

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

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

**YEAR ENDED SEPTEMBER 30, 1996**

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Year Ended September 30, 1996

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

**YEAR ENDED SEPTEMBER 30, 1996**

**INDEPENDENT AUDITORS' REPORT**

Honorable Jacob Nena  
President  
Federated States of Micronesia:

We have audited the accompanying general purpose financial statements of the Federated States of Micronesia (FSM) National Government, as set forth in Section II of the foregoing table of contents, as of September 30, 1996, and for the year then ended. These general purpose financial statements are the responsibility of the FSM National Government's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the College of Micronesia-FSM, which are shown as the Component Units - Higher Education Fund. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Component Units - Higher Education Fund, is based solely on the report of the other auditors.

Except as discussed in the following paragraphs, we conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

The College of Micronesia-FSM, which comprises the Component Units - Higher Education Fund, has not adequately updated its Plant Fund, nor has it depreciated all of its plant assets as required by generally accepted accounting principles.

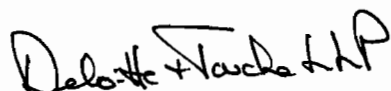
We were unable to obtain financial statements supporting the National Fisheries Corporation's (NFC) investment in a corporation stated at \$0 in the Component Units - Proprietary Funds. NFC is included within the Component Units - Proprietary Funds. The intercompany receivables, payables, sales and expenses for NFC were not reconciled as of September 30, 1996. The nature of NFC's intercompany records do not permit application of alternative audit procedures with respect to proper recordation of intercompany transactions. NFC's detailed inventory records did not agree to the general ledger balance. Additionally, the September 30, 1996 financial statements of Micronesia Longline Fishing Company, an investee of NFC, were not audited.



In our opinion, based on our audit and the report of other auditors, except for the effects on the general purpose financial statements of such adjustments, if any, as might have been determined to be necessary had we been able to assure ourselves as to the propriety of fixed assets of the Component Units - Higher Education Fund and had the propriety of, and disclosures related to investments and intercompany receivables, inventory, payables, sales and expenses of the Component Units - Proprietary Funds been determinable as discussed in the third and fourth paragraphs above, such general purpose financial statements, as set forth in Section II of the table of contents, present fairly, in all material respects, the financial position of the FSM National Government as of September 30, 1996, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund financial statements and schedules listed in Section III of the foregoing table of contents, which are also the responsibility of the management of the FSM National Government, are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the FSM National Government. Such additional information has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, except for the matters discussed in the third and fourth paragraphs above, in our opinion, is fairly stated in all material respects when considered in relation to the general purpose financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 30, 1997, on our consideration of the FSM National Government's (primary Government only) internal control structure and a report dated January 30, 1997, on its compliance with laws and regulations.



January 30, 1997

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

**Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Units  
September 30, 1996  
(With Comparative Totals as of September 30, 1995)**

	Governmental Fund Types			Proprietary	Fiduciary Fund Type	Account Groups		Totals	Component Units			Totals	
	General	Special	Capital	Fund Type	Expendable	General	General	Primary	Higher	Governmental	Proprietary	Reporting	
	General	Revenue	Projects	Internal	Trust	Fixed	Long-Term	Government	Education	Governmental	Proprietary	Entity	
				Service		Assets	Debt	(Memorandum				(Memorandum Only)	
								Only)				1996	1995
<b>ASSETS</b>													
Cash and equivalents (notes 2 and 9)	\$ 54,056	\$ 320,534	\$ 124,468	\$ -	\$ 57,077	\$ -	\$ -	\$ 556,135	\$ 2,124,602	\$ 2,418,418	\$ 10,011,681	\$ 15,110,836	\$ 23,939,020
Time certificates and other term deposits (note 2)	4,958,238	-	-	-	500,000	-	-	5,458,238	-	-	800,000	6,258,238	5,619,006
Investments (notes 2 and 9)	28,457,970	13,819,991	2,851,141	-	1,058,358	-	-	46,187,460	-	21,735,461	19,255,164	87,178,085	75,675,428
Equity investments (note 2)	1,500,000	-	2,933,776	-	-	-	-	4,433,776	-	-	-	4,433,776	5,546,417
Receivables from TTPIA/OTIA	-	1,315,352	690,970	-	-	-	-	2,006,322	-	-	-	2,006,322	1,655,550
Receivables from other governments													
and agencies, net	2,475,125	2,457,156	-	-	-	-	-	4,932,281	-	-	-	4,932,281	5,771,440
General receivables, net	5,189,430	-	-	-	2,861	-	-	5,192,291	2,115,652	18,184	2,728,639	10,054,766	3,708,229
Advances	2,189,427	31,718	1,413	-	-	-	-	2,222,558	-	2,716	119,517	2,344,791	1,553,133
Loans receivable, net (note 8)	3,100,000	-	3,750,000	-	-	-	-	6,850,000	-	-	10,743,561	17,593,561	18,293,480
Due from other funds (note 6)	65,629,751	5,294,703	-	21,237	957,494	-	-	71,903,185	1,849,540	-	-	73,752,725	51,298,995
Interest and other receivables	20,446	726,015	76,042	-	-	-	-	822,503	78,100	139,633	439,602	1,479,838	1,116,244
Deferred charges	-	-	-	-	-	-	-	-	-	-	50,236	50,236	50,236
Inventory	-	-	-	147,194	-	-	-	147,194	107,478	-	1,029,919	1,284,591	1,562,139
Restricted assets (note 11)	-	-	-	-	-	-	-	-	-	-	27,996,425	27,996,425	35,337,884
Amount to be provided for retirement													
of long-term debt	-	-	-	-	-	-	5,873,289	5,873,289	-	-	-	5,873,289	5,415,107
Prepaid expenses	-	-	-	-	301,376	-	-	301,376	12,782	4,762	816,283	1,135,203	726,823
Fixed assets, net (notes 9 and 10)	-	-	-	-	-	28,002,653	-	28,002,653	11,611,181	57,546	62,128,691	101,800,071	94,671,868
<b>Total assets</b>	<b>\$ 113,574,443</b>	<b>\$ 23,965,469</b>	<b>\$ 10,427,810</b>	<b>\$ 168,431</b>	<b>\$ 2,877,166</b>	<b>\$ 28,002,653</b>	<b>\$ 5,873,289</b>	<b>\$ 184,889,261</b>	<b>\$ 17,899,335</b>	<b>\$ 24,376,720</b>	<b>\$ 136,119,718</b>	<b>\$ 363,285,034</b>	<b>\$ 331,940,999</b>

See accompanying notes to financial statements.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

**Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Units  
September 30, 1996  
(With Comparative Totals as of September 30, 1995)**

	Governmental Fund Types							Proprietary	Fiduciary Fund Type		Account Groups		Totals	Component Units			Totals	
	Special		Capital	Internal	Expendable	General	General	Government	Fixed	Long-Term	Primary	Memorandum	Higher	Education	Governmental	Proprietary	Reporting	Entity
	General	Revenue	Projects															
<b>LIABILITIES AND FUND EQUITY</b>																		
<b>Liabilities:</b>																		
Bank overdraft	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,993	\$ -	\$ 1,993	\$ -
Accounts payable	1,525,622	958,671	12,824	6,008	29,124	-	-	-	-	2,532,249	159,290	82,327	6,196,570	8,970,436	6,089,336	8,970,436	6,089,336	
Accrued payroll and others	425,457	1,982	190,643	-	-	-	-	-	-	618,082	302,661	49,655	571,848	1,542,246	1,536,529	1,542,246	1,536,529	
Tax refunds payable	252,232	-	-	-	-	-	-	-	-	252,232	-	-	-	252,232	306,224	252,232	306,224	
Due to other funds (note 6)	52,802,362	14,491,878	4,608,945	-	-	-	-	-	-	71,903,185	1,852,688	-	-	73,755,873	51,298,995	73,755,873	51,298,995	
Due to FSM State governments	1,511,162	2,836,336	9,455	-	-	-	-	-	-	4,356,953	-	-	-	4,356,953	4,949,292	4,356,953	4,949,292	
Deferred revenues	-	702,330	75,358	-	-	-	-	-	-	777,688	1,340,176	-	51,236	2,169,100	2,144,048	2,169,100	2,144,048	
Vacation leave accrual	-	-	-	-	-	-	-	-	999,434	999,434	-	-	-	999,434	826,601	999,434	826,601	
Advances from DOI, TTPI, OTIA and other	-	192,655	-	-	-	-	-	-	-	192,655	75,105	-	-	267,760	192,655	267,760	192,655	
Notes payable (note 7)	-	-	-	-	-	-	-	-	4,873,855	4,873,855	-	-	45,984,126	50,857,981	59,399,636	50,857,981	59,399,636	
Other liabilities (note 10)	599,613	-	-	-	332,631	-	-	-	-	932,244	597,868	-	2,617,622	4,147,734	5,223,543	4,147,734	5,223,543	
<b>Total liabilities</b>	<b>57,116,448</b>	<b>19,183,852</b>	<b>4,897,225</b>	<b>6,008</b>	<b>361,755</b>	<b>-</b>	<b>5,873,289</b>	<b>87,438,577</b>	<b>4,327,788</b>	<b>131,982</b>	<b>55,423,395</b>	<b>147,321,742</b>	<b>131,966,859</b>	<b>147,321,742</b>	<b>131,966,859</b>	<b>147,321,742</b>	<b>131,966,859</b>	
Retained earnings reserved for minority interest	-	-	-	-	-	-	-	-	-	-	-	-	4,618,565	4,618,565	3,591,540	4,618,565	3,591,540	
<b>Fund equity:</b>																		
Investment in general fixed assets	-	-	-	-	-	28,002,653	-	28,002,653	11,611,181	-	-	-	39,613,834	29,165,388	39,613,834	29,165,388	39,613,834	29,165,388
Contributed capital	-	-	-	129,416	-	-	-	129,416	-	-	43,988,384	44,117,800	41,620,751	44,117,800	41,620,751	44,117,800	41,620,751	
Retained earnings unreserved	-	-	-	33,007	-	-	-	33,007	-	-	32,089,374	32,122,381	36,385,207	32,122,381	36,385,207	32,122,381	36,385,207	
<b>Fund balances:</b>																		
<b>Reserved for:</b>																		
Benefits	-	-	-	-	-	-	-	-	-	-	24,187,192	-	24,187,192	21,980,022	21,980,022	24,187,192	21,980,022	
Loans (note 8)	3,100,000	-	3,750,000	-	-	-	-	6,850,000	-	-	-	-	6,850,000	6,850,000	6,850,000	6,850,000	6,850,000	
Related assets	5,461,249	-	2,933,776	-	-	-	-	8,395,025	-	57,546	-	8,452,571	8,431,352	8,452,571	8,431,352	8,452,571	8,431,352	
Encumbrances	5,502,771	2,280,106	580,366	-	-	-	-	8,363,243	-	-	-	8,363,243	9,452,621	8,363,243	9,452,621	8,363,243	9,452,621	
Continuing appropriations (note 4)	30,109,645	2,612,904	1,167,126	-	-	-	-	33,889,675	-	-	-	33,889,675	29,327,848	33,889,675	29,327,848	33,889,675	29,327,848	
Unreserved	12,284,330	(111,393)	(2,900,683)	-	2,515,411	-	-	11,787,665	1,960,366	-	-	13,748,031	13,169,411	13,748,031	13,169,411	13,748,031	13,169,411	
<b>Total fund equity</b>	<b>56,457,995</b>	<b>4,781,617</b>	<b>5,530,585</b>	<b>162,423</b>	<b>2,515,411</b>	<b>28,002,653</b>	<b>-</b>	<b>97,450,684</b>	<b>13,571,547</b>	<b>24,244,738</b>	<b>76,077,758</b>	<b>211,344,727</b>	<b>196,382,600</b>	<b>211,344,727</b>	<b>196,382,600</b>	<b>211,344,727</b>	<b>196,382,600</b>	
<b>Commitments and contingencies (note 3)</b>																		
<b>Total liabilities and fund equity</b>	<b>\$ 113,574,443</b>	<b>\$ 23,965,469</b>	<b>\$ 10,427,810</b>	<b>\$ 168,431</b>	<b>\$ 2,877,166</b>	<b>\$ 28,002,653</b>	<b>\$ 5,873,289</b>	<b>\$ 184,889,261</b>	<b>\$ 17,899,335</b>	<b>\$ 24,376,720</b>	<b>\$ 136,119,718</b>	<b>\$ 363,285,034</b>	<b>\$ 331,940,999</b>	<b>\$ 363,285,034</b>	<b>\$ 331,940,999</b>	<b>\$ 363,285,034</b>	<b>\$ 331,940,999</b>	

See accompanying notes to financial statements.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

**Combined Statement of Revenues, Expenditures and Changes in Fund Balances  
All Governmental Fund Types, Expendable Trust Funds and Discretely Presented Component Units  
Year Ended September 30, 1996  
(With comparative totals for the year ended September 30, 1995)**

	Governmental Fund Types				Fiduciary	Totals	Component Units		Totals	
	General	Special	Capital	Expendable	Primary	Government	Component Units		Reporting	
		Revenue	Projects				Trust	(Memorandum	Higher	Governmental
					Only)		Education		(Memorandum Only)	
									1996	1995
<b>Revenues:</b>										
Federal contributions	\$ -	\$ 4,693,699	\$ 1,903,771	\$ -	\$ 6,597,470	\$ 3,287,296	\$ -	\$ 9,884,766	\$ 10,675,701	
Compact grants	6,602,991	4,033,828	2,832,009	-	13,468,828	-	-	13,468,828	13,325,326	
Other	32,646,054	581,326	-	1,885,577	35,112,957	6,073,814	11,349,243	52,536,014	50,043,758	
<b>Total revenues</b>	<b>39,249,045</b>	<b>9,308,853</b>	<b>4,735,780</b>	<b>1,885,577</b>	<b>55,179,255</b>	<b>9,361,110</b>	<b>11,349,243</b>	<b>75,889,608</b>	<b>74,044,785</b>	
<b>Expenditures:</b>										
Executive branch	12,254,780	8,737,841	4,311,405	1,641,195	26,945,221	-	-	26,945,221	27,755,135	
Judicial branch	887,460	-	-	-	887,460	-	-	887,460	888,268	
Legislative branch	2,831,806	-	-	-	2,831,806	-	-	2,831,806	3,086,526	
Office of the Public Auditor	416,812	-	-	-	416,812	-	-	416,812	420,022	
Other National Government programs	3,135,761	-	-	-	3,135,761	-	-	3,135,761	4,838,310	
Other legislative appropriations	12,015,316	-	-	-	12,015,316	-	-	12,015,316	9,703,759	
Boards and commissions	1,079,614	-	-	-	1,079,614	-	-	1,079,614	1,096,176	
Other	-	-	-	-	-	10,014,666	6,871,044	16,885,710	13,052,571	
<b>Total expenditures</b>	<b>32,621,549</b>	<b>8,737,841</b>	<b>4,311,405</b>	<b>1,641,195</b>	<b>47,311,990</b>	<b>10,014,666</b>	<b>6,871,044</b>	<b>64,197,700</b>	<b>60,840,767</b>	
<b>Excess of revenues over expenditures</b>	<b>6,627,496</b>	<b>571,012</b>	<b>424,375</b>	<b>244,382</b>	<b>7,867,265</b>	<b>(653,556)</b>	<b>4,478,199</b>	<b>11,691,908</b>	<b>13,204,018</b>	
<b>Other financing sources (uses):</b>										
Operating transfers in (out), (note 5)	(1,883,758)	(414,614)	(3,000,000)	-	(5,298,372)	831,329	-	(4,467,043)	(4,689,084)	
Other	-	-	(450,453)	-	(450,453)	(552,500)	-	(1,002,953)	-	
<b>Total other financing (uses) sources, net</b>	<b>(1,883,758)</b>	<b>(414,614)</b>	<b>(3,450,453)</b>	<b>-</b>	<b>(5,748,825)</b>	<b>278,829</b>	<b>-</b>	<b>(5,469,996)</b>	<b>(4,689,084)</b>	
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses</b>	<b>4,743,738</b>	<b>156,398</b>	<b>(3,026,078)</b>	<b>244,382</b>	<b>2,118,440</b>	<b>(374,727)</b>	<b>4,478,199</b>	<b>6,221,912</b>	<b>8,514,934</b>	
Fund balances at beginning of year (note 12)	51,714,257	4,625,219	8,556,663	2,271,029	67,167,168	2,335,093	19,708,993	89,211,254	81,121,320	
Equity contribution	-	-	-	-	-	-	-	-	(425,000)	
<b>Fund balances at end of year</b>	<b>\$ 56,457,995</b>	<b>\$ 4,781,617</b>	<b>\$ 5,530,585</b>	<b>\$ 2,515,411</b>	<b>\$ 69,285,608</b>	<b>\$ 1,960,366</b>	<b>\$ 24,187,192</b>	<b>\$ 95,433,166</b>	<b>\$ 89,211,254</b>	

See accompanying notes to financial statements.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures and Changes in Fund  
Balance - Budget and Actual, Budgetary Basis - General Fund  
Year Ended September 30, 1996

	Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>			
Compact	\$ 6,513,761	\$ 6,602,991	\$ 89,230
Local taxes	9,200,000	7,928,281	(1,271,719)
Fishing rights fees	19,000,000	19,766,352	766,352
Fishing violation fines	-	701,992	701,992
Postal revenues	500,000	597,463	97,463
Investment earnings	3,000,000	3,123,076	123,076
Business fees, fines, penalties, and interest on delinquent taxes	500,000	371,008	(128,992)
Other	200,000	157,882	(42,118)
<b>Total revenues</b>	<b>38,913,761</b>	<b>39,249,045</b>	<b>335,284</b>
<b>Expenditures:</b>			
Executive branch	13,785,927	12,376,536	1,409,391
Judicial branch	997,003	898,144	98,859
Boards and commissions	1,134,330	1,111,135	23,195
Legislative branch	3,328,195	3,079,168	249,027
Office of the Public Auditor	443,500	406,265	37,235
Other National Government programs	4,850,577	2,273,695	2,576,882
Other legislative appropriations	35,994,838	12,428,183	23,566,655
<b>Total expenditures</b>	<b>60,534,370</b>	<b>32,573,126</b>	<b>27,961,244</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(21,620,609)</b>	<b>6,675,919</b>	<b>28,296,528</b>
<b>Other financing sources (uses):</b>			
Operating transfers in (out), net	(1,861,272)	(1,907,831)	(46,559)
<b>Total other financing sources (uses), net</b>	<b>(1,861,272)</b>	<b>(1,907,831)</b>	<b>(46,559)</b>
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses</b>	<b>(23,481,881)</b>	<b>4,768,088</b>	<b>28,249,969</b>
<b>Unreserved fund balance at beginning of year</b>	<b>15,838,108</b>	<b>15,838,108</b>	<b>-</b>
<b>Other changes in unreserved fund balance:</b>			
Net encumbrances adjustment	(547,960)	(547,960)	-
Increase in reserve for related assets	-	(414,126)	(414,126)
Increase in reserve for continuing appropriations	-	(7,359,780)	(7,359,780)
<b>Unreserved fund balance at end of year</b>	<b>\$ (8,191,733)</b>	<b>\$ 12,284,330</b>	<b>\$ 20,476,063</b>

See accompanying notes to financial statements.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Combined Statement of Revenues, Expenses and Changes in Fund Equity -  
All Proprietary Fund Types and Discretely Presented Component Units  
Year Ended September 30, 1996  
(With comparative totals for the year ended September 30, 1995)

	Proprietary Fund Type	Totals Primary Government (Memorandum Only)	Component Units	Totals Reporting Entity (Memorandum Only)	
	Internal Service		Proprietary	1996	1995
<b>Operating revenues:</b>					
Charges for goods and services	\$ 30,860	\$ 30,860	\$ 24,616,483	\$ 24,647,343	\$ 15,885,493
Rental income/interest income	-	-	-	-	1,009,212
Other	-	-	135,975	135,975	2,240,204
<b>Total operating revenues</b>	<b>30,860</b>	<b>30,860</b>	<b>24,752,458</b>	<b>24,783,318</b>	<b>19,134,909</b>
<b>Operating expenses:</b>					
Personnel services	-	-	4,083,275	4,083,275	3,797,513
Supplies and materials	26,216	26,216	148,897	175,113	353,917
Depreciation	-	-	4,444,881	4,444,881	3,955,149
Cost of sales	-	-	12,971,847	12,971,847	5,994,891
Other	-	-	7,606,670	7,606,670	5,125,005
<b>Total operating expenses</b>	<b>26,216</b>	<b>26,216</b>	<b>29,255,570</b>	<b>29,281,786</b>	<b>19,226,475</b>
<b>Operating income (loss)</b>	<b>4,644</b>	<b>4,644</b>	<b>(4,503,112)</b>	<b>(4,498,468)</b>	<b>(91,566)</b>
<b>Nonoperating revenues (expenses):</b>					
Dividends-Bank of the FSM	-	-	-	-	50,000
Transfers in from General Fund and other sources	-	-	1,467,043	1,467,043	2,078,120
Interest income (expense), net	-	-	(1,057,655)	(1,057,655)	(1,535,018)
Other income	-	-	197,265	197,265	169,346
Loss on investment	-	-	-	-	(2,252,885)
Miscellaneous	-	-	91,748	91,748	(99,026)
<b>Total nonoperating revenues (expense), net</b>	<b>-</b>	<b>-</b>	<b>698,401</b>	<b>698,401</b>	<b>(1,589,463)</b>
<b>Net income (loss)</b>	<b>4,644</b>	<b>4,644</b>	<b>(3,804,711)</b>	<b>(3,800,067)</b>	<b>(1,681,029)</b>
<b>Add depreciation on fixed assets acquired by grants that reduces contributed capital</b>	<b>-</b>	<b>-</b>	<b>564,266</b>	<b>564,266</b>	<b>463,675</b>
<b>Increase (decrease) in retained earnings</b>	<b>4,644</b>	<b>4,644</b>	<b>(3,240,445)</b>	<b>(3,235,801)</b>	<b>(1,217,354)</b>
<b>Retained earnings at beginning of year</b>	<b>28,363</b>	<b>28,363</b>	<b>36,356,844</b>	<b>36,385,207</b>	<b>37,227,894</b>
<b>Increase (decrease) in reserve for minority interest</b>	<b>-</b>	<b>-</b>	<b>(1,027,025)</b>	<b>(1,027,025)</b>	<b>374,667</b>
<b>Retained earnings at end of year</b>	<b>33,007</b>	<b>33,007</b>	<b>32,089,374</b>	<b>32,122,381</b>	<b>36,385,207</b>
<b>Contributed capital at beginning of year</b>	<b>129,416</b>	<b>129,416</b>	<b>41,491,335</b>	<b>41,620,751</b>	<b>40,269,242</b>
Current year additions	-	-	3,001,260	3,001,260	1,815,184
Adjustments	-	-	(504,211)	(504,211)	(463,675)
<b>Contributed capital at end of year</b>	<b>129,416</b>	<b>129,416</b>	<b>43,988,384</b>	<b>44,117,800</b>	<b>41,620,751</b>
<b>Total fund equity</b>	<b>\$ 162,423</b>	<b>\$ 162,423</b>	<b>\$ 76,077,758</b>	<b>\$ 76,240,181</b>	<b>\$ 78,005,958</b>

See accompanying notes to financial statements.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Combined Statement of Cash Flows  
All Proprietary Fund Types and Discretely Presented Component Units  
Year Ended September 30, 1996  
(With comparative totals for the year ended September 30, 1995)

	Proprietary Fund Type	Totals Primary Government	Component Units	Totals Reporting Entity	
	Internal Service	(Memorandum Only)	Proprietary	1996	1995
Increase (decrease) in cash and equivalents:					
Cash flows from operating activities:					
Operating income (loss)	\$ 4,644	\$ 4,644	\$ (4,503,112)	\$ (4,498,468)	\$ (91,566)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	-	-	4,444,881	4,444,881	3,955,149
Bad debts	-	-	548,001	548,001	360,000
Others	-	-	559,642	559,642	(633,451)
	<u>4,644</u>	<u>4,644</u>	<u>1,049,412</u>	<u>1,054,056</u>	<u>3,590,132</u>
Changes in assets and liabilities:					
Cash advance	-	-	(3,703)	(3,703)	(1,864)
Travel advances	-	-	(41,715)	(41,715)	(10,204)
Interest receivable	-	-	(57,377)	(57,377)	(89,491)
Accounts receivable trade	-	-	(1,015,620)	(1,015,620)	480,294
Accounts receivable other	-	-	(148,357)	(148,357)	(13,639)
Materials and supplies inventory	(9,757)	(9,757)	66,096	56,339	(597,905)
Inventory trade	-	-	242,044	242,044	(170,187)
Prepaid expenses	-	-	(109,002)	(109,002)	(161,474)
Deferred charges	-	-	-	-	(50,236)
Loans receivable	-	-	699,919	699,919	(849,393)
Accounts payable	1,591	1,591	2,672,914	2,674,505	(1,163,531)
Contract retentions payable	-	-	(153,382)	(153,382)	(1,078,945)
Due from other funds	3,522	3,522	(825)	2,697	(3,898)
Accrued payroll	-	-	3,141	3,141	(1,441)
Accrued leave payable	-	-	7,459	7,459	5,052
Deferred revenue	-	-	8,401	8,401	(240,470)
Accrued expenses, other	-	-	517,760	517,760	292,703
Interfund payables	-	-	614,167	614,167	333,292
	<u>(4,644)</u>	<u>(4,644)</u>	<u>3,301,920</u>	<u>3,297,276</u>	<u>(3,321,337)</u>
Net cash provided by operating activities	<u>-</u>	<u>-</u>	<u>4,351,332</u>	<u>4,351,332</u>	<u>268,795</u>
Cash flows for noncapital financing activities:					
CFSM appropriations received	-	-	1,584,580	1,584,580	1,962,944
Loan participations sold	-	-	(198,465)	(198,465)	(163,404)
Proceeds from borrowing	-	-	(376,754)	(376,754)	338,659
Contributed capital received and other funding	-	-	3,819,489	3,819,489	1,298,758
	<u>-</u>	<u>-</u>	<u>3,819,489</u>	<u>3,819,489</u>	<u>1,298,758</u>
Net cash provided by noncapital financing activities	<u>-</u>	<u>-</u>	<u>4,828,850</u>	<u>4,828,850</u>	<u>3,436,957</u>

See accompanying notes to financial statements.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Combined Statement of Cash Flows, Continued  
All Proprietary Fund Types and Discretely Presented Component Units  
Year Ended September 30, 1996  
(With comparative totals for the year ended September 30, 1995)

	Proprietary Fund Type	Totals Primary Government	Component Units	Totals Reporting Entity	
	Internal Service	(Memorandum Only)	Proprietary	1996	1995
<b>Cash flows from capital and related financing activities:</b>					
Proceeds from notes payable	\$ -	\$ -	\$ -	\$ -	\$ 2,000,948
Note repayments	-	-	(8,450,250)	(8,450,250)	(597,067)
Acquisition of fixed assets	-	-	(1,052,797)	(1,052,797)	(3,432,503)
Disposals of fixed assets	-	-	61,315	61,315	3,300
Interest expense	-	-	(2,567,841)	(2,567,841)	(2,156,367)
Proceeds from other income-sale of fixed assets	-	-	4,004	4,004	1,000
Restricted cash	-	-	6,809	6,809	168,795
<b>Net cash used for capital and related financing activities</b>	<b>-</b>	<b>-</b>	<b>(11,998,760)</b>	<b>(11,998,760)</b>	<b>(4,011,894)</b>
<b>Cash flows from investing activities:</b>					
Notes receivable	-	-	-	-	76,376
Investment in joint venture	-	-	(5,093,895)	(5,093,895)	(1,718,974)
Investment in securities	-	-	-	-	50,000
Escrow fund	-	-	7,348,978	7,348,978	(374,236)
Additions to time deposits	-	-	(800,000)	(800,000)	-
Interest income received	-	-	1,039,779	1,039,779	796,064
<b>Net cash provided by (used for) investing activities</b>	<b>-</b>	<b>-</b>	<b>2,494,862</b>	<b>2,494,862</b>	<b>(1,170,770)</b>
<b>Net decrease in cash and equivalents</b>	<b>-</b>	<b>-</b>	<b>(323,716)</b>	<b>(323,716)</b>	<b>(1,476,912)</b>
<b>Cash and equivalents at beginning of year</b>	<b>-</b>	<b>-</b>	<b>10,335,397</b>	<b>10,335,397</b>	<b>11,812,309</b>
<b>Cash and equivalents at end of year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 10,011,681</b>	<b>\$ 10,011,681</b>	<b>\$ 10,335,397</b>

See accompanying notes to financial statements.



**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Statement of Changes in General Fixed Assets Account Group  
Year Ended September 30, 1996  
(With comparative totals for the year ended September 30, 1995)

	<u>1996</u>	<u>1995</u>
Balance at beginning of year	\$ 28,050,786	\$ 27,598,360
Current year additions	570,490	452,426
Current year deletions	<u>(618,623)</u>	<u>-</u>
Balance at end of year	<u>\$ 28,002,653</u>	<u>\$ 28,050,786</u>

See accompanying notes to financial statements.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1996

(1) Summary of Significant Accounting Policies

The general purpose financial statements of the Federated States of Micronesia (FSM) National Government 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 FSM National Government's accounting policies are described below.

A. Reporting Entity

As required by generally accepted accounting principles, the general purpose financial statements of the FSM National Government present the government and its component units; entities for which the government is considered to be financially accountable. Discretely presented component units are reported in separate columns in the general purpose financial statements to emphasize that they are legally separate from the government. Each discretely presented component unit has a September 30 year end except for the FSM Development Bank which has a December 31 year end and the FSM Social Security Administration which has a March 31 year end.

Discretely Presented Component Units

Governmental Fund - FSM Social Security Administration

The FSM Social Security Administration has been included in the FSM National Government's general purpose financial statements as a component unit. This component unit has been presented on a discrete basis as it is administered separately and apart from other funds. The Component Unit's principal income may be expended in the course of its designated operations, and accordingly, the component unit is accounted for in essentially the same manner as a governmental fund. The financial statements of the component unit are presented under the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized when they become both measurable and available to finance expenditures of the current period and expenditures are generally recognized when the related liability is incurred. Due to a difference in the reporting period from the rest of the FSM National Government, financial statements for the FSM Social Security Administration are included as of March 31, 1996 and for the year then ended.

Higher Education Fund - College of Micronesia-FSM

The Higher Education Fund consists of the College of Micronesia-FSM (COM-FSM) which is included in the FSM National Government's general purpose financial statements based on the criteria for inclusion of component units. This component unit is presented on a discrete basis as it is administered separately.

COM-FSM was established by the FSM Public Law 7-79 on September 25, 1993 as a FSM public corporation to serve the varied post-secondary and adult educational needs of the Federated States of Micronesia. It is under the general management and control of a seven member Board of Regents, appointed by the FSM President with the advice and consent of the Congress. The term for all the board members is three years.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1996

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

Discretely Presented Component Units, Continued

Proprietary Funds

Coconut Development Authority

The Federated States of Micronesia Coconut Development Authority (the Authority) was established in 1981 by Public Law 1-145, as amended by Public Law 2-8, and incorporated as Chapter Two, Title 22 of the Code of the Federated States of Micronesia. The purpose of the Authority is to manufacture, process, buy, collect, market, sell, export, inspect, improve the quality, and deal with, in general, all products derived from the coconut tree. The Authority has the additional responsibility to establish prices to producers or sellers of coconut products in the Federated States of Micronesia, to collect and receive all monies derived from the sales of coconut products, and to stabilize the price of these products. The Authority is a component unit of the Federated States of Micronesia National Government.

The affairs of the Authority are managed by a five-member board, consisting of representatives of the four FSM states and the FSM National Government. Daily operation of the Authority is delegated to a general manager, who is hired by and serves at the pleasure of the Board.

The operation of the Authority is funded by annual appropriations from the FSM Congress. The purchase of coconut products is funded by copra subsidy appropriations from the FSM Congress and revenues generated through sales of copra.

FSM Telecommunications Corporation

The Telecommunications Corporation of the Federated States of Micronesia (the Corporation) was established as a public corporation under the laws of the Federated States of Micronesia, the purpose of which is to provide telecommunications services, except radio and television broadcasting, throughout the FSM and to points outside the FSM. The Corporation began its operations on October 1, 1983.

Additional funding was made available under Section 215(a) and Section 215 (b) of the Compact of Free Association, and loan funds from the USDA Rural Electrification Administration.

FSM Development Bank

The Federated States of Micronesia Development Bank (FSMDB) was created in 1979 by Public Law 1-37 of the First Congress of the Federated States of Micronesia. The FSM Development Bank began its operations on October 1, 1980. The FSMDB was reorganized in January of 1994 by Public Law 8-47 of the Eighth Congress of the Federated States of Micronesia. The purpose of the FSM Development Bank is to provide loans for the economic development of the FSM at below market rates.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1996

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

Discretely Presented Component Units, Continued

Proprietary Funds, Continued

FSM Development Bank, Continued

The Investment Development Fund (IDF), which provides funds for loans made by the FSMDB, was established by Public Law 5-122 in January 1989. The purpose of the IDF is to finance projects which will (1) have their operations primarily located within the FSM; (2) improve the balance of payments position of the FSM; (3) increase the value of visible and invisible exports or result in import substitutions; (4) demonstrate positive economic returns; (5) contribute to the furtherance of close economic relations with the USA.

The Pohnpei Development Loan fund and the Yap Development Loan Fund are administered by the FSMDB in a Trust capacity. All loan decisions are made by executives of the respective state governments.

National Fisheries Corporation

The National Fisheries Corporation (the Corporation) was established on July 13, 1983 by FSM Public Law No. 3-14. The component unit is directed by a board composed of seven members. The purpose of the Corporation is to engage in activities dealing with the development of fisheries in the Federated States of Micronesia.

B. Fund Accounting

The FSM National Government 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 FSM National Government functions or activities.

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

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

Governmental funds are used to account for all or most of a 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.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1996

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

**B. Fund Accounting, Continued**

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the government (internal service funds). The proprietary fund type of the FSM National Government is comprised of an internal service fund which is the Supply Stock Revolving Fund created by Public Law No. 4-74 for the government to benefit from discounted prices of supplies and other items available from volume purchasing.

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the FSM National Government. When these assets are held under the terms of a formal trust agreement, either a pension trust fund, a nonexpendable trust fund or an expendable trust fund is used. The terms "nonexpendable" and "expendable" refer to whether or not the FSM National Government is under an obligation to maintain the trust principal.

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.

**C. Basis of Presentation**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and expendable trust 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 financial sources) and decreases (i.e., expenditures 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 (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The modified accrual basis of accounting is used by all governmental fund types and expendable trust funds. 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 that 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 local taxes, charges for services, leases and interest revenue. Fines and permit revenues are not susceptible to accrual because they are generally not measurable until received in cash.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1996

(1) Summary of Significant Accounting Policies, Continued

C. Basis of Presentation, Continued

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.

D. Budgetary Process

The Congress of the Federated States of Micronesia (CFSM) enacts the budget through passage of specific departmental appropriations. Before signing the Appropriations Act, the President may veto or reduce any specific appropriation, subject to Congressional override. Under the Compact of Free Association, which went into effect November 3, 1986, approval of all CFSM Laws is vested with the President of the Federated States of Micronesia.

During fiscal year 1996, supplemental appropriations were also made for both operating and capital purposes, to reflect the evolving priorities of the FSM National Government.

Budgetary control is maintained at the departmental level. Budget revisions during the year, reflecting program changes, may be effected by CFSM 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 Fund Balance, 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 with the other changes in unreserved fund balance section of that statement.

E. Receivables

Receivables in the FSM National Government's governmental and fiduciary fund types 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 the cash basis.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1996

(1) Summary of Significant Accounting Policies, Continued

E. Receivables, Continued

At September 30, 1996, the FSM National Government had rendered tax assessments of an unknown amount for delinquent taxes. If collected, one-half of these receivables will accrue as revenue to the FSM National Government; the other one-half will accrue to the collecting State Government. However, due to the uncertainty of collection, these amounts have not been reflected within the accompanying general purpose financial statements.

Additionally, for the general fund general receivables, the amount stated on the accompanying combined balance sheet is net of an allowance for doubtful accounts of \$1,500,000 in 1996 (\$1,416,731 in 1995).

The General Fund includes a loan receivable from the National Fisheries Corporation (a Component Unit - Proprietary Fund) in the amount of \$3,100,000. This loan is fully reserved for in fund balance due to the terms of the loan (see note 8A).

For the Student Loan Fund, a Fiduciary Fund Type - Expendable Trust Fund, the policy of the FSM National Government is to reserve all loans until collection occurs since applicable loan terms are such that it is difficult to estimate when repayments may occur. As of September 30, 1996, \$1,606,953 was the outstanding balance of loans, the sum total of which was fully reserved.

The Compact Capital Improvement Project Fund includes a loan receivable of \$3,750,000 from Caroline Fisheries Corporation. This outstanding loan balance has been fully reserved for in fund balance. (Also refer Note 8B).

F. Interfund Transactions

The National Government has two potential types of interfund transactions, as follows:

1. Operating appropriations/subsidies are accounted for as operating transfers in the funds involved.
2. Equity contributions are accounted for as equity transfers (additions to or deductions from beginning governmental fund balances or proprietary fund contributed capital).

G. Fixed Assets

Fixed assets used in governmental fund type operations (general fixed assets), are accounted for in the General Fixed Assets Account Group rather than in governmental funds. All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. It is the FSM National Government's policy to not capitalize infrastructure costs. Depreciation is not charged against the General Fixed Assets Account Group. Substantially all fixed assets of the FSM National Government are equipment, furniture and fixtures and vehicles.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1996

(1) Summary of Significant Accounting Policies, Continued

H. Inventories

Inventories of materials and supplies are determined by physical count and are valued at the lower of cost (principally average cost) or market.

I. Actual Expenditures Contrasted With Budgetary Expenditures

Actual expenditures are charges which represent the total of all current year liabilities incurred which were attributable to operations; such liabilities may represent liquidations of either current or prior year encumbrances.

In contrast, budgetary expenditures represent current charges against appropriations; current charges consist of all current year liquidated and unliquidated encumbrances.

J. Fund Balance Reserves and Designations.

The FSM National Government's fund balance reserves represent those portions of fund balance (1) not appropriable for expenditure or (2) legally segregated for a specific future use. In the accompanying combined balance sheet, reserves for related assets such as imprest funds and petty cash are examples of the former. Reserves for encumbrances, contracts, and continuing appropriations are examples of the latter.

Reserves for related assets for the general fund as of September 30, 1996, are as follows:

World Bank Group securities	\$ 1,149,850
Imprest cash fund	147,231
Petty cash fund	4,061
Revolving Funds - FSM States	651,924
Other receivables	1,971,070
Equity investment - UMDA	1,500,000
Restricted assets	<u>37,113</u>
Total	\$ <u>5,461,249</u>

Reserves for related assets of the capital projects funds relate to equity investments of those funds.

K. Totals - Memorandum Only

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



**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1996

(1) Summary of Significant Accounting Policies, Continued

L. Investments

Investments are generally carried at the lower of cost or market. 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.

M. Cash and Equivalents

For purposes of the Combined Balance Sheet and the Combined Statement of Cash Flows, cash and equivalents are defined as cash on deposit in banks including time certificates of deposit with an initial maturity of ninety days or less.

N. Management Estimates

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

(2) Cash and Equivalents and Investments

I. Compact Funds

Public Law No. 4-77, which approved the "Internal Budget and Finance Procedures Under the Compact of Free Association", established and designated the Federated Development Authority (FDA) as the agency under which Compact funds available for investment are obligated and placed. This law also provides that all FDA investment funds shall be managed by the FSM Secretary of Finance for the FDA.

The FSM National Government and each of the individual States of the Federated States of Micronesia channel their investments into combined investment pool accounts.

The investment managers and the trustee report on the investment pool accounts; the trustee also reports on each government-participant's total investments, showing the individual investments in the long-term and short-term accounts and each participant's balance which remains with the trustee.

Ownership or share in the long-term and short-term investment pools are accounted for in terms of units purchased at the time of investment or redeemed at the time of withdrawal. Purchase and redemption of units are made on the first working day of the month at the current market value of the units. Shares of the participants in the reinvested earnings and accrued income (net of management fees and miscellaneous expenses) in the long-term investment account (interest, dividends, realized gains/losses on sales of stocks) and in the short-term account (interest and realized gains/losses on sales of securities) are based on the outstanding units held.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1996

(2) Cash and Equivalents and Investments, Continued

I. Compact Funds, Continued

The investment managers are given authority to buy and sell securities as follows:

- A. Investment managers may invest in stocks, bonds and cash equivalents. Minimum standards of quality for investments at the time of purchase shall be:
1. Stocks - A "B" rating by a national rating service. Non-rated stocks such as banks or insurance companies must be equal in quality or higher.
  2. Bonds - Confined to issues rated "A" or higher by a national rating service, except in the case of U.S. Treasury or Agency Securities which are not rated.
  3. Cash equivalents - The manager may engage in all normally accepted short-term investment practices including, but not limited to: U.S. Treasury and Agency securities, bankers' 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 and Poors Corporation and Moodys Investor Services.
    - b. Certificates of deposit must be from FDIC insured banks of which must have assets in excess of two billion dollars. Deposits in smaller institutions are acceptable, but must not exceed the amount of the insurance unless collateralized by U.S. Treasury Securities at 102%.
- B. The equity portfolio shall be diversified among issues and industry classifications. No more than 25% of the equity portfolio may be invested in any single classification, as described by the Standard and Poors 500 Index, unless prior approval is received from the 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 Secretary of Finance.

II. Other Funds

Other invested funds include the fishing rights fees and health insurance proceeds.

As of September 30, 1996, fishing rights fees of \$12,044,672, including reinvested earnings, are held with Hawaiian Trust Company, Ltd. \$187,230 of the balance is invested in short-term deposits and the remainder in long-term securities.

The Health Insurance Fund, an Expendable Trust Fund, has cash deposits of \$52,077 with Hawaiian Trust Company, Ltd. and \$1,058,357 with Merrill Lynch is invested in U.S. Treasury Notes maturing on November 15, 2005.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1996

(2) Cash and Equivalents and Investments, Continued

III. Investment Management

The administration of the initial Compact Investment Development Fund of \$12 million received under Section 111(b)(1) of the Compact agreement in October 1987 was transferred to the FSM Development Bank, a Component Unit - Proprietary Fund, together with all cumulative earnings in March 1989 pursuant to Public Law 5-122. The second installment of \$8 million received under this section of the Compact was received by the FSM National Government during fiscal year 1991, and was transferred to the FSM Development Bank together with all cumulative earnings on February 22, 1994, pursuant to Public Law 6-109.

As of September 30, 1996, the details of the FSM National Government's Governmental and Fiduciary fund type cash and equivalents and investments are as follows:

	<u>Carrying Amount</u>	<u>Market Value</u>
<u>Compact Funds:</u>		
<u>Cash and equivalents</u>		
Commercial paper, Treasury notes, HTCo.		
Automated Cash Management (ACM) [Market value approximates cost]		
General Fund	\$ (330,433)	\$ (330,433)
Special Revenue Fund	320,535	320,535
CIP Fund	<u>124,468</u>	<u>124,468</u>
	114,570	114,570
<u>Investments</u>		
Pooled investment securities	<u>24,144,820</u>	<u>26,954,714</u>
Total Compact Funds	<u>24,259,390</u>	<u>27,069,284</u>
<u>Other Funds:</u>		
<u>Cash and equivalents</u>		
Banker's acceptances, corporate and bank notes, TCD's and money market accounts		
	350,837	350,837
<u>Investments</u>		
Common Stock	<u>22,042,548</u>	<u>22,747,462</u>
Total Other Funds	<u>22,393,385</u>	<u>23,098,299</u>
Total cash and investments, Governmental and Fiduciary fund types	46,652,775	50,167,583
Reconciliation of cash and investments to combined balance sheet (Cost approximates market):		
Other cash in bank, General Fund, net	<u>90,820</u>	<u>90,820</u>
Total cash and investments, Governmental and Fiduciary Fund Types	\$ <u>46,743,595</u>	\$ <u>50,258,403</u>

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1996

(2) Cash and Equivalents and Investments, Continued

III. Investment Management, Continued

The above total does not include FSM Social Security Administration which is shown separately at Note 9.

IV. Investment Valuation

At September 30, 1996, the FSM National Government had time certificates and other term deposits as follows:

General Fund

Cash and deposits with Hawaiian Trust Co., ACM	\$ 36,674
All other cash and deposits held in FDIC insured banks	<u>17,382</u>

Total cash and equivalents	\$ <u>54,056</u>
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Securities with World Bank	\$ 1,149,850
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Time certificates of deposit with FDIC insured banks	<u>3,808,388</u>
--	------------------

	\$ <u>4,958,238</u>
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Special Revenue Funds

Cash on deposit with Hawaiian Trust Co. ACM	\$ <u>320,624</u>
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Expendable Trust Funds

Cash on deposit with Hawaiian Trust Co. ACM	\$ <u>57,077</u>
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Capital Projects Fund

Cash on deposit with Hawaiian Trust Co. ACM	\$ <u>124,468</u>
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The FSM National Government and its component units, do not require collateralization of its cash accounts. Therefore, cash and equivalents are substantially uncollateralized.

For cash and investments of the FSM Social Security Administration, refer to Note 9.

V. Investment Categorization

Governmental Accounting Standards Board Statement (GASB) No. 3 requires government entities to categorize investments to give an indication of the level of risk assumed by the entity at year end.

Category 1 - Insured or registered, or securities held by the FSM National Government or its agent in the FSM National Government's name.

Category 2 - Uninsured and unregistered, or securities held by a party other than the FSM National Government or its agent, but in the FSM National Government's name.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1996

(2) Cash and Equivalents and Investments, Continued

V. Investment Categorization, Continued

Category 3 - Uninsured and unregistered, with securities held by a party other than the FSM National Government and not in the FSM National Government's name.

The FSM National Government's demand and time deposits are non-categorized investments in accordance with GASB Statement # 3. Compact of Free Association funds held by the designated trustee have been classified as category 2 investments as all Compact investments are held in the name of the Federated Development Authority. Other fund investments are classified as category 1 investments as investments are either registered or held in the agency's name. All other investments are classified as category 2 investments as they are held by the designated trustee in the FSM National Government's name.

VI. Equity Investment

The FSM National Government owns 298,745 shares of the stock of a commercial bank incorporated within the FSM. The principal investment of \$3,000,000 is accounted for on the equity method since the investment constitutes a 32% ownership share. The investment is recorded in the Capital Projects Fund and is reserved for as a related asset within that fund (\$2,933,776 as of September 30, 1996).

The FSM National Government also owns 50,000 shares of the stock of a commercial enterprise located in the Commonwealth of the Northern Marianas. The investment of \$1,500,000 resulted from a contribution and is accounted for in the General Fund at cost since the investment constitutes a .05% ownership share. This investment is reserved for as a related asset in the general fund.

VII. Component Units - Equity Investments

The FSMDB, a component unit - proprietary fund, owns 100,000 shares of the stock of a commercial bank incorporated within the FSM. The investment is now accounted for on the cost method after previously being accounted for on the equity method. The investment constitutes a 10.84% ownership share.

The FSM National Fisheries Corporation has recorded two investments in for-profit fishing corporations whose carrying values have each been reduced to zero.

(3) Commitments and Contingencies

1. Sick Leave. It is the policy of the FSM National Government to record sick leave when leave is actually taken and a liability is actually incurred. The accumulated estimated amount of unused sick leave at September 30, 1996, was \$1,800,000.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1996

(3) Commitments and Contingencies, Continued

2. Litigation. The FSM National Government is party to several legal proceedings arising from governmental operations. Claims are filed with the FSM Attorney General. Approved claims are paid from appropriations to the affected government agency. At September 30, 1996, there existed several unapproved claims. The Attorney General of the FSM National Government represents that the ultimate resolution of these claims is undeterminable, but should not have a material impact on the accompanying general purpose financial statements.
3. Leases. The FSM National Government has entered into house lease agreements varying from one to five years. The aggregate amount of future lease payments has not been accumulated as renewal is subject to annual appropriation.
4. Authorization for Appropriations As of September 30, 1996, the following authorizations for appropriations from the general fund were outstanding:

<u>Public Law 6-69</u>	
Loan to National Fisheries Corporation	\$ <u>4,649,200</u>
<u>Public Law 7-101</u>	
Asian Development Bank Loan	\$ <u>6,500,000</u>

These items have not been included in the reserve for continuing appropriations as of September 30, 1996, as an additional appropriation law must be passed by Congress or a drawdown of loan proceeds must occur before the above balances can be allotted.

5. Federal Program Questioned Costs

The National Government 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.

Additionally, \$11,453,538 of questioned costs exists from the four States of the Federated States of Micronesia which receive federal funds in a subrecipient capacity. If these questioned costs are sustained, such will be funded by State resources.

Pursuant to Title I, Section 105 of United States Public Law 99-290, 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. Accordingly, the States have made no adjustment to the above questioned costs for amounts which were incurred prior to the implementation of the Compact of Free Association.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1996

**(4) Continuing Appropriations**

**General Fund**

At September 30, 1996, the General Fund reflected the following as continuing appropriations:

Chuuk State Projects	\$ 7,176,395
Pohnpei State Projects	7,063,620
Yap State Projects	6,331,873
Kosrae State Projects	2,002,530
National Public Projects	573,892
FSM Elections	358,203
Planning & Statistics	612
Attorney General	57,444
Boards and Commissions	4,625,449
Unallotted appropriations	<u>1,919,627</u>
Total	<u>\$ 30,109,645</u>

**Capital Project Funds**

Continuing appropriations for the Capital Projects Funds as of September 30, 1996, are as follows:

**Compact Capital Projects Funds**

Public Law No.	5-13	\$ 14,371
	5-75	4,328
	6-4	59,062
	6-7	70,478
	5-86	9,135
	6-19	27,777
	5-115	74,100
	5-118	90,984
	6-10	140,668
	6-91	258,516
	7-19	79,412
	7-78	667
	8-096	49,568
	8-018	112,235
	9-030	<u>107,878</u>
Sub-Total		<u>1,099,179</u>

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1996

(4) Continuing Appropriations, Continued

CFSM Capital Projects Funds

Staff housing	3,283
Finance warehouse	27,680
Capitol wells	<u>36,984</u>
	<u>67,947</u>
Total Capital Projects Funds	\$ <u><u>1,167,126</u></u>

Special Revenue Funds

Continuing appropriations for Special Revenue Funds as of September 30, 1996, are as follows:

Scholarship Grants:

Pohnpei	\$ 133,154
Chuuk	56,992
Kosrae	208,581
Graduate Scholarship College of Micronesia	233,400
Yap	404,758
	<u>161,320</u>
Total	<u>1,198,205</u>

Communications One-Time (PL 5-3):

FSM Telecommunications Corp. - Building	1,824
FSM Telecommunications Corp. - Switch and others	177,413
FSM Telecommunications Corp. - Telephone System	<u>32,113</u>
	<u>211,350</u>

Energy

Kosrae Projects	41,656
Chuuk Projects	<u>135,522</u>
	<u>177,178</u>

Special Block Grant

Leptospirosis, Dengue Fever and Cholera	5,239
Yap Continuing Education (PL-7-96)	<u>14,752</u>
	<u>19,991</u>

Total Compact Special Revenue Funds 1,606,724

Disaster Revolving Fund 228,277

Asian Development Bank Loan Fund 777,903

Total Special Revenue Funds \$ 2,612,904



**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1996

(5) Transfers Out/In

Net transfers for the year ended September 30, 1996, consist of the following:

General Fund transfers out:	
Coconut Development Authority	\$ (141,043)
Maritime Operations Revolving Fund	(499,192)
National Fisheries Corporation	(450,000)
COM-FSM	(831,329)
Passport Revolving Fund	<u>37,806</u>
Net General Fund transfers out	\$ <u>(1,883,758)</u>
Compact Capital Projects Fund transfers out:	
FSM Development Bank	\$ <u>(3,000,000)</u>
Special Revenue Funds transfers out:	
Passport Revolving Fund	\$ (37,806)
One-Time & Annual Communications transfer out to FSM	
Telecommunications Fund	(876,000)
Maritime Operations Revolving Fund	<u>499,192</u>
Net Special Revenue Funds transfers out	\$ <u>(414,614)</u>

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1996

**(6) Interfund Receivables and Payables**

As of September 30, 1996, interfund receivables and payables that resulted from various interfund transactions were as follows:

	<u>Due To Other Funds</u>	<u>Due From Other Funds</u>
General Fund	\$ 52,802,362	\$ 65,629,751
Special Revenue Funds:		
Transition	36,936	-
Federal grants direct	2,187,731	2,822,809
OTIA	520,960	-
Maritime Operations	-	429,281
Disaster Relief	-	290,843
Fisheries Revolving Fund	-	38,440
Substance Abuse	-	615
Asian Development Loan Fund	-	1,119,847
Passport Revolving Fund	-	40,000
Section 214 - Energy	1,311,386	-
Section 215 (a)(2) - Communication - Annual	1,105,552	-
Section 215 (b)(2) - Communication - One Time	895,992	-
Section 216 (a)(1) - Marine Surveillance - Annual	1,919,700	-
Section 216 (a)(2) - Health and Medical	398,563	-
Section 216 (a)(3) - Post Secondary Education	4,830,208	-
Section 216 (b) - Marine Surveillance - One Time	1,284,850	-
Section 221 (b) - Special Block	-	512,977
Special Development Fund	-	39,891
Capital Projects Funds:		
Compact	4,262,798	-
OTIA/TTPI	346,147	-
Expendable Trust Funds:		
Health insurance	-	416,862
Student loan fund	-	540,632
Internal Service Fund	-	21,237
Total	<u>\$ 71,903,185</u>	<u>\$ 71,903,185</u>

**(7) Notes Payable**

During fiscal year 1993, the FSM National Government became members of both the International Monetary Fund and the World Bank Group. Membership required the FSM to issue demand notes totaling \$4,873,855. The demand notes are recorded in the General Long-Term Debt Account Group as management is of the opinion that such does not represent an expected use of current resources.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1996

(7) Notes Payable, Continued

As of fiscal year 1996, FSM Telecommunications Corporation (FSMTC) (a component unit-proprietary fund) had drawn down a total of \$39,959,536 from U.S. Department of Agriculture Rural Electrification Administration as part of a \$41 million loan package to be used for telephone network expansion in the FSM. \$6 million was invested in an escrow fund and the remainder was earmarked for network expansion.

The following summarizes the FSMTC debt service requirements for the next five years and thereafter:

<u>Year</u>	<u>Principal</u>
1997	\$ 525,189
1998	498,415
1999	523,336
2000	549,503
2001	576,978
Thereafter	<u>28,049,867</u>
	<u>\$ 30,723,288</u>

Notes payable of the National Fisheries Corporation (NFC) (a component unit-proprietary fund) are as follows:

Various notes payable to the FSM National Government, due in various annual installments, noninterest bearing, uncollateralized, due between 2007 and 2014.	\$ 3,100,000
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Various notes payable to the FSM Development Bank, a component unit of the FSM National Government, due in various quarterly and monthly installments at various interest rates, due between 1998 and 2010.	7,894,963
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Loan payable to the FSM National Government and Pohnpei State, one-third guaranteed by NFC, payable annually at \$495,000 with interest ranging from 8.9% to 9.49%, currently past due.	2,833,333
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Other notes	<u>240,602</u>
	<u>\$ 14,068,898</u>

Future maturities of NFC notes payable are as follows:

1997	\$ 4,195,074
1998	1,018,254
1999	728,832
2000	605,009
2001	2,304,696
Thereafter	<u>5,217,033</u>
	<u>\$ 14,068,898</u>

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1996

**(7) Notes Payable, Continued**

The FSM Development Bank has obtained certain loans which are then passed through to other entities. As of December 31, 1996, outstanding borrowings are as follows:

Two loans from Scandivaviska Ensklida Banken, passed through to consolidated subsidiaries of NFC, interest at 6.23%, payable in ten semi-annual principal installments of \$27,200 and \$35,819, respectively.	\$ 315,095
Loan from Export-Import Bank of the United States, original amount of \$736,515, interest at 5.93%, passed through to consolidated subsidiaries of NFC, payable in ten semi-annual principal installments of \$73,652 and \$68,000, respectively.	<u>876,845</u>
	<u>\$ 1,191,940</u>

The following is the total component units-proprietary funds future debt payments for subsequent years:

<u>Year</u>	<u>Principal</u>
1997	\$ 5,129,604
1998	1,926,010
1999	1,598,491
2000	1,181,447
2001	2,881,674
Thereafter	<u>33,266,900</u>
	<u>\$ 45,984,126</u>

**(8) Loans Receivable**

**A. General Fund**

As of September 30, 1996, an amount of \$3,100,000 was outstanding from the National Fisheries Corporation (a component unit-proprietary fund). The first three notes were used for the purchase of common and preferred stock of Yap Fishing Corporation and two longline fishing boats, including initial working capital.

The additional four notes were used for longline training activities, purchase of common stock of Yap Fresh Tuna, and business joint ventures:

<u>Date</u>	<u>Principal</u>	<u>Annual Installments</u>	<u>First Payment Date</u>	<u>Term</u>
3/29/91	\$ 750,640	\$ 44,155	3/29/94	20 years
7/11/91	1,212,940	86,639	7/11/94	17 years
9/27/91	397,176	23,363	9/27/94	20 years
10/1/91	500,000	29,412	10/18/94	17 years

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1996

(8) Loans Receivable, Continued

A. General Fund, Continued

4/2/92	100,000	5,000	4/30/95	23 years
4/2/92	39,244	1,962	4/30/95	23 years
11/1/91	<u>100,000</u>	5,000	11/30/95	20 years
	<u>\$ 3,100,000</u>			

Pursuant to Public Law 6-69, no interest is payable on these loans.

B. Compact Capital Projects Fund

As of September 30, 1996, an amount of \$3,750,000 was outstanding from the Caroline Fisheries Corporation (CFC), a joint venture between the National Fisheries Corporation (NFC) (a component unit-proprietary fund), Pohnpei State Economic Development Authority and the Australian-owned Tuna Development Company, Pty. Ltd. (TDC). The loan matures on October 15, 1997, with interest being paid semi-annually at rates ranging from 9.19% to 9.44% per annum.

Five annual principal payments of \$750,000 are to occur commencing on October 15, 1993. However, CFC has defaulted on all installments due. Collateral for the loan is in the form of mortgages over CFC's fishing vessels and guarantees by NFC, Pohnpei State Economic Development Authority and TDC.

C. Loans Receivable - FSM Development Bank (FSMDB)

The FSMDB's policy is to report loans receivable net of an allowance for uncollectible loans. Following is a schedule of loan fund balances and the respective allowances:

<u>December 31, 1996</u>	<u>Loan Balance</u>	<u>Allowance for D/A</u>	<u>Net</u>
FSM Development Bank	\$ <u>11,810,127</u>	\$ <u>1,108,036</u>	\$ <u>10,702,091</u>

As of December 31, 1996, the Bank has twenty-three loans of \$59,102 to employees and spouses of employees of the Bank. The above loans for IDF and State Development Fund are classified in restricted assets (Note 12).

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1996

**(9) FSM Social Security Administration**

The Social Security Administration of the Federated States of Micronesia National Government was established by Public Law 2-74, passed on February 8, 1983, and began operations on October 1, 1987, for the purpose of providing retirement, disability and death benefits to qualified individuals and their survivors. The Administration is administered under the authority of a six-member board appointed by the President of the Federated States of Micronesia (FSM).

**A. Basis of Accounting**

For the year ended March 31, 1996, the FSM Social Security Administration has prepared financial statements using the modified accrual basis of accounting (refer Note 1C). Accounting for the Social Security system does not strictly follow pension fund accounting and accordingly the present value of the liability of prospective benefit payments and the present value of future contributions are not recorded. However, investments are recorded at market value in accordance with pension fund accounting guidelines.

**B. Investments**

Securities are stated at market value. Gains or losses on securities sold or disposed of are computed on the basis of specific identification.

Generally, the FSM Social Security Administration can invest in bonds and other evidence of indebtedness of the FSM or U.S.; or of any State of the FSM and U.S.; in bonds, debentures, notes, and other evidence of indebtedness issued or assumed by FSM or U.S. institutions, and in common stock on a U.S. stock exchange.

All investments are registered or held by the Hawaiian Trust Company in the name of the FSM Social Security Administration.

As of March 31, 1996, the details of the FSM Social Security Administration's cash and investments are as follows:

**Cash and equivalents**

Cash on deposit with Hawaiian Trust Company ACM	\$ 495,105
All other cash on deposit with FDIC insured banks	<u>1,923,313</u>
<b>Total cash and equivalents</b>	<b>\$ <u>2,418,418</u></b>

**Investments**

	<u>Cost</u>	<u>Market</u>
Common stock	\$ 8,612,796	\$ 12,094,775
U.S. government obligations	6,777,844	6,808,969
Government agencies	1,120,256	1,152,512
Corporate bonds	<u>1,655,195</u>	<u>1,679,205</u>
<b>Total investments</b>	<b>\$ <u>18,166,091</u></b>	<b>\$ <u>21,735,461</u></b>

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1996

**(9) FSM Social Security Administration, Continued**

**B. Investments, Continued**

The FSM Social Security Administration's demand and time deposits are non-categorized investments in accordance with Governmental Accounting Standard Board (GASB) Statement No. 3. All other investments held by the Administration have been classified as category 1 investments in accordance with GASB No. 3 as all investments are held in the name of the FSM Social Security Administration by the Hawaiian Trust Co., the trustee.

GASB Statement No. 3 requires government entities to categorize investments in the following categories to give an indication of the level of risk assumed by the entity at year end.

Category 1 - Insured or registered, or securities held by the FSM Social Security Administration or its agent in the Administration's name.

Category 2 - Uninsured and unregistered, or securities held by a party other than the FSM Social Security Administration or its agent, in the Administration's name.

Category 3 - Uninsured and unregistered, with securities held by a party other than the FSM Social Security Administration and not in the Administration's name.

**C. Fixed Assets**

Fixed assets are accounted for in the General Fixed Assets Account Group rather than in governmental funds. During the fiscal year ended March 31, 1996, net investment in fixed assets of \$57,546 was accounted for in the Administration's General Fixed Assets Account Group. Fixed assets consist of furniture, fixtures and equipment and are recorded at cost. Depreciation is provided over the estimated useful lives of the assets by the straight-line method.

This account group is not a "fund." It is concerned only with the measurement of financial position and is not involved with measurement of results of operations.

**(10) Component Units**

**A. Financial Overview**

Key financial data for material component units - proprietary funds, as of and for the year ended September 30, 1996, is as follows:

	FSM Telecom- munications <u>Corporation</u>	FSM Development <u>Bank</u>	FSM Coconut Development <u>Authority</u>	National Fisheries <u>Corporation</u>
Total assets	\$ <u>54,974,226</u>	\$ <u>59,030,410</u>	\$ <u>552,642</u>	\$ <u>21,562,440</u>
Total equity (deficit)	\$ <u>23,440,691</u>	\$ <u>55,904,075</u>	\$ <u>541,674</u>	\$ <u>(4,141,418)</u>

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1996

**(10) Component Units, Continued**

**A. Financial Overview, Continued**

	FSM Telecom- munications Corporation	FSM Development Bank	FSM Coconut Development Authority	National Fisheries Corporation
Net income (loss)	\$ <u>545,862</u>	\$ <u>74,882</u>	\$ <u>(283,516)</u>	\$ <u>(4,141,939)</u>
Operating subsidy	\$ <u>876,000</u>	\$ <u>3,000,000</u>	\$ <u>290,837</u>	\$ <u>417,743</u>
Cumulative capital contributions	\$ <u>7,108,650</u>	\$ <u>26,238,835</u>	\$ <u>646,616</u>	\$ <u>9,994,283</u>
Receivables, net	\$ <u>1,322,669</u>	\$ <u>31,529,587</u>	\$ <u>101,946</u>	\$ <u>1,416,098</u>
Allowance for doubtful accounts	\$ <u>1,696,395</u>	\$ <u>1,108,036</u>	\$ <u>97,692</u>	\$ <u>882,790</u>
Operating revenues	\$ <u>8,543,009</u>	\$ <u>2,319,134</u>	\$ <u>279,675</u>	\$ <u>13,610,640</u>
Notes payable	\$ <u>30,723,288</u>	\$ <u>1,191,940</u>	\$ <u>-</u>	\$ <u>14,068,898</u>
Depreciation and amortization	\$ <u>2,429,487</u>	\$ <u>67,749</u>	\$ <u>20,831</u>	\$ <u>1,926,814</u>
Operating income (loss)	\$ <u>751,933</u>	\$ <u>68,208</u>	\$ <u>(578,086)</u>	\$ <u>(4,745,167)</u>
Additions to fixed assets	\$ <u>453,392</u>	\$ <u>19,919</u>	\$ <u>6,320</u>	\$ <u>573,166</u>

**B. Fixed Assets - Component Units-Proprietary Funds**

Fixed assets of the component units-proprietary funds as of September 30, 1996, are as follows:

	FSM Telecom- munications Corporation	FSM Development Bank	FSM Coconut Development Authority	National Fisheries Corporation	Total
Building and leasehold improvement	\$ -	\$ 140,727	\$ 243,956	\$ 11,088,061	\$ 11,472,744
Furniture and fixtures	-	146,020	39,435	386,020	571,475
Vehicles	-	-	27,572	65,575	93,147
Equipment and machinery	-	130,325	3,489	10,981,308	11,115,122
General support assets	10,770,843	-	-	-	10,770,843
Central office assets	7,945,635	-	-	-	7,945,635
Earth station	4,556,342	-	-	-	4,556,342
Terminal equipment	2,852,780	-	-	-	2,852,780
Cable, pole & wiring facilities	28,163,493	-	-	-	28,163,493
Less accumulated depreciation	(10,738,718)	(330,847)	(112,790)	(4,283,805)	(15,466,160)
Construction in progress	<u>53,270</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>53,270</u>
	\$ <u>43,603,645</u>	\$ <u>86,225</u>	\$ <u>201,662</u>	\$ <u>18,237,159</u>	\$ <u>62,128,691</u>



**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1996

**C. Material Fund Deficit**

The following fund reflects a material fund deficit as of September 30, 1996.

National Fisheries Corporation	\$ <u>(14,135,701)</u>
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However, the above deficit retained earnings are offset by contributed capital of \$9,994,283.

**D. Fixed Assets - Higher Education Fund**

Fixed assets of the Higher Education Fund are not depreciated and are comprised of the following:

Land	\$ 1,245,685
Buildings and improvements	8,281,313
Furniture and equipment	1,675,190
Vehicles	80,310
Instructional materials	<u>328,683</u>
	\$ <u>11,611,181</u>

**E. Liabilities - Higher Education Fund**

Included within liabilities of the Higher Education Fund is an amount of \$597,868 due to the U.S. Department of Education which was previously owed by the Community College of Micronesia, a predecessor entity, for overpayment of its Pell Grant programs by U.S. Department of Education. The amount is repayable, with interest at 3%, as follows:

<u>Fiscal Year Ending</u>	<u>Payment</u>
September 30, 1997	\$ 410,595
September 30, 1998	<u>205,298</u>
	615,893
Amount related to interest	<u>18,025</u>
	\$ <u>597,868</u>

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1996

**(11) Restricted Assets**

Component Units - Proprietary Funds - Restricted assets at September 30, 1996, are primarily comprised of the following:

FSM Telecommunications Corporation - Restricted assets are \$44,203 in cash which is restricted for construction projects.

FSM Development Bank - Restricted assets are related to various funds which are administered substantially in a trust capacity on behalf of the FSM National Government, Pohnpei State and Yap State. These restricted assets include, among others, approximately \$7,546,494 of U.S. Government obligations and loans receivable of \$17,682,862.

**(12) Change in Accounting Principles**

During 1996, the FSM National Government changed its accounting treatment of fishing right fees from a cash basis to an accrual basis. The 1995 beginning fund balance has been restated to reflect the effects of this change.

Beginning fund balance	\$ 51,714,257
Prior period adjustment	<u>6,212,323</u>
	<u>\$ 57,926,580</u>

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Combined Schedule of Expenditures by Account -  
All Governmental Fund Types and Expendable Trust Funds  
Year Ended September 30, 1996  
(With comparative totals for the year ended September 30, 1995)

	Governmental Fund Types			Fiduciary	Totals	
	General	Special Revenue	Capital Projects	Expendable Trust	(Memorandum Only)	
					1996	1995
<b>Expenditures:</b>						
Personnel	\$ 10,327,135	\$ 1,085,603	\$ 38,852	\$ -	\$ 11,451,590	\$ 10,951,082
Travel	2,368,888	241,656	74,215	-	2,684,759	2,895,981
Capital asset purchases	3,065,144	26,364	10,917	-	3,102,425	1,513,492
Contractual services, contributions and subsidies	3,806,912	355,436	34,920	-	4,197,268	4,867,384
Communications	671,824	35,441	6,373	-	713,638	731,083
Supplies and materials	2,813,250	168,924	102,274	-	3,084,448	3,060,607
Office/house rent/lease	1,698,904	9,100	-	-	1,708,004	1,776,663
Construction in progress	-	-	2,180,814	-	2,180,814	3,470,531
Scholarships	-	873,824	-	-	873,824	1,781,949
National Government direct assistance	-	5,088,984	-	-	5,088,984	4,201,187
Other	7,869,492	852,509	1,863,040	1,641,195	12,226,236	12,538,237
<b>Total expenditures</b>	<b>\$ 32,621,549</b>	<b>\$ 8,737,841</b>	<b>\$ 4,311,405</b>	<b>\$ 1,641,195</b>	<b>\$ 47,311,990</b>	<b>\$ 47,788,196</b>

See Accompanying Independent Auditors' Report.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA  
GENERAL FUND**

Schedule of Revenues and Transfers In  
Year Ended September 30, 1996  
(With comparative totals for the year ended September 30, 1995)

	1996	1995
Compact funding current:		
Base amount	\$ 4,461,480	\$ 4,461,480
Inflation adjustment	2,141,511	2,052,281
	6,602,991	6,513,761
Local taxes:		
Import	1,951,136	1,981,375
Fuel	186,853	202,090
Income tax, individuals, net of tax refunds	2,677,343	2,841,313
Gross receipts tax, businesses	3,112,949	3,063,471
	7,928,281	8,088,249
Investment income:		
Foreign currency loss	(145,472)	-
Realized gain on sale of equities	1,909,810	2,010,752
Realized loss on sale of equities	(751,011)	(667,163)
Dividends and interest income	2,109,749	2,425,233
	3,123,076	3,768,822
Fees, licenses, and other income:		
Fishing rights fees	19,766,352	20,839,273
Fishing violation fines	701,992	670,000
Postal collections	597,463	548,823
Penalties and interest on delinquent taxes	299,110	274,582
Business license and firearms fees	71,898	77,762
Other income	157,882	356,491
	21,594,697	22,766,931
Other sources:		
Transfer in	37,806	93,847
Total revenues and transfers in	\$ 39,286,851	\$ 41,231,610

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**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA  
GENERAL FUND**

Schedule of Expenditures by Function and Department  
Year Ended September 30, 1996  
(With comparative totals for the year ended September 30, 1995)

	<u>1996</u>	<u>1995</u>
<b>Executive Branch:</b>		
President's Office	\$ 624,362	\$ 1,266,429
Office of the Public Defender	551,414	550,219
Department of Health Services	450,801	385,964
Department of Education	218,187	384,335
Department of Resources and Development	536,874	580,734
Office of the Attorney General	1,912,660	2,253,317
Department of Finance	1,762,396	1,858,050
Office of Administrative Services	1,069,652	1,076,745
Office of Planning and Statistics	789,653	851,812
Budget Office	270,478	256,073
Department of External Affairs and LNO's	3,684,720	3,813,091
Department of Transportation	383,583	349,512
	<hr/>	<hr/>
Total Executive Branch	12,254,780	13,626,281
	<hr/>	<hr/>
<b>Judicial Branch</b>	887,460	888,268
	<hr/>	<hr/>
<b>Legislative Branch:</b>		
Office of the Speaker	640,151	723,871
Congress staff	1,145,502	1,483,342
Delegation offices	403,508	338,876
Legislature conference/US Visit	39,053	-
Official representation and others	583,518	331,284
Members travel	11,355	197,506
Legislative committees	8,719	11,647
	<hr/>	<hr/>
Total Legislative Branch	2,831,806	3,086,526
	<hr/>	<hr/>
<b>Office of the Public Auditor</b>	416,812	420,022
	<hr/>	<hr/>
<b>Other National Government Programs:</b>		
Aids to non-public schools	400,000	-
Contributions	823,236	1,162,491
FSM National Economic Summit	64,843	-
State judiciary	324,796	282,849
T-3 program	286,959	247,859
FSM Olympic Games	494	21,884
Aquaculture Center Program	89,292	88,787
Travel by non-government rep	1,359	957
Judgment Funds	10,000	-
Joint law enforcement	440,226	433,825
Air Continental scholarship	24,000	33,000
General Assembly - Pacific YC Noumea	35,162	-
ICAO membership fee	30,146	27,038
Constitutional Convention-Pohnpei	1,162	-
ADB Fisheries Loan	7,707	38,588
Festival of Arts	21,999	-
Purchase of Speaker's Residence	139,000	-
Pohnpei Tourism	2,584	59,625
Presidential Task Force	-	595
	<hr/>	<hr/>
Subtotal - Other National Government Programs	2,702,965	2,397,498
	<hr/>	<hr/>

See Accompanying Independent Auditors' Report.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA  
GENERAL FUND**

Schedule of Expenditures by Function and Department, Continued  
Year Ended September 30, 1996  
(With comparative totals for the year ended September 30, 1995)

	1996	1995
Balance Forwarded - Other National Government Programs	\$ 2,702,965	\$ 2,397,498
FSM Student Education - Palau	6,625	-
Student Transportation	181	4,277
Secretary R & D	15,035	-
FSM Census	16,236	15,824
National Planner PL 8-96	-	37,187
South Pacific Forum	-	3,335
Governor, Yap PL 8-103	6,494	1,000
Chuuk Visitors Bureau	54,849	16,894
Pohnpei Farmers Home Admin	53,593	50,210
Chuuk Farmers Home Admin	24,510	20,855
Direct Telecom Link Finance	33,520	25,477
FSM Con-Con	-	1,781
Kosrae Farmers Home Admin	9,304	6,662
Yap Farmers Home Admin	9,000	7,746
FSM Subsc to 71 Shares/ADB	-	12,064
Kosrae Farmers Home Supplement	-	936
State/Natl Energy Conference	13,130	30,900
National Government Tourism	-	53,138
Feasibility Study/Cont Air	-	49,086
Fisheries Development Project	45,879	284,239
FSM National Olympic Committee	7,148	516,955
Kosrae Tourism Development Strategy	56,071	-
FSM ADB Water Supply	2,489	-
Contribution FSM Amateur Sports	67,777	-
Out-of-Pocket H/Exp. Reimbursements	-	45,926
Reimbursement to USDOE Drawdown	-	1,182,213
Parliamentarian visit	10,955	-
	3,135,761	4,764,203
Other Legislative Appropriations:		
State projects:		
Chuuk	4,631,147	3,314,412
Pohnpei	4,299,957	2,934,279
Yap	1,369,362	812,705
Kosrae	1,401,537	846,334
National Government	313,313	1,796,029
	12,015,316	9,703,759
Boards and Commissions:		
Micronesia Maritime Authority	361,042	351,111
FSM Postmaster Postal Services	693,572	711,903
College of Micronesia Board of Regents	25,000	25,000
National Board of Nursing	-	8,162
	1,079,614	1,096,176
Total General Fund expenditures before operating transfers	\$ 32,621,549	\$ 33,585,235

See Accompanying Independent Auditors' Report.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA  
GENERAL FUND**

Statement of Revenues, Expenditures and Changes in Fund Balance -  
Budget and Actual, Budgetary Basis  
Year Ended September 30, 1996

	Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>			
Compact	\$ 6,513,761	\$ 6,602,991	\$ 89,230
Local taxes	9,200,000	7,928,281	(1,271,719)
Fishing right fees	19,000,000	19,766,352	766,352
Fishing violation fines	-	701,992	701,992
Postal revenues	500,000	597,463	97,463
Investment earnings	3,000,000	3,123,076	123,076
Business fees, fines, penalties and interest on delinquent taxes	500,000	371,008	(128,992)
Other	200,000	157,882	(42,118)
<b>Total revenues</b>	<b>38,913,761</b>	<b>39,249,045</b>	<b>335,284</b>
<b>Expenditures-budgetary basis by department:</b>			
<b>Executive Branch:</b>			
Office of the President	546,600	523,379	23,221
Disaster Office	25,200	24,762	438
Public Information	130,600	121,779	8,821
Pohnpei Election Commission	52,719	(2,308)	55,027
Chuuk Election Commission	91,626	-	91,626
Kosrae Election Commission	22,751	-	22,751
Yap Election Commission	45,000	-	45,000
National Election Director	90,000	12,276	77,724
<b>Total</b>	<b>1,004,496</b>	<b>679,888</b>	<b>324,608</b>
<b>Department of External Affairs:</b>			
Administrative	339,433	319,093	20,340
International affairs	139,473	133,056	6,417
U.S. Relations	87,369	79,616	7,753
FSM Consulate - Guam	282,100	272,960	9,140
FSM Consulate - Honolulu	303,675	289,371	14,304
FSM Embassy - Tokyo	972,260	984,688	(12,428)
FSM Embassy - Washington D.C.	583,609	503,274	80,335
FSM Embassy - Fiji	233,116	226,750	6,366
FSM Permanent Mission - New York	909,114	766,708	142,406
<b>Total</b>	<b>3,850,149</b>	<b>3,575,516</b>	<b>274,633</b>
<b>Department of Health:</b>			
Administration	155,000	158,158	(3,158)
Medical Care Services	26,844	26,844	-
Preventive Health	89,400	89,400	-
Environmental/Community Service	218,200	154,255	63,945
<b>Total</b>	<b>489,444</b>	<b>428,657</b>	<b>60,787</b>
<b>Department of Education:</b>			
Administration	203,600	224,632	(21,032)
<b>Total</b>	<b>203,600</b>	<b>224,632</b>	<b>(21,032)</b>
<b>Department of Resources and Development:</b>			
Administration	193,414	188,983	4,431
Commerce and Industry	127,816	98,127	29,689
Agriculture	91,250	87,418	3,832
Marine Resources	86,030	79,052	6,978
Labor	119,939	119,241	698
<b>Total</b>	<b>618,449</b>	<b>572,821</b>	<b>45,628</b>
<b>Department of Transportation:</b>			
Administration	113,725	116,207	(2,482)
Marine	119,700	118,775	925
Aviation	120,700	84,819	35,881
Communication	85,475	69,221	16,254
<b>Total</b>	<b>439,600</b>	<b>389,022</b>	<b>50,578</b>

See Accompanying Independent Auditors' Report.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA  
GENERAL FUND**

Statement of Revenues, Expenditures and Changes in Fund Balance -  
Budget and Actual, Budgetary Basis, Continued  
Year Ended September 30, 1996

	Budget	Actual	Variance Favorable (Unfavorable)
<b>Department of Finance:</b>			
Administration	\$ 237,730	\$ 209,918	\$ 27,812
ADP	154,031	145,611	8,420
Investment Management	99,600	95,787	3,813
Accounting	375,619	417,444	(41,825)
Revenue	566,340	464,125	102,215
Customs	369,370	329,851	39,519
Property and Supply	74,800	74,021	779
FSM Banking Board	104,810	80,089	24,721
Total	<u>1,982,300</u>	<u>1,816,846</u>	<u>165,454</u>
<b>Office of the Attorney General:</b>			
Administration - Attorney General	113,550	113,858	(308)
Law	135,850	129,694	6,156
Litigation	100,500	96,652	3,848
Immigration	430,900	417,143	13,757
Security & Investigation	830,804	810,782	20,022
International Law	106,700	87,135	19,565
National Police Overtime	73,805	73,422	383
FSS Palikir	267,000	209,556	57,444
Total	<u>2,059,109</u>	<u>1,938,242</u>	<u>120,867</u>
Office of the Public Defender	<u>628,100</u>	<u>567,396</u>	<u>60,704</u>
<b>Office of Budget:</b>			
Administration	115,700	108,221	7,479
Management	37,900	31,219	6,681
Budget preparation	91,800	82,969	8,831
Grant management	47,700	46,472	1,228
Total	<u>293,100</u>	<u>268,881</u>	<u>24,219</u>
<b>Office of Planning and Statistics:</b>			
Administration	92,550	90,414	2,136
Planning	63,360	33,656	29,704
Statistics	168,840	162,694	6,146
Construction review	175,675	139,252	36,423
Maintenance	255,845	155,698	100,147
A&E, GR&SR States Campuses	-	22,682	(22,682)
National Gov't Elect Charges	150,000	149,388	612
OPS Maintenance Consultant	20,000	20,000	-
Total	<u>926,270</u>	<u>773,784</u>	<u>152,486</u>
<b>Office of Administrative Services:</b>			
Administration	96,125	91,099	5,026
Personnel	134,980	112,411	22,569
Archives and Historic Preservation	83,990	56,360	27,630
Training	66,100	64,643	1,457
Recruitment/repatriation	200,000	179,393	20,607
Housing allowance	710,115	636,945	73,170
Total	<u>1,291,310</u>	<u>1,140,851</u>	<u>150,459</u>
Total Executive Branch	<u>13,785,927</u>	<u>12,376,536</u>	<u>1,409,391</u>
Judicial Branch	<u>997,003</u>	<u>898,144</u>	<u>98,859</u>
<b>Board and Commissions:</b>			
Micronesia Maritime Authority	386,530	372,789	13,741
COM Treaty/Board of Regents	25,000	24,625	375
Postal services	722,800	713,721	9,079
Total Boards and Commissions	<u>1,134,330</u>	<u>1,111,135</u>	<u>23,195</u>

See Accompanying Independent Auditors' Report.



**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA  
GENERAL FUND**  
Statement of Revenues, Expenditures and Changes in Fund Balance -  
Budget and Actual, Budgetary Basis, Continued  
Year Ended September 30, 1996

	Budget	Actual	Variance Favorable (Unfavorable)
<b>Legislative Branch:</b>			
Office of the Speaker	\$ 752,000	\$ 651,911	\$ 100,089
Congress staff	1,312,200	1,211,691	100,509
Delegation offices	551,360	522,238	29,122
Members official representation	374,090	373,224	866
Members' travel fund	145,365	118,902	26,463
Legislature committees	10,000	8,720	1,280
Purchase of Residence for Speaker	139,000	139,000	-
Other expenditures	44,180	53,482	(9,302)
<b>Total Legislative Branch</b>	<b>3,328,195</b>	<b>3,079,168</b>	<b>249,027</b>
<b>Office of the Public Auditor</b>	<b>443,500</b>	<b>406,265</b>	<b>37,235</b>
<b>Other National Government Programs:</b>			
FSM Gov't Loan IMP/NFC	500,000	-	500,000
FSM Students Education (Palau)	37,531	12,625	24,906
Faw V. The FSM & Yap State	10,000	10,000	-
Student Transportation	-	181	(181)
FSM National Economic Summit	100,000	83,192	16,808
Aquaculture Center Program	113,000	85,896	27,104
Governor, Yap PL 8-103	-	6,494	(6,494)
Chuuk Visitors' Bureau, 8-103	-	54,849	(54,849)
General Assembly Pacific YC/Noumea	35,000	35,162	(162)
Pohnpei Farmers Home Administration	54,500	54,004	496
Chuuk Farmers Home Admin	24,000	24,510	(510)
Direct Telecom Link	37,222	35,420	1,802
Festival of Arts	40,000	39,368	632
Air Continental Scholarships	35,000	24,000	11,000
Kosrae Farmers Home Admin	11,000	10,282	718
Yap Farmers Home Admin	9,000	9,000	-
Constitutional Convention Pohnpei	-	1,162	(1,162)
Pohnpei State Tourism Program	-	2,584	(2,584)
ICAO membership fee	31,839	30,146	1,693
T-3 Program	307,070	299,525	7,545
State/National Energy Conf.	-	7,391	(7,391)
Secretary R & D, PL 8-103	-	35	(35)
ADB Fisheries Loan	-	7,707	(7,707)
Aids to Non-Public School Program	400,000	400,000	-
Fisheries Development Project	701,215	62,039	639,176
FSM National Olympic Committee	-	4,730	(4,730)
FSM Olympic Games	-	(5)	5
Kosrae Tourism Development Strat.	-	56,071	(56,071)
World Health Organization	-	(25)	25
Travel by NonGovernment Representatives	-	999	(999)
Parking/Roadway Pave PCOM	300,000	-	300,000
FSM Contributions	865,200	823,236	41,964
FSM ADB Water Supply/Sanitation	677,000	2,489	674,511
1994 National Census House/Population	-	8,773	(8,773)
Pacific Basin Medical Officer Training	476,000	-	476,000
Contribution FSM Amateur Sports	71,000	70,897	103
Parliamentarian's Visit	15,000	10,958	4,042
<b>Total Other National Government Programs</b>	<b>4,850,577</b>	<b>2,273,695</b>	<b>2,576,882</b>

See Accompanying Independent Auditors' Report.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA  
GENERAL FUND**

Statement of Revenues, Expenditures and Changes in Fund Balance -  
Budget and Actual, Budgetary Basis, Continued  
Year Ended September 30, 1996

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Other Legislative Appropriations:	\$	\$	\$
Public projects - Kosrae	3,417,770	1,408,581	2,009,189
Public projects - Pohnpei	11,058,597	4,401,017	6,657,580
Public projects - Chuuk	12,120,494	4,813,636	7,306,858
Public projects - Yap	8,522,512	1,504,401	7,018,111
Public projects - National Government	<u>875,465</u>	<u>300,548</u>	<u>574,917</u>
Total Other Legislative Appropriations	<u>35,994,838</u>	<u>12,428,183</u>	<u>23,566,655</u>
Total expenditures	<u>60,534,370</u>	<u>32,573,126</u>	<u>27,961,244</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(21,620,609)</u>	<u>6,675,919</u>	<u>28,296,528</u>
Other financing sources (uses):			
Passport Revolving Fund	40,000	37,806	(2,194)
Coconut Development Authority	(166,790)	(166,465)	325
COM-FSM	(785,290)	(829,980)	(44,690)
FSM National Fisheries	(450,000)	(450,000)	-
Maritime Revolving Fund	<u>(499,192)</u>	<u>(499,192)</u>	<u>-</u>
Total other financing sources (uses), net	<u>(1,861,272)</u>	<u>(1,907,831)</u>	<u>(46,559)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(23,481,881)	4,768,088	28,249,969
Unreserved fund balance at beginning of year	15,838,108	15,838,108	-
Other changes in unreserved fund balance:			
Net encumbrances adjustment	(547,960)	(547,960)	-
Increase in reserve for related assets	-	(414,126)	(414,126)
Increase in reserve for continuing appropriations	<u>-</u>	<u>(7,359,780)</u>	<u>(7,359,780)</u>
Unreserved fund balance at end of year	<u>\$ (8,191,733)</u>	<u>\$ 12,284,330</u>	<u>\$ 20,476,063</u>

See Accompanying Independent Auditors' Report.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Special Revenue Funds  
September 30, 1996

Specific revenues that are legally restricted to expenditures for particular purposes are accounted for in the Special Revenue Funds. The special revenue funds as of September 30, 1996 are discussed below.

Non-Compact Related Special Revenue Funds:

Disaster Relief Fund - This fund was established by the Congress of the Federated States of Micronesia Public Law 2-64 to provide funds for emergency disaster relief.

Transition Grants, and OTIA Technical Assistance and Operation and Maintenance Funds - These funds account for special appropriations made by the U.S. Department of the Interior which are to be used for specific purposes and remain available until expended. Expenditures against these grants are on a reimbursable basis.

U.S. Federal Assistance and Other Direct Assistance Funds - These funds account for drawdowns and disbursements related to the grants awarded to the National Government as a primary grantee of U.S. federal assistance programs and direct assistance from other agencies and foreign entities.

Maritime Operations Revolving Fund - This fund was established by the Congress of the Federated States of Micronesia P. L. 3-8. All revenues generated through the conduct of ship operations and all appropriations from the Congress for funding ship repair, maintenance and operations are accounted for in this fund.

Passport Revolving Fund - This fund was established by the Congress of the Federated States of Micronesia Public Law 4-68 to account for the costs and revenues associated with the issuance and renewal of passports. Any funds exceeding a \$40,000 limit are transferred to the General Fund.

Fisheries Revolving Fund - This fund accounts for the use of certain fisheries related collections.

Medical Revolving Fund - This fund was established by Public Law No. 7-81 to provide an ongoing revolving fund for the receipt and disbursement of funds associated with the purchase and sale of controlled substances for the health care systems of the FSM.

Asian Development Bank Loan Fund - The Asian Development Bank Loan Fund was established by Public Law No. 7-101 mainly to carry out the purpose of the Fisheries Development Project Loan Agreement of 1992 between the Government of the Federated States of Micronesia and the Asian Development Bank, and the Technical Assistance Agreement of 1992 for Institutional Strengthening for Marine Resource Management and Conservation between the FSM and ADB.

See Accompanying Independent Auditors' Report.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Special Revenue Funds, Continued  
September 30, 1996

Compact Grants

Compact grant funds account for special assistance given by the United States Government to the Federated States of Micronesia under the "Compact of Free Association Act of 1985" per United States Public Law 99-239.

A. Section 214 - The energy grant is a contribution aimed at aiding the FSM Government in achieving increased self-sufficiency in energy production.

B. Section 215

1. (a) 2 - Communications Annual is a contribution for the current operations and maintenance of communication systems. The FSM Government receives \$600,000 annually from the United States for fifteen years commencing on the effective date of the Compact.

2. b (2) - Communications One Time Contribution is restricted for the purpose of acquiring communications hardware and for such other current or capital account activity as may be selected.

C. Section 216

1. (a) 1 - Marine Surveillance Annual Contribution is restricted for the surveillance and enforcement of the FSM Maritime Zone. The FSM National Government receives \$519,000 annually through the year 2002.

2. (a) 2 - Health and Medical Contribution is restricted for health and medical programs including referrals to hospital and treatment centers. The National Government received \$125,980 in 1996, and will receive \$125,980 annually.

3. (a) 3 - Post Secondary Education Contribution is restricted for scholarship funds or funds to support the post secondary education of FSM citizens. The FSM Government received \$1,889,700 in fiscal year 1996, and will receive \$1,889,700 annually.

4. (b) - Marine Surveillance One Time Contribution is restricted for the surveillance and enforcement of the Maritime Zone.

D. Section 221

1. (b) - Special Block Grants Fund is restricted for education and health care. The National Government received \$315,000 in 1996, and will receive \$315,000 annually.

E. Special Development Fund Section 111 (b) (1) - This contribution is to assist in funding special economic development projects within the FSM. The FSM Government received \$12 million during the first full fiscal year following the effective date of the Compact and \$8 million during the third full fiscal year following the effective date of the Compact.

See Accompanying Independent Auditors' Report.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA  
SPECIAL REVENUE FUNDS**

Combining Balance Sheet  
September 30, 1996  
(With comparative totals as of September 30, 1995)

<u>Assets</u>			<u>Totals</u>	
	Non-Compact	Compact	1996	1995
Cash and equivalents	\$ -	\$ 320,534	\$ 320,534	\$ 1,158,246
Investments	-	13,819,991	13,819,991	10,646,970
Receivables from:				
U.S. Department of the Interior (DOI)	1,315,352	-	1,315,352	1,457,448
Federal agencies, direct	2,457,156	-	2,457,156	3,714,712
Advances	25,773	5,945	31,718	2,563
Due from other funds	4,741,835	552,868	5,294,703	2,716,085
Interest receivable	-	83,821	83,821	53,271
Other receivables	642,194	-	642,194	389,760
	<u>\$ 9,182,310</u>	<u>\$ 14,783,159</u>	<u>\$ 23,965,469</u>	<u>\$ 20,139,055</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 850,361	\$ 108,310	\$ 958,671	\$ 1,869,153
Accrued payroll and others	1,838	144	1,982	2,018
Due to other funds	2,745,627	11,746,251	14,491,878	9,244,058
Due to FSM State governments	2,796,128	40,208	2,836,336	3,503,622
Deferred revenues	702,330	-	702,330	702,330
Advances from DOI/TTPI/Other	192,655	-	192,655	192,655
	<u>7,288,939</u>	<u>11,894,913</u>	<u>19,183,852</u>	<u>15,513,836</u>
Fund balances:				
Reserved for encumbrances	1,669,081	611,025	2,280,106	2,496,481
Reserved for continuing appropriations	1,006,181	1,606,723	2,612,904	2,599,570
Unreserved (deficit)	(781,891)	670,498	(111,393)	(470,832)
	<u>1,893,371</u>	<u>2,888,246</u>	<u>4,781,617</u>	<u>4,625,219</u>
	<u>\$ 9,182,310</u>	<u>\$ 14,783,159</u>	<u>\$ 23,965,469</u>	<u>\$ 20,139,055</u>

See Accompanying Independent Auditors' Report.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA  
SPECIAL REVENUE FUNDS**

Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
Year Ended September 30, 1996  
(With comparative totals for the year ended September 30, 1995)

	Non-Compact	Compact	Totals	
			1996	1995
<b>Revenues:</b>				
U.S. Department of the Interior grants	\$ 878,294	\$ -	\$ 878,294	\$ 1,013,325
Federal contributions	3,815,405	-	3,815,405	2,853,223
<b>Compact grants:</b>				
Base amount	-	4,033,828	4,033,828	3,741,826
Inflation adjustment	-	-	-	276,000
Other contributions	389,444	-	389,444	334,639
Sales of goods and services	191,882	-	191,882	201,343
<b>Total revenues</b>	<b>5,275,025</b>	<b>4,033,828</b>	<b>9,308,853</b>	<b>8,420,356</b>
<b>Expenditures:</b>				
Executive branch	5,807,020	2,930,821	8,737,841	8,095,420
<b>Total expenditures</b>	<b>5,807,020</b>	<b>2,930,821</b>	<b>8,737,841</b>	<b>8,095,420</b>
Excess (deficiency) of revenues over (under) expenditures	(531,995)	1,103,007	571,012	324,936
<b>Other financing sources (uses):</b>				
Operating and other transfers, net	461,386	(876,000)	(414,614)	(490,355)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(70,609)	227,007	156,398	(165,419)
Fund balances at beginning of year	1,963,980	2,661,239	4,625,219	4,790,638
Fund balances at end of year	\$ 1,893,371	\$ 2,888,246	\$ 4,781,617	\$ 4,625,219

See Accompanying Independent Auditors' Report.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA  
SPECIAL REVENUE FUNDS**

Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balances  
Year Ended September 30, 1996  
(With comparative totals for the year ended September 30, 1995)

	Non-Compact	Compact	Totals	
			1996	1995
<b>Revenues:</b>				
U.S. Department of the Interior grants	\$ 878,294	\$ -	\$ 878,294	\$ 1,013,325
Federal contributions	3,815,405	-	3,815,405	2,853,223
<b>Compact grants:</b>				
Base amount	-	4,033,828	4,033,828	3,741,826
Inflation adjustment	-	-	-	276,000
Other contributions	389,444	-	389,444	334,639
Sales of goods and services	191,882	-	191,882	201,343
<b>Total revenues</b>	<b>5,275,025</b>	<b>4,033,828</b>	<b>9,308,853</b>	<b>8,420,356</b>
<b>Expenditures:</b>				
Personnel	209,283	876,320	1,085,603	450,136
Travel	74,711	166,945	241,656	285,037
Capital asset purchases	16,544	9,820	26,364	72,457
Contractual services, contributions and subsidies	142,709	212,727	355,436	677,637
Communications	2,618	32,823	35,441	-
Supplies and materials	30,014	138,910	168,924	-
Office/house rent/lease	-	9,100	9,100	-
Scholarships	(8,800)	882,624	873,824	1,781,949
National Government direct assistance	5,088,984	-	5,088,984	4,201,187
Other	250,957	601,552	852,509	627,017
<b>Total expenditures</b>	<b>5,807,020</b>	<b>2,930,821</b>	<b>8,737,841</b>	<b>8,095,420</b>
Excess (deficiency) of revenues over (under) expenditures	(531,995)	1,103,007	571,012	324,936
<b>Other financing sources (uses):</b>				
Operating and other transfers, net	461,386	(876,000)	(414,614)	(490,355)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(70,609)	227,007	156,398	(165,419)
Fund balances at beginning of year	1,963,980	2,661,239	4,625,219	4,790,638
Fund balances at end of year	\$ 1,893,371	\$ 2,888,246	\$ 4,781,617	\$ 4,625,219

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA  
SPECIAL REVENUE FUNDS - NON-COMPACT**

Combining Balance Sheet  
September 30, 1996  
(With comparative totals as of September 30, 1995)

ASSETS	Transition	Maritime Operations Revolving	Disaster Relief	Federal and Other Direct Assistance	OTIA Technical Assistance & Operations & Maintenance	Passport Revolving	Fisheries Revolving	Medical Revolving	Asian Development Bank Loan	Totals	
										1996	1995
Receivables from:											
U.S. Department of the Interior (DOI)	\$ 229,591	\$ -	\$ -	\$ -	\$ 1,085,761	\$ -	\$ -	\$ -	\$ -	\$ 1,315,352	\$ 1,457,448
Federal agencies, direct	-	-	-	2,457,156	-	-	-	-	-	2,457,156	3,714,712
Advances	-	-	-	24,147	723	-	903	-	-	25,773	2,563
Due from other funds	-	429,281	290,843	2,822,809	-	40,000	38,440	615	1,119,847	4,741,835	2,246,607
Other receivables	-	3,102	-	299,092	-	-	-	-	340,000	642,194	389,760
<b>Total assets</b>	<b>\$ 229,591</b>	<b>\$ 432,383</b>	<b>\$ 290,843</b>	<b>\$ 5,603,204</b>	<b>\$ 1,086,484</b>	<b>\$ 40,000</b>	<b>\$ 39,343</b>	<b>\$ 615</b>	<b>\$ 1,459,847</b>	<b>\$ 9,182,310</b>	<b>\$ 7,811,090</b>
<b>LIABILITIES AND FUND BALANCES</b>											
Liabilities:											
Account payable	\$ -	\$ 21,401	\$ (2,277)	\$ 450,282	\$ 37,913	\$ -	\$ 3,042	\$ -	\$ 340,000	\$ 850,361	\$ 1,709,058
Accrued payroll and others	-	1,653	-	185	-	-	-	-	-	1,838	1,874
Due to other funds	36,936	-	-	2,187,731	520,960	-	-	-	-	2,745,627	647,040
Due to State governments	-	-	-	2,264,932	531,196	-	-	-	-	2,796,128	2,594,153
Deferred revenues	-	-	-	702,330	-	-	-	-	-	702,330	702,330
Advances from DOI/TTPI/Other	192,655	-	-	-	-	-	-	-	-	192,655	192,655
<b>Total liabilities</b>	<b>229,591</b>	<b>23,054</b>	<b>(2,277)</b>	<b>5,605,460</b>	<b>1,090,069</b>	<b>-</b>	<b>3,042</b>	<b>-</b>	<b>340,000</b>	<b>7,288,939</b>	<b>5,847,110</b>
Fund balances:											
Reserved for encumbrances	-	237,954	41,847	1,099,808	143,693	79,000	61,693	5,086	-	1,669,081	1,867,185
Reserved for continuing appropriations	-	-	228,277	-	-	-	-	-	777,904	1,006,181	1,214,911
Unreserved (deficit)	-	171,375	22,996	(1,102,064)	(147,278)	(39,000)	(25,392)	(4,471)	341,943	(781,891)	(1,118,116)
<b>Total fund balances</b>	<b>-</b>	<b>409,329</b>	<b>293,120</b>	<b>(2,256)</b>	<b>(3,585)</b>	<b>40,000</b>	<b>36,301</b>	<b>615</b>	<b>1,119,847</b>	<b>1,893,371</b>	<b>1,963,980</b>
<b>Total liabilities and fund balances</b>	<b>\$ 229,591</b>	<b>\$ 432,383</b>	<b>\$ 290,843</b>	<b>\$ 5,603,204</b>	<b>\$ 1,086,484</b>	<b>\$ 40,000</b>	<b>\$ 39,343</b>	<b>\$ 615</b>	<b>\$ 1,459,847</b>	<b>\$ 9,182,310</b>	<b>\$ 7,811,090</b>

See Accompanying Independent Auditors' Report.



**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA  
SPECIAL REVENUE FUNDS - NON-COMPACT**

Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)  
Year Ended September 30, 1996  
(With comparative totals for the year ended September 30, 1995)

	Transition	Maritime Operations Revolving	Disaster Relief	Federal and Other Direct Assistance	OTIA Technical Assistance & Operations & Maintenance	Passport Revolving	Fisheries Revolving	Medical Revolving	Asian Development Bank Loan	Totals	
										1996	1995
<b>Revenues:</b>											
U.S. Department of the Interior grants	\$ -	\$ -	\$ -	\$ -	\$ 878,294	\$ -	\$ -	\$ -	\$ -	\$ 878,294	\$ 1,013,325
Federal contributions	-	-	-	3,815,405	-	-	-	-	-	3,815,405	2,853,223
Other contributions	-	-	-	389,444	-	-	-	-	-	389,444	334,639
Sales of goods and services	-	26,715	-	-	-	111,957	53,210	-	-	191,882	201,343
<b>Total revenues</b>	<b>-</b>	<b>26,715</b>	<b>-</b>	<b>4,204,849</b>	<b>878,294</b>	<b>111,957</b>	<b>53,210</b>	<b>-</b>	<b>-</b>	<b>5,275,025</b>	<b>4,402,530</b>
<b>Expenditures:</b>											
Executive Branch	-	459,591	137,114	4,207,105	881,879	75,220	45,773	(2,411)	2,749	5,807,020	4,806,289
<b>Total expenditures</b>	<b>-</b>	<b>459,591</b>	<b>137,114</b>	<b>4,207,105</b>	<b>881,879</b>	<b>75,220</b>	<b>45,773</b>	<b>(2,411)</b>	<b>2,749</b>	<b>5,807,020</b>	<b>4,806,289</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>-</b>	<b>(432,876)</b>	<b>(137,114)</b>	<b>(2,256)</b>	<b>(3,585)</b>	<b>36,737</b>	<b>7,437</b>	<b>2,411</b>	<b>(2,749)</b>	<b>(531,995)</b>	<b>(403,759)</b>
<b>Other financing sources (uses):</b>											
Operating and other transfers, net	-	499,192	-	-	-	(37,806)	-	-	-	461,386	355,645
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses</b>	<b>-</b>	<b>66,316</b>	<b>(137,114)</b>	<b>(2,256)</b>	<b>(3,585)</b>	<b>(1,069)</b>	<b>7,437</b>	<b>2,411</b>	<b>(2,749)</b>	<b>(70,609)</b>	<b>(48,114)</b>
Fund balances (deficit) at beginning of year	-	343,013	430,234	-	-	41,069	28,864	(1,796)	1,122,596	1,963,980	2,012,094
<b>Fund balances (deficit) at end of year</b>	<b>\$ -</b>	<b>\$ 409,329</b>	<b>\$ 293,120</b>	<b>\$ (2,256)</b>	<b>\$ (3,585)</b>	<b>\$ 40,000</b>	<b>\$ 36,301</b>	<b>\$ 615</b>	<b>\$ 1,119,847</b>	<b>\$ 1,893,371</b>	<b>\$ 1,963,980</b>

See Accompanying Independent Auditors' Report.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA  
SPECIAL REVENUE FUNDS - NON-COMPACT**

Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balances (Deficit)  
Year Ended September 30, 1996  
(With comparative totals for the year ended September 30, 1995)

	Transition	Maritime Operations Revolving	Disaster Relief	Federal and Other Direct Assistance	OTIA Technical Assistance & Operations & Maintenance	Passport Revolving	Fisheries Revolving	Medical Revolving	Asian Development Bank Loan	Totals	
										1996	1995
<b>Revenues:</b>											
U.S. Department of the Interior grants	\$ -	\$ -	\$ -	\$ -	\$ 878,294	\$ -	\$ -	\$ -	\$ -	\$ 878,294	\$ 1,013,325
Federal contributions	-	-	-	3,815,405	-	-	-	-	-	3,815,405	2,853,223
Other contributions	-	-	-	389,444	-	-	-	-	-	389,444	334,639
Sales of goods and services	-	26,715	-	-	-	111,957	53,210	-	-	191,882	201,343
<b>Total revenues</b>	<b>-</b>	<b>26,715</b>	<b>-</b>	<b>4,204,849</b>	<b>878,294</b>	<b>111,957</b>	<b>53,210</b>	<b>-</b>	<b>-</b>	<b>5,275,025</b>	<b>4,402,530</b>
<b>Expenditures:</b>											
Personnel	-	209,283	-	-	-	-	-	-	-	209,283	212,196
Travel	-	1,800	43,714	-	-	-	29,197	-	-	74,711	78,786
Capital asset purchases	-	5,875	10,669	-	-	-	-	-	-	16,544	9,926
Contractual services, contributions and subsidies	-	127,017	192	-	-	-	15,500	-	-	142,709	182,708
Communications	-	-	2,618	-	-	-	-	-	-	2,618	-
Supplies and materials	-	26,913	4,436	-	-	-	1,076	(2,411)	-	30,014	-
Scholarships	-	-	(8,800)	-	-	-	-	-	-	(8,800)	-
National direct assistant	-	-	-	4,207,105	881,879	-	-	-	-	5,088,984	4,201,187
Other	-	88,703	84,285	-	-	75,220	-	-	2,749	250,957	121,486
<b>Total expenditures</b>	<b>-</b>	<b>459,591</b>	<b>137,114</b>	<b>4,207,105</b>	<b>881,879</b>	<b>75,220</b>	<b>45,773</b>	<b>(2,411)</b>	<b>2,749</b>	<b>5,807,020</b>	<b>4,806,289</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>-</b>	<b>(432,876)</b>	<b>(137,114)</b>	<b>(2,256)</b>	<b>(3,585)</b>	<b>36,737</b>	<b>7,437</b>	<b>2,411</b>	<b>(2,749)</b>	<b>(531,995)</b>	<b>(403,759)</b>
<b>Other financing sources (uses):</b>											
Operating and other transfers, net	-	499,192	-	-	-	(37,806)	-	-	-	461,386	355,645
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses</b>	<b>-</b>	<b>66,316</b>	<b>(137,114)</b>	<b>(2,256)</b>	<b>(3,585)</b>	<b>(1,069)</b>	<b>7,437</b>	<b>2,411</b>	<b>(2,749)</b>	<b>(70,609)</b>	<b>(48,114)</b>
Fund balances (deficit) at beginning of year	-	343,013	430,234	-	-	41,069	28,864	(1,796)	1,122,596	1,963,980	2,012,094
<b>Fund balances (deficit) at end of year</b>	<b>\$ -</b>	<b>\$ 409,329</b>	<b>\$ 293,120</b>	<b>\$ (2,256)</b>	<b>\$ (3,585)</b>	<b>\$ 40,000</b>	<b>\$ 36,301</b>	<b>\$ 615</b>	<b>\$ 1,119,847</b>	<b>\$ 1,893,371</b>	<b>\$ 1,963,980</b>

See Accompanying Independent Auditors' Report.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA  
SPECIAL REVENUE FUNDS - COMPACT**

**Combining Balance Sheet  
September 30, 1996**

<u>Assets</u>	Communications	Communications	Marine	Marine	Post	Health and	Special	Energy	Special	<u>Totals</u>
	Annual	One Time	Surveillance	Surveillance	Secondary	Medical	Block Grant	Compact	Development	
	Section 215(a)2	Section 215(b)2	Annual	One Time	Education	Section 216(a)2	Section 221(b)	Section 214	Fund	
			Section 216(a)1	Section 216(b)	Section 216(a)3				Section 212	
Cash and equivalents	\$ 38,025	\$ 810	\$ 11,745	\$ 54	\$ 117,038	\$ 4,706	\$ 142,789	\$ 2,701	\$ 2,666	\$ 320,534
Investments	1,133,187	1,103,263	2,393,414	1,313,261	5,281,117	992,793	8,187	1,594,769	-	13,819,991
Advances	-	-	-	-	-	-	5,945	-	-	5,945
Due from other funds	-	-	-	-	-	-	512,977	-	39,891	552,868
Interest receivable	12,340	3,544	10,287	7,874	22,431	7,238	-	20,107	-	83,821
<b>Total assets</b>	<b>\$ 1,183,552</b>	<b>\$ 1,107,617</b>	<b>\$ 2,415,446</b>	<b>\$ 1,321,189</b>	<b>\$ 5,420,586</b>	<b>\$ 1,004,737</b>	<b>\$ 669,898</b>	<b>\$ 1,617,577</b>	<b>\$ 42,557</b>	<b>\$ 14,783,159</b>
<b><u>Liabilities and Fund Balances</u></b>										
<b>Liabilities:</b>										
Accounts payable	\$ -	\$ 276	\$ 38,296	\$ 11,341	\$ 18,001	\$ 696	\$ (3,939)	\$ 1,082	\$ 42,557	\$ 108,310
Accrued payroll and others	-	-	-	-	-	-	144	-	-	144
Due to other funds	1,105,552	895,992	1,919,700	1,284,850	4,830,208	398,563	-	1,311,386	-	11,746,251
Due to State governments	-	-	-	-	-	-	7,789	32,419	-	40,208
<b>Total liabilities</b>	<b>1,105,552</b>	<b>896,268</b>	<b>1,957,996</b>	<b>1,296,191</b>	<b>4,848,209</b>	<b>399,259</b>	<b>3,994</b>	<b>1,344,887</b>	<b>42,557</b>	<b>11,894,913</b>
<b>Fund balances:</b>										
Reserved for encumbrances	-	-	162,093	11,169	45	162,093	204,708	70,917	-	611,025
Reserved for continuing appropriations	-	211,349	-	-	1,198,205	-	19,991	177,178	-	1,606,723
Unreserved (deficit)	78,000	-	295,357	13,829	(625,873)	443,385	441,205	24,595	-	670,498
<b>Total fund balances</b>	<b>78,000</b>	<b>211,349</b>	<b>457,450</b>	<b>24,998</b>	<b>572,377</b>	<b>605,478</b>	<b>665,904</b>	<b>272,690</b>	<b>-</b>	<b>2,888,246</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,183,552</b>	<b>\$ 1,107,617</b>	<b>\$ 2,415,446</b>	<b>\$ 1,321,189</b>	<b>\$ 5,420,586</b>	<b>\$ 1,004,737</b>	<b>\$ 669,898</b>	<b>\$ 1,617,577</b>	<b>\$ 42,557</b>	<b>\$ 14,783,159</b>

See Accompanying Independent Auditors' Report.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA  
SPECIAL REVENUE FUNDS - COMPACT**

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
Year Ended September 30, 1996**

	Communications Annual Section 215(a)2	Communications One Time Section 215(b)2	Marine Surveillance Annual Section 216(a)1	Marine Surveillance One Time Section 216(b)	Post Secondary Education Section 216(a)3	Health and Medical Section 216(a)2	Special Block Grant Section 221(b)	Energy Compact Section 214	Special Development Fund Section 212	Totals
<b>Revenues:</b>										
<b>Compact grants:</b>										
Basic amount	\$ 888,000	\$ -	\$ 519,000	\$ -	\$ 1,889,700	\$ 125,980	\$ 315,000	\$ 296,148	\$ -	\$ 4,033,828
<b>Total revenues</b>	<u>888,000</u>	<u>-</u>	<u>519,000</u>	<u>-</u>	<u>1,889,700</u>	<u>125,980</u>	<u>315,000</u>	<u>296,148</u>	<u>-</u>	<u>4,033,828</u>
<b>Expenditures:</b>										
Executive branch	-	-	489,167	177,361	1,669,526	76,499	222,770	295,498	-	2,930,821
<b>Total expenditures</b>	<u>-</u>	<u>-</u>	<u>489,167</u>	<u>177,361</u>	<u>1,669,526</u>	<u>76,499</u>	<u>222,770</u>	<u>295,498</u>	<u>-</u>	<u>2,930,821</u>
Excess (deficiency) of revenues over (under) expenditures	888,000	-	29,833	(177,361)	220,174	49,481	92,230	650	-	1,103,007
<b>Other financing sources (uses):</b>										
Transfers out	(876,000)	-	-	-	-	-	-	-	-	(876,000)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	12,000	-	29,833	(177,361)	220,174	49,481	92,230	650	-	227,007
<b>Fund balances at</b>										
beginning of year	66,000	211,349	427,617	202,359	352,203	555,997	573,674	272,040	-	2,661,239
<b>Fund balances at</b>										
end of year	<u>\$ 78,000</u>	<u>\$ 211,349</u>	<u>\$ 457,450</u>	<u>\$ 24,998</u>	<u>\$ 572,377</u>	<u>\$ 605,478</u>	<u>\$ 665,904</u>	<u>\$ 272,690</u>	<u>\$ -</u>	<u>\$ 2,888,246</u>

See Accompanying Independent Auditors' Report.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA  
SPECIAL REVENUE FUNDS - COMPACT**

**Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balances  
Year Ended September 30, 1996**

	Communications Annual Section 215(a)2	Communications One Time Section 215(b)2	Marine Surveillance Annual Section 216(a)1	Marine Surveillance One Time Section 216(b)	Post Secondary Education Section 216(a)3	Health and Medical Section 216(a)2	Special Block Grant Section 221(b)	Energy Compact Section 214	Special Development Fund Section 212	Totals
<b>Revenues:</b>										
Compact grants :										
Base amount	\$ 888,000	\$ -	\$ 519,000	\$ -	\$ 1,889,700	\$ 125,980	\$ 315,000	\$ 296,148	\$ -	\$ 4,033,828
Total revenues	888,000	-	519,000	-	1,889,700	125,980	315,000	296,148	-	4,033,828
<b>Expenditures:</b>										
Personnel	-	-	424,860	-	435,221	16,239	-	-	-	876,320
Travel	-	-	6,920	5,948	16,019	10,335	127,723	-	-	166,945
Capital asset purchases	-	-	9,820	-	-	-	-	-	-	9,820
Contractual services, contributions and subsidies	-	-	22,095	-	127,240	46,339	17,053	-	-	212,727
Communications	-	-	-	2,759	18,567	268	11,229	-	-	32,823
Supplies and materials	-	-	11,669	44,605	55,346	649	26,382	259	-	138,910
Office/house rent/lease	-	-	6,300	-	-	-	2,800	-	-	9,100
Scholarships	-	-	-	-	869,134	-	13,490	-	-	882,624
Other	-	-	7,503	124,049	147,999	2,669	24,093	295,239	-	601,552
Total expenditures	-	-	489,167	177,361	1,669,526	76,499	222,770	295,498	-	2,930,821
Excess (deficiency) of revenues over (under) expenditures	888,000	-	29,833	(177,361)	220,174	49,481	92,230	650	-	1,103,007
<b>Other financing sources (uses):</b>										
Transfers out	(876,000)	-	-	-	-	-	-	-	-	(876,000)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	12,000	-	29,833	(177,361)	220,174	49,481	92,230	650	-	227,007
<b>Fund balances at</b>										
beginning of year	66,000	211,349	427,617	202,359	352,203	555,997	573,674	272,040	-	2,661,239
<b>Fund balances at</b>										
end of year	\$ 78,000	\$ 211,349	\$ 457,450	\$ 24,998	\$ 572,377	\$ 605,478	\$ 665,904	\$ 272,690	\$ -	\$ 2,888,246

See Accompanying Independent Auditors' Report.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Capital Projects Funds  
September 30, 1996

The acquisition and construction of major capital facilities, other than those financed by proprietary and trust funds, are accounted for in the Capital Projects Funds. The Capital Projects Funds within the National Government are described below:

OTIA/TTPI Capital Projects Fund - This fund is used to account for the expenditures of construction grants from the Trust Territory Government or from the U.S. Department of the Interior, Office of Territorial and International Affairs. These grants originated from U.S. Congressional appropriations to the U. S. Department of the Interior.

CFSM Capital Projects Fund - This fund is used to account for the expenditure of appropriations from the Congress of the Federated States of Micronesia for improvement and betterment projects within the National Government.

Compact Capital Projects Fund - This fund is used to account 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.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA  
CAPITAL PROJECTS FUNDS**

Combining Balance Sheet  
September 30, 1996  
(With comparative totals as of September 30, 1995)

	Compact Capital Projects	OTIA/TTPI Capital Projects	CFSM Capital Projects	Totals	
				1996	1995
<u>Assets</u>					
Cash and equivalents	\$ 124,468	\$ -	\$ -	\$ 124,468	\$ -
Investments	2,851,141	-	-	2,851,141	3,901,004
Equity investments	2,933,776	-	-	2,933,776	3,384,229
Receivables from TTPI / OTIA	-	612,148	78,822	690,970	198,102
Advances	1,413	-	-	1,413	1,412
Loan receivable, net	3,750,000	-	-	3,750,000	3,750,000
Due from other funds	-	-	-	-	346,545
Interest and other receivables	76,042	-	-	76,042	23,392
<b>Total assets</b>	<b>\$ 9,736,840</b>	<b>\$ 612,148</b>	<b>\$ 78,822</b>	<b>\$ 10,427,810</b>	<b>\$ 11,604,684</b>
<u>Liabilities and Fund Balances</u>					
<b>Liabilities:</b>					
Accounts payable	\$ 12,824	\$ -	\$ -	\$ 12,824	\$ 402,633
Accrued payroll and others	-	190,643	-	190,643	102,320
Due to other funds	4,262,798	346,147	-	4,608,945	2,458,255
Due to FSM State governments	9,455	-	-	9,455	9,455
Deferred revenues	-	75,358	-	75,358	75,358
<b>Total liabilities</b>	<b>4,285,077</b>	<b>612,148</b>	<b>-</b>	<b>4,897,225</b>	<b>3,048,021</b>
<b>Fund balances:</b>					
Reserved for:					
Loans	3,750,000	-	-	3,750,000	3,750,000
Related assets	2,933,776	-	-	2,933,776	3,384,229
Encumbrances	378,331	202,035	-	580,366	2,625,253
Continuing appropriations	1,099,179	-	67,947	1,167,126	3,978,413
Unreserved (deficit)	(2,709,523)	(202,035)	10,875	(2,900,683)	(5,181,232)
<b>Total fund balances</b>	<b>5,451,763</b>	<b>-</b>	<b>78,822</b>	<b>5,530,585</b>	<b>8,556,663</b>
<b>Total liabilities and fund balances</b>	<b>\$ 9,736,840</b>	<b>\$ 612,148</b>	<b>\$ 78,822</b>	<b>\$ 10,427,810</b>	<b>\$ 11,604,684</b>

See Accompanying Independent Auditors' Report.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA  
CAPITAL PROJECTS FUNDS**

Combining Statement of Revenues, Expenditures And Changes in Fund Balances  
Year Ended September 30, 1996  
(With comparative totals for the year ended September 30, 1995)

	Compact Capital Projects	OTIA/TTPI Capital Projects	CFSM Capital Projects	Totals	
				1996	1995
<b>Revenues:</b>					
U.S. Department of the Interior grants	\$ -	\$ 1,903,771	\$ -	\$ 1,903,771	\$ 3,332,151
Compact Capital grants:					
Base amount	2,832,009	-	-	2,832,009	2,793,739
<b>Total revenues</b>	<b>2,832,009</b>	<b>1,903,771</b>	<b>-</b>	<b>4,735,780</b>	<b>6,125,890</b>
<b>Expenditures:</b>					
Executive branch	2,407,634	1,903,771	-	4,311,405	4,665,433
<b>Total expenditures</b>	<b>2,407,634</b>	<b>1,903,771</b>	<b>-</b>	<b>4,311,405</b>	<b>4,665,433</b>
Excess of revenues over expenditures	424,375	-	-	424,375	1,460,457
<b>Other financing uses:</b>					
Operating transfers out	(3,000,000)	-	-	(3,000,000)	(3,000,000)
Loss on equity investment	(450,453)	-	-	(450,453)	-
<b>Total other financing uses</b>	<b>(3,450,453)</b>	<b>-</b>	<b>-</b>	<b>(3,450,453)</b>	<b>(3,000,000)</b>
Deficiency of revenues under expenditures and other financing uses	(3,026,078)	-	-	(3,026,078)	(1,539,543)
Fund balances at beginning of year	8,477,841	-	78,822	8,556,663	10,521,206
Equity contribution	-	-	-	-	(425,000)
<b>Fund balances at end of year</b>	<b>\$ 5,451,763</b>	<b>\$ -</b>	<b>\$ 78,822</b>	<b>\$ 5,530,585</b>	<b>\$ 8,556,663</b>

See Accompanying Independent Auditors' Report.



**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA  
CAPITAL PROJECTS FUNDS**

Combining Statement of Revenues, Expenditures by Account And Changes in Fund Balances  
Year Ended September 30, 1996  
(With comparative totals for the year ended September 30, 1995)

	Compact Capital Projects	OTIA/TTPI Capital Projects	CFSM Capital Projects	Totals	
				1996	1995
<b>Revenues:</b>					
U.S. Department of the Interior grants	\$ -	\$ 1,903,771	\$ -	\$ 1,903,771	\$ 3,332,151
Compact Capital grants:					
Base amount	2,832,009	-	-	2,832,009	2,793,739
<b>Total revenues</b>	<b>2,832,009</b>	<b>1,903,771</b>	<b>-</b>	<b>4,735,780</b>	<b>6,125,890</b>
<b>Expenditures:</b>					
Personnel	38,852	-	-	38,852	60,292
Travel	74,215	-	-	74,215	39,418
Capital asset purchases	5,927	4,990	-	10,917	899,408
Contractual services, contributions and subsidies	31,587	3,333	-	34,920	219,882
Communications	6,373	-	-	6,373	-
Supplies and materials	96,629	5,645	-	102,274	-
Construction in progress	291,011	1,889,803	-	2,180,814	3,323,647
Other	1,863,040	-	-	1,863,040	122,786
<b>Total expenditures</b>	<b>2,407,634</b>	<b>1,903,771</b>	<b>-</b>	<b>4,311,405</b>	<b>4,665,433</b>
Excess of revenues over expenditures	424,375	-	-	424,375	1,460,457
<b>Other financing uses:</b>					
Operating transfers out	(3,000,000)	-	-	(3,000,000)	(3,000,000)
Loss on equity investment	(450,453)	-	-	(450,453)	-
<b>Total other financing uses</b>	<b>(3,450,453)</b>	<b>-</b>	<b>-</b>	<b>(3,450,453)</b>	<b>(3,000,000)</b>
Deficiency of revenues under expenditures and other financing uses	(3,026,078)	-	-	(3,026,078)	(1,539,543)
Fund balances at beginning of year	8,477,841	-	78,822	8,556,663	10,521,206
Equity contribution	-	-	-	-	(425,000)
<b>Fund balances at end of year</b>	<b>\$ 5,451,763</b>	<b>\$ -</b>	<b>\$ 78,822</b>	<b>\$ 5,530,585</b>	<b>\$ 8,556,663</b>

See Accompanying Independent Auditors' Report.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Component Units - Proprietary Funds  
September 30, 1996

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

FSM Coconut Development Authority was established by the FSM Congress to assist in the development and marketing of the copra industry within the Federated States of Micronesia.

FSM Telecommunications Corporation - The Telecommunications Corporation of the Federated States of Micronesia (the Corporation) was established by Chapter Two, Title 21 of the Code of the Federated States of Micronesia. By law, it is an independent government corporation. Its Board of Directors consist of appointees by the President and the Governors of each state. The Vice-President of the Federated States of Micronesia and the General Manager, who is the chief executive officer of the Corporation, are also members of the Board.

The purpose of the Corporation is to provide telecommunications services, except radio and television broadcasting, throughout the FSM and to points outside the FSM. The Corporation began operations on October 1, 1983. Funding of corporate operations is through charges for services and various governmental subsidies, including appropriations from the FSM Government.

FSM Development Bank - Under FSM law, the Bank is an independent government corporation. Its Board consists of appointees by the President of the FSM, with the advice and consent of the Congress. The debts and obligations of the Bank shall not be an obligation of the Government of the FSM except as specifically authorized by the President of the FSM and as enacted into law.

The FSM Development Bank began operations on October 1, 1980. The purpose of the Bank is to provide loans for the economic development of the FSM. Loans are offered at below market rates, currently limited to five percent.

Funding for the Bank has come primarily from the FSM Congress, the prior Trust Territory Economic Development Loan Fund, and Section 111 (b)(1) of the Compact of Free Association.

National Fisheries Corporation - The National Fisheries Corporation was created on July 13, 1983 by FSM Public Law No. 3-14.

See Accompanying Independent Auditors' Report.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA  
COMPONENT UNITS - PROPRIETARY FUNDS**

Combining Balance Sheet  
September 30, 1996  
(With comparative totals as of September 30, 1995)

<u>ASSETS</u>	FSM Tele- Communication Corporation	FSM Development Bank	FSM Coconut Development Authority	National Fisheries Corporation	Totals	
					1996	1995
Cash and equivalents	\$ 7,807,858	1,512,032	\$ 191,249	\$ 500,542	\$ 10,011,681	\$ 10,335,397
Time deposits	800,000	-	-	-	800,000	-
Investments	910,114	18,345,050	-	-	19,255,164	14,072,736
Equity investments	-	-	-	-	-	662,188
General receivables, net	1,322,669	32,989	101,946	1,271,035	2,728,639	2,111,838
Advances	13,978	-	1,946	103,593	119,517	72,106
Loans receivable, net	-	10,702,091	-	41,470	10,743,561	11,443,480
Interest receivable	-	388,779	-	-	388,779	327,669
Deferred charges	50,236	-	-	-	50,236	50,236
Inventory	274,586	-	54,599	700,734	1,029,919	1,338,058
Restricted assets	44,203	27,952,222	-	-	27,996,425	35,337,884
Prepaid expenses	96,114	11,022	1,240	707,907	816,283	707,281
Accrued interest	50,823	-	-	-	50,823	242,840
Fixed assets, net	43,603,645	86,225	201,662	18,237,159	62,128,691	65,506,480
<b>Total assets</b>	<b>\$ 54,974,226</b>	<b>59,030,410</b>	<b>\$ 552,642</b>	<b>\$ 21,562,440</b>	<b>\$ 136,119,718</b>	<b>\$ 142,208,193</b>
<b><u>LIABILITIES AND FUND EQUITY</u></b>						
<b>Liabilities:</b>						
Bank overdraft	\$ -	-	\$ -	\$ 1,993	\$ 1,993	\$ -
Accounts payable	126,910	1,934,395	6,995	4,128,270	6,196,570	1,636,303
Accrued payroll and others	182,245	-	3,973	385,630	571,848	566,869
Deferred revenues	51,236	-	-	-	51,236	42,835
Interest payable	-	-	-	1,734,442	1,734,442	1,228,738
Other payables	326,175	-	-	433,324	759,499	1,488,807
Contract retention payable	123,681	-	-	-	123,681	277,063
Notes payable	30,723,288	1,191,940	-	14,068,898	45,984,126	54,811,130
Other liabilities	-	-	-	-	-	716,729
<b>Total liabilities</b>	<b>31,533,535</b>	<b>3,126,335</b>	<b>10,968</b>	<b>20,752,557</b>	<b>55,423,395</b>	<b>60,768,474</b>
Minority interest in consolidated subsidiaries	-	-	-	4,618,565	4,618,565	3,591,540
<b>Fund equity (deficiency):</b>						
Contributed capital	7,108,650	26,238,835	646,616	9,994,283	43,988,384	41,491,335
Retained earnings (deficit)	16,332,041	29,665,240	(104,942)	(13,802,965)	32,089,374	36,356,844
<b>Total fund equity (deficiency)</b>	<b>23,440,691</b>	<b>55,904,075</b>	<b>541,674</b>	<b>(3,808,682)</b>	<b>76,077,758</b>	<b>77,848,179</b>
<b>Total liabilities and fund equity (deficiency)</b>	<b>\$ 54,974,226</b>	<b>59,030,410</b>	<b>\$ 552,642</b>	<b>\$ 21,562,440</b>	<b>\$ 136,119,718</b>	<b>\$ 142,208,193</b>

See Accompanying Independent Auditors' Report.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA  
COMPONENT UNITS - PROPRIETARY FUNDS**

Combining Statement of Revenues, Expenses and Changes in Fund Equity (Deficiency)  
Year Ended September 30, 1996  
(With comparative totals for the year ended September 30, 1995)

	FSM Tele- Communication Corporation	FSM Development Bank	FSM Coconut Development Authority	National Fisheries Corporation	Totals	
					1996	1995
<b>Operating revenues:</b>						
Charges for goods and services	\$ 8,407,034	2,319,134	\$ 279,675	\$ 13,610,640	\$ 24,616,483	\$ 15,846,895
Rental income/interest income	-	-	-	-	-	1,009,212
Other	135,975	-	-	-	135,975	2,240,204
<b>Total operating revenues</b>	<b>8,543,009</b>	<b>2,319,134</b>	<b>279,675</b>	<b>13,610,640</b>	<b>24,752,458</b>	<b>19,096,311</b>
<b>Operating expenses:</b>						
Personnel services	2,255,483	636,801	52,162	1,138,829	4,083,275	3,797,513
Supplies and materials	67,932	14,063	15,567	51,335	148,897	329,144
Depreciation	2,429,487	67,749	20,831	1,926,814	4,444,881	3,955,149
Cost of sales	-	-	586,273	12,385,574	12,971,847	5,994,891
Other	3,038,174	1,532,313	182,928	2,853,255	7,606,670	5,125,005
<b>Total operating expenses</b>	<b>7,791,076</b>	<b>2,250,926</b>	<b>857,761</b>	<b>18,355,807</b>	<b>29,255,570</b>	<b>19,201,702</b>
<b>Operating income (loss)</b>	<b>751,933</b>	<b>68,208</b>	<b>(578,086)</b>	<b>(4,745,167)</b>	<b>(4,503,112)</b>	<b>(105,391)</b>
<b>Nonoperating revenues (expenses) :</b>						
Dividends - Bank of the FSM	-	-	-	-	-	50,000
Transfers in	876,000	-	141,043	450,000	1,467,043	2,078,120
Interest income (expense)	(1,086,075)	-	-	28,420	(1,057,655)	(1,535,018)
Other income	-	6,674	-	190,591	197,265	169,346
Loss on investment in unconsolidated subsidiary	-	-	-	-	-	(2,252,885)
Miscellaneous	4,004	-	153,527	(65,783)	91,748	(99,026)
<b>Total nonoperating revenues (expense), net</b>	<b>(206,071)</b>	<b>6,674</b>	<b>294,570</b>	<b>603,228</b>	<b>698,401</b>	<b>(1,589,463)</b>
<b>Net income (loss)</b>	<b>545,862</b>	<b>74,882</b>	<b>(283,516)</b>	<b>(4,141,939)</b>	<b>(3,804,711)</b>	<b>(1,694,854)</b>
Add depreciation on fixed assets acquired by grants that reduces contributed capital	-	-	-	564,266	564,266	463,675
<b>Increase (decrease) in retained earnings(deficit)</b>	<b>545,862</b>	<b>74,882</b>	<b>(283,516)</b>	<b>(3,577,673)</b>	<b>(3,240,445)</b>	<b>(1,231,179)</b>
Retained earnings (deficit) at beginning of year	15,786,179	29,590,358	178,574	(9,198,267)	36,356,844	37,213,356
Increase (decrease) in reserve for minority interest	-	-	-	(1,027,025)	(1,027,025)	374,667
<b>Retained earnings (deficit) at end of year</b>	<b>16,332,041</b>	<b>29,665,240</b>	<b>(104,942)</b>	<b>(13,802,965)</b>	<b>32,089,374</b>	<b>36,356,844</b>
Contributed capital at beginning of year	7,108,650	23,238,835	646,616	10,497,234	41,491,335	40,139,826
Additions	-	3,000,000	-	1,260	3,001,260	1,815,184
Less depreciation on contributed fixed assets	-	-	-	(504,211)	(504,211)	(463,675)
<b>Contributed capital at end of year</b>	<b>7,108,650</b>	<b>26,238,835</b>	<b>646,616</b>	<b>9,994,283</b>	<b>43,988,384</b>	<b>41,491,335</b>
<b>Total fund equity (deficiency)</b>	<b>\$ 23,440,691</b>	<b>55,904,075</b>	<b>\$ 541,674</b>	<b>\$ (3,808,682)</b>	<b>\$ 76,077,758</b>	<b>\$ 77,848,179</b>

See Accompanying Independent Auditors' Report.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA  
COMPONENT UNITS - PROPRIETARY FUNDS**

**Combining Statement of Cash Flows  
Year Ended September 30, 1996  
(With comparative totals for the year ended September 30, 1995)**

	FSM Tele- Communication Corporation	FSM Development Bank	FSM Coconut Development Authority	National Fisheries Corporation	Totals	
					1996	1995
Increase (decrease) in cash and equivalents:						
Cash flows from operating activities:						
Operating income (loss)	\$ 751,933	\$ 68,208	\$ (578,086)	\$ (4,745,167)	\$ (4,503,112)	\$ (105,391)
Adjustments to reconcile operating income (loss) (loss) to net cash provided by (used for)						
operating activities:						
Depreciation	2,429,487	67,749	20,831	1,926,814	4,444,881	3,955,149
Bad debts	-	-	-	548,001	548,001	360,000
Others	-	559,642	-	-	559,642	(633,451)
	<u>3,181,420</u>	<u>695,599</u>	<u>(557,255)</u>	<u>(2,270,352)</u>	<u>1,049,412</u>	<u>3,576,307</u>
Change in assets and liabilities:						
Cash advances	(5,696)	-	-	1,993	(3,703)	(1,864)
Travel advances	-	-	(1,131)	(40,584)	(41,715)	(10,204)
Interest receivable	-	(61,110)	3,733	-	(57,377)	(89,491)
Accounts receivable trade	(24,664)	100,458	(25,655)	(1,065,759)	(1,015,620)	480,294
Accounts receivable other	(148,357)	-	-	-	(148,357)	(13,639)
Materials and supplies inventory	66,096	-	-	-	66,096	(589,885)
Inventory trade	-	-	321,818	(79,774)	242,044	(170,187)
Prepaid expenses	(16,665)	1,625	13,588	(107,550)	(109,002)	(161,474)
Deferred charges	-	-	-	-	-	(50,236)
Loans receivable	-	701,559	-	(1,640)	699,919	(849,393)
Accounts payable	116,641	(145,696)	(76,140)	2,778,109	2,672,914	(1,163,531)
Contract retentions payable	(153,382)	-	-	-	(153,382)	(1,078,945)
Due from other funds	-	-	(825)	-	(825)	1,907
Accrued payroll and others	-	-	3,141	-	3,141	(1,441)
Accrued leave payable	7,459	-	-	-	7,459	5,052
Deferred revenue	8,401	-	-	-	8,401	(240,470)
Accrued expenses, other	(65,076)	-	-	582,836	517,760	292,703
Interfund payables	-	180,843	-	433,324	614,167	333,292
	<u>(215,243)</u>	<u>777,679</u>	<u>238,529</u>	<u>2,500,955</u>	<u>3,301,920</u>	<u>(3,307,512)</u>
Net cash provided by (used for) operating activities	<u>2,966,177</u>	<u>1,473,278</u>	<u>(318,726)</u>	<u>230,603</u>	<u>4,351,332</u>	<u>268,795</u>

See Accompanying Independent Auditors' Report.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA  
COMPONENT UNITS - PROPRIETARY FUNDS**

Combining Statement of Cash Flows, Continued  
Year Ended September 30, 1996  
(With comparative totals for the year ended September 30, 1995)

	FSM Tele- Communication Corporation	FSM Development Bank	FSM Coconut Development Authority	National Fisheries Corporation	Totals	
					1996	1995
<b>Cash flows from noncapital financing activities:</b>						
CFSM appropriation received	876,000	-	290,837	417,743	1,584,580	1,962,944
Loan participations sold	-	(198,465)	-	-	(198,465)	(163,404)
Proceeds from borrowing	-	(376,754)	-	-	(376,754)	338,659
Contributed capital received and other funding	-	3,000,000	-	819,489	3,819,489	1,298,758
<b>Net cash provided by noncapital financing activities</b>	<b>876,000</b>	<b>2,424,781</b>	<b>290,837</b>	<b>1,237,232</b>	<b>4,828,850</b>	<b>3,436,957</b>
<b>Cash flows from capital and related financing activities:</b>						
Proceeds from note payable	-	-	-	-	-	2,000,948
Note repayments	(8,326,511)	-	-	(123,739)	(8,450,250)	(597,067)
Acquisition of fixed assets	(453,392)	(19,919)	(6,320)	(573,166)	(1,052,797)	(3,432,503)
Disposals of fixed assets	-	-	-	61,315	61,315	3,300
Interest expense	(1,905,417)	-	-	(662,424)	(2,567,841)	(2,156,367)
Proceeds from other income - sale of fixed assets	4,004	-	-	-	4,004	1,000
Restricted cash	6,809	-	-	-	6,809	168,795
<b>Net cash used for capital and related financing activities</b>	<b>(10,674,507)</b>	<b>(19,919)</b>	<b>(6,320)</b>	<b>(1,298,014)</b>	<b>(11,998,760)</b>	<b>(4,011,894)</b>
<b>Cash flows from investing activities:</b>						
Notes receivable	-	-	-	-	-	76,376
Increase in investments	-	(5,093,895)	-	-	(5,093,895)	(1,718,974)
Investment in securities	-	-	-	-	-	50,000
Escrow fund	7,348,978	-	-	-	7,348,978	(374,236)
Additions to time deposits	(800,000)	-	-	-	(800,000)	-
Interest income received	1,011,359	-	-	28,420	1,039,779	796,064
<b>Cash provided by (used for) investing activities</b>	<b>7,560,337</b>	<b>(5,093,895)</b>	<b>-</b>	<b>28,420</b>	<b>2,494,862</b>	<b>(1,170,770)</b>
<b>Net increase (decrease) in cash and equivalents</b>	<b>728,007</b>	<b>(1,215,755)</b>	<b>(34,209)</b>	<b>198,241</b>	<b>(323,716)</b>	<b>(1,476,912)</b>
Cash and equivalents at beginning of year	7,079,851	2,727,787	225,458	302,301	10,335,397	11,812,309
<b>Cash and equivalents at end of year</b>	<b>\$ 7,807,858</b>	<b>1,512,032</b>	<b>\$ 191,249</b>	<b>\$ 500,542</b>	<b>\$ 10,011,681</b>	<b>\$ 10,335,397</b>

See Accompanying Independent Auditors' Report.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Expendable Trust Funds  
September 30, 1996

Expendable trust funds are used to account for assets held by a government unit in a trustee capacity for individuals, private organizations, or other governmental units, whose resources, including both principal and earnings, may be expended. Expendable trust funds are accounted for in essentially the same manner as governmental funds. The expendable trust funds which the National Government bears responsibility for at September 30, 1996, are as follows:

Health Insurance Fund - Employees of the Federated States of Micronesia contribute to the fund to provide for payment of certain eligible medical expenses. The State Governments of the FSM also pay in contributions to the Fund on behalf of State employee participants. This fund essentially operates as an insurer ultimately underwritten by the respective governments of the Federated States.

Student Loan Fund - The Fund was established through Congressional appropriations per Public Law 2-50 to assist in providing funds to eligible students pursuing college degrees. Loans are restricted to \$4,000 per annum and \$16,000 in total to an undergraduate (\$32,000 for a professional or graduate student). Loans bear interest at 4%. The standard loan term is ten years and nine months after the completion of school or the early withdrawal therefrom.

See Accompanying Independent Auditors' Report.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA  
EXPENDABLE TRUST FUNDS**

Combining Balance Sheet  
September 30, 1996  
(With comparative totals as of September 30, 1995)

<u>ASSETS</u>	Health Insurance Fund	Student Loan Fund	Totals	
			1996	1995
Cash and equivalents	\$ 57,077	\$ -	\$ 57,077	\$ 1,091,813
Term deposits	500,000	-	500,000	-
Investments	1,058,358	-	1,058,358	-
General receivables, net	2,861	-	2,861	315,678
Loans receivable, net	-	1,606,953	1,606,953	1,606,953
Due from other funds	416,862	540,632	957,494	1,122,603
Prepaid insurance	301,376	-	301,376	-
Allowance for loan reserves	-	(1,606,953)	(1,606,953)	(1,606,953)
Total assets	\$ 2,336,534	\$ 540,632	\$ 2,877,166	\$ 2,530,094
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ 29,124	\$ -	\$ 29,124	\$ 259,065
IBNR health insurance payable	332,631	-	332,631	-
Total liabilities	361,755	-	361,755	259,065
Fund balances:				
Unreserved	1,974,779	540,632	2,515,411	2,271,029
	1,974,779	540,632	2,515,411	2,271,029
Total liabilities and fund balances	\$ 2,336,534	\$ 540,632	\$ 2,877,166	\$ 2,530,094

See Accompanying Independent Auditors' Report.



**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA  
EXPENDABLE TRUST FUNDS**

Combining Statement of Revenues, Expenditures and  
Changes in Fund Balances  
Year Ended September 30, 1996  
(With comparative totals for the year ended September 30, 1995)

	Health Insurance Fund	Student Loan Fund	Totals	
			1996	1995
<b>Revenues:</b>				
Interest income	\$ 18,551	\$ -	\$ 18,551	\$ 56,216
Member's contributions	1,837,971	-	1,837,971	1,971,995
Loan repayments	-	29,055	29,055	-
<b>Total revenues</b>	<u>1,856,522</u>	<u>29,055</u>	<u>1,885,577</u>	<u>2,028,211</u>
<b>Expenditures:</b>				
Insurance claims	1,442,059	-	1,442,059	1,175,430
Administrative expense	199,136	-	199,136	192,571
<b>Total expenditures</b>	<u>1,641,195</u>	<u>-</u>	<u>1,641,195</u>	<u>1,368,001</u>
Excess of revenues over expenditures	215,327	29,055	244,382	660,210
Fund balances at beginning of year	1,759,452	511,577	2,271,029	1,610,819
Fund balances at end of year	<u>\$ 1,974,779</u>	<u>\$ 540,632</u>	<u>\$ 2,515,411</u>	<u>\$ 2,271,029</u>

See Accompanying Independent Auditors' Report.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

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

**YEAR ENDED SEPTEMBER 30, 1996**



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

Honorable Jacob Nena  
President  
Federated States of Micronesia:

We have audited the general purpose financial statements of the Federated States of Micronesia (FSM) National Government as of and for the year ended September 30, 1996, and have issued our report thereon dated January 30, 1997. Our report on the audit of the general purpose financial statements was modified due to; 1) our inability to determine the propriety of fixed assets of the Component Units - Higher Education Fund; and 2) our inability to determine the propriety of investments, intercompany transactions and inventory of the Component Units - Proprietary Funds.

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

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

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

However, we noted certain immaterial instances of noncompliance that we have reported to the management of the FSM National Government, which are described in the accompanying Schedule of Findings and Questioned Costs (pages 140 through 200) in Federal Finding 1 and Local Findings 1-4.

We also noted matters involving compliance with laws and regulations related to federal financial assistance, which we reported to the FSM National Government's management in our reports dated January 30, 1997 on compliance related to federal financial assistance programs.

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

January 30, 1997



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

Honorable Jacob Nena  
President  
Federated States of Micronesia:

We have audited the general purpose financial statements of the Federated States of Micronesia (FSM) National Government as of and for the year ended September 30, 1996, and have issued our report thereon dated January 30, 1997. Our report on the audit of the general purpose financial statements was modified due to; 1) our inability to determine the propriety of fixed assets of the Component Units - Higher Education Fund; and 2) our inability to determine the propriety of investments, intercompany transactions and inventory of the Component Units - Proprietary Funds.

We have also audited the FSM National Government's compliance with the requirements governing the Compact of Free Association; types of services allowed or unallowed; eligibility; reporting; special tests and provisions related to the National Oceanic Atmospheric Administration Program; monitoring subrecipients; and claims for advances and reimbursements that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance (pages 79 through 130), for the year ended September 30, 1996. The management of the FSM National Government is responsible for the FSM National Government's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

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

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying Schedule of Findings and Questioned Costs (pages 140 through 200) in Finding No. 1 on page 140 and the Subrecipient Monitoring Findings on pages 145 - 200. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the FSM National Government complied, in all material respects, with the requirements governing the Compact of Free Association; monitoring subrecipients; types of services allowed or unallowed; eligibility; reporting; special tests and provisions related to the National Oceanic Atmospheric Administration Program; and claims for advances and reimbursements that are applicable to each of its major federal financial assistance programs for the year ended September 30, 1996.

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

*Deloitte + Toche LLP*

January 30, 1997



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

Honorable Jacob Nena  
President  
Federated States of Micronesia:

We have audited the general purpose financial statements of the Federated States of Micronesia (FSM) National Government as of and for the year ended September 30, 1996, and have issued our report thereon dated January 30, 1997. Our report on the audit of the general purpose financial statements was modified due to; 1) our inability to determine the propriety of fixed assets of the Component Units - Higher Education Fund; and 2) our inability to determine the propriety of investments, intercompany transactions and inventory of the Component Units - Proprietary Funds. We have also audited the FSM National Government's compliance applicable to requirements of major federal financial assistance programs and have issued our report thereon dated January 30, 1997.

We have applied procedures to test the FSM National Government's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance (pages 79 through 130), for the year ended September 30, 1996: cash management, federal financial reports, allowable costs/cost principles, Drug-Free Workplace Act, and administrative requirements.

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

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

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the FSM National Government had not complied, in all material respects, with those requirements.

We also noted matters involving compliance with laws and regulations related to our audit of the general purpose financial statements and with requirements related to major and nonmajor federal financial assistance programs that we reported to the FSM National Government's management in our reports dated January 30, 1997.

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

*Deloitte + Touche LLP*

January 30, 1997



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

Honorable Jacob Nena  
President  
Federated States of Micronesia:

We have audited the general purpose financial statements of the Federated States of Micronesia (FSM) National Government as of and for the year ended September 30, 1996, and have issued our report thereon dated January 30, 1997. Our report on the audit of the general purpose financial statements was modified due to; 1) our inability to determine the propriety of fixed assets of the Component Units - Higher Education Fund; and 2) our inability to determine the propriety of investments, intercompany transactions and inventory of the Component Units - Proprietary Funds. We have also audited the FSM National Government's compliance applicable to requirements of major federal financial assistance programs and applied procedures to test compliance with general requirements applicable to federal financial assistance programs and have issued our reports thereon dated January 30, 1997.

In connection with our audit of the 1996 general purpose financial statements of the FSM National Government and with our consideration of the FSM National Government's control structure used to administer federal financial assistance programs, as required by Office of Management and Budget (OMB) Circular A-128, "Audits of State and Local Governments", we selected certain transactions applicable to certain nonmajor federal financial assistance programs for the year ended September 30, 1996.

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

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



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

Deloitte + Toche LLP

January 30, 1997



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

Honorable Jacob Nena  
President  
Federated States of Micronesia:

We have audited the general purpose financial statements of the Federated States of Micronesia (FSM) National Government as of and for the year ended September 30, 1996, and have issued our report thereon dated January 30, 1997. Our report on the audit of the general purpose financial statements was modified due to; 1) our inability to determine the propriety of fixed assets of the Component Units - Higher Education Fund; and 2) our inability to determine the propriety of investments, intercompany transactions and inventory of the Component Units - Proprietary Funds. We have also audited the FSM National Government's compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated January 30, 1997.

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

In planning and performing our audits for the year ended September 30, 1996, we considered the FSM National Government's internal control structure and assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinions on the FSM National Government's general purpose financial statements and on its compliance with requirements applicable to major programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the general purpose financial statements in a separate report dated January 30, 1997.

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

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

### Controls Used in Administering Federal Programs

#### General Requirements

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

#### Specific Requirements

- Compact of Free Association
- Types of services allowed or unallowed
- Eligibility
- Reporting
- Special tests and provisions related to the National Oceanic Atmospheric Administration Program
- Monitoring subrecipients

### Claims for Advances and Reimbursements

#### Accounting Controls

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

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

During the year ended September 30, 1996, the FSM National Government expended 87% of its total federal financial assistance under major federal financial assistance programs listed on page 138.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements and requirements governing claims for advances and reimbursements that are applicable to the FSM National Government's major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance (pages 79 through 130). Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We noted certain matters, which are described in federal finding 1 in the accompanying Schedule of Findings and Questioned Costs (pages 140 to 200), involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the FSM National Government's ability to administer federal financial assistance programs in accordance with applicable laws and regulations.

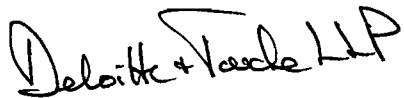
A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above is a material weakness.

We also noted matters involving the internal control structure and its operation based on our audit of the general purpose financial statements that we reported to the management of the FSM National Government in a report dated January 30, 1997.

We also noted other matters involving the internal control structure and its operation, which are described in the accompanying Schedule of Findings and Questioned Costs in the section dealing with Federal Findings and Questioned Costs - Monitoring Subrecipients which we have reported to the management of the FSM National Government.

This report is intended for the information of the FSM National Government 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.

January 30, 1997

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

Honorable Jacob Nena  
President  
Federated States of Micronesia:

We have audited the general purpose financial statements of the Federated States of Micronesia (FSM) National Government as of and for the year ended September 30, 1996, and have issued our report thereon dated January 30, 1997. Our report on the audit of the general purpose financial statements was modified due to; 1) our inability to determine the propriety of fixed assets of the Component Units - Higher Education Fund; and 2) our inability to determine the propriety of investments, intercompany transactions and inventory of the Component Units - Proprietary Funds. These general purpose financial statements are the responsibility of the FSM National Government's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements of the FSM National Government taken as a whole. The accompanying Schedule of Federal Financial Assistance (pages 79 through 130) for the year ended September 30, 1996, which is also the responsibility of the management of the FSM National Government, is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. The information in that schedule has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the general purpose financial statements taken as a whole.

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

January 30, 1997

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Federal Financial Assistance  
By Grantor  
Year Ended September 30, 1996

Grantor	CFDA No.	FSM Org. No.	Grant Title Grant I.D. No.	Total Authorization	Prior Expenditures	1996 Fiscal Year Expenditures		Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures
						Subrecipient	National Government		
U.S. Federal Direct Assistance Fund									
U.S. Department of Education									
	84.124		93 Teacher Training R124A20001-93						
		7745	National Government	\$ 13,389	\$ 9,241	\$ -	\$ -	\$ 9,241	\$ 4,148
		7746	Pohnpei	58,135	57,885	-	-	57,885	250
		7746	Chuuk	66,810	62,299	-	-	62,299	4,511
		7746	Yap	54,424	54,072	-	-	54,072	352
		7746	Kosrae	54,750	51,938	-	-	51,938	2,812
			Program Total	247,508	235,435	-	-	235,435	12,073
	84.124		94 Teacher Training R124A20001-94						
		7722	Unallotted	4,242	-	-	-	-	4,242
		7723	National Government	13,303	10,975	-	-	10,975	2,328
		7724	Pohnpei	58,172	58,173	-	-	58,173	(1)
		7724	Chuuk	66,000	59,592	-	-	59,592	6,408
		7724	Yap	53,000	51,414	1,200	-	52,614	386
		7724	Kosrae	52,464	2,854	-	-	2,854	49,610
			Program Total	247,181	183,008	1,200	-	184,208	62,973
	84.027		93 Special Education H027A30009						
		7731	National Government	398,469	369,399	-	1,818	371,217	27,252
		7732	Pohnpei	1,187,041	1,118,282	3	-	1,118,285	68,756
		7732	Chuuk	1,301,430	901,087	-	-	901,087	400,343
		7732	Yap	491,683	328,832	-	-	328,832	162,851
		7732	Kosrae	606,074	576,549	-	-	576,549	29,525
			Program Total	3,984,697	3,294,149	3	1,818	3,295,970	688,727
			Balance forward	4,479,386	3,712,592	1,203	1,818	3,715,613	763,773

See accompanying notes to schedule of federal financial assistance.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Federal Financial Assistance, Continued  
By Grantor  
Year Ended September 30, 1996

Grantor	CFDA No.	FSM Org. No.	Grant Title Grant I.D. No.	Total Authorization	Prior Expenditures	1996 Fiscal Year Expenditures		Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures
						Subrecipient	National Government		
U.S. Federal Direct Assistance Fund									
U.S. Dept. of Education balance forwarded				\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	84.027		94 Special Education H027A40007						
		7742	National Government	413,923	350,495	-	14,186	364,681	49,242
		7743	Pohnpei	1,221,717	1,134,306	(187)	-	1,134,119	87,598
		7743	Chuuk	1,336,476	932,319	95,110	-	1,027,429	309,047
		7743	Kosrae	640,750	515,168	177	-	515,345	125,405
		7743	Yap	526,361	333,221	145,596	-	478,817	47,544
			Program Total	<u>4,139,227</u>	<u>3,265,509</u>	<u>240,696</u>	<u>14,186</u>	<u>3,520,391</u>	<u>618,836</u>
	84.027		95 Special Education H027A40111						
		7721	National Government	713,396	306,057	-	277,834	583,891	129,505
		7729	Pohnpei	1,224,167	307,517	805,486	-	1,113,003	111,164
		7729	Chuuk	217,464	68,847	220,585	-	289,432	(71,968)
		7729	Kosrae	627,907	82,183	463,538	-	545,721	82,186
		7729	Yap	520,000	-	348,361	-	348,361	171,639
		3001	Chuuk	1,031,801	-	-	424,378	424,378	607,423
			Program Total	<u>4,334,735</u>	<u>764,604</u>	<u>1,837,970</u>	<u>702,212</u>	<u>3,304,786</u>	<u>1,029,949</u>
	84.002		93 Adult Education V002A30001						
		7737	National Government	100,000	86,075	-	906	86,981	13,019
	84.002		94 Adult Education V002A40002						
		7738	National Government	100,000	96,903	-	-	96,903	3,097
	84.002		95 Adult Education V002A40057						
		7728	National Government	100,000	69,474	-	18,877	88,351	11,649
			96 Adult Education V002A50057						
		3121	National Government	-	-	-	15,473	15,473	(15,473)
			Balance forward	<u>8,773,962</u>	<u>4,282,565</u>	<u>2,078,666</u>	<u>751,654</u>	<u>7,112,885</u>	<u>1,661,077</u>

See accompanying notes to schedule of federal financial assistance.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Federal Financial Assistance, Continued  
By Grantor  
Year Ended September 30, 1996

Grantor	CFDA No.	FSM Org. No.	Grant Title Grant I.D. No.	Total Authorization	Prior Expenditures	1996 Fiscal Year Expenditures		Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures
						Subrecipient	National Government		
U.S. Federal Direct Assistance Fund									
U.S. Dept. of Education balance forwarded				\$ 8,773,962	\$ 4,282,565	\$ 2,078,666	\$ 751,654	\$ 7,112,885	\$ 1,661,077
	84.185		94 Robert C. Byrd Scholarship P185A40059 National Government	15,000	15,000	-	-	15,000	-
	84.185	7748							
	84.185		95 Robert C. Byrd Scholarship P185A50059 National Government	30,000	-	-	29,250	29,250	750
	84.185	7749							
	84.276		FY-95 National Close-up Local National Government	15,000	14,181	-	-	14,181	819
	84.276	7726							
			FY-95 Goal 2000 Program S276A50055						
		7735	National Government	29,492	17,264	-	9,557	26,821	2,671
		3003	Kosrae	17,237	-	11,365	-	11,365	5,872
		3003	Chuuk	27,000	-	-	16,058	16,058	10,942
				73,729	17,264	11,365	25,615	54,244	19,485
	84.194Q		FY-95 Bilingual Education T194Q50048 National Government	100,000	-	-	57,830	57,830	42,170
	84.276A	7735							
			FY-96 Goal 2000 Program S276A60055						
		3010	Unallotted	74,936	-	-	-	-	74,936
		3011	National Government	30,243	-	-	-	-	30,243
		3012	Pohnpei	63,827	-	-	-	-	63,827
		3012	Kosrae	28,150	-	-	-	-	28,150
		3012	Yap	43,081	-	-	-	-	43,081
		3013	Chuuk	62,196	-	-	-	-	62,196
				302,433	-	-	-	-	302,433
			Balance forward	9,310,124	4,329,010	2,090,031	864,349	7,283,390	2,026,734

See accompanying notes to schedule of federal financial assistance.



**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Federal Financial Assistance, Continued  
By Grantor  
Year Ended September 30, 1996

Grantor	CFDA No.	FSM Org. No.	Grant Title Grant I.D. No.	Total Authorization	Prior Expenditures	1996 Fiscal Year Expenditures		Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures
						Subrecipient	National Government		
U.S. Federal Direct Assistance Fund									
U.S. Dept. of Education balance forwarded				\$ 9,310,124	\$ 4,329,010	\$ 2,090,031	\$ 864,349	\$ 7,283,390	\$ 2,026,734
	84.185A		FY-96 Robert C. Byrd Scholarship P185A60059						
		3008	National Government	33,630	-	-	-	-	33,630
			Total U.S. Dept. of Education	<u>\$ 9,343,754</u>	<u>\$ 4,329,010</u>	<u>\$ 2,090,031</u>	<u>\$ 864,349</u>	<u>\$ 7,283,390</u>	<u>\$ 2,060,364</u>

See accompanying notes to schedule of federal financial assistance.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**  
Schedule of Federal Financial Assistance, Continued  
By Grantor  
Year Ended September 30, 1996

Grantor	CFDA No.	FSM Org. No.	Grant Title Grant I.D. No.	Total Authorization	Prior Expenditures	1996 Fiscal Year Expenditures		Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures
						Subrecipient	National Government		
U.S. Federal Direct Assistance Fund									
U.S. Department of Labor									
	17.250		64-10/64 - JTPA '90						
		3287	National Government	\$ 84,434	\$ 80,637	\$ -	\$ 408	\$ 81,045	\$ 3,389
	17.250		64-016 - JTPA '92						
		3415	Unallotted	347	-	-	-	-	347
		3416	National Government	88,329	88,564	-	-	88,564	(235)
		3417	National Government	26,167	23,885	-	-	23,885	2,282
		3418	National Government	50,188	52,115	-	-	52,115	(1,927)
		3420	Pohnpei	56,141	55,789	-	-	55,789	352
		3420	Chuuk	88,137	98,770	-	-	98,770	(10,633)
		3420	Kosrae	11,908	27,751	-	-	27,751	(15,843)
		3420	Yap	18,713	19,297	-	-	19,297	(584)
		3421	Pohnpei	157,193	149,639	-	-	149,639	7,554
		3421	Chuuk	257,461	265,049	-	-	265,049	(7,588)
		3421	Kosrae	33,344	35,004	-	-	35,004	(1,660)
		3421	Yap	52,397	52,398	-	-	52,398	(1)
		3422	Pohnpei	104,795	98,045	-	-	98,045	6,750
		3422	Chuuk	155,605	164,265	-	-	164,265	(8,660)
		3422	Kosrae	22,229	23,380	-	-	23,380	(1,151)
		3422	Yap	34,932	36,040	-	-	36,040	(1,108)
		3423	Pohnpei	67,946	65,753	-	-	65,753	2,193
		3423	Chuuk	83,360	83,038	-	-	83,038	322
		3423	Kosrae	11,908	12,750	-	-	12,750	(842)
		3423	Yap	18,713	18,713	-	-	18,713	-
		3424	Pohnpei	17,273	56,829	-	-	56,829	(39,556)
		3424	Chuuk	47,000	30,523	-	-	30,523	16,477
		3424	Kosrae	22,167	17,287	-	-	17,287	4,880
		3424	Yap	7,826	7,826	-	-	7,826	-
		3425	Pohnpei	38,793	11,994	-	-	11,994	26,799
			Program Total	1,557,306	1,575,341	-	408	1,575,749	(18,443)
			Balance forward	1,557,306	1,575,341	-	408	1,575,749	(18,443)

See accompanying notes to schedule of federal financial assistance.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**  
Schedule of Federal Financial Assistance, Continued  
By Grantor  
Year Ended September 30, 1996

Grantor	CFDA No.	FSM Org. No.	Grant Title Grant I.D. No.	Total Authorization	Prior Expenditures	1996 Fiscal Year Expenditures		Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures
						Subrecipient	National Government		
U.S. Federal Direct Assistance Fund									
U.S. Dept. of Labor balance forwarded:				\$ 1,557,306	\$ 1,575,341	\$ -	\$ 408	\$ 1,575,749	\$ (18,443)
	17.250		<u>93 JTPA Program</u>						
		3426	Unallotted	38,442	-	-	-	-	38,442
		3427	National Government	79,685	78,600	-	-	78,600	1,085
		3428	National Government	24,156	24,119	-	-	24,119	37
		3430	Pohnpei	68,175	66,957	-	-	66,957	1,218
		3430	Chuuk	105,496	117,919	-	-	117,919	(12,423)
		3430	Kosrae	14,639	22,457	-	-	22,457	(7,818)
		3430	Yap	22,244	24,612	-	-	24,612	(2,368)
		3431	Pohnpei	104,569	94,479	-	-	94,479	10,090
		3431	Chuuk	145,921	144,219	-	-	144,219	1,702
		3431	Kosrae	29,444	39,048	-	-	39,048	(9,604)
		3431	Yap	42,376	28,877	6,295	-	35,172	7,204
		3432	Pohnpei	110,602	108,815	-	-	108,815	1,787
		3432	Chuuk	181,308	179,032	-	-	179,032	2,276
		3432	Kosrae	25,297	33,842	-	-	33,842	(8,545)
		3432	Yap	28,250	27,499	-	-	27,499	751
		3433	Pohnpei	57,530	47,924	6,343	-	54,267	3,263
		3433	Chuuk	94,752	99,817	-	-	99,817	(5,065)
		3433	Kosrae	9,935	22,613	-	-	22,613	(12,678)
		3433	Yap	15,000	15,000	-	-	15,000	-
		3434	Pohnpei	27,676	27,676	-	-	27,676	-
		3434	Chuuk	12,263	28,824	-	-	28,824	(16,561)
		3434	Kosrae	41,431	32,987	14,515	-	47,502	(6,071)
		3435	Chuuk	35,000	35,000	-	-	35,000	-
		3435	Kosrae	13,895	13,896	-	-	13,896	(1)
			Program Total	1,328,086	1,314,212	27,153	-	1,341,365	(13,279)
			Balance forward	2,885,392	2,889,553	27,153	408	2,917,114	(31,722)

See accompanying notes to schedule of federal financial assistance.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**  
Schedule of Federal Financial Assistance, Continued  
By Grantor  
Year Ended September 30, 1996

Grantor	CFDA No.	FSM Org. No.	Grant Title Grant I.D. No.	Total Authorization	Prior Expenditures	1996 Fiscal Year Expenditures		Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures
						Subrecipient	National Government		
U.S. Federal Direct Assistance Fund									
U.S. Dept. of Labor balance forwarded:				\$ 2,885,392	\$ 2,889,553	\$ 27,153	\$ 408	\$ 2,917,114	\$ (31,722)
	17.250		<u>94 JTPA Program</u> <u>64-94-01/64-94-02</u>						
		3437	National Government	166,162	140,817	-	20,003	160,820	5,342
		3438	National Government	18,575	1,858	-	15,923	17,781	794
		3439	National Government	57,763	26,582	-	29,667	56,249	1,514
		3440	Pohnpei	86,899	85,327	1,320	-	86,647	252
		3440	Chuuk	127,854	185,937	27,270	-	213,207	(85,353)
		3440	Kosrae	19,427	19,294	34	-	19,328	99
		3440	Yap	28,353	27,693	-	-	27,693	660
		3441	Pohnpei	159,702	138,424	7,456	-	145,880	13,822
		3441	Chuuk	344,503	245,208	63,654	-	308,862	35,641
		3441	Kosrae	47,110	24,368	18,452	-	42,820	4,290
		3441	Yap	43,218	33,134	4,620	-	37,754	5,464
		3442	Pohnpei	115,428	98,021	2,542	-	100,563	14,865
		3442	Chuuk	136,231	51,550	72,870	-	124,420	11,811
		3442	Kosrae	25,400	8,619	13,214	-	21,833	3,567
		3442	Yap	55,046	34,497	18,655	-	53,152	1,894
		3443	Pohnpei	51,610	45,312	1,461	-	46,773	4,837
		3443	Kosrae	540	1,300	480	-	1,780	(1,240)
		3443	Yap	8,346	2,272	4,093	-	6,365	1,981
		3444	Pohnpei	5,546	-	-	-	-	5,546
		3444	Kosrae	5,948	5,042	-	-	5,042	906
		3444	Yap	20,108	11,474	7,334	-	18,808	1,300
		3445	Pohnpei	40,000	38,744	-	-	38,744	1,256
		3445	Kosrae	16,000	15,862	60	-	15,922	78
		3446	Pohnpei	20,852	19,518	-	-	19,518	1,334
		3446	Chuuk	30,680	25,994	15,601	-	41,595	(10,915)
		3446	Kosrae	4,662	4,297	(87)	-	4,210	452
		3446	Yap	6,804	3,520	2,795	-	6,315	489
			Program Total	1,642,767	1,294,664	261,824	65,593	1,622,081	20,686
			Balance forward	4,528,159	4,184,217	288,977	66,001	4,539,195	(11,036)

See accompanying notes to schedule of federal financial assistance.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Federal Financial Assistance, Continued  
By Grantor  
Year Ended September 30, 1996

Grantor	CFDA No.	FSM Org. No.	Grant Title Grant I.D. No.	Total Authorization	Prior Expenditures	1996 Fiscal Year Expenditures		Total Program Expenditures	Excess Authorizations (Deficit) Over Program Expenditures
						Subrecipient	National Government		
U.S. Federal Direct Assistance Fund									
U.S. Dept. of Labor balance forwarded:				\$ 4,528,159	\$ 4,184,217	\$ 288,977	\$ 66,001	\$ 4,539,195	\$ (11,036)
	17.250		<u>95 JTPA Program</u> <u>64-95-01/64-95-02</u>						
		3200	Unallotted	41,721	-	-	-	-	41,721
		3201	National Government	112,997	22,660	-	83,322	105,982	7,015
		3202	National Government	35,429	-	-	27,264	27,264	8,165
		3203	Pohnpei	70,829	-	64,081	-	64,081	6,748
		3203	Kosrae	15,413	-	8,766	-	8,766	6,647
		3203	Yap	22,495	-	18,295	-	18,295	4,200
		3204	Pohnpei	120,000	-	109,140	-	109,140	10,860
		3204	Kosrae	36,000	-	33,566	-	33,566	2,434
		3204	Yap	22,946	-	13,898	-	13,898	9,048
		3205	Pohnpei	90,687	-	56,777	-	56,777	33,910
		3205	Kosrae	26,379	-	21,592	-	21,592	4,787
		3205	Yap	38,520	-	20,659	-	20,659	17,861
		3206	Pohnpei	56,801	-	49,802	-	49,802	6,999
		3206	Yap	7,592	-	3,524	-	3,524	4,068
		3207	Pohnpei	17,236	-	13,132	-	13,132	4,104
		3207	Yap	5,624	-	4,466	-	4,466	1,158
		3208	National Government	82,286	-	-	62,332	62,332	19,954
		3209	Chuuk	101,436	-	-	94,702	94,702	6,734
		3210	Chuuk	267,007	-	-	235,677	235,677	31,330
		3211	Chuuk	113,378	-	-	82,401	82,401	30,977
		3213	Chuuk	25,359	-	-	24,664	24,664	695
		3214	Kosrae	16,000	-	14,280	-	14,280	1,720
			Program Total	1,326,135	22,660	431,978	610,362	1,065,000	261,135
	17.250		<u>96 JTPA Program</u> <u>64-96-01/64-96-02</u>						
		3150	Unallotted	1,038,819	-	-	-	-	1,038,819
		3152	National Government	71,380	-	-	14,960	14,960	56,420
			Program Total	1,110,199	-	-	14,960	14,960	1,095,239
	17.249		<u>School To Work</u> <u>U-5120-5-00-88-60</u>						
		3448	National Government	89,600	6,789	-	60,774	67,563	22,037
			Total U.S. Dept. of Labor	\$ 7,054,093	\$ 4,213,666	\$ 720,955	\$ 752,097	\$ 5,686,718	\$ 1,367,375

See accompanying notes to schedule of federal financial assistance.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**  
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By Grantor  
Year Ended September 30, 1996

Grantor	CFDA No.	FSM Org. No.	Grant Title Grant I.D. No.	Total Authorization	Prior Expenditures	1996 Fiscal Year Expenditures		Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures
						Subrecipient	National Government		
U.S. Federal Direct Assistance Fund									
U.S. Dept. of Agriculture									
	10.560	3338	Nutrition Education F97190: National	\$ 57,886	\$ 36,155	\$ -	\$ 2,999	\$ 39,154	\$ 18,732
			Program Total	57,886	36,155	-	2,999	39,154	18,732
	10.555	3388	Food Service 89 F97081						
		3388	Yap	206,873	160,849	22,729	-	183,578	23,295
		3388	Kosrae	169,775	166,881	-	-	166,881	2,894
		3388	Pohnpei	500,674	446,286	6,187	-	452,473	48,201
		3388	Chuuk	905,068	1,012,290	-	-	1,012,290	(107,222)
		3389	National Government	141,824	133,512	-	1,500	135,012	6,812
		3390	National Government	28,943	-	-	-	-	28,943
		3391	National Government	9,933	-	-	-	-	9,933
			Program Total	1,963,090	1,919,818	28,916	1,500	1,950,234	12,856
	10.664		Forestry 93 05-93-13						
		7708	Pohnpei	68,470	60,255	4,243	-	64,498	3,972
		7708	Chuuk	12,200	7,003	-	-	7,003	5,197
		7708	Kosrae	12,400	15,937	3,498	-	19,435	(7,035)
		7708	Yap	7,000	7,000	-	-	7,000	-
			Program Total	100,070	90,195	7,741	-	97,936	2,134
	10.664		94 Forestry G-5-94-20-035						
		7714	Pohnpei	28,107	15,825	5,792	-	21,617	6,490
		7714	Chuuk	7,900	2,047	-	-	2,047	5,853
		7714	Yap	12,816	-	574	-	574	12,242
		7714	Kosrae	11,577	1,241	3,860	-	5,101	6,476
			Program Total	60,400	19,113	10,226	-	29,339	31,061
			Balance forward	2,181,446	2,065,281	46,883	4,499	2,116,663	64,783

See accompanying notes to schedule of federal financial assistance.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**  
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Grantor	CFDA No.	FSM Org. No.	Grant Title Grant I.D. No.	Total Authorization	Prior Expenditures	1996 Fiscal Year Expenditures		Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures
						Subrecipient	National Government		
U.S. Federal Direct Assistance Fund									
U.S. Dept. of Agriculture balance forwarded				\$ 2,181,446	\$ 2,065,281	\$ 46,883	\$ 4,499	\$ 2,116,663	\$ 64,783
	10.664		93 Fire Prevention G-5-93-20-043						
		7711	National Government	3,500	3,056	-	-	3,056	444
		7712	Pohnpei	5,000	4,120	-	-	4,120	880
		7712	Chuuk	3,500	-	-	-	-	3,500
		7712	Yap	5,000	-	-	-	-	5,000
		7712	Kosrae	3,000	2,201	-	-	2,201	799
			Program Total	20,000	9,377	-	-	9,377	10,623
	10.664		94 Fire Prevention G-5-94-20-097						
		7716	National	5,000	-	-	3,918	3,918	1,082
		7717	Pohnpei	10,000	3,088	4,060	-	7,148	2,852
		7717	Chuuk	8,500	1,530	-	-	1,530	6,970
		7717	Yap	8,500	2,705	3,826	-	6,531	1,969
		7717	Kosrae	11,000	2,996	6,289	-	9,285	1,715
			Program Total	43,000	10,319	14,175	3,918	28,412	14,588
	10.664		Fire Prevention G-5-94-20-114						
		3407	National	6,000	-	-	1,746	1,746	4,254
		3408	Pohnpei	10,000	-	2,121	-	2,121	7,879
		3408	Kosrae	10,000	-	-	-	-	10,000
		3408	Yap	10,000	-	-	-	-	10,000
		3409	Chuuk	7,000	-	-	1,482	1,482	5,518
			Program Total	43,000	-	2,121	3,228	5,349	37,651
	10.664		95 Forestry G-5-94-20-042						
		7717	Pohnpei	22,900	460	10,282	-	10,742	12,158
		7717	Chuuk	4,000	-	3,132	-	3,132	868
		7717	Yap	11,200	-	908	-	908	10,292
		7717	Kosrae	-	490	-	-	490	(490)
			Program Total	38,100	950	14,322	-	15,272	22,828
			Total U.S. Dept. of Agriculture	\$ 2,325,546	\$ 2,085,927	\$ 77,501	\$ 11,645	\$ 2,175,073	\$ 150,473

See accompanying notes to schedule of federal financial assistance.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Federal Financial Assistance, Continued  
By Grantor  
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Grantor	CFDA No.	FSM Org. No.	Grant Title Grant I.D. No.	Total Authorization	Prior Expenditures	1996 Fiscal Year Expenditures		Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures
						Subrecipient	National Government		
U.S. Federal Direct Assistance Fund									
U.S. Dept. of the Interior									
	15.904		Historic Preservation '93 64-93-80110						
		7302	National Government	\$ 93,151	\$ 94,254	\$ -	\$ -	\$ 94,254	\$ (1,103)
		7303	Pohnpei	36,250	36,248	-	-	36,248	2
		7303	Chuuk	36,250	31,947	-	-	31,947	4,303
		7303	Yap	36,250	40,037	-	-	40,037	(3,787)
		7303	Kosrae	36,250	30,331	-	-	30,331	5,919
			Program Total	<u>238,151</u>	<u>232,817</u>	<u>-</u>	<u>-</u>	<u>232,817</u>	<u>5,334</u>
	15.904		94 Historic Preservation 64-94-90036						
		7325	National Government	99,187	93,186	-	3,561	96,747	2,440
		7326	Pohnpei	43,450	42,516	203	-	42,719	731
		7326	Chuuk	20,920	20,989	1,907	-	22,896	(1,976)
		7326	Yap	43,050	46,626	6,895	-	53,521	(10,471)
		7326	Kosrae	43,550	30,334	9,921	-	40,255	3,295
		3453	Chuuk	22,130	-	-	5,291	5,291	16,839
			Program Total	<u>272,287</u>	<u>233,651</u>	<u>18,926</u>	<u>8,852</u>	<u>261,429</u>	<u>10,858</u>
	15.904		95 Historic Preservation 64-95-10113						
		3450	National Government	99,569	-	-	81,846	81,846	17,723
		3451	Pohnpei	43,050	-	35,660	-	35,660	7,390
		7326	Kosrae	43,050	-	17,937	-	17,937	25,113
		7326	Yap	43,050	-	28,037	-	28,037	15,013
		3452	Chuuk	43,050	-	-	28,623	28,623	14,427
			Program Total	<u>271,769</u>	<u>-</u>	<u>81,634</u>	<u>110,469</u>	<u>192,103</u>	<u>79,666</u>
			Total U.S. Dept. of the Interior	<u>\$ 782,207</u>	<u>\$ 466,468</u>	<u>\$ 100,560</u>	<u>\$ 119,321</u>	<u>\$ 686,349</u>	<u>\$ 95,858</u>

See accompanying notes to schedule of federal financial assistance.



**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**  
Schedule of Federal Financial Assistance, Continued  
By Grantor  
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Grantor	CFDA No.	FSM Org. No.	Grant Title Grant I.D. No.	Total Authorization	Prior Expenditures	1996 Fiscal Year Expenditures		Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures
						Subrecipient	National Government		
U.S. Federal Direct Assistance Fund									
U.S. Environmental Protection Agency									
	66.418	3589 3592	C640001-01-3: National Admin. PRSP-3 Pohnpei RSP	\$ 16,000 734,000	\$ 15,619 364,540	\$ - -	\$ 1,414 42,202	\$ 17,033 406,742	\$ (1,033) 327,258
			Program Total	750,000	380,159	-	43,616	423,775	326,225
	66.418	3582 3581	C640003-02: Yap Sewer Connection Yap Sewer Connection/Admin.	531,134 15,934	470,546 15,467	54,473 -	- -	525,019 15,467	6,115 467
			Program Total	547,068	486,013	54,473	-	540,486	6,582
	66.418	3580	C640003-03: Yap Waste Water Treatment	16,000	16,000	-	-	16,000	-
			Program Total	16,000	16,000	-	-	16,000	-
	66.418	3593 3590	C640003-04: Ulithi Sewer System Ulithi Sewer System/Admin	209,000 18,000	154,069 21,008	9,310 -	- 468	163,379 21,476	45,621 (3,476)
			Program Total	227,000	175,077	9,310	468	184,855	42,145
	66.418	7582	C640003-05: Tomil On-Site Sewer System	39,650	-	37,864	-	37,864	1,786
			Balance forward	1,579,718	1,057,249	101,647	44,084	1,202,980	376,738

See accompanying notes to schedule of federal financial assistance.

**NATIONAL GOVERNMENT  
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Grantor	CFDA No.	FSM Org. No.	Grant Title Grant I.D. No.	Total Authorization	Prior Expenditures	1996 Fiscal Year Expenditures		Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures
						Subrecipient	National Government		
U.S. Federal Direct Assistance Fund									
U.S. Environmental Protection Agency balance forwarded				\$ 1,579,718	\$ 1,057,249	\$ 101,647	\$ 44,084	\$ 1,202,980	\$ 376,738
	66.418	3584 3585	C640004-01-0: Kosrae Waste Water/Admin. Const. Waste Water Facility	64,500 4,423,977	73,092 4,010,226	- 684,644	356 -	73,448 4,694,870	(8,948) (270,893)
			Program Total	4,488,477	4,083,318	684,644	356	4,768,318	(279,841)
	66.418	7576	C640002-02: Chuuk Rural Sanitation Prog.	197,600	391,262	-	-	391,262	(193,662)
			Program Total	197,600	391,262	-	-	391,262	(193,662)
	66.418	7580 3591	C640002-03: Chuuk House Sewer Connection Chuuk HSC Admin.	187,127 12,873	25,296 -	47,099 -	- 7,600	72,395 7,600	114,732 5,273
			Program Total	200,000	25,296	47,099	7,600	79,995	120,005
	66.418	7581	C640001-06: Pohnpei RSP Supplemental	95,000	130,755	-	16,934	147,689	(52,689)
		7351	93 Climate Change Study CX822560-01-0 National Government	275,000	129,507	-	93,159	222,666	52,334
			Total U.S. EPA	\$ 6,835,795	\$ 5,817,387	\$ 833,390	\$ 162,133	\$ 6,812,910	\$ 22,885

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Grantor	CFDA No.	FSM Org. No.	Grant Title Grant I.D. No.	Total Authorization	Prior Expenditures	1996 Fiscal Year Expenditures		Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures
						Subrecipient	National Government		
U.S. Federal Direct Assistance Fund									
U.S. Department of Health and Human Services									
	13.994		Maternal & Child Health '89 89BIFMMCHS:						
		7537	Yap	\$ 61,725	\$ 49,235	\$ -	\$ -	\$ 49,235	\$ 12,490
		7538	Yap	3,700	1,527	-	-	1,527	2,173
		7538	Kosrae	1,900	1,287	-	-	1,287	613
		7538	Pohnpei	5,381	1,760	-	-	1,760	3,621
		7538	Chuuk	7,700	4,759	-	-	4,759	2,941
		7539	Kosrae	27,055	4,171	-	-	4,171	22,884
		7541	Pohnpei	75,564	75,564	-	-	75,564	-
		7543	Chuuk	87,460	70,780	-	-	70,780	16,680
		7545	National Government	91,190	84,473	-	-	84,473	6,717
		7546	National Government	80,354	71,358	-	-	71,358	8,996
				<u>442,029</u>	<u>364,914</u>	<u>-</u>	<u>-</u>	<u>364,914</u>	<u>77,115</u>
	13.268		Childhood Immunization Program '90						
		7615	Unallotted	2,000	-	-	-	-	2,000
		7616	National Government	64,581	68,172	-	-	68,172	(3,591)
		7617	Chuuk	5,255	10,183	-	-	10,183	(4,928)
		7617	Kosrae	357	19	-	-	19	338
		7617	Pohnpei	3,168	3,298	-	-	3,298	(130)
			Program Total	<u>75,361</u>	<u>81,672</u>	<u>-</u>	<u>-</u>	<u>81,672</u>	<u>(6,311)</u>
	13.902	7633	Treatment Program 1H87 TI00054-0100 National Government	<u>136,513</u>	<u>127,213</u>	<u>-</u>	<u>(2,100)</u>	<u>125,113</u>	<u>11,400</u>
			Balance forward	<u>653,903</u>	<u>573,799</u>	<u>-</u>	<u>(2,100)</u>	<u>571,699</u>	<u>82,204</u>

See accompanying notes to schedule of federal financial assistance.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**  
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						Subrecipient	National Government		
U.S. Federal Direct Assistance Fund									
U.S. DHHS balance forwarded				\$ 653,903	\$ 573,799	\$ -	\$ (2,100)	\$ 571,699	\$ 82,204
	93.268		H23/CCH904426-03 Immunization 92						
		7691	National Government	179,636	150,335	-	447	150,782	28,854
		7692	Pohnpei	9,471	9,470	-	-	9,470	1
		7692	Chuuk	19,319	20,463	-	-	20,463	(1,144)
		7692	Kosrae	141	141	-	-	141	-
		7692	Yap	716	1,340	-	-	1,340	(624)
			Program Total	209,283	181,749	-	447	182,196	27,087
	93.992		92-B1-FM-ADMS						
		7770	National Government	150,044	105,800	-	-	105,800	44,244
		7771	Chuuk	94,000	84,498	-	-	84,498	9,502
		7771	Kosrae	22,500	12,982	-	-	12,982	9,518
		7771	Yap	15,300	11,738	-	-	11,738	3,562
		7771	Yap	38,500	27,823	-	-	27,823	10,677
		7771	Pohnpei	80,656	80,646	-	-	80,646	10
			Program Total	401,000	323,487	-	-	323,487	77,513
	93.977		92 STD H25/CCH904363-03-1						
		7695	Unallotted	210	-	-	-	-	210
		7696	National Government	48,090	31,948	-	-	31,948	16,142
		7697	Pohnpei	10,691	7,396	-	-	7,396	3,295
			Program Total	58,991	39,344	-	-	39,344	19,647
			Balance forward	1,323,177	1,118,379	-	(1,653)	1,116,726	206,451

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**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**  
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Grantor	CFDA No.	FSM Org. No.	Grant Title Grant I.D. No.	Total Authorization	Prior Expenditures	1996 Fiscal Year Expenditures		Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures
						Subrecipient	National Government		
U.S. Federal Direct Assistance Fund									
U.S. DHHS balance forwarded				\$ 1,323,177	\$ 1,118,379	\$ -	\$ (1,653)	\$ 1,116,726	\$ 206,451
	93.994		92 MCH 92-B1-FM-MCHS						
		7751	Unallotted	42,259	-	-	-	-	42,259
		7752	National Government	47,425	43,325	-	-	43,325	4,100
		7753	National Government	143,168	86,755	-	-	86,755	56,413
		7754	Pohnpei	89,519	77,318	-	-	77,318	12,201
		7754	Chuuk	91,909	86,086	-	-	86,086	5,823
		7754	Yap	52,823	37,728	-	-	37,728	15,095
		7754	Kosrae	39,875	35,997	-	-	35,997	3,878
		7756	Yap	7,000	-	-	-	-	7,000
		7756	Kosrae	5,750	4,528	-	-	4,528	1,222
			Program Total	<u>519,728</u>	<u>371,737</u>	<u>-</u>	<u>-</u>	<u>371,737</u>	<u>147,991</u>
	93.268		93 Immunization H23/CCH904426-04						
		7792	National Government	157,507	155,692	-	-	155,692	1,815
		7793	Pohnpei	24,937	24,936	-	-	24,936	1
		7793	Chuuk	33,366	49,097	-	-	49,097	(15,731)
		7793	Yap	5,596	5,595	-	-	5,595	1
		7793	Kosrae	573	573	-	-	573	-
			Program Total	<u>221,979</u>	<u>235,893</u>	<u>-</u>	<u>-</u>	<u>235,893</u>	<u>(13,914)</u>
	93.283		93 Data Mgmt. Capacity H1G/CCH908215-01						
		7799	National Government	26,975	22,895	-	-	22,895	4,080
			Balance forward	2,091,859	1,748,904	-	(1,653)	1,747,251	344,608

See accompanying notes to schedule of federal financial assistance.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**  
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						Subrecipient	National Government		
U.S. Federal Direct Assistance Fund									
U.S. DHHS balance forwarded				\$ 2,091,859	\$ 1,748,904	\$ -	\$ (1,653)	\$ 1,747,251	\$ 344,608
	93.994		93 MCH 93B1FMMCHS						
		7451	Unallotted	38,846	-	-	-	-	38,846
		7452	National Government	53,003	45,818	-	-	45,818	7,185
		7453	National Government	113,920	88,390	-	4,084	92,474	21,446
		7454	Pohnpei	98,914	100,051	-	-	100,051	(1,137)
		7454	Chuuk	99,981	98,615	-	-	98,615	1,366
		7454	Kosrae	40,312	33,773	-	-	33,773	6,539
		7454	Yap	55,646	52,783	405	-	53,188	2,458
		7455	Pohnpei	6,000	176	-	-	176	5,824
		7455	Chuuk	5,500	5,456	-	-	5,456	44
		7455	Kosrae	7,200	6,800	-	-	6,800	400
		7456	Kosrae	6,200	4,320	35	-	4,355	1,845
		7455	Yap	4,500	3,995	-	-	3,995	505
			Program Total	530,022	440,177	440	4,084	444,701	85,321
	93.217		94 Family Planning 09H-001777-8-0						
		7463	Pohnpei	37,229	30,259	-	-	30,259	6,970
		7463	Chuuk	38,197	31,611	-	-	31,611	6,586
		7463	Kosrae	18,925	16,919	-	-	16,919	2,006
		7463	Yap	25,159	16,700	-	-	16,700	8,459
		7360	National Government	20,014	11,625	-	-	11,625	8,389
			Program Total	139,524	107,114	-	-	107,114	32,410
			Balance forward	2,761,405	2,296,195	440	2,431	2,299,066	462,339

See accompanying notes to schedule of federal financial assistance.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**  
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Grantor	CFDA No.	FSM Org. No.	Grant Title Grant I.D. No.	Total Authorization	Prior Expenditures	1996 Fiscal Year Expenditures		Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures
						Subrecipient	National Government		
U.S. Federal Direct Assistance Fund									
U.S. DHHS balance forwarded				\$ 2,761,405	\$ 2,296,195	\$ 440	\$ 2,431	\$ 2,299,066	\$ 462,339
	93.959		93 Subs. Abuse Prevention 93 B1 FM SAPT-02						
		7464	National Government	138,185	97,988	-	-	97,988	40,197
		7465	Pohnpei	65,000	62,114	-	-	62,114	2,886
		7473	Chuuk	121,000	118,202	-	-	118,202	2,798
		7473	Yap	30,800	15,421	-	-	15,421	15,379
		7473	Yap	36,400	33,656	-	-	33,656	2,744
		3684	Yap	-	26,364	-	-	26,364	(26,364)
		7473	Kosrae	18,000	16,923	-	-	16,923	1,077
			Program Total	409,385	370,668	-	-	370,668	38,717
	93.630		93 Dev. Disability G-9301-FMBS84						
		7466	Unallotted	68,613	-	-	-	-	68,613
		7467	National Government	152,137	128,919	-	(254)	128,665	23,472
			Program Total	220,750	128,919	-	(254)	128,665	92,085
	93.958		93 Comm. Mental Health 93 B1 FM CMHS-01						
		7469	National Government	72,056	60,425	-	-	60,425	11,631
	93.991		93 Preventive Health 93-B1-FM-PRVS						
			Unallotted	18,372	-	-	-	-	18,372
		7471	National Government	19,650	11,698	-	-	11,698	7,952
		7472	Pohnpei	17,918	17,174	-	-	17,174	744
		7472	Chuuk	19,292	15,180	-	-	15,180	4,112
		7472	Kosrae	10,000	9,112	-	-	9,112	888
		7472	Yap	12,572	12,516	-	-	12,516	56
			Program Total	97,804	65,680	-	-	65,680	32,124
			Balance forward	3,561,400	2,921,887	440	2,177	2,924,504	636,896

See accompanying notes to schedule of federal financial assistance.

**NATIONAL GOVERNMENT  
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By Grantor  
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Grantor	CFDA No.	FSM Org. No.	Grant Title Grant I.D. No.	Total Authorization	Prior Expenditures	1996 Fiscal Year Expenditures		Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures
						Subrecipient	National Government		
U.S. Federal Direct Assistance Fund									
U.S. DHHS balance forwarded				\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	93.268		94 Immunization Program H23/CCH904426-05						
		7493	National Government	305,120	239,543	-	20,576	260,119	45,001
		7494	Pohnpei	29,233	28,843	-	-	28,843	390
		7494	Chuuk	40,736	41,423	9,896	-	51,319	(10,583)
		7494	Kosrae	7,505	7,505	-	-	7,505	-
		7494	Yap	5,747	5,746	-	-	5,746	1
			Program Total	<u>388,341</u>	<u>323,060</u>	<u>9,896</u>	<u>20,576</u>	<u>353,532</u>	<u>34,809</u>
	93.630		94 Development Disabilities G-9401-FMBS84						
		7374	National Government	126,610	37,375	-	86,095	123,470	3,140
			Program Total	<u>126,610</u>	<u>37,375</u>	<u>-</u>	<u>86,095</u>	<u>123,470</u>	<u>3,140</u>
	93.940		94 AIDS Prevention U62/CCU902703-08						
		7498	National Government	40,077	37,131	-	-	37,131	2,946
		7499	Pohnpei	9,105	9,104	-	-	9,104	1
		7499	Chuuk	2,668	2,669	-	-	2,669	(1)
		7499	Kosrae	9,181	11,644	-	-	11,644	(2,463)
			Program Total	<u>61,031</u>	<u>60,548</u>	<u>-</u>	<u>-</u>	<u>60,548</u>	<u>483</u>
	93.118		94 AIDS Surveillance U62/CCU906251-04						
		7496	National Government	5,260	5,570	-	-	5,570	(310)
			Program Total	<u>5,260</u>	<u>5,570</u>	<u>-</u>	<u>-</u>	<u>5,570</u>	<u>(310)</u>
			Balance forward	<u>581,242</u>	<u>426,553</u>	<u>9,896</u>	<u>106,671</u>	<u>543,120</u>	<u>38,122</u>

See accompanying notes to schedule of federal financial assistance.



**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**  
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Grantor	CFDA No.	FSM Org. No.	Grant Title Grant I.D. No.	Total Authorization	Prior Expenditures	1996 Fiscal Year Expenditures		Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures
						Subrecipient	National Government		
U.S. Federal Direct Assistance Fund									
U.S. DHHS balance forwarded				\$ 581,242	\$ 426,553	\$ 9,896	\$ 106,671	\$ 543,120	\$ 38,122
	93.224		94 CHC CSH901774-09-0						
		7358	Unallotted	2,653	-	-	-	-	2,653
		7359	Pohnpei	139,709	110,566	-	-	110,566	29,143
			Program Total	142,362	110,566	-	-	110,566	31,796
	93.958		94 Comm. Mental Health 94 B1 FM CMHS-01						
		7367	National Government	80,062	65,426	-	1,007	66,433	13,629
			Program Total	80,062	65,426	-	1,007	66,433	13,629
	93.217		95 Family Planning 09H-001777-09-1						
		7365	Pohnpei	41,209	33,573	-	-	33,573	7,636
		7365	Chuuk	48,993	39,600	836	-	40,436	8,557
		7365	Kosrae	19,959	17,063	-	-	17,063	2,896
		7365	Yap	21,434	14,610	-	-	14,610	6,824
			Program Total	131,595	104,846	836	-	105,682	25,913
	93.119		95 MHIS 5 HR1 SM50914-03						
		7371	National Government	113,123	36,317	-	37,576	73,893	39,230
		7372	Pohnpei	17,760	2,973	7,528	-	10,501	7,259
		7372	Kosrae	8,325	-	3,533	-	3,533	4,792
		7372	Yap	5,690	-	2,565	-	2,565	3,125
		7372	Chuuk	10,250	-	-	4,557	4,557	5,693
			Program Total	155,148	39,290	13,626	42,133	95,049	60,099
			Balance forward	1,090,409	746,681	24,358	149,811	920,850	169,559

See accompanying notes to schedule of federal financial assistance.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**  
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Grantor	CFDA No.	FSM Org. No.	Grant Title Grant I.D. No.	Total Authorization	Prior Expenditures	1996 Fiscal Year Expenditures		Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures
						Subrecipient	National Government		
U.S. Federal Direct Assistance Fund									
U.S. DHHS balance forwarded				\$ 1,090,409	\$ 746,681	\$ 24,358	\$ 149,811	\$ 920,850	\$ 169,559
	93.994		94 MCH 94B1FMMCHS						
		7487	National Government	54,582	41,929	-	-	41,929	12,653
		7488	National Government	163,746	92,385	-	18,759	111,144	52,602
		7489	Pohnpei	103,665	83,038	-	-	83,038	20,627
		7489	Chuuk	107,322	96,459	10,831	-	107,290	32
		7489	Kosrae	52,093	43,600	708	-	44,308	7,785
		7489	Yap	64,412	57,986	258	-	58,244	6,168
			Program Total	545,820	415,397	11,797	18,759	445,953	99,867
	93.163		93 PBI/Nurse Practice Act CSH006473-03-0						
		7483	National Government	50,339	-	-	-	-	50,339
	93.163		93 PBI/Biomedical Services CSH006478-02-0						
		7484	National Government	45,419	45,419	-	-	45,419	-
	93.163		93 PBI/Comm. Base Health CSH064710-01-0						
		7485	Pohnpei	40,000	15,100	180	-	15,280	24,720
	93.991		94 PH & PH 94-B1-FM-PRVS						
		7352	Unallotted	7,671	-	-	-	-	7,671
		7488	National Government	25,350	19,728	-	531	20,259	5,091
		7489	Pohnpei	21,917	9,242	-	-	9,242	12,675
		7489	Chuuk	23,591	1,800	-	-	1,800	21,791
		7489	Kosrae	11,790	7,116	-	-	7,116	4,674
		7489	Yap	13,371	10,132	2,319	-	12,451	920
			Program Total	103,690	48,018	2,319	531	50,868	52,822
			Balance forward	1,875,677	1,270,615	38,654	169,101	1,478,370	397,307

See accompanying notes to schedule of federal financial assistance.

**NATIONAL GOVERNMENT  
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Grantor	CFDA No.	FSM Org. No.	Grant Title Grant I.D. No.	Total Authorization	Prior Expenditures	1996 Fiscal Year Expenditures		Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures
						Subrecipient	National Government		
U.S. Federal Direct Assistance Fund									
U.S. DHHS balance forwarded				\$ 1,875,677	\$ 1,270,615	\$ 38,654	\$ 169,101	\$ 1,478,370	\$ 397,307
	93.977		94 STD H25/CCH904363-04						
		7356	National Government	28,556	22,369	-	1,964	24,333	4,223
		7357	Pohnpei	6,017	6,017	-	-	6,017	-
			Program Total	34,573	28,386	-	1,964	30,350	4,223
	93.116		94 Tuberculosis Control U52/CCU907874-03						
		7361	Unallotted	363	-	-	-	-	363
		7362	National Government	97,743	77,921	-	-	77,921	19,822
		7363	Pohnpei	17,520	11,159	-	-	11,159	6,361
		7363	Chuuk	21,427	14,727	-	-	14,727	6,700
		7363	Kosrae	8,100	7,589	-	-	7,589	511
		7363	Yap	15,470	3,695	-	-	3,695	11,775
			Program Total	160,623	115,091	-	-	115,091	45,532
	93.988		94 State-Base Diabetes U32/CCU910641-01						
		7369	National Government	36,690	30,336	-	-	30,336	6,354
		7384	Pohnpei	8,400	5,789	-	-	5,789	2,611
		7384	Chuuk	8,400	18,974	3,569	-	22,543	(14,143)
		7384	Kosrae	8,400	8,319	-	-	8,319	81
		7384	Yap	8,400	611	-	-	611	7,789
			Program Total	70,290	64,029	3,569	-	67,598	2,692
			Balance forward	2,141,163	1,478,121	42,223	171,065	1,691,409	449,754

See accompanying notes to schedule of federal financial assistance.

**NATIONAL GOVERNMENT  
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Grantor	CFDA No.	FSM Org. No.	Grant Title Grant I.D. No.	Total Authorization	Prior Expenditures	1996 Fiscal Year Expenditures		Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures
						Subrecipient	National Government		
U.S. Federal Direct Assistance Fund									
U.S. DHHS balance forwarded				\$ 2,141,163	\$ 1,478,121	\$ 42,223	\$ 171,065	\$ 1,691,409	\$ 449,754
	93.110		94 State Sys. Develop. Initiative 1 MCJ-64T046-01-0						
		7479	Unallotted	60	-	-	-	-	60
		7480	National Government	13,000	2,072	-	-	2,072	10,928
		7481	Pohnpei	21,350	16,306	-	-	16,306	5,044
		7481	Chuuk	24,040	20,941	-	-	20,941	3,099
		7481	Kosrae	21,358	11,894	-	-	11,894	9,464
		7481	Yap	20,000	400	-	-	400	19,600
			Program Total	99,808	51,613	-	-	51,613	48,195
	93.959		94 Substance Abuse Prevention & Treatment 94 B1 FM SAPT						
		7377	National Government	86,056	80,677	-	4,222	84,899	1,157
		7378	Pohnpei	124,950	118,634	-	-	118,634	6,316
		7378	Chuuk	122,150	104,135	20,081	-	124,216	(2,066)
		7378	Kosrae	18,000	7,417	1,419	-	8,836	9,164
		7378	Yap	25,000	18,961	2,379	-	21,340	3,660
		7378	Yap	31,900	-	140	-	140	31,760
		7385	Chuuk	19,300	17,758	2,939	-	20,697	(1,397)
			Program Total	427,356	347,582	26,958	4,222	378,762	48,594
	93.163		94 PBI/Nurse Practice CSH006478-04-0						
		7381	National Government	50,339	15,371	-	5,749	21,120	29,219
	93.163		94 PBI/Biomedical Service CSH006478-03-0						
		7382	National Government	178,541	131,477	-	20,421	151,898	26,643
			Balance forward	2,897,207	2,024,164	69,181	201,457	2,294,802	602,405

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**NATIONAL GOVERNMENT  
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Grantor	CFDA No.	FSM Org. No.	Grant Title Grant I.D. No.	Total Authorization	Prior Expenditures	1996 Fiscal Year Expenditures		Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures
						Subrecipient	National Government		
U.S. Federal Direct Assistance Fund									
U.S. DHHS balance forwarded				\$ 2,897,207	\$ 2,024,164	\$ 69,181	\$ 201,457	\$ 2,294,802	\$ 602,405
			94 PBI/Comm. Base Health Education CSH006710-02-0						
		7383	National Government	40,000	-	-	-	-	40,000
	93.268		95 Immunization H23/CCH904426-06						
		7393	National Government	315,751	121,840	-	146,529	268,369	47,382
		7394	Pohnpei	43,563	26,918	14,058	-	40,976	2,587
		7394	Chuuk	43,659	55,386	-	-	55,386	(11,727)
		7394	Kosrae	13,397	536	163	-	699	12,698
		7394	Yap	18,267	7,294	4,512	-	11,806	6,461
			Program Total	434,637	211,974	18,733	146,529	377,236	57,401
	93.116		95 Tuberculosis Control U52/CCU907874-04						
		7446	Unallotted	15,172	-	-	-	-	15,172
		7447	National Government	57,689	17,479	-	14,533	32,012	25,677
		7448	Pohnpei	20,194	10,509	6,439	-	16,948	3,246
		7448	Chuuk	25,883	15,291	3,670	-	18,961	6,922
		7448	Kosrae	13,809	3,315	4,742	-	8,057	5,752
		7448	Yap	17,876	5,381	7,876	-	13,257	4,619
			Program Total	150,623	51,975	22,727	14,533	89,235	61,388
	93.958		95 CMHS 95 B1 FM CMHS						
		7450	National Government	102,115	-	-	96,350	96,350	5,765
			Balance forward	3,624,582	2,288,113	110,641	458,869	2,857,623	766,959

See accompanying notes to schedule of federal financial assistance.

**NATIONAL GOVERNMENT  
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Grantor	CFDA No.	FSM Org. No.	Grant Title Grant I.D. No.	Total Authorization	Prior Expenditures	1996 Fiscal Year Expenditures		Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures
						Subrecipient	National Government		
U.S. Federal Direct Assistance Fund									
U.S. DHHS balance forwarded				\$ 3,624,582	\$ 2,288,113	\$ 110,641	\$ 458,869	\$ 2,857,623	\$ 766,959
	93.988		95 Diabetes U32/CU910641-02						
		3650	Unallotted	10,831	-	-	-	-	10,831
		3651	National Government	27,827	2,969	-	10,500	13,469	14,358
		3652	Pohnpei	8,400	-	-	-	-	8,400
		3652	Chuuk	8,400	-	-	-	-	8,400
		3652	Kosrae	8,400	-	1,302	-	1,302	7,098
		3652	Yap	8,400	1,787	6,226	-	8,013	387
			Program Total	72,258	4,756	7,528	10,500	22,784	49,474
	93.110		95 SSDI 5 MCI-647046-02						
		7387	National Government	34,250	17,000	-	-	17,000	17,250
		7388	Pohnpei	10,560	2,900	-	-	2,900	7,660
		7388	Chuuk	21,989	9,382	7,852	-	17,234	4,755
		7388	Kosrae	21,601	21,292	-	-	21,292	309
		7388	Yap	11,600	8,744	(1)	-	8,743	2,857
			Program Total	100,000	59,318	7,851	-	67,169	32,831
	93.977		95 STD H25/CCH904363-05						
		7390	National Government	31,673	15,399	-	8,618	24,017	7,656
		7391	Pohnpei	6,300	5,083	915	-	5,998	302
			Program Total	37,973	20,482	915	8,618	30,015	7,958
	93.224		95 CHC CSH901774-10-0						
		7390	Pohnpei	142,362	110,135	29,936	-	140,071	2,291
			Balance forward	3,977,175	2,482,804	156,871	477,987	3,117,662	859,513

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Grantor	CFDA No.	FSM Org. No.	Grant Title Grant I.D. No.	Total Authorization	Prior Expenditures	1996 Fiscal Year Expenditures		Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures
						Subrecipient	National Government		
U.S. Federal Direct Assistance Fund									
U.S. DHHS balance forwarded				\$ 3,977,175	\$ 2,482,804	\$ 156,871	\$ 477,987	\$ 3,117,662	\$ 859,513
	93.940		95 AIDS Prevention U62/CCU902703-09						
		7439	Unallotted	23,033	-	-	-	-	23,033
		7440	National Government	5,224	4,718	-	397	5,115	109
		7441	Pohnpei	14,071	8,562	3,667	-	12,229	1,842
		7441	Chuuk	10,737	10,581	2,327	-	12,908	(2,171)
		7441	Kosrae	14,235	4,693	2,200	-	6,893	7,342
		7441	Yap	7,000	2,578	1,666	-	4,244	2,756
			Program Total	74,300	31,132	9,860	397	41,389	32,911
	93.118		95 AIDS Surveillance U62/CCU906251-05						
		7396	National Government	13,415	2,632	-	2,671	5,303	8,112
	93.994		95 MCH 95B1FMMCHS						
		7442	Unallotted	8,519	-	-	-	-	8,519
		7443	National Government	54,490	1,026	-	42,177	43,203	11,287
		7444	National Government	136,382	30,648	-	57,417	88,065	48,317
		7445	Pohnpei	97,777	-	84,360	-	84,360	13,417
		7445	Chuuk	37,834	14,074	14,658	-	28,732	9,102
		7445	Kosrae	55,917	-	50,918	-	50,918	4,999
		7445	Yap	64,484	-	57,505	-	57,505	6,979
		7490	Pohnpei	11,943	-	11,943	-	11,943	-
		7490	Kosrae	4,821	-	4,821	-	4,821	-
		7490	Chuuk	71,480	-	-	57,491	57,491	13,989
			Program Total	543,647	45,748	224,205	157,085	427,038	116,609
			Balance forward	4,608,537	2,562,316	390,936	638,140	3,591,392	1,017,145

See accompanying notes to schedule of federal financial assistance.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**  
Schedule of Federal Financial Assistance, Continued  
By Grantor  
Year Ended September 30, 1996

Grantor	CFDA No.	FSM Org. No.	Grant Title Grant I.D. No.	Total Authorization	Prior Expenditures	1996 Fiscal Year Expenditures		Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures
						Subrecipient	National Government		
U.S. Federal Direct Assistance Fund									
U.S. DHHS balance forwarded				\$ 4,608,537	\$ 2,562,316	\$ 390,936	\$ 638,140	\$ 3,591,392	\$ 1,017,145
	93.217		96 Family Planning 09H-001777-10-0						
		7437	Unallotted	15,000	-	-	5,558	5,558	9,442
		7438	Pohnpei	42,096	8,598	18,444	-	27,042	15,054
		7438	Chuuk	18,010	8,916	5,627	-	14,543	3,467
		7438	Kosrae	24,510	-	17,167	-	17,167	7,343
		7438	Yap	24,190	1,783	17,240	-	19,023	5,167
		7438	Chuuk	32,547	-	-	29,955	29,955	2,592
			Program Total	156,353	19,297	58,478	35,513	113,288	43,065
	93.959		95 Substance Abuse Prevention & Treatment 95 B1 FM SAPT						
		3653	Unallotted	1,761	-	-	-	-	1,761
		3654	National Government	125,488	-	-	106,165	106,165	19,323
		3655	Pohnpei	90,100	-	86,207	-	86,207	3,893
		3655	Kosrae	44,100	-	37,306	-	37,306	6,794
		7438	Yap	27,000	-	17,818	-	17,818	9,182
		7438	Pohnpei	16,900	-	14,439	-	14,439	2,461
		7438	Yap	32,900	-	26,870	-	26,870	6,030
		7438	Chuuk	111,090	-	-	86,288	86,288	24,802
		7438	Chuuk	500	-	-	-	-	500
		7438	Chuuk	14,270	-	-	7,089	7,089	7,181
			Program Total	464,109	-	182,640	199,542	382,182	81,927
	93.110		96 State System Dev. Init. 5 MCJ-64T046-03						
		3648	National Government	89,434	-	-	72,817	72,817	16,617
		3649	Kosrae	6,777	-	4,043	-	4,043	2,734
		3642	Chuuk	3,789	-	-	2,977	2,977	812
			Program Total	100,000	-	4,043	75,794	79,837	20,163
			Balance forward	5,328,999	2,581,613	636,097	948,989	4,166,699	1,162,300

See accompanying notes to schedule of federal financial assistance.



**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**  
Schedule of Federal Financial Assistance, Continued  
By Grantor  
Year Ended September 30, 1996

Grantor	CFDA No.	FSM Org. No.	Grant Title Grant I.D. No.	Total Authorization	Prior Expenditures	1996 Fiscal Year Expenditures		Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures
						Subrecipient	National Government		
U.S. Federal Direct Assistance Fund									
U.S. DHHS balance forwarded				\$ 5,328,999	\$ 2,581,613	\$ 636,097	\$ 948,989	\$ 4,166,699	\$ 1,162,300
	93.116		96 Tuberculosis & AIDS. U52/CCU907874-05						
		3663	Unallotted	2,505	-	-	-	-	2,505
		3664	National Government	44,919	-	-	20,253	20,253	24,666
		3665	Pohnpei	28,854	-	15,353	-	15,353	13,501
		3665	Kosrae	19,892	-	15,799	-	15,799	4,093
		3665	Yap	24,809	-	18,707	-	18,707	6,102
		3666	Chuuk	29,644	-	-	18,191	18,191	11,453
			Program Total	150,623	-	49,859	38,444	88,303	62,320
	93.268		96 Immunization Program H23/CCH904426-07						
		3668	National Government	318,097	-	-	108,782	108,782	209,315
		3669	Pohnpei	51,418	-	29,027	-	29,027	22,391
		3669	Kosrae	11,350	-	3,867	-	3,867	7,483
		3669	Yap	24,720	-	4,768	-	4,768	19,952
		3670	Chuuk	59,850	-	-	32,752	32,752	27,098
			Program Total	465,435	-	37,662	141,534	179,196	286,239
	93.991		95 Preventive Health & PH 95-B1-FM-PRVS						
		3644	National Government	28,325	-	-	20,764	20,764	7,561
		3645	Pohnpei	21,917	-	5,475	-	5,475	16,442
		3645	Kosrae	13,500	-	9,090	-	9,090	4,410
		3645	Yap	16,871	-	13,442	-	13,442	3,429
		3646	Chuuk	23,591	-	-	17,214	17,214	6,377
			Program Total	104,204	-	28,007	37,978	65,985	38,219
	93.977		96 Sexually Trans. Diseases H58/CCH904363-06						
		3660	Unallotted	750	-	-	-	-	750
		3661	National Government	33,550	-	-	22,781	22,781	10,769
		3662	Pohnpei	7,075	-	6,058	-	6,058	1,017
			Program Total	41,375	-	6,058	22,781	28,839	12,536
			Balance forward	6,090,636	2,581,613	757,683	1,189,726	4,529,022	1,561,614

See accompanying notes to schedule of federal financial assistance.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**  
Schedule of Federal Financial Assistance, Continued  
By Grantor  
Year Ended September 30, 1996

Grantor	CFDA No.	FSM Org. No.	Grant Title Grant I.D. No.	Total Authorization	Prior Expenditures	1996 Fiscal Year Expenditures		Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures
						Subrecipient	National Government		
U.S. Federal Direct Assistance Fund									
U.S. DHHS balance forwarded				\$ 6,090,636	\$ 2,581,613	\$ 757,683	\$ 1,189,726	\$ 4,529,022	\$ 1,561,614
	93.940		96 AIDS Prevention U62/CCU902703-10						
		3644	Unallotted	23,733	-	-	-	-	23,733
		3644	National Government	21,520	-	-	10,151	10,151	11,369
		3645	Pohnpei	11,789	-	2,793	-	2,793	8,996
		3645	Kosrae	8,020	-	4,713	-	4,713	3,307
		3646	Chuuk	9,236	-	-	5,071	5,071	4,165
			Program Total	74,298	-	7,506	15,222	22,728	51,570
	93.163		96 Community Health Center CSH901774-11-0						
		3673	Pohnpei	142,362	-	84,703	-	84,703	57,659
	93.994		96 MCH Program 96-B1-FM-MCHS						
		3684	Unallotted	130,997	-	-	-	-	130,997
		3685	National Government	49,081	-	-	526	526	48,555
		3686	National Government	42,097	-	-	38,111	38,111	3,986
		3688	Chuuk	100,407	-	-	-	-	100,407
		3689	Pohnpei	97,907	-	213	-	213	97,694
		3689	Kosrae	55,917	-	-	-	-	55,917
		3689	Yap	61,957	-	3,922	-	3,922	58,035
			Program Total	538,363	-	4,135	38,637	42,772	495,591
	93.283		96 Nutrition Intervention H75/CCH912116-01						
		3691	National Government	10,896	-	-	-	-	10,896
	93.217		97 Family Planning 09H-001777-11-0						
		3675	Pohnpei	41,962	-	1,884	-	1,884	40,078
		3675	Kosrae	24,604	-	2,339	-	2,339	22,265
		3675	Yap	28,690	-	7,398	-	7,398	21,292
		3676	Chuuk	46,097	-	-	5,286	5,286	40,811
			Program Total	141,353	-	11,621	5,286	16,907	124,446
			Balance forward	6,997,908	2,581,613	865,648	1,248,871	4,696,132	2,301,776

See accompanying notes to schedule of federal financial assistance.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**  
Schedule of Federal Financial Assistance, Continued  
By Grantor  
Year Ended September 30, 1996

Grantor	CFDA No.	FSM Org. No.	Grant Title Grant I.D. No.	Total Authorization	Prior Expenditures	1996 Fiscal Year Expenditures		Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures
						Subrecipient	National Government		
U.S. Federal Direct Assistance Fund									
U.S. DHHS balance forwarded				\$ 6,997,908	\$ 2,581,613	\$ 865,648	\$ 1,248,871	\$ 4,696,132	\$ 2,301,776
	93.959		96 Substance Abuse Prevention & Treatment 96-B1-FM-SAPT						
		3692	Unallotted	439,109	-	-	-	-	439,109
		3693	National Government	25,000	-	-	-	-	25,000
			Program Total	464,109	-	-	-	-	464,109
	93.988		96 Diabetes Program U32/CCU910641-03						
		3695	National Government	7,369	-	-	1,015	1,015	6,354
		3696	Pohnpei	13,965	-	-	-	-	13,965
		3696	Kosrae	13,955	-	-	-	-	13,955
		3696	Yap	13,955	-	33	-	33	13,922
		3697	Chuuk	15,015	-	-	-	-	15,015
			Program Total	64,259	-	33	1,015	1,048	63,211
	93.958		96 Community Mental Health 96-B1-FM-CMHS						
		3698	Unallotted	102,115	-	-	-	-	102,115
			Total U.S. Dept. of Health and Human Services	\$ 7,628,391	\$ 2,581,613	\$ 865,681	\$ 1,249,886	\$ 4,697,180	\$ 2,931,211

See accompanying notes to schedule of federal financial assistance.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**  
Schedule of Federal Financial Assistance, Continued  
By Grantor  
Year Ended September 30, 1996

Grantor	CFDA No.	FSM Org. No.	Grant Title Grant I.D. No.	Total Authorization	Prior Expenditures	Fiscal Year 1996 Expenditures		Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures
						Subrecipient	National Government		
U.S. Federal Direct Assistance Fund									
Federal Emergency Management Agency (FEMA)									
	83.516		FEMA-934-DR-FSM Typhoon Axel PA						
		3842	National Government/Admin.	\$ 13,313	\$ 12,461	\$ -	\$ -	\$ 12,461	\$ 852
		3837	Pohnpei	619,077	11,131	98,916	-	110,047	509,030
		3837	Kosrae	36,184	-	-	-	-	36,184
			Program Total	668,574	23,592	98,916	-	122,508	546,066
	83.516		FEMA -886-DR-FSM Typhoon Owen IFG Chuuk						
		3826		6,406,904	6,188,383	-	-	6,188,383	218,521
	83.516		FEMA -886-DR-FSM Typhoon Owen PA						
		3820	Chuuk	1,667,674	21,331	60,514	-	81,845	1,585,829
		3821	Yap	822,353	-	-	-	-	822,353
		3824	National Government	40,771	-	-	-	-	40,771
		3830	National Government	33,472	-	-	-	-	33,472
			Program Total	2,564,270	21,331	60,514	-	81,845	2,482,425
	83.516		FEMA-892-FSM Typhoon Russ PA						
		3823	Pohnpei	324,200	550,414	10,471	-	560,885	(236,685)
		3829	National	8,213	-	-	-	-	8,213
			Program Total	332,413	550,414	10,471	-	560,885	(228,472)
	83.516		FEMA-892-DR-FSM Typhoon Russ IFG Pohnpei						
		3828		129,401	123,481	-	-	123,481	5,920
	83.516		FEMA-926-DR-FSM Typhoon Yuri PA						
		3834	Pohnpei	647,938	2,423	47	-	2,470	645,468
		3840	Chuuk	25,478	1,581	-	-	1,581	23,897
		3841	National Government	3,484	367,513	-	-	367,513	(364,029)
		3842	National Government	15,814	-	-	-	-	15,814
			Program Total	692,714	371,517	47	-	371,564	321,150
	83.516		FEMA-926-FSM Typhoon Yuri IFG Pohnpei						
		3830		375,000	454,879	803	-	455,682	(80,682)
			Balance forward	11,169,276	7,733,597	170,751	-	7,904,348	3,264,928

See accompanying notes to schedule of federal financial assistance.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**  
Schedule of Federal Financial Assistance, Continued  
By Grantor  
Year Ended September 30, 1996

Grantor	CFDA No.	FSM Org. No.	Grant Title Grant I.D. No.	Total Authorization	Prior Expenditures	Fiscal Year 1996 Expenditures		Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures
						Subrecipient	National Government		
U.S. Federal Direct Assistance Fund									
FEMA balance forwarded				\$ 11,169,276	\$ 7,733,597	\$ 170,751	\$ -	\$ 7,904,348	\$ 3,264,928
	83.505	3839	EMF-92-K-0399 National Government	50,000	38,186	-	-	38,186	11,814
	83.505	3845	93 Disaster Preparedness EMF-93-K-0405 National Government	50,000	30,391	-	-	30,391	19,609
	83.505	3866	94 Disaster Preparedness EMF-94-K-0435 National Government	25,000	17,694	-	-	17,694	7,306
	83.505	3867	95 Disaster Preparedness-IG EMF-95-K-0565 Unallotted	1,000	-	-	-	-	1,000
		3868	National Government	49,000	24,486	-	18,856	43,342	5,658
				50,000	24,486	-	18,856	43,342	6,658
	83.505	3868	96 Disaster Preparedness EMF-96-PA-0606 National Government	50,000	24,486	-	29,901	54,387	(4,387)
	83.519		Hazard Mitigation FEMA-886-FSM						
		3846	Unallotted	4,200	-	-	-	-	4,200
		3847	National Government	12,179	2,017	-	2,093	4,110	8,069
		3854	Chuuk	80,000	70,474	9,526	-	80,000	-
		3855	Yap	21,003	17,097	-	-	17,097	3,906
		3856	Yap	313,716	93,453	-	-	93,453	220,263
		3857	Yap	112,385	109,584	-	-	109,584	2,801
		3836	Yap	79,147	-	-	-	-	79,147
			Program Total	622,630	292,625	9,526	2,093	304,244	318,386
	83.519		Hazard Mitigation FEMA-892-FSM						
		3848	Unallotted	744	-	-	-	-	744
		3852	National Government	394	-	-	-	-	394
			Pohnpei	12,398	1,798	-	-	1,798	10,600
			Program Total	13,536	1,798	-	-	1,798	11,738
			Balance forward	12,030,442	8,163,263	180,277	50,850	8,394,390	3,636,052

See accompanying notes to schedule of federal financial assistance.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**  
Schedule of Federal Financial Assistance, Continued  
By Grantor  
Year Ended September 30, 1996

Grantor	CFDA No.	FSM Org. No.	Grant Title Grant I.D. No.	Total Authorization	Prior Expenditures	Fiscal Year 1996 Expenditures		Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures
						Subrecipient	National Government		
U.S. Federal Direct Assistance Fund									
FEMA balance forwarded				\$ 12,030,442	\$ 8,163,263	\$ 180,277	\$ 50,850	\$ 8,394,390	\$ 3,636,052
	83.519		Hazard Mitigation FEMA-926-FSM						
		3849	National Government	7,224	1,302	-	-	1,302	5,922
		3851	Pohnpei	9,308	5,608	928	-	6,536	2,772
		3858	Pohnpei	23,202	23,202	-	-	23,202	-
		3859	Pohnpei	207,700	146,516	27,003	-	173,519	34,181
			Program Total	247,434	176,628	27,931	-	204,559	42,875
	83.519		Hazard Mitigation FEMA-934-FSM						
		3850	National Government	1,846	-	-	-	-	1,846
		3860	Kosrae	3,329	-	-	-	-	3,329
		3861	Kosrae	58,216	-	-	-	-	58,216
			Program Total	63,391	-	-	-	-	63,391
	83.519		Hazard Management Cost FEMA-886-934						
		3862	Unallotted	1,600	-	-	-	-	1,600
		3864	Chuuk	36,000	4,980	4,047	-	9,027	26,973
		3864	Yap	32,000	9,624	-	-	9,624	22,376
		3864	Pohnpei	10,400	-	-	-	-	10,400
		3853	National Government	9,455	-	-	-	-	9,455
			Program Total	89,455	14,604	4,047	-	18,651	70,804
			Total Federal Emergency Management Agency	\$ 12,430,722	\$ 8,354,495	\$ 212,255	\$ 50,850	\$ 8,617,600	\$ 3,813,122

See accompanying notes to schedule of federal financial assistance.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**  
Schedule of Federal Financial Assistance, Continued  
By Grantor  
Year Ended September 30, 1996

Grantor	CFDA No.	FSM Org. No.	Grant Title Grant I.D. No.	Total Authorization	Prior Expenditures	Fiscal Year 1996 Expenditures		Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures
						Subrecipient	National Government		
U.S. Federal Direct Assistance Fund									
U.S. Department of Transportation - Federal Aviation Administration	20.106	N/A	Chuuk International Airport	\$ 721,000	\$ 688,053	\$ -	\$ -	\$ 688,053	\$ 32,947
			Total U.S. Federal Aviation Administration	\$ 721,000	\$ 688,053	\$ -	\$ -	\$ 688,053	\$ 32,947
National Oceanic and Atmospheric Admin.	11.460	N/A	National Government	\$ 2,004,481	\$ 1,875,368	\$ -	\$ 722,863	\$ 2,598,231	\$ (593,750)
			Total National Oceanic and Atmospheric Administration	\$ 2,004,481	\$ 1,875,368	\$ -	\$ 722,863	\$ 2,598,231	\$ (593,750)
			Total U.S. Federal Direct Assistance	\$ 49,125,989	\$ 30,411,987	\$ 4,900,373	\$ 3,933,144	\$ 39,245,504	\$ 9,880,485

See accompanying notes to schedule of federal financial assistance.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Non U.S. Direct Assistance Grants  
Statement of Expenditures By Grantor  
Year Ended September 30, 1996

Grantor	Org. No.	Grantor Title	1996 Fiscal Year Expenditures National Government
<b>Other Direct Assistance Fund:</b>			
World Health Organization	3905	Primary Health/Support	\$ 510
	3915	Family Planning Admin.	328
	3970	Health Promotion Workshop	1,451
	3971	Health Workforce Planning	4,832
	3972	Breastfeeding Workshop	7,773
	3976	FY89 Leprosy	36,254
	7413	Tuberculosis Control	1,557
	7415	Health Planning	13,511
	7429	Vital Statistics Workshop	15,688
	7433	EPI/CDD Training/Workshop	500
	7434	Food Safety Training	1,063
	7803	AIDS Prevention Control	15,974
	7838	FY92 Family Health Planning	46,540
			<u>145,981</u>
South Pacific Commission Grants	3902	Integration Population Workshop	9,365
	7426	FSM Port Sampling	5,854
	7428	Capital Building For S. Dev.	23,650
		<u>38,869</u>	
United Nations	3975	Micronesia Entrepreneur Development	38,279
	7424	FY94 Population and Housing Census	31,152
	3924	Breastfeeding Workshop	2,500
	7401	Vitamin A Project	215
	7404	Family Food Production	26,748
	7821	EPI/CDD Training	2,350
	7834	TCP/Nutrition Program	26,380
		<u>127,624</u>	
Forum Fisheries Agency	3906	Regional and Internal Meeting	10,884
	7845	Chuuk Port Sampling	40,059
		<u>50,943</u>	
Australian Government Grants	3951	FSM Animal Diseases Survey	2,097
	3952	National Nutrition Workshop	8,000
	7436	Micronesia Women Caucus	6,377
	7808	Micronesia Patient Admin.	2,593
		<u>19,067</u>	
		<u>382,484</u>	
		Balance forward	382,484

See accompanying notes to schedule of federal financial assistance.



**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Non U.S. Direct Assistance Grants  
Statement of Expenditures By Grantor  
Year Ended September 30, 1996

Grantor	Org. No.	Grantor Title	1996 Fiscal Year Expenditures National Government
Other Direct Assistance Fund, Balance Forwarded			\$ 382,484
Korea Grant	3904	Leprosy Program	98
Japan Foreign Assistance	3935	Hansens Disease	200
New Zealand Foreign Assistance	7435	Data Information Workshop	6,000
Forum Secretariat-SPC	7408	Energy Sector Training	505
		Total Non-U.S. Grants	\$ 389,287
		Total U.S. Federal Direct Assistance and Non-U.S. Grants Expenditures	\$ 4,326,426
Reconciliation to general-purpose financial statements			
Balance per the above			\$ 4,326,426
Less amounts which relate to foreign grants			(389,287)
Net federal share			\$ 3,937,139
Amount per general-purpose financial statements			\$ 4,207,105
Add amount included in financials which relate to OTIA (page 118)			119,321
			\$ 4,326,426

See accompanying notes to schedule of federal financial assistance.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Federal Financial Assistance, Continued  
By Grantor  
Year Ended September 30, 1996

Grantor	CFDA No.	FSM Org. No.	Grant Title Grant I.D. No.	Total Authorization	Prior Expenditures	1996 Fiscal Year Expenditures		Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures
						Subrecipient	National Government		
<u>OTIA TECHNICAL ASSISTANCE:</u>									
	15.875								
FSM-24		3487	Automated Land Record System	\$ 43,866	\$ 50,840	\$ -	\$ -	\$ 50,840	\$ (6,974)
N/A		7888	Land Survey Record	30,000	21,460	-	-	21,460	8,540
FSM-25		3488	Financial Advisor	133,000	-	-	-	-	133,000
N/A		3488	Computer Advisor	56,000	55,596	-	-	55,596	404
FSM-38		3505	Economic Newsletter	200,020	158,571	-	-	158,571	41,449
N/A		3506	Single Audit	340,000	16,231	-	-	16,231	323,769
FSM-35		3511	National Health Care Plan	22,900	16,827	-	-	16,827	6,073
N/A		3512	Single Audit 88	375,000	366,699	-	-	366,699	8,301
FSM-31		3513	Financial Management System	252,655	237,495	-	-	237,495	15,160
FSM-44		7507	Anti-Drug Training	28,170	11,515	-	-	11,515	16,655
FSM-45		7508	Comprehensive Needs	379,450	378,322	-	-	378,322	1,128
FSM-46		7509	Procurement Management Training	13,600	12,054	-	-	12,054	1,546
N/A		7510	Single Audit '89	350,000	348,915	-	-	348,915	1,085
FSM-48		7512	Cash Management Study	45,000	35,000	-	-	35,000	10,000
FSM-50		7514	Improvement of Radiology	14,200	14,200	-	-	14,200	-
FSM-47		7515	Custom Advisor	96,000	84,165	-	-	84,165	11,835
N/A		7516	Single Audit 90	350,000	328,347	-	-	328,347	21,653
FSM-51		7517	Intercensal Survey	4,000	4,000	-	-	4,000	-
FSM-53		7518	Material Man. Works	6,000	4,979	-	-	4,979	1,021
FSM-55		7852	Kosrae Sec. Dev. Plan	50,000	25,000	-	-	25,000	25,000
FSM-54		7853	Vital Statistics	24,576	22,820	-	-	22,820	1,756
FSM-56		7854	Tourism Educ. Video	32,000	26,351	-	-	26,351	5,649
FSM-57		7855	Short-Term Health	40,000	31,000	-	-	31,000	9,000
FSM-58		7856	Pohnpei Utilities Corporation	110,000	99,383	-	-	99,383	10,617
N/A		7857	FY-91 Single Audit	355,000	353,105	-	-	353,105	1,895
OMIP-FSM-91		7859	FSM Capital Comp.	61,360	44,808	-	2,810	47,618	13,742
FSM-59		7863	IMPS	5,200	4,569	-	-	4,569	631
OMIP-Pohnpei-91-1		7864	Initial. of PUC	430,250	422,767	-	-	422,767	7,483
PIR-91-1-FSM		7866	Detector Dog Prog.	45,000	33,797	-	1,540	35,337	9,663
PIR-91-2-FSM		7867	On-Island Anti-Substance Abuse	25,000	15,742	-	-	15,742	9,258
			Balance forward	3,918,247	3,224,558	-	4,350	3,228,908	689,339

See accompanying notes to schedule of federal financial assistance.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Federal Financial Assistance, Continued  
By Grantor  
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Grantor	CFDA No.	FSM Org. No.	Grant Title Grant I.D. No.	Total Authorization	Prior Expenditures	1996 Fiscal Year Expenditures		Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures
						Subrecipient	National Government		
OTIA Technical Assistance balance forwarded				\$ 3,918,247	\$ 3,224,558	\$ -	\$ 4,350	\$ 3,228,908	\$ 689,339
PIR-91-3-FSM		7868	PIRAAP Conference	15,000	13,531	-	-	13,531	1,469
PIR-91-5-FSM		7869	PIRAAP Ranger Train.	4,000	2,892	-	-	2,892	1,108
PIR-91-8-FSM		7870	ONDCP Conference	3,000	1,180	-	-	1,180	1,820
PIR-91-9-FSM		7871	FBI Regional Training	5,000	4,727	-	-	4,727	273
OMIP-KOS-91-1		7872	Kosrae School Maintenance	75,000	71,134	-	-	71,134	3,866
OMIP-KOS-91-8		7873	Kosrae Vocational Education	25,000	10,474	-	-	10,474	14,526
OMIP-KOS-91-1		7874	Public Works reorganization	91,000	90,862	-	-	90,862	138
N/A		7882	FY-92 Single Audit	365,000	358,641	-	-	358,641	6,359
N/A		3482	Computer Training	9,679	110	-	-	110	9,569
FSM-30		3493	Marketing Study	35,000	11,666	-	-	11,666	23,334
FSM-49		7513	Hospital Lab mgm't imp	25,800	20,017	-	-	20,017	5,783
FSM-60		7885	93 Census Workshop	3,600	2,864	-	-	2,864	736
FSM-61		7886	Economic Newsletter	84,250	84,250	-	-	84,250	-
FSM-64		7896	Tourism Master Plan	85,596	65,347	-	5,318	70,665	14,931
FSM-63		7890	Environmental Management Spec.	30,500	30,829	-	-	30,829	(329)
FSM-62		7887	Supply & Pharmacy	9,440	7,534	-	-	7,534	1,906
FSM-66		7304	Firearms Training	33,000	21,329	-	-	21,329	11,671
PIR-91-18-FSM		7899	FBI Reg. Train	3,000	988	-	-	988	2,012
PIR-92-20-FSM		7881	DUI Breathalyzer	25,200	4,827	-	-	4,827	20,373
PIR-91-13-FSM		7897	Secure Faxnet System	12,000	11,500	-	-	11,500	500
PIR-91-17-FSM		7898	Anti-Drug Youth	60,000	20,978	-	-	20,978	39,022
PIR-91-11-FSM		7884	Comm. Base Trainer	79,000	64,752	-	-	64,752	14,248
PIR-91-19-FSM		7883	Cook Support Proj.	12,000	3,221	-	120	3,341	8,659
OMIP-CHUUK-91-1		7894	Dept. Ed. O&M	180,137	11,263	43,391	-	54,654	125,483
OMIP-CHUUK-91-1		7893	Road Disp. Repair	259,863	54,190	26,778	-	80,968	178,895
OMIP-KOS-91-1		7892	Power System O&M	232,000	33,705	-	-	33,705	198,295
OMIP-KOS-91-1		7874	Reorgan. PUC	91,000	-	-	-	-	91,000
OMIP-KOS-91-1		7889	Kosrae Util. Auth.	101,500	79,559	-	-	79,559	21,941
FSM-67		7305	Yap Historic Preserv	13,000	10,630	-	-	10,630	2,370
Balance forward				5,886,812	4,317,558	70,169	9,788	4,397,515	1,489,297

See accompanying notes to schedule of federal financial assistance.

**NATIONAL GOVERNMENT  
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Schedule of Federal Financial Assistance, Continued  
By Grantor  
Year Ended September 30, 1996

Grantor	CFDA No.	FSM Org. No.	Grant Title Grant I.D. No.	Total Authorization	Prior Expenditures	1996 Fiscal Year Expenditures		Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures
						Subrecipient	National Government		
OTIA Technical Assistance balance forwarded				\$ 5,886,812	\$ 4,317,558	\$ 70,169	\$ 9,788	\$ 4,397,515	\$ 1,489,297
FSM-68		7307	Statistics Workshop	6,500	4,443	-	-	4,443	2,057
FSM-69		7329	Micro. Invest Qrtly	84,250	84,250	-	-	84,250	-
FSM-70		7318	US/FSM Econ. Cons.	20,000	19,826	-	-	19,826	174
FSM-72		7322	Pharmac. Workshop	6,000	4,267	-	-	4,267	1,733
FSM-74		7328	Med. Epidem. Train	13,232	9,405	-	-	9,405	3,827
N/A		7300	FY-93 Single Audit	404,000	398,757	-	-	398,757	5,243
N/A		7319	FSM National Census	500,000	424,963	-	38,406	463,369	36,631
PIR/93-24-FSM		7309	On-Is. Anti-Sub Conf.	25,000	21,131	-	-	21,131	3,869
PIR/93-25-FSM		7310	PIRAAP Rev. Meet.	25,000	17,058	-	820	17,878	7,122
PIR/93-26-FSM		7311	DOI/US Army Training	20,000	-	-	6,199	6,199	13,801
PIR/93-27-FSM		7312	FBI Pac. Training	11,000	9,735	-	-	9,735	1,265
PIR/93-28-FSM		7313	Anti-Sub. Abuse PSA	10,000	2,718	-	3,014	5,732	4,268
PIR/93-30-FSM		7314	Altern. Youth Actv.	60,000	400	-	12,638	13,038	46,962
PIR/93-34-FSM		7315	Kos. Anti-Sub. Abuse	150,000	-	45,432	-	45,432	104,568
PIR/93-35-FSM		7327	DARE Training	30,000	28,054	-	-	28,054	1,946
OMIP-POHN-93-2		7306	Water, Sewer Develop	810,000	426,266	-	-	426,266	383,734
OMIP-POHN-93-3		7317	Elect. Utility Dev.	273,468	221,543	-	-	221,543	51,925
OMIP-POHN-91-5		7323	Hosp. Maint. Imprv	140,420	66,616	44,336	-	110,952	29,468
OMIP-CHUUK-91-1		7895	Water & Sewer O&M	50,000	48,337	-	-	48,337	1,663
OMIP-CHUUK-91-1		7316	Public Util. Corp	140,000	23,299	439	-	23,738	116,262
OMIP-KOS-91-1		7321	Elec. & Power Sys.	108,000	-	-	-	-	108,000
OMIP-KOS-91-2		7891	Maint. Repr Hosp.	20,000	-	20,000	-	20,000	-
OMIP-KOS-93-1		7320	School Maint. Prog	125,000	-	65,386	-	65,386	59,614
FSM-73		7333	Health Care Worker	9,750	3,729	-	-	3,729	6,021
FSM-75		7332	Eliminate VAD Chuuk	18,796	15,776	-	-	15,776	3,020
FSM-76		7335	Statistics Workshop	17,500	12,890	-	-	12,890	4,610
N/A		7334	94 Single Audit	619,000	506,497	-	110,573	617,070	1,930
PIR-36-1-FSM		7337	Dare Training	20,000	-	-	-	-	20,000
PIR-36-2-FSM		7338	Criminal Prosecution	60,000	-	-	21,664	21,664	38,336
Balance forward				9,663,728	6,667,518	245,762	203,102	7,116,382	2,547,346

See accompanying notes to schedule of federal financial assistance.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Federal Financial Assistance, Continued  
By Grantor  
Year Ended September 30, 1996

Grantor	CFDA No.	FSM Org. No.	Grant Title Grant I.D. No.	Total Authorization	Prior Expenditures	1996 Fiscal Year Expenditures		Total Program Expenditures	Excess Authorizations Over Program Expenditures (Deficit)
						Subrecipient	National Government		
OTIA Technical Assistance balance forwarded				\$ 9,663,728	\$ 6,667,518	\$ 245,762	\$ 203,102	\$ 7,116,382	\$ 2,547,346
PIR-36-3-FSM		7339	Regional Law Enforcement	48,000	24,094	-	1,124	25,218	22,782
PIR-36-4-FSM		7340	Regional Law Enforcement Equip.	40,000	-	-	7,258	7,258	32,742
PIR-36-5-FSM		7341	Kosrae Youth Activities	30,000	-	-	-	-	30,000
PIR-36-7-FSM		7342	Pohnpei PADY	115,000	18,270	-	18,098	36,368	78,632
PIR-36-8-FSM		7343	Yap Youth Activities	53,000	-	-	-	-	53,000
PIR-36-9-FSM		7344	Chuuk Youth Activities	53,000	-	-	-	-	53,000
PIR-36-10-FSM		7345	FSM Detective Dog	15,000	11,900	-	-	11,900	3,100
PIR-36-11-FSM		7346	FSM Anti-Drug PSA	5,000	-	-	-	-	5,000
PIR-36-14-FSM		7347	On-island Conference	25,000	16,731	-	-	16,731	8,269
PIR-36-17-FSM		7348	Treatment Block Grant	100,000	-	-	21,067	21,067	78,933
N/A		7349	FY-95 Single Audit	630,000	-	-	511,909	511,909	118,091
OMIP-POHN-PUC-95-2		3621	PUC 2nd & 3rd Year	1,035,000	-	-	-	-	1,035,000
OMIP-POHN-PUC-95-1		3622	Finanical Comprehensive Analysis	71,000	-	-	-	-	71,000
OMIP-POHN-95-2		3626	Finanical Management 1st Year	108,500	17,821	81,539	-	99,360	9,140
OMIP-POHN-95-3		3627	95 Pohnpei OMIP Program	366,000	157	67,551	-	67,708	298,292
OMIP-KOS-94-1		7331	Upgrade C & E/Jail	11,500	-	2,399	-	2,399	9,101
OMIP-KOS-94-1		3504	Computer Aided Design	12,500	-	12,470	-	12,470	30
OMIP-KOS-94-1		3514	Technial Manual C & E	1,800	-	-	-	-	1,800
OMIP-KOS-94-1		7330	2nd Year DPW	314,000	-	13,020	-	13,020	300,980
OMIP-KOS-95-1		3623	Strengthening KUA 2nd Year	441,000	-	-	-	-	441,000
OMIP-KOS-95-3		3624	Solid Waste Management	50,000	-	-	-	-	50,000
OMIP-KOS-95-4		3625	Road Maintenance Management	130,000	-	44,806	-	44,806	85,194
OMIP-FSM-95-1		3629	COM Vocational Education	112,500	-	-	-	-	112,500
Total OTIA Technical Assistance Grants				\$ 13,431,528	\$ 6,756,491	\$ 467,547	\$ 762,558	\$ 7,986,596	\$ 5,444,932
Amount per general-purpose financial statements					\$ 881,879				
Less amounts whihc are classified in U.S. Direct Assistance Fund (See page 114)					(119,321)				
					\$ 762,558				

See accompanying notes to schedule of federal financial assistance.

**NATIONAL GOVERNMENT  
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Schedule of Federal Financial Assistance, Continued  
By Grantor  
Year Ended September 30, 1996

Grantor	CFDA No.	FSM Org. No.	Grant Title Grant I.D. No.	Total Authorization	Prior Expenditures	1996 Fiscal Year Expenditures		Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures
						Subrecipient	National Government		
<u>Subrecipient</u>									
<u>OTIA Special O&amp;M</u>									
	15.875		Yap O&M - 1,3	\$ 1,550,000	\$ 610,957	\$ -	\$ -	\$ 610,957	\$ 939,043
			Kosrae O&M - 1,1A,2	1,480,000	284,189	-	-	284,189	1,195,811
			Pohnpei O&M 1,2,3,4,5,6,7,8	2,185,000	1,010,684	-	-	1,010,684	1,174,316
			Chuuk O&M - 1,2,3	2,135,000	592,939	-	-	592,939	1,542,061
			Total O&M	<u>\$ 7,350,000</u>	<u>\$ 2,498,769</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,498,769</u>	<u>\$ 4,851,231</u>
<u>CFSM and OTIA/TTPI</u>									
<u>Capital Project Funds:</u>									
		6303	FSM Capitol Construction	\$ 13,320,000	\$ 13,317,773	\$ -	\$ -	\$ 13,317,773	\$ 2,227
		6304	Pohnpei Airport Terminal Design and Constructions	438,544	152,917	-	-	152,917	285,627
		6305	Kolonia Water Sewer Improvement Project	2,007,000	1,678,671	-	-	1,678,671	328,329
		6306	Staff House Renovation	250,000	246,767	-	-	246,767	3,233
		6307	COM-Palikir Campus Proj.	3,979,040	2,681,503	-	1,297,537	3,979,040	-
		6308	Pohnpei Rural Sanitation	277,500	245,511	-	-	245,511	31,989
		6309	Pohnpei Circumferential Road	1,775,000	234,361	-	-	234,361	1,540,639
		6311	Kolonia Roadside Drainage	485,000	450,756	-	-	450,756	34,244
		6312	Supply Warehouse	38,087	-	-	-	-	38,087
		6313	COM-Palikir Compus Proj	-	3,356,303	-	592,266	3,948,569	(3,948,569)
		6314	Capital Complex & Road	40,760	21,678	-	13,968	35,646	5,114
		6315	CIP Administration-OPS	93,149	25,342	-	-	25,342	67,807
		6324	Kolonia House Sewer Connection	373,800	17,000	-	-	17,000	356,800
		6325	Kolonia Sanitary Facilities	189,000	189,001	-	-	189,001	(1)
		N/A	Capital Wells	39,213	-	-	-	-	39,213
			Total CFSM & OTIA/TTPI Capital Projects Funds	<u>\$ 23,306,093</u>	<u>\$ 22,617,583</u>	<u>\$ -</u>	<u>\$ 1,903,771</u>	<u>\$ 24,521,354</u>	<u>\$ (1,215,261)</u>

See accompanying notes to schedule of federal financial assistance.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**  
Schedule of Federal Financial Assistance, Continued  
By Grantor  
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Grantor	CFDA No.	FSM Org. No.	Grant Title Grant I.D. No.	Total Authorization	Prior Expenditures	1996 Fiscal Year Expenditures		Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures
						Subrecipient	National Government		
<u>Compact of Free Association Funding:</u>									
U.S. Office of Territorial and International Affairs (OTIA)	15.875								
			<u>Special Development Assistance Section 212</u>						
		2153	95 Special Development Assistance	\$ 500,000	\$ -	\$ -	\$ -	\$ -	\$ 500,000
			<u>Communications - Annual Section 215(a)(2)</u>						
		2232	95 Communications	876,000	846,000	-	876,000	1,722,000	(846,000)
			<u>Communications - One Time, Section 215(b)(2)</u>						
		2232	Telephone System	875,000	71,775	-	-	71,775	803,225
		2286	<u>Marine Surveillance, Section 216(a)(1)</u>	556,201	1,502,631	-	489,167	1,991,798	(1,435,597)
			<u>Health and Medical, Section 216(a)(2)</u>						
		2501	Local Capabilities	30,000	41,881	-	19,826	61,707	(31,707)
		2502	Health Team Visit	70,000	60,689	-	56,673	117,362	(47,362)
			Total Health and Medical	100,000	102,570	-	76,499	179,069	(79,069)
		2287	<u>Marine Surveillance, Section 216(b)</u>	187,395	195,570	-	177,361	372,931	(185,536)
			Balance forward	3,094,596	2,718,546	-	1,619,027	4,337,573	(1,242,977)

See accompanying notes to schedule of federal financial assistance.

**NATIONAL GOVERNMENT  
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Schedule of Federal Financial Assistance, Continued  
By Grantor  
Year Ended September 30, 1996

Grantor	CFDA No.	FSM Org. No.	Grant Title Grant I.D. No.	Total Authorization	Prior Expenditures	1996 Fiscal Year Expenditures		Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures
						Subrecipient	National Government		
Compact Funding balance forwarded				\$ 3,094,596	\$ 2,718,546	\$ -	\$ 1,619,027	\$ 4,337,573	\$ (1,242,977)
<u>Special Block Grant, Section 221(b)</u>									
	2002		Nutrition Serv.	5,000	27,935	-	4,238	32,173	(27,173)
	2004		Tuberculosis Program	15,000	14,794	-	9,217	24,011	(9,011)
	2005		Leptosporosis/O/Ch	10,000	6,257	-	-	6,257	3,743
	2005		Leptosporosis Control	5,500	-	-	2,553	2,553	2,947
	2012		Lep/Den/Cholera Program	20,000	2,985	-	-	2,985	17,015
	2017		Lep/Denguel/Cholera	90,000	32,986	-	-	32,986	57,014
	2018		Lep/Denguel/Cholera	10,000	-	-	-	-	10,000
	2019		Lep/Denguel/Cholera	20,000	3,660	-	-	3,660	16,340
	2051		Hansen Disease	5,000	3,991	-	761	4,752	248
	2053		Mental Health Serv.	14,000	34,981	-	6,190	41,171	(27,171)
	2054		Maternal and Child Health	134,000	1,649	-	13,490	15,139	118,861
	2055		Health Plan/CHC	-	-	-	2,090	2,090	(2,090)
	2058		Vital Statistics	5,000	29,483	-	4,532	34,015	(29,015)
	2060		Childhood Immunization	22,300	17,759	-	2,747	20,506	1,794
	2101		National Curriculum Str.	-	-	-	9,824	9,824	(9,824)
	2102		National Standard	20,000	39,975	-	18,564	58,539	(38,539)
	2104		FSM Youth Activities	20,000	-	-	17,829	17,829	2,171
	2106		Teacher Training Program	-	-	-	400	400	(400)
	2109		College Admin. Test	18,600	11,661	-	8,458	20,119	(1,519)
	2900		Nat. Womens Intr.	17,300	28,446	-	10,044	38,490	(21,190)
	2902		Chronic Disease	10,000	17,964	-	8,807	26,771	(16,771)
	2903		Health Education	3,000	479	-	2,048	2,527	473
	2904		C/Disease Control & Prevention	-	66,740	-	1,410	68,150	(68,150)
	2905		C/Disease Control & Prevention	-	21,921	-	328	22,249	(22,249)
			Subtotal special block grant	444,700	363,666	-	123,530	487,196	(42,496)
			Balance forward	3,094,596	2,718,546	-	1,619,027	4,337,573	(1,242,977)

See accompanying notes to schedule of federal financial assistance.



**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Federal Financial Assistance, Continued  
By Grantor  
Year Ended September 30, 1996

Grantor	CFDA No.	FSM Org. No.	Grant Title Grant I.D. No.	Total Authorization	Prior Expenditures	1996 Fiscal Year Expenditures		Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures
						Subrecipient	National Government		
Compact Funding balance forwarded				\$ 3,094,596	\$ 2,718,546	\$ -	\$ 1,619,027	\$ 4,337,573	\$ (1,242,977)
Special block grant balance forwarded				444,700	363,666	-	123,530	487,196	(42,496)
	2908		Child Abuse & Neg.	5,000	28,906	-	4,868	33,774	(28,774)
	2909		S/Abuse Prevention & Treatment	14,000	29,072	-	11,241	40,313	(26,313)
	2910		Professional Support Services	18,800	5,785	-	11,777	17,562	1,238
	2911		FSM Food Protection, Inspection, & Cert.	33,400	49,328	-	25,972	75,300	(41,900)
	2913		AIDS & Prevention Control	14,000	-	-	7,189	7,189	6,811
	2914		Tobacco Prevention	15,000	-	-	626	626	14,374
	2915		National Close-Up	35,000	-	-	26,226	26,226	8,774
	2916		FSM Youth Cultural	22,469	8,770	-	11,341	20,111	2,358
			Total Special Block Grant	602,369	485,527	-	222,770	708,297	(105,928)
			<u>Post Secondary Education</u>						
			<u>Section 216(a)(3):</u>						
	2579		87 Scholarship - Pohnpei	349,783	-	-	-	-	349,783
	2610		87 Scholarship - Chuuk	499,488	-	-	-	-	499,488
	2631		87 Scholarship - Kosrae	155,900	431,228	-	-	431,228	(275,328)
	2641		87 Scholarship - Yap	194,828	-	-	-	-	194,828
	2580		88 Scholarship - Pohnpei	431,228	-	-	-	-	431,228
	2611		88 Scholarship - Chuuk	615,852	-	-	-	-	615,852
	2650		88 Scholarship - Kosrae	192,181	-	-	26,776	26,776	165,405
	2641		88 Scholarship - Yap	240,179	-	-	-	-	240,179
	2549		88 COM Operations	900,000	-	-	-	-	900,000
	2681		89 Scholarship - Pohnpei	288,003	288,003	-	-	288,003	-
	2612		89 Scholarship - Chuuk	411,716	-	-	-	-	411,716
	2651		89 Scholarship - Kosrae	128,661	-	-	-	-	128,661
	2642		89 Scholarship - Yap	161,321	-	-	-	-	161,321
	N/A		89 COM Operations	900,000	-	-	-	-	900,000
	2581		90 Scholarship - Pohnpei	288,003	-	-	-	-	288,003
	2613		90 Scholarship - Chuuk	411,716	-	-	-	-	411,716
			Subtotal post secondary education	6,168,859	719,231	-	26,776	746,007	5,422,852
			Balance forward	3,696,965	3,204,073	-	1,841,797	5,045,870	(1,348,905)

See accompanying notes to schedule of federal financial assistance.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Federal Financial Assistance, Continued  
By Grantor  
Year Ended September 30, 1996

Grantor	CFDA No.	FSM Org. No.	Grant Title Grant I.D. No.	Total Authorization	Prior Expenditures	1996 Fiscal Year Expenditures		Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures
						Subrecipient	National Government		
Compact Funding balance forwarded				\$ 3,696,965	\$ 3,204,073	\$ -	\$ 1,841,797	\$ 5,045,870	\$ (1,348,905)
Post Secondary Education balance forwarded				6,168,859	719,231	-	26,776	746,007	5,422,852
	2652		90 Scholarship - Kosrae	128,661	-	-	-	-	128,661
	2643		90 Scholarship - Yap	161,321	-	-	-	-	161,321
	2674		90 COM Operations	800,000	-	-	-	-	800,000
	2675		91 Scholarship - National	100,000	615,812	-	-	615,812	(515,812)
	2582		91 Scholarship - Pohnpei	288,003	411,716	-	-	411,716	(123,713)
	2614		91 Scholarship - Chuuk	411,716	-	-	-	-	411,716
	2653		91 Scholarship - Kosrae	128,661	460,158	-	-	460,158	(331,497)
	2642		91 Scholarship - Yap	161,321	411,716	-	-	411,716	(250,395)
	2549		91 COM Operations	800,000	774,990	-	-	774,990	25,010
	2582		92 Scholarship - Pohnpei	288,003	161,321	-	-	161,321	126,682
	2613		92 Scholarship - Chuuk	411,716	161,320	-	-	161,320	250,396
	2653		92 Scholarship - Kosrae	128,661	355,623	-	-	355,623	(226,962)
	2644		92 Scholarship - Yap	161,320	153,467	-	-	153,467	7,853
	2549		92 COM Operations	800,000	125,285	-	-	125,285	674,715
	2675		93 Scholarship - National	75,000	53,241	-	-	53,241	21,759
	2582		93 Scholarship - Pohnpei	288,003	-	-	-	-	288,003
	2613		93 Scholarship - Chuuk	411,716	199,600	-	-	199,600	212,116
	2653		93 Scholarship - Kosrae	128,661	349,783	-	-	349,783	(221,122)
	2644		93 Scholarship - Yap	161,320	288,003	-	-	288,003	(126,683)
	2549		93 COM Operations	400,000	400,000	-	-	400,000	-
	2550		93 COM-FSM	711,837	710,826	-	-	710,826	1,011
	2675		94 Scholarship - National	50,000	288,003	-	-	288,003	(238,003)
	2582		94 Scholarship - Pohnpei	288,003	344,221	-	-	344,221	(56,218)
	2613		94 Scholarship - Chuuk	411,716	-	-	-	-	411,716
	2676		94 Scholarship - Kosrae	18,852	180,172	-	-	180,172	(161,320)
	2677		94 Scholarship - Kosrae	109,809	560,301	-	6,200	566,501	(456,692)
	2644		94 Scholarship - Yap	161,320	115,000	-	-	115,000	46,320
	2550		94 COM-FSM	457,500	42,251	-	-	42,251	415,249
			Subtotal post secondary education	14,611,979	7,882,040	-	32,976	7,915,016	6,696,963
			Balance forward	3,696,965	3,204,073	-	1,841,797	5,045,870	(1,348,905)

See accompanying notes to schedule of federal financial assistance.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**  
Schedule of Federal Financial Assistance, Continued  
By Grantor  
Year Ended September 30, 1996

Grantor	CFDA No.	FSM Org. No.	Grant Title Grant I.D. No.	Total Authorization	Prior Expenditures	1996 Fiscal Year Expenditures		Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures
						Subrecipient	National Government		
Compact Funding balance forwarded				\$ 3,696,965	\$ 3,204,073	\$ -	\$ 1,841,797	\$ 5,045,870	\$ (1,348,905)
Post Secondary Education balance forwarded				14,611,979	7,882,040	-	32,976	7,915,016	6,696,963
	2551		94 Continuing Education Center	115,000	292,500	-	-	292,500	(177,500)
	2552		94 Assistance to Students	50,000	226,484	-	-	226,484	(176,484)
	2553		94 COM-FSM Operation	292,500	800,000	-	392	800,392	(507,892)
	2675		95 Scholarship - National	100,000	49,000	-	-	49,000	51,000
	2582		95 Scholarship - Pohnpei	288,003	288,003	-	-	288,003	-
	2613		95 Scholarship - Chuuk	411,716	348,066	-	120,894	468,960	(57,244)
	2653		95 Scholarship - Kosrae	128,661	211,307	-	-	211,307	(82,646)
	2644		95 Scholarship - Yap	161,320	161,320	-	-	161,320	-
	2553		95 COM-FSM Operation	800,000	-	-	-	-	800,000
	2675		96 Scholarship - National	-	-	-	18,000	18,000	(18,000)
	2582		96 Scholarship - Pohnpei	288,003	-	-	218,967	218,967	69,036
	2613		96 Scholarship - Chuuk	411,716	-	-	364,975	364,975	46,741
	2653		96 Scholarship - Kosrae	128,661	-	-	113,322	113,322	15,339
	2644		96 Scholarship - Yap	161,320	-	-	-	-	161,320
	2553		96 COM-FSM Operation	800,000	-	-	800,000	800,000	-
			<b>Total Post Secondary Education</b>	<b>18,748,879</b>	<b>10,258,720</b>	<b>-</b>	<b>1,669,526</b>	<b>11,928,246</b>	<b>6,820,633</b>
			<u>Compact Energy, Section 214</u>						
	2760		National Government	308,463	348,806	-	295,498	644,304	(335,841)
			<b>Total Compact Energy</b>	<b>308,463</b>	<b>348,806</b>	<b>-</b>	<b>295,498</b>	<b>644,304</b>	<b>(335,841)</b>
			<u>Compact Capital Account</u>						
			<u>Capital Project Funds:</u>						
	5870		Piggery Production Project	-	3,840	-	-	3,840	(3,840)
	6000		MTN Program	1,148,125	1,148,125	-	-	1,148,125	-
	6001		Kosrae PD Office	23,000	22,898	-	-	22,898	102
	6003		Pest & Disease Survey	45,000	43,907	-	-	43,907	1,093
	6004		Livestock Project	25,000	17,381	-	-	17,381	7,619
	6005		MLSC Office Building	60,000	55,930	-	-	55,930	4,070
	6006		Local Catch Stats.	45,000	44,950	-	-	44,950	50
	6007		Fish Poisoning	10,000	6,712	-	-	6,712	3,288
	6008		Investment Development	61,000	54,303	-	-	54,303	6,697
	6009		Consumer Price Index	10,000	65,327	-	17,603	82,930	(72,930)
			<b>Compact Capital Account Subtotal</b>	<b>1,427,125</b>	<b>1,463,373</b>	<b>-</b>	<b>17,603</b>	<b>1,480,976</b>	<b>(53,851)</b>
			<b>Balance forward</b>	<b>22,754,307</b>	<b>13,811,599</b>	<b>-</b>	<b>3,806,821</b>	<b>17,618,420</b>	<b>5,135,887</b>

See accompanying notes to schedule of federal financial assistance.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Federal Financial Assistance, Continued  
By Grantor  
Year Ended September 30, 1996

Grantor	CFDA No.	FSM Org. No.	Grant Title Grant I.D. No.	Total Authorization	Prior Expenditures	1996 Fiscal Year Expenditures		Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures
						Subrecipient	National Government		
Compact Funding balance forwarded				\$ 22,754,307	\$ 13,811,599	\$ -	\$ 3,806,821	\$ 17,618,420	\$ 5,135,887
Subtotal Compact Capital Account balance forwarded				1,427,125	1,463,373	-	17,603	1,480,976	(53,851)
	6010		Supreme Court Building	100,000	82,910	-	-	82,910	17,090
	6014		Tuna Transshipment Fees	12,000	11,495	-	-	11,495	505
	6015		Commercial Fish Posters	14,000	11,066	-	-	11,066	2,934
	6016		Marine Poison Investigation	42,000	8,290	-	-	8,290	33,710
	6017		Project Planning & Development	354,540	128,028	-	-	128,028	226,512
	6021		Hemodialysis Project	50,000	48,224	-	-	48,224	1,776
	6022		Yap Outer Island High School	100,000	97,751	-	-	97,751	2,249
	6024		Livestock Dev. Broiler	140,000	137,769	-	-	137,769	2,231
	6025		Technical Assistance	350,000	341,566	-	244	341,810	8,190
	6026		Chuuk Broiler Project	140,000	116,475	-	-	116,475	23,525
	6027		Chuuk Survey	15,000	14,520	-	-	14,520	480
	6028		FSM Manpower Survey	50,000	43,085	-	-	43,085	6,915
	6029		Ulul Airstrip	40,000	39,444	-	-	39,444	556
	6032		Fish Aggregation Device	20,000	16,915	-	-	16,915	3,085
	6033		Chuuk Court House Construction	202,000	202,000	-	-	202,000	-
	6034		Kititi Road Development	-	8,333	-	-	8,333	(8,333)
	6047		CCM Repair & Renov.	-	270	-	-	270	(270)
	6048		Res. Assesment in Outer Bank	75,000	49,400	-	-	49,400	25,600
	6049		Yap PD Office Renov.	-	18,944	-	-	18,944	(18,944)
			National Social & Economic Survey	18,000	11,715	-	-	11,715	6,285
	6051		National Staff Upgrade	75,000	89,039	-	-	89,039	(14,039)
	6052		FSM Acquaculture Center	150,000	124,016	-	-	124,016	25,984
	6053		Development Loan Fund	2,200,000	2,200,000	-	-	2,200,000	-
	6054		A&E CCM Campus	1,100,000	1,013,321	-	50,672	1,063,993	36,007
	6055		Maritime Boundary	5,000	24,967	-	-	24,967	(19,967)
	6056		Copra Warehouse Pohnpei	71,500	71,196	-	-	71,196	304
	6057		Yap Broiler Project	-	69,849	-	-	69,849	(69,849)
			Compact Capital Account Subtotal	6,751,165	6,443,961	-	68,519	6,512,480	238,685
			Balance forward	22,754,307	13,811,599	-	3,806,821	17,618,420	5,135,887

See accompanying notes to schedule of federal financial assistance.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Federal Financial Assistance, Continued  
By Grantor  
Year Ended September 30, 1996

Grantor	CFDA No.	FSM Org. No.	Grant Title Grant I.D. No.	Total Authorization	Prior Expenditures	1996 Fiscal Year Expenditures		Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures
						Subrecipient	National Government		
Compact Funding balance forwarded				\$ 22,754,307	\$ 13,811,599	\$ -	\$ 3,806,821	\$ 17,618,420	\$ 5,135,887
Subtotal Compact Capital Account balance forwarded				6,751,165	6,443,961	-	68,519	6,512,480	238,685
	6058		Pohnpei PD Office Construction	38,000	34,204	-	-	34,204	3,796
	6060		Business & Tourism Promotion	35,000	34,678	-	-	34,678	322
	N/A		Lehnesi River Hydro	45,000	-	-	-	-	45,000
	N/A		Chuuk Cold Storage	50,000	-	-	-	-	50,000
	6083		Development Loan Fund	2,000,000	2,000,000	-	-	2,000,000	-
	N/A		FSM Ambassador's Residence	175,000	-	-	-	-	175,000
	6090		MS Drydocking	-	607,851	-	-	607,851	(607,851)
	6091		National Board	80,000	64,249	-	-	64,249	15,751
	6211		Kosrae Court House Project	-	7,604	-	50,794	58,398	(58,398)
	6227		Fumigation of Citrus	20,000	7,604	-	-	7,604	12,396
	6228		Ext. Tafweyat Section Road	-	6,412	-	-	6,412	(6,412)
	6285		Micro Spirit Des. Equip.	45,000	45,000	-	-	45,000	-
	6288		Yap Hospital Maintenance	70,000	64,038	-	-	64,038	5,962
	6901		Iohl Road	-	10,698	-	-	10,698	(10,698)
	6902		Nat'l Staff Upgrading	100,000	91,872	-	-	91,872	8,128
	6903		Nat'l Staff Upgrading	-	60,047	-	-	60,047	(60,047)
	6904		Purchase of shares/FSM Bank	3,000,000	3,000,000	-	-	3,000,000	-
	6905		Caroline Fisheries Corp. subsidy	1,700,000	1,700,000	-	-	1,700,000	-
	6907		Coastal Resources Atlas	-	170,000	-	-	170,000	(170,000)
	6908		Oneop Ice-plant	-	10,000	-	-	10,000	(10,000)
	6916		Water Treatment Assessment	-	345,493	-	-	345,493	(345,493)
	6917		Bus. Dev. Loan Fund	2,500,000	2,500,000	-	-	2,500,000	-
	6918		Iohl Road	-	41,900	-	-	41,900	(41,900)
	6920		Nat'l and State CIP	-	10,000	-	-	10,000	(10,000)
	6921		Chuuk Fresh Tuna	-	1,100,000	-	-	1,100,000	(1,100,000)
	6922		Kosrae Sea Venture Inc.	-	50,000	-	-	50,000	(50,000)
	6923		YFTI Equipment Purchase	-	1,300,000	-	-	1,300,000	(1,300,000)
	6924		Kosrae Sea Venture	-	850,000	-	-	850,000	(850,000)
			Compact Capital Account Subtotal	16,609,165	20,555,611	-	119,313	20,674,924	(4,065,759)
			Balance forward	22,754,307	13,811,599	-	3,806,821	17,618,420	5,135,887

See accompanying notes to schedule of federal financial assistance.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Federal Financial Assistance, Continued  
By Grantor  
Year Ended September 30, 1996

Grantor	CFDA No.	FSM Org. No.	Grant Title Grant I.D. No.	Total Authorization	Prior Expenditures	1996 Fiscal Year Expenditures		Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures
						Subrecipient	National Government		
Compact Funding balance forwarded				\$ 22,754,307	\$ 13,811,599	\$ -	\$ 3,806,821	\$ 17,618,420	\$ 5,135,887
Subtotal Compact Capital Account balance forwarded				16,609,165	20,555,611	-	119,313	20,674,924	(4,065,759)
	6925		Tuna Cannery Feasibility	-	23,000	-	-	23,000	(23,000)
	6926		Business Development Loan Fund	-	3,000,000	-	-	3,000,000	(3,000,000)
	6927		FSM Staff Upgrade	-	114,238	-	14,085	128,323	(128,323)
	6928		Yap Fishing Corporation	-	286,449	-	-	286,449	(286,449)
	6929		Postal Services Headquarters	-	72,230	-	244,721	316,951	(316,951)
	6930		FY95 Development Loan Fund	-	3,000,000	-	-	3,000,000	(3,000,000)
	6931		Immigration Communication Network	53,500	53,411	-	-	53,411	89
	6932		Furniture/Equipment New Campus	1,810,248	782,598	-	-	782,598	1,027,650
	6933		National Staff Upgrading	39,452	14,965	-	-	14,965	24,487
	6934		Policy Adv. Team Tech. Assist.	-	5,412	-	55,544	60,956	(60,956)
	6937		Drydocking of YSS Palulap	-	74,671	-	-	74,671	(74,671)
	6940		National Board Sustain Dev.	-	-	-	53,730	53,730	(53,730)
	6941		FY96 National Staff Upgrade	-	-	-	57,534	57,534	(57,534)
	6942		FY96 Business Development Loan Fund	-	-	-	3,000,000	3,000,000	(3,000,000)
	6943		Pukusrik Inkoeya Inner Road	-	-	-	7,025	7,025	(7,025)
	6956		Relocation of Schoolroom	30,000	25,000	-	-	25,000	5,000
	6957		The President	-	-	-	770,496	770,496	(770,496)
	6960		Furniture and Equipment/New COM Campus	-	-	-	991,000	991,000	(991,000)
	6963		National Staff Upgrade	-	-	-	94,186	94,186	(94,186)
			<b>Total Compact Capital Account</b>	<b>18,542,365</b>	<b>28,007,585</b>	<b>-</b>	<b>5,407,634</b>	<b>33,415,219</b>	<b>(14,872,854)</b>
			Compact Current Account						
			General Fund:						
			Title II, Article I, Section 211(a)	6,513,761	6,513,761	-	6,602,991	6,513,761	-
			<b>Total Compact Funding</b>	<b>\$ 47,810,433</b>	<b>\$ 48,332,945</b>	<b>\$ -</b>	<b>\$ 15,817,446</b>	<b>\$ 57,547,400</b>	<b>\$ (9,736,967)</b>

Note: The National Government's subrecipient of the 215(a)(2) and 215(b)(2) funds is the FSM Telecommunications Corporation (Telecom). These funds are received by the National Government and are then transferred out to Telecom.

Note: The \$3,000,000 transfer of Compact Capital Account funds (Org. # 6930) was made by the National Government to the FSM Development Bank, a component unit - proprietary fund, pursuant to a Congress of the FSM appropriation and an authorization of the Federated Development Authority.

See accompanying notes to schedule of federal financial assistance.

**FEDERATED STATES OF MICRONESIA NATIONAL GOVERNMENT AND SUBRECIPIENTS**  
 Schedule of Federal Financial Assistance, Continued  
 Compact Funding Summary CFDA # 15.875  
 Summary of Expenditures and Budgetary  
 Position by Compact Section  
 Year Ended September 30, 1996

Grant Title	Government	Base Grant	Section 217 Inflation Adjustment	Total Cumulative Apportionment	Prior Year Expenditures and Transfers	Fiscal Year 1996 Expenditures & Transfers		Total Program Expenditures and Transfers	Excess (Deficit) Apportionment Over Program Expenditures
						Subrecipients	National Government		
<b>Section 211(a), Current Account</b>									
	National Government	\$ 27,905,480	\$ 7,934,218	\$ 35,839,698	\$ 44,457,990	\$ -	\$ 6,602,991	\$ 51,060,981	\$ (15,221,283)
	Chuuk	88,600,800	28,996,796	117,597,596	150,194,756	-	-	150,194,756	(32,597,160)
	Pohnpei	56,802,600	17,307,890	74,110,490	95,008,760	10,665,324	-	105,674,084	(31,563,594)
	Yap	38,624,160	11,693,896	50,318,056	64,528,288	-	-	64,528,288	(14,210,232)
	Kosrae	22,005,480	6,705,103	28,710,583	33,105,926	4,131,775	-	37,237,701	(8,527,118)
	Subtotal	233,938,520	72,637,903	306,576,423	387,295,720	14,797,099	6,602,991	408,695,810	(102,119,387)
<b>Section 211(a), Capital Account</b>									
	National Government	22,344,520	7,377,032	29,721,552	38,422,812	-	5,407,634	43,830,446	(14,108,894)
	Chuuk	61,747,200	16,814,464	78,561,664	80,664,773	8,651,167	-	89,315,940	(10,754,276)
	Pohnpei	40,823,600	12,469,482	53,293,082	81,940,643	10,130,863	-	92,071,506	(38,778,424)
	Yap	23,766,240	7,195,496	30,961,736	33,216,084	5,513,587	-	38,729,671	(7,767,935)
	Kosrae	19,279,920	5,874,621	25,154,541	31,585,828	4,695,527	-	36,281,355	(11,126,814)
	Sub Total	167,961,480	49,731,095	217,692,575	265,830,140	28,991,144	5,407,634	300,228,918	(82,536,343)
	Subtotal Major Block Grant	401,900,000	122,368,998	524,268,998	653,125,860	43,788,243	12,010,625	708,924,728	(184,655,730)
<b>Section 213 (b), Yap Coast Guard Station</b>									
	Yap	160,000	-	160,000	160,000	-	-	160,000	-
<b>Section 214, Energy Grant</b>									
	National Government	1,200,600	388,194	1,588,794	1,897,044	-	295,498	2,192,542	(603,748)
	Chuuk	5,698,800	1,842,612	7,541,412	9,914,027	1,434,950	-	11,348,977	(3,807,565)
	Pohnpei	4,500,000	1,455,000	5,955,000	7,985,614	819,957	-	8,805,571	(2,850,571)
	Yap	3,900,600	1,261,194	5,161,794	6,773,784	735,485	-	7,509,269	(2,347,475)
	Kosrae	2,700,000	873,000	3,573,000	4,598,297	953,843	-	5,552,140	(1,979,140)
	Total Section 214	18,000,000	5,820,000	23,820,000	31,168,766	3,944,235	295,498	35,408,499	(11,588,499)
	Balance forward	420,060,000	128,188,998	548,248,998	684,454,626	47,732,478	12,306,123	744,493,227	(196,244,229)

See accompanying notes to schedule of federal financial assistance.

**FEDERATED STATES OF MICRONESIA NATIONAL GOVERNMENT AND SUBRECIPIENTS**  
 Schedule of Federal Financial Assistance, Continued  
 Compact Funding Summary CFDA # 15.875  
 Summary of Expenditures and Budgetary  
 Position by Compact Section  
 Year Ended September 30, 1996

Grant Title	Government	Base Grant	Section 217 Inflation Adjustment	Total Cumulative Apportionment	Prior Year Expenditures and Transfers	Fiscal Year 1996 Expenditures & Transfers		Total Program Expenditures and Transfers	Excess (Deficit) Apportionment Over Program Expenditures
						Subrecipients	National Government		
Compact Funding Summary balance forwarded		\$ 420,060,000	\$ 128,188,998	\$ 548,248,998	\$ 684,454,626	\$ 47,732,478	\$ 12,306,123	\$ 744,493,227	\$ (196,244,229)
Section 215 (a)(3), Communications-Annual	National Government	4,200,000	1,290,000	5,490,000	7,170,000	-	876,000	8,046,000	(2,556,000)
Section 215 (b)(2), Communication-One Time	National Government	6,000,000	1,320,000	7,320,000	7,108,650	-	-	7,108,650	211,350
Section 216 (a)(1), Marine Surveillance-Annual	National Government	3,633,000	-	3,633,000	4,243,385	-	489,167	4,732,552	(1,099,552)
Section 216 (b) Marine Surveillance-One Time	National Government	666,600	-	666,600	464,241	-	177,361	641,602	24,998
Section 216 (a)(2) Health and Medical Referral	National Government	881,860	-	881,860	577,823	-	76,499	654,322	227,538
	Chuuk	3,227,609	-	3,227,609	4,325,986	437,167	-	4,763,153	(1,535,544)
	Pohnpei	2,504,481	-	2,504,481	3,574,728	347,849	-	3,922,577	(1,418,096)
	Yap	1,419,796	-	1,419,796	1,898,871	150,314	-	2,049,185	(629,389)
	Kosrae	784,854	-	784,854	1,193,110	86,809	-	1,279,919	(495,065)
	Total section 216 (a)(2)	8,818,600	-	8,818,600	11,570,518	1,022,139	76,499	12,669,156	(3,850,556)
Balance forward		443,378,200	130,798,998	574,177,198	715,011,420	48,754,617	13,925,150	777,691,187	(203,513,989)

See accompanying notes to schedule of federal financial assistance.



**FEDERATED STATES OF MICRONESIA NATIONAL GOVERNMENT AND SUBRECIPIENTS**  
 Schedule of Federal Financial Assistance, Continued  
 Compact Funding Summary CFDA # 15.875  
 Summary of Expenditures and Budgetary  
 Position by Compact Section  
 Year Ended September 30, 1996

Grant Title	Government	Base Grant	Section 217 Inflation Adjustment	Total Cumulative Apportionment	Prior Year Expenditures and Transfers	Fiscal Year 1996 Expenditures & Transfers		Total Program Expenditures and Transfers	Excess (Deficit) Apportionment Over Program Expenditures
						Subrecipients	National Government		
Compact Funding Summary balance forwarded		\$ 443,378,200	\$ 130,798,998	\$ 574,177,198	\$ 715,011,420	\$ 48,754,617	\$ 13,925,150	\$ 777,691,187	\$ (203,513,989)
Section 216 (A)(3), Post Secondary Education									
National Government		13,227,900	-	13,227,900	16,655,097	-	1,669,526	18,324,623	(5,096,723)
Chuuk		-	-	-	838,623	900	-	839,523	(839,523)
Pohnpei		-	-	-	579,249	316,722	-	895,971	(895,971)
Yap		-	-	-	461,380	178,320	-	639,700	(639,700)
Kosrae		-	-	-	344,809	152,270	-	497,079	(497,079)
		<u>13,227,900</u>	<u>-</u>	<u>13,227,900</u>	<u>18,879,158</u>	<u>648,212</u>	<u>1,669,526</u>	<u>21,196,896</u>	<u>(7,968,996)</u>
Section 221(b), Special Block Grant									
National Government		2,205,000	-	2,205,000	2,261,226	-	222,770	2,483,996	(278,996)
Chuuk		19,110,000	-	19,110,000	23,713,231	2,494,532	-	26,207,763	(7,097,763)
Pohnpei		13,230,000	-	13,230,000	16,264,266	1,712,236	-	17,976,502	(4,746,502)
Yap		8,330,000	-	8,330,000	9,688,183	946,275	-	10,634,458	(2,304,458)
Kosrae		6,125,000	-	6,125,000	8,089,608	1,245,695	-	9,335,303	(3,210,303)
		<u>49,000,000</u>	<u>-</u>	<u>49,000,000</u>	<u>60,016,514</u>	<u>6,398,738</u>	<u>222,770</u>	<u>66,638,022</u>	<u>(17,638,022)</u>
Section 111 (b)(1) Special Development Fund									
National Government		20,000,000	-	20,000,000	20,828,989	-	-	20,828,989	(828,989)
Section 212, Special Development									
Chuuk		750,000	382,500	1,132,500	1,780,101	311,709	-	2,091,810	(959,310)
Pohnpei		750,000	382,500	1,132,500	2,254,959	461,832	-	2,716,791	(1,584,291)
Yap		750,000	382,500	1,132,500	642,243	58,500	-	700,743	431,757
Kosrae		750,000	382,500	1,132,500	1,423,590	355,481	-	1,779,071	(646,571)
		<u>3,000,000</u>	<u>1,530,000</u>	<u>4,530,000</u>	<u>6,100,893</u>	<u>1,187,522</u>	<u>-</u>	<u>7,288,415</u>	<u>(2,758,415)</u>
<b>Total Funding</b>		<u>\$ 528,606,100</u>	<u>\$ 132,328,998</u>	<u>\$ 660,935,098</u>	<u>\$ 820,836,974</u>	<u>\$ 56,989,089</u>	<u>\$ 15,817,446</u>	<u>\$ 893,643,509</u>	<u>\$ (232,708,411)</u>

See accompanying notes to schedule of federal financial assistance.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Federal Financial Assistance  
Year Ended September 30, 1996

1. Scope of Review

The Federated States of Micronesia (FSM) is a governmental entity governed by its own Constitution. All significant operations of the FSM are included in the scope of the OMB Circular A-128 audit (the "Single Audit"). The U.S. Department of the Interior has been designated as the FSM's cognizant agency for Single Audit.

a. Programs Subject to Single Audit

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

2. Summary of Significant Accounting Policies

A. Basis of Accounting

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

B. Reporting Entity

The FSM National Government, 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. Indirect Cost Allocation

The FSM National Government does not receive any indirect cost allocation and does not charge indirect costs against federal programs.

D. Subgrantees

Certain program funds are passed through the FSM National Government to subrecipients.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Federal Financial Assistance  
Year Ended September 30, 1996

2. Summary of Significant Accounting Policies, Continued

D. Subgrantees, Continued

The Schedule of Federal Financial Assistance does not contain separate schedules disclosing how all subgrantees outside of the National Government's control utilize these funds. However, the National Government's primary subrecipients are its four component states. The federal expenditures of these entities are incorporated in the accompanying Schedule of Federal Financial Assistance. The four states have certain subrecipients to whom funds are also passed through. The National Government's component units - proprietary funds and the State's subrecipients with attendant schedules of federal financial assistance as presented in the respective individual Single Audit reports, are as follows:

National Government Subgrantees:

Federated States of Micronesia Development Bank

The Bank receives funds in a subrecipient capacity through the FSM National Government. The loan portfolio established through Section 111 of the Compact of Free Association and the loan portfolio established through Section 211 of the Compact of Free Association were selected for detailed compliance testing in accordance with applicable OMB Circular A-128 requirements. The following sets forth these contributions, by Sections, which are administered by the Bank.

Section 211		
Compact Capital	Total funding received through December 31, 1996	\$ <u>21,200,000</u>
Section 111 IDF Funds	Total funding available through December 31, 1996	\$ 26,513,928
	Amount earned during year ended December 31, 1995	<u>286,748</u>
	Fund balance as of December 31, 1996	\$ <u>26,800,676</u>

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Federal Financial Assistance  
Year Ended September 30, 1996

2. Summary of Significant Accounting Policies, Continued

D. Subgrantees, Continued

National Government Subgrantees, Continued

FSM Telecommunications Corporation

	<u>Funds Received</u>	<u>Funds Expended</u>
Compact Section 215(a)(2) for operating assistance	\$ <u>876,000</u>	\$ <u>876,000</u>

The above programs bear CFDA #15.875 and the grantor agency is the U.S. Department of the Interior. The above funds are received initially by the National Government of the Federated States of Micronesia and are then passed to the FSM Telecommunications Corporation in a subrecipient capacity.

RUS Loan Funding (CFDA #10.851)

<u>Loan Proceeds Approved As of October 1, 1995</u>	<u>Received During FY 1996</u>	<u>Disbursed During FY 1996</u>
\$ <u>40,195,300</u>	\$ <u>1,775</u>	\$ <u>8,150</u>

State Subgrantees

Chuuk Housing Authority

The Chuuk Housing Authority, a component unit-proprietary fund, receives federal funding and separately satisfies its OMB Circular A-128 audit requirements. The audit report of the Chuuk Housing Authority did not report any questioned costs or material noncompliance during the year ended September 30, 1996. Chuuk Housing Authority's audit report included the following Schedule of Federal Financial Assistance:

<u>Grant Title</u>	<u>Grantor Agency</u>	<u>CFDA No.</u>	<u>1996 Expenditures</u>
Section 8 Housing Assistance Program	HUD	14.156	\$ <u>36,856</u>
Total U.S. Department of Housing and Urban Development			\$ <u>36,856</u>

This funding was received in a direct capacity.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Federal Financial Assistance  
Year Ended September 30, 1996

2. Summary of Significant Accounting Policies, Continued

D. Subgrantees, Continued

State Subgrantees, Continued

Chuuk Housing Authority, Continued

As of September 30, 1996, \$1,014,556 of loans made out of U.S. federal financial assistance, CFDA #14.219, were outstanding. The assistance was provided by the U.S. Department of Housing and Urban Development was made to the State of Chuuk and passed through to the Authority.

Additionally, as of September 30, 1996, the Authority administered a loan program consisting of funds provided by the U.S. Department of the Interior, CFDA #15.875, which funds were received by the State of Chuuk and were passed through to the Authority. As of September 30, 1996, \$651,912 of loans were outstanding under this program.

Kosrae Utilities Authority

The Kosrae Utilities Authority, a component unit - proprietary fund of the State of Kosrae, separately satisfies the requirements of OMB Circular A-128. The Kosrae Utilities Authority's Schedule of Federal Financial Assistance, as extracted from its audit reports, is as follows:

<u>Grantor Agency/Program</u>	<u>CFDA#</u>	<u>Fiscal Year 1996 Expenditures</u>
U.S. Department of the Interior:		
Compact of Free Association:		
Energy (214B)	15.875	\$ 485,019
Compact Capital Account Funds	15.875	935,031
Operations and Maintenance Improvement		
Programs (OMIP)	15.875	<u>93,729</u>
Total expenditures		<u>\$ 1,513,779</u>

The programs are received from the State of Kosrae in a subrecipient capacity. The aforementioned audit did not specify the existence of any questioned costs pertinent to the above expenditures. Funds passed through to the Kosrae Utilities Authority are included within the Schedule of Federal Financial Assistance of Kosrae State.

Kosrae Community Action Program

The Kosrae Community Action Program, a component unit - governmental fund has not separately satisfied audit requirements of OMB Circular A-128 or A-133. Kosrae State is considered to have responsibility for any questioned costs that could result from Single Audits of this entity.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Federal Financial Assistance  
Year Ended September 30, 1996

2. Summary of Significant Accounting Policies, Continued

D. Subgrantees, Continued

State Subgrantees, Continued

Pohnpei Utilities Corporation

The Pohnpei Utilities Corporation, a component unit - proprietary fund, is the recipient of various pass-through funds from Pohnpei State. Questioned costs or matters of noncompliance are included in the accompanying Federal Findings and Questioned Costs - Monitoring Subrecipients. The following is the Pohnpei Utilities Corporation's Schedule of Federal Financial Assistance, as extracted from the abovementioned audit reports:

(refer to page 136)

**FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Federal Financial Assistance  
Year Ended September 30, 1996

**POHNPEI UTILITIES CORPORATION**

Schedule of Federal Financial Assistance

Grantor/Program Title	CFDA No.	Total Authorizations	Prior Years' Expenditures	Expenditures for the Year Ended Sept. 30, 1996	Total Program Expenditures
<u>U.S. Department of the Interior:</u>					
Office of Territorial and International Affairs:					
<u>Compact of Free Association:</u>					
Energy Program funds, Section 214(B)	15.875	\$ 2,620,000	\$ 2,667,904	\$ 154,370	\$ 2,822,274
Capital Account funds, Section 211(A)	15.875				
OMIP-First Year Electrical Match		322,250	296,592	-	296,592
OMIP-First Year Water and Sewer Match		1,428,250	1,191,911	38,390	1,230,301
Power Hook-Ups		492,500	492,500	-	492,500
Kolonias Sewer		33,119	33,119	-	33,119
OMIP-Second Year Water and Sewer Match		280,425	280,425	-	280,425
Second Year Water and Sewer Subsidy		110,200	110,200	-	110,200
Pingelap Solar		196,000	-	103,175	103,175
		<u>2,862,744</u>	<u>2,404,747</u>	<u>141,565</u>	<u>2,546,312</u>
<u>Operations and Maintenance Improvement</u>					
<u>Programs (OMIP):</u>					
Initialization of the PUC	15.875	430,250	430,249	-	430,249
Pohnpei Water, Sewerage and Solid Waste Utilities Development, First-Year		810,000	573,660	38,390	612,050
Pohnpei Water, Sewerage and Solid Waste Utilities Development, Second-Year		665,000	177,790	213,569	391,359
Pohnpei Power Generation and Distribution Second-Year		273,468	273,468	-	273,468
Pohnpei Power Generation and Distribution Third-Year		370,000	119,965	217,263	337,228
OMIP Bench		71,000	44,521	26,479	71,000
		<u>2,619,718</u>	<u>1,619,653</u>	<u>495,701</u>	<u>2,115,354</u>
<u>Technical Assistance:</u>					
PUC FSM-58	15.875	110,000	110,000	-	110,000
ALCO Repairs		25,000	25,000	-	25,000
		<u>135,000</u>	<u>135,000</u>	<u>-</u>	<u>135,000</u>
Meter Calibration/Facility Inventory	15.875	100,000	100,000	-	100,000
Overhaul ALCO Generators-Pohnpei State	15.875	100,000	100,000	-	100,000
DOI Hazard Mitigation Program	15.875	1,100,000	100,000	365,207	465,207
Audit Grant	15.875	32,000	32,000	-	32,000
		<u>1,332,000</u>	<u>332,000</u>	<u>365,207</u>	<u>697,207</u>
<u>Trust Territory of the Pacific Islands (TTPI):</u>					
Deficiency Funding:					
Pohnpei Power	15.875	328,271	328,271	-	328,271
Kolonias Sewer		659,328	426,244	233,084 *	659,328
		<u>987,599</u>	<u>754,515</u>	<u>233,084</u>	<u>987,599</u>
Kolonias Water Improvements	15.875	290,700	290,700	-	290,700
		<u>\$ 10,847,761</u>	<u>\$ 8,204,519</u>	<u>\$ 1,389,927</u>	<u>\$ 9,594,446</u>

Note: The above programs are passed through Pohnpei State to the Pohnpei Utilities Corporation

\* The Kolonias Sewer Project is contracted with the State of Pohnpei and therefore this information is provided to t

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Federal Financial Assistance  
Year Ended September 30, 1996

2. Summary of Significant Accounting Policies, Continued

D. Subgrantees, Continued

Pohnpei State Housing Authority

The Pohnpei State Housing Authority, a component unit - proprietary fund, is a subrecipient of various pass-through funds as explained hereunder. The following Schedule of Federal Financial Assistance is extracted from the Authority's audit reports. All material instances of noncompliance or questioned costs presented in those audit reports are contained in the accompanying Schedule of Findings and Questioned Costs.

<u>Grant Title</u>	<u>Grantor Agency</u>	<u>CFDA No.</u>	<u>Loans Outstanding as of Sept. 30, 1996</u>
Compact of Free Association: Capital Account Funds-Capital Projects, Section 211(A)	DOI-OTIA	15.875	\$ <u>4,049,220</u>
Total U.S. Department of the Interior			\$ <u><u>4,049,220</u></u>
Rural Services:			
Housing Preservation Grant	USDA	10.433	\$ <u>200,000</u>
Total U.S. Department of Agriculture			\$ <u><u>200,000</u></u>

Note: The Compact of Free Association funds are disbursed through the U.S. Department of the Interior (DOI), Office of Territorial and International Affairs (OTIA), to the FSM National Government which reallots such to the component States. Pohnpei State subsequently passed certain of these funds through to the Pohnpei State Housing Authority (PSHA). The Housing Preservation Grant (HPG) funds are received in a subgrantee capacity through the Pohnpei Farmers Home Administration Office.



**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Programs  
Selected for audit in accordance with  
OMB Circular A-128  
Year Ended September 30, 1996

<u>Grantor</u>	<u>Description</u>	<u>CFDA No.</u>	<u>Amount of 1996 Expenditures</u>
U.S. Dept. of the Interior:	Compact of Free Association: Program account related:	15.875	
	211(a) Capital Account		\$ 5,407,634
	221(B) Block Grant		222,770
	Marine Surveillance annual		489,167
	Marine Surveillance onetime		177,361
	Communications annual		876,000
	Post Secondary Education		1,669,526
	Energy Programs		295,498
	Health & Medical		<u>76,499</u>
	Total Compact of Free Association excluding Compact Section 211(a) Current Account		9,214,455
	U.S. DOI Capital Projects Fund COM-Palikir Campus Project	15.875	1,903,771
	U.S. DOI OTIA Programs Single Audit	15.875	511,909
U.S. Dept. of Education	Special Education Program	84.027	718,216
U.S. Dept. of Labor	JTPA	17.250	691,323
National Oceanic Atmospheric Administration	N.O.A.A. Program	11.460	<u>722,863</u>
	Total program expenditures selected excluding Compact Section 211(a) Current Account		\$ <u>13,762,537</u>
	Total U.S. Federal Program expenditures excluding Compact Section 211(a) Current Account		\$ <u>15,813,928</u>
	% of Total U.S. Federal expenditures covered by major programs excluding Compact Section 211(a) Current Account		<u>87%</u>

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Summary of U.S. Federal Program Expenditures  
Year Ended September 30, 1996

<u>Grantor</u>	<u>Amount</u>
U.S. Department of Education	\$ 866,167
U.S. Department of Labor	752,097
U.S. Department of Agriculture	11,645
U.S. Environmental Protection Agency	162,133
U.S. Department of Health and Human Services	1,252,063
U.S. Federal Emergency Management Agency	50,850
National Oceanic Atmospheric Administration	722,863
U.S. Department of the Interior:	
Historical Preservation Grants	119,321
OTIA Technical Assistance	762,558
TTPI CIP	1,903,771
Compact of Free Association Funding excluding Section 211(a) Current Account	<u>9,214,455</u>
Total U.S. Federal Assistance excluding Section 211(a) Current Account	15,817,923
Compact of Free Association Section 211(a) Current Account	<u>6,602,991</u>
	\$ <u>22,420,914</u>

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 1996

**Federal Findings - FSM National Government**

1. U.S. Dept. of Education/  
Special Education  
Program/ CFDA #84.027

**Criteria:** Per OMB Circular A-87, Attachment A, Section A, paragraph 2(b), the grantee assumes the responsibility for ensuring that federally assisted program funds have been expended and accounted for consistently with underlying agreements and program objectives.

**Condition:** Adequate supporting documentation could not be obtained to determine if the participants in the trainings below attended and successfully completed the courses:

<u>ORG. No.</u>	<u>Purpose</u>	<u>APV No.</u>	
3001	Education in equity training	637565	\$ 1,731
3001	Travel reason not stated	640101	1,862
3001	PIBBA conference in Palau	639896	1,570
3001	Special Ed. training in Guam	635816	2,400
3001	Special Ed. conference in New Mexico	640277	<u>4,119</u>
			<u>11,682</u>

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

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

**Recommendation:** Grantees should ensure that participants provide documentary evidence such as certificates of completion to show whether participants actually attended and completed the training course.

**Auditee Response and Corrective Action Plan:** We concur with this finding.

We will ensure that participants provide documentary evidence such as certificates of completion to show whether participants actually attended and completed the training course.

Total questioned costs for FSM National Government      \$ 11,682

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Local Findings - FSM National Government**

1. Criteria: Findings from prior audit reports should be resolved in a timely manner.

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

Page No.

Description

**FISCAL YEAR 1995**

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Budgetary expenditures

Cause: The cause of the above condition is unknown.

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

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

Auditee Response and Corrective Action Plan: We concur with this finding. We will ensure that such does not happen in the future.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Local Findings - Employment Ceiling - FSM National Government**

2. **Criteria:** The FSM National Government should comply with employment ceilings stated in the comprehensive budget act for the fiscal year ended September 30, 1996.

**Condition:** The Department of Transportation, National Judiciary, National Postal Services and FSM Banking Board exceeded approved employment ceilings as set by law. Department of Transportation exceeded the approved ceiling by 8 employees, the National Judiciary exceeded the approved ceiling by 2 employees, the National Postal Services exceeded the approved ceiling by 13 employees and the FSM Banking Board exceeded their approved ceiling by 1 employee.

**Cause:** The cause of the above condition is unknown.

**Effect:** Noncompliance with local law and regulation results from this condition.

**Prior Year Status:** Noncompliance with the Employment Ceiling Act was reported as a finding in the Single Audit of the FSM National Government for fiscal year 1995.

**Recommendation:** We recommend that the FSM National Government comply with employment ceiling requirements set by applicable budget acts.

**Auditee Response and Corrective Action Plan:** The above offices exceeded the approved employment ceilings set by law because of temporary positions that were not considered under the established Act.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Local Findings - Use of Compact Special Revenue Funds - FSM National Government**

3. Criteria: The FSM National Government should comply with the intent of the Compact of Free Association treaty.

Condition: Payments to the Pohnpei Utilities Corporation for utility bills were charged to Compact Energy fund.

<u>APV No.</u>	<u>Amount</u>
631990	\$ 23,623
632518	29,079
634194	62,718
636463	<u>30,674</u>
	\$ <u>146,094</u>

Cause: The FSM National Government maintains that Compact Energy funds can be used for both Capital and Current account purposes, thereby making the payment of power bills an allowable costs. The cognizant agency's position on the issue has not been obtained by the FSM National Government.

Effect: Potential noncompliance with the intent of the Compact treaty could result from this condition.

Prior Year Status: Noncompliance with the intent of the Compact treaty was reported as a finding in the Single Audit of the FSM National Government for fiscal year 1995.

Recommendation: We recommend that the FSM National Government resolve this matter with the cognizant agency.

**Auditee Response and Corrective Action Plan:**

1. The Compact (section 214) does not restrict the use of the Energy funds. Instead, it has been our understanding that the Energy funds can be used for energy-related items or projects as reflected in the Terms and Conditions relating to the use of the Compact grants. Since the payment of utility bills is an energy-related item, we maintain that it qualifies under the use of the Energy funds.
2. You also recommended that the National Government resolve this finding through the cognizant agency and the U.S. Department of the Interior (DOI). We do not view this as an issue now with the U.S. Government. Our understanding is that the Compact provides a great degree of flexibility on the use of funds, unless otherwise restricted. Energy funds can be used for both Capital and Current account purposes. Payment of power bills is an operating expense which falls under Current account.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Local Findings - Use of Compact Capital Projects Funds - FSM National Government**

4. Criteria: The FSM National Government should comply with the intent of the Compact of Free Association treaty.

Condition: The following expenditures were incurred under org. 6957 for dry docking fees and maintenance repairs of the MV Caroline Islands. These expenditures appear to be of a general and maintenance nature.

<u>APV No.</u>	<u>Amount</u>
638378	\$ 33,308
638367	25,619
638511	28,165
637481	597,000
639168	<u>82,449</u>
	\$ <u>766,541</u>

Cause: The FSM National Government maintains that Compact Capital funds can be used for the major repair of infrastructure and special maintenance programs, therefore drydocking of the MV Caroline Islands is a major repair and the costs qualified for funding under the Capital Account. However, the cognizant agency's position on the issue has not been obtained by the FSM National Government.

Effect: Potential noncompliance with the intent of the Compact treaty could result from this condition.

Prior Year Status: Noncompliance with the intent of the Compact treaty was reported as a finding in the Single Audit of the FSM National Government for fiscal year 1995.

Recommendation: We recommend that the FSM National Government resolve this matter with the cognizant agency.

Auditee Response and Corrective Action Plan: According to the Compact Fiscal Procedures Agreement, Compact Capital funds can be used for the major repair of infrastructure and special maintenance programs. We feel that the dry docking of MV Caroline Islands is a major repair; therefore, the costs are qualified for funding under the Capital account.

Auditors' Response: The Compact states that ordinary repairs and maintenance are an ineligible use of Compact Capital Account funding. We have not been provided with documentation demonstrating that this expenditure represents other than ordinary repairs and maintenance.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - Chuuk**

**Drug-Free Workplace Act**

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
1.	All	<p>Per the Office of Management and Budget Compliance Supplement, grantees are required to provide employees a drug-free workplace. In order to satisfy the above requirement, the following procedures must be performed:</p> <ul style="list-style-type: none"><li>a) Publishing a policy statement notifying employees that the unlawful manufacture, distribution, dispensing, possession or use of a controlled substance is prohibited in the grantee's workplace and specifying the actions that will be taken against employees for violation of such prohibition;</li><li>b) Establishing an ongoing drug-free awareness program to inform employees about:<ul style="list-style-type: none"><li>• The dangers of drug abuse in the workplace;</li><li>• The grantee's policy of maintaining a drug-free workplace;</li><li>• Any available drug counseling, rehabilitation, and employee assistance programs, and,</li><li>• The penalties that may be imposed upon employees for drug abuse violations occurring in the workplace;</li></ul></li><li>c) Making it a requirement that each employee to be engaged in the performance of the grant be given a copy of the statement required by paragraph (a);</li><li>d) Notifying the employee in the statement required by paragraph (a) that, as a condition of employment under the grant, the employee will:<ul style="list-style-type: none"><li>• Abide by the terms of the statement; and</li><li>• Notify the employer in writing of any criminal drug statute conviction for a violation occurring in the workplace no later than five calendar days after such conviction;</li></ul></li><li>e) Notifying the agency in writing within ten calendar days after receiving notice under subparagraph (d) (2) from an employee or otherwise receiving actual notice of such conviction;</li></ul>	



**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - Chuuk**

**Federal Finding No. 1 - Drug-Free Workplace Act, Continued**

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria, Continued:</u>	<u>Questioned Costs</u>
		<p>f) Taking one of the following actions, within 30 calendar days of receiving notice under subparagraph (d) (2), with respect to any employee who is so convicted:</p> <ul style="list-style-type: none"><li>• Taking appropriate personnel action against such an employee, up to and including termination; or</li><li>• Requiring such employees to participate satisfactorily in a drug abuse assistance or rehabilitation program approved for such purposes by a Federal, State, or local health, law enforcement, or other appropriate agency.</li></ul>	
		<p><u>Condition:</u> Per our inquiries, we noted the State of Chuuk has not complied with the above required procedures.</p>	
		<p><u>Cause:</u> Chuuk State has been waiting for the FSM National Government to take a lead on this finding as it also relates to the FSM in general.</p>	
		<p><u>Effect:</u> The effect is noncompliance with the Drug-Free Workplace Act.</p>	
		<p><u>Recommendation:</u> We recommend that in addition to issuing a policy statement in compliance with the Drug-Free Workplace Act, procedures be implemented to document that employees engaged in the performance of federal grants are aware of the policy statement.</p>	
		<p><u>Prior Year Status:</u> Noncompliance with the Drug-Free Workplace Act was reported as a finding in the Single Audits of the Chuuk State Government for fiscal years 1991 through 1996.</p>	
		<p><u>Auditee Response and Corrective Action Plan:</u> The State will maximize its efforts to ensure that it effectuates the auditors recommendations to comply with the Drug-Free Workplace Act.</p>	

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - Chuuk**

**Administrative Requirements - Equipment Management**

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
2.	All	<p>The Common Rule for Uniform Administrative Requirements for Federal Grants, Section 33 (d) (2) requires that a physical inventory of property acquired with federal funds be performed at least every two years and that the inventory be reconciled to property records.</p> <p><u>Condition:</u> A physical inventory of property has not been performed in over two years.</p> <p><u>Cause:</u> The cause of this condition is unknown.</p> <p><u>Effect:</u> The effect is noncompliance with the Administrative Requirements over federal grants.</p> <p><u>Recommendation:</u> We recommend that a physical inventory of property be taken and the results reconciled to the property records at least once every two years.</p> <p><u>Auditee Response and Corrective Action Plan:</u> Management concurs with this finding. The Director will attempt to resolve this finding through the collective efforts of all the departments of Chuuk State.</p>	

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - Chuuk**

**Cash and Investments**

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
3.	All	<p>Reconciliation of bank accounts is a key control in any accounting system.</p> <p><u>Condition:</u> Bank accounts were not reconciled as of September 30, 1996. As of September 30, 1996, the general fund unreconciled checking account balance reflected an approximate \$2.3 million bank overdraft. The general fund checking account has not been reconciled since January, 1996.</p> <p><u>Cause:</u> The cause appears to be due to the State not following prescribed control procedures.</p> <p><u>Effect:</u> A possibility of misappropriation of funds could go undetected. Additionally, an uncertainty exists as to whether all transactions have been recorded. Because of this uncertainty, we are unable to determine whether compliance with grant terms and conditions has occurred.</p> <p><u>Recommendation:</u> We recommend that all checking accounts be reconciled on a monthly basis.</p> <p><u>Auditee Response and Corrective Action Plan:</u> Management concurs with this finding. The finding will be discussed with the State Reconciliation Division and the Director will implement the auditors recommendations in fiscal year 1997.</p>	

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - Chuuk**

**4. Previous Years' Findings**

Criteria: Findings from prior audit reports should be resolved.

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

<u>Finding No.</u>	<u>Page No.</u>	<u>Description</u>
<b><u>FISCAL YEAR 1994</u></b>		
<b><u>Federal Findings</u></b>		
8	97	Eligibility Documentation
<b><u>FISCAL YEAR 1993</u></b>		
<b><u>Federal Findings</u></b>		
1	89	Reimbursement in excess of expenditures (CFDA # 84.003)
2	90	Reimbursement in excess of expenditures (CFDA # 10.560)
<b><u>FISCAL YEAR 1992</u></b>		
<b><u>Federal Findings</u></b>		
2	88	Subrecipient Audits - JTPA
<b><u>FISCAL YEAR 1991</u></b>		
<b><u>Federal Findings</u></b>		
5	95	Training Programs for JTPA
8	103	Job Placement Requirement - JTPA
9	104	Course and Instructor Evaluations - JTPA
11	107	Matching - Chapter I

Cause: The cause of this condition is unknown.

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

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

Auditee Response and Corrective Action Plan: Management concurs with the auditors recommendations and will maximize its efforts in resolving the findings. No specific time frame can be given but resolution of some findings can be expected in fiscal year 1997.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - Kosrae**

**Prior Years' Unresolved Findings**

1. Criteria: Findings from prior audit reports should be resolved in a timely manner.

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

<u>Page No.</u>	<u>Finding No.</u>	<u>Description</u>
<b>FISCAL YEAR 1988</b>		
26	5	Federal property standards
<b>FISCAL YEAR 1990</b>		
81	5	Wastewater Facility - Use charge system
<b>FISCAL YEAR 1994</b>		
87	7	Administrative Requirements
<b>FISCAL YEAR 1995</b>		
71	2	Kosrae Waste Water

Cause: The cause of the above condition is unknown.

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

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

**Auditee Response and Corrective Action Plan:**

Federal Property Standards (FY1988): Because of limited expertise in the use of automated system, the property management division did the accounting of all fixed assets manually. We have identified a d-base software currently received by the Budget unit that can accommodate the recording and accounting of all fixed assets that have been manually accounted for. The Property management division and the Budget unit are currently working on this process.

Water Charge System: We have submitted proposed legislation to the State Legislature for enactment that will transfer the operation and management of the State's Water and Wastewater System to the Kosrae Utility Authority (KUA). KUA will eventually establish user's fees as required under the proposed legislation. (Proposed legislation transmitted by the Governor to the Speaker on March 17, 1997).

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - Kosrae**

**Prior Years' Unresolved Findings**

**Auditee Response and Corrective Action Plan:**

**Administrative Requirements:** We agree to this finding. We have identified a d-base software currently received by the Budget unit that can accommodate the recording and accounting of all fixed assets that have been manually accounted for. The Director of Administration by directive will ensure that other required administrative requirements are implemented immediately.

**Kosrae Waste Water:** We agree with this finding. Please refer to the above response for **Water Charge System**.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - Kosrae**

Program	Reason for Questioned Costs	Questioned Costs																														
2. Compact Capital Projects Fund-CFDA # 15.875-Compact of Free Association	<p><u>Criteria:</u> All disbursements must be properly supported by vendor's invoice, timesheets and contracts, etc.</p> <p><u>Condition:</u> The following accounts payable vouchers lacked vendor's invoice.</p> <table style="margin-left: 40px; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; border-bottom: 1px solid black;">Org. #</th> <th style="text-align: left; border-bottom: 1px solid black;">APV #</th> <th style="text-align: right; border-bottom: 1px solid black;"></th> </tr> </thead> <tbody> <tr><td></td><td>91037</td><td style="text-align: right;">\$ 18,000</td></tr> <tr><td></td><td>92360</td><td style="text-align: right;">72,000</td></tr> <tr><td></td><td>94763</td><td style="text-align: right;">24,000</td></tr> <tr><td></td><td>95180</td><td style="text-align: right;">24,000</td></tr> <tr><td></td><td>96558</td><td style="text-align: right;">78,100</td></tr> <tr><td></td><td>96539</td><td style="text-align: right;">18,000</td></tr> <tr><td></td><td>96539</td><td style="text-align: right;">22,260</td></tr> <tr><td></td><td>97142</td><td style="text-align: right;">18,000</td></tr> <tr> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;"><u>274,360</u></td> </tr> </tbody> </table>	Org. #	APV #			91037	\$ 18,000		92360	72,000		94763	24,000		95180	24,000		96558	78,100		96539	18,000		96539	22,260		97142	18,000			<u>274,360</u>	<p style="margin-top: 20px;"><u>274,360</u></p>
Org. #	APV #																															
	91037	\$ 18,000																														
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	97142	18,000																														
		<u>274,360</u>																														
	<u>Cause:</u> The cause of this condition is unknown.																															
	<u>Effect:</u> Potential questioned costs result from this condition.																															
	<u>Recommendation:</u> We recommend that management should ensure that all disbursements are properly supported by vendor's invoice, timesheets, contracts, etc.																															
	<u>Auditee Response:</u> We agreed to this finding. Inquiry will be made to the concerned vendors so that original invoices can be provided.																															
	<u>Corrective Action Plan:</u> The Director of Administration will ensure by directive that all vendor's invoices will be required prior to disbursement of funds.																															
	Total Kosrae State Questioned Costs	\$ <u>274,360</u>																														

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - Yap**

**Drug-Free Workplace Act**

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
1.	All	<p>Per the Office of Management and Budget Compliance Supplement, grantees are required to provide employees a drug-free workplace. In order to satisfy the above requirement, the following procedures must be performed:</p> <p>a) Publishing a policy statement notifying employees that the unlawful manufacture, distribution, dispensing, possession or use of a controlled substance is prohibited in the grantee's workplace and specifying the actions that will be taken against employees for violation of such prohibition;</p> <p>b) Establishing an ongoing drug-free awareness program to inform employees about:</p> <ul style="list-style-type: none"><li>• The dangers of drug abuse in the workplace;</li><li>• The grantee's policy of maintaining a drug-free workplace;</li><li>• Any available drug counseling, rehabilitation, and employee assistance programs, and,</li><li>• The penalties that may be imposed upon employees for drug abuse violations occurring in the workplace;</li></ul> <p>c) Making it a requirement that each employee to be engaged in the performance of the grant be given a copy of the statement required by paragraph (a);</p> <p>d) Notifying the employee in the statement required by paragraph (a) that, as a condition of employment under the grant, the employee will:</p> <ul style="list-style-type: none"><li>• Abide by the terms of the statement; and</li><li>• Notify the employer in writing of any criminal drug statute conviction for a violation occurring in the workplace no later than five calendar days after such conviction;</li></ul> <p>e) Notifying the agency in writing within ten calendar days after receiving notice under subparagraph (d) (2) from an employee or otherwise receiving actual notice of such conviction;</p>	



**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - Yap**

**Federal Finding No. 1 - Drug-Free Workplace Act, Continued**

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria, Continued:</u>	<u>Questioned Costs</u>
		<p>f) Taking one of the following actions, within 30 calendar days of receiving notice under subparagraph (d) (2), with respect to any employee who is so convicted:</p> <ul style="list-style-type: none"><li>• Taking appropriate personnel action against such an employee, up to and including termination; or</li><li>• Requiring such employees to participate satisfactorily in a drug abuse assistance or rehabilitation program approved for such purposes by a Federal, State, or local health, law enforcement, or other appropriate agency.</li></ul>	
		<p><u>Condition:</u> Per our inquiries, we noted the State of Yap has not complied with the above required procedures.</p>	
		<p><u>Cause:</u> Yap State has been waiting for the FSM National Government to take a lead on this finding as it also relates to the FSM in general.</p>	
		<p><u>Effect:</u> The effect is noncompliance with the Drug-Free Workplace Act.</p>	
		<p><u>Recommendation:</u> We recommend that in addition to issuing a policy statement in compliance with the Drug-Free Workplace Act, procedures be implemented to document that employees engaged in the performance of federal grants are aware of the policy statement.</p>	
		<p><u>Prior Year Status:</u> Noncompliance with the Drug-Free Workplace Act was reported as a finding in the Single Audits of the Yap State Government for fiscal years 1992 through 1995.</p>	
		<p><u>Auditee Response and Corrective Action Plan:</u> We had obtained copies of policy statements for a drug-free workplace from other jurisdictions to begin drafting Yap State's policy statement when it became known to us that the federal requirements concerning the Drug Free Workplace Act had been revised. We will complete our draft of the policy statement once we understand the new revisions to ensure that the statement will comply with federal requirements.</p>	

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - Yap**

**Administrative Requirements - Equipment Management**

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
2.	All	<p>The Common Rule for Uniform Administrative Requirements for Federal Grants, Section 33 (d) (2) requires that a physical inventory of property acquired with federal funds be performed at least every two years and that the inventory be reconciled to property records.</p> <p><u>Condition:</u> A physical inventory of property has not been performed in over two years.</p> <p><u>Cause:</u> The cause of this condition is unknown.</p> <p><u>Effect:</u> The effect is noncompliance with the Administrative Requirements over federal grants.</p> <p><u>Recommendation:</u> We recommend that a physical inventory of property be taken and the results reconciled to the property records at least once every two years.</p> <p><u>Auditee Response and Corrective Action Plan:</u> We agree with the need to take a physical inventory of all government property. We will discuss with the Division of Real and Personal Property Management (RPPM) the need to engage the assistance of all departments and agencies in compiling a list of property and equipment in their custody in order to update property records. We will also arrange with the Supply Division for someone to come to Finance and enter new equipment purchases in the Dilog System.</p>	

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - Yap**

**Administrative Requirements - Equipment Management, Continued**

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
3.	All	<p>An updated property ledger by funding source should be maintained for all of Yap State Government.</p> <p><u>Condition:</u> The Division of Real and Personal Property Management (RPPM) maintains property cards. However, these records have not been updated in the accounting system.</p> <p><u>Cause:</u> The off-site terminal used by RPPM no longer works and no manual ledgers appear to have been prepared.</p> <p><u>Effect:</u> The effect is noncompliance with the Administrative Requirements over federal grants due to not being able to test the accuracy of fixed asset inventory ledgers.</p> <p><u>Recommendation:</u> We recommend that property ledgers be maintained on a timely basis by funding source in the General Fixed Assets Account Group.</p> <p><u>Auditee Response and Corrective Action Plan:</u> This finding will be resolved once property records have been updated as described in Finding No. 2.</p>	

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - Yap**

**Administrative Requirements - Procurement**

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
4.	All	<p>The Common Rule for Uniform Administrative Requirements for Federal Grants, Section 36 (b) (12) requires grantees and subgrantees to have written protest procedures to handle and resolve disputes relating to their procurements.</p> <p><u>Condition:</u> We noted no written procedures regarding protests over procurement procedures.</p> <p><u>Cause:</u> A procurement manual has been drafted, but has not been finalized.</p> <p><u>Effect:</u> The effect is noncompliance with the Administrative Requirements over federal grants.</p> <p><u>Recommendation:</u> We recommend that a written policy be adopted and added to the regulations regarding procedures to handle and resolve disputes relating to procurement procedures.</p> <p><u>Auditee Response and Corrective Action Plan:</u> The new procurement manual is ready for implementation pending final review by Supply and Finance. Once distributed, the manual will sufficiently address federal procurement concerns.</p>	

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - Yap  
Administrative Requirements - Subawards to Debarred and Suspended Parties**

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
5.	All	<p>The Common Rule for Uniform Administrative Requirements for Federal Grants, Section 35 requires that grantees and subgrantees not award or permit any award to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal Assistance programs.</p> <p><u>Condition:</u> We noted that Yap State did not have a copy of the Lists of Parties Excluded from Federal Procurement or Nonprocurement Programs, issued by the General Services Administration (GSA). Additionally, Yap State does not require that recipients of contracts, subcontracts, or subgrants certify that the organization and its principals are not suspended or debarred.</p> <p><u>Cause:</u> The cause of this condition is unknown.</p> <p><u>Effect:</u> The effect is noncompliance with the Administrative Requirements over federal grants.</p> <p><u>Recommendation:</u> We recommend that Yap State obtain copies of the GSA lists and require certification, for their contracts and subgrants greater than \$25,000, that the organization and its principals are not suspended or debarred.</p> <p><u>Auditee Response and Corrective Action Plan:</u> We have written a letter to the Federal Supply Service bureau requesting such a list be sent to use periodically, however, we have not received a response. Upon receipt of the list we will require that it be considered before orders are placed.</p>	

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - Yap**

**Allowable Costs/Cost Principles**

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
6.	All	<p>Office of Management and Budget (OMB) Circular A-87 covering cost principles for State and Local Governments over federal grants should be incorporated into Yap State's policies and procedures over procurements.</p> <p><u>Condition:</u> The individual in the Division of Finance responsible for screening procurements for compliance with OMB Circular A-87 has a copy and is familiar with the criteria; however, some program coordinators do not appear to be aware of the criteria.</p> <p><u>Cause:</u> The draft procurement manual has been drafted but has not been formally adopted.</p> <p><u>Effect:</u> We noted no material effect due to the review by the responsible individual in Finance. However, if that employee is gone, noncompliance may occur.</p> <p><u>Recommendation:</u> We recommend that OMB Circular A-87 requirements be incorporated into Yap State's policies and procedures for more complete control and documentation over these requirements.</p> <p><u>Auditee Response and Corrective Action Plan:</u> These concerns will be addressed once the Manual of Procurement procedures is adopted and distributed to all departments and agencies.</p>	

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - Yap**

**Cash Management - FEMA**

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
7.	83.516	<p>Compliance Supplement cash management requirements require recipients to minimize the time between receiving grant funds and the related disbursement.</p> <p><u>Condition:</u> Per the Program Coordinator for the Federal Emergency Management Agency (FEMA) Public Assistance Program - Typhoon Owen, the program was completed in December 1993. The Coordinator was under the impression all of the funds had been expended. Therefore, the remaining advanced funds of \$18,388 was reclassified from Deferred Revenue to Due to Grantor.</p> <p><u>Cause:</u> This appears to be due to lack of coordination between the program administrators and the Division of Finance in closing out the program.</p> <p><u>Effect:</u> The effect is noncompliance with cash management requirements and possible future questioned costs if the funds are improperly disbursed.</p> <p><u>Recommendation:</u> We recommend that the remaining advanced funds be investigated to determine whether they are to be properly applied to the program or to be returned to the grantor. If the funds are to be applied to the program, proper supportive documentation should be thoroughly reviewed and copies maintained by the Division of Finance.</p> <p><u>Prior Year Status:</u> Noncompliance with the cash management-FEMA was reported as a finding in the Single Audit of Yap State Government for fiscal years 1994 and 1995.</p> <p><u>Auditee Response and Corrective Action Plan:</u> We will work with FEMA officials to establish the proper disposition of remaining funds.</p>	

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - Yap**

**Yap State-Administrative Requirements-Reporting**

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
8.	11.300	<p>A subrecipient of federal financial awards should submit to federal grantors a performance report of each program at least annually.</p> <p><u>Condition:</u> During fiscal year 1996, Yap State commenced construction of the Small Business Center, a project funded in part by a direct grant from the U.S. Department of Commerce Economic Development Administration (EDA). Inquiries revealed that no performance report had been submitted to EDA for the project since its commencement.</p> <p><u>Cause:</u> The cause of this condition is unknown.</p> <p><u>Effect:</u> The above condition has no effect on the financial statements. However, noncompliance with requirements governing federal funding may result in the funds being rescinded.</p> <p><u>Recommendation:</u> We recommend that Yap State Program managers ensure that a performance report is submitted to grantor agencies at least annually. This report should include the following:</p> <ol style="list-style-type: none"><li>1. A comparison of actual accomplishments to objectives for the period (quantified if possible.)</li><li>2. Reasons why any established objectives were not met.</li><li>3. Other pertinent information such as analysis and explanations of cost overrun or high unit cost.</li></ol> <p><u>Auditee Response and Corrective Action Plan:</u> All required reports have been submitted to the federal grantor agency and are now up-to-date.</p>	



**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - Yap**

**Special Education Compliance**

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>								
9.	84.027A	<p>OMB Circular A-87 requires that expenditures charged to federal programs be “necessary and reasonable for program needs”.</p> <p><u>Condition:</u> During fiscal year 1996, the Special Education program incurred travel costs for approximately 70 participants from the Special Education program, regular education, other government departments and agencies and the private sector to attend the PREL conference held in Pohnpei, in particular to participate in the Inclusive Practice Workshop relating to special education. To fund the travel costs of the participants, the Yap Special Education program requested the FSM National Government to reprogram \$145,000 from other budget categories into the travel budget. The amount of Special Education Program funds expended for the workshop does not appear necessary and reasonable.</p> <table border="0" style="margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: center;"><u>Org.</u></td> <td style="text-align: center;"><u>Doc</u></td> <td style="text-align: center;"><u>APV</u></td> <td></td> </tr> <tr> <td style="text-align: center;">3008</td> <td style="text-align: center;">Various</td> <td style="text-align: center;">Various</td> <td style="text-align: right; vertical-align: bottom;">\$ <u>145,000</u></td> </tr> </table> <p><u>Cause:</u> There was no evidence to indicate that the Program explored a more cost-effective approach to ensuring Yap’s participation in the workshop.</p> <p><u>Effect:</u> The above condition results in questioned costs of \$145,000 which, if disallowed by the grantor, will be absorbed by the General Fund.</p> <p><u>Recommendation:</u> We recommend that Yap State ensures that federal grants be expended in a manner consistent with the requirements of Circular A-87.</p> <p><u>Auditee Response and Corrective Action Plan:</u> As noted in the finding, approval was obtained from the FSM National Government to charge Special Education Funds for travel costs to the PREL Conference. We will therefore work with the FSM National government and the Federal Grantor Agency to resolve the questioned costs.</p>	<u>Org.</u>	<u>Doc</u>	<u>APV</u>		3008	Various	Various	\$ <u>145,000</u>	
<u>Org.</u>	<u>Doc</u>	<u>APV</u>									
3008	Various	Various	\$ <u>145,000</u>								

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - Yap**

**Special Education Compliance**

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>								
10.	84.027A	<p>Costs charged to federal programs should be consistent with the cost principles of OMB Circular A-87.</p> <p><u>Condition:</u> During fiscal year 1996, materials for renovation of the Special Education office was charged to the Program funds. An invoice dated October 20, 1995 indicated that the materials had been received and the local vendor was paid accordingly. As of March 1997, the renovation work had not commenced. Inquiries revealed that the materials were still with the vendor pending identification of a contractor to perform the work. The related disbursement documents are noted below:</p> <table border="0" style="margin-left: 40px;"><thead><tr><th style="text-align: center;"><u>Org.</u></th><th style="text-align: center;"><u>Doc</u></th><th style="text-align: center;"><u>APV</u></th><th></th></tr></thead><tbody><tr><td style="text-align: center;">3008</td><td style="text-align: center;">P53866</td><td style="text-align: center;">600984</td><td style="text-align: right;">\$ <u>3,001</u></td></tr></tbody></table> <p><u>Cause:</u> The cause of this condition is unknown.</p> <p><u>Effect:</u> The above condition results in costs being charged to the Special Education program for which items purchased may be at risk of loss since such are not in the custody of the Program.</p> <p><u>Recommendation:</u> We recommend that payments to vendors not be authorized and processed until such time that goods and services are received.</p> <p><u>Auditee Response and Corrective Action Plan:</u> We will instruct all departments and agencies to ensure that invoices are not signed until goods are actually received.</p>	<u>Org.</u>	<u>Doc</u>	<u>APV</u>		3008	P53866	600984	\$ <u>3,001</u>	
<u>Org.</u>	<u>Doc</u>	<u>APV</u>									
3008	P53866	600984	\$ <u>3,001</u>								

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - Yap**

**Special Education Compliance**

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
11.	84.027A	Every client receiving services from Special Education should have a completed and current individualized education program (IEP) on file.	

Condition: As of March 1997, the Special Education Program was providing services to 18 homebound children and 101 students at various elementary schools. Forty-eight of those children did not have completed IEPs on file. Also, during the fiscal year 1996, the Special Education program funded desks and chairs for students at the high school who had been referred to the program. IEPs had not been developed for those high school students. The related transactions are listed below:

<u>Org.</u>	<u>PO#</u>	<u>APV</u>
3006	P53866	602157
3006	P54222	602158
3006	P54174	602152
3006	P54241	602580
3006	P54168	602388

Cause: Students in need of services are being referred to Special Education programs before staff have time to complete IEPs.

Effect: The above condition results in potential noncompliance with specific requirements relating to the Special Education Part B funds.

Recommendation: We recommend that the program managers ensure that IEP's be developed for each child referred before accepting the child to the program.

Auditee Response and Corrective Action Plan: Since the audit, we have completed Individualized Education Programs for all children being served by the program.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - Yap**

**Yap State-Travel Advances**

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
12.	84.027A	<p>The Financial Management Regulations require travelers to file expense vouchers and return funds advanced in excess of travel expenses within a certain number of days after completion of trips.</p> <p><u>Condition:</u> Funds owed by travelers to the Government for travel funded by the Special Education Program remain outstanding seven months after completion of travel (TA 60602 and TA 50458).</p> <p><u>Cause:</u> The cause of this condition is unknown.</p> <p><u>Effect:</u> The above condition has no material effect on the financial statements.</p> <p><u>Recommendation:</u> Yap State should make every effort to collect travel advances due to the government.</p> <p><u>Auditee Response and Corrective Action Plan:</u> We have established a payment plan for one of the travelers in question and have begun biweekly collection. We are still trying to arrange a payment plan with the other traveler who has since left government employment.</p>	

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - Yap**

**Yap State-JTPA Program Expenditures**

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
13.	17.250	<p>Expenditures of JTPA training funds should be in accordance with budget proposals approved by the Private Industry Council.</p> <p><u>Condition:</u> A local vendor expended and was reimbursed for the purchase of a TV and a VCR totaling \$1,999. The items purchased were based on a training proposal submitted by the vendor and approved by the Private Industry Council. The cost of the TV and VCR per the proposal was only \$799. There was no indication that the Private Industry Council had approved the \$1,200 increase in the budget for the items.</p> <p><u>Cause:</u> The cause of the above condition is unknown.</p> <p><u>Effect:</u> The above condition results in questioned costs of \$1,200.</p> <p><u>Recommendation:</u> We recommend that the approval of the Private Industry Council be obtained for subsequent amendments which materially affect the cost of training proposals.</p> <p><u>Auditee Response and Corrective Action Plan:</u> We agree with this finding and will implement the recommendation.</p>	\$ <u>1,200</u>

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - Yap**

**Yap State-Procurement Standards**

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>																																
14.	84.256A	Purchases made with Federal grant funds should reflect evidence of informal price solicitations or other means of competitive procurement.																																	
		<u>Condition:</u> The following transactions charged to Yap STAR program funds did not contain evidence on file indicating that the lowest price was obtained (from a sample of 26 transactions or that competitive procurement methods were employed):																																	
		<table border="0" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: left;"><u>Org.</u></th> <th style="text-align: left;"><u>Doc</u></th> <th style="text-align: left;"><u>APV</u></th> <th style="text-align: right;"></th> </tr> </thead> <tbody> <tr> <td>3005</td> <td>P60442</td> <td>604143</td> <td style="text-align: right;">\$ 1,398</td> </tr> <tr> <td>3005</td> <td>P60199</td> <td>604142</td> <td style="text-align: right;">3,949</td> </tr> <tr> <td>3005</td> <td>P60444</td> <td>604156</td> <td style="text-align: right;">4,184</td> </tr> <tr> <td>3009</td> <td>P61776</td> <td>608218</td> <td style="text-align: right;">3,354</td> </tr> <tr> <td>3009</td> <td>N/A</td> <td>check 4207</td> <td style="text-align: right;">5,428</td> </tr> <tr> <td>3009</td> <td>N/A</td> <td>check 4189</td> <td style="text-align: right;"><u>1,455</u></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;"><u>19,768</u></td> </tr> </tbody> </table>	<u>Org.</u>	<u>Doc</u>	<u>APV</u>		3005	P60442	604143	\$ 1,398	3005	P60199	604142	3,949	3005	P60444	604156	4,184	3009	P61776	608218	3,354	3009	N/A	check 4207	5,428	3009	N/A	check 4189	<u>1,455</u>				<u>19,768</u>	
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			<u>19,768</u>																																

Cause: Program managers were unaware of the federal procurement requirements. The draft procurement procedures manual which address these requirements has not been finalized and distributed to the departments.

Effect: The above condition resulted in questioned costs.

Recommendation: We recommend that the federal procurement requirements be incorporated into the draft procurement procedures manual and such manual be finalized and distributed as soon as possible.

Auditee Response and Corrective Action Plan: We will ensure that evidence of compliance with competitive bidding is maintained on file.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - Yap**

**Yap State-Compact CIP Funds**

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
15.	15.875	Expenditures of Compact funds should be consistent with the intent of the Compact treaty.	
		<u>Condition:</u> The appropriations below authorized funding for repair of existing government buildings. Such use of compact CIP funds appear to be inconsistent with the intent of the Compact Capital Account. During fiscal year 1996, the projects incurred expenses as follows:	
		<u>Org.</u> <u>Org. Title</u>	
		6185      MRMD Building Renovation	\$ 25,487
		6186      Quarantine Building Renovation	5,386
		6194      YSL Building Repair	<u>13,400</u>
			<u>44,273</u>

Cause: The cause of this condition is unknown.

Effect: The above condition results in potential noncompliance with the intent of the Compact treaty.

Recommendation: We recommend that Yap State ensures that expenditures of Compact Funds are consistent with the intent of the applicable section of the Compact.

Auditee Response and Corrective Action Plan: We have discussed the matter with the appropriate officials and plan to ask the Legislature to appropriate local funds to replace the Compact CIP Funds in question.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - Yap**

**Yap State-Compact CIP Funds**

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
16.	15.875	The Compact of Free Association defines the Capital Account as the portion of total grant assistance which is to be obligated for "the construction or major repair of capital infrastructure" or "public and private sector projects identified in the official overall economic development plan."	

Condition: During the fiscal year 1996, Compact capital funds were expended in payment of certain transactions which seemed to be operational in nature and therefore appear to be unallowable costs under Compact Capital Account funds. The related transactions are listed below:

<u>Org.</u>	<u>Org. Title</u>	
6161	OIHS Library Building	\$ 2,720
6161	OIHS Library Building	4,900
6162	Maap School Building	4,590
6162	Maap School Building	2,923
6162	Maap School Building	2,730
6177	Ext. & Research	15,530
6177	Ext. & Research	1,587
6169	Gaanelay School Building	4,887
6169	Gaanelay School Building	4,888
6242	Road Development	5,000
6127	Manpower Training	350
		<u>50,105</u>

Cause: Per the Chief of Budget, certain of the items were authorized in the project control.

Effect: The above condition results in potential noncompliance with the intent of the Compact treaty.

Recommendation: Yap State should obtain an opinion from the Attorney General as to whether the above expenditures represent allowable expenditures under Compact Funds.

Auditee Response and Corrective Action Plan: Allotments were issued authorizing expense items in each project control document. The Yap Attorney General has advised that any or all questioned costs arising from the use of Capital Funds should be handled by the FSM AG's office and the FSM Public Auditor by legal opinion or rulings. However, more stringent procedures and cost elements for the use of Capital Funds will be developed for use henceforth.

Total questioned costs	\$ <u>263,347</u>
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**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - Pohnpei**

**U.S. Department of Labor - JTPA Program (CFDA #17.250)**

1. Criteria: Participant files should be appropriately maintained to ensure compliance with program requirements.

Condition: Of thirty-nine participants approved by JTPA, two files could not be located and seven participants' applications lacked information about family income.

Cause: The cause of this condition is that JTPA authorized payments based on incomplete applications.

Effect: Noncompliance with program guidelines results.

Prior Year Status: Incomplete participant files was cited as a finding in the 1995 Single Audit Reports.

Recommendation: Participant files should be established and maintained in accordance with program requirements starting in fiscal year 1997.

Auditee Response and Corrective Action Plan: We concur with this finding. Staff of JTPA has been instructed to review and complete the participant files.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - Pohnpei**

**Special Education Program - Individualized Education Programs (CFDA #84.027)**

2. Criteria: An individualized education program (IEP) should be developed and implemented for each child receiving special education or related services.

Condition: We reviewed pupil files at the PICS Transition Center. Improvements are needed to ensure that all IEP forms are completely and thoroughly filled out.

1. The State should procure a parent consent form when reviews and/or re-evaluations are to be performed. For 6 (or 43%) out of 14 students tested, the State did not have a parent consent form in the IEP file.
2. The State should ensure that IEPs include a statement of present levels of educational performance.
3. The State should complete the statement of annual goals including short term objectives to ensure that an eligible student's needs are met. For 1 (or 7%) out of 14 IEPs tested, one IEP did not include a statement of annual goals.
4. The State should complete the statement of the special education and related services to be provided to ensure that an eligible student's needs are met. For 2 (14%) out of 14 IEPs tested, two IEPs did not include a statement of the special education and related services to be provided.
5. The State should ensure that the IEPs have projected dates for initiation and the anticipated duration of the services for the purpose of meeting an eligible student's unique needs. For 9 (or 64%) out of 14 IEPs tested, the IEPs did not include projected dates for initiation and the anticipated duration of the services.
6. The State should ensure that each student's education performance is determined at least annually. For 1 (or 7%) out of 14 students tested, one participant's annual review for fiscal year 1996 was not performed.

We also randomly selected for review 24 pupil IEP files from outlying resource centers. Twenty two of the twenty four files selected were unavailable for review.

Cause: The cause of this condition is unknown.

Effect: Pohnpei State appears to be in noncompliance with DHHS requirements regarding maintenance of pupil IEP files. Records maintained do not allow a determination of the amount of Special Education funds spent for pupil with inadequate IEPs.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - Pohnpei**

**Special Education Program - Individualized Education Programs (CFDA #84.027), Continued**

Prior Year Status: Inadequate pupil files was reported as a finding in the 1995 Single Audit Report.

Recommendation: Program managers should ensure that all pupil IEPs are completed and contain all required information.

Auditee Response and Corrective Action Plan: We concur with this finding. A memo was sent to the Director of Education last year regarding the 1995 audit. Another memo and a meeting will be held with the Director of Education to ensure the Auditors' recommendations are carried through.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - Pohnpei**

**Pohnpei Utilities Corporation - A Subrecipient - Bidding Procedures - (15.875)**

3. Criteria: Per OMB Circular A-87, Attachment A, Section A, paragraph 2(b), the grantee assumes the responsibility for ensuring that federally assisted program funds have been expended and accounted for consistently with underlying agreements and program objectives.

Condition: We could not determine that informal procurement regulations were used in obtaining the following items:

<u>Check #</u>	<u>Amount</u>
8358	\$ 5,216
8083	<u>3,050</u>
	\$ <u>8,266</u>

Cause: The cause of this condition is unknown.

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

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

Auditee Response and Corrective Action Plan: The PUC concurs with the finding. The PUC follows informal procurement regulations particular to obtaining or various quotations before awarding or purchases. However, for the items cited, the regulation was not followed because of the following reasons.

- a. Check 8358 \$ 5,216

Time constrains. The PUC needed the computer as soon as possible to be used for the networking of the PUC Finance department. Only one quotation was obtained which had all specifications required for the networking. The PUC concurs however that such exceptions be documented.

- b. Check 8083 \$ 3,050

The Company in charge of installing the telemetering system for the PUC recommended the purchase of the computer from Decision Support Services. No other quotations were obtained. The PUC concurs that such exceptions are necessary to be documented.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - Pohnpei**

**Funds Passed through to Pohnpei State Housing Authority - a Subrecipient**

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
<p>4. Compact Capital Projects Fund-CFDA #15.875-Compact of Free Association</p>	<p><u>Criteria:</u> Compact capital funds received in a subrecipient capacity should be expended in accordance with local laws and regulations.</p> <p><u>Condition:</u> Compact capital funds were used to fund administrative expenses. It is uncertain whether this amount falls within the 1.5% administrative allowance and has therefore been questioned.</p> <p><u>Cause:</u> Management approved the transfer of funds and its subsequent disbursements.</p> <p><u>Effect:</u> The effect of using housing loan funds for administrative expenses is potential noncompliance with the intent of the Compact of Free Association.</p> <p><u>Recommendation:</u> We recommend that the management and the Board of Directors immediately resolve this matter with the Pohnpei State Legislature.</p> <p><u>Auditee Response and Corrective Action Plan:</u> The previous Executive Director had submitted to the Board and same with the Governor an annual budget that is reasonable to cover all expenditures for the sound operations of the Authority. Nevertheless, the Pohnpei State Legislature had cut said budget, the salary of the Loan Packager in particular, along with other indispensable expenditures. With the increasing housing loan assistance given by both PSHA and Rural Development, the services of the unbudgeted Loan Packager is essential for packaging and processing housing loans. In order to continue the sound implementation of the low cost housing program for the low income families of Pohnpei, the Authority was constrained to seek the Board's approval for the fund transfer and thereafter inevitably incurred such unbudgeted administrative expenditures.</p>	<p style="text-align: right;">\$ <u>15,182</u></p>
<p>Total Pohnpei State Questioned Costs</p>		<p>\$ <u>15,182</u></p>

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - College of Micronesia-FSM**

**Prior Year's Findings - Talent Search Program**

1. Criteria: Student files should contain documentation on the type of service that will be provided for the participant and specify the educational progress made by the student.

Condition: Specific findings of non-compliance from the September 30, 1995 audit remains unresolved at September 30, 1996:

<u>Page No.</u>	<u>Description</u>
25	Administrative Capability: Student File Maintenance

Cause: Management has resolved issue after September 30, 1996.

Effect: Not resolving findings has had a detrimental effect on COM-FSM's ability to effectively administer and manage federally funded grants and programs.

Recommendation: We recommend that the COM-FSM Board of Regents, the Offices of the President and the Comptroller, and the federal program Administrators place the highest priority on immediately resolving all outstanding findings.

**Auditee Response and Corrective Action Plan:**

The program not only inputs information in the computer relating to the types of services provided for each individual, but also has started documenting services in each file. Forms have been formulated to record contracts/services given to the students. In each file for the target schools, summary reports of all activities conducted at each respective schools are documented and kept while records are also kept of all individual contacts with participants and their parents. Grades are also collected and retained in the files.

An individual was hired on special contract to work with the files for the year. As graduation neared, services were stopped at each school for program staff and tutors to update the files. For next fiscal year, a record specialist position was requested and funded to deal mainly with files and information gathered.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - College of Micronesia-FSM**

**Prior Audit - Student Financial Aid Program**

2. Criteria: Per the U.S. Department of Education final audit determination letter dated August 16, 1996 to Mrs. Susan J. Moses, President of COM-FSM, the auditor must "comment on all the actions taken by the institution to correct each finding noted in the audit report for the year ended June 30, 1994."

Condition: Specific findings that must be reported by the auditor per the attachment to the letter were:

<u>Finding No.</u>	<u>Description</u>	<u>Page No.</u>	<u>Auditor's Comments</u>
3	Financial Reporting	23	Not implemented.
11	Segregation of duties	35	The condition remains the same.
13	Student Ledgers	37	The condition remains the same as of PY 1995-96.

Cause: Management has been unable to implement prior year audit's corrective action plan.

Effect: Not implementing corrective action plan has a detrimental effect on Management's ability to resolve audit findings.

Recommendation: The COM-FSM Board of Regents, the Offices of the President and the Comptroller, and the federal program Administrators should implement planned corrective action.

**Auditee Response and Corrective Action Plan:**

Reconciliations between Business Office records and the Financial Aid Office have been implemented. Reconciliations are performed on a monthly basis and copies are given to the Director of Financial Aid.

Management has implemented changes to the segregation of duties. Many of the conditions cited have been rectified. A brief description of some of the changes in the duties of the Business Office Staff is contained in the responses in the internal control section of the audit findings and responses. Management will continue to review the segregation of duties and make changes when possible and when undue financial burden will not result from the changes.

Management continues to work on the situation with student subsidiary ledgers. An employee has been assigned the responsibility to reconcile the ledgers on a yearly basis beginning with prior years and working forward.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - College of Micronesia-FSM**

**Business Office Responsibilities**

3. Criteria: Chapter 2 of the US Department of Education July 1995 Blue Book enumerated on page 34, the major responsibilities of the Business Office of an institution receiving Title IV programs. It is responsible in:
- 1) Maintaining a system of internal controls that includes adequate checks and balances.
  - 2) Reconciling with the financial aid office to ensure that all financial aid adjustments have been properly recorded.
  - 3) Maintaining records according to federal and generally accepted accounting principles.
  - 4) Maintaining records to ensure a clear audit trail.

Condition: COM-FSM Business Office is not maintaining records of Pell, FWS and FSEOG transactions in accordance with federal and generally accepted accounting principles. Records maintained and available are source documents such as copies of transfer memos from Financial Aid Office (FAO), and schedules of memos supporting requests for reimbursement vouchers. The audit procedure necessitated constructing program year 1995-96 expenditures from these source documents and comparing them with schedules obtained from FAO. The results of performed comparisons were:

- 1) Business Office schedule was missing one Pell refund memo (number 14 dated October 11, 1996 for \$256);
- 2) Total reimbursement of \$2,834,133 requested for Pell grant exceeded authorized amount of \$2,831,537 by \$2,596;
- 3) FAO total FWS expenditure of \$128,702 is not reconciled by \$19 with Business Office FWS total of \$128,683;
- 4) Business Office reimbursement requests for FWS had differences of (\$0.27) in voucher #62 and \$8,100 in voucher #68. The effect of all the differences is an over reimbursement of \$22,394 by the Department of Education.

Cause: Management has resolved issue after September 30, 1996.

Effect: Non-compliance with the federal requirements.

Recommendation: The COM-FSM Board of Regents, the Offices of the President and the Comptroller, and Program Administrators should give priority to addressing prior year's recommendations on its internal control findings.



**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - College of Micronesia-FSM**

**Business Office Responsibilities, Continued**

**Auditee Response and Corrective Action Plan:**

Management agrees there is a difference between the Financial Aid Office FWS expenditures and the Business Office expenditures. According to accounting records the difference is \$.27. The amount of \$102 was resolved during fiscal year 1996.

The audit report and findings for fiscal year 1995 were not received by management until the end of fiscal year 1996. Having received the findings so late in the fiscal year made it nearly impossible to take corrective action during fiscal year 1996.

During fiscal year 1997, the Business Office implemented the procedures of performing monthly reconciliations for Pell Grant, FSEOG and Federal Work Study. These reconciliations are performed monthly; the general ledger balances are to be reconciled to a monthly report prepared by the Financial Aid Office. Copies of the reconciliations are given to the Director of Financial Aid.

On June 27, 1997, the College of Micronesia-FSM began work on an accounting procedures manual. Through the Pacific Island Training Initiative and Graduate School of the U.S. Department of Agriculture, an individual was assigned to assist the College with an accounting manual. The manual will be of the training type that will have step by step procedures for performing the function within the Business Office.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - College of Micronesia-FSM**

**Drug-Free Workplace Act**

4. **Criteria:** All recipients receiving grants, including cooperative agreements, from any federal agency must certify that they will provide a drug-free workplace, or, in the case of a grantee who is an individual, certify to the agency that his or her conduct of grant activity will be drug-free. Per CFR 86.100, the IHE (COM-FSM)'s drug prevention program must, at a minimum, include:
- a) The annual distribution of the program in writing to each employee and to each student who is taking one or more classes for any type of academic credit except for continuing education units, regardless of the length of the student's program of study.
  - b) A biennial review by the IHE of its program to 1) determine its effectiveness and implement changes to the program if they are needed; and 2) ensure that the disciplinary sanctions are consistently enforced.

**Condition:** After repeated audit findings of noncompliance with the drug-free workplace requirements, COM-FSM endeavored to address the findings during the fiscal year 1995-96.

- 1) Files of 23 out of 174 total regular employees of COM-FSM directly involved with federal programs administration were reviewed. Ten (10) employees received drug-free notice in 1995. Ten (10) newly hired employees in 1996 received drug-free notice in 1996. Three (3) employees did not have copy of received notices on file. These employees are:
  - a) Director of Upward Bound - Chuuk
  - b) Staff of Upward Bound - Kosrae
  - c) Staff of Talent Search Program
- 2) The result of the SFA compliance review performed on the files of 60 students selected out of a total of 2,523 students receiving student federal financial aid disclosed that 30 out of 60 (50%) students have no drug-free notice.
- 3) COM-FSM conducts on each campus an alcohol and drug-free awareness week, however, formal evaluation of the effectiveness of the program has not been done.
- 4) The review of TSP student participation files of 40 students selected from a total of 602 students listed disclosed no drug-free notice at all. Likewise, all 10 Upward Bound Kosrae student participants selected from the sample of 60 students participant did not have drug-free notices.

**Cause:** Lack of total understanding of the drug-free workplace act requirements.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - College of Micronesia-FSM**

**Drug-Free Workplace Act, Continued**

Effect: Repeated non-compliance with the federal requirements.

Recommendation: We recommend that the office of COM-FSM's President continue their effort in addressing the drug-free workplace act requirements.

Auditee Response and Corrective Action Plan: Through misinterpretation of the Drug-Free Workplace Act requirements, the administration had required students and employees to sign the drug-free agreement only upon their initial association with the College. Procedures are now in place which require all students - both at the National and State Campuses - to sign the drug-free agreement each time they register for one or more classes for credit. A similar procedure has been adopted for employees. At the beginning of every fall semester, all staff - both at the National and State Campuses - will be required to sign the drug-free agreement. All staff hired during the year will sign it as part of their employment package.

Each year, students and staff are asked to evaluate the content and activities of the College's alcohol and drug-free awareness week usually held in October. However, a more comprehensive evaluation of the effectiveness of the College's overall alcohol and drug-free program to determine the effectiveness of the program and the degree to which sanctions are consistently enforced has not been done. A review of all the disciplinary cases is in progress with a report scheduled for completion sometime in September.

Drug-free agreements have been signed by all TSP students. Students in the Upward Bound Programs at both Chuuk and Kosrae will be required to sign similar agreements.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - College of Micronesia-FSM**

**Administrative Requirements**

5. Criteria: Per CFR 74.61 Financial management standards, effective control and accountability shall be maintained for all grant or subgrant cash, real, personal property covered by subpart O of this part. All such property shall be adequately safeguarded and used solely for authorized purposes. COM-FSM must have:
- 1) Systems and procedures in place for the identification and assignment of program income and for ensuring that such program income is used in accordance with the terms of awards;
  - 2) A property management system for federal award programs and related activities that is adequate to meet the standards of OMB Circular A-110, Attachment N, and the requirements of OMB Circular A-21 or A-122;
  - 3) A procurement system which meets the requirements of OMB Circular A-110, Attachment O.

Condition: No written policies and procedures currently exist at COM-FSM to ensure compliance with the requirements for program income, property management and procurement system.

Cause: COM-FSM has not developed any policies and procedures manual for federal programs administration.

Effect: There is no assurance that federal grants received are managed accordingly.

Recommendation: The COM-FSM's Board of Regents, Offices of the President and Comptroller and Program Administrators should join efforts in developing policies and procedures for the administration of federal programs.

Auditee Response and Corrective Action Plan: On June 2, 1997, the College of Micronesia-FSM began to work on an accounting procedures manual. An individual was assigned through the Pacific Island Training Initiative and the Graduate School of the U.S. Department of Agriculture to assist the College with an accounting and procedures manual.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - College of Micronesia-FSM**

**Student Fiscal Records**

6. **Criteria:** Per chapter 2, page 53-54 of the US Department of Education July 1995 Blue Book, a school must keep consistent and accurate records of its use of Title IV funds. Program and fiscal records must show a clear (easily followed) audit trail for expenditures of federal funds. Similarly, these records must clearly show that funds were obtained, managed, disbursed, and returned in accordance with federal regulations. Fiscal records that must be maintained include records of student accounts, including (for each enrollment period) institutional charges, cash payments, Title IV payments, cash disbursements, refunds and repayments.

**Condition:** Awards of sixty students selected from total SFA recipients of 2,523 students were traced to their subsidiary ledgers at the Business Office to determine proper credit and authorization of other charges. Following are the results:

Six (6) students did not have subsidiary ledgers available for review at the time of the audit;

Nineteen (19) student postings in the subsidiary ledgers were not dated.

**Cause:** Management has resolved the issue after September 30, 1996.

**Effect:** Unreconciled student subsidiary ledger balances to general ledger student receivable balances. There is no assurance whether students account balances are accurate.

**Recommendation:** COM-FSM management should give priority to addressing essential requirements in administering federal programs. Prior year's audit recommendations regarding internal control findings should be addressed.

**Auditee Response and Corrective Action Plan:** Although this was resolved subsequent to September 30, 1996, management will continue to monitor the situation to improve compliance.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - College of Micronesia-FSM**

**Financial Management**

	<u>Questioned Costs</u>
7. <u>Criteria:</u> CFR 74.61 financial management standards applicable to Title III require that grantees shall maintain good accounting records, effective internal and budgetary controls, and procedures for identification and documentation of allowable costs.	
<u>Condition:</u> Fifty (50) samples were selected using random number generation for disbursements below \$5,000 and 100% or all 7 disbursements for over \$5,000 or total expenditures of \$74,852 representing 35.9% of \$208,485 total expenditures of Title III program during the fiscal year ended September 30, 1996. The results of the review were:	
a. Three (3) APVs and supporting documents were not provided by COM-FSM:	
6-17-96                      6P3101                      \$ 10,140	
9-21-96                      6P4258 <u>13</u>	
	<u>10,153</u>
b. Sixteen (16) disbursements were not properly supported by invoices:	
5-16-96                      6P2715	\$ 5,361
2-20-96                      6P1514	11,360
1-13-96                      6P1320	1,017
7-25-96                      6P3514	20
1-5-96                        6P2521	20
5-6-96                        6P2561	36
7-30-96                      9610109	262
3-5-96                        6P1607	844
7-2-96                        6P1425	1,346
9-30-96                      9612256	440
9-30-96                      9612250	<u>118</u>
	<u>20,824</u>

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - College of  
Micronesia-FSM**

**Financial Management, Continued**

- c. For sixteen (16) recorded expenditures, no determination can be made from the documents provided whether goods were actually received.

1-31-96	6P1307	\$ 12,439
5-16-96	6P2715	5,361
2-20-96	6P1514	11,360
1-13-96	6P1320	1,017
7-25-96	6P3514	20
1-5-96	6P2521	20
5-6-96	6P2561	36
2-7-96	6P1400	476
5-6-96	6P2563	71
7-30-96	9610109	262
3-5-96	6P1607	844
7-2-96	6P1425	<u>1,346</u>
		<u>33,252</u>

- d. Five (5) invoices were not stamped paid.

2-16-96	6P1469	\$ 231
9-25-96	6P4408	140
9-20-96	6P4112	63
9-17-96	6P4186	20
9-4-96	6P4080	<u>20</u>
		<u>474</u>

- e. One (1) disbursement was for a non-conforming item and was returned to the vendor. The expenditure was not reversed with a corresponding receivable account established in the accounting records:

5-22-96	6P2781	\$ <u>68</u>
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- f. One (1) disbursement for a telephone call charge could not be specifically identified from among all the calls listed in the supporting telephone monthly statement:

7-25-96	6P3514	\$ <u>20</u>
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**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - College of Micronesia-FSM**

**Financial Management, Continued**

Cause: The Business Office is not maintaining complete supporting documents for disbursements. There is no procedure currently in place to ensure that payments are all properly identified and supported by complete and organized documentation. There is also a lack of procedure to ensure that goods or services paid for are allowable under the program and are actually received.

Effect: Unsupported disbursements and questioned costs of \$20,824.

Recommendation: The COM-FSM's Board of Regents and the Offices of the President, Comptroller and Program Administrators should give priority to establishing adequate procedures to address essential federal program requirements.

Auditee Response and Corrective Action Plan: Management agrees with the finding but disagrees with the questioned costs. Invoices were not attached to the accounts payable vouchers because a file for the invoices was being maintained by the Director of the Title III and were not forwarded to the Business Office.

Effective fiscal year 1997, all invoices are stamped paid. An accounting and procedures manual is in progress and will address these issues. All directors have been notified to forward invoices to the Business Office.



**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - College of Micronesia-FSM**

**Financial Management - Talent Search Program**

Questioned  
Costs

8. Criteria: CFR 74.61 financial management standards applicable to the Talent Search Program require that grantees shall maintain good accounting records, effective internal control and budgetary control, and procedures for allowable costs and source documentation.

Condition: Fifty (50) samples were selected using random number generation for disbursements below \$5,000 and 100% or all 2 disbursements for over \$5,000 or total expenditures of \$34,376 representing 20.1% of \$170,515 total expenditures of Talent Search Program during the fiscal year ended September 30, 1996. The results of the review were:

- a. One (1) APV and supporting documents was not provided by COM-FSM:

	6-27-96	B6627		\$ 26
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- b. One (1) disbursement for a telephone call charge could not be specifically identified from among all the calls listed in the supporting telephone monthly statement:

	4-24-96	B6627		77
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- c. Six (6) invoices were not stamped paid:

12-29-95	9603029	\$	31	
5-30-96	6P2839		16	
10-17-95	9601001		24	
4-22-96	6P2332		30	
2-16-96	6P1469		77	
8-22-96	6P3813		26	
			204	

- d. There were no attached justifications for payment of three (3) non-allowable expenses.:

	7-4-96	6P3215		171
	4-22-96	6P2442		30

304

Cause: The Business Office is not maintaining complete supporting documents for disbursements. There is no procedure currently in place to ensure that payments are all properly identified and supported by complete and organized documentation. There is also a lack of procedure to ensure that goods or services paid for are allowable under the program and are actually received.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - College of Micronesia-FSM**

**Financial Management, Continued**

Effect: Unsupported disbursements and questioned costs of \$304.

Recommendation: The COM-FSM's Board of Regents, offices of the President and Comptroller and Program Administrators should give priority to establishing adequate procedures to address essential federal program requirements.

Auditee Response and Corrective Action Plan: At the beginning of the fiscal year a letter was sent to the Department of Education outlining the activities the program would undertake. One of the activities was to hire a Peace Corps volunteer to assist with the Program. Round trip airfare, housing and utility expenses were requested and included in the budget, which was accepted and approved.

For fiscal year 1996, the program director submitted the program budget twice. In both instances, the expenses for the Peace Corps volunteer were included. At no time was the Talent Search Program advised not to hire the individual nor was the program advised that the payment of the questioned costs were not acceptable.

The stamping of invoices "paid" was completely implemented during fiscal year 1997.

All program directors have been advised that invoices and other documents are required to be filed with accounts payable vouchers in the Business Office.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - College of Micronesia-FSM**

**Documentation - Upward Bound - Chuuk**

9. Criteria: Excerpted from the Single Audit Information Service volume 1, tab 800, page 25 "Grantees are expected to maintain records pertinent to the financial and programmatic aspects of a grant." Documentation that an expenditure was made in compliance with applicable policies is a critical element of the grants management process. Failure to be able to produce clear, convincing and reliable documentation when the audit field work is being conducted will cause the auditor to question the expenditure and may result in a disallowance. While post-audit documentation may be possible in certain circumstances, the burden of proof rests with the grantee. Further, difficulty in producing the documentation reflects poorly on the system of controls and the audit readiness of the entity involved.

Condition: In the performance of compliance review on one of COM-FSM's major federal programs, the Upward Bound - Chuuk, student participants' records were requested in order that compliance with eligibility requirements and program's services and performance could be reviewed. The period 1995-96 is the program's fiscal year of implementation. COM-FSM was not able to provide any documents or files requested during the audit fieldwork period.

Cause: The cause of this condition is unknown.

Effect: It is not known whether the program was carried on as planned or not. Services allowable or non-allowable under the program could not be verified.

Recommendation: The COM-FSM President should resolve the matter with the Administrator of Upward Bound Chuuk program as soon as possible.

Auditee Response and Corrective Action Plan: A request for Information/Documents Needed for the Compliance Review Upward Bound Chuuk and Upward Bound Kosrae Program Year 1995-96 dated February 27, 1997 was received from the auditor. Records indicate that this request was forwarded to the Chuuk and Kosrae state campuses on February 28, 1997. The Chuuk Upward Bound Director has since indicated that he never received the request. The Chuuk campus Director forwarded a list of 60 Upward Bound participants on July 7, 1997. The auditor was to have selected 10 files to review for compliance. For reasons yet to be determined, this list did not reach the auditor.

The Upward Bound has assured the administration that all of the required eligibility documents and measures of program performance are in place. To ensure that this finding is not repeated during subsequent audits, the Upward Bound Director has been asked to copy contents of student files and to have these copies sent to the National Campus for ready review of the auditors. The Director has also been asked to review the February 28, 1997 request and prepare program files now in preparation for the 1997 audit field work. Plans also call for a representative from the National Campus to visit the program to perform an in-house compliance review.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - College of  
Micronesia-FSM**

**Financial Management - Upward Bound - Kosrae**

Questioned  
Costs

10. Criteria: CFR 74.61 financial management standards applicable to Upward Bound Program require that grantees shall maintain good accounting records, effective internal control and budgetary control, and procedures for allowable costs and source documentation.

Condition: Fifty (50) samples were selected using random number generation for disbursements below \$5,000 and 100% or all 8 disbursements over \$5,000 or total expenditures of \$95,814 representing 51% of \$186,793 total expenditures of Upward Bound Program - Kosrae during the fiscal year ended September 30, 1996. The results of the review were:

- a) Six (6) expenditures did not have supporting invoices:

2-9-96	Travel	\$ 265
4-30-96	Travel	95
6-28-96	Housing	450
3-22-96	Supplies	12,229
5-22-96	Books	15,725
7-30-96	Equipment	<u>19,345</u>
		<u>48,109</u>

- b) Documents for thirty five (35) payments totaling \$55,024 were not stamped paid and whether goods or services were received.
- c) COM-FSM's Business Office paid twenty six (26) students' stipends totaling \$1,090 without verifying student actual attendance. Attendance records were later obtained from program's administration but lack signatures to verify student and tutor participation.

Cause: The Business Office is not maintaining complete supporting documents for its disbursements. There is no procedure currently in place to ensure that payments are all properly identified and supported by complete and organized documentation. There is also a lack of procedures to ensure that goods or services paid for are allowable under the program and are actually received.

Effect: Unsupported disbursements and questioned costs of \$48,109.

Recommendation: The COM-FSM's Board of Regents, offices of the President and Comptroller and Program Administrators should give priority to establishing adequate procedures to address essential federal program requirements.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - College of  
Micronesia-FSM**

**Financial Management - Upward Bound - Kosrae**

Auditee Response and Corrective Action Plan: Management disagrees with the questioned costs. Although the invoices were not attached to the accounts payable vouchers, the invoices were on file with the program director in Kosrae. Three invoices for supplies, books and equipment in the amounts of \$12,229, \$15,725, and \$19,345 respectively were produced and handed to the auditor during the audit by the program director. Housing payments are paid when there is a valid lease. The lease is on file in the Business Office as is the support for travel related expenditures.

The stamping of invoices as "paid" was partially implemented during fiscal year 1996 and fully implemented during fiscal year 1997. All invoices are now stamped "paid" after the checks have been signed.

Management acknowledges that student signatures were not required making it difficult to verify student and tutor participation. At the recommendation of the auditor, the program now requires students to sign in for every class and activity.

The preparation of an accounting and procedures manual is in process.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - College of Micronesia-FSM**

**Financial Management - Upward Bound - Chuuk**

Questioned  
Costs

11. Criteria: CFR 74.61 financial management standards applicable to Upward Bound Program require that grantees shall maintain good accounting records, effective internal control and budgetary control, and procedures for allowable costs and source documentation.

Condition: Fifty (50) samples were selected using random number generation for disbursements below \$5,000 and 100% or all 8 disbursements over \$5,000 or total expenditures of \$40,044 representing 34.5% of \$115,818 total expenditures of Upward Bound Program - Chuuk during the fiscal year ended September 30, 1996. The results of the review were:

- a) Nine (9) expenditures did not have supporting invoices:

6-28-96	House rental	\$ 1,575
8-8-96	7 Stipend payments	542
8-15-96	Equipment	8,172

- b) Documents for forty two (42) payments totaling \$14,789 were not stamped paid and whether goods or services were received. 14,789

- c) COM-FSM's Business Office paid seventeen (17) students' stipends totaling \$1,262 without verifying students actual attendance. 1,262

26,340

Cause: The Business Office is not maintaining complete supporting documents for its disbursements. There is no procedure currently in place to ensure that payments are all properly identified and supported by a complete and organized documentation. There is also a lack of procedures to ensure that goods or services paid for are allowable under the program and are actually received.

Effect: Unsupported disbursements and questioned costs of \$26,340.

Recommendation: The COM-FSM's Board of Regents, offices of the President and Comptroller and Program Administrators should give priority to establishing adequate procedures to address essential federal program requirements.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - College of  
Micronesia-FSM**

**Financial Management - Upward Bound - Kosrae**

Auditee Response and Corrective Action Plan: A request for Information/Documents Needed for the Compliance Review Upward Bound Chuuk and Upward Bound Kosrae Program Year 1995-96 dated February 27, 1997 was received from the auditor. Records indicate that this request was forwarded to the Chuuk and Kosrae state campuses on February 28, 1997. The Chuuk Upward Bound Director has since indicated that he never received the request. The Chuuk campus Director forwarded a list of 60 Upward Bound participants on July 7, 1997. The auditor was to have selected 10 files to review for compliance. For reasons yet to be determined, this list did not reach the auditor.

The stamping of invoices as "paid" was partially implemented during fiscal year 1996 and fully implemented during fiscal year 1997. All invoices are now stamped "paid" after the checks have been signed.

The Upward Bound has assured the administration that all of the required eligibility documents and measures of program performance are in place. To ensure that this finding is not repeated during subsequent audits, the Upward Bound Director has been asked to copy contents of student files and to have these copies sent to the National Campus for ready review of the auditors. The Director has also been asked to review the February 28, 1997 request and prepare program files now in preparation for the 1997 audit field work. Plans also call for a representative from the National Campus to visit the program to perform an in-house compliance review.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - College of Micronesia-FSM**

**Financial Management - Upward Bound - Kosrae**

Questioned  
Costs

12. Criteria: CFR 74.61 grantees are required to maintain effective internal control. Internal control is defined as a plan of organization and the methods and procedures adopted by management to ensure that resource use is consistent with laws, regulations and policies; resources are safeguarded against waste, loss and misuse; and reliable data are obtained, maintained and clearly disclosed in a report. Internal controls include:

Budget and financial controls to make sure spending occurs only for approved purposes;

Reconciliations to make sure the financial controls are working and financial information is reliable.

Condition: The review performed on COM-FSM's internal control system covered the major federal program administration's financial records maintained in addition to and reconciled with Business Office's records. During the year 1995-96, COM-FSM's Upward Bound - Kosrae program records were not reconciled with the Business Office records. The following conditions occurred:

1. The Business Office's total expenditures were \$6,612 over the program's total of \$181,060;
2. The Business Office's records reported \$271 in utilities account category, a line item not budgeted for;
3. The Business Office recorded indirect costs of \$16,066 exceeded by \$1,123 the predetermined rate of 8% or \$1,123 of \$186,793 total project costs.

\$ 1,123

Cause: Lack of procedures.

Effect: Inaccurate records and questioned costs of \$1,123.

Recommendation: The COM-FSM's Board of Regents, offices of the President and Comptroller and Program Administrators should give priority to establishing adequate procedures to address essential federal program requirements.



**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - College of Micronesia-FSM**

**Financial Management - Upward Bound - Kosrae**

Auditee Response and Corrective Action Plan: There was a carry forward amount from the previous year to fiscal year 1995-96 to pay for the purchase of a vehicle to be used by the program. The increase in expenditures was reflected in the total expenditures of the Business Office.

Management is confused about the figures presented in this finding. As stated in item number 1, the program's total was \$181,060 and the Business Office total exceeded this by \$6,612. Therefore, according to this finding, total expenditures per the Business Office were \$181,060 plus \$6,612 or \$187,672. However in item number 3, it is stated that the total project costs are \$186,793.

Management is in full agreement with the recommendation that adequate policies and procedures are needed and has taken steps to develop an accounting and procedures manual.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - College of Micronesia-FSM**

**Allowable Costs/Costs Principles**

**Questioned  
Costs**

13. **Criteria:** Basic consideration for factors affecting allowability of costs are provided in OMB Circular A-122, "Cost Principles for Nonprofit Organizations", Attachment A General Principles A.2. To be allowable under an award, costs must be:

consistent with policies and procedures that apply uniformly to both federally financed and other activities of the organization;

be accorded consistent treatment;

be determined in accordance with generally accepted accounting principles;

be adequately documented.

**Condition:** A total of \$34,376 or 60 disbursements vouchers representing 20.1% of total Talent Search program expenditures of \$170,515 were reviewed. The review uncovered program staff's personal utility bills for \$202 paid by the program. This payment is inconsistent with COM-FSM's practice in other activities because no other staff was accorded the same benefit. The above program expenditures did not have documented justification for authorizing payment.

\$ 202

**Cause:** No written policies and procedures in place and staff processing the payment were not adequately familiar with program's regulations on allowable and non-allowable costs.

**Effect:** Inconsistent awards and questioned costs of \$202.

**Recommendation:** The COM-FSM should have adequate procedures in place to prevent payment of federally funded programs' non-allowable expenditures. Staff processing disbursements should be familiarized with allowable and non-allowable costs.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - College of Micronesia-FSM**

**Allowable Costs/Costs Principles**

Questioned  
Costs

Auditee Response and Corrective Action Plan: This finding makes reference to both Pell Grant and the Talent Search Program yet it only discusses the Talent Search Program.

As stated in the response to finding number 8, management disagrees with the questioned costs. The payment was on behalf of a Peace Corps volunteer and prior to mailing the expenditure, the budget, along with an appropriate explanation was submitted to the Department of Education. The same \$202 has been questioned twice in the audit findings and it is the opinion of management that it should not be a questioned cost.

Business office staff were aware of the considerations involved with this payment.

Total Questioned Costs for College of Micronesia-FSM

\$ 96,902

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - College of Micronesia-FSM**

**Student/Program Eligibility**

14. Criteria: Excerpted from the 1995-96 Federal Student Financial Aid Handbook are the following regulations on eligibility:

1. (page 2-13) a school may not take into account more than one academic year's worth of non-credit remedial course work for a student; and
2. (page 3-148) a school must keep records that substantiate the eligibility of its students for SFA funds. For each student, a school must keep records of the student's admission to and enrollment status at the school and the student's program of study and the courses in which he or she is enrolled.

Condition: Sixty (60) student files selected from a total student population of 2,523 receiving student federal financial assistance were reviewed for compliance with eligibility requirements. The results of the review were:

1. Five (5) students representing 16.6% of the total tested had taken over one academic year or over 30 credits worth of remedial course work in the programs the students are really into.
2. At the time of review, two of the sixty students did not have records with the admissions office. After a week search, one student's file, established 12 years ago, was found under her married last name. The current name registered was a maiden last name but nothing in the file documented the change in her last name. The other student's file was also found on the same day and the date of the diploma on file indicated that student was attending his senior year in high school when he was awarded Pell grant. The student did not have admission documents in the file put together at the time of the audit. The total award to these two students was \$2,340.

Cause: COM-FSM currently has no written procedure to ensure that student's eligibility for remedial course work are verified prior to awarding. There is no coordination among the staff at the Admission's Office or the Financial Aid Office to specifically delegated the responsibility for reviewing student's compliance with eligibility requirements for federal financial assistance.

Effect: Non-compliance with eligibility requirements.

Recommendation: The COM-FSM should award grants only to students who are determined eligible and enrolled in an eligible program. Determination of status of the student in the program must be documented and be available for review in the student's file.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - College of Micronesia-FSM**

**Student/Program Eligibility, Continued**

Auditee Response and Corrective Action Plan: We agree with the auditor regarding the students who went over the 30 credit limit prior to school year 1996-97. The Financial Aid Office has always assumed that all English courses at the College of Micronesia-FSM were ESL courses given the fact that these students were non-English speaking students.

Although management is in agreement with the finding we disagree with the cause. There is no written procedure but the status of students is reviewed at the end of each semester. There was never a time that the Financial Aid Office failed to review student academic progress prior to making an award.

A Financial Aid policies and procedures manual is being prepared for the College.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - College of Micronesia-FSM**

**Work Supervision and Supporting Documentation**

15. **Criteria:** Per page 7-27 of the 1995-96 Federal Student Financial Aid Handbook, the school is responsible for ensuring that each student's work is properly supervised. School officials should periodically visit each organization with which they have an off-campus agreement to determine whether students are doing appropriate work and whether the terms of the agreement are being fulfilled.

Per CFR 675.19, schools must maintain all employment applications for those students reported on the FISAP, a certification that each student has worked and earned the amount paid, signed by the student's supervisor, an official of the institution, or off-campus employer, and for students paid on an hourly basis, a time sheet showing the hours each student worked in clock-time sequence or the total hours worked each day.

**Condition:** There were 34 students from the total of sixty samples selected for SFA compliance tests that were awarded FWS. Out of thirty four, thirty three availed of the grant and worked to earn the award:

1. One CWS student's file and employment records were missing. Total award earned by this student during the school year 1995-96 was \$300.
2. One student did not have a supporting timesheet for one pay period. The amount of pay she earned during that pay period was 36.5 hours x \$3.00 per hour or \$109.50
3. Ten of the 34 students who were FWS recipients worked off-campus but were not evaluated. Their files contained no document to indicate that they were visited or supervised.

**Cause:** Management has resolved the issues after September 30, 1996.

**Effect:** Non-compliance with the FWS requirements.

**Recommendation:** The office of COM-FSM's President and Financial Aid Office should join efforts in establishing policies and procedures manual for the administration of SFA programs.

**Auditee Response and Corrective Action Plan:** This finding was resolved subsequent to September 30, 1996. Management will continue to monitor the work supervision as well as maintain proper supporting documents.

A financial aid policies and procedures manual is being prepared for the College.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs - Monitoring Subrecipients - Subrecipient - College of Micronesia-FSM**

**Special Grant Terms and Conditions - Talent Search Program**

16. **Criteria:** Talent Search Program special grant terms and conditions for performance reports per attachment B of grant award notification states: "An interim performance report is required because of the nature of this award or because of statutory or regulatory provisions governing the program under which this grant is awarded. The report is due within 90 days after the end of each budget period."

**Condition:** During the audit, a copy of the TSP performance report for the budget period starting October 1995 was requested from the Vice President for Student Services, the COM-FSM's supervising official for TSP and the Director of TSP. No report was provided because TSP did not have a performance report for the budget period starting October 1995.

**Cause:** Management has resolved the issues after September 30, 1996.

**Effect:** The absence of a report form had not released TSP from its contractual obligation to submit the required performance report.

**Recommendation:** The TSP Director should either request for a formal waiver on the required performance reporting or comply with the reporting requirements.

**Auditee Response and Corrective Action Plan:** This finding was resolved subsequent to September 30, 1996. The project director will remain in compliance during each year of the program.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Resolutions of Prior Years' Questioned Costs  
Year Ended September 30, 1996

The following is a summary of unresolved federal questioned costs for the National Government's subrecipients.

FSM National Government

Unresolved 1996 questioned costs \$ 11,682

State of Chuuk

Unresolved 1984 questioned costs	221,836
Unresolved 1985 questioned costs	193,164
Unresolved 1986 questioned costs	685,713
Unresolved 1987 questioned costs	833,896
Unresolved 1988 questioned costs	4,350,427
Unresolved 1989 questioned costs	779,850
Unresolved 1990 questioned costs	1,337,063
Unresolved 1991 questioned costs	167,352
Unresolved 1992 questioned costs	39,367
Unresolved 1994 questioned costs	208,439
Unresolved 1995 questioned costs	<u>59,131</u>

Total Chuuk State unresolved questioned costs 8,876,238

State of Kosrae

FY85 unresolved questioned costs	12,838
FY88 unresolved questioned costs	215,383
FY94 unresolved questioned costs	8,246
FY95 unresolved questioned costs	2,983
FY96 unresolved questioned costs	<u>274,360</u>

Total State of Kosrae unresolved questioned costs 513,810

State of Pohnpei

FY85 unresolved questioned costs	227,940
FY86 unresolved questioned costs	171,686
FY88 unresolved questioned costs	393,372
FY89 unresolved questioned costs	271,650
FY90 unresolved questioned costs	73,342
FY91 unresolved questioned costs	62,193
FY92 unresolved questioned costs	118,431
FY93 unresolved questioned costs	21,909
FY94 unresolved questioned costs	55,100
FY95 unresolved questioned costs	72,465
FY96 unresolved questioned costs	<u>15,182</u>

Total State of Pohnpei unresolved questioned costs 1,483,270



**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Resolutions of Prior Years' Questioned Costs, Continued  
Year Ended September 30, 1996

State of Yap

FY84 unresolved questioned costs	28,904
FY85 unresolved questioned costs	16,364
FY86 unresolved questioned costs	168,555
FY92 unresolved questioned costs	216
FY93 unresolved questioned costs	2,241
FY95 unresolved questioned costs	100,593
FY96 unresolved questioned costs	<u>263,347</u>
Total State of Yap unresolved questioned costs	<u>580,220</u>
Total unresolved subrecipient questioned costs	\$ <u><u>11,453,538</u></u>

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

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

**YEAR ENDED SEPTEMBER 30, 1996**



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

Honorable Jacob Nena  
President  
Federated States of Micronesia:

We have audited the general purpose financial statements of the Federated States of Micronesia (FSM) National Government as of and for the year ended September 30, 1996, and have issued our report thereon dated January 30, 1997. Our report on the audit of the general purpose financial statements was modified due to; 1) our inability to determine the propriety of fixed assets of the Component Units - Higher Education Fund; and 2) our inability to determine the propriety of investments, intercompany transactions and inventory of the Component Units - Proprietary Funds.

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

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

In planning and performing our audit of the general purpose financial statements of the FSM National Government for the year ended September 30, 1996, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted a certain matter, which is presented in the accompanying Schedule of Internal Control Findings (pages 206 - 209) in Finding 1, involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the FSM National Government's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements.

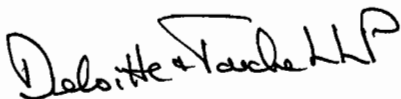
A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable condition described above is not a material weakness.

We also noted other matters involving the internal control structure and its operation that we have reported to the management of the FSM National Government in the accompanying Schedule of Internal Control Findings in Finding 2 through 4.

We also noted matters involving the internal control structure and its operation used to administer federal financial assistance programs which we reported to the management of the FSM National Government in a report dated January 30, 1997.

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

A handwritten signature in black ink, appearing to read "Deloitte & Touche LLP". The signature is written in a cursive, stylized font.

January 30, 1997

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings  
Year Ended September 30, 1996

**Due to other Governments**

**Finding No. 1**

**Criteria:** The FSM National Government should reconcile amounts due to the State Governments for federal and CFSM projects.

**Condition:** Material unreconciled differences exist between records maintained by the FSM National Government and the States.

**Cause:** The FSM National Government has not reconciled these balances.

**Effect:** The effect of this condition could lead to a material misstatement of the general purpose financial statements.

**Prior Year Status:** This condition was reported as a finding in fiscal year 1995.

**Recommendation:** We recommend that the FSM National Government reconcile its accounts payable to the State Governments.

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

**Corrective Action Plan:** This finding has been subsequently resolved during fiscal year 1997.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1996

**FSM Public Auditor's Audit Findings**

**Finding No. 2**

**Criteria:** The FSM National Government should ensure that findings and recommendations reported in the FSM Public Auditor's audit reports are adequately resolved.

**Condition:** Findings per the following audit reports issued by the FSM Public Auditor remain unresolved.

<u>Report No.</u>	<u>Description</u>
109-95	Taxes, Seminar Fees and other Local Revenues
113-96	NGHEIP
114-96	Maritime Wing
115-96	Micronesian Maritime Authority

**Cause:** The cause of the above condition is unknown.

**Effect:** Potential noncompliance with local laws and regulations could result from this condition.

**Prior Year Status:** This condition was reported as a finding in fiscal year 1995.

**Recommendation:** We recommend that the above findings be resolved.

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

**Corrective Action Plan:** The FSM National Government offices and agencies responsible for the daily activities of the above programs are working to resolve the findings cited in each report during fiscal year 1997.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1996

**Outstanding Checks**

**Finding No. 3**

**Criteria:** Checks that have been outstanding for more than one year should be restored to cash.

**Condition:** Based on the September 30, 1996 bank reconciliation for the Washington, DC account, the following checks have been outstanding for more than a year.

<u>Check No.</u>	<u>Amount</u>
1325	\$ 1,348
1342	\$ 535

**Cause:** The cause of the above condition is unknown.

**Effect:** An understatement of cash could result from the above condition.

**Recommendation:** We recommend that stale dated checks be restored to cash.

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

**Corrective Action Plan:** This finding has been subsequently resolved during fiscal year 1997.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1996

**Travel Advances**

**Finding No. 4**

**Criteria:** A functioning internal control system requires that travel advances be either expensed or collected in a timely manner.

**Condition:** Out of eight travel advances tested, three were found to be outstanding for more than a year.

**Cause:** The cause of the above condition is unknown.

**Effect:** An understatement of expenditures could result from the above condition.

**Recommendation:** We recommend that FSM National Government investigate all travel advances that have been outstanding for more than ninety days and assess them for collectibility.

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

**Corrective Action Plan:** The finding has been subsequently resolved during fiscal year 1997.