

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

**REPORT ON THE AUDIT OF
FINANCIAL STATEMENTS IN ACCORDANCE
WITH OMB CIRCULAR A-133**

YEAR ENDED SEPTEMBER 30, 2000

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

YEAR ENDED SEPTEMBER 30, 2000

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FEDERATED STATES OF MICRONESIA**

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**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

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

YEAR ENDED SEPTEMBER 30, 2000

INDEPENDENT AUDITORS' REPORT

Honorable Johnny P. David
Governor, State of Pohnpei
Federated States of Micronesia:

We have audited the accompanying general purpose financial statements of the State of Pohnpei, as set forth in Section II of the foregoing table of contents, as of September 30, 2000, and for the year then ended. These general purpose financial statements are the responsibility of the management of the State of Pohnpei. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

The general purpose financial statements referred to above do not include the Pohnpei Economic Development Authority and Small Business Guarantee and Finance Corporation, Component Units - Proprietary Funds, which in our opinion, should be included to conform with accounting principles generally accepted in the United States of America.

The general purpose financial statements referred to above include unaudited financial statements supporting the financial activities of the Pohnpei Transportation Authority which comprises the Proprietary Fund Type – Enterprise Fund.

We were not able to apply sufficient alternative procedures to assure ourselves as to the propriety of advances receivable and accounts payable for all Governmental Fund Types, inventories of the Proprietary Fund Type – Internal Service Fund, and continuing appropriations of the Governmental Fund Type - Capital Project Funds as of September 30, 2000.

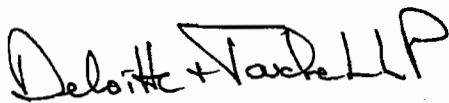
The State of Pohnpei has not adequately updated its General Fixed Assets Account Group during the year ended September 30, 2000, nor were we able to apply sufficient alternative procedures to assure ourselves as to the correctness of the balances set forth in the accompanying general purpose financial statements.

We were not able to obtain financial statements for Caroline Fisheries Corporation to support Pohnpei State's equity investment as described in note 6 to the general purpose financial statements. Accordingly, we were not able to verify the carrying value of Pohnpei State's Capital Project Fund investment in Caroline Fisheries Corporation and whether all disclosures related to this investee have been included in the accompanying financial statements.

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 1) assure ourselves as to the propriety of advances receivable and accounts payable of all Governmental Fund Types; inventories of the Proprietary Fund Type – Internal Service Fund; continuing appropriations of the Governmental Fund Type - Capital Projects Fund; and the General Fixed Assets Account Group; 2) obtain financial statements of Pohnpei Economic Development Authority and Small Business Guarantee and Finance Corporation, Component Units – Proprietary Funds; 3) obtain audited financial statements of Pohnpei Transportation Authority, Proprietary Fund Type – Enterprise Fund; and 4) examine evidence regarding the investment in Caroline Fisheries Corporation as discussed in the third through seventh paragraphs above, such 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 sixth paragraph above, present fairly, in all material respects, the financial position of the State of Pohnpei as of September 30, 2000, and the results of its operations and the cash flows of its proprietary fund types for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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 Pohnpei, are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the State of Pohnpei. Such additional information 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 17, 2001 on our consideration of the State of Pohnpei's (Primary Government only) internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



July 17, 2001

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Units
September 30, 2000
(With comparative totals as of September 30, 1999)

	Governmental Fund Types				Proprietary Fund Types		Fiduciary Fund Type	Account Groups		Totals Primary Government (Memorandum Only)	Component Units Proprietary Funds	Totals Reporting Entity (Memorandum Only)	
	General	Special Revenue	Capital Projects	Debt Service	Enterprise	Internal Service	Expendable Trust	General	General	Government (Memorandum Only)	Proprietary Funds	2000	1999
								Fixed Assets	Long-Term Debt				
ASSETS													
Cash and equivalents (note 2)	\$ 473,298	\$ 227,453	\$ 1,558,249	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,259,000	\$ 736,120	\$ 2,995,120	\$ 4,316,598
Cash - restricted (notes 2, 11 and 16)	2,236,742	1,428,601	1,341,051	1,943,499	-	-	-	-	-	6,949,893	300,000	7,249,893	5,168,556
Investments (note 2)	5,452,216	339,772	(116,678)	-	-	-	-	-	-	5,675,310	-	5,675,310	5,961,439
Investments - other (note 6)	-	-	1,000,000	-	-	-	-	-	-	1,000,000	602,293	1,602,293	2,053,142
Receivables from other governments (note 3)	184,268	1,409,707	73,144	-	14,201	-	-	-	-	1,681,320	-	1,681,320	2,093,613
Receivables, federal agencies (note 3)	-	919,057	200,418	-	-	-	-	-	-	1,119,475	140,979	1,260,454	876,068
General receivables, net (note 4)	-	3,913	16,299	-	570,831	-	1,851	-	-	592,894	2,729,428	3,322,322	3,079,728
Taxes and leases receivable (note 4)	2,034,915	-	-	-	-	42,612	-	-	-	2,077,527	-	2,077,527	2,034,915
Allowance for uncollectibles (note 4)	(2,034,915)	-	-	-	-	-	-	-	-	(2,034,915)	-	(2,034,915)	(2,034,915)
Interest receivable (note 4)	24,255	-	-	-	-	-	-	-	-	24,255	7,758	32,013	26,571
Advances	303,509	452,125	97,501	-	34,303	-	10,676	-	-	898,114	40,142	938,256	874,277
Loans receivable, net (note 7)	-	-	2,544,697	-	-	-	-	-	-	2,544,697	3,686,781	6,231,478	6,171,625
Due from other funds (note 12)	1,614,145	2,871,963	2,733,235	-	-	-	-	-	-	7,219,343	-	7,219,343	5,318,952
Inventory, at cost	-	15,747	-	-	228,829	5,969	-	-	-	250,545	1,357,211	1,607,756	1,565,458
Self insurance fund	-	-	-	-	-	-	-	-	-	-	115,632	115,632	104,659
Scholarship fund	-	-	-	-	-	-	-	-	-	-	3,881	3,881	3,881
Prepaid expenses and other assets	-	-	-	-	17,730	-	-	-	-	17,730	58,267	75,997	23,743
Fixed assets, net (note 5)	-	-	-	-	940,543	-	-	49,323,802	-	50,264,345	40,888,057	91,152,402	88,962,921
Amount available in debt service fund	-	-	-	-	-	-	-	-	1,943,499	1,943,499	-	1,943,499	1,286,224
Amount to be provided for retirement of long-term debt	-	-	-	-	-	-	-	-	5,069,470	5,069,470	-	5,069,470	7,135,072
Due from primary government	-	-	-	-	-	-	-	-	-	-	85,830	85,830	142,642
Total assets	\$ 10,288,433	\$ 7,668,338	\$ 9,447,916	\$ 1,943,499	\$ 1,806,437	\$ 48,581	\$ 12,527	\$ 49,323,802	\$ 7,012,969	\$ 87,552,502	\$ 50,752,379	\$ 138,304,881	\$ 135,165,169

See accompanying notes to financial statements.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Units
September 30, 2000
(With comparative totals as of September 30, 1999)

	Governmental Fund Types				Proprietary Fund Types		Fiduciary Fund Type	Account Groups		Totals Primary Government (Memorandum Only)	Component Units Proprietary Funds	Totals Reporting Entity (Memorandum Only)	
	General	Special Revenue	Capital Projects	Debt Service	Enterprise	Internal Service	Expendable Trust	General	General	2000	1999	2000	1999
								Fixed Assets	Long-Term Debt				
LIABILITIES AND FUND EQUITY (DEFICIENCY)													
Liabilities:													
Accounts payable	\$ 192,255	\$ 573,784	\$ 144,037	\$ -	\$ 291,114	\$ -	\$ 6,005	\$ -	\$ -	\$ 1,207,195	\$ 1,853,651	\$ 3,060,846	\$ 1,933,644
Accrued payroll and others	891,573	178,253	179	-	14,848	-	126	-	-	1,084,979	500,027	1,585,006	1,526,246
Due to other funds (note 12)	2,707,914	2,190,726	204,916	-	1,960,706	58,840	96,241	-	-	7,219,343	-	7,219,343	5,289,453
Deferred revenue	-	-	-	-	5,100	-	-	-	-	5,100	366,442	371,542	391,289
Due to primary government	-	-	-	-	-	-	-	-	-	-	-	-	15,990
Notes payable (notes 11 and 16)	-	-	-	-	-	-	-	-	6,053,685	6,053,685	4,618,069	10,671,754	8,389,154
Vacation leave accrual	-	-	-	-	15,593	-	-	-	379,284	394,877	-	394,877	367,611
Other payables (note 9)	1,758,816	-	-	-	-	-	-	-	580,000	2,338,816	-	2,338,816	1,843,816
Total liabilities	5,550,558	2,942,763	349,132	-	2,287,361	58,840	102,372	-	7,012,969	18,303,995	7,338,189	25,642,184	19,757,203
Fund equity (deficiency):													
Investment in general fixed assets	-	-	-	-	-	-	-	49,323,802	-	49,323,802	-	49,323,802	49,323,802
Retained earnings (deficit)	-	-	-	-	(925,448)	(10,259)	-	-	-	(935,707)	4,392,366	3,456,659	4,707,496
Contributed capital	-	-	-	-	444,524	-	-	-	-	444,524	39,021,824	39,466,348	42,594,453
Fund balances (deficit):													
Reserved for:													
Related assets	2,200,995	877,672	3,451,350	-	-	-	23,203	-	-	6,553,220	-	6,553,220	6,149,967
Encumbrances	809,911	1,081,636	2,064,873	-	-	-	185	-	-	3,956,605	-	3,956,605	2,312,086
Continuing appropriations (note 13)	363,970	-	6,908,925	-	-	-	-	-	-	7,272,895	-	7,272,895	4,535,754
Long-term debt (note 11)	-	-	-	1,943,499	-	-	-	-	-	1,943,499	-	1,943,499	1,286,224
Unreserved (deficit)	1,362,999	2,766,267	(3,326,364)	-	-	-	(113,233)	-	-	689,669	-	689,669	4,498,184
Total fund equity (deficiency)	4,737,875	4,725,575	9,098,784	1,943,499	(480,924)	(10,259)	(89,845)	49,323,802	-	69,248,507	43,414,190	112,662,697	115,407,966
Contingencies and commitments (note 9)													
Total liabilities and fund equity (deficiency)	\$ 10,288,433	\$ 7,668,338	\$ 9,447,916	\$ 1,943,499	\$ 1,806,437	\$ 48,581	\$ 12,527	\$ 49,323,802	\$ 7,012,969	\$ 87,552,502	\$ 50,752,379	\$ 138,304,881	\$ 135,165,169

See accompanying notes to financial statements.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Combined Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) -
All Governmental Fund Types and Expendable Trust Fund
Year Ended September 30, 2000
(With Comparative Totals for the Year Ended September 30, 1999)

	Governmental Fund Types				Fiduciary Fund Type	Totals Reporting Entity (Memorandum Only)	
	General	Special Revenue	Capital Projects	Debt Service	Expendable Trust	2000	1999
Revenues:							
Compact of Free Association:							
Base grant	\$ 5,651,272	\$ 3,247,783	\$ 4,072,000	\$ -	\$ -	\$ 12,971,055	\$ 12,971,783
Inflation adjustment	3,052,808	540,000	2,198,880	-	-	5,791,688	5,683,720
U.S. Department of the Interior grants	-	-	-	-	-	-	246,649
Revenue sharing	4,348,970	-	1,766,478	-	-	6,115,448	6,155,735
Investment income (note 2)	1,040,391	-	25,828	57,275	-	1,123,494	1,655,695
Interest income	125,517	-	-	-	-	125,517	270,397
Federal grants	-	3,099,300	-	-	-	3,099,300	2,558,985
Taxes and licenses	2,253,081	355,069	-	-	-	2,608,150	1,982,303
Fines and penalties	131,437	-	-	-	-	131,437	458,917
Public service charges	29,854	-	-	-	-	29,854	24,116
CFSM grants	-	378,594	-	-	-	378,594	270,711
Scholarships	-	-	-	-	-	-	288,003
Other	41,435	325,480	-	-	55,029	421,944	908,413
Total revenues	16,674,765	7,946,226	8,063,186	57,275	55,029	32,796,481	33,475,427
Expenditures:							
General government	3,960,929	1,416,505	-	-	-	5,377,434	4,229,281
Education	3,806,062	4,015,986	-	-	-	7,822,048	7,423,349
Health services	3,076,747	964,801	-	-	-	4,041,548	3,703,269
Resource management and development	858,009	-	-	-	31,593	889,602	1,104,898
Public works	-	479,845	-	-	-	479,845	284,161
Public safety	1,187,609	193,130	-	-	-	1,380,739	1,411,081
Boards, commissions and other appropriations	738,021	-	-	-	-	738,021	769,949
Capital projects	-	-	3,814,158	-	-	3,814,158	3,425,962
Municipal governments	2,020,976	-	-	-	-	2,020,976	1,611,812
Other	-	70,713	-	-	-	70,713	1,689,764
Total expenditures	15,648,353	7,140,980	3,814,158	-	31,593	26,635,084	25,653,526
Excess of revenues over expenditures	1,026,412	805,246	4,249,028	57,275	23,436	6,161,397	7,821,901
Other financing sources (uses):							
Repayment of notes payable (note 11)	-	-	(2,000,000)	-	-	(2,000,000)	(2,000,000)
Interest expense (note 11)	-	-	(248,135)	-	-	(248,135)	(411,200)
Transfers in (notes 8 and 11)	-	-	-	600,000	-	600,000	594,210
Operating transfers out (note 8)	(881,062)	(337,739)	(1,660,788)	-	-	(2,879,589)	(903,576)
Other	-	-	-	-	-	-	14,506
Proceeds from notes payable	-	-	-	-	-	-	1,553,685
Total other financing sources (uses), net	(881,062)	(337,739)	(3,908,923)	600,000	-	(4,527,724)	(1,152,375)
Excess of revenues and other financing sources over expenditures and other financing uses	145,350	467,507	340,105	657,275	23,436	1,633,673	6,669,526
Fund balances (deficit) at beginning of year	4,592,525	4,258,068	8,758,679	1,286,224	(113,281)	18,782,215	12,112,689
Fund balances (deficit) at end of year	\$ 4,737,875	\$ 4,725,575	\$ 9,098,784	\$ 1,943,499	\$ (89,845)	\$ 20,415,888	\$ 18,782,215

See accompanying notes to financial statements.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures and Changes in Unreserved Fund Balance
Budget and Actual, Budgetary Basis - General Fund
Year Ended September 30, 2000

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues:			
Compact	\$ 8,704,080	\$ 8,704,080	\$ -
Local revenues	6,778,871	6,930,293	151,422
Investment income (note 2)	431,708	1,040,391	608,683
	<u>15,914,659</u>	<u>16,674,764</u>	<u>760,105</u>
Total revenues			
Expenditures:			
General government	4,301,170	4,277,279	23,891
Health services	3,349,391	3,219,542	129,849
Education	3,967,152	3,808,631	158,521
Public Safety	1,250,689	1,211,715	38,974
Resource management and development	875,793	871,207	4,586
Boards, commissions and other external appropriations	868,345	847,176	21,169
Municipal governments and projects	2,048,229	2,085,057	(36,828)
	<u>16,660,769</u>	<u>16,320,607</u>	<u>340,162</u>
Total expenditures, budgetary basis			
Excess (deficiency) of revenues over (under) expenditures	<u>(746,110)</u>	<u>354,157</u>	<u>1,100,267</u>
Other financing sources (uses):			
Operating transfers out	<u>(842,098)</u>	<u>(819,115)</u>	<u>22,983</u>
Total other financing sources (uses), net	<u>(842,098)</u>	<u>(819,115)</u>	<u>22,983</u>
Deficiency of revenues and other financing sources under expenditures and other financing uses	(1,588,208)	(464,958)	1,123,250
Unreserved fund balance at beginning of year	1,588,791	1,588,791	-
Other changes in unreserved fund balance:			
Decrease in reserve for related assets	-	315,574	315,574
Increase in reserve for continuing appropriations	<u>-</u>	<u>(76,408)</u>	<u>(76,408)</u>
Unreserved fund balance at end of year	<u>\$ 583</u>	<u>\$ 1,362,999</u>	<u>\$ 1,362,416</u>

See accompanying notes to financial statements.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Combined Statement of Revenues, Expenses, and Changes in Fund Equity (Deficiency) -
All Proprietary Fund Types and Discretely Presented Component Units
Year Ended September 30, 2000
(With comparative totals for the year ended September 30, 1999)

	Proprietary Fund Types		Totals Primary Government	Component Units	Totals Reporting Entity	
	Enterprise	Internal Service	(Memorandum Only)	Proprietary Funds	(Memorandum Only)	
					2000	1999
Operating revenues:						
Charges for goods and services	\$ 1,527,678	\$ 2,524	\$ 1,530,202	\$ 8,752,171	\$ 10,282,373	\$ 11,662,181
Rental income	-	-	-	252,924	252,924	260,771
Other	711,038	-	711,038	8,809	719,847	137,295
Total operating revenues	2,238,716	2,524	2,241,240	9,013,904	11,255,144	12,060,247
Operating expenses:						
Cost of sales	2,941,133	-	2,941,133	354,324	3,295,457	1,140,225
Personnel services	-	-	-	2,305,558	2,305,558	3,578,952
Travel	-	-	-	160,496	160,496	129,424
Supplies and materials	-	-	-	168,188	168,188	1,230,318
Fuel	-	-	-	3,131,679	3,131,679	2,409,454
Contractual services	-	-	-	36,107	36,107	36,354
Doubtful debt expense	-	-	-	725,043	725,043	1,175,559
Utilities	-	-	-	52,505	52,505	100,900
Communications	-	-	-	73,536	73,536	56,444
Depreciation	-	-	-	3,226,513	3,226,513	3,219,852
Repairs and maintenance	-	-	-	847,635	847,635	887,567
Employee benefits	-	-	-	455,759	455,759	487,575
Training and safety	-	-	-	135,812	135,812	126,620
Equipment rentals	-	-	-	-	-	445,923
Court settlements	-	-	-	-	-	92,800
Leases	-	-	-	-	-	49,177
Other	-	1,181	1,181	324,612	325,793	333,228
Total operating expenses	2,941,133	1,181	2,942,314	11,997,767	14,940,081	15,500,372
Operating income (loss)	(702,417)	1,343	(701,074)	(2,983,863)	(3,684,937)	(3,440,125)
Nonoperating revenues (expenses):						
Operating transfers in (note 8)	-	-	-	407,686	407,686	111,612
Interest income	-	-	-	16,317	16,317	21,566
Spurline projects	-	-	-	178,235	178,235	136,780
Other	-	-	-	757,031	757,031	462,512
Total nonoperating revenues, net	-	-	-	1,359,269	1,359,269	732,470
Net income (loss)	(702,417)	1,343	(701,074)	(1,624,594)	(2,325,668)	(2,707,655)
Add depreciation on fixed assets acquired by capital contributions that reduce contributed capital	-	-	-	2,562,746	2,562,746	2,677,699
Increase (decrease) in retained earnings	(702,417)	1,343	(701,074)	938,152	237,078	(29,956)
Retained earnings (deficit) at beginning of year (note 17)	(223,031)	(11,602)	(234,633)	3,454,214	3,219,581	4,737,452
Retained earnings (deficit) at end of year	(925,448)	(10,259)	(935,707)	4,392,366	3,456,659	4,707,496
Contributed capital at beginning of year (note 17)	444,524	-	444,524	41,584,570	42,029,094	45,055,526
Contributions	-	-	-	-	-	216,626
Less depreciation on contributed fixed assets	-	-	-	(2,562,746)	(2,562,746)	(2,677,699)
Contributed capital at end of year	444,524	-	444,524	39,021,824	39,466,348	42,594,453
Fund equity (deficiency) at end of year	\$ (480,924)	\$ (10,259)	\$ (491,183)	\$ 43,414,190	\$ 42,923,007	\$ 47,301,949

See accompanying notes to financial statements.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Combined Statement of Cash Flows
All Proprietary Fund Types and Discretely Presented Component Units
Year Ended September 30, 2000
(With comparative totals for the year ended September 30, 1999)

	Proprietary Fund Types		Totals Primary Government	Component Units	Totals Reporting Entity	
	Enterprise	Internal Service	(Memorandum Only)	Proprietary Funds	(Memorandum Only)	
					2000	1999
Cash flows from operating activities:						
Operating income (loss)	\$ (702,417)	\$ 1,343	\$ (701,074)	\$ (2,983,863)	\$ (3,684,937)	\$ (3,440,125)
Other income	-	-	-	113,420	113,420	71,268
Adjustments to reconcile operating income (loss) to net cash (used in) provided by operating activities:						
Depreciation	-	-	-	3,226,513	3,226,513	3,330,713
Doubtful debt expense	-	-	-	725,043	725,043	1,353,707
Non-operating expenses	-	-	-	-	-	(2,557)
	<u>(702,417)</u>	<u>1,343</u>	<u>(701,074)</u>	<u>1,081,113</u>	<u>380,039</u>	<u>1,313,006</u>
Changes in assets and liabilities:						
General receivables, gross	-	-	-	(656,397)	(656,397)	(893,424)
Advances	-	-	-	(12,364)	(12,364)	34,860
Loans receivable, gross	-	-	-	(260,679)	(260,679)	(70,340)
Due from other funds	784,482	86,380	870,862	-	870,862	22,253
Inventory, at cost	-	-	-	80,648	80,648	(167,328)
Prepaid expenses and other assets	-	-	-	(52,254)	(52,254)	51,100
Due from primary government	-	-	-	42,611	42,611	(158,948)
Other receivables	-	-	-	(5,427)	(5,427)	(565)
Accounts payable	(73,608)	(87,723)	(161,331)	(309,615)	(470,946)	(13,669)
Accrued payroll and other	(8,457)	-	(8,457)	105,275	96,818	36,521
Deferred revenue	-	-	-	(19,747)	(19,747)	5,901
Due to primary government	-	-	-	-	-	683,948
Advance from (payment to) clients	-	-	-	-	-	(2,285)
	<u>702,417</u>	<u>(1,343)</u>	<u>701,074</u>	<u>(1,087,949)</u>	<u>(386,875)</u>	<u>(471,976)</u>
Net cash (used in) provided by operating activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,836)</u>	<u>(6,836)</u>	<u>841,030</u>
Cash flows from noncapital financing activities:						
Proceeds from notes payable, net	-	-	-	585,186	585,186	250,000
Operating transfers in	-	-	-	995,676	995,676	111,612
Other noncapital financing activities	-	-	-	-	-	469,352
Spurline projects	-	-	-	178,235	178,235	136,780
Acquisition of debt	-	-	-	181,682	181,682	85,469
	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,940,779</u>	<u>1,940,779</u>	<u>1,053,213</u>
Net cash provided by noncapital financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,940,779</u>	<u>1,940,779</u>	<u>1,053,213</u>
Cash flows from capital and related financing activities:						
Proceeds from sale of fixed assets	-	-	-	-	-	50
Acquisition of fixed assets	-	-	-	(1,844,282)	(1,844,282)	(1,832,924)
Contributed capital	-	-	-	-	-	112,912
Repayment of debt	-	-	-	(64,000)	(64,000)	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,908,282)</u>	<u>(1,908,282)</u>	<u>(1,719,962)</u>
Net cash used in capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,908,282)</u>	<u>(1,908,282)</u>	<u>(1,719,962)</u>
Cash flows from investing activities:						
Payment to self-insurance and scholarship funds, net	-	-	-	(10,973)	(10,973)	-
Interest income	-	-	-	16,317	16,317	22,767
Payment to PUC sinking fund, restricted investments	-	-	-	(49,650)	(49,650)	(244,134)
Other	-	-	-	11,968	11,968	274
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(32,338)</u>	<u>(32,338)</u>	<u>(221,093)</u>
Net cash used in investing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>(32,338)</u>	<u>(32,338)</u>	<u>(221,093)</u>
Net decrease in cash and equivalents	-	-	-	(6,677)	(6,677)	(46,812)
Cash and equivalents at beginning of year	-	-	-	742,797	742,797	836,710
Cash and equivalents at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 736,120</u>	<u>\$ 736,120</u>	<u>\$ 789,898</u>

See accompanying notes to financial statements.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(1) Summary of Significant Accounting Policies

The general purpose financial statements of Pohnpei State have been prepared in conformity with accounting principles generally accepted in the United States of America (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 Pohnpei State's accounting policies are described below.

A. Reporting Entity

The general purpose financial statements of the State of Pohnpei have been prepared in conformity with GAAP as applied to government units. GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting," requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. The State of Pohnpei has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

As required by GAAP, the general purpose financial statements of the State of Pohnpei 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. Each blended and discretely presented component unit has a September 30 year end.

1. Blended Component Units

The Pohnpei Transportation Authority (PTA) is responsible to promote, develop, and improve transportation facilities of Pohnpei State. PTA was established in fiscal year 1969 by State Law No. 169-69 and is governed by a Board of Directors appointed by the Governor. PTA is reported as an enterprise fund as substantially all of its services are provided on behalf of the primary government. PTA is the only enterprise fund of the State.

2. Discretely Presented Component Units

a) The Pohnpei Port Authority was established by Public Law 2L-224-91. The primary purpose of the Authority is to oversee the use and maintenance of Pohnpei State's sea and air ports. The Authority began operating as a separate entity in fiscal year 1993 although accounting for the Authority was not transferred from the Pohnpei State Department of Treasury until January 1994.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

2. Discretely Presented Component Units, Continued

The affairs of the Authority are managed by a seven-member board, consisting of representatives of the Pohnpei State Government appointed by the Governor to four year terms. Daily operation of the Authority is delegated to a General Manager, who is appointed by and serves at the pleasure of the Board.

- b) The Pohnpei State Housing Authority was established in 1988 by Public Law 2L-81-88. The purpose of the Authority is to facilitate, through low-interest loans, the construction of safe and sanitary residential housing for low income families of Pohnpei State. Additionally, the Authority monitors the Housing Preservation Grant (HPG) loan funds extended by United States Department of Agriculture Rural Development.

The affairs of the Authority are managed by a five-member board, consisting of representatives of the Pohnpei State Government appointed by the Governor to four year terms. Daily operation of the Authority is delegated to an executive director, who is also appointed by the Governor.

The operation of the Authority is funded by annual appropriations from the State Legislature and interest income earned on loan funds.

- c) The Pohnpei Fisheries Corporation (PFC) was established in 1993 by Public Law 3L-28-93 to operate and manage the Fish Processing Plant and any boats owned by the plant. The affairs of the Corporation are managed by a seven member board appointed by the Governor with the advice and consent of the Legislature.
- d) The Pohnpei Utilities Corporation (the Corporation) was established in 1991 by State Law No. 2L-179-91. The primary purpose of the Corporation is to provide electrical, water and sewer services to the people of Pohnpei through the operation of the electric power, water and sewer systems. The affairs of the Corporation are managed by a seven member board appointed by the Governor with the advice and consent of the Legislature.

3. Component Units Not Included in the General Purpose Financial Statements

- a) The Pohnpei Economic Development Authority was established in 1978 by Public Law 4L-159-78 for the purpose of promoting economic development through expansion of agriculture, marine resources, tourism, industry, energy development, banking, transportation and community development in Pohnpei. The Authority is also designated to succeed the Ponape District Fishing Authority as the sole entity to promote, develop, and support commercial utilization of living marine resources as provided in Public Law No. 7-110 of the Trust Territory Code.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

3. Component Units Not Included in the General Purpose Financial Statement, Continued

All functions and powers of the Authority are vested and exercised by a seven member Board of Developers appointed by the Governor with the advice and consent of the Legislature. The enabling legislation also place responsibilities of the administration of the Authority's day-to-day operations on the Executive Director, an ex-officio member of the board, who is appointed by the Board of Developers with the advise and consent of the Legislature Committee on Resources and Development.

- b) The Small Business Guarantee and Finance Corporation was established by State Law No. 3L-86-95 to provide, promote, develop and widen in both scope and services reach various alternative modes of financing for small enterprises, including, but not limited to, direct and indirect project lending, venture capital, financial leasing, secondary mortgage and rediscounting of loan papers to small business. The affairs of the Corporation are managed by a seven-member board of directors with three members from the private sector appointed by the Governor.

B. Fund Accounting

The State of Pohnpei 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 Pohnpei 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. The Debt Service Fund accounts for the accumulation of revenues for the repayment of interest and principal on an Early Retirement Scheme (see note 11).

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).

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(1) Summary of Significant Accounting Policies, Continued

B. Fund Accounting, Continued

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 Pohnpei. 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 Pohnpei is under an obligation to maintain the trust principal. Only one expendable trust fund exists which is the Public Land Trust Fund.

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

C. Basis of Presentation

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other 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. Expenditures are recorded when the related fund liability is incurred, except for certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Those revenues susceptible to accrual are National Government of the Federated States of Micronesia (FSM) shared revenues (business gross receipts tax, import tax, income tax, and fuel tax), charges for services and interest revenue. Fines, sales and related taxes and permit revenues are not susceptible to accrual because they are generally not measurable until received in cash.

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.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(1) Summary of Significant Accounting Policies, Continued

C. Basis of Presentation, Continued

The State of Pohnpei reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the State of Pohnpei before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the State of Pohnpei has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

D. Budget

An annual appropriated budget is adopted by the Legislature for the General Fund and Compact Programs through an Appropriations Act. Budgets for Special Revenue Funds are not included in the annual Appropriations Act. Accordingly, a budget to actual presentation for Special Revenue Funds is not required or presented. Project-length financial plans are generally adopted for all capital project funds.

Encumbrance accounting is utilized for budgetary control purposes. Encumbrances outstanding at year-end are reported as reservations of fund balance and will be funded as expenditures in the ensuing year. Encumbrances remain reservations of fund balance until becoming expended or canceled. If an encumbrance is subsequently canceled, the funds revert to the applicable unreserved fund balance unless otherwise required by law.

Budgetary expenditures, which are on a basis other than generally accepted accounting principles, represent current charges against appropriations; current charges consist of all current year liquidated and unliquidated encumbrances. Budgetary expenditures are therefore determined by subtracting both current year liquidations of prior year encumbrances and unliquidated prior year encumbrances from the combined total of current year expenditures and encumbrances. When reviewed in relation to respective budgets, budgetary expenditures provide the principal means of evaluating current year operating performance and management stewardship. Amounts included on the Statement of Revenues, Expenditures and Changes in Fund Balance (Deficit), Budget and Actual, Budgetary Basis - General Fund (which are presented on a non-GAAP budgetary basis) are reconciled to unreserved fund balance of the Combined Balance Sheet within the other changes in unreserved fund balance section of that statement.

E. Cash and Equivalents

For purposes of the Combined Balance Sheet and Combined Statement of Cash Flows, cash and equivalents is defined as cash in bank checking and savings accounts, cash management accounts held by a trustee and time certificates of deposit with an initial maturity of ninety days or less.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(1) Summary of Significant Accounting Policies, Continued

F. Investments

Investments are recorded at market value. Investments in the equity of companies are carried at cost if less than twenty percent of the companies' total equity, on the equity method if greater than twenty percent and less than fifty percent and on a consolidated basis if greater than fifty percent (see notes 2 and 6).

G. Receivables

Receivables in the State's governmental funds primarily consist of taxes and federal revenues. Federal receivables include those funds which are earned, primarily from the FSM National Government administered federal grants, which have yet to be reimbursed by the applicable grantor.

H. Due From/To Other Funds

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 Due From/To Other Funds Account therefore represents a net interest in the State's actual cash. Interest earned on the "pooled" funds benefits the General Fund.

I. Advances and Prepayments

Prepayments represent amounts paid in advance to vendors. Certain advances and prepayments are offset by inclusion in a fund balance reserve account as they do not constitute expendable available resources and are therefore not available for appropriation.

J. Inventories

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

K. Fixed Assets

Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the General Fixed Assets Account Group rather than in governmental funds. All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

The State follows a policy of capitalizing infrastructure costs. However, applicable additions have not been inventoried and added to the General Fixed Assets Account Group and eligible interest expense is not capitalized.

Depreciation is not charged on assets in the General Fixed Assets Account Group. However, depreciation is charged on proprietary fund fixed assets and is provided over the estimated useful lives of the assets through use of the straight line method.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(1) Summary of Significant Accounting Policies, Continued

L. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the General Long-Term Debt Account Group. The liability as of September 30, 2000 is \$379,284. No expenditure is reported for these amounts. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

M. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the General Long-Term Debt Account Group. Accrued annual leave has been presented in the accompanying General Long-Term Debt Account Group. No current portion of accrued annual leave has been recorded in the governmental funds as the amounts are immaterial to those funds.

N. Fund Equity

Contributed capital is recorded in proprietary funds and discretely presented component units that have received capital grants or contributions from developers, customers or other funds. Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

The discretely presented component units of the State of Pohnpei follow the generally accepted accounting principle of recording grants-in-aid for the construction or acquisition of facilities and equipment as contributions. Under this principle, depreciation applicable to contributed assets is recorded as a reduction against the related contribution and depreciation applicable to non-contributed assets is recorded as a charge against income.

O. Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(1) Summary of Significant Accounting Policies, Continued

P. Memorandum Only - Total Columns

Total columns on the general purpose financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, result of operations or changes in financial position in conformity with generally accepted accounting principles. Neither are such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Q. Comparative Data/Reclassification

Comparative total data for the prior year have been presented in selected sections of the accompanying financial statements in order to provide an understanding of the changes in the State of Pohnpei's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year presentation.

R. Fund Balance Reserves and Designations

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

Reserves for related assets as of September 30, 2000, are as follows:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Total</u>
Receivables and advances	\$ 28,896	\$ 301,171	\$ 1,350	\$ 331,417
Federal grants receivables	314,089	-	-	314,089
Advances to PTA	740,512	-	-	740,512
CFSM grants receivable	891,243	-	-	891,243
TTPI CIP receivables	226,255	-	-	226,255
Investment in Pacific Islands				
Development Bank	-	-	1,000,000	1,000,000
Loans receivable from Pohnpei				
Fisheries Corporation, a				
Component Unit –				
Proprietary Fund	-	-	2,450,000	2,450,000
Reserved for Early Retirement debt	<u>-</u>	<u>576,501</u>	<u>-</u>	<u>576,501</u>
	<u>\$ 2,200,995</u>	<u>\$ 877,672</u>	<u>\$ 3,451,350</u>	<u>\$ 6,530,017</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(1) Summary of Significant Accounting Policies, Continued

S. Management Estimates

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

(2) Cash and Equivalents and Investments

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 the accounting system and records necessary to account for investment funds placed with the Authority on behalf of Pohnpei 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 are:
1. Stocks - A "B" rating by a national rating service. Non-rated or international stocks such as banks or insurance companies must be equal in quality or higher.
 2. Bonds - Confined to issues rated "A" or higher by a national rating service, except in the case of U.S. Treasury or Agency Securities which are not rated.
 3. Cash equivalents - The manager may engage in all normally accepted short-term investment practices including, but not limited to: U.S. Treasury and Agency securities, bankers acceptances, certificates of deposit, commercial paper and repurchase agreements using any of the foregoing as collateral. The following restrictions apply:
 - a. Commercial paper must be rated A-1/P-1 or higher by Standard & Poors Corporation and Moodys Investor Services.
 - b. Certificates of deposit must be from FDIC insured banks 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 FSM Secretary of Finance.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(2) Cash and Equivalents and Investments, Continued

- 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 held with Pacific Century Trust and Bankers Trust are invested on behalf of Pohnpei State as of September 30, 2000, as summarized below:

<u>Cash and Equivalents</u>	<u>Market Value</u>
Cash management fund	\$ 1,785,702
 <u>Investments</u>	
Pooled investment securities	<u>5,675,310</u>
Total	<u>\$ 7,461,012</u>

- D. The State's General Fund investment income for the year ended September 30, 2000, is summarized below:

	<u>General</u>
Interest	\$ 467,957
Dividends	32,715
Realized gains	581,754
Unrealized gains	123,538
Management fees	(37,514)
Other expenses	<u>(128,059)</u>
Total	<u>\$ 1,040,391</u>

- E. The State of Pohnpei does not require collateralization of its bank accounts. Therefore, \$300,000 is subject to FDIC insurance with the remaining balance being uncollateralized.

At September 30, 2000, the State has deposits and cash on hand as follows (in each situation, cost approximates market value):

General Fund

Net bank balances in checking and savings accounts with FDIC insured banks	\$ 473,298
Restricted cash with FDIC insured bank	<u>2,236,742</u>
Total General Fund cash and equivalents	<u>\$ 2,710,040</u>

Special Revenue Fund

Net bank balances in checking and savings accounts with FDIC insured banks	\$ 227,453
Restricted cash (Early Retirement Program Funds)	<u>1,428,601</u>
Total Special Revenue Funds cash and equivalents	<u>\$ 1,656,054</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(2) Cash and Equivalents and Investments, Continued

Capital Project Funds

Net bank balance in savings accounts with FDIC insured banks	\$ 1,558,249
Restricted cash with FDIC insured banks	<u>1,341,051</u>
Total Capital Projects Funds cash and equivalents	\$ <u>2,899,300</u>

Component Units - Proprietary Funds

Pohnpei Fisheries Corporation (PFC):	
Cash in checking and savings accounts with FDIC insured bank	\$ 39,395
Pohnpei Utilities Corporation (PUC):	
Cash in checking and savings accounts with FDIC insured bank	511,061
Pohnpei Port Authority (PPA):	
Cash in checking accounts with FDIC insured bank	40,427
Pohnpei State Housing Authority (PSHA):	
Cash in checking accounts with FDIC insured bank	<u>145,237</u>
Total Component Units - Proprietary Funds cash and equivalents	\$ <u>736,120</u>

Cash - Restricted (Loan Guarantee Escrow Account)

The Pohnpei State Legislature appropriated a total of \$500,000 through a continuing appropriation for the sole purpose of loan collateralization made through the USDA Rural Development. The escrow account may be drawn down in the event of a borrower's default on the obligation under the terms of the promissory note and the deed of trust security instrument supporting such note and for which such note is guaranteed by the Pohnpei State Housing Authority, the trustee of the Loan Guarantee Escrow Account. During the year, Pohnpei State accounted for the Escrow Account under the Compact Capital Projects Fund. As of September 30, 2000, the escrow account has earned and reinvested \$55,218 of interest earnings. Therefore a total of \$555,218 has been reserved as restricted cash in the foregoing financial statements.

Cash - Restricted (Early Retirement Account)

As of September 30, 2000, Pohnpei State had \$3,372,100 held on deposit with Pacific Century Trust which funds relate to the early retirement program. This deposit is recorded in a special revenue fund and in the debt service fund. It is the intent of Pohnpei State that the cash in the special revenue fund will substantially be used to repay existing early retirement debt.

Cash - Restricted (TTPI Deficiency Fund)

As of September 30, 2000, Pohnpei State had \$785,833 held in deposit with local banks for the TTPI CIP Deficiency Projects. Funds can only be used for renovation of the Pohnpei International Airport and Pohnpei State Hospital. This deposit is recorded in the Compact capital fund.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(2) Cash and Equivalents and Investments, Continued

Cash - Restricted (Medical Supplies Revolving Fund)

As of September 30, 2000, Pohnpei State had \$280,262 held in deposit with local banks. Funds can only be used solely for the purchase of medical supplies, inclusive of pharmaceuticals.

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

- Category 1 - Insured or registered, or securities held by the 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.

The State's demand and time deposits are non-categorized investments in accordance with Governmental Accounting Standards Board (GASB) Statement No. 3. All other 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.

(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 in its role as the primary grant recipient of U.S. federal assistance programs, Congress of the Federated States of Micronesia public project grants, and U.S. Department of the Interior capital project grants through the Trust Territory Government and amounts due to Pohnpei State Government under the FSM tax revenue sharing program:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>
Receivables from other Governments:			
Revenue sharing	\$ 184,268	\$ -	\$ 73,144
CFSM grants	-	1,470,812	-
Other	-	369,898	-
Less allowance for uncollectibles	<u>-</u>	<u>(431,003)</u>	<u>-</u>
	<u>\$ 184,268</u>	<u>\$ 1,409,707</u>	<u>\$ 73,144</u>
Receivables, federal agencies:			
Federal grants	\$ -	\$ 2,030,655	\$ -
Trust Territory Government	-	-	200,418
Less allowance for uncollectibles	<u>-</u>	<u>(1,111,598)</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ 919,057</u>	<u>\$ 200,418</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(4) General Receivables, Advances, Taxes Receivable and Others

A summary of general receivables against which allowances for doubtful accounts have been recorded as of September 30, 2000, is presented below:

<u>General Fund Receivables</u>	<u>Gross</u>	<u>Allowance</u>	<u>Net</u>
Delinquent taxes	\$ 1,380,927	\$ (1,380,927)	\$ -
Delinquent lease payments	653,988	(653,988)	-
Interest receivable	<u>24,255</u>	<u>-</u>	<u>24,255</u>
	\$ <u>2,059,170</u>	\$ <u>(2,034,915)</u>	\$ <u>24,255</u>

General Receivables - Component Units-Proprietary Funds

	<u>Gross</u>	<u>Allowance</u>	<u>Net</u>
Pohnpei Port Authority	\$ 85,850	\$ (38,101)	\$ 47,749
Pohnpei Utilities Corporation	4,478,760	(1,835,311)	2,643,449
Pohnpei Fisheries Corporation	<u>341,328</u>	<u>(303,098)</u>	<u>38,230</u>
	\$ <u>4,905,938</u>	\$ <u>(2,176,510)</u>	\$ <u>2,729,428</u>

General Receivables - Enterprise Fund

Pohnpei Transportation Authority	\$ <u>1,044,549</u>	\$ <u>(473,718)</u>	\$ <u>570,831</u>
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(5) Fixed Assets

The State has not updated the General Fixed Assets Account Group in recent years. Balances carried in the General Fixed Assets Account Group as of September 30, 2000, are as follows:

Building	\$ 10,055,450
Infrastructure	34,590,935
Equipment	<u>4,677,417</u>
	\$ <u>49,323,802</u>

The State's investment in general fixed assets as of September 30, 2000, by source, is summarized below:

General Fund	\$ 3,466,551
U.S. Federal Grants	1,443,729
U.S. Department of the Interior-Capital Projects	43,498,229
FSM Congressional Fund	739,554
Other	<u>175,739</u>
	\$ <u>49,323,802</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(5) Fixed Assets, Continued

Fixed Assets - Component Units-Proprietary Funds

Component unit fixed assets are recorded at cost or estimated cost. The assets are being depreciated principally on a straight line basis over estimated useful lives ranging from 5 to 40 years. The assets, at September 30, 2000, are as follows:

	<u>Pohnpei Port Authority</u>	<u>Pohnpei Utilities Corporation</u>	<u>Pohnpei Fisheries Corporation</u>	<u>Pohnpei State Housing Authority</u>	<u>Total</u>
Electric plant	\$ -	\$ 34,790,980	\$ -	\$ -	\$ 34,790,980
Water and sewer plant	-	10,114,136	-	-	10,114,136
Land	2,776,034	-	-	-	2,776,034
Buildings	12,928,957	-	282,463	27,271	13,238,691
Vehicles	-	-	50,400	-	50,400
Furniture, fixtures and office equipment	455,075	-	29,362	104,614	589,051
Other assets	-	-	13,752,387	-	13,752,387
Less accumulated depreciation	(9,756,846)	(16,389,680)	(10,835,344)	(84,094)	(37,065,964)
Construction in progress	<u>495,291</u>	<u>2,147,051</u>	<u>-</u>	<u>-</u>	<u>2,642,342</u>
Total fixed assets, net	<u>\$ 6,898,511</u>	<u>\$ 30,662,487</u>	<u>\$ 3,279,268</u>	<u>\$ 47,791</u>	<u>\$ 40,888,057</u>

Fixed Assets – Enterprise Fund

Pohnpei Transportation Authority's fixed assets are recorded at cost or estimated cost. The assets are being depreciated principally on a straight line basis over estimated useful lives ranging from 2 to 15 years. The assets, at September 30, 2000, are as follows:

<u>Description</u>	<u>Useful Life</u>	<u>Cost</u>
Buildings	15 years	\$ 70,000
Communication equipment	2 years	30,650
Heavy equipment	5-10 years	5,456,406
Machinery, tools and equipment	2 years	79,593
Furniture and fixtures	3 years	55,883
Vehicles	5 years	<u>426,598</u>
		6,119,130
Less accumulated depreciation		<u>(5,178,587)</u>
Total fixed assets, net		<u>\$ 940,543</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(6) Other Investments

a) Equity Investments

The State currently holds 24.5% of the shares of the Pacific Islands Development Bank, carried at a cost of \$1,000,000. The investment is recorded in the Capital Projects 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. 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.

On August 21, 1998, Pohnpei State became a 50% owner of Caroline Fisheries Corporation (see note 7). Pohnpei State has not recorded such investment on its books due to absence of financial statements of Caroline Fisheries Corporation.

b) Component Unit Investments

During 1993, Pohnpei State Economic Development Authority (EDA), a component unit - proprietary fund, invested \$500,000 in the Bank of the Federated States of Micronesia. This investment is recorded at cost. Financial activities of EDA are not presented in the general purpose financial statements.

During 1990, EDA invested \$2,000,000 for a 1/3 interest in the Caroline Fishing Corporation Inc. (CFC), a company incorporated in the FSM. The CFC commenced fishing operations during 1990. Under the equity method of accounting, which has been adopted for EDA's investment in CFC, EDA's share of loss has been deducted from the carrying value (original value of \$2,000,000 less EDA's share of loss of \$2,000,000). Therefore, this investment is recorded at a net value of \$0.

During fiscal year 1998, Pohnpei Utilities Corporation (PUC) established a sinking fund. The purpose of this fund is to finance future expansion and upgrade of the power plant and equipment. The goal of PUC is to build this fund to \$2,000,000 by June 2003, in anticipation of equipment purchases and upgrades. At September 30, 2000, the fund aggregated \$602,293.

(7) Loans Receivable

On August 21, 1998, Caroline Fisheries Corporation, Pohnpei State Government, the National Fisheries Corporation (NFC) (a component unit of the FSM National Government) and the Pohnpei Economic Development Authority agreed as follows:

- In return for the transfer of the National Fisheries Corporation's shares in Caroline Fisheries Corporation, and as Caroline Fisheries Corporation paid a sum of \$500,000 to Pohnpei State Government in May 1998 to be applied to interest owed the State on loans to Caroline Fisheries Corporation and as Caroline Fisheries Corporation owns a judgment and writ of execution against Pohnpei Fisheries Corporation in the amount of \$997,430, the State of Pohnpei agreed to forgive the two loans due from Caroline Fisheries Corporation in the amounts of \$3,750,000 and \$1,000,000, respectively, and all interest accrued on such for the payment of \$500,000, the receipt of the NFC shares and the assignment of the Pohnpei Fisheries Corporation judgment to the State.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(7) Loans Receivable, Continued

Under its enabling legislation, Public Law 3L-28-93, Pohnpei Fisheries Corporation (PFC) is to pay back the portion of MTN funds (Refer Note 11) used in its operations. The drawdown of these funds for operations at September 30, 2000, is \$2,450,000 and is therefore classified as loans receivable. As this balance does not represent a currently appropriable amount as of September 30, 2000, it is reserved against fund balance as a related asset.

The Pohnpei State Housing Authority (PSHA) has loans receivable of \$5,412,243 with an allowance of \$1,744,378 for doubtful accounts. These loans represent amounts borrowed by qualified applicants for purposes of the construction and improvement of housing.

The Pohnpei Utilities Corporation entered into several settlement agreements with customers with large outstanding balances due to inaccurate billings from previous years. The agreements carry terms of one to five years, with interest of eight to fifteen percent. Management of PUC is of the opinion that the current portion of notes receivable is not material to the financial statements.

(8) Operating Transfers In/Out

Material operating transfers in/out for the year ended September 30, 2000, are as follows:

	<u>Transfers In/Out</u>
Transfers out to Component Units:	
Pohnpei State Housing Authority	\$ 61,947
Small Business Guarantee and Finance Corporation	199,115
Pohnpei Utilities Corporation	20,000
Transfers out to Debt Service Fund:	
Early Retirement Fund	<u>600,000</u>
Total Transfers Out - General Fund	<u>\$ 881,062</u>
Debt Service Fund:	
Transfer in from General Fund	<u>\$ 600,000</u>
Total Transfers In – Debt Service Fund	<u>\$ 600,000</u>
Capital Projects Fund:	
Transfer out to Component Units:	
Small Business Guarantee and Finance Corporation	<u>\$ 1,660,788</u>
Total Transfers Out – Capital Projects Fund	<u>\$ 1,660,788</u>
Transfers out of the Special Revenue Funds are as follows:	
Compact Other Grants to:	
Pohnpei Fisheries Corporation	\$ 300,000
Pohnpei State Housing Authority	<u>37,739</u>
Total Transfers Out – Special Revenue Fund	<u>\$ 337,739</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(8) Operating Transfers In/Out, Continued

Component Units:

Transfer in from Primary Government:

Pohnpei State Housing Authority	\$ 99,686
Pohnpei Fisheries Corporation	308,000
Pohnpei Utilities Corporation	<u>604,398</u>

Total Transfers In – Component Units	\$ <u>1,012,084</u>
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(9) Contingencies and Commitments

Federal Program Questioned Costs

The State participates in a number of U.S. federally assisted programs. These programs are subject to financial and compliance audits to ascertain whether Federal laws and guidelines have been followed.

Currently, \$90,996 in questioned costs exist for the operation of fiscal year 1996 through 2000 grants. If these questioned costs are ultimately disallowed, the General Fund may bear responsibility for absorbing the amount disallowed. Accordingly, no provision for any liability that may result from this matter has been recorded in the accompanying financial statements.

Pursuant to Title I, Section 105 of United States Public Law 99-239, the Government of the Federated States of Micronesia (FSM) (which includes the State of Pohnpei) 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.

Sick Leave

It is the policy of the State of Pohnpei 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, 2000, was \$2,923,521.

Litigation

The State of Pohnpei is party to numerous legal proceedings, many of which are normal recurrences in governmental operations. The State Attorney General of Pohnpei is of the opinion that the probable outcome of suits existing at September 30, 2000, is not predictable but could have a material impact on the accompanying financial statements. Such impact has currently been estimated to approximate \$580,000. Accordingly, this amount has been accrued within the General Long-Term Debt Account Group.

Compact Capital Funds Uses

Pohnpei State expended Compact Capital funds for the dry docking of a fieldtrip vessel and other uses which appear to be operational in nature. These matters will be resolved through the local Attorney General offices and the U.S. Department of the Interior, the grantor agency. The ultimate outcome of these issues is not predictable at this time. Accordingly, no provision for a reserve of fund balance or a liability has been recorded in the accompanying general purpose financial statements. In the event that these expenditures are determined to be unallowable, the General Fund may bear responsibility for absorbing the amounts disallowed.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(9) Contingencies and Commitments, Continued

Risk Management

The State of Pohnpei does not carry insurance to cover its potential risks. The State of Pohnpei is substantially self-insured for all risks. Management is of the opinion that no material losses have been sustained as a result of this practice.

(10) Material Fund Deficits

The following presents material fund deficits as of September 30, 2000. If operations of these funds cannot recover prior losses, the State's General Fund may have to absorb these amounts or a portion thereof.

	<u>Deficit</u>	<u>Contributed Capital</u>	<u>Fund Equity</u>
<u>Special Revenue Funds</u>			
U.S. Federal Assistance Fund	\$ (158,828)	\$ -	\$ (158,828)
Other Federal and Direct Assistance Fund	(12,260)	-	(12,260)
CFSM State Projects Fund	<u>(37,783)</u>	<u>-</u>	<u>(37,783)</u>
	\$ <u>(208,871)</u>	\$ <u>-</u>	\$ <u>(208,871)</u>
<u>Component Units (Deficit) Retained Earnings</u>			
Pohnpei Fisheries Corporation	\$ (5,096,942)	\$ 3,453,310	\$ (1,643,632)
	\$ (5,096,942)	\$ 3,453,310	\$ (1,643,632)
<u>Expendable Trust Fund (Deficit)</u>			
Public Land Trust Fund	\$ (89,845)	\$ -	\$ (89,845)

(11) Notes Payable

The State borrowed under a medium term note program sponsored by the Federated States of Micronesia, as a whole. Repayment of the debt will be made through a pledge of Compact revenues. The notes are repayable substantially on a quarterly basis corresponding to the drawdown of Compact revenues from the U.S. Government. The first issue of \$5,100,000 was made to assist in financing the construction of a Fish Processing Plant by Pohnpei State. The borrowing consists of one note for \$5,100,000 which was paid on October 15, 1995.

The second issue occurred on July 17, 1990, for a total of \$9,550,000 which was made to finance Pohnpei State's equity investment in and a \$7,500,000 loan to a fishing joint venture, the Caroline Fishing Corp. Inc. (CFC). The last of the notes under this borrowing was paid on October 15, 1997.

A third issue was made on December 26, 1990, for a total of \$5,200,000 as an additional borrowing for the two projects specified above. The borrowing consists of various notes with varying amounts of principal, interest, and maturities. Future maturities of these notes are as follows:

<u>Maturity</u>	<u>Interest Rate % P.A</u>	<u>Principal Amount</u>
10/15/2000	9.125%	\$ <u>1,000,000</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(11) Notes Payable, Continued

The fourth issue was made on February 4, 1993, for a total of \$4,000,000 as an additional borrowing for the two projects specified above. The borrowing consists of various notes with varying amounts of principal and maturities. Future maturities of these notes are as follows:

<u>Maturity</u>	<u>Interest Rate % P.A</u>	<u>Principal Amount</u>
10/15/2000	7.51%	\$ <u>1,000,000</u>

Payments of principal and interest are entrusted to Banker's Trust, as Trustee. The FSM has pledged, as security for payments by the Trustee, a first priority lien on, and security interest in, all Compact of Free Association payments from the U.S. Government. During the year, Banker's Trust withheld \$248,135 for interest payments.

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, 2000.

During the fiscal year ended September 30, 1997, Pohnpei State Government implemented an early retirement program for all eligible public service system employees. This program is funded through a \$4,200,000 loan from the Asian Development Bank through the FSM National Government. (See Note 16)

Pursuant to the terms of the financing agreement between the State of Pohnpei and the FSM National Government, the State is required to deposit into the Early Retirement Scheme Trust Account (debt service fund) held in the name of the State within the FSM National Government's investment portfolio, 100% of the outstanding principal balance by September 30, 2001. Funds for the repayment of the loan are expected to be derived from annual appropriations for salaries and wages earmarked for the positions abolished under the Early Retirement Scheme. The loan is to be repaid by the FSM National Government, through accessing of the State's debt service fund, in semiannual installments commencing February 2008. During the year ended September 30, 2000, the State paid \$600,000 into an Early Retirement Trust Fund debt service account.

Activity in the General Long-Term Debt Account Group notes payable account for the year ended September 30, 2000, occurred as follows:

Balance as of September 30, 1999	\$ 8,053,685
MTN loan repayments made on October 15, 1999	(2,000,000)
Balance as of September 30, 2000	\$ <u>6,053,685</u>

Future minimum payments on the MTN notes payable for subsequent years ending September 30, are shown below. The ADB loan has a grace period of 10 years and no payments commence until February 2008:

<u>Years Ending September 30,</u>	<u>Amount</u>
2001	\$ 2,000,000
Thereafter (after 2007)	<u>4,053,685</u>
	\$ <u>6,053,685</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(11) Notes Payable, Continued

The State was not able to produce a schedule of future interest payments attendant to the maturing debt.

Notes Payable - Component Units:

Pohnpei Port Authority:

Notes due to FSM Development Bank, interest at 9%, collateralized by chattel mortgage	\$ 109,540
Bank note, interest at 6.6%, collateralized by substantially all assets	93,615

Pohnpei Fisheries Corporation:

Notes due to FSM Development Bank, interest at 7%, uncollateralized	55,473
Payable to State of Pohnpei	2,450,000
Payable to Caroline Fisheries Corporation, interest at 9%	979,793
Payable to FSM National Government	46,650
Payable to Pohnpei Economic Development Authority	40,000

Pohnpei Utilities Corporation:

Payable to State of Pohnpei, interest at 6.85%, collateralized by a pledge of Compact revenues to the FSM National Government	<u>842,998</u>
	\$ <u>4,618,069</u>

Maturities of this debt is as follows:

<u>Years Ending September 30,</u>	<u>Amount</u>
2001	\$ 1,206,856
2002	93,191
2003	12,136
2004	-
2005	-
Thereafter	<u>3,305,886</u>
	\$ <u>4,618,069</u>

(12) Interfund Receivable and Payables

As of September 30, 2000, interfund receivables and payables resulting from various interfund transactions are as follows:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 1,614,145	\$ 2,707,914
Special Revenue Funds:		
Compact Special Block Grant	1,717,257	-
Compact Other Grants	433,925	-

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(12) Interfund Receivable and Payables, Continued

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
U.S. Federal Assistance	-	1,014,070
Other Federal and Direct	-	71,796
Agriculture Revolving	28,208	-
SVAP Revolving	15,394	-
Airport Operations	20,131	-
CFSM Projects	-	1,104,860
Recycling Fund	21,165	-
V6AH Revolving Fund	11,866	-
Environmental Quality Fund	16,574	-
Medical Revolving Fund	24,205	-
Early Retirement Fund	72,366	-
Paved Road Maintenance	246,350	-
Health Care Premium	264,522	-
Capital Projects Funds:		
Compact Capital Projects	-	11,088
TTG Capital Projects	-	193,828
Health and Education Projects	2,733,235	-
Expendable Trust Funds:		
Public Land Trust	-	96,241
Internal Service Fund	-	58,840
Pohnpei Transportation Authority (PTA)	<u>-</u>	<u>1,960,706</u>
	\$ <u>7,219,343</u>	\$ <u>7,219,343</u>

(13) Continuing Appropriations

Continuing appropriations as of September 30, 2000, are summarized as follows:

General Fund

Each fiscal year, the Pohnpei State Legislature appropriates funds for various programs, municipal projects and other projects which are available until fully expended or project completion.

\$ 363,970

Capital Projects

Each fiscal year, Pohnpei State Legislature appropriates funds for capital projects and economic development projects. These funds are available until fully expended or project completion.

\$ 6,908,925

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(14) Self-Insurance Fund - Component Units

In accordance with section 2(5) of State Law 3L-41-93, an amendment was made to the original enabling legislation for Pohnpei Utilities Corporation (PUC), a component unit - proprietary fund, establishing a self-insurance fund to defray costs of any unforeseen accidents or disasters. The funds are accumulated in a restricted self-insurance fund, held by a trustee, in the name of PUC. No other insurance is maintained by PUC.

Pohnpei Port Authority purchases insurance to cover workmen's compensation and life insurance risks. Pohnpei Port Authority is substantially self-insured for all other risks. Management of PPA is of the opinion that no material losses have been sustained as a result of this practice.

Pohnpei Transportation Authority, Pohnpei State Housing Authority and Pohnpei Economic Development Authority do not purchase commercial insurance covering potential risks. Management of those entities represent that no material losses have been sustained as a result of this practice during the last three years.

(15) FSM Development Bank Loan Funds

Compact Capital Account funds in an aggregate amount of \$1.7 million were transferred to the control of the FSM Development Bank (FSMDB) (a component unit of the FSM National Government) to be loaned out to borrowers from Pohnpei State mainly for economic development projects. The loan fund is administered by FSMDB in a Trust capacity. All loan decisions are made by management of Pohnpei State. These loans are not controlled by the State and are not currently recorded in the accompanying general purpose financial statements. As of December 31, 2000 (FSMDB fiscal year end), the outstanding fund balance aggregated \$763,327.

(16) Early Retirement Program

During the fiscal year ended September 30, 1997, Pohnpei State Government implemented an early retirement program for employees within the public service system. The program is funded through a loan from the Asian Development Bank through the FSM National Government of a total of \$4,053,685.

(17) Reconciliation of Opening Fund Balance – Component Units – Proprietary Fund

Fund balance, beginning of year, as previously reported	\$ 47,092,058
Noninclusion of Economic Development Authority	(800,738)
Inclusion of Pohnpei Fisheries Corporation	<u>(1,252,536)</u>
Fund balance, beginning of year, as reported in the accompanying general purpose financial statements	\$ <u>45,038,784</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Combining Schedule of Expenditures by Account -
All Governmental Fund Types and Expendable Trust Fund
Year Ended September 30, 2000
(With comparative totals for the year ended September 30, 1999)

	Governmental Fund Types			Fiduciary	Totals	
	General	Special Revenue	Capital Projects	Expendable Trust	(Memorandum Only)	
					2000	1999
Expenditures:						
Personnel	\$ 11,082,576	\$ 2,702,147	\$ 288,653	\$ 6,541	\$ 14,079,917	\$ 14,153,368
Travel	135,022	461,456	33,881	-	630,359	697,999
Supplies and materials	307,799	685,202	88,365	6,129	1,087,495	769,585
Fuel	-	209,635	4,000	-	213,635	203,485
Equipment	261,572	355,728	296,393	3,345	917,038	737,085
Contractual services	2,676,747	1,278,209	3,088,303	-	7,043,259	4,543,476
Other	1,184,637	1,448,603	14,563	15,578	2,663,381	4,548,528
Total expenditures	<u>\$ 15,648,353</u>	<u>\$ 7,140,980</u>	<u>\$ 3,814,158</u>	<u>\$ 31,593</u>	<u>\$ 26,635,084</u>	<u>\$ 25,653,526</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

General Fund
September 30, 2000

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 United States Compact of Free Association current account and inflation adjustment funds associated with the current account are accounted for in this fund in addition to local taxes and other revenues.

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

GENERAL FUND

Balance Sheet

September 30, 2000

(With comparative totals as of September 30, 1999)

<u>ASSETS</u>	<u>2000</u>	<u>1999</u>
Cash and equivalents	\$ 473,298	\$ 1,815,368
Cash - restricted	2,236,742	1,524,907
Investments	5,452,216	5,496,219
Receivables from other governments	184,268	572,452
Taxes receivable	2,034,915	2,034,915
Allowance for uncollectibles	(2,034,915)	(2,034,915)
Interest receivable	24,255	24,240
Advances	303,509	285,819
Due from other funds	1,614,145	-
Total assets	<u>\$ 10,288,433</u>	<u>\$ 9,719,005</u>
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accounts payable	\$ 192,255	\$ 315,310
Accrued payroll and others	891,573	905,487
Due to other funds	2,707,914	2,061,867
Other payables	1,758,816	1,843,816
Total liabilities	<u>5,550,558</u>	<u>5,126,480</u>
Fund balance:		
Reserved for:		
Related assets	2,200,995	2,516,569
Encumbrances	809,911	199,603
Continuing appropriations	363,970	287,562
Unreserved	1,362,999	1,588,791
Total fund balance	<u>4,737,875</u>	<u>4,592,525</u>
Total liabilities and fund balance	<u>\$ 10,288,433</u>	<u>\$ 9,719,005</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

GENERAL FUND

Statement of Revenues, Expenditures by Account and
Changes in Fund Balance

Year Ended September 30, 2000

(With comparative totals for the year ended September 30, 1999)

	<u>2000</u>	<u>1999</u>
Revenues:		
Compact of Free Association:		
Base grant	\$ 5,651,272	\$ 5,652,000
Inflation adjustment	3,052,808	3,795,560
Revenue sharing	4,348,970	4,199,432
Investment income	1,040,391	1,539,213
Interest income	125,517	270,397
Taxes and licenses	2,253,081	1,826,500
Fines and penalties	131,437	458,917
Public service charges	29,854	24,116
Other	41,435	222,033
Total revenues	<u>16,674,765</u>	<u>17,988,168</u>
Expenditures:		
Personnel	11,082,576	11,119,139
Travel	135,022	199,987
Supplies and materials	307,799	308,281
Equipment	261,572	164,540
Contractual services	2,676,747	196,435
Other	1,184,637	3,085,743
Total expenditures	<u>15,648,353</u>	<u>15,074,125</u>
Excess of revenues over expenditures	<u>1,026,412</u>	<u>2,914,043</u>
Other financing sources (uses):		
Operating transfers out	(881,062)	(903,576)
Other	-	335
Total other financing sources (uses), net	<u>(881,062)</u>	<u>(903,241)</u>
Excess of revenues and other financing sources over expenditures and other financing uses	145,350	2,010,802
Fund balance at beginning of year	<u>4,592,525</u>	<u>2,581,723</u>
Fund balance at end of year	<u>\$ 4,737,875</u>	<u>\$ 4,592,525</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

GENERAL FUND
Statement of Revenues, Expenditures by Function and Department and Changes in Fund Balance -
Year Ended September 30, 2000
(With comparative totals for the year ended September 30, 1999)

	2000	1999
Revenues:		
U.S. Compact of Free Association:		
Base grant	\$ 5,651,272	\$ 5,652,000
Inflation adjustment	3,052,808	3,795,560
FSM revenue sharing	4,348,970	4,199,432
Investment income	1,040,391	1,539,213
Interest income	125,517	270,397
State taxes and licenses:		
Beer and malt beverages	\$ 565,756	\$ 480,645
Cigarettes	-	33,247
Motor vehicle sales tax	113,675	151,988
General merchandise sales tax	1,413,791	636,184
Hotel	50,646	64,095
Petroleum and fuel	2,116	75,014
Use tax	51,295	330,655
Others	55,802	54,672
	2,253,081	1,826,500
Fines and penalties	131,437	458,917
Public service charges:		
Hospital and dental	15,181	-
Transportation	14,673	24,116
Other	41,435	222,033
	16,674,765	17,988,168
Expenditures:		
General Government:		
Executive and Support	1,140,716	1,026,551
Department of Treasury and Administration	865,544	869,491
Public Auditor	193,408	155,650
Judiciary	349,174	334,066
Legislative operations	1,412,087	1,444,888
	3,960,929	3,830,646
Department of Education:		
Administration	312,743	5,000
Preschool and elementary	3,443,342	3,772,631
Secondary	(23)	136,910
Aid to non-public school	50,000	50,000
	3,806,062	3,964,541
Department of Health Services:		
Administration	311,372	391,923
Medical Coordinator-Honolulu	42,101	42,376
Medical services	1,245,640	1,345,720
Dental services	247,081	280,586
Medical supplies	104,959	217,850
Primary health care	521,167	376,472
Hemodialysis	48,952	67,450
Hospital buildings & grounds	69,386	8,121
Hospital food	115,661	49,887
Health service pharmaceutical supplies	205,759	-
Dispensary pharmaceutical supplies	164,669	(98)
	3,076,747	2,780,287
Department of Resource Management and Development:		
Office of the Director	77,165	77,398
Division of Resource Management & Development	398,321	420,345
Division of CM&PM	151,221	156,290
Division of Land	231,302	265,353
	858,009	919,386

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

GENERAL FUND
Statement of Revenues, Expenditures by Function and Department and Changes in Fund Balance, Continued
Year Ended September 30, 2000
(With comparative totals for the year ended September 30, 1999)

	2000	1999
Expenditures, continued:		
Department of Justice:		
Law and litigation division	328,791	349,403
Division of police and security	724,213	693,889
Correction and rehabilitation	133,240	130,685
Independent Counsel	-	20,000
Search and rescue	1,365	3,527
	1,187,609	1,197,504
Total Justice		
Boards, Commissions, and Other Appropriations:		
Foreign investment commission	50,364	45,494
Traditional affairs	5,398	28,686
USDA Rural Development	134,057	145,067
Alms fund	26,427	-
Pohnpei public library	29,200	29,200
Environmental protection agency	114,884	116,541
Pohnpei health care plan board	32,776	6,048
Planning and zoning committee	7,899	6,684
Soil and water conservation	1,200	2,555
Economic planning committee	(437)	28,677
Pohnpei broadcasting corporation	92,258	88,883
Sports development program	14,040	15,588
Palau Micronesian games	-	2,100
Pohnpei land commission	173,678	165,702
Election Commissioner's operations	663	10,163
Special Election	213	11,482
Fifth FSM Women's Conference	-	6,617
Pohnpei Aramas Kapw	20,000	-
Pohnpei Visitors Bureau	19,620	-
Pohnpei CHC Tele. Med. Program	15,781	-
	738,021	709,487
Total Boards, Commissions, and Other Appropriations		
Municipal Governments:		
Kitti	364,430	252,288
Sokehs	343,772	270,699
Madolenihmw	342,557	280,337
Nett	256,123	184,658
Kolonia	222,980	182,821
Uh	197,406	161,924
Pingilap constitutional convention	10,000	-
Pingilap	87,167	84,291
Kapingamarangi	60,202	49,329
Sapwuahfik	51,925	42,568
Mwoakilloa	45,576	37,272
Mwoakilloa illegal fishing fee	-	23,845
Settlement fee for Kyowa	-	15,000
Nukuoro	38,838	26,780
	2,020,976	1,611,812
Total Municipal Governments		
Total expenditures	15,648,353	15,013,663
Excess of revenues over expenditures	1,026,412	2,974,505
Other financing sources (uses):		
Operating transfers out	(881,062)	(964,038)
Other	-	335
	(881,062)	(963,703)
Total other financing sources (uses), net		
Excess of revenues and other financing sources over expenditures and other financing uses	145,350	2,010,802
Fund balance at beginning of year	4,592,525	2,581,723
Fund balance at end of year	\$ 4,737,875	\$ 4,592,525

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Special Revenue Funds
September 30, 2000

Specific revenues that are legally restricted to expenditures for particular purposes are accounted for in Special Revenue Funds. A brief discussion of Pohnpei State's Special Revenue Funds 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. These funds are specifically restricted for health and education programs.

Compact Other Grants Fund

This fund accounts for funds granted under the Compact of Free Association with the United States. These funds are specifically restricted for energy programs, health and medical referral, post secondary education scholarship, and special development assistant programs.

U.S. Federal Assistance Fund

This fund accounts for all financial transactions related to United States federal assistance grants utilized by the State of Pohnpei to finance general governmental operations.

Other Federal and Direct Assistance Fund

This fund accounts for all other financial transactions related to United States and other countries federal assistance received directly by the State of Pohnpei.

Agriculture Revolving Fund

This fund accounts for livestock and supplies purchased and resold to local farmers. Funding for this activity was originally established through legislative appropriation.

Student Vocational Arts Program (SVAP) Revolving Fund

This fund accounts for the financial activity of PICS High School special accounts.

Airport Operations Fund

This fund accounts for the collection of the \$5.00 per person airport departure tax. These collections are to be used to provide for the general maintenance and upkeep of Pohnpei International Airport.

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Special Revenue Funds, Continued
September 30, 2000

CFSM State Projects Fund

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

Recycling Fund

This fund accounts for the financial activity of the aluminum can recycling project.

V6AH Revolving Fund

This fund accounts for the financial activity of V6AH, a public radio broadcasting facility.

Environmental Quality Fund

This fund accounts for proceeds from mining and dredging and the removal of mined and dredged materials.

Medical Supplies Revolving Fund

This fund was established by SL No. 3L-100-95 to account for funds collected from or on behalf of patients or clients of the Pohnpei Department of Health Services, and payments from the FSM National Health Insurance Program. Funds collected are to be used solely for the purchase of medical supplies, inclusive of pharmaceuticals.

Early Retirement Fund

This fund is used to account for the revenues and expenditures related to the early retirement program implemented by Pohnpei State Government.

Paved Road Maintenance

This fund was established to account for certain sales taxes which are restricted for the maintenance and minor repair of paved roads.

Health Care Premium

This fund was established to account for certain sales taxes which are restricted for use by the Health Care Premium Fund created by Section 8-3 of State Law 3L-39-93.

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

**SPECIAL REVENUE FUNDS
Combining Balance Sheet
September 30, 2000**

(With comparative totals as of September 30, 1999)

	Compact Health and Education	Compact Other Grants	U.S. Federal Assistance	Other Federal and Direct Assistance	CFSM State Projects	Agriculture Revolving	SVAP Revolving	Airport Operations	Recycling	Paved Road Maintenance	Medical Supplies Revolving	Health Care Premium	V6AH Revolving	Environ- mental Quality	Early Retirement	Totals		
																2000	1999	
ASSETS																		
Cash and equivalents	\$ -	\$ 227,453	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 227,453	\$ 128,869
Cash - restricted	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,428,601	1,428,601	1,428,601	
Investments	(327,398)	667,170	-	-	-	-	-	-	-	-	-	-	-	-	-	339,772	465,220	
Receivables:																		
Other governments	-	369,898	-	-	1,039,809	-	-	-	-	-	-	-	-	-	-	1,409,707	1,258,204	
Federal agencies, thru FSM National Government	-	-	919,057	-	-	-	-	-	-	-	-	-	-	-	-	919,057	578,324	
General	(15)	-	-	-	3,928	-	-	-	-	-	-	-	-	-	-	3,913	3,928	
Advances	2,472	55,928	198,749	108,579	82,709	-	-	2,142	-	-	-	-	1,546	-	-	452,125	420,869	
Due from other funds	1,717,257	433,925	-	-	-	28,208	15,394	20,131	21,165	246,350	24,205	264,522	11,866	16,574	72,366	2,871,963	2,481,920	
Inventory, at cost	-	-	-	-	-	15,747	-	-	-	-	-	-	-	-	-	15,747	15,747	
Total assets	\$ 1,392,316	\$ 1,754,374	\$ 1,117,806	\$ 108,579	\$ 1,126,446	\$ 43,955	\$ 15,394	\$ 22,273	\$ 21,165	\$ 246,350	\$ 24,205	\$ 264,522	\$ 13,412	\$ 16,574	\$ 1,500,967	\$ 7,668,338	\$ 6,781,682	
LIABILITIES AND FUND BALANCES (DEFICIT)																		
Liabilities:																		
Accounts payable	\$ 29,446	\$ 167,195	\$ 245,196	\$ 48,721	\$ 59,741	\$ 584	\$ 243	\$ -	\$ 45	\$ -	\$ 21,057	\$ -	\$ 1,045	\$ 511	\$ -	\$ 573,784	\$ 613,689	
Accrued payroll and others	28,070	132,865	17,368	322	(372)	-	-	-	-	-	-	-	-	-	-	178,253	173,521	
Due to other funds	-	-	1,014,070	71,796	1,104,860	-	-	-	-	-	-	-	-	-	-	2,190,726	1,736,404	
Total liabilities	57,516	300,060	1,276,634	120,839	1,164,229	584	243	-	45	-	21,057	-	1,045	511	-	2,942,763	2,523,614	
Fund balances (deficit):																		
Reserved for:																		
Related assets	2,472	47,898	114,738	91,434	42,487	-	-	2,142	-	-	-	-	-	-	576,501	877,672	174,391	
Encumbrances	-	72,709	641,060	18,197	227,642	3,588	242	-	-	-	109,696	-	8,235	267	-	1,081,636	640,846	
Unreserved (deficit)	1,332,328	1,333,707	(914,626)	(121,891)	(307,912)	39,783	14,909	20,131	21,120	246,350	(106,548)	264,522	4,132	15,796	924,466	2,766,267	3,442,831	
Total fund balances (deficit)	1,334,800	1,454,314	(158,828)	(12,260)	(37,783)	43,371	15,151	22,273	21,120	246,350	3,148	264,522	12,367	16,063	1,500,967	4,725,575	4,258,068	
Total liabilities and fund balances (deficit)	\$ 1,392,316	\$ 1,754,374	\$ 1,117,806	\$ 108,579	\$ 1,126,446	\$ 43,955	\$ 15,394	\$ 22,273	\$ 21,165	\$ 246,350	\$ 24,205	\$ 264,522	\$ 13,412	\$ 16,574	\$ 1,500,967	\$ 7,668,338	\$ 6,781,682	

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

SPECIAL REVENUE FUNDS
Combining Statement of Revenues, Expenditures by Function and Changes in Fund Balances (Deficit)
Year Ended September 30, 2000
(With comparative totals for the year ended September 30, 1999)

	Compact Health and Education	Compact Other Grants	U.S. Federal Assistance	Other Federal and Direct Assistance	CFSM State Projects	Agriculture Revolving	SVAP Revolving	Airport Operations	Recycling	Paved Road Maintenance	Medical Supplies Revolving	Health Care Premium	V6AH Revolving	Environ- mental Quality	Early Retirement	Totals		
																2000	1999	
Revenues:																		
Compact:																		
Base grant	\$ 1,890,000	\$ 1,357,783	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,247,783	\$ 3,247,783
Inflation adjustment	-	540,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	540,000	530,000
Federal grants	-	-	3,099,300	-	-	-	-	-	-	-	-	-	-	-	-	-	3,099,300	2,558,985
Taxes	-	-	-	-	-	-	-	-	-	177,826	-	177,243	-	-	-	-	355,069	155,803
CFSM Grants	-	-	-	-	378,594	-	-	-	-	-	-	-	-	-	-	-	378,594	270,711
Scholarships	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	288,003
Other	-	-	-	124,654	-	8,310	3,579	1,815	-	-	185,304	-	19,107	(17,289)	-	-	325,480	633,797
Total revenues	1,890,000	1,897,783	3,099,300	124,654	378,594	8,310	3,579	1,815	-	177,826	185,304	177,243	19,107	(17,289)	-	-	7,946,226	7,685,082
Expenditures:																		
General government	-	974,061	331,415	14,019	54,218	8,166	4,603	14,043	-	-	-	-	15,980	-	-	-	1,416,505	398,635
Education	1,723,892	(2,100)	2,111,265	182,929	-	-	-	-	-	-	-	-	-	-	-	-	4,015,986	3,458,808
Health services	-	162,618	558,533	9,027	544	-	-	-	-	-	234,079	-	-	-	-	-	964,801	922,982
Resources management and development	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	172,400
Public works	-	250,000	34,779	1,056	194,010	-	-	-	-	-	-	-	-	-	-	-	479,845	284,161
Justice	-	-	63,308	-	129,822	-	-	-	-	-	-	-	-	-	-	-	193,130	213,577
Other	-	-	-	13,000	-	-	-	-	-	-	-	-	-	-	57,713	-	70,713	1,689,764
Total expenditures	1,723,892	1,384,579	3,099,300	220,031	378,594	8,166	4,603	14,043	-	-	234,079	-	15,980	-	57,713	-	7,140,980	7,140,327
Excess (deficiency) of revenues over (under) expenditures	166,108	513,204	-	(95,377)	-	144	(1,024)	(12,228)	-	177,826	(48,775)	177,243	3,127	(17,289)	(57,713)	-	805,246	544,755
Other financing sources (uses):																		
Operating transfers out	-	(337,739)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(337,739)	(665,790)
Proceeds from notes payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,553,685
Total other financing sources (uses), net	-	(337,739)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(337,739)	887,895
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	166,108	175,465	-	(95,377)	-	144	(1,024)	(12,228)	-	177,826	(48,775)	177,243	3,127	(17,289)	(57,713)	-	467,507	1,432,650
Fund balances (deficit) at beginning of year	1,168,692	1,278,849	(158,828)	83,117	(37,783)	43,227	16,175	34,501	21,120	68,524	51,923	87,279	9,240	33,352	1,558,680	-	4,258,068	2,825,418
Fund balances (deficit) at end of year	\$ 1,334,800	\$ 1,454,314	\$ (158,828)	\$ (12,260)	\$ (37,783)	\$ 43,371	\$ 15,151	\$ 22,273	\$ 21,120	\$ 246,350	\$ 3,148	\$ 264,522	\$ 12,367	\$ 16,063	\$ 1,500,967	\$ -	\$ 4,725,575	\$ 4,258,068

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

SPECIAL REVENUE FUNDS
Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balances (Deficit)
Year Ended September 30, 2000
(With comparative totals for the year ended September 30, 1999)

	Compact Health and Education	Compact Other Grants	U.S. Federal Assistance	Other Federal and Direct Assistance	CFSM State Projects	Agriculture Revolving	SVAP Revolving	Airport Operations	Recycling	Paved Road Maintenance	Medical Supplies Revolving	Health Care Premium	V6AH Revolving	Environ- mental Quality	Early Retirement	Totals	
																2000	1999
Revenues:																	
Compact:																	
Base grant	\$ 1,890,000	\$ 1,357,783	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,247,783
Inflation adjustment	-	540,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	540,000
Federal grants	-	-	3,099,300	-	-	-	-	-	-	-	-	-	-	-	-	-	3,099,300
Taxes	-	-	-	-	-	-	-	-	-	177,826	-	177,243	-	-	-	-	355,069
CFSM Grants	-	-	-	-	378,594	-	-	-	-	-	-	-	-	-	-	-	378,594
Scholarship Grants	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	288,003
Other	-	-	-	124,654	-	8,310	3,579	1,815	-	-	185,304	-	19,107	(17,289)	-	-	325,480
Total revenues	<u>1,890,000</u>	<u>1,897,783</u>	<u>3,099,300</u>	<u>124,654</u>	<u>378,594</u>	<u>8,310</u>	<u>3,579</u>	<u>1,815</u>	<u>-</u>	<u>177,826</u>	<u>185,304</u>	<u>177,243</u>	<u>19,107</u>	<u>(17,289)</u>	<u>-</u>	<u>-</u>	<u>7,946,226</u>
Expenditures:																	
Personnel	1,493,464	60,559	944,490	16,553	129,368	-	-	-	-	-	-	-	-	-	57,713	-	2,702,147
Travel	-	59,604	273,400	100,928	27,524	-	-	-	-	-	-	-	-	-	-	-	461,456
Supplies and materials	41,134	4,248	498,116	46,250	67,993	6,501	4,499	-	-	-	9,662	-	6,799	-	-	-	685,202
Fuel	-	165,377	30,626	-	13,467	127	-	-	-	-	-	-	38	-	-	-	209,635
Equipment	16,539	5,659	301,490	25,587	5,323	-	-	-	-	-	-	-	1,130	-	-	-	355,728
Contractual services	-	402,153	748,328	15,785	108,798	-	-	-	-	-	-	-	3,145	-	-	-	1,278,209
Other	172,755	686,979	302,850	14,928	26,121	1,538	104	14,043	-	-	224,417	-	4,868	-	-	-	1,448,603
Total expenditures	<u>1,723,892</u>	<u>1,384,579</u>	<u>3,099,300</u>	<u>220,031</u>	<u>378,594</u>	<u>8,166</u>	<u>4,603</u>	<u>14,043</u>	<u>-</u>	<u>-</u>	<u>234,079</u>	<u>-</u>	<u>15,980</u>	<u>-</u>	<u>57,713</u>	<u>-</u>	<u>7,140,980</u>
Excess (deficiency) of revenues over (under) expenditures	<u>166,108</u>	<u>513,204</u>	<u>-</u>	<u>(95,377)</u>	<u>-</u>	<u>144</u>	<u>(1,024)</u>	<u>(12,228)</u>	<u>-</u>	<u>177,826</u>	<u>(48,775)</u>	<u>177,243</u>	<u>3,127</u>	<u>(17,289)</u>	<u>(57,713)</u>	<u>-</u>	<u>805,246</u>
Other financing sources (uses):																	
Operating transfers out	-	(337,739)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(337,739)
Proceeds from notes payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,553,685
Total other financing sources (uses), net	<u>-</u>	<u>(337,739)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>887,895</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>166,108</u>	<u>175,465</u>	<u>-</u>	<u>(95,377)</u>	<u>-</u>	<u>144</u>	<u>(1,024)</u>	<u>(12,228)</u>	<u>-</u>	<u>177,826</u>	<u>(48,775)</u>	<u>177,243</u>	<u>3,127</u>	<u>(17,289)</u>	<u>(57,713)</u>	<u>-</u>	<u>467,507</u>
Fund balances (deficit) at beginning of year	<u>1,168,692</u>	<u>1,278,849</u>	<u>(158,828)</u>	<u>83,117</u>	<u>(37,783)</u>	<u>43,227</u>	<u>16,175</u>	<u>34,501</u>	<u>21,120</u>	<u>68,524</u>	<u>51,923</u>	<u>87,279</u>	<u>9,240</u>	<u>33,352</u>	<u>1,558,680</u>	<u>-</u>	<u>4,258,068</u>
Fund balances (deficit) at end of year	<u>\$ 1,334,800</u>	<u>\$ 1,454,314</u>	<u>\$ (158,828)</u>	<u>\$ (12,260)</u>	<u>\$ (37,783)</u>	<u>\$ 43,371</u>	<u>\$ 15,151</u>	<u>\$ 22,273</u>	<u>\$ 21,120</u>	<u>\$ 246,350</u>	<u>\$ 3,148</u>	<u>\$ 264,522</u>	<u>\$ 12,367</u>	<u>\$ 16,063</u>	<u>\$ 1,500,967</u>	<u>\$ -</u>	<u>\$ 4,258,068</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Capital Projects Funds
September 30, 2000

The acquisition and construction of major capital facilities, other than those financed by proprietary and trust funds, are accounted for in the Capital Projects Funds. A brief discussion of the State's Capital Projects Funds follows:

Compact - Capital Projects Fund

This fund accounts for various capital projects funded by the Compact of Free Association with the United States, Title Two, Article I, Section 211.

TTG - Capital Projects Fund

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

Health and Education Projects Fund

This fund accounts for revenue sharing restricted for capital projects that are health and education related.

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

CAPITAL PROJECTS FUNDS
Combining Balance Sheet
September 30, 2000
(With comparative totals as of September 30, 1999)

	Compact Capital Projects	TTG Capital Projects	Health & Education Projects	Totals	
				2000	1999
<u>ASSETS</u>					
Cash and equivalents	\$ 1,558,249	\$ -	\$ -	\$ 1,558,249	\$ 1,582,463
Cash - restricted	1,341,051	-	-	1,341,051	628,824
Investment	(116,678)	-	-	(116,678)	-
Investments - other	1,000,000	-	-	1,000,000	1,000,000
Receivables from other governments	-	-	73,144	73,144	262,957
Receivables from federal agencies	-	200,418	-	200,418	200,418
General receivables, net	3,956	12,343	-	16,299	16,299
Advances	97,501	-	-	97,501	98,671
Loans receivable, net	2,544,697	-	-	2,544,697	2,450,000
Due from other funds	-	-	2,733,235	2,733,235	2,809,490
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 6,428,776</u>	<u>\$ 212,761</u>	<u>\$ 2,806,379</u>	<u>\$ 9,447,916</u>	<u>\$ 9,049,122</u>
 <u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Accounts payable	\$ 66,412	\$ -	\$ 77,625	\$ 144,037	\$ 95,167
Accrued payroll and others	179	-	-	179	1,448
Due to other funds	11,088	193,828	-	204,916	193,828
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>77,679</u>	<u>193,828</u>	<u>77,625</u>	<u>349,132</u>	<u>290,443</u>
Fund balances:					
Reserved for:					
Related assets	3,451,350	-	-	3,451,350	3,459,007
Encumbrances	1,642,779	554	421,540	2,064,873	1,471,637
Continuing appropriations	6,908,925	-	-	6,908,925	4,248,192
Unreserved (deficit)	(5,651,957)	18,379	2,307,214	(3,326,364)	(420,157)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>6,351,097</u>	<u>18,933</u>	<u>2,728,754</u>	<u>9,098,784</u>	<u>8,758,679</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 6,428,776</u>	<u>\$ 212,761</u>	<u>\$ 2,806,379</u>	<u>\$ 9,447,916</u>	<u>\$ 9,049,122</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

CAPITAL PROJECTS FUNDS

Combining Statement of Revenues, Expenditures by Function and Changes in Fund Balances

Year Ended September 30, 2000

(With comparative totals for the year ended September 30, 1999)

	<u>Compact Capital Projects</u>	<u>TTG Capital Projects</u>	<u>Health & Education Projects</u>	<u>Totals</u>	
				2000	1999
Revenues:					
Compact of Free Association:					
Base grant	\$ 4,072,000	\$ -	\$ -	\$ 4,072,000	\$ 4,072,000
Inflation adjustment	2,198,880	-	-	2,198,880	1,358,160
U.S. Department of the Interior grants	-	-	-	-	246,649
Revenue sharing	-	-	1,766,478	1,766,478	1,956,303
Investment income	25,828	-	-	25,828	116,482
	<u>6,296,708</u>	<u>-</u>	<u>1,766,478</u>	<u>8,063,186</u>	<u>7,749,594</u>
Expenditures:					
Capital projects	<u>2,820,131</u>	<u>-</u>	<u>994,027</u>	<u>3,814,158</u>	<u>3,425,962</u>
Total expenditures	<u>2,820,131</u>	<u>-</u>	<u>994,027</u>	<u>3,814,158</u>	<u>3,425,962</u>
Excess of revenues over expenditures	<u>3,476,577</u>	<u>-</u>	<u>772,451</u>	<u>4,249,028</u>	<u>4,323,632</u>
Other financing sources (uses):					
Repayment of notes payable	(2,000,000)	-	-	(2,000,000)	(2,000,000)
Interest expense	(248,135)	-	-	(248,135)	(411,200)
Operating transfer out	(1,660,788)	-	-	(1,660,788)	-
Other income (expense)	-	-	-	-	14,171
	<u>(3,908,923)</u>	<u>-</u>	<u>-</u>	<u>(3,908,923)</u>	<u>(2,397,029)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(432,346)	-	772,451	340,105	1,926,603
Fund balances at beginning of year	<u>6,783,443</u>	<u>18,933</u>	<u>1,956,303</u>	<u>8,758,679</u>	<u>6,832,076</u>
Fund balances at end of year	<u>\$ 6,351,097</u>	<u>\$ 18,933</u>	<u>\$ 2,728,754</u>	<u>\$ 9,098,784</u>	<u>\$ 8,758,679</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

CAPITAL PROJECTS FUNDS

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

Year Ended September 30, 2000

(With comparative totals for the year ended September 30, 1999)

	Compact	TTG	Health &	Totals	
	Capital Projects	Capital Projects	Education Projects	2000	1999
Revenues:					
Compact of Free Association:					
Base grant	\$ 4,072,000	\$ -	\$ -	\$ 4,072,000	\$ 4,072,000
Inflation adjustment	2,198,880	-	-	2,198,880	1,358,160
U.S. Department of the Interior grants	-	-	-	-	246,649
Revenue sharing	-	-	1,766,478	1,766,478	1,956,303
Investment income	25,828	-	-	25,828	116,482
Total revenues	6,296,708	-	1,766,478	8,063,186	7,749,594
Expenditures:					
Personnel	98,310	-	190,343	288,653	78,494
Travel	32,125	-	1,756	33,881	84,083
Supplies and materials	12,759	-	75,606	88,365	3,785
Fuel	4,000	-	-	4,000	352
Equipment	120,920	-	175,473	296,393	38,070
Contractual services	2,537,454	-	550,849	3,088,303	3,178,188
Other	14,563	-	-	14,563	42,990
Total expenditures	2,820,131	-	994,027	3,814,158	3,425,962
Excess of revenues over expenditures	3,476,577	-	772,451	4,249,028	4,323,632
Other financing sources (uses):					
Repayment of notes payable	(2,000,000)	-	-	(2,000,000)	(2,000,000)
Interest expense	(248,135)	-	-	(248,135)	(411,200)
Operating transfer out	(1,660,788)	-	-	(1,660,788)	-
Other income (expense)	-	-	-	-	14,171
Total other financing sources (uses), net	(3,908,923)	-	-	(3,908,923)	(2,397,029)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(432,346)	-	772,451	340,105	1,926,603
Fund balances at beginning of year	6,783,443	18,933	1,956,303	8,758,679	6,832,076
Fund balances at end of year	\$ 6,351,097	\$ 18,933	\$ 2,728,754	\$ 9,098,784	\$ 8,758,679

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Component Units - Proprietary Funds
September 30, 2000

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

Pohnpei Fisheries Corporation (PFC) was established by State Public Law 3L-28-93. The primary purpose of the Corporation is to operate and monitor the Pohnpei fish processing plant and other fisheries projects of Pohnpei State.

Pohnpei Port Authority (PPA) was established by State Public Law 2L-224-91. The primary purpose of the Authority is to oversee the use and maintenance of Pohnpei State's sea and air ports. PPA began operating as a separate entity in fiscal year 1993.

Pohnpei Utilities Corporation (PUC) was established by State Public Law 2L-179-91. The primary purpose of the Corporation is to provide electrical, water and sewage services to the public through the operation and maintenance of the State's electric power system.

Pohnpei Economic Development Authority (EDA) was established pursuant to Pohnpei State Law 4L-159-78 in 1978. The purpose of the Authority is to promote economic development projects within the State of Pohnpei. EDA was not able to provide financial statements for inclusion in the accompanying presentation.

Pohnpei State Housing Authority (PSHA) was established by State Public Law 2L-81-88. The Authority's primary purpose is to facilitate, through low interest loans, the construction of safe and sanitary residential housing for low income families of Pohnpei State.

Small Business Guarantee and Finance Corporation (SBGFC) was established by State Public Law 3L-86-95. The primary purpose of the Corporation is to provide loan guarantees and other financial incentives through commercial banks. SBGFC was not able to provide financial statements for inclusion in the accompanying presentation.

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

COMPONENT UNITS - PROPRIETARY FUNDS
Combining Balance Sheet
September 30, 2000
(With comparative totals as of September 30, 1999)

<u>ASSETS</u>	Pohnpei Port Authority	Pohnpei Utilities Corporation	Pohnpei Fisheries Corporation	Pohnpei State Housing Authority	<u>Totals</u>	
					2000	1999
Cash and equivalents	\$ 40,427	\$ 511,061	\$ 39,395	\$ 145,237	\$ 736,120	\$ 789,898
Cash - restricted	300,000	-	-	-	300,000	300,000
Investments - other	-	602,293	-	-	602,293	1,053,142
Receivables, federal agencies	-	140,979	-	-	140,979	97,326
General receivable, net	47,749	2,643,449	38,230	-	2,729,428	2,472,086
Interest receivable	6,628	1,130	-	-	7,758	2,331
Advances	13,924	-	-	26,218	40,142	38,743
Loans receivables, net	-	18,916	-	3,667,865	3,686,781	3,721,625
Inventory, at cost	-	1,256,913	98,329	1,969	1,357,211	1,314,913
Self insurance fund	-	115,632	-	-	115,632	104,659
Scholarship fund	-	3,881	-	-	3,881	3,881
Prepaid expenses and other assets	10,163	48,104	-	-	58,267	6,013
Fixed assets, net	6,898,511	30,662,487	3,279,268	47,791	40,888,057	38,698,575
Due from primary government	-	-	-	85,830	85,830	128,441
Total assets	<u>\$ 7,317,402</u>	<u>\$ 36,004,845</u>	<u>\$ 3,455,222</u>	<u>\$ 3,974,910</u>	<u>\$ 50,752,379</u>	<u>\$ 48,731,633</u>
 <u>LIABILITIES AND FUND EQUITY (DEFICIENCY)</u>						
Liabilities:						
Accounts payable	\$ 6,225	\$ 300,714	\$ 1,526,938	\$ 19,774	\$ 1,853,651	\$ 495,057
Accrued payroll and others	126,231	372,966	-	830	500,027	406,870
Deferred revenue	306,250	60,192	-	-	366,442	386,189
Due to primary government	-	-	-	-	-	15,990
Notes payable	203,155	842,998	3,571,916	-	4,618,069	335,469
Total liabilities	<u>641,861</u>	<u>1,576,870</u>	<u>5,098,854</u>	<u>20,604</u>	<u>7,338,189</u>	<u>1,639,575</u>
Fund equity (deficiency):						
Retained earnings (deficit)	447,003	9,087,914	(5,096,942)	(45,609)	4,392,366	4,942,129
Contributed capital	6,228,538	25,340,061	3,453,310	3,999,915	39,021,824	42,149,929
Total fund equity (deficiency)	<u>6,675,541</u>	<u>34,427,975</u>	<u>(1,643,632)</u>	<u>3,954,306</u>	<u>43,414,190</u>	<u>47,092,058</u>
Total liabilities and fund equity (deficiency)	<u>\$ 7,317,402</u>	<u>\$ 36,004,845</u>	<u>\$ 3,455,222</u>	<u>\$ 3,974,910</u>	<u>\$ 50,752,379</u>	<u>\$ 48,731,633</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

COMPONENT UNITS - PROPRIETARY FUNDS
Combining Statement of Revenues, Expenses and Changes in Fund Equity (Deficiency)
Year Ended September 30, 2000
(With comparative totals for the year ended September 30, 1999)

	Pohnpei Port Authority	Pohnpei Utilities Corporation	Pohnpei Fisheries Corporation	Pohnpei State Housing Authority	Totals	
					2000	1999
Operating revenues:						
Charges for goods and services	\$ 648,915	\$ 7,328,455	\$ 528,944	\$ 245,857	\$ 8,752,171	\$ 8,156,755
Rental income	252,924	-	-	-	252,924	257,235
Other	8,809	-	-	-	8,809	21,826
Total operating revenues	910,648	7,328,455	528,944	245,857	9,013,904	8,435,816
Operating expenses:						
Cost of sales	-	-	354,324	-	354,324	1,140,225
Personnel services	605,006	1,355,799	240,585	104,168	2,305,558	2,087,880
Travel	67,196	93,300	-	-	160,496	94,140
Supplies and materials	31,023	131,535	-	5,630	168,188	215,754
Fuel	10,040	3,121,639	-	-	3,131,679	2,160,959
Contractual services	15,448	-	-	20,659	36,107	27,026
Doubtful debt expense	-	469,520	-	255,523	725,043	960,174
Utilities	51,061	-	-	1,444	52,505	36,439
Communications	10,542	60,911	2,083	-	73,536	48,975
Depreciation	663,105	1,934,062	629,346	-	3,226,513	2,835,440
Repairs and maintenance	17,518	824,282	1,533	4,302	847,635	882,155
Employee benefits	-	455,759	-	-	455,759	404,713
Training and safety	4,340	131,222	250	-	135,812	126,620
Other	18,563	256,683	38,171	11,195	324,612	260,805
Total operating expenses	1,493,842	8,834,712	1,266,292	402,921	11,997,767	11,281,305
Operating loss	(583,194)	(1,506,257)	(737,348)	(157,064)	(2,983,863)	(2,845,489)
Nonoperating revenues (expenses):						
Operating transfers in	-	-	308,000	99,686	407,686	111,612
Interest income	19,415	-	(6,217)	3,119	16,317	21,566
Spurline projects	-	178,235	-	-	178,235	136,780
Other	11,968	673,349	44,469	27,245	757,031	482,660
Total nonoperating revenues (expenses), net	31,383	851,584	346,252	130,050	1,359,269	752,618
Net income (loss)	(551,811)	(654,673)	(391,096)	(27,014)	(1,624,594)	(2,092,871)
Add depreciation on fixed assets acquired by capital contributions that reduce contributed capital	587,891	1,618,194	356,661	-	2,562,746	2,433,656
Increase (decrease) in retained earnings	36,080	963,521	(34,435)	(27,014)	938,152	340,785
Retained earnings (deficit) at beginning of year	410,923	8,124,393	(5,062,507)	(18,595)	3,454,214	4,601,344
Retained earnings (deficit) at end of year	447,003	9,087,914	(5,096,942)	(45,609)	4,392,366	4,942,129
Contributed capital at beginning of year	6,816,429	26,958,255	3,809,971	3,999,915	41,584,570	44,366,959
Contributions	-	-	-	-	-	216,626
Less depreciation	(587,891)	(1,618,194)	(356,661)	-	(2,562,746)	(2,433,656)
Contributed capital at end of year	6,228,538	25,340,061	3,453,310	3,999,915	39,021,824	42,149,929
Fund equity (deficiency) at end of year	\$ 6,675,541	\$ 34,427,975	\$ (1,643,632)	\$ 3,954,306	\$ 43,414,190	\$ 47,092,058

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

COMPONENT UNITS - PROPRIETARY FUNDS

Combining Statement of Cash Flows

Year Ended September 30, 2000

(With comparative totals for the year ended September 30, 1999)

	Pohnpei	Pohnpei	Pohnpei	Pohnpei	Totals	
	Port Authority	Utilities Corporation	Fisheries Corporation	State Housing Authority	2000	1999
Cash flows from operating activities:						
Operating loss	\$ (583,194)	\$ (1,506,257)	\$ (737,348)	\$ (157,064)	\$ (2,983,863)	\$ (2,845,489)
Other income	-	68,951	44,469	-	113,420	71,268
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:						
Depreciation	663,105	1,934,062	629,346	-	3,226,513	2,946,301
Doubtful debt expense	-	469,520	-	255,523	725,043	1,138,322
Non-operating expenses, net	-	-	-	-	-	(2,557)
	<u>79,911</u>	<u>966,276</u>	<u>(63,533)</u>	<u>98,459</u>	<u>1,081,113</u>	<u>1,307,845</u>
Changes in assets and liabilities:						
General receivables, gross	63,374	(781,737)	61,966	-	(656,397)	(503,407)
Advances	(1,819)	-	-	(10,545)	(12,364)	(9,503)
Loans receivable, gross	-	27,598	-	(288,277)	(260,679)	(70,340)
Inventory, at cost	-	49,684	30,939	25	80,648	(164,446)
Prepaid expenses and other assets	(6,790)	(45,464)	-	-	(52,254)	52,163
Due from primary government	-	-	-	42,611	42,611	(158,948)
Other receivables	(5,427)	-	-	-	(5,427)	(565)
Accounts payable	(19,593)	(22,767)	(270,886)	3,631	(309,615)	(16,894)
Accrued payroll and others	42,117	63,158	-	-	105,275	30,819
Deferred revenue	-	(19,747)	-	-	(19,747)	23,241
Advance from (payment to) clients	-	-	-	-	-	(2,285)
	<u>71,862</u>	<u>(729,275)</u>	<u>(177,981)</u>	<u>(252,555)</u>	<u>(1,087,949)</u>	<u>(820,165)</u>
Net cash provided by (used in) operating activities	<u>151,773</u>	<u>237,001</u>	<u>(241,514)</u>	<u>(154,096)</u>	<u>(6,836)</u>	<u>487,680</u>
Cash flows from noncapital financing activities:						
Proceeds from (repayment of) notes payable, net	-	592,998	(7,812)	-	585,186	250,000
Operating transfers in	-	560,745	308,000	126,931	995,676	111,612
Other noncapital financing activities	-	-	-	-	-	469,352
Spurline projects	-	178,235	-	-	178,235	136,780
Acquisition of debt	181,682	-	-	-	181,682	85,469
Net cash provided by noncapital financing activities	<u>181,682</u>	<u>1,331,978</u>	<u>300,188</u>	<u>126,931</u>	<u>1,940,779</u>	<u>1,053,213</u>
Cash flows from capital and related financing activities:						
Acquisition of fixed assets	(336,656)	(1,480,939)	(4,031)	(22,656)	(1,844,282)	(1,479,524)
Contributed capital	-	-	-	-	-	112,912
Repayment of debt	(64,000)	-	-	-	(64,000)	-
Net cash used in capital and related financing activities	<u>(400,656)</u>	<u>(1,480,939)</u>	<u>(4,031)</u>	<u>(22,656)</u>	<u>(1,908,282)</u>	<u>(1,366,612)</u>
Cash flows from investing activities:						
Payment to self-insurance and scholarship funds, net	-	(10,973)	-	-	(10,973)	-
Interest income (expense)	19,415	-	(6,217)	3,119	16,317	22,767
Payments to PUC sinking fund, restricted investments	-	(49,650)	-	-	(49,650)	(244,134)
Other	11,968	-	-	-	11,968	274
Net cash provided by (used in) investing activities	<u>31,383</u>	<u>(60,623)</u>	<u>(6,217)</u>	<u>3,119</u>	<u>(32,338)</u>	<u>(221,093)</u>
Net increase (decrease) in cash and equivalents	<u>(35,818)</u>	<u>27,417</u>	<u>48,426</u>	<u>(46,702)</u>	<u>(6,677)</u>	<u>(46,812)</u>
Cash and equivalents at beginning of year	<u>76,245</u>	<u>483,644</u>	<u>(9,031)</u>	<u>191,939</u>	<u>742,797</u>	<u>836,710</u>
Cash and equivalents at end of year	<u>\$ 40,427</u>	<u>\$ 511,061</u>	<u>\$ 39,395</u>	<u>\$ 145,237</u>	<u>\$ 736,120</u>	<u>\$ 789,898</u>

See Accompanying Independent Auditors' Report.



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable Johnny P. David
Governor, State of Pohnpei
Federated States of Micronesia:

We have audited the general purpose financial statements of the State of Pohnpei as of and for the year ended September 30, 2000, and have issued our report thereon dated July 17, 2001, which report was qualified due to 1) our inability to determine the propriety of advances receivable and accounts payable of all Governmental Fund Types; inventories of the Proprietary Fund Type – Internal Service fund; continuing appropriations of the Governmental Fund Type – Capital Projects Fund; and the General Fixed Asset Account Group; 2) obtain financial statements of Pohnpei Economic Development Authority and Small Business Guarantee and Finance Corporation, Component Units – Proprietary Funds; 3) obtain audited financial statements of Pohnpei Transportation Authority, Proprietary Fund Type – Enterprise Fund; and 4) examine evidence regarding the investment in Caroline Fisheries Corporation. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

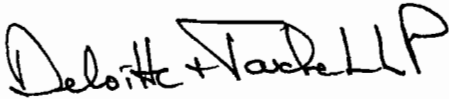
As part of obtaining reasonable assurance about whether the State of Pohnpei's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings and Questioned Costs (pages 69 through 89) in findings 2000-1 and 2000-5.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Pohnpei's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of Pohnpei's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2000-1 and 2000-6 through 2000-19.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the 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 over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2000-1 and 2000-6 through 2000-13 to be material weaknesses.

This report is intended solely for the information and use of the management of the State of Pohnpei, federal awarding agencies, pass-through entities and the cognizant audit and other federal agencies, and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, flowing style.

July 17, 2001



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Honorable Johnny P. David
Governor, State of Pohnpei
Federated States of Micronesia:

Compliance

We have audited the compliance of the State of Pohnpei with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2000. The State of Pohnpei's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 69 through 89). Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the State of Pohnpei's management. Our responsibility is to express an opinion on the State of Pohnpei's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State of Pohnpei's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the State of Pohnpei's compliance with those requirements.

As described in findings 2000-1 through 2000-5 in the accompanying Schedule of Findings and Questioned Costs, the State of Pohnpei, did not comply with requirements regarding allowable costs/cost principles that are applicable to its Special Education Grant (CFDA #84.027), TFAS Grant (CFDA #84.256A) and Compact Special Block, Health and Medical, and Compact Capital Funds (CFDA #15.875), subrecipient monitoring applicable to its Compact Capital Fund (CFDA #15.875) and equipment and real property management (all programs). Compliance with such requirements is necessary, in our opinion, for the State of Pohnpei to comply with requirements applicable to its federal award programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the State of Pohnpei, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2000.

Internal Control Over Compliance

The management of the State of Pohnpei is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the State of Pohnpei's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

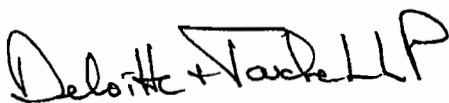
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State of Pohnpei's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2000-1 through 2000-5.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 2000-1 and 2000-5 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the general purpose financial statements of the State of Pohnpei as of and for the year ended September 30, 2000, and have issued our report thereon dated July 17, 2001, which report was qualified due to 1) our inability to determine the propriety of advances receivable and accounts payable of all Governmental Fund Types; inventories of the Proprietary Fund Type – Internal Service fund; continuing appropriations of the Governmental Fund Type – Capital Projects Fund; and the General Fixed Asset Account Group; 2) obtain financial statements of Pohnpei Economic Development Authority and Small Business Guarantee and Finance Corporation, Component Units – Proprietary Funds; 3) obtain audited financial statements of Pohnpei Transportation Authority, Proprietary Fund Type – Enterprise Fund; and 4) examine evidence regarding the investment in Caroline Fisheries Corporation. Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards (pages 54 through 64) is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the general purpose financial statements. This schedule is the responsibility of the management of the State of Pohnpei. Such information 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 solely for the information and use of the management of the State of Pohnpei, federal awarding agencies, pass-through entities and the cognizant audit and other federal agencies, and is not intended to be and should not be used by anyone other than those specified parties.



July 17, 2001

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards
U.S. Federal Assistance Fund
Year Ended September 30, 2000

Grantor Program Title	CFDA I.D. #	Pohnpei Org. #	2000 Fiscal Year Expenditures
<u>U.S. Department of Agriculture</u>			
FY 98 Fire Prevention	10.664	3359	\$ 614
FY 99 Forestry Urban	10.664	3361	10,696
FY 99 Forestry/Resource Management	10.664	3362	334
FY 99 Forestry/SNTI	10.664	3363	333
FY 99 Fire Prevention	10.664	3364	10,490
FY 98 Forestry/Resource Management	10.664	3374	9,435
FY 98 Forestry Urban	10.664	3375	8,325
FY 98 Forestry/SNTI	10.664	3376	4,862
Total U.S. Department of Agriculture (CFDA #10.664)			<u>45,089</u>
<u>U.S. Department of Education</u>			
FY99 Goal 2000 Program	84.276	3110	<u>67,596</u>
Total CFDA #84.276			<u>67,596</u>
FY98 Special Education	84.027	3116	345,962
FY97 Special Education	84.027	3118	(11)
FY99 Special Education	84.027	3119	494,766
Total CFDA #84.027			<u>840,717</u>
Title VII Bilingual Education	84.194	3819	48,845
FY-98 Title VII Bilingual Education Support Services	84.194	3821	8,250
FY-99 Title VII Bilingual Education Support Services	84.194	3828	32,518
Total CFDA #84.194			<u>89,613</u>
Total U.S. Department of Education			<u>997,926</u>
<u>U.S. Department of the Interior</u>			
FY98 Historic Preservation	15.904	3373	9,844
FY99 Historic Preservation Operation	15.904	3377	32,758
FY99 Historic Preservation/Special Program	15.904	3378	24,473
FY2000 Historic Preservation	15.904	3379	267
Total CFDA #15.904			<u>67,342</u>
Land and Survey	15.875	3451	18,547
Economic Planning Advisor	15.875	3454	48,224
Patient Finance Accountability	15.875	3456	15,084
Pohnpei State O&M Engineer	15.875	3531	6,541
Financial Management Improvement	15.875	3541	280
FY97 OMIP Facility Rep.	15.875	3544	1,318
Dekehtik Dumpsite	15.875	3548	75,000
Total CFDA #15.875			<u>164,994</u>
Total U.S. Department of the Interior			<u>232,336</u>
Balance Forward			<u>1,275,351</u>

See accompanying notes to schedule of expenditures of federal awards.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
U.S. Federal Assistance Fund, Continued
Year Ended September 30, 2000

Grantor Program Title	CFDA I.D. #	Pohnpei Org. #	2000 Fiscal Year Expenditures
Balance Forwarded			\$ 1,275,351
<u>U.S. Department of Health and Human Services</u>			
FY98 Tuberculosis & Aids	93.116	3682	4,488
FY2000 Tuberculosis & Aids	93.116	3695	25,381
Total CFDA #93.116			<u>29,869</u>
FY2000 Family Planning	93.217	3686	27,291
FY2001 Family Planning	93.217	3698	2,023
Total CFDA #93.217			<u>29,314</u>
FY98 Community Health Center	93.224	3670	
FY99 Community Health Center	93.224	3684	40,873
FY2000 Community Health Center	93.224	3693	99,713
Total CFDA #93.224			<u>140,586</u>
FY98 Immunization	93.268	3669	
FY99 Immunization	93.268	3681	23,003
Total CFDA #93.268			<u>23,003</u>
FY99 AIDS Prevention	93.940	3683	3,945
FY2000 AIDS Prevention	93.940	3696	6,632
Total CFDA #93.940			<u>10,577</u>
FY98 Substance Abuse Prevention & Treatment	93.959	3675	1,916
FY99 Substance Abuse Prevention & Treatment/HS	93.959	3687	99,745
FY99 Substance Abuse Prevention & Treatment/Youth	93.959	3688	1,687
Total CFDA #93.959			<u>103,348</u>
FY99 Sexually Transmitted Diseases	93.977	3680	1,643
FY2000 Sexually Transmitted Diseases	93.977	3694	4,921
Total CFDA #93.977			<u>6,564</u>
FY-2000 Diabetes Program	93.988	3601	357
FY-99 Diabetes Program	93.988	3690	4,968
Total CFDA #93.988			<u>5,325</u>
FY98 MCH Program	93.994	3676	8,544
FY99 MCH Program/CSHCN	93.994	3689	3,451
FY99 MCH Program	93.994	3691	66,418
FY99 MCH Program	93.994	3692	559
Total CFDA #93.994			<u>78,972</u>
Total U.S. Department of Health and Human Services			<u>427,558</u>
Balance Forward			<u>1,702,909</u>

See accompanying notes to schedule of expenditures of federal awards.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
U.S. Federal Assistance Fund, Continued
Year Ended September 30, 2000

Grantor Program Title	CFDA I.D. #	Pohnpei Org. #	2000 Fiscal Year Expenditures
Balance Forwarded			\$ 1,702,909
<u>U.S. Department of Labor</u>			
FY95 JTPA Adult Program	17.250	3208	80
FY98 JTPA Administration	17.250	3236	1,586
FY98 JTPA Youth Program	17.250	3237	1,258
FY98 JTPA Adult Program	17.250	3238	(12,911)
FY98 JTPA Participant Support	17.250	3239	15
FY99 JTPA Administration	17.250	3240	49,365
FY99 JTPA Adult Program	17.250	3241	84,427
FY99 JTPA Youth Program	17.250	3242	10,268
FY99 JTPA Participant Support	17.250	3243	100,516
FY99 Transition WIA	17.250	3244	3,060
FY99 JTPA Summer	17.250	3245	17,150
Total U.S. Department of Labor (CFDA #17.250)			254,814
<u>Federal Emergency Management Agency</u>			
El Nino Drought/Public Assistance	83.516	3797	28,238
Total Federal Emergency Management Agency (CFDA #83.516)			28,238
<u>Direct U.S Grants - U.S. Department of Education</u>			
Freely Assoc. Ed. Grant	84.256A	3820	15,423
FY-98 Freely Assoc. Ed. Grant	84.256A	3827	203,212
FY-99 Freely Assoc. Ed. Grant	84.256A	3829	389,673
FY-2000 Freely Assoc. Ed. Grant	84.256A	3831	505,031
Total U.S Department of Education (CFDA #84.256A)			1,113,339
Total U.S. Federal Assistance Fund			\$ 3,099,300

Note: The above grants are received in a subgrant capacity through the FSM National Government, except for the Pohnpei Educational Grant programs (CFDA #84.256A) which were received directly from the U.S. Department of Education.

See accompanying notes to schedule of expenditures of federal awards.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Other Federal and Direct Assistance Fund
Year Ended September 30, 2000

Grantor Program Title	CFDA I.D. #	Pohnpei Org. #	2000 Fiscal Year Expenditures
<u>World Health Organization</u>			
Biodiversity/Administration	N/A	3972	\$ 320
Biodiversity/Management	N/A	3974	761
Biodiversity/Training	N/A	3976	12,586
Wecoming Millenium Fund	N/A	3978	3,000
Cholera Emergency/Cont. Fund	N/A	3979	<u>10,000</u>
			<u>26,667</u>
<u>Other Grants</u>			
Capacity 21/Earth Day Celebration	N/A	3927	352
Pedicatric and Nursery Equipment	N/A	3929	9,027
Palikir Elementary School Improvement	N/A	3935	1,056
Vocational Education Improvement program	N/A	3947	164,131
FY95 Pohnpei Vision and Dreams	N/A	3962	<u>18,798</u>
			<u>193,364</u>
Total Other Federal and Direct Assistance Fund			<u><u>\$ 220,031</u></u>

Note: Except for the Vocational Education Improvement Program, the above grants are received directly from foreign governments and private organizations.

See accompanying notes to schedule of expenditures of federal awards.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Compact of Free Association Special Block Grant Fund
Section 221(B)
Year Ended September 30, 2000

Grantor Program Title	CFDA I.D. #	Pohnpei Org. #	2000 Fiscal Year Expenditures
<u>Office of Insular Affairs</u>			
Administration ES&D	15.875	2148	\$ 11,985
Preschool and Elementary Education	15.875	2149	264,020
Secondary Education	15.875	2150	<u>1,447,887</u>
Total Compact of Free Association Special Block Grant Fund - Section 221(B)			<u>\$ 1,723,892</u>

Note: These funds are made available by Title Two, Article I, Section 221(B) of the Compact of Free Association and are disbursed through the Office of Insular Affairs (OIA), 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 expenditures of federal awards.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Compact of Free Association Other Grants Fund
Year Ended September 30, 2000

Program Title	CFDA I.D. #	Pohnpei Org. #	2000 Fiscal Year Expenditures
<u>Section 212(A) - Special Development Programs</u>			
Pohnpei Housing Authority	15.875	2517	\$ 37,739
Micronesian Legal Services Corporation	15.875	2518	33,600
Aid to Kapinga Atoll Rehabilitation	15.875	2519	26,402
Transmitter & Accessories	15.875	2536	500
Civic Action Team	15.875	n/a	250,000
			<u>348,241</u>
<u>Section 214(B) - Energy Programs</u>			
Household Solar Pakin	15.875	2701	189
Mwoakilloa Solar Energy	15.875	2702	4,424
Treasury and Administration Utilities	15.875	2752	45,362
Justice Utilities	15.875	2753	40,163
SBGFC Utilities	15.875	2754	1,124
Public & Governmental Relations	15.875	2755	14
Court of Land Tenure	15.875	2756	5,400
Social Affairs Utilities	15.875	2758	2,500
Public Broadcasting Corporation	15.875	2759	13,500
Supreme Court Utilities	15.875	2762	14,500
Micro Glory POL	15.875	2763	114,218
Governor's Office	15.875	2764	41,763
Rural Development Utility	15.875	2765	3,066
Solar Sytem Parem/Lenger	15.875	2766	10,676
Sapwuahfik Household Solar	15.875	2769	28,617
Health Services Utilities	15.875	2780	336,044
Public Auditor's Office Utilities	15.875	2781	3,411
Foreign Investment Board Utilities	15.875	2782	1,800
Pohnpei Fisheries Corporation	15.875	2783	300,000
Lt. Governor's Utility	15.875	2784	5,884
Solar Freezer Pingelap	15.875	2785	5,887
Budget Office Utilities	15.875	2787	10,000
Resource Management & Development Utilities	15.875	2789	62,607
Legislative Branch Utilities	15.875	2792	35,000
Education Utilities	15.875	2793	114,742
Environmental Protection Agency Utilities	15.875	2797	3,694
Office of the Governor Utilities	15.875	2798	8,974
			<u>1,213,559</u>

See accompanying notes to schedule of expenditures of federal awards.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Compact of Free Association Other Grants Fund, Continued
Year Ended September 30, 2000

Program Title	CFDA I.D. #	Pohnpei Org. #	2000 Fiscal Year Expenditures
<u>Section 216(A)(2) - Health and Medical Programs</u>			
Outer Island Medical Referral	15.875	2355	14,946
FY93 Medical Referrals	15.875	2356	<u>147,672</u>
			<u>162,618</u>
<u>Section 216(A)(3) - Scholarship Programs</u>			
FY99 Post Secondary Assistance	15.875	2905	<u>(2,100)</u>
			<u>(2,100)</u>
Total Compact of Free Association Other Grants Fund			\$ <u><u>1,722,318</u></u>
Balance per the fund financial statements			\$ 1,384,579
Transfer out to component units	N/A	2517	<u>337,739</u>
			\$ <u><u>1,722,318</u></u>

Note: These funds are made available by Title Two, Article I, Section 212(A), Section 216(A)(2), Section 214(B), and Section 216(A)(3) of the Compact of Free Association.

These funds are disbursed through the Office of Insular Affairs, (OIA), 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 expenditures of federal awards.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Compact of Free Association Capital Projects Fund
Section 211 (A) Capital Account
Year Ended September 30, 2000

Grantor Program Title	CFDA I.D. #	Pohnpei Org. #	2000 Fiscal Year Expenditures
<u>Office of Insular Affairs</u>			
Wone Elementary School	15.875	6024	\$ 10,150
U Section II Piggery Project	15.875	6169	6,440
Construction of Nanpil Bridge	15.875	6170	4,500
Pohnpei Dock Extension	15.875	6179	500
Landfill/Construction of Parem School	15.875	6192	98,928
Construction & Maintenance PICS	15.875	6225	8,395
A&E Construction/Upgrade Madol R.	15.875	6232	40,000
Access Road Nanpohnmal/Nanpil	15.875	6243	4,500
Circumferential Road Paving	15.875	6289	30,000
Madolenihmw Development Project	15.875	6417	2,364
Tourist Promotion & Marketing	15.875	6418	2,482
Lenger Island Water System	15.875	6422	985
Construction of Rohi & Rehntu	15.875	6430	4,760
Nukuoro Agriculture Project	15.875	6431	468
Kapingamarangi Municipal CIP 95	15.875	6432	12,482
U Municipal Vehicle	15.875	6439	18,477
Nett District CIP	15.875	6450	900
Renovation of Governor's Office	15.875	6451	1,200
Legislatures Chamber Renovation	15.875	5454	3,000
Loan Guarantee Program	15.875	6460	1,660,788
Takaieu Causeway	15.875	6462	18,477
Expansion & Renovation of PICS Cafeteria	15.875	6465	1,400
Sapwatakai Water System	15.875	6475	1,782
OMIP Matching Technical Assistance Fund	15.875	6477	9,081
OMIP Technical Assistance Fund	15.875	6478	(9,262)
Initial Paving of FSM Capital	15.875	6482	14,362
Circumferential Road Paving Phase IX	15.875	6484	78,656
Matching Fund Classroom Renovation	15.875	6485	2,548
Classroom Paliapailong School	15.875	6486	1,800
Construction of Classroom at Madolenihmw School	15.875	6487	22,381
Trochus Development	15.875	6489	14,103
Dekehtik Dumpsite	15.875	6490	35,342
Tomworohi Power Extension	15.875	6491	4,025
Jail Renovation	15.875	6492	1,707
Arew Powe Road Paving	15.875	6493	3,240
Construction of Mand Basketball Court	15.875	6494	1,775
Tamworohi/Kepirohi Water System	15.875	6495	14
Upgrade Botanical Garden	15.875	6498	2,506
Dolosowi/Depe Power Line	15.875	6499	13,770
Sokehs Pah Road Paving	15.875	6501	9,000
Enipein Pah Road Paving	15.875	6502	2,588
Tamwoaroalong Road Paving	15.875	6503	22,500
Mwoakot Road Paving	15.875	6504	2,070
Kepin Mwornwi Road Paving	15.875	6505	18,000
Pehleng Community Fishing Project	15.875	6506	1,035
Completion of Wone Elementary School	15.875	6507	49,433
Lighting Devices Pwudo	15.875	6509	4,050
Lighting Devices & Fence, Enipein	15.875	6510	500
Balance Forward			<u>2,238,202</u>

See accompanying notes to schedule of expenditures of federal awards.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Compact of Free Association Capital Projects Fund
Section 211 (A) Capital Account, Continued
Year Ended September 30, 2000

Grantor Program Title	CFDA I.D. #	Pohnpei Org. #	2000 Fiscal Year Expenditures
Balance Forwarded			\$ 2,238,202
Lighting Devices & Fence, Pehleng	15.875	6511	3,550
Eirke Road Paving	15.875	6513	3,000
Concrete Paving of Silversose Road	15.875	6514	1,500
Pahnsoumwuhmw Road Paving	15.875	6515	(1,000)
Paremkep Road Paving	15.875	6516	47,000
Kapingamarangi Basketball Court	15.875	6517	300
Kolonia School Basketball Court	15.875	6518	6,188
Paving of Pahnelinmwahng Road	15.875	6520	1,350
Palipohn Nett Road Paving	15.875	6522	5,400
Kahmar Basketball Court	15.875	6523	(1,000)
Enipein Sponge Culture Project	15.875	6524	4,050
Kapingamarangi Dispensary	15.875	6525	1,240
Kapingamarangi Municipal CIP/Bridge	15.875	6526	9,931
Kepinle Retaining Wall	15.875	6527	759
Sapwuafik Channel Clearing	15.875	6529	200
Renovation of Lukop Dispensary	15.875	6531	3,188
Upgrade of Primary Road	15.875	6532	188,134
Kolonia Town Government Building Renovation	15.875	6533	7,555
Nanmand Youth Fishing Project	15.875	6534	9,439
Nukuoro Black Pearl	15.875	6535	10,208
Pahnios Bridge Construction	15.875	6536	17,490
Temwen Basketball Court	15.875	6537	14,292
Can Recycling Program	15.875	6540	327
Sekere Road Paving	15.875	6541	10,508
Upgrade S/Wall Basketball Court	15.875	6542	1,042
Box Culverts Kolonia	15.875	6543	8,249
Technical Assistance FY99	15.875	6545	96,663
CIP Administration Cost	15.875	6546	14,158
Kitti Municipal Fishing Project	15.875	6547	1,308
Renovation of Rohi Elementary School	15.875	6548	447
Pahnpe Road Paving	15.875	6549	8,865
Sport Facilities Development	15.875	6550	344,222
Construction of Ohmine Basketball Court	15.875	6552	5,378
Sokehs Powe, Sapwohn Road	15.875	6553	36,469
Mapping & Survey Project	15.875	6554	66,158
Construction of Lehdau/Kitam Road	15.875	6555	6,804
Maintenance of Mwoakilloa Channel	15.875	6556	6,030
Construction of Sokehs/Sapwohn C.H.	15.875	6557	4,819
Mwoakilloa Municipal Building	15.875	6558	9,752
Cert. Project on Sapwuafik	15.875	6559	30,710
Kahlap Road Mwoakilloa	15.875	6560	13,676
Relocation of Agriculture Station	15.875	6561	17,154
Upgrading Secondary Road	15.875	6562	32,548
Botanical Garden Upgrade	15.875	6563	68,926
Palipahnwei Road Paving	15.875	6565	78,530
Supplemental Upper Sapwohn Road	15.875	6566	44,812
Balance Forward			<u>3,478,531</u>

See accompanying notes to schedule of expenditures of federal awards.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Compact of Free Association Capital Projects Fund
Section 211 (A) Capital Account, Continued
Year Ended September 30, 2000

Grantor Program Title	CFDA I.D. #	Pohnpei Org. #	2000 Fiscal Year Expenditures
Balance Forwarded			\$ 3,478,531
Eirike Road Paving	15.875	6567	26,890
Arew Powe Road Paving	15.875	6568	31,520
Saladak Farm Road	15.875	6569	4,677
Nanpahlap Farm Road	15.875	6570	32,269
Pohnlangas Mand Road Paving	15.875	6571	28,790
Upagrade Section 4 Community House	15.875	6573	1,587
Pingilap Municipal Fishing Project	15.875	6574	7,973
Renovation of Pingilap Office	15.875	6575	5,211
Rohi Farm Road Paving	15.875	6577	81,761
Nankepinsouna Road Paving	15.875	6579	13,445
Nansoaksoak Road Upgrade	15.875	6580	13,445
Kahmar Water Tank	15.875	6581	10,000
Millenum Grandstand	15.875	6582	9,950
Paies Water System	15.875	6583	1,850
Pahnmeitoal Road Paving	15.875	6584	46,295
Beautification of Dekehtik Causeway	15.875	6585	42,298
OMIP Matching For O&M Engineer	15.875	6586	11,610
Pwudoi Community Center	15.875	6587	7,000
Sekere/Likie Road Paving II	15.875	6588	89,635
Pingilap Circumferential Road	15.875	6589	985
Circumferential Road Paving	15.875	6590	364,696
Lukop Basketball Court	15.875	6591	11,043
Mwoakilloa Dispensary Extension	15.875	6592	5,349
Renovation of Mwoakilloa Warehouse	15.875	6593	2,084
Pingilap Solar Power Freezer	15.875	6597	28,490
U Youth and Women Center	15.875	6598	7,171
Kepinsouna Road Upgrade	15.875	6599	10,000
Paies Road Paving	15.875	6601	45,166
Tamworohi Power Extension	15.875	6602	20,699
Dehpehk/Pahndau Mangrove Channel	15.875	6603	9,394
Hawaii Business Center Admission Fee	15.875	6604	20,000
Madolenihmw Police Substation	15.875	6610	2,872
Renvoation Personnel & Labor	15.875	6611	8,233
MTN Principal	15.875	6099	2,000,000
MTN Interest	15.875	6100	248,135
Total Compact of Free Association Capital Projects Fund - Section 211 (A) Capital Account			<u>\$ 6,729,054</u>
Note 1: A reconciliation of the above expenditures to the general purpose financial statements is shown below:			\$ 4,480,919
FY-99 MTN debt payments (Org. 6099 & 6100)			<u>2,248,135</u>
			<u>\$ 6,729,054</u>

Note 2: These funds are made available by Title Two, Article I, Section 211(A) of the Compact of Free Association and are disbursed through the Office of Insular Affairs (OIA), 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 expenditures of federal awards.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Compact of Free Association Section 211(a)
Current Account Fund
Year Ended September 30, 2000

<u>Grantor Program Title</u>	<u>CFDA I.D. #</u>	<u>Pohnpei Org. #</u>	<u>2000 Fiscal Year Expenditures</u>
General Fund:			
Current Account	15.875	Various	\$ <u>8,704,080</u>

Note: These funds are made available by Title Two, Article I, Section 211(A) of the Compact of Free Association, and are disbursed through the Office of Insular Affairs (OIA), 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 reallocates such to the component States.

See accompanying notes to schedule of expenditures of federal awards.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2000

1. Scope of Review

The State of Pohnpei is one of the four States of the Federated States of Micronesia. All significant operations of the State are included in the scope of the OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior has been designated as the State's cognizant agency for Single Audit.

A. Programs Subject to Single Audit

Schedules of expenditures of federal awards are presented for each federal program related to the following agencies:

- 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. Federal Emergency Management 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 on the accrual basis of accounting.

B. Reporting Entity

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

C. Subgrantees

Certain program funds are passed through the State to subgrantee organizations. The Schedule of Expenditures of Federal Awards does not contain separate schedules disclosing how the subgrantee outside of the State's control utilizes these funds (see note 3).

D. Indirect Cost Allocation

The State does not receive any indirect cost allocation and does not charge indirect costs against federal programs.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2000

3. Component Units

The State of Pohnpei's component units separately satisfy the requirements of OMB Circular A-133. The following presents information concerning the respective component units.

Pohnpei Utilities Corporation

The Pohnpei Utilities Corporation, a component unit - proprietary fund, is the recipient of various pass-through funds from Pohnpei State. No material instances of noncompliance or questioned costs are presented in its audit reports. On page 67 is the Pohnpei Utilities Corporation's Schedule of Expenditures of Federal Awards, as extracted from the above mentioned audit reports.

Pohnpei State Housing Authority

The Pohnpei State Housing Authority, a component unit - proprietary fund, is a subrecipient of various pass-through funds as explained hereunder. The following Schedule of Expenditures of Federal Awards is extracted from the Authority's audit reports. Material instances of noncompliance or questioned costs are presented in those audit reports which are not contained in the accompanying Schedule of Findings and Questioned Costs as the State of Pohnpei has yet to issue a management decision with respect to these 1999 matters.

<u>Grant Title</u>	<u>Grantor Agency</u>	<u>CFDA No.</u>	<u>Loans Outstanding as of September 30, 2000</u>
Compact of Free Association:			
Capital Account Funds - Capital Projects, Section 211(A)	DOI-OIA	15.875	\$ <u>5,047,296</u>
Total U.S. Department of the Interior			\$ <u>5,047,296</u>
USDA Rural Development:			
Housing Preservation Grant	USDA	10.433	\$ <u>364,947</u>
Total U.S. Department of Agriculture			\$ <u>364,947</u>

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

**STATE OF POHNPEI
FEDERATED STATES OF MCRONESIA**

**Pohnpei Utilities Corporation
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2000**

Grantor/Program Title	CFDA No.	Total Authorizations	Prior Years' Expenditures	Expenditures for the Year Ended Sept. 30, 2000	Total Program Expenditures
U.S. Department of the Interior:					
Office of Insular Affairs:					
Compact of Free Association:					
Energy Program funds, Section 214(B)	15.875	\$ 2,774,370	\$ 2,822,274	\$ -	\$ 2,822,274
Capital Account funds, Section 211(A):	15.875				
OMIP-First Year Electrical Match		322,250	296,592	-	296,592
OMIP-First Year Water and Sewer Match		1,535,250	1,535,250	-	1,535,250
Power Hook-Ups		492,500	492,500	-	492,500
Kolonias Sewer		33,119	33,119	-	33,119
OMIP-Second Year Water and Sewer Match		280,425	280,425	-	280,425
Second Year Water and Sewer Subsidy		110,200	110,200	-	110,200
Pingelap Solar		196,000	217,046	-	217,046
		<u>2,969,744</u>	<u>2,965,132</u>	<u>-</u>	<u>2,965,132</u>
Operations and Maintenance Improvement Programs (OMIP):					
Initialization of the PUC	15.875	430,250	430,249	-	430,249
Pohnpei Water, Sewerage, and Solid Waste Utilities Development, First-Year		810,000	809,999	-	809,999
Pohnpei Water, Sewerage, and Solid Waste Utilities Development, Second-Year		665,000	589,441	47,381	636,822
Pohnpei Water, Sewerage, and Solid Waste Utilities Development, Third-Year		443,500	227,011	92,003	319,014
Pohnpei Water, Sewerage, and Solid Waste Utilities Development, Fourth-Year		285,000	52,902	86,302	139,204
Pohnpei Power Generation and Distribution Second-Year		273,468	273,468	-	273,468
Pohnpei Power Generation and Distribution Third-Year		370,000	370,000	-	370,000
Pohnpei Power Generation and Distribution Fourth-Year		462,000	292,259	180,811	473,070
Pohnpei Power Generation and Distribution Fifth-Year		456,000	230,555	163,556	394,111
Pohnpei Power Generation and Distribution Sixth-Year		60,000	-	34,345	34,345
Continuation of Prepaid Meter Program		250,000	-	-	-
OMIP Bench		71,000	71,000	-	71,000
		<u>4,576,218</u>	<u>3,346,884</u>	<u>604,398</u>	<u>3,951,282</u>
Technical Assistance:					
PUC FSM-58	15.875	110,000	110,000	-	110,000
ALCO Repairs		25,000	25,000	-	25,000
Y2K Program		55,665	55,665	-	55,665
		<u>190,665</u>	<u>190,665</u>	<u>-</u>	<u>190,665</u>
Meter Calibration/Facility Inventory	15.875	100,000	100,000	-	100,000
Overhaul ALCO Generators-Pohnpei State	15.875	100,000	100,000	-	100,000
DOI Hazard Mitigation Program	15.875	1,100,000	1,086,021	-	1,086,021
Audit Grant	15.875	32,000	32,000	-	32,000
		<u>1,332,000</u>	<u>1,318,021</u>	<u>-</u>	<u>1,318,021</u>
Trust Territory of the Pacific Islands (TTP):					
Deficiency Funding:					
Pohnpei Power	15.875	328,271	328,271	-	328,271
Kolonias Sewer		659,328	797,411 *	-	797,411
		<u>987,599</u>	<u>1,125,682</u>	<u>-</u>	<u>1,125,682</u>
Kolonias Water Improvements	15.875	290,700	290,700	-	290,700
		<u>\$ 13,121,296</u>	<u>\$ 12,059,358</u>	<u>\$ 604,398</u>	<u>\$ 12,663,756</u>

Note: The above programs are passed through Pohnpei State to the Pohnpei Utilities Corporation (PUC). The difference between expenditures per this Schedule and the sum of federal grants and contributions per the financial statements, represents PUC contributions to the projects expended in excess of federal contributions.

*The Kolonias Sewer Project is contracted with the State of Pohnpei and therefore this information is provided to the State relative to the amount of expenditures incurred to September 30, 1997.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Programs Selected For
Audit in Accordance with OMB Circular A-133
Year Ended September 30, 2000

<u>Grantor Program Title</u>	<u>CFDA No.</u>	<u>2000 Fiscal Year Expenditures</u>
<u>U.S. Dept. of the Interior</u>		
Compact of Free Association:		
211(A) Capital Account	15.875	\$ 6,729,054
221(B) Compact Special Block	15.875	1,723,892
216(A)(2) Compact Health and Medical	15.875	<u>162,618</u>
Total Major Programs Under CFDA # 15.875 excluding Compact Section 211 (A) Current Account expenditures		<u>8,615,564</u>
<u>U.S. Department of Education</u>		
Special Education Program	84.027	840,717
TFAS Educational Grant	84.256A	<u>1,113,339</u>
Total Major Programs Under U.S. Department of Education		<u>1,954,056</u>
Total U.S. Federal program expenditures selected excluding Compact Section 211 (A) Current Account expenditures		\$ <u>10,569,620</u>
Total U.S. Federal program expenditures excluding Compact Section 211 (A) Current Account expenditures		\$ <u>13,274,564</u>
% of total U.S. Federal expenditures covered by major programs excluding Compact Section 211 (A) Current Account expenditures		<u>80%</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2000

Part I - Summary of Auditors' Results

1. The Independent Auditors' Report on the financial statements expressed a qualified opinion.
2. Reportable conditions in internal control over financial reporting were identified, one of which is considered to be a material weakness.
3. Instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. Reportable conditions in internal control over compliance with requirements applicable to major federal award programs were identified, one of which is considered to be a material weakness.
5. The independent auditors' report on compliance with requirements applicable to major federal award programs expressed a qualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. The State's major programs were:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
U.S. Department of the Interior - Compact of Free Association	15.875
U.S. Department of Education - Special Education Program	84.027
U.S. Department of Education - TFAS Educational Grant	84.256A

8. A threshold of \$398,236 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The State did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

Part II - Financial Statement Findings Section

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
2000-1	Equipment and Real Property Management	\$ -
2000-6	Equity Investment	\$ -
2000-7	Travel Advance	\$ -
2000-8	Accounts Payable	\$ -
2000-9	Compact Capital Appropriations	\$ -
2000-10	Inventory	\$ -
2000-11	Escrow Account	\$ -
2000-12	General Receivables	\$ -
2000-13	Interfund Reconciliation	\$ -
2000-14	Continuing Appropriation	\$ -
2000-15	Carryover of Prior Year Encumbrances	\$ -
2000-16	Old Encumbrances	\$ -
2000-17	Public Land Trust Fund	\$ -
2000-18	Employee Personnel Files	\$ -
2000-19	Other Accrued Liabilities	\$ -

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Part III - Federal Award Findings and Questioned Cost Section

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
2000-1	Equipment and Real Property Management	\$ -
2000-2	Allowable Costs/Cost Principles	\$ 12,375
2000-3	Allowable Costs/Cost Principles	\$ -
2000-4	Allowable Costs/Cost Principles	\$ -
2000-5	Unresolved Prior Year's Federal Findings	\$ -

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Federal Award Findings and Questioned Costs Section

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
<u>Equipment and Real Property Management</u>		
2000-1. U.S. Dept. of Education/ Special Education Grant-CFDA #84.027/TFAS Grant-CFDA #84.256a	<p><u>Criteria:</u> A summary schedule of the fixed asset detail produced by the automated fixed asset subsystem, classified by major assets category, should be maintained. Additionally, the Common Rule for Uniform Administration Requirements for Federal Grants, Section 33(d)(2) requires that a physical inventory of property acquired with federal funds be performed biannually.</p> <p><u>Condition:</u> A summarization of the asset data from the automated fixed asset subsystem was not available nor was a schedule of asset deletions prepared to facilitate the preparation of a statement of changes in fixed assets. Additionally, a physical inventory of property has not been performed in over two years.</p> <p><u>Cause:</u> The cause of the above condition is unknown.</p> <p><u>Effect:</u> A misstatement of the State's General Fixed Asset Account Group could result.</p> <p><u>Prior Year Status:</u> Insufficient controls over updating of fixed assets data was reported as a finding in the Single Audit of Pohnpei State for the years 1988 through 1999.</p> <p><u>Recommendation:</u> We recommend that Pohnpei State Government update the automated master fixed asset listing based on acquisition and survey activity, summarize the master listing detail appropriately and prepare a statement of changes in fixed assets on a timely basis. Additionally, biannual physical inventories should be performed.</p>	

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Federal Award Findings and Questioned Costs Section, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>									
 <u>Allowable Costs/Cost Principles - Questionable Use of Compact Funds</u>											
2000-2. U.S. Dept. of Interior/ Compact Special Block Grant – CFDA #15.875	<p><u>Criteria:</u> Costs charged to Compact Special Block Fund should be consistent with the intent of the Compact Treaty.</p> <p><u>Condition:</u> We found an instance where documentary evidence such as an invoice was not on file for inspection.</p>										
	<table border="0" style="margin-left: auto; margin-right: auto;"> <tr> <td></td> <td style="text-align: center;">APV</td> <td></td> </tr> <tr> <td style="text-align: center;"><u>Doc. #</u></td> <td style="text-align: center;"><u>APV #</u></td> <td style="text-align: center;"><u>Amount</u></td> </tr> <tr> <td style="text-align: center;">P00192</td> <td style="text-align: center;">745688</td> <td style="text-align: center;">\$12,375</td> </tr> </table>		APV		<u>Doc. #</u>	<u>APV #</u>	<u>Amount</u>	P00192	745688	\$12,375	\$ <u>12,375</u>
	APV										
<u>Doc. #</u>	<u>APV #</u>	<u>Amount</u>									
P00192	745688	\$12,375									

(The above is drawn from a sample of 9 items aggregating \$38,315, out of total program expenditures aggregating \$1,459,871)

Cause: The cause of this condition is unknown.

Effect: Questioned costs occur as a result of noncompliance with the intent of the Compact as no current support exists to substantiate the allowability of the transaction.

Recommendation: We recommend that Pohnpei State ensure that expenditures are properly supported by documentary evidence.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Federal Award Findings and Questioned Costs Section, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
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Allowable Costs/Cost Principles - Questionable Use of Compact Funds

2000-3. U.S. Dept. of Interior/ Compact Health and Medical Fund -CFDA #15.875	This finding was removed as aggregate impact was assessed at less than \$10,000.	
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**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Federal Award Findings and Questioned Costs Section, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>								
 <u>Allowable Costs/Cost Principles</u>										
2000-4. U.S. Dept. of Education/ Special Education Grant-CFDA #84.027	<p><u>Criteria:</u> Allowable Costs/Cost Principles require that costs charged be adequately supported by underlying documentation.</p> <p><u>Condition:</u> We found an instance where the details of telephone charges to the Special Education communication account was not available for inspection (drawn from a sample of 26 aggregating \$169,200).</p> <table border="0" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: left;"><u>Org. #</u></th> <th style="text-align: left;"><u>Acct. #</u></th> <th style="text-align: left;"><u>APV #</u></th> <th style="text-align: right;"><u>APV Amount</u></th> </tr> </thead> <tbody> <tr> <td>3116</td> <td></td> <td>737744</td> <td style="text-align: right;">\$1,251</td> </tr> </tbody> </table> <p>This finding is presented as this condition may very well pertain to all other federal programs and we are not able to assure ourselves that the aggregate effect is less than \$10,000.</p> <p><u>Cause:</u> The details of telephone charges were not maintained.</p> <p><u>Effect:</u> The effect of this condition is noncompliance with federal allowable cost requirements.</p> <p><u>Recommendation:</u> We recommend that Pohnpei State ensure that details of telephone charges be kept to support payments for communication.</p>	<u>Org. #</u>	<u>Acct. #</u>	<u>APV #</u>	<u>APV Amount</u>	3116		737744	\$1,251	-
<u>Org. #</u>	<u>Acct. #</u>	<u>APV #</u>	<u>APV Amount</u>							
3116		737744	\$1,251							
Total Questioned Costs		\$ <u>12,375</u>								

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Federal Award Findings and Questioned Costs Section, Continued

Unresolved Prior Year's Federal Findings

Finding No. 2000-5

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 1999		
74	99-2	Allowable Costs/Costs Principles
75	99-3	Allowable Costs/Costs Principles-Specific Support
77	99-4	Allowable Costs/Costs Principles-Questionable Use of Compact Funds
78	99-5	Subrecipient Monitoring – PSHA
80	99-6	Equipment and Real Property Management
81	99-7	Compact Capital Fund – Allowable Costs/Cost Principles

Cause: The cause of the above condition is unknown.

Effect: Lack of timely resolution of audit findings hinders the effectiveness of Pohnpei State's administrative controls over federal awards.

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

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Financial Statement Findings Section

Equity Investment

Finding No. 2000-6

Criteria: Pohnpei State should ensure that financial statements are furnished by all investees of Pohnpei State Government at the end of each fiscal year.

Condition: No financial statements for Caroline Fisheries Corporation were furnished in support of the State's equity investment.

Cause: The cause of this condition is unknown.

Effect: The effect of this condition is a misstatement of the financial statements.

Recommendation: We recommend that Department of Administration and Treasury ensure that financial statements are furnished by its material investees at the end of each fiscal year.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Financial Statement Findings Section

Travel Advance

Finding No. 2000-7

Criteria: Pohnpei State should maintain details of travel advances to support the general ledger balance.

Condition: The subsidiary ledger is less than the general ledger by \$809,630.

Cause: The cause of this condition is unknown.

Effect: The effect of this condition is a misstatement of the financial statements

Prior Year Resolution: This finding was brought to management's attention in the 1999 Single Audit Reports.

Recommendation: We recommend that Pohnpei State ensure that travel advance details are maintained to support general ledger balances.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Financial Statement Findings Section

Accounts Payable

Finding No. 2000-8

Criteria: Pohnpei State should ensure that the details of the accounts payable subsidiary ledger reconciles to the general ledger balance at the end of each fiscal year.

Condition: The accounts payable subsidiary ledger is less than the general ledger by approximately \$900,000 for all fund types.

Cause: The cause of this finding is unknown.

Effect: The effect of this condition is a potential for misstatement of the financial statements.

Recommendation: We recommend that Pohnpei State ensure that account payable is reconciled at the end of each fiscal year.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Financial Statement Findings Section

Compact Capital Appropriations

Finding No. 2000-9

Criteria: A functioning system of internal control requires that the subsidiary ledger for continuing appropriations be reconciled with the general ledger.

Condition: The subsidiary ledger for the Compact Capital continuing appropriations is less than the general ledger balance by approximately \$5.8 million as of September 30, 2000.

Cause: The cause of this condition is unknown

Effect: The effect of this condition is a potential misstatement of the financial statements.

Recommendation: We recommend that Pohnpei State reconcile continuing appropriations on a recurring basis.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Financial Statement Findings Section

Inventory

Finding No. 2000-10

Criteria: Details of the internal service fund inventory should be maintained to support the general ledger balance.

Condition: Details of inventory for the internal service fund were not available for inspection.

Cause: The cause of this condition is unknown.

Effect: The effect of this condition is a qualification of the report on the 2000 general purpose financial statements.

Recommendation: We recommend that Pohnpei State Government ensure that details of inventory for the internal service fund are maintained to support the general ledger balance.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Financial Statement Findings Section

Escrow Account

Finding No. 2000 - 11

Criteria: Pohnpei State should ensure that escrow funds are expended in accordance with local laws and regulations. The escrow account may be drawn down in the event of a borrower's default on the obligation under the terms of the promissory note and the deed of trust security instrument supporting such note and for which such note is guaranteed by the Pohnpei State Housing Authority, the trustee of the escrow account.

Condition: We found that a disbursement amounting to \$96,000 was redeemed from the Compact Capital escrow account to pay a Farmer's Home newly issued loan. In addition, we also found that the disbursement was not recorded in the accounting system.

Cause: The cause of this condition is unknown.

Effect: The effect of this condition is noncompliance with local laws and regulations.

Recommendation: We recommend that Division of Finance ensure that public funds are expended in compliance with local laws.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Financial Statement Findings Section

General Receivables

Finding No. 2000-12

Criteria: Money owed to Pohnpei State Government should be collected in a timely manner.

Condition: Taxes and leases of \$2.03 million owed to the State as of September 30, 2000 have been outstanding for a number of years.

Cause: The cause of this condition is unknown.

Effect: The effect of this condition is a negative impact on cash flows for operations.

Recommendation: We recommend that Pohnpei State pursue the collection of fund owed through legal means.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Financial Statement Findings Section

Interfund Reconciliation

Finding No. 2000-13

Criteria: Interfund due from/to balances should be reconciled at all times.

Condition: We found a \$165,000 out-of balance condition for interfund receivables and payables.

Cause: The opening Cash 100 accounts were out-of balance.

Effect: The effect of this condition is a misstatement of the financial statements. However, such misstatement was corrected through the audit process.

Recommendation: We recommend that Pohnpei State ensure that interfund Cash 100 accounts are reconciled at all times.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Financial Statement Findings Section

Continuing Appropriation

Finding No. 2000-14

Criteria: Proper accounting controls should be in place to ensure that expenditures are maintained within authorized spending limits.

Condition: Pohnpei State has elected not to carry forward the unexpended balances of continuing grants from one fiscal year to the next. For projects with multi-year funding, only the current year budget is shown in the system. The system does not reflect unexpended balances from the prior year which are still available for spending. Instead, a manual ledger of unexpended balances is maintained for purposes of funds certification. The funds affected by this practice are the ones with no lapse date.

Cause: The cause of the above condition is unknown.

Effect: Risk of budget overruns is increased because the built-in controls for funds certification in the automated accounting system is not being utilized. In addition, manual ledgers increase the risk of errors in the compilation of amounts for continuing appropriations in the Compact Capital Projects fund.

Recommendation: We recommend that Pohnpei State re-evaluate the effectiveness of its current practice and reconsider rolling forward unexpended balances for continuing grants.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Financial Statement Findings Section

Carryover of Prior Year Encumbrances

Finding No. 2000-15

Criteria: Proper accounting controls should be in place to ensure that expenditures are maintained within authorized spending limits.

Condition: Review of the FY2000 132-p (Fund Status Report) revealed that the budget adjustment columns do not equal the prior year ending encumbrance balances.

Cause: The cause of the above condition is unknown.

Effect: Risk of budget overruns is increased.

Recommendation: We recommend that Pohnpei State ensure that the accounting system is corrected to allow roll forward of prior year encumbrances to the current Fund Status Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Financial Statement Findings Section

Old Encumbrances

Finding No. 2000-16

Criteria: A functioning system of internal control requires encumbrances to be reconciled on a recurring basis.

Condition: We found no evidence of management's review of the outstanding encumbrance report. Our testing revealed two encumbrances out of 15 samples where the encumbrance balances have not been reconciled.

Cause: The cause of this condition is unknown.

Effect: The impact of this condition is misstatement of the financial statements.

Recommendation: We recommend that Pohnpei State review its outstanding encumbrances and adjust encumbrances that are no longer valid.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Financial Statement Findings Section

Public Land Trust Fund

Finding No. 2000-17

Criteria: A functioning system of internal control requires that public funds are being used for allowable purposes.

Condition: We found an instance where a disbursement for purchase of fixed assets was supported by conflicting documentary evidence. The justification provided was that the payment was to reimburse the employee. However, the invoice provided by the employee lacks any indication whether the employee had paid for the asset in order to justify the claim for reimbursement.

Cause: The cause of this condition is unknown.

Effect: The effect of this condition is potential fraud.

Recommendation: We recommend that State Finance ensure that disbursements are not supported by conflicting documentary evidence.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Financial Statement Findings Section

Employee Personnel Files

Finding No. 2000-18

Criteria: Employee files should be updated to maintain the latest employee details.

Condition: During tests of payroll, it was noted that one employee file did not contain the most recent personnel action form.

Cause: The cause of this condition is unknown.

Effect: There is a lack of control over the rates of pay for the employees. Justification of the salary paid to the employees is not possible

Recommendation: We recommend that all employee personnel files be updated regularly to reflect the most current information relating to the employee.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Financial Statement Findings Section

Other Accrued Liabilities

Finding No. 2000-19

Criteria: A functioning system of internal control requires all balance sheet accounts to be reconciled on a recurring basis.

Condition: The following general fund accounts lacked details to support the propriety of the year-end balance.

<u>Fund</u>	<u>Account</u>	<u>Balance</u>
100000	517	\$ 63,437
100000	518	\$ 9,172
200000	518	\$ 5,256
250000	518	\$ 131,066

Cause: The cause of this condition is unknown.

Effect: The effect of this condition is a potential misstatement of the financial statements.

Recommendation: We recommend that Pohnpei State Finance review all general ledger accounts to ensure that all accounts are properly supported and reconciled at the end of each fiscal year.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

**Unresolved Prior Years' Findings and Questioned Costs
Year Ended September 30, 2000**

The following is a summary of unresolved questioned costs of the State of Pohnpei as of September 30, 2000:

	Questioned Costs Set Forth in Prior Audit Report <u>1999</u>	Questioned Costs Resolved in Fiscal Year <u>2000</u>	Questioned Costs at <u>September 30, 2000</u>
Unresolved Questioned Costs FY 96	\$ 15,182	\$ -	\$ 15,182
Unresolved Questioned Costs FY 98	24,000	-	24,000
Unresolved Questioned Costs FY 99	39,439	-	39,439
Unresolved Questioned Costs FY 00	<u>-</u>	<u>-</u>	<u>12,375</u>
	<u>\$ 78,621</u>	<u>\$ -</u>	<u>\$ 90,996</u>



Office of the Director

POHNPEI STATE GOVERNMENT

DEPARTMENT OF TREASURY AND ADMINISTRATION

P.O. Box 1567

Kolonia, Pohnpei

Federated States of Micronesia 96941

Phone: (691) 320-2243/2631 Fax: (6791) 320-5505

September 30, 2001

Deloitte and Touche
Kolonia, Pohnpei
Pohnpei State Government
FSM 96941

Gentlemen:

Thank you once again for allowing us the opportunity to respond to the audit findings of fiscal year ending September 30, 2000. The following are Pohnpei State's responses to the schedule of findings and question costs.

Federal Finding 2000-1: A summarization of the asset data from the automated fixed asset subsystem was not available nor was a schedule of asset deletions prepared to facilitate the preparation of a statement of changes in fixed assets. Additionally, a physical inventory of property has not been performed in over two years.

Corrective Action Plan: Department of Treasury & Admin. Even though has limited personnel to do physical inventory of its fixed assets has been updating its fixed asset master file for two years running. The department has targeted to complete its update of fixed asset master file at the end of fiscal year 2001. With the help of our software provider we will be able to interface our fixed system with our dilog system sometimes during fiscal year 2002.

Federal Finding 2000-2: Costs charged to Compact Special Block Fund should be consistent with the intent of the Compact Treaty.

Corrective Action Plan: Department of Treasury & Admin. Have reviewed the transaction in question and has found that this transaction was initiated by the Department of Education to purchase books and instructional materials. The only question we found is that even though all books and instructional materials were received as indicated on the receiving report, the invoicing of the order is not yet complete. We are conducting the vendor to provide such

Federal Finding 2000-3: Allowable Costs/Cost Principles requires that costs charged be

adequately supported by underlying documentation.

Corrective Action Plan: Department of Treasury & Administration after its review of the questioned document concurs with the finding. The department is trying its very best to minimize and or avoid such problem by changing its filing system from vendor type filing system to a check number filing system.

Federal finding 2000-4: Allowable Costs/Cost Principles requires that costs charged to be adequately supported by underlying documentation.

Corrective Action Plan: Department of Treasury & Administration was informed by departments that details of telephone invoices are kept by the departments. Department of Treasury & Administration have informed departments that effective FY 2001 payment for such can not be process until detail invoices are submitted with summary of telephone invoice

Federal Finding 2000-5: Costs charged to Compact Special Block should be consistent with the intent of the compact treaty.

Corrective Action Plan: Department of Treasury & Administration will not concur with this finding. Review of this transaction indicates that this is a Capital Improvement Project transaction where interest earned on Small Business Guaranteed loan fund invested as TCD at the Bank of the FSM was transferred to the SBG when it separated from Pohnpei State Government to become a component unit.

Federal Finding 2000-6: Compact capital funds received in a sub-recipient capacity should be expended in accordance with local laws and regulations.

Corrective Action Plan: Department of Treasury & Administration responded to this question in its FY 1999 audit. Department of Treasury & Administration is still working with the appropriate offices to resolve this finding.

Federal Finding 2000-7: Findings from prior audit reports should be resolved in a timely manner.

Corrective Action Plan: Department of Treasury & Administration has targeted the end of Fiscal Year 2002 to resolve all its prior findings

Federal Finding 2000-8: Pohnpei State should ensure that financial statements are furnished by all investees of Pohnpei State government at the end of each fiscal year.

Corrective Action Plan: Department of Treasury & Administration concurs with this finding. We have requested all component units to furnish to us the most recent financial statements. We are still working with these component units regarding this issue and will have these available during the audit of fiscal year 2001.

Federal finding 2000-9: Pohnpei State should maintain details of travel advance to support the general ledger balance.

Corrective Action Plan: Department of Treasury & Administration concurs with this finding however would like to point out that this is a matter of extracting information that is already generated in the system. We are working with our software provider to assist us in generating such report and hope such reports are readily available when needed.

Federal finding 2000-10: Pohnpei State should ensure that the details of the accounts payable subsidiary ledger reconciles to the general ledger balance at the end of the fiscal year.

Corrective Action Plan: Accounts payable subsidiary ledger is generated in the CAAP system. Our software provider is looking at the problem and as assured us that this discrepancy will be resolved in FY 2001.

Federal Finding 2000-11: A functioning system of internal control requires that the subsidiary for continuing appropriations to be reconciled with the general ledger.

Corrective Action Plan: Department of treasury & Administration is working with the budget office to update the Compact Capital continuing appropriations and has targeted FY 2001 to complete this reconciliation.

Federal Finding 2000-12: Details of the internal service fund inventory should be maintained to support the general ledger

Corrective Action Plan: Department of Treasury & Administration has tasked its Property Management Branch in reconciling its internal service fund.

Federal finding 2000-13: Pohnpei State should ensure that escrow funds are expended in accordance with local laws and regulations. The escrow account may be drawn down in the event of a borrower's default on the obligation under the terms of the promissory note and the deed of trust security instrument supporting such note and for which such note is guaranteed by the Pohnpei State Housing Authority, the trustee of the escrow account.

Corrective Action Plan: Department of Treasury & Administration only executed payment of the questioned transaction after it requested and received a legal opinion stipulating that such is proper and legal

Federal Finding 2000-14: Money owed to Pohnpei State Government should be collected on a timely manner

Corrective Action Plan: The \$2.03 million owed to Pohnpei State comprise of tax delinquents and penalty against those delinquents. Department of Treasury & Administration recently hired a tax lawyer who is being tasked to litigate what is owed to Pohnpei State

Federal Finding 2000-15: Inter-fund due from/to balances should be reconciled at all times.

Corrective Action Plan: Department of Treasury & Administration concurs with this finding however this finding has been corrected.

Federal finding 2000-16: Proper accounting controls should be in place to ensure that expenditures are maintained within authorized spending limits.

Corrective Action Plan: Department of Treasury & Administration concurs with this finding. However the department will be rolling forward, unexpended balances for continuing projects effective FY 2001.

Federal Finding 2000-17: Proper accounting controls should be in place to ensure that expenditures are maintained within authorized spending limits.

Corrective Action Plan: Department of Treasury & Administration does not concur with the general statement of the finding. The usual procedure done at Department of Treasury & Administration is at the end of the Fiscal Year encumbrances that are two years and up are de-obligated prior to the roll over.

Federal finding 2000-18: A functioning system of internal control requires encumbrances to be reconciled on a recurring basis.

Corrective Action Plan: Department of Treasury & Administration concurs with this finding, however the department had already adopted and implemented the auditor's recommendation in Fiscal year 2001.

Federal finding 2000-19: A functioning system of internal control requires that public funds are being used for allowable purposes.

Corrective Action Plan: Department of Treasury and administration had reviewed the questioned finding and that the conflicting documentary evidence pointed out in the finding is in question because the invoice looks like a reimbursement to the vendor named on the purchase order. This transaction is not a reimbursement but an outright purchase on account from the vendor.

Federal finding 2000-20: Employee files should be updated to maintained the latest employee details

Corrective Action Plan: Department of Treasury & Administration will not concur with the general statement of the finding. Payroll branch of the Division of Public finance updates employee's files on a bi-weekly basis. Because of the sheer number of payroll transactions that are processed in a given pay period an oversight of such can happen. The department is instituting a monthly update to avoid oversight that happen during its bi-weekly update

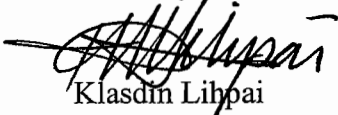
Federal Finding 2000-21: A functioning system of internal control requires all balance sheets accounting to be reconciled on a recurring basis.

Corrective Action Plan: Department of Treasury & Administration concurs with this finding and is instituting a schedule of fund reconciliation on a monthly basis that will eliminate or minimize this imbalance in its funds

In closing I would like to assure you and the public that all prior findings will be resolved not later than the end of fiscal year 2002. Findings No. 9 to 12 concerns mostly with the technical part of our computer system. Department of Treasury & Administration is working with its software provider to resolve these in fiscal 2002.

Again, I thank you and wish to assure you that we will immediately act on our Corrective Action Plans to prevent or eliminate these sort of findings in the future

Sincerely,

A handwritten signature in black ink, appearing to read 'Klasdin Lihpai', written over a horizontal line.

Klasdin Lihpai
Director, department of Treasury & Administration
Pohnpei State government