

**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, 1993

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
FOR THE YEAR ENDED SEPTEMBER 30, 1993**

INDEX

	<u>Page No.</u>
INDEPENDENT AUDITORS' REPORT ON GENERAL PURPOSE FINANCIAL STATEMENTS	1 - 44
SINGLE AUDIT REPORTS	45 - 81
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL STRUCTURE	82 - 102

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
YEAR ENDED SEPTEMBER 30, 1993
TABLE OF CONTENTS

	<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	5
Combined Statement of Revenues, Expenditures and Changes in Fund Balance - Budgetary Basis, General Fund	6
Statement of Revenues, Expenses and Changes in Fund Equity - Proprietary Fund Types	7
Statement of Cash Flows - Proprietary Fund Type	8
Notes to Combined Financial Statements	9
III. Additional Information	
Independent Auditors' Report on Additional Information	24
Combining Statement of Expenditures by Account - All Governmental Fund Types and Expendable Trust Funds	25
General Fund:	
Introduction to General Fund	26
Combining Balance Sheet	27
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	28
Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balances	29
Combining Statement of Revenues, Expenditures and Changes in Fund Balances, Budgetary Basis	30
Combined Statement of Revenues, Expenditures by Function and Department and Changes in Fund Balances (Deficit)	31

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
YEAR ENDED SEPTEMBER 30, 1993
TABLE OF CONTENTS
(CONTINUED)

	<u>Page No.</u>
Special Revenue Funds:	
Introduction to Special Revenue Funds	34
Combining Balance Sheet	35
Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)	36
Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balances (Deficit)	37
Capital Projects Funds:	
Introduction to Capital Projects Funds	38
Combining Balance Sheet	39
Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)	40
Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balances (Deficit)	41
Expendable Trust Funds:	
Introduction to Expendable Trust Funds	42
Combining Balance Sheet	43
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	44
 IV. SINGLE AUDIT REPORTS	
Independent Auditors' Report on Compliance Based on the Audit of the General Purpose Financial Statements	46
Independent Auditors' Report on Compliance with Specific Requirements Applicable to Major Federal Financial Assistance Programs	48
Independent Auditors' Report on Compliance with the General Requirements Applicable to Federal Financial Assistance	50
Independent Auditors' Report on Compliance with Requirements Applicable to Nonmajor Federal Financial Assistance Program Transactions	52
Independent Auditors' Report on the Internal Control Structure Used in Administering Federal Financial Assistance	54

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
YEAR ENDED SEPTEMBER 30, 1993
TABLE OF CONTENTS
(CONTINUED)

	<u>Page No.</u>
Independent Auditors' Report on the Supplementary Schedule of Federal Financial Assistance	58
Introduction to Compact of Free Association Funding, Federal and Other Assistance Funds	60
Schedule of Federal Financial Assistance:	
. U.S. Federal and Other Assistance Fund	63
. Foreign Assistance Fund	64
. TTPI Capital Projects Fund	65
. CFSM Capital Projects Fund	66
. Operations and Maintenance Grants Fund	67
. Compact of Free Association Capital Projects Fund - Section 211(a) (CFDA No. 15.875)	68
. Compact of Free Association Health & Medical Referral Program - Section 216(a)(2) (CFDA No. 15.875)	70
. Compact of Free Association Special Development Program - Section 212(B) (CFDA No. 15.875)	71
. Compact of Free Association Scholarship Program - Section 216(a)(3) (CFDA No. 15.875)	72
. Compact of Free Association Block Grant Fund - Section 221(b) (CFDA No. 15.875)	73
. Compact of Free Association Energy Grant Fund - Section 214(c) (CFDA No. 15.875)	74
. Compact of Free Association Current Account Fund - Section 211(a) (CFDA No. 15.875)	75
Notes to Schedule of Federal Financial Assistance	76
Schedule of Programs Selected for Audit in Accordance with OMB Circular A-128	78
Schedule of Findings and Questioned Costs	79
Unresolved Prior Years' Questioned Costs	81
 VI. INTERNAL CONTROL STRUCTURE	
Independent Auditors' Report on the Internal Control Structure Based on the Audit of the Financial Statements	83
Schedule of Identified Internal Control Weaknesses	86

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

**INDEPENDENT AUDITORS' REPORT ON
GENERAL PURPOSE FINANCIAL STATEMENTS**

YEAR ENDED SEPTEMBER 30, 1993

**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, 1993, and for the year then ended, listed in the foregoing table of contents. 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.

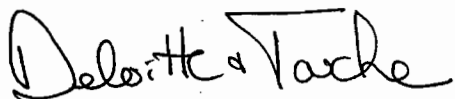
Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance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

The State has not adequately updated its General Fixed Assets Account Group during the year ended September 30, 1993, nor were we able to apply sufficient alternative procedures to assure ourselves as to the correctness of the balances set forth in the accompanying general purpose financial statements. Accordingly, a statement of changes in general fixed assets has not been included within the accompanying general purpose financial statements.

In our opinion, except for the effects of such adjustments, if any which might have been determined to be necessary had we been able to assure ourselves as to the correctness of the General Fixed Assets Account Group, the general purpose financial statements present fairly, in all material respects, the financial position of the State of Kosrae, as of September 30, 1993, 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.

As discussed in Note 6 to the financial statements, Kosrae State participates in various U. S. federal assistance grants. Currently, \$228,794 of questioned costs exist from the operations of these grants. If such questioned costs are ultimately disallowed, the General Fund will absorb the amount so disallowed. The ultimate outcome of this matter cannot presently be determined. Accordingly, no provision for any liability which may result from resolution of these questioned costs has been made in the accompanying general purpose financial statements.

March 22, 1994

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

Certified Public Accountants

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Combined Balance Sheet – All Fund Types and Account Groups
September 30, 1993
(With comparative totals as of September 30, 1992)

	<u>Governmental Fund Types</u>			<u>Proprietary</u>	<u>Fiduciary</u>	<u>Account Groups</u>		<u>Totals</u>	
	<u>General</u>	<u>Special</u>	<u>Capital</u>	<u>Fund Type</u>	<u>Fund Type</u>	<u>General</u>	<u>General</u>	<u>(Memorandum Only)</u>	
	<u>Fund</u>	<u>Revenue</u>	<u>Projects</u>	<u>Internal</u>	<u>Expendable</u>	<u>Fixed</u>	<u>Long-Term</u>	<u>1993</u>	<u>1992</u>
		<u>Funds</u>	<u>Funds</u>	<u>Service Fund</u>	<u>Trust Funds</u>	<u>Assets</u>	<u>Debt</u>		
<u>Assets</u>									
Cash and equivalents (Notes 1 and 3)	\$ 46,276	\$ 92,500	\$ —	\$ —	\$ 23,517	\$ —	\$ —	\$ 162,293	\$ 1,595,323
Other term deposits (Notes 2 and 5)	42,720	—	2,673,728	—	37,219	—	—	2,753,667	—
Investments (Notes 1H and 2)	1,643,867	—	584,434	—	—	—	—	2,228,301	5,809,221
Equity investments (Note 5)	—	—	517,131	—	—	—	—	517,131	267,131
Receivables from other governments (Notes 1E & 3)	243,339	1,850,936	1,448,857	—	—	—	—	3,543,132	2,493,161
General receivables, net (Note 4)	38,495	47,894	—	—	54,027	—	—	140,416	118,325
Loans receivable, net (Note 4)	—	—	175,000	—	669,344	—	—	844,344	1,294,802
Advances (Note 4)	268,427	233,426	252,875	—	—	—	—	754,728	434,145
Due from other funds (Notes 1F and 8)	2,011,242	386,483	1,419,517	—	232,128	—	—	4,049,370	3,525,393
Inventory, at cost (Note 1G)	—	—	—	118,599	6,818	—	—	125,417	102,642
Interest receivable	18,052	—	—	—	—	—	—	18,052	37,431
Amount to be provided for retirement of long-term debt	—	—	—	—	—	—	3,372,818	3,372,818	4,372,818
Investment in fixed assets (Notes 1C and 1I)	—	—	—	—	—	1,264,375	—	1,264,375	1,264,375
Total assets	\$ 4,312,418	\$ 2,611,239	\$ 7,071,542	\$ 118,599	\$ 1,023,053	\$ 1,264,375	\$ 3,372,818	\$ 19,774,044	\$ 21,314,767

See accompanying notes to combined financial statements.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Combined Balance Sheet – All Fund Types and Account Groups, Continued
September 30, 1993
(With comparative totals as of September 30, 1992)

	Governmental Fund Types			Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)	
	General Fund	Special Revenue Funds	Capital Projects Funds	Internal Service Fund	Expendable Trust Funds	General Fixed Assets	General Long-Term Debt	1993	1992
Liabilities and Fund Equity (Deficiency)									
Liabilities:									
Bank overdraft (Note 2)	\$ 1,236,920	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 1,236,920	\$ 1,085,515
Accounts payable	387,369	351,822	260,367	2,172	4,928	–	–	1,006,658	1,139,667
Accrued payroll and others	470,993	45,919	11,768	–	–	–	–	528,680	309,046
Due to other funds (Notes 1F and 8)	202,989	2,569,045	1,117,698	159,638	–	–	–	4,049,370	3,525,393
Deferred revenues	–	28,095	–	–	–	–	–	28,095	28,095
Due to other governments	180,636	–	–	–	–	–	–	180,636	180,636
Long-term notes payable (Notes 1C and 10)	–	–	–	–	–	–	3,000,000	3,000,000	4,000,000
Vacation leave accrual	–	–	–	–	–	–	372,818	372,818	372,818
Total liabilities	2,478,907	2,994,881	1,389,833	161,810	4,928	–	3,372,818	10,403,177	10,641,170
Contingencies (Note 6)									
Fund equity (deficiency):									
Retained earnings (deficit)	–	–	–	(43,211)	–	–	–	(43,211)	(66,836)
Fund balances (deficit):									
Reserved for:									
Investment in general fixed assets	–	–	–	–	–	1,264,375	–	1,264,375	1,264,375
Dimunition of investments	–	–	–	–	–	–	–	–	22,120
Continuing appropriations (Note 9)	41,140	278,586	2,659,773	–	–	–	–	2,979,499	1,985,939
Related assets	931,698	–	692,131	–	723,007	–	–	2,346,836	2,253,364
Encumbrances	220,145	327,344	1,909,551	–	–	–	–	2,457,040	5,509,996
Unreserved	640,528	(989,572)	420,254	–	295,118	–	–	366,328	(295,361)
Total fund equity (deficiency)	1,833,511	(383,642)	5,681,709	(43,211)	1,018,125	1,264,375	–	9,370,867	10,673,597
Total liabilities and fund equity (deficiency)	\$ 4,312,418	\$ 2,611,239	\$ 7,071,542	\$ 118,599	\$ 1,023,053	\$ 1,264,375	\$ 3,372,818	\$ 19,774,044	\$ 21,314,767

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, 1993
(With comparative totals for the year ended September 30, 1992)

	Governmental Fund Types			Fiduciary Fund Type	Totals (Memorandum Only)	
	General Fund	Special Revenue Funds	Capital Projects Funds	Expendable Trust Funds	1993	1992
Revenues:						
Compact of Free Association:						
Base amount	\$ 2,791,740	\$ 1,687,122	\$ 2,445,960	\$ —	\$ 6,924,822	\$ 6,924,822
Inflation adjustment	1,144,613	287,000	1,002,844	—	2,434,457	2,256,327
Department of the Interior grants	—	132,063	253,854	—	385,917	196,024
Revenue sharing	629,821	—	—	—	629,821	519,839
Federal contributions	—	1,039,030	—	—	1,039,030	992,429
Taxes and licenses	128,875	—	—	—	128,875	203,923
Investment income	763,585	—	—	—	763,585	429,367
Other	522,984	32,534	451,152	62,188	1,068,858	962,348
Total revenues	5,981,618	3,177,749	4,153,810	62,188	13,375,365	12,485,079
Expenditures:						
General government	1,761,631	199,122	—	—	1,960,753	1,892,709
Health services	1,003,782	343,994	—	—	1,347,776	1,262,851
Education	1,014,612	1,207,066	—	—	2,221,678	2,035,222
Economic development	462,550	42,539	—	—	505,089	553,019
Public safety	372,262	—	—	—	372,262	308,301
Public works	742,904	884,282	—	—	1,627,186	1,681,844
Community affairs	445,550	140,513	—	—	586,063	462,082
Capital projects	—	—	4,259,259	—	4,259,259	6,589,121
Other	94,059	395,845	—	106,743	596,647	198,300
Total expenditures	5,897,350	3,213,361	4,259,259	106,743	13,476,713	14,983,449
Revenues over (under) expenditures	84,268	(35,612)	(105,449)	(44,555)	(101,348)	(2,498,370)
Other uses:						
Bond principal repayments	—	—	(1,000,000)	—	(1,000,000)	(1,000,000)
Bond interest expense	—	—	(273,665)	—	(273,665)	(243,157)
Loss on investment in subsidiary	—	—	—	—	—	(48,769)
Total other uses	—	—	(1,273,665)	—	(1,273,665)	(1,291,926)
Excess (deficiency) of revenues over expenditures and other uses	84,268	(35,612)	(1,379,114)	(44,555)	(1,375,013)	(3,790,296)
Fund balances (deficit) beginning of year	1,749,243	(348,030)	7,060,823	1,014,022	9,476,058	13,230,387
Contribution of loans from other funds	—	—	—	48,658	48,658	35,967
Fund balances (deficit), end of year	\$ 1,833,511	\$ (383,642)	\$ 5,681,709	\$ 1,018,125	\$ 8,149,703	\$ 9,476,058

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, 1993

	Budget	Actual	Variance
Revenues:			
Compact funding:			
Base amount	\$ 2,791,740	\$ 2,791,740	\$ 0
Inflation adjustment	949,192	1,144,613	195,421
Revenue sharing	550,000	629,821	79,821
State taxes and licenses	154,000	120,950	(33,050)
Fines and penalties	–	7,925	7,925
Other/miscellaneous	302,225	522,984	220,759
Investment income	698,068	763,585	65,517
Total revenues	5,445,225	5,981,618	536,393
Expenditures:			
General government	1,796,215	1,744,152	52,063
Health services	1,056,054	995,869	60,185
Education	960,761	1,032,387	(71,626)
Economic development	486,778	456,289	30,489
Public safety	340,950	368,177	(27,227)
Public works	823,182	711,945	111,237
Community affairs	488,631	453,152	35,479
Other	–	93,654	(93,654)
Total expenditures	5,952,571	5,855,625	96,946
 Excess (deficiency) of revenues (under) over expenditures	 (507,346)	 125,993	 633,339
 Unreserved fund balance, beginning of year	 446,352	 446,352	 –
 Other changes in unreserved fund balance:			
Decrease in reserve for continuing appropriations	–	39,487	39,487
Decrease in reserve for related assets	–	6,576	6,576
Decrease in diminution of investment	–	22,120	22,120
 Unreserved fund balance, end of year	 <u>\$ (60,994)</u>	 <u>\$ 640,528</u>	 <u>\$ 701,522</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 Type
Year ended September 30, 1993
 (With comparative totals for the year ended September 30, 1992)

	Internal Service Fund	Totals	
		1993	1992
Operating revenues:			
Charges for services	\$ 66,507	\$ 66,507	\$ 54,394
Total operating revenues	66,507	66,507	54,394
Operating expenses:			
Supplies and materials	42,882	42,882	64,215
Total operating expenses	42,882	42,882	64,215
Operating income (loss)	23,625	23,625	(9,821)
Deficit, beginning of year	(66,836)	(66,836)	(57,015)
Deficit, end of year	\$ (43,211)	\$ (43,211)	(66,836)

See accompanying notes to combined financial statements.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
PROPRIETARY FUND TYPE
Statement of Cash Flows
Year ended September 30, 1993
(With comparative totals for the year ended September 30, 1992)

	Internal Service Fund	Totals	
		1993	1992
Increase (Decrease) in Cash and Equivalents			
Operating Activities:			
Net income(loss)	\$ 23,625	\$ 23,625	\$ (9,821)
	<u>23,625</u>	<u>23,625</u>	<u>(9,821)</u>
Changes in Working Capital Sources (Uses):			
Inventory	(20,665)	(20,665)	20,665
Accounts payable	(2,321)	(2,321)	0
Interfund receivable	(639)	(639)	(10,844)
	<u>(23,625)</u>	<u>(23,625)</u>	<u>9,821</u>
Net cash provided by operating activities	<u>—</u>	<u>—</u>	<u>—</u>
Net increase 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>\$ —</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, 1993

(1) Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying general purpose 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 general purpose financial statements.

B. Fund Structure and Basis of Accounting

The accompanying general purpose financial statements are structured into three categories of fund types and two account groups. The fund types 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, 1993

(1) Summary of 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 type 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 fund type includes 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, 1993

(1) Summary of 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 and bonds payable have 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, 1993

(1) Summary of 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 1993, 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, 1993

(1) Summary of 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 fund equities.

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

G. Inventory

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 include capital infrastructure.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Notes to Combined Financial Statements, Continued
September 30, 1993

(1) Summary of 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, 1993

(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, 1993

(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, 1993, are summarized below:

<u>Cash and Equivalents</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Certificates of deposit	\$ 138,776	\$ 138,776
<u>Investments</u>		
Pooled Investment Securities	<u>2,228,301</u>	<u>2,511,790</u>
Total investments	<u>\$2,367,077</u>	<u>\$2,650,566</u>

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

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Notes to Combined Financial Statements, Continued
September 30, 1993

(2) Cash and Short-Term Investments, Continued

The State does not require collateralization of its bank deposits. At September 30, 1993, 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>\$ 1,236,920</u>
Cash on deposit with Hawaiian Trust Co.	\$ 15,068
Cash on deposit with FDIC insured banks	31,208
Certificate of deposit with FDIC insured bank	<u>42,720</u>
	<u>\$ 88,996</u>

Special Revenue Funds

Cash on deposit with Hawaiian Trust Co.	<u>\$ 92,500</u>
---	------------------

Capital Projects Funds

Certificate of deposit with FDIC insured bank	<u>\$ 2,673,728</u>
--	---------------------

Expendable Trust Deposits

Cash in checking and savings accounts, and certificates of deposit with FDIC insured bank	<u>\$ 60,736</u>
--	------------------

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.

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.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Notes to Combined Financial Statements, Continued
September 30, 1993

(2) Cash and Short-Term Investments, Continued

Investment income for the year ended September 30, 1993, is comprised of the following items:

Gross investment gains	\$ 619,556
Gross investment losses	(6,592)
Interest and dividends	193,009
Management and other fees	<u>(42,388)</u>
	<u>\$ 763,585</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 \$669,344 and \$54,027, respectively. These balances are fully reserved within the related asset component of fund balance in the applicable funds.

The Capital Project Funds has a \$175,000 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 \$268,427, \$233,426, and \$252,875, 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, 1993

(4) Receivables, Continued

These advances are to be liquidated by submission of vouchers following the completion of travel.

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

During the year ended September 30, 1993, the State purchased an additional 25,000 ordinary shares in the Bank of the Federated States of Micronesia for a total cost of \$250,000. The Government's 50,000 shareholdings represents approximately 5% of the Bank's total shares at September 30, 1993. This investment is recorded at cost, is considered long-term, and has been fully reserved in the related asset component of fund balance. As of September 30, 1993, Kosrae State Government has \$2,753,667 in certificates of deposit with the bank.

The appropriation to fund the acquisition of the first 25,000 shares originated in the year ended September 30, 1990. 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, 1993, Pacific Tuna Industries reported an unaudited net loss of \$65,520. Therefore Kosrae will adjust its investment balance to reflect 90% of the net operating deficit.

Carrying value at October 1, 1992	\$ 17,131
Pro rata share of fiscal year 1993 loss	<u>17,131</u>
Carrying value at September 30, 1993	<u>\$ -</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Notes to Combined Financial Statements, Continued
September 30, 1993

(6) Contingencies

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 1993, 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 general purpose 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, 1993, 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, 1993, is not predictable but will have no material impact on the accompanying general purpose 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 general purpose financial statements.

(7) Material Fund Deficits

The following funds reflect material fund deficits as of September 30, 1993. 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, 1993

(7) Material Fund Deficits, continued

Internal Service Fund	\$ (43,211)
Compact Health and Medical 216 (a)(2)	<u>\$ (272,987)</u>
Department of the Interior Fund	<u>\$ (52,149)</u>
Federal Grants Assistance	<u>\$ (251,998)</u>
CFSM Capital Projects Fund	<u>\$ (49,924)</u>
Foreign Assistance	<u>\$ (30,961)</u>
Compact Special Block Grant 221 (b)	<u>\$ (122,529)</u>
Compact Scholarship Fund	<u>\$ (83,127)</u>

Of the above, the total fund deficits for the Compact Health and Medical Fund, Federal Grants Assistance Fund, Compact Special Block Grant, and Compact Scholarship Fund 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, 1993, 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	\$ 202,989	\$2,011,242
Special Revenue Funds:		
Compact - Special Block	148,724	-
Compact - Health and Medical	9,398	-
Compact Post Secondary Edu.	457,071	-
Fishermen's Revolving Fund	-	1,026
Department of Interior Fund	654,649	-
Federal Grants Assistance Fund	1,254,323	-
Compact Energy	-	216,044
Compact Special Development	-	169,413
Foreign Assistance Fund	44,880	-
Capital Project Funds:		
TTG - Capital Project Fund	356,244	-
CFSM State Projects	761,454	-
Compact Capital Projects Fund	-	1,419,517
Expendable Trust Funds:		
Production Loan Fund	-	1,495
Scholarship Revolving Fund	-	27,339
Housing Revolving Fund	-	155,201
Airport Trust Fund	-	35,498
Aluminum Recycling Fund	-	12,595
Internal Service Fund	<u>159,638</u>	<u>-</u>
	<u>\$4,049,370</u>	<u>\$4,049,370</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Notes to Combined Financial Statements, Continued
September 30, 1993

(9) Continuing Appropriations

Continuing appropriations as of September 30, 1993, are summarized as follows:

General Fund

Vocational Education Specialist	\$ 25,000
New Broadcast Facility	16
Communication Network	10,002
Vehicle License Plate	5,130
Printing of State Laws	280
Payment of legal obligations	<u>712</u>
	<u>\$ 41,140</u>

Special Revenue Funds

U.S. DOI Grants	\$ 4,478
KUA Establishment	60,086
Power systems	<u>214,022</u>
	<u>\$ 278,586</u>

Capital Project Funds

Compact of Free Association Capital Account - Various State approved projects	\$2,556,101
Various State approved projects	<u>103,672</u>
	<u>\$2,659,773</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, 1993

(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 outstanding notes payable balance as of September 30, 1993, 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>
10/15/93	7.67	\$1,000,000
10/15/94	8.03	1,000,000
10/15/95	8.37	<u>1,000,000</u>
		<u>\$3,000,000</u>

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

Upon receipt of 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, 1993.

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

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

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund financial statements and schedules listed in Section III of the foregoing table of contents, which are also the responsibility of the management of the State of Kosrae, are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the State of Kosrae. Such additional information has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, except for the matter specified in our report dated March 22, 1994, in our opinion, is fairly presented in all material respects when considered in relation to the general purpose financial statements taken as a whole.

March 22, 1994

Certified Public Accountants

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Combined Statement of Expenditures by Account –
All Governmental Fund Types and Expendable Trust Funds
Year Ended September 30, 1993
(With comparative totals for the year ended September 30, 1992)

	<u>Governmental Fund Types</u>			<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>	
	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Expendable Trust Funds</u>	<u>1993</u>	<u>1992</u>
Expenditures:						
Personnel	\$ 4,071,933	\$ 1,073,690	\$ 399,549	\$ –	\$ 5,545,172	\$ 5,319,774
Travel	259,890	76,891	119,755	–	456,536	406,245
POL	15,138	547,874	34,583	–	597,595	597,140
Capital outlay	181,017	96,368	266,687	–	544,072	5,435,473
Other	<u>1,369,372</u>	<u>1,418,538</u>	<u>3,438,685</u>	<u>106,743</u>	<u>6,333,338</u>	<u>3,224,817</u>
Total expenditures	<u>\$ 5,897,350</u>	<u>\$ 3,213,361</u>	<u>\$ 4,259,259</u>	<u>\$ 106,743</u>	<u>\$ 13,476,713</u>	<u>\$ 14,983,449</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
General Fund
September 30, 1993

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
Combining Balance Sheet – General Fund
September 30, 1993
(With comparative totals as of September 30, 1992)

<u>Assets</u>	<u>U.S Grant</u>	<u>State Revenue</u>	<u>Totals</u>	
			<u>1993</u>	<u>1992</u>
Cash and equivalents	\$ 46,276	\$ –	\$ 46,276	\$ 98,950
TCD's and term deposits	–	42,720	42,720	–
Investments	1,643,867	–	1,643,867	2,160,958
Receivables from other governments	180,636	62,703	243,339	195,358
General receivables, net	13,796	24,699	38,495	58,490
Advances	2,861	265,566	268,427	134,908
Interest receivable	18,052	–	18,052	37,431
Due from other funds	1,541,275	469,967	2,011,242	1,623,946
Total assets	\$ 3,446,763	\$ 865,655	\$ 4,312,418	\$ 4,310,041
 <u>Liabilities and Fund Balances</u>				
Liabilities:				
Bank overdraft	\$ 1,236,920	\$ –	1,236,920	\$ 1,085,515
Accounts payable	222,340	165,029	387,369	461,155
Accrued payroll and others	455,738	15,255	470,993	254,335
Due to other governments	180,636	–	180,636	180,636
Due to other funds	202,989	–	202,989	579,157
Total liabilities	2,298,623	180,284	2,478,907	2,560,798
Fund balances:				
Reserved for:				
Diminution of investments	–	–	–	22,120
Related assets	744,437	187,261	931,698	938,274
Encumbrances	134,922	85,223	220,145	261,870
Continuing appropriations	40,428	712	41,140	80,627
Unreserved	228,353	412,175	640,528	446,352
Total fund balances	1,148,140	685,371	1,833,511	1,749,243
Total liabilities and fund balances	\$ 3,446,763	\$ 865,655	\$ 4,312,418	\$ 4,310,041

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances – General Fund
Year Ended September 30, 1993
(With comparative totals for the year ended September 30, 1992)

	<u>U.S Grant</u>	<u>State Revenue</u>	<u>Totals</u>	
			<u>1993</u>	<u>1992</u>
Revenues:				
Compact of Free Association:				
Base amount	\$ 2,791,740	\$ —	\$ 2,791,740	\$ 2,791,740
Inflation adjustment	1,144,613	—	1,144,613	1,060,862
Revenue sharing	—	629,821	629,821	519,839
Taxes and licenses	—	128,875	128,875	203,923
Investment income	761,627	1,958	763,585	429,367
Other	74,275	448,709	522,984	827,669
Total revenues	<u>4,772,255</u>	<u>1,209,363</u>	<u>5,981,618</u>	<u>5,833,400</u>
Expenditures:				
General government	1,028,970	732,661	1,761,631	1,731,172
Health services	969,942	33,840	1,003,782	989,000
Education	885,119	129,493	1,014,612	1,095,729
Economic development	462,550	—	462,550	497,887
Public safety	372,262	—	372,262	308,301
Public works	742,904	—	742,904	849,924
Community affairs	285,406	160,144	445,550	453,241
Other	94,059	—	94,059	135,565
Total expenditures	<u>4,841,212</u>	<u>1,056,138</u>	<u>5,897,350</u>	<u>6,060,819</u>
Excess (deficiency) of revenues over expenditures	<u>(68,957)</u>	<u>153,225</u>	<u>84,268</u>	<u>(227,419)</u>
Fund balances, beginning of year	<u>1,217,097</u>	<u>532,146</u>	<u>1,749,243</u>	<u>1,976,662</u>
Fund balances, end of year	<u>\$ 1,148,140</u>	<u>\$ 685,371</u>	<u>\$ 1,833,511</u>	<u>\$ 1,749,243</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Combining Statement of Revenues, Expenditures by Account and
Changes in Fund Balances – General Fund
Year Ended September 30, 1993
(With comparative totals for the year ended September 30, 1992)

	<u>U.S Grant</u>	<u>State Revenue</u>	<u>Totals</u>	
			<u>1993</u>	<u>1992</u>
Revenues:				
Compact of Free Association:				
Base amount	\$ 2,791,740	\$ —	2,791,740	\$ 2,791,740
Inflation adjustment	1,144,613	—	1,144,613	1,060,862
Revenue sharing	—	629,821	629,821	519,839
Taxes and licenses	—	128,875	128,875	203,923
Investment income	761,627	1,958	763,585	429,367
Other	74,275	448,709	522,984	827,669
Total revenues	<u>4,772,255</u>	<u>1,209,363</u>	<u>5,981,618</u>	<u>5,833,400</u>
Expenditures:				
Personnel	3,663,570	408,363	4,071,933	3,912,349
Travel	128,448	131,442	259,890	300,477
POL	14,620	518	15,138	26,361
Capital outlay	155,418	25,599	181,017	353,817
Other	879,156	490,216	1,369,372	1,467,815
Total expenditures	<u>4,841,212</u>	<u>1,056,138</u>	<u>5,897,350</u>	<u>6,060,819</u>
Excess (deficiency) of revenues over expenditures	(68,957)	153,225	84,268	(227,419)
Fund balances, beginning of year	<u>1,217,097</u>	<u>532,146</u>	<u>1,749,243</u>	<u>1,976,662</u>
Fund balances, end of year	<u>\$ 1,148,140</u>	<u>\$ 685,371</u>	<u>\$ 1,833,511</u>	<u>\$ 1,749,243</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Combining Statement of Revenues, Expenditures and Changes in
Fund Balances, Budgetary Basis – General Fund
For The Year ended September 30, 1993

	U.S. Grant Fund			State Revenue Fund			Total General Fund		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
Revenues:									
Compact funding:									
Base amount	\$ 2,791,740	\$ 2,791,740	\$ 0	\$ --	\$ --	\$ --	\$ 2,791,740	\$ 2,791,740	\$ 0
Inflation adjustment	949,192	1,144,613	195,421	--	--	--	949,192	1,144,613	195,421
Revenue sharing	--	--	--	550,000	629,821	79,821	550,000	629,821	79,821
Taxes and licenses	--	--	--	154,000	120,950	(33,050)	154,000	120,950	(33,050)
Fines and penalties	--	--	--	--	7,925	7,925	--	7,925	7,925
Miscellaneous	--	74,275	74,275	302,225	448,709	146,484	302,225	522,984	220,759
Dividends and interest	698,068	761,627	63,559	--	1,958	1,958	698,068	763,585	65,517
Total revenues	4,439,000	4,772,255	333,255	1,006,225	1,209,363	203,138	5,445,225	5,981,618	536,393
Expenditures:									
General government	1,076,794	1,021,967	54,827	719,421	722,185	(2,764)	1,796,215	1,744,152	52,063
Health Services	1,017,798	961,489	56,309	38,256	34,380	3,876	1,056,054	995,869	60,185
Education	793,609	868,083	(74,474)	167,152	164,304	2,848	960,761	1,032,387	(71,626)
Economic development	486,778	456,507	30,271	--	(218)	218	486,778	456,289	30,489
Public safety	340,950	368,177	(27,227)	--	--	--	340,950	368,177	(27,227)
Public works	823,182	711,945	111,237	--	--	--	823,182	711,945	111,237
Community affairs	290,386	293,723	(3,337)	198,245	159,429	38,816	488,631	453,152	35,479
Other	--	93,654	(93,654)	--	--	--	--	93,654	(93,654)
Total expenditures	4,829,497	4,775,545	53,952	1,123,074	1,080,080	42,994	5,952,571	5,855,625	96,946
Excess (deficiency) of revenues									
over (under) expenditures	(390,497)	(3,290)	279,303	(116,849)	129,283	160,144	(507,346)	125,993	439,447
Unreserved fund balances,									
beginning of year	131,554	131,554	--	314,798	314,798	--	446,352	446,352	--
Other changes in unreserved									
fund balances:									
Decrease in reserve									
for continuing appropriations	--	39,487	39,487	--	--	--	--	39,487	39,487
Decrease/(increase) in reserve									
for related assets	--	38,482	38,482	--	(31,906)	(31,906)	--	6,576	6,576
Decrease in reserve for									
diminution of investments	--	22,120	22,120	--	--	--	--	22,120	22,120
Unreserved fund balances,									
end of year	\$ (258,943)	\$ 228,353	\$ 379,392	\$ 197,949	\$ 412,175	\$ 128,238	\$ (60,994)	\$ 640,528	\$ 507,630

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Statement of Revenue, Expenditures, and Changes in Fund Balances
by Function and Department – General Fund
Year Ended September 30, 1993
(With comparative totals for the year ended September 30, 1992)

	<u>1993</u>	<u>1992</u>
Revenues:		
Compact of Free Association		
Base amount	\$ 2,791,740	\$ 2,791,740
Inflation adjustment	1,144,613	1,060,862
FSM revenue sharing	629,821	519,839
State taxes and licenses:		
Cigarette tax	\$ 13,092	\$ 6,773
General sales tax	52,058	61,929
Alcohol	38,876	52,344
Motor vehicle sales tax	4,205	14,057
Licenses and fees	12,719	68,820
Court fines	7,925	6,344
	128,875	210,267
Other revenues:		
Utility collection	200,337	186,345
Transportation collection	15,262	11,637
Medical and dental services	129,205	12,905
Miscellaneous	178,180	610,438
Investment income	763,585	429,367
Total revenues	<u>5,981,618</u>	<u>5,833,400</u>
Expenditures:		
General government:		
Governor and staff	168,873	167,516
Governor's office legislation	3,847	1,230
Bureau of Accounting	142,771	135,018
Bureau of Budget and Management	77,175	91,605
Bureau of Procurement and Supply	55,845	54,318
Personnel and Employment Services	65,497	67,181
Bureau of Planning and Statistics	206,137	203,058
Member's Legislative	282,802	278,673
Standing Committee Legislative	53,695	57,346
Legislative staff	299,431	244,820
Municipal government operation	70,825	53,000
Land commission	171,074	189,262
Judicial operations	156,709	157,402
FY92 Marine Resources	-	12,440
14th APNL Conference	-	8,755
FY92 Land Management	-	9,548
FY92 State Code reprinting	6,950	-
Total	<u>1,761,631</u>	<u>1,731,172</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Statement of Revenue, Expenditures, and Changes in Fund Balances
by Function and Department – General Fund, Continued
Year Ended September 30, 1993
(With comparative totals for the year ended September 30, 1992)

	<u>1993</u>	<u>1992</u>
Expenditures by department, continued:		
Department of Health services:		
Administration	\$ 294,362	\$ 270,834
Environmental health	54,341	41,356
Dental services	52,547	48,610
Clinical services	253,252	193,261
Public health nursing	57,356	61,167
Medical services	257,040	325,354
Peritoneal program	33,840	—
Medical referrals	1,044	48,418
Total	<u>1,003,782</u>	<u>989,000</u>
Department of Education:		
Administration	115,463	102,005
Elementary	162,327	143,968
Secondary	384,681	352,128
FFA convention	10,695	—
Special services	341,446	497,628
Total	<u>1,014,612</u>	<u>1,095,729</u>
Department of Conservation and Development:		
Administration	66,131	64,773
Production and marketing	31,456	22,300
Land management	135,841	124,798
Marine resources	60,123	101,584
Agriculture	111,643	116,785
Tourism	27,128	39,269
Culture and history	30,228	28,378
Total	<u>462,550</u>	<u>497,887</u>
Department of Justice/Public Safety:		
Police	235,635	196,525
Attorney General	114,074	111,776
Police network	20,943	—
License plate	1,610	—
Total	<u>372,262</u>	<u>308,301</u>
Department of Public Works:		
Operations and maintenance	329,625	478,311
Division of Transportation	34,341	6,433
Utility services	362,463	365,180
O.M.I.P matching	16,475	—
Total	<u>742,904</u>	<u>849,924</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Statement of Revenue, Expenditures, and Changes in Fund Balances
by Function and Department – General Fund, Continued
Year Ended September 30, 1993
(With comparative totals for the year ended September 30, 1992)

	1993	1992
Expenditures by department, continued:		
Division of Public broadcast	\$ 61,536	\$ 61,662
Political Affairs	77,524	76,909
Community Development	41,951	36,122
Sports Council	71,006	65,211
FY92 Tourism	—	4,773
Micronesian Legal Services	32,500	32,500
Health Council	300	860
Malem Jubilee	—	5,000
Executive Service Appeals Board	1,367	1,813
Scholarship Board	4,298	7,944
Election commission	—	166
FY92 Historic	—	1,545
Community Action Agency	30,658	52,528
Farmers Co-op Association	—	2,326
Lelu Election	—	1,000
Liberation Day 91	—	500
Retirement Pension	88,764	85,523
Senior Citizens FY92	—	7,000
FY92 Produce Market	—	9,859
Antenna coupling	3,242	—
Acrobats	2,454	—
Development Review Comm.	24,327	—
Foreign Investment Board	5,623	—
Total	<u>445,550</u>	<u>453,241</u>
Other	<u>94,059</u>	<u>135,565</u>
Total expenditures	<u>5,897,350</u>	<u>6,060,819</u>
Excess (deficiency) of revenues over expenditures	84,268	(227,419)
Fund balance, beginning of year	<u>1,749,243</u>	<u>1,976,662</u>
Fund balance, end of year	<u>\$ 1,833,511</u>	<u>\$ 1,749,243</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Special Revenue Funds
September 30, 1993

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, 1993, 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.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SPECIAL REVENUE FUNDS
Combining Balance Sheet
September 30, 1993
(With comparative totals as of September 30, 1992)

	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	Totals	
<u>Assets</u>	<u>221(B)</u>	<u>216(A)(2)</u>	<u>216(A)(3)</u>	<u>214</u>	<u>212(B)</u>					<u>1993</u>	<u>1992</u>
Cash and equivalents	\$ -	\$ -	\$ -	\$ 56,250	\$ 36,250	\$ -	\$ -	\$ -	\$ -	\$ 92,500	\$ 29,500
Receivables from:											
Federal agencies	-	-	-	-	-	-	605,125	-	-	605,125	499,157
FSM National											
Government	-	-	373,944	-	-	-	-	871,867	-	1,245,811	736,399
Others	18,330	-	-	-	-	-	-	18,014	11,550	47,894	48,362
Loan receivables	-	-	-	-	-	-	-	-	-	-	395,130
Due from other funds	-	-	-	216,044	169,413	1,026	-	-	-	386,483	236,945
Travel advance	39,175	17,090	-	-	11,884	-	36,775	124,704	3,798	233,426	165,596
Total assets	<u>\$ 57,505</u>	<u>\$ 17,090</u>	<u>\$ 373,944</u>	<u>\$ 272,294</u>	<u>\$ 217,547</u>	<u>\$ 1,026</u>	<u>\$ 641,900</u>	<u>\$ 1,014,585</u>	<u>\$ 15,348</u>	<u>\$ 2,611,239</u>	<u>\$ 2,111,089</u>
<u>Liabilities and Fund</u>											
<u>Balances (Deficit)</u>											
Liabilities:											
Accounts payable	\$ -	\$ 280,679	\$ -	\$ 53,620	\$ 7,138	\$ -	\$ 9,263	\$ -	\$ 1,122	\$ 351,822	\$ 289,559
Due to other funds	148,724	9,398	457,071	-	-	-	654,649	1,254,323	44,880	2,569,045	2,102,024
Deferred revenues	-	-	-	-	-	-	28,095	-	-	28,095	28,095
Accrued payroll and others	31,310	-	-	-	-	-	2,042	12,260	307	45,919	39,441
Total liabilities	<u>180,034</u>	<u>290,077</u>	<u>457,071</u>	<u>53,620</u>	<u>7,138</u>	<u>-</u>	<u>694,049</u>	<u>1,266,583</u>	<u>46,309</u>	<u>2,994,881</u>	<u>2,459,119</u>
Fund balances (deficit):											
Reserved for:											
Related assets	-	-	-	-	-	-	-	-	-	-	165,596
Continuing											
appropriations	-	-	-	-	-	-	278,586	-	-	278,586	66,608
Encumbrances	16,241	16,202	-	16,618	4,179	-	52,624	191,644	29,836	327,344	175,020
Unreserved	<u>(138,770)</u>	<u>(289,189)</u>	<u>(83,127)</u>	<u>202,056</u>	<u>206,230</u>	<u>1,026</u>	<u>(383,359)</u>	<u>(443,642)</u>	<u>(60,797)</u>	<u>(989,572)</u>	<u>(755,254)</u>
Total fund balances (deficit)	<u>(122,529)</u>	<u>(272,987)</u>	<u>(83,127)</u>	<u>218,674</u>	<u>210,409</u>	<u>1,026</u>	<u>(52,149)</u>	<u>(251,998)</u>	<u>(30,961)</u>	<u>(383,642)</u>	<u>(348,030)</u>
Total liabilities and fund balances	<u>\$ 57,505</u>	<u>\$ 17,090</u>	<u>\$ 373,944</u>	<u>\$ 272,294</u>	<u>\$ 217,547</u>	<u>\$ 1,026</u>	<u>\$ 641,900</u>	<u>\$ 1,014,585</u>	<u>\$ 15,348</u>	<u>\$ 2,611,239</u>	<u>\$ 2,111,089</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SPECIAL REVENUE FUNDS
Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balances (Deficit)
Year Ended September 30, 1993
(With comparative totals for the year ended September 30, 1992)

	Compact Special Block Grant 221(B)	Compact Health and Medical 216(A)(2)	Compact Scholarship 216(A)(3)	Compact Energy Block Grant 214	Compact Special Development 212(b)	Fishermen's Revolving Fund	Department of the Interior Fund	Federal Grants Assistance Fund	Foreign Assistance	Totals	
										1993	1992
Revenues:											
Compact grants:											
Base amount	\$ 875,000	\$ 112,122	\$ -	\$ 450,000	\$ 250,000	\$ -	\$ -	\$ -	\$ -	\$ 1,687,122	\$ 1,687,122
Inflation adjustment	-	-	-	184,500	102,500	-	-	-	-	287,000	266,000
Department of the											
Interior grants	-	-	-	-	-	-	132,063	-	-	132,063	34,435
Federal contributions	-	-	373,944	-	-	-	-	665,086	-	1,039,030	774,683
Other	-	-	-	-	-	-	-	-	32,534	32,534	40,936
Total revenues	875,000	112,122	373,944	634,500	352,500	-	132,063	665,086	32,534	3,177,749	2,803,176
Expenditures:											
General government	-	-	-	-	-	-	132,063	36,676	30,383	199,122	161,537
Health services	127,016	133,814	-	-	-	-	-	83,164	-	343,994	273,851
Education	763,451	-	151,233	-	-	-	-	292,382	-	1,207,066	939,493
Economic development	-	-	-	-	-	-	-	42,539	-	42,539	55,132
Public works	-	-	-	522,329	289,990	-	-	71,963	-	884,282	831,920
Community affairs	-	-	-	-	-	-	-	138,362	2,151	140,513	8,841
Capital projects	-	-	-	-	-	-	-	-	-	-	287,121
Other	-	-	395,845	-	-	-	-	-	-	395,845	-
Total expenditures	890,467	133,814	547,078	522,329	289,990	-	132,063	665,086	32,534	3,213,361	2,557,895
Excess (deficiency) of											
revenues over											
expenditures	(15,467)	(21,692)	(173,134)	112,171	62,510	-	-	-	-	(35,612)	245,281
Fund balances (deficit),											
beginning of year	(107,062)	(251,295)	90,007	106,503	147,899	1,026	(52,149)	(251,998)	(30,961)	(348,030)	(593,311)
Fund balances (deficit),											
end of year	\$ (122,529)	\$ (272,987)	\$ (83,127)	\$ 218,674	\$ 210,409	\$ 1,026	\$ (52,149)	\$ (251,998)	\$ (30,961)	\$ (383,642)	\$ (348,030)

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SPECIAL REVENUE FUNDS**

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

Year ended September 30, 1993

(With comparative totals for the year ended September 30, 1992)

	Compact Special Block Grant 221(B)	Compact Health and Medical 216(A)(2)	Compact Scholarship 216(A)(3)	Compact Energy Block Grant 214	Compact Special Development 212(b)	Fishermen's Revolving Fund	Department of the Interior Fund	Federal Grants Assistance Fund	Foreign Assistance	Totals	
										1993	1992
Revenues:											
Compact grants:											
Base amount	\$ 875,000	\$ 112,122	\$ -	\$ 450,000	\$ 250,000	\$ -	\$ -	\$ -	\$ -	\$ 1,687,122	\$ 1,687,122
Inflation adjustment	-	-	-	184,500	102,500	-	-	-	-	287,000	266,000
Department of the											
Interior grants	-	-	-	-	-	-	132,063	-	-	132,063	34,435
Federal contributions	-	-	373,944	-	-	-	-	665,086	-	1,039,030	774,683
Other	-	-	-	-	-	-	-	-	32,534	32,534	40,936
Total revenues	875,000	112,122	373,944	634,500	352,500	-	132,063	665,086	32,534	3,177,749	2,803,176
Expenditures:											
Personnel services	763,451	-	-	-	7,686	-	19,473	276,956	6,124	1,073,690	949,588
Travel	-	6,007	-	-	-	-	11,871	55,347	3,666	76,891	30,496
POL	-	-	-	514,845	32,304	-	-	725	-	547,874	564,356
Capital outlay	-	-	-	-	-	-	4,046	83,873	8,449	96,368	629,335
Other	127,016	127,807	547,078	7,484	250,000	-	96,673	248,185	14,295	1,418,538	384,120
Total expenditures	890,467	133,814	547,078	522,329	289,990	-	132,063	665,086	32,534	3,213,361	2,557,895
Excess (deficiency) of revenues over expend- itures	(15,467)	(21,692)	(173,134)	112,171	62,510	-	-	-	-	(35,612)	245,281
Fund balances (deficit), beginning of year	(107,062)	(251,295)	90,007	106,503	147,899	1,026	(52,149)	(251,998)	(30,961)	(348,030)	(593,311)
Fund balances (deficit), end of year	<u>\$ (122,529)</u>	<u>\$ (272,987)</u>	<u>\$ (83,127)</u>	<u>\$ 218,674</u>	<u>\$ 210,409</u>	<u>\$ 1,026</u>	<u>\$ (52,149)</u>	<u>\$ (251,998)</u>	<u>\$ (30,961)</u>	<u>\$ (383,642)</u>	<u>\$ (348,030)</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Capital Projects Funds
September 30, 1993

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, 1993, 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, 1993

(With comparative totals as of September 30, 1992)

	Compact Capital Projects Fund	CFSM Capital Projects Fund	TTG Capital Projects Fund	<u>Totals</u>	
				1993	1992
<u>Assets</u>					
Cash and equivalents	\$ —	\$ —	\$ —	\$ —	\$ 1,399,611
TCD's and other deposits	2,673,728	—	—	2,673,728	—
Investments	584,434	—	—	584,434	3,648,263
Equity investment	517,131	—	—	517,131	267,131
Receivables from					
Department of the Interior	—	—	782,080	782,080	528,226
Receivables from FSM Gov't	—	666,777	—	666,777	534,021
Advances	162,860	75,750	14,265	252,875	133,641
Loans receivable	175,000	—	—	175,000	150,000
Due from other funds	1,419,517	—	—	1,419,517	1,474,481
Total assets	<u>\$ 5,532,670</u>	<u>\$ 742,527</u>	<u>\$ 796,345</u>	<u>\$ 7,071,542</u>	<u>\$ 8,135,374</u>
<u>Liabilities and Fund Balances (Deficit)</u>					
Liabilities:					
Accounts payable	\$ 117,897	\$ 30,997	\$ 111,473	\$ 260,367	\$ 379,988
Accrued payroll and others	6,275	—	5,493	11,768	15,270
Due to other funds	—	761,454	356,244	1,117,698	679,293
Total liabilities	<u>124,172</u>	<u>792,451</u>	<u>473,210</u>	<u>1,389,833</u>	<u>1,074,551</u>
Fund balances (deficit):					
Reserved for:					
Related assets	692,131	—	—	692,131	383,641
Encumbrances	977,211	16,577	915,763	1,909,551	5,073,106
Continuing appropriations	2,556,101	103,672	—	2,659,773	1,838,704
Unreserved	1,183,055	(170,173)	(592,628)	420,254	(234,628)
Total fund balances (deficit)	<u>5,408,498</u>	<u>(49,924)</u>	<u>323,135</u>	<u>5,681,709</u>	<u>7,060,823</u>
Total liabilities and fund balances (deficit)	<u>\$ 5,532,670</u>	<u>\$ 742,527</u>	<u>\$ 796,345</u>	<u>\$ 7,071,542</u>	<u>\$ 8,135,374</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
CAPITAL PROJECTS FUNDS
Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)
Year Ended September 30, 1993
(With comparative totals for the year ended September 30, 1992)

	Compact Capital Projects Fund	CFSM Capital Projects Fund	TTG Capital Projects Fund	Totals	
				1993	1992
Revenues:					
Compact of Free Association:					
Base amount	\$ 2,445,960	\$ —	\$ —	\$ 2,445,960	\$ 2,445,960
Inflation adjustment	1,002,844	—	—	1,002,844	929,465
Department of the					
Interior grants	—	—	253,854	253,854	161,589
FSM Nat'l Gov't Contribution	—	451,152	—	451,152	217,746
Total revenues	<u>3,448,804</u>	<u>451,152</u>	<u>253,854</u>	<u>4,153,810</u>	<u>3,754,760</u>
Expenditures:					
Capital projects	<u>3,554,253</u>	<u>451,152</u>	<u>253,854</u>	<u>4,259,259</u>	<u>6,302,000</u>
Total expenditures	<u>3,554,253</u>	<u>451,152</u>	<u>253,854</u>	<u>4,259,259</u>	<u>6,302,000</u>
Revenues (under) expenditures	<u>(105,449)</u>	<u>—</u>	<u>—</u>	<u>(105,449)</u>	<u>(2,547,240)</u>
Other uses:					
Bond payments	(1,000,000)	—	—	(1,000,000)	(1,000,000)
Interest expense	(273,665)	—	—	(273,665)	(243,157)
Loss on equity investment	—	—	—	—	(48,769)
Total other uses	<u>(1,273,665)</u>	<u>—</u>	<u>—</u>	<u>(1,273,665)</u>	<u>(1,291,926)</u>
Deficiency of revenues over expenditures and other uses	(1,379,114)	—	—	(1,379,114)	(3,839,166)
Fund balances (deficit), beginning of year	<u>6,787,612</u>	<u>(49,924)</u>	<u>323,135</u>	<u>7,060,823</u>	<u>10,899,989</u>
Fund balances (deficit), end of year	<u>\$ 5,408,498</u>	<u>\$ (49,924)</u>	<u>\$ 323,135</u>	<u>\$ 5,681,709</u>	<u>\$ 7,060,823</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
CAPITAL PROJECTS FUNDS
Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) by Account
Year Ended September 30, 1993
(With comparative totals for the year ended September 30, 1992)

	Compact Capital Projects Fund	CFSM Capital Projects Fund	TTG Capital Projects Fund	Totals	
				1993	1992
Revenues:					
Compact of Free Association:					
Base amount	\$ 2,445,960	\$ —	\$ —	\$ 2,445,960	\$ 2,445,960
Inflation adjustment	1,002,844	—	—	1,002,844	929,465
Department of the					
Interior grants	—	—	253,854	253,854	161,589
FSM National Gov't contribution	—	451,152	—	451,152	217,746
Total revenues	<u>3,448,804</u>	<u>451,152</u>	<u>253,854</u>	<u>4,153,810</u>	<u>3,754,760</u>
Expenditures:					
Personnel	399,549	—	—	399,549	457,837
Travel	98,326	21,429	—	119,755	75,272
POL	34,073	510	—	34,583	6,423
Capital outlay	244,540	22,147	—	266,687	4,452,321
Other	<u>2,777,765</u>	<u>407,066</u>	<u>253,854</u>	<u>3,438,685</u>	<u>1,310,147</u>
Total expenditures	<u>3,554,253</u>	<u>451,152</u>	<u>253,854</u>	<u>4,259,259</u>	<u>6,302,000</u>
Revenues (under) expenditures	<u>(105,449)</u>	<u>—</u>	<u>—</u>	<u>(105,449)</u>	<u>(2,547,240)</u>
Other uses:					
Bond payments	(1,000,000)	—	—	(1,000,000)	(1,000,000)
Interest expense	(273,665)	—	—	(273,665)	(243,157)
Loss on equity investment	—	—	—	—	(48,769)
Total other uses	<u>(1,273,665)</u>	<u>—</u>	<u>—</u>	<u>(1,273,665)</u>	<u>(1,291,926)</u>
Deficiency of revenues over expenditures	<u>(1,379,114)</u>	<u>—</u>	<u>—</u>	<u>(1,379,114)</u>	<u>(3,839,166)</u>
Fund balances (deficit), beginning of year	<u>6,787,612</u>	<u>(49,924)</u>	<u>323,135</u>	<u>7,060,823</u>	<u>10,899,989</u>
Fund balances (deficit), end of year	<u>\$ 5,408,498</u>	<u>\$ (49,924)</u>	<u>\$ 323,135</u>	<u>\$ 5,681,709</u>	<u>\$ 7,060,823</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Expendable Trust Funds
September 30, 1993

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.

Tourism Revolving Fund

This fund accounts for sales of post cards, books, handicrafts, and other tourism material.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
EXPENDABLE TRUST FUNDS
Combining Balance Sheet
September 30, 1993
(With comparative totals as of September 30, 1992)

	Airport Trust Fund	Agriculture Revolving Fund	Production Loan Fund	Scholarship Revolving Loan Fund	Housing Revolving Fund	Aluminum Recycling Fund	Tourism Revolving Fund	1993	1992
<u>Assets</u>									
Cash and equivalents	\$ -	\$ 6,668	\$ 16,239	\$ -	\$ -	\$ -	\$ 610	\$ 23,517	\$ 67,262
TCD's and term deposits	-	37,219	-	-	-	-	-	37,219	-
Loans receivable, net	-	-	37,905	-	631,439	-	-	669,344	749,672
General receivables	7,182	8086	9842	-	28,917	-	-	54,027	11,473
Due from other funds	35,498	-	1,495	27,339	155,201	12,595	-	232,128	190,021
Inventory, at cost	-	5,991	-	-	-	-	827	6,818	4,708
Total assets	\$ 42,680	\$ 57,964	\$ 65,481	\$ 27,339	\$ 815,557	\$ 12,595	\$ 1,437	\$ 1,023,053	\$ 1,023,136
<u>Liabilities and Fund Balances</u>									
Liabilities:									
Accounts payable	\$ 174	\$ -	\$ -	\$ (336)	\$ 1,324	\$ 3,766	\$ -	\$ 4,928	\$ 9,114
Fund balances:									
Reserved for related assets	-	14,077	47,747	-	660,356	-	827	723,007	765,853
Unreserved	42,506	43,887	17,734	27,675	153,877	8,829	610	295,118	248,169
Total fund balances	42,506	57,964	65,481	27,675	814,233	8,829	1,437	1,018,125	1,014,022
Total liabilities and fund balances	\$ 42,680	\$ 57,964	\$ 65,481	\$ 27,339	\$ 815,557	\$ 12,595	\$ 1,437	\$ 1,023,053	\$ 1,023,136

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
EXPENDABLE TRUST FUNDS
Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balances
Year Ended September 30, 1993
(With comparative totals for the year ended September 30, 1992)

	Airport Trust Fund	Agriculture Revolving Fund	Production Loan Fund	Scholarship Revolving Loan Fund	Housing Revolving Fund	Aluminum Recycling Fund	Tourism Revolving Fund	Totals	
								1993	1992
Revenues:									
Sales	\$ -	\$ 5,026	\$ -	\$ -	\$ -	\$ 15,565	\$ -	\$ 20,591	\$ 90,129
Others	36,938	1,466	3,193	-	-	-	-	41,597	3,614
Total revenues	36,938	6,492	3,193	-	-	15,565	-	62,188	93,743
Expenditures:									
Cost of sales	-	6,613	-	-	-	28,548	-	35,161	62,678
Others	16,994	-	1,338	53,250	-	-	-	71,582	57
Total expenditures	16,994	6,613	1,338	53,250	-	28,548	-	106,743	62,735
Excess (deficiency) of revenues over (under) expenditures	19,944	(121)	1,855	(53,250)	-	(12,983)	-	(44,555)	31,008
Fund balances, beginning of year	22,562	58,085	63,626	80,925	767,012	21,812	-	1,014,022	947,047
Contribution of loans from other funds	-	-	-	-	47,221	-	1,437	48,658	35,967
Fund balances, end of year	\$ 42,506	\$ 57,964	\$ 65,481	\$ 27,675	\$ 814,233	\$ 8,829	\$ 1,437	\$ 1,018,125	\$ 1,014,022

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SINGLE AUDIT REPORTS
YEAR ENDED SEPTEMBER 30, 1993**



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
BASED ON THE AUDIT OF THE
GENERAL PURPOSE 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, 1993, and have issued our report thereon dated March 22, 1994. 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.

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 an opinion.

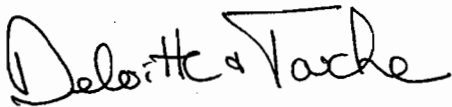
The results of our tests indicate that, with respect to the items tested, the State of Kosrae complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the State of Kosrae 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 the State of Kosrae, which are described in the accompanying Schedule of Findings and Questioned Costs (pages 79 - 80).

We also noted matters involving compliance with laws and regulations related to federal financial assistance which we reported to the State of Kosrae's management in our reports dated March 22, 1994 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 management of the State of Kosrae, the cognizant audit and other federal agencies. However, this report is a matter of public record and its distribution is not limited.

March 22, 1994

A handwritten signature in cursive script, appearing to read "Deloitte & Touche".

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 the State of Kosrae as of and for the year ended September 30, 1993, and have issued our report thereon dated March 22, 1994. 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 one major federal financial assistance program, which is identified in the accompanying Schedule of Federal Financial Assistance (pages 63 through 75), for the year ended September 30, 1993. 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.

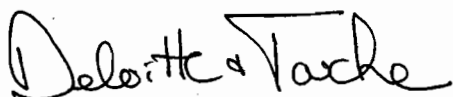
We conducted our audit of compliance with these requirements in accordance with generally accepted auditing standards; Government Auditing Standards, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Circular A-128, "Audits of State and Local Governments." Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about 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 Schedule of Findings and Questioned Costs (pages 79 - 80). 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 one major federal financial assistance program for the year ended September 30, 1993.

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

March 22, 1994

A handwritten signature in cursive script that reads "Deloitte & Touche".

Certified Public Accountants



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH THE GENERAL REQUIREMENTS APPLICABLE TO
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, 1993, and have issued our report thereon dated March 22, 1994. 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 applicable to requirements of major federal financial assistance programs and have issued our report thereon dated March 22, 1994.

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, 1993: cash management, federal financial reports, allowable costs/cost principles, Drug-Free Workplace Act, and administrative requirements.

The requirements of political activity, Davis-Bacon Act, civil rights, and relocation assistance and real property acquisition are not applicable to the federal financial assistance programs of the Federated States of Micronesia, which are identified in the Schedule of Federal Financial Assistance (pages 63 through 75).

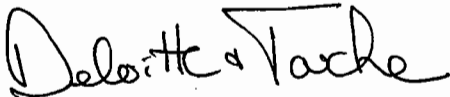
Our procedures were limited to the applicable procedures described in the Office of Management and Budget's Compliance Supplement for Single Audits of State and Local Governments. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on Kosrae State's compliance with the requirements listed in the second 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 Schedule of Findings and Questioned Costs (pages 79 - 80).

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 the State of Kosrae in our reports dated March 22, 1994.

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

March 22, 1994

A handwritten signature in cursive script, reading "Deloitte & Touche".

Certified Public Accountants



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

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, 1993, and have issued our report thereon dated March 22, 1994. 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 applicable to requirements of its only major federal financial assistance program and have issued our report thereon dated March 22, 1994.

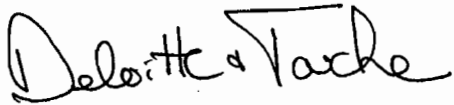
In connection with our audit of the 1993 general purpose financial statements of the State of Kosrae, and with our consideration of the State of Kosrae's control structure used to administer federal financial assistance programs, and assessment of control risk, as required by Office of Management and 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, 1993.

As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; and reporting that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on 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 Schedule of Findings and Questioned Costs (pages 79 - 80).

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

March 22, 1994

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

Certified Public Accountants



**INDEPENDENT AUDITORS' REPORT ON THE 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 as of and for the year ended September 30, 1993, and have issued our report thereon dated March 22, 1994. 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 also have audited the State of Kosrae's compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated March 22, 1994.

We conducted our audits in accordance with generally accepted auditing standards; Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, Audits of State and Local Governments. Those standards and OMB Circular A-128 require that we plan and perform the audits to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement and about whether the State of Kosrae 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, 1993, we considered the State of Kosrae's internal control structure and assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinions on the State of Kosrae's general purpose financial statements and on its compliance with requirements applicable to major programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the general purpose financial statements in a separate report dated March 22, 1994.

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 operation of policies and procedures may deteriorate.

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

General Requirements

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

Specific Requirements

- Types of services allowed or unallowed
- Eligibility
- Matching, level of effort, or earmarking
- Reporting
- Compact of Free Association

Claims for Advances and Reimbursements

Amounts Claimed or Used for Matching

Accounting Controls

- Revenue and receipts
- Purchases and disbursements
- Payroll
- External financial reporting
- Cash and equivalents
- Receivables
- Payables and accrued liabilities
- Fund balance

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, 1993, Kosrae State expended 87% 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 the State of Kosrae's one major federal financial assistance program, which is identified in the accompanying Schedule of Federal Financial Assistance (pages 63 through 75). Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We noted certain matters 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 the State of Kosrae'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 Schedule of Findings and Questioned Costs (pages 79 - 80).

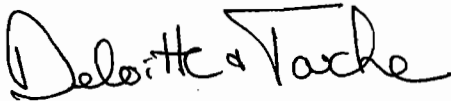
A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may 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 matters involving the internal control structure and its operation based on our audit of the general purpose financial statements which we reported to the management of the State of Kosrae in a report dated March 22, 1994.

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

March 22, 1994

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 THE
SUPPLEMENTARY SCHEDULE OF
FEDERAL FINANCIAL ASSISTANCE**

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

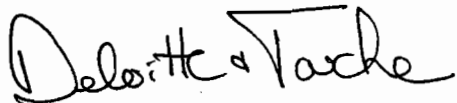
We have audited the general purpose financial statements of the State of Kosrae as of and for the year ended September 30, 1993, and have issued our report thereon dated March 22, 1994. Our report on the audit of the general purpose financial statements was modified as a result of our inability to form an opinion as to the fairness of presentation of the general fixed assets account group. 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.

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

Our audit was 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 (pages 63 through 75) for the year ended September 30, 1993, which is also the responsibility of the management of the State of Kosrae, 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 the management of the State of Kosrae, the cognizant audit and other federal agencies. However, this report is a matter of public record and its distribution is not limited.

March 22, 1994

A handwritten signature in cursive script, appearing to read "Deloitte & Touche".

Certified Public Accountants

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
INTRODUCTION TO COMPACT OF FREE ASSOCIATION FUNDING,
FEDERAL AND OTHER ASSISTANCE FUNDS
YEAR ENDED SEPTEMBER 30, 1993

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 1993, 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 the 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
YEAR ENDED SEPTEMBER 30, 1993

<u>Grantor</u>	<u>CFDA I.D. #</u>	<u>Kosrae Org. #</u>	<u>Grant Title</u>	<u>1993 Fiscal Year Expenditures</u>
Department of Education	84.124	3025	FY93 Teacher Training	\$ 41,064
	84.027	7732	FY93 Special Education	251,318
				<u>292,382</u>
Department of Labor	17.250	3261	FY91 JTPA Administration	655
		3262	FY91 JTPA Adult Programs	19,396
		3263	FY91 JTPA Youth Programs	8,106
		3280	FY91 JTPA Participant	3,256
		3298	FY91 JTPA Elderly	12,156
		3424	FY91 JTPA Education Coordinator	16,323
		3420	FY92 JTPA Administration	11,390
		3421	FY92 JTPA Adult Program	31,569
		3423	FY92 JTPA Parent Support	11,908
		3424	FY93 JTPA Youth Program	23,604
				<u>138,363</u>
Dept. of Agriculture	10.560	3326	FY91 Forestry	1,318
		3451	FY92 Forestry	2,536
				<u>3,854</u>
Environmental Protection Agency	66.418	3585	Waste Water Construction	<u>71,963</u>
Dept. of Health and Human Services	13.633	7768	FY93 Family Planning	14,472
		7459	FY93 AIDS Prevention	4,608
		7759	FY92 AIDS Prevention	1,957
		7648	FY91 MCHIP Kosrae	462
		7664	MCH/Dental Health	680
		7678	Ph & Ph	1,597
		7754	FY92 MCH	32,458
		7756	FY92 MCH/CSHCN	4,528
		7766	FY92 Ph & Ph SL	9,420
		7771	FY93 Adams	12,982
				<u>83,164</u>
Dept. of the Interior	15.904	7862	FY91 Historic Preservation	3,270
		7877	FY92 Historic Preservation	35,415
				<u>38,685</u>
Federal Emergency Management Agency	83.516	3837	Typhoon Axel	<u>36,675</u>
Total federal and other assistance expenditures				<u>\$ 665,086</u>

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

See accompanying notes to schedule of federal financial assistance.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
FOREIGN ASSISTANCE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 1993

<u>Grantor Account Title</u>	<u>Kosrae Org. #</u>	<u>1993 Fiscal Year Expenditures</u>
Family Food Nutrition	3959	\$ 2,151
FY93 Vocational Education Prel.	3929	30,185
FY93 Child Abuse	7844	<u>198</u>
		<u><u>\$ 32,534</u></u>

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

See accompanying notes to schedule of federal financial assistance.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
TTPI CAPITAL PROJECTS FUND
FOR THE YEAR ENDED SEPTEMBER 30, 1993

<u>Grantor Account Title</u>	<u>Kosrae Org. #</u>	<u>CFDA I.D. #</u>	<u>1993 Fiscal Year Expenditures</u>
<u>Office of Territorial and International Affairs</u>			
Water System Development	6346	15.875	\$ 253,854
			<u>\$ 253,854</u>

Note: The above grants are received in a subgrantee 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
YEAR ENDED SEPTEMBER 30, 1993

<u>Grantor Account Title</u>	<u>Kosrae Org. #</u>	<u>1993 Fiscal Year Expenditures</u>
Cultural Education	4543	\$ 2,853
Kosrae State Court	4612	51,471
Joint Law Enforcement	4632	47,647
Aging Program	9513	3,558
Teacher Training	9516	5,637
Aging/Senior Citizens	9566	733
Airport Dock Water System	9574	<u>339,253</u>
Total CFSM CIP		<u>\$ 451,152</u>

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

See accompanying notes to schedule of federal financial assistance.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
DEPARTMENT OF THE INTERIOR FUND
YEAR ENDED SEPTEMBER 30, 1993

Grantor Account Title	Kosrae Org. #	CFDA I.D. #	1993 Fiscal Year Expenditures
<u>Office of Territorial and International Affairs</u>			
Budget Advisor	3479	15.875	\$ 15,385
Computer Training	3482	15.875	110
FY92 Close Up Program	3539	15.875	1,000
FY93 Asian Pacific	3541	15.875	1,127
State Second Development Plan	7852	15.875	25,000
School Maintenance	7872	15.875	70,470
FY93 Vocedsp S.L.	7873	15.875	10,474
FY93 Kua Establishment	7889	15.875	6,914
Power Plant Operations and Maintenance	7892	15.875	1,583
			<u>\$ 132,063</u>

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

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
COMPACT OF FREE ASSOCIATION CAPITAL PROJECTS FUND
SECTION 211 (A) CAPITAL ACCOUNT
YEAR ENDED SEPTEMBER 30, 1993

Grantor Account Title	Kosrae Org. #	CFDA I.D. #	1993 Fiscal Year Expenditures
<u>Office of Territorial and International Affairs</u>			
Citrus & Vegetable Supp.	6196	15.875	\$ 10,056
Road DV Paving	6199	15.875	63,610
Citrus & Vegetable Sp.	6214	15.875	11,333
Poultry & Swine	6215	15.875	16,309
Elementary Classroom	6217	15.875	2,319
Road DV Sinking	6220	15.875	182,273
FY92 Road Paving Project	6224	15.875	907,586
FY92 Fisheries Development	6225	15.875	114,700
Tuna Development Project	6230	15.875	87
Land Aquisition	6292	15.875	11,828
Staff Housing	6293	15.875	1,712
Housing Renovation Loans	6354	15.875	86
Poultry & Swine Production	6460	15.875	86
FY92 Fruit Juice	6462	15.875	98
FY92 Manpower Development	6463	15.875	5,224
FY92 Land Acquisition	6464	15.875	28,928
FY92 Cadastral Program	6465	15.875	5,998
FY92 DOI Matching	6466	15.875	24,078
FY92 Terminal Expansion	6467	15.875	45,151
FY92 Project Administration	6469	15.875	42,389
FY92 Power Plant Improvements	6486	15.875	176,037
Broadcast Facility	6782	15.875	25,614
Fisheries Development	6788	15.875	72,270
Fish Processing	6789	15.875	8,092
Tofol Gymnasium	6792	15.875	11,170
Utwe Water Upgrade	6796	15.875	16,500
Citrus/Vegetable/Fruit	6800	15.875	44,075
Financial Microfilm Extension	6804	15.875	2,155
Fisheries Development	6807	15.875	344,124
Project Administration	6810	15.875	576
Housing Renovation Loan Fund	6811	15.875	5,048
POL Storage Facility	6812	15.875	262,945
Elementary Classroom	6813	15.875	105,482
Agriculture Equipment	6814	15.875	75,514
Kosrae BOFSM shares	6820	15.875	250,000
FY93 Manpower Development	6821	15.875	77,227
FY93 Housing Renovation Loans	6822	15.875	125,282
FY93 Land Management Office Renovation	6823	15.875	3,904
Land Management Equipment Repair	6824	15.875	2,946
FY93 Municipal Water Systems	6826	15.875	6,377
FY93 Power Plant Improvements	6827	15.875	69,051
FY93 Consultancy Services	6828	15.875	20,000
Subtotal			<u>3,178,240</u>

See accompanying notes to schedule of federal financial assistance.

STATE OF KOSRAE
 FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
COMPACT OF FREE ASSOCIATION CAPITAL PROJECTS FUND
SECTION 211 (A) CAPITAL ACCOUNT
YEAR ENDED SEPTEMBER 30, 1993

Grantor Account Title	Kosrae Org. #	CFDA I.D. #	1993 Fiscal Year Expenditures
Balance forwarded			\$ 3,178,240
OMIP Matching	6829	15.875	32,000
FY93 Kosrae High School	6830	15.875	8,676
FY93 Project Administration	6831	15.875	16,807
FY93 Land Acquisition	6832	15.875	95,196
Tuna Industry Development	6061	15.875	498,334
Bond repayments	6061	15.875	<u>1,273,665</u>
Total Compact of Free Association Capital Projects Fund – Section 211 (A) Capital Accounts			<u>\$ 5,102,918</u>
Balance per the general purpose financial statements			\$ 3,554,253
Bond principal repayments	6061		1,000,000
Bond interest	6061		273,665
Bank of the FSM stock	6820		250,000
Pacific Tuna Industries loan	6807		<u>25,000</u>
			<u>\$ 5,102,918</u>

Note: These funds are made available by Title Two, Article I, Section 211 of the Compact of the 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 SECTION 216(A)(2)
HEALTH AND MEDICAL PROGRAMS
YEAR ENDED SEPTEMBER 30, 1993

<u>Grantor Account Title</u>	<u>Kosrae Org. #</u>	<u>CFDA I.D. #</u>	<u>1993 Fiscal Year Expenditures</u>
<u>Office of Territorial and International Affairs</u> Medical Referral	2499	15.875	\$ <u>133,814</u>
Total Compact of Free Association Section 216(A)(2)			\$ <u><u>133,814</u></u>

Note: These funds are made available by Title Two, Article I, Section 216(a)(2) of the Compact of the 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 SECTION 212(B)
SPECIAL DEVELOPMENT PROGRAM
YEAR ENDED SEPTEMBER 30, 1993

<u>Grantor Account Title</u>	<u>Kosrae Org. #</u>	<u>1993 Fiscal Year Expenditures</u>
FY93 Special Development Public Works	2820	\$ 32,303
FY93 Civil Action Team	2903	250,000
FY93 Governor O&M	2826	<u>7,687</u>
 Total Compact of Free Association Section 212(B)		 <u>\$ 289,990</u>

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

See accompanying notes to schedule of federal financial assistance.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
COMPACT OF FREE ASSOCIATION SECTION 216(A)(3)
SCHOLARSHIP PROGRAM
YEAR ENDED SEPTEMBER 30, 1993

Grantor Account Title	Kosrae Org. #	1993 Fiscal Year Expenditures
FY88 Scholarship Grant	2650	\$ 5
FY89 Scholarship Grant	2651	(800)
FY91&92 Scholarship Grant	2653	41,650
FY87 Scholarship Grant	8501	111,094
Bad debts	-	<u>395,129</u>
 Total Compact of Free Association Section 216(A)(3)		 <u>\$ 547,078</u>

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

See accompanying notes to schedule of federal financial assistance.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
COMPACT OF FREE ASSOCIATION SECTION 221(B)
SPECIAL BLOCK GRANT FUND
YEAR ENDED SEPTEMBER 30, 1993

<u>Grantor Account Title</u>	<u>Kosrae Org. #</u>	<u>CFDA I.D. #</u>	<u>1993 Fiscal Year Expenditures</u>
<u>Office of Territorial and International Affairs</u>			
Health Special Block Program	2075	15.875	\$ 127,016
Eduation Special Block Program	2128	15.875	<u>763,451</u>
 Total Compact of Free Association Section 221(B)			 <u>\$ 890,467</u>

Note: These funds are made available by Title Two, Article II, Section 221(b) of the Compact of the 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 SECTION 214(C)
ENERGY PROGRAMS
YEAR ENDED SEPTEMBER 30, 1993

Grantor Account Title	Kosrae Org. #	1993 Fiscal Year Expenditures
Malem Hydro Electric	2802	\$ 7,484
Power Generation	2803	<u>514,845</u>
Total Compact of Free Association Section 214(C)		<u>\$ 522,329</u>

Note: These funds are made available by Title Two, Article II, Section 214(c) of the Compact of the 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 component States.

See accompanying notes to schedule of federal financial assistance.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
COMPACT OF FREE ASSOCIATION SECTION 211(A)
GENERAL FUND CURRENT ACCOUNT (CFDA NO. 15.875)
YEAR ENDED SEPTEMBER 30, 1993

<u>Grantor Account Title</u>	<u>Kosrae Org. #</u>	<u>CFDA I.D. #</u>	<u>1993 Fiscal Year Expenditures</u>
General Fund: Current Account	Various	15.875	<u>\$ 3,936,353</u>
Total Compact of Free Association expenditures			<u>\$ 11,422,949</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 FSM National Government receives all grant awards on behalf of the FSM and then reallots such to the component States.

See accompanying notes to schedule of federal financial assistance.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Notes to Schedule of Federal Financial Assistance
Year Ended September 30, 1993

(1) Scope of Review

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

A. Programs Subject to Single Audit

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

B. Fiscal Period Audited

Single audit testing procedures were performed for program transactions during the fiscal year ended September 30, 1993.

(2) Summary of Significant Accounting Policies

A. Basis of Accounting

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

B. Reporting Entity

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

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Notes to Schedule of Federal Financial Assistance, Continued
Year Ended September 30, 1993

(3) Findings of Noncompliance

The findings of noncompliance identified in connection with the 1993 Single Audit are discussed in the Schedule of Findings and Questioned Costs. In determining compliance with requirements of awards received by the State, a representative sample was selected from 1993 expenditures for testing the major program as shown on the Schedule of Programs Selected for Audit in Accordance with OMB Circular A-128 (page 78).

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF PROGRAMS SELECTED FOR
AUDIT IN ACCORDANCE WITH OMB CIRCULAR A-128
YEAR ENDED SEPTEMBER 30, 1993

Grantor	CFDA I.D. #	1993 Fiscal Year Expenditures
Major Program		
Dept. of the Interior	15.875	
Compact of Free Association		
221(a) Capital Accounts		\$ 5,102,918
221(b) Block Grant		890,467
Health and Medical		133,814
Energy		522,329
Post Secondary Education		547,078
Special Development Grant		<u>289,990</u>
Total CFDA# 15.875 excluding Compact of Free Association Section 211(a) Current Account expenditures		<u>7,486,596</u>
Nonmajor Programs:		
TTPI Capital Project Fund		<u>253,854</u>
U.S. Federal Assistance		<u>665,086</u>
Special Operations and Maintenance funds		<u>132,062</u>
Total U.S. Federal Program expenditures excluding Compact 211(a) Current Account expenditures		<u>\$ 8,537,598</u>
Percentage of Total U.S. Federal Program expenditures covered by Major Programs excluding Compact Section 211(a) Current Account expenditures		<u>87%</u>

See accompanying notes to schedule of federal financial assistance.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 1993

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 Reports for prior fiscal years remain unresolved:

<u>Page No.</u>	<u>Finding No.</u>	<u>Description</u>
		FISCAL YEAR 1988
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
		FISCAL YEAR 1992
83	2	CFSM expenditures
84	3	Compact CIP Administrative Cost

Cause: Unknown.

Effect: The effect is to have the same impact on the financial statements as indicated in fiscal years 1988 through 1992. Nonresolution 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.

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

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
YEAR ENDED SEPTEMBER 30, 1993

Prior Year Administrative Control Findings, continued

Auditee Response and Corrective Action Plan, Continued:

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

The Attorney General is reviewing the stock purchase and this matter of compliance with local laws should be resolved by the fiscal year 1994 audit.

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 1994.

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

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

Expenditures

Finding No. 2

Criteria: Expenditure activity should be allowable/chargeable to the project.

Condition: We found that payment for an out-of court settlement was charged to the Compact CIP fund (Organizations 6807 and 6788).

Cause: Unknown.

Effect: Noncompliance with intent of the Compact Treaty results.

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

Auditee Response: The State is seeking clarification from the FSM National Government.

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

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
UNRESOLVED PRIOR YEARS' QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 1993

Consequently, the following is a summary of unresolved questioned costs of the State of Kosrae as of September 30, 1993:

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.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL STRUCTURE
YEAR ENDED SEPTEMBER 30, 1993**

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, 1993, and have issued our report thereon dated March 22, 1994. 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.

In planning and performing our audit of the general purpose financial statements of the State of Kosrae for the year ended September 30, 1993, 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 the 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 general purpose financial statements in accordance with generally accepted

accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

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

- Revenue and receipts
- Purchases and disbursement
- Payroll
- External financial reporting
- Cash and equivalents
- Receivables
- Payables and accrued liabilities
- Fund balance

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. The following matter, which is further explained in the following pages 86 through 102, involving the internal control structure and its operations is considered to be a material weakness under the standards established by the American Institute of Certified Public Accountants.

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 that the reportable condition relating to controls over fixed assets is also a material weakness.

We also noted 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 (86 - 102).

We also noted matters involving the internal control structure and its operation used to administer federal financial assistance programs which we have reported to the management of the State of Kosrae in a report dated March 22, 1994.

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

March 22, 1994

Certified Public Accountants

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF IDENTIFIED INTERNAL CONTROL WEAKNESSES
Year Ended September 30, 1993

Prior Year Internal Control Findings

Finding No. 1

Criteria: Findings from the Report on Internal Control for prior years should be adequately resolved by Kosrae State management.

Condition: The following findings from the Report on Internal Controls for the prior year were found to be unresolved:

<u>Page No.</u>	<u>Finding No.</u>	<u>Description</u>
-----------------	--------------------	--------------------

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: We are seeking to enhance our professional capabilities thru technical assistance programs. We feel once this is accomplished, the matters noted above will improve.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF IDENTIFIED INTERNAL CONTROL WEAKNESSES, CONTINUED
Year Ended September 30, 1993

Travel Advance

Finding No. 2

Criteria: A functioning system of internal control requires that travel advances be evaluated on a periodic basis for collectibility .

Condition: Our review of the encumbrance subsidiary ledger revealed that the majority of travel advances outstanding as of September 30, 1993, had been outstanding for more than three months.

Cause: Unknown

Effect: The effect is a potential misstatement of travel expenditures and travel advances.

Recommendation: We recommend that the Chief Accountant, with assistance from the funds control section, periodically evaluate outstanding travel advances.

Auditee Response: We will ensure that an agreement must be signed by the traveler receiving the advance so if the traveler fails to repay the advance within the specified time period, Kosrae State should be able to collect from the traveler through any available legal means.

Corrective Action Plan: See auditee's response above.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF IDENTIFIED INTERNAL CONTROL WEAKNESSES, CONTINUED
Year Ended September 30, 1993

Stale Date Checks

Finding No. 3

Criteria: Stale dated checks should be returned to cash until such time as the payable is to be liquidated.

Condition: Checks outstanding for more than twelve months exist which are still included in the outstanding checklist.

Cause: Unknown.

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

Recommendation: We recommend that the Chief Accountant periodically review outstanding checks to ensure all stale items are returned to cash.

Auditee Response: The Director has identified items for write off and such will be greater than one year which is in line with the State banking policy.

Corrective Action Plan: See auditee's response above.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF IDENTIFIED INTERNAL CONTROL WEAKNESSES, CONTINUED
Year Ended September 30, 1993

Payroll Outstanding Checklist

Finding No. 4

Criteria: The outstanding checklist should be reconciled on a monthly basis.

Condition: The September 30, 1993 outstanding checklist for the payroll account was not available for inspection.

Cause: Unknown.

Effect: A potential understatement of cash could occur.

Recommendation: We recommend that the Chief Accountant ensure that payroll outstanding checklists be prepared monthly.

Auditee Response: We will ensure that a payroll outstanding checklist is prepared on a monthly basis.

Corrective Action Plan: See auditee's response above.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF IDENTIFIED INTERNAL CONTROL WEAKNESSES, CONTINUED
Year Ended September 30, 1993

Travel Advances

Finding No. 5

Criteria: Travel advance subsidiary ledgers should support outstanding travel advances.

Condition: The travel advance subsidiary ledger maintained thru CAPPs is not functioning and is not accounting for travel advance activities.

Cause: Unknown.

Effect: The effect is a material credit balance in the travel advance general ledger control account.

Recommendation: We recommend that the Chief Accountant maintain a reliable travel advance subsidiary ledger.

Auditee Response: The problem noted is common to all FSM States and we will seek technical assistance to correct such.

Corrective Action Plan: See auditee's response above.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF IDENTIFIED INTERNAL CONTROL WEAKNESSES, CONTINUED
Year Ended September 30, 1993

Agriculture Revolving Fund

Finding No. 6

Criteria: Payments made on behalf of other funds should be properly accounted for.

Condition: A payment made on behalf of the Division of Production & Marketing (a division of Department of Conservation & Development) was not recognized as an account receivable.

Cause: Unknown.

Effect: A possible misstatement of receivables could occur.

Recommendation: We recommend that interfund accounts be reconciled on periodic basis.

Auditee Response: We agree with the above finding and we will adopt the auditor's recommendation.

Corrective Action Plan: See auditee's response above.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF IDENTIFIED INTERNAL CONTROL WEAKNESSES, CONTINUED
Year Ended September 30, 1993

Agriculture Revolving Fund

Finding No. 7

Criteria: Bank deposits slips should agree to the cash receipts to which the deposit relates.

Condition: We found daily cash receipts not agreeing to the monthly deposit slips.

Cause: There are no records which document which receipts make up the deposit.

Effect: A potential misstatement of financial statements could exist.

Recommendation: We recommend that Bank deposit slips be reconciled to the related cash receipts and that receipt numbers be recorded and filed with the deposit slip, at the time of deposit.

Auditee Response: We agreed with the above finding and we will adopt the auditor's recommendation.

Corrective Action Plan: See auditee response above.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF IDENTIFIED INTERNAL CONTROL WEAKNESSES, CONTINUED
Year Ended September 30, 1993

Agriculture Revolving Fund

Finding No. 8

Criteria: Adequate control over the numerical integrity of cash receipts should be maintained.

Condition: We found several instances of unaccounted cash receipts.

Cause: Unknown.

Effect: A possible misstatement of cash on hand could result.

Recommendation: The State should ensure that adequate controls over the issuance of cash receipts is achieved by segregating authority to issue such receipts and access to receipts from custody of cash on hand to a select number of employees.

Auditee Response: We agreed with the above finding and we will adopt the auditor's recommendation.

Corrective Action Plan: See auditee's response above.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF IDENTIFIED INTERNAL CONTROL WEAKNESSES, CONTINUED
Year Ended September 30, 1993

Agriculture Revolving Fund

Finding No. 9

Criteria: Cash disbursements should be substantiated by appropriate documentation.

Condition: Supporting invoices for several cash disbursements could not be located.

Cause: Unknown.

Effect: A potential misstatement of the financial statements could result.

Recommendation: The State should ensure that cash disbursements are substantiated by necessary documentation and that such documentation is maintained in an organized manner.

Auditee Response: We agreed with the above finding and we will adopt the auditor's recommendation.

Corrective Action Plan: See auditee's response above.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF IDENTIFIED INTERNAL CONTROL WEAKNESSES, CONTINUED
Year Ended September 30, 1993

Production Loan Fund

Finding No. 10

Criteria: Adequate control over the numerical integrity of cash receipts should be maintained.

Condition: We found several cash receipts which were not accounted for.

Cause: Unknown.

Effect: A possible misappropriation or under reporting of cash could result.

Recommendation: The State should ensure that adequate controls over the issuance of cash receipts is achieved by segregating the authority to issue and access the receipts from the custody of cash on hand to a select number of employees.

Auditee Response: We agree with the above finding and we will adopt the auditor's recommendation.

Corrective Action Plan: See auditee's response above.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF IDENTIFIED INTERNAL CONTROL WEAKNESSES, CONTINUED
Year Ended September 30, 1993

Loans Receivable

Finding No. 11

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. The State has not utilized legal proceedings to collect these balances.

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: We are in the process of closing down the fund.

Corrective Action Plan: We will close down the account in fiscal year 1994.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF IDENTIFIED INTERNAL CONTROL WEAKNESSES, CONTINUED
Year Ended September 30, 1993

Student Loan Revolving Fund

Finding No. 12

Criteria: All 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 Revolving Fund revealed that accounting records documenting the use of the funds were incomplete.

Cause: Unknown.

Effect: A possible misstatement of the State financial statements could occur.

Recommendation: We recommend that the State ensure that complete 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 Plan: The Director of Finance has assumed responsibility for attempting to bring the responsibility for this fund back into Finance department.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF IDENTIFIED INTERNAL CONTROL WEAKNESSES, CONTINUED
Year Ended September 30, 1993

Cash in Bank

Finding No. 13

Criteria: A functioning system of internal control requires that all bank accounts be authorized and kept in the custody of the State treasurer unless specified by law.

Condition: We found that a bank account was kept at the State Court for collection of court fines and fees which was not reflected in the official accounting system.

Cause: Unknown.

Effect: A possible misstatement of the financial statements could result.

Recommendation: We recommend that the State ensure that complete bank account records for Kosrae State Government are under the custody of the State treasurer unless specified by law.

Auditee Response: We have closed the account as of June 20, 1994.

Corrective Action Plan: See auditee's response above.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF IDENTIFIED INTERNAL CONTROL WEAKNESSES, CONTINUED
Year Ended September 30, 1993

Marine Resources Revolving Fund

Finding No. 14

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 financial records kept at the division of Marine Resources revealed several activities for the Marine Resources fund during the year which should have been recorded in a comprehensive double entry accounting system.

Cause: Unknown.

Effect: A misstatement of financial records occurs.

Recommendation: We recommend that Kosrae State ensure that the Marine Resources Revolving Fund establishes a double entry accounting system.

Auditee Response: The Marine Resources division is now seeking assistance from the Department of Finance in implementing an accounting system.

Corrective Action Plan: See auditee's response above.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF IDENTIFIED INTERNAL CONTROL WEAKNESSES, CONTINUED
Year Ended September 30, 1993

Payroll revolving fund

Finding No. 15

Criteria: Kosrae State Finance should ensure that the Payroll Revolving Fund is reconciled on a periodic basis.

Condition: We found that various accrued payroll accounts such as payroll allotment to Bank of Hawaii, FSM income withholding tax, and group life insurance payable have not been reconciled as of September 30, 1993.

Cause: Unknown.

Effect: A misstatement of financial records results.

Recommendation: We recommend that the Chief Accountant ensure that the payroll revolving fund is reconciled on a periodic basis.

Auditee Response: We are investigating the material variances noted in the Payroll Revolving fund and we will make the necessary adjustments in fiscal year 1994.

Corrective Action Plan: See auditee's response above.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF IDENTIFIED INTERNAL CONTROL WEAKNESSES, CONTINUED
Year Ended September 30, 1993

Employment ceiling

Finding No. 16

Criteria: Kosrae State must comply with the employment ceiling stated in the comprehensive budget act for the fiscal year ended September 30, 1993.

Condition: One branch of the government exceeded the employment ceiling.

Cause: Unknown.

Effect: Noncompliance with local law results.

Recommendation: We recommend that the Office of Budget and Office of Personnel monitor employment ceilings.

Auditee Response: The employment ceiling was exceeded when the Legislature, having approved funding for a short term staff position (not counted against the ceiling) actually filled the position under a long term contract that put the Legislature above the ceiling.

The Legislature has attempted to monitor its own hiring to ensure that it complies with the ceiling in the budget law. It also forwards copies of employment contracts to the office of Finance and Treasury.

Corrective Action Plan: The Legislature will monitor its hiring more closely and will henceforth transmit copies of such contracts to the Office of Budget and Planning as well, in order to ensure that such oversights are caught.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF IDENTIFIED INTERNAL CONTROL WEAKNESSES, CONTINUED
Year Ended September 30, 1993

Appropriation Laws

Finding No. 17

Criteria: Appropriation laws should be reviewed to ensure compliance with reversion dates.

Condition: Appropriations are sometimes paid to a third party. This may constitute an advance until Kosrae State Government receives evidence of expenditure from the recipient. If expenditure does not occur prior to the reversion date specified by law, a return of the unused funds to Kosrae State Government may be required.

Cause: Unknown.

Effect: Amounts may be due to Kosrae State.

Recommendation: Appropriations should clarify the concerns set forth in the above condition. A formal grant agreement may be a way of ensuring that the criteria is met.

Auditee Response: We will seek amendment to the Kosrae Code in order to rectify the situation.

Corrective Action Plan: See auditee's response above.