

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

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

YEAR ENDED SEPTEMBER 30, 1992

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
FOR THE YEAR ENDED SEPTEMBER 30, 1992**

INDEX

	<u>Page No.</u>
INDEPENDENT AUDITORS' REPORT ON GENERAL PURPOSE FINANCIAL STATEMENTS	1 - 46
SINGLE AUDIT REPORTS	47 - 85
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL STRUCTURE	86 - 94

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

YEAR ENDED SEPTEMBER 30, 1992

TABLE OF CONTENTS

GENERAL PURPOSE FINANCIAL STATEMENTS

	<u>Page No.</u>
I. Independent Auditors' Report	1
II. Combined Statements:	
Combined Balance Sheet - All Fund Types and Account Groups	3
Combined Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) - All Governmental Fund Types and Expendable Trust Funds	4
Combined Statement of Revenues, Expenditures and Changes in Fund Balance - Budgetary Basis, General Fund	5
Statement of Revenues, Expenses and Changes in Fund Equity - Proprietary Fund Types	6
Statement of Cash Flows - Proprietary Fund Types	7
Notes to Combined Financial Statements	8
III. Independent Auditors' Report on Additional Information	23
Combining Statement of Expenditures by Account - All Governmental Fund Types and Expendable Trust Fund	24
General Fund:	
Introduction to General Fund	25
Combining Balance Sheet	26
Combining Statement of Revenues, Expenditures and Changes in Fund Balance	27
Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balance	28
Combining Statement of Revenues, Expenditures and Changes in Fund Balance, Budgetary Basis	29

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

YEAR ENDED SEPTEMBER 30, 1992

TABLE OF CONTENTS
(CONTINUED)

GENERAL PURPOSE FINANCIAL STATEMENTS

	<u>Page No.</u>
Combined Statement of Revenues, Expenditures by Function and Department and Changes in Fund Balance (Deficit)	30
Combined Statement of Revenues, Expenditures, and Changes in Fund Balance (Deficit) - Budget, Allotment, and Actual, Budgetary Basis	33
Special Revenue Funds:	
Introduction to Special Revenue Funds	36
Combining Balance Sheet	37
Combining Statement of Revenues, Expenditures and Changes in Fund Balance (Deficit)	38
Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balance (Deficit)	39
Capital Projects Funds:	
Introduction to Capital Projects Funds	40
Combining Balance Sheet	41
Combining Statement of Revenues, Expenditures and Changes in Fund Balance (Deficit)	42
Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balance (Deficit)	43
Expendable Trust Funds:	
Introduction to Expendable Trust Funds	44
Combining Balance Sheet	45
Combining Statement of Revenues, Expenditures and Changes in Fund Balance	46
 IV. SINGLE AUDIT REPORTS	
Independent Auditors' Report on Compliance as a Result of an Audit Performed in Accordance with Government Auditing Standards	48
Independent Auditors' Report on Compliance with Specific Requirements Applicable to Major Federal Financial Assistance Programs	50
Independent Auditors' Report on Compliance with General Requirements Applicable to Federal Financial Assistance Programs	52

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

YEAR ENDED SEPTEMBER 30, 1992

TABLE OF CONTENTS
(CONTINUED)

SINGLE AUDIT REPORTS

	<u>Page No.</u>
Independent Auditors' Report on Compliance with Laws and Regulations Applicable to Nonmajor Programs	54
Independent Auditors' Report on Internal Control Structure Used in Administering Federal Financial Assistance	56
Independent Auditors' Report on Supplementary Schedule of Federal Financial Assistance	60
Introduction to Compact of Free Association Funding, Federal and Other Assistance Funds	62
Statement of Expenditures and Questioned Costs by Grantor:	
. U.S. Federal and Other Assistance Fund	65
. Other Direct Assistance Fund	67
. Foreign Assistance Fund	68
. TTPI Capital Projects Fund	69
. CFSM Capital Projects Fund	70
. Operations and Maintenance Grants Fund	71
. Compact of Free Association Capital Project Fund - Section 211(a) (CFDA No. 15.875)	72
. Compact of Free Association Health & Medical Referral Program - Section 216(a)(2) (CFDA No. 15.875)	74
. Compact of Free Association Special Development Program - Section 212(a) (CFDA No. 15.875)	75
. Compact of Free Association Scholarship Program - Section 216(a)(3) (CFDA No. 15.875)	76
. Compact of Free Association Block Grant Fund - Section 221(b) (CFDA No. 15.875)	77
. Compact of Free Association Energy Grant Fund - Section 214(c) (CFDA No. 15.875)	78
. Compact of Free Association Current Account Fund - Section 211(a) (CFDA No. 15.875)	79
Schedule of Programs Selected for Audit in Accordance with OMB Circular A-128	80
Administrative Controls Review	81

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

YEAR ENDED SEPTEMBER 30, 1992

**TABLE OF CONTENTS
(CONTINUED)**

SINGLE AUDIT REPORTS

	<u>Page No.</u>
Adminstrative Control Weakness Summary	82
Resolution of Prior Years' Questioned Costs	85
 VI. INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL STRUCTURE	 86

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
INDEPENDENT AUDITORS' REPORT ON
GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 1992**



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INDEPENDENT AUDITORS' REPORT

Honorable Thurston Siba
Governor, State of Kosrae
Federated States of Micronesia

We have audited the accompanying general purpose financial statements of the State of Kosrae, as of September 30, 1992, and for the year then ended. These general purpose financial statements are the responsibility of Kosrae State management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

Except as described in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in 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.

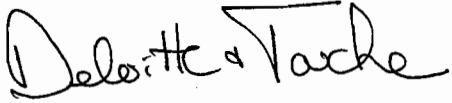
The State has not adequately updated its General Fixed Assets Account Group during the year ended September 30, 1992, nor were we able to apply sufficient alternative procedures to assure ourselves as to the correctness of the balances set forth in the accompanying financial statements. Accordingly, a statement of changes in general fixed assets has not been included within the accompanying financial statements.

In our opinion, except for the effects of such adjustments which may be required had we been able to assure ourselves as to the correctness of the General Fixed Assets Account Group, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the State of Kosrae, as of September 30, 1992, and the results of its operations and the cash flows of its proprietary fund type for the year then ended, in conformity with generally accepted accounting principles.

**Deloitte Touche
Tohmatsu
International**

As discussed in Note 6 to the financial statements, the State participates in various U. S. federal assistance grants. Currently, \$228,794 of questioned costs exist from the operations of these grants. If these questioned costs are upheld, the General Fund will absorb the amount disallowed. Due to an inability to assess the ultimate outcome of this matter, no provision for any liability which may result from resolution of these questioned costs has been made in the accompanying financial statements.

December 4, 1992

A handwritten signature in cursive script that reads "Deloitte & Touche". The signature is written in dark ink and is positioned above the printed name of the firm.

Certified Public Accountants

KOSRAE STATE GOVERNMENT

Combined Balance Sheet - All Fund Types and Account Groups

September 30, 1992

(With comparative totals as of September 30, 1991)

	Governmental Fund Types			Proprietary Fund	Fiduciary Funds	Account Groups		Total	
	General Fund	Special Revenue Funds	Capital Project Funds	Internal Service Fund	Expendable Trust Funds	General Fixed Assets	General Long-Term Debt	(Memorandum Only)	
								1992	1991
Assets									
Cash and equivalents	\$ 98,950	\$ 29,500	\$1,399,611	\$ -	\$ 67,262	\$ -	\$ -	\$ 1,595,323	\$ 2,409,854
Compact investments (Note 2)	2,160,958	-	3,648,263	-	-	-	-	5,809,221	5,886,678
Other investments (Note 5)	-	-	267,131	-	-	-	-	267,131	315,901
Receivables from other governments (Notes 1 and 3)	195,358	1,235,556	1,062,247	-	-	-	-	2,493,161	2,508,629
General receivables (Note 4)	58,490	48,362	-	-	11,473	-	-	118,325	44,150
Loans receivable (Note 4)	-	395,130	150,000	-	749,672	-	-	1,294,802	1,111,359
Advances	134,908	165,596	133,641	-	-	-	-	434,145	343,595
Advance to supplier	-	-	-	-	-	-	-	-	2,815,393
Due from other funds (Note 8)	1,623,946	236,945	1,474,481	-	190,021	-	-	3,525,393	3,050,956
Inventory, at cost	-	-	-	97,934	4,708	-	-	102,642	153,282
Interest receivable	37,431	-	-	-	-	-	-	37,431	59,364
Amount to be provided for retirement of long-term debt (Note 1)	-	-	-	-	-	-	4,372,818	4,372,818	5,326,030
Fixed assets (Note 1)	-	-	-	-	-	1,264,375	-	1,264,375	1,264,375
Total assets	\$4,310,041	\$2,111,089	\$8,135,374	\$ 97,934	\$1,023,136	\$1,264,375	\$4,372,818	\$21,314,767	\$25,289,566
Liabilities and Fund Balance									
Liabilities:									
Bank overdraft	\$1,085,515	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,085,515	\$ 998,502
Accounts payable	461,155	289,559	379,988	(149)	9,114	-	-	1,139,667	873,954
Accrued payroll and others	254,335	39,441	15,270	-	-	-	-	309,046	314,754
Due to other funds (Note 8)	579,157	2,102,024	679,293	164,919	-	-	-	3,525,393	3,050,956
Deferred revenue	-	28,095	-	-	-	-	-	28,095	42,929
Interest payable	-	-	-	-	-	-	-	-	51,069
Due to other governments	180,636	-	-	-	-	-	-	180,636	193,625
Long term notes payable (Note 10)	-	-	-	-	-	-	4,000,000	4,000,000	5,000,000
Vacation leave accrual	-	-	-	-	-	-	372,818	372,818	326,030
Total liabilities	2,560,798	2,459,119	1,074,551	164,770	9,114	-	4,372,818	10,641,170	10,851,819
Contingent liabilities (Note 6)									
Fund balance (deficit):									
Retained earnings (deficit)	-	-	-	(66,836)	-	-	-	(66,836)	-
Reserved for:									
Investment in general fixed assets	-	-	-	-	-	1,264,375	-	1,264,375	1,264,375
Diminution of investments (Note 2)	22,120	-	-	-	-	-	-	22,120	22,120
Continuing appropriations (Note 9)	80,627	66,608	1,838,704	-	-	-	-	1,985,939	3,819,660
Related assets	938,274	165,596	383,641	-	765,853	-	-	2,253,364	1,828,867
Encumbrances	261,870	175,020	5,073,106	-	-	-	-	5,509,996	6,624,915
Unreserved	446,352	(755,254)	(234,628)	-	248,169	-	-	(295,361)	877,810
Total fund balance (deficit)	1,749,243	(348,030)	7,060,823	(66,836)	1,014,022	1,264,375	-	10,673,597	14,437,747
Total liabilities and fund balance (deficit)	\$4,310,041	\$2,111,089	\$8,135,374	\$ 97,934	\$1,023,136	\$1,264,375	\$4,372,818	\$21,314,767	\$25,289,566

See accompanying notes to combined financial statements.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Combined Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)
All Governmental Fund Types and Expendable Trust Funds
Year ended September 30, 1992

(With comparative totals for the year ended September 30, 1991)

	Governmental Fund Types			Fiduciary Funds	Totals	
	General Fund	Special Revenue Funds	Capital Project Funds	Expendable Trust Funds	(Memorandum Only)	
					1992	1991
Revenues:						
Compact funding:						
Base amount	\$2,791,740	\$1,687,122	\$ 2,445,960	\$ -	\$ 6,924,822	\$ 7,849,122
Inflation adjustment	1,060,862	266,000	929,465	-	2,256,327	2,333,080
Department of the						
Interior grants	-	34,435	161,589	-	196,024	397,196
Revenue sharing	519,839	-	-	-	519,839	561,747
Federal contributions	-	774,683	217,746	-	992,429	1,695,300
Taxes and licenses	203,923	-	-	-	203,923	213,343
Other	827,669	40,936	-	93,743	962,348	624,866
Investment income	429,367	-	-	-	429,367	382,161
Total revenues	<u>5,833,400</u>	<u>2,803,176</u>	<u>3,754,760</u>	<u>93,743</u>	<u>12,485,079</u>	<u>14,056,815</u>
Program expenditures:						
General government	1,731,172	161,537	-	-	1,892,709	2,080,193
Health services	989,000	273,851	-	-	1,262,851	1,933,694
Education	1,095,729	939,493	-	-	2,035,222	1,357,453
Economic development	497,887	55,132	-	-	553,019	514,733
Public safety	308,301	-	-	-	308,301	298,869
Transportation	6,433	-	-	-	6,433	181,504
Public works	843,491	831,920	-	-	1,675,411	1,484,795
Community affairs	453,241	8,841	-	-	462,082	432,712
Capital projects	-	287,121	6,302,000	-	6,589,121	6,212,467
Other	135,565	-	-	62,735	198,300	442,008
Total expenditures	<u>6,060,819</u>	<u>2,557,895</u>	<u>6,302,000</u>	<u>62,735</u>	<u>14,983,449</u>	<u>14,938,428</u>
Excess (deficiency) of revenues over (under) expenditures	(227,419)	245,281	(2,547,240)	31,008	(2,498,370)	(881,613)
Other sources (uses):						
Bond proceeds	-	-	-	-	-	5,000,000
Bond principal repayments	-	-	(1,000,000)	-	(1,000,000)	-
Bond interest expense	-	-	(243,157)	-	(243,157)	-
Loss on investment in subsidiary (Note 5)	-	-	(48,769)	-	(48,769)	(24,099)
Other	-	-	-	-	-	28,648
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	(227,419)	245,281	(3,839,166)	31,008	(3,790,296)	4,122,936
Fund balances (deficit), beginning of year	1,976,662	(593,311)	10,899,989	947,047	13,230,387	9,041,729
Contribution of loans from other funds	-	-	-	35,967	35,967	65,722
Fund balances (deficit), end of year	<u>\$1,749,243</u>	<u>\$ (348,030)</u>	<u>\$ 7,060,823</u>	<u>\$1,014,022</u>	<u>\$ 9,476,058</u>	<u>\$13,230,387</u>

See accompanying notes to combined financial statements.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Combined Statement of Revenues, Expenditures and Changes in
Fund Balance - Budgetary Basis - General Fund
Year ended September 30, 1992

	<u>General Fund</u>		<u>Variance</u>
	<u>Budget</u>	<u>Actual</u>	<u>Favorable</u> <u>(Unfavorable)</u>
Revenues:			
Compact funding:			
Base amount	\$4,008,293	\$2,791,740	\$(1,216,553)
Inflation adjustment	1,060,862	1,060,862	-
Revenue sharing	400,000	519,839	119,839
State taxes and licenses	200,000	197,579	(2,421)
Fines and penalties	-	6,344	6,344
Other/miscellaneous	561,632	827,669	266,037
Investment income	-	429,367	429,367
Total revenues	<u>6,230,787</u>	<u>5,833,400</u>	<u>(397,387)</u>
Expenditures (budgetary basis):			
General government	1,769,165	1,760,259	8,906
Health services	888,347	967,003	(78,656)
Education	1,113,319	1,077,047	36,272
Economic development	599,289	492,071	107,218
Public safety	321,070	310,403	10,667
Transportation	-	4,264	(4,264)
Public works	905,100	872,919	32,181
Community affairs	481,737	452,796	28,941
Other	19,078	96,015	(76,937)
Total expenditures	<u>6,097,105</u>	<u>6,032,777</u>	<u>64,328</u>
Excess (deficiency) of revenues over (under) budgetary expenditures	133,682	(199,377)	(333,059)
Other financing sources (uses):			
Operating transfers	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over (under) budgetary expenditures and other uses	133,682	(199,377)	(333,059)
Unreserved fund balance, beginning of year	850,905	850,905	-
Other changes in unreserved fund balance:			
Decrease/(increase) in reserve for continuing appropriations	-	(78,301)	(78,301)
Decrease/(increase) in reserve for related assets	<u>-</u>	<u>(126,875)</u>	<u>(126,875)</u>
Unreserved fund balance, end of year	<u>\$ 984,587</u>	<u>\$ 446,352</u>	<u>\$ 538,235</u>

See accompanying notes to combined financial statements.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Statement of Revenues, Expenses and Changes in Fund Equity
Proprietary Fund Types
Year ended September 30, 1992
 (With comparative totals for the year ended September 30, 1991)

	Internal Service Fund	<u>Totals</u> <u>1992</u>	<u>1991</u>
Revenues:			
Charges for services	\$ 54,394	\$ 54,394	\$ 162,659
Total revenues	<u>54,394</u>	<u>54,394</u>	<u>162,659</u>
Operating expenses:			
Supplies and materials	<u>64,215</u>	<u>64,215</u>	<u>103,730</u>
Total operating expenses	<u>64,215</u>	<u>64,215</u>	<u>103,730</u>
Operating loss	(9,821)	(9,821)	58,929
Non-operating revenues (expenses):			
Total non-operating revenues (expenses)	<u>-</u>	<u>-</u>	<u>-</u>
Net loss	(9,821)	(9,821)	58,929
Deficit, beginning of year	<u>(57,015)</u>	<u>(57,015)</u>	<u>(115,944)</u>
Deficit, end of year	<u>\$ (66,836)</u>	<u>\$ (66,836)</u>	<u>\$ (57,015)</u>

See accompanying notes to combined financial statements.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Statement of Changes in Cash Flows
Proprietary Fund Types
Year ended September 30, 1992

(With comparative totals for the year ended September 30, 1991)

	Internal Service Fund	<u>Totals</u> <u>1992</u>	<u>1991</u>
Operating Activities:			
Net loss	\$ (9,821)	\$ (9,821)	\$ 58,929
	<u>(9,821)</u>	<u>(9,821)</u>	<u>58,929</u>
Changes in Working Capital-Sources/ (Uses):			
Inventory	20,665	20,665	42,381
Interfund receivable	(10,844)	(10,844)	(101,310)
Accounts payable	<u>-</u>	<u>-</u>	<u>-</u>
	<u>9,821</u>	<u>9,821</u>	<u>(58,929)</u>
Cash provided by operating activities	<u>-</u>	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and equivalents	-	-	-
Cash and equivalents, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Cash and equivalents, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to combined financial statements.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Notes to Combined Financial Statements
September 30, 1992

(1) Significant Accounting Policies

A. Basis of Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board and as in Audits of State and Local Governmental Units, issued by the American Institute of Certified Public Accountants. The accompanying statements include all fund types and account groups of the State of Kosrae.

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. The State has not identified any component units which should be incorporated within the accompanying financial statements.

B. Fund Structure and Basis of Accounting

The accompanying financial statements are structured into three categories of funds and two account groups. The fund categories include: governmental funds, proprietary funds, and fiduciary funds. The Account Groups include General Fixed Assets and General Long-Term Debt.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Notes to Combined Financial Statements, Continued
September 30, 1992

(1) Significant Accounting Policies, Continued

The State of Kosrae's governmental funds are comprised of:

1. The General Fund - used to account for all financial transactions not accounted for in another fund;
2. The Special Revenue Funds - used to account for specific revenues earmarked to finance particular programs and activities other than capital projects;
3. The Capital Projects Funds - used to account for the acquisition or construction of all major governmental general fixed assets.

All governmental funds are accounted for on the modified accrual basis of accounting. In accordance with the modified accrual basis, revenues are recognized when they become susceptible to accrual; that is, when they become both measurable and available to finance expenditures of the current period. Expenditures are recognized/recorded at the time related fund liabilities are incurred except:

- a. Inventories are generally considered expenditures at acquisition.
- b. Prepayments usually are not recorded.

Encumbrance accounting is utilized for budgetary control purposes. Encumbrances outstanding at year end are reported as reservations of fund balance, and remain as reservations of fund balance until becoming expended or cancelled.

The proprietary fund includes an Internal Service Fund which is used to account for the stock supply operation of a self-sustaining State agency rendering services to other State agencies on a cost reimbursement basis. The proprietary fund is accounted for on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The fiduciary funds include the Expendable Trust Funds which are used to account for assets held by the State in a trustee capacity. Expendable Trust Funds are accounted for on the modified accrual basis of accounting.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Notes to Combined Financial Statements, Continued
September 30, 1992

(1) Significant Accounting Policies, Continued

C. Fixed Assets and Long-Term Liabilities

All of the State's funds utilize a spending rather than a capital maintenance measurement focus. Consequently, the general fixed assets account group is designed to maintain accountability of capital assets which are considered to be assets of the government itself rather than of any particular fund.

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. All governmental funds and expendable trust funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spending resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available resources" during a period.

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 cost when historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Depreciation is not charged against the general fixed assets.

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group, not in the governmental funds. Accrued annual leave has been presented in the accompanying general long-term debt account group. No current portion of accrued annual leave has been recorded in the General Fund or in the Special Revenue Funds as the amounts are immaterial to these funds.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Notes to Combined Financial Statements, Continued
September 30, 1992

(1) Significant Accounting Policies, Continued

The two account groups are not "funds". They are concerned only with the measurement of financial position and are not involved with measurement of results of operations.

Because of their spending measurement focus, expenditure recognition for governmental fund types is limited to amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. They are instead reported as liabilities in the General Long-Term Debt Account Group.

D. Budgetary Process

Legislation requires the Governor to present a budget proposal to the Legislature at the beginning of each annual session. The Legislature then appropriates operating budgets which are limited in total by estimated fund revenues. Before signing an Appropriations Bill, the Governor may veto or reduce any specific appropriation; this veto is also subject to legislative override.

During fiscal year 1992, supplemental appropriations were made for both operating and capital purposes, to reflect revised financial priorities of Kosrae State Government.

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

Unencumbered appropriations normally lapse at the end of each fiscal year unless designated as continuing appropriations.

E. Receivables

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

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Notes to Combined Financial Statements, Continued
September 30, 1992

(1) Significant Accounting Policies, Continued

F. Interfund Transactions

The State of Kosrae utilizes three types of potential interfund transactions:

1. The majority of the State's financial operations are centrally administered, and this administration is facilitated by the use of a "pooled" cash account; for practical purposes, cash is primarily maintained in a single bank account which is considered to be an asset of the State's general fund. As a result of this cash pooling practice, cash transactions normally include entries which adjust the relative balances of affected funds' interfund asset/liability accounts; each fund's interfund balance therefore represents a net interest in the State's actual cash.

2. Operating appropriations/subsidies which are accounted for as operating transfers of resources between funds.

3. Residual equity transfers which record the transfer of residual fund balances upon the termination of a fund's operations. These transfers are accounted for as additions to or deductions from governmental type fund balances or proprietary fund type equities.

For all funds, the combining balance sheets separately classify interfund activity with the General Fund.

G. Inventories

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

H. Investments

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

I. Fixed Assets and Depreciation

Governmental general fixed assets are carried in the General Fixed Assets Account Group. No depreciation is provided for on these assets. Assets are stated at cost or estimated cost. Fixed assets of Kosrae State Government also includes capital infrastructure.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Notes to Combined Financial Statements, Continued
September 30, 1992

(1) Significant Accounting Policies, Continued

J. Actual Expenditures contrasted with Budgetary Expenditures

1. 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.
2. In contrast, budgetary expenditures represent current charges against appropriations; current charges consist of all current year liquidated and unliquidated encumbrances. Budgetary expenditures are determined by subtracting both current year liquidations of prior year encumbrances and unliquidated prior year encumbrances from the combined total of current year actual expenditures and all unliquidated encumbrances. When viewed in relation to respective budgets, budgetary expenditures provide the principal means of evaluating current year operating performance and management stewardship.

K. Fund Balance Reserves

The State's fund balance reserves represent those portions of fund balance (1) not appropriable for expenditure or (2) legally segregated for a specific future use. Reserves for related assets such as inventories and long-term receivables are examples of the former. Reserves for encumbrances, continuing appropriations and other specific purposes are examples of the latter.

L. Cash and Equivalents

The State defines cash and equivalents as cash on deposit in banks including time certificates of deposit with an initial maturity of ninety days or less.

M. 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.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Notes to Combined Financial Statements, Continued
September 30, 1992

(2) Cash and Short-Term Investments

Investments

The State has adopted the by-laws of the Federated Development Authority as the agency to establish the overall development goals, policies and strategies of funds received and invested pursuant to the Compact of Free Association. The Federated States of Micronesia, Secretary of Finance, maintains such accounting system and records as are necessary to account for investment funds placed with the Authority on behalf of Kosrae State.

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

- A. Investment managers may invest in stocks, bonds and cash equivalents. Minimum standards of quality for investments at the time of purchase shall be:
 - 1. Stocks - A "B" rating by a national rating service. Non-rated stocks such as banks or insurance companies must be equal in quality or higher.
 - 2. Bonds - Confined to issues rated "A" or higher by a national rating service, except in the case of U.S. Treasury or Agency securities which are not rated.
 - 3. Cash and equivalents - The manager may engage in all normally accepted short-term investment practices including, but not limited to: U.S. Treasury and Agency securities, 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 & Poors Corporation and Moodys Investor Services.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Notes to Combined Financial Statements, Continued
September 30, 1992

(2) Cash and Short-Term Investments, Continued

- b. Certificates of deposit must be from FDIC insured banks or FSLIC insured savings and loan associations, both of which must have assets in excess of two billion dollars. Deposits in smaller institutions are acceptable, but must not exceed the amount of the insurance unless collateralized by U. S. Treasury Securities at 102%.
- B. The equity portfolio shall be diversified among issues and industry classifications. No more than 25% of the equity portfolio may be invested in any single classification, as described by the Standard and Poors 500 Index, unless prior approval is received from the 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 of the Secretary of Finance.

Funds invested with Hawaiian Trust Co. on behalf of Kosrae State as of September 30, 1992, are summarized below:

<u>Cash and Equivalents</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Certificates of deposit	\$ 67,660	\$ 67,660
<u>Investments</u>		
Pooled Investment Securities	<u>5,809,221</u>	<u>6,480,916</u>
Total investments	<u>\$5,876,881</u>	<u>\$6,548,576</u>

An investment of \$22,120 has been reserved for in the Reserve for Diminution of Investments component of the Fund Balance within the General Fund. This reserve represents Kosrae State's share of the carrying value of the Siebel #2 fund's pooled investment in Colorado Utility Electric Association Inc. as of March 1990, being the date of Colorado Utility's declaration of default on debt repayments. Colorado Utility is currently in liquidation and is undergoing a reorganization via a trustee.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Notes to Combined Financial Statements, Continued
September 30, 1992

(2) Cash and Short-Term Investments, Continued

Based on the latest financial information available, management is unable to quantify an appropriate carrying value of the State's investment in Colorado Utility due to the uncertainty of the Utility's current and future financial position, and has therefore fully reserved the carrying value of this investment.

It is the policy of the State that earnings from pooled cash and investments generally accrues to the General Fund.

The State does not require collateralization of its bank deposits. At September 30, 1992, the State had deposits as follows (in each situation, cost approximates market value):

General Fund

Bank overdraft in checking accounts with FDIC insured bank	<u>\$ (1,085,515)</u>
Cash on deposit with Hawaiian Trust Co.	38,160
Cash on deposit with FDIC Insured banks	<u>60,790</u>
	<u>\$ 98,950</u>

Special Revenue Funds

Cash on deposit with Hawaiian Trust Co.	<u>\$ 29,500</u>
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Capital Projects Funds

Certificate of deposit with FDIC insured bank	<u>\$ 1,399,611</u>
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Expendable Trust Deposits

Cash in checking and savings accounts with FDIC insured bank	<u>\$ 67,262</u>
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Credit risk associated with investments is categorized into three levels generally described as follows:

- Category 1 - Insured or registered, or securities held by the State or its agent in the State's name.
- Category 2 - Uninsured and unregistered, or securities held by a party other than the State or its agent, but in the State's name.
- Category 3 - Uninsured and unregistered, with securities held by a party other than the State and not in the State's name.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Notes to Combined Financial Statements, Continued
September 30, 1992

(2) Cash and Short-Term Investments, Continued

All investments held by the State or Trustee have been classified as category 2 investments in accordance with GASB #3 as all investments are held in the name of the Federated Development Authority.

Investment income for the year ended September 30, 1992, is comprised of the following items:

Gross investment gains	\$ 130,601
Gross investment losses	(35,725)
Interest and dividends	389,388
Management and other fees	<u>(54,897)</u>
	<u>\$ 429,367</u>

(3) Receivables From Other Governments and Federal Agencies

Amounts due from other governments include those funds which are earned and have yet to be reimbursed by the FSM National Government for U. S. federal assistance programs, Department of the Interior Capital Projects Grant, and those grants received from the Congress of the Federated States of Micronesia for capital projects.

Amounts due from federal agencies are funds which are reimbursed directly from U. S. federal agencies.

(4) Receivables

Special Revenue Fund loans receivable arise from the various appropriations in which funds were disbursed on a loan basis for fisheries projects and scholarships at various low interest rates. The term of repayment varies from five to twenty years.

Various Expendable Trust Funds have loans and other receivables of \$749,672 and \$11,473, respectively. These balances are fully reserved within the related asset component of fund balance in the applicable funds.

The Capital Project Funds has a \$150,000 loan receivable from the Pacific Tuna Industries, a related party (See Note 5) at 3 percent to be repaid in eight installments beginning September, 1995.

The General Fund, Special Revenue Funds and Capital Project Funds, have \$134,908, \$165,596, and \$133,641, respectively of advances made to State government employees and medical referral patients for travel related expenditures.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Notes to Combined Financial Statements, Continued
September 30, 1992

(4) Receivables, Continued

These advances are to be liquidated by submission of vouchers following the completion of travel. The total of such advances has been fully reserved within the related assets component of fund balance.

General fund general receivables consist of unpaid utility billings and other miscellaneous receivables. The amount in the accompanying financial statements is net of an allowance for doubtful accounts of \$40,000, with the net balance being fully reserved in the related asset component of fund balance.

(5) Other Investments

On April 5, 1991, the State purchased 25,000 ordinary shares in the Bank of the Federated States of Micronesia, at a total cost of \$250,000. The Government's shareholdings represents approximately 5.99% of the Bank's total shares at September 30, 1992. This investment is stated at cost, is considered long-term, and has been fully reserved in the related asset component of fund balance. As of September 30, 1992, Kosrae State Government has \$1,442,331 in certificates of deposit with the bank.

The appropriation to fund this acquisition of shares originated in the year ended September 30, 1991. The Attorney General of the State of Kosrae is of the opinion that this appropriation lapsed as of September 30, 1990 and the State's acquisition of these shares was therefore without legal basis. Management of the State is currently addressing this issue and cannot predict the ultimate outcome of this matter. Until this matter is resolved, management has elected to record this investment as described in the preceding paragraph.

During fiscal year 1991 Kosrae State Government acquired 90,000 shares at one cent par value in Pacific Tuna Industries, a for profit corporation organized under the laws of the Federated States of Micronesia. The investment is accounted for using the equity method. For the period ending September 30, 1992, Pacific Tuna Industries reported an unaudited net operating deficit of \$54,189. Therefore Kosrae had adjusted its investment balance to reflect 90% of the net operating deficit.

Carrying value at October 1, 1991	\$ 65,900
Pro rata share of fiscal year 1992 loss	<u>(48,769)</u>
Carrying value at September 30, 1992	<u>\$ 17,131</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Notes to Combined Financial Statements, Continued
September 30, 1992

(6) Contingent Liabilities, continued

The State participates in a number of U.S. federally assisted programs. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. In 1992, for operations of grant programs, \$0 of questioned costs have been raised and \$228,794 of cumulative questioned costs remain unresolved for fiscal years 1985 through 1988. If these questioned costs are ultimately disallowed, the General Fund may bear responsibility for absorbing the amounts so disallowed.

Pursuant to Title I, Section 105 of United States Public Law 99-239 (Compact of Free Association), 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. Due to an inability to predict the ultimate outcome of this matter, no provision for any liability that may result has been made in the accompanying financial statements.

Sick Leave

It is the policy of the State of Kosrae to record the cost of sick leave when leave is actually taken and a liability is actually incurred. The accumulated estimated amount of unused sick leave at September 30, 1992, was not available.

Litigation

The State of Kosrae is party to numerous legal proceedings, many of which are normal recurrences in governmental operations. The Attorney General of the State of Kosrae is of the opinion that the probable outcome of suits existing at September 30, 1992, is not predictable but will have no material impact on the accompanying financial statements.

Additionally, as described in Note 5, the State acquired an investment which was not made in accordance with local laws. It is not possible to assess the ultimate impact of this matter on the accompanying financial statements.

(7) Material Fund Deficits

The following funds reflect material fund deficits as of September 30, 1992. If operations of these funds cannot recover prior losses, the State's General Fund may have to absorb these amounts or a portion thereof.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Notes to Combined Financial Statements, Continued
September 30, 1992

(7) Material Fund Deficits, continued

Internal Service Fund	\$ (66,836)
Compact Health and Medical 216 (a)(2)	<u>\$ (251,295)</u>
Operations and Maintenance	<u>\$ (52,149)</u>
Federal Grants Assistance	<u>\$ (251,998)</u>
CFSM State Projects	<u>\$ (49,924)</u>
Foreign Assistance	<u>\$ (30,961)</u>
Compact Special Block 221 (b)	<u>\$ (107,062)</u>

Of the above, the total fund deficits for the Compact Health and Medical Fund, Federal Grants Assistance Fund, and Compact Special Block have been reserved in the General Fund as related assets since the interfund due to the General Fund relating to the aforementioned fund deficits may not be collectible within the following year.

(8) Interfund Receivable and Payable

As of September 30, 1992, interfund receivables and payables resulting from various interfund transactions are as follows:

	<u>Due to other Fund</u>	<u>Due from other Fund</u>
General Fund	\$ 579,157	\$1,623,946
Special Revenue Funds:		
Compact - Special Block	128,029	-
Compact - Health and Medical	1,400	-
Compact Post Secondary Edu.	304,123	-
Fishermen's Revolving Fund	-	1,026
Department of Interior Fund	546,986	-
Federal Grants Assistance Fund	1,047,515	-
Compact Energy	-	100,912
Compact Special Development	-	135,007
Foreign Assistance Fund	73,971	-
Capital Project Funds:		
TTG - Capital Project Fund	102,390	-
CFSM State Projects	576,903	-
Compact Capital Projects Fund	-	1,474,481
Expendable Trust Funds:		
Production Loan Fund	-	1,495
Scholarship Revolving Fund	-	20,508
Housing Revolving Fund	-	125,915
Airport Trust Fund	-	20,291
Aluminum Recycling Fund	-	21,812
Internal Service Fund	<u>164,919</u>	<u>-</u>
	<u>\$3,525,393</u>	<u>\$3,525,393</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Notes to Combined Financial Statements, Continued
September 30, 1992

(9) Continuing Appropriations

Continuing appropriations as of September 30, 1992, are summarized as follows:

General Fund

Vocational Education Specialist	\$ 25,000
New Broadcast Facility	10,000
Communication Network	30,945
Vehicle License Plate	6,740
Printing of State Laws	7,230
Payment of legal obligations	<u>712</u>
	<u>\$ 80,627</u>

Special Revenue Funds

Compact Post Secondary Education	\$ 43,005
Non U.S. Grants - Various Programs	<u>23,603</u>
	<u>\$ 66,608</u>

Capital Project Funds

Compact of Free Association Capital	
Account - Various State approved	
projects	\$1,735,032
Various State approved projects	<u>103,672</u>
	<u>\$1,838,704</u>

(10) Bonds Payable

During the year ended September 30, 1991, Kosrae State Government undertook a single issue of notes payable under the Medium-Term Note (MTN) program entered into by the FSM National Government on behalf of itself and the four FSM states.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Notes to Combined Financial Statements, Continued
September 30, 1992

(10) Bonds Payable, continued

On July 15, 1991 Kosrae state issued five (5) notes for \$5,000,000 to finance the construction of the Cold Storage Facility and other fisheries development projects. The first note repayment of \$1,000,000 was made on July 15, 1992. Therefore the outstanding notes payable balance as of September 30, 1992, was comprised of several notes with varying interest rates and maturities as follows:

<u>Maturity</u>	<u>Interest Rate % P.A.</u>	<u>Principal Amount</u>
10/15/92	6.95	\$1,000,000
10/15/93	7.67	1,000,000
10/15/94	8.03	1,000,000
10/15/95	8.37	<u>1,000,000</u>
		<u>\$4,000,000</u>

Payments of principal and interest are entrusted to Citibank, N.A., as Trustee. The FSM has pledged, as security for payments by the Trustee, a first priority lien on, and security interest in, all Compact of Free Association payments from the U.S. Government.

Upon receipt of Compact payments, the Trustee is responsible for withdrawal of amounts necessary for payments of principal and interest. Various other restrictive covenants exist and are detailed in the Trust Agreement dated January 4, 1990. Management is of the opinion that it has complied with such covenants through September 30, 1992.

(11) Subsequent Events

Kosrae State Law No. 5-91 was signed into law on October 27, 1992, appropriating \$250,000 for purchase of additional common stock in the Bank of the FSM, a related party (See Note 5).

**INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION**

Honorable Thurston Siba
Governor, State of Kosrae
Federated States of Micronesia

The additional information presented in the following pages which has been taken primarily from accounting and other records of the State of Kosrae has been subjected to the tests and other auditing procedures applied in our audit of the general purpose financial statements of the State of Kosrae as of and for the year ended September 30, 1992. This additional information is the responsibility of the State of Kosrae's management. In our opinion, with respect to the accompanying additional information, such information, except for the matter specified in our report dated December 4, 1992, on the general purpose financial statements of the State of Kosrae as of September 30, 1992, and for the year then ended, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

December 4, 1992

Certified Public Accountants

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Combining Statement of Expenditures by Account -
All Governmental Fund Types and Expendable Trust Fund
Year ended September 30, 1992
(With comparative totals for the year ended September 30, 1991)

	<u>Governmental Fund Types</u>			<u>Fiduciary Fund</u>		
	General	Special	Capital	Expendable	<u>Total</u>	
	<u>Fund</u>	<u>Revenue</u>	<u>Projects</u>	<u>Trust</u>	<u>1992</u>	<u>1991</u>
		<u>Funds</u>	<u>Funds</u>	<u>Fund</u>		
Expenditures:						
Personnel services	\$3,912,349	\$ 949,588	\$ 457,837	\$ -	\$ 5,319,774	\$ 5,086,521
Travel	300,477	30,496	75,272	-	406,245	493,526
POL	26,361	564,356	6,423	-	597,140	757,289
Capital outlays	353,817	629,335	4,452,321	-	5,435,473	1,822,714
Other	<u>1,467,815</u>	<u>384,120</u>	<u>1,310,147</u>	<u>62,735</u>	<u>3,224,817</u>	<u>4,778,378</u>
Total						
expenditures	<u>\$6,060,819</u>	<u>\$2,557,895</u>	<u>\$6,302,000</u>	<u>\$ 62,735</u>	<u>\$14,983,449</u>	<u>\$12,938,428</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
General Fund
September 30, 1992

The State of Kosrae maintains separate and distinct general funds as required by local law. The operations of the Executive Branch are accounted for primarily in the U.S. Grants Fund, while the operations of the Legislative Branch are accounted for in the State Revenue Fund.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
GENERAL FUND

Combining Balance Sheet

September 30, 1992

(With comparative totals as of September 30, 1991)

	U.S. Grants	State Revenue	Totals	
	Fund	Fund	1992	1991
<u>Assets</u>				
Cash and equivalents	\$ 56,230	\$ 42,720	\$ 98,950	\$ 597,782
Receivables:				
Other governments	180,636	14,722	195,358	214,611
General receivables	26,211	32,279	58,490	33,325
Advances	621	134,287	134,908	85,728
Investments	2,160,958	-	2,160,958	1,838,415
Interest receivable	37,431	-	37,431	59,364
Due from other funds	<u>1,172,859</u>	<u>451,087</u>	<u>1,623,946</u>	<u>973,648</u>
Total assets	<u>\$3,634,946</u>	<u>\$ 675,095</u>	<u>\$4,310,041</u>	<u>\$3,802,873</u>
<u>Liabilities and Fund Balance</u>				
Liabilities:				
Bank overdraft	\$1,085,515	\$ -	\$1,085,515	\$ 998,502
Accounts payable	335,261	125,894	461,155	311,958
Accrued payroll and others	237,280	17,055	254,335	464,682
Interest payable	-	-	-	51,069
Due to other funds	579,157	-	579,157	-
Due to other Gov't	<u>180,636</u>	<u>-</u>	<u>180,636</u>	<u>-</u>
Total liabilities	<u>2,417,849</u>	<u>142,949</u>	<u>2,560,798</u>	<u>1,826,211</u>
Fund balance:				
Reserved for:				
Diminution of investment	22,120	-	22,120	22,120
Related assets	782,919	155,355	938,274	811,399
Encumbrances	200,589	61,281	261,870	289,912
Continuing appropriations	79,915	712	80,627	2,326
Unreserved	<u>131,554</u>	<u>314,798</u>	<u>446,352</u>	<u>850,905</u>
Total fund balance	<u>1,217,097</u>	<u>532,146</u>	<u>1,749,243</u>	<u>1,976,662</u>
Total liabilities and fund balance	<u>\$3,634,946</u>	<u>\$ 675,095</u>	<u>\$4,310,041</u>	<u>\$3,802,873</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
GENERAL FUND

Combining Statement of Revenues, Expenditures
and Changes in Fund Balance
Year ended September 30, 1992

(With comparative totals for the year ended September 30, 1991)

	U.S. Grants	State Revenue	Totals	
	Fund	Fund	1992	1991
Revenues:				
Compact funding:				
Base amount	\$2,791,740	\$ -	\$2,791,740	\$3,284,400
Inflation adjustment	1,060,862	-	1,060,862	1,116,696
Fines and penalties	-	-	-	9,139
Revenue sharing	-	519,839	519,839	561,747
State taxes and licenses	-	203,923	203,923	204,204
Investment income	429,367	-	429,367	382,161
Miscellaneous	61,940	765,729	827,669	426,848
Total revenues	<u>4,343,909</u>	<u>1,489,491</u>	<u>5,833,400</u>	<u>5,985,195</u>
Expenditures:				
General Government	933,133	798,039	1,731,172	1,952,697
Health Services	989,000	-	989,000	821,262
Education	981,815	113,914	1,095,729	1,083,126
Economic Development	497,887	-	497,887	473,144
Public Safety	308,301	-	308,301	298,869
Transportation	6,433	-	6,433	181,504
Public Works	843,491	-	843,491	558,714
Community Affairs	336,209	117,032	453,241	388,484
Other	117,200	18,365	135,565	259,329
Total expenditures	<u>5,013,469</u>	<u>1,047,350</u>	<u>6,060,819</u>	<u>6,017,129</u>
Excess (deficiency) of revenues over (under) expenditures	(669,560)	442,141	(227,419)	(31,934)
Other sources (uses):				
Operating transfers	-	-	-	-
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	(669,560)	424,141	(227,419)	(31,934)
Fund balance, beginning of year	<u>1,886,657</u>	<u>90,005</u>	<u>1,976,662</u>	<u>2,008,596</u>
Fund balance, end of year	<u>\$1,217,097</u>	<u>\$ 532,146</u>	<u>\$1,749,243</u>	<u>\$1,976,662</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
GENERAL FUND

Combining Statement of Revenues, Expenditures by Account
and Changes in Fund Balance
Year ended September 30, 1992

(With comparative totals for the year ended September 30, 1991)

	U.S. Grants	State Revenue	Totals	
	Fund	Fund	1992	1991
Revenues:				
Compact funding:				
Base amount	\$2,791,740	\$ -	\$2,791,740	\$3,284,400
Inflation adjustment	1,060,862	-	1,060,862	1,116,696
Fines and penalties	-	-	-	9,139
Revenue sharing	-	519,839	519,839	561,747
State taxes and licenses	-	203,923	203,923	204,204
Investment income	429,367	-	429,367	382,161
Miscellaneous	61,940	765,729	827,669	426,848
Total revenues	<u>4,343,909</u>	<u>1,489,491</u>	<u>\$5,833,400</u>	<u>5,985,195</u>
Expenditures:				
Personnel services	3,350,894	561,455	3,912,349	3,578,876
Travel	208,055	92,422	300,477	383,048
POL	26,338	23	26,361	69,852
Capital outlays	346,265	7,552	353,817	329,530
Other	1,081,917	385,898	1,467,815	1,655,823
Total expenditures	<u>5,013,469</u>	<u>1,047,350</u>	<u>6,060,819</u>	<u>6,017,129</u>
Excess (deficiency) of revenues over (under) expenditures	(669,560)	442,141	(227,419)	(31,934)
Other sources (uses):				
Operating transfers	-	-	-	-
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	(669,560)	442,141	(227,419)	(31,934)
Fund balance, beginning of year	<u>1,886,657</u>	<u>90,005</u>	<u>1,976,662</u>	<u>2,008,596</u>
Fund balance, end of year	<u>\$1,217,097</u>	<u>\$ 532,146</u>	<u>\$1,749,243</u>	<u>\$1,976,662</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
GENERAL FUND

Combining Statement of Revenues, Expenditures and Changes in
Fund Balance, Budgetary Basis
Year ended September 30, 1992
(With comparative totals for the year ended September 30, 1991)

	Total General Fund											
	U.S. Grant Fund			State Revenue Fund			1992			1991		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
Revenues:												
Compact funding:												
Base amount	\$4,008,293	\$2,791,740	\$(1,216,553)	\$ -	\$ -	\$ -	\$4,008,293	\$2,791,740	\$(1,261,553)	\$3,284,400	\$3,284,400	\$ -
Inflation adjustment	1,069,862	1,069,862	-	-	-	-	1,069,862	1,069,862	-	985,320	1,116,696	131,376
Revenue sharing	-	-	-	400,000	519,839	119,839	400,000	519,839	119,839	425,000	561,747	136,747
State taxes and licenses	-	-	-	200,000	203,923	3,923	200,000	203,923	3,923	325,000	204,204	(120,796)
Fines and penalties	-	-	-	-	6,344	6,344	-	6,344	6,344	-	9,139	9,139
Miscellaneous	-	61,940	61,940	561,632	759,385	197,753	561,632	821,325	259,693	300,000	426,848	126,848
Dividends and interest	-	429,367	429,367	-	-	-	-	429,367	429,367	300,000	382,161	82,161
Total revenues	5,069,155	4,343,909	(725,246)	1,161,632	1,489,491	327,859	6,230,787	5,833,400	(397,387)	5,619,720	5,985,195	365,475
Expenditures:												
General government	969,289	964,104	5,185	799,876	796,155	3,721	1,769,165	1,760,259	8,906	2,016,504	1,909,145	107,359
Health services	888,347	967,002	(78,655)	-	-	-	888,347	967,002	(78,655)	924,618	859,744	64,874
Education	990,779	963,077	27,702	122,540	113,970	8,570	1,113,319	1,077,047	36,272	1,160,909	1,143,855	17,054
Economic development	537,599	452,932	84,667	61,690	39,139	22,551	599,289	492,071	107,218	496,994	459,465	37,529
Public safety	321,070	310,403	10,667	-	-	-	321,070	310,403	10,667	302,587	302,041	546
Transportation	-	4,264	(4,264)	-	-	-	-	4,264	(4,264)	199,610	165,413	34,197
Public works	905,100	872,919	32,181	-	-	-	905,100	872,919	32,181	569,030	541,909	27,121
Community affairs	366,099	351,943	14,156	115,638	100,854	14,784	481,737	452,797	28,940	444,935	379,706	65,229
Other	-	77,649	(77,649)	19,078	18,366	712	19,078	96,015	(76,937)	-	257,962	(257,962)
Total expenditures	4,978,283	4,964,293	13,990	1,118,822	1,068,484	50,338	6,097,105	6,032,777	64,328	6,115,187	6,019,240	95,947
Excess (deficiency) of revenues over (under) budgetary expenditures	90,872	(620,384)	(711,256)	42,810	421,007	378,197	133,682	(199,377)	(333,059)	(495,467)	(34,045)	461,422
Other financing sources (uses):												
Operating transfer	-	-	-	-	-	-	-	-	-	-	-	-
Excess (deficiency) of revenues and other sources over (under) budgetary expenditures and other uses	90,872	(620,384)	(711,256)	42,810	421,007	378,197	133,682	(199,377)	(333,059)	(495,467)	(34,045)	461,422
Unreserved fund balance (deficit), beginning of year	931,115	931,115	-	(80,210)	(80,210)	-	850,905	850,905	-	1,324,653	1,324,653	-
Other changes in unreserved fund balance:												
Decrease/(Increase) reserve for continuing appropriations	-	(79,915)	(79,915)	-	1,614	1,614	-	(78,301)	(78,301)	-	1,497	1,497
Decrease/(Increase) for related assets	-	(99,262)	(99,262)	-	(27,613)	(27,613)	-	(126,875)	(126,875)	-	(715,830)	(715,830)
Decrease in reserve for diminution of investments	-	-	-	-	-	-	-	-	-	-	274,630	274,630
Unreserved fund balance, end of year	\$1,021,987	\$ 131,554	\$ (890,433)	\$ (37,400)	\$ 314,798	\$ 352,198	\$ 984,587	\$ 446,352	\$ (538,235)	\$ 829,186	\$ 850,905	\$ 21,719

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
GENERAL FUND

Combined Statement of Revenues, Expenditures by Function and Department
and Changes in Fund Balance
Year ended September 30, 1992

(With comparative totals for the year ended September 30, 1991)

	<u>1992</u>	<u>1991</u>
Revenues:		
Compact of Free Association:		
Section 211 (a)(2) - base grant	\$2,791,740	\$3,284,400
Section 217 - inflation	1,060,862	1,116,696
FSM revenue sharing	519,839	561,747
State taxes and licenses:		
Cigarette tax	\$ 6,773	\$ 9,866
General sales tax	61,929	52,393
Alcohol	52,344	60,288
Motor vehicles sales tax	14,057	11,687
License and fees	68,820	69,970
Court fines	6,344	9,139
	<u>210,267</u>	<u>213,343</u>
Other revenues:		
Utility collections	186,345	179,021
Transportation collections	11,637	1,507
Medical and dental services	12,905	18,625
Miscellaneous	610,438	227,695
	<u>821,325</u>	<u>426,848</u>
Investment income	429,367	382,161
	<u>429,367</u>	<u>382,161</u>
Total revenues	<u>5,833,400</u>	<u>5,985,195</u>
Expenditures by department:		
General Government:		
Governor and staff	167,516	214,913
Governor's Office Legislation	1,230	14,568
Bureau of Accounting	135,018	163,704
Bureau of Budget & Management	91,605	227,334
Bureau of Procurement & Supply	54,318	59,339
Personnel & Employment Services	67,181	66,200
Bureau of Planning & Statistics	203,058	58,272
Member's Legislative	278,673	269,208
Standing Committee Legislative	57,346	30,341
Legislative staff	244,820	320,612
Municipal government operations	53,000	40,999
Land commission	189,262	205,391
Judicial operations	157,402	192,607
Retirement Fund Study	-	89,209
FY02 Marine Resources	12,440	-
14th APNL Conference	8,755	-
FY92 Land Management	9,548	-
	<u>9,548</u>	<u>-</u>
Total	<u>1,731,172</u>	<u>1,952,697</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
GENERAL FUND

Combined Statement of Revenues, Expenditures by Function and Department
and Changes in Fund Balance, Continued

Year ended September 30, 1992

(With comparative totals for the year ended September 30, 1991)

	<u>1992</u>	<u>1991</u>
Expenditures by department, continued:		
Health Services:		
Administration	\$ 270,834	\$ 231,333
Environmental health	41,356	46,943
Dental services	48,610	42,828
Clinical services	193,261	161,949
Public Health nursing	61,167	35,897
Medical services	325,354	119,882
Public health legislation	-	47,095
Medical referral	<u>48,418</u>	<u>135,335</u>
Total	<u>989,000</u>	<u>821,262</u>
Education:		
Administration	102,005	90,935
Elementary	143,968	128,082
Secondary	352,128	347,575
Special services	<u>497,628</u>	<u>516,534</u>
Total	<u>1,095,729</u>	<u>1,083,126</u>
Resources and Development:		
Administration	64,773	51,009
Production & marketing	22,300	38,317
Land management	124,798	137,970
Marine resources	101,584	68,454
Agriculture	116,785	118,312
Tourism	39,269	31,770
Culture and history	<u>28,378</u>	<u>27,312</u>
Total	<u>497,887</u>	<u>473,144</u>
Transportation:		
Division of Transportation	<u>6,433</u>	<u>181,504</u>
Total	<u>6,433</u>	<u>181,504</u>
Public Safety:		
Police	196,525	205,921
Attorney General	<u>111,776</u>	<u>92,948</u>
Total	<u>308,301</u>	<u>298,869</u>
Public Works:		
Operations and maintenance	478,311	271,478
Utility services	<u>365,180</u>	<u>287,236</u>
Total	<u>843,491</u>	<u>558,714</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
GENERAL FUND

Combined Statement of Revenues, Expenditures by Function and Department
and Changes in Fund Balance, Continued
Year ended September 30, 1992

(With comparative totals for the year ended September 30, 1991)

	<u>1992</u>	<u>1991</u>
Expenditures by department, continued:		
State Inauguration	\$ -	\$ 14,866
Division of Public broadcast	61,662	59,527
Political Affairs	76,909	75,074
Community Development	36,122	37,900
Sports Council	65,211	60,365
FY92 Tourism	4,773	-
Micronesian Legal Services	32,500	(5)
Health Council	860	620
Malem Jubilee	5,000	750
Executive Service Appeals Board	1,813	2,579
Scholarship Board	7,944	9,564
Fishing Co-op Association	-	3,823
Election Commission	166	12,279
Con-Con Delegation	-	525
FY92 Historic	1,545	-
Basketball Buckboard	-	7,924
Community Action Agency	52,528	56,069
Transition Activities	-	9,110
Farmers Co-op Association	2,326	7,674
Municipal Election	-	2,000
Lelu Election	1,000	13,840
Liberation Day 91	500	14,000
FY92 Retirement Pension	85,523	-
Senior Citizens FY92	7,000	-
FY92 Produce Market	<u>9,859</u>	<u>-</u>
Total	<u>453,241</u>	<u>388,484</u>
Other	<u>135,565</u>	<u>259,329</u>
Total expenditures by department	<u>6,060,819</u>	<u>6,017,129</u>
Revenues under expenditures	(227,419)	(31,934)
Other sources (uses)	<u>-</u>	<u>-</u>
Revenues and other sources under expenditures and other uses	(227,419)	(31,934)
Fund balance, beginning of year	<u>1,976,662</u>	<u>2,008,596</u>
Fund balance, end of year	<u>\$1,749,243</u>	<u>\$1,976,662</u>

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
GENERAL FUND**

**Combined Statement of Revenues, Expenditures and Changes in Fund Balance
- Budget, Allotment and Actual, Budgetary Basis
Year ended September 30, 1992**

	<u>Budget</u>	<u>Allotment</u>	<u>Actual</u>	<u>Variance</u>
Revenues:				
Compact funding:				
Base amount	\$4,008,293	\$4,008,293	\$2,791,740	\$(1,216,553)
Inflation adjustment	1,060,862	1,060,862	1,060,862	-
State taxes and licenses	600,000	600,000	717,418	117,418
Fines and penalties	-	-	6,344	6,344
Other/miscellaneous	561,632	561,632	827,669	266,037
Investment income	-	-	429,367	429,367
Total revenues	<u>6,230,787</u>	<u>6,230,787</u>	<u>5,833,400</u>	<u>(397,387)</u>
Expenditures - budgetary basis:				
Office of the Governor	167,028	167,028	167,834	(806)
State finance	200,684	200,684	196,192	4,492
Budget & planning	314,697	314,697	299,579	15,118
Personnel	70,189	70,189	66,351	3,838
Finance and Personnel admin.	-	-	-	-
Executive branch	<u>752,598</u>	<u>752,598</u>	<u>729,956</u>	<u>22,642</u>
Legislature	279,319	279,319	261,688	17,631
Senators	275,050	275,050	278,640	(3,590)
Standing committees	<u>50,000</u>	<u>50,000</u>	<u>59,676</u>	<u>(9,676)</u>
Legislative branch	<u>604,369</u>	<u>604,369</u>	<u>600,004</u>	<u>4,365</u>
State court	<u>158,957</u>	<u>158,957</u>	<u>158,577</u>	<u>380</u>
Municipal Operations	53,000	53,000	53,000	-
Land Commission	190,241	190,241	187,006	3,235
FY92 Marine Resources	-	-	13,194	(13,194)
14th APNL Conference	10,000	10,000	8,755	1,245
FY92 Land Management	<u>-</u>	<u>-</u>	<u>9,767</u>	<u>(9,767)</u>
Other general government	<u>253,241</u>	<u>253,241</u>	<u>271,722</u>	<u>(18,481)</u>
Total general government	<u>1,769,165</u>	<u>1,769,165</u>	<u>7,593,659</u>	<u>8,906</u>
Health services	<u>888,347</u>	<u>888,347</u>	<u>967,003</u>	<u>(78,656)</u>
Total health services	<u>888,347</u>	<u>888,347</u>	<u>967,003</u>	<u>(78,656)</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
GENERAL FUND

Combined Statement of Revenues, Expenditures and Changes in Fund Balance
- Budget, Allotment and Actual, Budgetary Basis, Continued
Year ended September 30, 1992

	<u>Budget</u>	<u>Allotment</u>	<u>Actual</u>	<u>Variance</u>
Education	<u>\$1,113,319</u>	<u>\$1,113,319</u>	<u>\$1,077,047</u>	<u>\$ 36,272</u>
Total education	<u>1,113,319</u>	<u>1,113,319</u>	<u>1,077,047</u>	<u>36,272</u>
Economic development	<u>599,289</u>	<u>599,289</u>	<u>492,071</u>	<u>107,218</u>
Total economic development	<u>599,289</u>	<u>599,289</u>	<u>492,071</u>	<u>107,218</u>
Attorney general's office	<u>321,070</u>	<u>321,070</u>	<u>310,403</u>	<u>10,667</u>
Total public safety	<u>321,070</u>	<u>321,070</u>	<u>310,403</u>	<u>10,667</u>
Transportation	<u>-</u>	<u>-</u>	<u>4,264</u>	<u>(4,264)</u>
Total transportation	<u>-</u>	<u>-</u>	<u>4,264</u>	<u>(4,264)</u>
Public works	<u>905,100</u>	<u>905,100</u>	<u>872,919</u>	<u>32,181</u>
Total public works	<u>905,100</u>	<u>905,100</u>	<u>872,919</u>	<u>32,181</u>
Community Development	-	-	35,866	(35,866)
Lelu elections	1,000	1,000	1,000	-
Election commission	-	-	165	(165)
Scholarship Board	7,948	7,948	8,488	(540)
Micronesia Legal Service	32,500	32,500	32,500	-
Liberation Day 1991	-	-	500	(500)
Liberation Day 1992	16,000	16,000	-	16,000
Public affairs	115,887	115,887	78,038	37,849
Sports council	64,947	64,947	64,248	699
Kosrae Community Action Prog.	57,138	57,138	52,528	4,610
Con-Con Delegation	-	-	-	-
Fishing Co-op Association	-	-	-	-
Broadcast Authority	63,333	63,333	60,764	2,569
Kosrae Farmers Co-op	-	-	2,326	(2,326)
Health Council	860	860	860	-
Executive service appeals Board	3,825	3,825	1,813	2,012
FY92 Senior Citizens	4,000	4,000	7,000	(3,000)
Printing of Kosrae State Laws	7,230	7,230	-	7,230
New Broadcast facility	10,000	10,000	-	10,000
FY92 Retirement Pension	85,329	85,329	85,523	(194)
Vehicle license plates				
& Registration	6,740	6,740	-	6,740
FY92 Produce Market	-	-	9,859	(9,859)
FY92 Tourism	-	-	4,773	(4,773)
FY92 Historic	-	-	1,545	(1,545)
Malem Jubilee	5,000	5,000	5,000	-
Total community affairs	<u>481,737</u>	<u>481,737</u>	<u>452,796</u>	<u>28,941</u>
Other	<u>19,078</u>	<u>19,078</u>	<u>96,015</u>	<u>(76,937)</u>
Total other programs	<u>19,078</u>	<u>19,078</u>	<u>96,015</u>	<u>(76,937)</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
GENERAL FUND

Combined Statement of Revenues, Expenditures and Changes in Fund Balance
- Budget, Allotment and Actual, Budgetary Basis, Continued
Year ended September 30, 1992

	<u>Budget</u>	<u>Allotment</u>	<u>Actual</u>	<u>Variance</u>
Total expenditures	\$6,097,105	\$6,097,105	\$6,032,777	\$ 64,328
Revenues in excess of (less than) expenditures	133,682	133,682	(199,377)	(333,059)
Other sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and other sources in excess of (less than) expenditures and other uses	133,682	133,682	(199,377)	(333,059)
Unreserved fund balance, beginning of year,	850,905	850,905	850,905	-
Other changes in unreserved fund balance:				
Decrease/(increase) in continuing appropriations	-	-	(78,301)	(78,301)
Decrease/(increase) in reserve for related assets	<u>-</u>	<u>-</u>	<u>(126,875)</u>	<u>(126,875)</u>
Unreserved fund balance, end of year	<u>\$ 984,587</u>	<u>\$ 984,587</u>	<u>\$ 446,352</u>	<u>\$ (538,235)</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Special Revenue Funds
September 30, 1992

Specific revenues earmarked to finance particular activities of the government are accounted for in Special Revenue Funds. A brief discussion of the State's Special Revenue Funds as of September 30, 1992, follows:

Compact - Special Block Grant - Health and Education, Title Two, Article I, Section 221 (b)

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

Compact 216 (a) 2 - Health and Medical

This fund is restricted for health and medical programs including referrals to hospital and treatment centers.

Compact 216 (a) 3 - Post Secondary Education

This fund is restricted for scholarship funds or funds to support the post secondary education of FSM citizens.

Fishermen's Revolving Fund

This fund was established on May 1, 1987, by State Law 4-8 to account for the sale of fishing supplies to local fishermen on a non-profit basis.

Department of the Interior

This fund accounts for all U.S. Congressional appropriations for specified project operational and maintenance subsidies which are granted through the U.S. Department of the Interior.

Federal Grants Assistance Fund

This fund accounts for all activities of United States special federal assistance grants utilized by the State of Kosrae to finance general governmental operations.

Compact 214 - Energy Block Grant

This fund accounts for the funds granted under the Compact of Free Association with the United States, specifically restricted for the purchase of fuel to operate the State's power generating facilities and other energy related projects.

Compact 212 - Special Development Assistance

This fund accounts for the funds granted under the Compact of Free Association with the United States, specifically restricted for economic development projects.

Foreign Assistance

This fund accounts for financial transactions related to federal assistance from other countries received directly by the State of Kosrae.

KOSRAE STATE GOVERNMENT

SPECIAL REVENUE FUNDS

Combining Balance SheetSeptember 30, 1992

(With comparative totals as of September 30, 1991)

	Compact Special Block Grant	Compact Health and Medical	Compact Scholarship	Compact Energy Block Grant	Compact Special Development	Fishermen's Revolving Fund	Department of the Interior Fund	Federal Grants Assistance	Foreign Assistance	1992	1991
	<u>221(b)</u>	<u>216(a)(2)</u>	<u>216(a)(3)</u>	<u>214</u>	<u>212(a)</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Assistance</u>		
<u>Assets</u>											
Cash	\$ -	\$ -	\$ -	\$ 18,000	\$ 11,500	\$ -	\$ -	\$ -	\$ -	\$ 29,500	\$ 36,750
Receivables from:											
Federal agencies	-	-	-	-	-	-	499,157	-	-	499,157	240,907
FSM National Government	-	-	-	-	-	-	-	695,463	40,936	736,399	1,078,301
Others	23,704	-	-	-	-	-	-	24,580	78	48,362	-
Loan Receivable	-	-	395,130	-	-	-	-	-	-	395,130	322,266
Due from other funds	-	-	-	100,912	135,007	1,026	-	-	-	236,945	115,662
Travel advances	39,175	10,024	-	-	3,222	-	28,691	82,402	2,082	165,596	146,589
Investments	-	-	-	-	-	-	-	-	-	-	-
Total assets	<u>\$ 62,879</u>	<u>\$ 10,024</u>	<u>\$395,130</u>	<u>\$118,912</u>	<u>\$149,729</u>	<u>\$1,026</u>	<u>\$527,848</u>	<u>\$ 802,445</u>	<u>\$43,096</u>	<u>\$2,111,089</u>	<u>\$1,940,475</u>
<u>Liabilities and Fund Balance (Deficit)</u>											
Liabilities:											
Accounts payable	\$ 10,387	\$259,919	\$ 1,000	\$ 12,409	\$ 1,830	\$ -	\$ 3,928	\$ -	\$ 86	\$ 289,559	\$ 260,616
Due to other funds	128,029	1,400	304,123	-	-	-	546,986	1,047,515	73,971	2,102,024	2,195,794
Deferred revenue	-	-	-	-	-	-	28,095	-	-	28,095	42,929
Accrued payroll	31,525	-	-	-	-	-	988	6,928	-	39,441	34,447
Due to other governments	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	<u>169,941</u>	<u>261,319</u>	<u>305,123</u>	<u>12,409</u>	<u>1,830</u>	<u>-</u>	<u>579,997</u>	<u>1,054,443</u>	<u>74,057</u>	<u>2,459,119</u>	<u>2,533,786</u>
Fund balance (deficit):											
Reserved:											
Related assets	39,175	10,024	-	-	3,222	-	28,691	82,402	2,082	165,596	146,589
Continuing appropriations	-	-	43,005	-	-	-	-	-	23,603	66,608	1,639,547
Reserved for encumbrances	24,950	19,994	-	72,902	8,990	-	27,178	21,006	-	175,020	441,208
Unreserved (deficit)	<u>(171,187)</u>	<u>(281,313)</u>	<u>47,002</u>	<u>33,601</u>	<u>135,687</u>	<u>1,026</u>	<u>(108,018)</u>	<u>(355,406)</u>	<u>(56,646)</u>	<u>(755,254)</u>	<u>(2,820,655)</u>
Total fund balance (deficit)	<u>(107,062)</u>	<u>(251,295)</u>	<u>90,007</u>	<u>106,503</u>	<u>147,899</u>	<u>1,026</u>	<u>(52,149)</u>	<u>(251,998)</u>	<u>(30,961)</u>	<u>(348,030)</u>	<u>(593,311)</u>
Total liabilities and fund balance (deficit)	<u>\$ 62,879</u>	<u>\$ 10,024</u>	<u>\$395,130</u>	<u>\$118,912</u>	<u>\$149,729</u>	<u>\$1,026</u>	<u>\$527,848</u>	<u>\$ 802,445</u>	<u>\$43,096</u>	<u>\$2,111,089</u>	<u>\$1,940,475</u>

KOSRAE STATE GOVERNMENT
SPECIAL REVENUE FUNDS
Combining Statement of Revenues, Expenditures
and Changes in Fund Balance (Deficit)
Year ended September 30, 1992
(With comparative totals for the year ended September 30, 1991)

	Compact Special Block Grant	Compact Health and Medical	Compact Scholarship	Compact Energy Block Grant	Compact Special Development	Fishermen's Revolving Fund	Department of the Interior Fund	Federal Grants Assistance	Foreign Assistance	1992	1991
	<u>221(b)</u>	<u>216(a)(2)</u>	<u>216(a)(3)</u>	<u>214</u>	<u>212(a)</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Assistance</u>		
Revenues:											
Compact funding:											
Base Grant	\$ 875,000	\$ 112,122	\$ -	\$450,000	\$250,000	\$ -	\$ -	\$ -	\$ -	\$1,687,122	\$1,687,122
Inflation adjustment	-	-	-	171,000	95,000	-	-	-	-	266,000	238,000
Department of the											
Interior grants	-	-	-	-	-	-	34,435	-	-	34,435	45,802
Federal contributions	-	-	229,599	-	-	-	-	545,084	-	774,683	1,461,751
Other	-	-	-	-	-	-	-	-	40,936	40,936	27,500
Total revenues	<u>875,000</u>	<u>112,122</u>	<u>229,599</u>	<u>621,000</u>	<u>345,000</u>	<u>-</u>	<u>34,435</u>	<u>545,084</u>	<u>40,936</u>	<u>2,803,176</u>	<u>3,460,175</u>
Expenditures:											
General government	-	-	-	-	-	-	20,498	104,959	36,080	161,537	127,496
Health services	115,679	79,881	-	-	-	-	-	78,291	-	273,851	1,112,432
Education	789,831	-	120,129	-	-	-	-	29,533	-	939,493	274,327
Economic development	-	-	-	-	-	-	13,937	41,195	-	55,132	41,589
Public works	-	-	-	504,303	327,617	-	-	-	-	831,920	926,081
Community affairs	-	-	-	-	-	-	-	3,985	4,856	8,841	44,228
Capital projects	-	-	-	-	-	-	-	287,121	-	287,121	1,037,255
Other	-	-	-	-	-	-	-	-	-	-	7,862
Total											
expenditures	<u>905,510</u>	<u>79,881</u>	<u>120,129</u>	<u>504,303</u>	<u>327,617</u>	<u>-</u>	<u>34,435</u>	<u>545,084</u>	<u>40,936</u>	<u>2,557,895</u>	<u>3,571,270</u>
Excess (deficiency)											
of revenues over											
(under)											
expenditures	(30,510)	32,241	109,470	116,697	17,383	-	-	-	-	245,281	(111,095)
Other sources (uses):											
Operating transfers	-	-	-	-	-	-	-	-	-	-	-
Excess (deficiency)											
of revenues and											
other sources over											
expenditures and											
other uses	(30,510)	32,241	109,470	116,697	17,383	-	-	-	-	245,281	(111,095)
Fund balance (deficit),											
beginning of year	<u>(76,552)</u>	<u>(283,536)</u>	<u>(19,463)</u>	<u>(10,194)</u>	<u>130,516</u>	<u>1,026</u>	<u>(52,149)</u>	<u>(251,998)</u>	<u>(30,961)</u>	<u>(593,311)</u>	<u>(482,216)</u>
Fund balance (deficit),											
end of year	<u>\$(107,062)</u>	<u>\$(251,295)</u>	<u>\$ 90,007</u>	<u>\$106,503</u>	<u>\$147,899</u>	<u>\$1,026</u>	<u>\$(52,149)</u>	<u>\$(251,998)</u>	<u>\$(30,961)</u>	<u>\$(348,030)</u>	<u>\$(593,311)</u>

KOSRAE STATE GOVERNMENT

SPECIAL REVENUE FUNDS

Combining Statement of Revenues, Expenditures by Account
and Changes in Fund Balance (Deficit)

Year ended September 30, 1992

(With comparative totals for the year ended September 30, 1991)

	Compact Special Block Grant	Compact Health and Medical	Compact Scholarship	Compact Energy Block Grant	Compact Special Development	Fishermen's Revolving Fund	Department of the Interior Fund	Federal Grants Assistance Fund	Foreign Assistance	1992	1991
	<u>221(b)</u>	<u>216(a)(2)</u>	<u>216(a)(3)</u>	<u>214</u>	<u>212(a)</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Assistance</u>		
Revenues:											
Compact funding:											
Base Grant	\$ 875,000	\$ 112,122	\$ -	\$450,000	\$250,000	\$ -	\$ -	\$ -	\$ -	\$1,687,122	\$1,687,122
Inflation adjustment	-	-	-	171,000	95,000	-	-	-	-	266,000	238,000
Department of the Interior grants	-	-	-	-	-	-	34,435	-	-	34,435	45,802
Federal contributions	-	-	229,599	-	-	-	-	545,084	-	774,683	1,461,751
Other	-	-	-	-	-	-	-	-	40,936	40,936	27,500
Total revenues	<u>875,000</u>	<u>112,122</u>	<u>229,599</u>	<u>621,000</u>	<u>345,000</u>	<u>-</u>	<u>34,435</u>	<u>545,084</u>	<u>40,936</u>	<u>2,803,176</u>	<u>3,460,175</u>
Expenditures:											
Personnel services	778,545	-	-	-	-	-	13,644	154,380	3,019	949,588	1,063,292
Travel	-	1,571	-	456	5,523	-	2,549	20,062	335	30,496	32,955
POL	-	-	-	492,262	72,094	-	-	-	-	564,356	663,739
Capital outlays	9,354	-	-	-	250,000	-	10,982	323,069	35,930	629,335	1,132,670
Others	<u>117,611</u>	<u>78,310</u>	<u>120,129</u>	<u>11,585</u>	<u>-</u>	<u>-</u>	<u>7,260</u>	<u>47,573</u>	<u>1,652</u>	<u>384,120</u>	<u>678,614</u>
Total expenditures	<u>905,510</u>	<u>79,881</u>	<u>120,129</u>	<u>504,303</u>	<u>327,617</u>	<u>-</u>	<u>34,435</u>	<u>545,084</u>	<u>40,936</u>	<u>2,557,895</u>	<u>3,571,270</u>
Excess (deficiency) of revenues over (under) expenditures	(30,510)	32,241	109,470	116,697	17,383	-	-	-	-	245,281	(111,095)
Other sources (uses):											
Operating transfers	-	-	-	-	-	-	-	-	-	-	-
Excess (deficiency) of revenues and other sources over expenditures and other uses	(30,510)	32,241	109,470	116,697	17,383	-	-	-	-	245,281	(111,095)
Fund balance (deficit), beginning of year	<u>(76,552)</u>	<u>(283,536)</u>	<u>(19,463)</u>	<u>(10,194)</u>	<u>130,516</u>	<u>1,026</u>	<u>(52,149)</u>	<u>(251,998)</u>	<u>(30,961)</u>	<u>(593,311)</u>	<u>(482,216)</u>
Fund balance (deficit), end of year	<u>\$ (107,062)</u>	<u>\$ (251,295)</u>	<u>\$ 90,007</u>	<u>\$106,503</u>	<u>\$147,899</u>	<u>\$1,026</u>	<u>\$ (52,149)</u>	<u>\$ (251,998)</u>	<u>\$ (30,961)</u>	<u>\$ (348,030)</u>	<u>\$ (593,311)</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Capital Projects Funds
September 30, 1992

Appropriations or grants earmarked to finance capital projects of the Government are accounted for in Capital Projects Funds. A brief discussion of the State's Capital Projects Funds as of September 30, 1992, follows:

TTG - Capital Projects

This fund accounts for various capital projects received under grant awards from the Trust Territory Government.

CFSM State Projects

This fund accounts for the various capital projects funded by the Congress of the Federated States of Micronesia.

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 1, Section 211.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
CAPITAL PROJECTS FUNDS
Combining Balance Sheet
September 30, 1992
(With comparative totals as of September 30, 1991)

	TTG Capital Projects Fund	CFSM State Projects Fund	Compact Capital Projects	<u>Total</u>	
				1992	1991
<u>Assets</u>					
Cash and equivalents	\$ -	\$ -	\$1,399,611	\$1,399,611	\$ 1,731,481
Receivables from:					
Department of the					
Interior grants	528,226	-	-	528,226	366,637
FSM National Government	-	534,021	-	534,021	608,173
Due from other funds	-	-	1,474,481	1,474,481	1,801,224
Advances	14,265	34,822	84,554	133,641	111,278
Advance to supplier	-	-	-	-	2,815,393
Compact investments	-	-	3,648,263	3,648,263	4,048,263
Loans	-	-	150,000	150,000	75,000
Other investments	-	-	267,131	267,131	315,901
Total assets	<u>\$ 542,491</u>	<u>\$ 568,843</u>	<u>\$7,024,040</u>	<u>\$8,135,374</u>	<u>\$11,873,350</u>
<u>Liabilities and Fund Balance (Deficit)</u>					
Liabilities:					
Accounts payable	\$ 111,473	\$ 41,864	\$ 226,651	\$ 379,988	\$ 284,712
Due to other funds	102,390	576,903	-	679,293	679,399
Accrued payroll	<u>5,493</u>	<u>-</u>	<u>9,777</u>	<u>15,270</u>	<u>9,250</u>
Total liabilities	<u>219,356</u>	<u>618,767</u>	<u>236,428</u>	<u>1,074,551</u>	<u>973,361</u>
Fund balance (deficit):					
Reserved:					
Related assets	14,265	34,822	334,554	383,641	111,278
Continuing appropriations	-	103,672	1,735,032	1,838,704	2,177,787
Encumbrances	-	292,959	4,780,147	5,073,106	5,893,795
Unreserved	<u>308,870</u>	<u>(481,377)</u>	<u>(62,121)</u>	<u>(234,628)</u>	<u>2,717,129</u>
Total fund balance (deficit)	<u>323,135</u>	<u>(49,924)</u>	<u>6,787,612</u>	<u>7,060,823</u>	<u>10,899,989</u>
Total liabilities and fund balance (deficit)	<u>\$ 542,491</u>	<u>\$ 568,843</u>	<u>\$7,024,040</u>	<u>\$8,135,374</u>	<u>\$11,873,350</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
CAPITAL PROJECTS FUNDS
Combining Statement of Revenues, Expenditures
and Changes in Fund Balance (Deficit)
Year ended September 30, 1992
(With comparative totals for the year ended September 30, 1991)

	TTG Capital Projects Fund	CFSM State Projects Fund	Compact Capital Projects	Total	
				1992	1991
Revenues:					
Compact funding:					
Base amount	\$ -	\$ -	\$ 2,445,960	\$ 2,445,960	\$ 2,877,600
Inflation adjustment	-	-	929,465	929,465	978,384
Department of the					
Interior grants	161,589	-	-	161,589	351,394
FSM National Government					
contributions	-	217,746	-	217,746	233,549
Others	-	-	-	-	-
Total revenues	<u>161,589</u>	<u>217,746</u>	<u>3,375,425</u>	<u>3,754,760</u>	<u>4,440,927</u>
Expenditures:					
Capital projects	<u>161,589</u>	<u>217,746</u>	<u>5,922,665</u>	<u>6,302,000</u>	<u>5,175,212</u>
Total expenditures	<u>161,589</u>	<u>217,746</u>	<u>5,922,665</u>	<u>6,302,000</u>	<u>5,175,212</u>
Revenues under					
expenditures	-	-	(2,547,240)	(2,547,240)	(734,285)
Other sources (uses):					
Interest income	-	-	-	-	28,648
Bond proceeds	-	-	-	-	5,000,000
Bond principal repayments	-	-	(1,000,000)	(1,000,000)	-
Bond interest expense	-	-	(243,157)	(243,157)	-
Loss on investment in					
subsidiary	-	-	(48,769)	(48,769)	(24,099)
Excess (deficiency)					
of revenues and					
other sources over					
(under) expenditures					
and other uses	-	-	(3,839,166)	(3,839,166)	4,270,264
Fund balance (deficit),					
beginning of year	<u>323,135</u>	<u>(49,924)</u>	<u>10,626,778</u>	<u>10,899,989</u>	<u>6,629,725</u>
Fund balance (deficit),					
end of year	<u>\$ 323,135</u>	<u>\$ (49,924)</u>	<u>\$ 6,787,612</u>	<u>\$ 7,060,823</u>	<u>\$10,899,989</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
CAPITAL PROJECTS FUNDS
Combining Statement of Revenues, Expenditures by Account
and Changes in Fund Balance (Deficit)
Year ended September 30, 1992
(With comparative totals for the year ended September 30, 1991)

	TTG Capital Projects Fund	CFSM State Projects Fund	Compact Capital Projects	<u>Total</u>	
				1992	1991
Revenues:					
Compact funding:					
Base amount	\$ -	\$ -	\$ 2,445,960	\$ 2,445,960	\$ 2,877,600
Inflation adjustment	-	-	929,465	929,465	978,384
Department of the Interior grants	161,589	-	-	161,589	351,394
FSM National Government contributions	-	217,746	-	217,746	233,549
Others	-	-	-	-	-
Total revenues	<u>161,589</u>	<u>217,746</u>	<u>3,375,425</u>	<u>3,754,760</u>	<u>4,440,927</u>
Expenditures:					
Personnel services	-	-	457,837	457,837	444,353
Travel	-	11,352	63,920	75,272	77,523
POL	-	-	6,423	6,423	23,698
Capital outlays	161,589	16,179	4,274,553	4,452,321	2,360,514
Other	-	190,215	1,119,932	1,310,147	2,269,124
Total expenditures	<u>161,589</u>	<u>217,746</u>	<u>5,922,665</u>	<u>6,302,000</u>	<u>5,175,212</u>
Revenues under expenditures	-	-	(2,547,240)	(2,547,240)	(734,285)
Other sources (uses):					
Interest income	-	-	-	-	28,648
Bond proceeds	-	-	-	-	5,000,000
Bond principal repayments	-	-	(1,000,000)	(1,000,000)	-
Bond interest expense	-	-	(243,157)	(243,157)	-
Loss on investment in subsidiary	-	-	(48,769)	(48,769)	(24,099)
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	-	-	(3,839,166)	(3,839,166)	4,270,264
Fund balance (deficit), beginning of year	<u>323,135</u>	<u>(49,924)</u>	<u>10,626,778</u>	<u>10,899,989</u>	<u>6,629,725</u>
Fund balance (deficit), end of year	<u>\$ 323,135</u>	<u>\$ (49,924)</u>	<u>\$ 6,787,612</u>	<u>\$ 7,060,823</u>	<u>\$10,899,989</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Expendable Trust Funds
September 30, 1992

Specific funds for which the State acts as a trustee are accounted for as Expendable Trust Funds. A brief discussion of the State's Expendable Trust Funds follows:

Agriculture Revolving fund

This fund accounts for the sale of agriculture feed and livestock to farmers.

Production Loan Fund

This fund accounts for low interest loans made to individuals for the purpose of economic development

Scholarship Revolving Loan Fund

This fund accounts for low interest loans made to eligible post-secondary students.

Housing Revolving Fund

This fund accounts for low interest loans which improve housing conditions on Kosrae.

Airport Trust Fund

This fund accounts for the airport departure fee.

Aluminum Recycling Fund

This fund was established for the Aluminum Can Recycling Project.

KOSRAE STATE GOVERNMENT

EXPENDABLE TRUST FUNDS

Combining Balance Sheet

September 30, 1992

(With comparative totals as of September 30, 1991)

	Airport Trust Fund	Agriculture Revolving Fund	Production Loan Fund	Scholarship Revolving Fund	Housing Revolving Fund	Aluminum Recycling Fund	<u>Totals</u>	
							1992	1991
<u>Assets</u>								
Cash	\$ -	\$53,085	\$14,177	\$ -	\$ -	\$ -	\$ 67,262	\$ 43,841
Loans receivable	-	-	39,044	60,081	650,547	-	749,672	714,093
Other receivables	2,271	292	8,910	-	-	-	11,473	10,825
Due from other funds	20,291	-	1,495	20,508	125,915	21,812	190,021	160,422
Inventory	-	<u>4,708</u>	-	-	-	-	<u>4,708</u>	<u>34,683</u>
Total assets	<u>\$22,562</u>	<u>\$58,085</u>	<u>\$63,626</u>	<u>\$80,589</u>	<u>\$776,462</u>	<u>\$21,812</u>	<u>\$1,023,136</u>	<u>\$963,864</u>
<u>Liabilities and Fund Balances</u>								
Liabilities	\$ -	\$ -	\$ -	\$ (336)	\$ 9,450	\$ -	\$ 9,114	\$ 16,817
Fund balance:								
Reserved for related assets	2,271	5,000	47,954	60,081	650,547	-	765,853	759,601
Unreserved	<u>20,291</u>	<u>53,085</u>	<u>15,672</u>	<u>20,844</u>	<u>116,465</u>	<u>21,812</u>	<u>248,169</u>	<u>187,446</u>
Total fund balances	<u>22,562</u>	<u>58,085</u>	<u>63,626</u>	<u>80,925</u>	<u>767,012</u>	<u>21,812</u>	<u>1,014,022</u>	<u>947,047</u>
Total liabilities and fund balances	<u>\$22,562</u>	<u>\$58,085</u>	<u>\$63,626</u>	<u>\$80,589</u>	<u>\$776,462</u>	<u>\$21,812</u>	<u>\$1,023,136</u>	<u>\$963,864</u>

KOSRAE STATE GOVERNMENT
EXPENDABLE TRUST FUNDS
Combining Statement of Revenues,
Expenditures and Changes in Fund Balance
Year ended September 30, 1992
(With comparative totals as of September 30, 1991)

	Airport Trust Fund	Agriculture Revolving Fund	Production Loan Fund	Scholarship Revolving Fund	Housing Revolving Fund	Aluminum Recycling Fund	<u>Totals</u>	
							1992	1991
Revenues:								
Sales	\$31,890	\$38,467	\$ -	\$ -	\$ -	\$19,772	\$ 90,129	\$168,069
Other	<u>-</u>	<u>754</u>	<u>2,860</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,614</u>	<u>2,449</u>
Total revenues	<u>31,890</u>	<u>39,221</u>	<u>2,860</u>	<u>-</u>	<u>-</u>	<u>19,772</u>	<u>93,743</u>	<u>170,518</u>
Expenditures:								
Cost of goods sold	20,971	41,697	10	-	-	-	62,678	147,869
Other	<u>-</u>	<u>57</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>57</u>	<u>26,948</u>
Total expenditures	<u>20,971</u>	<u>41,754</u>	<u>10</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>62,735</u>	<u>174,817</u>
Revenue over (under) expenditures	10,919	(2,533)	2,850	-	-	19,772	31,008	(4,299)
Other sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	10,919	(2,533)	2,850	-	-	19,772	31,008	(4,299)
Fund balances, beginning of year	11,643	60,618	60,776	80,925	731,045	2,040	947,047	885,624
Contributions from other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>35,967</u>	<u>-</u>	<u>35,967</u>	<u>65,722</u>
Fund balances, end of year	<u>\$22,562</u>	<u>\$58,085</u>	<u>\$63,626</u>	<u>\$80,925</u>	<u>\$767,012</u>	<u>\$21,812</u>	<u>\$1,014,022</u>	<u>\$947,047</u>

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SINGLE AUDIT REPORTS
YEAR ENDED SEPTEMBER 30, 1992**



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AS A RESULT OF AN AUDIT PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

Honorable Thurston Siba
Governor, State of Kosrae
Federated States of Micronesia

We have audited the general purpose financial statements of the State of Kosrae as of and for the year ended September 30, 1992, and have issued our report thereon dated December 4, 1992. Our report on the audit of the general purpose financial statements was modified as a result of our inability to form an opinion as to the fairness of presentation of the general fixed assets account group.

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

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

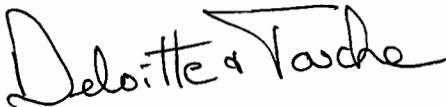
The results of our tests indicate that, with respect to the items tested, the State of Kosrae, complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the State of Kosrae had not complied, in all material respects, with those provisions.

We noted certain immaterial instances of noncompliance that we have reported to the management of Kosrae State Government, which are described in the accompanying administrative control weakness summary (pages 82 through 84).

We also noted matters including compliance with laws and regulations related to federal financial assistance which we reported to the State of Kosrae management in our reports dated December 4, 1992 on general requirements, on specific requirements for major programs and on specific compliance for nonmajor program transactions.

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

December 4, 1992

A handwritten signature in cursive script that reads "Deloitte & Touche". The signature is written in dark ink and is positioned above the printed name of the firm.

Certified Public Accountants



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

Honorable Thurston Siba
Governor, State of Kosrae
Federated States of Micronesia

We have audited the general purpose financial statements of Kosrae State Government as of and for the year ended September 30, 1992, and have issued our report thereon dated December 4, 1992. Our report on the audit of the general purpose financial statements was modified as a result of our inability to form an opinion as to the fairness of presentation of the general fixed assets account group.

We have also audited the State of Kosrae's compliance with the requirements governing the Compact of Free Association that are applicable to its major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance (pages 72 through 79), for the year ended September 30, 1992. The management of the State of Kosrae is responsible for Kosrae State's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

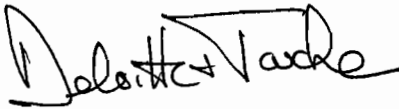
We conducted our audit of compliance with these requirements in accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-128, "Audits of State and Local Governments." Those standards and OMB Circular 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 Kosrae State'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 administrative control weakness summary (pages 82 - 84). We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the State of Kosrae complied, in all material respects, with the requirements governing the Compact of Free Association that are applicable to its major federal financial assistance programs for the year ended September 30, 1992.

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

December 4, 1992

A handwritten signature in dark ink, appearing to read "Delbert V. Vande", written over a horizontal line.

Certified Public Accountants



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

Honorable Thurston Siba
Governor, State of Kosrae
Federated States of Micronesia

We have audited the general purpose financial statements of Kosrae State Government as of and for the year ended September 30, 1992, and have issued our report thereon dated December 4, 1992. We have also audited Kosrae State Government's compliance applicable to requirements of major federal financial assistance programs and have issued our report thereon dated December 4, 1992. Our report on the audit of the general purpose financial statements was modified as a result of our inability to form an opinion as to the fairness of presentation of the general fixed assets account group.

We have applied procedures to test the State of Kosrae's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the year ended September 30, 1992: cash management, federal assistance reports, allowable costs/cost principles, Drug-Free Workplace Act, and administrative requirements.

The requirements of Political Activity, Davis-Bacon Act, and Civil Rights are not applicable to the federal financial assistance programs of the Federated States of Micronesia, which are identified in the Schedule of Federal Financial Assistance (pages 65 through 79).

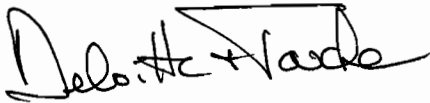
Our procedures were limited to the applicable procedures described in the Office of Management and Budget's Compliance Supplement for Single Audits of State and Local Governments. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on Kosrae State's compliance with the requirements listed in the preceding paragraph. 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 State of Kosrae had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the accompanying administrative control weakness summary.

We also noted matters involving compliance with laws and regulations related to our audit of the general purpose financial statements and with requirements related to major and nonmajor federal financial assistance programs which we reported to the management of Kosrae State Government in our reports dated December 4, 1992.

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

December 4, 1992

A handwritten signature in dark ink, appearing to read "Deloitte & Touche", is written over a horizontal line.

Certified Public Accountants



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH LAWS AND REGULATIONS APPLICABLE
TO NONMAJOR PROGRAMS

Honorable Thurston Siba
Governor, State of Kosrae
Federated States of Micronesia

We have audited the general purpose financial statements of Kosrae State Government as of and for the year ended September 30, 1992, and have issued our report thereon dated December 4, 1992. We have also audited Kosrae State Government's compliance applicable to requirements of it only major federal financial assistance program and have issued our report thereon dated December 4, 1992. Our report on the audit of the general purpose financial statements was modified as a result of our inability to form an opinion as to the fairness of presentation of the general fixed assets account group.

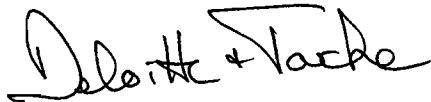
In connection with our audit of the 1992 general purpose financial statements of the State of Kosrae, and with our consideration of the State of Kosrae's control structure used to administer federal financial assistance programs, and assessment of control risk, as required by Office of Management and Budget 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, 1992.

As required by Circular A-128, we have performed auditing procedures to test compliance with the requirements governing types of services allowed or unallowed; eligibility; the Compact of Free Association; monitoring of subrecipients and matching 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 Kosrae State's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the State of Kosrae had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the accompanying administrative control weakness summary.

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

December 4, 1992

A handwritten signature in dark ink, appearing to read "Deloitte & Touche", written in a cursive, stylized script.

Certified Public Accountants



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

Honorable Thurston Siba
Governor, State of Kosrae
Federated States of Micronesia

We have audited the general purpose financial statements of the State of Kosrae, for the year ended September 30, 1992, and have issued our report thereon dated December 4, 1992. We also have audited Kosrae State Government's compliance with requirements applicable to major federal financial assistance programs and have, issued our report thereon dated December 4, 1992. Our report on the audit of the general purpose financial statements was modified as a result of our inability to form an opinion as to the fairness of presentation of the general fixed assets account group.

We conducted our audit 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 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 Kosrae State 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, 1992, we considered Kosrae State Government's internal control structure and assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinions on Kosrae State 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 December 4, 1992.

The management of the State of Kosrae 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 operations of policies and procedures may deteriorate.

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

General Requirements

- Cash management
- Federal financial reports
- Allowable costs/cost principles
- Drug-free workplace
- Administrative requirements

Specific Requirements

- Types of services
- Eligibility
- Reporting
- Compact of Free Association

Accounting Controls

- Revenues and receipt cycles
- Purchases and disbursements cycles
- Payroll cycles
- External financial reporting
- Cash and equivalents
- Receivables
- Payables and accrued liabilities
- Fund balance

Claims for Advances and Reimbursements

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, 1992, Kosrae State expended 92.5% of its total federal financial assistance under major federal financial assistance programs.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to each of the Kosrae State Government's major federal financial assistance programs, which are identified in the accompanying schedule of federal financial assistance. 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 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 judgement, could adversely affect Kosrae State Government's ability to administer federal financial assistance programs in accordance with applicable laws and regulations. A description of these matters is presented in the accompanying administrative control weakness summary (pages 82 to 84).

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 are material weaknesses.

We also noted other matters involving the internal control structure and its operation that we have reported to the management of Kosrae State Government in a report dated December 4, 1992.

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

December 4, 1992

A handwritten signature in dark ink, appearing to read "Deloitte + Wade". The signature is stylized with a large, sweeping "D" and a long, horizontal stroke extending to the right.

Certified Public Accountants



INDEPENDENT AUDITORS' REPORT ON
SUPPLEMENTARY SCHEDULE OF
FEDERAL FINANCIAL ASSISTANCE

Honorable Thurston Siba
Governor, State of Kosrae
Federated States of Micronesia

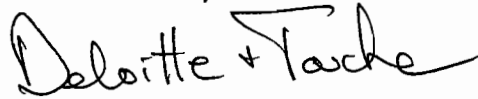
We have audited the general purpose financial statements of the State of Kosrae as of and for the year ended September 30, 1992, and have issued our report thereon dated December 4, 1992. These general purpose financial statements are the responsibility of Kosrae State's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. Our report on the audit of the general purpose financial statements was modified as a result of our inability to form an opinion as to the fairness of presentation of the general fixed assets account group.

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 in accordance with these standards includes, examining on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements of the State of Kosrae taken as a whole. The accompanying Schedule of Federal Financial Assistance for the year ended September 30, 1992, which is also the responsibility of the management of Kosrae State 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 the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

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

December 4, 1992

A handwritten signature in cursive script that reads "Deloitte + Tache". The signature is written in dark ink and is positioned above the printed name of the firm.

Certified Public Accountants

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
INTRODUCTION TO COMPACT OF FREE ASSOCIATION FUNDING,
FEDERAL AND OTHER ASSISTANCE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 1992

Compact Funds

The Federated States of Micronesia (FSM) National Government and the Government of the United States implemented the Compact of Free Association during fiscal year 1987. The Compact funding replaced the Department of the Interior funding for general operations received through the Trust Territory of the Pacific Islands (TTPI) Government in previous fiscal years. Based on the terms of the Compact agreement, the FSM National Government receives funding in five year increments over a fifteen year period. The Compact funding is received in four different account classifications; current operations, capital projects, block grants, and inflation adjustments. A mutually agreed upon financial institution was selected as the trustee of the Compact funding to facilitate the FSM National Governments' and its four State entities' drawdown requirements.

During fiscal year 1992, the State of Kosrae Government submitted quarterly allocation requests to the FSM National Government for the current account. The current operation funds were transferred to State of Kosrae's designated banking institution based on the quarterly allocation requests. The capital project funds, which must comprise at least 40 percent of the total annual allocation, remain with the trustee institution and are drawdown upon request by State of Kosrae. Capital account funds are transferred in their annual base amounts on the first day of the fiscal year. Block grant funds are transferred with the initial quarterly current account allocation request and these funds were then appropriated by the Kosrae State Legislature in accordance with the guidelines of the Compact. The United States Government annually adjusts Compact funding for inflation.

Pursuant to section 233 of the Compact of Free Association and paragraph 1(d), Article IV of the Agreement Concerning Procedures for the Implementation of U.S. Economic Assistance, Programs, and Services provided in the Compact of Free Association between the Government of the U.S. and the Government of the FSM, audits of Compact funding shall be performed in compliance with Government Auditing Standards, issued by the Comptroller General of the United States, and the Single Audit Act of 1984. The above states that audits shall be performed in accordance with Circular A-128, but compliance testing of Compact funding shall not include specific federal guidelines applicable to federal program assistance grants, but rather shall be in conformance with local laws and regulations and the program intent as provided in the Compact of Free Association.

Federal Funds

The State of Kosrae Government applies to the FSM National Government for grant funds, or receives an allocation of funds awarded to the FSM National Government. The award of the subrecipient grant typically comes in the form of an allotment advice, rather than a formal notice. The allotment advice specifies any imposed expenditure limitations. However, the limitations are normally represented solely by object code authorization totals and not by detailed budgets.

Revenues are recorded and recognized on the basis of expenditures. Drawdowns, typically occurring after expenditures are recorded, are made upon request by the State of Kosrae Government to the FSM National Government.

Although program guidelines may not be specifically referenced in the allotment advice, subgrantees of federal programs other than Compact funding must adhere to the same cost principles as the grantee, as stated in the Office of Budget and Management Circular A-87. Additionally, beneficiaries and program objectives may not typically depart from the federal purpose, as may be determined by an Act of Congress, and in accordance with such program regulations which may be promulgated in the Code of Federal Regulations.

Introduction To Special Revenue and Capital Projects Funds

Receipt and use of monetary assistance from sources outside the general fund are accounted for in the following funds:

Federal Grants Assistance Fund
Compact Major Block Grant Funds:

- 221 (b) Special Block Grant
- Health and Medical
- Post Secondary Education
- Energy Block Grant
- Special Development Assistance
- Compact Capital Project Fund

TTPI Capital Project Fund

Foreign Assistance Fund

Department of the Interior

As mentioned above, the Compact Major Block Grant, Compact Program and Compact Capital Project Funds are administered under the guidelines of the Compact of Free Association. With the exception of a few of the grants in the Foreign Assistance Fund and the CFSM Special Revenue Fund, the revenue of the Special Revenue and Capital Projects Funds is derived through allotments from the TTPI or the FSM National Government for specific purposes. All TTPI allotments are originally derived from U.S. Congressional appropriations. As the subrecipient, the State of Kosrae reports to the FSM National Government. The CFSM Special Revenue Fund is funded by appropriations from the Congress of the Federated States of Micronesia, while the foreign assistance grants are received from various foreign governments and international organizations. The State of Kosrae, through the Federated States of Micronesia, reports to the applicable grantor concerning direct assistance grants.

STATE OF KOSRAE
 FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
U.S. FEDERAL AND OTHER ASSISTANCE FUND
STATEMENT OF EXPENDITURES AND QUESTIONED COSTS BY GRANTOR
YEAR ENDED SEPTEMBER 30, 1992

<u>Grantor</u>	<u>CFDA No.</u>	<u>Org. No.</u>	<u>Grant Title</u>	1992 Fiscal Year Expenditures <u>Per Audit</u>	<u>Questioned Costs</u>	
				<u>Amount</u>	<u>Detailed At Page</u>	
<u>U.S. Federal Grants</u>						
Dept. of Agriculture	10.560	3326	Forestry '91	\$ 2,503	\$ -	
		7701	Forestry Project '87	2,906	-	
		7703	Forestry Project '89	<u>4,334</u>	<u>-</u>	
				<u>9,743</u>	<u>-</u>	
Dept. of Education	84.151	3115	Chapter I & II GAP	1,167	-	
	84.998	3148	Chapter II '88	<u>28,366</u>	<u>-</u>	
				<u>29,533</u>	<u>-</u>	
Dept. of the Interior		7635	JJDP Program Formula	248	-	
		7636	JJDP Program Insular	<u>1,490</u>	<u>-</u>	
				<u>1,738</u>	<u>-</u>	
Dept. of Labor		3263	JTPA Youth	27,302	-	
		3262	JTPA Adult Program	18,971	-	
		3261	JTPA Admin. '91	18,254	-	
		3286	Elderly Program	639	-	
		3291	Elderly Program	22,476	-	
		3292	Elderly Admin.	4,773	-	
		3280	JTPA Participant	<u>12,543</u>	<u>-</u>	
				<u>104,958</u>	<u>-</u>	
Dept. of Justice		3381	Outward Bound FY88	<u>1,543</u>	<u>-</u>	
				<u>1,543</u>	<u>-</u>	
			Balance forward	<u>147,515</u>	<u>-</u>	

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
U.S. FEDERAL AND OTHER ASSISTANCE FUND
STATEMENT OF EXPENDITURES AND QUESTIONED COSTS BY GRANTOR, CONTINUED
YEAR ENDED SEPTEMBER 30, 1992

<u>Grantor</u>	<u>CFDA No.</u>	<u>Org. No.</u>	<u>Grant Title</u>	1992	<u>Questioned Costs</u>	
				<u>Fiscal Year Expenditures Per Audit</u>	<u>Amount</u>	<u>Detailed At Page</u>
<u>U.S. Federal Grants</u>						
			Balance forward	\$ 147,515	\$ -	
Dept. of Housing and						
Urban Development	14.219	3352	Housing Renovation '87	290	-	
	14.219	3365	Housing Renovation '88	<u>414</u>	<u>-</u>	
				<u>704</u>	<u>-</u>	
Environmental						
Protection Agency	66.418	3585	Waste Water Construction	<u>280,832</u>	<u>-</u>	
				<u>280,832</u>	<u>-</u>	
Dept. of Health and						
Human Services	13.633	7642	MCH/CSHCN '91	498	-	
		7673	Family Planning '92	12,314	-	
		7692	Immunization Program	141	-	
		7660	AIDS Prevention	872	-	
		7792	AIDS Prevention '92	7,354	-	
		7601	M-C- Health '90	157	-	
		7605	PH & PH '90	364	-	
		7608	PH & PH/Admin.	11,791	-	
		7663	MCH '91	15,187	-	
		7664	MCH/Dental '91	3,693	-	
		7678	PH & PH '91	6,637	-	
		7679	PH & PH Admin. '91	<u>19,283</u>	<u>-</u>	
				<u>78,291</u>	<u>-</u>	
			Total federal and other			
			assistance expenditures	<u>507,342</u>	-	
			Balance forward	<u>507,342</u>	<u>-</u>	

STATE OF KOSRAE
 FEDERATED STATES OF MICRONESIA
 SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
 OTHER DIRECT ASSISTANCE FUND
 STATEMENT OF EXPENDITURES AND QUESTIONED COSTS
 AND BUDGETARY POSITION BY GRANTOR
 YEAR ENDED SEPTEMBER 30, 1992

<u>Grantor</u>	<u>CFDA No.</u>	<u>Org. No.</u>	<u>Grant Title</u>	1992	<u>Questioned Costs</u>	
				Fiscal Year Expenditures <u>Per Audit</u>	Detailed <u>Amount</u>	<u>At Page</u>
			Balance forward	\$ 507,342	\$ -	
U.S. Department						
of the Interior	15.904	7862	Historic Preservation '91	31,453	-	
		6348	Airport Taxiway Apron Paving	<u>6,289</u>	<u>-</u>	
				<u>37,742</u>	<u>-</u>	
			Total	<u>\$ 545,084</u>	<u>\$ -</u>	

Note: The above grants are received in a sub-grantee capacity through the FSM National Government.

STATE OF KOSRAE
 FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
FOREIGN ASSISTANCE FUND
STATEMENT OF EXPENDITURES AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 1992

<u>Org. No.</u>	<u>Grant Title</u>	1992 Fiscal Year Expenditures <u>Per Audit</u>	<u>Questioned Costs</u>	
			<u>Amount</u>	<u>Detailed At Page</u>
3929	Digital Scales	\$ 7,500	\$ -	
3930	X-Ray Equipment	28,430	-	
3956	Population Education	4,125	-	
3959	Family Food Nutrition	396	-	
7806	Child Abuse & Negligence	150	-	
7822	Youth Evaluation	<u>335</u>	<u>-</u>	
	Total Other Direct Assistance	<u>\$ 40,936</u>	<u>\$ -</u>	

Note: The above grants are received directly from foreign governments and private organizations.

STATE OF KOSRAE
 FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
TTPI CAPITAL PROJECTS FUND (CFDA# 15.875)
STATEMENT OF EXPENDITURES AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 1992

<u>TTPI</u> <u>Account</u> <u>Number</u>	<u>Kosrae</u> <u>Org.</u> <u>Number</u>	<u>Grant Title</u>	1992	<u>Questioned Costs</u>	
			<u>Fiscal Year</u> <u>Expenditures</u> <u>Per Audit</u>	<u>Amount</u>	<u>Detailed</u> <u>At Page</u>
	6346	Water System Development			
		Project	\$ 48,506	\$ -	
	6342	Airport Terminal	113,083	-	
			<u>\$ 161,589</u>	<u>\$ -</u>	

Note: The above grants are received in a sub-grantee capacity through the Trust Territory of the Pacific Islands (TTPI) Government.

STATE OF KOSRAE
 FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
CFSM CAPITAL PROJECTS FUND
STATEMENT OF EXPENDITURES AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 1992

Kosrae Org. No.	Grant Title	1992 Fiscal Year Expenditures Per Audit	<u>Questioned Costs</u>	
			<u>Amount</u>	<u>Detailed At Page</u>
4543	Cultural Education	\$ 11,940	-	
4544	Kosrae High School Maintenance	35,393	-	
4612	Kosrae State Court	45,322	-	
4632	Joint Law Enforcement	33,035	-	
4642	Farmer's Cooperative	899	-	
9513	Aging Program Kosrae	4,253	-	
9516	Teacher Training	22,795	-	
9574	Airport Dock Water System	39,648	-	
9547	Aluminum Recycling	20,000	-	
9566	Aging, Senior Citizens	4,461	-	
		<u>\$ 217,746</u>	<u>\$ -</u>	

Note: The above grants are received as a result of appropriations made by the Congress of the Federated States of Micronesia.

STATE OF KOSRAE
 FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
OPERATIONS AND MAINTENANCE GRANTS FUND (CFDA# 15.875)
STATEMENT OF EXPENDITURES AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 1992

Kosrae Org. No.	Grant Title	1992	<u>Questioned Costs</u>	
		Fiscal Year Expenditures <u>Per Audit</u>	<u>Amount</u>	Detailed <u>At Page</u>
3482	Computer Training	\$ 1,190	\$ -	
3479	Budget Advisor	13,644	-	
7667	FY90 Historic Preservation	13,937	-	
7852	State Second Development Plan	5,000	-	
7872	School Maintenance	<u>664</u>	<u>-</u>	
		<u>\$ 34,435</u>	<u>\$ -</u>	

Note: These grants are received in a sub-grantee capacity through the Federated States of Micronesia National Government.

-72-

STATE OF KOSRAE
 FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
COMPACT OF FREE ASSOCIATION CAPITAL PROJECT FUND
SECTION 211(a) (CFDA NO. 15.875)
STATEMENT OF EXPENDITURES AND QUESTIONED COSTS, CONTINUED
YEAR ENDED SEPTEMBER 30, 1992

<u>Grantor/ Account Title</u>	<u>Kosrae Org. No.</u>	1992 <u>Fiscal Year Expenditures Per Audit</u>	<u>Questioned Costs</u> <u>Amount</u>	<u>Detailed At Page</u>
Balance forward		\$6,305,074	\$ -	
Fish Processing	6789	159	-	
Fisheries Development	6788	10,142	-	
Tofol Gymnasium Kosrae	6792	23,199	-	
UTWE Water Upgrade	6796	157,023	-	
Administration Costs	6799	12,442	-	
Citrus/Vegetable/Fruit	6800	10,776	-	
Power Plant Expansion	6803	73,812	-	
Fisheries Development	6807	485,182	-	
Project Administration	6810	19,903	-	
Housing Renovation Loan Fund	6811	21,837	-	
Investment in PTI	6899	48,769	-	
Finance Microfilm	6804	2,519	-	
Hospital Admin. Building	6809	250	-	
Elementary Classroom	6813	43,394	-	
Agriculture Equipment	6814	40	-	
Lelu Electric Upgrade	6185	70	-	
		<u>7,214,591</u>	<u>-</u>	
Total Compact of Free Association Capital Projects Fund - Section 211 Expenditures per General Purpose Financial Statements (Note 2)		<u>\$7,214,591</u>	<u>\$ -</u>	
Compact Capital Expenditures		\$7,214,591		
MTN Payments (Org. 6061)		(1,243,157)		
Investment in Pacific Tuna Industries (Org. 6899)		<u>(48,769)</u>		
		<u>\$5,922,665</u>		

Note (1): These funds are made available by Title Two, Article I, Section 211 of the Compact of Free Association.

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

STATE OF KOSRAE
 FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
COMPACT OF FREE ASSOCIATION HEALTH AND MEDICAL
REFERRAL PROGRAM SECTION 216 (a)(2) (CFDA NO. 15.875)
STATEMENT OF EXPENDITURES AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 1992

<u>Grantor/ Account Title</u>	<u>Kosrae Org. No.</u>	1992 <u>Fiscal Year Expenditures Per Audit</u>	<u>Questioned Costs</u> <u>Amount</u>	<u>Detailed</u> <u>At Page</u>
Medical Referrals	2499	\$ 79,881	\$ -	
Total Compact of Free Association Health and Medical Referral Program - section 216(a)(2)		<u>\$ 79,881</u>	<u>\$ -</u>	

Note: These funds are made available by Title Two, Article I, Section 216 (a)(2) of the Compact of Free Association.

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

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
COMPACT OF FREE ASSOCIATION SPECIAL DEVELOPMENT PROGRAM
SECTION 212 (a) (CFDA NO. 15.875)
STATEMENT OF EXPENDITURES AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 1992

<u>Grantor/ Account Title</u>	<u>Kosrae Org. No.</u>	<u>1992 Fiscal Year Expenditures Per Audit</u>	<u>Questioned Costs</u>	
			<u>Amount</u>	<u>Detailed At Page</u>
O&M '92	2825	\$ 72,094	\$ -	
Governor '93	2826	5,523	-	
Civic Action Team	2903	<u>250,000</u>	<u>-</u>	
Total Compact of Free Association Special Development - section 212(a)		<u>\$ 327,617</u>	<u>\$ -</u>	

Note: These funds are made available by Title Two, Article I, Section 212 (a) of the Compact of Free Association.

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

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
COMPACT OF FREE ASSOCIATION SCHOLARSHIP PROGRAM
SECTION 216 (a)(3) (CFDA NO. 15.875)
STATEMENT OF EXPENDITURES AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 1992

<u>Grantor/ Account Title</u>	<u>Kosrae Org. No.</u>	1992	<u>Questioned Costs</u>	
		<u>Fiscal Year Expenditures Per Audit</u>	<u>Amount</u>	<u>Detailed At Page</u>
Scholarship '91	2653 (A)	\$ 120,129	-	
Total Compact of Free Association Scholarship Program - section 216(a)(3)		<u>\$ 120,129</u>	<u>\$ -</u>	

(A) This amount is less of amounts classified as loan receivable in the Compact Scholarship Special Revenue fund financial statements.

Compact Scholarship expenditures	\$206,593
Amount classified as loans	<u>(86,464)</u>
	<u>\$120,129</u>

Note: These funds are made available by Title Two, Article I, Section 216(a)(3) of the Compact of Free Association.

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

STATE OF KOSRAE
 FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
COMPACT OF FREE ASSOCIATION BLOCK GRANT
FUND - SECTION 221(b) (CFDA NO. 15.875)
STATEMENT OF EXPENDITURES AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 1992

<u>Grantor/ Account Title</u>	<u>Kosrae Org. No.</u>	<u>1992 Fiscal Year Expenditures Per Audit</u>		<u>Questioned Costs</u>	
				<u>Amount</u>	<u>Detailed At Page</u>
Vocational Education FY91	2122	\$ 10,465		\$ -	
Elementary Education	2125	821		-	
Health SBG Program	2075	115,679		-	
Education SBG	2128	<u>778,545</u>		<u>-</u>	
Total Compact of Free Association Block Grant Fund - Section 221(b)			<u>\$ 905,510</u>	<u>\$ -</u>	

Note: These funds are made available by Title Two, Article II, Section 221 (b) of the Compact of Free Association.

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

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
COMPACT OF FREE ASSOCIATION ENERGY GRANT
FUND - SECTION 214(C) (CFDA NO. 15.875)
STATEMENT OF EXPENDITURES AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 1992

<u>Grantor/ Account Title</u>	<u>Kosrae Org. No.</u>	<u>1992 Fiscal Year Expenditures</u>		<u>Questioned Costs</u>	
		<u>Per Audit</u>		<u>Amount</u>	<u>Detailed At Page</u>
Malem Hydroelectric	2802	\$ 11,585		\$ -	
Power Generation	2803	492,262		-	
Public Work SPCL. DEVL.	2820	<u>456</u>		<u>-</u>	
Total Compact of Free Association Energy Program - section 214(C)		<u>\$ 504,303</u>		<u>\$ -</u>	

Note: These funds are made available by Title Two, Article II, Section 214(b) of the Compact of Free Association.

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

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
COMPACT OF FREE ASSOCIATION CURRENT ACCOUNT FUND
SECTION 211(a)
(CFDA NO. 15.875)
STATEMENT OF EXPENDITURES AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 1992

<u>Grantor/ Account Title</u>	<u>Kosrae Org. No.</u>	1992	<u>Questioned Costs</u>	
		<u>Fiscal Year Expenditures Per Audit</u>	<u>Amount</u>	<u>Detailed At Page</u>
General Fund Current account	Various	<u>\$ 5,013,469</u>	<u>\$ -</u>	
Total Compact of Free Association expenditures		<u>\$ 14,251,964</u>	<u>\$ -</u>	

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

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

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF PROGRAMS SELECTED FOR
AUDIT IN ACCORDANCE WITH OMB CIRCULAR A-128
YEAR ENDED SEPTEMBER 30, 1992

<u>Grantor</u>	<u>CFDA</u>	<u>Description</u>	Amount of 1992 Expenditures <u>Per Audit</u>
Major Programs:			
<u>U.S. Department of the Interior</u>	15.875		
Compact of Free Association:			
211(a) Capital Account			\$ 7,214,591
221(b) Block Grant			905,510
Health and Medical			79,881
Energy Programs			504,303
Post Secondary Education			206,592
Special Development Grant			<u>327,617</u>
Total CFDA # 15.875 excluding compact Section 211 (a) Current Account Expenditures			<u>\$ 9,238,494</u>
Total Major Programs			<u>\$ 9,238,494</u>
Nonmajor Programs:			
<u>TTPI Capital Project Fund</u>			<u>\$ 161,589</u>
<u>U.S. Federal Assistance</u>			<u>\$ 545,084</u>
<u>Special operations and maintenance funds</u>			<u>\$ 34,435</u>
Total U. S. Federal Program expenditures excluding Compact 211(a) Current Account expenditures			<u>\$ 9,979,602</u>
% of Total U. S. Federal program expenditures covered by Major Programs excluding Compact Section 211(a) Major Block Grant expenditures.			<u>92.5%</u>

Administrative Controls Review

Kosrae State receives federal assistance program funding in a subrecipient capacity through the FSM National Government and in a direct capacity from various grantor agencies. For the administration of federal funds, the State of Kosrae uses a centralized system for all billings and financial reporting, which is performed by the Department of Finance, and a decentralized system for compliance and program performance which is performed by each of the Departments which receive and administer federal funds. The following findings are the result of an administrative controls review which has been performed on the federal grants system of the State of Kosrae and does not necessarily relate to the responsibility of any one individual department.

KOSRAE STATE GOVERNMENT
ADMINISTRATIVE CONTROL WEAKNESS SUMMARY
YEAR ENDED SEPTEMBER 30, 1992

Prior Year Administrative Control Findings

Finding No. 1

Criteria: Administrative control findings from prior audit reports should be resolved appropriately.

Condition: It appears the following administrative control findings from the Single Audit Report for the fiscal year ending September 30, 1992, remain unresolved:

FISCAL YEAR 1988

<u>Page No.</u>	<u>Finding No.</u>	<u>Description</u>
26	5	Federal property standards

FISCAL YEAR 1990

81	5	Wastewater Facility - Use charge system
82	6	Common stock purchase - Bank of the FSM

FISCAL YEAR 1991

80	2	General requirement - Drug Free Workplace
81	4	Cost allocation - Construction

Cause: Unknown.

Effect: The effect is to have the same impact on the financial statements as indicated in fiscal years 1988, 1989 and 1990. Non resolution also hinders effective maintenance of the State's controls over federal financial assistance.

Recommendation: It is recommended that effort be made to effectively address and resolve prior year administrative control findings.

KOSRAE STATE GOVERNMENT
ADMINISTRATIVE CONTROL WEAKNESS SUMMARY, CONTINUED
YEAR ENDED SEPTEMBER 30, 1992

Prior Year Administrative Control Findings, continued

Auditee Response and Corrective Action Plan: The State, in conjunction with the National Government, is implementing the Drug Free Workplace Act and compliance with this Act is expected in fiscal year 1993.

The Attorney General is reviewing the stock purchase and this matter of compliance with local laws should be resolved by the fiscal year 1993 audit.

The State and the FSM National Government are working to remedy its fixed asset accounting. Resolution is not expected until fiscal year 1994.

Cost allocation was a one time concern that has not been reencountered.

The State is following up on the establishment of a use charge system.

Expenditures

Finding No. 2

Criteria: Expenditure activity should be allowable/chargeable to grant.

Condition: We found entertainment expenses recorded in the CIP Fund - FSM Congress appropriations (Org. 4612).

Cause: Unknown.

Effect: Noncompliance with budgetary authority per the FSM National Government Control Document results.

Recommendation: We recommend that the State consult with the FSM National Government to determine the propriety of the aforementioned charges.

Auditee Response: The State is fully aware of the above situation and is seeking clarification from the FSM National Government.

KOSRAE STATE GOVERNMENT
ADMINISTRATIVE CONTROL WEAKNESS SUMMARY, CONTINUED
YEAR ENDED SEPTEMBER 30, 1992

Expenditures, Continued

Corrective Action: The State must await action by FSM National Government to effect corrective action.

Compact CIP Administrative Cost

Finding No. 3

Criteria: The Compact of Free Association, Compact Capital Funds allows a 1.5% administrative cost to be charged.

Condition: The allotment of Capital fund projects from the National Government specifies an amount for the 1.5%. However, guidelines for the use of these funds have not been established. It is unknown if the State Legislature anticipated that the appropriation could be used in this manner.

Cause: Unknown.

Effect: State funds may be expended in contravention of law.

Recommendation: We recommend that the State examine this matter and determine the appropriate use of the 1.5% allowance.

Auditee Response: The State is of the opinion that the National Government has established the procedures for the use of these costs and therefore, no action need be taken as the State is complying with the National Government requirements.

Corrective Action: The Director of Finance will correspond with the Attorney General to ensure that the State's procedures are in compliance with local law and an attorney's opinion will be solicited.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
RESOLUTIONS OF PRIOR YEARS' QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 1992

As of the report date for the audit of the general purpose financial statements of the State of Kosrae, December 4, 1992, for the year ended September 30, 1992, the following prior year questioned costs have been resolved:

FY87 resolved questioned costs	\$ <u>33,102</u>
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Consequently, the following is a summary of unresolved questioned costs of the State of Kosrae as of September 30, 1992:

FY85 unresolved questioned costs	\$ 12,838
FY87 unresolved questioned costs	573
FY88 unresolved questioned costs	<u>215,383</u>
	\$ <u>228,794</u>

Note: Pursuant to Title I, Section 105 of United States Public Law 99-239 (Compact of Free Association) 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 resolved with the U.S. Government.

**KOSRAE STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA
INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL STRUCTURE
YEAR ENDED SEPTEMBER 30, 1992**

INDEPENDENT AUDITORS' REPORT ON
THE INTERNAL CONTROL STRUCTURE BASED ON
THE AUDIT OF THE FINANCIAL STATEMENTS

Honorable Thurston Siba
Governor, State of Kosrae
Federated States of Micronesia

We have audited the general purpose financial statements of the State of Kosrae as of and for the year ended September 30, 1992, and have issued our report thereon dated December 4, 1992. Our report on the general purpose financial statements was modified due to our inability to form an opinion as to the fairness of presentation of the general fixed assets account group.

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 misstatements.

In planning and performing our audit of the general purpose financial statements of the State of Kosrae for the year ended September 30, 1992, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control structure.

The management of the State of Kosrae, is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements 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 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.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories.

- Revenues and receipt cycles
- Purchases and disbursement cycles
- Payroll cycles
- External financial reporting

For all of the internal control structure categories listed above, 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.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The following items, which are further explained in the following pages, represent reportable conditions:

FISCAL YEAR 1988

1. Finding 4 - Journal Voucher Authorization

FISCAL YEAR 1989

2. Finding 3 - Travel Advance Accounting

FISCAL YEAR 1990

3. Finding 2 - General Fixed Assets Recording

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 judgement, could adversely affect the State of Kosrae'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.

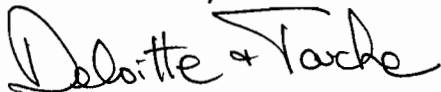
Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe all of the reportable conditions described above are material weaknesses.

We also noted other matters involving the internal control structure and its operation that we have reported to the management of the State of Kosrae, in the following pages (90 - 95).

We also noted other matters involving the internal control structure and its operation used to administer federal financial assistance programs which we have reported to the management of Kosrae State Government in a report dated December 4, 1992.

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

December 4, 1992

A handwritten signature in dark ink, appearing to read "Deloitte & Touche", written in a cursive, stylized script.

Certified Public Accountants

Prior Year Internal Control Findings

Finding No. 1

Criteria: Findings from the Report on Internal Control for the year ending September 30, 1991, and other prior years, should be adequately resolved by Kosrae State Management.

Condition: The following findings from the Report on Internal Controls for the year ending September 30, 1990, and other prior year reports, were found not to be resolved during the audit of the period ending September 31, 1992:

<u>Page No.</u>	<u>Finding No.</u>	<u>Description</u>
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From September 30, 1988 report:

8	4	Journal voucher authorization
15	11	Insurance coverage
18	14	Internal reporting requirements

From September 30, 1989 report:

4	3	Travel advance accounting
6	5	Blank check security

From September 30, 1990 report:

89	2	Fixed assets subledger
90	3	Fixed assets annual survey
91	4	Life insurance
91	5	Withholding tax
92	6	Payroll files

From September 30, 1991 report:

91	5	Resolution of disputed liabilities
91	6	Reconciliation of encumbrances

Cause: Unknown.

Effect: The non-resolution of these prior year findings will continue to hinder the effective maintenance of the State's accounting records.

Recommendation: Kosrae State management should take action to resolve these prior year audit findings.

Auditee Response and Corrective Action Plan: The State realize it has inherent personnel problems common to all Micronesian governments. Through technical assistance programs, we are seeking to enhance our professional capabilities. We feel once this is accomplished, the matters noted above will improve.

Cash

Finding No. 2

Criteria: All stale dated checks should be returned to cash till such time the payable is realized.

Condition: Kosrae State has not reconciled its stale dated checks as of September 30, 1992.

Cause: Unknown.

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

Recommendation: We recommend that the State review its outstanding checks on a periodic basis to ensure all stale items are returned to cash.

Auditee Response: The State will implement a procedures to correct this issue by the next quarter. Such will be implemented in March 1993.

Corrective Action: The Chief of Accounting and Treasury are responsible for the implementation of this recommendation by March 1993.

Books

Finding No. 3

Criteria: All Government funds should be properly accounted for and reliable accounting records should be maintained to substantiate proper use of the funds.

Condition: Our review of the Student Loan Revolving Fund revealed that no accounting records documenting the use of funds were maintained.

Books, continued

Cause: Unknown.

Effect: A possible misuse of State funds could occur.

Recommendation: We recommend that the State ensure that proper accounting records are maintained by the responsible personnel of the Student Loan Revolving Fund.

Auditee Response: We have now spent additional time on the books and will review and determine the corrective action necessary which may involve accounting for the Fund to be performed by the Finance Office.

Corrective Action: The Director of Finance has assumed responsibility for attempting to bring the responsibility for these funds back into Finance office. This situation is expected to be resolved by September 1993.

Loans Receivable

Finding No. 4

Criteria: All delinquent loans should be referred to the State Attorney General's Office for necessary collection procedures.

Condition: Our review of the delinquent loan listing revealed long outstanding loan balances for which it appears the State has not attempted legal proceedings.

Cause: Unknown.

Effect: There is no effect on the financial statements as the loans have been fully reserved.

Recommendation: We recommend that Kosrae State refer all delinquent loans to the Attorney General's Office for collection.

Auditee Response: The recommendation has been previously implemented. However, it has not been fully implemented and we will recommend that complete corrective action occur.

Loans Receivable, continued

Corrective Action: The Director of Finance has assumed responsibility for attempting to bring the responsibility for these funds back into Finance office. This situation is expected to be resolved by September 1993.

Accrued Interest

Finding No. 5

Criteria: Accrued interest should not be accrued for loans delinquent in excess of ninety days.

Condition: Various loan funds have accrued interest on loans delinquent in excess ninety days.

Cause: Unknown.

Effect: The effect is a possible misstatement of interest receivable and noncompliance with generally accepted accounting principles.

Recommendation: We recommend that Kosrae State evaluate loans and accrued interest to ensure that accrued interest is not recognized on items delinquent in excess of ninety days.

Auditee Response: We will review the above and instruct the necessary accountants to cease interest accrual on delinquent loans for external financial reporting purposes.

Corrective Action: The Director of Finance has assumed responsibility for attempting to bring the responsibility for these funds back into Finance office. This situation is expected to be resolved by September 1993.

Computer Off-Site Storage

Finding No. 6

Criteria: The State should ensure that an off-site storage area is utilized to house required computer backup disks.

Condition: The State utilizes a fire proof cabinet for its data processing center but does not utilize an off-site storage area.

Computer Off-Site Storage, continued

Cause: The State has not located a suitable site.

Effect: If a catastrophe impacts the computer area, the system may not be able to function.

Recommendation: An off-site storage area should be obtained.

Auditee Response: Kosrae State is aware of the need for off-site storage and is evaluating various alternatives.

Corrective Action: The Director of Finance is responsible for evaluation of alternate off sites and will implement off site storage by September 1993 or before.

Receivables

Finding No. 7

Criteria: General ledger balances should be reconciled to subsidiary ledger balances on a regular basis and all variances should be corrected.

Condition: The State has failed to reconcile the manual receivable log to the related general ledger control account.

Cause: Unknown.

Effect: A possible misstatement of receivables could occur.

Recommendation: We recommend that the State reconcile the general ledger to the manual log and correct all variances.

Auditee Response: The State concurs and will review the detail to ensure that reconciliation occurs.

Corrective Action: The Chief of Accounting is responsible for ensuring that the necessary reconciliation occurs and such should be implemented by September 1993.