

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

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

YEAR ENDED SEPTEMBER 30, 1998

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Year Ended September 30, 1998

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FEDERATED STATES OF MICRONESIA**

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**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

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

YEAR ENDED SEPTEMBER 30, 1998

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, 1998, 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, 1998.

Property comprising the State of Chuuk's General Fixed Assets Account Group has not been inventoried as of September 30, 1998, 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 and internal control, we were unable to form an opinion on revenues of the Chuuk Public Utility Corporation (CPUC), a Component Unit – Proprietary Fund, for the year ended September 30, 1998.

We were unable to perform audit procedures on the Chuuk Visitors Bureau's (CVB) financial statements as of September 30, 1998, 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 perform audit procedures on the Chuuk Coconut Authority (CCA) or the Chuuk State Housing Authority (CSHA) as of September 30, 1998, as financial statements were not provided to us for inspection. The general purpose financial statements referred to above do not include CCA or CSHA, Component Units – Proprietary Funds of the State of Chuuk, which in our opinion, should be included to conform with generally accepted accounting principles.



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, 1998, 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, 1998.

Property comprising the State of Chuuk's General Fixed Assets Account Group has not been inventoried as of September 30, 1998, 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 and internal control, we were unable to form an opinion on revenues of the Chuuk Public Utility Corporation (CPUC), a Component Unit – Proprietary Fund, for the year ended September 30, 1998.

We were unable to perform audit procedures on the Chuuk Visitors Bureau's (CVB) financial statements as of September 30, 1998, 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 perform audit procedures on the Chuuk Coconut Authority (CCA) or the Chuuk State Housing Authority (CSHA) as of September 30, 1998, as financial statements were not provided to us for inspection. The general purpose financial statements referred to above do not include CCA or CSHA, Component Units – Proprietary Funds of the State of Chuuk, which in our opinion, should be included to conform with generally accepted accounting principles.

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, 1998, 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.

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, 1998. Accordingly, no provision for any liability that may result from such matters, if any, has been made in the accompanying general purpose financial statements.

The State did not provide a schedule detailing continuing appropriations for all funds as of September 30, 1998. We were unable to perform adequate alternative audit procedures with respect to continuing appropriations set forth 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.

During the year ended September 30, 1998, Chuuk State Government changed its method of accounting for certain investments. (See note 2).

The year 2000 supplementary information listed in Section III of the foregoing Table of Contents is not a required part of the basic financial statements, but is supplementary information required by the Government Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the unprecedented nature of the year 2000 issue and its effects, and the fact that authoritative measurement criteria regarding the status of remediation efforts have not been established. In addition, we do not provide assurance that the State is or will become year 2000 compliant, that the State's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the State does business are or will become year 2000 compliant.

The combining and individual fund financial statements and schedules listed in Section IV 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.

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 \$4,092,440, a condition that raises substantial doubt about the ability of the State of Chuuk to meet its debts as they come due. The general purpose financial statements do not include any adjustment relating to the amounts and classification of liabilities that might be necessary if the State of Chuuk is not able to meet its debts as they come due.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 2, 1999, 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.

Deloitte + Tatchell LLP

August 2, 1999

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

**Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Units
September 30, 1998
(With Comparative Totals as of September 30, 1997)**

	Governmental Fund Types			Account Groups		Totals	Component	Totals	
	General	Special Revenue	Capital Projects	General	General	Primary	Unit	Reporting	
				Fixed Assets	Long-Term Debt	Government (Memorandum Only)	Chuuk Public Utility Corporation	Entity (Memorandum Only)	
								1998	1997
Assets									
Cash and equivalents (note 2)	\$ 126,462	\$ 604,896	\$ -	\$ -	\$ -	\$ 731,358	\$ 54,945	\$ 786,303	\$ 2,103,982
Restricted cash (note 2)	127,254	-	466,891	-	-	594,145	-	594,145	-
Investments (note 2)	7,693,438	-	28,247,758	-	-	35,941,196	-	35,941,196	33,641,474
Early Retirement Trust Fund (note 5)	330,531	-	-	-	-	330,531	-	330,531	-
Investments - other (note 9)	-	-	7,264,005	-	-	7,264,005	-	7,264,005	7,264,005
Receivables from other governments (note 3)	207,285	2,936,744	92,991	-	-	3,237,020	-	3,237,020	2,902,975
Receivables, federal agencies (note 3)	-	-	766,415	-	-	766,415	-	766,415	846,348
General receivables, net	-	430,741	-	-	-	430,741	797,249	1,227,990	1,234,285
Advances	506,900	202,843	193,702	-	-	903,445	-	903,445	560,081
Loans receivable, net of an allowance for doubtful accounts of \$601,095 in 1998	-	-	-	-	-	-	-	-	1,117,428
Loans receivable, other (note 14)	338,480	-	7,000,000	-	-	7,338,480	-	7,338,480	7,000,000
Due from other funds (note 8)	-	6,184,355	2,171,398	-	-	8,355,753	-	8,355,753	8,396,169
Inventories	-	-	-	-	-	-	-	-	39,852
Other assets	-	-	24,831	-	-	24,831	-	24,831	37,533
Fixed assets, net (note 4)	-	-	-	67,581,884	-	67,581,884	643,744	68,225,628	68,576,419
Dividends and interest receivable	175,584	-	-	-	-	175,584	-	175,584	189,587
Reserve for doubtful inter-fund receivables	-	-	-	-	-	-	-	-	(79,933)
Amount to be provided for retirement of long-term debt	-	-	-	-	16,442,440	16,442,440	-	16,442,440	12,125,057
Allowance for uncollectibles	(878,309)	(2,278,052)	(855,430)	-	-	(4,011,791)	-	(4,011,791)	(3,133,482)
Total assets	\$ 8,627,625	\$ 8,081,527	\$ 45,372,561	\$ 67,581,884	\$ 16,442,440	\$ 146,106,037	\$ 1,495,938	\$ 147,601,975	\$ 142,821,780

See accompanying notes to financial statements.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

**Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Units, Continued
September 30, 1998
(With Comparative Totals as of September 30, 1997)**

	Governmental Fund Types			Account Groups		Totals	Component	Totals	
	General	Special Revenue	Capital Projects	General	General	Primary	Unit	Reporting	
				Fixed Assets	Long-Term Debt	Government (Memorandum Only)	Chuuk Public Utility Corporation	Entity (Memorandum Only)	
								1998	1997
Liabilities and Fund Equity (Deficiency)									
Liabilities:									
Bank overdraft	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 181,699
Accounts payable	1,302,045	3,029,167	3,614,287	-	-	7,945,499	256,832	8,202,331	14,821,022
Accrued payroll and annual leave	220,716	35,062	-	-	783,328	1,039,106	92,441	1,131,547	2,137,305
Due to other funds (note 8)	7,875,883	387,950	91,920	-	-	8,355,753	-	8,355,753	8,396,169
Payable to other governments	92,798	389,356	-	-	-	482,154	-	482,154	427,904
Notes payable (notes 5, 13 and 14)	338,480	-	329,179	-	15,659,112	16,326,771	338,480	16,665,251	11,319,993
Deferred revenue	1,000	277,320	-	-	-	278,320	-	278,320	278,320
Total liabilities	9,830,922	4,118,855	4,035,386	-	16,442,440	34,427,603	687,753	35,115,356	37,562,412
Fund equity (deficiency):									
Investment in general fixed assets (note 4)	-	-	-	67,581,884	-	67,581,884	-	67,581,884	67,581,884
Contributed capital	-	-	-	-	-	-	-	-	2,238,106
Retained earnings	-	-	-	-	-	-	808,185	808,185	792,960
Fund balances (deficit):									
Reserved for:									
Related assets (note 15)	330,531	440,557	14,755,727	-	-	15,526,815	-	15,526,815	14,554,676
Encumbrances	460,843	707,363	144,252	-	-	1,312,458	-	1,312,458	1,548,366
Continuing appropriations (note 6)	2,097,769	-	13,796,678	-	-	15,894,447	-	15,894,447	18,349,794
Unreserved	(4,092,440)	2,814,752	12,640,518	-	-	11,362,830	-	11,362,830	193,582
Total fund equity (deficiency)	(1,203,297)	3,962,672	41,337,175	67,581,884	-	111,678,434	808,185	112,486,619	105,259,368
Commitments and contingencies (notes 11 and 16)									
Total liabilities and fund equity (deficiency)	\$ 8,627,625	\$ 8,081,527	\$ 45,372,561	\$ 67,581,884	\$ 16,442,440	\$ 146,106,037	\$ 1,495,938	\$ 147,601,975	\$ 142,821,780

See accompanying notes to financial statements.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Combined Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)-
All Governmental Fund Types
Year Ended September 30, 1998
(With comparative totals for the year ended September 30, 1997)

	Governmental Fund Types			Totals Reporting Entity (Memorandum Only)	
	General	Special Revenue	Capital Projects	1998	1997
Revenues:					
U.S. Compact of Free Association:					
Section 211(a)(2) - base grant	\$ 8,816,000	\$ -	\$ 6,144,000	\$ 14,960,000	\$ 14,960,000
Section 217 - inflation adjustment	4,672,480	-	3,256,320	7,928,800	7,480,000
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	-	635,894	-	635,894	599,900
Section 212 - base grant	-	250,000	-	250,000	250,000
U.S. Department of the Interior grants	-	-	-	-	4,066
FSM revenue sharing	3,398,507	-	-	3,398,507	1,714,231
Other federal contributions	-	1,329,180	-	1,329,180	757,096
State taxes and licenses	1,352,573	-	-	1,352,573	1,258,042
Other	821,573	519,958	-	1,341,531	1,137,355
Investment income (note 2)	1,352,694	-	-	1,352,694	4,153,292
Total revenues	20,413,827	6,875,919	9,400,320	36,690,066	36,454,869
Expenditures:					
General government	4,245,505	394,732	-	4,640,237	3,588,983
Education	5,282,810	2,580,050	-	7,862,860	8,068,980
Health services	2,405,554	991,561	-	3,397,115	3,465,790
Economic development	882,579	-	-	882,579	923,241
Public works and utilities	343,309	635,878	-	979,187	652,268
Public safety	771,552	171,804	-	943,356	875,087
Transportation	700,738	-	-	700,738	889,424
Community affairs	186,407	267,419	-	453,826	424,873
Boards and commissions	490,805	-	-	490,805	698,156
Capital projects	-	-	10,172,459	10,172,459	2,120,210
Debt service - principal	-	-	1,300,000	1,300,000	-
Debt service - interest	-	-	428,862	428,862	665,360
Other	4,899,741	157,694	-	5,057,435	1,891,850
Total expenditures	20,209,000	5,199,138	11,901,321	37,309,459	24,264,222
Excess (deficiency) of revenues over (under) expenditures	204,827	1,676,781	(2,501,001)	(619,393)	12,190,647
Other financing sources (uses):					
Loan proceeds (note 5)	6,659,112	-	-	6,659,112	-
Operating transfers in (note 7)	-	164,901	-	164,901	130,888
Operating transfers out (note 7)	(304,756)	(1,053,000)	-	(1,357,756)	(1,668,058)
Other income	-	-	10	10	-
Total other financing sources (uses), net	6,354,356	(888,099)	10	5,466,267	(1,537,170)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses before the cumulative effect of a change in accounting principle	6,559,183	788,682	(2,500,991)	4,846,874	10,653,477
Add: cumulative effect of a change in accounting principle (note 2)	4,603,258	-	-	4,603,258	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	11,162,441	788,682	(2,500,991)	9,450,132	10,653,477
Fund balances (deficit) at beginning of year	(12,365,738)	3,173,990	43,838,166	34,646,418	23,992,941
Fund balances (deficit) at end of year	\$ (1,203,297)	\$ 3,962,672	\$ 41,337,175	\$ 44,096,550	\$ 34,646,418

See accompanying notes to financial statements.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

**Statement of Revenues, Expenditures and Changes in Deficit -
Budget and Actual, Budgetary Basis - General Fund
Year Ended September 30, 1998
(With comparative totals for the year ended September 30, 1997)**

	1998			1997		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Compact of Free Association						
Section 211 and 217	\$ 13,224,000	\$ 13,488,480	\$ 264,480	\$ 13,047,680	\$ 13,224,000	\$ 176,320
Local Revenue	7,305,460	6,925,347	(380,113)	4,419,826	8,030,313	3,610,487
Total revenues	20,529,460	20,413,827	(115,633)	17,467,506	21,254,313	3,786,807
Expenditures-budgetary basis:						
General government	4,454,027	4,013,843	440,184	3,550,850	3,521,445	29,405
Health services	2,463,810	2,372,717	91,093	2,530,600	2,506,324	24,276
Education	5,732,920	5,247,977	484,943	6,069,348	6,142,897	(73,549)
Economic development	936,450	855,579	80,871	935,350	930,695	4,655
Public safety	760,800	773,319	(12,519)	677,400	729,030	(51,630)
Transportation	770,990	691,630	79,360	788,400	915,221	(126,821)
Public works	377,200	334,404	42,796	381,100	374,352	6,748
Community affairs	235,300	171,005	64,295	185,200	193,098	(7,898)
Board and commissions	520,400	464,439	55,961	622,650	686,968	(64,318)
Special programs	608,640	558,204	50,436	208,800	196,457	12,343
Legislative external appropriations	1,570,920	1,535,555	35,365	1,357,697	1,325,771	31,926
Early retirement	2,595,997	2,595,997	-	-	-	-
Uncollectible grants fund reserve and other	-	339,363	(339,363)	-	312,878	(312,878)
Total expenditures	21,027,454	19,954,032	1,073,422	17,307,395	17,835,136	(527,741)
Excess (deficiency) of revenues over (under) expenditures	(497,994)	459,795	957,789	160,111	3,419,177	3,259,066
Other financing sources (uses):						
Loan proceeds (note 5)	6,659,112	6,659,112	-	-	-	-
Operating transfers out	(208,600)	(308,205)	(99,605)	(194,500)	(248,699)	(54,199)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses before the cumulative effect of a change in accounting principle	5,952,518	6,810,702	858,184	(34,389)	3,170,478	3,204,867
Add: cumulative effective of a change in accounting principle (note 2)	-	4,603,258	(4,603,258)	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	5,952,518	11,413,960	(3,745,074)	(34,389)	3,170,478	3,204,867
Deficit at beginning of year	(14,021,742)	(14,021,742)	-	(17,123,887)	(17,123,887)	-
Other changes in deficit:						
Increase in reserve for related assets	-	(330,531)	(330,531)	-	-	-
Increase in reserve for continuing appropriations	-	(1,154,127)	(1,154,127)	-	(68,333)	(68,333)
Deficit at end of year	\$ (8,069,224)	\$ (4,092,440)	\$ (5,229,732)	\$ (17,158,276)	\$ (14,021,742)	\$ 3,136,534

See accompanying notes to financial statements.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenses and Changes in Fund Equity -
Discretely Presented Component Unit - Chuuk Public Utility Corporation
Year Ended September 30, 1998
(With comparative totals for the year ended September 30, 1997)

	Totals	
	1998	1997
Operating revenues:		
Sales	\$ 1,989,586	\$ 2,284,586
Total operating revenues	<u>1,989,586</u>	<u>2,284,586</u>
Operating expenses:		
Payroll and personnel	1,305,902	795,710
Fuel	1,299,260	1,669,968
Travel	-	49,377
Depreciation	47,669	9,083
Bad debt	283,523	956,019
Rent	-	91,576
Other	7,864	204,565
Total operating expenses	<u>2,944,218</u>	<u>3,776,298</u>
Operating loss	<u>(954,632)</u>	<u>(1,491,712)</u>
Nonoperating revenues (expenses):		
Transfers in (note 7)	1,053,000	1,415,108
Federal contributions	50,295	83,439
Other income (expense)	20,556	(17,372)
Total nonoperating revenues, net	<u>1,123,851</u>	<u>1,481,175</u>
Net earnings	169,219	(10,537)
Retained earnings at beginning of year	<u>638,966</u>	<u>649,503</u>
Retained earnings at end of year	<u>808,185</u>	<u>638,966</u>
Contributed capital at beginning of year	-	-
Contributions	<u>-</u>	<u>-</u>
Contributed capital at end of year	<u>-</u>	<u>-</u>
Total fund equity	<u>\$ 808,185</u>	<u>\$ 638,966</u>

See accompanying notes to financial statements.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Statement of Cash Flows -
Discretely Presented Component Unit - Chuuk Public Utility Corporation
Year Ended September 30, 1998

Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (954,632)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	47,669
Other income	20,556
(Increase) in receivables	(117,242)
Increase in accounts payable	236,123
(Decrease) in other liabilities	(10,614)
Total adjustments	<u>176,492</u>
Net cash used for operating activities	<u>(778,140)</u>
Cash flows from noncapital financing activities:	
Operating grants received	<u>1,103,295</u>
Net cash provided by noncapital financing activities	<u>1,103,295</u>
Cash flows from capital and related financing activities:	
Acquisition of utility plant	(636,114)
Proceeds from notes payable	<u>338,480</u>
Net cash used for capital and related financing activities	<u>(297,634)</u>
Net increase in cash and equivalents	27,521
Cash and equivalents at beginning of year	<u>27,424</u>
Cash and equivalents at end of year	<u>\$ 54,945</u>

See accompanying notes to financial statements.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1998

(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

The general purpose financial statements of the State of Chuuk have been prepared in conformity with GAAP as applied to government units. GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting", requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. The State of Chuuk has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

As required by 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

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.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1998

(1) Summary of Significant Accounting Policies, Continued

3. Omitted Component Units

Chuuk Coconut Authority

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

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 would have been reported as a discretely presented component unit - proprietary fund.

Development Authorities

The accompanying general purpose financial statements do not include the State's 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.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1998

(1) Summary of Significant Accounting Policies, Continued

B. Fund Accounting and Basis of Presentation, Continued

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

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

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

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

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

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

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

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

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

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1998

(1) Summary of Significant Accounting Policies, Continued

B. Fund Accounting and Basis of Presentation, Continued

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

C. Budgetary Process

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

During fiscal year 1998, 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.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1998

(1) Summary of Significant Accounting Policies, Continued

C. Budgetary Process, Continued

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

D. Cash and Equivalents

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

E. Receivables

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

F. Loans Receivable

Loans receivable of the component units-proprietary funds in 1997 (primarily Chuuk State Housing Authority which has not provided financial statements for inclusion in the accompanying 1998 presentation) consisted of Community Development Block Grant (CDBG) loans and general loans extended to qualifying Federated States of Micronesia (FSM) citizens. CDBG loans are for the purpose of acquiring new homes and general loans are for the purpose of financing renovation, rehabilitation or extension of existing homes. In order to qualify for both types of loans, the citizen must own or acquire the land where the home will be located, the home or additions must be approved with regard to compliance with building codes, the applicant must fall within low-income eligibility parameters as established by the U.S. Department of Housing and Urban Development (HUD), and the applicant must exhibit the ability to repay the loans. Interest on both types of loans is charged at 4%. The loans are collateralized by land and improvements. The principal amounts of loans range between \$2,000 and \$25,000. Loan maturities range between 1 and 7 years.

G. Interfund Transactions

The State has three types of interfund transactions:

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

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

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1998

(1) Summary of Significant Accounting Policies, Continued

H. Compensated Absences

Vested or accumulated vacation leave that is liquidated with expendable available financial resources is reported as an expenditure of the general fund. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the general long-term debt account group. The liability as of September 30, 1998 is \$783,328. No expenditure is reported for these amounts.

I. Fund Balance Reserves and Designations

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

J. Totals - Memorandum Only

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

K. Inventories

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

L. Reclassifications

Certain items in the 1997 general purpose financial statements have been reclassified to conform with the 1998 presentation.

M. Investments

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

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.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1998

(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, 1998, the State had deposits as follows; in each situation, cost approximated fair value.

General Fund

Restricted cash in Early Retirement Trust Fund	\$ 126,462
Cash on deposit with trustee and in checking and savings accounts with FDIC insured banks	<u>127,254</u>
	\$ <u>253,716</u>

Special Revenue Funds

Cash in checking accounts with FDIC insured banks	\$ 9,816
Cash on deposit with trustee	<u>595,080</u>
	\$ <u>604,896</u>

Capital Projects Funds

Cash in escrow restricted for Weno Water Supply Project	\$ <u>466,891</u>
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Component Units

Cash in checking and savings accounts with FDIC insured banks	\$ <u>54,945</u>
---------------------------------------------------------------	------------------

Investments

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

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

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

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

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1998

(2) Cash and Equivalents and Investments, Continued

Investments, Continued

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

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

Funds invested on behalf of the State as of September 30, 1998, are summarized below:

	<u>Fair Value</u>
<u>Cash on Deposit with Trustee</u>	
Cash management fund	\$ <u>840,040</u>
<u>Investments</u>	
Pooled investment debt and equity securities	\$ <u>35,941,196</u>

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1998

(2) Cash and Equivalents and Investments, Continued

Investments, Continued

Cash on deposit with Trustee as of September 30, 1998 is comprised of the following:

General fund	\$ 244,960
Compact other grants fund	142,296
Compact special block grant fund	<u>452,784</u>
	\$ <u>840,040</u>

The State's investment income as of September 30, 1998, is summarized below:

Interest	\$ 1,343,692
Dividends	848,243
Realized gains	112,786
Management fees	(310,804)
Other expenses	<u>(641,223)</u>
	\$ <u>1,352,694</u>

Chuuk State adopted GASB 31 as of September 30, 1998. GASB 31 requires that governmental entities which have external investment pools should report such investments at fair value in the financial statements. The cumulative effect of this change in accounting principle is \$4,603,258.

(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 1998.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1998

(4) Fixed Assets, Continued

A summary of the general fixed assets accounted for in the General Fixed Assets Account Group as of September 30, 1998, follows:

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

A summary of fixed assets accounted for in the component units-proprietary funds as of September 30, 1998, follows:

	<u>Estimated Useful Lives</u>	
Equipment	3-7 years	\$ 108,114
Utility Plant	3-20 years	<u>542,202</u>
		650,316
Less accumulated depreciation		<u>(56,752)</u>
		593,564
Construction in progress		<u>50,180</u>
		<u>\$ 643,744</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, 1998, 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.

On June 14, 1993, Chuuk State issued four (4) notes for \$10,300,000 to finance Chuuk State's equity investment in Western Pacific Tuna Group (WESTPAC), a fishing joint venture, and a loan to Bonjenva Holdings Ltd. The outstanding notes payable balance as of September 30, 1998, is comprised of several notes with varying interest rates and maturities as follows:

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1998

(5) Notes Payable, Continued

<u>Maturity</u>	<u>Interest Rate % P.A.</u>	<u>Principal Amount</u>
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>9,000,000</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, 1998.

During the fiscal year ended September 30, 1998, Chuuk State Government and the FSM National Government entered into a loan agreement whereby the FSM National Government agreed to loan the State of Chuuk the sum of \$5,000,000 dollars ("Chuuk Recovery Loan"). The primary purpose of this loan was to assist the State in satisfying amounts due to various vendors for payroll allotments and the principal portion of the State's tax liabilities to the FSM Revenue and Taxation and the FSM Social Security Administration. Under the terms of the loan agreement, a total of \$3,761,987 was earmarked for this purpose. The remaining principal amount (\$1,238,013) is to be disbursed in fiscal year 1999 and is earmarked to finance amounts owed by Chuuk State for payroll allotments, principal, penalties and interest due to the FSM Revenue and Tax Division and the FSM Social Security Administration and for payment of amounts due vendors for medical referrals and purchases.

The loan is to be repaid in quarterly allotments of \$416,667 including interest thereon beginning October 1, 1998. Interest is at 1% per annum. The total amount outstanding on this loan at September 30, 1998 was \$3,659,112.

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

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1998

(5) Notes Payable, Continued

Pursuant to the terms of the financing agreement between the State of Chuuk and the FSM National Government, the State is required to deposit into the Early Retirement Scheme Trust Account held in the name of the State within the FSM National Government's investment portfolio, 100% of the outstanding principal balance by September 30, 2001. Funds for the repayment of the loan are expected to be derived from annual appropriations for salaries and wages earmarked for the positions abolished under the Early Retirement Scheme. The Chuuk State Legislature has authorized for appropriation from the general fund certain percentages of amounts borrowed under the loan in each fiscal year until the Early Retirement Scheme Trust Account is fully replenished in fiscal year 2001. The loan is to be repaid by the FSM National Government in semi-annual installments commencing February 1, 2008. The total amount outstanding on this loan at September 30, 1998 was \$3,000,000. Chuuk State expended \$2,595,997 under the program as of September 30, 1998. Approximately \$330,531 of the \$3,000,000 drawdown on the loan during fiscal year 1998, was held in the Chuuk Early Retirement Trust fund at Pacific Century Trust as of September 30, 1998.

Future minimum payments on all notes payable outstanding as of September 30, 1998, are as follows:

<u>Years Ending September 30,</u>	<u>Amount</u>
1999	\$ 4,666,668
2000	4,666,668
2001	3,325,776
Thereafter	<u>3,000,000</u>
	<u>\$ 15,659,112</u>

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

(6) Continuing Appropriations

Continuing appropriations are summarized as follows:

General Fund

Each fiscal year, Chuuk State Legislature appropriates funds for various programs, municipal projects and other projects which are available until fully expended or until project completion. \$ 2,097,769

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. \$ 13,796,678

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1998

(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, 1998, are as follows:

	<u>Transfer Out</u>	<u>Transfer In</u>
General Fund:		
Transfers out to Component Units:		
Chuuk Housing Authority	\$ 72,597	\$ -
Chuuk Coconut Authority	<u>67,258</u>	<u>-</u>
Total transfers out to Component Units	<u>139,855</u>	<u>-</u>
Transfers out to Special Revenue Funds:		
Chuuk Visitors' Bureau	<u>164,901</u>	<u>-</u>
Total General Fund	<u>304,756</u>	<u>-</u>
Special Revenue Funds:		
Transfers out to Component Units:		
Chuuk Public Utility Corporation	<u>1,053,000</u>	<u>-</u>
Total Special Revenue Funds	<u>1,053,000</u>	<u>-</u>
Transfers in to Component Units:		
Chuuk Housing Authority	-	72,597
Chuuk Coconut Authority	-	67,258
Chuuk Public Utility Corporation	<u>-</u>	<u>1,053,000</u>
Total transfers in Component Units	<u>-</u>	<u>1,192,855</u>
Transfers in Special Revenue Funds:		
Chuuk Visitors' Bureau	<u>-</u>	<u>164,901</u>
	<u>\$ 1,357,756</u>	<u>\$ 1,357,756</u>

(8) Interfund Assets/Liabilities

The following summarizes due from/to other funds as of September 30, 1998:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
Special Revenue Funds:		
Chuuk Airport Authority	\$ 939,543	\$ -
Compact - Special Block Grant	3,097,990	-
Federal Grant Assistance Fund	833,443	-
Compact - Other Grants Fund	1,313,379	-
Other Grant Assistance Fund	-	831
CFSM Grant Fund	-	387,119

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1998

(8) Interfund Assets/Liabilities, Continued

Capital Projects Funds:

TTG Capital Projects Fund	-	91,920
Compact Capital Projects Fund	2,169,808	-
CFSM State Project Fund	1,590	-
General Fund	-	<u>7,875,883</u>
	<u>\$ 8,355,753</u>	<u>\$ 8,355,753</u>

(9) Investments - Other

During fiscal year 1993, the State purchased \$1,000,000 of common stock in the Bank of the Federated States of Micronesia. The State purchased \$250,000 of common stock in fiscal year 1990 and fiscal year 1989. This represents an interest of 16.08% as of September 30, 1998. The above investment is carried at cost since there is no method of ascertaining related value.

\$ 1,500,000

During fiscal year 1991, the State purchased \$250,000 of common stock in the Pacific Islands Regional Development Bank (a 7.36% interest at September 30, 1998). 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, 1998. Under the equity method of accounting, which has been adopted for Chuuk's investment in Chuuk Fresh Tuna, Incorporated (CFTI), Chuuk State's share of earnings and losses incurred by the entity should be deducted from the carrying value. However as audited financial information was not available for this purpose, the carrying value as of September 30, 1998 does not reflect such adjustments, if any.

1,202,005

During fiscal year 1993, the State purchased \$812,000 of common stock in the Bank of Guam, which represents a .007% interest as of September 30, 1998. The above investment is carried at cost since there is no method of ascertaining related market value.

812,000

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 fair value.

3,200,000

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1998

(9) Investments – Other, Continued

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, 1998). The above investment is carried at cost since there is no method of ascertaining related market value.

	<u>300,000</u>
Total other investments	<u>\$ 7,264,005</u>

Since the investments are considered unavailable to finance expenditures of the ensuing fiscal year, the investments are restricted in the reserve for related assets component of fund balance. Therefore, even though the State has been unable to obtain financial statements from WESTPAC for its interest in the partnership, there is no impact on appropriable fund balance reserves due to the aforementioned related asset designation.

(10) Segment Data for Component Unit - Proprietary Fund

The following represents key data extracted from the financial statements of the component unit - proprietary fund presented by the State as of September 30, 1998, and for the year then ended:

	<u>Chuuk Public Utility Corporation</u>
Total assets	<u>\$ 1,495,938</u>
Total fund equity	<u>\$ 808,185</u>
Net fixed assets	<u>\$ 643,744</u>
FY98 operating loss	<u>\$ (954,632)</u>
FY98 net earnings	<u>\$ 169,219</u>
FY98 operating revenues	<u>\$ 1,989,586</u>
FY98 operating transfers in	<u>\$ 1,053,000</u>

(11) Commitments and Contingencies

Federal Programs

The State participates in a number of U.S. federally assisted grant programs. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Currently, \$71,007 in cumulative questioned costs exist for the operation of fiscal years 1996-1998 grants.

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

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1998

(11) Commitments and Contingencies, Continued

Sick Leave

It is the policy of the State to record the cost of sick leave when leave is actually taken and a liability is actually incurred. The accumulated estimated amount of unused sick leave at September 30, 1998, was \$2,668,996.

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).

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.

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 represents material fund deficits as of September 30, 1998. 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>

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1998

(13) Notes Payable - Component Units-Proprietary Funds

Chuuk Public Utility Corporation, as of September 30, 1998, had the following note payable:

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

\$ 338,480

(14) Loans Receivable - Related Parties

As of September 30, 1998, Chuuk State has outstanding loans receivable from Bonjenvall Holdings Limited (BJL) of \$7,000,000 which was recorded in the Compact capital projects fund. The loan matures in fiscal year 2011, with interest being accrued semiannually at an interest rate of 7% per annum. The first payment on the loan 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 receivable is being fully reserved for in the related asset component within the Compact Capital Projects fund balance.

During the fiscal year ended September 30, 1998, the State had an outstanding loan of \$338,480 due from the Chuuk Public Utility Corporation, a component unit of the State. The loan to the Chuuk Public Utility Corporation is facilitated through a loan from the Asian Development Bank to the FSM National Government which in turn lent the money to the State.

(15) Fund Balances Reserved For Related Assets

Fund balance reserves for related assets are comprised of the following as of September 30, 1998:

	General <u>Fund</u>	Special Revenue <u>Fund</u>	Capital Projects <u>Funds</u>
Early Retirement Trust Fund	\$ 330,531	\$ -	\$ -
Restricted cash – Weno Water Supply Project	-	-	466,891
Receivables	-	428,841	-
Loans	-	-	7,000,000
Investments and other	-	11,716	7,288,836
	<u>\$ 330,531</u>	<u>\$ 440,557</u>	<u>\$ 14,755,727</u>

(16) Risk Management

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

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Supplementary Year 2000 Issue Information
September 30, 1998

Like other organizations and individuals around the world, Chuuk State Government could be adversely affected if the computer systems it uses and those used by significant third parties (e.g. vendors, customers, third party administrators, etc.) do not properly process and calculate date-related information and data. This is commonly known as the "Year 2000 (Y2K) issue." Management is assessing its computer systems and business processes and intends to initiate actions to address the Y2K needs identified. Management is also assessing the actions being taken by significant third parties that interface with the State. The State is of the opinion that its current accounting software system, FOCUS, is Y2K compliant. Other upgrades are also scheduled to be implemented in 1999. At this time, management is not able to determine the estimated costs of remediation of the year 2000 issue.

See Accompanying Independent Auditors' Report.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Combining Schedule of Expenditures by Account-
All Governmental Fund Types
Year Ended September 30, 1998
(With comparative totals for the year ended September 30, 1997)

	Governmental Fund Types			Totals (Memorandum Only)	
	General	Special Revenue	Capital Projects	1998	1997
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Expenditures:					
Personnel	\$ 14,030,110	\$ 1,387,158	\$ 93,822	\$ 15,511,090	\$ 16,993,406
Travel	453,667	232,630	96,362	782,659	948,172
Contractual services	953,647	440,775	2,926,478	4,320,900	1,027,985
POL	201,250	10,146	45,842	257,238	98,252
Other :					
Equipment	307,073	45,275	3,325,868	3,678,216	235,100
Medical supplies	151,521	203,562	-	355,083	323,046
Medical referral	17,312	-	-	17,312	266,387
Supplies and materials	318,430	226,343	1,854,831	2,399,604	451,983
Scholarships	89,350	-	-	89,350	119,971
Food	-	773,072	7,243	780,315	269,251
Books	610	90,444	-	91,054	117,942
All others	3,666,458	884,258	1,811,445	6,362,161	1,812,066
Debt service-principal	-	-	1,300,000	1,300,000	-
Debt service-interest	-	-	428,862	428,862	665,360
Miscellaneous	19,572	905,475	10,568	935,615	935,301
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total expenditures	\$ 20,209,000	\$ 5,199,138	\$ 11,901,321	\$ 37,309,459	\$ 24,264,222

See Accompanying Independent Auditors' Report.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

GENERAL FUND
Statement of Revenues, Expenditures by Function and Department and Changes in Deficit
Year Ended September 30, 1998
(With comparative totals for the year ended September 30, 1997)

	1998	1997
Revenues:		
U.S. Compact of Free Association:		
Section 211(a)(2) - base grant	\$ 8,816,000	\$ 8,816,000
Section 217 - inflation adjustment	4,672,480	4,408,000
FSM revenue sharing	3,398,507	1,714,231
Federal grant	-	1,465
State taxes and licenses:		
Cigarette tax	\$ 53,448	\$ 35,572
General sales tax	722,422	656,415
Alcohol	193,348	152,783
Hotel	118,351	106,352
Delinquent tax collections	17,895	5,331
License and fees	46,052	80,204
Other	201,057	221,385
	1,352,573	1,258,042
Other revenues:		
Hospital and utilities collections	72,506	24,658
Transportation collections	426,010	486,247
Leases	95,757	58,890
Miscellaneous	227,300	333,488
Investment income	-	-
	821,573	903,283
	1,352,694	4,153,292
Total revenues	20,413,827	21,254,313
Expenditures by department:		
General government:		
Executive branch:		
Governor and staff	458,412	336,678
Attorney General	166,226	148,199
State Finance	240,003	245,928
ADP	84,833	113,229
Tax and revenue	118,786	91,910
Program and budget	120,140	117,025
Property and supply	95,359	118,053
Personnel	92,526	83,608
Planning	126,421	108,255
	1,502,706	1,362,885
Legislative internal operations:		
President and members	300,580	297,114
Speakers and members	755,186	724,804
Legislative committees	512,838	72,138
Legislative legal office	184,468	173,440
Legislative administration	162,953	166,494
Legislative budget office	86,988	62,276
Chief clerks	224,768	198,779
	2,227,781	1,695,045
Judicial operations	489,448	494,286
Office of the Public Auditor	25,570	-
	4,245,505	3,552,216
Education:		
Administration	218,098	259,228
Elementary	3,466,256	4,147,543
Secondary	1,435,838	1,530,430
Nutrition	-	474
Curriculum and instruction	162,618	199,638
	5,282,810	6,137,313
Health services:		
Hospital and dispensaries	2,075,547	2,148,309
Environmental health	95,392	95,674
Dental services	234,615	230,515
	2,405,554	2,474,498

See Accompanying Independent Auditors' Report.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

GENERAL FUND

Statement of Revenues, Expenditures by Function and Department and Changes in Deficit, Continued
Year Ended September 30, 1998
(With comparative totals for the year ended September 30, 1997)

	1998	1997
Expenditures by department, continued:		
Economic development:		
Administration	\$ 110,699	\$ 95,309
Land management	41,175	56,330
Marine resources	364,010	380,360
Agriculture	270,835	281,043
Labor	27,042	25,019
Historic preservation	15,779	20,130
Business and trades	53,039	65,050
	882,579	923,241
Public works:		
Operations and maintenance	343,309	391,258
Electrical utilities	-	(19,294)
	343,309	371,964
Public safety		
	771,552	728,966
Transportation:		
Administration	646,562	769,512
Airport	54,176	119,912
	700,738	889,424
Community affairs:		
Division of public affairs	94,240	97,844
Division of youth affairs	16,433	14,785
Division of information and broadcast	75,734	77,977
	186,407	190,606
Boards and commissions:		
Investment board	7,155	4,998
Election commission	61,018	73,172
Education board	18,771	18,000
Recreation board	80,308	18,031
Land commission	134,511	147,140
General election	-	222,856
Environmental Protection Agency	71,379	61,634
Truk Scholarship Board	117,663	152,325
	490,805	698,156
Chuuk Early Retirement Program	2,595,997	-
Special programs	557,988	190,440
Legislative external appropriations	1,556,722	1,316,518
Uncollectible grants fund reserve and other	189,034	274,806
	4,899,741	1,781,764
Total expenditures	20,209,000	17,748,148
Excess of revenues over expenditures	204,827	3,506,165
Other financing sources (uses):		
Loan proceeds	6,659,112	-
Operating transfers out	(304,756)	(252,950)
	6,559,183	3,253,215
Excess of revenues and other financing sources over expenditures and other financing uses before the cumulative effect of a change in accounting principle	6,559,183	3,253,215
Add: cumulative effect of a change in accounting principle	4,603,258	-
Excess of revenues and other financing sources over expenditures and other financing uses	11,162,441	3,253,215
Deficit at beginning of year	(12,365,738)	(15,618,953)
Deficit at end of year	\$ (1,203,297)	\$ (12,365,738)

See Accompanying Independent Auditors' Report.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Special Revenue Funds
September 30, 1998

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, 1998, 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
FEDERATED STATES OF MICRONESIA**

SPECIAL REVENUE FUNDS
Combining Balance Sheet
September 30, 1998
(With comparative totals as of September 30, 1997)

ASSETS	Chuuk Visitors' Bureau	Chuuk Airport Authority	Federal Grant Assistance	Other Grant Assistance	CFSM Grant	Compact Other Grants	Compact Special Block Grant Section 221(b)	Totals	
								1998	1997
Cash and equivalents	\$ -	\$ -	\$ 9,816	\$ -	\$ -	\$ 142,296	\$ 452,784	\$ 604,896	\$ 261,296
Receivables:									
FSM National Gov't	-	-	2,456,851	21,928	356,250	13,548	88,167	2,936,744	2,587,755
Federal agencies, direct	-	-	-	-	-	-	-	-	79,933
General, net	428,841	-	1,900	-	-	-	-	430,741	265,840
Advances	-	-	117,665	831	58,636	11,490	14,221	202,843	203,369
Due from other funds	-	939,543	833,443	-	-	1,313,379	3,097,990	6,184,355	6,039,488
Allowance for uncollectibles	-	-	(2,093,093)	(21,928)	(74,864)	-	(88,167)	(2,278,052)	(2,278,052)
Total assets	\$ 428,841	\$ 939,543	\$ 1,326,582	\$ 831	\$ 340,022	\$ 1,480,713	\$ 3,564,995	\$ 8,081,527	\$ 7,159,629
LIABILITIES AND FUND BALANCES (DEFICIT)									
Liabilities:									
Accounts payable	\$ -	\$ -	\$ 624,844	\$ -	\$ 90,047	\$ 888,475	\$ 1,425,801	\$ 3,029,167	\$ 3,055,634
Accrued liabilities	-	-	35,062	-	-	-	-	35,062	35,062
Due to other funds	-	-	-	831	387,119	-	-	387,950	282,517
Payable to other governments	-	-	389,356	-	-	-	-	389,356	335,106
Deferred revenue	-	-	277,320	-	-	-	-	277,320	277,320
Total liabilities	-	-	1,326,582	831	477,166	888,475	1,425,801	4,118,855	3,985,639
Fund balances (deficit):									
Reserved for related assets	428,841	-	11,716	-	-	-	-	440,557	265,840
Reserved for encumbrances	-	-	297,851	-	3,205	326,846	79,461	707,363	522,206
Unreserved	-	939,543	(309,567)	-	(140,349)	265,392	2,059,733	2,814,752	(2,385,944)
Total fund balances (deficit)	428,841	939,543	-	-	(137,144)	592,238	2,139,194	3,962,672	3,173,990
Total liabilities and fund balances (deficit)	\$ 428,841	\$ 939,543	\$ 1,326,582	\$ 831	\$ 340,022	\$ 1,480,713	\$ 3,564,995	\$ 8,081,527	\$ 7,159,629

See Accompanying Independent Auditors' Report.

**CHUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

SPECIAL REVENUE FUNDS

Combining Statement of Revenues, Expenditures by Function and Changes in Fund Balances (Deficit)
Year Ended September 30, 1998
(With comparative totals for the year ended September 30, 1997)

	Chuk Visitors' Bureau	Chuk Airport Authority	Federal Grant Assistance	Other Grant Assistance	CFSM Grant	Compact Other Grants	Compact Special Block Grant Section 221(b)	Totals	
								1998	1997
Revenues:									
U.S. Compact of Free Association:									
Section 221(b)-base grant	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,730,000	\$ 2,730,000	\$ 2,730,000
Section 216(a)2-base grant	-	-	-	-	-	461,087	-	461,087	461,087
Section 214(c)-base grant	-	-	-	-	-	949,800	-	949,800	949,800
Section 217-inflation adjustment	-	-	-	-	-	635,894	-	635,894	599,900
Section 212-base grant	-	-	-	-	-	250,000	-	250,000	250,000
Federal contributions	-	-	1,329,180	-	-	-	-	1,329,180	757,096
Other	-	248,154	-	-	271,804	-	-	519,958	232,607
Total revenues	-	248,154	1,329,180	-	271,804	2,296,781	2,730,000	6,875,919	5,980,490
Expenditures:									
General government	-	-	-	-	-	394,732	-	394,732	36,767
Education	-	-	768,697	-	-	-	1,811,353	2,580,050	1,931,667
Health services	-	-	13,529	-	-	427,752	550,280	991,561	991,292
Public works and utilities	-	-	542,459	-	-	93,419	-	635,878	280,304
Public safety	-	-	-	-	171,804	-	-	171,804	146,121
Community affairs	-	-	4,495	-	-	262,924	-	267,419	234,267
Other	-	57,694	-	-	100,000	-	-	157,694	110,086
Total expenditures	-	57,694	1,329,180	-	271,804	1,178,827	2,361,633	5,199,138	3,730,504
Excess of revenues over expenditures	-	190,460	-	-	-	1,117,954	368,367	1,676,781	2,249,986
Other financing sources (uses):									
Operating transfers in	164,901	-	-	-	-	-	-	164,901	130,888
Operating transfers out	-	-	-	-	-	(1,053,000)	-	(1,053,000)	(1,415,108)
Total other financing sources (uses), net	164,901	-	-	-	-	(1,053,000)	-	(888,099)	(1,284,220)
Excess of revenues and other financing sources over expenditures and other financing uses	164,901	190,460	-	-	-	64,954	368,367	788,682	965,766
Fund balances (deficit) at beginning of year	263,940	749,083	-	-	(137,144)	527,284	1,770,827	3,173,990	2,208,224
Fund balances (deficit) at end of year	\$ 428,841	\$ 939,543	\$ -	\$ -	\$ (137,144)	\$ 592,238	\$ 2,139,194	\$ 3,962,672	\$ 3,173,990

See Accompanying Independent Auditors' Report.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

SPECIAL REVENUE FUNDS
Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balances (Deficit)
Year Ended September 30, 1998
(With comparative totals for the year ended September 30, 1997)

	Chuuk Visitors' Bureau	Chuuk Airport Authority	Federal Grant Assistance	Other Grant Assistance	CFSM Grant	Compact Other Grants	Compact Special Block Grant Section 221(b)	Totals	
								1998	1997
Revenues:									
U.S. Compact of Free Association:									
Section 221(b)-base grant	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,730,000	\$ 2,730,000	\$ 2,730,000
Section 216(a)2-base grant	-	-	-	-	-	461,087	-	461,087	461,087
Section 214(e)-base grant	-	-	-	-	-	949,800	-	949,800	949,800
Section 217-inflation adjustment	-	-	-	-	-	635,894	-	635,894	599,900
Section 212-base grant	-	-	-	-	-	250,000	-	250,000	250,000
Federal contributions	-	-	1,329,180	-	-	-	-	1,329,180	757,096
Other	-	248,154	-	-	271,804	-	-	519,958	232,607
Total revenues	-	248,154	1,329,180	-	271,804	2,296,781	2,730,000	6,875,919	5,980,490
Expenditures:									
Personnel	-	-	213,519	-	14,181	-	1,159,458	1,387,158	1,446,655
Travel	-	-	46,640	-	45,583	87,789	52,618	232,630	423,272
Contractual services	-	-	199,793	-	29,230	210,154	1,598	440,775	299,355
POL	-	-	-	-	-	9,789	357	10,146	1,827
Other :									
Equipment	-	-	35,608	-	9,667	-	-	45,275	31,294
Medical supplies	-	-	-	-	-	38,865	164,697	203,562	323,046
Supplies and materials	-	-	150,392	-	8,590	-	67,361	226,343	266,387
Food	-	-	-	-	-	-	773,072	773,072	260,722
Books	-	-	-	-	-	90,444	-	90,444	110,274
All others	-	-	-	-	-	741,786	142,472	884,258	359,841
Miscellaneous	-	57,694	683,228	-	164,553	-	-	905,475	207,831
Total expenditures	-	57,694	1,329,180	-	271,804	1,178,827	2,361,633	5,199,138	3,730,504
Excess of revenues over expenditures	-	190,460	-	-	-	1,117,954	368,367	1,676,781	2,249,986
Other financing sources (uses):									
Operating transfers in	164,901	-	-	-	-	-	-	164,901	130,888
Operating transfers out	-	-	-	-	-	(1,053,000)	-	(1,053,000)	(1,415,108)
Total other financing sources (uses), net	164,901	-	-	-	-	(1,053,000)	-	(888,099)	(1,284,220)
Excess of revenues and other financing sources over expenditures and other financing uses	164,901	190,460	-	-	-	64,954	368,367	788,682	965,766
Fund balances (deficit) at beginning of year	263,940	749,083	-	-	(137,144)	527,284	1,770,827	3,173,990	2,208,224
Fund balances (deficit) at end of year	\$ 428,841	\$ 939,543	\$ -	\$ -	\$ (137,144)	\$ 592,238	\$ 2,139,194	\$ 3,962,672	\$ 3,173,990

See Accompanying Independent Auditors' Report.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Capital Projects Funds
September 30, 1998

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, 1998, 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
FEDERATED STATES OF MICRONESIA**

**CAPITAL PROJECTS FUNDS
Combining Balance Sheet
September 30, 1998
(With comparative totals as of September 30, 1997)**

<u>Assets</u>	TTG Capital Projects	CFSM State Projects	Compact 211(a)(2) Capital Projects	<u>Totals</u>	
				1998	1997
Restricted cash	\$ -	\$ -	\$ 466,891	\$ 466,891	\$ 360,079
Investments	-	-	28,247,758	28,247,758	30,226,398
Investments - other	-	-	7,264,005	7,264,005	7,264,005
Receivable from:					
FSM National Government	-	92,991	-	92,991	92,991
Dept. of the Interior grants - TTG	766,415	-	-	766,415	766,415
Prepaid expenses	-	-	24,831	24,831	24,831
Advances	11,842	-	181,860	193,702	193,702
Loans receivable, other	-	-	7,000,000	7,000,000	7,000,000
Due from other funds	-	1,590	2,169,808	2,171,398	2,356,681
Allowance for uncollectibles	(762,349)	(93,081)	-	(855,430)	(855,430)
Total assets	\$ 15,908	\$ 1,500	\$ 45,355,153	\$ 45,372,561	\$ 47,429,672
 <u>Liabilities and Fund Balances (Deficit)</u>					
Liabilities:					
Accounts payable	\$ 19,049	\$ 1,500	\$ 3,593,738	\$ 3,614,287	\$ 3,170,407
Due to other funds	91,920	-	-	91,920	91,920
Notes payable	-	-	329,179	329,179	329,179
Total liabilities	110,969	1,500	3,922,917	4,035,386	3,591,506
Fund balances (deficit):					
Reserved for:					
Related assets	-	-	14,755,727	14,755,727	14,288,836
Encumbrances	-	-	144,252	144,252	313,798
Continuing appropriations	-	-	13,796,678	13,796,678	17,406,152
Unreserved	(95,061)	-	12,735,579	12,640,518	11,829,380
Total fund balances (deficit)	(95,061)	-	41,432,236	41,337,175	43,838,166
Total liabilities and fund balances (deficit)	\$ 15,908	\$ 1,500	\$ 45,355,153	\$ 45,372,561	\$ 47,429,672

See Accompanying Independent Auditors' Report.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

CAPITAL PROJECTS FUNDS

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

Year Ended September 30, 1998

(With comparative totals for the year ended September 30, 1997)

	TTG Capital Projects	CFSM State Projects	Compact 211(a)(2) Capital Projects	Totals	
				1998	1997
Revenues:					
U.S. Compact of Free Association:					
Section 211 (a)(2) - base grant	\$ -	\$ -	\$ 6,144,000	\$ 6,144,000	\$ 6,144,000
Section 217 - inflation adjustment	-	-	3,256,320	3,256,320	3,072,000
U.S. Department of the Interior grants			-	-	4,066
Total revenues	-	-	9,400,320	9,400,320	9,220,066
Expenditures:					
Capital projects	-	-	10,172,459	10,172,459	2,120,210
Debt service-principal	-	-	1,300,000	1,300,000	-
Debt service-interest	-	-	428,862	428,862	665,360
Total expenditures	-	-	11,901,321	11,901,321	2,785,570
Excess (deficiency) of revenues over (under) expenditures	-	-	(2,501,001)	(2,501,001)	6,434,496
Other financing sources (uses):					
Other income	-	-	10	10	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	-	-	(2,500,991)	(2,500,991)	6,434,496
Fund balances (deficit) at beginning of year	(95,061)	-	43,933,227	43,838,166	37,403,670
Fund balances (deficit) at end of year	\$ (95,061)	\$ -	\$ 41,432,236	\$ 41,337,175	\$ 43,838,166

See Accompanying Independent Auditors' Report.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

CAPITAL PROJECTS FUNDS

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

Year Ended September 30, 1998

(With comparative totals for the year ended September 30, 1997)

	TTG Capital Projects	CFMSM State Projects	Compact 211(a)(2) Capital Projects	Totals	
				1998	1997
Revenues:					
U.S. Compact of Free Association:					
Section 211 (a)(2) - base grant	\$ -	\$ -	\$ 6,144,000	\$ 6,144,000	\$ 6,144,000
Section 217 - inflation adjustment	-	-	3,256,320	3,256,320	3,072,000
U.S. Department of the Interior grants			-	-	4,066
Total revenues	-	-	9,400,320	9,400,320	9,220,066
Expenditures:					
Personnel	-	-	93,822	93,822	70,509
Travel	-	-	96,362	96,362	190,058
Contractual services	-	-	2,926,478	2,926,478	312,187
POL	-	-	45,842	45,842	15,336
Other:					
Equipment	-	-	3,325,868	3,325,868	119,941
Supplies and materials	-	-	1,854,831	1,854,831	264,335
Food	-	-	7,243	7,243	7,615
All others	-	-	1,811,445	1,811,445	778,564
Debt service-principal	-	-	1,300,000	1,300,000	-
Debt service-interest	-	-	428,862	428,862	665,360
Miscellaneous	-	-	10,568	10,568	361,665
Total expenditures	-	-	11,901,321	11,901,321	2,785,570
Excess (deficiency) of revenues over (under) expenditures	-	-	(2,501,001)	(2,501,001)	6,434,496
Other financing sources (uses) :					
Other income	-	-	10	10	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	-	-	(2,500,991)	(2,500,991)	6,434,496
Fund balances (deficit) at beginning of year	(95,061)	-	43,933,227	43,838,166	37,403,670
Fund balances (deficit) at end of year	\$ (95,061)	\$ -	\$ 41,432,236	\$ 41,337,175	\$ 43,838,166

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, 1998. Our report dated August 2, 1999, 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) the omission of the State's component units: Chuuk Coconut Authority and Chuuk Housing Authority; 5) our inability to form an opinion on revenues of the Chuuk Public Utility Corporation, a Component Unit - Proprietary Fund; 6) our inability to express an opinion on the Chuuk Visitors' Bureau; 7) 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; 8) the noninclusion of a potential Component Unit-Governmental Fund; 9) our inability to obtain representation from the State Attorney General regarding pending litigation and other legal matters; and 10) our inability to determine that continuing appropriations of the Governmental Fund Types were fairly stated.

Compliance

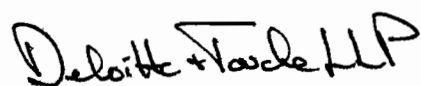
We performed tests of the State of Chuuk's compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, our objective was not to provide an opinion on compliance 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 60 through 85) as items 98-L1 through 98-L4.

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 98-4 and 98-6 through 98-19.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 98-4, 98-11, 98-17 and 98-19 to be material weaknesses.

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 that reads "Deloitte + Touche LLP". The signature is written in a cursive, flowing style.

August 2, 1999



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

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

Compliance

We have audited the compliance of the State of Chuuk with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 1998. 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 60 through 84). 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 98-1 through 98-5 in the accompanying Schedule of Findings and Questioned Costs, the State of Chuuk did not comply with requirements regarding allowable costs/cost principles (CFDA #84.256A), equipment and real property management (all programs), and unresolved prior years' federal findings (CFDA #84.003 and 10.560). Compliance with such requirements is necessary, in our opinion, for State of Chuuk to comply with requirements applicable to its federal programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the State of Chuuk, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 1998.

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 98-1 through 98-5.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 98-4 to be 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, 1998. Our report dated August 2, 1999, 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) the omission of the State's component units: Chuuk Coconut Authority and Chuuk Housing Authority; 5) our inability to form an opinion on revenues of the Chuuk Public Utility Corporation, a Component Unit - Proprietary Fund; 6) our inability to express an opinion on the Chuuk Visitors' Bureau; 7) 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; 8) the noninclusion of a potential Component Unit-Governmental Fund; 9) our inability to obtain representation from the State Attorney General regarding pending litigation and other legal matters; and 10) our inability to determine that continuing appropriations of the Governmental Fund Types were fairly stated. The accompanying schedule of expenditures of federal awards (pages 44 through 56) 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 an opinion, 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.

Deloitte + Tatchell LLP

August 2, 1999

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards
FSM Federal Assistance Fund
Year Ended September 30, 1998

Grantor Account Title	Org./Cost Center #	CFDA I.D. #	1998 Fiscal Year Expenditures
<u>Direct Grants:</u>			
<u>U.S. Department of Education</u>			
94-96 School Improvement Project	3804	84.256A	\$ 154,865
96 School Improvement Project	3808	84.256A	466,587
96 School Improvement Project	TX4010	84.256A	26,506
Total U.S. Department of Education			<u>\$ 647,958</u>
<u>U.S. Department of the Interior</u>			
V6AK Renovation	3854	15.875	\$ 4,395
Total U.S. Department of the Interior		Unknown	<u>\$ 4,395</u>
<u>U.S. Environmental Protection Agency</u>			
Chuuk House Sewer Connection	TK9011	66.418	\$ 16,807
Total Environmental Protection Agency (CFDA #66.418)			<u>\$ 16,807</u>
<u>U.S. Department of Commerce - Economic Development Administration</u>			
Weno Water Supply Project			\$ 240,524
Total U.S. Department of Commerce			<u>\$ 240,524</u>
<u>Received in a Pass through Capacity From:</u>			
<u>Pacific Resources for Education and Learning (PREL)</u>			
Visions & Dreams/Pwene Elementary School	108165	84.994	\$ 2,200
Visions & Dreams/W. Fefan Elementary School	108166	84.994	2,534
Visions & Dreams/Ta Elementary School	108167	84.994	1,500
Visions & Dreams/Messa Elementary School	108168	84.994	3,600
Visions & Dreams/Lekinioch Elementary School	108169	84.994	5,615
Vocational Education Improvement Project	3870	84.994	78,946
Vocational Education Improvement Project	3810	84.994	26,344
Total Pacific Resources for Education and Learning (CFDA #84.994)			<u>\$ 120,739</u>
<u>FSM National Government:</u>			
<u>Federal Emergency Management Agency</u>			
Typhoon Owen Public Assistance	TX1300	83.516	\$ 20,588
Typhoon Yuri Public Assistance	TX2800	83.516	54,217
El Nino Drought/Public Assistance	TX8500	83.516	211,112
El Nino Drought/Sub-Grantee	TX8501	83.516	6,630
Total CFDA #83.516			<u>292,547</u>
Hazard Mitigation Management Cost	3864	83.519	100
Hazard Mitigation Management Cost	TX4020	83.519	6,110
Total CFDA #83.519			<u>6,210</u>
Total Federal Emergency Management Agency			<u>\$ 298,757</u>
Total Federal Financial Assistance Fund			<u>\$ 1,329,180</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, 1998

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1998 Fiscal Year Expenditures
Fire Disaster Relief Fund	1133	N/A	\$ 23,160
Micro Game in Palau	1183	N/A	100,000
Chuuk Joint Law Enforcement	C9437	N/A	<u>148,644</u>
Total CFSM Special Revenue Fund			<u>\$ 271,804</u>

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

See accompanying notes to schedule of expenditures of federal awards.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Compact of Free Association Capital Projects Fund
Section 211 (A)(2)
Year Ended September 30, 1998

Grantor Account Title	Org./Cost Center #	CFDA I.D. #	1998 Fiscal Year Expenditures
Section 211 (A)(2)			
Romalum Market	6036	15.875	1,133
Public Assistance Program	6141	15.875	2,036
Onoun Fishing Cooperation	6142	15.875	15,689
Sefin Fishing Development	6381	15.875	236
Satowan Road Project	6421	15.875	12,770
Satowan Elementary School Project	6423	15.875	34,819
Romalum Seawall Supplemental	6498	15.875	7,461
Polle Marketing Project	6506	15.875	2,277
Uman Fishing Development	6581	15.875	38,125
State Facilities Rehabilitation	6595	15.875	4,795
Romalum Seawall	6606	15.875	7,183
Water System Improvement Development	6622	15.875	94,945
Dubloun Taro Patch Development	6627	15.875	3,703
Truk Coconut Authority	6641	15.875	3,610
Fefen Fishing Project	6649	15.875	916
Fefen Ongongoch Fishing Project	6687	15.875	3,339
Kuttu Fishing Project	C0007	15.875	7,170
Tonoas Dispensary Project	C0068	15.875	5,660
Fefan Municipal Office Complex	C0088	15.875	7,140
Fefan Public Road Upgrade	C0090	15.875	2,800
Fefan Public Road Upgrade	C0091	15.875	1,000
Tonoas Project Admin. Cost	C0094	15.875	1,815
Tunuk Water Project	C0134	15.875	1,945
Romalum Fishing Project	C0172	15.875	817
Uman Sapota Fishing Project	C0183	15.875	723
Unanu Housing Project	C0199	15.875	9,423
Matching ESDA Water Development	C0215	15.875	250,000
Polle/Tonoas Youth Center	C0219	15.875	2,415
Agriculture Infrastructure Supp.	C0236	15.875	25,746
Tol Cnt. Disp. & Comm.	C0242	15.875	56,996
Romalum Fish Market Supple.	C0256	15.875	518
Satawan Sub. Power & Facilities	C0297	15.875	2,000
Fono Nukenap Fishing Market	C0304	15.875	600
Piherahr Fishing Project	C0334	15.875	300
Tunuk Water Project	C0341	15.875	1,600
Chuuk Tuna Cannery	C0370	15.875	(10,000)
Radio/Communication Equipment	C0375	15.875	2,370
Unknown	C0414	15.875	2,534
Chuuk/US EDA Water Upgrade	C0434	15.875	21,506
Soponong Community Mental Health	C0449	15.875	1,253
Piherahr Housing Project	C0453	15.875	8,172
Unanu Marketing Outlet	C0472	15.875	14,029
Unknown	C0475	15.875	15,428
Pafeng Nav. Aid System	C0477	15.875	10,000
Romanum Fishing Project	C0496	15.875	686
Southern Namoneas Jr. -Fence	C0518	15.875	5,190
Siis Farming Project	C0526	15.875	1,606
Lukunor Runway Project	C0538	15.875	2,916
Unanu Municipality	C0567	15.875	6,040
Magur Housing Project Supp.	C0571	15.875	4,179
Subtotal			697,614

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, 1998

Grantor Account Title	Chuuk Org #/ Cost Center	CFDA I.D. #	1998 Fiscal Year Expenditures
Balance forwarded			\$ 697,614
Piherarh Housing Supplement	C0589	15.875	9,997
Fefan Public Building Rep. Sp.	C0595	15.875	17,010
Nomwin Fishing Project	C0637	15.875	523
Tol Public Road Upgrade	C0658	15.875	37,300
Tol School Construction & Improvement	C0661	15.875	155,098
Tsis Handicrafts Proejct	C0662	15.875	4,930
Siis Sewing Project	C0663	15.875	8,610
Pissemwar Sewing Project	C0665	15.875	2,573
Paata Coop Fishing Project	C0674	15.875	2,676
Fefan Road Supplemental	C0688	15.875	14,000
Paata Fishing Project	C0717	15.875	1,315
Paata Seawall Fild Claim	C0724	15.875	3,789
Wichap Office Building with Site Purchase	C0735	15.875	11,474
Saraman Chuuk School Building	C0750	15.875	6,719
Piherarh Fishing Supplemental	C0753	15.875	135
Faro (Tol) Seawall Project	C0759	15.875	800
Mortlock El Nino Water	C0777	15.875	10,000
Etten Water Project Supplemental	C0779	15.875	5,188
Toleisom Municipality	C0785	15.875	65,106
Tol Public Building Project	C0787	15.875	5,673
Nukanap Uman Public Building	C0794	15.875	5,885
Kuttu Public Meeting Hall	C0812	15.875	4,244
Toleisom Regional Fishing Proejct	C0841	15.875	2,580
Satawan Ice Machine Supplemental	C0843	15.875	4,727
Fefan Water System	C0849	15.875	5,100
Fefan Public Building Supplemental	C0850	15.875	7,448
Fefan Road Major Upgrade	C0859	15.875	4,921
N. Namon Public Building Rep. & Sup.	C0880	15.875	500
Pattiw JHS Construction	C0913	15.875	2,055
Magur Housing Project	C0920	15.875	7,522
Epinup/Weno Admin. Building	C0948	15.875	2,960
Tonoas Farming Project	C0956	15.875	2,207
MS Nama Supplemental	C0959	15.875	14,999
Weno Secondary Road	C0973	15.875	14,844
V6AK Radio & TV Complex Supplemental	C0975	15.875	25,000
Beatification Fefen Project	C0978	15.875	16,984
Fefan Housing Authority	C0981	15.875	260,000
Unknown	C0984	15.875	46,297
Nechocho Tol Solar Light	C1001	15.875	4,000
Fuun Metaw Drydocking	C1004	15.875	11,763
MS Toku Drydocking	C1005	15.875	2,370
MS Toku Drydocking	C1006	15.875	3,683
Losap Solar System Supplemental	C1008	15.875	22,667
Fefan Classroom Renovation Project	C1009	15.875	21,731
Tunuk-Weno Water Project	C1011	15.875	500
Fono Water Project	C1012	15.875	1,000
Mechitiw Weno Seawall	C1014	15.875	1,700
Tunuk-Weno Seawall	C1016	15.875	1,064
Subtotal			<u>1,559,281</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, 1998

Grantor Account Title	Chuuk Org #/ Cost Center	CFDA I.D. #	1998 Fiscal Year Expenditures
Balance forwarded			\$ 1,559,281
Udot Fishing Project	C1017	15.875	147,996
Udot Fishing Project	C1018	15.875	104,088
Tol Nenneu, Foupo Community Center	C1022	15.875	3,850
Tunuk-Weno Fishing Project	C1023	15.875	5,000
Fefan Kukku Fishing Project	C1023	15.875	19,975
South Namon. JHS Renovation	C1025	15.875	40,961
Land Lease Tonoas Nafou	C1026	15.875	10,000
Sapore (Fefan) Fishing Project	C1029	15.875	33,788
Eot Netanipi Fishermen Association	C1030	15.875	19,300
Neauo Seawall	C1031	15.875	3,947
Neauo Weno School Facilities	C1032	15.875	3,196
Polle Community Cener/Public Facilities	C1033	15.875	33,570
Penia Weno Water Development	C1036	15.875	19,990
Weno Housing Supplemental	C1037	15.875	100,000
Iras Sewing Project	C1039	15.875	5,000
Iongkumi Fishing/Tol	C1040	15.875	32,500
Uman Fishing Project	C1042	15.875	46,330
Kuttu Dispensary Solar System	C1044	15.875	15,000
Houk Land Outright Purchase	C1045	15.875	27,494
Peniesene Beautification	C1047	15.875	7,000
Fono Fishing Project Supplemental	C1049	15.875	9,995
Onari Basketball Court	C1051	15.875	5,600
Sapuk Farming Project	C1052	15.875	35,000
Sefin Weno Farming Project	C1054	15.875	5,000
Sefin Weno Youth Center	C1055	15.875	4,329
Sefin Weno Water Project	C1056	15.875	5,383
Sangkumi Weno Water Project	C1058	15.875	63,005
Peniesene Fishing Project	C1059	15.875	20,404
Tonoas Power Distribution	C1060	15.875	4,690
Fono Fishing Project	C1061	15.875	5,136
Peniesene Weno Sewing Project	C1063	15.875	10,000
Ufo Fefan Dispensary Renovation	C1064	15.875	325
Lukunor Classroom & Library	C1065	15.875	22,357
Polle Manaio School Repair	C1066	15.875	4,200
Iras Water Source Development	C1067	15.875	20,000
Chuuk State Water Project	C1071	15.875	63,227
Udot 1.5% CIP Project Admin. Cost	C1072	15.875	2,189
Road Repavement & Pavement	C1073	15.875	1,149,280
Tonoas Public Building Repair/Renovation	C1074	15.875	4,646
Hall Islands Agriculture	C1075	15.875	1,334
Fanapanges Ipifonu Fishing	C1076	15.875	20,000
Tonoas Water System Development	C1077	15.875	9,267
Wichap Weno Water Project	C1078	15.875	9,086
Tunuk-Weno Fishing Project	C1079	15.875	5,000
Romalum Farming Project	C1082	15.875	3,001
Nomwin Housing Supplemental	C1083	15.875	31,500
Romalum Fishing Project	C1084	15.875	2,000
Fanapanges Sapota Women Sewing Project	C1085	15.875	5,000
Romalum Fishing Project	C1086	15.875	10,000
Subtotal			<u>3,769,220</u>

See accompanying notes to schedule of expenditures of federal awards.

**CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Compact of Free Association Capital Projects Fund
Section 211 (A)(2), Continued
Year Ended September 30, 1998

Grantor Account Title	Chuuk Org #/ Cost Center	CFDA I.D. #	1998 Fiscal Year Expenditures
Balance forwarded			\$ 3,769,220
Fefan Agriculture Supplemental	C1087	15.875	25,000
Polle Manaio Sewing Project	C1089	15.875	1,800
Tonoas Public Building Repair/Renovation	C1090	15.875	13,130
Pukos/Namoluk	C1091	15.875	2,997
Hospital Renovation	C1092	15.875	11,141
Water and Sanitation	C1093	15.875	58,053
Airport Repair	C1094	15.875	73,305
DPW Heavy Equipment	C1095	15.875	22,181
Public Safety Relocation	C1096	15.875	50,000
Facility Renovation	C1098	15.875	44,337
High School Dorms Renovation	C1099	15.875	4,666
Ichi-Kumi Tol Road Improvement	C1100	15.875	18,000
Wonei Housing Project	C1101	15.875	80,000
Wichap Weno Water Project	C1102	15.875	5,200
Nikumi (Toleisom) Farming Project	C1103	15.875	16,000
Tonoas Water System Development	C1104	15.875	104,721
Sefin Weno Water Project	C1105	15.875	7,840
Tonoas Office Repair/Renovation	C1106	15.875	7,005
Uman Water Project	C1107	15.875	24,950
Polle Fishing Project	C1108	15.875	16,000
Fanapanges Ipifonu Livestock	C1109	15.875	5,000
Iras B&S Fishing Project	C1110	15.875	10,000
Mechitiw Sewing	C1111	15.875	4,998
Neauo Women Association Sewing Project	C1112	15.875	4,998
Tonoas Fishing Project	C1113	15.875	51,297
Losap El Nino Water Project	C1115	15.875	73,588
Nama Housing Supplemental	C1116	15.875	83,890
Paata Community Centers	C1118	15.875	19,293
Romalum Community Building	C1120	15.875	4,315
Faichuk Water Tank	C1121	15.875	2,000
N. Namoneas Water	C1122	15.875	195,065
Banana Thinning & Rehab. Satowan	C1123	15.875	9,481
PPW Solar Lighting	C1124	15.875	15,000
Wonip Fishing Project	C1125	15.875	4,000
Wonei Farming Project	C1126	15.875	87,159
Faichuk Regional Sewing	C1127	15.875	7,000
Satawan Water System	C1128	15.875	10,000
PPW Regional Fishing	C1130	15.875	10,064
Polle Ice Plant	C1131	15.875	17,988
Moch Ice Plant	C1132	15.875	50,000
Losap Housing Revolving Supplemental	C1133	15.875	42,000
Losap Housing Revolving Supplemental	C1134	15.875	29,616
Losap Housing Revolving Supplemental	C1135	15.875	52,925
Kuttu Power Generation/Distribution	C1136	15.875	15,000
Tonoas 1.5% Admin. Cost	C1137	15.875	4,619
Tonoas 1.5% Admin. Cost	C1138	15.875	3,299
Satowan Youth Center	C1140	15.875	13,799
Tamatam Meeting Hall Extension	C1141	15.875	5,544
Subtotal			<u>5,187,484</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, 1998

Grantor Account Title	Chuuk Org #/ Cost Center	CFDA I.D. #	1998 Fiscal Year Expenditures
Balance forwarded			\$ 5,187,484
Polle Meeting Hall	C1142	15.875	49,543
Fono School Fencing	C1143	15.875	3,918
Winipis Sapuk Fishing Project	C1144	15.875	5,000
Iras Classroom Expansion	C1145	15.875	8,790
Polle Farming Project	C1146	15.875	10,000
Tonoas Road Improvement	C1147	15.875	177,666
Penia Weno Fishing Project	C1148	15.875	3,000
Tonoas Sewing Project	C1149	15.875	18,090
Tonoas 1.5% Admin. Cost	C1150	15.875	(748)
Sapuk Kokumi (SKCA) Fishing	C1152	15.875	15,700
Fono Fishing Project Supplemental	C1153	15.875	62,069
Y&L Historic Site Beuati	C1154	15.875	14,190
Uman Sewing Project	C1155	15.875	16,244
Piis Paneu Fishing Project	C1156	15.875	41,000
Uman El Nino Water Project	C1157	15.875	59,561
Uman El Nino Water Project	C1158	15.875	27,553
Nomwin Municipal Solar Lighting	C1159	15.875	6,000
Nomwin El Nino Water Project	C1160	15.875	19,500
Peniesene Weno Water Catchment	C1161	15.875	15,000
Fanau El Nino Water Project	C1162	15.875	22,439
Polle Public Building Construction	C1163	15.875	56,599
Uman Housing Project	C1164	15.875	37,500
Nukaf Paata Community Centers	C1165	15.875	2,582
Nama Passengers Boat Supplemental	C1166	15.875	39,471
Houk Housing Project	C1168	15.875	2,163
Faichuk Regional Farming	C1169	15.875	3,445
PPW Water Improvement Project	C1170	15.875	10,000
Tol Water Tanks Purchase	C1171	15.875	67,996
Macheweichun El Nino Water Project	C1172	15.875	80,837
Hauk Water Well Drilling	C1173	15.875	18,877
Tolensom Manpower Development Training	C1175	15.875	10,000
Halls Regional Fishing	C1176	15.875	14,299
Fefan El Nino Water Project	C1177	15.875	10,424
Neauo Weno Water Catchment	C1178	15.875	5,000
Neauo Weno Water Catchment	C1179	15.875	7,500
Uman Youth Complex	C1180	15.875	35,000
Uman Fishing Project	C1181	15.875	35,144
Fefan Machew Sewing Project	C1184	15.875	16,000
Polle Youth Beautification	C1186	15.875	45,826
Weipat Junior High Renovation	C1187	15.875	30,000
Nomwin Fishing Supplemental	C1188	15.875	24,000
N. Namoneas Regional Fishing	C1189	15.875	44,785
Tol Fishing Project	C1190	15.875	14,998
Parem Fishing Revolving Fund	C1191	15.875	8,000
Fefan Road Upgrade	C1192	15.875	54,835
Sefin El Nino Water Catchment	C1193	15.875	5,800
Fefan Fishing Project	C1194	15.875	49,980
Fanapanges Seawall	C1195	15.875	4,433
Subtotal			<u>6,497,493</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, 1998

Grantor Account Title	Org./Cost Center #	CFDA I.D. #	1998 Fiscal Year Expenditures
Balance forwarded			\$ 6,497,493
Iong-Kumi/Tol Building Construction	C1196	15.875	23,636
Tol Water Catchment Tanks	C1197	15.875	15,000
Udot Comm. System Upgrade	C1198	15.875	3,759
Amwachang Tol Seawall	C1199	15.875	3,000
Tonoas Water System Development	C1200	15.875	13,743
Namusofu Regional Fishing	C1201	15.875	13,037
Fefan Public Building Repair	C1202	15.875	32,897
Fefan Sapeta Fishing Project	C1203	15.875	26,584
Peniesene Flood Control	C1204	15.875	4,989
Fefan Water System	C1205	15.875	23,712
Sapuk Water Tank	C1206	15.875	55,000
Nepukos Secondary Road	C1207	15.875	10,000
EDT Youth Farming	C1208	15.875	2,210
Toleisom Regional Fishing Proejct	C1209	15.875	28,000
Eot-Netanipi Women Sewing	C1210	15.875	2,100
Uman El Nino Solar Water Pumps	C1211	15.875	35,611
Kulong Fishing Coop Project	C1212	15.875	10,000
Nepisor Uman El Nino	C1213	15.875	6,995
Lekinioch Beautification	C1214	15.875	15,000
Onoun El Nino Water Project	C1215	15.875	63,000
Onoun El Nino Water Project	C1216	15.875	44,000
Tamatam Seawater Conversion	C1217	15.875	10,000
PPW El Nino Water	C1218	15.875	2,900
Onou Fishing	C1219	15.875	14,987
Iras Weno Sanitary Facilities	C1222	15.875	10,000
Mechitiw Weno Seawall	C1223	15.875	1,988
Pwene Fefan School Renovation	C1224	15.875	10,498
Onou Community Hall Center	C1226	15.875	8,397
Wonei Fishing Project	C1227	15.875	30,500
Onou Handicraft	C1228	15.875	3,035
Onou Handicraft	C1229	15.875	1,965
Renovation of Onou Solar Freezer	C1230	15.875	24,680
Nepukos Farming	C1231	15.875	10,000
Fananu Fishing Project	C1232	15.875	24,000
Piherarh Housing Supplemental	C1233	15.875	46,940
Penia Fishing Project	C1234	15.875	19,718
United Fanapanges Fishing	C1235	15.875	5,000
Piherarh Housing Supplemental	C1238	15.875	6,000
Tonoas Public Building Repair/Renovation	C1239	15.875	11,603
Nukanap Weno Water	C1242	15.875	2,932
Ono Housing Supplemental	C1243	15.875	10,000
Ono Housing Supplemental	C1244	15.875	32,800
Faichuk El Nino Water	C1245	15.875	30,000
Piherarh Housing Supplemental	C1246	15.875	37,209
Field Trip Vessels Drydocking	C1247	15.875	305,234
Piherarh School Building	C1248	15.875	8,575
Tonoas Fishing Project	C1249	15.875	37,530
Polowat El Nino Water	C1250	15.875	6,525
Weno Farming	C1252	15.875	3,250
Subtotal			7,646,032

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, 1998

Grantor Account Title	Chuuk Org #/ Cost Center	CFDA I.D. #	1998 Fiscal Year Expenditures
Balance forwarded			\$ 7,646,032
Iongkumi Tolensom Fishing	C1254	15.875	16,998
Kuchua-Nechap/Tonoas Water	C1256	15.875	17,920
Uman Anchocho Fishing	C1258	15.875	23,568
Piis Paneu Fishing	C1259	15.875	45,205
Magur Housing Supplemental	C1260	15.875	22,878
Sangkumi Wonip Women Sewing	C1262	15.875	8,000
Fefan Water System Development	C1263	15.875	196,180
Weno Poultry Project	C1264	15.875	4,000
Nemwan El Nino Water	C1268	15.875	10,000
Uman El Nino Water	C1269	15.875	22,610
Nukunos Tonas El Nino Water	C1270	15.875	4,944
NN. Public Building Renovation	C1271	15.875	16,167
Nepon Uman El Nino Water	C1272	15.875	8,450
Weno Mun. Major Soc.	C1273	15.875	14,977
Fananu Water Treatment Plant	C1274	15.875	25,000
Wichap El Nino Water Catchment	C1275	15.875	15,000
Parem El Nino Water Development	C1276	15.875	12,630
Halls Junior High School Project	C1277	15.875	13,635
Fananu Dispensary Project	C1280	15.875	8,735
Tonokas Wonei Dock Renovation	C1281	15.875	5,000
Pollap Multipurpose	C1282	15.875	22,157
Ta Marine Products & Coconut Shells	C1283	15.875	7,500
Mechitiw Sewing Project Weno	C1286	15.875	3,500
Wonei CIP A&E Services	C1287	15.875	18,000
Parem El Nino Water Development	C1289	15.875	6,750
PPW Fishing Project	C1290	15.875	7,600
Winipis El Nino Water Catchment	C1291	15.875	10,000
Sapuk (SKCA) Sewing Project	C1292	15.875	20,000
Faichuk Seawall Project	C1301	15.875	1,500
Weno Housing Supplemental	C1302	15.875	100,000
Weno Mun. Economic Development Project	C1305	15.875	10,000
Penia Farming Project	C1307	15.875	8,200
Sapota Uman Seawall Project	C1310	15.875	11,580
PPW Regional Fishing	C1311	15.875	9,995
Upper Mortlocks Public Facility Rep.	C1312	15.875	33,000
Upper Mortlocks Sewing Project	C1313	15.875	10,890
Upper Mortlocks Fishing Project	C1314	15.875	10,000
Weno Fishing Project	C1315	15.875	22,392
Mokur Housing Supplemental	C1316	15.875	33,390
Onou Facility Renovation	C1317	15.875	25,000
Nemwan Fishing Project	C1320	15.875	9,998
Namoluk Fishing Project	C1321	15.875	9,797
Namoluk Public Building Construction	C1322	15.875	4,943
Eot Dock Repair Project	C1324	15.875	8,764
Neauo Weno Fishing Project	C1326	15.875	1,000
Neauo Weno Fishing Project	C1327	15.875	2,500
Upper Mortlocks Civic Center	C1328	15.875	50,000
Uman El Nino Water Supplemental	C1338	15.875	128,046
Pollap Seawater Conversion	C1340	15.875	25,500
Iras Weno El Nino Water Tanks	C1341	15.875	5,000
Subtotal			<u>8,754,931</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, 1998

Grantor Account Title	Chuuk Org #/ Cost Center	CFDA I.D. #	1998 Fiscal Year Expenditures
Balance forwarded			\$ 8,754,931
Sangkumi Weno El Nino Water	C1342	15.875	6,000
Wnipis Eor El Nino Water	C1343	15.875	10,000
S. Namoneas El Nino Water	C1344	15.875	28,840
Sapore Fefan El Nino Water	C1345	15.875	2,465
Weito Equipment Purchase0	C1346	15.875	45,000
Tunnuk Weno Public Building Repair	C1347	15.875	9,997
Fanapanges Road Maintenance	C1348	15.875	10,000
Neauo Weno Water Tanks	C1349	15.875	5,000
Paata Youth Beautification	C1352	15.875	18,790
Mechitiw Well Drilling	C1353	15.875	15,000
PPW El Nino Water Project	C1354	15.875	7,248
Tamatam Communication Hardware	C1356	15.875	4,027
Nukaf Paata Water Tanks	C1357	15.875	4,500
Ruo Fishing Projects	C1358	15.875	31,626
Ruo Fishing Projects	C1359	15.875	4,799
Nepon Uman El Nino Water	C1360	15.875	14,454
Toleisom Ichkumi Community Center	C1361	15.875	25,077
Weitto Youth Handicraft	C1363	15.875	5,000
Eor El Nino Water	C1364	15.875	5,000
Tonoas Nechap Sewing Project	C1365	15.875	5,000
Nepukos Weno El Nino Water	C1366	15.875	15,000
Saponong Weno El Nino Water	C1368	15.875	6,000
Sapoto Uman Fishing Project	C1369	15.875	14,560
Nepon Uman Fishing Project	C1370	15.875	24,246
Fefan MK Fishing Project	C1371	15.875	12,989
Namonweito Fishing & Marketing	C1374	15.875	171,325
N. Namoneas 'Regional Fishing	C1376	15.875	5,965
PPW Regional Fishing	C1377	15.875	1,785
Ta Youth/Cultureal Center	C1379	15.875	795
Piis Paneu Fishing Project	C1380	15.875	34,225
Uman Kuchu Women Sewing	C1381	15.875	7,500
Parem Sewing Project	C1384	15.875	8,500
Uman Nukan Fishing Project	C1385	15.875	13,975
Faichuk Farming Project	C1386	15.875	12,910
Sangkumi Wonip Fishing Project	C1387	15.875	12,370
Ichkumi Toleisom Fishing Project	C1389	15.875	21,750
Ichkumi Tol Women Sewing	C1390	15.875	9,600
PPW Youth Farming Training	C1391	15.875	2,300
Paata Housing Project	C1392	15.875	11,876
Uman Mochon Public Building	C1393	15.875	19,785
Fefan Fason Fishing	C1394	15.875	5,000
Uman Land Transportation	C1395	15.875	34,999
Nesopera Community Fishing Supplemental	C1396	15.875	1,764
Nesopera Community Fishing Supplemental	C1397	15.875	12,577
Asangao Uman Fishing	C1399	15.875	17,287
Eor Sapuk Weno Fishing	C1402	15.875	5,000
Sapuk Weno El Nino Water	C1403	15.875	6,000
Tonoas Fishing Project	C1404	15.875	37,539
Fono Public Meeting Hall	C1405	15.875	3,861
Subtotal			<u>9,544,237</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, 1998

Grantor Account Title	Chuuk Org #/ Cost Center	CFDA I.D. #	1998 Fiscal Year Expenditures
Balance forwarded			\$ 9,544,237
Fono El Nino Water Project	C1406	15.875	10,462
Uman Sapou El Nino Water	C1407	15.875	14,376
Uman Sapou Kinioch Fishing	C1408	15.875	23,542
Chuuk EDA Water Development Supplemental	C1409	15.875	218,999
Sapore Fefan El Nino Water	C1411	15.875	35,541
Etiamar/Paata El Nino Water	C1412	15.875	8,000
Neauo Fishing Project	C1413	15.875	5,000
Uman El Nino Water System Supplemental	C1415	15.875	4,600
Uman Nesaraw Fishing Project	C1417	15.875	15,370
Uman Sannuk Fishing	C1418	15.875	18,145
N. Namoneas School Repair	C1419	15.875	10,534
Polle Women Sewing & Handicraft	C1420	15.875	5,000
Paata Initial Land Purchase	C1424	15.875	5,000
Romanum Fishing Project	C1425	15.875	14,188
Neauo Sewing Project	C1427	15.875	675
Nemwan Weno El Nino Water	C1428	15.875	10,000
Eor Weno Sapuk Fishing	C1429	15.875	5,000
Fan Katon Tolensom Fishing	C1437	15.875	1,300
Murilo Mayor's Office Building	C1439	15.875	1,071
Fefan Sapeta Garment Factory	C1440	15.875	18,750
Nefori Fefan Fishing	C1441	15.875	17,632
Fefan Fishing Project	C1443	15.875	41,000
Amachang Tol Fishing	C1444	15.875	10,000
Fanapanges Dock Repair	C1446	15.875	1,477
Weno Solid Waste Collection/Disposal	C1452	15.875	219,960
Tol School Site Lease Supplemental	C0911	15.875	40,000
Fefan Public Road Upgrade	TN6381	15.875	(500)
MTN Debt Service - Principal		15.875	1,300,000
MTN Debt Service - Interest		15.875	428,862
Other			(126,900)
Total Compact of Free Association Capital Projects Fund-Section 211 (A)(2)			<u>\$ 11,901,321</u>

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

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

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-Other Grants Fund
Year Ended September 30, 1998

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

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	1998 Fiscal Year Expenditures
Section 212			
-Civic Action Team	2182	15.875	\$ 262,924
-Chuuk Airport	2186	15.875	<u>31,832</u>
			<u>294,756</u>
Section 214-Energy			
-Public Works Administration	2183	15.875	51,798
-Government utilities	2781	15.875	394,732
-Chuuk Public Utility Corporation	2784	15.875	<u>1,062,789</u>
			<u>1,509,319</u>
Section 216(a)(2)			
-Health & Medical	2901	15.875	<u>427,752</u>
Total Compact of Free Association-Other Grants Fund			<u><u>\$ 2,231,827</u></u>

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

Expenditures per the general purpose financial statements	\$ 1,178,827
Operating transfer out to Chuuk Public Utilities Corporation	<u>1,053,000</u>
	<u><u>\$ 2,231,827</u></u>

These funds are disbursed through the Office of Insular Affairs (OIA), U.S. Department of the Interior and bear CFDA #15.875. The National Government of the FSM receives all grant awards on behalf of the FSM and 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, 1998

Grantor Account Title	Cost Center #	CFDA I.D. #	1998 Fiscal Year Expenditures
Unknown	N/A	15.875	\$ 1,913
Light Fixtures for Government Buildings	CA2816	15.875	814
Medical Supplies	HM6092	15.875	165,783
Division of Public Health	T18121	15.875	3,000
Elementary Education	T18206	15.875	108
Communicable Diseases	T18115	15.875	47
Mental Health	T18116	15.875	27,408
Medical Referral	T18121	15.875	319,450
Secondary Education	T18202	15.875	100,146
Food Services	T18205	15.875	941,578
Elementary Education	T18206	15.875	670,942
Vocational Rehabilitation	T18207	15.875	32,679
Education Special Services	T18208	15.875	97,765
Total Compact of Free Association Block Grant Fund-Section 221(b)			\$ 2,361,633

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

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, 1998

1. Scope of Review

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

A. Programs Subject to Single Audit

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

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

2. Summary of Significant Accounting Policies

A. Basis of Accounting

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

B. Reporting Entity

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

C. Subgrantees

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

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, 1998

3. Component Units

The State of Chuuk's component units are to separately satisfy the requirements of OMB Circular A-133. The following presents information concerning the only respective component unit which has satisfied their A-133 requirements. The Chuuk State Housing Authority and the Chuuk Organization for Community Action have yet to satisfy their 1998 A-133 responsibilities.

Chuuk Utilities Corporation

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

<u>Grantor Agency/Program</u>	<u>CFDA#</u>	<u>Fiscal Year 1998 Expenditures</u>
U.S. Department of the Interior: Compact of Free Association	15.875	\$ 1,053,000
Operations and Maintenance Improvement Programs (OMIP) Technical Assistance Grant	15.875	<u>50,295</u>
Total expenditures		<u>\$ 1,103,295</u>

Compact of Free Association funds are received in a subrecipient capacity thru the State of Chuuk. The OMIP grant is received in a direct capacity from the U.S. Department of the Interior.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Programs Selected For
Audit in Accordance with OMB Circular A-133
Year Ended September 30, 1998

<u>Grantor Program Title</u>	<u>CFDA No.</u>	<u>1998 Fiscal Year Expenditures</u>
<u>U.S. Dept. of the Interior</u> Compact of Free Association: 211(A) Capital Account	15.875	\$ <u>11,901,321</u>
Total Major Programs Under CFDA # 15.875 excluding Compact Section 211 (A) Current Account expenditures		<u>11,901,321</u>
 <u>U.S. Department of Education</u> FY96 School Improvement Project	 84.256A	 <u>647,958</u>
Total U.S. Federal program expenditures selected excluding Compact Section 211 (A) Current Account expenditures		\$ <u>12,549,279</u>
Total U.S. Federal program expenditures excluding Compact Section 211 (A) Current Account expenditures		\$ <u>17,823,961</u>
% of total U.S. Federal expenditures covered by major programs excluding Compact Section 211 (A) Current Account expenditures		<u>70.4%</u>

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 1998

Part I - Summary of Auditors' Results

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

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

8. A threshold of \$534,719 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>
98-6	Cash Receipts	\$ -
98-7	Beginning Balances	\$ -
98-8	Electronic Data Processing	\$ -
98-9	Electronic Data Processing	\$ -
98-10	Accounting System	\$ -
98-11	Accounts Payable/Electronic Data Processing	\$ -
98-12	Payroll	\$ -
98-13	Accounts Payable	\$ -
98-14	Disbursements	\$ -
98-15	Accounts Payable	\$ -
98-16	Prior Year Internal Control Findings	\$ -

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1998

Part II - Financial Statement Findings Section, Continued

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
98-17	Reconciliation	\$ -
98-18	Payroll	\$ -
98-19	Continuing Appropriations	\$ -

Part III - Federal Award Findings and Questioned Cost Section

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
98-1	Allowable Costs/Cost Principles	\$ 14,580
98-2	Allowable Costs/Cost Principles	\$ 28,864
98-3	Allowable Costs/Cost Principles	\$ 11,438
98-4	Equipment and Real Property Management	\$ -
98-5	Resolution of Payable to Grantor Agency	\$ -

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1998

Federal Findings

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>																								
98-1. 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> Due to lack of supporting documentation (attendance certificates/training certificates) we were unable to determine if the following travel and training related expenditures were necessary and reasonable to program needs. This finding results from a sample of thirty-seven items aggregating \$265,948 out of total program expenditures of \$647,958.</p> <table style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;"><u>Check No.</u></th> <th style="text-align: left;"><u>APV No.</u></th> <th style="text-align: right;"></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">1573</td> <td style="text-align: center;">880112801</td> <td style="text-align: right;">\$ 3,048</td> </tr> <tr> <td style="text-align: center;">1336</td> <td style="text-align: center;">880057104</td> <td style="text-align: right;">2,800</td> </tr> <tr> <td style="text-align: center;">1229</td> <td style="text-align: center;">880017003</td> <td style="text-align: right;">2,544</td> </tr> <tr> <td style="text-align: center;">1229</td> <td style="text-align: center;">880015302</td> <td style="text-align: right;">1,694</td> </tr> <tr> <td style="text-align: center;">1473</td> <td style="text-align: center;">880072301</td> <td style="text-align: right;">2,559</td> </tr> <tr> <td style="text-align: center;">1547</td> <td style="text-align: center;">880093201</td> <td style="text-align: right;"><u>1,935</u></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>14,580</u></td> </tr> </tbody> </table>	<u>Check No.</u>	<u>APV No.</u>		1573	880112801	\$ 3,048	1336	880057104	2,800	1229	880017003	2,544	1229	880015302	1,694	1473	880072301	2,559	1547	880093201	<u>1,935</u>			<u>14,580</u>	
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		<u>14,580</u>																								

Cause: The cause of this condition is unknown.

Effect: Questioned costs result from this condition.

Prior Year Status: This condition was reported in the Chuuk State Government Single Audit for fiscal year 1997.

Recommendation: We recommend that Chuuk State ensure that expenditures incurred are properly supported to provide an audit trail to ensure that such are necessary and reasonable for program needs.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1998

Federal Findings

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>																								
98-2. U.S. Dept. of Education/School Improvement Program - CFDA #84.256A	<p><u>Criteria:</u> Federal Procurement Standards require evidence of price comparison from a number of sources for small purchase contracts below the bidding threshold of \$100,000 or the local bidding threshold if lower than \$100,000.</p> <p><u>Condition:</u> Of the thirty-seven transactions tested, aggregating \$265,948 of total program expenditures of \$647,958, under the School Improvement Program – TFAS Grant, the following transactions did not have evidence of compliance with federal procurement standards.</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>APV No.</u></th> <th style="text-align: right;"></th> </tr> </thead> <tbody> <tr> <td style="text-align: left;">1684</td> <td style="text-align: left;">860225401</td> <td style="text-align: right;">\$19,091</td> </tr> <tr> <td style="text-align: left;">1791</td> <td style="text-align: left;">801238501</td> <td style="text-align: right;">2,985</td> </tr> <tr> <td style="text-align: left;">1596</td> <td style="text-align: left;">801135301</td> <td style="text-align: right;">2,250</td> </tr> <tr> <td style="text-align: left;">1738</td> <td style="text-align: left;">801366902</td> <td style="text-align: right;">1,990</td> </tr> <tr> <td style="text-align: left;">1697</td> <td style="text-align: left;">801305003</td> <td style="text-align: right;">1,498</td> </tr> <tr> <td style="text-align: left;">1717</td> <td style="text-align: left;">801366501</td> <td style="text-align: right;"><u>1,050</u></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>28,864</u></td> </tr> </tbody> </table>	<u>Check No.</u>	<u>APV No.</u>		1684	860225401	\$19,091	1791	801238501	2,985	1596	801135301	2,250	1738	801366902	1,990	1697	801305003	1,498	1717	801366501	<u>1,050</u>			<u>28,864</u>	
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		<u>28,864</u>																								

Cause: The cause of this condition is unknown.

Effect: Questioned costs result from this condition.

Recommendation: We recommend that Chuuk State ensure that all Federal Program Coordinators are aware of the Federal requirements applicable to the grants administered.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1998

Federal Findings

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>												
98-3. 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 determine if the following purchases of fuel in bulk were necessary and reasonable for program needs. This finding results from a sample of thirty-seven items aggregating \$265,948 out of total program expenditures of \$647,958.</p> <table style="margin-left: auto; margin-right: auto; border: none;"> <thead> <tr> <th style="text-align: center;"><u>Check No.</u></th> <th style="text-align: center;"><u>APV No.</u></th> <th style="text-align: right;"></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">1369</td> <td style="text-align: center;">800515701</td> <td style="text-align: right;">\$ 6,321</td> </tr> <tr> <td style="text-align: center;">1369</td> <td style="text-align: center;">800666201</td> <td style="text-align: right;"><u>5,117</u></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>11,438</u></td> </tr> </tbody> </table>	<u>Check No.</u>	<u>APV No.</u>		1369	800515701	\$ 6,321	1369	800666201	<u>5,117</u>			<u>11,438</u>	
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1369	800515701	\$ 6,321												
1369	800666201	<u>5,117</u>												
		<u>11,438</u>												

Cause: The cause of this condition is unknown.

Effect: Questioned costs result from this condition.

Recommendation: We recommend that Chuuk State ensure that expenditures incurred are properly supported to provide an audit trail to ensure that such are necessary and reasonable for program needs.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1998

Federal Findings

Program

Reason for Questioned Costs

Questioned
Costs

Equipment and Real Property Management

Item No. CFDA No. Criteria:

98-4. All 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.

Condition: A physical inventory of property has not been performed in over two years.

Cause: The cause of this condition is unknown.

Effect: The effect is noncompliance with the Administrative Requirements over federal grants.

Prior Year Status: This condition was reported in the Chuuk State Government Single Audits for fiscal years 1996 and 1997.

Recommendation: We recommend that a physical inventory of property be taken and the results reconciled to the property records at least once every two years.

STATE OF CHUUK
FEDERATED STATES OF MICRONESIA

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1998

Federal Findings

98-5. Resolution of Payable to Grantor Agency

Criteria: Findings from prior audit reports should be resolved.

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

1. FY93 Federal Finding No. 1 – Reimbursement in excess of expenditures (CFDA #84.003) – Chuuk State, in fiscal year 1991, received cash of approximately \$311,292 in excess of expenditures incurred for its DOE Bilingual Education Program. This balance is still reflected as a liability on the State's books.
2. FY93 Federal Finding No. 2 - Reimbursement in excess of expenditures (CFDA #10.560) – Chuuk State. In fiscal year 1991, the State received cash of approximately \$277,320 in excess of expenditures incurred for its Food Services Program. The balance remains recorded as deferred revenue as of September 30, 1998. No additional expenditures were incurred for the program since fiscal year 1993.

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.

Prior Year Status: The non-resolution of prior years' federal findings was reported in the Chuuk State Government Single Audit for fiscal year 1997.

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, 1998

Financial Statement Findings

Cash Receipts

Finding No. 98-6

Criteria: Voided cash receipts should be on file to ensure that all receipts are accounted for.

Condition: Review of the cash receipts revealed that receipt number's 23421 and 23419 were voided but the original copies were not on file.

Cause: The cause of this condition is unknown.

Effect: A lack of proper audit trail is the result of this condition.

Recommendation: It is recommended that mangement ensure that all voided cash receipts are properly filed.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1998

Financial Statement Findings

Beginning Balances

Finding No. 98-7

Criteria: Beginning balances should be carried forward to the ensuing fiscal year in a timely manner.

Condition: Fiscal year 1997 ending balances were not carried forward to fiscal year 1998 until July 1998.

Cause: The cause of this condition is unknown.

Effect: Financial statements do not portray the actual financial condition of the State if beginning balances are not properly recorded.

Recommendation: We recommend that beginning balances be posted in a timely manner.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1998

Financial Statement Findings

Electronic Data Processing

Finding No. 98-8

Criteria: Finance staff should have a working knowledge of the accounting system.

Condition: Chuuk State finance personnel did not appear to possess sufficient knowledge of the accounting program to assist in the audit process. Assistance from contract programmers was required on various occasions to obtain reports and other information from the system.

Cause: The cause of this condition is unknown.

Effect: Lack of proper training and working knowledge of the accounting system could lead to an inability to maintain the accounting system.

Recommendation: All users of the system should be thoroughly trained in the use of the system.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1998

Financial Statement Findings

Electronic Data Processing

Finding No. 98-9

Criteria: A written ADP procedures and operations manual should be maintained.

Condition: Chuuk State currently does not have a written ADP procedures and operations manual.

Cause: The cause of this condition is unknown.

Effect: Without proper written policies and procedures, personnel do not have a benchmark to follow or measure performance.

Recommendation: We recommend that a written ADP procedures and operations manual be adopted.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1998

Financial Statement Findings

Accounting System

Finding No. 98-10

Criteria: All new software should be sufficiently tested prior to full implementation. Failure to test new software prior to implementation could raise compatibility issues and cause data losses.

Condition: The State of Chuuk migrated to a new accounting system during fiscal year 1998. We could not determine if the system had been adequately tested by State management prior to its implementation. This may have occurred, but we were not provided with written documentation explaining how this process occurred.

Cause: The cause of this condition is unknown.

Effect: It is prudent to test software for compatibility prior to implementation.

Recommendation: In the future, all software and hardware modifications should be properly tested prior to implementation.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1998

Financial Statement Findings

Accounts Payable/Electronic Data Processing

Finding No. 98-11

Criteria: A functioning system of internal control requires that general ledger balances be properly supported by subsidiary ledgers.

Condition: Material accounts payable (approximately \$8 million) and travel advances (approximately \$878,309) are not supported by subsidiary ledgers.

Cause: Subsidiary details of accounts payable and travel advances were not carried forward when the State migrated to its new accounting system.

Effect: The effect of this condition is a possible misstatement of liabilities.

Recommendation: We recommend that steps be taken to ensure that all general ledger balances are supported by subsidiary ledgers.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1998

Financial Statement Findings

Payroll

Finding No. 98-12

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

Condition: Of 25 payroll transactions tested, ten occasions arose where the pay rate per the payroll register deviated from the pay rate documented in the personnel action file. On eight occasions, the pay rate per the register was lower than that per the personnel files and higher on two occasions.

Cause: The payroll department claims shortage of staff as the cause of this condition.

Effect: Inaccurate payroll disbursements can result if personnel files are not current.

Prior Year Status: The above condition was cited as a finding in the Chuuk State Government Single Audit for fiscal year 1997.

Recommendation: We recommend that steps be taken to ensure that personnel files are updated in a timely manner.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1998

Financial Statement Findings

Accounts Payable

Finding No. 98-13

Criteria: Superseded accounts payable vouchers (APV) should to be voided.

Condition: Superseded accounts payable vouchers (APV #'s 9000109, 9002641 and 9502055) were not properly voided.

Cause: The cause of this condition is unknown.

Effect: Duplicate or incorrect payments can result from this condition.

Recommendation: We recommend that all superseded vouchers be voided.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1998

Financial Statement Findings

Disbursement

Finding No. 98-14

Criteria: All accounts payable vouchers should be properly supported prior to approval for disbursement.

Condition: Several payments were made to hospitals in fiscal year 1999. We were not able to determine which fiscal year these payments related to as such were not supported by invoices, receipts and other such authoritative documents.

Cause: The cause of this condition is unknown.

Effect: This condition may result in improper or duplicate payments to vendors.

Recommendation: We recommend that steps be taken to ensure that all accounts payable vouchers are properly supported prior to approval for disbursement.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1998

Financial Statement Findings

Accounts Payable

Finding No. 98-15

Criteria: All accounts payable vouchers should be properly filed.

Condition: Various accounts payable vouchers were missing from file or could not be located.

Cause: The cause of this condition is unknown.

Effect: A lack of proper audit trail is the result of this condition. As a result of this condition, we were unable to complete our procedures on accounts payables.

Recommendation: We recommend that all accounts payable vouchers be properly filed.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1998

Financial Statement Findings

Prior Year Internal Control Findings

Finding No. 98-16

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, 1998:

1. FY90 Internal Control Finding No. 19 – Filing of contracts – The accounts payable department does not maintain a log or a file for contracts. The contract is attached to the first payment and is filed with the accounts payable voucher.
2. FY90 Internal Control Finding No. 21 – Segregation of Duties – Payroll – There is no segregation of duties in the payroll department. The same person inputs the information for payroll and authorizes and distributes checks.
3. FY91 Internal Control Finding No. 13 – Personnel Policies – Job descriptions for employees are generally not furnished, and there does not appear to be formalized policy manuals or procedural guides to aid employees.
4. FY91 Internal Control Finding No. 23 – Subsidiary Ledger – For Chuuk Visitors Bureau, no subsidiary ledger of cash advanced is maintained.
5. FY91 Internal Control Finding No. 24 – Accounting System – The Chuuk Visitors Bureau does not have a formalized accounting system.

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.

Prior Year Status: The non-resolution of prior years' internal control findings was reported in the Chuuk State Government Single Audit for fiscal year 1997.

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, 1998

Financial Statement Findings

Reconciliation

Finding No. 98-17

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.

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 incorrectly made. The second is that the total payable balance may be materially misstated.

Prior Year Status: The above condition was cited as a finding in the Chuuk State Government Single Audit for the fiscal year 1997.

Recommendation: In order to prevent discrepancies, monthly reconciliations between the subsidiary ledger, general ledger and suppliers' invoices should be performed.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1998

Financial Statement Findings

Payroll

Finding No. 98-18

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.

Prior Year Status: The above condition was cited as a finding in the Chuuk State Government Single Audit for the fiscal year 1997.

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, 1998

Financial Statement Findings

Continuing Appropriations

Finding No. 98-19

Criteria: Continuing appropriations should be periodically reconciled and reviewed to determine if such represent current funding priorities.

Condition: A comprehensive schedule of continuing appropriations for all funds was not available for inspection.

Cause: The cause of this condition is unknown.

Effect: The effect of this condition could lead to a misstatement of continuing appropriation.

Recommendation: We recommend that the State ensure that a comprehensive schedule of continuing appropriations is maintained.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1998

Local Findings

Use of Compact Capital Funds

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

Condition: As in the prior years, the State incurred expenditures under various programs which may be operational in nature and therefore may be inconsistent with the intent of Compact Capital funding (Note: A majority of the following have been cited in previous audit reports).

<u>Title</u>	<u>FY98 Expenditure</u>
Repair and renovation	\$ 261,293
Dry-docking	323,050
Beautification projects	<u>42,774</u>
	\$ <u>627,117</u>

Cause: Chuuk State Government may be unaware that general operational expenditures may not represent 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 Audits for fiscal years 1995, 1996 and 1997.

Recommendation: We recommend that the State resolve this finding with the FSM National Government 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, 1998

Local Findings

Compact Capital Funds

98L-2. Criteria: Chuuk State has the responsibility to ensure that subrecipients such as Municipal Housing Authorities comply with applicable requirements of Compact and federal funds subgranted by the State.

Condition: Chuuk State currently has no procedures in place to ensure that subrecipients of Compact Funds are made aware of compliance requirements and the applicability of A-133 audit requirements. During fiscal year 1998, we are aware of approximately \$626,818 of Compact Capital Account funding subgranted to various municipal housing authorities and approximately \$286,000 provided for various housing projects.

Cause: Current procedures do not require that transfer of funds to subrecipients be supported by an agreement in which the compliance requirements of the funds transferred are specified.

Effect: Subrecipients may be unaware of compliance requirements of Compact Capital Funds as a result of the above condition.

Recommendation: We recommend that transfer of Compact Capital and Federal Funds be supported by an agreement in which the compliance requirements of the grants are specified. Additionally, the State should be cognizant of its responsibilities with respect to monitoring the use of these funds.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1998

Local Findings

Bidding Procedures

98-L3. 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 all items meeting the criteria selected for testing 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 Audits for the fiscal years 1995, 1996 and 1997.

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, 1998

Local Findings

Use of Compact Capital Funds

98-L4. 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 land leases and claims may not be 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, 1996, and 1997.

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

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Resolution of Prior Years' Findings and Questioned Costs
Year Ended September 30, 1998

For the year ended September 30, 1998, the following questioned costs were noted and prior questioned costs resolved:

	Questioned Costs Set Forth in Prior Audit Report <u>1997</u>	Questioned Costs Resolved in Fiscal Year <u>1998</u>	Questioned Costs at <u>September 30, 1998</u>
Unresolved Questioned Costs FY 95	\$ 49,106	\$ 49,106 (1)	\$ -
Unresolved Questioned Costs FY 97	16,125	-	16,125
Unresolved Questioned Costs FY 98	<u>-</u>	<u>-</u>	<u>54,882</u>
	<u>\$ 65,231</u>	<u>\$ 49,106</u>	<u>\$ 71,007</u>

(1) Findings have been reported to federal agencies for in excess of the two year threshold.



**OFFICE OF THE GOVERNOR
STATE OF CHUUK
Federated States of Micronesia**

Telex Address:
...5233 00V TRUK

Department of Treasury

October 31, 1999

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

Dear Sirs,

Submitted herewith are our responses to the FY1998 audit findings. Please do not hesitate to contact us if you have any questions or concerns regarding such.

Thank you for your time.

Sincerely,

Nick Andon
Director of Treasury
Chuuk State



Department of Treasury

**OFFICE OF THE GOVERNOR
STATE OF CHUUK
Federated States of Micronesia**

Telex Address:
CH6857 GOV TRUK

**Auditee Responses
FY1998
October 29, 1999**

Finding 98-1 U.S. Department 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 the documentation for the trip. If such cannot be provided by January 31, 2000, we will withdraw the claim and charge the Department of Education's general fund account for the expenditure.

Finding 98-2 U.S. Department of Education/School Improvement Program

Federal Procurement Standards for Small Purchases

We will ensure that compliance with the auditors recommendations is achieved by the end of fiscal year 2000.

Finding 98-3 U.S. Department of Education/School Improvement Program

We will inform the Department of Education - School Improvement Program personnel that no such purchases will be authorized from this point forward. Additionally, we will request justification of the Department for the FY1998 purchases in question.

Finding 98-4 Administrative Requirements - Equipment Management

We will attempt to conduct an inventory of all fixed assets and update the listing of the State's fixed assets by the end of fiscal year 2000. Additionally we will work the various branches of the State of Chuuk to ensure that a comprehensive inventory of all fixed assets purchased with federal funds is performed every two years.

Finding 98-5 Resolution of Payable to Grantor Agency

We will work closely with the State Attorney General's office to ensure that the auditors recommendations are implemented. We attempt to resolve this issue in Fiscal Year 2000.

Finding 98-6 Cash receipts



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STATE OF CHUUK
Federated States of Micronesia

Telex Address:
296833 GOV TRUK

Department of Treasury

The Director of Treasury will discuss this finding with the responsible staff and ensure that the auditors recommendations are implemented by the end of fiscal year 2000

Finding 98-7 Beginning Balances

We will work with the audit agency to ensure that beginning balances are carried forward to the ensuing fiscal year in a timely manner

Finding 98-8 Electronic Data Processing

We will work with our computer systems advisor to ensure that staff receives the necessary training in the use of the system

Finding 98-9 Electronic Data Processing

We will work with our computer systems advisor to ensure that such are made available to the audit agency and Treasury staff for ready reference.

Finding 98-10 Accounting System

We understand the auditors concern with respect to this. However, we are of the opinion that the system is functioning with out material incident.

Finding 98-11 Accounts Payable/Electronic Data Processing

We are aware of this issue. However, we did not carry forward the accounts payable and travel advance details to the new system as there was no assurance as to the validity of such balances. The Department of Treasury recently acquired the services of a Financial Advisor. We will request that the Financial Advisor work with our systems advisor to rectify the concerns raised in this finding. Due to the magnitude of work involved in reconciling accounts payable and travel advances, we cannot estimate a time frame within which we can complete this task.

Finding 98-12 Payroll

The Director of Treasury will work with the payroll section staff to ensure that the auditors recommendations are implemented by the end of fiscal year 2000.

Finding 98-13 Accounts Payable



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STATE OF CHUUK
Federated States of Micronesia**

Telex Address:
FM9833 GOV TRUK

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The Director of Treasury will work with the accounts payable section staff to ensure that superseded accounts payable vouchers are appropriately marked as such and promptly voided.

Finding 98-14 Disbursements

This situation has already been rectified to a certain extent. The Director of Treasury has already instructed accounts payable staff to ensure that all payments are properly supported by invoices prior to approval for disbursement. We will ensure that the auditors recommendations are adhered to effective immediately.

Finding 98-15 Accounts Payable

The Director of Treasury will work with the accounts payable staff to ensure that the auditors recommendations are implemented immediately.

Finding 98-16 Prior Year Internal Control Findings

The Director of Treasury will work with the respective departments and agencies to ensure that these prior year findings are resolved by the end of fiscal year 2000

Finding 98-17 Reconciliation

We believe when our response to Finding 98-11 is achieved, this concern will also be resolved

Finding 98-18 Payroll

The Director of Treasury will again work with the payroll section staff to ensure that the auditors recommendations are implemented by the end of fiscal year 2000

Finding 98-19 Continuing Appropriations

This issue is also a key concern of the Director of Treasury. The Director will work with the Budget offices of the State and other offices to ensure that a comprehensive schedule of continuing appropriations for all funds is prepared and presented to audit agency for fiscal year 1999

Finding 98 L-1 Use of Compact Capital Funds



**OFFICE OF THE GOVERNOR
STATE OF CHUUK
Federated States of Micronesia**

Telex Address:
7296633 GOV TRUK

Department of Treasury

The Director of Treasury will work with the State and National Attorney General's offices to ensure that this issue resolved by the end of fiscal year 2000.

Finding 98 L-2 Use of Compact Capital Funds

Again this issue is already being addressed by the State. It is the intention of the Director of Treasury and the Governor to withhold any further payments to municipal housing authorities until such time that these entities are able to provide accounting for these funds. We are also looking in to the possibility of having the Chuuk State Housing Authority administer these funds for the municipalities. However it is difficult to estimate the time frame for the resolution of this issue at this time.

Finding 98 L-3 Bidding Procedures

The State already has a mechanism in place to ensure that local bidding laws are complied with. The Director of Treasury will ensure that prior to an APV being processed for disbursement, all pertinent bidding documents are properly attached.

Finding 98 L-4 Use of Compact Capital Funds

The Director of Treasury will work with the State and National Attorney General's offices to ensure that this issue resolved by the end of fiscal year 2000.