit - proprietary fund, is a subrecipient of various pass-through funds as explained hereunder. The following Schedule of Expenditures of Federal Awards is extracted from the Authority's audit. No material instances of noncompliance or questioned costs were presented in the 1997 audit.

<u>Grant Title</u>	<u>Grantor Agency</u>	<u>CFDA No.</u>	<u>1997 Expenditures</u>
Section 8 Housing Assistance Program	HUD	14.156	\$ <u>38,244</u>

This funding was received in a direct capacity.

Loan Funds:

As of September 30, 1997, \$916,838 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.

As of September 30, 1997, 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, 1997, \$713,656 of loans were outstanding under this program.



**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards  
Year Ended September 30, 1997

3. Component Units, Continued

Chuuk State Housing Authority, Continued

Additionally, as of September 30, 1997, \$88,029 of loans made out of U.S. federal assistance received under the Housing Preservation Grant (HPG), CFDA #10.438, 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.

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Schedule of Programs Selected For  
Audit in Accordance with OMB Circular A-133  
Year Ended September 30, 1997

<u>Grantor</u> <u>Program Title</u>	<u>CFDA No.</u>	<u>1997</u> <u>Fiscal Year</u> <u>Expenditures</u>
<u>U.S. Dept. of the Interior</u>	15.875	
Compact of Free Association:		
211(A) Capital Account		\$ 2,781,504
221(B) Block Grant		2,091,617
216(A)(2) Health and Medical Programs		305,629
214(B) Energy Programs		<u>1,415,108</u>
Total Major Programs Under CFDA # 15.875 excluding Compact Section 211 (A) Current Account expenditures		6,593,858
 <u>U.S. Department of Education</u>		
FY96 School Improvement Project	84.256A	<u>514,421</u>
Total U.S. Federal program expenditures selected excluding Compact Section 211 (A) Current Account expenditures		\$ <u>7,108,279</u>
Total U.S. Federal program expenditures excluding Compact Section 211 (A) Current Account expenditures		\$ <u>7,784,341</u>
% of total U.S. Federal expenditures covered by major programs excluding Compact Section 211 (A) Current Account expenditures		<u>91.3%</u>

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 1997

**Part I - Summary of Auditors' Results**

1. The Independent Auditors' Report on the financial statements disclaimed an opinion.
2. Reportable conditions in internal control over financial reporting were identified, one of which is considered to be a material weakness.
3. Instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. Reportable conditions in internal control over compliance with requirements applicable to major federal award programs were identified, none of which are considered to be material weaknesses.
5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed a qualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. The State's major programs were:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
U.S. Department of the Interior - Compact of Free Association	15.875
U.S. Department of Education - FY96 School Improvement Project	84.256A

8. A threshold of \$300,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The State did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

**Part II - Financial Statement Findings Section**

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
97-5	Prior Year Internal Control Findings	\$ -
97-6	Invoices and Cash Receipts	\$ -
97-7	Reconciliation	\$ -
97-8	Payroll	\$ -
97-9	Purchases, Payables and Disbursements	\$ -
97-10	Payroll	\$ -
97-11	Payroll	\$ -
97-12	Electronic Data Processing	\$ -
97-13	Municipalities	\$ -

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1997

**Part III - Federal Award Findings and Questioned Cost Section**

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
97-1	Travel Advances	\$ 16,125
97-2	Equipment Management	\$ -
97-3	Cash and Investments	\$ -
97-4	Previous Years' Findings	\$ -
97-L14	Bidding Procedures	\$ -
97-L15	Use of Compact Capital Funds	\$ -
97-L16	Use of Compact Capital Funds	\$ -
97-L17	Use of Compact Capital Funds	\$ -
97-L18	Use of Compact Current Account Funds	\$ -

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1997

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>																											
97-1. U.S. Dept. of Education/School Improvement Program -CFDA #84.256A	<p><u>Criteria:</u> Federal expenditures incurred should be necessary and reasonable for program needs.</p> <p><u>Condition:</u> Supporting documentation provided was not sufficient to enable us to determine if the following travel related expenditures were necessary and reasonable to program needs. This finding results from a sample of twenty-five items aggregating \$73,693 out of total program expenditures of \$381,285 of which approximately \$53,380 relates to payroll expenses.</p> <table border="0" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: left;"><u>Check No.</u></th> <th style="text-align: left;"><u>TA No.</u></th> <th style="text-align: right;"></th> </tr> </thead> <tbody> <tr> <td style="text-align: left;">2729</td> <td style="text-align: left;">A70032</td> <td style="text-align: right;">\$ 2,147</td> </tr> <tr> <td style="text-align: left;">1062</td> <td style="text-align: left;">A70315</td> <td style="text-align: right;">1,420</td> </tr> <tr> <td style="text-align: left;">1815</td> <td style="text-align: left;">A70032</td> <td style="text-align: right;">3,645</td> </tr> <tr> <td style="text-align: left;">187039</td> <td style="text-align: left;">A70031</td> <td style="text-align: right;">3,212</td> </tr> <tr> <td style="text-align: left;">1073</td> <td style="text-align: left;">A70316</td> <td style="text-align: right;">1,354</td> </tr> <tr> <td style="text-align: left;">1062</td> <td style="text-align: left;">A70030</td> <td style="text-align: right;">2,347</td> </tr> <tr> <td style="text-align: left;">2729</td> <td style="text-align: left;">A70316</td> <td style="text-align: right;"><u>2,000</u></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>16,125</u></td> </tr> </tbody> </table>	<u>Check No.</u>	<u>TA No.</u>		2729	A70032	\$ 2,147	1062	A70315	1,420	1815	A70032	3,645	187039	A70031	3,212	1073	A70316	1,354	1062	A70030	2,347	2729	A70316	<u>2,000</u>			<u>16,125</u>	
<u>Check No.</u>	<u>TA No.</u>																												
2729	A70032	\$ 2,147																											
1062	A70315	1,420																											
1815	A70032	3,645																											
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1073	A70316	1,354																											
1062	A70030	2,347																											
2729	A70316	<u>2,000</u>																											
		<u>16,125</u>																											
	<u>Cause:</u> The cause of this condition is unknown.																												
	<u>Effect:</u> Questioned costs results from this condition.																												
	<u>Recommendation:</u> The State should ensure that expenditures incurred are necessary and reasonable for program needs.																												
	Total Questioned Costs	\$ <u>16,125</u>																											

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1997

**Administrative Requirements - Equipment Management**

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
97-2.	All	<p>The Common Rule for Uniform Administrative Requirements for Federal Grants, Section 33 (d) (2) requires that a physical inventory of property acquired with federal funds be performed at least every two years and that the inventory be reconciled to property records.</p> <p><u>Condition:</u> A physical inventory of property has not been performed in over two years.</p> <p><u>Cause:</u> The cause of this condition is unknown.</p> <p><u>Effect:</u> The effect is noncompliance with the Administrative Requirements over federal grants.</p> <p><u>Prior Year Status:</u> This condition was reported in the Chuuk State Government Single Audit Report for fiscal year 1996.</p> <p><u>Recommendation:</u> We recommend that a physical inventory of property be taken and the results reconciled to the property records at least once every two years.</p>	

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1997

**Cash and Investments**

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
97-3.	All	<p>Reconciliation of bank accounts is a key control in any accounting system.</p> <p><u>Condition:</u> Bank accounts were not reconciled in a timely manner and on a periodic basis during fiscal year 1997.</p> <p><u>Cause:</u> The cause appears to be due to the State not following prescribed control procedures.</p> <p><u>Effect:</u> A possibility of misappropriation of funds could go undetected. Additionally, an uncertainty exists as to whether all transactions have been recorded. Because of this uncertainty, we are unable to determine whether compliance with grant terms and conditions has occurred.</p> <p><u>Prior Year Status:</u> This condition was reported in the Chuuk State Government Single Audit Report for fiscal year 1996.</p> <p><u>Recommendation:</u> We recommend that all checking accounts be reconciled on a monthly basis.</p>	

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1997

97-4. **Previous Years' Federal 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
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.



**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1997

**Prior Year Internal Control Findings**

**Finding No. 97-5**

**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, 1997:

<u>Finding No.</u>	<u>Description</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, Revenue 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.

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1997

**Invoices and Cash Receipts**

**Finding No. 97-6**

**Criteria:** An adequate system of internal controls provides preventive and detective controls over errors and irregularities.

**Condition:** During the course of our audit, the following problems were noted:

1. Some invoices were never input into the system.
2. Some invoices were input twice.
3. Some cash receipts were never input into the system.
4. Some cash receipts were input twice.

**Cause:** The cause of this deficiency was the lack of an organized system of processing invoices and receipts.

**Effect:** As a result of these problems, the possibility of the State producing accurate, timely and reliable data is minimized.

**Recommendation:** It is recommended that the State establish an adequate filing system, particularly for invoices not matched to APV's, and that all invoices and cash receipts are restrictively stamped "processed" and "input" once they have been entered into the system.

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1997

**Reconciliation**

**Finding No. 97-7**

**Criteria:** An adequate system of internal control requires that general ledger control balances be supported by a detailed subsidiary ledger.

**Condition:** Balances per the State's subsidiary ledger records do not agree with those per suppliers' statements and/or confirmation.

**Cause:** No reconciliation procedures exist to effectuate reconciliation between the general ledger and the subsidiary ledger.

**Effect:** Two effects result from this condition. The first is that individual vendor balances are not accurately stated and thus payments made may be incorrect. The second is that the total payable balance may be materially misstated.

**Recommendation:** In order to prevent such discrepancies, we recommend that monthly reconciliations between the subsidiary ledger, general ledger and suppliers' invoices be performed.

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1997

**Payroll**

**Finding No. 97-8**

Criteria: Payroll payments should be made based on rates set forth in related personnel action forms.

Condition: Of 105 payroll transactions tested, 29 occasions arose where the pay rate per the payroll register deviated from the pay rate documented in the personnel action file.

Cause: The payroll department has no formal policy with respect to required documentation or systematic procedures for filing payroll documents.

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

Recommendation: We recommend that a complete review of personnel files be performed to ensure that pay rates per the system are in accordance with authorized pay rates per personnel action forms.

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1997

**Purchases, Payables and Disbursements**

**Finding No. 97-9**

**Criteria:** Effective internal control over encumbrances requires periodic review to determine the validity of aged balances.

**Condition:** Approximately \$444,381 in fiscal year 1997 and prior encumbrances were listed as outstanding at September 30, 1997. Chuuk State could not produce supporting encumbering documents to validate such.

**Cause:** Although we noted that certain aged balances were adjusted, it does not appear that there are established procedures to ensure that a periodic review of aged encumbrances is performed on a regular basis.

**Effect:** The reserve for encumbrances appears to be materially misstated.

**Recommendation:** We recommend that periodic reviews of encumbrances be performed to determine the validity of long outstanding encumbrances. If this review determines the presence of invalid encumbrances, we recommend that they be adjusted, so the balance of the reserve for encumbrances reflects only valid encumbrances.

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1997

**Payroll**

**Finding No. 97-10**

**Criteria:** Sufficient documentation should exist to support employee deductions and current employee pay rates.

**Condition:** Employee personnel files were not updated by personnel action forms or authorized deduction forms. In addition, the personnel files had no systematic filing arrangement.

**Cause:** The payroll department has no formal policy with respect to required documentation or systematic procedures for filing payroll documents.

**Effect:** Sufficient, competent evidential matter does not exist to support employee deductions and instances were noted where employee pay increases were not implemented until weeks after the official date.

**Recommendation:** A complete analysis of the payroll processing and filing cycle should be initiated, reviewed and documented to ensure the timely recording and proper documentation of changes.

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1997

**Payroll**

**Finding No. 97-11**

**Criteria:** An adequate system of internal control provides that access to personnel files is limited to avoid misplacement or misuse of files.

**Condition:** Substantial difficulty occurred in attempting to locate personnel files.

**Cause:** Personnel files do not appear to be adequately controlled.

**Effect:** The effect of the above condition is the lack of control over personnel files.

**Recommendation:** Access to files should be limited to authorized individuals. File disposition should be monitored by the person in charge of the payroll department.

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1997

**Electronic Data Processing**

**Finding No. 97-12**

**Criteria:** An adequate system of internal control requires adequate insurance coverage for equipment and data.

**Condition:** There is no insurance coverage on the EDP equipment or data.

**Cause:** The State of Chuuk self-insures its assets. Therefore, insurance coverage on the EDP equipment has not been explored.

**Effect:** Should the EDP equipment and data be destroyed, the State will be subject to a significant loss of equipment and data. The loss of data would require significant time and expense to recreate.

**Recommendation:** We recommend that adequate insurance coverage be considered for EDP equipment and financial data.



**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1997

**Municipalities**

**Finding No. 97-13**

**Criteria:** Entities receiving funds should adequately account for those funds.

**Condition:** Municipalities do not appear to have formal accounting systems.

**Cause:** No program has been established to train the treasurers of the municipal governments and development authorities.

**Effect:** It is possible that unauthorized or unrecorded cash disbursements could occur without being detected, budgeted spending authority could be exceeded, and there is presently no control at the State level to ensure that funds are expended in accordance with State laws and regulations at the municipal level.

**Recommendation:** We recommend that a formal program be implemented to train the treasurers of the municipal governments and development authorities how to operate a simple accounting system. This training should cover establishing a disbursement journal, a cash receipts journal, retention of invoices and other evidential matter to support expenditures, preparation of monthly bank reconciliations, Chuuk State procurement standards and policies, and how to create quarterly financial reports for submission to the Finance department.

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1997

**Bidding Procedures**

97-L14. 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 State has not enforced local and federal bidding requirements in its procurement practices.

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

Prior Year Status: The above condition was cited as a finding in the Chuuk State Government Single Audit for the fiscal years 1995 and 1996.

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

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1997

**Use of Compact Capital Funds**

97-L15. **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. The State expended approximately \$160,260 in fiscal year 1997 for dry-docking.

**Cause:** Chuuk State Government may be unaware that normal repair and maintenance expenses are not allowable uses of Compact Capital funds.

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

**Prior Year Status:** The above condition was cited as a finding in the Chuuk State Government Single Audit for the fiscal years 1995 and 1996.

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

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1997

**Use of Compact Capital Funds**

97-L16. 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 based on documentation provided by the State, if expenditures incurred for land leases and claims are allowable uses of Compact CIP funds. The State incurred approximately \$168,037 for land leases and claims during fiscal year 1997.

Cause: Chuuk State Government may be unaware that general land leases and claims are not allowable uses of Compact Capital funds.

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

Prior Year Status: The above condition was cited as a finding in the Chuuk State Government Single Audit for the fiscal years 1995 and 1996.

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

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1997

**Use of Compact Capital Funds**

97-L17. 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 based on documentation provided, if expenditures for repairs and renovation incurred in fiscal year 1997 are allowable uses of Compact CIP funds. The State expended approximately \$201,764 for repair and renovation projects in fiscal year 1997.

Cause: The State may be unaware that normal repair and maintenance expenditures are unallowable uses of Compact CIP funds.

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

Prior Year Status: The above condition was cited as a finding in the Chuuk State Government Single Audit for the fiscal years 1995 and 1996.

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

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1997

**Use of Compact Current Account Funds**

97-L18. Criteria: The Financial Management Act mandates that all expenditures of public funds be properly accounted for.

Condition: No accounting for the annual appropriations of Compact Current Account funds to the municipalities exists at this time.

Cause: No program has been established to train the Treasurers of municipal governments and development authorities in basic accounting.

Effect: Possible noncompliance with the Financial Management Act and noncompliance with subrecipient monitoring requirements could be the result of this condition.

Prior Year Status: The above condition was cited as a finding in the Chuuk State Government Single Audit for the fiscal years 1995 and 1996.

Recommendation: We recommend that the State attempt to resolve this finding by implementing a formal program to train the treasurers of the municipal governments and development authorities on how to operate a simple accounting system to account for municipal expenditures.

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Resolution of Prior Years' Findings and Questioned Costs  
Year Ended September 30, 1997

For the year ended September 30, 1997, the following questioned costs were noted and prior year questioned costs resolved:

	Questioned Costs Set Forth in Prior Audit Report <u>1996</u>	Questioned Costs Resolved in Fiscal Year <u>1997</u>	Questioned Costs at <u>September 30, 1997</u>
Unresolved Questioned Costs FY 84	\$ 221,836	\$ (221,836) (1)	\$ -
Unresolved Questioned Costs FY 85	193,164	(193,164) (1)	-
Unresolved Questioned Costs FY 86	685,713	(685,713) (1)	-
Unresolved Questioned Costs FY 87	833,896	(833,896) (1)	-
Unresolved Questioned Costs FY 88	4,350,427	(4,350,427) (1)	-
Unresolved Questioned Costs FY 89	779,850	(779,850) (1)	-
Unresolved Questioned Costs FY 90	1,337,063	(1,337,063) (1)	-
Unresolved Questioned Costs FY 91	167,352	(167,352) (1)	-
Unresolved Questioned Costs FY 92	39,367	(39,367) (1)	-
Unresolved Questioned Costs FY 94	208,439	(208,439) (1)	-
Unresolved Questioned Costs FY 95	59,131	(10,025) (1)	49,106
Unresolved Questioned Costs FY 96	-	-	-
Unresolved Questioned Costs FY 97	<u>-</u>	<u>-</u>	<u>16,125</u>
 Total unresolved questioned costs	 \$ <u>8,876,238</u>	 \$ <u>8,827,132</u>	 \$ <u>65,231</u>

- (1) Findings have been reported to federal agencies for in excess of the two year threshold, costs were forgiven under the laws of the Compact of Free Association and its subsidiary agreements, or the amount of the original questioned cost was less than the \$10,000 threshold established by OMB Circular A-133.



FEDERATED STATES OF MICRONESIA  
OFFICE OF THE GOVERNOR  
STATE OF CHUUK  
CHUUK, EASTERN CAROLINE ISLANDS 96942

TELEX: 7296833 GOV TRUK  
TELEFAX: (691) 330-4396

DEPARTMENT OF TREASURY

November 9, 1998

Deloitte & Touche  
P.O. Box 753  
Kolonia, Pohnpei, FM 96941  
Fax No. (691) 320-5402

Dear Sir:

Herewith is submitted our response to the FY 1997 audit findings.

We have completely modified our accounting operation in our attempt to meet all accounting and grant requirements. Procedures, applications and personnel have been changed to address our problems. We hope that you feel that this effort has been worthwhile. We have appreciated your assistance and encouragement in the past years to meet all the standards. We especially have made an effort in cash reconciliation in FY 1998 because of the supervising auditor's emphasis in this area. The cash reconciliations have been balanced perfectly from the cash accounts to our accounting records in FY 1998.

We hope that we have significantly reduced the effort the supervising auditor has had to provide in previous years in the closing process.

Sincerely,

Nick L. Andon  
Acting Director of Treasury  
Chuuk State

attachments:



**Audit Response  
FY 1997  
11/7/1998**

Number 97-1 Dept of Education/School Improvement Program

No supporting documents – travel expenditures.

The travel section staff will meet with the responsible traveler and work with that person to provide a voucher for that trip. If we cannot locate that person by January 30<sup>th</sup>, we will withdraw the claim and charge the general fund operation organization responsible for the administration of the travel..

Vouchers will be submitted to the audit agency on or before January 30, 1999.

Number 97-2 EQUIPMENT MANAGEMENT

Chuuk State will use the new amendment to the FSM financial management act for fixed asset accounting. The new law provides for fixed asset accounting for items 150,000 and over.

The computer chief will provide a database for the inventory listing by November 30, 1998.

The Procurement Officer will obtain a list of inventory items meeting the 150,000 requirement.

The Procurement Officer will enter the transactions into the database. The Procurement Officer will provide the automated listing to the Director of Finance by January 31, 1999.

Number 97-3 CASH AND INVESTMENTS

A College graduate with a major in accounting has been appointed to Chief of Reconciliation Section. The accountant evaluated cash management policy and procedures with the Director and other staff. A draft of the cash management procedure has been written. The Director will submit the draft to the auditors on November 18, 1998.

PLEASE SEE LAST PAGE FOR  
AMENDMENT TO THIS FINDING

The procedure simplifies cash management, reducing the bank accounts from over 20 to 6.

In FY 1998, the Chief obtained a complete inventory of all cash accounts and reconciled every account to the exact penny as of the end of the year. The Chief ensured that all transactions for FY 1998 were posted to the system based on the reconciliation of the physical cash tied directly to our accounting records through the general ledger cash accounts. This has been a substantial improvement in the accounting operation and we remain committed to the standards established in FY 1998. The Director is authorizing the closing of the unnecessary cash accounts. The Chief will implement the closing of the accounts and transfer of funds by January 31, 1998 to meet the requirements of the new procedure. We will provide the cash reconciliations to the audit agency on November 18, 1998.

#### Number 97-4 and Number 97-5

We feel that the internal control problems have been corrected as requested by the auditors in the FY 1997 findings or resolved by the new law presented by the auditors covering prior year questioned costs.

#### Number 97-6 INVOICES AND CASH RECEIPTS

INVOICES: Finance has drafted a new procedure for purchasing and voucher processing. Accounts Payable has created one in-box for unpaid invoices. Procedure will be submitted to audit agency on November 18, 1998. Accountants will process invoices sequentially from the in-box. All invoices must be processed within 3 days. As vouchers are created based on the invoice, the vouchers are batched and posted to the system immediately. After entry, the batch is updated by the accountant. If the batch is updated successfully, the vouchers are immediately filed before proceeding to the next group of invoices. Attachment of the voucher shows that the voucher has been processed so a second voucher cannot be created.

In addition we will reduce the number of transactions that are paid manually and/or direct charged. We find that will also reduce duplicate invoices.

CASH RECEIPTS: Cash reconciliation has been performed for FY 1998. Cash reconciliation will ensure that transactions are posted correctly.

#### Number 97-7 RECONCILIATION OF ACCOUNT PAYABLES

To address compliance with control over system reconciliation, Chuuk State implemented a new accounting system to assist in this area. As a result for the year ending FY 1998, the detail accounts payable records balance to the summary records. We will provide this information to the audit agency on November 18, 1998.

To address improvement in agreement of balances between Chuuk State records and the vendors, we have improved communication by providing encumbrance liquidation reports to the vendors. The report enables vendors to identify invoices that may not be paid but at least processed. For unprocessed invoices they know to submit or resubmit the invoices. Vendors have noted a significant improvement in invoice processing for FY 1998. We will continue to improve communication with the vendors in FY 1999.

We also have drafted procedures to increase assurance that submitted invoices are processed and posted to the system. The Director will submit the draft purchasing and voucher processing procedure to the audit agency on November 18, 1998 for review.

#### Number 97-8 PAYROLL RATE CORRECTION

Payroll will provide a listing of pay rates by employee to the Personnel Office. Personnel will review the rates against their personnel action file. Corrections will be annotated to the report and submitted to the Director of Finance by January 31, 1998.

Payroll will enter the correction by the next pay period. Payroll will provide Personnel an updated listing of pay rates by employee. Personnel will review the listing against their corrected listing to ensure that the changes were correctly entered.

Personnel will be responsible to maintain a permanent file of current pay rates for each employee.

Personnel will be responsible to make a spot check of rates each pay period with a comprehensive check once a year.

Payroll will maintain locked filing cabinets for filing of personnel actions. Personnel actions will be filed by employee number.

A payroll procedure will be drafted and submitted to the audit agency for review by November 18, 1998.

#### Number 97-9 PURCHASE, PAYABLE and DISBURSEMENT

Finance has drafted a new procedure for purchasing and voucher processing. The Director will submit the procedure for review to the audit agency. The procedure includes encumbrance reconciliation. An encumbrance reconciliation was performed for the closing of FY 1998 using the encumbrance report by organization code by encumbrance number.

The Chief of Finance will maintain responsibility to ensure each accountant maintains a file of encumbrances by organization code to support every encumbrance posted.

Our objective is to maintain effective documentation support by the end of FY 1999.

#### Number 97-10 PAYROLL DEDUCTIONS AND PAY RATES

See 97-8 for pay rates.

In FY 1998, payroll made an effort to ensure that all loan deductions were posted to the agreement of the vendors and employee. Since that time, we have had no significant complaints from the vendors or employees. Payroll normally enters deductions and pay rate changes for each pay period if the change is submitted before Wednesday in the week previous to the pay day.

We will assign the Payroll staff to accumulate all complaints of consistently unresponsive postings of deductions in a register to determine if further action is needed. Since deductions are a service to the employee, we do not want to maintain documentation for deduction records since we will enter a correction immediately based on the input of the employee irrelevant of the deduction record previously submitted. In effect, acceptance of the payroll check by the employee will constitute documentation that the employee considers their deductions correct. The workload of filing and maintaining deduction records in limited space and time would force us to reconsider the provision of that service. There is a large volume of deduction changes that come through each pay period. Any employee who does not receive adequate service for their deductions is advised to submit the complaint to the Deputy Director.

#### Number 97-11 PAYROLL DOCUMENTATION FILING

See 97-8. Filing and checking applied rates will be maintained by Personnel. Personnel has the ability to secure files while Payroll does not. Payroll is in an open area.

#### Number 97-12 ELECTRONIC DATA PROCESSING

Since the cost of hardware is now so low, the insurance cost for the hardware appears unnecessary. The cost of a server is about \$7500. A PC user station is about \$1000.

In replacement of insurance, we will maintain a second operating server to which we can immediately switch processing if we have failure on the main server. We will maintain a maintenance budget to support the purchase of a new server every 3 years to minimize the chance of failure. If there is a failure, we will request modification to the budget if our established budget does not accommodate replacement. FSM National government plans to provide a temporary replacement if National Government plans are finalized as expected.

Tape backups will be stored in procurement and supply office on a weekly basis and rotated monthly. Monthly backups will be mailed to FSM Finance monthly and rotated annually.

Number 97-13 MUNICIPAL APPROPRIATIONS

The Governor of Chuuk State has directed the Finance Department to process all municipal employees through the payroll accounting system and all purchase orders to be processed under finance and supply regulations and procedures. The Chief of Supply and Procurement, and the Deputy Director of Finance Mr. Becky Robert have been assigned the duties and responsibilities to ensure the implementation.

As far as training as suggested by the auditors, we have already implemented a comprehensive training program by the Department of Agriculture. If the audit agency suspects that there are better training alternatives we will be willing to participate. But as pointed out by the auditors we have obtained no results from the Municipalities thus far. We think the problem may be related to motivation and interest rather than lack of knowledge. If accounting is required, this is the only option we think may work. However, if any Municipality wishes to initiate accounting, we suggest that the municipality initiates parallel processing with the State. At the end of the year we would request the audit agency to provide us assurance that the records are adequate. Upon receiving assurance, we will transfer responsibility to that municipality beginning for the new fiscal year and eliminate processing at the State level. The risk of liability for the State is very great at this time.

Number 97-14 BIDDING PROCEDURES

The regulations are in place, and the Chief of Supply and Procurement is responsible for the implementation. In the new procedures, any purchase \$10,000 and over is reviewed by the Governor so the Governor will be directly responsible for returning contracts to procurement \$15,000 and over without bidding documentation. The Governor will be responsible for returning personal property purchases \$40,000 and over without a bidding documentation. The new purchasing and voucher processing procedure submitted to the audit agency on November 18, 1998 will be amended to include the bidding specification. The bidding document will be included with the encumbrance for easy access by the auditors and approving officials(Director and Governor).

Number 97-15 USE OF COMPACT CAPITAL FUNDS.

The dry docking was necessary to extend the life span on the ships. The Attorney General of Chuuk State Mr. Maketo Robert will provide the opinion on this issue.

Number 97-16 USE OF COMPACT CAPITAL FUNDS

The Attorney General of Chuuk State will submit his finding and opinion on this issue.

Number 97-17 USE OF COMPACT CAPITAL FUNDS

The State of Chuuk views this renovation as a major renovation, and the Compact Capital Funds does allow for major renovation, The Attorney General Mr. Robert will also submit his finding and opinion on this issue.

Number 97-18 USE OF COMPACT CURRENT ACCOUNT FUNDS

See 97-13. We will initiate processing at the State level until a Municipality demonstrates adequate processing capability in a parallel processing mode.

**FINANCE OFFICE PROCEDURE**  
**FISCAL YEAR END CLOSING**  
**Procedure 1**

The finance office staff is responsible for preparing the books for the annual audit by Deloitte Touche. The closing procedures should be completed no later than November 15 of each year. Timeliness is an important accounting standard. Deloitte Touche will prepare GAAP formatted annual financial statements for Chuuk State but Chuuk State must be responsible for providing the information. Our goal is to reduce the time the auditors assist in the preparation of the audit and increase their time in the audit itself. The staff must provide the following requirements for audit initiation:

1. **Cash reconciliation** - Perfect cash reconciliation for all checking and savings accounts must be established. All bank account statements must reconcile to the trial balance cash position to the penny. Post all transactions. Eliminate all unbooked transactions. Provide a schedule of all savings and checking accounts with the general ledger account reference, bank account number, bank account name and purpose of the account.
2. **Review Outstanding Checks and Remove Outdated Checks** – Cash reconciliation must review the outstanding check list every year. Any outstanding checks older than one year should be removed. The bank cannot cash any check dated older than one year. Establish a general ledger account for replacement checks. Analyze each year to increase or decrease based on past activity. The write-off for outdated outstanding checks is performed with a journal voucher debiting cash and crediting an expenditure account or crediting the reserve for replacement checks up to the target amount as determined by policy. If a replacement check is issued for a check from the prior year, we issue a new check and charge the reserve general ledger account. Each year the reserve is replenished as we write off checks from the outstanding check list. An historical tracking of replacement checks provides us with information to determine the amount of the reserve target in the replacement check liability account.
3. **Encumbrance reconciliation - nontravel**. Non-travel encumbrances older than 3 months must be de-encumbered or the invoices identified for entry of account payable and expenditure with liquidation of the encumbrance. Provide encumbrance listings by vendor to problematic vendors or vendors who request information. These vendors can resubmit invoices if encumbrances show invoice has never been processed against encumbrance. Contact department staff as necessary. Off-Island purchase orders need to be handled on case by case basis. Attempt to obtain e-mail address contact with each off-island requisition and post to purchase order record to allow for later follow-up with vendor. Voucher must be entered into the correct fiscal year based on when the goods or services were received.
4. **Encumbrance liquidation – travel** – Review all outstanding travel advances. Travel advances cannot be charged against grant projects because the expenditure is not reimbursable without a valid voucher submitted. Uncollectable advances are a write off to the responsible general fund organization. To avoid this situation, refer to the advance accounting and collection procedure. Travel voucher must be entered into the

allowing the information to combine with current year activity resulting in a valid base for fund certification. The computer Chief will roll the grant carryforward as the accountants complete reconciliation and the Chief of Finance approves.

10. **Review all funds other than general fund.** Fund balance for all funds other than the general fund usually require that fund balance is zero. Normally for grants, the project costs are equal to the revenue created during the reimbursement process. At year end, if revenue is greater than expenditures, we need to create a deferred revenue liability account representing cash received before earned. If expenditures are greater, then we create a receivable to represent revenue earned but cash not yet received. If we have excess expenditures over budget, these costs represent charges to the general fund and we need to charge the general fund before closing. If we do not make this entry, we falsely overstate fund balance. The Finance Chief is responsible to discuss these decisions with the auditors as needed.
11. **Fixed assets** – Obtain listings of fixed assets. Enter total assets through a journal voucher to the system debiting fixed assets and crediting reserve for fixed assets or the credit account normally suggested by the auditors. Chuuk State follows FSM Financial Management Act which includes fixed asset accounting for items of \$150,000 or greater.
12. **System reconciliation** – The computer chief needs to issue system reconciliation reports proving system balance and integrity for the subsidiary and general ledgers, the purchase order subsystem, the accounts payable subsystem, the cashed check subsystem and the payroll subsystem. The various relationships must balance perfectly. In the past, the auditors used the standard of materiality to accept unbalanced relationships but we want to raise our internal standards so that we present only information that maintains perfect data integrity. The computer chief needs to issue the following reports that prove system integrity and balance:
  - recon – Internal ledgers and purchase order subsystem
  - rrcpay – Account payables subsystem
  - rckp5 – payroll subsystem
13. **Audit trail and documentation filing** – auditability is that ability to trace summary amounts from the ledgers through the system and finally to the source supporting documents. The ability to trace records from a system record to source documents is the detail record key field. A tc50 expenditure record in the system maintains the voucher number. This voucher must be accessible in the files sequenced by voucher number. If an auditor selects a TC50 record for audit, the auditor should be able to access the document on his own though he may request staff assistance. Auditability is a function of tracing summary accounting information through detailed records to specific supporting documentation. The accounts payable supervisor is responsible to ensure that all vouchers are filed by voucher number. A similar process is important for checks, journal vouchers and cash receipts.
14. **Load all opening balances**
  - Opening balances in funds other than the general fund 10 is offset against the due to/from 100. In the general fund, the due to/from is established based on the offset to fund balance. 100s need to net to zero.



- In general fund, opening balances are offset against fund balance. The offset of existing assets and liabilities after writeoff of deficits from the other funds, to the general fund, results in the true deficit position of Chuuk

**15. Audit adjustments** – Ensure all audit adjustments are entered directly into the system rather than entered into manual documents. Resulting ending balances in prior year must equal beginning balance in current year. Audit adjustments can be entered into period 13 by dating transaction entered into prior year, October 1 or later and opening period 13 in the control table.

**16. Financial Reports** – Chief of Reconciliation will provide the following reports to the auditors:

- Trial balance
- Expenditure and Revenue report summarized by fund by department for the general fund. By fund by department by grant for other funds.
- Accounts payable report as of 9/30/1998.
- Accrued leave report as of 9/30/1998.
- Accrued payroll journal voucher transaction report for FY 1998/1999 and FY 1997/1998
- Computer access to a menu for detail financial reports for use during the audit.

**17. Fiscal Year Closing** – Chuuk State will target the closing of the system for all entries except audit adjustment on or about November 15 of each year

**18. Initial Audit Conference** – Each year, the Chuuk State needs to schedule an initial audit meeting to officially present the auditors with the financial information necessary for the audit. The Chief of Reconciliation will gather all the necessary material together and present to the auditors.

**FINANCE OFFICE PROCEDURE**  
**TRAVEL ADVANCE ACCOUNTING AND COLLECTIONS**  
**Procedure 2**

**A. Document Flow**

1. Travel authorizations are transmitted to travel section for review of travel cost calculations.
2. Travel section transmits authorization to funds control for fund certification. If funds are not approved, the authorization is returned to the initiating department with explanation within 2 days of receipt.
3. If funds are available, the document is transmitted to the Director of Finance or designate.
4. If approved, the authorization is transmitted to the Governor or designate. Approval is based on appropriateness to appropriation objectives or grant project requirements. For grants, inappropriate travel will become questioned costs that must be eventually absorbed by the general fund.
5. If the travel is approved, the travel authorization is transmitted directly to the travel section.
6. If no advance is required, travel enters and posts an encumbrance in the system.
7. If the travel authorization requests an advance
  - If a previous advance remains with the traveler based on the manual advance ledger and the traveler has not negotiated a settlement with the traveler, the advance is denied.
  - If the traveler is not an employee, the traveler cannot receive more than one advance at any one time. The previous advance must be paid in full.
  - If a previous advance remains and the traveler did negotiate a settlement with the traveler, the advance is reduced to 80% of encumbrance.
  - If there are no outstanding advances, the travel accountant provides 100% of encumbrance as advance.
  - The travel accountant enters the authorization in the travel invoice entry program
    - A TC50 a/p record is created for the advance
    - A TC70 encumbrance record is created for the travel authorization with a memo record of the advance in line item 99 of the encumbrance record.
8. Upon return from the trip, the traveler submits the voucher within 15 days of returning from the trip.
9. The travel accountant must process all vouchers within 3 days of receipt of voucher to maintain accuracy in the advance ledger.
10. The travel accountant will enter the voucher in the invoice with encumbrance program. If there was an advance issued, the system will provide a collection line against the encumbrance in the amount of the advance. If the traveler owes more than one advance, the travel accountant will increase the collection beyond the advance associated with this voucher, up to the full amount of the voucher.
11. If the advance is not fully collected by the voucher offset, the travel accountant must notify the traveler.

## **B. Payroll Cash Collection Process for Uncollected Travel Advances**

1. If a cash collection is not received within two weeks, the travel accountant must issue a collection notification to the payroll staff, providing the amount of the collection. The payroll staff can collect over a period of payrolls, collecting about 25% to 50% of the check each week until fully collected.
2. The payroll staff will establish a travel advance collection general ledger number 690 in the account index and payroll allotment number 690 in the payroll allotment tables. No check will be issued so no vendor number is required in the vendor master.
3. Treasurer will transmit the payroll allotment collection list to the accounts payable section each payroll. Treasurer receives all the allotment listings with the issued allotment checks. The travel advance listing will not be issued with a check.
4. The travel accountant enters a journal voucher using TC63, debiting 66-695 and crediting 10-280. The accountant must enter the traveler vendor number in the first 6 bytes of the description field so that the transactions are correctly formatted to accumulate by vendor number on the travel advance report by vendor. The encumbrance number is entered in the second description field.

## **C. Cash Receipt Processing for Travel Advances**

1. Traveler submits cash to cash collection section.
2. Traveler must maintain receipt for travel advance payment for verification by travel section in case cash receipt not correctly entered.
3. Cash receipt entry person must enter the vendor number for the traveler in the first 6 characters of the cash entry program so the travel advance report by vendor accumulates advance transactions by the vendor number.
4. Cash collection section transfers a copy of cash receipts for travel advance account to the travel advance accountant.
5. The travel advance accountant enters the cash receipt record into the manual advance ledger by vendor.

## **D. Manual Advance Ledger Reconciliation**

1. The travel accountant must issue the travel advance report by vendor once per month.
2. The travel accountant reconciles the computer report to the manual advance ledger and makes corrections as necessary.
3. The travel accountant ensures that all payroll advance collections are initiated as requested by travel as necessary.
4. The travel accountant ensures that payroll responds to all collection requests.

#### **E. Procedures For Write Off to the General Fund**

1. Collection notifications to the department supervisor and to the traveler are initiated by the travel accountant after 2 week of return from travel.
2. If no voucher is submitted within 2 weeks of return from travel, a payroll advance collection notification is submitted to the payroll section.
3. If collection is not made for any reason, the travel accountant must charge the general fund organization code responsible for initiating travel. The TC63 journal voucher credits the advance account 10-280 and debits the travel expenditure account and organization code. The vendor number is entered in the first 6 characters of the JV description field so the transaction can accumulate with the other records of that vendor. This is performed one year after the completion date of travel in the beginning of the next new fiscal year. This guarantees clearance of all travel authorizations and advances after on year of travel. For grants, finance cannot claim travel without a filed travel voucher.

correct fiscal year based on actual travel period. Materiality may be considered, eg. If travel occurred 1 days into new fiscal year, you would not make an effort to split expenditure between fiscal years. Travel authorizations should be issued with recognition of cutoff necessitating 2 travel authorizations for lengthy travel periods crossing fiscal year.

5. **Rollover of Encumbrances** – Computer Chief will roll over encumbrances from the old year to the new year based on timing and specifications by Chief of Finance.. Expenditures for the prior year need to be entered since the expenditures liquidate the encumbrances. In addition the encumbrances must be reconciled, with all invalid encumbrances removed before encumbrances are carried forward. Complete this process as soon as possible since FY 1999 account payables are arriving for liquidation against the encumbrances rolled over to FY 1999. The recommended target date for rollover should be about October 30, 1998. That provides over 1 month for vendors to submit missing or final invoices for prior year. Even if all payables are not entered, rollover can be initiated. If an invoice for prior year does arrive after the rollover date, the encumbrance in the current year must be de-encumbered while returning to the prior year to add the accounts payable and liquidate the prior year encumbrance if prior year is not yet closed. The rollover requires us to add the extra task of de-encumbering the rolled over encumbrance in the current year in certain circumstances such as expenditure is posted to prior year after rollover but before closing. General fund encumbrances need to include the creation of a prior year appropriation carryforward. For grants, the prior year appropriation carryforward requirement does not exist since grant appropriations from prior year continue to be active into the new year for active grants.
6. **General receivable and liability accounts** - Detailed manual listing by customer or vendor for all receivable or liability accounts reconciled to the trial balance. This includes the following general ledger balances:
  - Travel advances by vendor number for account 280
  - Payroll advances not collected for account 698
7. **Fund 66 payroll allotment clearing accounts.** All the general ledger accounts that represent vendor allotments must be zero. If they are not, there probably was an unauthorized manual entry to the account. As the payroll system posts the payroll journal voucher, the general ledger recognizes the allotment liabilities. As the payroll system creates the allotment vendor accounts payable, the liability is debited and cleared. Since this process is fully automated, manual intervention is necessary for the liability accounts not to zero. Obtain a report of the unauthorized entries to the clearing accounts and correct
8. **Review overall 66 fund trial balance.** In fund 66, balances should remain only in the 100 due to/from, the 600 cash account and the 699 accrual account. The 100 is automated, the cash must trace to the payroll cash reconciliation to the penny. The accrual is automated so the review should be simple. Check the accrual detail to the specific payroll that was. All other balances should be zero including the payroll advance account since we don't have the need to issue advances now.
9. **Grant carryforwards** – Fortunately we do not have many grant fund accounting requirements. The largest grant fund that requires no year accounting is the CIP grants. Prior year grant information needs to be loaded into the prior year buckets.

**FINANCE OFFICE PROCEDURE**  
**PAYROLL**  
**Procedure 3**

**A. Time Sheets and Entry Control**

1. Time keepers will batch total time sheet by pay type, footing and cross footing.
2. Payroll staff will not accept time sheets if not footed and crossfooted correctly.
3. Payroll staff enter time sheets and compare to detail hours entry report by time sheet organization code. Each organization time sheet total must match the entry report by pay type.
4. After completion, the computer staff will run the summary control total report and match to time sheet totals. If incorrect, the time sheet is returned to payroll until the control totals match.

**B. Payroll Updating**

1. If the computer section gives the approval, payroll can run the edit reports.
2. The payroll staff review and correct as needed.
3. The payroll staff transmits the system reconciliation edits to the computer staff and the financial information edit reports to the Director or designate for review.
4. If the Director approves and the computer staff acknowledge that the system is reconciled for that payperiod, the payroll is updated by the computer section.
5. The computer section transmits checks and listings to the Director or designate for signing.
6. Computer section prints the allotment checks.
7. The payroll staff prints the allotment listings.
8. Checks follow section E of cash management procedure.

**C. Payroll Error Policy**

The current policy of finance is that we will process a supplemental payroll if we make an error on time sheet entry. Errors are defined as differences in time sheet submission in comparison with data entry records. Since our error rate has been zero consistently for many pay periods, we have not processed many supplemental payrolls.

This status has eliminated the necessity for manual payroll advances which reduce internal control and tend to introduce errors into the system.

If in the future, an emergency of an unexpected nature requires the use of a payroll advance, the following procedure is followed:

1. The payroll advance is issued as a direct charge in the accounts payable system, using the general fund bank account, 125 and charging the payroll advance account 66-698.
2. The check is made out for the amount of the expected net check rounded down to the nearest \$5.

3. Payroll establishes an allotment against the employee in the amount of the advance check, using allotment vendor 698. 698 represents collections for finance.
4. Payroll enters hours for the previous payroll and the current payroll.
5. The system collects the advance amount and automatically posts the credit to 66-698 offsetting to zero the advance amount posted to 66-698 by the advance check issuance process. No allotment check is issued by the system. No further tasks are necessary.

**D. Pay Rate and Distribution Internal Control Check**

1. Personnel will maintain filing of all personnel actions for employees. Files will be secured.
2. An action is transmitted to Payroll for posting.
3. Payroll posts action by the next payday if submitted by Wednesday, the week before payday.
4. Payroll files action by employee number in files.
5. Payroll will submit a report of pay rates paid after each pay period by employee number.
6. Personnel will perform a spot check on rates and distribution paid compared to personnel action. A comprehensive check will be performed in the first pay period of each new fiscal year.
7. Personnel reports any errors to the Director of Finance. Errors are logged for audit review.

FINANCE OFFICE PROCEDURE  
CASH MANAGEMENT  
Procedure 4

Cash management procedure provides the direction for preservation and efficient use of cash resources.

**A. Cash Account Structure**

Finance will maintain the following cash account structure:

Savings Accounts:

1. General Fund
2. Early Retirement
2. CIP

Checking Accounts:

1. General Fund - BOG
2. Payroll - BOG
3. Early Retirement - FSM
4. CIP

No other cash account is authorized.

**B. Flow of Cash**

General

1. Tax Office will deposit local revenue to the general fund checking account.
2. Compact Funds. Federal Grant drawdowns will be deposited to the general fund savings account.
3. CIP funds will be deposited to the CIP savings account.
4. Bi-weekly payroll cash requirement will be transferred from the general fund savings account to the payroll checking account. Allotment cash requirement will be transferred from general fund saving to the general fund checking account.
5. CIP payroll charges will be transferred from CIP savings to general fund savings after all CIP payables are paid.
6. Any funding beyond the quarter payroll requirement will be transferred to the general fund checking to pay bills.

CIP

1. Chuuk State will present the following to National Govt:
  - rstatecip report of cip expenditures
  - rapcip report of cip accounts payables



2. National will provide drawdown to Chuuk State equal to the current expenditure level less previous drawdowns unless the cip accounts payable report show that payables previous to the last drawdown request date are not paid. Drawdowns will be discontinued until payables from that period are paid.
3. As drawdown is received electronically, the cash reconciliation section will post the drawdown and provide written notification to the computer chief to pay the oldest cip bills within the specified amount.
4. The computer chief will run checks, transmit checks and check register to Treasury.
5. Treasurer will electronically transfer cash from cip savings to cip checking in the amount of cip checks issued and release checks as deposit is recognized by bank.
6. Treasurer will transmit transfer information to cash reconciliation.
7. Cash reconciliation will create and post cash transfer journal voucher.

This policy will ensure that cip drawdowns are applied to only cip expenditures. The policy will ensure maximum interest accrued under professional fund management at rates of over 20% rather than the 2.5% earned in Chuuk State savings account. This policy will ensure that all vendors are paid on a timely basis. Chuuk State can only violate the cip drawdown requirements for no more than one drawdown, since National monitors cip accounts payables to ensure cip payables are paid before drawdown process is resumed.

All accounts payables must take priority over general fund operation checks if Chuuk State has been reimbursed for those expenditures.

### **C. Electronic Transfers**

1. For electronic transfers from cash accounts, transmit documentation for the transfer to the cash reconciliation chief. The document must contain the following information:
  - Distribution information – Organization code and account with available appropriation
  - Vendor designation
  - Purpose
  - Signature of the Director
2. For electronic transfers to cash accounts, transmit documentation for the transfer to the cash reconciliation chief. The document must contain the following information:
  - Source of revenue, i.e. drawdown source
  - Revenue account for posting
3. The cash reconciliation accountant will enter the information on a journal voucher form and attach the authorizing letter to the journal voucher form. The cash reconciliation accountant will maintain a sequential file of all journal vouchers.
4. The cash reconciliation accountant will enter the transfer into the system with a TC64 journal voucher, crediting cash and debiting the expense account. The journal voucher must be entered the same day as receipt of the information.

#### **D. Local Revenue**

1. The tax and revenue office will receive all local revenue.
2. The cash clerk will issue a cash receipt with one copy for the customer and one copy for documentation. If the cash receipt is issued for payment of advances, the clerk will transmit one copy to the travel advance accountant.
3. The cash clerk will reconcile cash receipts to the cash deposit on a daily basis. Any cash short and over must be charged to the cash short/over account.
4. The cash clerk will assign a deposit slip numerical designation for posting with the associated cash receipts.
5. The cash clerk will transmit the deposit to the treasurer. The treasurer will check the reconciliation and report to the finance officer any differences in cash and the receipts. The treasurer will return the cash receipts to the tax office.
6. The treasurer will deposit the cash receipts to the general fund cash account and transmit deposit slip bank receipt to cash reconciliation.
7. The tax office accountant will post the cash receipts using the deposit slip number for each record so that the cash receipt records can be accumulated by deposit for later cash reconciliation. The receipts must be posted by the subsequent day for accounting and cash management purposes.
8. For travel advance payments, the accountant must enter the vendor number in the first 6 characters of the description field. This will allow the records for travel advances to accumulate by vendor number. The customer with travel advance payments should be told to retain the receipt for future verification by the travel advance accountant if requested.

#### **E. Cash Disbursements**

1. The finance officer will check each pending payment. The finance officer will enter holds and no holds for each voucher on the accounts payable file. When the pending list is correct the finance officer will sign the pending payment list and transmit to the computer section for payment of only the listed vouchers.
2. The computer section will issue the checks if the register matches the pending payment report. If the register does not match, the computer staff will return the list and note the differences. The finance officer will correct and resubmit.
3. If the register matches the pending disbursement list, the computer staff will transmit the checks and one copy of the register to the treasurer for distribution. The computer staff will retain one copy of the register.
4. The Treasurer returns the checks to the Finance Officer if cash is not available based on the cash general ledger balance. The Finance Officer should halt the issuance of checks until the Treasurer reports that the general ledger cash balance is positive.
5. The Treasurer must actively notify vendors of checks. If vendor is off-island, the Treasurer must mail the check to the vendor. No checks should be maintained more than 1 week. If longer than one week, the treasurer should transmit checks to the finance officer for resolution.
6. Vendors should sign the check register line for their check received.
7. The Treasurer maintains copies of the checks and files in sequential order.

8. The Treasurer must maintain a manual log of all manual checks. The record must maintain the check number, voucher number, vendor, date, distribution and amount. No manual log for automatic checks is necessary.

#### **F. Payroll Checks**

1. The computer section initiates payroll check printing based on approval by payroll staff and completion of the computer section payroll control total review.
2. The computer section transmits a report of the net amount of the payroll checks to the Treasurer.
3. Payroll checks are returned with 2 copies of the check register to the payroll staff for distribution. Payroll checks are held until approval is transmitted from Treasurer.
4. The Treasurer checks the trial balance to ensure there is adequate cash for the transfer. If not enough cash, the Treasurer informs the Finance Officer and halts the process.
5. The Treasurer phones the bank for transfer of cash from general fund to payroll fund for that amount of the net payroll checks. The Treasurer documents the call, and transfer request, signs and transmits the information to the cash reconciliation chief. The Treasurer must immediately make the bank transfer and transmit the transfer document to reconciliation.
6. The reconciliation section must immediately post the transfer.
7. The Finance Officer notifies the computer section when to issue the allotment checks.
8. The Computer staff issues the allotment checks and check registers. The checks and registers are transferred to the Treasurer.
9. The Treasurer ensures there is adequate cash in cash general ledger account before issuing allotment checks.
10. The Treasurer ensures that all allotment checks match the allotment listings before releasing any checks.
11. The vendors sign the allotment listing.
12. The Treasurer provides the vendor with the allotment check and a copy of the allotment register.

#### **G. Cash reconciliation**

1. Cash reconciliation chief must perform cash reconciliation on a monthly basis to assure the Finance Officer and Treasurer that the general cash balances accurately reflect the cash position. Cash management cannot be performed without reconciliation.
2. Cash reconciliation is responsible for entering all unposted transactions identified in reconciliation. Errors should be reviewed by Finance Officer to minimize chance of recurrence.
3. Cash reconciliation should maintain all savings books. If Treasurer needs book for depositing or transferring, cash reconciliation will provide book to Treasurer. Treasurer will return book when transaction is completed.
4. Cash reconciliation will update savings book on monthly basis. All entries will be verified during the monthly cash reconciliation.

5. Bank charges are posted to 101101 organization code.

#### **H. Returned Checks**

1. Bank transmits bounced check to cash reconciliation or cash reconciliation identifies on bank statement.
2. Cash reconciliation identifies cash receipt record, creates journal voucher and records revenue distribution and cash receipt number on journal voucher form.
3. The journal voucher credits cash and debits the returned check receivable account. This balances our books with the bank statement.
4. Reconciliation notifies Revenue with written statement of information.
5. Revenue invoices payer and adds cost of bounced check and penalty charge to the original payment.
6. Revenue initiates collection process.
7. When payment is received, revenue issues a regular cash receipt, crediting the returned check account for the amount of the original bounced check and bank fee and credits the revenue account for the State penalty fee.
8. If the invoice is uncollectable, Revenue notifies cash reconciliation.
9. Reconciliation accesses the original JV, identifies the cash receipt information, credits the returned check account and reverses the original revenue distribution.

**FINANCE OFFICE PROCEDURES**  
**PURCHASE ORDER AND VOUCHER PROCESSING**  
**Procedure 5**

**A. Requisition Approval Process**

1. Requisitions are transmitted to accounting for fund certification and entry into suspense file.
2. If funds are available, requisitions are transmitted to procurement for processing.
3. Procurement returns to accounting after processing. Procurement attaches bid document with encumbrance for review and filing in finance with purchase order.
  - Held for Bidding
    1. \$15,000 or over for contracts
    2. \$40,000 or over for personal property
4. Requisition Approval
  - If \$1000 or less, accountant approves based on fund certification in accounting system.
  - If less than \$10,000 and greater than \$1,000, the Accountant signs for fund certification and transmits to the Director or designate for approval of reasonableness of purchase for project requirements. Returned if purchase order also does not comply with bidding requirements.
  - If \$10,000 or more, the Director transmits to Governor for reasonableness of purchase for project. Returned to Director if purchase does not comply with bidding requirements.
5. The Department transmits all travel authorizations to travel section for per diem calculation.
6. Travel authorization is submitted to accounting for funds control.
7. Before transmission of requisition or travel authorization for approval, accountant enters into system and updates to the suspense file. Fund certification captures suspense file items and includes in fund certification process. Spreadsheets are not permitted except for grants not yet loaded into system. Certification must be performed on the accounting system.
8. Travel authorization and requisitions are submitted to Governor or designate for reasonableness.
9. After approvals, the accountant enters initials on the suspense file record for requisitions and updates the record to the purchase order master, creating a copy of the purchase order. For travel authorizations, the record is deleted from the suspense file.
10. The accountant maintains a folder for each organization code. A purchase order copy is placed in the file with the sequential unpaid requisitions. Bid documents are also filed with encumbrance.
11. The accountant transmits one copy to the accounts payable section. The a/p section maintains the purchase orders by sequence to await matching with the expected invoice.
12. Purchase orders must be issued within 2 days as approved requisition is received (if before 2 pm), since only annotation of initials and update is required.

13. The accountant transmits one copy to the accounts payable section. The a/p section maintains the purchase orders by sequence to await matching with the expected invoice.

#### **B. Invoice Processing**

1. Vendor transmits invoice to Procurement.
2. Procurement logs invoices and stamps with date received. Log shows date received, invoice number, purchase order number, vendor number and amount.
3. Procurement transmits invoices to accounts payable section in-box for processing.
4. Accounts payable accountant matches invoice with purchase order and creates voucher.
5. Accountant batches vouchers, enters voucher and updates to accounts payable file.
6. Time permitted between receipt of invoice and posting of voucher is 3 days.

**C. Monthly Accounting Reconciliation** – The reconciliation is an important procedure to ensure that invoices get on the books before the end of the year, providing a true picture of the expenditures incurred during that year. It also ensures proper charges to each organization and grant project.

1. On monthly basis, accountants review encumbrance report. If encumbrance is liquidated on the report, the accountant annotates their purchase order with voucher and transfers to paid documents filed sequentially.
2. If there are any unauthorized charges against the accountant, the accountant must research and correct, removing the charge if necessary. Each encumbrance on the computer should reflect a purchase order documents in the accounting file. Small miscellaneous charges such as phone or electricity can be ignored.
3. If an encumbrance is not liquidated in a reasonable time, the accountant should check the vendor or the department requestor to determine status. If canceled, the encumbrance is de-encumbered. If the vendor said that the invoice was submitted, the accountant must request a copy of the invoice and check the secretary's log of invoices received. If received, the accountant notifies the finance officer to resolve problem of misplaced invoices while ensuring that the copy invoice is immediately processed. If lost invoices are chronic, the employee must be identified and removed. The information can be obtained by establishing another log of assigned invoices by accountant. Lost invoices will be traced to accountant. Process is not recommended unless chronic problem cannot be otherwise resolved.
4. For off-island vendors, e-mail referenced to purchase orders is a helpful method to follow up with vendors.



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DEPARTMENT OF TREASURY

November 24, 1998

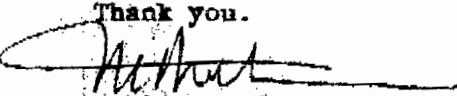
Deloitte & Touche  
P.O. Box 753  
Kolonias, Pohnpei, FM 96941

Dear Sir:

The following is our revised response to the FY 1997 audit finding  
Number 97-2 Equipment Management.

Chuuk State will utilize the service of a Finance Advisor from Australia to develop a physical inventory of property acquired with federal funds worth \$5,000 and above. The person is expected to arrive Chuuk State sometime in calendar year 1999. The physical inventory should be completed approximately one(1) year after the arrival of the Finance Advisor.

Thank you.

  
Nick L. Andon  
Acting Director  
Department of Treasury