

**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, 1994

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
YEAR ENDED SEPTEMBER 30, 1994**

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FEDERATED STATES OF MICRONESIA
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**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

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

YEAR ENDED SEPTEMBER 30, 1994

**INDEPENDENT AUDITORS' REPORT**

Honorable Moses Mackwelung
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, 1994, and for the year then ended as set forth in Section II of the foregoing table of contents. These general-purpose financial statements are the responsibility of 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 paragraphs, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Kosrae State has not adequately updated its General Fixed Assets Account Group during the year ended September 30, 1994, 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.

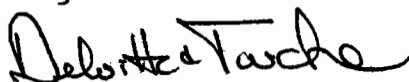
We were unable to obtain audited financial statements supporting Kosrae State's investment in a corporation stated at \$43,894 in the Governmental Fund Type - Capital Projects Fund at September 30, 1994, as described in Note 5 to the general-purpose financial statements. Kosrae State has not adjusted the investment to reflect the equity in the investee's earnings or losses incurred during the year ended September 30, 1994. We were not able to satisfy ourselves as to the carrying value of the investment by means of other auditing procedures. Additionally, Kosrae State has yet to determine whether the investee should be included within the Component Units - Proprietary Funds in the general-purpose financial statements.

The general-purpose financial statements referred to above do not include the Component Units - Governmental Funds, comprised of the Kosrae Community Action Program (KCAP), which, in our opinion, should be included to conform with generally accepted accounting principles. KCAP was unable to produce audited financial statements and the effect on the accompanying general-purpose financial statements is unknown.

Because of inadequacies in the accounting records, we were unable to determine that general receivables of the Component Unit - Proprietary Funds, comprised of the Kosrae Utilities Authority, were fairly stated.

In our opinion, except for the effects on the general-purpose financial statements of such adjustments, if any, as might have been determined to be necessary had we been able to assure ourselves as to the propriety of the General Fixed Assets Account Group, had the propriety of the State's investment of the Governmental Fund Type - Capital Projects Funds been determinable, and had the propriety of general receivables of the Component Units - Proprietary Funds been determinable, as discussed in the third, fourth and sixth paragraphs above, and the omission of the Component Units - Governmental Funds, discussed in the fifth paragraph above, the accompanying general-purpose financial statements, as set forth in Section II of the table of contents, with the exception of the General Fixed Assets Account Group upon which we are unable to express an opinion because of the matters set forth in the third paragraph above, present fairly, in all material respects, the financial position of the State of Kosrae as of September 30, 1994, and the results of its operations and the cash flows of its proprietary funds for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated February 14, 1995 on our consideration of the State of Kosrae's internal control structure and a report dated February 14, 1995 on its compliance with laws and regulations.



February 14, 1995

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Combined Balance Sheet – All Fund Types, Account Groups and Discretely Presented Component Units
September 30, 1994
(With comparative totals as of September 30, 1993)

	Governmental Fund Types			Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals Primary Government (Memorandum Only)	Component Unit Kosrae Utilities Authority	Totals Reporting Entity (Memorandum Only)	
	General	Special Revenue	Capital Projects	Internal Service	Expendable Trust	General Fixed Assets	General Long-Term Debt			1994	1993
Assets											
Cash and equivalents (Notes 1L and 2)	\$ 75,240	\$ 177,723	\$ –	\$ –	\$ 22,732	\$ –	\$ –	\$ 275,695	\$ 261,668	\$ 537,363	\$ 261,668
Other term deposits (Notes 2 and 5)	42,720	–	2,142,143	–	38,135	–	–	2,222,998	–	2,222,998	–
Investments (Notes 1H and 2)	1,055,294	–	–	–	–	–	–	1,055,294	–	1,055,294	–
Equity investments (Note 5)	–	–	968,894	–	–	–	–	968,894	–	968,894	–
Receivables from other											
governments (Notes 1E and 3)	469,861	2,859,991	1,299,683	–	–	–	–	4,629,535	–	4,629,535	–
General receivables, net (Note 4)	40,630	(17,391)	–	1,258	9,246	–	–	33,743	673,268	707,011	712,291
Loans receivable, net (Note 4)	–	–	175,000	–	743,780	–	–	918,780	–	918,780	–
Advances (Note 4)	298,631	299,046	292,773	–	–	–	–	890,450	–	890,450	–
Due from other funds (Notes 1F and 8)	1,937,216	566,478	2,258,111	–	248,451	–	–	5,010,256	–	5,010,256	–
Inventory, at cost (Note 1G)	–	–	–	118,598	8,470	–	–	127,068	107,901	234,969	107,901
Interest receivable	10,004	–	–	–	–	–	–	10,004	–	10,004	–
Amount to be provided for retirement											
of long-term debt	–	–	–	–	–	–	2,494,819	2,494,819	–	2,494,819	–
Prepayments	–	–	–	–	–	–	–	–	7,843	7,843	7,843
Fixed assets (Note 1I)	–	–	–	–	–	1,264,375	–	1,264,375	3,703,915	4,968,290	3,663,900
Total assets	\$ 3,929,596	\$ 3,885,847	\$ 7,136,604	\$ 119,856	\$ 1,070,814	\$ 1,264,375	\$ 2,494,819	\$ 19,901,911	\$ 4,754,595	\$ 24,656,506	\$ 4,753,603

See accompanying notes to financial statements.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Combined Balance Sheet – All Fund Types, Account Groups and Discretely Presented Component Units
September 30, 1994
(With comparative totals as of September 30, 1993)

	Governmental Fund Types			Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals Primary	Component Unit	Totals	
	General	Special Revenue	Capital Projects	Internal Service	Expendable Trust	General Fixed Assets	General Long-Term Debt	Government (Memorandum Only)	Kosrae Utilities Authority	Reporting Entity (Memorandum Only)	
										1994	1993
Liabilities and Fund Equity (Deficiency)											
Liabilities:											
Bank overdraft (Note 2)	\$ 571,774	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 571,774	\$ –	\$ 571,774	\$ –
Accounts payable	117,206	608,690	305,313	–	70,003	–	–	1,101,212	122,110	1,223,322	122,110
Accrued payroll and others	258,739	7,146	1,360	–	–	–	–	267,245	13,312	280,557	13,312
Due to other funds (Notes 1F and 8)	200,358	3,263,507	1,394,451	151,940	–	–	–	5,010,256	–	5,010,256	–
Deferred revenues	–	28,095	–	–	–	–	–	28,095	–	28,095	–
Due to other governments	180,636	–	–	–	–	–	–	180,636	–	180,636	–
Long-term notes payable (Note 10)	–	–	–	–	–	–	2,000,000	2,000,000	–	2,000,000	–
Vacation leave accrual	–	–	–	–	–	–	494,819	494,819	–	494,819	–
Other payables	279,168	–	–	–	–	–	–	279,168	8,583	287,751	8,583
Total liabilities	1,607,881	3,907,438	1,701,124	151,940	70,003	–	2,494,819	9,933,205	144,005	10,077,210	144,005
Contingencies (Note 6)											
Fund equity (deficiency):											
Retained earnings (deficit)	–	–	–	(32,084)	–	–	–	(32,084)	893,307	861,223	644,942
Contributed capital	–	–	–	–	–	–	–	–	3,717,283	3,717,283	3,964,656
Fund balances (deficit):											
Reserved for (Note 1K):											
Investment in general fixed assets	–	–	–	–	–	1,264,375	–	1,264,375	–	1,264,375	–
Continuing appropriations (Note 9)	116,168	226,296	5,101,645	–	–	–	–	5,444,109	–	5,444,109	–
Related assets (Note 4)	696,875	–	1,143,894	–	761,496	–	–	2,602,265	–	2,602,265	–
Encumbrances	173,413	366,238	1,300,172	–	–	–	–	1,839,823	–	1,839,823	–
Unreserved	1,335,259	(614,125)	(2,110,231)	–	239,315	–	–	(1,149,782)	–	(1,149,782)	–
Total fund equity (deficiency)	2,321,715	(21,591)	5,435,480	(32,084)	1,000,811	1,264,375	–	9,968,706	4,610,590	14,579,296	4,609,598
Total liabilities and fund equity (deficiency)	\$ 3,929,596	\$ 3,885,847	\$ 7,136,604	\$ 119,856	\$ 1,070,814	\$ 1,264,375	\$ 2,494,819	\$ 19,901,911	\$ 4,754,595	\$ 24,656,506	\$ 4,753,603

See accompanying notes to 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, 1994
(With comparative totals for the year ended September 30, 1993)

	Governmental Fund Types			Fiduciary Fund Type	Totals Reporting Entity	
	General	Special Revenue	Capital Projects	Expendable Trust	(Memorandum Only)	
Revenues:						
Compact of Free Association:						
Base amount	\$ 2,791,740	\$ 1,904,450	\$ 2,445,960	\$ —	\$ 7,142,150	\$ 6,924,822
Inflation adjustment	1,228,366	308,000	1,076,222	—	2,612,588	2,434,457
U.S. Department of the Interior grants	—	201,255	277,432	—	478,687	385,917
Revenue sharing	779,357	—	—	—	779,357	629,821
Federal contributions	—	1,708,517	—	—	1,708,517	1,039,030
Taxes and licenses	141,670	—	—	—	141,670	128,875
Investment income	475,648	—	—	—	475,648	763,585
Other	598,490	379,764	224,687	145,579	1,348,520	1,068,858
Total revenues	6,015,271	4,501,986	4,024,301	145,579	14,687,137	13,375,365
Expenditures:						
General government	1,615,508	1,805,005	—	—	3,420,513	1,960,753
Health services	964,704	139,740	—	—	1,104,444	1,347,776
Education	795,699	1,047,132	—	—	1,842,831	2,221,678
Economic development	522,810	484,509	—	—	1,007,319	505,089
Public safety	327,618	—	—	—	327,618	372,262
Public works	517,395	—	—	—	517,395	1,627,186
Community affairs	567,926	131,995	—	—	699,921	586,063
Capital projects	—	—	3,259,625	—	3,259,625	4,259,259
Other	64,269	65	—	162,893	227,227	596,647
Total expenditures	5,375,929	3,608,446	3,259,625	162,893	12,406,893	13,476,713
Excess (deficiency) of revenues over (under) expenditures	639,342	893,540	764,676	(17,314)	2,280,244	(101,348)
Other financing uses:						
Bond principal repayments	—	—	(1,000,000)	—	(1,000,000)	(1,000,000)
Bond interest expense	—	—	(201,134)	—	(201,134)	(273,665)
Operating transfers out (Note 11)	(124,375)	(531,489)	(261,534)	—	(917,398)	—
Total other financing uses	(124,375)	(531,489)	(1,462,668)	—	(2,118,532)	(1,273,665)
Excess (deficiency) of revenues over (under) expenditures and other financing uses	514,967	362,051	(697,992)	(17,314)	161,712	(1,375,013)
Fund balances (deficit), beginning of year	1,833,511	(383,642)	5,681,709	1,018,125	8,149,703	9,476,058
Equity contribution (Note 12)	(26,763)	—	451,763	—	425,000	48,658
Fund balances (deficit), end of year	\$ 2,321,715	\$ (21,591)	\$ 5,435,480	\$ 1,000,811	\$ 8,736,415	\$ 8,149,703

See accompanying notes to 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, 1994

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Compact funding:			
Base amount	\$ 2,791,740	\$ 2,791,740	\$ –
Inflation adjustment	1,214,861	1,228,366	13,505
Revenue sharing	577,000	779,357	202,357
State taxes and licenses	159,100	141,670	(17,430)
Other/miscellaneous	397,500	598,490	200,990
Investment income	400,000	475,648	75,648
Total revenues	<u>5,540,201</u>	<u>6,015,271</u>	<u>475,070</u>
Expenditures:			
General government	1,932,243	1,825,783	106,460
Health services	953,303	961,609	(8,306)
Education	837,138	741,977	95,161
Economic development	533,707	531,919	1,788
Public safety	329,084	328,553	531
Public works	536,927	510,075	26,852
Community affairs	404,990	365,578	39,412
Others	–	63,702	(63,702)
Total expenditures	<u>5,527,392</u>	<u>5,329,196</u>	<u>198,196</u>
Excess of revenues over expenditures	<u>12,809</u>	<u>686,075</u>	<u>673,266</u>
Other financing uses:			
Operating transfers out (Note 11)	<u>(124,375)</u>	<u>(124,375)</u>	<u>–</u>
Excess (deficiency) of revenues (under) over expenditures and other financing uses	<u>(111,566)</u>	<u>561,700</u>	<u>673,266</u>
Unreserved fund balance, beginning of year	<u>640,528</u>	<u>640,528</u>	<u>–</u>
Other changes in unreserved fund balance:			
Increase in reserve for continuing appropriations	–	(21,327)	(21,327)
Decrease in reserve for related assets	–	181,121	181,121
Equity contribution (Note 12)	<u>(26,763)</u>	<u>(26,763)</u>	<u>–</u>
Unreserved fund balance, end of year	<u>\$ 502,199</u>	<u>\$ 1,335,259</u>	<u>\$ 833,060</u>

See accompanying notes to financial statements.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Combined Statement of Revenues, Expenses, and Changes in Fund Equity –
All Proprietary Fund Types and Discretely Presented Component Units
Year Ended September 30, 1994
(With comparative totals for the year ended September 30, 1993)

	Proprietary Fund Type Internal Service	Total Primary Government (Memorandum Only)	Component Unit Kosrae Utilities Authority	Totals Reporting Entity (Memorandum Only)	
				1994	1993
Operating revenues:					
Charges for services	\$ 27,551	\$ 27,551	\$ 1,113,590	\$ 1,141,141	\$ 66,507
Operating expenses:					
Personnel services	–	–	307,479	307,479	–
Supplies and materials	16,424	16,424	–	16,424	42,882
Fuel	–	–	633,961	633,961	–
Depreciation	–	–	298,785	298,785	–
Other	–	–	189,772	189,772	–
Total operating expenses	16,424	16,424	1,429,997	1,446,421	42,882
Operating income (loss)	11,127	11,127	(316,407)	(305,280)	23,625
Nonoperating revenues:					
Operating transfers in (Note 11)	–	–	917,398	917,398	–
Others	–	–	2,427	2,427	–
Total nonoperating revenues	–	–	919,825	919,825	–
Net income	11,127	11,127	603,418	614,545	23,625
Add depreciation on fixed assets acquired by capital contributions that reduce contributed capital	–	–	289,889	289,889	–
Increase in retained earnings	11,127	11,127	893,307	904,434	23,625
Retained earnings (deficit), beginning of year	(43,211)	(43,211)	–	(43,211)	(66,836)
Retained earnings (deficit), end of year	(32,084)	(32,084)	893,307	861,223	(43,211)
Contributed capital, beginning of year	–	–	–	–	–
Contributions	–	–	4,007,172	4,007,172	–
Less amortization of contributed capital	–	–	(289,889)	(289,889)	–
Contributed capital, end of year	–	–	3,717,283	3,717,283	–
Fund equity, end of year	\$ (32,084)	\$ (32,084)	\$ 4,610,590	\$ 4,578,506	\$ (43,211)

See accompanying notes to financial statements.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Combined Statement of Cash Flows
All Proprietary Fund Types and Discretely Presented Component Units
Year Ended September 30, 1994
(With comparative totals for the year ended September 30, 1993)

	Proprietary Fund Type	Total Primary Government	Component Unit	Totals	
	Internal Service	(Memorandum Only)	Kosrae Utilities Authority	Reporting Entity (Memorandum Only)	
				1994	1993
Cash flows from operating activities:					
Operating income (loss)	\$ 11,127	\$ 11,127	\$ (316,407)	\$ (305,280)	\$ 23,625
Adjustment to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	—	—	298,785	298,785	—
	11,127	11,127	(17,622)	(6,495)	23,625
Changes in assets and liabilities:					
General receivables, net	(1,258)	(1,258)	(673,268)	(674,526)	(639)
Inventory	—	—	(10,228)	(10,228)	(20,665)
Prepayments	—	—	(7,843)	(7,843)	—
Accounts payable	(2,172)	(2,172)	122,110	119,938	(2,321)
Accrued payroll and others	—	—	13,312	13,312	—
Due to other funds	(7,697)	(7,697)	—	(7,697)	—
Other payables	—	—	8,583	8,583	—
	(11,127)	(11,127)	(547,334)	(558,461)	(23,625)
Net cash used for operating activities	—	—	(564,956)	(564,956)	—
Cash flows from noncapital financing activities:					
Operating transfers in (Note 11)	—	—	917,398	917,398	—
Interest paid	—	—	2,427	2,427	—
Net cash provided by noncapital financing activities	—	—	919,825	919,825	—
Cash flows from capital and related financing activities:					
Additions to fixed assets	—	—	(93,201)	(93,201)	—
Net cash used for capital and related financing activities	—	—	(93,201)	(93,201)	—
Net increase in cash and equivalents	—	—	261,668	261,668	—
Cash and equivalents, beginning of year	—	—	—	—	—
Cash and equivalents, end of year	\$ —	\$ —	\$ 261,668	\$ 261,668	\$ —
Supplemental schedule of noncash transactions:					
Capital contributions were received by Kosrae Utilities Authority from Kosrae State in 1994 in the form of utility plant assets and inventory		\$ 3,717,283			

See accompanying notes to financial statements.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Notes to Financial Statements
September 30, 1994

(1) Summary of Significant Accounting Policies

The general-purpose financial statements of the State of Kosrae have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the State of Kosrae's accounting policies are described below.

A. Reporting Entity

As required by generally accepted accounting principles, the general-purpose financial statements of the State of Kosrae present the government and its component units; entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the general-purpose financial statements to emphasize that they are legally separate from the government. There are no blended component units attributable to Kosrae State and only one discretely presented component unit is presented in the accompanying general-purpose financial statements.

Discretely Presented Component Unit

Kosrae Utilities Authority (KUA) is responsible for providing power services for the state which includes the government's jurisdiction. The members of the governing board are appointed by the governor with the consent of the state legislature. The government is potentially liable for the operation deficit (to date, KUA has not experienced an operating deficit) and would be secondarily liable for any debt issuances of KUA (currently, there is no debt outstanding). KUA is presented as a component unit - proprietary fund.

B. Fund Accounting

The State of Kosrae uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain Kosrae State functions or activities.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Notes to Financial Statements, Continued
September 30, 1994

(1) Summary of Significant Accounting Policies, Continued

B. Fund Accounting, Continued

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

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

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

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

The Internal Service Fund 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.

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

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Notes to Financial Statements, Continued
September 30, 1994

(1) Summary of Significant Accounting Policies, Continued

B. Fund Accounting, Continued

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

C. Basis of Presentation

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

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

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

The State of Kosrae considers all revenues available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Notes to Financial Statements, Continued
September 30, 1994

(1) Summary of Significant Accounting Policies, Continued

C. Basis of Presentation, Continued

Taxes, licenses and interest are susceptible to accrual. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. Other receipts and taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

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

D. Budgetary Process

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.

Encumbrance accounting is utilized for budgetary control purposes. Encumbrances outstanding of year end are reported as reservations of fund balance, and remain reservations of fund balance until becoming expended or cancelled. Amounts included on the Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund (which are presented on a non-GAAP budgetary basis) are reconciled to unreserved fund balance of the combined balance sheet within the other changes in unreserved fund balance section of that statement.

During fiscal year 1994, 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.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Notes to Financial Statements, Continued
September 30, 1994

(1) Summary of Significant Accounting Policies, Continued

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.

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 sheet separately classifies 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.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Notes to Financial Statements, Continued
September 30, 1994

(1) Summary of Significant Accounting Policies, Continued

I. Fixed Assets

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. The State has not recorded additions or deletions to this Account Group in recent years and therefore, no statement of changes in general fixed assets is included in the accompanying general-purpose financial statements.

Fixed assets of the Kosrae Utilities Authority, a component unit - proprietary fund, are comprised of various utility plant assets which are depreciated by the straight-line method over the estimated useful lives, as follows:

	<u>Estimated Useful Lives</u>	
Production plant	5 - 40 years	\$2,375,457
Distribution plant	5 - 30 years	1,419,150
General plant	3 - 20 years	<u>208,093</u>
Electric plant in service		4,002,700
Less accumulated depreciation		<u>(298,785)</u>
		<u>\$3,703,915</u>

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.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Notes to Financial Statements, Continued
September 30, 1994

(1) Summary of Significant Accounting Policies, Continued

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.

Reserves for related assets in the general-purpose financial statements at September 30, 1994, are generally as follows:

General Fund:

General receivable	\$ 40,630
Interfund receivables	<u>656,245</u>
	<u>\$ 696,875</u>

Capital Projects Funds:

Equity investment	\$ 968,894
Loan receivable	<u>175,000</u>
	<u>\$1,143,894</u>

Expendable Trust Funds:

Loans receivable	\$ 743,780
Other	<u>17,716</u>
	<u>\$ 761,496</u>

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 Financial Statements, Continued
September 30, 1994

(2) Cash and 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.
 - 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%.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Notes to Financial Statements, Continued
September 30, 1994

(2) Cash and Investments, Continued

Investments, Continued

- 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, 1994, are summarized below:

<u>Cash and Equivalents</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Certificates of deposit	\$ 239,914	\$ 239,914
<u>Investments</u>		
Pooled investment securities	<u>1,055,294</u>	<u>1,076,839</u>
Total investments	<u>\$1,295,208</u>	<u>\$1,316,753</u>

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

The State does not require collateralization of its bank deposits. At September 30, 1994, 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>\$ 571,774</u>
Cash on deposit with Hawaiian Trust Co.	\$ 37,176
Cash on deposit with FDIC insured banks	38,064
Certificate of deposit with FDIC insured bank	<u>42,720</u>
	<u>\$ 117,960</u>

Special Revenue Funds

Miscellaneous checking accounts	\$ 13,049
Cash on deposit with Hawaiian Trust Co.	<u>164,674</u>
	<u>\$ 177,723</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Notes to Financial Statements, Continued
September 30, 1994

(2) Cash and Investments, Continued

Capital Projects Funds

Certificate of deposit with FDIC insured bank	<u>\$ 2,142,143</u>
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Expendable Trust Deposits

Cash in checking and savings accounts, and certificates of deposit with FDIC insured bank	<u>\$ 22,372</u>
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Credit risk associated with investments is categorized into three levels generally described as follows:

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

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

Investment income for the year ended September 30, 1994, is comprised of the following items:

Gross investment gains	\$ 162,787
Gross investment losses	(33,874)
Interest and dividends	127,153
Management and other fees	(39,585)
Interest on deposits	<u>259,167</u>
	<u>\$ 475,648</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.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Notes to Financial Statements, Continued
September 30, 1994

(4) Receivables

Various Expendable Trust Funds have loans and other receivables of \$743,780 and \$9,246, 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 \$298,631, \$281,655, and \$292,773, respectively of advances made to State government employees and medical referral patients for travel related expenditures.

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

General fund general receivables consist of general and 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.

Receivables of the Kosrae Utilities Authority are for utility services rendered and are not net of an allowance for doubtful accounts.

(5) Other Investments

During the year ended September 30, 1994, the State has 50,000 ordinary shares in the Bank of the Federated States of Micronesia for a total cost of \$500,000. The Government's 50,000 shares represent approximately 5% of the Bank's total shares at September 30, 1994. 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, 1994, Kosrae State Government has \$2,142,143 in certificates of deposit with the bank.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Notes to Financial Statements, Continued
September 30, 1994

(5) Other Investments, Continued

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.

Kosrae State Government acquired 100% of the stock of Pacific Tuna Industries (PTI), 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 year ended September 30, 1994, no audited financial statements have been provided by Pacific Tuna Industries. Therefore no further adjustments have been made by Kosrae State due to absence of audited financial statements.

Carrying value at October 1, 1993	\$ 17,131
Additional equity investment (See Note 12)	<u>26,763</u>
Carrying value at September 30, 1994	<u><u>\$ 43,894</u></u>

The FSM National Government contributed \$425,000 for Kosrae State Government's 50% share in Kosrae Sea Venture as mandated by FSM Public Law 7-107. The investment is recorded using the equity method and has been fully reserved for as a related asset of the capital projects funds. Kosrae Sea Venture commenced operations in fiscal year 1995. (See Note 12)

(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 1994, for operations of grant programs, \$8,246 of questioned costs have been raised and \$236,467 of cumulative questioned costs remain unresolved for fiscal years 1985 through 1994. If these questioned costs are ultimately disallowed, the General Fund may bear responsibility for absorbing the amounts so disallowed.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Notes to Financial Statements, Continued
September 30, 1994

(6) Contingencies, Continued

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, 1994, was \$1,488,228.

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, 1994, 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, 1994. If operations of these funds cannot recover prior losses, the State's General Fund may have to absorb these amounts or a portion thereof.

Internal Service Fund	<u>\$ 32,084</u>
U.S. Department of the Interior Fund	<u>\$ 52,149</u>
Federal Grants Assistance	<u>\$ 251,998</u>
CFSM Capital Projects Fund	<u>\$ 49,924</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Notes to Financial Statements, Continued
September 30, 1994

(7) Material Fund Deficits, Continued

Foreign Assistance	\$ 55,936
Compact Special Block Grant 221 (b)	\$ 158,558
Compact Scholarship Fund	\$ 83,127
Aluminum Recycling Fund	\$ 38,267

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 Receivables and Payables

As of September 30, 1994, interfund receivables and payables resulting from various interfund transactions are as follows:

	<u>Due to other Funds</u>	<u>Due from other Funds</u>
General Fund	\$ 200,358	\$1,937,216
Special Revenue Funds:		
Compact-Special Block	282,559	-
Compact-Health and Medical	-	907
Compact Post Secondary		
Education	370,369	-
Fishermen's Revolving Fund	-	1,026
U.S. Department of the		
Interior Fund	829,076	-
Federal Grants Assistance		
Fund	1,704,114	-
Compact Energy	-	349,538
Compact Special Development	-	215,007
Foreign Assistance Fund	77,389	-
Capital Project Funds:		
TTG - Capital Project Fund	106,358	-
CFSM State Projects	875,366	-
Compact Capital Projects Fund	412,727	2,258,111
Expendable Trust Funds:		
Production Loan Fund	-	1,495
Scholarship Revolving Fund	-	35,538
Housing Revolving Fund	-	182,771
Airport Trust Fund	-	66,914
Aluminum Recycling Fund	-	(38,267)
Internal Service Fund	151,940	-
	<u>\$5,010,256</u>	<u>\$5,010,256</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Notes to Financial Statements, Continued
September 30, 1994

(9) Continuing Appropriations

Continuing appropriations as of September 30, 1994, are summarized as follows:

General Fund

Vocational Education Specialist	\$ 25,000
New Broadcast Facility	17
Communication Network	6,157
Vehicle License Plate	3,770
Printing of State Laws	280
Population Housing Census	23,461
Peritoneal Dialysis Program	38,256
Medical Cost Senior Citizens	4,000
Second Constitutional Convention	2,136
Grant Writer	12,379
Payment of legal obligations	<u>712</u>
	<u>\$ 116,168</u>

Special Revenue Funds

Kosraen Chants	\$ 4,478
KUA Establishment	21,941
Power systems	<u>199,877</u>
	<u>\$ 226,296</u>

Capital Project Funds

Compact of Free Association Capital	
Account - Various State approved	
projects	\$3,309,961
Various State approved projects	<u>1,791,684</u>
	<u>\$5,101,645</u>

(10) Notes 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.

On July 15, 1991, Kosrae State issued five (5) notes for \$5,000,000 to finance the construction of a cold storage facility and other fisheries development projects.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Notes to Financial Statements, Continued
September 30, 1994

(10) Notes Payable, Continued

The outstanding notes payable balance as of September 30, 1994, was comprised of several notes with varying interest rates and maturities as follows:

<u>Maturity</u>	<u>Interest Rate</u>	<u>Principal Amount</u>
10/15/94	8.03%	\$1,000,000
10/15/95	8.37%	<u>1,000,000</u>
		<u>\$2,000,000</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, 1994.

(11) Operating Transfers Out

Operating transfers out for the year ended September 30, 1994, are as follows:

Transfer from General Fund to Kosrae Utilities Authority (KUA)	\$124,375
Transfer from Special Revenue Fund to KUA	531,489
Transfer from CIP Fund to KUA	<u>261,534</u>
	<u>\$917,398</u>

(12) Equity Contribution

During the year ended September 30, 1994, the FSM National Government made an equity contribution to a Joint Venture (Kosrae Sea Venture) on behalf of the State in the amount of \$425,000. Since the source of this contribution was Compact Capital funds, the State recorded this equity contribution and the attendant investment in its Capital Projects Fund (Compact Capital).

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Notes to Financial Statements, Continued
September 30, 1994

(12) Equity Contribution, Continued

Kosrae State Government made an additional equity contribution of \$26,763 to Pacific Tuna Industries, a wholly owned private corporation during the year ended September 30, 1994. The State recorded this equity contribution and the attendant investment in the Capital Projects Funds. The source of this contribution was general fund revenue.



INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

Honorable Moses Mackwelung
Governor, State of Kosrae
Federated States of Micronesia:

Our audit was conducted for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The combining and individual fund financial statements and schedules listed in Section III of the foregoing table of contents, which are also the responsibility of the management of the 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 matters specified in our report dated February 14, 1995, in our opinion, is fairly stated in all material respects when considered in relation to the general-purpose financial statements taken as a whole.

Deloitte & Touche

February 14, 1995

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Combining Schedule of Expenditures by Account –
All Governmental Fund Types and Expendable Trust Funds
Year Ended September 30, 1994
(With comparative totals for the year ended September 30, 1993)

	<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>1994</u>	<u>1993</u>
Expenditures:						
Personnel	\$ 3,834,606	\$ 1,263,046	\$ 391,619	\$ —	\$ 5,489,271	\$ 5,545,172
Travel	311,974	166,181	84,144	—	562,299	456,536
POL	8,920	56,708	353	—	65,981	597,595
Capital outlay	158,433	111,510	200,165	—	470,108	544,072
Other	<u>1,061,996</u>	<u>2,011,001</u>	<u>2,583,344</u>	<u>162,893</u>	<u>5,819,234</u>	<u>6,333,338</u>
Total expenditures	<u>\$ 5,375,929</u>	<u>\$ 3,608,446</u>	<u>\$ 3,259,625</u>	<u>\$ 162,893</u>	<u>\$ 12,406,893</u>	<u>\$ 13,476,713</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
General Fund
September 30, 1994

The general fund is used to account for resources traditionally associated with government which are not required legally or by sound financial management to be account for in another fund.

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, 1994
(With comparative totals as of September 30, 1993)

<u>Assets</u>	<u>U.S. Grant</u>	<u>State Revenue</u>	<u>Totals</u>	
			<u>1994</u>	<u>1993</u>
Cash and equivalents	\$ 75,240	\$ —	\$ 75,240	\$ 46,276
Other term deposits	—	42,720	42,720	42,720
Investments	1,468,021	—	1,468,021	1,643,867
Receivables from other governments	180,636	289,225	469,861	243,339
General receivables, net	12,861	27,769	40,630	38,495
Advances	—	298,631	298,631	268,427
Interest receivable	10,004	—	10,004	18,052
Due from other funds	<u>1,046,351</u>	<u>478,138</u>	<u>1,524,489</u>	<u>2,011,242</u>
Total assets	<u>\$ 2,793,113</u>	<u>\$ 1,136,483</u>	<u>\$ 3,929,596</u>	<u>\$ 4,312,418</u>
 <u>Liabilities and Fund Balances</u>				
Liabilities:				
Bank overdraft	\$ 571,774	\$ —	\$ 571,774	\$ 1,236,920
Accounts payable	96,167	21,039	117,206	387,369
Accrued payroll and others	257,285	1,454	258,739	470,993
Due to other governments	180,636	—	180,636	180,636
Other payables	279,168	—	279,168	202,989
Due to other funds	<u>200,358</u>	<u>—</u>	<u>200,358</u>	<u>—</u>
Total liabilities	<u>1,585,388</u>	<u>22,493</u>	<u>1,607,881</u>	<u>2,478,907</u>
Fund balances:				
Reserved for:				
Related assets	506,544	190,331	696,875	931,698
Encumbrances	119,914	53,499	173,413	220,145
Continuing appropriations	58,685	57,483	116,168	41,140
Unreserved	<u>522,582</u>	<u>812,677</u>	<u>1,335,259</u>	<u>640,528</u>
Total fund balances	<u>1,207,725</u>	<u>1,113,990</u>	<u>2,321,715</u>	<u>1,833,511</u>
Total liabilities and fund balances	<u>\$ 2,793,113</u>	<u>\$ 1,136,483</u>	<u>\$ 3,929,596</u>	<u>\$ 4,312,418</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances – General Fund
Year Ended September 30, 1994
(With comparative totals for the year ended September 30, 1993)

	<u>U.S. Grant</u>	<u>State Revenue</u>	<u>Totals</u>	
			<u>1994</u>	<u>1993</u>
Revenues:				
Compact of Free Association:				
Base amount	\$ 2,791,740	\$ —	\$ 2,791,740	\$ 2,791,740
Inflation adjustment	1,228,366	—	1,228,366	1,144,613
Revenue sharing	—	779,357	779,357	629,821
Taxes and licenses	—	141,670	141,670	128,875
Investment income	216,481	259,167	475,648	763,585
Other	218,341	380,149	598,490	522,984
Total revenues	<u>4,454,928</u>	<u>1,560,343</u>	<u>6,015,271</u>	<u>5,981,618</u>
Expenditures:				
General government	999,470	616,038	1,615,508	1,761,631
Health services	966,465	(1,761)	964,704	1,003,782
Education	749,050	46,649	795,699	1,014,612
Economic development	522,810	—	522,810	462,550
Public safety	327,618	—	327,618	372,262
Public works	517,395	—	517,395	742,904
Community affairs	248,266	319,660	567,926	445,550
Other	64,269	—	64,269	94,059
Total expenditures	<u>4,395,343</u>	<u>980,586</u>	<u>5,375,929</u>	<u>5,897,350</u>
Excess of revenues over expenditures	<u>59,585</u>	<u>579,757</u>	<u>639,342</u>	<u>84,268</u>
Other financing uses:				
Operating transfers out	<u>—</u>	<u>(124,375)</u>	<u>(124,375)</u>	<u>—</u>
Excess of revenues over expenditures and other financing uses	<u>59,585</u>	<u>455,382</u>	<u>514,967</u>	<u>84,268</u>
Fund balances, beginning of year	<u>1,148,140</u>	<u>685,371</u>	<u>1,833,511</u>	<u>1,749,243</u>
Equity contribution	<u>—</u>	<u>(26,763)</u>	<u>(26,763)</u>	<u>—</u>
Fund balances, end of year	<u>\$ 1,207,725</u>	<u>\$ 1,113,990</u>	<u>\$ 2,321,715</u>	<u>\$ 1,833,511</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, 1994
(With comparative totals for the year ended September 30, 1993)

	<u>U.S. Grant</u>	<u>State Revenue</u>	<u>Totals</u>	
			<u>1994</u>	<u>1993</u>
Revenues:				
Compact of Free Association:				
Base amount	\$ 2,791,740	\$ —	\$ 2,791,740	\$ 2,791,740
Inflation adjustment	1,228,366	—	1,228,366	1,144,613
Revenue sharing	—	779,357	779,357	629,821
Taxes and licenses	—	141,670	141,670	128,875
Investment income	216,481	259,167	475,648	763,585
Other	218,341	380,149	598,490	522,984
Total revenues	<u>4,454,928</u>	<u>1,560,343</u>	<u>6,015,271</u>	<u>5,981,618</u>
Expenditures:				
Personnel	3,409,782	424,824	3,834,606	4,071,933
Travel	111,952	200,022	311,974	259,890
POL	8,008	912	8,920	15,138
Capital outlay	123,308	35,125	158,433	181,017
Other	742,293	319,703	1,061,996	1,369,372
Total expenditures	<u>4,395,343</u>	<u>980,586</u>	<u>5,375,929</u>	<u>5,897,350</u>
Excess of revenues over expenditures	<u>59,585</u>	<u>579,757</u>	<u>639,342</u>	<u>84,268</u>
Other financing uses:				
Operating transfers out	<u>—</u>	<u>(124,375)</u>	<u>(124,375)</u>	<u>—</u>
Excess of revenues over expenditures and other financing uses	<u>59,585</u>	<u>455,382</u>	<u>514,967</u>	<u>84,268</u>
Fund balances, beginning of year	<u>1,148,140</u>	<u>685,371</u>	<u>1,833,511</u>	<u>1,749,243</u>
Equity contribution	<u>—</u>	<u>(26,763)</u>	<u>(26,763)</u>	<u>—</u>
Fund balances, end of year	<u>\$ 1,207,725</u>	<u>\$ 1,113,990</u>	<u>\$ 2,321,715</u>	<u>\$ 1,833,511</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Combining Statement of Revenues, Expenditures and Changes in
Fund Balances, Budgetary Basis – General Fund
Year Ended September 30, 1994

	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	\$ -	\$ -	\$ -	\$ -	\$ 2,791,740	\$ 2,791,740	\$ -
Inflation adjustment	1,214,861	1,228,366	13,505	-	-	-	1,214,861	1,228,366	13,505
Revenue sharing	-	-	-	577,000	779,357	202,357	577,000	779,357	202,357
State taxes and licenses	-	-	-	159,100	141,670	(17,430)	159,100	141,670	(17,430)
Miscellaneous	-	218,341	218,341	397,500	380,149	(17,351)	397,500	598,490	200,990
Investment income	400,000	216,481	(183,519)	-	259,167	259,167	400,000	475,648	75,648
Total revenues	4,406,601	4,454,928	48,327	1,133,600	1,560,343	426,743	5,540,201	6,015,271	475,070
Expenditures:									
General government	1,063,517	1,009,282	54,235	868,726	816,501	52,225	1,932,243	1,825,783	106,460
Health services	953,303	964,390	(11,087)	-	(2,781)	2,781	953,303	961,609	(8,306)
Education	775,693	730,194	45,499	61,445	11,783	49,662	837,138	741,977	95,161
Economic development	533,707	531,919	1,788	-	-	-	533,707	531,919	1,788
Public safety	329,084	328,553	531	-	-	-	329,084	328,553	531
Public works	536,927	510,075	26,852	-	-	-	536,927	510,075	26,852
Community affairs	261,315	242,219	19,096	143,675	123,359	20,316	404,990	365,578	39,412
Others	-	63,702	(63,702)	-	-	-	-	63,702	(63,702)
Total expenditures	4,453,546	4,380,334	73,212	1,073,846	948,862	124,984	5,527,392	5,329,196	198,196
Excess (deficiency) of revenues over									
(under) expenditures	(46,945)	74,594	121,539	59,754	611,481	551,727	12,809	686,075	673,266
Other financing uses:									
Operating transfers out	-	-	-	(124,375)	(124,375)	-	(124,375)	(124,375)	-
Excess (deficiency) of revenues									
over (under) expenditures and									
other financing uses	(46,945)	74,594	121,539	(64,621)	487,106	551,727	(111,566)	561,700	673,266
Unreserved fund balances,									
beginning of year	228,353	228,353	-	412,175	412,175	-	640,528	640,528	-
Other changes in unreserved									
fund balances:									
Increase in reserve for									
continuing appropriations	-	(18,257)	(18,257)	-	(3,070)	(3,070)	-	(21,327)	(21,327)
Decrease/(increase) in reserve									
for related assets	-	237,892	237,892	-	(56,771)	(56,771)	-	181,121	181,121
Equity contribution	-	-	-	(26,763)	(26,763)	-	(26,763)	(26,763)	-
Unreserved fund balances,									
end of year	\$ 181,408	\$ 522,582	\$ 341,174	\$ 320,791	\$ 812,677	\$ 491,886	\$ 502,199	\$ 1,335,259	\$ 833,060

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Combined Statement of Revenue, Expenditures by Function and Department
and Changes in Fund Balance – General Fund
Year Ended September 30, 1994
(With comparative totals for the year ended September 30, 1993)

	<u>1994</u>	<u>1993</u>
Revenues:		
Compact of Free Association:		
Base amount	\$ 2,791,740	\$ 2,791,740
Inflation adjustment	1,228,366	1,144,613
FSM revenue sharing	779,357	629,821
State taxes and licenses:		
Cigarette tax	\$ 13,052	\$ 13,092
General sales tax	55,419	52,058
Alcohol	43,078	38,876
Motor vehicle sales tax	3,509	4,205
Licenses and fees	11,957	12,719
Court fines	14,655	7,925
	141,670	128,875
Other revenues:		
Utility collection	2,251	200,337
Transportation collection	36,617	15,262
Medical and dental services	98,696	129,205
Miscellaneous	460,926	178,180
Investment income	475,648	763,585
Total revenues	<u>6,015,271</u>	<u>5,981,618</u>
Expenditures:		
General government:		
Governor and staff	143,727	168,873
Governor's office legislative	—	3,847
Bureau of Accounting	154,646	142,771
Bureau of Budget and Management	47,111	77,175
Bureau of Procurement and Supply	52,811	55,845
Personnel and Employment Services	96,571	65,497
Bureau of Planning and Statistics	231,806	206,137
Member's Legislative	276,308	282,802
Standing Committee Legislative	47,423	53,695
Legislative staff	267,218	299,431
Municipal government operation	16,735	70,825
Land commission	154,864	171,074
Judicial operations	117,933	156,709
Judicial operations – legislative	8,355	—
FY92 State Code reprinting	—	6,950
Total	<u>1,615,508</u>	<u>1,761,631</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Combined Statement of Revenue, Expenditures by Function and Department
and Changes in Fund Balance – General Fund, Continued
Year Ended September 30, 1994
(With comparative totals for the year ended September 30, 1993)

	<u>1994</u>	<u>1993</u>
Expenditures by department, continued:		
Department of Health services:		
Administration	\$ 223,408	\$ 294,362
Environmental health	48,231	54,341
Dental services	59,589	52,547
Clinical services	300,531	253,252
Public health nursing	35,431	57,356
Medical services	299,275	257,040
Peritoneal program	(1,761)	33,840
Medical referrals	<u>—</u>	<u>1,044</u>
Total	<u>964,704</u>	<u>1,003,782</u>
Department of Education:		
Administration	96,282	115,463
Elementary	47,268	162,327
Secondary	378,196	384,681
Education—legislative	46,649	10,695
Special services	<u>227,304</u>	<u>341,446</u>
Total	<u>795,699</u>	<u>1,014,612</u>
Department of Economic and Development:		
Administration	54,595	66,131
Production and marketing	31,837	31,456
Land management	151,813	135,841
Marine resources	70,202	60,123
Agriculture	132,304	111,643
Tourism	39,717	27,128
Culture and history	<u>42,342</u>	<u>30,228</u>
Total	<u>522,810</u>	<u>462,550</u>
Department of Justice/Public Safety:		
Police	210,274	235,635
Attorney General	112,139	114,074
Police network	3,845	20,943
License plate	<u>1,360</u>	<u>1,610</u>
Total	<u>327,618</u>	<u>372,262</u>
Department of Public Works:		
Operations and maintenance	311,337	329,625
Division of Transportation	76,008	34,341
Utility services	130,050	362,463
O.M.I.P matching	<u>—</u>	<u>16,475</u>
Total	<u>517,395</u>	<u>742,904</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Combined Statement of Revenue, Expenditures by Function and Department
and Changes in Fund Balance – General Fund, Continued
Year Ended September 30, 1994
(With comparative totals for the year ended September 30, 1993)

	1994	1993
Expenditures by department, continued:		
Community Affairs:		
Division of Public broadcast	\$ 52,888	\$ 61,536
Political Affairs	75,716	77,524
Community Development	43,946	41,951
Sports Council	34,142	71,006
Sports Council – legislative	17,001	–
World Food Day	1,292	–
Micronesian Legal Services	29,325	32,500
Health Council	–	300
State Election Commission	4,358	–
Executive Service Appeals Board	–	1,367
Scholarship Board	2,000	4,298
Scholarship Board – legislative	5,863	–
Election commission – legislative	3,018	–
Broadcast authority – legislative	11,037	–
KCAP Operations – legislative	24,885	30,658
Kosrae Women	6,550	–
Micronesia Games	70,000	–
Retirement Pension	86,973	88,764
FY94 Census	3,441	–
Board of Education	2,433	–
Second Constitution Convention	4,724	–
Hiring of Grant Writer	12,621	–
Emergency Rescue Team	663	–
Antenna coupling	–	3,242
Broadcast facility	6,041	–
Acrobats	–	2,454
Land Commission – legislative	4,450	–
Development Review Commission	22,795	24,327
Development Review Comm. – legislative	21,582	–
Foreign Investment Board – legislative	15,317	–
Foreign Investment Board	4,865	5,623
Total	567,926	445,550
Other	64,269	94,059
Total expenditures	5,375,929	5,897,350
Excess of revenues over expenditures	639,342	84,268
Other financing uses:		
Operating transfer out	(124,375)	–
Excess of revenues over expenditures and other financing uses	514,967	84,268
Fund balances, beginning of year	1,833,511	1,749,243
Equity contribution	(26,763)	–
Fund balances, end of year	\$ 2,321,715	\$ 1,833,511

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Special Revenue Funds
September 30, 1994

Specific revenues that are legally restricted to expenditures for particular purposes are accounted for in Special Revenue Funds. A brief discussion of Kosrae State's Special Revenue Funds as of September 30, 1994, 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.

U.S. 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, 1994
(With comparative totals as of September 30, 1993)

	Compact Special Block Grant	Compact Health and Medical	Compact Scholarship	Compact Energy Block Grant	Compact Special Development	Fishermen's Revolving	U.S. Department of the Interior	Federal Grants Assistance	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>1994</u>	<u>1993</u>
Cash and equivalents	\$ 85,000	\$ 22,424	\$ -	\$ 13,500	\$ 43,750	\$ 13,049	\$ -	\$ -	\$ -	\$ 177,723	\$ 92,500
Receivables from:											
Federal agencies	-	-	-	-	-	-	-	210,237	-	210,237	605,125
FSM National											
Government	-	-	287,242	-	-	-	806,381	1,544,581	11,550	2,649,754	1,245,811
Others	(17,391)	-	-	-	-	-	-	-	-	(17,391)	47,894
Due from other funds	-	907	-	349,538	215,007	1,026	-	-	-	566,478	386,483
Advances	39,175	18,829	-	4,718	14,110	-	40,354	176,644	5,216	299,046	233,426
Total assets	\$ 106,784	\$ 42,160	\$ 287,242	\$ 367,756	\$ 272,867	\$ 14,075	\$ 846,735	\$ 1,931,462	\$ 16,766	\$ 3,885,847	\$ 2,611,239
Liabilities and Fund											
Balances (Deficit)											
Liabilities:											
Accounts payable	\$ (20,383)	\$ 1,910	\$ -	\$ 97,650	\$ 17,121	\$ -	\$ 41,217	\$ 475,785	\$ (4,610)	\$ 608,690	\$ 351,822
Due to other funds	282,559	-	370,369	-	-	-	829,076	1,704,114	77,389	3,263,507	2,569,045
Deferred revenues	-	-	-	-	-	-	28,095	-	-	28,095	28,095
Accrued payroll and others	3,166	-	-	-	-	-	496	3,561	(77)	7,146	45,919
Total liabilities	265,342	1,910	370,369	97,650	17,121	-	898,884	2,183,460	72,702	3,907,438	2,994,881
Fund balances (deficit):											
Reserved for:											
Continuing											
appropriations	-	-	-	-	-	-	226,296	-	-	226,296	278,586
Encumbrances	27,524	14,259	-	10,346	16,367	-	-	282,722	15,020	366,238	327,344
Unreserved	(186,082)	25,991	(83,127)	259,760	239,379	14,075	(278,445)	(534,720)	(70,956)	(614,125)	(989,572)
Total fund balances											
(deficit)	(158,558)	40,250	(83,127)	270,106	255,746	14,075	(52,149)	(251,998)	(55,936)	(21,591)	(383,642)
Total liabilities and fund balances (deficit)	\$ 106,784	\$ 42,160	\$ 287,242	\$ 367,756	\$ 272,867	\$ 14,075	\$ 846,735	\$ 1,931,462	\$ 16,766	\$ 3,885,847	\$ 2,611,239

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

**Combining Statement of Revenues, Expenditures by Function and Changes in Fund Balances (Deficit)
Year Ended September 30, 1994
(With comparative totals for the year ended September 30, 1993)**

	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	U.S. Department of the Interior	Federal Grants Assistance	Foreign Assistance	Totals	
										1994	1993
Revenues:											
Compact grants:											
Base amount	\$ 875,000	\$ 112,122	\$ 217,328	\$ 450,000	\$ 250,000	\$ -	\$ -	\$ -	\$ -	\$ 1,904,450	\$ 1,687,122
Inflation adjustment	-	-	-	198,000	110,000	-	-	-	-	308,000	287,000
U.S. Department of the											
Interior grants	-	-	-	-	-	-	201,255	-	-	201,255	132,063
Federal contributions	-	-	-	-	-	-	-	1,708,517	-	1,708,517	1,039,030
Other	-	259,630	-	-	-	13,114	-	-	107,020	379,764	32,534
Total revenues	875,000	371,752	217,328	648,000	360,000	13,114	201,255	1,708,517	107,020	4,501,986	3,177,749
Expenditures:											
General government	-	-	-	-	-	-	96,488	1,708,517	-	1,805,005	199,122
Health services	81,225	58,515	-	-	-	-	-	-	-	139,740	343,994
Education	829,804	-	217,328	-	-	-	-	-	-	1,047,132	1,207,066
Economic development	-	-	-	169,846	314,663	-	-	-	-	484,509	42,539
Public works	-	-	-	-	-	-	-	-	-	-	884,282
Community affairs	-	-	-	-	-	-	-	-	131,995	131,995	140,513
Other	-	-	-	-	-	65	-	-	-	65	395,845
Total expenditures	911,029	58,515	217,328	169,846	314,663	65	96,488	1,708,517	131,995	3,608,446	3,213,361
Excess (deficiency) of											
revenues over (under)											
expenditures	(36,029)	313,237	-	478,154	45,337	13,049	104,767	-	(24,975)	893,540	(35,612)
Other financing uses:											
Operating transfers out	-	-	-	(426,722)	-	-	(104,767)	-	-	(531,489)	-
Excess (deficiency) of											
revenues over											
expenditures and											
other financing uses	(36,029)	313,237	-	51,432	45,337	13,049	-	-	(24,975)	362,051	(35,612)
Fund balances (deficit),											
beginning of year	(122,529)	(272,987)	(83,127)	218,674	210,409	1,026	(52,149)	(251,998)	(30,961)	(383,642)	(348,030)
Fund balances (deficit),											
end of year	\$ (158,558)	\$ 40,250	\$ (83,127)	\$ 270,106	\$ 255,746	\$ 14,075	\$ (52,149)	\$ (251,998)	\$ (55,936)	\$ (21,591)	\$ (383,642)

**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, 1994
(With comparative totals for the year ended September 30, 1993)**

	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	U.S. Department of the Interior	Federal Grants Assistance	Foreign Assistance	Totals	
										1994	1993
Revenues:											
Compact grants:											
Base amount	\$ 875,000	\$ 112,122	\$ 217,328	\$ 450,000	\$ 250,000	\$ -	\$ -	\$ -	\$ -	\$ 1,904,450	\$ 1,687,122
Inflation adjustment	-	-	-	198,000	110,000	-	-	-	-	308,000	287,000
U.S. Department of the											
Interior grants	-	-	-	-	-	-	201,255	-	-	201,255	132,063
Federal contributions	-	-	-	-	-	-	-	1,708,517	-	1,708,517	1,039,030
Other	-	259,630	-	-	-	13,114	-	-	107,020	379,764	32,534
Total revenues	875,000	371,752	217,328	648,000	360,000	13,114	201,255	1,708,517	107,020	4,501,986	3,177,749
Expenditures:											
Personnel	839,471	-	-	-	260	-	36,953	375,064	11,298	1,263,046	1,073,690
Travel	-	27,684	-	-	8,228	-	11,625	101,722	16,922	166,181	76,891
POL	-	-	-	-	56,175	-	-	533	-	56,708	547,874
Capital outlay	12,669	-	-	-	-	-	771	93,611	4,459	111,510	96,368
Other	58,889	30,831	217,328	169,846	250,000	65	47,139	1,137,587	99,316	2,011,001	1,418,538
Total expenditures	911,029	58,515	217,328	169,846	314,663	65	96,488	1,708,517	131,995	3,608,446	3,213,361
Excess (deficiency) of											
revenues over (under)											
expenditures	(36,029)	313,237	-	478,154	45,337	13,049	104,767	-	(24,975)	893,540	(35,612)
Other financing uses:											
Operating transfers out	-	-	-	(426,722)	-	-	(104,767)	-	-	(531,489)	-
Excess (deficiency) of											
revenues over (under)											
expenditures and											
other financing uses	(36,029)	313,237	-	51,432	45,337	13,049	-	-	(24,975)	362,051	(35,612)
Fund balances (deficit),											
beginning of year	(122,529)	(272,987)	(83,127)	218,674	210,409	1,026	(52,149)	(251,998)	(30,961)	(383,642)	(348,030)
Fund balances (deficit),											
end of year	<u>\$ (158,558)</u>	<u>\$ 40,250</u>	<u>\$ (83,127)</u>	<u>\$ 270,106</u>	<u>\$ 255,746</u>	<u>\$ 14,075</u>	<u>\$ (52,149)</u>	<u>\$ (251,998)</u>	<u>\$ (55,936)</u>	<u>\$ (21,591)</u>	<u>\$ (383,642)</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Capital Projects Funds
September 30, 1994

The acquisition and construction of major capital facilities, other than those financed by proprietary funds and trust funds are accounted for in Capital Projects Funds. A brief discussion of Kosrae State's Capital Projects Funds as of September 30, 1994, 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

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, 1994
(With comparative totals as of September 30, 1993)

	Compact Capital Projects	CFSM Capital Projects	TTG Capital Projects	<u>Totals</u>	
				1994	1993
<u>Assets</u>					
Other term deposits	\$ 2,142,143	\$ —	\$ —	\$ 2,142,143	\$ 2,673,728
Investments	—	—	—	—	584,434
Equity investments	968,894	—	—	968,894	517,131
Receivables from U.S.					
Department of the Interior	—	—	532,194	532,194	782,080
Receivables from FSM Gov't	—	767,489	—	767,489	666,777
Advances	188,569	89,939	14,265	292,773	252,875
Loans receivable	175,000	—	—	175,000	175,000
Due from other funds	2,258,111	—	—	2,258,111	1,419,517
Total assets	\$ 5,732,717	\$ 857,428	\$ 546,459	\$ 7,136,604	\$ 7,071,542
<u>Liabilities and Fund Balances (Deficit)</u>					
Liabilities:					
Accounts payable	\$ 161,855	\$ 31,986	\$ 111,472	\$ 305,313	\$ 260,367
Other payable	412,727	—	—	412,727	—
Accrued payroll and others	(4,134)	—	5,494	1,360	11,768
Due to other funds	—	875,366	106,358	981,724	1,117,698
Total liabilities	570,448	907,352	223,324	1,701,124	1,389,833
Fund balances (deficit):					
Reserved for:					
Related assets	1,143,894	—	—	1,143,894	692,131
Encumbrances	607,238	17,968	674,966	1,300,172	1,909,551
Continuing appropriations	3,309,961	1,027,424	764,260	5,101,645	2,659,773
Unreserved	101,176	(1,095,316)	(1,116,091)	(2,110,231)	420,254
Total fund balances (deficit)	5,162,269	(49,924)	323,135	5,435,480	5,681,709
Total liabilities and fund balances (deficit)	\$ 5,732,717	\$ 857,428	\$ 546,459	\$ 7,136,604	\$ 7,071,542

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
CAPITAL PROJECTS FUNDS
Combining Statement of Revenues, Expenditures by Function and Changes in Fund Balances (Deficit)
Year Ended September 30, 1994
(With comparative totals for the year ended September 30, 1993)

	Compact Capital Projects Fund	CFSM Capital Projects Fund	TTG Capital Projects Fund	Totals	
				1994	1993
Revenues:					
Compact of Free Association:					
Base amount	\$ 2,445,960	\$ —	\$ —	\$ 2,445,960	\$ 2,445,960
Inflation adjustment	1,076,222	—	—	1,076,222	1,002,844
U.S. Department of the					
Interior grants	—	—	277,432	277,432	253,854
FSM Nat'l Gov't Contribution	—	224,687	—	224,687	451,152
Total revenues	<u>3,522,182</u>	<u>224,687</u>	<u>277,432</u>	<u>4,024,301</u>	<u>4,153,810</u>
Expenditures:					
Capital projects	<u>2,757,506</u>	<u>224,687</u>	<u>277,432</u>	<u>3,259,625</u>	<u>4,259,259</u>
Total expenditures	<u>2,757,506</u>	<u>224,687</u>	<u>277,432</u>	<u>3,259,625</u>	<u>4,259,259</u>
Excess (deficiency) of revenues over (under) expenditures	<u>764,676</u>	<u>—</u>	<u>—</u>	<u>764,676</u>	<u>(105,449)</u>
Other financing uses:					
Bond principal payments	(1,000,000)	—	—	(1,000,000)	(1,000,000)
Bond interest expense	(201,134)	—	—	(201,134)	(273,665)
Operating transfers out	<u>(261,534)</u>	<u>—</u>	<u>—</u>	<u>(261,534)</u>	<u>—</u>
Total other financing uses	<u>(1,462,668)</u>	<u>—</u>	<u>—</u>	<u>(1,462,668)</u>	<u>(1,273,665)</u>
Deficiency of revenues under expenditures and other financing uses	<u>(697,992)</u>	<u>—</u>	<u>—</u>	<u>(697,992)</u>	<u>(1,379,114)</u>
Fund balances (deficit), beginning of year	5,408,498	(49,924)	323,135	5,681,709	7,060,823
Equity contribution	<u>451,763</u>	<u>—</u>	<u>—</u>	<u>451,763</u>	<u>—</u>
Fund balances (deficit), end of year	<u>\$ 5,162,269</u>	<u>\$ (49,924)</u>	<u>\$ 323,135</u>	<u>\$ 5,435,480</u>	<u>\$ 5,681,709</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
CAPITAL PROJECTS FUNDS
Combining Statement of Revenues, Expenditures and Changes by Account in Fund Balances (Deficit)
Year Ended September 30, 1994
(With comparative totals for the year ended September 30, 1993)

	Compact Capital Projects	CFSM Capital Projects	TTG Capital Projects	Totals	
				1994	1993
Revenues:					
Compact of Free Association:					
Base amount	\$ 2,445,960	\$ —	\$ —	\$ 2,445,960	\$ 2,445,960
Inflation adjustment	1,076,222	—	—	1,076,222	1,002,844
U.S. Department of the					
Interior grants	—	—	277,432	277,432	253,854
FSM National Gov't contribution	—	224,687	—	224,687	451,152
Total revenues	<u>3,522,182</u>	<u>224,687</u>	<u>277,432</u>	<u>4,024,301</u>	<u>4,153,810</u>
Expenditures:					
Personnel	335,489	56,130	—	391,619	399,549
Travel	63,143	21,001	—	84,144	119,755
POL	—	353	—	353	34,583
Capital outlay	177,131	23,034	—	200,165	266,687
Other	<u>2,181,743</u>	<u>124,169</u>	<u>277,432</u>	<u>2,583,344</u>	<u>3,438,685</u>
Total expenditures	<u>2,757,506</u>	<u>224,687</u>	<u>277,432</u>	<u>3,259,625</u>	<u>4,259,259</u>
Excess (deficiency) of revenues over (under) expenditures	<u>764,676</u>	<u>—</u>	<u>—</u>	<u>764,676</u>	<u>(105,449)</u>
Other financing uses:					
Bond principal repayments	(1,000,000)	—	—	(1,000,000)	(1,000,000)
Bond interest expense	(201,134)	—	—	(201,134)	(273,665)
Operating transfers out	<u>(261,534)</u>	<u>—</u>	<u>—</u>	<u>(261,534)</u>	<u>—</u>
Total other financing uses	<u>(1,462,668)</u>	<u>—</u>	<u>—</u>	<u>(1,462,668)</u>	<u>(1,273,665)</u>
Deficiency of revenues under expenditures and other financing uses	<u>(697,992)</u>	<u>—</u>	<u>—</u>	<u>(697,992)</u>	<u>(1,379,114)</u>
Fund balances (deficit), beginning of year	5,408,498	(49,924)	323,135	5,681,709	7,060,823
Equity contribution	<u>451,763</u>	<u>—</u>	<u>—</u>	<u>451,763</u>	<u>—</u>
Fund balances (deficit), end of year	<u>\$ 5,162,269</u>	<u>\$ (49,924)</u>	<u>\$ 323,135</u>	<u>\$ 5,435,480</u>	<u>\$ 5,681,709</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Expendable Trust Funds
September 30, 1994

Expendable trust funds are used to account for assets held by a government unit in a trustee capacity for individuals, private organizations, or other governmental units, whose resources, including both principal and earnings, may be expended. Expendable trust funds are accounted for in essentially the same manner as governmental funds. 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, 1994
(With comparative totals as of September 30, 1993)

	Airport Trust	Agriculture Revolving	Production Loan	Scholarship Revolving Loan	Housing Revolving	Aluminum Recycling	Tourism	Totals	
								1994	1993
<u>Assets</u>									
Cash and equivalents	\$ -	\$ 3,572	\$ 18,550	\$ -	\$ -	\$ -	\$ 610	\$ 22,732	\$ 23,517
Other term deposits	-	38,135	-	-	-	-	-	38,135	37,219
Loans receivable, net	-	-	70,121	-	673,659	-	-	743,780	669,344
General receivables, net	7,182	822	1,242	-	-	-	-	9,246	54,027
Due from other funds	66,914	-	1,495	35,538	182,771	(38,267)	-	248,451	232,128
Inventory, at cost	-	7,324	-	-	-	-	1,146	8,470	6,818
Total assets	\$ 74,096	\$ 49,853	\$ 91,408	\$ 35,538	\$ 856,430	\$ (38,267)	\$ 1,756	\$ 1,070,814	\$ 1,023,053
<u>Liabilities and Fund Balances (Deficit)</u>									
Liabilities:									
Accounts payable	\$ 918	\$ 89	\$ -	\$ 7,863	\$ 61,133	\$ -	\$ -	\$ 70,003	\$ 4,928
Fund balances:									
Reserved for related assets	7,182	8,146	71,363	-	673,659	-	1,146	761,496	723,007
Unreserved	65,996	41,618	20,045	27,675	121,638	(38,267)	610	239,315	295,118
Total fund balances (deficit)	73,178	49,764	91,408	27,675	795,297	(38,267)	1,756	1,000,811	1,018,125
Total liabilities and fund balances (deficit)	\$ 74,096	\$ 49,853	\$ 91,408	\$ 35,538	\$ 856,430	\$ (38,267)	\$ 1,756	\$ 1,070,814	\$ 1,023,053

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
EXPENDABLE TRUST FUNDS
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended September 30, 1994
(With comparative totals for the year ended September 30, 1993)

	Airport Trust	Agriculture Revolving	Production Loan	Scholarship Revolving Loan	Housing Revolving	Aluminum Recycling	Tourism Revolving	Totals	
								1994	1993
Revenues:									
Sales	\$ -	\$ -	\$ 3,000	\$ -	\$ -	\$ 39,979	\$ 190	\$ 43,169	\$ 20,591
Others	63,829	464	28,006	-	9,982	-	129	102,410	41,597
Total revenues	<u>63,829</u>	<u>464</u>	<u>31,006</u>	<u>-</u>	<u>9,982</u>	<u>39,979</u>	<u>319</u>	<u>145,579</u>	<u>62,188</u>
Expenditures:									
Cost of sales	-	-	5,079	-	-	87,075	-	92,154	35,161
Others	33,157	8,664	-	-	28,918	-	-	70,739	71,582
Total expenditures	<u>33,157</u>	<u>8,664</u>	<u>5,079</u>	<u>-</u>	<u>28,918</u>	<u>87,075</u>	<u>-</u>	<u>162,893</u>	<u>106,743</u>
Excess (deficiency) of revenues over (under) expenditures	<u>30,672</u>	<u>(8,200)</u>	<u>25,927</u>	<u>-</u>	<u>(18,936)</u>	<u>(47,096)</u>	<u>319</u>	<u>(17,314)</u>	<u>(44,555)</u>
Fund balances, beginning of year	42,506	57,964	65,481	27,675	814,233	8,829	1,437	1,018,125	1,014,022
Contribution of loans from other funds	-	-	-	-	-	-	-	-	48,658
Fund balances (deficit), end of year	<u>\$ 73,178</u>	<u>\$ 49,764</u>	<u>\$ 91,408</u>	<u>\$ 27,675</u>	<u>\$ 795,297</u>	<u>\$ (38,267)</u>	<u>\$ 1,756</u>	<u>\$ 1,000,811</u>	<u>\$ 1,018,125</u>

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
INDEPENDENT AUDITORS' REPORTS ON COMPLIANCE
WITH LAWS AND REGULATIONS
YEAR ENDED SEPTEMBER 30, 1994**



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
BASED ON AN AUDIT OF GENERAL-PURPOSE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Moses Mackwelung
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, 1994, and have issued our report thereon dated February 14, 1995. Our report on the audit of the general-purpose financial statements was modified due to; 1) our inability to determine the effects of not updating the General Fixed Assets Account Group; 2) the absence of detail of general receivables of the Kosrae Utilities Authority - a Component Unit - Proprietary Fund 3) our inability to obtain audited financial statements supporting Kosrae State's investment in a corporation recorded in the Governmental Fund Type - Capital Projects Fund and 4) the omission of the Component Units - Governmental Funds from the general-purpose financial statements.

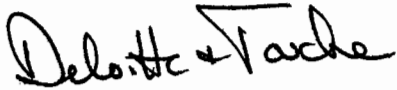
We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are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

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

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

However, we noted certain immaterial instances of noncompliance that we have reported to the management of the State of Kosrae, which are described in the accompanying Schedule of Findings and Questioned Costs (pages 79 through 94) in Federal Findings 1 through 9 and Local Findings 1 through 5.

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

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

February 14, 1995



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

Honorable Moses Mackwelung
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, 1994, and have issued our report thereon dated February 14, 1995. Our report on the audit of the general-purpose financial statements was modified due to; 1) our inability to determine the effects of not updating the General Fixed Assets Account Group; 2) the absence of detail of general receivables of the Kosrae Utilities Authority - a Component Unit - Proprietary Fund 3) our inability to obtain audited financial statements supporting Kosrae State's investment in a corporation recorded in the Governmental Fund Type - Capital Projects Fund and 4) the omission of the Component Units - Governmental Funds from the general-purpose financial statements.

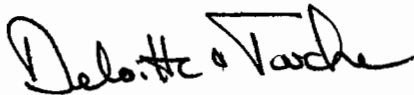
We have also audited the State of Kosrae's compliance with the requirements governing the Compact of Free Association; types of services allowed or unallowed; eligibility; reporting; special tests and provisions related to the U.S. Environmental Protection Agency Wastewater Construction Project (66.418); and claims for advances and reimbursements that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance (pages 62 through 75), for the year ended September 30, 1994. The management of the State of Kosrae is responsible for the State of Kosrae's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with these requirements in accordance with generally accepted auditing standards; Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, "Audits of State and Local Governments". Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the State of Kosrae'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 through 94) in Findings 1 through 5, 7 and 9. 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; types of services allowed or unallowed; eligibility; reporting; special tests and policies related to the U.S. Environmental Protection Agency Wastewater Construction Project (66.418); and claims for advances and reimbursements that are applicable to each of its major federal financial assistance programs for the year ended September 30, 1994.

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

A handwritten signature in black ink, appearing to read "Delo H. Tache". The signature is fluid and cursive, with the first name "Delo" and last name "Tache" clearly distinguishable.

February 14, 1995



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

Honorable Moses Mackwelung
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, 1994, and have issued our report thereon dated February 14, 1995. Our report on the audit of the general-purpose financial statements was modified due to; 1) our inability to determine the effects of not updating the General Fixed Assets Account Group; 2) the absence of detail of general receivables of the Kosrae Utilities Authority - a Component Unit - Proprietary Fund 3) our inability to obtain audited financial statements supporting Kosrae State's investment in a corporation recorded in the Governmental Fund Type - Capital Projects Fund and 4) the omission of the Component Units - Governmental Funds from the general-purpose financial statements. 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 February 14, 1995.

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 (pages 62 through 75), for the year ended September 30, 1994: cash management, federal financial reports, allowable costs/cost principles, Drug-Free Workplace Act, and administrative requirements.

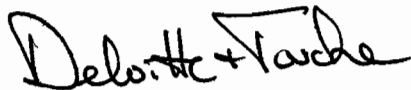
The requirements of political activity, Davis-Bacon Act, civil rights and relocation assistance and real property acquisition are not applicable to the federal financial assistance programs of the State of Kosrae, which are identified in the Schedule of Federal Financial Assistance.

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 the State of Kosrae's compliance with the requirements listed in the second paragraph of this report. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the 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 through 94) in Federal Finding numbers 1, 2, 4, 6 and 7.

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 February 14, 1995.

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

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

February 14, 1995



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

Honorable Moses Mackwelung
Governor, State of Kosrae
Federated States of Micronesia:

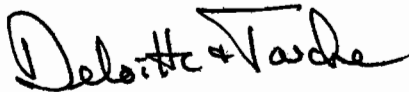
We have audited the general-purpose financial statements of the State of Kosrae as of and for the year ended September 30, 1994, and have issued our report thereon dated February 14, 1995. Our report on the audit of the general-purpose financial statements was modified due to; 1) our inability to determine the effects of not updating the General Fixed Assets Account Group; 2) the absence of detail of general receivables of the Kosrae Utilities Authority - a Component Unit - Proprietary Fund 3) our inability to obtain audited financial statements supporting Kosrae State's investment in a corporation recorded in the Governmental Fund Type - Capital Projects Fund and 4) the omission of the Component Units - Governmental Funds from the general-purpose financial statements. 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 February 14, 1995.

In connection with our audit of the 1994 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 (OMB) Circular A-128, "Audits of State and Local Governments", we selected certain transactions applicable to certain nonmajor federal financial assistance programs for the year ended September 30, 1994.

As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing types of services allowed or unallowed; eligibility; and reporting that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the State of Kosrae'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 through 94) in finding numbers 6 and 8.

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

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

February 14, 1995



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

Honorable Moses Mackwelung
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, 1994, and have issued our report thereon dated February 14, 1995. Our report on the audit of the general-purpose financial statements was modified due to; 1) our inability to determine the effects of not updating the General Fixed Assets Account Group; 2) the absence of detail of general receivables of the Kosrae Utilities Authority - a Component Unit - Proprietary Fund 3) our inability to obtain audited financial statements supporting Kosrae State's investment in a corporation recorded in the Governmental Fund Type - Capital Projects Fund and 4) the omission of the Component Units - Governmental Funds from the general-purpose financial statements.

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, 1994, 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 February 14, 1995.

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:

Controls Used in Administering Federal Programs

General Requirements

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

Specific Requirements

- Compact of Free Association
- Types of services allowed or unallowed
- Eligibility
- Reporting
- Special tests and provisions related to the U.S.
 - Environmental Protection Agency Wastewater
 - Construction Project

Claims for Advances and Reimbursements

Accounting Controls

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

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

During the year ended September 30, 1994, the State of Kosrae expended 87% of its total federal financial assistance under one major federal financial assistance program listed on page 78.

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 and general requirements 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 62 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 judgment, could adversely affect Kosrae State's ability to administer federal financial assistance programs in accordance with applicable laws and regulations.

The following items, which are described in the accompanying Schedule of Findings and Questioned Costs (pages 79 through 94), represent reportable conditions:

- Finding No. 1 - Federal Property Standards
- Finding No. 2 - Drug Free Workplace Act
- Finding No. 4 - Special Education - State Grants
- Finding No. 5 - Special Education - State Grants
- Finding No. 6 - Education Improvement
- Finding No. 7 - Administrative Requirements

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.



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

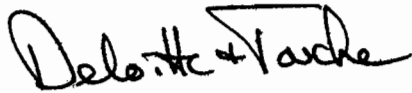
Honorable Moses Mackwelung
Governor, State of Kosrae
Federated States of Micronesia:

We have audited the general-purpose financial statements of the State of Kosrae as of and for the year ended September 30, 1994, and have issued our report thereon dated February 14, 1995. Our report on the audit of the general-purpose financial statements was modified due to; 1) our inability to determine the effects of not updating the General Fixed Assets Account Group; 2) the absence of detail of general receivables of the Kosrae Utilities Authority - a Component Unit - Proprietary Fund 3) our inability to obtain audited financial statements supporting Kosrae State's investment in a corporation recorded in the Governmental Fund Type - Capital Projects Fund and 4) the omission of the Component Units - Governmental Funds from the general-purpose financial statements. These general-purpose financial statements are the responsibility of the State of Kosrae'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 62 through 75) for the year ended September 30, 1994, 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 State of Kosrae and the cognizant audit and other federal agencies. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in dark ink, appearing to read "Delbert H. Tache". The signature is fluid and cursive, with a large initial "D" and a stylized "T" at the end.

February 14, 1995

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
U.S. FEDERAL AND OTHER ASSISTANCE FUND
YEAR ENDED SEPTEMBER 30, 1994

<u>Grantor</u>	<u>CFDA I.D. #</u>	<u>Kosrae Org. #</u>	<u>Grant Title</u>	<u>1994 Fiscal Year Expenditures</u>
U.S. Dept. of Education	84.124	7746	FY94 Teacher Training	\$ 51,938
	84.027	7732	FY93 Special Education	237,491
	84.027	7743	FY94 Special Education	119,826
	84.256	4516	FY94 TFAS	<u>210,162</u>
				<u>619,417</u>
U.S. Dept. of Labor	17.250	3263	FY91 JTPA Youth Programs	794
		3298	FY91 JTPA Elderly	2,743
		3420	FY92 JTPA Administration	525
		3421	FY92 JTPA Adult Program	3,435
		3422	FY93 JTPA Youth	(224)
		3423	FY92 JTPA Parent Support	842
		3424	FY93 JTPA Youth Program	964
		3430	FY93 JTPA Administration	22,457
		3431	FY93 JTPA Adult Program	39,049
		3432	FY93 JTPA Youth	33,842
		3433	FY93 JTPA Participation/Support	22,612
		3434	FY93 Education Coordinator	9,950
		3435	FY93 JTPA Elderly	<u>10,587</u>
				<u>147,576</u>
U.S. Dept. of Agriculture	10.560	3326	FY91 Forestry	117
		7708	FY93 Forestry	<u>4,794</u>
				<u>4,911</u>
U.S. Environmental Protection Agency	66.418	3585	Waste Water Construction	<u>724,243</u>
U.S. Dept. of Health and Human Services	13.633	7363	FY94 TB and Aids	6,220
		7454	FY93 MCH	33,773
		7455	FY93 MCH/Dental Health	6,800
		7456	FY93 MCH	4,320
		7460	FY92 Pacific Basin Initiative	47,775
		7463	FY94 Family Planning	16,918
		7472	FY93 Preventive Health	9,111
		7473	FY93 Substance Abuse, Preventive, Treati	16,923
		7481	FY94 State System Dev. Initiative	11,894
		7494	FY94 Immunization	7,505
		7499	FY94 Aids Prevention	7,800
		7754	FY92 MCH	3,539
		7793	FY93 Immunization Program	573
		7766	PH & PH	<u>200</u>
				<u>173,351</u>
			Subtotal	<u>1,669,498</u>

See accompanying notes to schedule of federal financial assistance.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
U.S. FEDERAL AND OTHER ASSISTANCE FUND
YEAR ENDED SEPTEMBER 30, 1994

		Balance forwarded	\$ 1,669,498
U.S. Dept. of the Interior 15.904	7303	FY93 Historic Preservation	30,210
	7326	FY94 Historic Preservation	6,334
	7862	FY93 Historic Preservation	2,432
	7877	FY92 Historic Preservation	43
			<hr/> 39,019
		Total federal and other assistance expenditures	<hr/> <u>\$ 1,708,517</u>

Note: The above grants are received in a subgrantee capacity through the FSM National Government, except for the TFAS grant (84.256), which was received directly from the grantor.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
FOREIGN ASSISTANCE FUND
YEAR ENDED SEPTEMBER 30, 1994

<u>Account Title</u>	<u>Kosrae Org. #</u>	<u>1994 Fiscal Year Expenditures</u>
Family Food Nutrition	3959	\$ 2,307
FY93 Vocational Education Prel.	3929	19,911
FY94 Vocational Education Prel.	3930	53,280
FY94 Tree Planting Project	7410	425
Vision & Dreams	3542	23,909
Vocational Education	7873	<u>32,163</u>
		<u>\$ 131,995</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
YEAR ENDED SEPTEMBER 30, 1994

Grantor Account Title	Kosrae Org. #	CFDA I.D. #	1994 Fiscal Year Expenditures
<u>Office of Territorial and International Affairs</u>			
Water System Development	6346	15.875	\$ 214,777
Kosrae Okat Dock	6350	15.875	49,617
Kosrae Airport Improvement	6351	15.875	<u>13,038</u>
			<u>\$ 277,432</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, 1994

<u>Account Title</u>	<u>Kosrae Org. #</u>	1994 <u>Fiscal Year Expenditures</u>
Broiler Project	6900	\$ 591
Cultural Education	4543	3,007
Kosrae State Court	4612	65,293
Joint Law Enforcement	4632	62,676
Aging Program	9513	1,813
Aging/Senior Citizens	9566	3,844
Airport Dock Water System	9574	81,678
Radio Broadcast	9575	<u>5,785</u>
Total CFSM CIP		<u>\$ 224,687</u>

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

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
OPERATIONS AND MAINTENANCE GRANTS FUND
YEAR ENDED SEPTEMBER 30, 1994**

<u>Grantor Account Title</u>	<u>Kosrae Org. #</u>	<u>CFDA I.D. #</u>	<u>1994 Fiscal Year Expenditures</u>
<u>Office of Territorial and International Affairs</u>			
Budget Adviser	3479	15.875	\$ 5,627
FY91 OMIP Reorganization	7874	15.875	90,862
FY91 KUA Establishment	7889	15.875	72,645
Power Plant Operations and Maintenance	7892	15.875	<u>32,121</u>
			<u>\$ 201,255</u>
Balance per the general purpose financial statements			\$ 96,488
Transfer to KUA	7889		72,644
Transfer to KUA	7892		<u>32,123</u>
			<u>\$ 201,255</u>

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

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, 1994

Grantor Account Title	Kosrae Org. #	CFDA I.D. #	1994 Fiscal Year Expenditures
<u>Office of Territorial and International Affairs</u>			
Citrus & Vegetable Supp.	6196	15.875	\$ 504
Manpower Training	6198	15.875	169
Road DV Paving	6199	15.875	346,657
Power System Improvement	6200	15.875	18,061
Airport Improvement	6201	15.875	645
Project Admin. Cost	6202	15.875	1,820
Poultry & Swine	6215	15.875	2,636
Manpower development	6218	15.875	314
FY92 Road Paving Project	6224	15.875	68,264
FY92 Fisheries Development	6225	15.875	14,565
Citrus Fumigation	6227	15.875	3,034
Manpower training	6287	15.875	706
Staff Housing	6293	15.875	4,441
Poultry & Swine Production	6460	15.875	4,001
Poultry & Swine Production	6461	15.875	4,169
FY92 Fruit Juice	6462	15.875	10,691
FY92 Manpower Development	6463	15.875	14,303
FY92 Land Acquisition	6464	15.875	23,208
FY92 Project Administration	6469	15.875	3,998
Broadcast Facility	6782	15.875	901
Broadcast Facility	6784	15.875	4,810
FY92 Power Plant Improvements	6486	15.875	170,764
Tourism Development	6787	15.875	1,500
Fisheries Development	6788	15.875	698
Fish Processing	6789	15.875	154
Tofol Gymnasium	6792	15.875	4,609
Citrus/Vegetable/Fruit	6800	15.875	7,669
Fisheries Development	6807	15.875	130,278
Housing Renovation Loan Fund	6811	15.875	196
POL Storage Facility	6812	15.875	73,660
Elementary Classroom	6813	15.875	11,010
Agriculture Equipment	6814	15.875	278
Lelu Electrical Upgrade	6815	15.875	29,930
State New Court	6817	15.875	99,389
DOI Matching	6818	15.875	1,215
State Sewer Project	6819	15.875	722,109
FY93 Manpower Development	6821	15.875	10,955
FY93 Housing Renovation Loans	6822	15.875	101,741
FY93 Land Management Office Renovation	6823	15.875	871
Land Management Equipment Repair	6824	15.875	1,978
FY93 Fisheries Development	6225	15.875	316
FY93 Municipal Water Systems	6826	15.875	34,078
FY93 Power Plant Improvements	6827	15.875	24,695
FY93 Kosrae High School	6830	15.875	173
FY93 Project Administration	6831	15.875	32,898
FY93 Land Acquisition	6832	15.875	13,767
Subtotal			<u>2,002,828</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, 1994

Grantor Account Title	Kosrae Org. #	CFDA I.D. #	1994 Fiscal Year Expenditures
Balance forwarded			\$ 2,002,828
FY94 Feasibility Study	6833	15.875	37,500
FY94 Land Acquisition	6834	15.875	58,329
FY94 Project Administration	6835	15.875	10,237
FY94 Manpower Development	6836	15.875	47,745
FY94 Road Pavement	6837	15.875	468,402
FY94 Lelu Power Upgrade	6838	15.875	9
FY94 Maintenance Program	6839	15.875	7,203
FY94 Public Safety Matching	6842	15.875	6,709
FY94 Sansrik Elementary Con.	6843	15.875	644
FY94 Consultant Services	6844	15.875	20,000
FY94 School Bus	6845	15.875	119,990
FY93 OMIP Power Plant	6846	15.875	236,839
Tuna Industry Development	6061	15.875	2,605
MTN Payments	6840	15.875	<u>1,201,134</u>
Total Compact of Free Association Capital Projects Fund – Section 211 (A) Capital Accounts			<u>\$ 4,220,174</u>
Balance per the general–purpose financial statements			\$ 2,757,506
Bond principal repayments	6840		1,000,000
Bond interest	6840		201,134
Transfer to Kosrae Utilities Authority	6846		236,839
Transfer to Kosrae Utilities Authority	6827		<u>24,695</u>
			<u>\$ 4,220,174</u>

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

These funds are disbursed through the Office of Territorial and International Affairs (OTIA), U.S. Department of the Interior and bear CFDA No. 15.875. The FSM National Government receives all grant awards on behalf of the FSM and 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)(2)
HEALTH AND MEDICAL PROGRAMS
YEAR ENDED SEPTEMBER 30, 1994

<u>Grantor Account Title</u>	<u>Kosrae Org. #</u>	<u>CFDA I.D. #</u>	<u>1994 Fiscal Year Expenditures</u>
<u>Office of Territorial and International Affairs</u>			
Medical Referral	2499	15.875	\$ 58,515
Total Compact of Free Association Section 216(A)(2)			<u>\$ 58,515</u>

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

These funds are disbursed through the Office of Territorial and International Affairs (OTIA), U.S. Department of the Interior and bear CFDA No. 15.875. The FSM National Government receives all grant awards on behalf of the FSM and 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 212(B)
SPECIAL DEVELOPMENT PROGRAM
YEAR ENDED SEPTEMBER 30, 1994

<u>Account Title</u>	<u>Kosrae Org. #</u>	<u>1994 Fiscal Year Expenditures</u>
FY93 Special Development Public Works	2820	\$ 56,175
Civic Action Team	N/A	250,000
FY93 Governor O&M	2826	<u>8,488</u>
 Total Compact of Free Association Section 212(B)		 <u>\$ 314,663</u>

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

These funds are disbursed through the Office of Territorial and International Affairs (OTIA), U.S. Department of the Interior and bear CFDA No. 15.875. The FSM National Government receives all grant awards on behalf of the FSM and 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, 1994

<u>Account Title</u>	<u>Kosrae Org. #</u>	<u>1994 Fiscal Year Expenditures</u>
FY91&92 Scholarship Grant	2653	\$ <u>217,328</u>
Total Compact of Free Association Section 216(A)(3)		\$ <u>217,328</u>

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

These funds are disbursed through the Office of Territorial and International Affairs (OTIA), U.S. Department of the Interior and bear CFDA No. 15.875. The FSM National Government receives all grant awards on behalf of the FSM and 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, 1994

<u>Grantor Account Title</u>	<u>Kosrae Org. #</u>	<u>CFDA I.D. #</u>	<u>1994 Fiscal Year Expenditures</u>
<u>Office of Territorial and International Affairs</u>			
Health Special Block Program	2075	15.875	\$ 81,225
Eduation Special Block Program	2128	15.875	<u>829,804</u>
 Total Compact of Free Association Section 221(B)			 <u>\$ 911,029</u>

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

These funds are disbursed through the Office of Territorial and International Affairs (OTIA) U.S. Department of the Interior and bear CFDA No. 15.875. The FSM National Government receives all grant awards on behalf of the FSM and 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 214(B)
ENERGY PROGRAMS
YEAR ENDED SEPTEMBER 30, 1994

Account Title	Kosrae Org. #	1994 Fiscal Year Expenditures
Malem Hydro Electric	2802	\$ 5,359
Power Generation	2803	426,722
FY94 Government Power Bill	2805	<u>164,487</u>
Total Compact of Free Association Section 214(b)		<u>\$ 596,568</u>
Balance per the general purpose financial statements		\$ 169,846
Transfer to Kosrae Utilities Authority	2803	<u>426,722</u>
		<u>\$ 596,568</u>

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

These funds are disbursed through the Office of Territorial and International Affairs (OTIA), U.S. Department of the Interior and bear CFDA No. 15.875. The FSM National Government receives all grant awards on behalf of the FSM and 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 211(A)
GENERAL FUND CURRENT ACCOUNT
YEAR ENDED SEPTEMBER 30, 1994

<u>Account Title</u>	<u>Kosrae Org. #</u>	<u>CFDA I.D. #</u>	<u>1994 Fiscal Year Expenditures</u>
General Fund: Current Account	Various	15.875	<u>\$ 4,020,106</u>

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

These funds are disbursed through the Office of Territorial and International Affairs (OTIA), U.S. Department of the Interior and bear CFDA No. 15.875. 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, 1994

(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

(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, 1994

(3) Component Units

The Kosrae Utilities Authority, a component unit - proprietary fund of the State of Kosrae separately satisfies the requirements of OMB Circular A-128. Kosrae Utilities Authority's Schedule of Federal Financial Assistance, as extracted from its audited report dated February 13, 1995, is as follows:

<u>Grantor Agency/Program</u>	<u>CFDA#</u>	<u>Fiscal Year 1994 Expenditures</u>
U.S. Department of the Interior:		
Compact of Free Association:		
Energy (214B)	15.875	\$ 426,722
Capital Account (211A)	15.875	261,534
Operations and Maintenance		
Improvement Programs (OMIP)	15.875	<u>104,768</u>
Total expenditures		<u>\$ 793,024</u>

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

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

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF PROGRAMS SELECTED FOR
AUDIT IN ACCORDANCE WITH OMB CIRCULAR A-128
YEAR ENDED SEPTEMBER 30, 1994

Grantor	CFDA I.D. #	1994 Fiscal Year Expenditures
Major Programs		
U.S. Dept. of the Interior	15.875	
Compact of Free Association		
221(a) Capital Accounts		\$ 4,220,174
221(b) Block Grant		911,029
Health and Medical		58,515
Energy		596,568
Scholarship Program		217,328
Special Development Grant		<u>314,663</u>
Total Major Programs under CFDA# 15.875 excluding Compact of Free Association Section 211(a) Current Account expenditures		6,318,277
U.S. Environmental Protection Agency:		
Wastewater Construction	66.418	724,243
U.S. Department of Education:		
Special Education Program	84.027	<u>357,317</u>
Total major program expenditures		<u>\$ 7,399,837</u>
Total U.S. Federal Program expenditures excluding Compact 211(a) Current Account expenditures		<u>\$ 8,505,481</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, 1994

Federal Findings

Federal Property Standards

1. **Criteria:** The State of Kosrae should maintain an accounting system in accordance with federal property standards for fixed assets acquired with federal funds.

Condition: Based on our review of the State's accounting for the General Fixed Assets Account Group, no detailed accounting of these fixed assets by funding source is being performed.

Cause: The Division of Property management has not obtained a level of proficiency on the automated system which allows them to achieve a sufficient level of accounting efficiency to be in compliance with federal property standards.

Effect: The State of Kosrae is not in compliance with federal property standards.

Recommendation: The State of Kosrae should ensure that its assets are properly incorporated into the accounting system and that it is in compliance with applicable federal property rules and regulations.

Prior Year Status: Not complying with the federal property standards was reported as a finding in the Single Audits of Kosrae State for fiscal years 1988 through 1993.

Auditee Response and Corrective Action Plan: We will work with the FSM National Government to create a system to ensure that assets are accounted for in compliance with the applicable federal property standards and regulations.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
YEAR ENDED SEPTEMBER 30, 1994

Federal Findings, Continued

General Requirement - Drug Free Workplace Act

2. Criteria: All grantees receiving U.S. Federal Assistance must comply with the Drug-Free Workplace Act. In order to satisfy the above requirement, the following procedures must be performed:
- a) Publish a policy statement notifying employees that the unlawful manufacture, distribution, dispensing, possession or use of a controlled substance is prohibited in the grantee's workplace and specifying the actions that will be taken against employees for violation of such prohibition;
 - b) Establishing an ongoing drug-free awareness program to inform employees about:
 - . The dangers of drug abuse in the workplace;
 - . The grantee's policy of maintaining a drug-free workplace;
 - . Any available drug counseling, rehabilitation, and employee assistance programs; and,
 - . The penalties that may be imposed upon employees for drug abuse violations occurring in the workplace;
 - c) making it a requirement that each employee to be engaged in the performance of the grant be given a copy of the statement required by paragraph (a);
 - d) notifying the employee in the statement required by paragraph (a) that, as a condition of employment under the grant, the employee will:
 - . Abide by the terms of the statement; and
 - . Notify the employer in writing of any criminal drug statute conviction for a violation occurring in the workplace no later than five calendar days after such conviction;
 - e) Notifying the agency in writing within ten calendars days after receiving notice under subparagraph (d) (2) from an employee or otherwise receiving actual notice of such conviction;

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
YEAR ENDED SEPTEMBER 30, 1994

Federal Findings, Continued

General Requirement - Drug Free Workplace Act, Continued

- f) taking one of the following actions, within 30 calendar days of receiving notice under subparagraph (d) (2), with respect to any employee who is so convicted:
- . Taking appropriate personnel action against such an employee, up to and including termination; or
 - . Required such employees to participate satisfactorily in a drug abuse assistance or rehabilitation program approved for such purposes by a Federal, State, or local health, law enforcement, or other appropriate agency.

Condition: We found that the State of Kosrae has not fully implemented the Drug-Free Workplace Act.

Cause: The cause of this condition is unknown.

Effect: The effect is that the State of Kosrae may not be eligible to receive U.S. federal financial assistance.

Recommendation: We recommend that the State implement the Drug-Free Workplace Act.

Prior Year Status: Not complying with the Drug-Free Workplace Act general requirement was reported as a finding in the Single Audits of Kosrae State for fiscal years 1991 through 1993.

Auditee Response: Directives from the Governor to all department heads on such action was made during fiscal year 1994.

Corrective Action Plan: If this needs to be a State law, we will look into establishing one. We have all departments receiving federal grants to post signs to indicate a Drug-Free workplace.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
YEAR ENDED SEPTEMBER 30, 1994

Federal Findings, Continued

User Charge System (CFDA # 66.418)

3. Criteria: EPA grantees should develop and implement a user charge system (UCS) to cover the cost of operating, maintaining, and replacing treatment works.

Condition: To date, Kosrae State has not developed or implemented a UCS for their wastewater facilities being constructed.

Cause: The cause of this condition is unknown.

Effect: The effect is potential noncompliance with the grant award and OMB specific requirements.

Recommendation: We recommended that Kosrae State develop and implements a UCS to help cover the future costs of operating, maintaining, and the eventual upgrading and /or replacement of the wastewater facilities currently being constructed.

Prior Year Status: Not complying with the U.S. EPA grant's specific requirement was reported as a finding in the Single Audits of Kosrae State for fiscal years 1990 through 1993.

Auditee Response and Corrective Action Plan: The State has plans to create a board which shall monitor and have management control over wastewater facilities. This board will have the authority to develop user rates for wastewater usage.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
YEAR ENDED SEPTEMBER 30, 1994

Federal Findings, Continued

Special Education - State Grants (CFDA # 84.027)

4. Criteria: Kosrae State should maintain procurement documentation in a manner envisioned by the Common Rule.

Condition: Kosrae State does not maintain documentation supporting whether competitive procurements have been maximized and whether expenditures are relevant to the program. No costs have been questioned as Kosrae State was subsequently able to provide documentation supporting the transactions selected. However it is evident that:

- Kosrae State is not documenting its informal procurement method of soliciting procurements from a representative number of vendors.

- Sole source procurements, primarily in the area of providing training to special education instructors, has not been documented. For example, certain teachers obtained instruction at the College of Micronesia - FSM. However, there was no documentation on file indicating whether consideration of other regional colleges or universities had been made.

Cause: It appears that Kosrae State management are not sufficiently familiar with federal procurement rules and regulations. Additionally, it does not appear as if the FSM National Government, as grantee, is providing sufficient review of program expenditures to ensure that corrective action is occurring in a timely manner.

Effect: The effect of this condition is that program transactions are not being executed in a manner which is in conformity with federal guidelines.

Recommendation: Kosrae State management should review applicable federal requirements with respect to procurement and should ensure compliance with those requirements.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
YEAR ENDED SEPTEMBER 30, 1994

Federal Findings, Continued

Special Education - State Grants (CFDA # 84.027), Continued

4. Auditee Response: a) The process in which we procure supplies and other materials from local vendors or outside vendors is the same. We acquire price quotations from the vendors and compare and cut purchase order for the cheapest among two or three vendors. Sometimes we have no alternative but buy from a vendor because it is the only place that have it in stock at the time.

b) In regards to the training aspect namely the Related Services Assistance (RSA) Training, the training was negotiated through the FSM National Government whereby announcement was made and bids were submitted to them. The National Government arranged so that training should be provided at the College of Micronesia through the monitoring of the University of Hawaii. Other training that was provided for the Special Education staff or teachers were summer institute and on island summer training that offers IDP (Individual Degree Plan) for teacher certification. These programs were in place prior to the reinstatements of the Special education program. The staff who enrolled in these programs were in the program prior to the initial funding year.

Corrective Action Plan: a) Prior to cutting any purchase order management will hunt around for price quotations and purchase from the lowest quotation. Documentation of vendor contracted will be made on each purchase order made. Other items requiring bidding will be handled according to Federal requirements.

b) Kosrae State Special Education program will ensure that all training activities will be related to the Special Education Comprehensive System of Personnel Development Plan in the Annual State Plan. The portion of the CSPD will be forwarded to the IHE through the region to solicit quotation on each training activities.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
YEAR ENDED SEPTEMBER 30, 1994

Federal Findings, Continued

Special Education - State Grants (CFDA # 84.027)

5. Criteria: Files should be maintained supporting each student's eligibility for the program, treatment plans, parent notification and acceptance and periodic progress reports among other matters which are relevant to the program.

Condition: Files, selected at random, were maintained in a very inconsistent manner. Various files lacked parent notification, progress reports etc. It is evident from discussions with program management that they are aware that their files are deficient.

Cause: It does not appear as if checklists are maintained and reviewed. The files appear to be disbursed to the various schools and little follow-up is made to ensure that the files are updated.

Effect: Kosrae State will have difficulty in ensuring that program compliance is occurring.

Recommendation: We recommended that the grantor agency (the FSM National Government) require Kosrae State to review all files pertinent to enrollees in the 1994 program and ensure that complete documentation is obtained for each student. The FSM National Government should then document its review of all files to ensure that such are complete.

Auditee Response: We agree to the above finding.

Corrective Action Plan: It is true that some of the files for the children being identified and served in the program are not complete. Actions has been taken to correct the discrepancies in the files. Each area supervisor was assigned to review individual files and check the contents to ensure that each file has all the required forms and information will be attached to each child's folder to indicate the presence. Upon reviewing, date of review and person reviewing needs to document finding and changes made.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
YEAR ENDED SEPTEMBER 30, 1994

Federal Findings, Continued

Education Improvement (CFDA # 84.256A)

6. Criteria: Procurements should be made in a manner consistent with the requirements set forth in the Common Rule.

Condition: Various consulting contracts were entered into during the year. We were unable to obtain documentation indicating how the contracts evidenced compliance with the Common Rule procurement regulations.

Cause: It is evident that Kosrae State management are unfamiliar with federal requirements.

Effect: Noncompliance with federal rules can result which may result in questioned costs and reimbursements due to the grantor.

Recommendation: Kosrae State management must ensure that adequate documentation exists supporting its procurements as contemplated by the Common Rule.

Auditee Response and Corrective Action Plan: The department wished to maintain continuity in its improvement plan. The evaluation of teaching activities in the classroom has been a long time policy in the department. The concept has been taught to generations of teaching staff during the past decade. For this reason, the department felt it was proper to continue to seek consultation from the agent that is most familiar with the Kosrae's classroom without seeking a new firm who would need to learn about the niche beforehand. We do not have documents for bidding of contract.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
YEAR ENDED SEPTEMBER 30, 1994

Federal Findings, Continued

Administrative Requirements - All Programs

7. Criteria: Kosrae State should ensure that it conforms to administrative requirements set forth in the Common Rule.

Condition: Kosrae State is not in compliance with the following administrative compliance requirements:

- Kosrae does not maintain detail records of its fixed assets and has not met the management requirements set forth in the Common Rule.

- Kosrae State is not in compliance with Common Rule procurement standards. Documentation of informal bids does not appear to be maintained, sole source procurements are made without adequate documentation, a written code of standards of conduct governing the performance of employees engaged in procurement has not been prepared, protest procedures have not been developed to handle and resolve disputes relating to procurements and contracts do not contain all required provisions as set forth in the Common Rule.

Cause: Kosrae State management does not appear to be aware of the above requirements.

Effect: The effect of this condition is that Kosrae State is not in compliance with federal requirements, a condition that can result in questioned costs or in the loss of future awards to the State.

Recommendation: Kosrae State must implement systems to ensure conformity with the requirements set forth in the Common Rule.

Auditee Response: We agree to the above finding.

Corrective Action Plan: The Director of the Department of Administration will ensure that the above federal compliance requirements are implemented in fiscal year 1996.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
YEAR ENDED SEPTEMBER 30, 1994

Federal Findings, Continued

Education Improvement (CFDA # 84.256A) - A Direct Grant

<u>Program</u>	<u>Reason for Questioned Cost</u>	<u>Questioned Costs</u>
8 . U . S . Dept . of Education (C F D A # 84.256A)	<p><u>Criteria:</u> Program expenditures should be made in a manner which bears a relationship to the program funding those expenditures.</p> <p><u>Condition:</u> This program represents the first direct U.S. program received. Normally, grants are passed through to Kosrae State through the FSM National Government. Travel costs were charged to this program for two State employees, the Chairman of the Scholarship Board and the State Student Services Coordinator, to travel to various cities in the United States to meet with and to interview post secondary students. We could not determine how this trip appeared to relate to the grant purpose. (From a sample of thirteen item aggregating \$36,326.)</p> <p><u>Cause:</u> The cause of this condition is unknown.</p> <p><u>Effect:</u> Questioned costs in the amount of \$5,446 have occurred which may have to be refunded to the grantor agency.</p> <p><u>Recommendation:</u> All travel should be clearly related to grant purposes. If any questions exist as to whether certain travel is eligible, the grantor agency should be requested in writing to make such a determination.</p> <p><u>Auditee Response and Corrective Action Plan:</u> One of the components of TFAS is counseling. The objective is to develop programs that would help students adjust to post secondary education. Problems and needs of post secondary students were collected and used as core data during this trip.</p>	<p><u>\$ 5,446</u></p>

Federal Findings, Continued

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STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
YEAR ENDED SEPTEMBER 30, 1994

Local Findings

Common Stock Purchase (CFDA # 15.875)

1. **Criteria:** Expenditures should only be made within time periods statutorily approved by legislative appropriations.

Condition: The State of Kosrae acquired 25,000 shares of common stock in the Bank of the FSM at a cost of \$250,000 in fiscal year 1990. However, the authority to obligate these funds lapsed on September 30, 1989, in accordance with State Law 4-72.

Cause: The cause of this condition is unknown.

Effect: The State incurred expenditures of \$250,000 from Compact Capital Funds without statutory authority resulting in potential noncompliance with the intent of the Compact.

Recommendation: We recommend that expenditures only be incurred when proper and current statutory authority exists.

Prior Year Status: Not complying with State Law 4-72 was reported as a finding in the Single Audits of Kosrae State for fiscal years 1990 through 1993.

Auditee Response and Corrective Action Plan: The Department of Administration's position is that a proper encumbrance was made.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
YEAR ENDED SEPTEMBER 30, 1994

Local Findings, Continued

Use of Compact Energy Fund (CFDA # 15.875), Continued

2. **Criteria:** Expenditure of Compact Energy Funds should be made for approved purposes.

Condition: Kosrae State charged its power bills from its component unit, Kosrae Utilities Authority, to its Compact Energy Account in the year ended September 30, 1994. It is unclear if this represents a valid use of these funds under the Compact of Free Association terms and conditions.

Cause: The cause of this condition is unknown.

Effect: Charges incurred against the Compact Energy funds may have to be absorbed by the State's general fund.

Recommendation: A State legal opinion should be obtained with respect to determining if the payment of power invoices represents a valid use of these funds. This opinion should then be furnished to the National Government to obtain their concurrence (This action is necessary since the State receives these funds in a subrecipient capacity.)

Auditee Response: We agree to the above finding.

Corrective Action Plan: The Director of Department of Administration will resolve this finding with the FSM National Government in fiscal year 1996.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
YEAR ENDED SEPTEMBER 30, 1994

Local Findings, Continued

Handicapped State Grants - CFDA #84.027

3. **Criteria:** Procurement transactions should be executed in conformity with federal and local procurement rules and regulations.

Condition: A payment of \$280 was made for vehicle repair services. The invoice was dated February 8, 1994 but the requisition and purchase order were each dated July 1994. Such condition is in noncompliance with the State's Financial Management Act.

Cause: The cause of this condition is unknown.

Effect: Noncompliance with local laws results.

Recommendation: Procurement should be made in accordance with the Financial Management Act or the Act should be amended.

Auditee Response and Corrective Action Plan: The vehicle needed repair, change of absorbers, steering alignment and tune up. The service was completed and invoice was prepared based on the work performed. A requisition was prepared but we were not sure whether the payment could be made because there was no fund allotted under repair and maintenance, the requisition was returned. We reprogrammed the funds to allow some funds under the repairs and maintenance object class. The reprogramming was done months later. That is why it took so long to pay up the services made on the van.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
YEAR ENDED SEPTEMBER 30, 1994

Local Findings, Continued

CFSM Expenditures

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

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

Cause: The cause of this condition is unknown.

Effect: Noncompliance with budgetary authority per the FSM National Government control document results.

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

Prior Year Status: Not complying with the FSM National Government control document was reported as a finding in the Single Audits of Kosrae State for fiscal years 1992 through 1993.

Auditee Response and Corrective Action Plan: IN fiscal year 1992, PL 7-19 appropriated \$50,000 under Total Authorization as per advice of Allotment No. 402N2207. The control document shows \$14,250 under Fixed Assets, \$15,750 under Consumable Goods, and \$20,000 under Contractual Services; however, the State Law 5-24 reapportioned the same into the following categories:

Fixed assets	\$14,250
All others	\$35,750

For fiscal year 1993, PL 7-78 also appropriated \$55,000 under Total Authorization as per Advice of Allotment No. 401K3001. The control document stated \$10,000 for Travel, \$30,000 on Consumable Goods, and \$15,000 on Contractual Services. State Law 5-83 however, reapportioned the amounts \$10,000 to Travel and \$45,000 to others as per Advice of Allotment No. FAK3C001.

These information led us to believe that entertainment expenses are allowable under "Others" as certified by the Department of Finance.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
YEAR ENDED SEPTEMBER 30, 1994

Local Findings, Continued

Compact CIP Administrative Cost (CFDA # 15.875)

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

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

Cause: The cause of this condition is unknown.

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

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

Prior Year Status: Not implementing the Compact CIP Administrative Cost was reported as a finding in the Single Audits of Kosrae State for fiscal years 1992 through 1993.

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

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

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
UNRESOLVED PRIOR YEARS' QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 1994

The following is a summary of unresolved questioned costs of the State of Kosrae as of September 30, 1994:

FY85 unresolved questioned costs	\$ 12,838
FY88 unresolved questioned costs	215,383
FY94 unresolved questioned costs	<u>8,246</u>
	<u>\$ 236,467</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
THE INTERNAL CONTROL STRUCTURE
YEAR ENDED SEPTEMBER 30, 1994**



**INDEPENDENT AUDITORS' REPORT ON THE INTERNAL CONTROL STRUCTURE
BASED ON AN AUDIT OF GENERAL-PURPOSE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARD**

Honorable Moses Mackwelung
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, 1994, and have issued our report thereon dated February 14, 1995. Our report on the audit of the general-purpose financial statements was modified due to; 1) our inability to determine the effects of not updating the General Fixed Assets Account Group; 2) the absence of detail of general receivables of the Kosrae Utilities Authority - a Component Unit - Proprietary Fund 3) our inability to obtain audited financial statements supporting Kosrae State's investment in a corporation recorded in the Governmental Fund Type - Capital Projects Fund and 4) the omission of the Component Units - Governmental Funds from the general-purpose financial statements.

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

The management of the 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, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general-purpose financial statements in accordance with generally accepted accounting principles. Because of inherent limitations

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

In planning and performing our audit of the general-purpose financial statements of the State of Kosrae for the year ended September 30, 1994, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

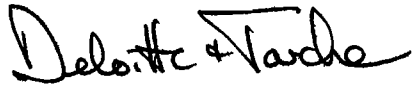
We noted certain matters, which are presented in the accompanying Schedule of Internal Control Findings (pages 100 through 128) in Findings 1 thru 3 and Finding 24, involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect Kosrae State'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 none of the reportable conditions described above is a material weakness.

We also noted other matters, which are presented in the accompanying Schedule of Internal Control Findings in findings 4 through 23 and in findings 25 through 29, involving the internal control structure and its operation that we have reported to the management of Kosrae State.

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

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

February 14, 1995

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF INTERNAL CONTROL FINDINGS
Year Ended September 30, 1994

Fixed Assets

Finding No. 1

Criteria: A complete and current fixed asset subledger should be maintained to account for the State's fixed assets.

Condition: There is currently no subledger to facilitate the above criteria.

Cause: The cause of this condition is unknown.

Effect: A misstatement of fixed assets results.

Recommendation: We recommend the implementation of procedures necessary to maintain a complete subledger of fixed assets which will provide information concerning additions and deletions for the year and the total fixed asset values held.

Prior Year Status: The lack of a complete fixed assets subledger was a reported finding in the Single Audits of Kosrae State for the fiscal years 1990 through 1993.

Auditee Response: The State is seeking technical assistance funds to perform a complete survey of all fixed assets. Additionally, we are requesting further training in the utilization of the DILOG fixed assets module.

Corrective Action Plan: We will ensure that the Chief Accountant and the System administrator work with the FSM National Government to implement a fixed assets register that interfaces with the automated accounting system.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF INTERNAL CONTROL FINDINGS, CONTINUED
Year Ended September 30, 1994

Cash and Equivalents

Finding No. 2

Criteria: A functioning system of internal control requires that cash in bank be reconciled on a periodic basis.

Condition: We found cash in bank balances per the automated general ledger were not properly reconciled to the bank balance.

Cause: The State has been performing a one sided bank reconciliation by tracking the bank balance only rather than by reconciling the bank balance with the automated general ledger balance.

Effect: The lack of timely reconciliation of the State's cash accounts can impede cash management activity and could cast doubt on the reliability of interim financial statements.

Recommendation: We recommend that the accounting division, on a monthly basis, reconcile the cash in bank account so that any unreconciled differences can be corrected in a timely manner.

Prior Year Status: The lack of monthly reconciliation of the cash in bank account was reported as a finding in the Single Audits of Kosrae State for fiscal years 1988 through 1993.

Auditee Response: We agree to the above finding.

Corrective Action Plan: The Chief Accountant will ensure that the automated general ledger cash account is reconciled on a periodic basis starting fiscal year 1996.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF INTERNAL CONTROL FINDINGS, CONTINUED
Year Ended September 30, 1994

Receivables

Finding No. 3

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

Condition: The majority of travel advances as of September 30, 1994, have been outstanding for more than three months.

Cause: The cause of this condition is 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.

Prior Year Status: The lack of periodic evaluation of outstanding travel advances was reported as a finding in the Single Audits of Kosrae State for fiscal years 1989 through 1993.

Auditee Response: We agree with the above finding.

Corrective Action Plan: The Chief Accountant will ensure that the periodic evaluation of travel advances is performed.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF INTERNAL CONTROL FINDINGS, CONTINUED
Year Ended September 30, 1994

External Financial Reporting

Finding No. 4

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 Revolving Fund which should have been recorded in a comprehensive double entry accounting system or accounted for at Finance.

Cause: The cause of this condition is 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.

Prior Years Status: The inadequate accounting system for the Marine Resources Revolving Fund was reported as a finding in the Single Audit of Kosrae State for fiscal year 1993.

Auditee Response and Corrective Action Plan: The Chief, Division of Finance and the Chief Accountant will ensure that this matter is resolved in fiscal year 1996.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF INTERNAL CONTROL FINDINGS, CONTINUED
Year Ended September 30, 1994

Cash and Equivalents

Finding No. 5

Criteria: Checks that have been outstanding for more than twelve months should be returned to cash until such time as the payable is to be liquidated.

Condition: We found that checks outstanding for more than twelve months are still included in the outstanding checklist.

Cause: The cause of this condition is 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.

Prior Year Status: Inadequate review of outstanding checks for stale dated items was a reported finding in the Single Audits of Kosrae State for fiscal years 1988 through 1993.

Auditee Response and Corrective Action Plan: The Chief, Division of Finance and the Chief Accountant will ensure that this matter is resolved in fiscal year 1996.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF INTERNAL CONTROL FINDINGS, CONTINUED
Year Ended September 30, 1994

Cash and Equivalents

Finding No. 6

Criteria: The payroll outstanding check listing should be reconciled on a monthly basis.

Condition: The September 30, 1994 outstanding check listing for the payroll account was not available for inspection.

Cause: The cause of this condition is unknown.

Effect: A potential understatement of cash could occur.

Recommendation: We recommend that the Chief Accountant ensure that a monthly list of outstanding payroll checks is prepared.

Prior Year Status: The absence of an outstanding check listing for the payroll account was a reported finding in the Single Audit of Kosrae State for fiscal year 1993.

Auditee Response and Corrective Action Plan: The Chief, Division of Finance and the Chief Accountant will ensure that this matter is resolved in fiscal year 1996.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF INTERNAL CONTROL FINDINGS, CONTINUED
Year Ended September 30, 1994

Receivables

Finding No. 7

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

Condition: The travel advance subsidiary ledger maintained thru the financial management system is not functioning and is not accounting for travel advance activities.

Cause: The cause of this condition is 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.

Prior Year Status: The lack of a reliable travel advance subsidiary ledger was a reported finding in the Single Audit of Kosrae State for fiscal year 1993.

Auditee Response and Corrective Action Plan: The Chief, Division of Finance and the Chief Accountant will ensure that this matter is resolved in fiscal year 1996.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF INTERNAL CONTROL FINDINGS, CONTINUED
Year Ended September 30, 1994

Payables and Accrued Liabilities

Finding No. 8

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 have not been reconciled as of September 30, 1994.

Cause: The cause of this condition is 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.

Prior Year Status: The lack of reconciliation performed on the Payroll Revolving Fund was reported as a finding in the Single Audit of Kosrae State for fiscal year 1993.

Auditee Response and Corrective Action Plan: The Chief, Division of Finance and the Chief Accountant will ensure that this matter is resolved in fiscal year 1996.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF INTERNAL CONTROL FINDINGS, CONTINUED
Year Ended September 30, 1994

Payroll and Personnel Cycles

Finding No. 9

Criteria: Kosrae State must comply with the employment ceiling stated in the comprehensive budget act.

Condition: Payroll records at Finance revealed that the Department of Public Works exceeded the employment ceiling authorized by law.

Cause: The cause of this condition is unknown.

Effect: Noncompliance with local law results.

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

Prior Year Status: Noncompliance with the employment ceiling was reported as a finding in the Single Audit of Kosrae State for fiscal year 1993.

Auditee Response and Corrective Action Plan: The Chief, Division of Finance and the Chief Accountant will ensure that this matter is resolved in fiscal year 1996.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF INTERNAL CONTROL FINDINGS, CONTINUED
Year Ended September 30, 1994

Payroll and Personnel Cycle

Finding No. 10

Criteria: Kosrae State must comply with the employment ceiling stated in the comprehensive budget act.

Condition: Payroll records at Finance revealed that the Kosrae Legislature exceeded the employment ceiling authorized by law.

Cause: The cause of this condition is unknown.

Effect: Noncompliance with local law results.

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

Prior Year Status: Noncompliance with the employment ceiling was reported as a finding in the Single Audit of Kosrae State for fiscal year 1993.

Auditee Response and Corrective Action Plan: The Chief, Division of Finance and the Chief Accountant will ensure that this matter is resolved in fiscal year 1996.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF INTERNAL CONTROL FINDINGS, CONTINUED
Year Ended September 30, 1994

Purchases and Disbursement Cycle

Finding No. 11

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 an 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: The cause of this condition is unknown.

Effect: Amounts may be due to Kosrae State if the allottee does not expend or encumber all funds by the appropriations's expiration date.

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.

Prior Year Status: Compliance with State appropriation law reversion dates was reported as a finding in the Single Audit of Kosrae State for fiscal year 1993.

Auditee Response and Corrective Action Plan: The Chief, Division of Finance and the Chief Accountant will ensure that this matter is resolved in fiscal year 1996.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF INTERNAL CONTROL FINDINGS, CONTINUED
Year Ended September 30, 1994

Fixed Assets

Finding No. 12

Criteria: Insurance coverage should be maintained to protect major State assets against loss from fire or other disaster.

Condition: Currently, no insurance is carried by the State to protect the computer system against risk of loss.

Cause: Historically the State has not experienced any kind of disaster to warrant the acquisition of insurance coverage.

Effect: Any loss due to disaster would be borne entirely by the State.

Recommendation: The State should consider obtaining an amount of insurance needed to protect the automated system against the risk of insurable loss.

Prior Year Status: Not obtaining insurance coverage was reported as a finding in the Single Audits of Kosrae State for fiscal years 1988 through 1993

Auditee Response and Corrective Action Plan: The Chief, Division of Finance and the Chief Accountant will ensure that this matter is resolved in fiscal year 1996.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF INTERNAL CONTROL FINDINGS, CONTINUED
Year Ended September 30, 1994

External Financial Reporting

Finding No. 13

Criteria: Pursuant to Title 55, Chapter 3, sub-section 381 of the FSM Code.

- 1) Each Governor will submit to the President, on a monthly and year to date basis, the following reports:
 - a. Combined balance sheet, including all fund types and account groups;
 - b. Statement of actual and estimated revenues;
 - c. Statement of encumbrance and expenditures compared with budget on a departmental/office or project basis; and
 - d. A State's cash drawdown request.
- 2) No later than January 1, of each year, each Governor will report to the President providing a full accounting of each State legislative appropriation, including obligations and expenditures, for all types of funds available to the State, as of the end of the prior fiscal year. Such reports will conform with the standards established by the Secretary of Finance.

Condition: The reports indicated in item (1) were not submitted to the President on a monthly basis and the comprehensive annual financial report indicated in item (2) was not submitted by the January 1, deadline.

Cause: It does not appear that Kosrae State is summarizing financial data on a timely basis to prepare the required reports.

Effect: Noncompliance with local law results.

Recommendation: We recommend that Kosrae State complies with the reporting requirements mandated under the FSM Code.

Prior Year Status: Noncompliance with internal reporting requirements was reported as a finding in the Single Audits of Kosrae State for fiscal years 1988 through 1993.

Auditee Response and Corrective Action Plan: The Chief, Division of Finance and the Chief Accountant will ensure that this matter is resolved in fiscal year 1996.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF INTERNAL CONTROL FINDINGS, CONTINUED
Year Ended September 30, 1994

Cash and Equivalents

Finding No. 14

Criteria: Blank checks should be safely stored in a secure place out of reach of unauthorized personnel.

Condition: Blank checks are not stored in a safety box or cabinet.

Cause: The cause of this condition is unknown.

Effect: A possible unauthorized use of funds could occur.

Recommendation: We recommend that a separate locked cabinet be used to store unused checks.

Prior Year Status: Inadequate control over unused checks was a reported finding in the Single Audits of Kosrae State for fiscal years 1989 through 1993.

Auditee Response and Corrective Action Plan: The Chief, Division of Finance and the Chief Accountant will ensure that this matter is resolved in fiscal year 1996.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF INTERNAL CONTROL FINDINGS, CONTINUED
Year Ended September 30, 1994

Fixed Assets

Finding No. 15

Criteria: A function system of internal control requires periodic survey of the status of all properties and their assigned locations.

Condition: The last inventory of properties was performed in 1987.

Cause: The cause of this condition is unknown.

Effect: The State is not maintaining current accurate records of its properties.

Recommendation: We recommend that a periodic inventory of fixed assets be conducted on a timely basis in accordance with guidelines established by the Common Rule.

Prior Year Status: The lack of a periodic inventory of fixed assets was a reported finding in the Single Audits of Kosrae State for fiscal years 1990 through 1993.

Auditee Response and Corrective Action Plan: The Chief, Division of Finance and the Chief Accountant will ensure that this matter is resolved in fiscal year 1996.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF INTERNAL CONTROL FINDINGS, CONTINUED
Year Ended September 30, 1994

Payables and Accruals

Finding No. 16

Criteria: Kosrae State should attempt to resolve disputed liabilities.

Condition: The FSM National Government represents that it is owed funds by the State. The State is of the position that it did not authorize or incur this liability.

Cause: Inadequate resolution of this liability has occurred.

Effect: Due to the dispute, the liability is not recorded in the State's financial statements.

Recommendation: We recommend that Kosrae State formally state its position to the National Government.

Prior Year Status: Disputed liabilities with the FSM National Government was reported as a finding in the Single Audits of Kosrae State for fiscal years 1991 through 1993.

Auditee Response and Corrective Action Plan: The Chief, Division of Finance and the Chief Accountant will ensure that this matter is resolved in fiscal year 1996.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF INTERNAL CONTROL FINDINGS, CONTINUED
Year Ended September 30, 1994

Receivables

Finding No. 17

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

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

Cause: The cause of this condition is unknown.

Effect: A possible misstatement of receivables could occur.

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

Prior Year Status: Potential misstatement of these receivables was reported as a finding in the Single Audit of Kosrae State for fiscal year 1993.

Auditee Response and Corrective Action Plan: The Chief, Division of Finance and the Chief Accountant will ensure that this matter is resolved in fiscal year 1996.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF INTERNAL CONTROL FINDINGS, CONTINUED
Year Ended September 30, 1994

Revenue and Receipt Cycle

Finding No. 18

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

Condition: We found daily cash receipts of the Agriculture Revolving Fund which did not agree to the monthly deposit slips.

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

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

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

Prior Year Status: Inadequate controls over cash receipts and bank deposits of this Fund was reported as a finding in the Single Audit of Kosrae State for fiscal year 1993.

Auditee Response and Corrective Action Plan: The Chief, Division of Finance and the Chief Accountant will ensure that this matter is resolved in fiscal year 1996.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF INTERNAL CONTROL FINDINGS, CONTINUED
Year Ended September 30, 1994

Revenue and Receipt Cycle

Finding No. 19

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

Condition: We found several instances of unaccounted cash receipts of the Agriculture Revolving Fund.

Cause: The cause of this condition is 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 the authority to issue and access such receipts.

Prior Year Status: The lack of control over the numerical sequence of cash receipts of this Fund was reported as a finding in the Single Audit of Kosrae State for fiscal year 1993.

Auditee Response and Corrective Action Plan: The Chief, Division of Finance and the Chief Accountant will ensure that this matter is resolved in fiscal year 1996.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF INTERNAL CONTROL FINDINGS, CONTINUED
Year Ended September 30, 1994

Purchases and Disbursement Cycle

Finding No. 20

Criteria: Cash disbursements should be substantiated by appropriate documentation.

Condition: Supporting invoices for several cash disbursements of the Agriculture Revolving Fund could not be located.

Cause: The cause of this condition is 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.

Prior Year Status: The lack of invoices to support disbursements of this Fund was reported as a finding in the Single Audit of Kosrae State for fiscal year 1993.

Auditee Response and Corrective Action Plan: The Chief, Division of Finance and the Chief Accountant will ensure that this matter is resolved in fiscal year 1996.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF INTERNAL CONTROL FINDINGS, CONTINUED
Year Ended September 30, 1994

Revenue and Receipt Cycle

Finding No. 21

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

Condition: We found several cash receipts of the Production Loan Fund which were not accounted for.

Cause: The cause of this condition is 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.

Prior Year Status: Inadequate control over cash receipts of this Fund was reported as a finding in the Single Audit of Kosrae State for fiscal year 1993.

Auditee Response and Corrective Action Plan: The Chief, Division of Finance and the Chief Accountant will ensure that this matter is resolved in fiscal year 1996.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF INTERNAL CONTROL FINDINGS, CONTINUED
Year Ended September 30, 1994

Receivables

Finding No. 22

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 of the Production Loan Fund revealed long outstanding loan balances. The State has not utilized legal proceedings to collect these balances.

Cause: The cause of this condition is 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.

Prior Year Status: Collectibility of Production Loan Fund delinquent loan receivables was reported as a finding in the Single Audit of Kosrae State for fiscal year 1993.

Auditee Response and Corrective Action Plan: The Chief, Division of Finance and the Chief Accountant will ensure that this matter is resolved in fiscal year 1996.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF INTERNAL CONTROL FINDINGS, CONTINUED
Year Ended September 30, 1994

External Financial Reporting

Finding No. 23

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 Loan Fund revealed that accounting records documenting the use of the funds were incomplete.

Cause: The cause of this condition is unknown.

Effect: A possible misstatement of the 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.

Prior Year Status: Inadequate financial records for the Student Loan Revolving Fund was reported as a finding in the Single Audit of Kosrae State for fiscal year 1993.

Auditee Response and Corrective Action Plan: The Chief, Division of Finance and the Chief Accountant will ensure that this matter is resolved in fiscal year 1996.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF INTERNAL CONTROL FINDINGS, CONTINUED
Year Ended September 30, 1994

Kosrae Utilities Authority

Revenue and Receipt Cycle

Finding No. 24

Criteria: The balance per the accounts receivable subsidiary ledger should be reconciled to the balance of receivables in the general ledger on a monthly basis.

Condition: No reconciliations were performed during fiscal year 1994.

Cause: During the implementation stage of the computer accounting system, the aged report of receivables was not produced on a timely basis and apparently omitted certain accounts, thus prohibiting a complete reconciliation.

Effect: The general ledger may not accurately reflect the balance in the accounts receivable subsidiary ledger. Related revenue accounts may be misstated.

Recommendation: The reconciliation should be performed on a monthly basis.

Auditee Response: We concur with this finding.

Corrective Action Plan: The Comptroller shall reconcile the accounts receivable subsidiary ledger to the general ledger on a monthly basis.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF INTERNAL CONTROL FINDINGS, CONTINUED
Year Ended September 30, 1994

Kosrae Utilities Authority, Continued

Revenue and Receipts Cycle

Finding No. 25

Criteria: The daily banking should be reconciled to the cash receipts journal each day.

Condition: The reconciliation is hampered by the fact that the cashier has the discretion to make deposits. This has led to variances between the banking and the cash receipts journal.

Cause: No predetermined cash on hand balance was set for the cashier.

Effect: Control over cash and cash receipting is incomplete.

Recommendation: All cash collections should be deposited daily.

Auditee Response: We concur with this finding.

Corrective Action Plan: We will ensure that an appropriate cash on hand balance is maintained so that the banking and cash receipts journal can be reconciled to the dollar.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF INTERNAL CONTROL FINDINGS, CONTINUED
Year Ended September 30, 1994

Kosrae Utilities Authority, Continued

Revenue and Receipts Cycle

Finding No. 26

Criteria: The cashier should prepare a receipt for the exact amount paid by each customer.

Condition: The cashier was not receipting amounts of change which customers had waived to the Authority.

Cause: The instructions to the cashier and/or her understanding of these instructions were not complete.

Effect: Control over cash and cash receipts is not complete. Receivable balances are not accurate to the exact amount paid.

Recommendation: The cashier should receipt the exact amount received from the customer and enter this amount into the cash receipts journal. Any excess amounts should be credited to the customer's account as a prepayment.

Auditee Response: We concur with this finding.

Corrective Action Plan: Exact receipts will be prepared for each client and entered in the cash receipts journal.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF INTERNAL CONTROL FINDINGS, CONTINUED
Year Ended September 30, 1994

Kosrae Utilities Authority, Continued

Revenue and Receipts Cycle

Finding No. 27

Criteria: The cash receipts journal should be reconciled to the daily banking slips.

Condition: The cash receipt journal was only reconciled to banking slips at month end.

Cause: The instructions to the Comptroller and the cashier were not complete.

Effect: Control over cash and cash receipts is not complete.

Recommendation: The cash receipts journal should be reconciled to daily banking slips immediately after banking.

Auditee Response: We concur with this finding.

Corrective Action Plan: We will implement your recommendation.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF INTERNAL CONTROL FINDINGS, CONTINUED
Year Ended September 30, 1994

Kosrae Utilities Authority, Continued

Revenue and Receipts Cycle

Finding No. 28

Criteria: Banking should be performed daily.

Condition: Banking appears to be performed four to five times a month. Money is maintained in a locked box in a locked drawer overnight even though there is a safe.

Cause: It was found that banking did not really need to be performed daily when left to the discretion of the cashier.

Effect: Cash could be stolen or misappropriated from KUA.

Recommendation: Banking should be performed at least every second day. Cash held overnight should be maintained in the safe.

Auditee Response: We concur with this finding.

Corrective Action Plan: Banking will be performed on a more regular basis.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF INTERNAL CONTROL FINDINGS, CONTINUED
Year Ended September 30, 1994

Kosrae Utilities Authority, Continued

Purchases and Disbursement Cycle

Finding No. 29

Criteria: All individual items of expenditure involving federal financial assistance (non-Compact funding) above \$25,000 is subject to competitive procurement requirements.

Condition: On November 23, 1994, the Board amended the KUA by-laws increasing the amount to \$50,000 that requires open bidding and contract.

Cause: KUA management considered that the \$25,000 level was too low.

Effect: Although no breach has occurred as of yet, the amendment may lead to a breach in the requirements under Federal grants concerning procurements in excess of \$25,000.

Recommendation: The amendment to the by-laws may be appropriate for non-federal funding. However, the Authority should remember that acquisitions in excess of \$25,000 involving federal funds must meet Common Rule procurement requirements.

Auditee Response: We concur with this finding.

Corrective Action Plan: We will ensure in the future that disbursements above \$25,000 are subject to open bidding and contract.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
Unresolved Prior Year Internal Control Findings
Year Ended September 30, 1994

Unresolved Prior Year Findings

The status of unresolved prior year internal control findings is disclosed within the Schedule of Internal Control Findings (pages 100 to 128).