

**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, 1995

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Year Ended September 30, 1995

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**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
INDEPENDENT AUDITORS' REPORT ON
GENERAL-PURPOSE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 1995**



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, 1995, and for the year then ended as set forth in Section II of the foregoing table of contents. These general-purpose financial statements are the responsibility of the management of the State of Kosrae. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

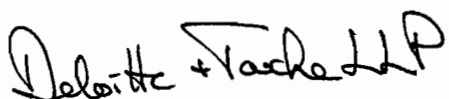
The State of Kosrae has not adequately updated its General Fixed Assets Account Group during the year ended September 30, 1995, nor were we able to apply sufficient alternative procedures to assure ourselves as to the correctness of the balances set forth in the accompanying general-purpose financial statements. Accordingly, a statement of changes in general fixed assets has not been included within the accompanying general-purpose financial statements.

The general-purpose financial statements referred to above do not include the Component Units - Governmental Funds, comprised entirely 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 financial statements and the effect on the accompanying general-purpose financial statements is unknown.

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 and the omission of the Component Units - Governmental Funds, discussed in the fourth 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, 1995, 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 March 13, 1996 on our consideration of the State of Kosrae's internal control structure and a report dated March 13, 1996 on its compliance with laws and regulations.

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 March 13, 1996, in our opinion, is fairly stated in all material respects when considered in relation to the general-purpose financial statements taken as a whole.

A handwritten signature in dark ink, reading "Deloitte + Taché LLP". The signature is written in a cursive, stylized font.

March 13, 1996

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA

Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Units
September 30, 1995
(With comparative totals as of September 30, 1994)

	Governmental Fund Types			Proprietary	Fiduciary	Account Groups		Totals	Component	Totals	
				Fund Type	Fund Type	General	General	Primary	Unit	Reporting Entity	
	General	Special	Capital	Internal	Expendable	Fixed	Long-Term	Government	Kosrae	(Memorandum Only)	
		Revenue	Projects	Service	Trust	Assets	Debt	(Memorandum Only)	Utilities Authority	1995	1994
ASSETS											
Cash and equivalents (note 2)	\$ 522,598	\$ 15,016	\$ -	\$ -	\$ 56,499	\$ -	\$ -	\$ 594,113	\$ 641,168	\$ 1,235,281	\$ 537,363
Other term deposits (notes 2 and 5)	42,720	-	2,151,268	-	-	-	-	2,193,988	-	2,193,988	2,222,998
Investments (note 2)	1,255,437	-	21,753	-	-	-	-	1,277,190	-	1,277,190	1,055,294
Equity investments (note 5)	-	-	1,538,380	-	-	-	-	1,538,380	-	1,538,380	968,894
Receivables from federal agencies	-	-	501,906	-	-	-	-	501,906	-	501,906	742,431
Receivables from other government	213,465	583,990	965,666	-	-	-	-	1,763,121	55,964	1,819,085	3,887,104
General receivables, net (note 4)	238,693	186,024	506,301	1,218	11,655	-	-	943,891	468,669	1,412,560	707,011
Advances (note 4)	302,404	270,905	280,154	-	-	-	-	853,463	-	853,463	890,450
Loans receivable, net (note 4)	-	-	150,000	-	672,532	-	-	822,532	-	822,532	918,780
Due from other funds (note 8)	914,970	621,798	2,009,267	-	347,424	-	-	3,893,459	-	3,893,459	5,010,256
Inventory, at cost	-	-	-	59,555	38,410	-	-	97,965	98,802	196,767	234,969
Interest receivable	13,997	-	-	-	-	-	-	13,997	-	13,997	10,004
Prepayments	-	-	-	-	-	-	-	-	13,538	13,538	7,843
Fixed assets, net	-	-	-	-	-	1,264,375	-	1,264,375	3,446,269	4,710,644	4,968,290
Amount to be provided for retirement of long-term debt	-	-	-	-	-	-	1,832,509	1,832,509	-	1,832,509	2,494,819
Total assets	\$ 3,504,284	\$ 1,677,733	\$ 8,124,695	\$ 60,773	\$ 1,126,520	\$ 1,264,375	\$ 1,832,509	\$ 17,590,889	\$ 4,724,410	\$ 22,315,299	\$ 24,656,506

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, 1995

(With comparative totals as of September 30, 1994)

	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			1995	1994
LIABILITIES AND FUND EQUITY (DEFICIENCY)											
Liabilities:											
Bank overdraft	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 571,774
Accounts payable	45,451	58,394	355,913	-	39,030	-	-	498,788	-	498,788	1,223,322
Accrued payroll and others	272,575	7,148	803	-	-	-	-	280,526	-	280,526	280,557
Due to other funds (note 8)	557,090	1,660,826	1,503,429	160,982	11,132	-	-	3,893,459	-	3,893,459	5,010,256
Deferred revenues	-	28,095	-	-	-	-	-	28,095	-	28,095	28,095
Due to other governments	180,636	-	-	-	-	-	-	180,636	-	180,636	180,636
Long-term notes payable (note 10)	-	-	-	-	-	-	1,373,163	1,373,163	-	1,373,163	2,000,000
Vacation leave accrual	-	-	-	-	-	-	459,346	459,346	15,485	474,831	494,819
Other payables	315,069	-	777	-	-	-	-	315,846	8,583	324,429	287,751
Total liabilities	1,370,821	1,754,463	1,860,922	160,982	50,162	-	1,832,509	7,029,859	24,068	7,053,927	10,077,210
Fund equity (deficiency):											
Investment in general fixed assets	-	-	-	-	-	1,264,375	-	1,264,375	-	1,264,375	1,264,375
Retained earnings (deficit)	-	-	-	(100,209)	-	-	-	(100,209)	1,275,671	1,175,462	861,223
Contributed capital	-	-	-	-	-	-	-	-	3,424,671	3,424,671	3,717,283
Fund balances (deficit):											
Reserved for:											
Related assets	867,861	-	2,930,287	-	770,229	-	-	4,568,377	-	4,568,377	2,602,265
Encumbrances	174,417	971,519	733,608	-	90,350	-	-	1,969,894	-	1,969,894	1,839,823
Continuing appropriations (note 9)	85,492	226,296	5,454,497	-	-	-	-	5,766,285	-	5,766,285	5,444,109
Unreserved	1,005,693	(1,274,545)	(2,854,619)	-	215,779	-	-	(2,907,692)	-	(2,907,692)	(1,149,782)
Total fund equity (deficiency)	2,133,463	(76,730)	6,263,773	(100,209)	1,076,358	1,264,375	-	10,561,030	4,700,342	15,261,372	14,579,296
Contingencies (note 6)											
Total liabilities and fund equity (deficiency)	\$ 3,504,284	\$ 1,677,733	\$ 8,124,695	\$ 60,773	\$ 1,126,520	\$ 1,264,375	\$ 1,832,509	\$ 17,590,889	\$ 4,724,410	\$ 22,315,299	\$ 24,656,506
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, 1995
(With comparative totals for the year ended September 30, 1994)

	Governmental Fund Types			Fiduciary Fund Type	Totals Reporting Entity (Memorandum Only)	
	General	Special Revenue	Capital Projects	Expendable Trust	1995	1994
Revenues:						
Compact of Free Association:						
Base amount	\$ 2,791,740	\$ 1,814,601	\$ 2,445,960	\$ -	\$ 7,052,301	\$ 7,142,150
Inflation adjustment	1,284,201	322,000	1,125,141	-	2,731,342	2,612,588
U.S. Department of the Interior grants	-	510,776	456,520	-	967,296	478,687
Revenue sharing	796,132	-	-	-	796,132	779,357
Federal contributions	-	1,192,642	-	-	1,192,642	1,708,517
Taxes and licenses	147,896	-	-	-	147,896	141,670
Investment income (note 2)	383,401	-	-	-	383,401	475,648
Other	1,075,290	70,191	315,886	161,256	1,622,623	1,348,520
Total revenues	6,478,660	3,910,210	4,343,507	161,256	14,893,633	14,687,137
Expenditures:						
General government	1,862,591	1,703,418	-	-	3,566,009	3,420,513
Education	829,949	937,930	-	-	1,767,879	1,842,831
Health services	947,458	197,354	-	-	1,144,812	1,104,444
Economic development	564,656	574,830	-	-	1,139,486	1,007,319
Public works	454,372	-	-	-	454,372	517,395
Public safety	370,269	-	-	-	370,269	327,618
Community affairs	624,407	144,817	-	-	769,224	699,921
Capital projects	-	-	2,861,470	-	2,861,470	3,259,625
Other	1,013,210	-	-	85,709	1,098,919	227,227
Total expenditures	6,666,912	3,558,349	2,861,470	85,709	13,172,440	12,406,893
Excess (deficiency) of revenues over (under) expenditures	(188,252)	351,861	1,482,037	75,547	1,721,193	2,280,244
Other financing sources (uses):						
Bond principal repayments (note 10)	-	-	(1,000,000)	-	(1,000,000)	(1,000,000)
Bond interest expense (note 10)	-	-	(123,229)	-	(123,229)	(201,134)
Operating transfers out (note 11)	-	(407,000)	-	-	(407,000)	(917,398)
Equity loss on investment (note 5)	-	-	(187,717)	-	(187,717)	-
Equity earnings on investment (note 5)	-	-	232,202	-	232,202	-
Total other financing sources (uses), net	-	(407,000)	(1,078,744)	-	(1,485,744)	(2,118,532)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(188,252)	(55,139)	403,293	75,547	235,449	161,712
Fund balances (deficit) at beginning of year	2,321,715	(21,591)	5,435,480	1,000,811	8,736,415	8,149,703
Equity contribution (note 12)	-	-	425,000	-	425,000	425,000
Fund balances (deficit) at end of year	\$ 2,133,463	\$ (76,730)	\$ 6,263,773	\$ 1,076,358	\$ 9,396,864	\$ 8,736,415

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, 1995

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Compact funding:			
Base amount	\$ 2,791,740	\$ 2,791,740	\$ -
Inflation adjustment	1,144,613	1,284,201	139,588
Revenue sharing	629,000	796,132	167,132
State taxes and licenses	139,300	147,896	8,596
Investment income	430,000	383,401	(46,599)
Miscellaneous	218,700	1,075,290	856,590
	<u>5,353,353</u>	<u>6,478,660</u>	<u>1,125,307</u>
Total revenues			
Expenditures:			
General government	1,809,933	1,818,149	(8,216)
Education	1,047,206	825,119	222,087
Health services	1,004,900	946,725	58,175
Economic development	632,828	559,102	73,726
Public works	519,436	457,199	62,237
Public safety	341,391	374,227	(32,836)
Community affairs	697,662	674,189	23,473
Others	86,450	1,013,205	(926,755)
	<u>6,139,806</u>	<u>6,667,915</u>	<u>(528,109)</u>
Total expenditures			
Deficiency of revenues under expenditures	(786,453)	(189,255)	597,198
Unreserved fund balance at beginning of year	502,199	1,335,259	833,060
Other changes in unreserved fund balance:			
Decrease in reserve for continuing appropriations	-	30,675	30,675
Increase in reserve for related assets	-	(170,986)	(170,986)
	<u>-</u>	<u>(170,986)</u>	<u>(170,986)</u>
Unreserved fund balance at end of year	\$ <u>(284,254)</u>	\$ <u>1,005,693</u>	\$ <u>1,289,947</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, 1995
(With comparative totals for the year ended September 30, 1994)

	Proprietary Fund Type Internal Service	Totals Primary Government (Memorandum Only)	Component Unit Kosrae Utilities Authority	Totals Reporting Entity (Memorandum Only)	
				1995	1994
Operating revenues:					
Charges for services	\$ 22,042	\$ 22,042	\$ 1,472,158	\$ 1,494,200	\$ 1,141,141
Operating expenses:					
Personnel services	-	-	340,686	340,686	307,479
Supplies and materials	90,167	90,167	-	90,167	16,424
Fuel	-	-	746,244	746,244	633,961
Depreciation	-	-	323,108	323,108	298,785
Bad debt expense	-	-	147,842	147,842	-
Other	-	-	313,727	313,727	189,772
Total operating expenses	90,167	90,167	1,871,607	1,961,774	1,446,421
Operating loss	(68,125)	(68,125)	(399,449)	(467,574)	(305,280)
Nonoperating revenues:					
Operating transfers in (note 11)	-	-	407,000	407,000	917,398
Others	-	-	203,207	203,207	2,427
Total nonoperating revenues	-	-	610,207	610,207	919,825
Net income (loss)	(68,125)	(68,125)	210,758	142,633	614,545
Add depreciation on fixed assets acquired by capital contributions that reduce contributed capital	-	-	292,612	292,612	289,889
Increase (decrease) in retained earnings	(68,125)	(68,125)	503,370	435,245	904,434
Retained earnings (deficit) at beginning of year	(32,084)	(32,084)	893,307	861,223	(43,211)
Restatement for prior year Kosrae Utilities Authority overstatement of receivables	-	-	(121,006)	(121,006)	-
Retained earnings (deficit) at end of year	(100,209)	(100,209)	1,275,671	1,175,462	861,223
Contributed capital at beginning of year	-	-	3,717,283	3,717,283	-
Contributions	-	-	-	-	4,007,172
Less amortization of contributed capital	-	-	(292,612)	(292,612)	(289,889)
Contributed capital at end of year	-	-	3,424,671	3,424,671	3,717,283
Fund equity at end of year	\$ (100,209)	\$ (100,209)	\$ 4,700,342	\$ 4,600,133	\$ 4,578,506

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, 1995
(With comparative totals for the year ended September 30, 1994)

	Proprietary Fund Type <u>Internal Service</u>	Totals Primary Government (Memorandum Only)	Component Unit <u>Kosrae Utilities Authority</u>	Totals Reporting Entity (Memorandum Only) <u>1995</u>	<u>1994</u>
Cash flows from operating activities:					
Operating loss	\$ (68,125)	\$ (68,125)	\$ (399,449)	\$ (467,574)	\$ (305,280)
Adjustment to reconcile operating loss to net cash used for operating activities:					
Depreciation	-	-	323,108	323,108	298,785
Bad debt expense	-	-	147,842	147,842	-
	<u>(68,125)</u>	<u>(68,125)</u>	<u>71,501</u>	<u>3,376</u>	<u>(6,495)</u>
Changes in assets and liabilities:					
General receivables, net	40	40	(64,249)	(64,209)	(674,526)
Inventory	59,043	59,043	9,099	68,142	(10,228)
Prepayments	-	-	(5,694)	(5,694)	(7,843)
Other assets	-	-	(55,964)	(55,964)	-
Accounts payable	9,042	9,042	(122,110)	(113,068)	119,938
Accrued payroll and others	-	-	(13,312)	(13,312)	13,312
Due to other funds	-	-	-	-	(7,697)
Other payables	-	-	15,485	15,485	8,583
	<u>68,125</u>	<u>68,125</u>	<u>(236,745)</u>	<u>(168,620)</u>	<u>(558,461)</u>
Net cash used for operating activities	<u>-</u>	<u>-</u>	<u>(165,244)</u>	<u>(165,244)</u>	<u>(564,956)</u>
Cash flows from noncapital financing activities:					
Operating and other transfers in (note 11)	-	-	593,949	593,949	917,398
Interest paid	-	-	16,258	16,258	2,427
Net cash provided by noncapital financing activities	<u>-</u>	<u>-</u>	<u>610,207</u>	<u>610,207</u>	<u>919,825</u>
Cash flows from capital and related financing activities:					
Additions to fixed assets	-	-	(65,463)	(65,463)	(93,201)
Net cash used for capital and related financing activities	<u>-</u>	<u>-</u>	<u>(65,463)</u>	<u>(65,463)</u>	<u>(93,201)</u>
Net increase in cash and equivalents	-	-	379,500	379,500	261,668
Cash and equivalents at beginning of year	-	-	261,668	261,668	-
Cash and equivalents at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 641,168</u>	<u>\$ 641,168</u>	<u>\$ 261,668</u>

See accompanying notes to financial statements.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1995

(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 operating 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.

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.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1995

(1) Summary of Significant Accounting Policies, Continued

B. Fund Accounting, Continued

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

The 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.

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

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1995

(1) Summary of Significant Accounting Policies, Continued

C. Basis of Presentation, Continued

The State of Kosrae considers all revenues available if they are collected within sixty 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.

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 at 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 1995, supplemental appropriations were made for both operating and capital purposes, to reflect revised financial priorities of Kosrae State Government.

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

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

E. Receivables

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

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1995

(1) Summary of Significant Accounting Policies, Continued

F. Interfund Transactions

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

1. The majority of the State's financial operations are centrally administered, and this administration is facilitated by the use of a "pooled" cash account; for practical purposes, cash is primarily maintained in a single bank account which is considered to be an asset of the State's general fund. As a result of this cash pooling practice, cash transactions normally include entries which adjust the relative balances of affected funds' interfund asset/liability accounts; each fund's interfund balance therefore represents a net interest in the State's actual cash.
2. Operating appropriations/subsidies which are accounted for as operating transfers of resources between funds.
3. Residual equity transfers which record the transfer of residual fund balances upon the termination of a fund's operations. These transfers are accounted for as additions to or deductions from governmental type fund balances or proprietary fund type fund equities.

For all funds, the combining balance 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.

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:

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1995

(1) Summary of Significant Accounting Policies, Continued

I. Fixed Assets, Continued

	<u>Estimated Useful Lives</u>	
Production plant	5 - 40 years	\$ 2,400,700
Distribution plant	5 - 30 years	1,425,689
General plant	3 - 20 years	<u>241,773</u>
Electric plant in service		4,068,162
Less accumulated depreciation		<u>(621,893)</u>
		\$ <u>3,446,269</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.

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, 1995, are generally as follows:

General Fund:

General receivables	\$ 238,693
Federal assistance fund deficit	251,998
Compact special block grant deficit	214,607
Kosrae Transportation Fund	<u>162,563</u>
	\$ <u>867,861</u>

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1995

(1) Summary of Significant Accounting Policies, Continued

K. Fund Balance Reserves, Continued

Capital Projects Funds:

Equity investments	\$ 1,510,181
Loan receivable	150,000
Due from other governments	<u>1,270,106</u>
	\$ <u>2,930,287</u>

Expendable Trust Funds:

Loans receivable	\$ 672,532
Other	<u>97,697</u>
	\$ <u>770,229</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.

(2) Cash and 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.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1995

(2) Cash and Investments, Continued

- 2. Bonds - Confined to issues rated "A" or higher by a national rating service, except in the case of U.S. Treasury or Agency securities which are not rated.
- 3. Cash and equivalents - The manager may engage in all normally accepted short-term investment practices including, but not limited to: U.S. Treasury and Agency securities, 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 of which must have assets in excess of two billion dollars. Deposits in smaller institutions are acceptable, but must not exceed the amount of the insurance unless collateralized by U. S. Treasury Securities at 102%.
- B. The equity portfolio shall be diversified among issues and industry classifications. No more than 25% of the equity portfolio may be invested in any single classification, as described by the Standard and Poors 500 Index, unless prior approval is received from the Secretary of Finance.
- C. No investment may be made in a single corporate entity which exceeds 5% of the total assets of the fund at the time of purchase without prior approval of the Secretary of Finance.

Funds invested with Hawaiian Trust Co. on behalf of Kosrae State as of September 30, 1995, are summarized below:

<u>Cash and Equivalents</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Certificates of deposit	\$ 351,058	\$ 351,058
<u>Investments</u>		
Pooled investment securities	<u>1,277,190</u>	<u>1,473,775</u>
Total investments	\$ <u>1,628,248</u>	\$ <u>1,824,833</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. The Primary Government has \$300,000 of cash and equivalents subject to FDIC insurance; \$200,000 for the Kosrae Utilities Authority. The remaining balances of cash and equivalents are uncollateralized. At September 30, 1995, the State had deposits as follows (in each situation, cost approximates market value):

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1995

(2) Cash and Investments, Continued

General Fund

Cash on deposit with FDIC insured banks	\$ 173,507
Cash on deposit with Hawaiian Trust Co.	<u>349,091</u>
	\$ <u>522,598</u>
Certificate of deposit with FDIC insured bank	\$ <u>42,720</u>

Special Revenue Funds

Miscellaneous checking accounts	\$ 13,049
Cash on deposit with Hawaiian Trust Co.	<u>1,967</u>
	\$ <u>15,016</u>

Capital Projects Funds

Certificate of deposit with FDIC insured bank	\$ <u>2,151,268</u>
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Expendable Trust Deposits

Cash in checking and savings accounts, and certificates of deposit with FDIC insured bank	\$ <u>56,499</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, 1995, is comprised of the following items:

Gross investment gains	\$ 51,980
Gross investment losses	(6,387)
Interest and dividends	168,069
Management and other fees	(27,687)
Interest on deposits	<u>197,426</u>
	\$ <u>383,401</u>

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1995

(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, U.S. Department of the Interior Capital Projects Grant, and those grants received from the Congress of the Federated States of Micronesia for capital projects.

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

(4) Receivables

Various Expendable Trust Funds have loans and other receivables of \$672,532 and \$11,655 respectively. These balances are fully reserved within the related asset component of fund balance in the applicable funds.

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

The General Fund, Special Revenue Funds and Capital Project Funds, have \$302,404, \$270,905, and \$280,154, 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, 1995, 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, 1995. 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, 1995, Kosrae State Government has \$2,184,863 in certificates of deposit with the bank.

The appropriation to fund the acquisition of the first 25,000 shares originated in the year ended September 30, 1990. The Attorney General of the State of Kosrae is of the opinion that this appropriation lapsed as of September 30, 1990 and the State's acquisition of these shares was therefore without legal basis. Management of the State is currently addressing this issue and cannot predict the ultimate outcome of this matter. Until this matter is resolved, management has elected to record this investment as described in the preceding paragraph.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1995

(5) Other Investments, Continued

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, 1995, audited financial statements have been provided by Pacific Tuna Industries and adjustments have been made by Kosrae State as follows:

Carrying value at October 1, 1994	\$ 43,894
State's share of PTI's net earnings	<u>232,203</u>
Carrying value at September 30, 1995	\$ <u>276,097</u>

The FSM National Government contributed \$850,000 for Kosrae State Government's 50% share in Kosrae Sea Venture (KSVI) 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 1994. (See Note 12). For the year ended September 30, 1995, audited financial statements have been provided by KSVI and adjustments have been made by Kosrae State as follows:

Carrying value at October 1, 1994	\$ 425,000
Additional contribution from FSM National Government during year ended September 30, 1995	425,000
State's share of KSVI's net loss for the year ended September 30, 1995	<u>(187,717)</u>
Carrying value at September 30, 1995	\$ <u>662,283</u>

During the year ended September 30, 1995, Kosrae State made an investment of \$100,000 in Pacific Island Development Bank. The investment is recorded in the Capital Improvement Project Fund. The market value of these shares is difficult to assess as they are not publicly traded so a market versus cost analysis could not be performed. This investment in stock has therefore been carried at cost. Since the investment is considered unavailable to finance expenditures for the ensuing fiscal year, the investment is restricted in the reserve for related assets component of the fund balance.

(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 1995, for operations of grant programs, \$2,983 of questioned costs have been raised and \$239,450 of cumulative questioned costs remain unresolved for fiscal years 1985 through 1995. If these questioned costs are ultimately disallowed, the General Fund may bear responsibility for absorbing the amounts so disallowed.

Pursuant to Title I, Section 105 of United States Public Law 99-239 (Compact of Free Association), the Government of the Federated States of Micronesia (FSM) is no longer liable for debts to U. S. federal agencies arising prior to the date of the implementation of the Compact of Free Association. This matter has not yet been officially resolved with the U.S. Government. Due to an inability to predict the ultimate outcome of this matter, no provision for any liability that may result has been made in the accompanying general-purpose financial statements.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1995

(6) Contingencies, Continued

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, 1995, was \$1,387,931.

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, 1995, 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, 1995. 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>100,209</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>
Compact Scholarship Fund	\$ <u>83,127</u>
Foreign Assistance	\$ <u>130,562</u>
Compact Special Block Grant 221 (b)	\$ <u>214,607</u>

Of the above, the total fund deficits for the Compact Health and Medical Fund, Federal Grants Assistance Fund and Compact Special Block Grant 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, 1995, interfund receivables and payables resulting from various interfund transactions are as follows:

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1995

(8) Interfund Receivables and Payables, Continued

	Due to other <u>Funds</u>	Due from other <u>Funds</u>
General Fund	\$ 557,090	\$ 914,970
Special Revenue Funds:		
Compact-Special Block	266,679	-
Compact-Health and Medical	-	58,466
Compact Post Secondary Education	286,542	-
Fishermen's Revolving Fund	-	1,026
U.S. Department of the Interior Fund	296,993	-
Federal Grants Assistance Fund	663,160	-
Compact Energy	-	279,464
Compact Special Development	-	282,842
Foreign Assistance Fund	147,452	-
Capital Project Funds:		
TTG - Capital Project Fund	405,849	-
CFSM State Projects	1,097,580	-
Compact Capital Projects Fund	-	2,009,267
Expendable Trust Funds:		
Production Loan Fund	-	1,495
Scholarship Revolving Fund	-	39,427
Housing Revolving Fund	-	222,805
Airport Trust Fund	-	83,697
Aluminum Recycling Fund	11,132	-
Internal Service Fund	<u>160,982</u>	<u>-</u>
	<u>\$ 3,893,459</u>	<u>\$ 3,893,459</u>

(9) Continuing Appropriations

Continuing appropriations as of September 30, 1995, are summarized as follows:

General Fund

Vocational Education Specialist	\$ 25,000
New Broadcast Facility	1,390
Communication Network	6,157
Vehicle License Plate	1,195
Printing of State Laws	280
Population Housing Census	8,424
Peritoneal Dialysis Program	38,256
Medical Cost Senior Citizens	4,000
Second Constitutional Convention	78
Payment of legal obligations	<u>712</u>
	<u>\$ 85,492</u>

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1995

(9) Continuing Appropriations, Continued

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	\$ 2,002,632
Various State approved projects	<u>3,451,865</u>
	<u>\$ 5,454,497</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.

The outstanding notes payable balance as of September 30, 1995, is comprised of several notes with varying interest rates and maturities as follows:

<u>Maturity</u>	<u>Interest Rate</u>	<u>Principal Amount</u>	<u>Interest</u>
10/15/95	8.37%	\$ <u>1,000,000</u>	\$ <u>349,215</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, 1995.

During fiscal year ended September 30, 1995, Kosrae State Government borrowed \$400,000 from Bank of Hawaii for the purchase of a residential property for its medical referral program in Honolulu. Monthly installment of \$5,286 are to be paid over 10 years. The note is secured by mortgage on the residential property and assignment of tenant lease rental income; security interest in all of the property's furniture, fixtures and equipment used in connection with the property. The outstanding notes payable balance as of September 30, 1995 is \$373,163.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1995

(11) Operating Transfers Out

Operating transfers out for the year ended September 30, 1995, are as follows:

Transfer from Special Revenue Fund to KUA	\$ <u>407,000</u>
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(12) Equity Contribution

During the year ended September 30, 1995, the FSM National Government made an additional \$425,000 equity contribution to a Joint Venture (Kosrae Sea Venture) on behalf of the State. Since the source of this contribution totaling \$850,000 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**

Combining Schedule of Expenditures by Account -
All Governmental Fund Types and Expendable Trust Funds
Year Ended September 30, 1995
(With comparative totals for the year ended September 30, 1994)

	<u>Governmental Fund Types</u>			<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>	
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	<u>1995</u>	<u>1994</u>
Expenditures:						
Personnel	\$ 4,201,381	\$ 1,282,111	\$ 387,778	\$ -	\$ 5,871,270	\$ 5,489,271
Travel	351,880	272,528	126,975	-	751,383	562,299
POL	2,931	46,560	24,374	-	73,865	65,981
Capital outlay	133,121	147,281	122,207	-	402,609	470,108
Other	<u>1,977,599</u>	<u>1,809,869</u>	<u>2,200,136</u>	<u>85,709</u>	<u>6,073,313</u>	<u>5,819,234</u>
Total expenditures	<u>\$ 6,666,912</u>	<u>\$ 3,558,349</u>	<u>\$ 2,861,470</u>	<u>\$ 85,709</u>	<u>\$ 13,172,440</u>	<u>\$ 12,406,893</u>

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

General Fund
September 30, 1995

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 accounted 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, 1995
(With comparative totals as of September 30, 1994)

<u>ASSETS</u>	U.S. Grant	State Revenue	Totals	
			1995	1994
Cash and equivalents	\$ 522,598	\$ -	\$ 522,598	\$ 75,240
Other term deposits	-	42,720	42,720	42,720
Investments	1,255,437	-	1,255,437	1,468,021
Receivables from other governments	198,743	14,722	213,465	469,861
General receivables, net	10,000	228,693	238,693	40,630
Advances	2,861	299,543	302,404	298,631
Due from other funds	270,491	644,479	914,970	1,524,489
Interest receivable	12,497	1,500	13,997	10,004
Total assets	<u>\$ 2,272,627</u>	<u>\$ 1,231,657</u>	<u>\$ 3,504,284</u>	<u>\$ 3,929,596</u>
 <u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Bank overdraft	\$ -	\$ -	\$ -	\$ 571,774
Accounts payable	53,390	(7,939)	45,451	117,206
Accrued payroll and others	271,121	1,454	272,575	258,739
Due to other funds	557,090	-	557,090	200,358
Due to other governments	180,636	-	180,636	180,636
Other payables	315,069	-	315,069	279,168
Total liabilities	<u>1,377,306</u>	<u>(6,485)</u>	<u>1,370,821</u>	<u>1,607,881</u>
Fund balances:				
Reserved for:				
Related assets	476,605	391,256	867,861	696,875
Encumbrances	112,961	61,456	174,417	173,413
Continuing appropriations	42,446	43,046	85,492	116,168
Unreserved	263,309	742,384	1,005,693	1,335,259
Total fund balances	<u>895,321</u>	<u>1,238,142</u>	<u>2,133,463</u>	<u>2,321,715</u>
Total liabilities and fund balances	<u>\$ 2,272,627</u>	<u>\$ 1,231,657</u>	<u>\$ 3,504,284</u>	<u>\$ 3,929,596</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA

Combining Statement of Revenues, Expenditures by Function
and Changes in Fund Balances - General Fund
Year Ended September 30, 1995
(With comparative totals for the year ended September 30, 1994)

	<u>U.S. Grant</u>	<u>State Revenue</u>	<u>Totals</u>	
			<u>1995</u>	<u>1994</u>
Revenues:				
Compact of Free Association:				
Base amount	\$ 2,791,740	\$ -	\$ 2,791,740	\$ 2,791,740
Inflation adjustment	1,284,201	-	1,284,201	1,228,366
Revenue sharing	-	796,132	796,132	779,357
Taxes and licenses	-	147,896	147,896	141,670
Investment income	185,975	197,426	383,401	475,648
Other	507,344	567,946	1,075,290	598,490
Total revenues	<u>4,769,260</u>	<u>1,709,400</u>	<u>6,478,660</u>	<u>6,015,271</u>
Expenditures:				
General government	707,434	1,155,157	1,862,591	1,615,508
Education	828,349	1,600	829,949	795,699
Health services	941,743	5,715	947,458	964,704
Economic development	554,313	10,343	564,656	522,810
Public works	454,372	-	454,372	517,395
Public safety	370,269	-	370,269	327,618
Community affairs	212,928	411,479	624,407	567,926
Other	1,012,256	954	1,013,210	64,269
Total expenditures	<u>5,081,664</u>	<u>1,585,248</u>	<u>6,666,912</u>	<u>5,375,929</u>
Excess (deficiency) of revenues over (under) expenditures	(312,404)	124,152	(188,252)	639,342
Other financing uses:				
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>(124,375)</u>
Excess (deficiency) of revenues over (under) expenditures and other financing uses	(312,404)	124,152	(188,252)	514,967
Fund balances at beginning of year	1,207,725	1,113,990	2,321,715	1,833,511
Equity contribution	<u>-</u>	<u>-</u>	<u>-</u>	<u>(26,763)</u>
Fund balances at end of year	<u>\$ 895,321</u>	<u>\$ 1,238,142</u>	<u>\$ 2,133,463</u>	<u>\$ 2,321,715</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, 1995
(With comparative totals for the year ended September 30, 1994)

	<u>U.S. Grant</u>	<u>State Revenue</u>	<u>Totals</u>	
			<u>1995</u>	<u>1994</u>
Revenues:				
Compact of Free Association:				
Base amount	\$ 2,791,740	\$ -	\$ 2,791,740	\$ 2,791,740
Inflation adjustment	1,284,201	-	1,284,201	1,228,366
Revenue sharing	-	796,132	796,132	779,357
Taxes and licenses	-	147,896	147,896	141,670
Investment income	185,975	197,426	383,401	475,648
Other	507,344	567,946	1,075,290	598,490
Total revenues	<u>4,769,260</u>	<u>1,709,400</u>	<u>6,478,660</u>	<u>6,015,271</u>
Expenditures:				
Personnel	3,300,176	901,205	4,201,381	3,834,606
Travel	166,846	185,034	351,880	311,974
POL	1,133	1,798	2,931	8,920
Capital outlay	73,768	59,353	133,121	158,433
Other	<u>1,539,741</u>	<u>437,858</u>	<u>1,977,599</u>	<u>1,061,996</u>
Total expenditures	<u>5,081,664</u>	<u>1,585,248</u>	<u>6,666,912</u>	<u>5,375,929</u>
Excess (deficiency) of revenues over (under) expenditures	(312,404)	124,152	(188,252)	639,342
Other financing uses:				
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>(124,375)</u>
Excess (deficiency) of revenues over (under) expenditures and other financing uses	(312,404)	124,152	(188,252)	514,967
Fund balances at beginning of year	1,207,725	1,113,990	2,321,715	1,833,511
Equity contribution	<u>-</u>	<u>-</u>	<u>-</u>	<u>(26,763)</u>
Fund balances at end of year	<u>\$ 895,321</u>	<u>\$ 1,238,142</u>	<u>\$ 2,133,463</u>	<u>\$ 2,321,715</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, 1995

	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	1,144,613	1,284,201	139,588	-	-	-	1,144,613	1,284,201	139,588
Revenue sharing	-	-	-	629,000	796,132	167,132	629,000	796,132	167,132
State taxes and licenses	-	-	-	139,300	147,896	8,596	139,300	147,896	8,596
Investment income	-	185,975	185,975	430,000	197,426	(232,574)	430,000	383,401	(46,599)
Miscellaneous	-	507,344	507,344	218,700	567,946	349,246	218,700	1,075,290	856,590
Total revenues	<u>3,936,353</u>	<u>4,769,260</u>	<u>832,907</u>	<u>1,417,000</u>	<u>1,709,400</u>	<u>292,400</u>	<u>5,353,353</u>	<u>6,478,660</u>	<u>1,125,307</u>
Expenditures:									
General government	816,055	839,282	(23,227)	993,878	978,867	15,011	1,809,933	1,818,149	(8,216)
Education	990,636	823,519	167,117	56,570	1,600	54,970	1,047,206	825,119	222,087
Health services	999,100	941,009	58,091	5,800	5,716	84	1,004,900	946,725	58,175
Economic development	597,506	548,759	48,747	35,322	10,343	24,979	632,828	559,102	73,726
Public works	519,436	457,199	62,237	-	-	-	519,436	457,199	62,237
Public safety	341,391	374,227	(32,836)	-	-	-	341,391	374,227	(32,836)
Community affairs	72,777	78,462	(5,685)	624,885	595,727	29,158	697,662	674,189	23,473
Others	86,450	1,012,252	(925,802)	-	953	(953)	86,450	1,013,205	(926,755)
Total expenditures	<u>4,423,351</u>	<u>5,074,709</u>	<u>(651,358)</u>	<u>1,716,455</u>	<u>1,593,206</u>	<u>123,249</u>	<u>6,139,806</u>	<u>6,667,915</u>	<u>(528,109)</u>
Excess (deficiency) of revenues over									
(under) expenditures	(486,998)	(305,449)	181,549	(299,455)	116,194	415,649	(786,453)	(189,255)	597,198
Unreserved fund balances at									
beginning of year	181,408	522,582	341,174	320,791	812,677	491,886	502,199	1,335,259	833,060
Other changes in unreserved									
fund balances:									
Increase in reserve for									
continuing appropriations	-	16,238	16,238	-	14,437	14,437	-	30,675	30,675
Decrease/(increase) in reserve									
for related assets	-	29,938	29,938	-	(200,924)	(200,924)	-	(170,986)	(170,986)
Unreserved fund balances at									
end of year	<u>\$ (305,590)</u>	<u>\$ 263,309</u>	<u>\$ 568,899</u>	<u>\$ 21,336</u>	<u>\$ 742,384</u>	<u>\$ 721,048</u>	<u>\$ (284,254)</u>	<u>\$ 1,005,693</u>	<u>\$ 1,289,947</u>

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Combined Statement of Revenues, Expenditures by Function and Department
and Changes in Fund Balance - General Fund
Year Ended September 30, 1995
(With comparative totals for the year ended September 30, 1994)

	1995		1994
Revenues:			
Compact of Free Association:			
Base amount	\$ 2,791,740		\$ 2,791,740
Inflation adjustment	1,284,201		1,228,366
FSM revenue sharing	796,132		779,357
State taxes and licenses:			
Cigarette tax	\$ 10,661		\$ 13,052
General sales tax	63,634		55,419
Alcohol	40,380		43,078
Motor vehicle sales tax	9,681		3,509
Licenses and fees	16,778		11,957
Court fines	6,762	147,896	14,655
			141,670
Other revenues:			
Utility collection	-		2,251
Transportation collection	119,828		36,617
Medical and dental services	138,800		98,696
Miscellaneous	816,662	1,075,290	460,926
Investment income	383,401		598,490
			475,648
Total revenues	6,478,660		6,015,271
Expenditures:			
General government:			
Governor and staff	156,710		143,727
Bureau of Accounting	141,159		154,646
Bureau of Budget and Management	40,512		47,111
Bureau of Procurement and Supply	50,980		52,811
Personnel and Employment Services	50,421		96,571
Bureau of Planning and Statistics	268,377		231,806
Member's Legislative	287,793		276,308
Standing Committee Legislative	76,889		47,423
Legislative staff	368,569		267,218
Municipal government operation	-		16,735
Municipal government - legislative	112,412		-
Land commission operation	-		154,864
Land commission - legislative	179,764		-
Judicial operations	(724)		117,933
Judicial operations - legislative	129,729		8,355
Total	1,862,591		1,615,508
Department of Education:			
Administration	87,883		96,282
Elementary	170,202		47,268
Secondary	357,561		378,196
Field day	1,600		46,649
Special services	212,703		227,304
Total	829,949		795,699

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA

Combined Statement of Revenues, Expenditures by Function and Department
and Changes in Fund Balance - General Fund, Continued
Year Ended September 30, 1995
(With comparative totals for the year ended September 30, 1994)

	1995	1994
Expenditures by department, continued:		
Department of Health services:		
Administration	\$ 231,494	\$ 223,408
Environmental health	73,314	48,231
Dental services	48,841	59,589
Clinical services	255,462	300,531
Public health nursing	58,915	35,431
Medical services	273,716	299,275
Peritoneal program	-	(1,761)
Chip in conference - legislative	5,716	-
Total	<u>947,458</u>	<u>964,704</u>
Department of Economic Development:		
Administration	60,388	54,595
Production and marketing	22,585	31,837
Land management	148,062	151,813
Marine resources	84,722	70,202
Agriculture	150,591	132,304
Tourism	34,580	39,717
Culture and history	53,385	42,342
Pro/market - legislative	10,343	-
Total	<u>564,656</u>	<u>522,810</u>
Department of Public Works:		
Operations and maintenance	312,887	311,337
Division of Transportation	53,010	76,008
Utility services	88,475	130,050
Total	<u>454,372</u>	<u>517,395</u>
Department of Justice/Public Safety:		
Police	219,338	210,274
Attorney General	148,356	112,139
Police network	-	3,845
License plate	2,575	1,360
Total	<u>370,269</u>	<u>327,618</u>
Community Affairs:		
Division of Public broadcast	-	52,888
Political Affairs	74,479	75,716
Community Development	58,676	43,946
Sports Council	-	34,142
Sports Council - legislative	42,228	17,001
World Food Day	-	1,292
Micronesia Legal Services	-	29,325
State Election Commission	-	4,358
Executive Service Appeals Board	1,105	-
Scholarship Board	-	2,000
Scholarship Board - legislative	5,537	5,863
Election commission - legislative	11,075	3,018
Broadcast authority - legislative	-	11,037
Subtotal Community Affairs	<u>193,100</u>	<u>280,586</u>

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Combined Statement of Revenues, Expenditures by Function and Department
and Changes in Fund Balance - General Fund, Continued
Year Ended September 30, 1995
(With comparative totals for the year ended September 30, 1994)

	1995	1994
Expenditures by department, continued:		
Community Affairs Balance Forwarded:	\$ 193,100	\$ 280,586
KCAP Operations - legislative	35,893	24,885
Kosrae Women	-	6,550
Micronesia Games	-	70,000
Retirement Pension	-	86,973
FY94 Census Pop/Housing	15,037	3,441
Board of Education	2,421	2,433
Second Constitution Convention	-	4,724
Hiring of Grant Writer - legislative	5,555	12,621
Emergency Rescue Team	-	663
95 ConCon Ed. and Referendum	23,255	-
Broadcast facility	466	6,041
FY-95 Graham Sigrah	22,500	-
Land Commission-legislative	-	4,450
Development Review Commission	10,835	22,795
Development Review Comm. - legislative	15,260	21,582
Foreign Investment Board	-	4,865
Foreign Investment Board - legislative	16,756	15,317
FY-95 Parole Board	825	-
FY-95 Legislative appropriations	3,330	-
FY-95 Inauguration - Legislative	9,699	-
FY-94 Second ConCon - Legislative	2,058	-
FY-95 Second ConCon - Legislative	40,115	-
FY-95 Retirements - 5-216 - Legislative	91,328	-
FY-95 Workman's Comp - Legislative	32,000	-
FY-94 MLSC Supplement - Legislative	34,500	-
FY-94 E.C. Construction Con. - Legislative	20	-
Board of Education - Legislative	772	-
Broadcast Authority - Legislative	68,682	-
 Total	 624,407	 567,926
 Uncollectible reimburseable grants	 948,025	 -
 Other - legislative	 65,185	 64,269
 Total expenditures	 6,666,912	 5,375,929
 Excess (deficiency) of revenues over (under) expenditures	 (188,252)	 639,342
 Other financing uses:		
Operating transfer out	-	(124,375)
 Excess (deficiency) of revenues over (under) expenditures and other financing uses	 (188,252)	 514,967
 Fund balances at beginning of year	 2,321,715	 1,833,511
 Equity contribution	 -	 (26,763)
 Fund balances at end of year	 \$ 2,133,463	 \$ 2,321,715

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Special Revenue Funds
September 30, 1995

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, 1995, 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 operation 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, 1995
(With comparative totals as of September 30, 1994)

ASSETS	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	
	221(B)	216(A)(2)	216(A)(3)	214	212(B)					1995	1994
Cash and equivalents	\$ -	\$ 2	\$ -	\$ -	\$ 1,965	\$ ###	\$ -	\$ -	\$ -	\$ 15,016	\$ 177,723
Receivables from:											
Federal agencies	-	-	-	-	-	-	-	-	-	-	210,237
Other Governments	-	-	-	-	-	-	315,018	257,422	11,550	583,990	2,649,754
General receivables	(17,391)	-	203,415	-	-	-	-	-	-	186,024	(17,391)
Advances	39,175	18,828	-	4,718	14,941	-	36,826	152,618	3,799	270,905	299,046
Due from other funds	-	58,466	-	279,464	282,842	1,026	-	-	-	621,798	566,478
Total assets	\$ 21,784	\$ 77,296	\$ 203,415	\$ 284,182	\$ 299,748	\$ ###	\$ 351,844	\$ 410,040	\$ 15,349	\$ 1,677,733	\$ 3,885,847
LIABILITIES AND FUND BALANCES (DEFICIT)											
Liabilities:											
Accounts payable	\$ (33,454)	\$ 1,680	\$ -	\$ 4,479	\$ 13,429	\$ -	\$ 78,408	\$ (4,684)	\$ (1,464)	\$ 58,394	\$ 608,690
Accrued payroll and others	3,166	-	-	-	-	-	497	3,562	(77)	7,148	7,146
Due to other funds	266,679	-	286,542	-	-	-	296,993	663,160	147,452	1,660,826	3,263,507
Deferred revenues	-	-	-	-	-	-	28,095	-	-	28,095	28,095
Total liabilities	236,391	1,680	286,542	4,479	13,429	-	403,993	662,038	145,911	1,754,463	3,907,438
Fund balances (deficit):											
Reserved for:											
Encumbrances	13,814	29,928	-	7,538	17,244	-	152,730	719,549	30,716	971,519	366,238
Continuing appropriations	-	-	-	-	-	-	226,296	-	-	226,296	226,296
Unreserved	(228,421)	45,688	(83,127)	272,165	269,075	###	(431,175)	(971,547)	(161,278)	(1,274,545)	(614,125)
Total fund balances (deficit)	(214,607)	75,616	(83,127)	279,703	286,319	###	(52,149)	(251,998)	(130,562)	(76,730)	(21,591)
Total liabilities and fund balances (deficit)	\$ 21,784	\$ 77,296	\$ 203,415	\$ 284,182	\$ 299,748	\$ ###	\$ 351,844	\$ 410,040	\$ 15,349	\$ 1,677,733	\$ 3,885,847

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, 1995
(With comparative totals for the year ended September 30, 1994)

	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	
										1995	1994
Revenues:											
Compact grants:											
Base amount	\$ 875,000	\$ #####	\$ 127,481	\$ 450,000	\$ 250,000	\$ -	\$ -	\$ -	\$ -	\$ 1,814,601	\$ 1,904,450
Inflation adjustment	-	-	-	207,000	115,000	-	-	-	-	322,000	308,000
U.S. Department of the											
Interior grants	-	-	-	-	-	-	510,776	-	-	510,776	201,255
Federal contributions	-	-	-	-	-	-	-	1,192,642	-	1,192,642	1,708,517
Other	-	-	-	-	-	-	-	-	70,191	70,191	379,764
Total revenues	<u>875,000</u>	<u>#####</u>	<u>127,481</u>	<u>657,000</u>	<u>365,000</u>	<u>-</u>	<u>510,776</u>	<u>1,192,642</u>	<u>70,191</u>	<u>3,910,210</u>	<u>4,501,986</u>
Expenditures:											
General government	-	-	-	-	-	-	510,776	1,192,642	-	1,703,418	1,805,005
Education	810,449	-	127,481	-	-	-	-	-	-	937,930	1,047,132
Health services	120,600	76,754	-	-	-	-	-	-	-	197,354	139,740
Economic development	-	-	-	240,403	334,427	-	-	-	-	574,830	484,509
Community affairs	-	-	-	-	-	-	-	-	144,817	144,817	131,995
Other	-	-	-	-	-	-	-	-	-	-	65
Total expenditures	<u>931,049</u>	<u>76,754</u>	<u>127,481</u>	<u>240,403</u>	<u>334,427</u>	<u>-</u>	<u>510,776</u>	<u>1,192,642</u>	<u>144,817</u>	<u>3,558,349</u>	<u>3,608,446</u>
Excess (deficiency) of											
revenues over (under) expenditures	(56,049)	35,366	-	416,597	30,573	-	-	-	(74,626)	351,861	893,540
Other financing uses:											
Operating transfers out	-	-	-	(407,000)	-	-	-	-	-	(407,000)	(531,489)
Excess (deficiency) of revenues over (under)											
expenditures and other financing uses	(56,049)	35,366	-	9,597	30,573	-	-	-	(74,626)	(55,139)	362,051
Fund balances (deficit) at beginning of year	<u>(158,558)</u>	<u>40,250</u>	<u>(83,127)</u>	<u>270,106</u>	<u>255,746</u>	<u>####</u>	<u>(52,149)</u>	<u>(251,998)</u>	<u>(55,936)</u>	<u>(21,591)</u>	<u>(383,642)</u>
Fund balances (deficit) at end of year	<u>\$ (214,607)</u>	<u>\$ 75,616</u>	<u>\$ (83,127)</u>	<u>\$ 279,703</u>	<u>\$ 286,319</u>	<u>\$ ####</u>	<u>\$ (52,149)</u>	<u>\$ (251,998)</u>	<u>\$ (130,562)</u>	<u>\$ (76,730)</u>	<u>\$ (21,591)</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA

SPECIAL REVENUE FUNDS
Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balances (Deficit)
Year ended September 30, 1995
(With comparative totals for the year ended September 30, 1994)

	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	
										1995	1994
Revenues:											
Compact grants:											
Base amount	\$ 875,000	\$ #####	\$ 127,481	\$ 450,000	\$ 250,000	\$ -	\$ -	\$ -	\$ -	\$ 1,814,601	\$ 1,904,450
Inflation adjustment	-	-	-	207,000	115,000	-	-	-	-	322,000	308,000
U.S. Department of the											
Interior grants	-	-	-	-	-	-	510,776	-	-	510,776	201,255
Federal contributions	-	-	-	-	-	-	-	1,192,642	-	1,192,642	1,708,517
Other	-	-	-	-	-	-	-	-	70,191	70,191	379,764
Total revenues	<u>875,000</u>	<u>#####</u>	<u>127,481</u>	<u>657,000</u>	<u>365,000</u>	<u>-</u>	<u>510,776</u>	<u>1,192,642</u>	<u>70,191</u>	<u>3,910,210</u>	<u>4,501,986</u>
Expenditures:											
Personnel	821,346	-	-	206	-	-	95,905	339,761	24,893	1,282,111	1,263,046
Travel	-	64,320	-	-	33,739	-	42,272	96,318	35,879	272,528	166,181
POL	-	-	-	-	45,962	-	-	598	-	46,560	56,708
Capital outlay	14,435	-	-	-	-	-	25,210	85,786	21,850	147,281	111,510
Other	<u>95,268</u>	<u>12,434</u>	<u>127,481</u>	<u>240,197</u>	<u>254,726</u>	<u>-</u>	<u>347,389</u>	<u>670,179</u>	<u>62,195</u>	<u>1,809,869</u>	<u>2,011,001</u>
Total expenditures	<u>931,049</u>	<u>76,754</u>	<u>127,481</u>	<u>240,403</u>	<u>334,427</u>	<u>-</u>	<u>510,776</u>	<u>1,192,642</u>	<u>144,817</u>	<u>3,558,349</u>	<u>3,608,446</u>
Excess (deficiency) of revenues over (under) expenditures	(56,049)	35,366	-	416,597	30,573	-	-	-	(74,626)	351,861	893,540
Other financing uses:											
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>(407,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(407,000)</u>	<u>(531,489)</u>
Excess (deficiency) of revenues over (under) expenditures and other financing uses	(56,049)	35,366	-	9,597	30,573	-	-	-	(74,626)	(55,139)	362,051
Fund balances (deficit) at beginning of year	<u>(158,558)</u>	<u>40,250</u>	<u>(83,127)</u>	<u>270,106</u>	<u>255,746</u>	<u>####</u>	<u>(52,149)</u>	<u>(251,998)</u>	<u>(55,936)</u>	<u>(21,591)</u>	<u>(383,642)</u>
Fund balances (deficit) at end of year	<u>\$ (214,607)</u>	<u>\$ 75,616</u>	<u>\$ (83,127)</u>	<u>\$ 279,703</u>	<u>\$ 286,319</u>	<u>\$ ####</u>	<u>\$ (52,149)</u>	<u>\$ (251,998)</u>	<u>\$ (130,562)</u>	<u>\$ (76,730)</u>	<u>\$ (21,591)</u>

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Capital Projects Funds
September 30, 1995

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, 1995, 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, 1995
(With comparative totals as of September 30, 1994)**

	Compact Capital Projects	CFSM Capital Projects	TTG Capital Projects	Totals	
				1995	1994
<u>ASSETS</u>					
Other term deposits	\$ 2,151,268	\$ -	\$ -	\$ 2,151,268	\$ 2,142,143
Investments	21,753	-	-	21,753	-
Equity investments	1,538,380	-	-	1,538,380	968,894
Receivables from U.S.					
Department of the Interior	-	-	501,906	501,906	532,194
Receivables from FSM Gov't	-	965,666	-	965,666	767,489
General receivables, net	-	19,434	486,867	506,301	-
Advances	184,005	81,884	14,265	280,154	292,773
Loans receivable, net	150,000	-	-	150,000	175,000
Due from other funds	2,009,267	-	-	2,009,267	2,258,111
Total assets	<u>\$ 6,054,673</u>	<u>\$ 1,066,984</u>	<u>\$ 1,003,038</u>	<u>\$ 8,124,695</u>	<u>\$ 7,136,604</u>
<u>LIABILITIES AND FUND BALANCES (DEFICIT)</u>					
Liabilities:					
Accounts payable	\$ 68,083	\$ 19,328	\$ 268,502	\$ 355,913	\$ 305,313
Accrued payroll and others	(4,749)	-	5,552	803	1,360
Due to other funds	-	1,097,580	405,849	1,503,429	981,724
Other payables	777	-	-	777	412,727
Total liabilities	<u>64,111</u>	<u>1,116,908</u>	<u>679,903</u>	<u>1,860,922</u>	<u>1,701,124</u>
Fund balances (deficit):					
Reserved for:					
Related assets	1,660,181	963,381	306,725	2,930,287	1,143,894
Encumbrances	489,824	54,830	188,954	733,608	1,300,172
Continuing appropriations	3,666,946	1,023,291	764,260	5,454,497	5,101,645
Unreserved	173,611	(2,091,426)	(936,804)	(2,854,619)	(2,110,231)
Total fund balances (deficit)	<u>5,990,562</u>	<u>(49,924)</u>	<u>323,135</u>	<u>6,263,773</u>	<u>5,435,480</u>
Total liabilities and fund balances (deficit)	<u>\$ 6,054,673</u>	<u>\$ 1,066,984</u>	<u>\$ 1,003,038</u>	<u>\$ 8,124,695</u>	<u>\$ 7,136,604</u>

**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, 1995

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

	Compact Capital Projects	CFSM Capital Projects	TTG Capital Projects	Totals	
				1995	1994
Revenues:					
Compact of Free Association:					
Base amount	\$ 2,445,960	\$ -	\$ -	\$ 2,445,960	\$ 2,445,960
Inflation adjustment	1,125,141	-	-	1,125,141	1,076,222
U.S. Department of the					
Interior grants	-	-	456,520	456,520	277,432
FSM Nat'l Gov't Contribution	-	315,886	-	315,886	224,687
	<u>3,571,101</u>	<u>315,886</u>	<u>456,520</u>	<u>4,343,507</u>	<u>4,024,301</u>
Total revenues					
Expenditures:					
Capital projects	<u>2,089,064</u>	<u>315,886</u>	<u>456,520</u>	<u>2,861,470</u>	<u>3,259,625</u>
Total expenditures	<u>2,089,064</u>	<u>315,886</u>	<u>456,520</u>	<u>2,861,470</u>	<u>3,259,625</u>
Excess of revenues over expenditures	<u>1,482,037</u>	<u>-</u>	<u>-</u>	<u>1,482,037</u>	<u>764,676</u>
Other financing sources (uses):					
Bond principal repayments	(1,000,000)	-	-	(1,000,000)	(1,000,000)
Bond interest expense	(123,229)	-	-	(123,229)	(201,134)
Equity loss on investment	(187,717)	-	-	(187,717)	(261,534)
Equity earnings on investment	232,202	-	-	232,202	-
	<u>(1,078,744)</u>	<u>-</u>	<u>-</u>	<u>(1,078,744)</u>	<u>(1,462,668)</u>
Total other financing sources (uses), net					
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	403,293	-	-	403,293	(697,992)
Fund balances (deficit) at beginning of year	5,162,269	(49,924)	323,135	5,435,480	5,681,709
Equity contribution	<u>425,000</u>	<u>-</u>	<u>-</u>	<u>425,000</u>	<u>451,763</u>
Fund balances (deficit) at end of year	<u>\$ 5,990,562</u>	<u>\$ (49,924)</u>	<u>\$ 323,135</u>	<u>\$ 6,263,773</u>	<u>\$ 5,435,480</u>

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

CAPITAL PROJECTS FUNDS
Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balances (Deficit)
Year Ended September 30, 1995
(With comparative totals for the year ended September 30, 1994)

	Compact Capital Projects	CFSM Capital Projects	TTG Capital Projects	Totals	
				1995	1994
Revenues:					
Compact of Free Association:					
Base amount	\$ 2,445,960	\$ -	\$ -	\$ 2,445,960	\$ 2,445,960
Inflation adjustment	1,125,141	-	-	1,125,141	1,076,222
U.S. Department of the					
Interior grants	-	-	456,520	456,520	277,432
FSM National Gov't contribution	-	315,886	-	315,886	224,687
Total revenues	3,571,101	315,886	456,520	4,343,507	4,024,301
Expenditures:					
Personnel	345,506	42,272	-	387,778	391,619
Travel	94,379	32,596	-	126,975	84,144
POL	24,374	-	-	24,374	353
Capital outlay	92,544	29,663	-	122,207	200,165
Other	1,532,261	211,355	456,520	2,200,136	2,583,344
Total expenditures	2,089,064	315,886	456,520	2,861,470	3,259,625
Excess of revenues over expenditures	1,482,037	-	-	1,482,037	764,676
Other financing sources (uses):					
Bond principal repayments	(1,000,000)	-	-	(1,000,000)	(1,000,000)
Bond interest expense	(123,229)	-	-	(123,229)	(201,134)
Equity loss on investment	(187,717)	-	-	(187,717)	(261,534)
Equity earnings on investment	232,202	-	-	232,202	-
Total other financing sources (uses), net	(1,078,744)	-	-	(1,078,744)	(1,462,668)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	403,293	-	-	403,293	(697,992)
Fund balances (deficit) at beginning of year	5,162,269	(49,924)	323,135	5,435,480	5,681,709
Equity contribution	425,000	-	-	425,000	451,763
Fund balances (deficit) at end of year	\$ 5,990,562	\$ (49,924)	\$ 323,135	\$ 6,263,773	\$ 5,435,480

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Expendable Trust Funds
September 30, 1995

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, 1995
(With comparative totals as of September 30, 1994)**

	Airport Trust	Agriculture Revolving	Production Loan	Scholarship Revolving Loan	Housing Revolving	Aluminum Recycling	Tourism	Totals	
								1995	1994
<u>ASSETS</u>									
Cash and equivalents	\$ -	\$ 31,471	\$ 23,529	\$ -	\$ -	\$ -	\$ 1,499	\$ 56,499	\$ 22,732
Other term deposits	-	-	-	-	-	-	-	-	38,135
General receivables, net	13,581	7,612	285	(9,823)	-	-	-	11,655	9,246
Loans receivable, net	-	-	69,095	-	603,437	-	-	672,532	743,780
Due from other funds	83,697	-	1,495	39,427	222,805	-	-	347,424	248,451
Inventory, at cost	-	8,635	-	-	-	-	29,775	38,410	8,470
Total assets	<u>\$ 97,278</u>	<u>\$ 47,718</u>	<u>\$ 94,404</u>	<u>\$ 29,604</u>	<u>\$ 826,242</u>	<u>\$ -</u>	<u>\$ 31,274</u>	<u>\$ 1,126,520</u>	<u>\$ 1,070,814</u>
<u>LIABILITIES AND FUND BALANCES (DEFICIT)</u>									
Liabilities:									
Accounts payable	\$ 7,760	\$ -	\$ -	\$ (336)	\$ 31,411	\$ -	\$ 195	\$ 39,030	\$ 70,003
Due to other funds	-	-	-	-	-	11,132	-	11,132	-
Total liabilities	<u>7,760</u>	<u>-</u>	<u>-</u>	<u>(336)</u>	<u>31,411</u>	<u>11,132</u>	<u>195</u>	<u>50,162</u>	<u>70,003</u>
Fund balances (deficit):									
Reserved for:									
Related assets	13,608	16,247	69,095	38,067	603,437	-	29,775	770,229	761,496
Encumbrances	-	-	-	-	90,350	-	-	90,350	-
Unreserved	<u>75,910</u>	<u>31,471</u>	<u>25,309</u>	<u>(8,127)</u>	<u>101,044</u>	<u>(11,132)</u>	<u>1,304</u>	<u>215,779</u>	<u>239,315</u>
Total fund balances (deficit)	<u>89,518</u>	<u>47,718</u>	<u>94,404</u>	<u>29,940</u>	<u>794,831</u>	<u>(11,132)</u>	<u>31,079</u>	<u>1,076,358</u>	<u>1,000,811</u>
Total liabilities and fund balances (deficit)	<u>\$ 97,278</u>	<u>\$ 47,718</u>	<u>\$ 94,404</u>	<u>\$ 29,604</u>	<u>\$ 826,242</u>	<u>\$ -</u>	<u>\$ 31,274</u>	<u>\$ 1,126,520</u>	<u>\$ 1,070,814</u>

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

EXPENDABLE TRUST FUNDS
Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)
Year Ended September 30, 1995
(With comparative totals for the year ended September 30, 1994)

	Airport Trust	Agriculture Revolving	Production Loan	Scholarship Revolving Loan	Housing Revolving	Aluminum Recycling	Tourism	Totals	
								1995	1994
Revenues:									
Sales	\$ -	\$ 7,410	\$ -	\$ -	\$ -	\$ 50,716	\$ 4,178	\$ 62,304	\$ 43,169
Others	65,747	-	2,996	2,265	-	-	27,944	98,952	102,410
Total revenues	65,747	7,410	2,996	2,265	-	50,716	32,122	161,256	145,579
Expenditures:									
Cost of sales	-	3,852	-	-	-	23,581	2,557	29,990	92,154
Others	49,407	5,604	-	-	466	-	242	55,719	70,739
Total expenditures	49,407	9,456	-	-	466	23,581	2,799	85,709	162,893
Excess (deficiency) of revenues over (under) expenditures	16,340	(2,046)	2,996	2,265	(466)	27,135	29,323	75,547	(17,314)
Fund balances (deficit) at beginning of year	73,178	49,764	91,408	27,675	795,297	(38,267)	1,756	1,000,811	1,018,125
Fund balances (deficit) at end of year	\$ 89,518	\$ 47,718	\$ 94,404	\$ 29,940	\$ 794,831	\$ (11,132)	\$ 31,079	\$ 1,076,358	\$ 1,000,811

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
INDEPENDENT AUDITORS' REPORTS ON COMPLIANCE
WITH LAWS AND REGULATIONS
YEAR ENDED SEPTEMBER 30, 1995**



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

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, 1995, and have issued our report thereon dated March 13, 1996. 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; and 2) 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.

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 general-purpose 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 70 through 73) in Findings 1 through 4.

We also noted matters including compliance with laws and regulations related to federal financial assistance, which we reported to the State of Kosrae's management in our reports dated March 13, 1996 on compliance related to federal financial assistance programs.

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.

March 13, 1996



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, 1995, and have issued our report thereon dated March 13, 1996. 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; and 2) 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; 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 54 through 67), for the year ended September 30, 1995. 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 70 through 73) in Findings 1 and 2. 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; and claims for advances and reimbursements that are applicable to each of its major federal financial assistance programs for the year ended September 30, 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.

Deloitte + Tachle LLP

March 13, 1996



**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, 1995, and have issued our report thereon dated March 13, 1996. 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; and 2) 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 March 13, 1996.

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 53 through 66), for the year ended September 30, 1995: 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 one immaterial instance of noncompliance with those requirements, which is described in the accompanying Schedule of Findings and Questioned Costs (pages 70 through 73) in Finding Number 1.

We also noted matters involving compliance with laws and regulations related to our audit of the general-purpose financial statements with requirements related to major and nonmajor federal financial assistance programs that we reported to the State of Kosrae's management in our reports dated March 13, 1996.

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.

Deloitte & Touche LLP

March 13, 1996



**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, 1995, and have issued our report thereon dated March 13, 1996. 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; and 2) 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 applied procedures to test compliance with general requirements applicable to federal financial assistance programs and have issued our reports thereon dated March 13, 1996.

In connection with our audit of the 1995 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, 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, 1995.

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.

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.

March 13, 1996



**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, 1995, and have issued our report thereon dated March 13, 1996. 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; and 2) 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, 1995, we considered the State of Kosrae's internal control structure and assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinions on the State of Kosrae's general-purpose financial statements and on its compliance with requirements applicable to major programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the general-purpose financial statements in a separate report dated March 13, 1996.

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, 1995, the State of Kosrae expended 89% of its total federal financial assistance under the major federal financial assistance programs listed on page 69.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements and requirements governing claims for advances and reimbursements that are applicable to each of the State of Kosrae's major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance (pages 53 through 66). 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 a matter, which is described in finding 1 in the accompanying Schedule of Findings and Questioned Costs (pages 70 through 73), involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect Kosrae State's ability to administer federal financial assistance programs in accordance with applicable laws and regulations.

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

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable condition described above is not a material weakness.

We also noted matters involving the internal control structure and its operation based on our audit of the general-purpose financial statements that we reported to the management of the State of Kosrae in a report dated March 13, 1996.

We also noted other matters involving the internal control structure and its operation, which are described in the accompanying Schedule of Findings and Questioned Costs in Finding Numbers 2 - 4, which we have reported to the management of the State of Kosrae.

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.

Deloitte & Touche LLP

March 13, 1996

**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, 1995, and have issued our report thereon dated March 13, 1996. 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; and 2) 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 conducted 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 53 through 66) for the year ended September 30, 1995, 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 our audit of the general-purpose financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the general-purpose financial statements taken as a whole.

This report is intended for the information of the 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.

March 13, 1996

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Schedule of Federal Financial Assistance
U.S. Federal and Other Assistance Fund
Year Ended September 30, 1995

Grantor	CFDA I.D. #	Kosrae Org. #	Grant Title	1995 Fiscal Year Expenditures
U.S. Dept. of Education	84.124	7746	FY94 Teacher Training	2,854
	84.027	7732	FY93 Special Education	32,860
	84.027	7743	FY94 Special Education	395,342
	84.027	7729	FY95 Special Education	82,183
	84.256A	4516	FY94 TFSA Educational Grant	8,231
	84.256A	4526	FY95 TFSA Educational Grant	250,548
				<hr/> 772,018
U.S. Dept. of Labor	17.250	3430	FY93 JTPA Administration	1
	17.250	3431	FY93 JTPA Adult Program	(1)
	17.250	3433	FY93 JTPA Participation/Support	1
	17.250	3434	FY93 Education Coordinator	23,037
	17.250	3435	FY93 JTPA Elderly	3,309
	17.250	3440	FY94 JTPA Administration	19,294
	17.250	3441	FY94 JTPA Adult Program	24,368
	17.250	3442	FY94 JTPA Youth	8,619
	17.250	3443	FY94 JTPA Participation/Support	1,300
	17.250	3444	FY94 Education Coordinator	5,042
	17.250	3445	FY94 JTPA Elderly	15,862
	17.250	3446	FY94 Technical Assistance	4,297
				<hr/> 105,129
U.S. Dept. of Agriculture	10.664	7708	FY93 Forestry	11,143
	10.664	7712	FY93 Fire Prevention	2,201
	10.664	7714	FY94 Forestry	1,241
	10.664	7715	FY94 Fire Prevention	2,996
	10.664	3458	FY95 Forestry Program	490
				<hr/> 18,071
U.S. Environmental Protection Agency	66.418	3585	Waste Water Construction	<hr/> 413,516
U.S. Dept. of Health and Human Services	93.991	7472	FY93 Preventive Health	1
	93.217	7463	FY94 Family Planning	1
	93.116	7363	FY94 TB & AIDS Control	1,369
	93.991	7354	FY94 Preventive Health	7,116
	93.959	7378	FY94 Substance Abuse	7,417
	93.988	7384	FY94 Diabetes	8,319
	93.994	7489	FY94 MCH Program	43,600
	93.940	7499	FY94 AIDS Prevention	3,844
	93.217	7365	FY95 Family Planning	17,063
	93.110	7388	FY95 SSDI (MCH)	21,292
	93.268	7394	FY95 Immunization	536
	93.940	7441	FY95 Aids Prevention	4,693
	93.116	7448	FY95 TB/ AIDS Control	3,315
				<hr/> 118,566
Subtotal				<hr/> 1,427,300

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, Continued
Year Ended September 30, 1995

			Balance forwarded	\$ 1,427,300
U.S. Dept. of the Interior	15.904	7303	FY93 Historic Preservation	121
	15.904	7326	FY94 Historic Preservation	24,000
				<u>24,121</u>
			Total federal and other assistance expenditures	\$ <u>1,451,421</u>
Balance per the general-purpose financial statements				\$ 1,192,642
FY94 U.S. Department of Education - TFAS Grant				8,231
FY95 U.S. Department of Education - TFAS Grant				<u>250,548</u>
				\$ <u>1,451,421</u>

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

See accompanying notes to schedule of federal financial assistance.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Schedule of Federal Financial Assistance, Continued
Foreign Assistance Fund
Year Ended September 30, 1995

Account Title	CFDA #	Kosrae Org. #	1995 Fiscal Year Expenditures
South Pacific Commission Grants:			
FY94 Kosrae Substance Abuse	N/A	7315	\$ 71,982
UNICEF Grants:			
Family Food Nutrition	N/A	3929	1,631
Other Grants:			
FY93 Vocational Education Prel.	84.994	3929	2,346
FY94 Vocational Education Prel.	84.994	3930	3,127
FY95 Vocational Education Prel.	84.994	3931	61,806
FY95 Malem Oral History	N/A	3933	709
FY95 Diabetic Project	N/A	3934	3,216
			<u>71,204</u>
Total Foreign Assistance Fund			<u>\$ 144,817</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, 1995

Grantor Account Title	Kosrae Org. #	CFDA I.D. #	1995 Fiscal Year Expenditures
Airport Terminal	6342	15.875	\$ 1,020
Water System Development	6346	15.875	446,495
Kosrae Okat Dock	6350	15.875	2,043
Kosrae Aiport Improvement	6351	15.875	6,962
Total CFSM CIP			<u>\$ 456,520</u>

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

See accompanying notes to schedule of federal financial assistance.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Schedule of Federal Financial Assistance, Continued
CFSM Capital Projects Fund
Year Ended September 30, 1995

Account Title	Kosrae Org. #	1995 Fiscal Year Expenditures
FY94 Broiler Project	6900	\$ 4,790
FY95 Kosrae Tourism Development	1176	43,262
FY95 Scholarship Fund	1217	39,000
Cultural Education	4543	5,689
Kosrae State Court	4612	52,328
Joint Law Enforcement	4632	75,000
Aging Program Kosrae	9513	658
Aging, Senior Citizens	9566	238
Airport Dock Water System	9574	277
FY95 Health Programs	9585	94,644
		<hr/>
Total CFSM CIP		\$ 315,886
		<hr/> <hr/>

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

See accompanying notes to schedule of federal financial assistance.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Schedule of Federal Financial Assistance, Continued
Operations and Maintenance Grants Fund
Year Ended September 30, 1995

Grantor Account Title	Kosrae Org. #	CFDA I.D. #	1995 Fiscal Year Expenditures
<u>Office of Territorial and International Affairs</u>			
FY93 Voc. Ed. Sp.	7873	15.875	\$ 23,183
FY94 Visions and Dreams	3542	15.875	1,216
FY95 Local Closeup	3543	15.875	950
FY95 Local Closeup	3545	15.875	1,700
FY95 Visions and Dreams	3544	15.875	13,840
School Maintenance	7320	15.875	33,017
FY95 Reorg. DPW 2nd year	7330	15.875	173,401
FY95 Jail OMIP Maintenance	7331	15.875	4,690
			<u>\$ 251,997</u>
Balance per the general-purpose financial statements			\$ 510,776
FY94 U.S. Dept. of Education - TFAS Grant			(8,231)
FY95 U.S. Dept. of Education - TFAS Grant			<u>(250,548)</u>
			<u>\$ 251,997</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

<u>Office of Territorial and International Affairs</u>			
Road DV Paving	6199	15.875	\$ 273,435
Sewerage Phase I	6221	15.875	19,000
FY92 Fisheries Development	6225	15.875	258
Citrus Fumigation	6227	15.875	1,372
Trochus Reseding	6229	15.875	376
Staff Housing	6293	15.875	76
Poultry & Swine Production	6460	15.875	6,792
Poultry & Swine Production	6461	15.875	630
FY92 Fruit Juice	6462	15.875	958
FY92 Manpower Development	6463	15.875	1,889
FY92 Land Acquisition	6464	15.875	23,533
FY92 Power Plant Improvements	6486	15.875	64,660
Broadcast Facility	6782	15.875	1,277
Marine Resources Office	6783	15.875	345
A Rch. Survey/Circum. Road	6784	15.875	8,919
Fisheries Development	6788	15.875	335
Fisheries Development	6807	15.875	104,171
Hospital Admin. Building	6809	15.875	76,275
POL Storage Facility	6812	15.875	13,395
Elementary Classroom	6813	15.875	47,580
State Sewer Project	6819	15.875	277,891
FY93 Manpower Development	6821	15.875	296
FY93 Housing Renovation Loans	6822	15.875	8,466
FY93 Land Management Office Renovation	6823	15.875	2,538
FY93 Fisheries Development	6825	15.875	17
FY93 Municipal Water Systems	6826	15.875	11,493
FY93 Power Plant Improvements	6827	15.875	20,764
FY93 Consultancy Services	6828	15.875	1,993
FY93 OMIP Matching	6829	15.875	20,947
FY93 Project Administration	6831	15.875	2,342
FY93 Land Acquisition	6832	15.875	12,699
FY94 Land Acquisition	6834	15.875	1,401
FY94 Project Administration	6835	15.875	35,892
FY94 Manpower Development	6836	15.875	(537)
FY94 Road Pavement	6837	15.875	218,241
FY94 Maintenance Program	6839	15.875	36,126
FY94 Public Safety Matching	6842	15.875	6,540
FY94 Sansrik Elementary Con.	6843	15.875	19,825
FY95 Man Power Training	6847	15.875	46,559
FY95 Road Development	6848	15.875	291,333
FY95 MTN Repayments	6852	15.875	1,123,229
FY95 Trochus Development	6853	15.875	3,945
FY95 Security Vault	6856	15.875	6,586
FY95 New Classrooms	6857	15.875	120,100
FY95 Cadastral Program	6858	15.875	39,315
FY95 Consultancy Services	6859	15.875	27,564
FY95 Project Admin.	6860	15.875	29,335
FY95 Medical Referral Housing Acquisition	6861	15.875	131,794
Subtotal			<u>3,141,970</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, Continued
Year Ended September 30, 1995

Grantor Account Title	Kosrae Org. #	CFDA I.D. #	1995 Fiscal Year Expenditure
Balance forwarded			\$ 3,141,970
FY95 Utwe Office Renovation	6862	15.875	5,753
FY95 Pacific Island Development Bank Invest.	6863	15.875	100,000
Lelu School Drainage	6866	15.875	6,749
Tuna Industry Development	6061	15.875	<u>57,821</u>
Total Compact of Free Association Capital Projects Fund - Section 211 (A) Capital Accounts			<u>\$ 3,312,293</u>
Balance per the general-purpose financial statements			\$ 2,089,064
Bond principal repayments	6840		1,000,000
Bond interest	6840		123,229
Investment in Pacific Is. Development Bank	6863		<u>100,000</u>
			<u>\$ 3,312,293</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, 1995

Grantor Account Title	Kosrae Org. #	CFDA I.D. #	1995 Fiscal Year Expenditures
<u>Office of Territorial and International Affairs</u>			
Medical Referral	2499	15.875	\$ 76,754
Total Compact of Free Association Section 216(A)(2)			\$ 76,754

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, 1995

Account Title	Kosrae Org. #	1995 Fiscal Year Expenditures
FY95 Centralized Pol.	2819	\$ 46,448
FY93 Special Development Public Works	2820	(639)
FY93 Governor O&M	2826	38,618
FY95 Civic Action Team	N/A	<u>250,000</u>
 Total Compact of Free Association Section 212(B)		 \$ <u>334,427</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.

**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, 1995

<u>Account Title</u>	<u>Kosrae Org. #</u>	<u>1995 Fiscal Year Expenditures</u>
FY95&96 Scholarship Grant	2653	\$ <u>127,481</u>
Total Compact of Free Association Section 216(A)(3)		\$ <u><u>127,481</u></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, 1995

Grantor Account Title	Kosrae Org. #	CFDA I.D. #	1995 Fiscal Year Expenditures
<u>Office of Territorial and International Affairs</u>			
Health Special Block Program	2075	15.875	\$ 120,600
Education Special Block Program	2128	15.875	810,449
Total Compact of Free Association Section 221(B)			<u>\$ 931,049</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, 1995

Account Title	Kosrae Org. #	1995 Fiscal Year Expenditures
Malem Hydro Electric	2802	\$ 2,841
Power Generation	2803	413,993
FY94 Government Power Bill	2805	35,852
FY95 Centralized Utility Bill	2806	194,717
		<hr/>
Total Compact of Free Association Section 214(b)		\$ 647,403
		<hr/>
Balance per the fund financial statements		\$ 240,403
Transfer to Kosrae Utilities Authority	2803	407,000
		<hr/>
		\$ 647,403
		<hr/>

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.

**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, 1995

<u>Account Title</u>	<u>Kosrae Org. #</u>	<u>CFDA I.D. #</u>	<u>1995 Fiscal Year Expenditures</u>
General Fund: Current Account	Various	15.875	\$ <u><u>4,075,941</u></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. The FSM National Government receives all grant awards on behalf of the FSM and then reallots such to the component States.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Federal Financial Assistance
Year Ended September 30, 1995

(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".

(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. The Kosrae Utilities Authority's Schedule of Federal Financial Assistance, as extracted from its audited report dated June 18, 1996, is as follows:

<u>Grantor Agency/Program</u>	<u>CFDA#</u>	<u>Fiscal Year 1995 Expenditures</u>
U.S. Department of the Interior: Compact of Free Association: Energy (214B)	15.875	\$ 407,000
Operations and Maintenance Improvement Programs (OMIP)	15.875	<u>186,949</u>
Total expenditures		\$ <u>593,949</u>

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Federal Financial Assistance, Continued
Year Ended September 30, 1995

(3) Component Units, Continued

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-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, 1995

Grantor	CFDA I.D. #	1995 Fiscal Year Expenditures
Major Programs		
U.S. Dept. of the Interior	15.875	
Compact of Free Association		
211(a) Capital Accounts		\$ 3,312,293
221(b) Block Grant		931,049
Health and Medical		76,754
Energy		647,403
Scholarship Program		127,481
Special Development Grant		<u>334,427</u>
Total Major Programs under CFDA# 15.875 excluding Compact of Free Association Section 211(a) Current Account expenditures		5,429,407
U.S. Environmental Protection Agency:		
Wastewater Construction	66.418	413,516
U.S. Department of Education:		
Special Education Program	84.027	510,385
U.S. Department of the Interior		
Water System Development	15.875	<u>446,495</u>
Total major program expenditures		<u>\$ 6,799,803</u>
Total U.S. Federal Program expenditures excluding Compact 211(a) Current Account expenditures		<u>\$ 7,656,624</u>
Percentage of Total U.S. Federal Program expenditures covered by Major Programs excluding Compact Section 211(a) Current Account expenditures		<u>89%</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, 1995

Federal Findings

Prior Years' Unresolved Findings

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

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

<u>Page No.</u>	<u>Finding No.</u>	<u>Description</u>
FISCAL YEAR 1988		
26	5	Federal property standards
FISCAL YEAR 1990		
81	5	Wastewater Facility - Use charge system
FISCAL YEAR 1991		
80	2	Drug-Free Work Place
FISCAL YEAR 1994		
87	7	Administrative Requirements

Cause: The cause of the above condition is unknown.

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

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

Auditee Response and Corrective Action Plan:

Federal Property Standards: 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.

Water Charge System: 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.

Drug-Free Work Place: We will make it a requirement during fiscal year 1995 that each employee to be engaged in the performance of the grant be given a copy of the ruling statement.

Administrative Requirements: The Director of Department of Administration will ensure that the above federal compliance requirements are implemented in fiscal year 1997.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1995

Federal Findings, Continued

Disbursements

<u>Program</u>	<u>Reason for Questioned Cost</u>	<u>Questioned Costs</u>
2. U.S. Environmental Protection Agency/ Kosrae Waste Water (CFDA# 66.418)	<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> Round trip travel costs for the EPA wastewater facilities architect and his spouse to attend a family member's funeral were charged to the program.</p> <p style="text-align: center;"><u>TA No.</u> <u>APV No.</u> A03615 91088</p> <p><u>Cause:</u> The cause of this condition is unknown.</p> <p><u>Effect:</u> Questioned costs result from this condition.</p> <p><u>Recommendation:</u> We recommend that all expenditures be clearly related to the program.</p> <p><u>Auditee Response and Corrective Action Plan:</u> We agree to the above finding. We will ensure that such does not appear in the future.</p>	\$ <u>2,983</u>
Total Questioned Costs		\$ <u><u>2,983</u></u>

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1995

Local Findings

Prior Years' Unresolved Findings

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

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

<u>Page No.</u>	<u>Finding No.</u>	<u>Description</u>
FISCAL YEAR 1990		
82	6	Common stock purchase - Bank of the FSM
FISCAL YEAR 1992		
84	3	Compact CIP Administrative Cost
FISCAL YEAR 1994		
91	2	Use of Compact Energy Fund

Cause: The cause of the above condition is unknown.

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

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

Auditee Response and Corrective Action Plan:

Common Stock: The Department of Administration's position is that a proper encumbrance was made.

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

Use of Compact Energy Fund: The Director of Department of Administration will resolve this finding with the FSM National Government in fiscal year 1997.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1995

Local Findings, Continued

Employment Ceiling

4. Criteria: Kosrae State should comply with employment ceilings stated in the comprehensive budget act.

Condition: Payroll records at Finance revealed that the Department of Administration exceeded the employment ceiling authorized by law by seven employees.

Cause: The cause of this condition is unknown.

Effect: Noncompliance with local law results from this condition.

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

Auditee Response and Corrective Action Plan: When the Government of Kosrae underwent a reorganization in fiscal year 1995, some personnel (7) within the division of Planning and Statistics under the Department of Budget and Planning (which was converted into the Department of Administration) were transferred to the new Department of Commerce and Industry to form the division of housing. Although the seven personnel positions were deleted from the personnel ceiling of the Department of Administration and shifted to the Department of Commerce and Industry, they were still under the division of Planning and Statistics until the end of fiscal year 1995.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Unresolved Prior Years' Questioned Costs
Year Ended September 30, 1995

The following is a summary of unresolved questioned costs of the State of Kosrae as of September 30, 1995:

FY85 unresolved questioned costs	\$ 12,838
FY88 unresolved questioned costs	215,383
FY94 unresolved questioned costs	8,246
FY95 unresolved questioned costs	<u>2,983</u>
	\$ <u>239,450</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, 1995**

**INDEPENDENT AUDITORS' REPORT ON THE INTERNAL CONTROL STRUCTURE
BASED ON THE AUDIT OF THE GENERAL-PURPOSE FINANCIAL STATEMENTS**

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, 1995, and have issued our report thereon dated March 13, 1996. 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; and 2) 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 the internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general-purpose financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the general-purpose financial statements of the State of Kosrae for the year ended September 30, 1995, 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 78 through 81) in Findings 1 through 3, involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the State of Kosrae's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general-purpose financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general-purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

We also noted matters involving the internal control structure and its operation used to administer federal financial assistance programs which we reported to the management of the State of Kosrae in a report dated March 13, 1996.

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 LLP", is written in a cursive, stylized script.

March 13, 1996

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings
Year Ended September 30, 1995

Prior Year Internal Control Findings

Finding No. 1

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

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

<u>Page No.</u>	<u>Finding No.</u>	<u>Description</u>
From September 30, 1988 report:		
8	4	Journal voucher authorization
15	11	Insurance coverage
18	14	External reporting requirements
		Cash and equivalents-reconciliation
		Cash and equivalents-stale checks
From September 30, 1989 report:		
4	3	Travel advance accounting
From September 30, 1990 report:		
89	2	Fixed assets subledger
91	4	Life insurance
91	5	Withholding tax
92	6	Payroll files
From September 30, 1991 report:		
91	5	Resolution of disputed liabilities
From September 30, 1993 report:		
103	4	External financial reporting
90	5	Travel advances

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued
Year Ended September 30, 1995

Prior Year Internal Control Findings, Continued

Finding No. 1

From September 30, 1994 report:

105	6	Cash and Equivalents
100	15	Payroll Revolving Fund
110	11	Purchases and Disbursement Cycle
116	17	Receivables
117	18	Revenue and Receipt Cycle
118	19	Revenue and Receipt Cycle
119	20	Purchases & Disbursement Cycle
120	21	Revenue and Receipt Cycle
121	22	Receivables
122	23	External Financial Reporting

Cause: The cause of the above condition is unknown.

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

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

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

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued
Year Ended September 30, 1995

Reconciliation

Finding No. 2

Criteria: The payroll checking account should be reconciled on a monthly basis.

Condition: The outstanding check listing for the payroll account was not available for inspection.

Cause: The cause of this condition is unknown.

Effect: A misstatement of the financial statements could result from this condition.

Recommendation: We recommend that Kosrae State ensure that a reconciliation of the payroll account be performed on a monthly basis.

Auditee Response: We agreed to the above finding.

Corrective Action Plan: We will ensure that a reconciliation of the payroll account is performed starting in fiscal year 1996.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued
Year Ended September 30, 1995

Continuing Appropriations

Finding No. 3

Criteria: Continuing appropriations should be periodically reviewed to determine if such appropriations represent a funding priority.

Condition: Of the \$3.66 million of continuing appropriations for the Compact Capital Account, as of September 30, 1995, \$3.30 million relate to appropriations made prior to 1994.

Cause: The cause of this condition is unknown.

Effect: Financial resources may not be used in an effective manner.

Recommendation: Continuing appropriations should be periodically reviewed to determine whether such appropriations should be cancelled. Additionally, the mechanism to allow for a revision of these appropriations, when applicable, should be created.

Auditee Response: We agreed to the above finding.

Corrective Action Plan: We will ensure that continuing appropriations are periodically reviewed and a mechanism to allow for a revision of the appropriations is created.