

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

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

**YEAR ENDED SEPTEMBER 30, 1990**

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA  
FOR THE YEAR ENDED SEPTEMBER 30, 1990**

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**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

YEAR ENDED SEPTEMBER 30, 1990

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**STATE OF POHNPEI  
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**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA  
INDEPENDENT AUDITORS' REPORT ON  
GENERAL PURPOSE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 1990**





## INDEPENDENT AUDITORS' REPORT

Honorable Resio Moses  
Governor, State of Pohnpei  
Federated States of Micronesia

We have audited the accompanying general purpose financial statements of the State of Pohnpei, as of September 30, 1990, and for the year then ended. These general purpose financial statements are the responsibility of Pohnpei State management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

The State has not adequately updated its General Fixed Assets Account Group during the year ended September 30, 1990, nor were we able to apply sufficient alternative procedures to assure ourselves as to the correctness of the balances set forth in the accompanying financial statements. Accordingly, a statement of changes in general fixed assets has not been included within the accompanying general purpose financial statements. However a summary of changes in general fixed assets compiled by the State's management is included in Note 6.



**POHNPEI STATE GOVERNMENT**  
**Combined Balance Sheet - All Fund Types and Account Groups**  
**September 30, 1990**  
(With comparative totals as of September 30, 1989)

	<u>Governmental Fund Types</u>			<u>Proprietary Funds</u>		<u>Fiduciary Fund</u>	<u>Account Groups</u>		<u>Totals</u>	
	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Enterprise Fund</u>	<u>Internal Service</u>	<u>Expendable Trust Fund</u>	<u>General Fixed Assets</u>	<u>General Long-Term Debt</u>	<u>(Memorandum Only)</u>	
<u>Assets</u>									<u>1990</u>	<u>1989</u>
Cash and equivalents (Note 2)	\$ 948,095	\$1,017,527	\$ 831,002	\$ 583,693	\$ -	\$ -	\$ -	\$ -	\$ 3,380,317	\$1,746,611
Investments (Note 2)	4,482,778	227,783	11,915,544	-	-	-	-	-	16,626,105	15,889,183
Investment in Associated Co. (Note 7)	-	-	-	1,882,319	-	-	-	-	1,882,319	-
Receivables from other governments (Note 3)	117,314	498,538	94,011	-	-	-	-	-	709,863	675,059
Receivables, federal agencies (Note 3)	-	1,341,522	-	-	-	-	-	-	1,341,522	739,481
General receivables (Note 4)	502,379	43,118	-	200,265	-	1,851	-	-	747,613	622,191
Advances (Notes 4)	19,666	14,399	-	2,215	-	1,390	-	-	37,670	1,437,994
Loans receivable, net (Note 8)	-	-	7,500,000	1,359,872	-	-	-	-	8,859,872	1,015,382
Due from other funds (Note 16)	1,772,036	600,975	572,419	-	8,840	317,257	-	-	3,271,527	2,258,524
Inventory, at cost (Note 5)	-	41,645	-	144,871	43,292	-	-	-	229,808	220,766
Investment in fixed assets (Notes 1 and 6)	-	-	-	1,310,700	-	-	66,559,701	-	67,870,401	67,954,475
Amount to be provided for retirement of long-term debt (Note 1 and 15)	-	-	-	-	-	-	-	14,927,660	14,927,660	277,660
<b>Total assets</b>	<b>\$7,842,268</b>	<b>\$3,785,507</b>	<b>\$20,912,976</b>	<b>\$5,483,935</b>	<b>\$52,132</b>	<b>\$320,498</b>	<b>\$66,559,701</b>	<b>\$14,927,660</b>	<b>\$119,884,677</b>	<b>\$92,837,326</b>

See accompanying notes to combined financial statements.



The State did not present a statement of cash flows as of September 30, 1990, for the Pohnpei State Transportation Authority (PTA), an Enterprise Fund, in the accompanying general purposes financial statements as required by generally accepted accounting principles. The condition of the accounting records of PTA was such to prevent the application of alternative procedures to compile a statement of cash flows.

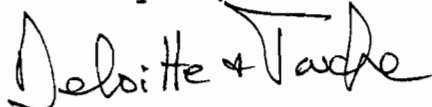
The management of the Pohnpei State Housing Authority (PSHA), an Enterprise Fund, was unable to provide financial statements on which audit procedures could be performed. The financial statements of PSHA contained within these general purpose financial statements, which represent 36% and 3% of enterprise fund assets and revenues, respectively, have been compiled from PSHA source documentation. As we were unable to perform adequate audit procedures on PSHA financial records, we are not in a position to and are unable to express an opinion on the fairness of those financial statements as of September 30, 1990.

In our opinion, except for the State's failure to adequately account for the General Fixed Assets Account Group, to prepare a statement of cash flows for Pohnpei State Transportation Authority (PTA), and to prepare financial statements for the Pohnpei State Housing Authority upon which audit procedures could be performed, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the State of Pohnpei, as of September 30, 1990, and the results of its operations and the cash flows of its proprietary fund types for the year then ended, in conformity with generally accepted accounting principles.

As discussed in Note 12 to the financial statements, the State of Pohnpei, has presented a statement of cash flows for the year ended September 30, 1990, rather than a statement of changes in financial position.

As discussed in Note 10 to the financial statements, the State participates in various U.S. federal assistance programs. Currently, \$2,402,298 of questioned costs exist from the operations of these grants. If these questioned costs are upheld, the General Fund will absorb the disallowed amount. It is not possible at this time to assess the ultimate outcome of this matter and therefore, no liability has been recorded in the accompanying financial statements which may result on ultimate resolution.

February 15, 1991



Certified Public Accountants

**POHNPEI STATE GOVERNMENT**  
**Combined Balance Sheet - All Fund Types and Account Groups, Continued**  
**September 30, 1990**  
(With comparative totals as of September 30, 1989)

	Governmental Fund Types			Proprietary Funds		Fiduciary Fund	Account Groups		Totals	
	General Fund	Special Revenue Funds	Capital Projects Funds	Enterprise Fund	Internal Service	Expendable Trust Fund	General Fixed Assets	General Long-Term Debt	1990	1989
<b>Liabilities and Fund Equity</b>										
<b>Liabilities:</b>										
Accounts payable	\$ 44,892	\$ 382,027	\$ 53,785	\$ 537,191	\$ 5,870	\$ 729	\$ -	\$ -	\$ 1,024,494	\$ 961,409
Accrued payroll and others	803,800	48,757	2,638	56,923	-	-	-	-	912,118	857,541
Due to other funds (Note 16)	240,127	2,364,029	94,011	573,360	-	-	-	-	3,271,527	2,258,524
Deferred revenue	-	29,646	-	27,325	-	28,097	-	-	85,068	90,365
Notes payable	-	-	-	-	-	-	-	-	-	148,103
	<u>1,088,819</u>	<u>2,824,459</u>	<u>150,434</u>	<u>1,194,799</u>	<u>5,870</u>	<u>28,826</u>	<u>-</u>	<u>-</u>	<u>5,293,207</u>	<u>4,315,942</u>
Long-term notes payable (Note 15)	-	-	-	-	-	-	-	14,650,000	14,650,000	1,101,670
Vacation leave accrual	-	-	-	-	-	-	-	277,660	277,660	277,660
<b>Total liabilities</b>	<u>1,088,819</u>	<u>2,824,459</u>	<u>150,434</u>	<u>1,194,799</u>	<u>5,870</u>	<u>28,826</u>	<u>-</u>	<u>14,927,660</u>	<u>20,220,867</u>	<u>5,695,272</u>
<b>Contingencies and commitments (Note 10)</b>										
<b>Fund equity:</b>										
Investment in general fixed assets	-	-	-	-	-	-	66,559,701	-	66,559,701	66,559,701
Retained earnings (deficit)	-	-	-	(1,505,176)	46,262	-	-	-	(1,458,914)	(682,145)
Contributed capital (Note 13)	-	-	-	5,794,312	-	-	-	-	5,794,312	3,261,317
<b>Fund balance:</b>										
Reserved for:										
Diminution of investments	894,999	-	-	-	-	-	-	-	894,999	-
Long-term loan (Note 8)	-	-	3,750,000	-	-	-	-	-	3,750,000	-
Related assets	522,046	99,162	-	-	-	3,241	-	-	624,449	850,598
Encumbrances	777,766	669,270	2,842,043	-	-	11,731	-	-	4,300,810	6,471,732
Continuing appropriations (Note 17)	104,067	32,072	5,545,766	-	-	-	-	-	5,681,905	504,243
Unreserved (deficit)	<u>4,454,571</u>	<u>160,544</u>	<u>8,624,733</u>	<u>-</u>	<u>-</u>	<u>276,700</u>	<u>-</u>	<u>-</u>	<u>13,516,548</u>	<u>10,176,608</u>
<b>Total fund equity</b>	<u>6,753,449</u>	<u>961,048</u>	<u>20,762,542</u>	<u>4,289,136</u>	<u>46,262</u>	<u>291,672</u>	<u>66,559,701</u>	<u>-</u>	<u>99,663,810</u>	<u>87,142,054</u>
<b>Total liabilities and fund equity</b>	<u>\$7,842,268</u>	<u>\$3,785,507</u>	<u>\$20,912,976</u>	<u>\$5,483,935</u>	<u>\$52,132</u>	<u>\$320,498</u>	<u>\$66,559,701</u>	<u>\$14,927,660</u>	<u>\$119,884,677</u>	<u>\$92,837,326</u>

See accompanying notes to combined financial statements.

STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA

Combined Statement of Revenues, Expenditures and  
Changes in Fund Balance

All Governmental Fund Types and Expendable Trust Funds

The year ended September 30, 1990

(With comparative totals for the year ended September 30, 1989)

	<u>Governmental Fund Types</u>				<u>Totals</u>	
	General	Special	Capital	Expendable Trust Fund	(Memorandum Only)	
	Fund	Revenue Funds	Projects Funds		1990	1989
<b>Revenues:</b>						
U.S. Compact of Free Association:						
Base grant	\$8,478,000	\$ 2,997,783	\$ 6,108,000	\$ -	\$17,583,783	\$17,583,783
Inflation adjustment	2,543,400	300,000	1,832,400	-	4,675,800	4,208,220
Department of the Interior grants	-	-	50,100	-	50,100	134,875
Revenue sharing	2,419,908	-	-	-	2,419,908	2,330,712
Federal contributions	-	2,750,267	-	-	2,750,267	4,351,898
Taxes and licenses	688,427	-	-	-	688,427	787,052
Fines and penalties	14,938	-	-	-	14,938	26,792
Investment income	1,122,849	-	-	-	1,122,849	2,652,149
Other	<u>1,429,107</u>	<u>442,612</u>	<u>97,396</u>	<u>51,624</u>	<u>2,020,739</u>	<u>1,640,110</u>
<b>Total revenues</b>	<b><u>16,696,629</u></b>	<b><u>6,490,662</u></b>	<b><u>8,087,896</u></b>	<b><u>51,624</u></b>	<b><u>31,326,811</u></b>	<b><u>33,715,591</u></b>
<b>Program expenditures:</b>						
General government	4,717,254	637,267	-	19,134	5,373,655	4,216,921
Health services	2,685,269	955,213	-	-	3,640,482	3,587,059
Education	1,943,238	3,366,061	-	-	5,309,299	5,849,671
Resources and development	749,908	360,743	-	-	1,110,651	2,314,407
Public works	1,697,173	1,802,214	-	-	3,499,387	3,260,519
Transportation	490,518	-	-	-	490,518	427,409
Boards, commissions and other appropriations	340,255	-	-	-	340,255	402,195
Public safety	890,316	-	-	-	890,316	861,725
Capital projects	-	-	7,589,067	-	7,589,067	7,446,985
Municipal government	839,275	-	-	-	839,275	579,282
Other	<u>-</u>	<u>176,473</u>	<u>-</u>	<u>-</u>	<u>176,473</u>	<u>573,340</u>
<b>Total program expenditures</b>	<b><u>14,353,206</u></b>	<b><u>7,297,971</u></b>	<b><u>7,589,067</u></b>	<b><u>19,134</u></b>	<b><u>29,259,378</u></b>	<b><u>29,519,513</u></b>
<b>Revenues over (under)     expenditures</b>	<b><u>2,343,423</u></b>	<b><u>(807,309)</u></b>	<b><u>498,829</u></b>	<b><u>32,490</u></b>	<b><u>2,067,433</u></b>	<b><u>4,196,078</u></b>
<b>Other sources (uses):</b>						
Bond proceeds (Note 15)	-	-	14,650,000	-	14,650,000	-
Recovery against prior year medical charges	-	-	-	-	-	707,155
Operating transfers out (Note 9)	<u>(383,880)</u>	<u>-</u>	<u>(5,568,023)</u>	<u>-</u>	<u>(5,951,903)</u>	<u>(1,647,993)</u>
<b>Total other sources (uses)</b>	<b><u>(383,880)</u></b>	<b><u>-</u></b>	<b><u>9,081,977</u></b>	<b><u>-</u></b>	<b><u>8,698,097</u></b>	<b><u>(940,838)</u></b>
<b>Excess (deficiency) of revenues and other sources over expenditures and other uses</b>	<b>1,959,543</b>	<b>(807,309)</b>	<b>9,580,806</b>	<b>32,490</b>	<b>10,765,530</b>	<b>3,255,240</b>
<b>Fund balance, beginning of year</b>	<b><u>4,793,906</u></b>	<b><u>1,768,357</u></b>	<b><u>11,181,736</u></b>	<b><u>259,182</u></b>	<b><u>18,003,181</u></b>	<b><u>14,747,941</u></b>
<b>Fund balance, end of year</b>	<b><u>\$6,753,449</u></b>	<b><u>\$ 961,048</u></b>	<b><u>\$20,762,542</u></b>	<b><u>\$ 291,672</u></b>	<b><u>\$28,768,711</u></b>	<b><u>\$18,003,181</u></b>

See accompanying notes to combined financial statements.



**STATE OF POHNPEI**  
**FEDERATED STATES OF MICRONESIA**  
Statement of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual, Budgetary Basis - General Fund  
The year ended September 30, 1990

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenue:			
Compact - current	\$ 11,200,000	\$ 11,021,400	\$ (178,600)
Local revenues	4,054,800	4,552,380	497,580
Investment income	<u>445,200</u>	<u>1,122,849</u>	<u>677,649</u>
Total revenues	<u>15,700,000</u>	<u>16,696,629</u>	<u>996,629</u>
Expenditures (budgetary basis):			
General government	4,984,282	4,751,311	232,971
Health services	3,060,694	2,872,099	188,595
Education	2,163,500	1,939,840	223,660
Justice	932,095	899,667	32,428
Transportation	555,773	492,622	63,151
Public works	1,821,463	1,721,754	99,709
Conservation and resources	788,738	719,741	68,997
Boards, commissions and other external appropriations	365,800	324,878	40,922
Municipal governments and projects	965,831	858,664	107,167
Other	<u>-</u>	<u>5,565</u>	<u>(5,565)</u>
Total expenditures	<u>15,638,176</u>	<u>14,586,141</u>	<u>1,052,035</u>
Excess of revenues over expenditures	61,824	2,110,488	2,048,664
Other financing sources (uses):			
Operating transfers out	<u>(458,945)</u>	<u>(377,925)</u>	<u>81,020</u>
Total other financing sources (uses)	<u>(458,945)</u>	<u>(377,925)</u>	<u>81,020</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(397,121)	1,732,563	2,129,684
Unreserved fund balance, beginning of year	3,376,670	3,376,670	-
Other changes in unreserved fund balance:			
Decrease/(Increase) in reserve for related assets	-	219,829	219,829
Decrease/(Increase) in reserve for continuing appropriations	-	20,508	20,508
Decrease/(Increase) in reserve for diminution of investments	<u>-</u>	<u>(894,999)</u>	<u>(894,999)</u>
Unreserved fund balance, end of year	<u>\$ 2,979,549</u>	<u>\$ 4,454,571</u>	<u>\$ 1,475,022</u>

See accompanying notes to combined financial statements.

**STATE OF POHNPEI**  
**FEDERATED STATES OF MICRONESIA**  
Statement of Revenues, Expenditures and Changes in Fund Balance (Deficit) -  
Budget and Actual, Budgetary Basis - Special Revenue Funds  
The year ended September 30, 1990

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenue:			
Compact - base grants	\$ 3,297,783	\$ 3,297,783	\$ -
Federal contributions	2,750,267	2,750,267	-
Other	<u>-</u>	<u>442,612</u>	<u>442,612</u>
Total revenues	<u>6,048,050</u>	<u>6,490,662</u>	<u>442,612</u>
Expenditures (budgetary basis):			
General government	602,147	602,147	-
Health services	877,412	924,991	(47,579)
Public Works	1,513,119	1,663,186	(150,067)
Education	2,828,180	3,338,041	(509,861)
Conservation and resources	375,099	375,099	-
Other	<u>202,436</u>	<u>185,873</u>	<u>16,563</u>
Total expenditures	<u>6,398,393</u>	<u>7,089,337</u>	<u>(690,944)</u>
Deficiency of revenues over expenditures	(350,343)	(598,675)	(248,332)
Unreserved fund balance, beginning of year	693,293	693,293	-
Other changes in unreserved fund balance:			
Decrease/Increase in reserve for related assets	-	9,561	9,561
Decrease/Increase in reserve for continuing appropriations	<u>-</u>	<u>56,365</u>	<u>56,365</u>
Unreserved fund balance (deficit), end of year	<u>\$ 342,950</u>	<u>\$ 160,544</u>	<u>\$ 182,406</u>

See accompanying notes to combined financial statements.

**STATE OF POHNPEI**  
**FEDERATED STATES OF MICRONESIA**  
 Combined Statement of Revenues, Expenses and Changes in Fund  
 Equity (Deficit) All Proprietary Fund Types  
 The year ended September 30, 1990  
 (With comparative totals for the year ended September 30, 1989)

	Enterprise Fund	Internal Service Fund	Totals	
			(Memorandum Only)	
			1990	1989
<b>Revenues:</b>				
Charges for services	\$ 727,953	\$ 81,204	\$ 809,157	\$ 399,500
Rental income	32,857	-	32,857	32,511
Other	<u>73,516</u>	<u>-</u>	<u>73,516</u>	<u>18,140</u>
Total revenues	<u>834,326</u>	<u>81,204</u>	<u>915,530</u>	<u>450,151</u>
<b>Operating expenses:</b>				
Personnel services	651,815	-	651,815	286,893
Travel	55,441	-	55,441	11,699
Supplies and materials	211,638	99,035	310,673	54,588
Fuel	58,681	-	58,681	2,390
Capital outlays	86,188	-	86,188	20,559
Contractual services	1,680,706	-	1,680,706	1,358,004
Other	<u>915,048</u>	<u>-</u>	<u>915,048</u>	<u>1,019,153</u>
Total operating expenses	<u>3,659,517</u>	<u>99,035</u>	<u>3,758,552</u>	<u>2,753,286</u>
Operating (loss)	<u>(2,825,191)</u>	<u>(17,831)</u>	<u>(2,843,022)</u>	<u>(2,303,135)</u>
<b>Non-operating revenues (expenses):</b>				
Equity loss on investment (Note 7)	(117,681)	-	(117,681)	-
Operating transfers in (Note 9)	2,220,408	-	2,220,408	1,647,993
Interest expense	(78,589)	-	(78,589)	-
Others	<u>42,115</u>	<u>-</u>	<u>42,115</u>	<u>(49,608)</u>
Total non-operating revenues net	<u>2,066,253</u>	<u>-</u>	<u>2,066,253</u>	<u>1,598,385</u>
Net (loss)	(758,938)	(17,831)	(776,769)	(704,750)
Retained earnings (deficit), beginning of year	<u>(746,238)</u>	<u>64,093</u>	<u>(682,145)</u>	<u>22,605</u>
Retained earning (deficit), end of year	<u><u>\$(1,505,176)</u></u>	<u><u>\$ 46,262</u></u>	<u><u>\$(1,458,914)</u></u>	<u><u>\$(682,145)</u></u>
Contributed capital, beginning of year	\$ 3,216,317	\$ -	\$ 3,216,317	\$ 833,615
Less opening balance adjustment (Note 13)	(1,198,500)	-	(1,198,500)	-
Additions for the year	<u>3,731,495</u>	<u>-</u>	<u>3,731,495</u>	<u>2,427,702</u>
Contributed capital, end of year	<u><u>\$ 5,794,312</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,794,312</u></u>	<u><u>\$3,261,317</u></u>

See accompanying notes to combined financial statements.



STATE OF POHNPEI  
 FEDERATED STATES OF MICRONESIA  
 Combined Statement of Cash Flows  
 All Proprietary Fund Types  
 The year ended September 30, 1990  
 (With comparative totals for the year ended September 30, 1989)

	<u>Enterprise Funds</u>	<u>Internal Service Fund</u>	<u>Totals</u> (Memorandum Only)	
			<u>1990</u>	<u>1989</u>
<b>Operating Activities:</b>				
Net Income (loss)	\$ (339,052)	\$ (17,831)	\$ (356,883)	\$ (15,160)
Add back items not affecting cash:				
Depreciation	89,060	-	89,060	-
Equity loss on investment	<u>117,681</u>	<u>-</u>	<u>117,681</u>	<u>-</u>
	<u>(132,311)</u>	<u>(17,831)</u>	<u>(150,142)</u>	<u>(15,160)</u>
<b>Changes in Working Capital Sources (Uses):</b>				
Time certificates of deposit	232,437	-	232,437	-
Advances	1,198,500	-	1,198,500	-
Inventory	(9,042)	-	(9,042)	-
General receivables	(165,355)	-	(165,344)	-
Loans receivable	(344,490)	-	(344,490)	-
Interfund receivable	-	25,240	25,240	5,532
Accounts payable	279,160	(7,409)	271,751	9,628
Accrued liabilities	(32,316)	-	(32,316)	-
Deferred revenue	<u>4,068</u>	<u>-</u>	<u>4,068</u>	<u>-</u>
	<u>1,162,962</u>	<u>17,831</u>	<u>1,180,793</u>	<u>15,160</u>
Cash used by operating activities	<u>1,030,651</u>	<u>-</u>	<u>1,030,651</u>	<u>-</u>
<b>Investing Activities</b>				
<b>Sources (Uses):</b>				
Investment in associated co.	<u>(2,000,000)</u>	<u>-</u>	<u>(2,000,000)</u>	<u>-</u>
Cash used by investing activities	<u>(2,000,000)</u>	<u>-</u>	<u>(2,000,000)</u>	<u>-</u>
<b>Capital and Related Financing Activities:</b>				
Cash payments for acquisition of capital assets	<u>(1,254,759)</u>	<u>-</u>	<u>(1,254,759)</u>	<u>-</u>
Cash used by capital and related financing activities	<u>(1,254,759)</u>	<u>-</u>	<u>(1,254,759)</u>	<u>-</u>

See accompanying notes to combined financial statements





**STATE OF POHNPEI**  
**FEDERATED STATES OF MICRONESIA**  
 Combined Statement of Cash Flows, Continued  
 All Proprietary Fund Types  
 The year ended September 30, 1990  
 (With comparative totals for the year ended September 30, 1989)

	<u>Enterprise Funds</u>	<u>Internal Service Fund</u>	<u>Totals</u>	
			(Memorandum Only)	
			<u>1990</u>	<u>1989</u>
<b>Financing Activities</b>				
<b>Sources (Uses):</b>				
Contributed capital	\$3,731,495	\$ -	\$3,731,495	\$ -
Adjustment to contributed capital	<u>(1,198,500)</u>	<u>-</u>	<u>(1,198,500)</u>	<u>-</u>
Cash used by financing activities	<u>2,532,995</u>	<u>-</u>	<u>2,532,995</u>	<u>-</u>
 Net increase in cash and equivalents	 308,887	 -	 308,887	 -
 Cash and equivalents, beginning of year	 <u>274,806</u>	 <u>-</u>	 <u>274,806</u>	 <u>-</u>
 Cash and equivalents, end of year	 <u>\$ 583,693</u>	 <u>\$ -</u>	 <u>\$ 583,693</u>	 <u>\$ -</u>

See accompanying notes to combined financial statements

**STATE OF POHNPEI**  
**FEDERATED STATES OF MICRONESIA**  
Notes to Combined Financial Statements  
September 30, 1990

(1) Significant Accounting Policies

A. Basis of Presentation

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

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

Based on application of the above, the State of Pohnpei has determined that the following component units should also be included in the accompanying general purpose financial statements.

Enterprise Funds

- Pohnpei Economic Development Authority
- Pohnpei State Housing Authority

**STATE OF POHNPEI**  
**FEDERATED STATES OF MICRONESIA**  
Notes to Combined Financial Statements, Continued  
September 30, 1990

(1) Significant Accounting Policies, Continued

B. Fund Structure and Basis of Accounting

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

The State of Pohnpei's governmental funds include:

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

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

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

Encumbrance accounting is utilized for budgetary control purposes. Encumbrances outstanding at year end are reported as reservations of fund balance and will be funded as expenditures in the ensuing year. Encumbrances remain reservations of fund balance until becoming expended or cancelled.

The proprietary funds are accounted for on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Pohnpei State Government proprietary funds include the following:

**STATE OF POHNPEI**  
**FEDERATED STATES OF MICRONESIA**  
Notes to Combined Financial Statements, Continued  
September 30, 1990

(1) Significant Accounting Policies, Continued

1. The Enterprise Funds which are used to account for the operations of State agencies designed to be self-sufficient and which render services to the general public or other governmental agencies on a user charge basis; and,
2. The Internal Service Fund which is used to account for the stock and medical supply operations of self-sustaining State agencies rendering services to other State agencies on a cost reimbursement basis. No fixed assets are identified to this operation and accordingly, no depreciation expense is incurred by the Fund.

The fiduciary fund includes only one Expendable Trust Fund which is used to account for assets held by the State in a trustee capacity. Expendable Trust Funds are accounted for on the modified accrual basis of accounting. The only Expendable Trust Fund existing at September 30, 1990, is the Public Land Trust Fund which accounts for all revenues granted for the administration, management and disposition of public lands in the State.

C. Fixed Assets and Long-Term Liabilities

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

Fixed assets used in governmental fund type operations (general fixed assets), are accounted for in the General Fixed Assets Account Group rather than in the governmental funds.

**STATE OF POHNPEI**  
**FEDERATED STATES OF MICRONESIA**  
Notes to Combined Financial Statements, Continued  
September 30, 1990

(1) Significant Accounting Policies, Continued

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. Depreciation is not charged against the general fixed assets.

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

Long term notes payable recorded in the GLTDAG relate to the State's participation in a medium term note program through the FSM National Government (See Note 15).

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

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

Fixed assets recorded in the Enterprise Funds are recorded at cost or estimated cost. They are being depreciated principally on a straight line basis over estimated useful lives ranging from 5 to 25 years. Fixed assets for Enterprise funds as of September 30, 1990, are as follows:

**STATE OF POHNPEI**  
**FEDERATED STATES OF MICRONESIA**  
Notes to Combined Financial Statements, Continued  
September 30, 1990

(1) Significant Accounting Policies, Continued

	<u>Pohnpei Economic Development Authority</u>
Building	\$ 12,833
Vehicles and other equipment	1,528,464
Central office assets	<u>34,858</u>
Less accumulated depreciation	<u>(265,455)</u>
Total Fixed Assets, Net	<u>\$ 1,310,700</u>

D. Budgetary Process

Legislation requires the Governor to present a proposed budget to the Legislature at the beginning of each annual session. The Legislature enacts the budget which details specific departmental appropriations, the sum of which may not exceed estimated revenues. Before signing the Appropriations Act, the Governor may veto or reduce any specific appropriation, subject to legislative override. Once passed and signed, the budget becomes the State's financial plan for the ensuing fiscal year.

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

Unencumbered appropriations normally lapse at the end of each fiscal year unless they are otherwise specifically designated as continuing by the Legislature.

E. Receivables

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

**STATE OF POHNPEI**  
**FEDERATED STATES OF MICRONESIA**  
Notes to Combined Financial Statements, Continued  
September 30, 1990

(1) Significant Accounting Policies, Continued

F. Interfund Transactions

The State of Pohnpei has two types of potential interfund transactions:

1. Operating appropriations/subsidies which are accounted for as operating transfers in the funds involved.
2. Equity contributions which are accounted for as equity transfers (additions to or deductions from beginning governmental fund balances or proprietary fund contributed capital).

G. Inventories

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

H. Actual Expenditures Contrasted With Budgetary Expenditures

1. Actual expenditures are charges which represent the total of all current year liabilities incurred which were attributable to the operations of the respective functional areas; such liabilities may represent liquidations of either current or prior year encumbrances.
2. In contrast, budgetary expenditures represent current charges against appropriations; current charges consist of all current year liquidated and unliquidated encumbrances. For each functional area, budgetary expenditures are determined by subtracting both current year liquidations of prior year encumbrances and unliquidated prior year encumbrances from the combined total of current year actual expenditures and all unliquidated encumbrances. When viewed in relation to respective budgets, budgetary expenditures provide the principal means of evaluating current year operating performance and management stewardship.

**STATE OF POHNPEI**  
**FEDERATED STATES OF MICRONESIA**  
Notes to Combined Financial Statements, Continued  
September 30, 1990

(1) Significant Accounting Policies, Continued

The effects of current year liquidations of prior year encumbrances by liabilities less than the respective encumbrances, and the effects of current year cancellations of prior year encumbrances are reported together as a separate line item entitled "net encumbrance adjustments". This item of the budgetary financial statements would be found under "other changes in unreserved fund balance" as its underlying components have no effect on current operating performance, the measurement of which is the primary purpose of the budgetary financial statements.

I. Fund Balance Reserves and Designations

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

J. Totals - Memorandum Only

The "Totals - Memorandum Only" columns represent an aggregate of the individual combined financial statements. The memorandum totals are presented for overview information purposes and does not represent consolidated financial information.

K. Deposits

Bank deposits are subject to federal depository insurance agencies. State statutes require all deposits to be with banking institutions that have at least \$500 million dollars of assets or are insured by the Federal Deposit Insurance Corporation (FDIC). However, the State does not require the collateralization of its deposits by the banks.

L. Cash and Equivalents

For purposes of the Statement of Cash Flows, cash and equivalents is defined as cash on hand, in bank checking and savings accounts, time certificates of deposit and investment grade commercial paper and U.S. governmental securities with maturities of ninety days or less.



**STATE OF POHNPEI**  
**FEDERATED STATES OF MICRONESIA**  
Notes to Combined Financial Statements, Continued  
September 30, 1990

(2) Cash and Investments

The State has adopted the by-laws of 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 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 or FSLIC insured savings and loan associations, both of which must have assets in excess of two billion dollars. Deposits in smaller institutions are acceptable, but must not exceed the amount of the insurance unless collateralized by U.S. Treasury Securities at 102%.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**  
Notes to Combined Financial Statements, Continued  
September 30, 1990

(2) Cash and Investments, Continued

- B. The equity portfolio shall be diversified among issues and industry classifications. No more than 25% of the equity portfolio may be invested in any single classification, as described by the Standard and Poors 500 Index, unless prior approval is received from the FSM Secretary of Finance.
- C. No investment may be made in a single corporate entity which exceeds 5% of the total assets of the fund at the time of purchase without prior approval of the Secretary of Finance.

Funds held with Hawaiian Trust Co. and invested on behalf of Pohnpei State as of September 30, 1990, are summarized below:

<u>Cash and Equivalents</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Cash Management Fund	\$ 2,540,884	\$ 2,540,884
	<u>2,540,884</u>	<u>2,540,884</u>
Investments		
Pooled Investment Securities	<u>16,626,105</u>	<u>15,993,648</u>
Total	<u>\$ 19,166,989</u>	<u>\$18,534,532</u>

The State is of the opinion that the \$632,457, reduction in market value is a temporary downturn in the market and not a permanent impairment of asset value. Management is of the opinion that this is reasonable given that at December 31, 1990, the market had recovered so that market closely approximated carrying value. At September 30, 1990, the diminution in market value of \$632,457 was fully reserved as a component of Fund Balance within the General Fund. An additional \$262,542 has also been reserved for in the Reserve for Diminution of Investments component of the Fund Balance within the General Fund. This reserve represents Pohnpei State's share of the carrying value of the Seibel #2 fund's pooled investment in Colorado Utility Electric Association Inc. as of March 1990, being the date of Colorado Utility's declaration of default on debt repayments. Colorado Utility is currently in liquidation and undergoing a reorganization via a trustee. From the latest financial information available, management is unable to quantify an appropriate carrying value of the State's investment in Colorado Utility due to the uncertainty of the Utility's current and future financial position, and has therefore fully reserved for the carrying value of this investment.



**STATE OF Pohnpei**  
**FEDERATED STATES OF MICRONESIA**  
Notes to Combined Financial Statements, Continued  
September 30, 1990

(2) Cash and Investments, Continued

At September 30, 1990, the State had deposits and cash on hand as follows (in each situation cost approximates market value):

General Fund

Cash on hand	\$ 3,000
Net bank balance in checking and savings accounts with FDIC insured banks	252,740
Cash on deposit with Hawaiian Trust Co.	<u>692,355</u>
Total General Fund cash and equivalents	<u>\$ 948,095</u>

Special Revenue Funds

Cash on deposit with Hawaiian Trust Co.	<u>\$1,017,527</u>
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Capital Project Funds

Cash on deposit with Hawaiian Trust Co.	<u>\$ 831,002</u>
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Enterprise Funds

Pohnpei Economic Development Authority (EDA):

Cash on hand	\$ 220
Cash in checking and savings accounts with FDIC insured banks	17,976
Certificate of deposit with FDIC insured bank	<u>4,597</u>
Total EDA cash and equivalents	<u>22,793</u>

Pohnpei State Housing Authority (PSHA):

Cash in checking and savings accounts with FDIC insured banks	<u>560,900</u>
Total PSHA cash and equivalents	<u>560,900</u>
Total Enterprise Fund cash and equivalents	<u>\$ 583,693</u>

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.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**  
Notes to Combined Financial Statements, Continued  
September 30, 1990

(2) Cash and Investments, Continued

- 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 #3. All other investments held by the State or Trustee have been classified as category 2 investments in accordance with GSAB #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.

(4) General Receivables and Advances

A summary of General Fund receivables against which allowances for doubtful accounts have been recorded as of September 30, 1990, is presented below:

<u>General Receivables</u>	<u>Balance</u>	<u>Allowance</u>	<u>Net</u>
Utilities	\$ 1,253,371	\$ 905,506	\$ 347,865
Delinquent taxes	250,176	182,628	67,548
Miscellaneous	<u>313,343</u>	<u>226,377</u>	<u>86,966</u>
	<u>\$ 1,816,890</u>	<u>\$ 1,314,511</u>	<u>\$ 502,379</u>

The Pohnpei State Economic Development Authority (EDA) (an Enterprise Fund) has a \$200,265 general receivable net of a \$137,543 allowance for doubtful accounts. Various Special Revenue Funds and the Expendable Trust Fund have general receivable balances aggregating \$43,118 and \$1,851, respectively. These balances are fully reserved for within the reserve for related assets component of fund balance in the applicable funds.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**  
Notes to Combined Financial Statements, Continued  
September 30, 1990

(4) General Receivables and Advances

Advances

The General Fund has \$19,666 of advances made to State government employees, medical referral patients and other travel related expenditures. The travel related advances are to be liquidated by submission of an expense voucher following the completion of travel. During the year ended September 30, 1990, \$237,243 of recorded travel advances were written off as uncollectable by the General Fund.

(5) Inventory of Supplies

The Internal Service Fund has general operational and office supplies of \$43,292 as of September 30, 1990. The Pohnpei State Economic Development Authority and Pohnpei State Housing Authority (Enterprise Funds) have \$91,252 and \$53,619, respectively of general merchandise and construction materials on hand. The Agriculture Revolving fund (a Special Revenue Fund) had \$41,645 of agriculture production supplies on hand at September 30, 1990.

(6) Changes in General Fixed Assets

A summary of changes in general fixed assets follows:

	<u>Balance October 1, 1989</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance September 30, 1990</u>
Building	\$10,055,450	\$ -	\$ -	\$10,055,450
Infrastructure	52,522,286	-	-	52,522,286
Equipment	<u>3,981,965</u>	<u>-</u>	<u>-</u>	<u>3,981,965</u>
	<u>\$66,559,701</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$66,559,701</u>

The State's investment in general fixed assets as of September 30, 1990, by source, is summarized below:

General Fund	\$ 3,306,139
U.S. Federal Grants	1,315,470
Department of the Interior - Capital Projects	61,179,838
Department of the Interior - O & M	23,081
FSM Congressional Fund	630,999
Other	<u>104,174</u>
	<u>\$66,559,701</u>

**STATE OF POHNPEI**  
**FEDERATED STATES OF MICRONESIA**  
Notes to Combined Financial Statements, Continued  
September 30, 1990

(7) Investment in Associated Company - Enterprise Fund

During the year ended September 30, 1990, the Pohnpei State Economic Development Authority (EDA) (an Enterprise Fund) 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 the 1990 financial year and financial statements for the CFC for the year ending September 30, 1990, reflected a net loss of \$353,044. Under the equity method of accounting, which has been adopted for EDA's investment in CFC, 1/3 of this total loss (\$117,681) has been deducted from the carrying value of the investment as follows:

Original carrying value, at cost	\$2,000,000
Less 1/3 equity share of operating loss (total \$353,044)	<u>(117,681)</u>
Recorded book value of investment	<u>\$1,882,319</u>

(8) Loans Receivable - Related Party

During the year ended September 30, 1990, \$7,500,000 was loaned to the Caroline Fishing Corporation Inc., (CFC) (See Note 7), which loan was recorded in the Capital Project Fund. The loan matures on October 15, 1997, with interest being paid semi-annually at the same annual percentage rate's as the Medium Term Notes borrowed by Pohnpei State to fund the loan (See Note 15 for these interest rates). Five equal principal payments of \$1,500,000 will occur yearly commencing on October 15, 1993. Security for the loan is in the form of mortgages over CFC's fishing vessels and guarantees by the two other equity holders in CFC, being the National Fisheries Corp. (NFC), an Enterprise Fund of the FSM National Government, and Tuna Development Company Pty. Ltd (TDC), an Australian owned private company. TDC's guarantee is further supported by a separate security agreement executed by the three equity participants of TDC, all of whom are Australian citizens. Under the terms of the original loan agreement, the \$7,500,000 loan was to be equally funded by the FSM National Government and Pohnpei State Government. However, subsequent events led to Pohnpei State loaning the entire \$7,500,000. It was agreed that the FSM National Government would pay its \$3,750,000 share to Pohnpei State and become a joint lender to CFC. Furthermore, it was agreed that the \$3,750,000 payable to Pohnpei State by FSM National Government would occur within twelve months of September 30, 1990; hence only \$3,750,000 of the \$7,500,000 loan on Pohnpei State Government books at September 30, 1990, has been reserved for in the related asset component of fund balance due to its long-term nature.



**STATE OF POHNPEI**  
**FEDERATED STATES OF MICRONESIA**  
Notes to Combined Financial Statements, Continued  
September 30, 1990

(8) Loans Receivable - Related Party

The Pohnpei State Economic Development Authority has loans receivable of \$93,724 net of an allowance of \$89,071 for doubtful accounts. The Pohnpei State Housing Authority (PSHA) has loans receivable of \$1,355,219. These loans represent amounts borrowed by qualified applicants for purposes of the construction and improvement of housing.

(9) Transfers

Operating transfers out were made from the General Fund and the Compact Capital Project Fund and recorded as both operating transfers in and contributed capital in the three Enterprise Funds of the State. (Refer Note 13) A reconciliation of the transfers out from these two governmental funds to the Enterprise Funds is as follows:

	<u>Enterprise Fund Operating Transfers-in</u>	<u>Enterprise Fund Contributed Capital</u>	<u>Total</u>
<b>General Fund</b>			
transfers-out:			
Pohnpei State			
Transportation Authority	\$ 104,517	\$ -	\$ 104,517
Pohnpei Economic			
Development Authority	187,331	-	187,331
Pohnpei State Housing			
Authority	<u>92,032</u>	<u>-</u>	<u>92,032</u>
Total General Fund	<u>383,880</u>	<u>-</u>	<u>383,880</u>
<b>Compact Capital Project Fund</b>			
transfers-out:			
Pohnpei State			
Transportation Authority for performance on various capital improvement contracts	1,637,914	-	1,637,914
Pohnpei State Economic			
Development Authority - Various Projects	198,614	-	198,614
Pohnpei State Economic			
Development Authority - Fishing Joint Venture	-	3,231,495	3,231,495



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**  
Notes to Combined Financial Statements, Continued  
September 30, 1990

(9) Transfers, Continued

	Enterprise Fund Operating <u>Transfers-in</u>	Enterprise Fund Contributed <u>Capital</u>	<u>Total</u>
Balance forward	\$ 1,836,528	\$ 3,731,495	\$5,568,023
Pohnpei State Housing Authority Loan Fund	-	500,000	500,000
Total CIP Fund	<u>1,836,528</u>	<u>3,731,495</u>	<u>5,568,023</u>
	<u>\$ 2,220,408</u>	<u>\$ 3,731,495</u>	<u>\$5,951,903</u>

(10) Contingencies and Commitments

Federal Program Questioned Costs

The State participates in a number of U.S. federally assisted grant programs. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Currently, \$2,402,298 in questioned costs exist for the operation of fiscal year 1985 through 1990 grants, including \$107,162 relating to financial year 1990. If these questioned costs are ultimately disallowed, the General Fund may bear responsibility for absorbing the amount disallowed. Pursuant to Title I, Section 105 of United States Public Law 99-239 the Government of the Federated States of Micronesia (FSM) is no longer liable for debts to U.S. federal agencies arising prior to the date of the implementation of the Compact of Free Association. This matter has not yet been officially resolved with the U.S. Government. Accordingly, no provision for any liability that may result from this matter has been recorded in the accompanying financial statements.

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, 1990, is not available.





**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**  
Notes to Combined Financial Statements, Continued  
September 30, 1990

(10) Contingencies and Commitments, Continued

Committed Compact Funding

Under Pohnpei State Law No. 2L-151-90, the Legislature has appropriated future cash flows of the Compact of Free Association. The amounts will be used by the State to repay current and future borrowings under the Medium Term Note program (Refer Note 15). The future appropriations have been made for two major capital projects. The first project is connected with the Economic Development Authority's investment in the Caroline Fishing Corporation Inc., a fishing joint venture. Appropriations totalling \$16,386,917 has been committed up to and including fiscal year 1998. \$14,186,917 has been appropriated from Compact Section 211(a) Capital Account Funds and \$2,200,000 from the Compact Section 214(b) Energy Account funds for this purpose. The second project is the Economic Development Authority Fish Processing Plant, with \$16,533,395 appropriated from Compact Section 211(a) Capital Account Funds and \$2,400,000 from Compact Section 214(b) Energy Account. (a total of \$18,933,395). Funds for this project have been appropriated up to and including the year 2001. In accordance with the modified accrual basis of accounting, these future year appropriations will be matched only against each respective years' Compact revenues.

Litigation

The State of Pohnpei is party to numerous legal proceedings, many of which are normal recurrences in governmental operations. The State Attorney of Pohnpei is of the opinion that the probable outcome of suits existing at September 30, 1990, is not predictable but could have a material impact on the accompanying financial statements.

(11) Enterprise fund - Segment Data

Selected financial data for enterprise funds as of and for the year ended September 30, 1990, is as follows:

	Pohnpei Transportation Authority	Pohnpei Economic Development Authority	Pohnpei State Housing Authority
Total assets	\$ 2,215	\$ 3,511,982	\$ 1,969,738
Total equity (deficit)	\$ (772,405)	\$ 3,208,730	\$ 1,852,811
1990 net earnings (loss)	\$ (419,886)	\$ (376,651)	\$ 28,599
1990 non-operating revenue	\$ 1,742,431	\$ 231,790	\$ 92,032
1990 bad debt expense	\$ 4,568	\$ 98,979	\$ -
Allowance for doubtful accounts	\$ -	\$ 226,614	\$ 289,656



**STATE OF POHNPEI**  
**FEDERATED STATES OF MICRONESIA**  
Notes to Combined Financial Statements  
September 30, 1990

(12) Statements of Cash Flows

In accordance with Statement of Financial Accounting Standards No. 95 (FASB 95), the State has prepared cash flow statements for its proprietary fund types, for financial year 1990, and has also chosen to restate the financial year 1989 Internal Service Fund into the statement of cash flows format for comparative purposes. No financial year 1989 comparative amounts have been shown for the Enterprise Funds due to the State's inability to prepare statements of changes in financial position in 1989. Furthermore, the condition of accounting records of the Enterprise Funds was such to prevent the application of alternative procedures to compile such prior year comparative cash flow statements.

(13) Contributed Capital - Enterprise Funds

During the year ended September 30, 1990, contributed capital increased by the following amounts:

	Pohnpei Economic Development <u>Authority (EDA)</u>	Pohnpei State Housing <u>Authority</u>	<u>Total</u>
Opening balance adjustment	\$ (1,198,500)	\$ -	\$(1,198,500)
Contribution from the State for an equity investment in Caroline Fishing Corp. Inc.	2,000,000	-	2,000,000
Contribution from the State to fund a housing loan program	-	500,000	500,000
Contribution from the State to liquidate prior year notes payable	<u>1,231,495</u>	<u>-</u>	<u>1,231,495</u>
Total contributed capital received	<u>\$ 2,032,995</u>	<u>\$ 500,000</u>	<u>\$ 2,532,995</u>

The above opening balance adjustment relates to a prior year prepayment made to the contractor responsible for construction of the Pohnpei State Fish Processing Plant, which Pohnpei State paid on EDA's behalf. This payment was originally recorded by EDA as contributed capital. Amounts paid in relation to the Fishing Processing Plant should be recorded in the State's Capital Projects Fund until completion of the project, at which time, the total amount contributed by the State will be recorded as contributed capital of EDA. Hence, in accordance with this policy, current year Fish Processing Plant payments have been recorded in the State's Capital Projects Fund and not as contributed capital of EDA.

**STATE OF POHNPEI**  
**FEDERATED STATES OF MICRONESIA**  
Notes to Combined Financial Statements  
September 30, 1990

(14) Material Fund Deficits

The following presents material fund deficits as of September 30, 1990. 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>Special Revenue Funds</u>	
Airport Revolving Fund	\$ 18,344
U.S. Federal Assistance Fund	161,579
Compact Other Grants Fund	428,577
Other Direct Assistance Fund	21,560
CFSM Project Fund	<u>37,783</u>
Total Special Revenue Funds	<u>\$ 667,843</u>
<u>Enterprise Fund</u>	
Pohnpei Transportation Authority	<u>\$ 772,405</u>

(15) Bonds Payable

During the year ending September 30, 1990, Pohnpei State undertook two separate issues of notes payable under the Medium Term Note (MTN) program entered into by the FSM National Government on behalf of itself and the four FSM states.

On April 26, 1990, 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 maturing on October 15, 1995. Interest is payable semi-annually, commencing on October 15, 1990, at a fixed rate of 9.57% per annum. Total interest paid on this \$5,100,000 note at maturity will be \$2,669,472.

The second issue occurred on July 17, 1990, for a total of \$9,550,000 which was made to finance Pohnpei State's \$2,000,000 equity investment in and a \$7,500,000 loan to a fishing joint venture, the Caroline Fishing Corp. Inc. (CFC)). The borrowing was comprised of several notes with varying amounts of principal, interest and maturities as follows:

<u>Maturity</u>	<u>Interest Rate % P.A</u>	<u>Principal Amount</u>
4/15/91	8.7	\$1,000,000
10/15/91	8.9	2,550,000
10/15/92	9.02	1,000,000
10/15/93	9.14	1,000,000
10/15/94	9.25	1,000,000
10/15/95	9.30	1,000,000
10/15/96	9.35	1,000,000
10/15/97	9.49	<u>1,000,000</u>
Total		<u>\$9,550,000</u>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**  
Notes to Combined Financial Statements  
September 30, 1990

(15) Bonds Payable, Continued

Total interest to be paid on the \$9,550,000 of notes, thru final maturity, is \$2,997,882.

Interest is payable semi-annually, beginning on October 15, 1990.

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

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

Activity in the General Long-Term Debt Account Group bonds payable account for the year ended September 30, 1990, occurred as follows:

Balance as of September 30, 1989	\$ -
Proceeds from \$5,100,000 debt issue dated 4/26/90	5,100,000
Proceeds from \$9,550,000 debt issue dated 7/17/90	<u>9,550,000</u>
Balance as of September 30, 1990	<u>\$14,650,000</u>

(16) Interfund Receivable and Payables

As of September 30, 1990, interfund receivables and payables resulting from various interfund transactions are as follows:

	Due to Other Funds	Due from Other Funds
General Fund	\$ 240,127	\$ 1,772,036
Special Revenue Funds:		
Compact Health & Education	-	371,667
Compact Other Grants	344,271	-
U.S. Federal Assistance	1,549,069	-
Other Federal and Direct Assistance	-	14,280
Seaport Revolving	-	57,856
Airport Revolving	19,727	-
Agriculture Revolving	-	4,935
SVAP Revolving	6,241	-
Airport Maintenance	-	152,237
CFSM Projects	444,721	-

**STATE OF POHNPEI**  
**FEDERATED STATES OF MICRONESIA**  
Notes to Combined Financial Statements  
September 30, 1990

(16) Interfund Receivable and Payables, Continued

	<u>Due to Other Funds</u>	<u>Due from Other Funds</u>
<b>Capital Projects Funds:</b>		
Compact Capital Projects	-	572,419
TTG Capital Projects	94,011	-
<b>Expendable Trust Funds:</b>		
Public Land Trust	-	317,257
<b>Enterprise Funds:</b>		
Pohnpei State Transportation Authority	573,360	-
Internal Service Fund	-	8,840
	<u>\$ 3,271,527</u>	<u>\$ 3,271,527</u>

(17) Continuing Appropriations

Continuing appropriations as of September 30, 1990, are summarized as follows:

General Fund

Graduate assistance loan fund	\$ 10,181
Scholarship fund	44,000
Kapinga illegal fishing fee	20,394
Codification of Pohnpei State Laws	29,492
	<u>\$ 104,067</u>

Compact of Free Association - Special Revenue,  
Title Two, Article 1, Section 221b

Various State approved projects	<u>\$ 32,072</u>
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Compact of Free Association - Capital Projects,  
Title Two, Article 1, Section 211

Various State approved projects	<u>\$5,545,766</u>
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**INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION**

Honorable Resio Moses  
Governor, State of Pohnpei  
Kolonia, Pohnpei 96941

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The additional information listed in Section III of the Table of Contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. This additional information is the responsibility of the State's management. Such information has been subjected to the auditing procedures applied in our audit of the general purpose financial statements, as well as the tests and other procedures in accordance with Office of Management and Budget Circular A-128, issued pursuant to the Single Audit Act of 1984, P.L. 98-502, and in our opinion, except for those matters specified in our report dated February 15, 1991, is fairly stated in all material respects when considered in relation to the general purpose financial statements taken as a whole.

February 15, 1991

*Deloitte & Touche*

Certified Public Accountants

STATE OF POHNPEI  
 FEDERATED STATES OF MICRONESIA  
 Combining Schedule of Expenditures by Account -  
 All Governmental Fund Types and Expendable Trust Fund  
 The year ended September 30, 1990  
 (With comparative totals for the year ended September 30, 1989)

	<u>Governmental Fund Types</u>			<u>Fiduciary Fund</u>	<u>Totals</u>	
	<u>General</u>	<u>Special</u>	<u>Capital</u>	<u>Expendable</u>	<u>1990</u>	<u>1989</u>
	<u>Fund</u>	<u>Revenue</u>	<u>Projects</u>	<u>Trust</u>		
	<u>Fund</u>	<u>Funds</u>	<u>Fund</u>			
<b>Expenditures:</b>						
Personnel services	\$ 9,688,767	\$2,961,949	\$ 110,757	\$ 1,026	\$12,762,499	\$12,169,600
Travel	432,475	381,991	132,187	3,455	950,108	924,310
Supplies and materials	550,479	507,349	238,169	608	1,296,605	3,407,582
Fuel	657,169	1,332,773	739	364	1,991,045	1,702,886
Equipment	380,135	357,001	545,867	-	1,283,003	1,085,742
Contractual services	267,693	443,727	5,792,882	-	6,504,302	8,526,870
Other	<u>2,376,488</u>	<u>1,313,181</u>	<u>768,466</u>	<u>13,681</u>	<u>4,471,816</u>	<u>1,702,523</u>
<b>Total expenditures</b>	<u>\$14,353,206</u>	<u>\$7,297,971</u>	<u>\$ 7,589,067</u>	<u>\$ 19,134</u>	<u>\$29,259,378</u>	<u>\$29,519,513</u>

STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA  
GENERAL FUND  
September 30, 1990

General Fund

The general fund is used to account for resources traditionally associated with governments which are not required 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.



**STATE OF POHNPEI**  
**FEDERATED STATES OF MICRONESIA**  
 Balance Sheet - General Fund  
 September 30, 1990  
 (With Comparative Totals as of September 30, 1989)

	1990	1989
<b><u>Assets</u></b>		
Cash and equivalents	\$ 948,095	\$ 212,083
Investments	4,482,778	3,504,039
Receivables from other governments	117,314	117,314
General receivables	502,379	517,312
Advances	19,666	239,494
Due from other funds	1,772,036	1,121,529
Total assets	\$7,842,268	\$5,711,771
 <b><u>Liabilities and Fund Balance</u></b>		
<b>Liabilities:</b>		
Accounts payable	\$ 44,892	\$ 205,019
Accrued payroll and others	803,800	698,206
Due to other funds	240,127	14,640
Total liabilities	1,088,819	917,865
<b>Fund balance:</b>		
<b>Reserved:</b>		
Reserved for related assets	522,046	741,875
Reserve for diminution of investments	894,999	-
Encumbrances	777,766	550,786
Continuing appropriations	104,067	124,575
Unreserved	4,454,571	3,376,670
Total fund balance	6,753,449	4,793,906
Total liabilities and fund balance	\$7,842,268	\$5,711,771



**STATE OF POHNPEI**  
**FEDERATED STATES OF MICRONESIA**  
Statement of Revenues, Expenditures by Account and  
Changes in Fund Balance - General Fund  
The year ended September 30, 1990  
(With comparative totals for the year ended September 30, 1989)

	<u>1990</u>	<u>1989</u>
<b>Revenues:</b>		
<b>Compact of Free Association:</b>		
Base grant	\$8,478,000	\$8,478,000
Inflation adjustment	2,543,400	2,289,060
Revenue sharing	2,419,908	2,330,712
Taxes and licenses	688,427	787,052
Fines and penalties	14,938	26,792
Investment income	1,122,849	2,652,149
Other	<u>1,429,107</u>	<u>1,090,073</u>
<b>Total revenues</b>	<u>16,696,629</u>	<u>17,653,838</u>
<b>Program expenditures:</b>		
Personnel services	9,688,767	7,968,705
Travel	432,475	625,215
Supplies and materials	550,479	993,828
Fuel	657,169	844,051
Equipment	380,135	352,714
Contractual services	267,693	1,009,163
Other	<u>2,376,488</u>	<u>1,389,552</u>
<b>Total program expenditures</b>	<u>14,353,206</u>	<u>13,183,228</u>
<b>Revenues over expenditures</b>	<u>2,343,423</u>	<u>4,470,610</u>
<b>Other sources (uses):</b>		
Operating transfers out	<u>(383,880)</u>	<u>(289,989)</u>
<b>Total sources (uses)</b>	<u>(383,880)</u>	<u>(289,989)</u>
<b>Excess of revenues and other       sources over expenditures and       other uses</b>	1,959,543	4,180,621
<b>Fund balance, beginning of year</b>	<u>4,793,906</u>	<u>613,285</u>
<b>Fund balance, end of year</b>	<u>\$6,753,449</u>	<u>\$4,793,906</u>

**STATE OF POENPEI**  
**FEDERATED STATES OF MICRONESIA**  
Statement of Revenues, Expenditures by Function and Department  
General Fund  
The year ended September 30, 1990  
(With comparative totals for the year ended September 30, 1989)

	<u>1990</u>	<u>1989</u>
<b>Revenues:</b>		
Compact of Free Association:		
Base grant	\$ 8,478,000	\$8,478,000
Inflation adjustment	2,543,400	2,289,060
Revenue sharing	2,419,908	2,330,712
Investment income	1,122,849	2,652,149
State taxes and licenses:		
Beer and malt beverages	\$ 221,265	\$ 283,373
Cigarettes	37,181	78,701
Motor vehicle sales tax	101,863	102,518
General merchandise sales tax	104,676	77,376
Hotel	61,456	44,620
Petroleum and fuel sales tax	34,873	24,838
Use tax	92,848	165,351
Others	<u>34,265</u>	<u>10,275</u>
	688,427	787,052
Public service charges:		
Utilities	1,061,875	633,130
Hospital and dental	303,913	209,697
Transportation	<u>50,342</u>	<u>101,553</u>
	1,416,130	944,380
Fines and penalties	14,938	26,792
Other	<u>12,977</u>	<u>145,693</u>
	16,696,629	17,653,838
<b>Total revenues</b>	<u><b>16,696,629</b></u>	<u><b>17,653,838</b></u>
<b>Expenditures:</b>		
General government:		
Governor and staff	294,564	254,331
Special assistants and miscellaneous	826,022	747,836
Director of Treasury	764,851	511,295
Public Auditor	67,026	47,687
Public Affairs	181,874	157,707
Judiciary	550,589	568,354
Legislative operations	<u>1,503,554</u>	<u>1,334,657</u>
<b>Sub-total</b>	<u><b>4,188,480</b></u>	<u><b>3,621,867</b></u>
Department of Land:		
Administration	118,173	73,020
Surveys and mapping	274,969	302,470
Historic preservation	29,901	25,796
Parks and recreation	13,143	16,152
Management of public lands	<u>92,588</u>	<u>104,343</u>
<b>Sub-total</b>	<u><b>528,774</b></u>	<u><b>521,781</b></u>
<b>Total General Government</b>	<u><b>4,717,254</b></u>	<u><b>4,143,648</b></u>



**STATE OF POHNPEI**  
**FEDERATED STATES OF MICRONESIA**  
Statement of Revenues, Expenditures by Function and Department -  
General Fund, Continued  
The year ended September 30, 1990  
(With comparative totals for the year ended September 30, 1989)

	1990	1989
<b>Department of Health Services:</b>		
Administration	\$ 519,926	\$ 523,936
Medical services	996,281	955,284
Dental services	245,989	261,293
Medical supplies	500,749	464,462
Public health	426,479	152,974
Medical referrals	<u>(4,155)</u>	<u>166,806</u>
Total Health Services	<u>2,685,269</u>	<u>2,524,755</u>
<b>Department of Education:</b>		
Administration	101,966	103,449
Education services and development	-	292,406
Elementary	1,816,839	-
Secondary	4,880	683,836
Aid to non-public school	-	100,000
Vocational rehabilitation	-	27,606
Headstart	-	108,016
PICS	<u>19,553</u>	<u>6,178</u>
Total Education	<u>1,943,238</u>	<u>1,321,491</u>
<b>Department of Conservation and Resource Development:</b>		
Administration	60,812	57,706
Marine resources	116,563	122,865
Agriculture	382,925	387,703
Forestry	113,696	95,252
Economic Planning	28,523	25,578
Energy	47,389	50,302
Other	<u>-</u>	<u>1,911</u>
Total Resources and Development	<u>749,908</u>	<u>741,317</u>
<b>Department of Public Works:</b>		
Administration	129,157	65,996
Operations and maintenance	174,825	226,397
Utility services	1,291,867	1,282,392
Construction management	86,045	83,559
Other	<u>15,279</u>	<u>9,800</u>
Total Public Works	<u>1,697,173</u>	<u>1,668,144</u>
<b>Department of Transportation:</b>		
Micro Glory	398,765	335,680
Transportation office	<u>91,753</u>	<u>91,729</u>
Total Transportation	<u>490,518</u>	<u>427,409</u>

STATE OF POHNPEI  
 FEDERATED STATES OF MICRONESIA  
 Statement of Revenues, Expenditures by Function and Department -  
 General Fund, Continued  
 The year ended September 30, 1990  
 (With comparative totals for the year ended September 30, 1989)

	<u>1990</u>	<u>1989</u>
Boards, commissions and other appropriations:		
Public Lands Authority	\$ -	\$ 8,646
Tourist Commission	59,506	42,731
Micronesian Legal Services	41,300	39,326
Public Land Board	320	-
Sports Council	44,982	56,241
Farmers Home Administration	67,227	77,935
MTAP	-	5,723
Traditional affairs	2,980	3,680
Women's Program	-	28,567
Foreign Investment Board	52,093	35,597
Pohnpei Public Library	52,430	16,566
Pohnpei Leadership Conference	9,945	-
ALMS Fund	6,874	4,941
Renovation Government housing	-	12,288
South Pacific Arts Festival	-	642
Guam Island Fair	2,598	17,751
Palau-Guam Tournament	-	21,400
Pohnpei Senior League Team	-	25,328
Other	-	4,833
	<u>340,255</u>	<u>402,195</u>
Total boards, commissions and other		
Department of Justice:		
Administration	88,170	84,057
Public safety	504,307	493,449
Correction and rehabilitation	101,825	104,259
Fire and disaster	79,843	73,160
Legal affairs	109,801	106,800
Search and Rescue	6,370	-
	<u>890,316</u>	<u>861,725</u>
Total Public Safety		
Municipal Governments:		
Sokehs	105,421	86,240
Kitti	156,884	110,000
Madolenihmw	154,306	93,600
Uh	72,552	61,610
Kolonia	100,022	68,800
	<u>589,185</u>	<u>420,250</u>
Balance forward		

**STATE OF POHNPEI**  
**FEDERATED STATES OF MICRONESIA**  
 Statement of Revenues, Expenditures by Function and Department -  
 General Fund, Continued  
 The year ended September 30, 1990  
 (With comparative totals for the year ended September 30, 1989)

	<u>1990</u>	<u>1989</u>
Balance forwarded	\$ 589,185	\$ 420,250
Municipal Governments, continued:		
Pingilap	57,856	17,539
Nett	94,737	70,987
Kapingamarangi	19,997	18,778
Ngatik	36,254	6,728
Mokil	24,759	15,000
Nukuoro	<u>16,487</u>	<u>30,000</u>
Total Municipal Governments	<u>839,275</u>	<u>579,282</u>
Other:		
Other expenditures	<u>-</u>	<u>513,262</u>
Total expenditures	<u>14,353,206</u>	<u>13,183,228</u>
Revenues over expenditures	<u>2,343,423</u>	<u>4,470,610</u>
Other sources (uses):		
Operating transfers out	<u>(383,880)</u>	<u>(289,989)</u>
Total other sources (uses)	<u>(383,880)</u>	<u>(289,989)</u>
Excess of revenues and other sources over expenditures and other uses	1,959,543	4,180,621
Fund balance, beginning of year	<u>4,793,906</u>	<u>613,285</u>
Fund balance, end of year	<u>\$6,753,449</u>	<u>\$4,793,906</u>

**STATE OF POHNPEI**  
**FEDERATED STATES OF MICRONESIA**  
Statement of Revenues and Expenditures by Function and Changes in  
Fund Balance - Budget and Actual, Budgetary Basis - General Fund  
The year ended September 30, 1990

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Revenue:</b>			
Compact - current	\$ 11,200,000	\$ 11,021,400	\$ (178,600)
Local revenues	4,054,800	4,552,380	497,580
Investment income	<u>445,200</u>	<u>1,122,849</u>	<u>677,649</u>
Total revenues	<u>15,700,000</u>	<u>16,696,629</u>	<u>996,629</u>
<b>Expenditures by function and department:</b>			
General Government:			
Executive Branch:			
Governor and staff	328,834	294,861	33,973
Special assistants	323,077	281,098	41,979
Treasury	637,635	766,711	(129,076)
Budget	304,271	240,510	63,761
Personnel	162,063	151,076	10,987
Public affairs	186,930	183,854	3,076
Land	485,161	533,769	(48,608)
National Health Insurance	<u>300,000</u>	<u>153,906</u>	<u>146,094</u>
	<u>2,727,971</u>	<u>2,605,785</u>	<u>122,186</u>
Legislative Branch:			
Legislative operations	544,701	524,980	19,721
Standing committees	117,000	114,911	2,089
Office of the speaker	47,934	41,428	6,506
Division of legislative clerk	124,502	122,326	2,176
Division of administrative services	157,333	145,333	12,000
Division of legislative counsel	346,110	287,240	58,870
Codification of Pohnpei State Law	-	20,508	(20,508)
Other	<u>260,300</u>	<u>243,677</u>	<u>16,623</u>
	<u>1,597,880</u>	<u>1,500,403</u>	<u>97,477</u>
Judicial Branch:			
Supreme court	326,292	326,488	(196)
Chief justice contingency	3,000	975	2,025
Municipal Courts	58,870	58,404	466
Public land commission	<u>177,000</u>	<u>170,280</u>	<u>6,720</u>
	<u>565,162</u>	<u>556,147</u>	<u>9,015</u>
Public auditor	60,269	56,001	4,268
Special audit	33,000	32,735	265
Uniform accounting system	<u>-</u>	<u>240</u>	<u>(240)</u>
	<u>93,269</u>	<u>88,976</u>	<u>4,293</u>
Total General Government	<u>4,984,282</u>	<u>4,751,311</u>	<u>232,971</u>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Statement of Revenues and Expenditures by Function and Changes in  
Fund Balance - Budget and Actual, Budgetary Basis - General Fund,  
Continued

The year ended September 30, 1990

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Health Services:</b>			
Hospital and dispensaries	\$ 1,683,931	\$ 1,691,363	\$ (7,432)
Dental	306,787	254,500	52,287
Medical referrals	-	(5,244)	5,244
Public health	513,943	423,383	90,560
Administration	<u>556,033</u>	<u>508,097</u>	<u>47,936</u>
<b>Total Health Services</b>	<u>3,060,694</u>	<u>2,872,099</u>	<u>188,595</u>
<b>Education:</b>			
Administration	109,400	100,464	8,936
Secondary	5,000	3,423	1,577
PICS meal program	20,000	19,114	886
Pre-school and elementary	<u>2,029,100</u>	<u>1,816,839</u>	<u>212,261</u>
<b>Total Education</b>	<u>2,163,500</u>	<u>1,939,840</u>	<u>223,660</u>
<b>Conservation and Resources:</b>			
Administration	68,456	60,516	7,940
Marine resources	142,500	89,393	53,107
Agriculture	376,332	382,874	(6,542)
Forestry	124,900	111,534	13,366
Economic planning	29,100	28,363	737
Energy	<u>47,450</u>	<u>47,061</u>	<u>389</u>
<b>Total Conservation and Resources</b>	<u>788,738</u>	<u>719,741</u>	<u>68,997</u>
<b>Public Works:</b>			
Administration	131,848	133,496	(1,648)
Operations and maintenance	231,057	170,026	61,031
Utility services	894,658	870,938	23,720
Construction management	101,900	85,294	16,606
CAT program	14,000	14,000	-
Fuel for power plant	445,000	445,000	-
Heavy duty equipment rental	<u>3,000</u>	<u>3,000</u>	<u>-</u>
<b>Total Public Works</b>	<u>1,821,463</u>	<u>1,721,754</u>	<u>99,709</u>
<b>Transportation:</b>			
Sea and air	81,000	80,663	337
Micro Glory	<u>474,773</u>	<u>411,959</u>	<u>62,814</u>
<b>Total Transportation</b>	<u>555,773</u>	<u>492,622</u>	<u>63,151</u>





**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Statement of Revenues and Expenditures by Function and Changes in  
Fund Balance - Budget and Actual, Budgetary Basis - General Fund,  
Continued  
The year ended September 30, 1990

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Justice:</b>			
Administration	\$ 89,393	\$ 88,971	\$ 422
Legal affairs	106,965	109,469	(2,504)
Public safety	533,564	510,831	22,733
Corrections and rehabilitation	102,156	101,770	386
Fire and disaster	90,017	79,743	10,274
Search & Rescue	<u>10,000</u>	<u>8,883</u>	<u>1,117</u>
 Total Justice	 <u>932,095</u>	 <u>899,667</u>	 <u>32,428</u>
 <b>Boards and Commissions:</b>			
Public Lands Board	-	170	(170)
Micronesia Island Fair	-	2,486	(2,486)
Women's program of PCAA	-	(80)	80
Pohnpei Public Library	49,500	42,932	6,568
Tourist Commission	65,900	60,309	5,591
Micronesian Legal Services	41,300	41,300	-
Sports council	61,300	44,579	16,721
Farmers Home Administration	59,600	61,871	(2,271)
Foreign investment board	64,700	52,572	12,128
Traditional affairs	3,000	2,980	20
Alms fund	10,000	6,874	3,126
RP & Pub. Utility Board	500	-	500
Leadership Conference	<u>10,000</u>	<u>8,885</u>	<u>1,115</u>
 Total Boards and Commissions	 <u>365,800</u>	 <u>324,878</u>	 <u>40,922</u>
 <b>Municipal Government:</b>			
Sokehs	161,330	121,335	39,995
Kitti	171,147	156,884	14,263
Madolenihmw	155,330	154,306	1,024
Uh	83,720	73,055	10,665
Kolonia	105,847	100,022	5,825
Pingilap	<u>59,964</u>	<u>57,856</u>	<u>2,108</u>
 Balance forward	 <u>737,338</u>	 <u>663,458</u>	 <u>73,880</u>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Statement of Revenues and Expenditures by Function and Changes in  
Fund Balance - Budget and Actual, Budgetary Basis - General Fund,  
Continued  
The year ended September 30, 1990

	Budget	Actual	Variance
Balance forwarded	\$ 737,338	\$ 663,458	\$ 73,880
Municipal Government, continued:			
Nett	114,243	93,560	20,683
Sapwauhfik	39,682	38,733	949
Mokil	24,759	24,759	-
Kapingamarangi	29,785	21,667	8,118
Nukuoro	20,024	16,487	3,537
Total Municipal Governments	965,831	858,664	107,167
Other	-	5,565	(5,565)
Total expenditures	15,638,176	14,586,141	1,052,035
Excess of revenues over expenditures	61,824	2,110,488	2,048,664
Other financing sources (uses):			
Operating transfers out	(458,945)	(377,925)	81,020
Total other financing sources (uses)	(458,945)	(377,925)	81,020
Excess (deficiency) of revenues and other sources over expenditures and other uses	(397,121)	1,732,563	2,129,684
Unreserved fund balance, beginning of year	3,376,670	3,376,670	-
Other changes in unreserved fund balance:			
Decrease/(Increase) in reserve for related assets	-	219,829	219,829
Decrease/(Increase) in reserve for diminution of investments	-	(894,999)	(894,999)
Decrease/(Increase) in reserve for continuing appropriations	-	20,508	20,508
Unreserved fund balance, end of year	\$ 2,979,549	\$ 4,454,571	\$1,475,022

STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA  
SPECIAL REVENUE FUNDS  
September 30, 1990

Specific revenues earmarked to finance particular activities of the Government are accounted for in Special Revenue Funds. A brief discussion of the State's Special Revenue Funds 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.

Seaport Revolving Fund

This fund accounts for the financial activity of the State seaport.

Airport Revolving Fund

This fund accounts for the financial activity of the State airport.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA  
SPECIAL REVENUE FUNDS, CONTINUED  
September 30, 1990**

**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 Maintenance Fund**

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

**CFSM State Projects Fund**

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

POHNPEI STATE GOVERNMENT

SPECIAL REVENUE FUNDS

Combining Balance Sheet

September 30, 1990

(With comparative totals as of September 30, 1989)

Assets	Compact Health & Education Fund	Compact Other Grants Fund	U.S. Federal Assistance Fund	Other Federal and Direct Assistance Fund	Seaport Revolving Fund	Airport Revolving Fund	Agriculture Revolving Fund	SVAP Revolving Fund	Airport Maintenance Fund	CFSM Project Fund	Totals	
											1990	1989
Cash and equivalents	\$ 1,017,527	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,017,527	\$ 1,027,285
Investments	-	227,783	-	-	-	-	-	-	-	-	227,783	360,000
Receivables from:												
Federal agencies - FSM National Government	-	-	1,341,522	-	-	-	-	-	-	-	1,341,522	739,481
Federal agencies, direct, other government	-	38,003	-	-	-	-	-	-	-	460,535	498,538	513,835
General	-	-	-	-	-	1,040	42,078	-	-	-	43,118	68,118
Advances	-	8,271	1,203	90	200	-	-	-	-	4,635	14,399	
Due from other funds	371,667	-	-	14,280	57,856	-	4,935	-	152,237	-	600,975	808,122
Inventories	-	-	-	-	-	-	41,645	-	-	-	41,645	41,645
<b>Total assets</b>	<b>\$1,389,194</b>	<b>\$274,057</b>	<b>\$1,342,725</b>	<b>\$ 14,370</b>	<b>\$ 58,056</b>	<b>\$ 1,040</b>	<b>\$ 88,658</b>	<b>\$ -</b>	<b>\$152,237</b>	<b>\$465,170</b>	<b>\$3,785,507</b>	<b>\$3,558,486</b>
<b>Liabilities and Fund Balance (Deficit)</b>												
Liabilities:												
Accounts payable	\$ 43,919	\$358,363	\$ (63,291)	\$ 5,852	\$ (1,716)	\$ (343)	\$ (16,879)	\$ (991)	\$ -	\$ 57,113	\$382,027	\$ 372,279
Accrued payroll	28,680	-	18,526	432	-	-	-	-	-	1,119	48,757	69,065
Due to other funds	-	344,271	1,549,069	-	-	19,727	-	6,241	-	444,721	2,364,029	1,319,139
Intergovernmental payables	-	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue	-	-	-	29,646	-	-	-	-	-	-	29,646	29,646
<b>Total liabilities</b>	<b>72,599</b>	<b>702,634</b>	<b>1,504,304</b>	<b>35,930</b>	<b>(1,716)</b>	<b>19,384</b>	<b>(16,879)</b>	<b>5,250</b>	<b>-</b>	<b>502,953</b>	<b>2,824,459</b>	<b>1,790,129</b>
Fund balance:												
Reserved for:												
Related assets	-	8,271	1,203	90	200	1,040	83,723	-	-	4,635	99,162	108,723
Encumbrances	31,266	15,080	479,627	50,316	2,924	499	23,127	1,954	15,000	49,477	669,270	877,904
Continuing appropriations	-	32,072	-	-	-	-	-	-	-	-	32,072	88,437
Unreserved	1,285,329	(484,000)	(642,409)	(71,966)	56,648	(19,883)	(1,313)	(7,204)	137,237	(91,895)	160,544	693,293
<b>Total fund balance (deficit)</b>	<b>1,316,595</b>	<b>(428,577)</b>	<b>(161,579)</b>	<b>(21,560)</b>	<b>59,772</b>	<b>(18,344)</b>	<b>105,537</b>	<b>(5,250)</b>	<b>152,237</b>	<b>(37,783)</b>	<b>961,048</b>	<b>1,768,357</b>
<b>Total liabilities and fund balance</b>	<b>\$1,389,194</b>	<b>\$274,057</b>	<b>\$1,342,725</b>	<b>\$ 14,370</b>	<b>\$ 58,056</b>	<b>\$ 1,040</b>	<b>\$ 88,658</b>	<b>\$ -</b>	<b>\$152,237</b>	<b>\$465,170</b>	<b>\$3,785,507</b>	<b>\$3,558,486</b>

POHNPEI STATE GOVERNMENT

SPECIAL REVENUE FUNDS

Combining Statement of Revenue, Expenditures  
and Changes in Fund Balance (Deficit)

The year ended September 30, 1990

(With comparative totals for the year ended September 30, 1989)

	Compact Health & Education Fund	Compact Other Grants Fund	U.S. Federal Assistance Fund	Other Federal and Direct Assistance Fund	Seaport Revolving Fund	Airport Revolving Fund	Agriculture Revolving Fund	SVAP Revolving Fund	Airport Mainte- nance Fund	CFSM Project Fund	Totals	
											1990	1989
<b>Revenues:</b>												
<b>Compact of Free Association:</b>												
Base grant	\$1,890,000	\$1,107,783	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$2,997,783	\$2,997,783
Inflation adjustment	-	300,000	-	-	-	-	-	-	-	-	300,000	270,000
<b>Federal contributions -</b>												
FSM National Government	-	-	2,457,313	-	-	-	-	-	-	292,954	2,750,267	4,351,898
Other	-	-	12,888	102,670	7,569	7,267	202,472	9,881	99,865	-	442,612	431,553
<b>Total revenues</b>	<b>1,890,000</b>	<b>1,407,783</b>	<b>2,470,201</b>	<b>102,670</b>	<b>7,569</b>	<b>7,267</b>	<b>202,472</b>	<b>9,881</b>	<b>99,865</b>	<b>292,954</b>	<b>6,490,662</b>	<b>8,051,234</b>
<b>Expenditures:</b>												
General government	-	-	428,656	5,844	-	-	-	-	-	202,767	637,267	73,273
Health services	26,072	431,469	376,025	43,012	-	-	-	-	-	78,635	955,213	1,062,304
Education	1,917,059	433,354	1,015,124	-	-	-	-	-	-	524	3,366,061	4,528,180
Resources and development	-	-	162,901	4,604	-	-	187,128	-	-	6,110	360,743	1,573,090
Public works	-	1,305,067	487,495	4,734	-	-	-	-	-	4,918	1,802,214	1,592,375
Others	-	84,818	-	2,222	32,597	6,594	-	20,864	29,378	-	176,473	60,078
<b>Total expenditures</b>	<b>1,943,131</b>	<b>2,254,708</b>	<b>2,470,201</b>	<b>60,416</b>	<b>32,597</b>	<b>6,594</b>	<b>187,128</b>	<b>20,864</b>	<b>29,378</b>	<b>292,954</b>	<b>7,297,971</b>	<b>8,889,300</b>
Revenues over (under) expenditures	(53,131)	(846,925)	-	42,254	(25,028)	673	15,344	(10,983)	70,487	-	(807,309)	(838,066)
<b>Other sources (uses):</b>												
Recovery of prior year debt	-	-	-	-	-	-	-	-	-	-	-	707,155
Excess (deficiency) of revenue and other sources over expend- itures and other uses	(53,131)	(846,925)	-	42,254	(25,028)	673	15,344	(10,983)	70,487	-	(807,309)	(130,911)
Fund balance (deficit), beginning of year	1,369,726	418,348	(161,579)	(63,814)	84,800	(19,017)	90,193	5,733	81,750	(37,783)	1,768,357	1,899,268
Fund balance (deficit), end of year	\$1,316,595	\$(428,577)	\$(161,579)	\$(21,560)	\$59,772	\$(18,344)	\$105,537	\$(5,250)	\$152,237	\$(37,783)	\$ 961,048	\$1,768,357

POHNPEI STATE GOVERNMENT

SPECIAL REVENUE FUNDS

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

For the year ended September 30, 1990

(With comparative totals for the year ended September 30, 1989)

	Compact Health & Education Fund	Compact Other Grants Fund	U.S. Federal Assistance Fund	Other Federal and Direct Assistance Fund	Seaport Revolving Fund	Airport Revolving Fund	Agriculture Revolving Fund	SVAP Revolving Fund	Airport Mainte- nance Fund	CFSM Project Fund	Totals	
											1990	1989
<b>Revenues:</b>												
<b>Compact of Free Association:</b>												
Base grant	\$1,890,000	\$1,107,783	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$2,997,783	\$2,997,783
Inflation adjustment	-	300,000	-	-	-	-	-	-	-	-	300,000	270,000
<b>Federal contributions -</b>												
FSM National Government	-	-	2,457,313	-	-	-	-	-	-	292,954	2,750,267	4,351,898
Other	-	-	12,888	102,670	7,569	7,267	202,472	9,881	99,865	-	442,612	431,553
<b>Total revenues</b>	<u>1,890,000</u>	<u>1,407,783</u>	<u>2,470,201</u>	<u>102,670</u>	<u>7,569</u>	<u>7,267</u>	<u>202,472</u>	<u>9,881</u>	<u>99,865</u>	<u>292,954</u>	<u>6,490,662</u>	<u>8,051,234</u>
<b>Expenditures:</b>												
Personnel services	1,760,047	-	1,114,255	10,082	23	-	-	-	-	77,542	2,961,949	4,036,277
Travel	3,500	194,573	117,686	6,157	1,676	(1,800)	-	-	-	60,199	381,991	262,215
Supplies and materials	19,305	4,186	305,652	6,713	3,906	1,974	116,489	8,416	-	40,708	507,349	2,147,096
Fuel	983	1,305,067	23,086	2,134	798	-	-	-	-	705	1,332,773	855,850
Equipment	6,888	24,984	234,726	5,932	535	-	-	3,013	2,500	78,423	357,001	557,062
Contractual services	6,500	-	411,033	-	-	6,194	-	-	20,000	-	443,727	717,829
Others	145,908	725,898	263,763	29,398	25,659	226	70,639	9,435	6,878	35,377	1,313,181	312,971
<b>Total expenditures</b>	<u>1,943,131</u>	<u>2,254,708</u>	<u>2,470,201</u>	<u>60,416</u>	<u>32,597</u>	<u>6,594</u>	<u>187,128</u>	<u>20,864</u>	<u>29,378</u>	<u>292,954</u>	<u>7,297,971</u>	<u>8,889,300</u>
Revenues over (under) expenditures	(53,131)	(846,925)	-	42,254	(25,028)	673	15,344	(10,983)	70,487	-	(807,309)	(838,066)
<b>Other sources (uses):</b>												
Recovery of prior year debt	-	-	-	-	-	-	-	-	-	-	-	707,155
Excess (deficiency) of revenue and other sources over expend- itures and other uses	(53,131)	(846,925)	-	42,254	(25,028)	673	15,344	(10,983)	70,487	-	(807,309)	(130,911)
<b>Fund balance (deficit), beginning of year</b>	<u>1,369,726</u>	<u>418,348</u>	<u>(161,579)</u>	<u>(63,814)</u>	<u>84,800</u>	<u>(19,017)</u>	<u>90,193</u>	<u>5,733</u>	<u>81,750</u>	<u>(37,783)</u>	<u>1,768,357</u>	<u>1,899,268</u>
<b>Fund balance (deficit), end of year</b>	<u>\$1,316,595</u>	<u>\$(428,577)</u>	<u>\$(161,579)</u>	<u>\$(21,560)</u>	<u>\$59,772</u>	<u>\$(18,344)</u>	<u>\$105,537</u>	<u>\$(5,250)</u>	<u>\$152,237</u>	<u>\$(37,783)</u>	<u>\$ 961,048</u>	<u>\$1,768,357</u>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA  
CAPITAL PROJECTS FUNDS  
September 30, 1990**

Appropriations or grants earmarked to finance capital projects of the Government 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.



**STATE OF POHNPEI**  
**FEDERATED STATES OF MICRONESIA**  
**CAPITAL PROJECTS FUNDS**  
**Combining Balance Sheet**  
**September 30, 1990**  
 (With comparative totals as of September 30, 1989)

<u>Assets</u>	Compact Capital Projects Fund	TTG Capital Projects Fund	<u>Totals</u>	
			<u>1990</u>	<u>1989</u>
Cash and equivalents	\$ 831,002	\$ -	\$ 831,002	\$ -
Investments	11,915,544	-	11,915,544	12,025,144
Receivables from:				
Dept. of the Interior grants - TTG	-	94,011	94,011	-
FSM National Government	-	-	-	43,910
Loans Receivable	7,500,000	-	7,500,000	-
Due from other funds	<u>572,419</u>	<u>-</u>	<u>572,419</u>	<u>-</u>
<b>Total assets</b>	<b><u>\$ 20,818,965</u></b>	<b><u>\$ 94,011</u></b>	<b><u>\$ 20,912,976</u></b>	<b><u>\$ 12,069,054</u></b>
<u>Liabilities and Fund Balance</u>				
Liabilities:				
Accounts payable	\$ 53,785	\$ -	\$ 53,785	\$ 121,154
Accrued payroll	2,638	-	2,638	4,328
Due to other funds	<u>-</u>	<u>94,011</u>	<u>94,011</u>	<u>761,836</u>
<b>Total liabilities</b>	<b><u>56,423</u></b>	<b><u>94,011</u></b>	<b><u>150,434</u></b>	<b><u>887,318</u></b>
Fund balance:				
Reserved for:				
Long-term loan	3,750,000	-	3,750,000	-
Encumbrances	2,841,594	449	2,842,043	5,043,042
Continuing appropriations	5,545,766	-	5,545,766	291,231
Unreserved	<u>8,625,182</u>	<u>(449)</u>	<u>8,624,733</u>	<u>5,847,463</u>
<b>Total fund balance</b>	<b><u>20,762,542</u></b>	<b><u>-</u></b>	<b><u>20,762,542</u></b>	<b><u>11,181,736</u></b>
<b>Total liabilities and fund balance</b>	<b><u>\$ 20,818,965</u></b>	<b><u>\$ 94,011</u></b>	<b><u>\$ 20,912,976</u></b>	<b><u>\$ 12,069,054</u></b>

**STATE OF POHNPEI**  
**FEDERATED STATES OF MICRONESIA**  
**CAPITAL PROJECTS FUNDS**  
 Combining Statement of Revenues,  
 Expenditures and Changes in Fund Balance  
 The year ended September 30, 1990  
 (With comparative totals for the year ended September 30, 1989)

	Compact Capital Projects Fund	TTG Capital Projects Fund	<u>Totals</u>	
			<u>1990</u>	<u>1989</u>
<b>Revenues:</b>				
Compact of Free Association:				
Base grant	\$ 6,108,000	\$ -	\$ 6,108,000	\$ 6,108,000
Inflation adjustment	1,832,400	-	1,832,400	1,649,160
Department of the Interior grants	-	50,100	50,100	-
Other	<u>97,396</u>	<u>-</u>	<u>97,396</u>	<u>134,875</u>
Total revenues	<u>8,037,796</u>	<u>50,100</u>	<u>8,087,896</u>	<u>7,892,035</u>
<b>Expenditures:</b>				
Capital projects	<u>7,538,967</u>	<u>50,100</u>	<u>7,589,067</u>	<u>7,446,985</u>
Total expenditures	<u>7,538,967</u>	<u>50,100</u>	<u>7,589,067</u>	<u>7,446,985</u>
Revenues over expenditures	498,829	-	498,829	445,050
<b>Other sources (uses):</b>				
Bond proceeds	14,650,000	-	14,650,000	-
Transfer out	<u>(5,568,023)</u>	<u>-</u>	<u>(5,568,023)</u>	<u>(1,358,004)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	9,580,806	-	9,580,806	(912,954)
Fund balance, beginning of year	<u>11,181,736</u>	<u>-</u>	<u>11,181,736</u>	<u>12,094,690</u>
Fund balance, end of year	<u>\$ 20,762,542</u>	<u>\$ -</u>	<u>\$ 20,762,542</u>	<u>\$ 11,181,736</u>

**STATE OF Pohnpei**  
**FEDERATED STATES OF MICRONESIA**  
**CAPITAL PROJECTS FUNDS**  
Combining Statement of Revenues,  
Expenditures by Account and Changes in Fund Balance  
The year ended September 30, 1990  
(With comparative totals for the year ended September 30, 1989)

	Compact Capital Projects Fund	TTG Capital Projects Fund	Totals	
			1990	1989
<b>Revenues:</b>				
Compact of Free Association:				
Base grant	\$ 6,108,000	\$ -	\$ 6,108,000	\$ 6,108,000
Inflation adjustment	1,832,400	-	1,832,400	1,649,160
Department of the Interior grants	-	50,100	50,100	-
Other	<u>97,396</u>	<u>-</u>	<u>97,396</u>	<u>134,875</u>
<b>Total revenues</b>	<u>8,037,796</u>	<u>50,100</u>	<u>8,087,896</u>	<u>7,892,035</u>
<b>Expenditures:</b>				
Personnel services	110,757	-	110,757	164,618
Travel	131,165	1,022	132,187	36,880
Supplies and materials	231,556	6,613	238,169	266,658
Fuel	739	-	739	2,985
Equipment	545,082	785	545,867	175,966
Contractual Services	5,751,202	41,680	5,792,882	6,799,878
Other	<u>768,466</u>	<u>-</u>	<u>768,466</u>	<u>-</u>
<b>Total expenditures</b>	<u>7,538,967</u>	<u>50,100</u>	<u>7,589,067</u>	<u>7,446,985</u>
Revenues over expenditures	498,829	-	498,829	445,050
<b>Other sources (uses):</b>				
Bond proceeds	14,650,000	-	14,650,000	-
Transfer out	<u>(5,568,023)</u>	<u>-</u>	<u>(5,568,023)</u>	<u>(1,358,004)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	9,580,806	-	9,580,806	(912,954)
Fund balance, beginning of year	<u>11,181,736</u>	<u>-</u>	<u>11,181,736</u>	<u>12,094,690</u>
Fund balance, end of year	<u>\$ 20,762,542</u>	<u>\$ -</u>	<u>\$ 20,762,542</u>	<u>\$ 11,181,736</u>

**STATE OF POHNPEI**  
**FEDERATED STATES OF MICRONESIA**  
**ENTERPRISE FUNDS**  
September 30, 1990

The Enterprise Funds are used to account for the operations of certain agencies which provide goods or services to the general public on a user charge basis. The State government's enterprise operations are described below.

Pohnpei State Transportation Authority (PTA) was initially established by the State Legislature to construct the circumferential road for the island of Pohnpei. Currently, Pohnpei Transportation Authority contracts with the State Municipal governments to construct secondary farm roads, performs other construction maintenance on a user charge basis and has been contracted by the State to begin paving the island circumferential road.

Pohnpei State Economic Development Authority (EDA) was established pursuant to Pohnpei State Law 41-159-78 in 1978. The purpose of the Authority is to promote economic development projects within the State of Pohnpei.

Pohnpei State Housing Authority (PSHA) was established by State Public Law 5-37. 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.

**STATE OF Pohnpei**  
**FEDERATED STATES OF MICRONESIA**  
**ENTERPRISE FUNDS**  
**Combining Balance Sheet**  
**September 30, 1990**

<u>Assets</u>	Pohnpei Transportation	Pohnpei Economic Development	Pohnpei State Housing	<u>Totals</u>	
	<u>Authority</u>	<u>Authority</u>	<u>Authority</u>	<u>1990</u>	<u>1989</u>
Cash & equivalents	\$ -	\$ 22,793	\$ 560,900	\$ 583,693	\$ 274,806
Investments	-	1,882,319	-	1,882,319	-
Time certificates of deposit	-	-	-	-	232,437
Advance	2,215	-	-	2,215	1,198,500
General receivables, net	-	200,265	-	200,265	34,910
Loan receivable, net	-	4,653	1,355,219	1,359,872	1,015,382
Inventory	-	91,252	53,619	144,871	135,829
Fixed assets, net	<u>-</u>	<u>1,310,700</u>	<u>-</u>	<u>1,310,700</u>	<u>1,394,774</u>
 Total assets	 <u>\$ 2,215</u>	 <u>\$ 3,511,982</u>	 <u>\$ 1,969,738</u>	 <u>\$5,483,935</u>	 <u>\$4,286,638</u>
 <u>Liabilities and Fund</u>					
<u>Equity (Deficit)</u>					
Accounts payable	\$ 171,987	\$ 255,204	\$ 110,000	\$ 537,191	\$ 249,678
Accrued liabilities	29,273	20,723	6,927	56,923	85,942
Deferred revenue	-	27,325	-	27,325	23,257
Other fund liabilities	573,360	-	-	573,360	162,909
Notes payable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>148,103</u>
 Total current liabilities	 774,620	 303,252	 116,927	 1,194,799	 669,889
Long-term debt	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,101,670</u>
 Total liabilities	 <u>774,620</u>	 <u>303,252</u>	 <u>116,927</u>	 <u>1,194,799</u>	 <u>1,771,559</u>
 Fund equity:					
Contributed capital	-	3,794,541	1,999,771	5,794,312	3,261,317
Retained earnings (deficit)	<u>(772,405)</u>	<u>(585,811)</u>	<u>(146,960)</u>	<u>(1,505,176)</u>	<u>(746,238)</u>
 Total fund equity (deficit)	 <u>(772,405)</u>	 <u>3,208,730</u>	 <u>1,852,811</u>	 <u>4,289,136</u>	 <u>2,515,079</u>
 Total liabilities and fund equity (deficit)	 <u>\$ 2,215</u>	 <u>\$ 3,511,982</u>	 <u>\$ 1,969,738</u>	 <u>\$5,483,935</u>	 <u>\$4,286,638</u>

**STATE OF Pohnpei**  
**FEDERATED STATES OF MICRONESIA**  
**ENTERPRISE FUNDS**

Combining Statement of Revenues and Expenses and  
Changes in Fund Equity (Deficit)  
The year ended September 30, 1990

	Pohnpei Transportation Authority	Pohnpei Economic Development Authority	Pohnpei State Housing Authority	<u>Totals</u>	
				1990	1989
<b>Revenues:</b>					
Charges for service	\$ 251,206	\$ 476,747	\$ -	\$ 727,953	\$ 372,714
Rental income	32,857	-	-	32,857	32,511
Other	<u>44,917</u>	<u>-</u>	<u>28,599</u>	<u>73,516</u>	<u>18,140</u>
<b>Total revenues</b>	<u>328,980</u>	<u>476,747</u>	<u>28,599</u>	<u>834,326</u>	<u>423,365</u>
<b>Operating expenses:</b>					
Personnel services	334,164	236,107	81,544	651,815	286,893
Travel	19,353	34,505	1,583	55,441	11,699
Supplies and materials	186,795	21,246	3,597	211,638	12,642
Fuel	50,754	7,927	-	58,681	2,390
Capital outlays	85,188	-	1,000	86,188	20,559
Contractual services	1,680,706	-	-	1,680,706	1,358,004
Other	<u>134,337</u>	<u>776,403</u>	<u>4,308</u>	<u>915,048</u>	<u>1,019,153</u>
<b>Total operating expenses</b>	<u>2,491,297</u>	<u>1,076,188</u>	<u>92,032</u>	<u>3,659,517</u>	<u>2,711,340</u>
<b>Operating (loss)</b>	<u>(2,162,317)</u>	<u>(599,441)</u>	<u>(63,433)</u>	<u>(2,825,191)</u>	<u>(2,287,975)</u>
<b>Non-operating revenues</b>					
<b>(expenses)</b>					
Operating transfers in	1,742,431	385,945	92,032	2,220,408	1,647,993
Equity loss on investment	-	(117,681)	-	(117,681)	-
Interest expense	-	(78,589)	-	(78,589)	(49,608)
Others	<u>-</u>	<u>42,115</u>	<u>-</u>	<u>42,115</u>	<u>-</u>
<b>Total non-operating</b>					
<b>revenues, net</b>	<u>1,742,431</u>	<u>231,790</u>	<u>92,032</u>	<u>2,066,253</u>	<u>1,598,385</u>
<b>Net income (loss)</b>	(419,886)	(367,651)	28,599	(758,938)	(689,590)
<b>Retained earnings (deficit),</b>					
<b>beginning of year</b>	<u>(352,519)</u>	<u>(218,160)</u>	<u>(175,559)</u>	<u>(746,238)</u>	<u>(56,648)</u>
<b>Retained earnings (deficit),</b>					
<b>end of year</b>	<u>\$ (772,405)</u>	<u>\$ (585,811)</u>	<u>\$ (146,960)</u>	<u>\$ (1,505,176)</u>	<u>\$ (746,238)</u>
<b>Contributed capital, beginning</b>					
<b>of the year</b>	\$ -	\$ 1,761,546	\$ 1,499,771	\$ 3,261,317	\$ 833,615
<b>Less opening balance adjustment</b>	-	(1,198,500)	-	(1,198,500)	-
<b>Other additions for the year</b>	<u>-</u>	<u>3,231,495</u>	<u>500,000</u>	<u>3,731,495</u>	<u>2,427,702</u>
<b>Contributed capital,</b>					
<b>end of year</b>	<u>\$ -</u>	<u>\$ 3,794,541</u>	<u>\$ 1,999,771</u>	<u>\$ 5,794,312</u>	<u>\$ 3,261,317</u>

**STATE OF POHNPEI**  
**FEDERATED STATES OF MICRONESIA**  
**ENTERPRISE FUNDS**  
Combining Statement of Cash Flows  
The year ended September 30, 1990

	<u>Pohnpei Economic Development Authority</u>	<u>Pohnpei State Housing Authority</u>	<u>Totals</u>  <u>1990</u>
<b>Operating Activities:</b>			
Net income (loss)	\$ (367,651)	\$ 28,599	\$ (339,052)
Add back items not affecting Cash:			
Depreciation	89,060	-	89,060
Equity loss on investment	<u>117,681</u>	<u>-</u>	<u>117,681</u>
	<u>(160,910)</u>	<u>28,599</u>	<u>(132,311)</u>
<b>Changes in Working Capital Sources (Uses):</b>			
Time certificates of deposit	35,437	197,000	232,437
Advances	1,198,500	-	1,198,500
Inventory	18,458	(27,500)	(9,042)
General receivables	(165,355)	-	(165,355)
Loans receivable	91,811	(436,301)	(344,490)
Accounts payable	228,255	50,905	279,160
Accrued liabilities	(29,026)	(3,290)	(32,316)
Deferred revenue	<u>4,068</u>	<u>-</u>	<u>4,068</u>
	<u>1,382,148</u>	<u>(219,186)</u>	<u>1,162,962</u>
Cash used by operating activities	<u>1,221,238</u>	<u>(190,587)</u>	<u>1,030,651</u>
<b>Investing Activities Sources (Uses):</b>			
Acquisition of investment	<u>(2,000,000)</u>	<u>-</u>	<u>(2,000,000)</u>
Cash used by investing activities	<u>(2,000,000)</u>	<u>-</u>	<u>(2,000,000)</u>
<b>Capital and Related Financing Activities:</b>			
Cash payments for acquisition of capital assets	<u>(1,254,759)</u>	<u>-</u>	<u>(1,254,759)</u>
Cash used by capital and related financing activities	<u>(1,254,759)</u>	<u>-</u>	<u>(1,254,759)</u>

**STATE OF POHNPEI**  
**FEDERATED STATES OF MICRONESIA**  
Combining Statement of Cash Flows, Continued  
All Proprietary Fund Types  
The year ended September 30, 1990

	<u>Pohnpei Economic Development Authority</u>	<u>Pohnpei State Housing Authority</u>	<u>Totals</u> <u>1990</u>
<b>Financing Activities Sources</b>			
(Uses):			
Contributed capital	\$ 3,231,495	\$ 500,000	\$3,731,495
Adjustment to contributed capital	<u>(1,198,500)</u>	<u>-</u>	<u>(1,198,500)</u>
Cash provided by financing activities	<u>2,032,995</u>	<u>500,000</u>	<u>2,532,995</u>
Net increase/(decrease) in cash and equivalents	(526)	309,413	308,887
Cash and equivalents, beginning of year	<u>23,319</u>	<u>251,487</u>	<u>274,806</u>
Cash and equivalents, end of year	<u>\$ 22,793</u>	<u>\$ 560,900</u>	<u>\$ 583,693</u>



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA  
EXPENDABLE TRUST FUNDS  
September 30, 1990**

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

Public Land Trust Fund

This fund accounts for all revenues generated from the administration, management and disposition of public lands in Pohnpei State.

**STATE OF POHNPEI**  
**FEDERATED STATES OF MICRONESIA**  
**EXPENDABLE TRUST FUND**  
**Combining Balance Sheet**  
**September 30, 1990**  
(With comparative totals as of September 30, 1989)

	<u>Public Land</u> <u>Trust Fund</u>	<u>Totals</u>	
		<u>1990</u>	<u>1989</u>
<b><u>Assets</u></b>			
Cash and equivalents	\$ -	\$ -	\$ -
General receivables	1,851	1,851	1,851
Advances	1,390	1,390	
Due from other funds	<u>317,257</u>	<u>317,257</u>	<u>294,793</u>
 Total assets	 <u>\$ 320,498</u>	 <u>\$ 320,498</u>	 <u>\$ 296,644</u>
 <b><u>Liabilities and Fund</u></b> <b><u>Balances</u></b>			
<b>Liabilities:</b>			
Accounts payable	\$ 729	\$ 729	\$ -
Due to other funds	-	-	-
Deferred revenue	<u>28,097</u>	<u>28,097</u>	<u>37,462</u>
 Total liabilities	 <u>28,826</u>	 <u>28,826</u>	 <u>37,462</u>
 <b>Fund balance:</b>			
<b>Reserved for:</b>			
Related assets	3,241	3,241	-
Encumbrances	11,731	11,731	-
Unreserved	<u>276,700</u>	<u>276,700</u>	<u>259,182</u>
 Total fund balance	 <u>291,672</u>	 <u>291,672</u>	 <u>259,182</u>
 Total liabilities and fund balance	 <u>\$ 320,498</u>	 <u>\$ 320,498</u>	 <u>\$ 296,644</u>

**STATE OF POHNPEI**  
**FEDERATED STATES OF MICRONESIA**  
**EXPENDABLE TRUST FUND**  
Combining Statement of Revenues, Expenditures  
and Changes in Fund Balance  
The year ended September 30, 1990  
(With comparative totals for the year ended September 30, 1989)

	<u>Public Land Trust Fund</u>	<u>Totals</u>	
		<u>1990</u>	<u>1989</u>
<b>Revenues:</b>			
Rental	\$ 51,624	\$ 51,624	\$ 118,484
Interest	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	<u>51,624</u>	<u>51,624</u>	<u>118,484</u>
<b>Expenditures:</b>			
Central government	19,134	19,134	-
Culture and recreation	-	-	-
Other	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>19,134</u>	<u>19,134</u>	<u>-</u>
Revenues over expenditures	32,490	32,490	118,484
Other sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues and other sources over expenditures and other uses	32,490	32,490	-
Fund balance, beginning of year	<u>259,182</u>	<u>259,182</u>	<u>140,698</u>
Fund balance, end of year	<u>\$ 291,672</u>	<u>\$ 291,672</u>	<u>\$ 259,182</u>

**STATE OF POHNPEI**  
**FEDERATED STATES OF MICRONESIA**  
**EXPENDABLE TRUST FUND**  
 Combining Statement of Revenues, Expenditures by Account  
 and Changes in Fund Balance  
 The year ended September 30, 1990  
 (With comparative totals for the year ended September 30, 1989)

	<u>Public Land Trust Fund</u>	<u>Totals</u>	
		<u>1990</u>	<u>1989</u>
<b>Revenues:</b>			
Rental	\$ 51,624	\$ 51,624	\$ 118,484
Interest	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	<u>51,624</u>	<u>51,624</u>	<u>118,484</u>
<b>Expenditures:</b>			
Personnel services	1,026	1,026	-
Travel	3,455	3,455	-
Supplies and materials	608	608	-
Fuel	364	364	-
Equipment	-	-	-
Other	<u>13,681</u>	<u>13,681</u>	<u>-</u>
Total expenditures	<u>19,134</u>	<u>19,134</u>	<u>-</u>
Revenues over expenditures	32,490	32,490	118,484
Other sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues and other sources over expenditures and other uses	32,490	32,490	-
Fund balance, beginning of year	<u>259,182</u>	<u>259,182</u>	<u>140,698</u>
Fund balance, end of year	<u>\$ 291,672</u>	<u>\$ 291,672</u>	<u>\$ 259,182</u>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA  
SINGLE AUDIT REPORTS  
YEAR ENDED SEPTEMBER 30, 1990**



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

Honorable Resio Moses  
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, 1990, and have issued our report thereon dated February 15, 1991.

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

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

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

This report is intended for the information of the State of Pohnpei and the cognizant audit and other federal agencies and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

February 15, 1991

Certified Public Accountants



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

Honorable Resio Moses  
Governor, State of Pohnpei  
Federated States of Micronesia

We have audited the State of Pohnpei's compliance with the requirements governing types of services allowed or unallowed; eligibility; the Compact of Free Association; level of effort, or earmarking; reporting; and claims for advances and reimbursements that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying schedule on page 28, for the year ended September 30, 1990. The management of the State of Pohnpei is responsible for the State's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-128, "Audits of State and Local Governments." Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying schedule of findings and questioned costs. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the State of Pohnpei complied, in all material respects, with the requirements governing the Compact of Free Association; types of services allowed or unallowed; eligibility; level of effort or earmarking; reporting; claims for advances and reimbursements and funds matching requirements that are applicable to each of its major federal financial assistance programs for the year ended September 30, 1990.

February 15, 1991

*Deloitte & Touche*

Certified Public Accountants





**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE**  
**WITH GENERAL REQUIREMENTS**

Honorable Resio Moses  
Governor, State of Pohnpei  
Federated States of Micronesia

We have applied procedures to test the State of Pohnpei's compliance with the following requirements applicable to each of its major federal financial assistance programs, which are identified in the schedule of federal financial assistance, for the year ended September 30, 1990: cash management and federal financial reports.

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's Compliance Supplement for Single Audits of State and Local Governments. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on Pohnpei State's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the first paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the State of Pohnpei had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the accompanying schedule of findings and questioned costs.

This report is intended for the information of the State of Pohnpei and the cognizant audit and other federal agencies and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

February 15, 1991

Certified Public Accountants



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

Honorable Resio Moses  
Governor, State of Pohnpei  
Federated States of Micronesia

In connection with our audit of the 1990 general purpose financial statements of the State of Pohnpei, and with our study and evaluation of the State's internal control systems used to administer federal financial assistance programs, as required by Office of Management and Budget Circular A-128, "Audits of State and Local Government," we selected certain transactions applicable to certain nonmajor federal financial assistance programs for the year ended September 30, 1990.

As required by Circular A-128, we have performed auditing procedures to test compliance with the requirements governing types of services allowed or unallowed; eligibility; the Compact of Free Association; funds matching requirements and federal financial reports that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the State's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the State of Pohnpei had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of non-compliance with those requirements, which are described in the accompanying schedule of findings and questioned costs.

This report is intended for the information of the State of Pohnpei and the cognizant audit and the other federal agencies and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

February 15, 1991

Certified Public Accountants



**INDEPENDENT AUDITORS' REPORT ON INTERNAL  
(ACCOUNTING AND ADMINISTRATIVE) CONTROL**

Honorable Resio Moses  
Governor, State of Pohnpei  
Federated States of Micronesia

We have audited the general purpose financial statements of the State of Pohnpei, for the year ended September 30, 1990, and have issued our report thereon dated February 15, 1991. As part of our audit, we made a study and evaluation of the internal control systems, including applicable internal administrative controls, used in administering federal financial assistance programs to the extent we considered necessary to evaluate the systems as required by generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States, the Single Audit Act of 1984, and the provisions of Office of Management and Budget Circular A-128, "Audits of State and Local Government"

For the purpose of this report, we have classified the significant internal accounting and administrative controls used in administering federal financial assistance programs into the following categories: payroll, purchases/disbursements, treasury/cash management, revenues/receipts, external financial reporting, types of services, eligibility, the Compact of Free Association, cash management and federal financial reports.

The management of Pohnpei State is responsible for establishing and maintaining internal control systems used in administering federal financial assistance programs. In fulfilling that responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures.

The objectives of internal control systems used in administering federal financial assistance programs are to provide management with reasonable, but not absolute, assurance that, with respect to federal financial assistance programs, resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data are obtained, maintained, and fairly disclosed in reports.

Because of inherent limitations in any system of internal accounting and administrative controls used in administering federal financial assistance programs, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the systems to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study included all of the applicable control categories listed above. During the year ended September 30, 1990, Pohnpei State expended 97.5% of its total federal financial assistance under major federal financial assistance programs. With respect to internal control systems used in administering major federal financial assistance programs, our study and evaluation included considering the type of errors and irregularities that could occur, determining the internal control procedures that should prevent or detect such errors and irregularities, determining whether the necessary procedures are prescribed and are being followed satisfactorily, and evaluating any weaknesses.

With respect to the internal control systems used solely in administering nonmajor federal financial assistance programs of Pohnpei State, our study and evaluation was limited to a preliminary review of the systems to obtain an understanding of the control environment and the flow of transactions through the accounting system. Our study and evaluation of the internal control systems used solely in administering the nonmajor federal financial assistance programs of Pohnpei State did not extend beyond this preliminary review phase.

Our study and evaluation was more limited than would be necessary to express an opinion on the internal control systems used in administering the federal financial assistance programs of Pohnpei State. Accordingly, we do not express an opinion on the internal control systems used in administering the federal financial assistance programs of Pohnpei State. Further, we do not express an opinion on the internal control systems used in administering the major federal financial assistance programs of Pohnpei State.

Also, our audit, made in accordance with the standards mentioned above, would not necessarily disclose material weaknesses in the internal control systems used solely in administering nonmajor federal financial assistance programs.

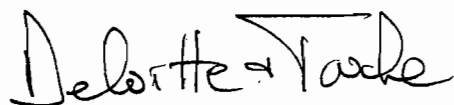


However, our study and evaluation and our audit disclosed the conditions specified in the following pages that we believe result in more than a relatively low risk that errors or irregularities in amounts that would be material to a federal financial assistance programs may occur and not be detected within a timely period.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in (1) our audit of the 1990 financial statements and (2) our audit and review of Pohnpei State's compliance with laws and regulations noncompliance with which we believe could have a material effect on the allowability of program expenditures for each major federal financial assistance program and nonmajor federal financial assistance programs. This report does not affect our reports on the general purpose financial statements and on Pohnpei State's compliance with the laws and regulations dated February 15, 1991.

This report is intended solely for the use of the State of Pohnpei, and the cognizant audit and other federal agencies and should not be used for any other purpose.

February 15, 1991



Certified Public Accountants





**INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY  
INFORMATION - STATEMENT OF EXPENDITURES  
AND QUESTIONED COSTS**

Honorable Resio Moses  
Governor, State of Pohnpei  
Kolonia, Pohnpei 96941

We have audited the general purpose financial statements of the State of Pohnpei for the year ended September 30, 1990, and have issued our report thereon dated February 15, 1991. These general purpose financial statements are the responsibility of Pohnpei State's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

Our audit was made for the purpose of forming an opinion on the general purpose financial statements of the State of Pohnpei taken as a whole. The accompanying statement of expenditures and questioned costs is presented for purposes of additional analysis and is not a required part of the general purpose financial statements and, in our opinion, except for those matters described in our report referenced in the first paragraph, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

February 15, 1991

Certified Public Accountants

**STATE OF POHNPEI**  
**FEDERATED STATES OF MICRONESIA**  
**INTRODUCTION TO COMPACT OF FREE ASSOCIATION**  
**FUNDING, FEDERAL AND OTHER ASSISTANCE FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 1990**

Compact Funds

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

During fiscal year 1990, the State of Pohnpei Government submitted quarterly allocation requests to the FSM National Government for the current account. The current operation funds were transferred to State of Pohnpei's designated banking institution based on the quarterly allocation requests. The capital project funds, which must comprise at least 40 percent of the total annual allocation, remain with the trustee institution and are drawn down upon request by State of Pohnpei. Capital account funds are transferred in their annual base amounts on the first day of the fiscal year. Block grant funds are transferred with the initial quarterly current account allocation request and these funds were then appropriated by the Pohnpei State Legislature in accordance with the guidelines of the Compact. The United States Government annually adjusts Compact funding for inflation.

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

## Federal Funds

The State of Pohnpei Government remained the subrecipient of several federal grant programs from U.S. agencies, but with the implementation of the successor-in-interest agreements, the role of the primary recipient transferred from the TTPI government to the FSM National Government. The State of Pohnpei Government applies to the FSM National Government for grant funds, or receives an allocation of funds awarded to the FSM National Government. The award of the subrecipient grant typically comes in the form of an allotment advice, rather than a formal notice. The allotment advice specifies any imposed expenditure limitations. However, the limitations are normally represented solely by object code authorization totals and not by detailed budgets.

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

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

## Introduction To Special Revenue and Capital Projects Funds

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

### Special Revenue Funds:

- U.S. Federal Assistance Fund
- Other Direct Assistance Fund
- Compact 221 B Block Grant Fund
- Other Compact Block Grant Fund
- CFSM Special Revenue Fund

### Capital Projects Funds:

- Compact 211A Capital Projects Funds
- TTPI Capital Projects Fund



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



**STATE OF Pohnpei**  
**FEDERATED STATES OF MICRONESIA**  
U.S. FEDERAL ASSISTANCE FUND  
**STATEMENT OF EXPENDITURES AND QUESTIONED COSTS**  
**YEAR ENDED SEPTEMBER 30, 1990**

<u>Grantor</u> <u>Account Title</u>	<u>Pohnpei</u> <u>Org.</u> <u>No.</u>	<u>CFDA No.</u>	<u>1990</u> <u>Fiscal Year</u> <u>Expenditures</u>	<u>Questioned Costs</u> <u>Amount</u>	<u>Detailed</u> <u>At Page</u>
<u>Department of Agriculture:</u>					
Food Services '88	3330	10.560	\$ 43,078	\$ -	
FY-87 Forestry Program	3344	10.664	615	-	
Foods Services '89	3388	10.560	<u>119,209</u>	<u>-</u>	
			<u>162,902</u>	<u>-</u>	
 <u>Dept. of Education:</u>					
Chapter I GAP	3005	84.151	114	-	
Chapter II GAP	3006	84.151	273	-	
Chapter I Transition	3104	84.998	35,772	-	
Chapter II Transition	3105	84.998	20,034	-	
FY-88 Chapter I	3116	84.998	354,618	-	
FY-88 Chapter II	3117	84.998	405,870	5,111	97
FY-89 Chapter I	3147	84.998	122,756	1,088	95 & 98
FY-89 Chapter II	3148	84.998	<u>23,692</u>	<u>-</u>	
			<u>963,129</u>	<u>6,199</u>	
 <u>Department of Housing and</u> <u>Urban Development:</u>					
CDBG Administration '85	3156	14.219	5,148	6,348	97
Mesihsou Water System	3157	14.219	40,497	-	
Sokehs Multipurpose Courts	3162	14.219	3,917	4,294	97
Kolonia Section 7 Water System	3164	14.219	34,835	-	
Sekere Water System	3167	14.219	48,677	-	
FY-83 Madn Water Ex.	3170	14.219	3,000	-	
FY-84 Ballfield Ren.	3171	14.219	9,212	-	
Kitamw Lukop Water System	3185	14.219	17,388	-	
FY-87 U Water Improvement	3186	14.219	28,208	-	
FY-88 CDBG Administration	3188	14.219	19,741	-	
FY-88 CDBG Paies W/System	3189	14.219	2,125	-	
FY-89 Gymnasium	3190	14.219	19,774	-	
FY-87 Gymnasium	3191	14.219	158,226	-	
FY-85 CDBG Administration	3192	14.219	<u>11,643</u>	<u>-</u>	
			<u>402,391</u>	<u>10,642</u>	
Balance forward			1,528,422	16,841	



STATE OF Pohnpei  
 FEDERATED STATES OF MICRONESIA  
U.S. FEDERAL ASSISTANCE FUND, CONTINUED  
STATEMENT OF EXPENDITURES AND QUESTIONED COSTS  
YEAR ENDED SEPTEMBER 30, 1990

<u>Grantor</u> <u>Account Title</u>	<u>Pohnpei</u> <u>Org.</u> <u>No.</u>	<u>CFDA No.</u>	<u>1990</u> <u>Fiscal Year</u> <u>Expenditures</u>	<u>Questioned Costs</u> <u>Amount</u>	<u>Detailed</u> <u>At Page</u>
Balance forwarded			\$1,528,422	\$ 16,841	
 <u>Department of Health and</u>					
<u>Human Services:</u>					
FY-89 CHC	3685	13.224	19,442	-	
FY-90 CHC	3687	13.224	56,546	-	
Community Health Center	3690	13.224	1,570	-	
FY-90 Sexually Trans.	3695	13.997	2,820	-	
FY-89 PH & PH	3726		15,937	-	
FY-89 PH & PH/Administration	3728		23,945	-	
Subst. Abuse	3729		2,928	-	
FY-88 C.E for Nurses	3738	13.359	6,686	6,686	98
FY-89 C.E. for Nurses	3739	13.359	8,436	-	
MCH '88	3746	13.994	2,178	2,178	98
FY-88 MCJ'	3748	Unknown	740	-	
FY-89 MCH	3760	13.994	73,737	-	
FY-87 Pacific Health	3761		24,400	-	
FY-89 MCH/Primary Case	3763	13.994	2,578	-	
FY-89 CSBG	3769	13.665	41,019	-	
Aging Sup. Services '88	3775	13.633	4,280	433	97
FY-89 Sup. Services	3776	13.633	59,386	-	
FY-90 AIDS Program	3778	13.217	2,428	-	
FY-89 AIDS Program	3779	13.217	4,028	-	
FY-91 Family Planning	3785	13.217	3,152	-	
FY-90 Family Planning	3789	13.217	11,100	-	
FY-88 Preventive Health	3794	13.991	1,317	-	
FY-89 Immunization	3795	13.268	1,464	-	
FY-90 Immunization	3796	13.268	<u>3,188</u>	<u>-</u>	
			<u>373,305</u>	<u>9,297</u>	
 <u>Environmental Protection Agency:</u>					
FY '89 EPA	3569	66.600	<u>2,720</u>	<u>-</u>	
			<u>2,720</u>	<u>-</u>	
Balance Forward			1,904,447	26,138	

STATE OF Pohnpei  
 FEDERATED STATES OF MICRONESIA  
 U.S. FEDERAL ASSISTANCE FUND, CONTINUED  
 STATEMENT OF EXPENDITURES AND QUESTIONED COSTS  
 YEAR ENDED SEPTEMBER 30, 1990

<u>Grantor</u> <u>Account Title</u>	<u>Pohnpei</u> <u>Org.</u> <u>No.</u>	<u>CFDA No.</u>	<u>1990</u> <u>Fiscal Year</u> <u>Expenditures</u>	<u>Questioned Costs</u> <u>Amount</u>	<u>Detailed</u> <u>At Page</u>
Balance forwarded			\$1,904,447	\$ 26,138	
 <u>Department of the Interior:</u>					
Historic Preservation '89	3462	15.904	22,555	-	
Kolonia Electric Dist/Upgrade	3502	15.875	2,310	-	
FY-88 Historic Preservation	3513	15.904	924	-	
Hospital Roof Repair	3536	15.875	1,903	-	
5275 Roadside maintenance equipment	3538	15.875	60	552	97
Spare Parts MOU-7	3544	15.875	38,091	-	
Recruit & Proc/Preservation	3546	15.875	30,292	-	
Renovation PICS School	3557	15.875	<u>12,449</u>	<u>-</u>	
			<u>108,584</u>	<u>552</u>	
 <u>Department of Labor:</u>					
FY-88 JTPA Administration	3244	17.250	11,822	-	
FY-87 JTPA Program	3203	17.250	4,225	4,225	98
FY-88 JTPA Administration	3245	17.250	38,715	-	
FY-88 JTPA Elderly	3246	17.250	24,092	-	
FY-89 Title V SCSEP	3260	17.235	51,994	3,985	97
FY-89 JTPA Administration	3272	17.250	30,742	-	
FY-89 Adult Program	3273	17.250	73,397	4,800	98
FY-89 JTPA Youth	3274	17.250	153,541	38,442	97
FY-87 JTPA Elderly	3285	17.250	<u>29,201</u>	<u>-</u>	
			<u>417,729</u>	<u>51,452</u>	
 <u>Department of Justice:</u>					
JJDP Cultural & Trading	3376	16.540	3,750	-	
FY-87 JJDP Program	3385	16.540	21,358	-	
FY-Crime Victim Assistance	3352	Unknown	1,054	-	
FY-88 JJDP Program	3382	Unknown	<u>13,279</u>	<u>-</u>	
			<u>39,441</u>	<u>-</u>	
Total U.S. Federal Assistance Fund			<u>\$2,470,201</u>	<u>\$ 78,142</u>	

**STATE OF POHNPEI**  
**FEDERATED STATES OF MICRONESIA**  
OTHER DIRECT ASSISTANCE FUND  
STATEMENT OF EXPENDITURES AND QUESTIONED COSTS  
YEAR ENDED SEPTEMBER 30, 1990

<u>Grantor</u> <u>Account Title</u>	<u>Pohnpei</u> <u>Org.</u> <u>No.</u>	<u>1990</u> <u>Fiscal Year</u> <u>Expenditures</u>	<u>Questioned Costs</u> <u>Detailed</u> <u>Amount</u> <u>At Page</u>
World Health Organization			
Family Planning UNFPA	3913	\$ 2,396	\$ -
		<u>2,396</u>	<u>-</u>
Other Non U.S. Grants:			
Pakin Elementary School Project	3931	5,600	-
Medical. Officer Training	3982	33,920	-
Hospital Contribution Fund	3988	2,201	-
Power Distribution Equipment	3990	(866)	-
Pearl Shell Project	3991	4,388	-
Sports Council Contribution	3992	5,844	-
Airport Navigation Aid	3994	2,222	-
Hospital Equipment	3996	4,495	-
Environment and Policy	3997	<u>216</u>	<u>-</u>
		<u>58,020</u>	<u>-</u>
Total Other Direct Assistance Fund		<u>\$ 60,416</u>	<u>\$ -</u>

**STATE OF Pohnpei**  
**FEDERATED STATES OF MICRONESIA**  
**CFSM SPECIAL REVENUE PROJECT FUND**  
**STATEMENT OF EXPENDITURES AND QUESTIONED COSTS**  
**YEAR ENDED SEPTEMBER 30, 1990**

<u>Grantor</u> <u>Account Title</u>	<u>Pohnpei</u> <u>Org.</u> <u>No.</u>	<u>1990</u> <u>Fiscal Year</u> <u>Expenditures</u>	<u>Questioned Costs</u> <u>Amount</u>	<u>Detailed</u> <u>At Page</u>
PICS Library & Learning	4871	\$ 524	\$ -	
Supreme Court OPS	4873	63,607	-	
Pohnpei Housing Authority	4875	125	125	98
Pohnpei Medical Supplies	4878	21,185	-	
Farmers Home Administration	4879	5,992	-	
MS Micro Glory	4890	4,918	-	
Pohnpei Liberation Day	4895	5,592	-	
Trip to Guam & Saipan	4896	16,435	-	
Joint Law Enforcement C&R	4898	4,077	-	
Joint Law Public Safety	4899	6,753	-	
Correction Rehabilitation	4901	88,159	-	
Joint Law Enforcement P.S.	4903	12,027	-	
Medical Equipment and Supplies	4904	35,408	9,029	99
Pohnpei Medical Supplies	4906	22,042	-	
Marine Resources Trochus	4970	<u>6,110</u>	<u>-</u>	
 Total CFSM Special Revenue Project Fund		 <u>\$ 292,954</u>	 <u>\$ 9,154</u>	

Note: The above grants are received based on appropriations made  
by the Congress of the Federated States of Micronesia.



**STATE OF POHNPEI**  
**FEDERATED STATES OF MICRONESIA**  
**TPI CAPITAL PROJECTS FUND**  
**STATEMENT OF EXPENDITURES AND QUESTIONED COSTS**  
**YEAR ENDED SEPTEMBER 30, 1990**

<u>Grantor</u> <u>Account Title</u>	<u>Pohnpei</u> <u>Org.</u> <u>No.</u>	<u>CFDA No.</u>	<u>1990</u> <u>Fiscal Year</u> <u>Expenditures</u>	<u>Questioned Costs</u> <u>Amount</u>	<u>Detailed</u> <u>At Page</u>
State Administration Costs	6320	15.875	\$ 48,658	\$ -	
Kolonia Roadside Drainage	6327	15.875	<u>1,442</u>	<u>-</u>	
Total Department of the Interior TPI Capital Projects Fund			<u>\$ 50,100</u>	<u>\$ -</u>	

Note: These funds are received by Pohnpei State through the FSM National Government in a sub-grantee capacity through the Trust Territory Government and carry CFDA # 15.875.



**STATE OF POHNPEI**  
**FEDERATED STATES OF MICRONESIA**  
COMPACT OF FREE ASSOCIATION BLOCK GRANT FUND - SECTION 221 (b)  
STATEMENT OF EXPENDITURES AND QUESTIONED COSTS  
YEAR ENDED SEPTEMBER 30, 1990

<u>Grantor</u> <u>Account Title</u>	<u>Pohnpei</u> <u>Org.</u> <u>No.</u>	<u>1990</u> <u>Fiscal Year</u> <u>Expenditures</u>	<u>Questioned Costs</u> <u>Detailed</u> <u>Amount</u> <u>At Page</u>
<u>Office of Territorial</u>			
<u>and International Affairs</u>			
<u>CFDA NO. 15.875:</u>			
Medical Supplies	2065	\$ 18,092	\$ -
Secondary Education School Supplies	2114	5	-
Vocational Education Orchid	2118	2,888	-
Youth & Activities	2123	2,542	-
EPA Personnel	2126	1,328	-
Pre-School & Elementary School	2127	12,065	-
Aging Supportive Services	2128	49,968	-
FY-89 Vocational Rehabilitation Improvement	2130	417	-
Formulation of Health Insurance	2131	6,652	-
Pre School and Elementary	2132	786,600	-
Secondary Education	2133	633,080	-
Education Services & Development	2134	287,200	-
Vocational Education - FY 1989	2135	20,798	-
Health Start Program	2136	21,496	-
Aid to Non-Public Schools	2137	<u>100,000</u>	<u>-</u>
 Total Compact of Free Association Block Grant Fund - Section 221 (b)		 <u>\$1,943,131</u>	 <u>\$ -</u>

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

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



**STATE OF POHNPEI**  
**FEDERATED STATES OF MICRONESIA**  
COMPACT OF FREE ASSOCIATION BLOCK GRANT FUND - SECTION 216 (a)(2)  
HEALTH AND MEDICAL REFERRAL  
STATEMENT OF EXPENDITURES AND QUESTIONED COSTS  
YEAR ENDED SEPTEMBER 30, 1990

<u>Grantor</u> <u>Account Title</u>	<u>Pohnpei</u> <u>Org.</u> <u>No.</u>	<u>1990</u> <u>Fiscal Year</u> <u>Expenditures</u>	<u>Questioned Costs</u> <u>Detailed</u> <u>Amount</u> <u>At Page</u>
<u>Office of Territorial</u>			
<u>and International Affairs</u>			
<u>CFDA NO. 15.875:</u>			
M/Referral Hemodialysis	2349	\$ 410	\$ -
Medical Referral	2352	78,360	-
Medical Referral Grant FY90	2353	<u>352,699</u>	<u>-</u>
 Total Compact of Free Association Block Grant Fund - Section 216 (a)(2)		 <u>\$ 431,469</u>	 <u>\$ -</u>

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

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

**STATE OF POHNPEI**  
**FEDERATED STATES OF MICRONESIA**  
**COMPACT OF FREE ASSOCIATION BLOCK GRANT FUND - SECTION 212 (a)**  
**SPECIAL DEVELOPMENT GRANT**  
**STATEMENT OF EXPENDITURES AND QUESTIONED COSTS**  
**YEAR ENDED SEPTEMBER 30, 1990**

<u>Grantor</u> <u>Account Title</u>	<u>Pohnpei</u> <u>Org.</u> <u>No.</u>	<u>1990</u> <u>Fiscal Year</u> <u>Expenditures</u>	<u>Questioned Costs</u> <u>Detailed</u> <u>Amount</u> <u>At Page</u>
<u>Office of Territorial</u>			
<u>and International Affairs</u>			
<u>CFDA No. 15.875:</u>			
ConCon Delegation	2501	\$ 10,536	\$ -
Cultural Exchange	2502	5,434	-
Public Auditors Office Fixed Assets	2503	4,856	-
Third Guam/Micronesia Fair	2504	11,517	-
Special Legislative Committee	2505	4,673	-
Micronesian Olympics	2506	43,000	-
Sapwafik Special Election	2508	1,184	-
Recycling Projects	2509	<u>3,619</u>	<u>-</u>
Total Compact of Free Association Block Grant Fund-Section 212 (a)		<u>\$ 84,819</u>	<u>\$ -</u>

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

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

**STATE OF Pohnpei**  
**FEDERATED STATES OF MICRONESIA**  
**COMPACT OF FREE ASSOCIATION BLOCK GRANT FUND - SECTION 214 (b)**  
**ENERGY GRANT**  
**STATEMENT OF EXPENDITURES AND QUESTIONED COSTS**  
**YEAR ENDED SEPTEMBER 30, 1990**

<u>Grantor</u> <u>Account Title</u>	<u>Pohnpei</u> <u>Org.</u> <u>No.</u>	<u>1990</u> <u>Fiscal Year</u> <u>Expenditures</u>	<u>Questioned Costs</u> <u>Detailed</u> <u>Amount</u> <u>At Page</u>
<u>Office of Territorial</u>			
<u>and International Affairs</u>			
<u>CFDA NO. 15.875:</u>			
Purchase of Fuel for Power Plant	2771	\$ 28,083	\$ -
Power Plant Fuel	2772	<u>1,276,984</u>	<u>-</u>
Total Compact of Free Association Block Grant Fund - Section 214 (b)		<u>\$1,305,067</u>	<u>\$ -</u>

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

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

**STATE OF POHNPEI**  
**FEDERATED STATES OF MICRONESIA**  
**COMPACT OF FREE ASSOCIATION BLOCK GRANT FUND - SECTION 216 (a)(3)**  
**POST SECONDARY EDUCATION**  
**STATEMENT OF EXPENDITURES AND QUESTIONED COSTS**  
**YEAR ENDED SEPTEMBER 30, 1990**

<u>Grantor</u> <u>Account Title</u>	<u>Pohnpei</u> <u>Org.</u> <u>No.</u>	<u>1990</u> <u>Fiscal Year</u> <u>Expenditures</u>	<u>Questioned Costs</u> <u>Detailed</u> <u>Amount</u> <u>At Page</u>
 <u>Office of Territorial</u>			
<u>and International Affairs</u>			
<u>CFDA NO. 15.875:</u>			
Scholarship Grant-FY 1987	2901	\$ 146	\$ -
Pohnpei State Scholarship	2902	112,618	-
Scholarship Grant-FY 1989	2903	285,557	-
Scholarship Grant-FY 1990	2904	<u>35,032</u>	<u>\$ -</u>
 Total Compact of Free Association Block Grant Fund - Section 216 (a)(3)		 <u>\$ 433,353</u>	 <u>\$ -</u>

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

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

STATE OF POHNPEI  
 FEDERATED STATES OF MICRONESIA  
 COMPACT OF FREE ASSOCIATION CAPITAL PROJECT FUND- SECTION 211(a) CAPITAL ACCOUNT  
 STATEMENT OF EXPENDITURES AND QUESTIONED COSTS  
 YEAR ENDED SEPTEMBER 30, 1990

<u>Grantor</u> <u>Account Title</u>	<u>Pohnpei</u> <u>Org.</u> <u>No.</u>	<u>1990</u> <u>Fiscal Year</u> <u>Expenditures</u>	<u>Questioned Costs</u> <u>Detailed</u> <u>Amount</u> <u>At Page</u>
<u>Office of Territorial</u>			
<u>and International Affairs</u>			
<u>CFDA NO. 15.875:</u>			
School Bus Stop Shelter Project	6005	\$ 332	\$ -
A&E Study Temwen Island	6008	18,000	
A&E Study Circumference Road	6009	112,000	-
Electric Distribution Extensions	6010	35,000	-
Ohmine Elementary School	6014	6,098	-
Upgrading WSZD	6018	951	-
Sekere Elementary School	6021	808	-
Palikir Elementary School	6022	35,520	-
Rohnkitti Elementary School	6023	12,281	-
Wapar Elementary School	6025	2,632	-
Mand Elementary School	6026	7,089	-
Sapwerek Elementary School	6027	1,610	-
Sapwalap Elementary School	6028	6,412	-
Lukop Elementary School	6029	17,713	-
Saladak Elementary School	6031	10,286	-
Kolonia Elementary School	6033	3,759	-
Ohmine Elementary School	6034	982	-
Sokehs Powe Elementary School	6035	5,689	-
Sapwuahfik Elementary School	6036	1,268	-
Kapina Elementary School	6037	11,323	-
Nukuoro Elementary School	6038	7,523	-
Mwoakilloa Elementary School	6039	7,051	-
Nanmeir Road Construction	6053	10,000	-
Tamworohi Road Construction	6060	4,800	-
Wapar, Enipos, Akahk	6064	9,800	-
Kitti Secondary Road	6069	45,700	-
Pingilap Airfield Renovation	6077	135	-
Cleaning & Rehabilitation Nan Madol	6083	51,079	-
Paliapailong Elementary School	6085	8,229	-
Power Extension & Distribution	6091	1,360,516	-
Aramas Kapw	6094	1,820	-
Tourism Promotion & Market	6095	27,517	-
Tourism Development Plan	6096	13,487	-
Develop. & Maint. of Tourist Sites	6097	6,560	-
Purchase of Fire Truck	6098	91,914	-
Pepper Development Project	6099	3,714	-
Seaweed Project	6101	<u>15,179</u>	<u>-</u>
	Balance forward	<u>1,954,777</u>	<u>-</u>

**STATE OF Pohnpei**  
**FEDERATED STATES OF MICRONESIA**  
COMPACT OF FREE ASSOCIATION CAPITAL PROJECT FUND- SECTION 211(a) CAPITAL ACCOUNT, CONTINUED  
STATEMENT OF EXPENDITURES AND QUESTIONED COSTS  
YEAR ENDED SEPTEMBER 30, 1990

<u>Grantor</u> <u>Account Title</u>	<u>Pohnpei</u> <u>Org.</u> <u>No.</u>	<u>1990</u> <u>Fiscal Year</u> <u>Expenditures</u>	<u>Questioned Costs</u> <u>Amount</u>	<u>Detailed</u> <u>At Page</u>
Balance forwarded		\$1,954,777	\$ -	
<u>Office of Territorial</u>				
<u>and International Affairs</u>				
<u>CFDA NO. 15.875:</u>				
Nukuoro Seaweed Project	6102	3,840	-	
Compact Capital Project Administration	6103	22,043	-	
Livestock Development Broiler Program	6104	73,605	-	
Second Floor PSL Building	6105	71,846	-	
Outer Island Airstrip	6106	39,400	-	
Upgrading Paving/Kolonia	6107	70,776	-	
Construction of Temwen Island Road	6109	164,003	-	
Paving of Pohnpei Circumferential Road	6110	1,271,505	-	
Construction Dau Mwoakoata Bridge	6111	20,731	-	
Nanpil Hydro Diversion	6112	350,000	-	
Pohnpei Housing Loan Fund	6115	271	-	
Technical Study F/Secondary Road	6117	6,417	-	
Maintenance Improvement Kolonia Sewer System	6118	24,187	-	
Skills Development & Upgrading	6119	30,643	-	
Equipment & Replacement Parts	6120	168,300	-	
Renovation of Nanpohnmal Plant	6121	229,339	-	
Pohnpei Light Industrial Park	6123	142,000	-	
Renovation of Pehleng School	6124	9,080	-	
Madolenihmw Master Plan	6125	45,000	-	
Upgrading Wone Water System	6126	19,625	-	
U Road Upgrading and Construction	6127	45,000	-	
Survey of Forest and Mangroves	6128	18,607	-	
Nett Green House	6129	8,239	-	
Repair of Boiler	6130	2,253	-	
Development Loan F/Pepper & project	6131	500,000	-	
Sekere Elementary School Election	6135	4,186	-	
Artesinal Fisheries	6136	80,174	-	
Purchase of Eight School Buses	6137	94,098	-	
Compact CIP Administration FY 1990	6138	35,204	-	
NFC Purse Seiners	6140	2,080,630	-	
Power Distribution Improvement Equipment	6141	148,782	-	
Micronesia Bound	6142	25,849	-	
Generator and Anesthesia Machine	6143	92,977	-	
Broiler Project	6144	36,975	-	
Family Food Production	6145	8,197	-	
Pepper Development Project	6146	<u>41,209</u>	<u>-</u>	
		<u>5,984,991</u>	<u>-</u>	
Balance Forward		7,939,768	-	

**STATE OF Pohnpei**  
**FEDERATED STATES OF MICRONESIA**  
COMPACT OF FREE ASSOCIATION CAPITAL PROJECT FUND- SECTION 211(a) CAPITAL ACCOUNT, CONTINUED  
STATEMENT OF EXPENDITURES AND QUESTIONED COSTS  
YEAR ENDED SEPTEMBER 30, 1990

<u>Grantor</u> <u>Account Title</u>	<u>Pohnpei</u> <u>Org.</u> <u>No.</u>	<u>1990</u> <u>Fiscal Year</u> <u>Expenditures</u>	<u>Questioned Costs</u> <u>Amount</u>	<u>Detailed</u> <u>At Page</u>
Balance forwarded		\$ 7,939,768	\$ -	
<u>Office of Territorial</u>				
<u>and International Affairs</u>				
<u>CFDA NO. 15.875:</u>				
Nett School Road Renovation	6147	5,000	-	
Power Hookup Accessories	6148	1,849	-	
Manpower Skills Development Program	6149	132,006	-	
EDA Fish Processing Plant	6150	4,336,997	-	
Completion of Legislature Building	6152	17,337	-	
Pohnpei Housing Loan Fund	6154	500,000	-	
Coconut Rehabilitation	6155	381	-	
Kolonia Secondary Road	6156	11,400	-	
Kolonia Secondary Road Paving	6157	49,500	-	
Pohnpei Hospital Renovation	6323	107,750	-	
Sapwuahfik Seaweed	6687	<u>5,002</u>	<u>-</u>	
		<u>5,167,222</u>	<u>-</u>	
Total Compact of Free Association				
Capital Project Fund - Section 211(a)				
Capital Account				
		<u>\$13,106,990</u>	<u>\$ -</u>	

Note 1: \$1,637,914, to the Pohnpei State Transportation Authority (PTA), \$3,430,109, to the Pohnpei Economic Development Authority (EDA), and \$500,000 to the Pohnpei State Housing Authority have been accounted for as transfers from the Compact Capital Project Fund in the General Purpose Financial Statements. A reconciliation of the above expenditures to the General Purpose Financial Statements is shown below:

Compact Capital Expenditures	\$13,106,990
Less Transfer to EDA	(3,430,109)
Less Transfer to PTA	(1,637,914)
Less Transfer to PSHA	<u>(500,000)</u>

General Purpose Financial Statement  
Expenditures

\$ 7,538,967

(Note 2: These funds are made available by Title Two, Article I, Section 211(a) of the Compact of Free Association)

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

**STATE OF Pohnpei**  
**FEDERATED STATES OF MICRONESIA**  
COMPACT OF FREE ASSOCIATION CURRENT ACCOUNT FUND - SECTION 211(a) CURRENT ACCOUNT  
STATEMENT OF EXPENDITURES AND QUESTIONED COSTS  
YEAR ENDED SEPTEMBER 30, 1990

<u>Grantor</u> <u>Account Title</u>	<u>Pohnpei</u> <u>Org.</u> <u>No.</u>	<u>1990</u> <u>Fiscal Year</u> <u>Expenditures</u>	<u>Questioned Costs</u> <u>Detailed</u> <u>Amount</u> <u>At Page</u>
<u>Office of Territorial</u>			
<u>and International Affairs</u>			
<u>CFDA NO. 15.875:</u>			
<u>General Fund:</u>			
Current Account	Various	<u>\$11,021,400</u>	<u>\$ -</u>
Total Compact of Free Association expenditures		<u>\$28,326,230</u>	<u>\$ -</u>

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

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



**STATE OF POHNPEI**  
**FEDERATED STATES OF MICRONESIA**  
SCHEDULE OF PROGRAMS SELECTED FOR  
AUDIT IN ACCORDANCE WITH OMB CIRCULAR A-128  
YEAR ENDED SEPTEMBER 30, 1990

<u>Grantor</u> <u>Account Title</u>	<u>CFDA No.</u>	<u>Description</u>	<u>1990</u> <u>Fiscal Year</u> <u>Expenditures</u>
<u>U.S. Dept. of the Interior</u>	15.875		
Compact of Free Association:			
211(a) Capital Account			\$13,106,990
221-b Block Grant			1,943,131
Health and Medical			431,469
Energy Programs			1,305,067
Post Secondary Education			433,353
Special Development Assistance			84,819
Dept. of Interior Operations & Maintenance Grants			<u>85,105</u>
Total CFDA # 15.875 excluding Compact Section 211 (a) current account expenditures			<u>17,389,934</u>
<u>U.S. Dept. of Education</u>	84.998	Educational Transition Chapter	
		I Org. No. 3104	35,772
		Educational Transition Chapter	
		II Org No. 3105	20,034
		Consolidated Grant FY88 Chapter	
		I Org. No. 3116	354,618
		Consolidated Grant FY88 Chapter	
		II Org No. 3117	405,870
		Consolidated Grant FY89 Chapter	
		I Org No. 3147	122,756
		Consolidated Grant FY89 Chapter	
		II Org. No. 3148	<u>23,692</u>
		Program total	<u>962,742</u>
<u>U.S. Dept. of Housing and Urban Development</u>	14.219	1985 CDBG Administration Org.	
		No. 3156	5,148
		Mesihsou Water System Org No. 3157	40,497
		Sokehs Multipurpose Court Org.	
		No. 3162	3,917
		Kolonia Section 7 Water Extension	
		Org No. 3164	34,835
		Sekere Water System Org No. 3167	48,677
		1983 Madolenihmw Water Extension	
		Org. No. 3170	3,000
		1984 Ballfield Renovation Org No.	
		3171	9,212
		Kitamw/Lukop Water Supplement Org.	
		No. 3185	17,388
		U Water Improvement FY87 Org.	
		No. 3186	28,208
		FY88 CDBG Administration Org. No.	
		3188	<u>19,741</u>
		Program sub-total forward	<u>210,623</u>
		Balance forward	<u>18,563,299</u>

STATE OF POHNPEI  
 FEDERATED STATES OF MICRONESIA  
 SCHEDULE OF PROGRAMS SELECTED FOR  
 AUDIT IN ACCORDANCE WITH OMB CIRCULAR A-128, Continued  
 YEAR ENDED SEPTEMBER 30, 1990

<u>Grantor</u> <u>Account Title</u>	<u>CFDA No.</u>	<u>Description</u>	1990 <u>Fiscal Year</u> <u>Expenditures</u>
Balance forwarded			\$18,563,299
<u>U.S. Dept. of Housing and</u> <u>Urban Development, Continued</u>		Program sub-total forwarded	210,662
		FY88 CDBG Paies Water System	
		Org. No. 3189	2,125
		FY89 Gymnasium Org. No. 3190	19,774
		FY87 Gymnasium Org. No. 3191	158,226
		1985 CDBG Administration Org.	
		No. 3192	<u>11,643</u>
		Program total	<u>402,430</u>
<u>U.S. Dept. of Labor</u>	17.250	FY87 JTPA Program Org No. 3203	4,225
		FY88 JTPA Administration Org.	
		No. 3244	11,822
		FY88 JTPA Training Org No. 3245	38,715
		FY88 JTPA Elderly Org No. 3246	24,092
		FY89 JTPA Administration Org.	
		No. 3272	30,743
		FY89 JTPA Adult Program Org.	
		No. 3273	73,397
		FY89 JTPA Youth Program Org.	
		No. 3274	153,541
		FY89 JTPA Elderly Org. No. 3285	<u>29,201</u>
		Program total	<u>365,736</u>
		Total U.S. Federal program	
		expenditures selected	
		excluding Compact Section	
		211 (a) Current Account	
		expenditures	<u>\$19,331,465</u>
		Total U.S. Federal program	
		expenditures excluding	
		Compact Section 211 (a)	
		Current Account expenditures	<u>\$19,825,131</u>
		% of total U.S. Federal	
		expenditures covered by major	
		programs excluding Compact	
		Section 211 (a) Current Account	
		expenditures	<u>97.5%</u>

## Administrative Controls Review

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

Prior Year Outstanding Finding

1. Criteria: Prior year Administrative Control findings should be resolved appropriately by the State's management.

Condition: It appears the following findings from the Single Audit Report for the year ending September 30, 1989 remain unresolved:

<u>Finding No.</u>	<u>Description</u>	<u>Page No</u>
1	Lack of Administrative Control Structure	
4	Federal Property Standards (except the detailed accounting by funding source, which has been resolved).	

Cause: Unknown.

Effect: The non-resolution of these prior year findings will have the same impact in fiscal year 1990 as in fiscal year 1989 and will continue to hinder the effective maintenance of the State's compliance with federal financial assistance regulations.

Recommendation: It is recommended that the State's management resolve prior year administrative control findings appropriately.

Auditee Response: No response.

Competitive Procurement Requirement

2. Criteria: Uniform Administrative Requirements for Grants and Co-operative Agreements to State and Local Government (Common Rule) require that procurement transactions less than \$25,000 using U. S. federal program funds adhere to local bidding regulations. The State's local regulations require competitive procurement for transactions that exceed \$5,000.

Condition: Out of thirty-one Compact and TTPI Capital Project Fund transactions, we found two procurements for which competitive procurement procedures were not followed:

<u>Org No.</u>	<u>Purchase Order Number</u>	<u>Amount</u>
6323	P00230	\$ 55,736
6095	P90742	6,000
		<u>\$ 61,736</u>



Finding No. 2, Continued

Cause: Unknown.

Effect: The effect is that \$61,736 of costs could possibly be questioned.

Recommendation: It is recommended that Pohnpei State comply with local procurement regulations.

Auditee Response: No response.

Local Competitive Bidding Requirements

3. Criteria: Part 7 of the Pohnpei State Financial Management Regulations requires competitive procurement to be undertaken for purchases of goods and services in excess of \$5,000.

Condition: Based on audit tests performed on two CFSM transactions, one transaction for the procurement of health equipment totalling \$18,000 has not been competitively procured. The allocation of the \$18,000 payment (Check No. 46321) is as follows:

<u>Org No.</u>	<u>Amount</u>
1220	\$ 8,971
4904	<u>9,029</u>
Total	<u>\$ 18,000</u>

Cause: Unknown.

Effect: The effect is to question local costs of \$9,029 relating to the CFSM fund.

Recommendation: It is recommended that Pohnpei State comply with State Financial Management Regulations.

Auditee Response: No response.

Federal Grant Administration

4. Criteria: Pohnpei State should establish effective controls and procedures over its federal grant expenditures to ensure that all billings are actually paid and recorded.

Condition: A \$172,879 federal grant reimbursement check (FSM National Government check number 57707), was received by Pohnpei State in January 1990, however the check was lost and never recorded. Controls over the review and reconciliation of federal grants were such that no personnel were able to determine that such a material reimbursement was at least ten months overdue.

Finding No. 4, Continued

Cause: Unknown.

Effect: The lack of such review and reconciliation procedures hinders the ability of the State to report federal program activity.

Recommendation: We recommend that the State undertake a thorough review of its control procedures in relation to its federal financial assistance program administration.

Auditee Response: We have taken steps to ensure that checks are more uniformly collected and recorded.

Single Audit - Compact Program Funds

5. Criteria: Compact program funding should be expended within budgetary limits statutorily established in a fiscal year.

Condition: The following organization used to account for Compact program funding was found to have expenditures in excess of budgetary authorization:

<u>Compact Section</u>	<u>Pohnpei Org.</u>	<u>Amount of Excess Expenditure</u>
214 (b)	2772	<u>\$ 121,984</u>

Cause: Unknown.

Effect: The effect is noncompliance with statutory budget criteria.

Recommendation: It is recommended that the State comply with statutory budget criteria.

STATE OF POHNPEI  
 FEDERATED STATES OF MICRONESIA  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 YEAR ENDED SEPTEMBER 30, 1990

<u>Grantor</u>	<u>CFDA #</u>	<u>Program</u>	<u>Identified Findings and Questioned Costs</u>	<u>Questioned Costs</u>
The following represent questioned costs as expenditures exceed authorization.				
U.S. Dept. of Education	84.889	FY 88 Chapter II Org. 3117		\$ 5,111
U.S. Dept. of Housing & Urban Development	14.219	CDBG Admin. FY85 Org. 3156		6,348
		Sokehs Multipurpose Court Org. 3162		4,294
U.S. Dept. of Labor	17.235	Title V SCSEP Org. 3260		3,985
	17.250	FY87 JTPA Youth Org 3274		38,442
U.S. Dept. of Interior	15.875	Roadside Maintenance Equipment Org. 3538		552
U.S. Dept. of Health and Human Services	13.633	Aging Support Services FY88 Org. 3775		<u>433</u>
		Balance forward		<u>59,165</u>

**STATE OF Pohnpei**  
**FEDERATED STATES OF MICRONESIA**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED  
YEAR ENDED SEPTEMBER 30, 1990

<u>Grantor</u>	<u>CFDA #</u>	<u>Program</u>	<u>Identified Findings and Questioned Costs</u>	<u>Questioned Costs</u>
			Balance forwarded	\$ 59,165
			The following represent questioned costs resulting from the double recording of a transaction.	
U.S. Dept. of Labor	17.250	FY89 Adult Program Org. 3273	--	4,800
			Based on review of CFSM Project authorizations, no authorization exists for this org. number.	
Local CFSM Special Project Revenue Fund	N/A	Pohnpei Housing Authority Org. 4875		125
			The following represent questioned costs where expenditures have been made against authorizations which have lapsed.	
U.S. Dept. of Health and Human Services	13.359	FY88 CE for Nurses Org 3738		6,686
	13.994	MCH FY88 Org 3746		2,178
U.S. Dept. of Labor	17.250	FY87 JTPA Program Org 3203		4,225
			The following represent questioned costs where documentation or contracts could not be located to support expenditures.	
U.S. Dept. of Education		FY89 Chapter I Org. 3147		<u>1,088</u>
			Balance forward	<u>78,267</u>



STATE OF Pohnpei  
 FEDERATED STATES OF MICRONESIA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED  
YEAR ENDED SEPTEMBER 30, 1990

<u>Grantor</u>	<u>CFDA #</u>	<u>Program</u>	<u>Identified Findings and Questioned Costs</u>	<u>Questioned Costs</u>
			Balance forwarded	\$ 78,267
			The following represent questioned costs because of the absence of evidence supporting competitive procurement.	
CFSM Fund	N/A	Medical Equipment and Supplies Org. 4904		<u>9,029</u>
			Total questioned costs	<u>\$ 87,296</u>
			Questioned Costs allocated as follows:	
			Total U. S. federal financial assistance questioned costs	107,162
			Total local funding questioned costs	<u>9,154</u>
			Total	<u>\$116,316</u>

**STATE OF POHNPEI**  
**FEDERATED STATES OF MICRONESIA**  
**RESOLUTIONS OF PRIOR YEARS' QUESTIONED COSTS**  
**YEAR ENDED SEPTEMBER 30, 1990**

As of the report date for the audit of the general purpose financial statements of the State of Pohnpei, February 15, 1991, for the year ended September 30, 1990 no resolutions of prior year questioned costs have been received from U. S. grantor agencies on behalf of the State pursuant to the summary of prior year questioned costs presented in the Single Audit Report for the year ended September 30, 1989.

Consequently, the following is a summary of unresolved questioned costs for the State of Pohnpei:

FY85 unresolved questioned costs	\$ 227,940
FY86 unresolved questioned costs	205,728
FY87 unresolved questioned costs	1,216,312
FY88 questioned costs	393,372
FY89 questioned costs	271,650
FY90 questioned costs	<u>87,296</u>
 Total outstanding federal questioned costs	 <u>2,402,298</u>
 Prior year unresolved local questioned costs	 26,094
FY90 local questioned costs	<u>9,154</u>
 Total unresolved local questioned costs	 <u>35,248</u>
 Total outstanding federal and local questioned costs	 <u>\$2,437,546</u>

Note: Pursuant to Title I, Section 105 of United States Public Law 99-239 the Government of the Federated States of Micronesia (FSM) is no longer liable for debts to U. S. federal agencies arising prior to the date of the implementation of the Compact of Free Association. This matter has not yet been officially resolved with the U. S. Government.

**POHNPEI STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA  
INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL STRUCTURE  
YEAR ENDED SEPTEMBER 30, 1990**





## INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL STRUCTURE

Honorable Resio S. Moses  
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, 1990, and have issued our report thereon dated February 15, 1991.

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

In planning and performing our audit of the general purpose financial statements of the State of Pohnpei for the year ended September 30, 1990, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control structure.

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

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

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

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

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

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

**Prior Year Findings**

FISCAL YEAR 1988

1. Finding 9 - Travel Advances
2. Finding 13 - General Fixed Assets Recording

FISCAL YEAR 1989

3. Finding 2 - Cash Reconciliation - Preparation and adjustment
4. Finding 9 - Interest Assessment - PSHA
5. Finding 10 - Loan Subsidiary Ledger -PSHA

FISCAL YEAR 1990

6. Finding 15 - Disbursement Review
7. Finding 17 - Encumbrance Recording
8. Finding 19 - Journal Vouchers

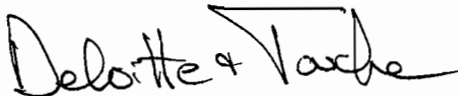
A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose financial statements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

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

We also noted other matters involving the internal control structure and its operation that we have reported to the management of Pohnpei State in this letter.

This report is intended for the information of the management of the State of Pohnpei. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

February 15, 1991



Certified Public Accountants

## Prior Year Outstanding Findings

### Finding No. 1

Criteria: Findings reported in the report on Internal Control for fiscal year ended September 30, 1989 should be resolved.

Condition: The following findings and recommendations remain unresolved as set forth in the Report on Internal Controls for the fiscal year ended September 30, 1989, dated March 16, 1990.

#### **Fiscal Year 1987**

<u>Finding No.</u>	<u>Description</u>	<u>Page No.</u>
7	Utilities Division Billings	7
8	Utilities Division Sub-ledger	8

#### **Fiscal Year 1988**

4	Inventories	6
9	Travel Advances	11
11	Internal Reporting Requirements	13
13	Fixed Assets	15

#### **Fiscal Year 1989**

2	Cash Reconciliations	4
3	General Fixed Assets	5
4	Contracts	6
5	Competitive Bidding Requirements	7
6	Cash Receipts -EDA	8
8	Cash Receipts -EDA	10
9	Interest Assessment -PSHA	11
10	Loan Subsidiary Ledger PSHA	12

Cause: Unknown.

Effect: The effect is the same impact on the financial statements in fiscal year 1990 as indicated in fiscal year 1989, 1988 and 1987.

Recommendation: Prior year findings should be resolved.

### Cash Receipts

### Finding No. 2

Criteria: Sufficient segregation of duties should exist between the collection and recording of receipts.

Finding No. 2, Continued

Condition: The functions of the Assistant Cashier extend to collecting cash, documenting TC 30 receipts, daily reconciliation and accounting for sequence of the receipts, and entry of receipts into the automated data system.

Cause: These does not appear to be a policy concerning separation of duties in this area.

Effect: The above conditions provide the potential ability and means to divert funds from their intended use.

Recommendation: We recommend that the function of entering receipts into the system be removed from the cashier and that the new employee ensure all receipts are in sequence and are accounted for.

Auditee Response: The Assistant Cashier now collects cash and documents TC30 receipts; the daily reconciliation and accounting for sequence of the receipts as well as the entry of the receipts into the automated system has been assigned to the reconciliation section.

Cash Receipts

Finding No. 3

Criteria: Checks should be restrictively endorsed upon receipt.

Condition: Checks received at agency collection points are not restrictively endorsed to the State's bank account until received at the Treasury Finance office. Endorsement does not occur until the end of the day.

Cause: It appears that no policy exists requiring the immediate restrictive endorsement of checks.

Effect: Checks may be lost or taken at collection sites and improperly cashed.

Recommendation: We recommend that all checks be restrictively endorsed upon receipt.

Auditee Response: At the first opportunity, endorsement stamps will be purchased for use in each revenue collecting agency.



## Payroll

### Finding No. 4

Criteria: A distinct division of duties should exist between the collection, control and deposit of monies, petty cash functions and handling and signing of checks.

Condition: Presently, the head cashier is responsible for several incompatible duties. This employee has the authority to sign checks (<\$5,000), maintain petty cash (float of \$3,000) and collect, control, and deposit State monies.

Cause: No policy on separation of duties in this area appears to exist.

Effect: The above condition provides the potential ability and means to divert funds before entry to the system.

Recommendation: We recommend that the abovementioned duties be scrutinized for possible re-allocation of incompatible functions.

Auditee Response: Treasury feels that this finding is not completely accurate. Petty cash is replenished by the Payable Section, not the head cashier; the daily collection is verified by payables. Therefore we feel that there is sufficient separation of duties.

## Expenditure - Petty Cash

### Finding No. 5

Criteria: Petty cash/imprest funds should be regularly reconciled and accounted for to help safeguard State funds.

Condition: The Honolulu medical referral imprest fund has not been accounted for or reconciled as of September 30, 1990.

Cause: Unknown.

Effect: Expenditures may not be properly accounted for.

Recommendation: We recommend that the Honolulu imprest account be reconciled and cleared to date. Regular monthly reconciliations should occur to ensure accountability.

Auditee Response: The State Auditor and Department of Treasury's cash reconciliation clerk have planned a trip to Honolulu in June, 1991, to reconcile the Honolulu Imprest Fund.

## Bank Reconciliations

### Finding No. 6

Criteria: Completed bank reconciliations should be reviewed by a responsible independent official.

Condition: A review of CIP account reconciliations for the year revealed no evidence of review and approval by an independent employee.

Cause: No policy has been enforced to ensure that reconciliations are reviewed on a timely basis.

Effect: Failure to independently review bank reconciliations may result in undetected or long outstanding reconciling items.

Recommendation: We recommend that all bank reconciliations be reviewed and approved by high level management on a timely basis.

Auditee Response: Such review has now been initiated.

### Finding No. 7

Criteria: Bank reconciliations should be completed monthly and be properly filed and maintained by the reconciliation department.

Condition: FY90 monthly bank reconciliations for the general payroll bank account could not be located and had to be reperformed.

Cause: The cause of this finding appears to be a digression in the effectiveness of the State's controls surrounding the performance and maintenance of bank reconciliations.

Effect: The effect of this finding is the lack of reconciled evidence to support the monthly general ledger cash balances.

Recommendation: We recommend that the control and filing procedures surrounding the State's bank reconciliation process be reviewed and reemphasized.

Auditee Response: This bank reconciliation was completed prior to closing of the 12th period.

Bank Reconciliations, Continued

Finding No. 8

Criteria: Reconciling items appearing on bank reconciliations should be investigated and cleared.

Condition: From investigation of the general fund bank reconciliation, the following were noted.

1. Check number 40987 drawn on 12/12/89 for \$5,000 had not been voided or replaced despite the payee (PTA) requesting such.
2. Two checks for Individual Assurance Co. have been held in the safe for over twelve months with no follow up on why they had not been presented.

<u>Check Number</u>	<u>Amount</u>
41307	\$ 6,657.84
42000	<u>6,891.92</u>
Total	<u>\$13,549.76</u>

3. Ten checks, nine being over six months old, totalling \$52,366.52 have been voided but not reversed in the system:

<u>Check Number</u>	<u>Amount</u>	<u>Date Drawn</u>
34464	\$22,915.54	2/24/89
35612	4,884.00	4/21/89
35924	1,546.84	5/5/89
37755	269.47	7/28/89
37753	72.00	7/28/89
37752	1,230.55	7/28/89
37751	126.00	7/28/89
38814	2,311.92	9/8/89
39532	1,215.00	10/9/89
43159	3,532.20	3/8/90
47070	<u>14,263.00</u>	9/5/90
Total	<u>\$52,366.52</u>	

Cause: Unknown.

Effect: The effect is to misstate and mis-classify various expense and liability balances.

Recommendation: We recommend that reconciling items from monthly bank reconciliations be investigated and cleared/adjusted on a timely basis.

Auditee Response: Treasury will do so on a timely basis.

## Payroll

### Finding No. 9

Criteria: Timesheets submitted to the payroll office must be authorized by the respective department's executive director/department head.

Condition: From our sample of twenty-one timesheets tested, two were found which were not authorized by the person responsible for their preparation. (Refer, org. 1555, PP #23 and org. 1965, PP #13).

Cause: Unknown.

Effect: Failure to properly review and authorize timesheets by the department head or a suitable designate may allow for manipulation and possible overstatement of payroll expenditures.

Recommendation: We recommend that timesheets be authorized by the appropriate authorizing officer.

#### Auditee Response:

1555 - Edgar Santos who was the Administrative Officer was delegated as an Acting Director. Therefore, he is the only one who can authorize the T&A.

1965 - Berny Martin has the authority to sign all documents for the Chief Justice.

### Finding No. 10

Criteria: Withholding tax should be deducted from each employee's gross pay at a flat 6% on the first \$11,000 of earnings and a flat 10% when that threshold is surpassed.

Condition: The current payroll system calculates withholding tax on a pro-rata basis with the first \$423 of the bi-weekly gross pay taxed at 6% and anything beyond that at 10%.

Cause: An incorrect calculation formula is integrated in the automated payroll system.

Effect: Employees earning more than \$11,000 are over withheld during the first part of the calendar year.

Recommendation: We recommend that the payroll program be modified to calculate the withholding tax correctly by taxing 6% on the first \$11,000 earned during the year and 10% thereafter.

Auditee Response: Treasury feels that the formula is not incorrect, and that any deviations from exact tax amounts are corrected through the refund procedure.

**Payroll, Continued**

**Finding No. 11**

**Criteria:** Each bi-weekly payroll should be approved before payment by someone independent of payroll preparation.

**Condition:** There is no independent approval of the bi-weekly payroll by a responsible officer. The head payroll clerk checks each pay period's gross pay to ensure there are no unusual deviations, but no independent review is performed.

**Cause:** No formal procedure exists for independent payroll approval.

**Effect:** Lack of independent review and approval of payroll does not assist the detection of any errors or misappropriations in the processing of payroll.

**Recommendation:** We recommend that an authorizing officer, independent of payroll, review payroll reports for any unusual disbursements and sign the reports as evidence of the review.

**Auditee Response:** Treasury has initiated such review of each payroll.

**Finding No. 12**

**Criteria:** Access to the payroll master file information should be restricted only to persons with authority to make changes.

**Condition:** The payroll clerk has the ability to access the master file of step pay rates.

**Cause:** No restriction to access menus to change step pay rates has been enforced on the log-on code of the payroll clerk.

**Effect:** With access to change step pay rates, there exists the ability to make unauthorized changes to pay rates.

**Recommendation:** We recommend that access to the master file payroll data be reviewed.

**Auditee Response:** Master file access has now been removed from the payroll clerk's log-on.

## Payroll, Continued

### Finding No. 13

Criteria: Employees should sign on a record sheet upon receipt of their pay check. Also, persons collecting department pay checks from Treasury should sign as evidence of receiving the checks.

Condition: Neither employees nor those persons responsible for collecting pay checks from Treasury sign as evidence of receiving checks.

Cause: Unknown.

Effect: The State does not have evidence to substantiate the receipt of checks.

Recommendation: Having employees sign as evidence of receipt of pay is a simple and cost effective control. The same applies to persons responsible for collecting pay checks from Treasury.

Auditee Response: Employees and/or department representatives sign for receipt of paychecks now.

## Disbursements

### Finding No. 14

Criteria: Per SL No. 1L-199-87, regarding Capital Improvement Project contracts, all contracts over \$10,000, should be reviewed, approved and authorized by the Contract Review Board.

Condition: From a sample of twelve contracts reviewed, two did not have evidence of the Contract Review Board's approval. (Contract C90160, \$2,805,000 and C90376, \$100,000).

Cause: Unknown.

Effect: The effect of this finding is the possibility that unauthorized expenditures have occurred or that the most competitive contractor was not selected.

Recommendation: We recommend that SL-No. 1L-199-87 be complied with and all CIP contracts over \$10,000 be reviewed, approved and authorized by the Contract Review Board.

Auditee Response: Treasury has referred this finding to the Contracting Officer.

## Procurement Supplies

### Finding No. 15

Criteria: Per the Financial Management Regulations, all procurements of goods/services costing over \$5,000, must be put out for bid unless exempted by the Governor.

Condition: The following check disbursements were not competitively bid or no waiver was issued by the Governor:

#### Check Number

CIP	1801
CIP	1808
CIP	1212

Cause: Unknown.

Effect: Noncompliance with the Financial Management Regulations may have occurred. The three instances occurred out a sample of fifty-five transactions.

Recommendation: We recommend that the Financial Management Regulations be complied with and all purchases of goods/services over \$5,000 be competitively bid or an authorized waiver be obtained.

#### Auditee Response:

1. CIP Check No. 1801 - no response
2. CIP Check No. 1808 - no response
3. CIP Check No. 1212 - no response

## Fixed Assets

### Finding No. 16

Criteria: All purchases of fixed assets by the State should be promptly communicated to the Property Management Department so that they can be tagged and recorded in the fixed asset sub-ledger.

Condition: For three procurements of fixed assets, we found that the Supply Office had not notified the Property Management Department to allow recording on the fixed asset sub-ledger. (Refer to check numbers 1453, 1296 and a direct bank transfer made on January 12, 1990).

Finding No. 16, Continued

Cause: Unknown.

Effect: Failure to record all fixed asset purchases causes the fixed asset sub-ledger to be understated.

Recommendation: We recommend that stricter controls be implemented to ensure that all fixed asset purchases are promptly communicated to the Property Management Department.

Auditee Response: A personnel change has been made in the RPPM Section in order to give more accurate accounting of fixed assets.

General Fixed Assets

Finding No. 17

Criteria: All assets should be insured against loss from fire, theft or damage.

Condition: Currently, no State held assets (including buildings and motor vehicles) are insured, with the exception of the computer system and shipping vessels.

Cause: There is no policy for insuring fixed assets.

Effect: In the event of theft or destruction of assets, no amounts are recoverable.

Recommendation: We recommend that assets be adequately insured.

Auditee Response: We do not agree that all assets should be insured, since the cost of such insurance would be prohibitive.

Automated System

Finding No. 18

Criteria: The State should maintain a copy of back up files off-site in a secure and restricted location.

Condition: Incremental and global backups to tape are currently stored on-site in the ADP room.

Cause: There is no policy for off-site storage of back-up files.



Finding No. 18, Continued

Effect: In the event of a disaster causing destruction to the State's offices, there would be great difficulty in restoring automated accounting information.

Recommendation: We recommend that a copy of the back-up tapes be made and stored at a secure location away from the State Office site.

Auditee Response: Treasury is currently discussing off-site storage with local banks.

Revenue and Fund Balance

Finding No. 19

Criteria: The Internal Service Fund should charge recipients of its services an amount which should closely reflect the full cost of services provided. Continued deficits in the Internal Service Fund do not appear to be within the intent of this fund.

Condition: In both fiscal years 1989 and 1990, the Internal Service Fund recorded operating deficits of \$15,000 and \$17,800, respectively.

Cause: The State's Internal Service Fund is not charging users appropriate amounts to recover the full cost of goods provided.

Effect: The fund balance, while still positive by a small amount, is quickly being eroded. If the trend continues, it will soon be in a deficit position.

Recommendation: We recommend that charges be reviewed to ensure that users are paying amounts which accurately reflect the true full cost of goods provided.

Auditee Response: The Internal Service fund has been discontinued, with no new purchases and will end completely with the sale of all current inventory.

Revenue and Taxation

Finding No. 20

Criteria: Personnel of the State's Revenue and Taxation Division should be performing regular audits of hotels and businesses to help ensure compliance with tax regulations.

Finding No. 20, Continued

Condition: No tax and revenue audits have been performed for at least the last two fiscal years.

Cause: Unknown.

Effect: Businesses may not be properly declaring financial information in accordance with the State Laws. Hence, the State may not be receiving all potential revenue.

Recommendation: We recommend that Revenue and Taxation personnel perform regular tax audits of Pohnpei businesses to ensure compliance with tax laws.

Auditee Response: During fiscal year 1989, our audit of businesses were extended to the succeeding fiscal year because of the prior years outstanding Sale Taxes which resulted from previous years examinations. By the closing of calendar year 1989, we were unexpectedly forced to delay all audits due to the relocation of the National Revenue Office in Kolonia.

Based on our previous audit experiences, most businesses do not keep or maintain accurate business records. Therefore, we had to modify our tactics and rely on the taxpayer importation records and documents that were filed and paid to the National Revenue Office located in Kolonia. The reliability of this method is workable for taxable commodities which the imposition of tax rate is fixed on the quantity and volume and reconciliation purposes. The overall view of these matters, the FSM Division of Customs, which kept all the importation record for Pohnpei State got their files disorganized during the course of their relocation. Our dependability on the Customs Division is essential.

The impact on the unaudited fiscal years are considered very minimum in consideration of the overall effect on current and expectation of future audit actions which will always be retroactive to the ending date of such prior years examinations.

Utility and Taxation Revenue

Finding No. 21

Criteria: The State's Revenue and Taxation division should regularly update their taxation and utility rolls.

Condition: The State government does not receive or collect information enabling it to update its listing of residents and registered businesses.



Finding No. 21, Continued

Cause: Unknown.

Effect: The State does not have a complete list of all entities/persons liable for taxes or utility billings, and may not be collecting all revenue due.

Recommendation: We recommend that the Revenue and Taxation division regularly update its taxation and utility listings.

Auditee Response: The questioning to overdue and agings of debts owed to the state government due to poor records and billing can only be realized years ago. Annual accomplishments are visible (Fiscal Year 1990 compare with previous years). Although, the accounts receivable totaled to \$2.5 million, about forty nine percent (49%) alone is created by the State government. The remaining half of these overdue utilities are from the private sectors.

During the previous years, the billing and collections of utilities is considered a serious problem to the State government. We can only agree part of the billing and collection deficiencies under the concerned period, but not all. The affect of the Utility Regulations in February of 1990 had a tremendous effect on collections and as well as the consumer's compliance. Our computer system has been programed to locate, categorize and provide the required information for any individual utility consumer.

The current effect on utilities has been improved ever since we've computerized the necessary informations. Time will provide the full force and effect of the utility regulations.

Revenue Collection

Finding No. 22

Criteria: An analysis of taxation and utility amounts owing should be prepared and updated on a monthly basis to help with follow-up and collection of overdue amounts.

Condition: No current policy regarding follow-up and collection of overdue utility and taxation billings exists.

Cause: Unknown.

Effect: Many amounts owing to the State are long overdue and remain uncollected. This fact coupled with the poor state of billing records makes it harder for the State to collect amounts owed.

Finding No. 22, Continued

Recommendation: We recommend that a detailed debtors aged analysis be prepared and updated on a monthly basis and a strict collection policy be implemented and followed.

Auditee Response: The questioning to overdue and agings of debts owed to the state government due to poor records and billing can only be realized years ago. Annual accomplishments are visible (Fiscal Year 1990 compare with previous years). Although, the accounts receivable totaled to \$2.5 million, about forty nine percent (49%) alone is created by the State government. The remaining half of these overdue utilities are from the private sectors.

During the previous years, the billing and collections of utilities is considered a serious problem to the State government. We can only agree part of the billing and collection deficiencies under the concerned period, but not all. The affect of the Utility Regulations in February of 1990 had a tremendous effect on collections and as well as the consumer's compliance. Our computer system has been programed to locate, categorize and provide the required information for any individual utility consumer.

The current effect on utilities has been improved ever since we've computerized the necessary informations. Time will provide the full force and effect of the utility regulations.

Public Land Leases

Finding No. 23

Criteria: Billings for public land leases should be calculated in accordance with the statutory rate.

Condition: Amounts billed for public land leases were calculated at various rates in consistent with the statutory rates per meter.

Cause: The Department of Treasury is preparing billings based on an outdated log book from the Division of Land Management.

Effect: The effect is that Public Land Lease revenue is misstated.

Recommendation: We recommend that land leases be calculated in accordance with statutory rates per meter.

Finding No. 23, Continued

Auditee Response: The Department of Treasury came to assume the billing and collection of Public Land leases in the continuous attempt to centralize the collections of all Pohnpei State revenues. A billing log was provided by the Department of Land to the Division of Revenue & Taxation for billing and collection processing. Following the transferring process, the Division then took the immediate and necessary step.

As a result of our recent actions or later during Fiscal Year 1990, we have found that the current listing or the lessee log was not accurately maintained (in some ways) by the Division of Public Lands. We believe that close to ten percent of the recorded billings may have been misstated.

In our attempt to straighten out the concerned problem, we have made a joint effort with the Division of Public Lands to conduct inspection of the subject leases and computerize all available data on the leases. In general, the out-come of the computer will meet the applicable requirements.

Deferred Revenue - Other Grants Fund

Finding No. 24

Criteria: Federal assistance monies advanced to Pohnpei State should be returned to the grantor agency.

Condition: A deferred revenue account in the Compact Other Grants Fund of \$29,645, matched by a general fund bank account, relates to FEMA money advanced to Pohnpei State after Typhoon Lola in 1986. No movement in this account has occurred for over two years. However, State management represents that it has attempted to determine the proper disposition of these funds.

Cause: Unknown.

Effect: Non-compliance with federal financial assistance regulations could occur.

Recommendation: We recommend that FEMA be contacted by the State so that appropriate action regarding this unexpended grant money can be taken.

Auditee Response: Treasury has repeatedly asked the State Disaster Coordinator and various FEMA personnel what should be done with the money. We have had no response.



**Accounts Payable**

**Finding No. 25**

**Criteria:** Liabilities of Pohnpei State should be properly recorded in the State's automated financial accounting system.

**Condition:** Numerous debit balances in the accounts payable accounts of several Special Revenue Funds, including a \$63,291 debit balance in the Federal Grants Fund were found as of September 30, 1990.

**Cause:** Unknown.

**Effect:** Frequent occurrences of such debit balances may indicate that little or no reliance can be placed on the State's accounts payable recording procedures.

**Recommendation:** We recommend that the State's accounting for accounts payable transactions be reviewed to ensure that balances are correct.

**Auditee Response:** No response.

**Contract Regulations**

**Finding No. 26**

**Criteria:** Pohnpei State should comply with contract regulations and laws by retaining competitive bidding documentation.

**Condition:** We were unable to locate evidence of compliance with competitive bidding from the Constructional Management Division (CMD). Copies of tenders, selection recommendations or evidence that contracts were advertised as being open for tender were not retained. The exceptions found are as follows:

<u>Contract Number</u>	<u>Contract</u>
C90045	Power Extension and Distribution
C00269	U Water Improvement
C00286	Tuna Boat Valuations
C00412	Sokehs Industrial Park Fencing

This contradicts SL-1L-199-87 "Capital Improvement Contracts", the Financial Management Regulations, and the Public Contracts and Property Management Regulations of Pohnpei State.

Finding No. 26, Continued

Cause: An inadequate filing system at CMD contributes to this weakness.

Effect: Contract expenditures may be questioned if not in accordance with State laws and regulations.

Recommendation: We recommend the Pohnpei State CMD obtain and file all appropriate documentation relating to the competitive bidding of each contract, and hence comply with State laws and regulations.

Auditee Response: Treasury has referred this finding to the State Contracting Office for response.