

**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, 1992

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
FOR THE YEAR ENDED SEPTEMBER 30, 1992**

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FEDERATED STATES OF MICRONESIA**

YEAR ENDED SEPTEMBER 30, 1992

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**STATE OF POHNPEI
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**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

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

YEAR ENDED SEPTEMBER 30, 1992

**INDEPENDENT AUDITORS' REPORT**

Honorable Johnny David
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, 1992, and for the year then ended, listed in the foregoing table of contents. 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. We did not audit the financial statements of Pohnpei Economic Development Authority and Pohnpei State Housing Authority which represent 20% and 16%, respectively, of assets and revenues of the Proprietary Fund Type - Enterprise Funds (see Note 11). Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Pohnpei Economic Development Authority and Pohnpei State Housing Authority, is based solely on the reports of the other auditors.

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

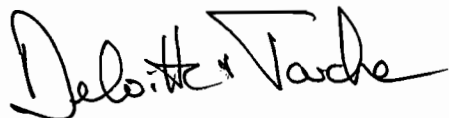
The State has not adequately updated its General Fixed Assets Account Group during the year ended September 30, 1992, nor were we able to apply sufficient alternative procedures to assure ourselves as to the correctness of the balances set forth in the accompanying general purpose financial statements.

With respect to the financial statements of Pohnpei Economic Development Authority, which represents 7% and 12%, respectively, of assets and revenues of the Proprietary Fund Type - Enterprise Funds, audited financial statements could not be obtained from a material investee and therefore it was not possible to determine that the investment was properly recorded at the lower of cost or market. With respect to the financial statements of the Pohnpei State Housing Authority, which represents 14% and 5%, respectively, of assets and revenues of the Proprietary Fund Type - Enterprise Funds, adequate documentation could not be obtained through the use of alternative audit procedures to support an opinion on the fairness of presentation of loans receivable and inventory (see Note 11A).

In our opinion, based on our audit and the reports of other auditors, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to assure ourselves as to the fairness of presentation of the General Fixed Assets Account Group, and except for the inability to obtain financial statements of an investee of the Pohnpei Economic Development Authority and the lack of adequate documentation supporting loans receivable and inventory of the Pohnpei State Housing Authority, 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, 1992, 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 10 to the general purpose financial statements, Pohnpei State participates in various U.S. federal assistance programs. Currently, \$2,382,308 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 general purpose financial statements which may result on ultimate resolution.

May 5, 1993



Certified Public Accountants

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**
Combined Balance Sheet - All Fund Types and Account Groups
September 30, 1992
(With comparative totals as of September 30, 1991)

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Type	Account Groups		Totals	
	General	Special Revenue	Capital Projects	Enterprise	Internal	Expendable Trust	General Fixed	General Long-Term	(Memorandum Only)	
	Fund	Funds	Funds	Funds	Service	Fund	Assets	Debt	1992	1991
Assets										
Cash and equivalents (Notes 1 and 2)	\$ 816,413	\$1,677,844	\$ 4,405,002	\$ 311,503	\$ -	\$ -	\$ -	\$ -	\$ 7,210,762	\$ 8,157,349
Cash - restricted (Note 2)	-	-	527,912	-	-	-	-	-	527,912	500,000
Investments (Notes 2 and 7)	4,983,003	194,954	4,954,322	-	-	-	-	-	10,132,279	13,602,015
Investments - Other (Note 7)	17,348	-	350,000	134,322	-	-	-	-	501,670	1,080,223
Receivables from other governments (Note 3)	99,930	1,084,483	717,686	-	-	-	-	-	1,902,099	1,802,534
Receivables, federal agencies (Note 3)	-	2,335,885	-	-	-	-	-	-	2,335,885	1,582,926
General receivables, net (Note 4)	225,348	43,118	6,006	911,883	-	1,851	-	-	1,188,206	841,206
Advances (Notes 4)	79,580	160,794	-	8,975	-	10,676	-	-	260,025	148,988
Loans receivable, net (Note 8)	-	-	-	2,753,404	-	-	-	-	2,753,404	6,986,258
Due from other funds (Note 15)	2,485,923	666,031	2,043,380	-	9,810	205,910	-	-	5,411,054	5,192,896
Inventory, at cost (Notes 1 and 5)	-	5,333	-	184,126	39,128	-	-	-	228,587	468,701
Prepaid expense	-	-	-	-	-	-	-	-	-	3,416
Investment in fixed assets (Notes 1 and 6)	-	-	-	19,352,835	-	-	49,323,802	-	68,676,637	67,843,549
Amount to be provided for retirement of long-term debt (Notes 1 and 14)	-	-	-	-	-	-	-	17,399,806	17,399,806	19,868,840
Total assets	\$ 8,707,545	\$6,168,442	\$13,004,308	\$23,657,048	\$48,938	\$218,437	\$49,323,802	\$17,399,806	\$118,528,326	\$128,078,901
Liabilities and Fund Equity										
Liabilities:										
Accounts payable	\$ 370,260	\$ 261,847	\$ 1,059,607	\$ 553,969	\$ 2,790	\$ 4,931	\$ -	\$ -	\$ 2,253,404	\$ 888,690
Accrued payroll and others	474,174	68,711	10,374	162,584	-	7,789	-	-	723,632	1,352,610
Due to other funds (Note 15)	543,469	3,501,431	717,686	648,468	-	-	-	-	5,411,054	5,192,896
Deferred revenue	-	33,722	-	-	-	9,367	-	-	43,089	83,007
	1,387,903	3,865,711	1,787,667	1,365,021	2,790	22,087	-	-	8,431,179	7,517,203
Long-term notes payable (Notes 1 and 14)	-	-	-	-	-	-	-	16,300,000	16,300,000	18,850,000
Vacation leave accrual	-	-	-	-	-	-	-	1,099,806	1,099,806	1,018,840
Total liabilities	1,387,903	3,865,711	1,787,667	1,365,021	2,790	22,087	-	17,399,806	25,830,985	27,386,043
Contingencies and commitments (Note 10)										
Fund equity:										
Investment in general fixed assets	-	-	-	-	-	-	49,323,802	-	49,323,802	66,559,701
Retained earnings (deficit)	-	-	-	(2,975,061)	-	-	-	-	(2,975,061)	(2,709,887)
Contributed capital	-	-	-	25,267,088	-	-	-	-	25,267,088	6,770,943
Fund balance:										
Reserved for:										
Diminution of investments (Note 2)	51,114	-	-	-	-	-	-	-	51,114	262,542
Long-term loan (Note 8)	-	-	-	-	-	-	-	-	-	4,750,000
Related assets	304,928	248,911	350,000	-	39,128	12,527	-	-	955,494	1,294,352
Encumbrances	540,592	781,921	7,098,080	-	-	1,990	-	-	8,422,583	8,028,335
Continuing appropriations (Note 16)	258,874	-	4,402,331	-	-	-	-	-	4,661,205	3,859,622
Unreserved (deficit)	6,164,134	1,271,899	(633,770)	-	7,020	181,833	-	-	6,991,116	11,877,250
Total fund equity	7,319,642	2,302,731	11,216,641	22,292,027	46,148	196,350	49,323,802	-	92,697,341	100,692,858
Total liabilities and fund equity	\$ 8,707,545	\$6,168,442	\$13,004,308	\$23,657,048	\$48,938	\$218,437	\$49,323,802	\$17,399,806	\$118,528,326	\$128,078,901

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, 1992
(With comparative totals for the year ended September 30, 1991)

	Governmental Fund Types			Fiduciary	Totals	
	General	Special	Capital	Expendable	(Memorandum Only)	
	Fund	Funds	Projects	Trust Fund	1992	1991
Revenues:						
Compact of Free Association:						
Base grant	\$ 7,206,300	\$ 3,535,786	\$ 5,191,800	\$ -	\$15,933,886	\$18,890,800
Inflation adjustment	2,738,394	380,000	1,972,884	-	5,091,278	5,299,240
Department of the Interior grants	-	-	52,388	-	52,388	571,287
Revenue sharing	3,008,754	-	-	-	3,008,754	2,720,616
Federal contributions	-	2,973,824	-	-	2,973,824	3,086,099
Taxes and licenses	1,191,244	-	-	-	1,191,244	957,177
Fines and penalties	28,829	-	-	-	28,829	34,756
Investment income (Note 2)	1,321,906	-	-	-	1,321,906	1,552,584
Other	<u>685,665</u>	<u>1,232,518</u>	<u>150</u>	<u>100,011</u>	<u>2,018,344</u>	<u>1,929,236</u>
Total revenues	<u>16,181,092</u>	<u>8,122,128</u>	<u>7,217,222</u>	<u>100,011</u>	<u>31,620,453</u>	<u>35,041,795</u>
Program expenditures:						
General government	4,410,841	811,017	-	272,068	5,493,926	5,382,093
Health services	3,280,296	892,422	-	-	4,172,718	5,499,965
Education	3,577,114	2,225,636	-	-	5,802,750	4,014,865
Resources and development	697,609	452,626	-	-	1,150,235	1,316,691
Public works	666,688	197,253	-	-	863,941	3,669,821
Transportation	506,679	-	-	-	506,679	524,780
Boards, commissions and other						
appropriations	326,640	-	-	-	326,640	327,631
Public safety	1,068,272	-	-	-	1,068,272	1,005,623
Capital projects	-	-	6,105,815	-	6,105,815	10,748,818
Municipal governments	1,158,990	-	-	-	1,158,990	883,747
Other	<u>118,983</u>	<u>973,492</u>	<u>4,750,000</u>	<u>-</u>	<u>5,842,475</u>	<u>942,355</u>
Total program expenditures	<u>15,812,112</u>	<u>5,552,446</u>	<u>10,855,815</u>	<u>272,068</u>	<u>32,492,441</u>	<u>34,316,389</u>
Revenues over (under)						
expenditures	<u>368,980</u>	<u>2,569,682</u>	<u>(3,638,593)</u>	<u>(172,057)</u>	<u>(871,988)</u>	<u>725,406</u>
Other sources (uses):						
Bond proceeds (Note 14)	-	-	-	-	-	5,200,000
Loan repayment	-	-	(2,550,000)	-	(2,550,000)	(1,000,000)
Interest expense	-	-	(1,627,845)	-	(1,627,845)	(1,263,468)
Other income	-	-	398,656	-	398,656	223,438
Operating transfers out (Note 9)	<u>(1,002,026)</u>	<u>(2,306,943)</u>	<u>(1,052,735)</u>	<u>-</u>	<u>(4,361,704)</u>	<u>(2,605,842)</u>
Total other sources (uses)	<u>(1,002,026)</u>	<u>(2,306,943)</u>	<u>(4,831,924)</u>	<u>-</u>	<u>(8,140,893)</u>	<u>554,128</u>
Excess (deficiency) of						
revenues and other sources over						
expenditures and other uses	(633,046)	262,739	(8,470,517)	(172,057)	(9,012,881)	1,279,534
Fund balance, beginning of year	<u>7,952,688</u>	<u>2,039,992</u>	<u>19,687,158</u>	<u>368,407</u>	<u>30,048,245</u>	<u>28,768,711</u>
Fund balance, end of year	<u>\$ 7,319,642</u>	<u>\$ 2,302,731</u>	<u>\$11,216,641</u>	<u>\$196,350</u>	<u>\$21,035,364</u>	<u>\$30,048,245</u>

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, 1992

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenue:			
Compact - current	\$ 10,008,950	\$ 9,944,694	\$ (64,256)
Local revenues	3,659,300	4,914,492	1,255,192
Investment income	<u>4,030,000</u>	<u>1,321,906</u>	<u>(2,708,094)</u>
Total revenues	<u>17,698,250</u>	<u>16,181,092</u>	<u>(1,517,158)</u>
Expenditures (budgetary basis):			
General government	4,851,360	4,421,428	429,932
Health services	3,443,142	3,272,807	170,335
Education	3,934,225	3,591,018	343,207
Justice	1,104,336	1,070,826	33,510
Transportation	477,376	475,250	2,126
Public works	600,150	650,135	(49,985)
Conservation and resources	727,085	697,506	29,579
Boards, commissions and other external appropriations	337,597	315,734	21,863
Municipal governments and projects	1,088,499	1,159,217	(70,718)
Other	<u>-</u>	<u>118,983</u>	<u>(118,983)</u>
Total expenditures	<u>16,563,770</u>	<u>15,772,904</u>	<u>790,866</u>
Excess of revenues over expenditures	1,134,480	408,188	(726,292)
Other financing sources (uses):			
Operating transfers out	<u>1,047,850</u>	<u>1,038,561</u>	<u>9,289</u>
Total other financing sources (uses)	<u>1,047,850</u>	<u>1,038,561</u>	<u>9,289</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	86,630	(630,373)	(717,003)
Unreserved fund balance, beginning of year	6,104,258	6,104,258	-
Other changes in unreserved fund balance:			
Decrease in reserve for diminution of investments	-	211,428	211,428
Decrease in reserve for related assets	-	388,060	388,060
(Increase) in reserve for continuing appropriations	-	(154,807)	(154,807)
Net encumbrance adjustments	<u>-</u>	<u>245,568</u>	<u>245,568</u>
Unreserved fund balance, end of year	<u>\$ 6,190,888</u>	<u>\$ 6,164,134</u>	<u>\$ (26,754)</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, 1992
(With comparative totals for the year ended September 30, 1991)

	<u>Proprietary Fund Types</u>		<u>Totals</u>	
	<u>Enterprise</u>	<u>Internal</u>	<u>(Memorandum Only)</u>	
	<u>Funds</u>	<u>Service</u>	<u>1992</u>	<u>1991</u>
		<u>Fund</u>		
Revenues:				
Charges for services	\$ 2,693,913	\$ 31,948	\$ 2,725,861	\$ 740,670
Other	<u>33,614</u>	<u>-</u>	<u>33,614</u>	<u>336,653</u>
Total revenues	<u>2,727,527</u>	<u>31,948</u>	<u>2,759,475</u>	<u>1,077,323</u>
Operating expenses:				
Personnel services	1,162,187	-	1,162,187	433,577
Travel	51,458	-	51,458	15,272
Supplies and materials	39,686	9,272	48,958	162,079
Fuel	2,140,814	-	2,140,814	28,792
Capital outlays	-	-	-	5,556
Contractual services	2,226,827	-	2,226,827	2,259,723
Depreciation	987,068	-	987,068	-
Other	<u>1,102,018</u>	<u>384</u>	<u>1,102,402</u>	<u>345,288</u>
Total operating expenses	<u>7,710,058</u>	<u>9,656</u>	<u>7,719,714</u>	<u>3,250,287</u>
Operating income (loss)	<u>(4,982,531)</u>	<u>22,292</u>	<u>(4,960,239)</u>	<u>(2,172,964)</u>
Non-operating revenues (expenses):				
Equity loss on investment (Note 7)	(595,901)	-	(595,901)	(1,152,096)
Operating transfers in (Note 9)	4,361,704	-	4,361,704	1,951,638
Others	<u>79,988</u>	<u>-</u>	<u>79,988</u>	<u>146,305</u>
Total non-operating revenues (expenses), net	<u>3,845,791</u>	<u>-</u>	<u>3,845,791</u>	<u>945,847</u>
Depreciation recovery	859,941	-	859,941	-
Net income (loss)	(276,799)	22,292	(254,507)	(1,227,117)
Retained earnings (deficit), beginning of year	(2,709,887)	23,856	(2,686,031)	(1,458,914)
Prior period adjustments	<u>11,625</u>	<u>-</u>	<u>11,625</u>	<u>-</u>
Retained earnings (deficit), end of year	<u>\$(2,975,061)</u>	<u>\$ 46,148</u>	<u>\$(2,928,913)</u>	<u>\$(2,686,031)</u>
Contributed capital, beginning of year	\$ 6,770,943	\$ -	\$ 6,770,943	\$ 5,794,312
Less opening balance adjustment	6,947	-	6,947	-
Additions for the year (Note 12)	<u>18,489,198</u>	<u>-</u>	<u>18,489,198</u>	<u>976,631</u>
Contributed capital, end of year	<u>\$25,267,088</u>	<u>\$ -</u>	<u>\$25,267,088</u>	<u>\$ 6,770,943</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, 1992

	<u>Proprietary Fund Types</u>		<u>Totals</u>
	<u>Enterprise</u>	<u>Internal</u>	<u>(Memorandum</u>
	<u>Funds</u>	<u>Service</u>	<u>Only)</u>
		<u>Fund</u>	<u>1992</u>
Operating Activities:			
Operating income (loss)	\$(4,982,531)	\$ 22,292	\$(4,960,239)
Add back items not affecting cash:			
Depreciation	987,068	-	987,068
Prior period adjustments	<u>30,573</u>	<u>-</u>	<u>30,573</u>
	<u>(3,964,890)</u>	<u>22,292</u>	<u>(3,942,598)</u>
Changes in Working Capital Sources (Uses):			
Advances	(6,600)	-	(6,600)
Inventory	199,638	4,165	203,803
General receivables	(783,479)	-	(783,479)
Loans receivable	(517,146)	-	(517,146)
Interfund receivable	-	(29,248)	(29,248)
Accounts payable	388,581	2,791	391,372
Accrued liabilities	58,929	-	58,929
Deferred revenue	(34,630)	-	(34,630)
Prepaid expenses	3,416	-	3,416
Interfund payable	<u>167,737</u>	<u>-</u>	<u>167,737</u>
	<u>(523,554)</u>	<u>(22,292)</u>	<u>(545,846)</u>
Cash used by operating activities	<u>(4,488,444)</u>	<u>-</u>	<u>(4,488,444)</u>
Capital and Related Financing Activities:			
Cash payments for acquisition of capital assets	(225,840)	-	(225,840)
Other capital related activities	<u>(50,924)</u>	<u>-</u>	<u>(50,924)</u>
Cash used by capital and related financing activities	<u>(276,764)</u>	<u>-</u>	<u>(276,764)</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, 1992

	<u>Proprietary Fund Types</u>		Totals
	Enterprise <u>Funds</u>	Internal Service <u>Fund</u>	(Memorandum <u>Only</u>) <u>1992</u>
Non-capital and Related			
Financing Activities:			
Contributed capital	\$ 557,847	\$ -	\$ 557,847
Operating grants	4,436,583	-	4,436,583
other non-capital and related financing activities	<u>26,831</u>	<u>-</u>	<u>26,831</u>
Cash provided by non-capital and related financing activities	<u>5,021,261</u>	<u>-</u>	<u>5,021,261</u>
Net increase in cash and equivalents	256,053	-	256,053
Cash and equivalents, beginning of year	<u>55,450</u>	<u>-</u>	<u>55,450</u>
Cash and equivalents, end of year	<u>\$ 311,503</u>	<u>\$ -</u>	<u>\$ 311,503</u>

See accompanying notes to combined financial statements.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 1992

(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, 1992

(1) SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

- Pohnpei Transportation Authority
- Pohnpei Utilities Corporation

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.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
NOTES TO COMBINED FINANCIAL STATEMENTS, CONTINUED
SEPTEMBER 30, 1992

(1) SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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:

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, 1992, 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.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
NOTES TO COMBINED FINANCIAL STATEMENTS, CONTINUED
SEPTEMBER 30, 1992

(1) SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

C. Fixed Assets and Long-Term Liabilities, Continued

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.

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. The State policy is to capitalize infrastructure costs. However, the State has not updated its General Fixed Assets Account Group to reflect this policy in recent years. Depreciation is not charged against the general fixed assets. The State does not generally capitalize eligible interest costs on 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 14).

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.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
NOTES TO COMBINED FINANCIAL STATEMENTS, CONTINUED
September 30, 1992

(1) SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

C. Fixed Assets and Long-Term Liabilities, Continued

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, 1992, are as follows:

	Pohnpei Utilities Corporation	Pohnpei Economic Development Authority	Pohnpei State Housing Authority	<u>Total</u>
Production plant	\$11,131,045	\$ -	\$ -	\$11,131,045
Distribution plant	6,210,875	-	-	6,210,875
General plant	296,070	-	-	296,070
Building	-	12,833	11,546	24,379
Vehicles and other equipment	-	1,587,620	39,378	1,626,998
Central office assets	-	51,978	-	51,978
Less accumulated depreciation	<u>(870,853)</u>	<u>(465,847)</u>	<u>(21,131)</u>	<u>(1,357,831)</u>
	16,767,137	1,186,584	29,793	17,983,514
Construction in progress	<u>1,369,321</u>	<u>-</u>	<u>-</u>	<u>1,369,321</u>
Total Fixed Assets, Net	<u>\$18,136,458</u>	<u>\$1,186,584</u>	<u>\$ 29,793</u>	<u>\$19,352,835</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.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
NOTES TO COMBINED FINANCIAL STATEMENTS, CONTINUED
SEPTEMBER 30, 1992

(1) SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

D. Budgetary Process, continued

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. Supplemental appropriations for the year are enacted for both operating and capital purposes, reflecting the State's evolving priorities.

Pohnpei State does not establish budgets for the operations of its Special Revenue Funds. Accordingly, a budget to actual presentation for Special Revenue Funds is not required or presented.

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.

F. Interfund Transactions

The State of Pohnpei has three 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).
3. The majority of the State's financial operations are centrally administered, and this administration is facilitated by the use of a "pooled" cash account; for practical purposes, cash is primarily maintained in a single bank account which is considered to be an asset of the State's general fund.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
NOTES TO COMBINED FINANCIAL STATEMENTS, CONTINUED
SEPTEMBER 30, 1992

(1) SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

F. Interfund Transactions, continued

As a result of this cash pooling practice, cash transactions normally include entries which adjust the relative balances of affected which interfund asset/liability accounts: each fund's interfund balance therefore represents a net interest in the State's actual cash. Income derived from pooling of cash generally derives to the general fund.

G. Inventories

Inventories of materials and supplies are determined by physical count and are valued at the lower of cost (first-in-first-out method) 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.

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 the prior year encumbrances are reported together as a separate line item entitled "net encumbrance adjustments". This item of the budgetary financial statements is 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.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
NOTES TO COMBINED FINANCIAL STATEMENTS, CONTINUED
SEPTEMBER 30, 1992

(1) SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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 do 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 banks. Therefore, amounts in excess of FDIC coverage are classified as uncollateralized.

L. Cash and Equivalents

For purposes of the balance sheet and 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 initial maturities of ninety days or less.

(2) CASH AND EQUIVALENTS AND INVESTMENTS

The State has adopted the by-laws of the Federated Development Authority as the agency to establish the overall development goals, policies and strategies of funds received and invested pursuant to the Compact of Free Association. The Federated States of Micronesia, Secretary of Finance, maintains the accounting system and records necessary to account for investment funds placed with the Authority on behalf of Pohnpei State.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
NOTES TO COMBINED FINANCIAL STATEMENTS, CONTINUED
SEPTEMBER 30, 1992

(2) CASH AND EQUIVALENTS AND INVESTMENTS, CONTINUED

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%.

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.

STATE OF Pohnpei
FEDERATED STATES OF MICRONESIA
NOTES TO COMBINED FINANCIAL STATEMENTS, CONTINUED
SEPTEMBER 30, 1992

(2) CASH AND EQUIVALENTS AND INVESTMENTS, CONTINUED

Funds held with Hawaiian Trust Co. and invested on behalf of Pohnpei State as of September 30, 1992, are summarized below:

<u>Cash and Equivalents</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Cash Management Fund	<u>\$ 1,954,291</u>	<u>\$ 1,954,291</u>
	<u>1,954,291</u>	<u>1,954,291</u>
 <u>Investments</u>		
Pooled Investment Securities	<u>10,132,279</u>	<u>10,574,187</u>
Total	<u>\$12,086,570</u>	<u>\$12,528,478</u>

At September 30, 1992, the diminution in market value of \$51,114 was reserved as a component of Fund Balance within the General Fund. This reserve represents Pohnpei State's share of the carrying value of the NWQ #2A fund's pooled investment in Colorado Utility Electric Association Inc. as of March 1991, being the date of Colorado Utility's declaration of default on debt repayments. From the latest financial information available, management is able to quantify an appropriate carrying value of the State's investment in Colorado Utility at \$211,428.

D. The State's investment income as of September 30, 1992, is summarized below:

Interest	\$ 938,916
Dividends	81,888
Realized Gains	418,245
Realized Losses	(36)
Management Fees	(115,948)
Other expenses	<u>(1,159)</u>
	<u>\$1,321,906</u>

E. The State of Pohnpei does not require collateralization of the following bank accounts. Therefore \$483,528 is subject to FDIC insurance with the balance being uncollateralized.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
NOTES TO COMBINED FINANCIAL STATEMENTS, CONTINUED
SEPTEMBER 30, 1992

(2) CASH AND EQUIVALENTS AND INVESTMENTS, CONTINUED

At September 30, 1992, the State had deposits and cash on hand as follows (in each situation cost approximates market value):

General Fund

Net bank balance in checking and savings accounts with FDIC insured banks	\$ 559,284
Cash on deposit with Hawaiian Trust Co.	<u>257,129</u>
Total General Fund cash and equivalents	<u>\$ 816,413</u>

Special Revenue Funds

Cash on deposit with Hawaiian Trust Co.	<u>\$1,677,844</u>
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Capital Project Funds

Cash on deposit with Hawaiian Trust Co.	\$ 19,318
Net bank balance in savings accounts with FDIC insured bank	<u>4,385,684</u>
Total Capital Projects Funds cash and equivalents	<u>\$4,405,002</u>

Enterprise Funds

Pohnpei Economic Development Authority (EDA):	
Cash in checking and savings accounts with FDIC insured banks	\$ 31,147

Pohnpei State Housing Authority (PSHA):	
Cash in checking and savings accounts with FDIC insured banks	227,775

Pohnpei Utilities Corporation (PUC):	
Cash in checking and savings accounts with FDIC insured banks	<u>52,581</u>

Total Enterprise Funds cash and equivalents	<u>\$ 311,503</u>
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STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
NOTES TO COMBINED FINANCIAL STATEMENTS, CONTINUED
SEPTEMBER 30, 1992

(2) CASH AND EQUIVALENTS AND INVESTMENTS, CONTINUED

Cash - Restricted (Loan Guarantee Escrow Account): The Pohnpei State Legislature appropriated a total of \$500,000 through a continuing appropriation for the sole purpose of securing loans made through the U.S. Farmers Home Administration. The escrow account may be drawn down in the event of a borrower's default on the obligation under the terms of the promissory note and the deed of trust security instrument securing such note and for which such note is guaranteed by the Pohnpei State Housing Authority, the trustee of the Loan Guarantee Escrow Account.

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

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

The State's demand and time deposits are non-categorized investments in accordance with Governmental Accounting Standards Board (GASB) Statement #3. All other investments held by the State or Trustee have been classified as category 2 investments in accordance with GASB #3 as all investments are held in the name of the Federated Development Authority.

(3) RECEIVABLES FROM OTHER GOVERNMENTS AND FEDERAL AGENCIES

Amounts due from other governments include those funds which are earned and have yet to be reimbursed by the FSM National Government in its role as the primary grant recipient of U.S. federal assistance programs, Congress of the Federated States of Micronesia public project grants, and U.S. Department of the Interior capital project grants through the Trust Territory Government.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
NOTES TO COMBINED FINANCIAL STATEMENTS, CONTINUED
SEPTEMBER 30, 1992

(4) GENERAL RECEIVABLES AND ADVANCES

A summary of General Fund receivables against which allowances for doubtful accounts have been recorded as of September 30, 1992, is presented below:

<u>General Receivables</u>	<u>Balance</u>	<u>Allowance</u>	<u>Net</u>
Delinquent taxes	\$ 250,176	\$ 182,628	\$ 67,548
Miscellaneous	313,433	226,376	87,057
Interest receivable	<u>70,743</u>	<u>-</u>	<u>70,743</u>
	<u>\$ 634,352</u>	<u>\$ 409,004</u>	<u>\$ 225,348</u>

Various Enterprise Funds have general receivable balances aggregating \$1,198,300 with a \$286,417 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.

Advances

Advances consist of advance payments 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.

(5) INVENTORY OF SUPPLIES

The Internal Service Fund has general operational and office supplies of \$39,128 as of September 30, 1992. The Pohnpei State Economic Development Authority and Pohnpei State Housing Authority (Enterprise Funds) have \$80,655 and \$103,471, respectively of general merchandise and construction materials on hand. The Agriculture Revolving fund (a Special Revenue Fund) had \$5,333 of agriculture production supplies on hand at September 30, 1992.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
NOTES TO COMBINED FINANCIAL STATEMENTS, CONTINUED
SEPTEMBER 30, 1992

(6) CHANGES IN GENERAL FIXED ASSETS

A summary of changes in general fixed assets follows:

	Balance October 1, 1991	<u>Additions</u>	<u>Transfers</u>	Balance September 30, 1992
Building	\$10,055,450	\$ -	\$ -	\$10,055,450
Infrastructure	52,522,286	-	17,931,351	34,590,935
Equipment	<u>3,981,965</u>	<u>695,452</u>	<u>-</u>	<u>4,677,417</u>
	<u>\$66,559,701</u>	<u>\$ 695,452</u>	<u>\$17,931,351</u>	<u>\$49,323,802</u>

The State's investment in general fixed assets as of September 30, 1992, by source, is summarized below:

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

(7) OTHER INVESTMENTS

During 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. The financial statements for the CFC for the year ended September 30, 1992, reflected EDA's pro rata share of CFC's net loss as \$595,901.

Under the equity method of accounting, which has been adopted for EDA's investment in CFC, this 1992 loss has been deducted from the carrying value (original value of \$2,000,000 less EDA's share of accumulated loss as of September 30, 1991, \$1,269,777) of the investment as follows:

Carrying value, September 30, 1991	\$ 730,223
Less 1/3 equity share of 1992 operating loss	<u>(595,901)</u>
Carrying value, September 30, 1992	<u>\$ 134,322</u>

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
NOTES TO COMBINED FINANCIAL STATEMENTS, CONTINUED
SEPTEMBER 30, 1992

(7) OTHER INVESTMENTS, CONTINUED

Additionally, the State holds 32% of the shares in the Pacific Islands Development Bank in the amount of \$350,000, carried at cost. The investment is recorded in the Capital Improvement Projects Fund. The market value of these shares is difficult to assess as they are not publicly traded so a market versus cost analysis could not be performed. This investment in stock has therefore been carried at cost. Since the investment is considered unavailable to finance expenditures for the ensuing fiscal year, the investment is restricted in the reserved for related assets component of the fund balance.

(8) LOANS RECEIVABLE - RELATED PARTY

As of September 30, 1992, two notes totaling \$4,750,000 were outstanding as loans receivable from the Caroline Fishing Corporation Inc., (CFC) (See Note 7), which were recorded in the Capital Project Fund. The first loan for \$3,750,000 matures on October 15, 1997 with interest being paid semi-annually at rates ranging from 9.11% to 9.44% per annum. Five equal principal payments of \$750,000 will occur annually commencing on October 15, 1993. The second loan, for \$1,000,000 matures on April 15, 1994, with interest being paid semi-annually at 8.5% per annum.

Collateral 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.

CFC has defaulted on all its interest payments due as of September 30, 1992 to Pohnpei State. This condition raises substantial doubt as to the collectibility of these loans from CFC. The whole \$4,750,000 of loans receivable has therefore been reserved for as bad debts of the Capital Project Funds. In 1991, the \$4,750,000 was reserved for as a related asset in fund balance.

The Pohnpei State Economic Development Authority has loans receivable of \$92,254 with an allowance of \$ 90,714 for doubtful accounts. The Pohnpei State Housing Authority (PSHA) has loans receivable of \$2,751,864. These loans represent amounts borrowed by qualified applicants for purposes of the construction and improvement of housing.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
NOTES TO COMBINED FINANCIAL STATEMENTS, CONTINUED
SEPTEMBER 30, 1992**

(9) OPERATING TRANSFERS IN/OUT

Material operating transfers in/out for the year ended September 30, 1992, are as follows:

	<u>Transfer out</u>	<u>Transfer In</u>
General Fund:		
Pohnpei Utilities Corporation	\$ 700,000	\$ -
Pohnpei State Transportation Authority	7,278	-
Pohnpei Economic Development Authority	148,358	-
Pohnpei State Housing Authority	<u>146,390</u>	<u>-</u>
Total General Fund	<u>1,002,026</u>	<u>-</u>
Capital Projects Fund:		
Pohnpei Utilities Corporation	230,820	-
Pohnpei State Transportation Authority	<u>821,915</u>	<u>-</u>
Total CIP Fund	<u>1,052,735</u>	<u>-</u>
Special Revenue Funds:		
Pohnpei Utilities Corporation	1,361,943	-
Pohnpei Transportation Authority	<u>945,000</u>	<u>-</u>
Total Special Revenue Funds	<u>2,306,943</u>	<u>-</u>
Enterprise Funds:		
Pohnpei Utilities Corporation	-	2,292,763
Pohnpei State Transportation Authority	-	1,774,193
Pohnpei Economic Development Authority	-	148,358
Pohnpei State Housing Authority	<u>-</u>	<u>146,390</u>
Total Enterprise Funds	<u>-</u>	<u>4,361,704</u>
	<u>\$4,361,704</u>	<u>\$4,361,704</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, \$2,382,308 in questioned costs exist for the operation of fiscal year 1985 through 1992 grants, including \$118,431 relating to financial year 1992. If these questioned costs are ultimately disallowed, the General Fund may bear responsibility for absorbing the amount disallowed.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
NOTES TO COMBINED FINANCIAL STATEMENTS, CONTINUED
SEPTEMBER 30, 1992

(10) CONTINGENCIES AND COMMITMENTS, CONTINUED

Federal Program Questioned Costs, continued

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

Sick Leave

It is the policy of the State of Pohnpei to record the cost of sick leave when leave is actually taken and a liability is actually incurred. The accumulated estimated amount of unused sick leave at September 30, 1992, was \$2,677,439.

Committed Compact Funding

Under Pohnpei State Law No.3L-29-92, which amended 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 14). 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 \$12,415,680 have been committed up to and including fiscal year 1998. Such has been appropriated from Compact Section 211(a) Capital Account Funds for this purpose.

The second project is the Economic Development Authority Fish Processing Plant, with \$22,196,305 appropriated from Compact Section 211(a) Capital Account Funds. 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, 1992, is not predictable but could have a material impact on the accompanying financial statements.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
NOTES TO COMBINED FINANCIAL STATEMENTS, CONTINUED
SEPTEMBER 30, 1992**

(11) ENTERPRISE FUND

A. Audit Reports

The audits of the following Enterprise Funds as of September 30, 1992, and for the year then ended were performed by other auditors. A description of these Enterprise Funds, the date of the audit reports and the type of opinion given follows:

<u>Fund</u>	<u>Report date</u>	<u>Opinion</u>
Pohnpei Economic Development Authority	April 30, 1993	Qualified
Pohnpei Housing Authority	April 14, 1993	Disclaimer

The report on the Pohnpei Economic Development Authority was qualified due to an inability of the auditors to obtain audited financial statements of an investee. Therefore it was not possible to determine that the Authority's investment was properly recorded at the lower of cost or market. With respect to the financial statements of Pohnpei State Housing Authority, adequate documentation could not be obtained through the use of alternative audit procedures to support an opinion on the fairness of presentation of loans receivable and inventory. Due to the nature of these restrictions, a disclaimer of opinion was rendered on those financial statements.

B. Segment Data

Selected financial data for enterprise funds as of and for the year ended September 30, 1992, is as follows:

	<u>Pohnpei Utilities Corporation</u>	<u>Pohnpei Transportation Authority</u>	<u>Pohnpei Economic Development Authority</u>	<u>Pohnpei State Housing Authority</u>
Total assets	<u>\$18,872,183</u>	<u>\$ 12,299</u>	<u>\$ 1,576,480</u>	<u>\$3,196,086</u>
Total equity (deficit)	<u>\$18,349,663</u>	<u>\$ (665,976)</u>	<u>\$ 1,435,324</u>	<u>\$3,173,016</u>
Operating (loss)	<u>\$(2,809,755)</u>	<u>\$(1,896,150)</u>	<u>\$ (213,795)</u>	<u>\$ (62,831)</u>
1992 net earnings (loss)	<u>\$ 418,312</u>	<u>\$ (121,957)</u>	<u>\$ (661,338)</u>	<u>\$ 88,184</u>
1992 non-operating revenue (expense)	<u>\$ 2,368,126</u>	<u>\$ 1,774,193</u>	<u>\$ (447,543)</u>	<u>\$ 151,015</u>
Revenues	<u>\$ 2,314,125</u>	<u>\$ 143,537</u>	<u>\$ 316,250</u>	<u>\$ 133,615</u>
Contributed Capital	<u>\$17,931,351</u>	<u>\$ 322,427</u>	<u>\$ 3,794,541</u>	<u>\$3,218,769</u>
Depreciation	<u>\$ 870,853</u>	<u>\$ -</u>	<u>\$ 107,085</u>	<u>\$ 9,130</u>
Retained earnings (deficit)	<u>\$ 418,312</u>	<u>\$ (988,403)</u>	<u>\$(2,359,217)</u>	<u>\$ (45,753)</u>
Operating transfers	<u>\$ 2,292,763</u>	<u>\$ 1,774,193</u>	<u>\$ 148,358</u>	<u>\$ 146,390</u>

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
NOTES TO COMBINED FINANCIAL STATEMENTS, CONTINUED
SEPTEMBER 30, 1992

(12) CONTRIBUTED CAPITAL - ENTERPRISE FUNDS

During the year ended September 30, 1992, contributed capital increased by the following amounts:

	<u>Pohnpei Utilities Corporation</u>	<u>Pohnpei State Housing Authority</u>	<u>Total</u>
Contribution from the State to fund a housing loan program	\$ -	\$500,000	\$ 500,000
Contribution of Pohnpei State fixed assets	17,931,351	33,462	17,964,813
Contribution from the State's general fund for the unexpended balance of PSHA's FY 91' budget	<u>-</u>	<u>24,385</u>	<u>24,385</u>
Total contributed capital received	<u>\$17,931,351</u>	<u>\$557,847</u>	<u>\$18,489,198</u>

(13) MATERIAL FUND DEFICITS

The following presents material fund deficits as of September 30, 1992. If operations of these funds cannot recover prior losses, the State's General Fund may have to absorb these amounts or a portion thereof.

Special Revenue Funds

U.S. Federal Assistance Fund	\$ 161,579
Other Direct Assistance Fund	67,437
CFSM Project Fund	<u>37,783</u>
	<u>\$ 266,799</u>

Enterprise Funds

(Deficit Retained Earnings)

Pohnpei Transportation Authority	\$ 988,403
Pohnpei Economic Development Authority	2,359,217
Pohnpei State Housing Authority	<u>45,753</u>
	<u>\$3,393,373</u>

This deficit retained earnings is offset by contributed capital of \$322,427 (Pohnpei Transportation Authority), \$3,794,541 (Pohnpei Economic Development Authority) and \$3,218,769 (Pohnpei State Housing Authority).

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
NOTES TO COMBINED FINANCIAL STATEMENTS, CONTINUED
SEPTEMBER 30, 1992**

(14) NOTES PAYABLE

As of September 30, 1992, Pohnpei State undertook three 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). Total note repayments of \$3,550,000 were made as of September 30, 1992.

Therefore the outstanding balance as of September 30, 1992 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>	<u>Total Interest</u>
10/15/92	9.02%	\$1,000,000	\$ 202,449
10/15/93	9.14%	1,000,000	296,542
10/15/94	9.25%	1,000,000	392,611
10/15/95	9.30%	1,000,000	487,733
10/15/96	9.35%	1,000,000	583,856
10/15/97	9.49%	<u>1,000,000</u>	<u>687,498</u>
Total		<u>\$6,000,000</u>	<u>\$2,650,689</u>

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

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
NOTES TO COMBINED FINANCIAL STATEMENTS, CONTINUED
SEPTEMBER 30, 1992**

(14) NOTES PAYABLE, CONTINUED

The third issue was made on December 26, 1990 for a total of \$5,200,00 as additional borrowing for the two projects specified above. The borrowing consists of various notes with varying amounts of principal, interest, and maturities:

<u>Maturity</u>	<u>Interest Rate % P.A</u>	<u>Principal Amount</u>	<u>Total Interest</u>
10/15/96	8.90%	\$1,200,000	\$ 512,937
10/15/97	9.05%	1,000,000	525,151
10/15/92	9.10%	1,000,000	619,053
10/15/99	9.125%	1,000,000	712,003
10/15/2000	9.125%	<u>1,000,000</u>	<u>803,760</u>
Total		<u>\$5,200,000</u>	<u>\$3,172,904</u>

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, 1992.

Activity in the General Long-Term Debt Account Group bonds payable account for the year ended September 30, 1992, occurred as follows:

Balance as of September 30, 1991	\$18,850,000
Loan repayment made on 10/15/91	<u>(2,550,000)</u>
Balance as of September 30, 1992	<u>\$16,300,000</u>

Future minimum payments on all notes payable for subsequent years ending September 30, are as follows:

<u>Years Ending September 30,</u>	<u>Amount</u>
1993	\$ 1,000,000
1994	1,000,000
1995	1,000,000
1996	6,100,000
1997	2,200,000
Thereafter	<u>5,000,000</u>
	<u>\$16,300,000</u>

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
NOTES TO COMBINED FINANCIAL STATEMENTS, CONTINUED
SEPTEMBER 30, 1992

(15) INTERFUND RECEIVABLE AND PAYABLES

As of September 30, 1992, interfund receivables and payables resulting from various interfund transactions are as follows:

	<u>Due to Other Funds</u>	<u>Due from Other Funds</u>
General Fund	\$ 543,469	\$2,485,923
Special Revenue Funds:		
Compact Health & Education	-	278,691
Compact Other Grants	33,923	-
U.S. Federal Assistance	2,307,744	-
Other Federal and Direct Assistance	76,396	-
Seaport Revolving	-	126,341
Agriculture Revolving	-	38,660
SVAP Revolving	-	1,708
Airport Operations	-	199,514
CFSM Projects	1,083,368	-
Recycling Fund	-	21,117
Capital Projects Funds:		
Compact Capital Projects	-	2,043,380
TTG Capital Projects	717,686	-
Expendable Trust Funds:		
Public Land Trust	-	205,910
Enterprise Funds:		
Pohnpei State Transportation Authority	648,468	-
Internal Service Fund	-	9,810
	<u>\$5,411,054</u>	<u>\$5,411,054</u>

(16) CONTINUING APPROPRIATIONS

Continuing appropriations as of September 30, 1992, are summarized as follows:

General Fund

Graduate assistance loan fund	\$ 10,181
Scholarship fund	44,000
Codification of Pohnpei State Laws	20,394
Municipal Projects	<u>184,299</u>
	<u>\$258,874</u>

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
NOTES TO COMBINED FINANCIAL STATEMENTS, CONTINUED
SEPTEMBER 30, 1992

(16) CONTINUING APPROPRIATIONS, CONTINUED

Compact of Free Association - Capital Projects,
Title Two, Article 1, Section 211

Airport Terminal Project	\$ 184,887
Escrow Account	500,000
Architectural/Engineering Study - Road & Bridge	150,000
Pohnpei Light Industrial Park	246,111
Land fill:	
Construction of Parem Elementary School	150,000
Construction of Sokehs Pah School	150,000
Purchase of Stock (Bank of the FSM)	250,000
Pohnpei Dock Extension	319,185
Dry Docking Micro Glory	392,785
Rural Sewer Extension - Madolenihmw	169,900
Various other State approved projects	<u>1,889,463</u>
	<u>\$4,402,331</u>

(17) Subsequent Events to September 30, 1992

During fiscal year 1993, the State borrowed an additional \$4,000,000 under the Medium-Term Note Program sponsored by the Federated States of Micronesia as a whole.

(18) Reclassifications

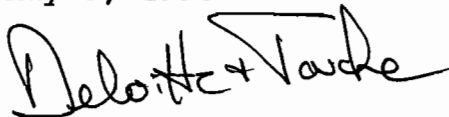
Certain reclassifications have been made to the 1991 presentation in order to conform with the current year presentation.

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

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

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The additional information set forth in Section III of the Table of Contents is presented for the purpose of additional analysis and is not a required part of the general purpose financial statements. This additional information is the responsibility of the State of Pohnpei's management. Such information has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, except as described in that report, in our opinion, is fairly stated in all material respects when considered in relation to the general purpose financial statements taken as a whole.

May 5, 1993

A handwritten signature in cursive script that reads "Deloitte + Touche". The signature is written in black ink and is positioned above the printed name of the firm.

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, 1992
 (With comparative totals for the year ended September 30, 1991)

	Governmental Fund Types			Fiduciary	Totals	
	General	Special	Capital	Expendable		
	Fund	Revenue	Projects	Trust	1992	1991
		Funds	Funds	Fund		
Expenditures:						
Personnel services	\$11,150,770	\$2,134,070	\$ 382,899	\$ 246,340	\$13,914,079	\$13,817,704
Travel	379,154	300,735	104,873	2,884	787,646	835,339
Supplies and materials	684,785	609,177	100,317	4,125	1,398,404	2,156,301
Fuel	216,874	25,892	6,364	749	249,879	2,386,097
Equipment	160,412	256,203	197,225	10,507	624,347	1,121,481
Contractual services	236,041	1,186,560	3,557,841	-	4,980,442	8,736,896
Other	<u>2,984,076</u>	<u>1,039,809</u>	<u>6,506,296</u>	<u>7,463</u>	<u>10,537,644</u>	<u>5,262,571</u>
Total expenditures	<u>\$15,812,112</u>	<u>\$5,552,446</u>	<u>\$10,855,815</u>	<u>\$ 272,068</u>	<u>\$32,492,441</u>	<u>\$34,316,389</u>

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
GENERAL FUND
September 30, 1992

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, 1992

(With Comparative Totals as of September 30, 1991)

	1992	1991
<u>Assets</u>		
Cash and equivalents	\$ 816,413	\$ 2,454,221
Investments	4,983,003	5,322,430
Investments - other	17,348	-
Receivables from other governments	99,930	158,905
General receivables	225,348	667,833
Advances	79,580	25,155
Due from other funds	2,485,923	2,326,656
Total assets	\$8,707,545	\$10,955,200
 <u>Liabilities and Fund Balance</u>		
Liabilities:		
Accounts payable	\$ 370,260	\$ 441,518
Accrued payroll and others	474,174	1,198,025
Due to other funds	543,469	1,362,969
Total liabilities	1,387,903	3,002,512
Fund balance:		
Reserved for:		
Diminution of investments	51,114	262,542
Related assets	304,928	692,988
Encumbrances	540,592	788,833
Continuing appropriations	258,874	104,067
Unreserved	6,164,134	6,104,258
Total fund balance	7,319,642	7,952,688
Total liabilities and fund balance	\$8,707,545	\$10,955,200

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, 1992

(With comparative totals for the year ended September 30, 1991)

	<u>1992</u>	<u>1991</u>
Revenues:		
Compact of Free Association:		
Base grant	\$ 7,206,300	\$ 8,478,000
Inflation adjustment	2,738,394	2,882,520
Revenue sharing	3,008,754	2,720,616
Taxes and licenses	1,191,244	957,177
Fines and penalties	28,829	34,756
Investment income	1,321,906	1,552,584
Other	<u>685,665</u>	<u>1,545,783</u>
Total revenues	<u>16,181,092</u>	<u>18,171,436</u>
Program expenditures:		
Personnel services	11,150,770	10,616,718
Travel	379,154	403,075
Supplies and materials	684,785	613,520
Fuel	216,874	1,581,859
Equipment	160,412	352,710
Contractual services	236,041	249,338
Other	<u>2,984,076</u>	<u>2,792,757</u>
Total program expenditures	<u>15,812,112</u>	<u>16,609,977</u>
Revenues over expenditures	<u>368,980</u>	<u>1,561,459</u>
Other uses:		
Operating transfers out	<u>(1,002,026)</u>	<u>(362,220)</u>
Total uses	<u>(1,002,026)</u>	<u>(362,220)</u>
Excess (deficiency) of revenues over expenditures and other uses	(633,046)	1,199,239
Fund balance, beginning of year	<u>7,952,688</u>	<u>6,753,449</u>
Fund balance, end of year	<u>\$ 7,319,642</u>	<u>\$ 7,952,688</u>

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Statement of Revenues, Expenditures by Function and Department
General Fund
The year ended September 30, 1992
(With comparative totals for the year ended September 30, 1991)

	1992	1991
Revenues:		
Compact of Free Association:		
Base grant	\$ 7,206,300	\$ 8,478,000
Inflation adjustment	2,738,394	2,882,520
Revenue sharing	3,008,754	2,720,616
Investment income	1,321,906	1,552,584
State taxes and licenses:		
Beer and malt beverages	\$ 376,589	\$ 328,666
Cigarettes	78,183	187,577
Motor vehicle sales tax	146,474	130,099
General merchandise sales tax	120,504	103,341
Hotel	78,975	70,344
Petroleum and fuel sales tax	43,629	46,864
Use tax	134,542	90,286
Others	<u>212,348</u>	<u>-</u>
Public service charges:	1,191,244	957,177
Utilities	-	951,036
Hospital and dental	451,138	467,235
Transportation	<u>65,216</u>	<u>56,733</u>
Fines and penalties	28,829	34,756
Other	<u>169,311</u>	<u>70,779</u>
Total revenues	<u>16,181,092</u>	<u>18,171,436</u>
Expenditures:		
General government:		
Governor and staff	270,318	492,742
Special assistants and miscellaneous	667,082	825,942
Director of Treasury	679,337	556,081
Public Auditor	125,070	115,790
Public Affairs	357,066	172,914
Judiciary	559,749	509,016
Legislative operations	<u>1,439,716</u>	<u>1,458,867</u>
Sub-total	<u>4,098,338</u>	<u>4,131,352</u>
Department of Land:		
Administration	79,057	77,462
Surveys and mapping	55,751	288,732
Historic preservation	35,506	27,408
Parks and recreation	27,087	27,015
Management of public lands	<u>115,102</u>	<u>104,513</u>
Sub-total	<u>312,503</u>	<u>525,130</u>
Total General Government	<u>4,410,841</u>	<u>4,656,482</u>

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Statement of Revenues, Expenditures by Function and Department -
General Fund, Continued
The year ended September 30, 1992
(With comparative totals for the year ended September 30, 1991)

	1992	1991
Department of Health Services:		
Administration	\$ 790,010	\$ 544,920
Medical services	1,256,682	1,006,816
Dental services	283,116	274,326
Medical supplies	489,706	513,102
Public health	396,329	457,751
Medical referrals	<u>64,453</u>	<u>60,943</u>
Total Health Services	<u>3,280,296</u>	<u>2,857,858</u>
Department of Education:		
Administration	17,664	175,281
Preschool and elementary	3,486,450	2,235,299
Secondary	73,000	6,475
Aid to non-public school	-	100,000
PICS	<u>-</u>	<u>29,139</u>
Total Education	<u>3,577,114</u>	<u>2,546,194</u>
Department of Conservation and Resource Development:		
Administration	56,150	53,252
Marine resources	105,487	123,840
Agriculture	353,410	342,247
Forestry	109,361	112,831
Economic Planning	22,620	26,619
Energy	<u>50,581</u>	<u>81,325</u>
Total Resources and Development	<u>697,609</u>	<u>740,114</u>
Department of Public Works:		
Administration	79,689	101,668
Operations and maintenance	(50)	137,505
Utility services	430,991	2,166,571
Construction management	111,202	92,998
Other	<u>44,856</u>	<u>5,999</u>
Total Public Works	<u>666,688</u>	<u>2,504,741</u>
Department of Transportation:		
Micro Glory	432,424	401,593
Transportation office	<u>74,255</u>	<u>123,187</u>
Total Transportation	<u>506,679</u>	<u>524,780</u>

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Statement of Revenues, Expenditures by Function and Department -
General Fund, Continued
The year ended September 30, 1992
(With comparative totals for the year ended September 30, 1991)

	1992	1991
Boards, commissions and other appropriations:		
Tourist Commission	\$ 76,126	\$ 95,745
Micronesian Legal Services	40,000	39,300
Sports Council	29,457	27,429
Farmers Home Administration	57,952	62,116
Traditional affairs	2,760	-
Utility Board	499	17
Foreign Investment Board	-	66
Pohnpei Public Library	49,552	40,652
ALMS Fund	5,000	-
South Pacific Forum	-	24,000
Guam Island Fair	-	9,545
Pacific Women's Conference	(1,964)	9,866
Agriculture Fair	4,000	-
Aramas Kapw	7,344	-
Pohnpei Community Action Agency	43,000	-
Recycling Project	<u>12,914</u>	<u>18,895</u>
Total boards, commissions and other appropriations	<u>326,640</u>	<u>327,631</u>
Department of Justice/Public Safety:		
Administration	79,082	81,000
Public safety	541,262	577,162
Correction and rehabilitation	198,343	112,757
Fire and disaster	104,743	86,405
Legal affairs	135,625	138,253
Search and rescue	<u>9,217</u>	<u>10,046</u>
Total Public Safety	<u>1,068,272</u>	<u>1,005,623</u>
Municipal Governments:		
Sokehs	205,510	150,173
Kitti	180,524	152,455
Madolenihmw	184,918	168,878
Uh	111,812	91,489
Kolonia	<u>120,603</u>	<u>111,927</u>
Balance forward	<u>803,367</u>	<u>674,922</u>

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Statement of Revenues, Expenditures by Function and Department -
General Fund, Continued
The year ended September 30, 1992
(With comparative totals for the year ended September 30, 1991)

	1992	1991
Balance forwarded	\$ 803,367	\$ 674,922
Municipal Governments, continued:		
Pingilap	55,825	53,309
Nett	132,942	58,320
Kapingamarangi	29,304	30,859
Sapwuafik	26,114	27,910
Mokil	24,641	17,637
Nukuoro	20,030	20,790
Other Municipal Projects	66,767	-
Total Municipal Governments	1,158,990	883,747
Other:	118,983	562,807
Total expenditures	15,812,112	16,609,977
Revenues over expenditures	368,980	1,561,459
Other uses:		
Operating transfers out	(1,002,026)	(362,220)
Total other uses	(1,002,026)	(362,220)
Excess (deficiency) of revenues over expenditures and other uses	(633,046)	1,199,239
Fund balance, beginning of year	7,952,688	6,753,449
Fund balance, end of year	\$ 7,319,642	\$ 7,952,688

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
SPECIAL REVENUE FUNDS
September 30, 1992

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.

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.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
SPECIAL REVENUE FUNDS, CONTINUED
September 30, 1992

Airport Operations Fund

This fund accounts for the collection of the \$5.00 per person airport departure tax, and other user service charges such as landing fees and land leases payments which are to be used to provide for the general maintenance and upkeep of Pohnpei International Airport. The Pohnpei Port Authority is the end recipient of these funds.

CFSM State Projects Fund

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

Recycling Fund

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

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
SPECIAL REVENUE FUNDS
Combining Balance Sheet
September 30, 1992
(With comparative totals as of September 30, 1991)

	Compact Health & Education Fund	Compact Other Grants Fund	U.S. Federal Assistance Fund	Other Federal and Direct Assistance Fund	Seaport Revolving Fund	Agri-culture Revolving Fund	SVAP Revolving Fund	Airport Operating Fund	CFSM Project Fund	Recycling Fund	Totals	
											1992	1991
Assets												
Cash and equivalents	\$1,497,844	\$180,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$1,677,844	\$1,035,027
Investments	-	194,954	-	-	-	-	-	-	-	-	194,954	192,784
Receivables:												
Federal agencies, thru FSM National Government												
	-	104,383	2,231,502	-	-	-	-	-	-	-	2,335,885	1,582,926
Federal agencies, direct, other governments												
	-	-	-	44,999	-	-	-	-	1,039,484	-	1,084,483	978,331
General												
	-	-	-	-	-	42,078	-	1,040	-	-	43,118	43,118
Advances												
	3,013	44,062	68,869	1,215	200	-	-	4,482	38,953	-	160,794	112,992
Due from other funds												
	278,691	-	-	-	126,341	38,660	1,708	199,514	-	21,117	666,031	1,094,096
Inventory												
	-	-	-	-	-	5,333	-	-	-	-	5,333	41,645
Total assets												
	<u>\$1,779,548</u>	<u>\$523,399</u>	<u>\$2,300,371</u>	<u>\$ 46,214</u>	<u>\$126,541</u>	<u>\$ 86,071</u>	<u>\$1,708</u>	<u>\$205,036</u>	<u>\$1,078,437</u>	<u>\$21,117</u>	<u>\$6,168,442</u>	<u>\$5,080,919</u>
Liabilities and Fund Balance (Deficit)												
Liabilities:												
Accounts payable												
	\$ 31,407	\$ 45,774	\$ 136,249	\$ 3,094	\$ 1,915	\$ 4,385	\$ -	\$ 6,973	\$ 32,050	\$ -	\$ 261,847	\$ 280,884
Accrued payroll												
	44,807	1,735	17,957	439	692	-	-	2,279	802	-	68,711	65,688
Due to other funds												
	-	33,923	2,307,744	76,396	-	-	-	-	1,083,368	-	3,501,431	2,664,709
Deferred revenue												
	-	-	-	33,722	-	-	-	-	-	-	33,722	29,646
Total liabilities												
	<u>76,214</u>	<u>81,432</u>	<u>2,461,950</u>	<u>113,651</u>	<u>2,607</u>	<u>4,385</u>	<u>-</u>	<u>9,252</u>	<u>1,116,220</u>	<u>-</u>	<u>3,865,711</u>	<u>3,040,927</u>
Fund balance:												
Reserved for:												
Related assets												
	3,013	44,062	68,869	46,214	200	42,078	-	5,522	38,953	-	248,911	197,755
Encumbrances												
	62,956	30,438	320,995	49,493	667	2,784	1,561	16,699	296,328	-	781,921	786,621
Unreserved												
	<u>1,637,365</u>	<u>367,467</u>	<u>(551,443)</u>	<u>(163,144)</u>	<u>123,067</u>	<u>36,824</u>	<u>147</u>	<u>173,563</u>	<u>(373,064)</u>	<u>21,117</u>	<u>1,271,899</u>	<u>1,055,616</u>
Total fund balance (deficit)												
	<u>1,703,334</u>	<u>441,967</u>	<u>(161,579)</u>	<u>(67,437)</u>	<u>123,934</u>	<u>81,686</u>	<u>1,708</u>	<u>195,784</u>	<u>(37,783)</u>	<u>21,117</u>	<u>2,302,731</u>	<u>2,039,992</u>
Total liabilities and fund balance												
	<u>\$1,779,548</u>	<u>\$523,399</u>	<u>\$2,300,371</u>	<u>\$ 46,214</u>	<u>\$126,541</u>	<u>\$ 86,071</u>	<u>\$1,708</u>	<u>\$205,036</u>	<u>\$1,078,437</u>	<u>\$21,117</u>	<u>\$6,168,442</u>	<u>\$5,080,919</u>

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

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

The year ended September 30, 1992

(With comparative totals for the year ended September 30, 1991)

	Compact	Compact	U.S.	Other		Agri-					Totals	
	Health &	Other	Federal	Federal	Seaport	culture	SVAP	Airport	CFSM	Recycling	1992	1991
	Education	Grants	Assistance	and Direct	Revolving	Revolving	Revolving	Operating	Project	Fund		
	Fund	Fund	Fund	Assistance	Fund	Fund	Fund	Fund	Fund	Fund		
Revenues:												
Compact of Free Association:												
Base grant	\$1,890,000	\$1,645,786	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$3,535,786	\$4,304,800
Inflation adjustment	-	380,000	-	-	-	-	-	-	-	-	380,000	340,000
Federal contributions-FSM												
National Government	-	-	2,283,426	-	-	-	-	-	690,398	-	2,973,824	3,086,099
Other	-	-	-	1,051,652	48,784	24,047	9,405	82,127	-	16,503	1,232,518	272,653
Total revenues	1,890,000	2,025,786	2,283,426	1,051,652	48,784	24,047	9,405	82,127	690,398	16,503	8,122,128	8,003,552
Expenditures:												
General government	-	-	464,064	3,406	-	-	-	-	343,547	-	811,017	690,647
Health services	-	343,367	408,063	63,133	-	-	-	-	77,859	-	892,422	899,966
Education	1,646,852	295,431	62,950	3,933	-	-	-	-	216,470	-	2,225,636	3,210,746
Resources and development	-	309,836	67,762	14,505	-	56,009	-	-	4,514	-	452,626	576,643
Public works	-	-	173,525	87	-	-	-	-	23,641	-	197,253	1,165,080
Other	-	-	793,023	21,588	13,711	-	6,788	114,015	24,367	-	973,492	381,526
Total expenditures	1,646,852	948,634	1,969,387	106,652	13,711	56,009	6,788	114,015	690,398	-	5,552,446	6,924,608
Revenues over (under) expenditures	243,148	1,077,152	314,039	945,000	35,073	(31,962)	2,617	(31,888)	-	16,503	2,569,682	1,078,944
Other sources (uses):												
Operating transfer out	-	(1,047,904)	(314,039)	(945,000)	-	-	-	-	-	-	(2,306,943)	-
Excess (deficiency) of revenues over expenditures and other uses	243,148	29,248	-	-	35,073	(31,962)	2,617	(31,888)	-	16,503	262,739	1,078,944
Fund balance (deficit), beginning of year	1,460,186	412,719	(161,579)	(67,437)	88,861	113,648	(909)	227,672	(37,783)	4,614	2,039,992	961,048
Fund balance (deficit), end of year	\$1,703,334	\$ 441,967	\$ (161,579)	\$ (67,437)	\$123,934	\$ 81,686	\$1,708	\$195,784	\$(37,783)	\$21,117	\$2,302,731	\$2,039,992

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

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

The year ended September 30, 1992

(With comparative totals for the year ended September 30, 1991)

	Compact Health & Education Fund	Compact Other Grants Fund	U.S. Federal Assistance Fund	Other		Seaport Revolving Fund	Agri- culture Revolving Fund	SVAP Revolving Fund	Airport Operating Fund	CFSM Project Fund	Recycling Fund	Totals		
				Federal and Direct Assistance Fund								1992	1991	
Revenues:														
Compact of Free Assoc- iation: Base grant Inflation adjust- ment	\$1,890,000	\$1,645,786	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$3,535,786	\$4,304,800	
Federal contri- butions, FSM National Gov't.	-	380,000	-	-	-	-	-	-	-	-	-	380,000	340,000	
Other	-	-	2,283,426	-	-	48,784	24,047	9,405	82,127	690,398	-	2,973,824	3,086,099	
Total revenues	1,890,000	2,025,786	2,283,426	1,051,652	48,784	24,047	9,405	82,127	690,398	16,503	8,122,128	8,003,552		
Expenditures:														
Personnel services	1,375,899	49,752	581,998	36,223	2,434	-	-	60,158	27,606	-	-	2,134,070	2,843,588	
Travel	22,535	136,864	100,216	7,322	-	-	-	5,454	28,344	-	-	300,735	355,448	
Supplies and materials	94,139	2,355	313,590	2,609	3,873	47,724	600	20,414	123,873	-	-	609,177	765,965	
Fuel	4,277	-	7,291	-	5,094	-	-	2,591	6,639	-	-	25,892	797,948	
Equipment	8,120	455	109,671	26,793	1,642	-	549	418	108,555	-	-	256,203	258,565	
Contractual services	-	757,028	287,625	14,300	-	-	-	11,854	115,753	-	-	1,186,560	556,278	
Other	141,882	2,180	568,996	19,405	668	8,285	5,639	13,126	279,628	-	-	1,039,809	1,346,816	
Total expend- itures	1,646,852	948,634	1,969,387	106,652	13,711	56,009	6,788	114,015	690,398	-	-	5,552,446	6,924,608	
Revenues over (under) expend- itures	243,148	1,077,152	314,039	945,000	35,073	(31,962)	2,617	(31,888)	-	16,503	2,569,682	1,078,944		
Other uses: Operating transfer out	-	(1,047,904)	(314,039)	(945,000)	-	-	-	-	-	-	(2,306,943)	-		
Excess (defi- ciency) of revenues over expend- itures and other uses	243,148	29,248	-	-	35,073	(31,962)	2,617	(31,888)	-	16,503	262,739	1,078,944		
Fund balance (deficit), beginning of year	1,460,186	412,719	(161,579)	(67,437)	88,861	113,648	(909)	227,672	(37,783)	4,614	2,039,992	961,048		
Fund balance (deficit), end of year	\$1,703,334	\$ 441,967	\$ (161,579)	\$ (67,437)	\$123,934	\$ 81,686	\$1,708	\$195,784	\$(37,783)	\$21,117	\$2,302,731	\$2,039,992		

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
CAPITAL PROJECTS FUNDS
September 30, 1992

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, 1992

(With comparative totals as of September 30, 1991)

<u>Assets</u>	Compact Capital Projects Fund	TTG Capital Projects Fund	<u>Totals</u>	
			<u>1992</u>	<u>1991</u>
Cash and equivalents	\$ 4,405,002	\$ -	\$ 4,405,002	\$ 4,606,276
Cash - restricted	527,912	-	527,912	506,375
Investments	4,954,322	-	4,954,322	8,086,801
Investment - Others	350,000	-	350,000	350,000
Receivables from Dept. of the Interior - TTG	-	717,686	717,686	665,298
Loans receivable, net	-	-	-	4,750,000
Receivable, other	6,006	-	6,006	-
Due from other funds	<u>2,043,380</u>	<u>-</u>	<u>2,043,380</u>	<u>1,394,331</u>
 Total assets	 <u>\$12,286,622</u>	 <u>\$ 717,686</u>	 <u>\$13,004,308</u>	 <u>\$20,359,081</u>
 <u>Liabilities and Fund Balance</u>				
Liabilities:				
Accounts payable	\$ 1,059,607	\$ -	\$ 1,059,607	\$ -
Accrued payroll	10,374	-	10,374	6,872
Due to other funds	<u>-</u>	<u>717,686</u>	<u>717,686</u>	<u>665,051</u>
 Total liabilities	 <u>1,069,981</u>	 <u>717,686</u>	 <u>1,787,667</u>	 <u>671,923</u>
Fund balance:				
Reserved for:				
Related assets	350,000	-	350,000	350,000
Long-term loan	-	-	-	4,750,000
Encumbrances	6,830,955	267,125	7,098,080	6,443,293
Continuing appropriations	4,402,331	-	4,402,331	3,755,555
Unreserved	<u>(366,645)</u>	<u>(267,125)</u>	<u>(633,770)</u>	<u>4,388,310</u>
 Total fund balance	 <u>11,216,641</u>	 <u>-</u>	 <u>11,216,641</u>	 <u>19,687,158</u>
 Total liabilities and fund balance	 <u>\$12,286,622</u>	 <u>\$ 717,686</u>	 <u>\$13,004,308</u>	 <u>\$20,359,081</u>

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, 1992
(With comparative totals for the year ended September 30, 1991)

	Compact Capital Projects Fund	TTG Capital Projects Fund	<u>Totals</u>	
			<u>1992</u>	<u>1991</u>
Revenues:				
Compact of Free Association:				
Base grant	\$ 5,191,800	\$ -	\$ 5,191,800	\$ 6,108,000
Inflation adjustment	1,972,884	-	1,972,884	2,076,720
Department of the Interior grants	-	52,388	52,388	571,287
Other	<u>150</u>	<u>-</u>	<u>150</u>	<u>1,079</u>
Total revenues	<u>7,164,834</u>	<u>52,388</u>	<u>7,217,222</u>	<u>8,757,086</u>
Expenditures:				
Capital projects	6,053,427	52,388	6,105,815	10,748,818
Bad debts	<u>4,750,000</u>	<u>-</u>	<u>4,750,000</u>	<u>-</u>
Total expenditures	<u>10,803,427</u>	<u>52,388</u>	<u>10,855,815</u>	<u>10,748,818</u>
Revenues under expenditures	<u>(3,638,593)</u>	<u>-</u>	<u>(3,638,593)</u>	<u>(1,991,732)</u>
Other sources (uses):				
Bond proceeds	-	-	-	5,200,000
Bond payment	(2,550,000)	-	(2,550,000)	(1,000,000)
Interest expense	(1,627,845)	-	(1,627,845)	(1,263,468)
Other income	398,656	-	398,656	223,438
Transfer out	<u>(1,052,735)</u>	<u>-</u>	<u>(1,052,735)</u>	<u>(2,243,622)</u>
Total other sources (uses)	<u>(4,831,924)</u>	<u>-</u>	<u>(4,831,924)</u>	<u>916,348</u>
Deficiency of revenues and other sources over expenditures and other uses	(8,470,517)	-	(8,470,517)	(1,075,384)
Fund balance, beginning of year	<u>19,687,158</u>	<u>-</u>	<u>19,687,158</u>	<u>20,762,542</u>
Fund balance, end of year	<u>\$11,216,641</u>	<u>\$ -</u>	<u>\$11,216,641</u>	<u>\$19,687,158</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, 1992
(With comparative totals for the year ended September 30, 1991)

	Compact Capital Projects Fund	TTG Capital Projects Fund	<u>Totals</u>	
			<u>1992</u>	<u>1991</u>
Revenues:				
Compact of Free Association:				
Base grant	\$ 5,191,800	\$ -	\$ 5,191,800	\$ 6,108,000
Inflation adjustment	1,972,884	-	1,972,884	2,076,720
Department of the				
Interior grants	-	52,388	52,388	571,287
Other	<u>150</u>	<u>-</u>	<u>150</u>	<u>1,079</u>
Total revenues	<u>7,164,834</u>	<u>52,388</u>	<u>7,217,222</u>	<u>8,757,086</u>
Expenditures:				
Personnel services	377,519	5,380	382,899	353,553
Travel	95,998	8,875	104,873	58,614
Supplies and materials	77,573	22,744	100,317	775,513
Fuel	5,951	413	6,364	6,290
Equipment	188,179	9,046	197,225	506,121
Contractual services	3,553,887	3,954	3,557,841	7,931,280
Bad debts	4,750,000	-	4,750,000	-
Other	<u>1,754,320</u>	<u>1,976</u>	<u>1,756,296</u>	<u>1,117,447</u>
Total expenditures	<u>10,803,427</u>	<u>52,388</u>	<u>10,855,815</u>	<u>10,748,818</u>
Revenues under expenditures	<u>(3,638,593)</u>	<u>-</u>	<u>(3,638,593)</u>	<u>(1,991,732)</u>
Other sources (uses):				
Bond proceeds	-	-	-	5,200,000
Bond repayment	(2,550,000)	-	(2,550,000)	(1,000,000)
Interest expense	(1,627,845)	-	(1,627,845)	(1,263,468)
Other income	398,656	-	398,656	223,438
Transfers out	<u>(1,052,735)</u>	<u>-</u>	<u>(1,052,735)</u>	<u>(2,243,622)</u>
Total other sources (uses)	<u>(4,831,924)</u>	<u>-</u>	<u>(4,831,924)</u>	<u>(916,348)</u>
Deficiency of revenues and other sources over expenditures and other uses	(8,470,517)	-	(8,470,517)	(1,075,384)
Fund balance, beginning of year	<u>19,687,158</u>	<u>-</u>	<u>19,687,158</u>	<u>20,762,542</u>
Fund balance, end of year	<u>\$11,216,641</u>	<u>\$ -</u>	<u>\$11,216,641</u>	<u>\$19,687,158</u>

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
ENTERPRISE FUNDS
September 30, 1992

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 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 pave the island circumferential road.

Pohnpei 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.

Pohnpei Port Authority (PPA) was established by State Public Law 2L-224-91. The primary purpose of the Authority is to oversee the use and maintenance of Pohnpei State's sea and air ports. As of September 30, 1992, the Authority did not commence its operations as a separate entity and thus is not presented as such.

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

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

Combining Balance Sheet

September 30, 1992

(With comparative totals as of September 30, 1991)

<u>Assets</u>	<u>Pohnpei Utilities Corporation</u>	<u>Pohnpei Transportation Authority</u>	<u>Pohnpei Economic Development Authority</u>	<u>Pohnpei State Housing Authority</u>	<u>Totals</u>	
					<u>1992</u>	<u>1991</u>
Cash and equivalents	\$ 52,581	\$ -	\$ 31,147	\$ 227,775	\$ 311,503	\$ 55,450
Investments	-	-	134,322	-	134,322	730,223
Advances	-	2,476	2,539	3,960	8,975	2,375
General receivables, net	683,144	9,823	139,693	79,223	911,883	128,404
Loans receivable, net	-	-	1,540	2,751,864	2,753,404	2,236,258
Inventory, at cost	-	-	80,655	103,471	184,126	383,764
Prepaid expense	-	-	-	-	-	3,416
Fixed assets, net	<u>18,136,458</u>	<u>-</u>	<u>1,186,584</u>	<u>29,793</u>	<u>19,352,835</u>	<u>1,283,848</u>
Total assets	<u>\$18,872,183</u>	<u>\$ 12,299</u>	<u>\$ 1,576,480</u>	<u>\$3,196,086</u>	<u>\$23,657,048</u>	<u>\$4,823,738</u>
 <u>Liabilities and Fund Equity (Deficiency)</u>						
Accounts payable	\$ 407,826	\$ -	\$ 123,876	\$ 22,267	\$ 553,969	\$ 165,388
Accrued liabilities	114,694	29,807	17,280	803	162,584	81,933
Deferred revenue	-	-	-	-	-	34,630
Due to other funds	<u>-</u>	<u>648,468</u>	<u>-</u>	<u>-</u>	<u>648,468</u>	<u>480,731</u>
Total liabilities	<u>522,520</u>	<u>678,275</u>	<u>141,156</u>	<u>23,070</u>	<u>1,365,021</u>	<u>762,682</u>
Fund equity:						
Contributed capital	17,931,351	322,427	3,794,541	3,218,769	25,267,088	6,770,943
Retained earnings (deficit)	<u>418,312</u>	<u>(988,403)</u>	<u>(2,359,217)</u>	<u>(45,753)</u>	<u>(2,975,061)</u>	<u>(2,709,887)</u>
Total fund equity (deficiency)	<u>18,349,663</u>	<u>(665,976)</u>	<u>1,435,324</u>	<u>3,173,016</u>	<u>22,292,027</u>	<u>4,061,056</u>
Total liabilities and fund equity (deficiency)	<u>\$18,872,183</u>	<u>\$ 12,299</u>	<u>\$1,576,480</u>	<u>\$3,196,086</u>	<u>\$23,657,048</u>	<u>\$4,823,738</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, 1992

(With comparative totals for the year ended September 30, 1991)

	Pohnpei Utilities Corporation	Pohnpei Transportation Authority	Pohnpei Economic Development Authority	Pohnpei State Housing Authority	<u>Totals</u>	
					<u>1992</u>	<u>1991</u>
Revenues:						
Charges for services	\$ 2,134,125	\$ 126,663	\$ 299,510	\$ 133,615	\$ 2,693,913	\$ 707,818
Other	<u>-</u>	<u>16,874</u>	<u>16,740</u>	<u>-</u>	<u>33,614</u>	<u>336,653</u>
Total revenues	<u>2,134,125</u>	<u>143,537</u>	<u>316,250</u>	<u>133,615</u>	<u>2,727,527</u>	<u>1,044,471</u>
Operating expenses:						
Personnel services	784,039	5,335	263,277	109,536	1,162,187	433,577
Travel	35,512	-	13,996	1,950	51,458	15,272
Supplies and materials	-	927	34,663	4,096	39,686	113,712
Fuel	2,127,349	761	11,633	1,071	2,140,814	28,341
Capital outlays	-	-	-	-	-	5,556
Contractual services	194,298	2,032,409	-	120	2,226,827	2,259,723
Depreciation	870,853	-	107,085	9,130	987,068	-
Other	<u>931,829</u>	<u>255</u>	<u>99,391</u>	<u>70,543</u>	<u>1,102,018</u>	<u>338,848</u>
Total operating expenses	<u>4,943,880</u>	<u>2,039,687</u>	<u>530,045</u>	<u>196,446</u>	<u>7,710,058</u>	<u>3,195,029</u>
Operating income (loss)	<u>(2,809,755)</u>	<u>(1,896,150)</u>	<u>(213,795)</u>	<u>(62,831)</u>	<u>(4,982,531)</u>	<u>(2,150,558)</u>
Non-operating revenues (expenses):						
Operating transfers in	2,292,763	1,774,193	148,358	146,390	4,361,704	1,951,638
Equity loss on investment	-	-	(595,901)	-	(595,901)	(1,152,096)
Others	<u>75,363</u>	<u>-</u>	<u>-</u>	<u>4,625</u>	<u>79,988</u>	<u>146,305</u>
Total non-operating revenues (expenses), net	<u>2,368,126</u>	<u>1,774,193</u>	<u>(447,543)</u>	<u>151,015</u>	<u>3,845,791</u>	<u>945,847</u>
Depreciation recovery	859,941	-	-	-	859,941	-
Net income (loss)	418,312	(121,957)	(661,338)	88,184	(276,799)	(1,204,711)
Retained earnings (deficit), beginning of year	-	(866,446)	(1,678,422)	(165,019)	(2,709,887)	(1,505,176)
Prior period adjustments	<u>-</u>	<u>-</u>	<u>(19,457)</u>	<u>31,082</u>	<u>11,625</u>	<u>-</u>
Retained earnings (deficit), end of year	<u>\$ 418,312</u>	<u>\$ (988,403)</u>	<u>\$ (2,359,217)</u>	<u>\$ (45,753)</u>	<u>\$ (2,975,061)</u>	<u>\$ (2,709,887)</u>
Contributed capital, beginning of the year	\$ -	\$ 322,427	\$ 3,794,541	\$ 2,653,975	\$ 6,770,943	\$ 5,794,312
Less opening balance adjustment	-	-	-	6,947	6,947	-
Other additions for the year	<u>17,931,351</u>	<u>-</u>	<u>-</u>	<u>557,847</u>	<u>18,489,198</u>	<u>976,631</u>
Contributed capital, end of year	<u>\$17,931,351</u>	<u>\$ 322,427</u>	<u>\$ 3,794,541</u>	<u>\$3,218,769</u>	<u>\$25,267,088</u>	<u>\$ 6,770,943</u>

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
ENTERPRISE FUNDS
Combining Statement of Cash Flows
The year ended September 30, 1992

	<u>Pohnpei Utilities Corporation</u>	<u>Pohnpei Transportation Authority</u>	<u>Pohnpei Economic Development Authority</u>	<u>Pohnpei State Housing Authority</u>	<u>Totals 1992</u>
Operating Activities:					
Operating income (loss)	\$(2,809,755)	\$(1,896,150)	\$ (213,795)	\$ (62,831)	\$(4,982,531)
Add back items not affecting cash:					
Depreciation	870,853	-	107,085	9,130	987,068
Prior period adjustments	-	-	(19,457)	50,030	30,573
	<u>(1,938,902)</u>	<u>(1,896,150)</u>	<u>(126,167)</u>	<u>(3,671)</u>	<u>(3,964,890)</u>
Changes in Working Capital					
Sources (Uses):					
Advances	-	(101)	(2,539)	(3,960)	(6,600)
Inventory	-	-	35,856	163,782	199,638
General receivables	(683,144)	(9,823)	(30,166)	(60,346)	(783,479)
Loans receivable	-	-	399	(517,545)	(517,146)
Accounts payable	407,826	(10,161)	3,601	(12,685)	388,581
Accrued liabilities	92,972	(25,695)	(6,140)	(2,208)	58,929
Deferred revenue	-	-	(27,683)	(6,947)	(34,630)
Prepaid expenses	-	-	3,416	-	3,416
Interfund payable	-	167,737	-	-	167,737
	<u>(182,346)</u>	<u>121,957</u>	<u>(23,256)</u>	<u>(439,909)</u>	<u>(523,554)</u>
 Cash used by operating activities	 <u>(2,121,248)</u>	 <u>(1,774,193)</u>	 <u>(149,423)</u>	 <u>(443,580)</u>	 <u>(4,488,444)</u>
 Capital and Related Financing Activities:					
Cash payments for acquisition of capital assets	(216,019)	-	(9,821)	-	(225,840)
Other capital related activities	-	-	-	(50,924)	(50,924)
 Cash used by capital and related financing activities	 <u>(216,019)</u>	 <u>-</u>	 <u>(9,821)</u>	 <u>(50,924)</u>	 <u>(276,764)</u>

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
ENTERPRISE FUNDS
Combining Statement of Cash Flows, Continued
The year ended September 30, 1992

	<u>Pohnpei Utilities Corporation</u>	<u>Pohnpei Transportation Authority</u>	<u>Pohnpei Economic Development Authority</u>	<u>Pohnpei State Housing Authority</u>	<u>Totals 1992</u>
Non-Capital and Related					
Financing Activities:					
Contributed capital	\$ -	\$ -	\$ -	\$ 557,847	\$ 557,847
Operating grants	2,367,642	1,774,193	148,358	146,390	4,436,583
Other non-capital and related financing activities	<u>22,206</u>	<u>-</u>	<u>-</u>	<u>4,625</u>	<u>26,831</u>
 Cash provided by non-capital and related financing activities	 <u>2,389,848</u>	 <u>1,774,193</u>	 <u>148,358</u>	 <u>708,862</u>	 <u>5,021,261</u>
 Net increase (decrease) in cash and equivalents	 52,581	 -	 (10,886)	 214,358	 256,053
 Cash and equivalents, beginning of year	 <u>-</u>	 <u>-</u>	 <u>42,033</u>	 <u>13,417</u>	 <u>55,450</u>
 Cash and equivalents, end of year	 <u>\$ 52,581</u>	 <u>\$ -</u>	 <u>\$ 31,147</u>	 <u>\$ 227,775</u>	 <u>\$ 311,503</u>

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
EXPENDABLE TRUST FUND
September 30, 1992

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, 1992

(With comparative totals as of September 30, 1991)

	<u>Public Land</u> <u>Trust Fund</u>	<u>Totals</u>	
		<u>1992</u>	<u>1991</u>
<u>Assets</u>			
General receivables	\$ 1,851	\$ 1,851	\$ 1,851
Advances	10,676	10,676	8,466
Due from other funds	<u>205,910</u>	<u>205,910</u>	<u>377,813</u>
Total assets	<u>\$ 218,437</u>	<u>\$ 218,437</u>	<u>\$ 388,130</u>
<u>Liabilities and Fund</u> <u>Balances</u>			
Liabilities:			
Accounts payable	\$ 4,931	\$ 4,931	\$ 900
Accrued payroll	7,789	7,789	92
Deferred revenue	<u>9,367</u>	<u>9,367</u>	<u>18,731</u>
Total liabilities	<u>22,087</u>	<u>22,087</u>	<u>19,723</u>
Fund balance:			
Reserved for:			
Related assets	12,527	12,527	10,317
Encumbrances	1,990	1,990	795
Unreserved	<u>181,833</u>	<u>181,833</u>	<u>357,295</u>
Total fund balance	<u>196,350</u>	<u>196,350</u>	<u>368,407</u>
Total liabilities and fund balance	<u>\$ 218,437</u>	<u>\$ 218,437</u>	<u>\$ 388,130</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, 1992
 (With comparative totals for the year ended September 30, 1991)

	<u>Public Land Trust Fund</u>	<u>Totals</u>	
		<u>1992</u>	<u>1991</u>
Revenues:			
Rental	\$ 100,011	\$ 100,011	\$ 109,721
Total revenues	<u>100,011</u>	<u>100,011</u>	<u>109,721</u>
 Expenditures:			
General government	<u>272,068</u>	<u>272,068</u>	<u>32,986</u>
Total expenditures	<u>272,068</u>	<u>272,068</u>	<u>32,986</u>
 Revenues over (under) expenditures	(172,057)	(172,057)	76,735
 Fund balance, beginning of year	<u>368,407</u>	<u>368,407</u>	<u>291,672</u>
 Fund balance, end of year	<u>\$ 196,350</u>	<u>\$ 196,350</u>	<u>\$ 368,407</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, 1992
(With comparative totals for the year ended September 30, 1991)

	Public Land Trust Fund	Totals	
		<u>1992</u>	<u>1991</u>
Revenues:			
Rental	\$ 100,011	\$ 100,011	\$ 109,721
Total revenues	<u>100,011</u>	<u>100,011</u>	<u>109,721</u>
Expenditures:			
Personnel services	246,340	246,340	3,845
Travel	2,884	2,884	18,202
Supplies and materials	4,125	4,125	1,303
Fuel	749	749	-
Equipment	10,507	10,507	4,085
Other	<u>7,463</u>	<u>7,463</u>	<u>5,551</u>
Total expenditures	<u>272,068</u>	<u>272,068</u>	<u>32,986</u>
Revenues over (under) expenditures	(172,057)	(172,057)	76,735
Fund balance, beginning of year	<u>368,407</u>	<u>368,407</u>	<u>291,672</u>
Fund balance, end of year	<u>\$ 196,350</u>	<u>\$ 196,350</u>	<u>\$ 368,407</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
SINGLE AUDIT REPORTS
YEAR ENDED SEPTEMBER 30, 1992**

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

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

We have audited the general purpose financial statements of the State of Pohnpei as of and for the year ended September 30, 1992, and have issued our report thereon dated May 5, 1993. Our report on the audit of the general purpose financial statements was modified as a result of our inability to form an opinion as to the fairness of presentation of the General Fixed Assets Account Group, the inability to obtain investee financial statements supporting investments of the Pohnpei Economic Development Authority (an Enterprise Fund) and the lack of adequate documentation supporting loans receivable and inventory of the Pohnpei State Housing Authority (an Enterprise Fund).

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

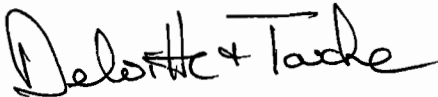
The results of our tests indicate that, with respect to the items tested, the State of Pohnpei, complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the State of Pohnpei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

We noted certain immaterial instances of noncompliance that we have reported to the management of the State of Pohnpei, which are described in the accompanying Schedule of Questioned Costs, Identified Noncompliance and Internal Control Weaknesses (pages 94 through 116).

We also noted matters involving compliance with laws and regulations related to federal financial assistance which we reported to the State of Pohnpei's management in our reports dated May 5, 1993 on general requirements, on specific requirements for major programs and on specific compliance for nonmajor program transactions.

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

May 5, 1993

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

Certified Public Accountants



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

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

We have audited the general purpose financial statements of the State of Pohnpei as of and for the year ended September 30, 1992, and have issued our report thereon dated May 5, 1993. Our report on the audit of the general purpose financial statements was modified as a result of our inability to form an opinion as to the fairness of presentation of the General Fixed Assets Account Group, the inability to obtain investee financial statements supporting investments of the Pohnpei Economic Development Authority (an Enterprise Fund) and the lack of adequate documentation supporting loans receivable and inventory of the Pohnpei State Housing Authority (an Enterprise Fund).

We have also audited the State of Pohnpei's compliance with the requirements governing the Compact of Free Association; types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions related to administrative expenses; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance (pages 77 through 92), for the year ended September 30, 1992. The management of the State of Pohnpei is responsible for the State of Pohnpei's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with these requirements in accordance with generally accepted auditing standards; Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, Audits of State and Local Governments. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material


noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the State of Pohnpei'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 Questioned Costs, Identified Noncompliance and Internal Control Weaknesses (pages 94 to 116). 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; matching, level of effort, or earmarking; reporting; special tests and provisions related to administrative expenses; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs for the year ended September 30, 1992.

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

May 5, 1993

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

Certified Public Accountants



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

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

We have audited the general purpose financial statements of the State of Pohnpei as of and for the year ended September 30, 1992, and have issued our report thereon dated May 5, 1993. Our report on the audit of the general purpose financial statements was modified as a result of our inability to form an opinion as to the fairness of presentation of the General Fixed Assets Account Group, the inability to obtain investee financial statements supporting investments of the Pohnpei Economic Development Authority (an Enterprise Fund) and the lack of adequate documentation supporting loans receivable and inventory of the Pohnpei State Housing Authority (an Enterprise Fund). We have also audited the State of Pohnpei's compliance applicable to requirements of major federal financial assistance programs and have issued our report thereon dated May 5, 1993.

We have applied procedures to test the State of Pohnpei's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance (pages 77 through 92), for the year ended September 30, 1992: cash management, federal financial reports, allowable costs/cost principles, Drug-Free Workplace Act, and administrative requirements.

The requirements of political activity, Davis-Bacon Act, civil rights, and relocation assistance and real property acquisition are not applicable to the federal financial assistance programs of the Federated States of Micronesia, which are identified in the Schedule of Federal Financial Assistance (pages 77 through 92).

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's Compliance Supplement for Single Audits of State and Local Governments. Our procedures were substantially less in scope than an audit, the

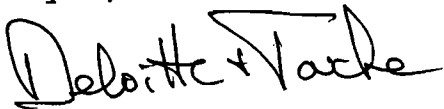
objective of which is the expression of an opinion on the State of Pohnpei's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the State of 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 Questioned Costs, Identified Noncompliance and Internal Control Weaknesses (pages 94 to 116).

We also noted matters involving compliance with laws and regulations related to our audit of the general purpose financial statements and with requirements related to major and nonmajor federal financial assistance programs which we reported to the management of the State of Pohnpei in our reports dated May 5, 1993.

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

May 5, 1993

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

Certified Public Accountants



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

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

We have audited the general purpose financial statements of the State of Pohnpei as of and for the year ended September 30, 1992, and have issued our report thereon dated May 5, 1993. Our report on the audit of the general purpose financial statements was modified as a result of our inability to form an opinion as to the fairness of presentation of the General Fixed Assets Account Group, the inability to obtain investee financial statements supporting investments of the Pohnpei Economic Development Authority (an Enterprise Fund) and the lack of adequate documentation supporting loans receivable and inventory of the Pohnpei State Housing Authority (an Enterprise Fund). We have also audited the State of Pohnpei's compliance applicable to requirements of major federal financial assistance programs and applied procedures to test compliance with general requirements applicable to federal financial assistance programs and have issued our reports thereon dated May 5, 1993.

In connection with our audit of the 1992 general purpose financial statements of the State of Pohnpei, and with our consideration of the State of Pohnpei's control structure used to administer federal financial assistance programs, and assessment of control risk, as required by Office of Management and Budget (OMB) Circular A-128, Audits of State and Local Governments, we selected certain transactions applicable to certain nonmajor federal financial assistance programs for the year ended September 30, 1992.

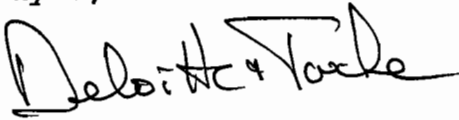
As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing the Compact of Free Association; types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; and reporting that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the

objective of which is the expression of an opinion on the State of Pohnpei'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 noncompliance with those requirements, which are described in the accompanying Schedule of Questioned Costs, Identified Noncompliance and Internal Control Weaknesses (pages 94 to 116).

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

May 5, 1993

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

Certified Public Accountants



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

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

We have audited the general purpose financial statements of the State of Pohnpei as of and for the year ended September 30, 1992, and have issued our report thereon dated May 5, 1993. Our report on the audit of the general purpose financial statements was modified as a result of our inability to form an opinion as to the fairness of presentation of the General Fixed Assets Account Group, the inability to obtain investee financial statements supporting investments of the Pohnpei Economic Development Authority (an Enterprise Fund) and the lack of adequate documentation supporting loans receivable and inventory of the Pohnpei State Housing Authority (an Enterprise Fund). We have also audited the State of Pohnpei's compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated May 5, 1993.

We conducted our audits in accordance with generally accepted auditing standards; Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, Audits of State and Local Governments. Those standards and OMB Circular A-128 require that we plan and perform the audits to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement and about whether the State of Pohnpei complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audits for the year ended September 30, 1992, we considered the State of Pohnpei's internal control structure and assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinions on the State of Pohnpei's general purpose financial statements and on its compliance with requirements applicable to major programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the general purpose financial statements in a separate report dated May 5, 1993.

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

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

General Requirements

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

Specific Requirements

- Compact of Free Association
- Types of services allowed or unallowed
- Eligibility
- Matching, level of effort, or earmarking
- Reporting
- Special tests and provisions related to administrative expenses

Claims for Advances and Reimbursements

Amounts Claimed or Used for Matching

Accounting Requirements

Revenue and receipt cycle
Purchases and disbursement cycle
Payroll and personnel cycle
External financial reporting
Cash and equivalents
Investments
Receivables
Payables and accrued liabilities
Fund balances

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

During the year ended September 30, 1992, the State of Pohnpei expended 94.9% of its total federal financial assistance under major federal financial assistance programs (see page 93).

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to each of the State of Pohnpei's major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance (pages 77 through 92). Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

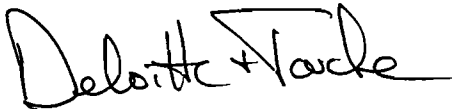
Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might constitute material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure used in administering federal financial assistance programs and its operations that we consider to be material weaknesses as defined above.

We also noted matters involving the internal control structure and its operation based on our audit of the general purpose financial statements which we reported to the management of the State of Pohnpei in a report dated May 5, 1993.

However, we noted other matters involving the internal control structure and its operation which are described in the accompanying Schedule of Questioned Costs, Identified Noncompliance and Internal Control Weaknesses (pages 94 through 116).

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

May 5, 1993

A handwritten signature in cursive script that reads "Deloitte + Tatche". The signature is written in dark ink and is positioned above the printed name of the firm.

Certified Public Accountants

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

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

We have audited the general purpose financial statements of the State of Pohnpei as of and for the year ended September 30, 1992, and have issued our report thereon dated May 5, 1993. Our report on the audit of the general purpose financial statements was modified as a result of our inability to form an opinion as to the fairness of presentation of the General Fixed Assets Account Group, the inability to obtain investee financial statements supporting investments of the Pohnpei Economic Development Authority (an Enterprise Fund) and the lack of adequate documentation supporting loans receivable and inventory of the Pohnpei State Housing Authority (an Enterprise Fund). These general purpose financial statements are the responsibility of the State of Pohnpei's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

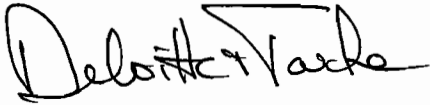
We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial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

Our audit was made for the purpose of forming an opinion on the general purpose financial statements of the State of Pohnpei taken as a whole. The accompanying Schedule of Federal Financial Assistance (pages 77 through 92) for the year ended September 30, 1992, which is also the responsibility of the management of the State of Pohnpei, is presented for purposes of additional analysis and is not a required part of the general purpose

financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

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

May 5, 1993

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

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, 1992

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 1992, 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 are 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 Office of Management and Budget (OMB) 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 OMB 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:

- Compact Health and Education Fund
- Compact Other Grants Fund
- U.S. Federal Assistance Fund
- Other Federal and Direct Assistance Fund
- CFSM Projects Fund

Capital Projects Funds:

- Compact Capital Projects Funds
- TTPI Capital Projects Fund

As mentioned above, the Compact Health and Education, Compact Other Grants 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 Federal and Direct Assistance Fund and the CFSM Projects 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 Projects Fund is funded by appropriations from the Congress of the Federated States of Micronesia, while grants recorded in the Other Federal and Direct Assistance Fund are received from various foreign governments, international organizations, and the U.S. The State of Pohnpei, through the Federated States of Micronesia, reports to the applicable grantor concerning other federal and direct assistance grants.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
U.S. FEDERAL ASSISTANCE FUND
YEAR ENDED SEPTEMBER 30, 1992

<u>Grantor</u> <u>Program Title</u>	<u>CFDA No.</u>	<u>Pohnpei</u> <u>Org.</u> <u>No.</u>	<u>1992</u> <u>Fiscal Year</u> <u>Expenditures</u>
<u>Department of Agriculture:</u>			
Forestry Program	10.664	3343	\$ 1,541
FY-87 Forestry Program	10.664	3344	431
FY-89 Forestry Program	10.664	3345	738
FY-91 Forestry Project	10.664	3346	21,966
Foods Services	10.560	3388	<u>43,086</u>
			<u>67,762</u>
 <u>Department of Education:</u>			
FY-88 Chapter I	84.151	3116	2,557
FY-88 Chapter II	84.151	3117	41
FY-89 Chapter I	84.998	3147	41,310
FY-89 Chapter II	84.998	3148	<u>19,042</u>
			<u>62,950</u>
 <u>Department of Housing and</u> <u>Urban Development:</u>			
FY-88 CDBG Paies Water System	14.219	3189	59,314
FY-89 Gymnasium Project	14.219	3190	14,905
FY-83 Seinwar Court	14.219	3196	4,767
FY-84 Seinwar Project	14.219	3197	39
Ipwal Water Project	14.219	3198	<u>2,800</u>
			<u>81,825</u>
Balance Forward			<u>212,537</u>

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
U.S. FEDERAL ASSISTANCE FUND
YEAR ENDED SEPTEMBER 30, 1992

<u>Grantor</u> <u>Program Title</u>	<u>CFDA No.</u>	<u>Pohnpei</u> <u>Org.</u> <u>No.</u>	<u>1992</u> <u>Fiscal Year</u> <u>Expenditures</u>
Balance Forwarded			\$ 212,537
<u>Department of Health and</u>			
<u>Human Services:</u>			
Family Planning	13.217	3601	14,888
Dispensary Manager Training	13.224	3602	17,643
FY-92 Community Health Center	13.224	3603	102,441
FY-92 Immunization	13.224	3604	5,917
FY-92 Sexually Transmitted Diseases	13.224	3605	3,296
FY-92 AIDS Prevention	13.217	3606	3,672
FY-91 Sexually Transmitted Diseases	13.224	3680	1,089
FY-91 Immunization	13.224	3681	2,425
Community Health Center	13.224	3687	86
FY-91 Community Health Center	13.224	3688	37,086
Substance Abuse	13.992	3729	5,430
FY-90 PH & PH	13.991	3730	736
FY-91 PH & PH ADAMS	13.991	3732	81,301
FY-91 PH & PH	13.991	3733	12,257
FY-91 MCH Dental Health	13.994	3734	16,145
FY-91 MCH	13.994	3735	64,764
FY-91 MCH/CSHCN	13.994	3736	4,984
FY-90 MCH	13.994	3762	10,139
FY-90 AIDS Program	13.217	3778	4,105
FY-92 Family Planning	13.217	3786	<u>4,790</u>
			<u>393,194</u>
<u>Environmental Protection Agency:</u>			
Janitorial Services	66.600	3547	14,870
Sokehs Deh Waste Disposal	66.418	3575	<u>52,309</u>
			<u>67,179</u>
Balance Forward			<u>672,910</u>

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
U.S. FEDERAL ASSISTANCE FUND
YEAR ENDED SEPTEMBER 30, 1992

<u>Grantor</u> <u>Program Title</u>	<u>CFDA No.</u>	<u>Pohnpei</u> <u>Org.</u> <u>No.</u>	<u>1992</u> <u>Fiscal Year</u> <u>Expenditures</u>
Balance Forwarded			\$ 672,910
<u>Department of the Interior:</u>			
FY-92 Historic Preservation	15.904	3461	1,595
FY-91 Historic Preservation	15.904	3463	17,922
FY-90 Historic Preservation	15.904	3464	10,982
Hospital Roof Repairs	15.875	3536	5,494
Rehab/Water Boiler	15.875	3537	1,156
Recruit & Procurement of Personnel	15.875	3546	8,730
Renovation PICS School	15.875	3557	20,383
Power Generation	15.875	3559	<u>3,628</u>
			<u>69,890</u>
<u>Department of Labor:</u>			
FY-91 JTPA Administration	17.250	3210	51,176
FY-91 JTPA Adult Program	17.250	3211	136,560
JTPA Youth Program	17.250	3212	124,627
FY-91 JTPA Participation	17.250	3213	54,442
FY-92 JTPA Administration	17.250	3215	3,479
FY-92 JTPA Adult Program	17.250	3216	6,014
FY-92 JTPA Youth Program	17.250	3217	520
FY-89 JTPA Youth Program	17.250	3274	(21)
FY-90 JTPA Administration	17.250	3293	8,882
FY-90 JTPA Adult Program	17.250	3294	26,643
FY-90 JTPA Youth Program	17.250	3295	<u>12,801</u>
			<u>425,123</u>
<u>Department of Justice:</u>			
FY-89 JJDP Insular	16.540	3377	4,023
PCASA (Substance Abuse)	16.540	3381	2,202
FY-86 Program Insular	16.540	3386	<u>2,216</u>
			<u>8,441</u>
Balance Forward			<u>1,176,364</u>

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
U.S. FEDERAL ASSISTANCE FUND
YEAR ENDED SEPTEMBER 30, 1992

<u>Grantor</u> <u>Program Title</u>	<u>CFDA No.</u>	<u>Pohnpei</u> <u>Org.</u> <u>No.</u>	<u>1992</u> <u>Fiscal Year</u> <u>Expenditures</u>
Balance Forwarded			\$1,176,364
<u>Federal Emergency Management Agency</u>			
<u>(FEMA) Grants:</u>			
Russ Individual Family Grant	83.516	3751	828
Russ Assistance CCM	83.516	3753	2,889
Russ Public Assistance-Governor	83.516	3755	57,074
Russ Public Assistance-PTA	83.516	3756	32,821
Russ Public Assistance-Public Works	83.516	3757	83,796
Russ Public Assistance-Agriculture	83.516	3759	9,027
Yuri FSM Telecommunications Corp.	83.516	3760	6,651
Russ Assistance-Health Services	83.516	3764	144
Yuri Public Assistance-Mwoakilloa	83.516	3767	935
Axel Public Assistance-PTA	83.516	3769	36,416
Russ Public Assistance-Health Services	83.516	3770	1,491
Russ Public Assistance-EDA	83.516	3772	1,807
Yuri Public Assistance-Ohwa	83.516	3773	11,927
Typhoon Yuri IFG	83.516	3774	321,942
Yuri-Kolonia Town	83.516	3776	4,131
Yuri-Sokehs Municipal	83.516	3777	1,232
Axel-Kolonia Town	83.516	3779	2,924
Yuri Public Assistance-Public Safety	83.516	3781	19,307
Axel-Mwoakilloa	83.516	3782	498
Yuri-Governor's Office	83.516	3783	30,054
Yuri P.U.C. Assistance	83.516	3784	58,584
Yuri Public Assistance-Headstart	83.516	3787	8,499
PTA Lehnmesi Bridge	83.516	3791	32,701
Typhoon Yuri OCMPM	83.516	3792	7,158
Russ Public Assistance-Agriculture	83.516	3793	24,274
PTA Axel Lehn Diadi	83.516	3794	35,505
Yuri Public Assistance-Catholic	83.516	3797	<u>408</u>
			<u>793,023</u>
Total U.S. Federal Assistance Fund			<u>\$1,969,387</u>

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

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
OTHER FEDERAL AND DIRECT ASSISTANCE FUND
YEAR ENDED SEPTEMBER 30, 1992

<u>Grantor</u> <u>Program Title</u>	<u>CFDA No.</u>	<u>Pohnpei</u> <u>Org.</u> <u>No.</u>	<u>1992</u> <u>Fiscal Year</u> <u>Expenditures</u>
<u>World Health Organization:</u>			
Family Planning UNFPA	-	3913	\$ 5,044
FY-89 Population Education	-	3956	<u>9,804</u>
			<u>14,848</u>
<u>South Pacific Commission Grants:</u>			
Environment Management & Sust.	-	3921	13,504
Youth Follow-up Evaluation	-	3981	<u>383</u>
			<u>13,887</u>
<u>Department of Commerce:</u>			
Road Paving Matching	11.300	3810	<u>966,278</u>
			<u>966,278</u>
<u>Other Non-U.S. Related Direct Grants:</u>			
Historic Preservation	-	3943	2,376
Pohnpei Broiler Project	-	3945	2,000
Fresh Fish Product	-	3946	12,505
Fresh Food Production & Nutrition	-	3948	7,085
Hospital Contributed Fund	-	3988	17,720
Sports Council Contribution	-	3992	1,030
Airport Navigational Aid	-	3994	87
District Education Support Program	-	3995	3,550
Environment and Policy Instruction	-	3997	311
Child Abuse/Neglect	-	3998	<u>9,975</u>
			<u>56,639</u>
Total Other Federal and Direct Assistance Fund			<u>\$1,051,652</u>

Note 1: \$945,00 to the Pohnpei State Transportation Authority (PTA), has been accounted for as a transfer from the Other Federal and Direct Assistance Fund in the General Purpose Financial Statements. A reconciliation of the above expenditures to the General Purpose Financial Statements is shown below:

Other Federal and Direct Assistance expenditures	\$1,051,652
Less Transfer to PTA	<u>(945,000)</u>

General Purpose Financial Statement expenditures \$ 106,652

Note 2: The above grants are received directly from foreign governments, private organizations, and the U.S. Government.

STATE OF POHNPEI
 FEDERATED STATES OF MICRONESIA
 SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
 CFSM PROJECTS FUND
 YEAR ENDED SEPTEMBER 30, 1992

<u>Grantor Program Title</u>	<u>Pohnpei Org. No.</u>	<u>1992 Fiscal Year Expenditures</u>
<u>FSM Congress</u>		
Nukuoro Municipality Operation	4703	\$ 767
Supreme Court Operations	4873	66,504
Nukuoro Taro Patch Project	4886	841
Nukuoro Municipality Operation	4887	350
Sapwuahfik Airstrip	4894	10,242
Pohnpei Medical Services	4906	3,421
Dental Services	4907	2,684
Farmers Home Administration	4910	1,405
Joint Law Enforcement Correction & Rehab	4912	2,955
Nukuoro Youth Development	4913	765
Pohnpei Recreation Facilities	4914	24,367
Oroluk Marine Station	4915	2,908
Teacher Training Program	4916	66,765
Pohnpei Cultural Education	4917	3,892
Nukuoro Municipality Operation	4919	760
Ohwa Christian School	4920	16,282
CFSM CIP Administration	4921	13,398
Elementary and Secondary Education	4922	129,532
FY-91 Joint Law Enforcement	4923	106,924
Pohnpei Disaster Relief Funds	4924	96,176
Medical Referral Coordination	4925	9,019
PCAA Administration	4926	43,536
Aramas Kapw	4927	11,702
Medical Supply & Equipment	4928	62,735
PTA Restoration	4929	<u>12,468</u>
 Total CFSM Projects Fund		 <u>\$ 690,398</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
 SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
 POHNPEI UTILITIES CORPORATION
 YEAR ENDED SEPTEMBER 30, 1992**

<u>Grantor</u> <u>Program Title</u>	<u>CFDA No.</u>	<u>Pohnpei</u> <u>Org.</u> <u>No.</u>	<u>1992</u> <u>Fiscal Year</u> <u>Expenditures</u>
<u>Office of Territorial and</u>			
<u>International Affairs</u>			
Compact of Free Association, Block Grant Funds- Energy Grant, Section 214(B)	15.875	-	\$1,047,904
Initialization of the Pohnpei Utilities Corporation	15.875	-	253,639
Technical Assistance	15.875	-	60,400
Overhaul ALCO generators- Pohnpei State	15.875	-	36,055
Deficiency Funding	15.875	-	2,924
Meter Calibration/Facility Inventory	15.875	-	<u>900</u>
Total Pohnpei Utilities Corporation			<u>\$1,401,822</u>

Note: Except for the Compact of Free Association Block Grant Funds, the above funds are disbursed through the Office of Territorial and International Affairs (OTIA), Department of the Interior directly to the State of Pohnpei and then are passed through to the Pohnpei Utilities Corporation (PUC). The Compact of Free Association Funds are disbursed by OTIA to the FSM National Government, which reallots such to the component States. Pohnpei State subsequently passed certain of these funds through to the PUC. All of the above funds bear CFDA No. 15.875 and the Energy Grant Funds are made available by Title Two, Article I, Section 214(B) of the Compact of Free Association.

Total federal financial assistance expenditures reported per PUC	\$1,460,406
Less: FEMA expenditures by PUC	<u>58,584</u>
	<u>\$1,401,822</u>

In order to not duplicate the above amount, the Federal Emergency Management Agency (FEMA) funds received by the PUC are shown where originally allotted in the U.S. Federal Assistance Fund (Pohnpei Org. No. 3784) (refer page 80) on the Pohnpei State Schedule of Federal Financial Assistance.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
TTPI CAPITAL PROJECTS FUND
YEAR ENDED SEPTEMBER 30, 1992

<u>Grantor</u> <u>Program Title</u>	<u>CFDA No.</u>	<u>Pohnpei</u> <u>Org.</u> <u>No.</u>	<u>1992</u> <u>Fiscal Year</u> <u>Expenditures</u>
<u>Trust Territory of the Pacific Islands</u>			
Pohnpei Airport Administration	15.875	6322	\$ 3,833
Pohnpei Hospital Renovation	15.875	6323	32,190
Pohnpei Airport Runway Repair	15.875	6325	<u>16,365</u>
 Total TTPI Capital Projects Fund			 <u>\$ 52,388</u>

Note: These funds are received in a sub-grantee capacity through the Trust Territory of the Pacific Islands (TTPI) Government and bear CFDA # 15.875.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
COMPACT OF FREE ASSOCIATION HEALTH AND EDUCATION FUND
SECTION 221 (B) - SPECIAL BLOCK GRANT (CFDA NO. 15.875)
YEAR ENDED SEPTEMBER 30, 1992

<u>Grantor</u> <u>Program Title</u>	<u>Pohnpei</u> <u>Org.</u> <u>No.</u>	<u>1992</u> <u>Fiscal Year</u> <u>Expenditures</u>
<u>Office of Territorial and</u>		
<u>International Affairs</u>		
Educational Services	2140	\$ 123
FY-91 Vocational Education		
Improvement Program	2141	17,469
PICS Supper Meal Program	2142	8,413
Director's Office	2143	190,305
Secondary Education	2144	913,507
Educational Services & Development	2145	412,031
Preschool & Elementary Education	2146	25,004
Aid to Non-public Schools	2147	<u>80,000</u>
Total Compact of Free Association		
Health and Education Fund - Section 221 (B)		<u>\$1,646,852</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 FSM National Government 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 FEDERAL FINANCIAL ASSISTANCE, CONTINUED
COMPACT OF FREE ASSOCIATION OTHER GRANTS FUND
SECTION 216 (A)(2) - HEALTH AND MEDICAL PROGRAMS (CFDA #15.875)
YEAR ENDED SEPTEMBER 30, 1992

<u>Grantor</u> <u>Program Title</u>	<u>Pohnpei</u> <u>Org.</u> <u>No.</u>	<u>1992</u> <u>Fiscal Year</u> <u>Expenditures</u>
<u>Office of Territorial and International Affairs</u>		
FY-91 Medical Referral	2354	\$ 5,374
FY-92 Medical Referral	2355	<u>337,993</u>
Total Compact of Free Association		
Other Grants Fund - Section 216 (A)(2)		<u>\$ 343,367</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 FSM National Government 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 FEDERAL FINANCIAL ASSISTANCE, CONTINUED
COMPACT OF FREE ASSOCIATION OTHER GRANTS FUND
SECTION 212 (A) - SPECIAL DEVELOPMENT PROGRAMS (CFDA #15.875)
YEAR ENDED SEPTEMBER 30, 1992

<u>Grantor</u> <u>Program Title</u>	<u>Pohnpei</u> <u>Org.</u> <u>No.</u>	<u>1992</u> <u>Fiscal Year</u> <u>Expenditures</u>
<u>Office of Territorial and</u>		
<u>International Affairs</u>		
CAT Training	2513	\$ 243
Foreign Investment Board	2515	48,734
CAT Training	2516	10,859
Civic Action Team	-	<u>250,000</u>
Total Compact of Free Association		
Other Grants Fund-Section 212 (A)		<u>\$ 309,836</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 FSM National Government 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 FEDERAL FINANCIAL ASSISTANCE, CONTINUED
COMPACT OF FREE ASSOCIATION OTHER GRANTS FUND
SECTION 216 (A)(3) - POST SECONDARY EDUCATION (CFDA #15.875)
YEAR ENDED SEPTEMBER 30, 1992

<u>Grantor</u> <u>Program Title</u>	<u>Pohnpei</u> <u>Org.</u> <u>No.</u>	<u>1992</u> <u>Fiscal Year</u> <u>Expenditures</u>
<u>Office of Territorial and International Affairs</u>		
FY-90 Scholarship Grant	2906	\$ 1,869
FY-91 Scholarship Grant	2907	48,957
FY-92 Post Secondary Assistance	2908	<u>244,605</u>
Total Compact of Free Association		
Other Grants Fund - Section 216 (A)(3)		<u>\$ 295,431</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 FSM National Government receives all grant awards on behalf of the FSM and then reallocates such to the component States.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
COMPACT OF FREE ASSOCIATION CAPITAL PROJECTS FUND
SECTION 211(A) CAPITAL ACCOUNT (CFDA #15.875)
YEAR ENDED SEPTEMBER 30, 1992

<u>Grantor</u> <u>Program Title</u>	<u>Pohnpei</u> <u>Org.</u> <u>No.</u>	<u>1992</u> <u>Fiscal Year</u> <u>Expenditures</u>
<u>Office of Territorial and</u>		
<u>International Affairs</u>		
Sokehs Powe Elementary School	6035	\$ 5,620
Sapwuahfik Elementary School	6036	2,002
Nukuoro Elementary School	6038	851
Salapwuk Elementary School	6041	10,779
Mand Road - Madelenihmw	6063	819
Cleaning & Rehabilitation Nan Madol	6083	42,383
Develop. & Maint. Of Tourist Sites	6097	14,900
Paving of Pohnpei Circumferential Road	6110	56,100
Maint./Improv. Kolonia Sewer System	6118	54,148
A&E And Matching Kitti Water System	6132	21,107
Upgrade Mwoakilloa Airstrip	6139	2,902
NFC Purse Seiners	6140	4,000
Micronesia Bound, Inc.	6142	460
Broiler Project Supplement	6144	9,516
Pepper Development Project	6146	20,830
Power Hookup Accessories	6148	1,500
Manpower Skills Development Program	6149	157
EDA Fish Processing Plant Construction	6150	1,936,276
Constructional/Repair Sokehs Bridge	6151	20,375
Circumferential Road Paving Phase II	6153	132,743
Coconut Rehabilitation	6155	5,455
Kitti Master Plan	6159	20,000
FY-91 CIP Administration Cost	6161	3,452
Power Generator Equipment	6162	5,585
Finance Computer Equipment	6164	2,196
Secondary Power Distribution	6165	500,000
Manpower Skills Development	6166	21,706
Pohnpei Development Loan Fund	6171	192,000
Kitti/Sokehs/Madelenihmw Circum. Rd.	6172	68,434
Pohnpei Housing Loan Program	6173	9,326
New Generator And Association.	6174	535,820
FY-91 Broiler Development	6175	139,798
Upgrade Enipein Pah Road	6176	2,185
A&E Construction/Paving Sokehs Road	6177	369,375
Pohnpei Dock Extension	6179	96,204
Nukuoro Black Pearl	6180	771
Enipoas Road	6181	39,400
Construction of Lehdau Water Development	6182	4,925
Upgrading of Lewetik Road	6183	<u>30,587</u>
Balance Forward		<u>4,384,687</u>

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
COMPACT OF FREE ASSOCIATION CAPITAL PROJECTS FUND
SECTION 211(A) CAPITAL ACCOUNT (CFDA #15.875)
YEAR ENDED SEPTEMBER 30, 1992

<u>Grantor</u> <u>Program Title</u>	<u>Pohnpei</u> <u>Org.</u> <u>No.</u>	<u>1992</u> <u>Fiscal Year</u> <u>Expenditures</u>
Balance Forwarded		\$4,384,687
<u>Office of Territorial and</u>		
<u>International Affairs, continued</u>		
A&E Construction of Two High School Buildings	6184	145,124
Tanaka Plant Scrubb.	6187	19,794
Construction of Two Clinics	6191	61,376
Trochus Clam Development	6194	33,042
Pepper Development	6197	98,003
Rural Electrification Project	6203	605,000
U School Transportation	6207	9,600
Housing Development Loan Fund	6208	500,000
Manpower Skill Development	6209	120,027
U Agriculture Fair	6210	2,300
OMIP Grant Matching	6211	230,820
Nukuoro Black Pearl	6212	11,473
Land & Survey	6213	43,784
Kolonia, Section 7 Project Wall	6215	20,000
Circumferential Road Maintenance	6216	112,007
Mwoakilloa Airstrip Maintenance	6217	8,000
Pingilap Airstrip Maintenance	6218	10,000
Comp./Old Kolonia Office	6219	10,000
Paving of Porakied Road	6220	30,000
Repair & Maintenance Nanpil Road	6222	40,000
Kolonia Town Section 4 Road Maintenance	6223	1,500
Expansion/PICS High School	6224	88,642
Construction & Maintenance PICS	6225	47,378
Sokehs Is. Circumferential Road Phase II	6226	105,245
Pohnpei Circumferential Road Paving/III	6227	26,000
Upgrade Pingilap Primary/Secondary Roads	6229	9,500
Maintenance of Nan Madol Ruins	6230	25,645
Pohnpei Development Loan Fund	6231	300,000
Dry Docking of MS Micro Glory	6235	<u>7,215</u>
 Total Compact of Free Association Capital Projects Fund - Section 211(A) Capital Account		 <u>\$7,106,162</u>

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
COMPACT OF FREE ASSOCIATION CAPITAL PROJECTS FUND
SECTION 211(A) CAPITAL ACCOUNT (CFDA #15.875)
YEAR ENDED SEPTEMBER 30, 1992

Note 1: \$821,915, to the Pohnpei State Transportation (PTA), and \$230,820 to the Pohnpei Utilities Corporation (PUC) have been accounted for as transfers from the Capital Projects Fund in the General Purpose Financial Statements. Also, \$4,750,000 of loans receivable has been written off as uncollectible in the current year. A reconciliation of the above expenditures to the General Purpose Financial Statements is shown below:

Compact Capital Expenditures:	\$ 7,106,162
Less Transfer to PTA	821,915
Less Transfer to PUC	<u>230,820</u>
	6,053,427
 Add write off uncollectible loan	 <u>4,750,000</u>
	 <u>\$10,803,427</u>

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 FSM National Government 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 FEDERAL FINANCIAL ASSISTANCE, CONTINUED
COMPACT OF FREE ASSOCIATION GENERAL FUND
SECTION 211(A) CURRENT ACCOUNT (CFDA #15.875)
YEAR ENDED SEPTEMBER 30, 1992

Grantor <u>Program Title</u>	Pohnpei Org. <u>No.</u>	1992 Fiscal Year <u>Expenditures</u>
<u>Office of Territorial and International Affairs</u> General Fund: Current Account	Various	<u>\$ 9,944,694</u>
Total Compact of Free Association expenditures		<u>\$20,694,246</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 FSM National Government 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, 1992

<u>Grantor</u> <u>Program Title</u>	<u>CFDA No.</u>	<u>Description</u>	1992 <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			\$ 7,106,162
221-B Block Grant			1,646,852
Health and Medical			343,367
Special Development Assistance			309,836
Post Secondary Education			295,431
Energy Programs			1,047,904
TTPI Capital Projects			52,388
OTIA - OMIP			284,300
OTIA - Technical Assistance			69,130
OTIA - Others			<u>39,879</u>
Total CFDA # 15.875 excluding Compact Section 211 (A) Current Account expenditures			<u>\$11,195,249</u>
 <u>Federal Emergency Management</u>			
<u>Agency (FEMA)</u>			
Disaster Assistance	83.516		<u>\$ 793,023</u>
 <u>U.S. Department of Labor</u>			
JTPA Programs	17.250		<u>\$ 425,123</u>
 <u>U.S. Department of Commerce</u>			
Road Paving Matching	11.300		<u>\$ 966,278</u>
		Total U.S. Federal program expenditures selected excluding Compact Section 211 (A) Current Account expenditures	<u>\$13,379,673</u>
		Total U.S. Federal program expenditures excluding Compact Section 211 (A) Current Account expenditures	<u>\$14,091,523</u>
		% of total U.S. Federal expenditures covered by major programs excluding Compact Section 211 (A) Current Account expenditures	<u>94.9%</u>

**STATE OF POHNPEI
 FEDERATED STATES OF MICRONESIA**
Schedule of Questioned Costs, Identified Noncompliance
 and Internal Control Weaknesses
For the year ended September 30, 1992

Federal Findings

Federal Grants - Questioned Costs

<u>Program</u>	<u>Reason for Questioned Cost</u>	<u>Questioned Cost</u>						
U.S. Dept. of Labor/Job Training Partnership Act/CFDA #17.250	<p><u>Criteria:</u> Per OMB Circular A-87, Attachment A, Section A, paragraph 2(b), the grantee assumes the responsibility for ensuring that federally assisted program funds have been expended and accounted for consistently with underlying agreements and program objectives.</p> <p><u>Condition:</u> We noted the supporting documentation for the following transaction was incomplete.</p> <table style="margin-left: auto; margin-right: auto; border: none;"> <tr> <td style="text-align: center;"><u>ORG. NO.</u></td> <td style="text-align: center;"><u>CK. NO.</u></td> <td style="width: 100px;"></td> </tr> <tr> <td style="text-align: center;">3211</td> <td style="text-align: center;">63425</td> <td></td> </tr> </table> <p style="text-align: right;">(The above was drawn from a sample of 21 non-payroll items aggregating \$56,054 out of total non-payroll expenditures aggregating \$128,477.)</p> <p><u>Cause:</u> Unknown.</p> <p><u>Effect:</u> The effect of the above condition is a questioned cost.</p> <p><u>Recommendation:</u> We recommend that the complete supporting documentation be obtained to properly support the above transaction. We also recommend that in the future, reimbursement requests are not allowed until complete documentation is obtained.</p> <p><u>Auditee Response:</u> See corrective action plan.</p> <p><u>Corrective Action Plan:</u> We will again follow up with JTPA to ensure that all necessary supporting documents are obtained prior to disbursements of funds.</p>	<u>ORG. NO.</u>	<u>CK. NO.</u>		3211	63425		<p><u>\$ 2,980</u></p>
<u>ORG. NO.</u>	<u>CK. NO.</u>							
3211	63425							

STATE OF POHNPEI
 FEDERATED STATES OF MICRONESIA
Schedule of Questioned Costs, Identified Noncompliance
 and Internal Control Weaknesses, Continued
For the year ended September 30, 1992

Federal Findings, continued

Federal Grants - Questioned Costs, continued

Program	Reason for Questioned Cost	Questioned Cost						
U.S. Dept. of Labor/Job Training Partnership Act/CFDA #17.250	<p><u>Criteria:</u> Per OMB Circular A-87, Attachment A, Section A, paragraph 2(b), the grantee assumes the responsibility for ensuring that federally assisted program funds have been expended and accounted for consistently with underlying agreements and program objectives.</p> <p><u>Condition:</u> We noted that some of the timesheets provided for reimbursement were duplicated in the supporting documentation and paid twice.</p> <table style="margin-left: auto; margin-right: auto; border: none;"> <tr> <td style="text-align: center; border-bottom: 1px solid black; padding: 5px;">ORG. NO.</td> <td style="text-align: center; border-bottom: 1px solid black; padding: 5px;">CK. NO.</td> <td style="width: 100px;"></td> </tr> <tr> <td style="text-align: center; padding: 5px;">3211</td> <td style="text-align: center; padding: 5px;">64032</td> <td style="text-align: right; padding: 5px;">\$ <u>1,048</u></td> </tr> </table> <p>(Refer sample size and universe on page 94.)</p> <p><u>Cause:</u> Unknown.</p> <p><u>Effect:</u> The effect of the above condition is a questioned cost.</p> <p><u>Recommendation:</u> We recommend that the above amount be collected from the participant or reduced from future reimbursement requests. We also recommend that reimbursement request documentation be carefully reviewed to avoid situations such as this in the future.</p> <p><u>Auditee Response:</u> We agree with the above finding.</p> <p><u>Corrective Action Plan:</u> We have informed the appropriate staff to closely review the documents so that similar errors do not occur in the future.</p>	ORG. NO.	CK. NO.		3211	64032	\$ <u>1,048</u>	
ORG. NO.	CK. NO.							
3211	64032	\$ <u>1,048</u>						

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Questioned Costs, Identified Noncompliance
and Internal Control Weaknesses, Continued
For the year ended September 30, 1992

Federal Findings, continued

Federal Grants - Questioned Costs, continued

<u>Program</u>	<u>Reason for Questioned Cost</u>	<u>Questioned Cost</u>
U.S. Dept. of Labor/Job Training Partnership Act/CFDA #17.250	<p><u>Criteria:</u> Per OMB Circular A-87, Attachment A, Section A, paragraph 2(b), the grantee assumes the responsibility for ensuring that federally assisted program funds have been expended and accounted for consistently with underlying agreements and program objectives.</p> <p><u>Condition:</u> The following represents an unauthorized transaction as we were not able to locate an additional contract which was represented to authorize the purchase of equipment used under contract number C20112.</p> <p style="text-align: center;"><u>ORG. NO.</u> 3294</p> <p style="text-align: center;"><u>CK. NO.</u> 58964</p> <p>(Refer sample size and universe on page 94.)</p> <p><u>Cause:</u> Unknown.</p> <p><u>Effect:</u> The effect of the above condition is a questioned cost.</p> <p><u>Recommendation:</u> We recommend that the missing contract discussed above either be located or some other proof of authorization be obtained to properly support the transaction.</p> <p><u>Auditee Response:</u> We agree with the above finding.</p> <p><u>Corrective Action Plan:</u> We will carefully monitor each contract payment so that only what is authorized in the contract will be paid. The JTPA Coordinator will also be informed.</p>	<p><u>\$ 2,330</u></p>

STATE OF POHNPEI
 FEDERATED STATES OF MICRONESIA
Schedule of Questioned Costs, Identified Noncompliance
 and Internal Control Weaknesses, Continued
For the year ended September 30, 1992

Federal Findings, continued

Federal Grants - Questioned Costs, continued

<u>Program</u>	<u>Reason for Questioned Cost</u>	<u>Questioned Cost</u>			
U.S. Dept. of Labor/Job Training Partnership Act/CFDA #17.250	<p><u>Criteria:</u> Per OMB Circular A-87, Attachment A, Section A, paragraph 2(b), the grantee assumes the responsibility for ensuring that federally assisted program funds have been expended and accounted for consistently with underlying agreements and program objectives.</p> <p><u>Condition:</u> We noted the authorized contract amount (Contract number C10250) had been exceeded related to the following transaction.</p> <table style="margin-left: auto; margin-right: auto; border: none;"> <tr> <td style="text-align: center; padding: 0 20px;"><u>ORG. NO.</u> 3294</td> <td style="text-align: center; padding: 0 20px;"><u>CK. NO.</u> 56916</td> <td style="text-align: right; padding-left: 20px;">\$ <u>324</u></td> </tr> </table> <p>(Refer sample size and universe on page 94.)</p> <p><u>Cause:</u> Unknown.</p> <p><u>Effect:</u> The effect of the above condition is a questioned cost.</p> <p><u>Recommendation:</u> We recommend that the above amount be collected from the participant or authorization for the excess expenditure be obtained.</p> <p><u>Auditee Response:</u> We agree with the above finding.</p> <p><u>Corrective Action Plan:</u> We have informed the appropriate staff to closely review the documents so that similar errors do not occur in the future.</p>	<u>ORG. NO.</u> 3294	<u>CK. NO.</u> 56916	\$ <u>324</u>	
<u>ORG. NO.</u> 3294	<u>CK. NO.</u> 56916	\$ <u>324</u>			
Total U.S. Department of Labor Questioned Costs		<u>\$ 6,682</u>			

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**
Schedule of Questioned Costs, Identified Noncompliance
and Internal Control Weaknesses, Continued
For the year ended September 30, 1992

Federal Findings, continued

Federal Grants - Questioned Costs, continued

<u>Program</u>	<u>Reason for Questioned Cost</u>	<u>Questioned Cost</u>												
Federal Emergency Management Agency (FEMA)/ Disaster Assistance/ CFDA #83.516	<p><u>Criteria:</u> Per OMB Circular A-87, Attachment A, Section A, paragraph 2(b), the grantee assumes the responsibility for ensuring that federally assisted program funds have been expended and accounted for consistently with underlying agreements and program objectives.</p> <p><u>Condition:</u> We noted no supporting Damage Survey Report (DSR) for the following transactions.</p> <table border="0" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;"><u>ORG. NO.</u></th> <th style="text-align: center;"><u>CK. NO.</u></th> <th style="text-align: right;"></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">3757</td> <td style="text-align: center;">2066</td> <td style="text-align: right;">\$ 34,405</td> </tr> <tr> <td style="text-align: center;">3757</td> <td style="text-align: center;">56863</td> <td style="text-align: right;"><u>3,482</u></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>37,887</u></td> </tr> </tbody> </table>	<u>ORG. NO.</u>	<u>CK. NO.</u>		3757	2066	\$ 34,405	3757	56863	<u>3,482</u>			<u>37,887</u>	
<u>ORG. NO.</u>	<u>CK. NO.</u>													
3757	2066	\$ 34,405												
3757	56863	<u>3,482</u>												
		<u>37,887</u>												

(The above was drawn from a sample of 30 items aggregating \$180,235 out of total expenditures aggregating \$793,023.)

Cause: Unknown.

Effect: The effect of the above condition is a questioned cost.

Recommendation: We recommend that DSR's which cover the above transactions are located or charge off these expenditures against the General Fund.

Auditee Response: We agree with the above finding.

Corrective Action Plan: We will pass these along to the State and the FSM National FEMA Coordinators.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**
Schedule of Questioned Costs, Identified Noncompliance
and Internal Control Weaknesses, Continued
For the year ended September 30, 1992

Federal Findings, continued

Federal Grants - Questioned Costs, continued

<u>Program</u>	<u>Reason for Questioned Cost</u>	<u>Questioned Cost</u>
FEMA/Disaster Assistance/ CFDA #83.516	<p><u>Criteria:</u> Per OMB Circular A-87, Attachment A, Section A, paragraph 2(b), the grantee assumes the responsibility for ensuring that federally assisted program funds have been expended and accounted for consistently with underlying agreements and program objectives.</p> <p><u>Condition:</u> We were not able to locate the represented authorization from FEMA to reimburse the Governor's Office for the expenditures classified under this org. Consequently all the expenditures under this org. have been questioned.</p> <p style="text-align: center;"><u>ORG. NO.</u> 3755</p> <p style="text-align: center;"><u>CK. NO.</u> Various</p> <p style="text-align: right;">(Refer sample size and universe on page 99.)</p> <p><u>Cause:</u> The above condition appears to have been caused by either misclassification of General Fund and FEMA expenditures or by misplacement of a represented authorization from FEMA to cover the above expenditures.</p> <p><u>Effect:</u> The effect of the above condition is a questioned cost.</p> <p><u>Recommendation:</u> We recommend that the represented authorization from FEMA be obtained in order to clear the above questioned expenditures.</p> <p><u>Auditee Response:</u> We agree with the above finding.</p> <p><u>Corrective Action Plan:</u> We will pass these along to the State and the FSM National FEMA Coordinators.</p>	<p><u>\$ 57,074</u></p>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**
Schedule of Questioned Costs, Identified Noncompliance
and Internal Control Weaknesses, Continued
For the year ended September 30, 1992

Federal Findings, continued

Federal Grants - Questioned Costs, continued

<u>Program</u>	<u>Reason for Questioned Cost</u>	<u>Questioned Cost</u>															
FEMA/Disaster Assistance/ CFDA #83.516	<p><u>Criteria:</u> Per OMB Circular A-87, Attachment A, Section A, paragraph 2(b), the grantee assumes the responsibility for ensuring that federally assisted program funds have been expended and accounted for consistently with underlying agreements and program objectives.</p> <p><u>Condition:</u> We noted that the following transactions did not appear to be covered by the Damage Survey Report (DSR) provided as supporting documentation.</p> <table border="0" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;"><u>ORG. NO.</u></th> <th style="text-align: center;"><u>CK. NO.</u></th> <th style="text-align: right;"></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">3770</td> <td style="text-align: center;">61549</td> <td style="text-align: right;">\$ 241</td> </tr> <tr> <td style="text-align: center;">3783</td> <td style="text-align: center;">64079</td> <td style="text-align: right;">567</td> </tr> <tr> <td style="text-align: center;">3793</td> <td style="text-align: center;">64769</td> <td style="text-align: right;"><u>216</u></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>1,024</u></td> </tr> </tbody> </table>	<u>ORG. NO.</u>	<u>CK. NO.</u>		3770	61549	\$ 241	3783	64079	567	3793	64769	<u>216</u>			<u>1,024</u>	
<u>ORG. NO.</u>	<u>CK. NO.</u>																
3770	61549	\$ 241															
3783	64079	567															
3793	64769	<u>216</u>															
		<u>1,024</u>															

(Refer sample size and universe on page 99.)

Cause: Unknown.

Effect: The effect of the above condition is a questioned cost.

Recommendation: We recommend that a DSR authorizing the above transactions be located or the expenditures should be charged off to the General Fund.

Auditee Response: We agree with the above finding.

Corrective Action Plan: We will pass these along to the State and the FSM National FEMA Coordinators.

Total FEMA Questioned Costs \$ 95,985

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**
Schedule of Questioned Costs, Identified Noncompliance
and Internal Control Weaknesses, Continued
For the year ended September 30, 1992

Federal Findings, continued

Federal Grants - Questioned Costs, continued

<u>Program</u>	<u>Reason for Questioned Cost</u>	<u>Questioned Cost</u>
U.S. Dept. of Commerce /Road Paving Project/ CFDA #11.300	<p><u>Criteria:</u> Bidding procedure documentation should be maintained in order to show that Financial Management and Public Contracts regulations have been complied with.</p> <p><u>Condition:</u> We were not able to locate documentation to support the bids received and decision to award for the following contract. The entire contract for \$39,000 falls under the bidding guidelines, however only the portion of the contract charged to federal programs has been questioned here. (The remainder of the contract is covered by Local Finding No. 4).</p> <p style="text-align: center;"><u>ORG. NO.</u> <u>Contract #</u> 3810 C20002</p> <p>(The above was drawn from the total population of 8 items aggregating \$966,278 which were all selected for testing.)</p> <p><u>Cause:</u> Unknown.</p> <p><u>Effect:</u> The effect of the above condition is a questioned cost.</p> <p><u>Recommendation:</u> We recommend that the supporting documentation be located for the above contract in order to clear the questioned cost and that each project with bidding be fully documented in separate files in order to keep better track of these documents in the future.</p> <p><u>Auditee Response:</u> We disagree with the above finding because all major contracts go through several steps prior to becoming final. The Contract Review Board had reviewed and approved the contract, which should mean that it followed all the bidding or non-bidding requirements as stated in the Financial Management Act.</p> <p><u>Corrective Action Plan:</u> We will require that a list of at least 3 bidders shall be submitted along with the contracts.</p>	<p style="margin-top: 100px;"><u>\$ 13,000</u></p>
Total U.S. Department of Commerce Questioned Costs		<u>\$ 13,000</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**
Schedule of Questioned Costs, Identified Noncompliance
and Internal Control Weaknesses, Continued
For the year ended September 30, 1992

Federal Findings, continued

Federal Grants - Questioned Costs, continued

<u>Program</u>	<u>Reason for Questioned Cost</u>	<u>Questioned Cost</u>				
U.S. Dept. of the Interior (OTIA)/ Compact of Free Assoc. Section 216(A)(2) - Health and Medical Programs/ CFDA #15.875	<p><u>Criteria:</u> Compact funds should be spent in furtherance of applicable program requirements.</p> <p><u>Condition:</u> Under Compact Section 216(A)(2) - Health and Medical Programs, we found the following transaction for mortuary services, which does not appear reasonable under the applicable program.</p> <table border="0" style="margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: center;"><u>ORG. NO.</u></td> <td style="text-align: center;"><u>CK. NO.</u></td> </tr> <tr> <td style="text-align: center;">2355</td> <td style="text-align: center;">57538</td> </tr> </table> <p>(The above was drawn from a sample of 14 items aggregating \$1,792,642 out of total expenditures aggregating \$9,792,977.)</p> <p><u>Cause:</u> Unknown.</p> <p><u>Effect:</u> The effect of the above condition is a questioned cost.</p> <p><u>Recommendation:</u> We recommend that the above amount be charged against the General Fund in order to clear off the above questioned cost and that these type of expenditures are directly charged to the General Fund in the future.</p> <p><u>Auditee Response:</u> We agree with the above finding.</p> <p><u>Corrective Action Plan:</u> We will ensure that such transactions do not get charged to this program again.</p>	<u>ORG. NO.</u>	<u>CK. NO.</u>	2355	57538	\$ <u>2,764</u>
<u>ORG. NO.</u>	<u>CK. NO.</u>					
2355	57538					
Total U.S. Department of the Interior (OTIA) Questioned Costs		\$ <u>2,764</u>				
Total U.S. Federal Assistance Questioned Costs		<u>\$118,431</u>				

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Questioned Costs, Identified Noncompliance
and Internal Control Weaknesses, Continued
For the year ended September 30, 1992

Federal Findings, continued

Drug-Free Workplace Act

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

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Questioned Costs, Identified Noncompliance
and Internal Control Weaknesses, Continued
For the year ended September 30, 1992

Federal Findings, continued

Finding No. 1, continued

Criteria, continued:

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

Condition: Per our inquiries, we noted the State of Pohnpei is not in compliance with the Drug-Free Workplace Act.

Cause: The cause of the above condition is that a policy statement on a Drug-Free Workplace has not been issued.

Effect: The effect of the above condition is that the State of Pohnpei may not be eligible to receive federal grant-in-aid monies.

Recommendation: We recommend a policy statement on a Drug-Free Workplace be issued by the Office of the Governor.

Auditee Response: We agree with the above finding.

Corrective Action Plan: We will investigate the issue and establish policies to ensure compliance with the Drug Free Work Place Act.

Budgetary Control - OMIP Grant Award (CFDA #15.875)

2. Criteria: Budgetary amounts for federal grants should be in line with the grant award.

Condition: For the Department of the Interior OMIP grant award and matching funds (orgs. 3506 and 6211) we noted some adjustments are necessary to agree the budgetary amounts to the grant award.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**
Schedule of Questioned Costs, Identified Noncompliance
and Internal Control Weaknesses, Continued
For the year ended September 30, 1992

Federal Findings, continued

Budgetary Control - OMIP Grant Award (CFDA #15.875)

Cause: Unknown.

Effect: A possible misuse of grant funds under the grant award categories is the effect of this funding.

Recommendation: We recommend that the budgetary amounts for these orgs. be adjusted to reflect the categories of the grant award.

Auditee Response: The State agrees with the above finding.

Corrective Action: The State Finance had centralized Federal Grants transaction supervision to one person and believes that this will enable Finance to better track Federal funds.

Administrative Control - OMIP Grant Award (CFDA #15.875)

3. Criteria: Employees reviewing accounts payable vouchers related to federal grants should be aware of any grant award restrictions or matching requirements.

Condition: Based on discussions with finance personnel, it was evident that the proper employees were not aware of the matching requirement under the Department of the Interior OMIP grant award, however, we noted that the budget amounts had been set up to properly meet the match.

Cause: This appears to be due to a lack of communication between departments and personnel.

Effect: The effect is a possible improper match allowed on federal grants funds.

Recommendation: We recommend that an additional strong control over proper matching and authorization on federal grants is implemented by the accounts payable manager being informed by the grantee of specific requirements related to their grant.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**
Schedule of Questioned Costs, Identified Noncompliance
and Internal Control Weaknesses, Continued
For the year ended September 30, 1992

Federal Findings, continued

Finding No. 3, continued

Auditee Response: The State agrees with the above finding.

Corrective Action: The State Finance has centralized Federal Grant transaction supervision to one person and believes that this will enable Finance to better track Federal funds.

Expenditure Classification (CFDA #17.250)

4. Criteria: Expenditures under federal grants should specifically state which grant award they should be applied to.

Condition: The request for payment for check number 56778 did not specifically indicate the JTPA program it would be used for (only the org. to charge was indicated). (Refer sample size and universe on page 94.)

Cause: Unknown

Effect: The effect is a possible misclassification of federal grant expenditures.

Recommendation: We recommend that in the request for payment, it is documented which program an expenditure should be applied to, as well as the org. number.

Auditee Response: The State does not agree with the above finding as each grant award is assigned a separate org. thus the org. number listed on the APV is adequate for proper classification. But the State will ensure that grant award numbers are also properly recorded.

Corrective Action: See Auditee response.

Funds Control - JTPA (CFDA #17.250)

5. Criteria: There is a specific requirement under JTPA programs to track funds available.

Condition: Available funds are occasionally tracked manually, however the funds available portion of the monthly report is not filled out.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Questioned Costs, Identified Noncompliance
and Internal Control Weaknesses, Continued
For the year ended September 30, 1992

Federal Findings, continued

Funds Control - JTPA (CFDA #17.250), Continued

Cause: Unknown

Effect: The effect is noncompliance with a program grant specific requirement.

Recommendation: We recommend that the funds available be tracked regularly and included in the monthly reports.

Auditee Response: See corrective action plan.

Corrective Action: The State has established a policy for the EDP department to perform daily updates of transactions rather than weekly. This would enable the State to better track funds.

Matching Documentation - JTPA (CFDA #17.250)

6. Criteria: JTPA Cooperative agreements (Section 123(b)) should document the 50/50 match between federal funds and the related State agency.

Condition: There are cooperative agreements with the Department of Education, however no federal matching policy is documented.

Cause: Unknown

Effect: The effect is noncompliance with the grant's specific requirements.

Recommendation: We recommend that it be determined whether these cooperative agreements fall under section 123(b), and if so, that the 50/50 match is made and clearly documented.

Auditee Response: See corrective action plan.

Corrective Action: State Finance will communicate with the local JTPA office to ensure proper resolution of the above finding.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**
Schedule of Questioned Costs, Identified Noncompliance
and Internal Control Weaknesses, Continued
For the year ended September 30, 1992

Federal Findings, continued

Budgetary Control - JTPA (CFDA #17.250)

7. Criteria: Budgetary amounts should not be exceeded.

Condition: Org. 3210, 3211, 3212, and 3213 all had budgetary classifications which were exceeded.

Cause: This appears to be due to not classifying expenditures under the new fiscal year 1992 org. numbers which have funds available.

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

Recommendation: We recommend that the over budget amounts be reclassified to the current orgs. so to accurately track funds available.

Auditee Response: See corrective action plan.

Corrective Action: The State has established a policy for the EDP department to perform daily updates of transactions rather than weekly. This would enable the State to better track funds.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Questioned Costs, Identified Noncompliance
and Internal Control Weaknesses, Continued
For the year ended September 30, 1992

Federal Findings, continued

Documentation Control - JTPA (CFDA #17.250)

8. Criteria: Timesheets should be provided for all payroll reimbursements, and project completion reports should be filed with completed files.

Condition: Not all the timesheets were provided to support disbursed check number 63425 and the related contract file did not have the project completion report included. (Refer sample size and universe on page 94.)

Cause: Unknown.

Effect: The effect is a questioned cost related to the disbursement and incomplete file documentation.

Recommendation: We recommend that the questioned costs be resolved (obtain timesheets) and that the completed files be updated with their respective project completion reports.

Auditee Response: See corrective action plan.

Corrective Action: State Finance will communicate with the local JTPA office to ensure proper resolution of the above finding.

Documentation Control - JTPA (CFDA #17.250)

9. Criteria: Only authorized timesheets should be accepted for payroll reimbursements.

Condition: Noted that the timesheets provided for check number 56916 under contract C10250 did not include authorizations. (Refer sample size and universe on page 94.)

Cause: This is due to the grantee using their own timesheet rather than JTPA's form with a space for authorizations.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Questioned Costs, Identified Noncompliance
and Internal Control Weaknesses, Continued
For the year ended September 30, 1992

Federal Findings, continued

Finding No. 9, continued

Effect: The effect is possible future questioned costs related to payroll reimbursements not documenting authorizations.

Recommendation: We recommend that all grantees be required to use JTPA's timesheet form to ensure uniformity and the proper authorizations are obtained.

Auditee Response: See corrective action plan.

Corrective Action: State Finance will communicate with the local JTPA office to ensure proper resolution of the above finding.

Equipment Control - JTPA (CFDA #17.250)

10. Criteria: Equipment purchased with JTPA funds remain the property of JTPA.

Condition: Equipment purchased with JTPA funds for project C20112 remain with the grantee even though the project is complete.

Cause: Unknown.

Effect: The effect is poor asset management and a potential loss related to the equipment.

Recommendation: We recommend that the equipment either be returned to JTPA or purchased by the grantee.

Auditee Response: See corrective action plan.

Corrective Action: State Finance will communicate with the local JTPA office to ensure proper resolution of the above finding.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**
Schedule of Questioned Costs, Identified Noncompliance
and Internal Control Weaknesses, Continued
For the year ended September 30, 1992

Federal Findings, continued

Prior Year Outstanding Finding

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

Condition: It appears that the following findings from the Administrative Controls Review for previous fiscal years remain unresolved:

<u>Finding No.</u>	<u>Description</u>	<u>Page No.</u>
<u>Fiscal Year 1990</u>		
4	Federal Grant Administration	94
<u>Fiscal Year 1991</u>		
3	CFDA Numbers	91

Cause: Unknown.

Effect: The non-resolution of these prior year findings will have the same impact in fiscal year 1992 as in fiscal year 1990 and 1991, 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 management resolve prior year administrative control findings appropriately.

Auditee Response: See corrective action.

Corrective Action: We will manually file allotment advices by CFDA number beginning fiscal year 1994. We have met twice in the last year with the FSM National Government to reconcile federal program reimbursements.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Questioned Costs, Identified Noncompliance
and Internal Control Weaknesses, Continued
For the year ended September 30, 1992

Local Findings

Budgetary Control - Compact Energy Grant (CFDA #15.875)

1. Criteria: Budgetary allotment amounts should not be exceeded.

Condition: For Compact Energy Funds we noted that the budgetary allotment amount was exceeded.

Cause: Unknown.

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

Recommendation: We recommend that budgetary allotment amounts be strictly followed.

Auditee Response: See corrective action plan.

Corrective Action: The State has established a policy for the EDP department to perform daily updates of transactions rather than weekly. This would enable the State to better track funds.

Bidding Requirements

2. Criteria: Documentation regarding bidding compliance should be maintained.

Condition: For Contract C00309 we were not able to locate any documentation. For Contracts C10277, C10278, C10279, C10280, and C20002 we were only able to locate the advertisements to put out RFP's however no documentation of the bids received was located.

Cause: Unknown.

Effect: The effect is noncompliance with the Financial Management Regulations bidding requirements.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Questioned Costs, Identified Noncompliance
and Internal Control Weaknesses, Continued
For the year ended September 30, 1992

Local Findings, continued

Finding No. 2, continued

Recommendation: We recommend that the supporting bidding documents for the above contracts be located and filed in an organized manner and that bidding support files are maintained on all applicable contracts.

Auditee Response: The State agrees with the above finding.

Corrective Action: The State will ensure that all supporting bidding documents are filed in an organized manner.

Scholarships

3. Criteria: Proper authorization of scholarship approval should be maintained.

Condition: One scholarship grantee file did not contain high school records to confirm scholarship eligibility and no documentation establishing Board approval could be located. (This was the only scholarship transaction selected in our random selection of 25 transactions for tests of controls related to non-payroll expenditures.)

Cause: Unknown.

Effect: A possible unauthorized expenditure could occur.

Recommendation: We recommend that Board minutes be maintained documenting all scholarship approvals, and that scholarship grantee files be fully documented with proper applications and transcripts.

Auditee Response: Documents supporting approvals of student scholarships are not presently filed at Finance.

Corrective Action: State will implement procedures to ensure that all documentation is filed at finance prior to payment.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Questioned Costs, Identified Noncompliance
and Internal Control Weaknesses, Continued
For the year ended September 30, 1992

Local Findings, continued

Budgetary Control - Compact Grants (CFDA #15.875)

4. Criteria: Budget classifications should be properly and sufficiently detailed to monitor expenditures.

Condition: For Org. number 6208 and 2355, the budget classification did not match the expenditure classification.

Cause: The misclassification maybe due to a lack of detail per the budgetary allotment advices.

Effect: None.

Recommendation: We recommend that the allotment advices and budgetary amounts be classified on the same basis to allow for closer monitoring of expenditures.

Auditee Response: Budget office at this time does not detail expenditure classification on the allotment.

Corrective Action: State Finance will communicate with Budget regarding the resolution of the above finding.

5. Criteria: Expenditures plus encumbrances should not exceed budget.

Condition: For org. number 2355, expenditures exceeded budget in one classification and for the org. as a whole. For org. number 2145, one classification (Consumer goods - 8300) exceeded budget. Also for org. 2144, one classification (travel - 8100) exceeded budget.

Cause: Unknown.

Effect: Noncompliance with the Financial Management Act may have occurred.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Questioned Costs, Identified Noncompliance
and Internal Control Weaknesses, Continued
For the year ended September 30, 1992

Local Findings, continued

Budgetary Control - Compact Grants (CFDA #15.875), continued

Finding No. 5, continued

Recommendation: We recommend that funds certification review these instances to determine if corrective action is necessary.

Auditee Response: See corrective action plan.

Corrective Action: The State has established a policy for the EDP department to perform daily updates of transactions rather than weekly. This will enable State Finance to better keep track of funds.

6. Criteria: Budgetary amounts should agree with the most recent allotment advice.

Condition: Org. number 2144 budgetary amounts did not agree with most recent allotment advice.

Cause: This condition appears to be due to an input error in the budgetary amounts.

Effect: None.

Recommendation: The budgetary amounts should be periodically (quarterly) compared to the most recent allotment advice and adjusted, if necessary, to agree with that advice.

Auditee Response: The State agrees with the above finding.

Corrective Action: State Finance will perform monthly reconciliations of Budgetary amounts per computer system to the allotment advices.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Questioned Costs, Identified Noncompliance
and Internal Control Weaknesses, Continued
For the year ended September 30, 1992

Local Findings, continued

Compact Capital Compliance (CFDA #15.875)

7. Criteria: Formal guidelines should be established to ensure that no more than 1.5% of total Compact Capital account funds are used to fund administrative costs.

Condition: The allotment of Capital Fund Projects from the FSM National Government specified an amount of the 1.5%. However, guidelines for the use of these funds have not been established. Additionally, it is not known if the Pohnpei State legislature is aware that the appropriation could be used in this manner.

Cause: Unknown.

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

Recommendation: We recommend that Pohnpei State examine this matter and establish formal guidelines to oversee and determine the appropriate use of its 1.5% allowance.

Auditee Response: See corrective action.

Corrective Action: We will work with the Budget Office and FSM National Government to determine guidelines regarding the 1.5% requirement.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
RESOLUTION OF PRIOR YEARS' QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 1992

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

FY85 unresolved questioned costs	\$ 227,940
FY86 unresolved questioned costs	171,686
FY87 unresolved questioned costs	1,049,740
FY88 unresolved questioned costs	393,372
FY89 unresolved questioned costs	271,650
FY90 unresolved questioned costs	87,296
FY91 unresolved questioned costs	62,193
FY92 unresolved questioned costs	<u>118,431</u>
Total outstanding federal questioned costs	<u>\$2,382,308</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, 1992**

**INDEPENDENT AUDITOR'S REPORT ON THE INTERNAL CONTROL STRUCTURE
BASED ON THE AUDIT OF THE FINANCIAL STATEMENTS**

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

We have audited the general purpose financial statements of the State of Pohnpei as of and for the year ended September 30, 1992, and have issued our report thereon dated May 5, 1993. Our report on the audit of the general purpose financial statements was modified as a result of our inability to form an opinion as to the fairness of presentation of the General Fixed Assets Account Group, the inability to obtain investee financial statements supporting investments of the Pohnpei Economic Development Authority (an Enterprise Fund) and the lack of adequate documentation supporting loans receivable and inventory of the Pohnpei State Housing Authority (an Enterprise Fund).

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, 1992, 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 the internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from

unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

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

- Revenue and receipt cycle
- Purchases and disbursement cycle
- Payroll and personnel cycle
- External financial reporting
- Cash and equivalents
- Investments
- Receivables
- Payables and accrued liabilities
- Fund balances

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 considered 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 item, which is further explained in the following pages represents a reportable condition:

Prior Year Findings

FISCAL YEAR 1988

1. Finding 13 General Fixed Assets Recording

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be

material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

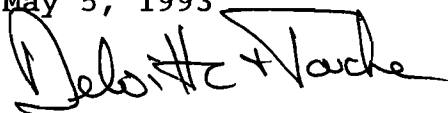
Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined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

We also noted other matters involving the internal control structure and its operation which are described in the accompanying Schedule of Internal Control Findings (pages 122 through 131).

We also noted matters involving the internal control structure and its operation used to administer federal financial assistance programs which we reported to the management of the State of Pohnpei in a report dated May 5, 1993.

This report is intended for the information of the management of the State of Pohnpei. However, this report is a matter of public record and its distribution is not limited.

May 5, 1993



Certified Public Accountants

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings
For the year ended September 30, 1992**

Prior Year Outstanding Findings

Finding No. 1

Criteria: All prior years' findings reported in the Report on Internal Controls should be addressed and resolved with corrective action undertaken in a timely manner.

Condition: The following findings and recommendations remain unresolved from previous years' Report on Internal Controls.

<u>Finding No.</u>	<u>Description</u>	<u>Page No.</u>
Fiscal Year 1988		
13	Fixed Assets	15
Fiscal Year 1989		
9	Interest Assessment - PSHA	11
10	Loan Subsidiary ledger - PSHA	12
Fiscal Year 1990		
5	Expenditures - Petty Cash	106
14	Disbursement	111
16	Fixed Assets	112
18	Automated System	113
26	Contract Regulations	119
Fiscal Year 1991		
2	Data Processing	101
3	Compact Expenditures	102
5	Accounts Payable	103
8	Accounts Receivable	105
9	Uncollected Receivables	105

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, continued
For the year ended September 30, 1992

Finding No. 1, continued

Cause: Unknown

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

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

Auditee Response: The State is in agreement with the above finding.

Corrective Action: The State will attempt to have the findings resolved by September 30, 1993.

Disbursement Controls

Finding No. 2

Criteria: Controls should be in place over authorized use of blanket purchase orders and the invoices provided should foot to the amount paid, otherwise explanations/ reconciliations should be present.

Condition: The control of having gas stations record the automobile's license plate number on the receipt for petroleum, oil, and lubricant blanket purchase orders is not being carried out consistently. Invoices supporting check number 58858 did not foot to the amount paid by an immaterial variance.

Cause: Lack of enforcement of the license plate control and incomplete review of the invoices filed has occurred.

Effect: None material.

Recommendation: We recommend that the gas stations be reminded to enforce the license control and be informed that improperly submitted invoices will cause further delays in payment or possibly no payment. The invoices submitted should be footed by the user department and be reviewed by State Finance.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, continued
For the year ended September 30, 1992

Disbursement Control, continued

Finding No. 2, continued

Auditee Response: The State does not agree with the above as each department assigns certain personnel who are authorized to charge gasoline. But, the State will ensure that all invoices are properly filed prior to effecting payment.

Corrective Action: See Auditee Response.

Finding No. 3

Criteria: Disbursements should be properly supported and budgets should not be exceeded.

Condition: We noted that for check number 57263, classified in org. 1470, account number 8450, it appears that the invoices provided do not foot to the miscellaneous request for payment form amount, and that the budgetary amount was exceeded.

Cause: Unknown.

Effect: Unbudgeted expenditures and an incomplete audit trail for the transactions in question results.

Recommendation: We recommend that expenditures that exceed budget not be allowed unless documentation authorizing the over spending is obtained. The documentation should always be reviewed by the finance department for mathematical accuracy.

Auditee Response: The State agrees with the above finding.

Corrective Action: The State has established a policy for the EDP department to perform daily updates of transactions rather than weekly. This should enable finance to better track funds.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, continued
For the year ended September 30, 1992

Disbursement Control, Continued

Finding No. 4

Criteria: Supporting documentation for disbursements should be complete and easily accessible.

Condition: For off-island vendors, the purchase order is filed in a separate purchase order file and the purchase request is retained with the supply division.

Cause: The original purchase order is not returned by off-island vendors, as is required by local vendors.

Effect: The effect of this finding is more time involved in locating a complete audit trail for transactions involving off-island vendors.

Recommendation: We recommend that copies of the purchase order and purchase requisition be filed behind the check copy to completely document the authorization and accounting classification in one place.

Auditee Response: The State agrees with the above finding.

Corrective Action: The State will implement procedures to ensure that a copy of the purchase order is filed with the invoices.

Finding No. 5

Criteria: There should be a method for tracking unpaid invoices which come in with fully utilized purchase orders, especially blanket purchase orders.

Condition: We noted that there were unpaid invoices related to blanket purchase orders for petroleum, oil, and lubricants that did not appear to be tracked.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, continued
For the year ended September 30, 1992

Disbursement Control, continued

Finding No. 5, continued

Cause: It appears that some vendors have applied their invoices differently than Pohnpei State to the blanket purchase orders, and no reconciliation has been performed between the two.

Effect: The effect is a possible understatement of liabilities.

Recommendation: We recommend that a log of paid, unpaid, and partially paid invoices be maintained on the blanket purchase orders and that reconciliations with the vendor be prepared when discrepancies come into existence.

Auditee Response: See corrective action.

Corrective Action: Overall we feel our present tracking is adequate due to subsequent Blanket Purchase Orders, however, in the case where there is no subsequent purchase order, we will track these unpaid invoices in order to not understate accounts payable.

Finding No. 6

Criteria: Control over void checks should be such that amounts are not reversed twice.

Condition: Check number 56693 was voided, however it was reversed twice from the general ledger.

Cause: Two employees have authority to post a void to the system and both posted this check.

Effect: An immaterial understatement of expenditures occurred.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, continued
For the year ended September 30, 1992

Disbursement Control, Continued

Finding No. 6, continued

Recommendation: We recommend that only one person be responsible for inputting voided checks to significantly reduce the chance of a double posting as noted above. If the designated employee has an extended absence, their voiding duties should be delegated to one other employee.

Auditee Response: The State agrees with the above finding.

Corrective Action: Currently, only the bank reconciliation clerk is responsible for inputting of any cancelled or void checks.

Finding No. 7

Criteria: The correct transaction date should be used when posting transactions to the DILOG system instead of the date of input.

Condition: The input date was input for both the transaction date and input date.

Cause: Unknown.

Effect: The effect of this finding is that the proper audit trail was more difficult to locate.

Recommendation: We recommend that the correct transaction dates be input in the system when posting transactions.

Auditee Response: The State agrees with the above finding.

Corrective Action: We will communicate with finance staff to ensure that proper transaction and input dates are posted into the system.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, continued
For the year ended September 30, 1992

Payroll

Finding No. 8

Criteria: Payroll should be posted to the general ledger on a timely basis.

Condition: Pay period number 26, the last pay period in calendar year 1991 (fiscal year 1992) was not posted to the general ledger until July 1992.

Cause: Unknown.

Effect: The effect is inaccurate interim financial information until the transactions are properly posted.

Recommendation: Payroll register totals should be posted to the general ledger on a timely basis.

Auditee Response: The said payroll was lost during payroll interface due to a system failure. The said payroll was immediately posted when noted.

Corrective Action: Currently payroll transactions are immediately posted to the general ledger accounts as soon as each payroll is completed.

Finding No. 9

Criteria: The payroll schedule pay date should agree with the actual pay date.

Condition: The payroll schedule pay date indicates that State employees are paid every other Friday, when in fact checks are released on every other Wednesday.

Cause: Unknown.

Effect: None.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, continued
For the year ended September 30, 1992

Payroll, continued

Finding No. 9, continued

Recommendation: We recommend that the schedule be updated to reflect the reality of the situation.

Auditee Response: The pay date was usually on Friday of every other week and was moved to Wednesday.

Corrective Action: The payroll schedule of calendar year 1994 reflect Wednesday as a pay date.

Cut-Off/Cash

Finding No. 10

Criteria: Stale dated checks (greater than 6 months old) should be investigated and then properly adjusted.

Condition: Numerous stale dated checks were listed in the outstanding checklist and were physically held as of September 30, 1992 in the safe.

Cause: This appears to be due to a lack of timely follow-up on these checks before they became stale dated.

Effect: The effect is a possible immaterial misstatement of cash.

Recommendation: We recommend that these stale dated checks be investigated and then, if necessary, adjusted to cash.

Auditee Response: The State agrees with the above finding.

Corrective Action: The bank reconciliation clerk will be instructed to ensure proper accounting of stale dated checks.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, continued
For the year ended September 30, 1992

Treasury Fund

Finding No. 11

Criteria: No unidentified account or "Cash 100" account should be found in the Treasury Fund.

Condition: There was a material unidentified account balance in the Treasury Fund as of September 30, 1992, as well as an immaterial balance in the "Cash 100" account.

Cause: Unknown.

Effect: No effect on the financial statements occurred as these amounts offset with a similar unidentified balance in the payroll clearing account.

Recommendation: If an unidentified account should appear again, its origins should be immediately determined and corrective action taken.

Auditee Response: The State agrees with the above finding.

Corrective Action: We will investigate the source of the error message and attempt to correct it by September 30, 1993.

Advance Payments

Finding No. 12

Criteria: Advance payments should be tracked to ensure that goods and invoices are received.

Condition: The invoice related to advance payment check number 62212 was with the supply division and not filed behind the check copy. There did not appear to be a log of advance payments to allow follow-up on proper completion of the transaction.

Cause: Unknown.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, continued
For the year ended September 30, 1992

Finding No. 12, continued

Effect: A possible misstatement of federal reimbursement funds and incomplete documentation.

Recommendation: A log of advance payments should be maintained and an employee should be responsible for coordinating with the Supply division and the vendor to ensure that all goods or services are properly obtained.

Auditee Response: The State agrees with the above finding.

Corrective Action: The State will implement procedures to ensure proper follow up on advance payments and filing of related invoices.