

**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, 1993

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
FOR THE YEAR ENDED SEPTEMBER 30, 1993**

INDEX

	<u>Page No.</u>
INDEPENDENT AUDITORS' REPORT ON GENERAL PURPOSE FINANCIAL STATEMENTS	1 - 58
SINGLE AUDIT REPORTS	59 - 114
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL STRUCTURE	115 - 137

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

YEAR ENDED SEPTEMBER 30, 1993

TABLE OF CONTENTS

	<u>Page No.</u>
I. Independent Auditors' Report	1
II. General Purpose Financial Statements:	
Combined Balance Sheet - All Fund Types and Account Groups	3
Combined Statement of Revenues, Expenditures and Changes in Fund Balance - All Governmental Fund Types and Expendable Trust Fund	5
Statement of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual, Budgetary Basis - General Fund	6
Combined Statement of Revenues, Expenses and Changes in Fund Equity - All Proprietary Fund Types	7
Combined Statement of Cash Flows - All Proprietary Fund Types	8
Notes to Combined Financial Statements	9
III. Additional Information	
Independent Auditors' Report on Additional Information	33
Combining Statement of Expenditures by Account - All Governmental Fund Types and Expendable Trust Fund	34
General Fund:	
Introduction to the General Fund	35
Comparative Balance Sheet - General Fund	36
Comparative Statement of Revenues, Expenditures by Account and Changes in Fund Balance - General Fund	37
Comparative Statement of Revenues, Expenditures by Function and Department and Changes in Fund Balance - General Fund	38

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

YEAR ENDED SEPTEMBER 30, 1993

TABLE OF CONTENTS
(CONTINUED)

	<u>Page No.</u>
III. Additional Information, Continued	
Special Revenue Funds:	
Introduction to the Special Revenue Funds	41
Combining Balance Sheet	43
Combining Statement of Revenues, Expenditures by Function and Changes in Fund Balance (Deficit)	44
Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balance (Deficit)	45
Capital Projects Funds:	
Introduction to the Capital Projects Funds	46
Combining Balance Sheet	47
Combining Statement of Revenues, Expenditures by Function and Changes in Fund Balance	48
Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balance	49
Enterprise Funds:	
Introduction to the Enterprise Funds	50
Combining Balance Sheet	51
Combining Statement of Revenues, Expenses and Changes in Fund Equity (Deficiency)	52
Combining Statement of Cash Flows	53
Expendable Trust Fund:	
Introduction to the Expendable Trust Fund	55
Combining Balance Sheet	56
Combining Statement of Revenues, Expenditures by Function and Changes in Fund Balance	57
Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balance	58
IV. Single Audit Reports	
Independent Auditors' Report on Compliance Based on an Audit of the General Purpose Financial Statements	60

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

YEAR ENDED SEPTEMBER 30, 1993

TABLE OF CONTENTS
(CONTINUED)

	<u>Page No.</u>
IV. Single Audit Reports, Continued	
Independent Auditors' Report on Compliance with Specific Requirements Applicable to Major Federal Financial Assistance Programs	62
Independent Auditors' Report on Compliance with the General Requirements Applicable to Federal Financial Assistance	64
Independent Auditors' Report on Compliance with Specific Requirements Applicable to Nonmajor Federal Financial Assistance Program Transactions	66
Independent Auditors' Report on the Internal Control Structure Used in Administering Federal Financial Assistance	68
Independent Auditors' Report on the Supplementary Schedule of Federal Financial Assistance	72
Introduction to Compact of Free Association Funding, Federal and Other Assistance Funds	74
Schedule of Federal Financial Assistance:	
U.S. Federal Assistance Fund	77
Other Federal and Direct Assistance Fund	80
CFSM Projects Fund	81
Pohnpei Utilities Corporation	82
Pohnpei State Housing Authority	83
TTPI Capital Projects Fund	84
Compact of Free Association Special Block Grant Fund - Section 221(B)	85
Compact of Free Association Other Grants Fund	86
Compact of Free Association Capital Projects Fund - Section 211(A)	87
Compact of Free Association General Fund - Section 211(A)	89
Notes to Schedule of Federal Financial Assistance	90
Schedule of Programs Selected for Audit in Accordance with OMB Circular A-128	92

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

YEAR ENDED SEPTEMBER 30, 1993

TABLE OF CONTENTS
(CONTINUED)

SINGLE AUDIT REPORTS

	Page No.
IV. Single Audit Reports, Continued	
Schedule of Findings and Questioned Costs	93
Resolution of Prior Years' Questioned Costs	114
V. Internal Control Structure	115
Independent Auditors' Report on Internal Control Structure Based on the Audit of the Financial Statements	116
Schedule of Internal Control Findings	119

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
INDEPENDENT AUDITORS' REPORT AND
GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 1993**

**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, 1993, 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.

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

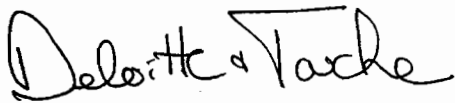
The Pohnpei Economic Development Authority (EDA), a Proprietary Fund Type-Enterprise Fund, does not have reasonable valuation data to support the carrying value of its fishing vessels and has not recorded the original cost of five additional fishing vessels and certain cold storage facilities contributed by the State. EDA's carrying value of fixed assets comprise approximately 5% of the Proprietary Fund Type-Enterprise Funds fixed assets as of September 30, 1993.

The State has not adequately updated its General Fixed Assets Account Group during the year ended September 30, 1993, nor were we able to apply sufficient alternative procedures to assure ourselves as to the correctness of the balances set forth in the accompanying general purpose financial statements. Accordingly, a statement of changes in general fixed assets has not been included within the accompanying general purpose financial statements.

In our opinion, 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 Pohnpei Economic Development Authority fixed assets, and except for the General Fixed Assets Account Group upon which we are unable to express an opinion because of the matter specified in the preceding paragraph, 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, 1993, 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, \$2,404,217 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.

March 16, 1994



Certified Public Accountants

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Combined Balance Sheet – All Fund Types and Account Groups
September 30, 1993
(With comparative totals as of September 30, 1992)**

	Governmental Fund Types			Proprietary Funds		Fiduciary	Account Groups		Totals	
	General Fund	Special Revenue Funds	Capital Projects Funds	Enterprise Funds	Internal Service Fund	Expendable Trust Funds	General Fixed Assets	General Long-Term Debt	(Memorandum Only)	
									1993	1992
Assets										
Cash and equivalents (Notes 1 & 2)	\$ 742,217	\$ 456,740	\$ 3,498,241	\$ 163,644	\$ -	\$ -	\$ -	\$ -	\$ 4,860,842	\$ 7,210,762
Cash – restricted (Note 2 & 10)	-	-	3,678,503	-	-	-	-	-	3,678,503	527,912
Investments (Notes 2 & 7)	3,641,660	194,953	2,583,002	-	-	-	-	-	6,419,615	10,132,279
Investments – other (Note 7)	17,348	-	350,000	500,000	-	-	-	-	867,348	501,670
Receivables from other governments (Note 3)	75,941	2,672,365	328,720	-	-	-	-	-	3,077,026	1,902,099
Receivables, federal agencies (Note 3)	-	1,304,163	-	-	-	-	-	-	1,304,163	2,335,885
General receivables, net (Note 4)	70,084	42,078	-	782,729	-	1,851	-	-	896,742	1,188,206
Advances (Note 4)	114,140	185,215	38,462	45,939	-	10,676	-	-	394,432	260,025
Loans receivable, net (Note 8)	-	-	404,003	3,242,098	-	-	-	-	3,646,101	2,753,404
Due from other funds (Note 15)	4,496,177	437,940	38,042	52,580	-	52,989	-	-	5,077,728	5,411,054
Inventory, at cost (Notes 1 & 6)	-	5,884	-	75,003	36,149	-	-	-	117,036	228,587
Self-insurance fund (Note 18)	-	-	-	50,000	-	-	-	-	50,000	-
Investment in fixed assets (Notes 1 & 5)	-	-	-	22,594,287	-	-	49,323,802	-	71,918,089	68,676,637
Amount to be provided for retirement of long-term debt	-	-	-	-	-	-	-	20,498,644	20,498,644	17,399,806
Total assets	\$ 9,157,567	\$ 5,299,338	\$ 10,918,973	\$ 27,506,280	\$ 36,149	\$ 65,516	\$ 49,323,802	\$ 20,498,644	\$ 122,806,269	\$ 118,528,326

See accompanying notes to combined financial statements.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Combined Balance Sheet – All Fund Types and Account Groups
September 30, 1993
(With comparative totals as of September 30, 1992)

	Governmental Fund Types			Proprietary Funds		Fiduciary	Account Groups		Totals	
	General Fund	Special Revenue Funds	Capital Projects Funds	Enterprise Funds	Internal Service Fund	Expendable Trust Funds	General Fixed Assets	General Long-Term Debt	(Memorandum Only)	
									1993	1992
Liabilities and Fund Equity										
Liabilities:										
Accounts payable	\$ 206,322	\$ 161,240	\$ 182,944	\$ 742,126	\$ -	\$ 4,939	\$ -	\$ -	\$ 1,297,571	\$ 2,253,404
Accrued payroll and others	455,241	151,560	21,065	211,262	-	3,646	-	-	842,774	723,632
Due to other funds (note 15)	-	4,203,971	328,209	535,625	9,923	-	-	-	5,077,728	5,411,054
Deferred revenues	-	18,670	-	31,328	-	-	-	-	49,998	43,089
Long-term notes payable (Notes 1 & 14)	-	-	-	804,003	-	-	-	19,300,000	20,104,003	16,300,000
Vacation leave accrual	-	-	-	-	-	-	-	1,198,644	1,198,644	1,099,806
Total liabilities	661,563	4,535,441	532,218	2,324,344	9,923	8,585	-	20,498,644	28,570,718	25,830,985
Contingencies and Commitments (Note 10)										
Fund equity:										
Investment in general fixed assets	-	-	-	-	-	-	49,323,802	-	49,323,802	49,323,802
Retained earnings (deficit)	-	-	-	(3,011,440)	-	-	-	-	(3,011,440)	(2,975,061)
Contributed capital	-	-	-	28,193,376	-	-	-	-	28,193,376	25,267,088
Fund balances:										
Reserved for:										
Diminution of investments (Note 2)	-	-	-	-	-	-	-	-	-	51,114
Related assets	114,140	1,013,196	792,465	-	36,149	12,527	-	-	1,968,477	955,494
Encumbrances	589,780	1,052,410	3,143,885	-	-	3,347	-	-	4,789,422	8,422,583
Continuing appropriations (Note 16)	266,006	-	7,687,989	-	-	-	-	-	7,953,995	4,661,205
Unreserved (deficit)	7,526,078	(1,301,709)	(1,237,584)	-	(9,923)	41,057	-	-	5,017,919	6,991,116
Total fund equity	8,496,004	763,897	10,386,755	25,181,936	26,226	56,931	49,323,802	-	94,235,551	92,697,341
Total liabilities and fund equity	\$ 9,157,567	\$ 5,299,338	\$ 10,918,973	\$ 27,506,280	\$ 36,149	\$ 65,516	\$ 49,323,802	\$ 20,498,644	\$ 122,806,269	\$ 118,528,326

See accompanying notes to combined financial statements.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Combined Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Fund Types and Expendable Trust Fund
Year Ended September 30, 1993
(With comparative totals for the year ended September 30, 1992)

	Governmental Fund Types			Fiduciary Fund Type	Totals (Memorandum Only)	
	General Fund	Special Revenue Funds	Capital Projects Funds	Expendable Trust Fund	1993	1992
Revenues:						
Compact of Free Association:						
Base grant	\$ 7,206,300	\$ 3,247,782	\$ 5,191,800	\$ -	\$ 15,645,882	\$ 15,933,886
Inflation adjustment	2,954,583	410,000	2,128,638	-	5,493,221	5,091,278
Department of the Interior grants	-	-	456,165	-	456,165	52,388
Revenue sharing	3,811,847	-	-	-	3,811,847	3,008,754
Federal contributions	-	2,702,772	-	-	2,702,772	2,973,824
Taxes and licenses	1,045,530	-	-	-	1,045,530	1,191,244
Fines and penalties	307,633	-	-	-	307,633	28,829
Investment income (Note 2)	1,162,437	-	-	-	1,162,437	1,321,906
Other	695,550	1,158,926	10,000	14	1,864,490	2,018,344
Total revenues	17,183,880	7,519,480	7,786,603	14	32,489,977	31,620,453
Expenditures:						
General government	4,905,147	760,216	-	139,433	5,804,796	5,493,926
Education	2,900,976	4,599,677	-	-	7,500,653	5,802,750
Health services	3,787,502	949,586	-	-	4,737,088	4,172,718
Resources and development	727,108	609,789	-	-	1,336,897	1,150,235
Public works	657,202	175,535	-	-	832,737	863,941
Transportation	-	-	-	-	-	506,679
Public safety	1,072,182	-	-	-	1,072,182	1,068,272
Commerce and industry	75,749	-	-	-	75,749	-
Boards, commissions and others appropriations	322,235	-	-	-	322,235	326,640
Capital projects	-	-	7,266,533	-	7,266,533	6,105,815
Municipal governments	1,107,099	-	-	-	1,107,099	1,158,990
Other	160,610	1,031,428	-	-	1,192,038	5,842,475
Total program expenditures	15,715,810	8,126,231	7,266,533	139,433	31,248,007	32,492,441
Revenues over (under) expenditures	1,468,070	(606,751)	520,070	(139,419)	1,241,970	(871,988)
Other sources (uses):						
Proceeds from notes payable (Note 14)	-	-	4,000,000	-	4,000,000	-
Repayment of note payable	-	-	(1,000,000)	-	(1,000,000)	(2,550,000)
Interest expense	-	-	(1,542,743)	-	(1,542,743)	(1,627,845)
Other income	-	-	28,334	-	28,334	398,656
Operating transfers out (Note 9)	(291,708)	(819,594)	(2,835,547)	-	(3,946,849)	(4,361,704)
Total other sources (uses)	(291,708)	(819,594)	(1,349,956)	-	(2,461,258)	(8,140,893)
Excess (deficiency) of revenues and other sources over expenditures and other uses	1,176,362	(1,426,345)	(829,886)	(139,419)	(1,219,288)	(9,012,881)
Fund balances, beginning of year	7,319,642	2,190,242	11,216,641	196,350	20,922,875	30,048,245
Fund balances, end of year	\$ 8,496,004	\$ 763,897	\$ 10,386,755	\$ 56,931	\$ 19,703,587	\$ 21,035,364

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
Year Ended September 30, 1993

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Compact – current	\$ 9,944,694	\$ 10,160,883	\$ 216,189
Local revenues	5,230,810	5,860,560	629,750
Investment income	1,229,978	1,162,437	(67,541)
Total revenues	<u>16,405,482</u>	<u>17,183,880</u>	<u>778,398</u>
Expenditures:			
General government	5,101,466	4,971,757	129,709
Health services	3,782,745	3,887,059	(104,314)
Education	3,036,467	2,889,437	147,030
Justice	1,123,122	1,168,587	(45,465)
Commerce and industry	113,310	75,847	37,463
Public works	635,567	642,230	(6,663)
Conservation and resources	808,717	727,452	81,265
Boards, commissions and other external appropriations	332,904	327,553	5,351
Municipal governments and projects	1,123,108	1,107,657	15,451
Other	–	157,297	(157,297)
Total expenditures, budgetary basis	<u>16,057,406</u>	<u>15,954,876</u>	<u>102,530</u>
Excess of revenues over expenditures	<u>348,076</u>	<u>1,229,004</u>	<u>880,928</u>
Other uses:			
Operating transfers out	(323,369)	(300,295)	23,074
Total other uses	<u>(323,369)</u>	<u>(300,295)</u>	<u>23,074</u>
Excess of revenues over expenditures and other uses	24,707	928,709	904,002
Unreserved fund balance, beginning of year	6,164,134	6,164,134	–
Other changes in unreserved fund balance:			
Decrease in reserve of diminution in investments	–	51,114	51,114
Decrease in reserve for related assets	–	190,788	190,788
(Increase) in reserve for continuing appropriations	–	(7,132)	(7,132)
Net encumbrance adjustments	–	198,465	198,465
Unreserved fund balance, end of year	<u>\$ 6,188,841</u>	<u>\$ 7,526,078</u>	<u>\$ 1,337,237</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 – All Proprietary Fund Types
Year Ended September 30, 1993
(With comparative totals for the year ended September 30, 1992)

	Proprietary Fund Types		Totals	
	Enterprise Funds	Internal Service Fund	(Memorandum Only)	
			1993	1992
Revenues:				
Charges for services	\$ 4,993,981	\$ 22,273	\$ 5,016,254	\$ 2,725,861
Rental income	111,073	-	111,073	-
Other	48,376	-	48,376	33,614
Total revenues	<u>5,153,430</u>	<u>22,273</u>	<u>5,175,703</u>	<u>2,759,475</u>
Operating expenses:				
Personnel services	1,912,863	-	1,912,863	1,162,187
Travel	128,810	-	128,810	51,458
Supplies and materials	128,852	21,561	150,413	48,958
Fuel	2,166,829	-	2,166,829	2,140,814
Contractual services	2,345,338	-	2,345,338	2,226,827
Depreciation	1,286,730	-	1,286,730	987,068
Other	2,252,841	20,634	2,273,475	1,102,402
Total operating expenses	<u>10,222,263</u>	<u>42,195</u>	<u>10,264,458</u>	<u>7,719,714</u>
Operating loss	<u>(5,068,833)</u>	<u>(19,922)</u>	<u>(5,088,755)</u>	<u>(4,960,239)</u>
Non-operating revenues (expenses):				
Operating transfers in (Note 9)	3,946,849	-	3,946,849	4,361,704
Equity loss on investment (Note 7)	(134,322)	-	(134,322)	(595,901)
Others	52,739	-	52,739	79,988
Total non-operating revenues (expenses), net	<u>3,865,266</u>	<u>-</u>	<u>3,865,266</u>	<u>3,845,791</u>
Net loss	<u>(1,203,567)</u>	<u>(19,922)</u>	<u>(1,223,489)</u>	<u>(1,114,448)</u>
Add depreciation on fixed assets acquired by capital contributions that reduce contributed capital	<u>1,090,457</u>	<u>-</u>	<u>1,090,457</u>	<u>859,941</u>
Decrease in retained earnings	<u>(113,110)</u>	<u>(19,922)</u>	<u>(133,032)</u>	<u>(254,507)</u>
Retained earnings (deficit), beginning of year	<u>(2,862,570)</u>	<u>46,148</u>	<u>(2,816,422)</u>	<u>(2,686,031)</u>
Prior period adjustments	<u>(35,760)</u>	<u>-</u>	<u>(35,760)</u>	<u>11,625</u>
Retained earnings (deficit), end of year	<u>\$ (3,011,440)</u>	<u>\$ 26,226</u>	<u>\$ (2,985,214)</u>	<u>\$ (2,928,913)</u>
Contributed capital, beginning of year	<u>\$ 25,267,088</u>	<u>\$ -</u>	<u>\$ 25,267,088</u>	<u>\$ 6,770,943</u>
Less opening balance adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,947</u>
Additions for the year, net (Note 12)	<u>2,926,288</u>	<u>-</u>	<u>2,926,288</u>	<u>18,489,198</u>
Contributed capital, end of year	<u>\$ 28,193,376</u>	<u>\$ -</u>	<u>\$ 28,193,376</u>	<u>\$ 25,267,088</u>
Fund equity, end of year	<u>\$ 25,181,936</u>	<u>\$ 26,226</u>	<u>\$ 25,208,162</u>	<u>\$ 22,338,175</u>

See accompanying notes to combined financial statements.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Combined Statement of Cash Flows
All Proprietary Fund Types

Year Ended September 30, 1993

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

	Proprietary Fund Types		Totals	
	Enterprise	Internal	(Memorandum Only)	
	Funds	Service Fund	1993	1992
Increase (Decrease) In Cash And Equivalents:				
Operating activities:				
Operating loss	\$ (5,068,833)	\$ (19,922)	\$ (5,088,755)	\$ (4,960,239)
Add back items not affecting cash:				
Depreciation	1,286,730	-	1,286,730	987,068
Prior period adjustment	-	-	-	30,573
Doubtful debt expense	353,199	-	353,199	-
	<u>(3,428,904)</u>	<u>(19,922)</u>	<u>(3,448,826)</u>	<u>(3,942,598)</u>
Changes in working capital sources (uses):				
Advances	(35,964)	-	(35,964)	(6,600)
Inventory	109,123	2,979	112,102	203,803
General receivables, gross	108,368	-	108,368	(783,479)
Loans receivable, gross	(820,068)	-	(820,068)	(517,146)
Due from other funds	62,598	9,810	72,408	(29,248)
Accounts payable	184,122	(2,790)	181,332	391,372
Accrued liabilities	69,709	-	69,709	58,929
Deferred revenue	31,328	-	31,328	(34,630)
Prepaid expenses	-	-	-	3,416
Due to other funds	(112,843)	9,923	(102,920)	167,737
	<u>(403,627)</u>	<u>19,922</u>	<u>(383,705)</u>	<u>(545,846)</u>
Cash used by operating activities	<u>(3,832,531)</u>	<u>-</u>	<u>(3,832,531)</u>	<u>(4,488,444)</u>
Cash flows from noncapital financing activities:				
Proceeds from notes payable	979,003	-	979,003	-
Repayments of notes payable	(196,722)	-	(196,722)	-
Contributed capital for loans	564,366	-	564,366	557,847
Operating grants	3,931,326	-	3,931,326	4,436,583
Other noncapital related financing activities	(67,498)	-	(67,498)	26,831
Net cash provided by noncapital financing activities	<u>5,210,475</u>	<u>-</u>	<u>5,210,475</u>	<u>5,021,261</u>
Cash flows from capital and related financing activities:				
Acquisition of fixed assets	(1,525,803)	-	(1,525,803)	(225,840)
Other capital related activities	-	-	-	(50,924)
Net cash used by capital and related financing activities	<u>(1,525,803)</u>	<u>-</u>	<u>(1,525,803)</u>	<u>(276,764)</u>
Cash flows from investing activities:				
Contribution for investment	500,000	-	500,000	-
Payment for investment	(500,000)	-	(500,000)	-
Net cash used from investing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and equivalents	<u>(147,859)</u>	<u>-</u>	<u>(147,859)</u>	<u>256,053</u>
Cash and equivalents, beginning of year	<u>311,503</u>	<u>-</u>	<u>311,503</u>	<u>55,450</u>
Cash and equivalents, end of year	<u>\$ 163,644</u>	<u>\$ -</u>	<u>\$ 163,644</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, 1993

(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, 1993

(1) SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

- Pohnpei Transportation Authority
- Pohnpei Utilities Corporation
- Pohnpei Port Authority
- Pohnpei Fisheries 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, 1993

(1) SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

B. Fund Structure and Basis of Accounting, 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, 1993, 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, 1993

(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, 1993**

(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 40 years. Fixed assets for Enterprise Funds as of September 30, 1993, are as follows:

	<u>Pohnpei Fisheries Corporation</u>	<u>Pohnpei Port Authority</u>	<u>Pohnpei Utilities Corporation</u>	<u>Pohnpei Economic Development Authority</u>	<u>Pohnpei State Housing Authority</u>	<u>Total</u>
Production plant	\$ -	\$ -	\$15,839,745	\$ -	\$ -	\$15,839,745
Distribution plant	-	-	6,975,129	-	-	6,975,129
General plant	-	-	365,778	-	-	365,778
Building	15,000	-	-	12,833	11,546	39,379
Fishing vessels	-	-	-	1,352,300	-	1,352,300
Vehicles	-	-	260,922	30,821	-	291,743
Furniture, fixtures and office equipment	12,575	20,226	-	58,439	-	91,240
Other assets	-	-	-	204,511	53,936	258,447
Less accumulated depreciation	-	-	(2,050,365)	(563,321)	(30,875)	(2,644,561)
	27,575	20,226	21,391,209	1,095,583	34,607	22,569,200
Construction in progress	-	-	25,087	-	-	25,087
Total fixed assets, net	<u>\$ 27,575</u>	<u>\$ 20,226</u>	<u>\$21,416,296</u>	<u>\$1,095,583</u>	<u>\$ 34,607</u>	<u>\$22,594,287</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, 1993

(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, 1993

(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 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, 1993

(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.

M. Investments

Investments are generally recorded at the lower of cost or market. Investments in the equity of companies are carried at cost if less than twenty percent of the companies' total equity, on the equity method if greater than twenty percent and less than fifty percent, and on a consolidated basis if greater than fifty percent. (See Notes 2 and 7)

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
NOTES TO COMBINED FINANCIAL STATEMENTS, CONTINUED
SEPTEMBER 30, 1993

(2) CASH AND EQUIVALENTS AND INVESTMENTS

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

The Federated Development Authority has selected investment managers who are given authority to buy and sell securities as follows:

- A. Investment managers may invest in stocks, bonds and cash equivalents. Minimum standards of quality for investments at the time of purchase are:
1. Stocks - A "B" rating by a national rating service. Non-rated stocks such as banks or insurance companies must be equal in quality or higher.
 2. Bonds - Confined to issues rated "A" or higher by a national rating service, except in the case of U.S. Treasury or Agency Securities which are not rated.
 3. Cash equivalents - The manager may engage in all normally accepted short-term investment practices including, but not limited to: U.S. Treasury and Agency securities, bankers acceptances, certificates of deposit, commercial paper and repurchase agreements using any of the foregoing as collateral. The following restrictions apply:
 - a. Commercial paper must be rated A-1/P-1 or higher by Standard & Poors Corporation and Moodys Investor Services.
 - b. Certificates of deposit must be from FDIC insured banks or FSLIC insured savings and loan associations, both of which must have assets in excess of two billion dollars. Deposits in smaller institutions are acceptable, but must not exceed the amount of the insurance unless collateralized by U.S. Treasury Securities at 102%.

STATE OF POHNPEI
 FEDERATED STATES OF MICRONESIA
NOTES TO COMBINED FINANCIAL STATEMENTS, CONTINUED
SEPTEMBER 30, 1993

(2) CASH AND EQUIVALENTS AND INVESTMENTS, CONTINUED

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

Funds held with Hawaiian Trust Co. and invested on behalf of Pohnpei State as of September 30, 1993, are summarized below:

<u>Cash and Equivalents</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Cash management fund	\$ 4,311,668	\$ 4,311,668
	<u>4,311,668</u>	<u>4,311,668</u>
 <u>Investments</u>		
Pooled Investment Securities	<u>6,419,615</u>	<u>7,469,922</u>
Total	<u>\$10,731,283</u>	<u>\$11,781,590</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 was able to quantify an appropriate carrying value of the State's investment in Colorado Utility at \$211,428, as of September 30, 1992.

As of September 30, 1993, the \$51,114 was recovered and the reserve for diminution in market value was reversed.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
NOTES TO COMBINED FINANCIAL STATEMENTS, CONTINUED
SEPTEMBER 30, 1993

(2) CASH AND EQUIVALENTS AND INVESTMENTS, CONTINUED

D. The State's investment income for the year ended September 30, 1993, is summarized below:

Interest	\$ 613,140
Dividends	25,122
Realized gains	632,450
Realized losses	(9,594)
Management fees	(54,800)
Other expenses	<u>(43,881)</u>
	<u>\$1,162,437</u>

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

At September 30, 1993, 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	\$ 24,387
Cash on deposit with Hawaiian Trust Co.	<u>717,830</u>
Total General Fund cash and equivalents	<u>\$ 742,217</u>

Special Revenue Funds

Cash on deposit with Hawaiian Trust Co.	<u>\$ 456,740</u>
---	-------------------

Capital Project Funds

Cash on deposit with Hawaiian Trust Co.	\$ 4,381
Net bank balance in savings accounts with FDIC insured bank	<u>3,493,860</u>
Total Capital Projects Funds cash and equivalents	<u>\$3,498,241</u>

Enterprise Funds

Pohnpei Economic Development Authority (EDA):	
Cash in checking and savings accounts with a FDIC insured bank	\$ 47,832
Cash on hand	<u>868</u>
	<u>48,700</u>

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
NOTES TO COMBINED FINANCIAL STATEMENTS, CONTINUED
SEPTEMBER 30, 1993

(2) CASH AND EQUIVALENTS AND INVESTMENTS, CONTINUED

Enterprise Funds, Continued

Pohnpei State Housing Authority (PSHA):	
Cash in checking and savings accounts with FDIC insured banks	93,736
Cash on hand	<u>5,129</u>
	<u>98,865</u>
Pohnpei Utilities Corporation (PUC):	
Cash in checking and savings accounts with a FDIC insured bank	4,314
Cash on hand	<u>500</u>
	<u>4,814</u>
Pohnpei Fisheries Corporation (PFC):	
Cash in checking accounts with a FDIC insured bank	10,881
Cash on hand	<u>384</u>
	<u>11,265</u>
Total Enterprise Funds cash and equivalents	<u>\$ 163,644</u>

Cash - Restricted (Loan Guarantee Escrow Account): The Pohnpei State Legislature appropriated a total of \$500,000 through a continuing appropriation for the sole purpose of 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.

As of September 30, 1993, Pohnpei State had \$3,132,717 held on deposit with the Trustee. Pohnpei has committed the above funds for management of its MTN notes payable and for use for certain capital projects. The use of the above funds is restricted to the above mentioned causes. Consequently, such has been presented as restricted cash in the foregoing financial statements.

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

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
NOTES TO COMBINED FINANCIAL STATEMENTS, CONTINUED
SEPTEMBER 30, 1993**

(2) CASH AND EQUIVALENTS AND INVESTMENTS, CONTINUED

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

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

(4) GENERAL RECEIVABLES AND ADVANCES

A summary of General Fund receivables against which allowances for doubtful accounts have been recorded as of September 30, 1993, is presented below:

<u>General Receivables</u>	<u>Balance</u>	<u>Allowance</u>	<u>Net</u>
Delinquent taxes	\$ 250,176	\$ 250,176	\$ -
Miscellaneous	308,353	308,353	-
Interest receivable	<u>70,084</u>	<u>-</u>	<u>70,084</u>
	<u>\$ 628,613</u>	<u>\$ 558,529</u>	<u>\$ 70,084</u>

Various Enterprise Funds have general receivable balances aggregating \$1,063,452 with a \$280,723 allowance for doubtful accounts. Various Special Revenue Funds and the Expendable Trust Fund have general receivable balances aggregating \$42,078 and \$1,851, respectively. These balances are fully reserved for within the reserve for related assets component of the respective fund balances.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
NOTES TO COMBINED FINANCIAL STATEMENTS, CONTINUED
SEPTEMBER 30, 1993

(4) GENERAL RECEIVABLES AND ADVANCES, CONTINUED

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 \$36,148 as of September 30, 1993. The Pohnpei State Economic Development Authority, Pohnpei State Housing Authority, and Pohnpei Fisheries Corporation (Enterprise Funds) have \$55,469, \$18,223, and \$1,311, respectively of general merchandise, construction materials, and fishing and packing supplies on hand. The Agriculture Revolving fund (a Special Revenue Fund) had \$5,884 of agriculture production supplies on hand at September 30, 1993.

(6) CHANGES IN GENERAL FIXED ASSETS

A summary of changes in general fixed assets follows:

	Balance October 1, 1992	<u>Additions</u>	<u>Transfers</u>	Balance September 30, 1993
Building	\$10,055,450	\$ -	\$ -	\$10,055,450
Infrastructure	34,590,935	-	-	34,590,935
Equipment	<u>4,677,417</u>	<u>-</u>	<u>-</u>	<u>4,667,417</u>
	<u>\$49,323,802</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$49,323,802</u>

The State's investment in general fixed assets as of September 30, 1993, 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>

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
NOTES TO COMBINED FINANCIAL STATEMENTS, CONTINUED
SEPTEMBER 30, 1993

(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 unaudited financial statements for the CFC for the year ended September 30, 1993, reflected EDA's pro rata share of CFC's net loss as more than offsetting the carrying value of \$134,322.

Under the equity method of accounting, which has been adopted for EDA's investment in CFC, this 1993 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, 1992, \$1,865,678) of the investment as follows:

Carrying value, September 30, 1992	\$ 134,322
Less 1/3 equity share of 1993 operating loss	<u>(134,322)</u>
Carrying value, September 30, 1993	<u><u>\$ -</u></u>

During 1993, Pohnpei State Economic Development Authority (EDA), (an Enterprise Fund) invested \$500,000 in the Bank of the Federated States of Micronesia, which represents a 5.4% interest as of September 30, 1993.

Additionally, the State holds 33.2% 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.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
NOTES TO COMBINED FINANCIAL STATEMENTS, CONTINUED
SEPTEMBER 30, 1993

(8) LOANS RECEIVABLE - RELATED PARTY

As of September 30, 1993, two notes totaling \$4,750,000 were outstanding as loans receivable from the Caroline Fishing Corporation Inc., (CFC) (See also 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, 1993 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 1992, the \$4,750,000 was reserved for as a related asset in fund balance.

Under its enabling legislation, Public Law 3L-28-93, Pohnpei Fisheries Corporation (PFC) is to pay back all MTN funds (Refer Note 14) used in its operations. The drawdown of these funds for operations at September 30, 1993 is \$404,003 and is therefore classified as loans receivable. As this balance does not represent a currently appropriable amount as of September 30, 1993, it is reserved against fund balance as a related asset. As of September 30, 1993, the fisheries processing plant had not been officially transferred to PFC, and therefore the related loan receivable and asset on PFC's books has not yet been recorded.

The Pohnpei State Economic Development Authority has loans receivable of \$92,254 with an allowance of \$92,254 for doubtful accounts. The Pohnpei State Housing Authority (PSHA) has loans receivable of \$3,985,177 with an allowance of \$743,079 for doubtful accounts. 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, 1993**

(9) OPERATING TRANSFERS IN/OUT

Material operating transfers in/out for the year ended September 30, 1993, are as follows:

	<u>Transfers Out</u>	<u>Transfers In</u>
General Fund:		
Pohnpei State Transportation Authority	\$ 12,666	\$ -
Pohnpei Economic Development Authority	149,515	-
Pohnpei State Housing Authority	<u>129,527</u>	<u>-</u>
Total General Fund	<u>291,708</u>	<u>-</u>
Capital Projects Funds:		
Pohnpei Utilities Corporation	926,124	-
Pohnpei State Transportation Authority	<u>1,909,423</u>	<u>-</u>
Total CIP Fund	<u>2,835,547</u>	<u>-</u>
Special Revenue Funds:		
Pohnpei Utilities Corporation	739,788	-
Pohnpei Transportation Authority	<u>79,806</u>	<u>-</u>
Total Special Revenue Funds	<u>819,594</u>	<u>-</u>
Enterprise Funds:		
Pohnpei Utilities Corporation	-	1,665,912
Pohnpei State Transportation Authority	-	2,001,895
Pohnpei Economic Development Authority	-	149,515
Pohnpei State Housing Authority	<u>-</u>	<u>129,527</u>
Total Enterprise Funds	<u>-</u>	<u>3,946,849</u>
	<u>\$3,946,849</u>	<u>\$3,946,849</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, \$2,404,217 in questioned costs exist for the operation of fiscal year 1985 through 1993 grants, including \$21,909 relating to fiscal year 1993. 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, 1993

(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, 1993, was \$2,735,831.

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.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
NOTES TO COMBINED FINANCIAL STATEMENTS, CONTINUED
SEPTEMBER 30, 1993**

(10) CONTINGENCIES AND COMMITMENTS, CONTINUED

Litigation, Continued

The State Attorney of Pohnpei is of the opinion that the probable outcome of suits existing at September 30, 1993, is not predictable but could have a material impact on the accompanying financial statements. However, no provision for any losses that may be sustained as a result of the ultimate resolution of these matters has been made in the accompanying financial statements.

Compact Energy Funds Uses

During the fiscal year ended September 30, 1993, Pohnpei State expended \$500,000 of Compact Energy Fund (Section 214B) for payment of utility bills. The FSM Attorney General, in a statement dated June 16, 1994, was not able to provide a definite position as to the use of Energy Funds for payment of utility bills. The matter will be resolved through the U.S. Department of the Interior, the grantor agency. The ultimate outcome of this issue is not predictable at this time. Accordingly, no provision for a reserve of fund balance or a liability has been recorded in the accompanying general purpose financial statements. In the event that this expenditure is determined to be unallowable, the General Fund may bear responsibility for absorbing the amount disallowed.

(11) ENTERPRISE FUNDS

Segment Data

Selected financial data for material enterprise funds as of and for the year ended September 30, 1993, 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>\$22,074,071</u>	<u>\$ 5,374</u>	<u>\$ 1,749,158</u>	<u>\$3,483,880</u>
Total equity (deficit)	<u>\$21,016,037</u>	<u>\$ (577,414)</u>	<u>\$ 1,577,767</u>	<u>\$3,474,747</u>
Operating loss	<u>\$(1,952,904)</u>	<u>\$(1,913,333)</u>	<u>\$ (372,750)</u>	<u>\$(356,402)</u>
1993 net earnings (loss)	<u>\$ (336,005)</u>	<u>\$ 88,562</u>	<u>\$ (357,557)</u>	<u>\$ (176,875)</u>
1993 non-operating revenue, net	<u>\$ 1,616,899</u>	<u>\$ 2,001,895</u>	<u>\$ 15,193</u>	<u>\$ 179,527</u>
Revenues	<u>\$ 4,047,473</u>	<u>\$ 369,125</u>	<u>\$ 348,584</u>	<u>\$ 170,048</u>
Contributed capital	<u>\$19,843,273</u>	<u>\$ 322,427</u>	<u>\$ 4,294,541</u>	<u>\$3,733,135</u>
Depreciation	<u>\$ 1,179,512</u>	<u>\$ -</u>	<u>\$ 97,474</u>	<u>\$ 9,744</u>
Retained earnings (deficit)	<u>\$ 1,172,764</u>	<u>\$ (899,841)</u>	<u>\$(2,716,774)</u>	<u>\$ (258,388)</u>
Operating transfers	<u>\$ 1,665,912</u>	<u>\$ 2,001,895</u>	<u>\$ 149,515</u>	<u>\$ 129,527</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
NOTES TO COMBINED FINANCIAL STATEMENTS, CONTINUED
SEPTEMBER 30, 1993**

(12) CONTRIBUTED CAPITAL - ENTERPRISE FUNDS

During the year ended September 30, 1993, contributed capital increased by the following amounts:

	<u>Pohnpei Utilities Corporation</u>	<u>Pohnpei Economic Development Authority</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 from the State to invest in the Bank of the FSM	-	500,000	-	500,000
Contribution of Pohnpei State fixed assets, net of depreciation recovery	1,911,922	-	11,600	1,923,522
Contribution from the State's general fund for the unexpended balance of PSHA's FY93 budget	<u>-</u>	<u>-</u>	<u>2,766</u>	<u>2,766</u>
Total contributed capital received	<u>\$1,911,922</u>	<u>\$500,000</u>	<u>\$514,366</u>	<u>\$2,926,288</u>

(13) MATERIAL FUND DEFICITS

The following presents material fund deficits as of September 30, 1993. 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 Federal and Direct Assistance Fund	67,437
CFSM Project Fund	<u>37,783</u>
	<u>\$ 266,799</u>

Enterprise Funds (Deficit Retained Earnings)

Pohnpei Fisheries Corporation	\$ 375,632
Pohnpei Transportation Authority	899,841
Pohnpei Economic Development Authority	2,716,774
Pohnpei State Housing Authority	<u>258,388</u>
	<u>\$4,250,635</u>

These deficit retained earnings are offset by contributed capital of \$322,427 (Pohnpei Transportation Authority), \$4,294,541 (Pohnpei Economic Development Authority) and \$3,733,135 (Pohnpei State Housing Authority).

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
NOTES TO COMBINED FINANCIAL STATEMENTS, CONTINUED
SEPTEMBER 30, 1993**

(14) NOTES PAYABLE

As of September 30, 1993, Pohnpei State undertook four separate issues of notes payable under the Medium Term Note (MTN) program entered into by the FSM National Government on behalf of itself and the four FSM states.

On April 26, 1990, the first issue of \$5,100,000 was made to assist in financing the construction of a Fish Processing Plant by Pohnpei State. The borrowing consists of one note for \$5,100,000 maturing on October 15, 1995. Interest is payable semi-annually, commencing on October 15, 1990, at a fixed rate of 9.57% per annum. Total interest paid on this \$5,100,000 note at maturity will be \$2,669,472.

The second issue occurred on July 17, 1990, for a total of \$9,550,000 which was made to finance Pohnpei State's \$2,000,000 equity investment in and a \$7,500,000 loan to a fishing joint venture, the Caroline Fishing Corp. Inc. (CFC).

The outstanding balance of these notes payable as of September 30, 1993 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>
10/15/93	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>\$5,000,000</u>	<u>\$2,448,240</u>

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

The third issue was made on December 26, 1990, for a total of \$5,200,00 as an 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
10/15/98	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>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
NOTES TO COMBINED FINANCIAL STATEMENTS, CONTINUED
SEPTEMBER 30, 1993**

(14) NOTES PAYABLE, CONTINUED

The fourth issue was made on February 4, 1993 for a total of \$4,000,000 as an additional borrowing for the two projects specified above. The borrowing consist 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>
10/15/95	5.75%	\$1,000,000	\$ 167,306
10/15/98	7.10%	1,000,000	478,466
10/15/99	7.26%	1,000,000	599,372
10/15/2000	7.51%	<u>1,000,000</u>	<u>746,549</u>
Total		<u>\$4,000,000</u>	<u>\$1,991,693</u>

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

Upon receipt of Compact payments, the Trustee is responsible for withdrawal of amounts necessary for payments of principal and interest. Various other restrictive covenants exist and are detailed in the Trust Agreement dated January 4, 1990. Management is of the opinion that it has complied with such covenants thru September 30, 1993.

Activity in the General Long-Term Debt Account Group notes payable account for the year ended September 30, 1993, occurred as follows:

Balance as of September 30, 1992	\$16,300,000
Loan repayment made on 10/15/92	(1,000,000)
Fourth note issue made on 2/4/93	<u>4,000,000</u>
Balance as of September 30, 1993	<u>\$19,300,000</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>
1994	\$ 1,000,000
1995	1,000,000
1996	7,100,000
1997	2,200,000
1998	2,000,000
Thereafter	<u>6,000,000</u>
	<u>\$19,300,000</u>

STATE OF POHNPEI
 FEDERATED STATES OF MICRONESIA
NOTES TO COMBINED FINANCIAL STATEMENTS, CONTINUED
SEPTEMBER 30, 1993

(14) NOTES PAYABLE, CONTINUED

The Enterprise Funds notes payable represent \$404,003 payable by the Pohnpei Fisheries Corporation (PFC) to Pohnpei State for funds drawdown for operations. The PFC enabling legislation, State Law 3L-28-93, stipulates that all medium-term note (MTN) funds used by PFC are to be repaid by PFC. Also, the Pohnpei Utilities Corporation (PUC) has a line of credit with a commercial bank with \$150,000 utilized at September 30, 1993. PUC also has a long-term loan with the FSM Development Bank of \$250,000 at September 30, 1993. The line of credit has an interest rate of prime plus 4% and the long-term loan has an interest rate of 9% with monthly installments of \$5,190 including interest thereon, beginning November 10, 1993.

(15) INTERFUND RECEIVABLE AND PAYABLES

As of September 30, 1993, 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	\$ -	\$ 4,496,177
Special Revenue Funds:		
Compact Other Grants	269,148	-
Compact Health & Education	-	76,098
U.S. Federal Assistance	2,537,835	-
Other Federal and Direct Assistance	69,836	-
Agriculture Revolving	-	78,167
SVAP Revolving	-	5,028
Airport Operations	-	257,530
CFSM Projects	1,327,152	-
Recycling Fund	-	21,117
Capital Projects Funds:		
Compact Capital Projects	-	38,042
TTG Capital Projects	328,209	-
Expendable Trust Funds:		
Public Land Trust	-	52,989
Enterprise Funds:		
Pohnpei State Transportation Authority	535,625	-
Pohnpei Port Authority	-	52,580
Internal Service Fund	9,923	-
	<u>\$ 5,077,728</u>	<u>\$ 5,077,728</u>

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
NOTES TO COMBINED FINANCIAL STATEMENTS, CONTINUED
SEPTEMBER 30, 1993

(16) CONTINUING APPROPRIATIONS

Continuing appropriations as of September 30, 1993, are summarized as follows:

General Fund

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

\$ 266,006

Capital Projects

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

\$7,687,989

(17) RECLASSIFICATIONS

Certain reclassifications have been made to the 1992 presentation in order to conform with the current year presentation.

(18) SELF-INSURANCE FUND

A self-insurance fund was established by the Pohnpei Utilities Corporation, a Proprietary Fund Type-Enterprise Fund. Payments to the fund are discretionary and are not made on an actuarially based schedule.

(19) SUBSEQUENT EVENTS

As of October 1, 1993, operations of the Division of Water and Sewer of the Pohnpei State Department of Public Works were transferred to Pohnpei Utilities Corporation, an enterprise fund of Pohnpei State, as a result of Pohnpei State Law 3L-41-93.

On January 24, 1994, per the petition of the State of Pohnpei, Caroline Fisheries Corporation, an investee of Pohnpei State was put under receivership as a result of Pohnpei State PCA No. 209-93.

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

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

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund financial statements and schedules listed in Section III of the foregoing table of contents, which are also the responsibility of the management of the State of Pohnpei, are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the State of Pohnpei. Such additional information has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, except for the matters specified in our report dated March 16, 1994, in our opinion, is fairly presented in all material respects when considered in relation to the general purpose financial statements taken as a whole.

March 16, 1994

Certified Public Accountants

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Combining Statement of Expenditures by Account –
All Governmental Fund Types and Expendable Trust Fund
Year Ended September 30, 1993
(With comparative totals for the year ended September 30, 1992)

	<u>Governmental Fund Types</u>			<u>Fiduciary Fund Type</u>	<u>Totals</u>	
	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Expendable Trust Fund</u>	<u>(Memorandum Only)</u>	
					<u>1993</u>	<u>1992</u>
Expenditures:						
Personnel	\$ 11,597,776	\$ 3,987,273	\$ 408,620	\$ 95,630	\$ 16,089,299	\$ 13,914,079
Travel	281,118	373,677	122,823	–	777,618	787,646
Supplies and materials	584,355	745,078	165,904	6,878	1,502,215	1,398,404
Fuel	150,295	39,935	118,517	1,242	309,989	249,879
Equipment	155,107	393,689	18,310	1,056	568,162	624,347
Contractual services	1,257,197	752,023	5,395,420	–	7,404,640	4,980,442
Other	<u>1,689,962</u>	<u>1,834,556</u>	<u>1,036,939</u>	<u>34,627</u>	<u>4,596,084</u>	<u>10,537,644</u>
Total expenditures	<u>\$ 15,715,810</u>	<u>\$ 8,126,231</u>	<u>\$ 7,266,533</u>	<u>\$ 139,433</u>	<u>\$ 31,248,007</u>	<u>\$ 32,492,441</u>

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
GENERAL FUND
September 30, 1993

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, 1993
(With comparative totals as of September 30, 1992)

<u>Assets</u>	<u>1993</u>	<u>1992</u>
Cash and equivalents	\$ 742,217	\$ 816,413
Investments	3,641,660	4,983,003
Investments – other	17,348	17,348
Receivables from other governments	75,941	99,930
General receivables	70,084	225,348
Advances	114,140	79,580
Due from other funds	<u>4,496,177</u>	<u>2,485,923</u>
 Total assets	 <u>\$ 9,157,567</u>	 <u>\$ 8,707,545</u>
 <u>Liabilities and Fund Balance</u>		
Liabilities:		
Accounts payable	\$ 206,322	\$ 370,260
Accrued payroll and others	455,241	474,174
Due to other funds	<u>–</u>	<u>543,469</u>
 Total liabilities	 <u>661,563</u>	 <u>1,387,903</u>
Fund balance:		
Reserved for:		
Diminution of investments	–	51,114
Related assets	114,140	304,928
Encumbrances	589,780	540,592
Continuing appropriations	266,006	258,874
Unreserved	<u>7,526,078</u>	<u>6,164,134</u>
 Total fund balance	 <u>8,496,004</u>	 <u>7,319,642</u>
 Total liabilities and fund balance	 <u>\$ 9,157,567</u>	 <u>\$ 8,707,545</u>

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Statement of Revenues, Expenditures by Account and
Changes in Fund Balance – General Fund
Year Ended September 30, 1993
(With comparative totals for the year ended September 30, 1992)

	<u>1993</u>	<u>1992</u>
Revenues:		
Compact of Free Association:		
Base grant	\$ 7,206,300	\$ 7,206,300
Inflation	2,954,583	2,738,394
Revenue sharing	3,811,847	3,008,754
Taxes and licenses	1,045,530	1,191,244
Fines and penalties	307,633	28,829
Investment income	1,162,437	1,321,906
Other	695,550	685,665
Total revenues	<u>17,183,880</u>	<u>16,181,092</u>
 Expenditures:		
Personnel	11,597,776	11,150,770
Travel	281,118	379,154
Supplies and materials	584,355	684,785
Fuel	150,295	216,874
Equipment	155,107	160,412
Contractual services	1,257,197	236,041
Other	1,689,962	2,984,076
Total expenditures	<u>15,715,810</u>	<u>15,812,112</u>
Revenues over expenditures	<u>1,468,070</u>	<u>368,980</u>
 Other uses:		
Operating transfers out	<u>(291,708)</u>	<u>(1,002,026)</u>
Total uses	<u>(291,708)</u>	<u>(1,002,026)</u>
Excess (deficiency) of revenues over expenditures and other uses	1,176,362	(633,046)
 Fund balance, beginning of year	<u>7,319,642</u>	<u>7,952,688</u>
 Fund balance, end of year	<u>\$ 8,496,004</u>	<u>\$ 7,319,642</u>

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Statement of Revenue, Expenditures by Function and Department and Changes in Fund Balance—
General Fund
Year Ended September 30, 1993
(With comparative totals for the year ended September 30, 1992)

	1993	1992
Revenues:		
U.S. Compact of Free Association:		
Base grant	\$ 7,206,300	\$ 7,206,300
Inflation adjustment	2,954,583	2,738,394
FSM revenue sharing	3,811,847	3,008,754
Investment income	1,162,437	1,321,906
State taxes and licenses:		
Beer and malt beverages	\$ 355,222	\$ 376,589
Cigarettes	54,831	78,183
Motor vehicle sales tax	96,067	146,474
General merchandise sales tax	162,744	120,504
Hotel	77,016	78,975
Petroleum and fuel sales tax	47,026	43,629
Use tax	154,755	134,542
Others	97,869	212,348
	1,045,530	1,191,244
Public service charges:		
Hospital and dental	375,347	451,138
Transportation	85,156	65,216
	460,503	516,354
Fines and penalties	307,633	28,829
Other	235,047	169,311
	235,047	169,311
Total revenue	17,183,880	16,181,092
Expenditures:		
General Government:		
Governor and staff	283,447	270,318
Special assistants and miscellaneous	1,204,439	667,082
Director of Treasury	573,548	679,337
Public Auditor	175,747	125,070
Public Affairs	156	357,066
Judiciary	586,347	559,749
Legislative operations	1,627,707	1,439,716
	1,627,707	1,439,716
Sub-total	4,451,391	4,098,338
Department of Land:		
Administration	50,904	79,057
Surveys and mapping	321,425	55,751
Historic preservation	41,579	35,506
Parks and recreation	26,917	27,087
Management of public lands	12,931	115,102
	12,931	115,102
Sub-total	453,756	312,503
Total General Government	4,905,147	4,410,841
Department of Education:		
Administration	135,478	17,664
Preschool and elementary	2,650,314	3,486,450
Secondary	115,184	73,000
	115,184	73,000
Total Education	2,900,976	3,577,114

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Statement of Revenue, Expenditures by Function and Department and Changes in Fund Balance –
General Fund
Year Ended September 30, 1993
(With comparative totals for the year ended September 30, 1992)

	1993	1992
Expenditures by department, continued:		
Department of Health Services:		
Administration	\$ 1,054,525	\$ 790,010
Medical services	1,455,465	1,256,682
Dental services	330,894	283,116
Medical supplies	454,741	489,706
Public health	376,224	396,329
Medical referrals	115,653	64,453
Total Health Services	3,787,502	3,280,296
Department of Conservation and Resource Development:		
Administration	63,089	56,150
Marine resources	114,626	105,487
Agriculture	392,333	353,410
Forestry	109,147	109,361
Economic planning	(146)	22,620
Energy	48,059	50,581
Total Resources and Development	727,108	697,609
Department of Public Works:		
Administration	596,330	79,689
Operations and maintenance	–	(50)
Utility services	15,831	430,991
Construction management	–	111,202
Other	45,041	44,856
Total Public Works	657,202	666,688
Department of Transportation:		
Micro Glory	–	432,424
Transportation	–	74,255
Total Transportation	–	506,679
Department of Justice/Public Safety:		
Administration	94,082	79,082
Public Safety	670,464	541,262
Correction and rehabilitation	153,762	198,343
Fire and disaster	(10)	104,743
Legal affairs	152,895	135,625
Search and rescue	989	9,217
Total Public Safety	1,072,182	1,068,272
Department of Commerce & Industry :		
Administration	20,094	–
Business Develop. Statistics	29,648	–
Consumer Protection	13,281	–
Registrar of Corporation	12,726	–
Total Commerce & Industry	75,749	–

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Statement of Revenue, Expenditures by Function and Department and Changes in Fund Balance –
General Fund
Year Ended September 30, 1993
(With comparative totals for the year ended September 30, 1992)

	1993	1992
Expenditures by department, continued:		
Boards, commissions, and other appropriations:		
Pohnpei Housing Authority	\$ 11,600	\$ —
Tourist Commission	67,559	76,126
Micronesian Legal Services	42,000	40,000
Sports Council	40,546	29,457
Farmers Home Administration	74,054	57,952
Traditional affairs	2,500	2,760
Utility Board	—	499
Pohnpei Public Library	32,732	49,552
ALMS Fund	2,574	5,000
Pacific Women's Conference	—	(1,964)
Agriculture Fair	—	4,000
Aramas Kapw	—	7,344
Pohnpei Community Action Agency	—	43,000
Foreign Investment Commission	48,494	—
Recycling Project	176	12,914
	<u>322,235</u>	<u>326,640</u>
Total boards, commissions, and other appropriations		
Municipal Governments:		
Sokehs	191,948	205,510
Kitti	203,396	180,524
Madolenihmw	190,804	184,918
Uh	109,296	111,812
Kolonia	124,439	120,603
Pingilap	57,600	55,825
Nett	122,290	132,942
Kapingamarangi	32,829	29,304
Sapwuahfik	28,978	26,114
Mokil	25,425	24,641
Nukuoro	13,818	20,030
Other municipal projects	6,276	66,767
	<u>1,107,099</u>	<u>1,158,990</u>
Total Municipal Governments		
Other	<u>160,610</u>	<u>118,983</u>
Total expenditures	<u>15,715,810</u>	<u>15,812,112</u>
Revenues over expenditures	<u>1,468,070</u>	<u>368,980</u>
Other uses:		
Operating transfer out	(291,708)	(1,002,026)
Total other uses	<u>(291,708)</u>	<u>(1,002,026)</u>
Excess (deficiency) of revenues over expenditures and other uses	<u>1,176,362</u>	<u>(633,046)</u>
Fund balance, beginning of year	<u>7,319,642</u>	<u>7,952,688</u>
Fund balance, end of year	<u>\$ 8,496,004</u>	<u>\$ 7,319,642</u>

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
SPECIAL REVENUE FUNDS
September 30, 1993

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, 1993**

Airport Operations Fund

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

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, 1993
(With comparative totals as of September 30, 1992)**

Assets	Compact	Compact	U.S.	Other	Agriculture	SVAP	Airport	CFSM	Recycling	Total	
	Health and Education Fund	Other Grants Fund	Federal Assistance Fund	Federal and Direct Assistance Fund						Revolving Fund	Revolving Fund
Cash and equivalents	\$ 394,240	\$ 62,500	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 456,740	\$ 1,677,844
Investments	-	194,953	-	-	-	-	-	-	-	194,953	194,954
Receivables:											
Federal agencies, thru FSM National Government	-	288,003	2,357,955	26,407	-	-	-	-	-	2,672,365	2,335,885
Federal agencies, direct, other governments	-	-	-	-	-	-	-	1,304,163	-	1,304,163	1,084,483
General	-	-	-	-	42,078	-	-	-	-	42,078	43,118
Advances	3,301	44,632	79,065	1,075	-	-	2,142	55,000	-	185,215	160,794
Due from other funds	76,098	-	-	-	78,167	5,028	257,530	-	21,117	437,940	666,031
Inventory	-	-	-	-	5,884	-	-	-	-	5,884	5,333
Total assets	\$ 473,639	\$ 590,088	\$ 2,437,020	\$ 27,482	\$ 126,129	\$ 5,028	\$ 259,672	\$ 1,359,163	\$ 21,117	\$ 5,299,338	\$ 6,168,442
Liabilities and Fund Balances (Deficit)											
Liabilities:											
Account payable	\$ 14,027	\$ 37,620	\$ 34,266	\$ 5,942	\$ 2,996	\$ -	\$ 111	\$ 66,278	\$ -	\$ 161,240	\$ 261,847
Accrued payroll	114,925	6,150	26,498	471	-	-	-	3,516	-	151,560	68,711
Due to other funds	-	269,148	2,537,835	69,836	-	-	-	1,327,152	-	4,203,971	3,501,431
Deferred revenue	-	-	-	18,670	-	-	-	-	-	18,670	33,722
Total liabilities	128,952	312,918	2,598,599	94,919	2,996	-	111	1,396,946	-	4,535,441	3,865,711
Fund balances:											
Reserved for:											
Related assets	3,301	44,632	79,065	1,075	42,078	-	2,142	840,903	-	1,013,196	248,911
Encumbrances	58,660	4,340	409,050	4,215	23,960	1,275	12,027	538,883	-	1,052,410	781,921
Unreserved	282,726	228,198	(649,694)	(72,727)	57,095	3,753	245,392	(1,417,569)	21,117	(1,301,709)	1,271,899
Total fund balances (deficit)	344,687	277,170	(161,579)	(67,437)	123,133	5,028	259,561	(37,783)	21,117	763,897	2,302,731
Total liabilities and fund balances (deficit)	\$ 473,639	\$ 590,088	\$ 2,437,020	\$ 27,482	\$ 126,129	\$ 5,028	\$ 259,672	\$ 1,359,163	\$ 21,117	\$ 5,299,338	\$ 6,168,442

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

**Combining Statement of Revenues, Expenditures by Function and Changes in Fund Balances (Deficit)
Year Ended September 30, 1993
(With comparative totals for the year ended September 30, 1992)**

	Compact Health and Education Fund	Compact Other Grants Fund	U.S. Federal Assistance Fund	Other Federal and Direct Assistance Fund	Agriculture Revolving Fund	SVAP Revolving Fund	Airport Operations Fund	CFSM Projects Fund	Recycling Fund	Total	
										1993	1992
Revenues:											
Compact grants:											
Base amount	\$ 1,890,000	\$ 1,357,782	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,247,782	\$ 3,535,786
Inflation adjustment	-	410,000	-	-	-	-	-	-	-	410,000	380,000
FSM National Contributions	-	288,003	2,414,769	-	-	-	-	-	-	2,702,772	2,973,824
Other	-	-	-	195,210	89,615	11,850	71,364	790,887	-	1,158,926	1,232,518
Total revenues	1,890,000	2,055,785	2,414,769	195,210	89,615	11,850	71,364	790,887	-	7,519,480	8,122,128
Expenditures:											
General government	-	-	465,159	21,343	-	-	-	273,714	-	760,216	811,017
Education	3,248,647	324,480	701,872	34,550	-	-	-	290,128	-	4,599,677	2,225,636
Health services	-	375,361	412,586	85,047	-	-	-	76,592	-	949,586	892,422
Resources and development	-	425,741	83,984	51,896	48,168	-	-	-	-	609,789	452,626
Public works	-	-	104,888	-	-	-	-	70,647	-	175,535	197,253
Other	-	500,000	501,492	2,374	-	8,530	19,032	-	-	1,031,428	973,492
Total expenditures	3,248,647	1,625,582	2,269,981	195,210	48,168	8,530	19,032	711,081	-	8,126,231	5,552,446
Revenues over (under) expenditures	(1,358,647)	430,203	144,788	-	41,447	3,320	52,332	79,806	-	(606,751)	2,569,682
Other uses:											
Operating transfers out	-	(595,000)	(144,788)	-	-	-	-	(79,806)	-	(819,594)	(2,306,943)
Excess (deficiency) of revenues over expenditures and other uses	(1,358,647)	(164,797)	-	-	41,447	3,320	52,332	-	-	(1,426,345)	262,739
Fund balances (deficit), beginning of year	1,703,334	441,967	(161,579)	(67,437)	81,686	1,708	207,229	(37,783)	21,117	2,190,242	2,039,992
Fund balances (deficit), end of year	\$ 344,687	\$ 277,170	\$ (161,579)	\$ (67,437)	\$ 123,133	\$ 5,028	\$ 259,561	\$ (37,783)	\$ 21,117	\$ 763,897	\$ 2,302,731

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

**Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balances (Deficit)
Year Ended September 30, 1993
(With comparative totals for the year ended September 30, 1992)**

	Compact	Compact	U.S.	Other	Agriculture	SVAP	Airport	CFSM	Recycling	Total	
	Health and Education Fund	Other Grants Fund	Federal Assistance Fund	Federal and Direct Assistance Fund						Revolving Fund	Revolving Fund
Revenues:											
Compact grants:											
Base amount	\$ 1,890,000	\$ 1,357,782	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,247,782	\$ 3,535,786
Inflation adjustment	-	410,000	-	-	-	-	-	-	-	410,000	380,000
FSM National contributions	-	288,003	2,414,769	-	-	-	-	-	-	2,702,772	2,973,824
Other	-	-	-	195,210	89,615	11,850	71,364	790,887	-	1,158,926	1,232,518
Total revenues	1,890,000	2,055,785	2,414,769	195,210	89,615	11,850	71,364	790,887	-	7,519,480	8,122,128
Expenditures:											
Personnel	2,951,548	147,259	723,339	25,251	-	-	570	139,306	-	3,987,273	2,134,070
Travel	2,778	112,141	197,669	16,184	-	-	-	44,905	-	373,677	300,735
Supplies and materials	106,669	7,339	490,398	31,999	34,595	3,696	-	70,382	-	745,078	609,177
Fuel	20,491	997	15,120	-	-	-	1,095	2,232	-	39,935	25,892
Equipment	180	4,277	179,145	76,363	-	2,093	-	131,631	-	393,689	256,203
Contractual services	-	256,000	223,210	26,632	-	-	17,352	228,829	-	752,023	1,186,560
Other	166,981	1,097,569	441,100	18,781	13,573	2,741	15	93,796	-	1,834,556	1,039,809
Total expenditures	3,248,647	1,625,582	2,269,981	195,210	48,168	8,530	19,032	711,081	-	8,126,231	5,552,446
Revenues over (under) expenditures	(1,358,647)	430,203	144,788	-	41,447	3,320	52,332	79,806	-	(606,751)	2,569,682
Other uses:											
Operating transfers out	-	(595,000)	(144,788)	-	-	-	-	(79,806)	-	(819,594)	(2,306,943)
Excess (deficiency) of revenues over expenditures and other uses	(1,358,647)	(164,797)	-	-	41,447	3,320	52,332	-	-	(1,426,345)	262,739
Fund balances (deficit), beginning of year	1,703,334	441,967	(161,579)	(67,437)	81,686	1,708	207,229	(37,783)	21,117	2,190,242	2,039,992
Fund balances (deficit), end of year	\$ 344,687	\$ 277,170	\$ (161,579)	\$ (67,437)	\$ 123,133	\$ 5,028	\$ 259,561	\$ (37,783)	\$ 21,117	\$ 763,897	\$ 2,302,731

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
CAPITAL PROJECTS FUNDS
September 30, 1993

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, 1993
(With comparative totals as of September 30, 1992)**

	Compact Capital Projects Fund	TTG Capital Projects Fund	Totals	
			1993	1992
<u>Assets</u>				
Cash and equivalents	\$ 3,498,241	\$ —	\$ 3,498,241	\$ 4,405,002
Cash — restricted	3,678,503	—	3,678,503	527,912
Investments	2,583,002	—	2,583,002	4,954,322
Investment — other	350,000	—	350,000	350,000
Receivables from TTG	—	328,720	328,720	717,686
Loans receivable, net	404,003	—	404,003	—
Advances	38,462	—	38,462	6,006
Due from other funds	38,042	—	38,042	2,043,380
Total assets	\$ 10,590,253	\$ 328,720	\$ 10,918,973	\$ 13,004,308
 <u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 182,944	\$ —	\$ 182,944	\$ 1,059,607
Accrued payroll	20,554	511	21,065	10,374
Due to other funds	—	328,209	328,209	717,686
Total liabilities	203,498	328,720	532,218	1,787,667
Fund balances:				
Reserved for:				
Related assets	792,465	—	792,465	350,000
Encumbrances	2,900,463	243,422	3,143,885	7,098,080
Continuing appropriations	7,687,989	—	7,687,989	4,402,331
Deficit	(994,162)	(243,422)	(1,237,584)	(633,770)
Total fund balances	10,386,755	—	10,386,755	11,216,641
Total liabilities and fund balances	\$ 10,590,253	\$ 328,720	\$ 10,918,973	\$ 13,004,308

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
CAPITAL PROJECTS FUNDS**
Combining Statement of Revenues, Expenditures by Function and Changes in Fund Balances
Year Ended September 30, 1993
(With comparative totals for the year ended September 30, 1992)

	Compact Capital Projects Fund	TTG Capital Projects Fund	Totals	
			1993	1992
Revenues:				
Compact of Free Association:				
Base	\$ 5,191,800	\$ —	\$ 5,191,800	\$ 5,191,800
Inflation adjustment	2,128,638	—	2,128,638	1,972,884
Department of the Interior grants	—	456,165	456,165	52,388
Other	10,000	—	10,000	150
Total revenues	<u>7,330,438</u>	<u>456,165</u>	<u>7,786,603</u>	<u>7,217,222</u>
Expenditures:				
Capital projects	7,238,639	27,894	7,266,533	6,105,815
Bad debts	—	—	—	4,750,000
Total expenditures	<u>7,238,639</u>	<u>27,894</u>	<u>7,266,533</u>	<u>10,855,815</u>
Revenues in excess of (less than) expenditures	<u>91,799</u>	<u>428,271</u>	<u>520,070</u>	<u>(3,638,593)</u>
Other sources (uses):				
Bond proceeds	4,000,000	—	4,000,000	—
Bond payment	(1,000,000)	—	(1,000,000)	(2,550,000)
Interest expense	(1,542,743)	—	(1,542,743)	(1,627,845)
Other income	28,334	—	28,334	398,656
Operating transfers out	(2,407,276)	(428,271)	(2,835,547)	(1,052,735)
Total other sources (uses), net	<u>(921,685)</u>	<u>(428,271)</u>	<u>(1,349,956)</u>	<u>(4,831,924)</u>
Deficiency of revenues and other sources over expenditures and other sources	(829,886)	—	(829,886)	(8,470,517)
Fund balances, beginning of year	<u>11,216,641</u>	<u>—</u>	<u>11,216,641</u>	<u>19,687,158</u>
Fund balances, end of year	<u>\$ 10,386,755</u>	<u>\$ —</u>	<u>\$ 10,386,755</u>	<u>\$ 11,216,641</u>

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
CAPITAL PROJECTS FUNDS
Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balances
Year Ended September 30, 1993
(With comparative totals for the year ended September 30, 1992)

	Compact Capital Projects Fund	TTG Capital Projects Fund	Totals	
			1993	1992
Revenues:				
Compact of Free Association:				
Base	\$ 5,191,800	\$ -	\$ 5,191,800	\$ 5,191,800
Inflation adjustment	2,128,638	-	2,128,638	1,972,884
Department of the Interior grants	-	456,165	456,165	52,388
Other	10,000	-	10,000	150
Total revenues	7,330,438	456,165	7,786,603	7,217,222
Expenditures:				
Personnel	401,249	7,371	408,620	382,899
Travel	122,573	250	122,823	104,873
Supplies and materials	165,904	-	165,904	100,317
Fuel	116,807	1,710	118,517	6,364
Equipment	11,541	6,769	18,310	197,225
Contractual services	5,384,741	10,679	5,395,420	3,557,841
Bad debts	-	-	-	4,750,000
Other	1,035,824	1,115	1,036,939	1,756,296
Total expenditures	7,238,639	27,894	7,266,533	10,855,815
Revenues in excess of (less than) expenditures	91,799	428,271	520,070	(3,638,593)
Other sources (uses) :				
Bond proceeds	4,000,000	-	4,000,000	-
Bond repayment	(1,000,000)	-	(1,000,000)	(2,550,000)
Interest expense	(1,542,743)	-	(1,542,743)	(1,627,845)
Other income	28,334	-	28,334	398,656
Operating transfers out	(2,407,276)	(428,271)	(2,835,547)	(1,052,735)
Total other sources (uses), net	(921,685)	(428,271)	(1,349,956)	(4,831,924)
Deficiency of revenues and other sources over expenditures and other sources	(829,886)	-	(829,886)	(8,470,517)
Fund balances, beginning of year	11,216,641	-	11,216,641	19,687,158
Fund balances, end of year	\$ 10,386,755	\$ -	\$ 10,386,755	\$ 11,216,641

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
ENTERPRISE FUNDS
September 30, 1993

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

Pohnpei Port Authority (PPA) was established by State Public Law 2L-224-91. The primary purpose of the Authority is to oversee the use and maintenance of Pohnpei State's sea and air ports. PPA began operating as a separate entity in fiscal year 1993, however, the accounting for the Authority continued to be handled by Pohnpei State Finance through September 30, 1993.

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.

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.

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

Combining Balance Sheet

September 30, 1993

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

<u>Assets</u>	<u>Pohnpei</u>	<u>Pohnpei</u>	<u>Pohnpei</u>	<u>Pohnpei</u>	<u>Pohnpei</u>	<u>Pohnpei</u>	<u>Totals</u>	
	<u>Corporation</u>	<u>Port Authority</u>	<u>Utilities Corporation</u>	<u>Transportation Authority</u>	<u>Economic Development Authority</u>	<u>State Housing Authority</u>	<u>1993</u>	<u>1992</u>
Cash and equivalents	\$ 11,265	\$ -	\$ 4,814	\$ -	\$ 48,700	\$ 98,865	\$ 163,644	\$ 311,503
Investments	-	-	-	-	500,000	-	500,000	134,322
Advances	17,443	1,200	7,391	5,374	5,810	8,721	45,939	8,975
General receivables, net	61,157	1,040	595,570	-	43,596	81,366	782,729	911,883
Loans receivables, net	-	-	-	-	-	3,242,098	3,242,098	2,753,404
Due from other funds	-	52,580	-	-	-	-	52,580	-
Inventory, at cost	1,311	-	-	-	55,469	18,223	75,003	184,126
Self insurance fund	-	-	50,000	-	-	-	50,000	-
Fixed assets, net	27,575	20,226	21,416,296	-	1,095,583	34,607	22,594,287	19,352,835
Total assets	\$ 118,751	\$ 75,046	\$ 22,074,071	\$ 5,374	\$ 1,749,158	\$ 3,483,880	\$ 27,506,280	\$ 23,657,048
<u>Liabilities and Fund Equity (Deficiency)</u>								
<u>Liabilities:</u>								
Notes payable	\$ 404,003	\$ -	\$ 400,000	\$ -	\$ -	\$ -	\$ 804,003	\$ 648,468
Accounts payable	79,425	4,015	481,396	10,648	161,978	4,664	742,126	553,969
Accrued liabilities	10,955	4,600	145,310	36,515	9,413	4,469	211,262	-
Due to other funds	-	-	-	535,625	-	-	535,625	162,584
Deferred revenue	-	-	31,328	-	-	-	31,328	-
Total liabilities	494,383	8,615	1,058,034	582,788	171,391	9,133	2,324,344	1,365,021
<u>Fund equity (deficiency):</u>								
Contributed capital	-	-	19,843,273	322,427	4,294,541	3,733,135	28,193,376	25,267,088
Retained earnings (deficit)	(375,632)	66,431	1,172,764	(899,841)	(2,716,774)	(258,388)	(3,011,440)	(2,975,061)
Total fund equity (deficiency)	(375,632)	66,431	21,016,037	(577,414)	1,577,767	3,474,747	25,181,936	22,292,027
Total liabilities and fund equity	\$ 118,751	\$ 75,046	\$ 22,074,071	\$ 5,374	\$ 1,749,158	\$ 3,483,880	\$ 27,506,280	\$ 23,657,048

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

**Combining Statement of Revenues, Expenses and Changes in Fund Equity (Deficiency)
Year Ended September 30, 1993
(With comparative totals for the year ended September 30, 1992)**

	Pohnpei Fisheries Corporation	Pohnpei Port Authority	Pohnpei Utilities Corporation	Pohnpei Transportation Authority	Pohnpei Economic Development Authority	Pohnpei State Housing Authority	Totals	
							1993	1992
Revenues:								
Charges for goods & services	\$ 12,149	\$ 102,709	\$ 4,047,473	\$ 324,416	\$ 346,658	\$ 160,576	\$ 4,993,981	\$ 2,693,913
Rental income	-	100,133	-	10,940	-	-	111,073	-
Other	1,800	1,409	-	33,769	1,926	9,472	48,376	33,614
Total operating revenues	13,949	204,251	4,047,473	369,125	348,584	170,048	5,153,430	2,727,527
Operating expenses:								
Personnel services	123,424	158,622	1,176,782	29,227	293,493	131,315	1,912,863	1,162,187
Travel	80,517	4,425	-	-	41,672	2,196	128,810	51,458
Supplies and materials	24,129	18,418	-	44,071	34,150	8,084	128,852	39,686
Fuel	73,234	891	2,083,934	-	7,564	1,206	2,166,829	2,140,814
Contractual services	98,824	26,379	-	2,202,750	-	17,385	2,345,338	2,226,827
Depreciation	-	-	1,179,512	-	97,474	9,744	1,286,730	987,068
Other	41,205	41,576	1,560,149	6,410	246,981	356,520	2,252,841	1,102,018
Total operating expenses	441,333	250,311	6,000,377	2,282,458	721,334	526,450	10,222,263	7,710,058
Operating loss	(427,384)	(46,060)	(1,952,904)	(1,913,333)	(372,750)	(356,402)	(5,068,833)	(4,982,531)
Non-operating revenues (expenses):								
Operating transfers in	-	-	1,665,912	2,001,895	149,515	129,527	3,946,849	4,361,704
Equity loss on investment	-	-	-	-	(134,322)	-	(134,322)	(595,901)
Other	51,752	-	(49,013)	-	-	50,000	52,739	79,988
Total non-operating revenues (expenses), net	51,752	-	1,616,899	2,001,895	15,193	179,527	3,865,266	3,845,791
Net income (loss)	(375,632)	(46,060)	(336,005)	88,562	(357,557)	(176,875)	(1,203,567)	(1,136,740)
Add depreciation on fixed assets acquired by capital contributions that reduce contributed capital	-	-	1,090,457	-	-	-	1,090,457	859,941
Increase (decrease) in retained earnings	(375,632)	(46,060)	754,452	88,562	(357,557)	(176,875)	(113,110)	(276,799)
Retained earnings (deficit), beginning of the year	-	112,491	418,312	(988,403)	(2,359,217)	(45,753)	(2,862,570)	(2,709,887)
Prior period adjustments	-	-	-	-	-	(35,760)	(35,760)	11,625
Retained earnings (deficit), end of year	\$ (375,632)	\$ 66,431	\$ 1,172,764	\$ (899,841)	\$ (2,716,774)	\$ (258,388)	\$ (3,011,440)	\$ (2,975,061)
Contributed capital, beginning of year	\$ -	\$ -	\$ 17,931,351	\$ 322,427	\$ 3,794,541	\$ 3,218,769	\$ 25,267,088	\$ 6,770,943
Less opening balance adjustment	-	-	-	-	-	-	-	6,947
Other additions for the year, net	-	-	1,911,922	-	500,000	514,366	2,926,288	18,489,198
Contributed capital, end of year	\$ -	\$ -	\$ 19,843,273	\$ 322,427	\$ 4,294,541	\$ 3,733,135	\$ 28,193,376	\$ 25,267,088
Fund equity (deficiency, end of year)	\$ (375,632)	\$ 66,431	\$ 21,016,037	\$ (577,414)	\$ 1,577,767	\$ 3,474,747	\$ 25,181,936	\$ 22,292,027

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

Combining Statement of Cash Flows

Year Ended September 30, 1993

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

	Pohnpei	Pohnpei	Pohnpei	Pohnpei	Pohnpei	Pohnpei	Totals	
	Fisheries Corporation	Port Authority	Utilities Corporation	Transportation Authority	Economic Development Authority	State Housing Authority	1993	1992
Cash flows from operating activities:								
Operating loss	\$ (427,384)	\$ (46,060)	\$ (1,952,904)	\$ (1,913,333)	\$ (372,750)	\$ (356,402)	\$ (5,068,833)	\$ (4,982,531)
Add back items not affecting cash:								
Depreciation	-	-	1,179,512	-	97,474	9,744	1,286,730	987,068
Prior period adjustment	-	-	-	-	-	-	-	30,573
Doubtful debt expense	-	-	-	-	21,825	331,374	353,199	-
	<u>(427,384)</u>	<u>(46,060)</u>	<u>(773,392)</u>	<u>(1,913,333)</u>	<u>(253,451)</u>	<u>(15,284)</u>	<u>(3,428,904)</u>	<u>(3,964,890)</u>
Changes in working capital sources (uses):								
Advances	(17,443)	(200)	(7,391)	(2,898)	(3,271)	(4,761)	(35,964)	(6,600)
Inventory	(1,311)	-	-	-	25,186	85,248	109,123	199,638
General receivables, gross	(61,157)	-	87,574	9,823	74,271	(2,143)	108,368	(783,479)
Loans receivable, gross	-	-	-	-	1,540	(821,608)	(820,068)	(517,146)
Due from other funds	-	62,598	-	-	-	-	62,598	-
Accounts payable	79,425	(20)	73,570	10,648	38,102	(17,603)	184,122	388,581
Accrued liabilities	10,955	3,908	52,338	6,708	(7,866)	3,666	69,709	58,929
Deferred revenue	-	-	31,328	-	-	-	31,328	(34,630)
Prepaid expenses	-	-	-	-	-	-	-	3,416
Due to other funds	-	-	-	(112,843)	-	-	(112,843)	167,737
	<u>10,469</u>	<u>66,286</u>	<u>237,419</u>	<u>(88,562)</u>	<u>127,962</u>	<u>(757,201)</u>	<u>(403,627)</u>	<u>(523,554)</u>
Net cash provided (used) by operating activities	<u>(416,915)</u>	<u>20,226</u>	<u>(535,973)</u>	<u>(2,001,895)</u>	<u>(125,489)</u>	<u>(772,485)</u>	<u>(3,832,531)</u>	<u>(4,488,444)</u>
Cash flows from noncapital financing activities:								
Proceeds from notes payable	404,003	-	575,000	-	-	-	979,003	-
Repayments of notes payable	-	-	(196,722)	-	-	-	(196,722)	-
Contributed capital for loans	-	-	-	-	-	564,366	564,366	557,847
Operating grants	-	-	1,650,389	2,001,895	149,515	129,527	3,931,326	4,436,583
Other noncapital financing activities	51,752	-	(83,490)	-	-	(35,760)	(67,498)	26,831
Net cash provided by noncapital financing activities	<u>455,755</u>	<u>-</u>	<u>1,945,177</u>	<u>2,001,895</u>	<u>149,515</u>	<u>658,133</u>	<u>5,210,475</u>	<u>5,021,261</u>
Cash flows from capital and related financing activities:								
Acquisition of fixed assets	(27,575)	(20,226)	(1,456,971)	-	(6,473)	(14,558)	(1,525,803)	(225,840)
Other capital related activities	-	-	-	-	-	-	-	(50,924)
Net cash used by capital and related financing activities	<u>(27,575)</u>	<u>(20,226)</u>	<u>(1,456,971)</u>	<u>-</u>	<u>(6,473)</u>	<u>(14,558)</u>	<u>(1,525,803)</u>	<u>(276,764)</u>

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

Combining Statement of Cash Flows, Continued

Year Ended September 30, 1993

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

	<u>Pohnpei Fisheries Corporation</u>	<u>Pohnpei Port Authority</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>1993</u>	<u>1992</u>
Cash flows from investing activities:								
Contribution for investment	-	-	-	-	500,000	-	500,000	-
Payment for investment	-	-	-	-	(500,000)	-	(500,000)	-
Net cash used from investing activities	-	-	-	-	-	-	-	-
Net increase (decrease) in cash and equivalents	11,265	-	(47,767)	-	17,553	(128,910)	(147,859)	256,053
Cash and equivalents, beginning of year	-	-	52,581	-	31,147	227,775	311,503	55,450
Cash and equivalents, end of year	<u>\$ 11,265</u>	<u>\$ -</u>	<u>\$ 4,814</u>	<u>\$ -</u>	<u>\$ 48,700</u>	<u>\$ 98,865</u>	<u>\$ 163,644</u>	<u>\$ 311,503</u>

Supplemental schedule of noncash transactions:

Pohnpei Utilities Corporation received capital contributions in the form of utility plant assets: \$ 3,002,379

Pohnpei Economic Development Authority recognized a reduction in an equity investment: \$ 134,322

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
EXPENDABLE TRUST FUND
September 30, 1993

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, 1993

(With comparative totals as of September 30, 1992)

<u>Assets</u>	<u>Public Land Trust Fund</u>	<u>Totals</u>	
		1993	1992
General receivables	\$ 1,851	\$ 1,851	\$ 1,851
Advances	10,676	10,676	10,676
Due from other funds	52,989	52,989	205,910
 Total assets	 \$ 65,516	 \$ 65,516	 \$ 218,437
 <u>Liabilities and Fund Balance</u>			
Liabilities:			
Accounts payable	\$ 4,939	\$ 4,939	\$ 4,931
Accrued payroll	3,646	3,646	7,789
Deferred revenue	-	-	9,367
 Total liabilities	 8,585	 8,585	 22,087
 Fund balances			
Reserved for:			
Related assets	12,527	12,527	12,527
Encumbrances	3,347	3,347	1,990
Unreserved	41,057	41,057	181,833
 Total fund balance	 56,931	 56,931	 196,350
 Total liabilities and fund balance	 \$ 65,516	 \$ 65,516	 \$ 218,437

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
EXPENDABLE TRUST FUND**

**Combining Statement of Revenues, Expenditures by Function and Changes in Fund Balance
Year Ended September 30, 1993**

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

	Public Land Trust Fund	Totals	
		1993	1992
Revenues:			
Rental	\$ 14	\$ 14	\$ 100,011
Total revenues	<u>14</u>	<u>14</u>	<u>100,011</u>
Expenditures:			
General government	<u>139,433</u>	<u>139,433</u>	<u>272,068</u>
Total expenditures	<u>139,433</u>	<u>139,433</u>	<u>272,068</u>
Revenues under expenditures	(139,419)	(139,419)	(172,057)
Fund balance, beginning of year	<u>196,350</u>	<u>196,350</u>	<u>368,407</u>
Fund balance, end of year	<u>\$ 56,931</u>	<u>\$ 56,931</u>	<u>\$ 196,350</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
EXPENDABLE TRUST FUND**

**Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balance
Year Ended September 30, 1993**

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

	<u>Public Land Trust Fund</u>	<u>Totals</u>	
		<u>1993</u>	<u>1992</u>
Revenues:			
Rental	\$ 14	\$ 14	\$ 100,011
Total revenues	<u>14</u>	<u>14</u>	<u>100,011</u>
Expenditures:			
Personnel services	95,630	95,630	246,340
Travel	-	-	2,884
Supplies and materials	6,878	6,878	4,125
Fuel	1,242	1,242	749
Equipment	1,056	1,056	10,507
Other	<u>34,627</u>	<u>34,627</u>	<u>7,463</u>
Total expenditures	<u>139,433</u>	<u>139,433</u>	<u>272,068</u>
Revenues under expenditures	(139,419)	(139,419)	(172,057)
Fund balance, beginning of year	<u>196,350</u>	<u>196,350</u>	<u>368,407</u>
Fund balance, end of year	<u>\$ 56,931</u>	<u>\$ 56,931</u>	<u>\$ 196,350</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
SINGLE AUDIT REPORTS
YEAR ENDED SEPTEMBER 30, 1993**

**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, 1993, and have issued our report thereon dated March 16, 1994. 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 fixed assets of the Pohnpei Economic Development Authority (a Proprietary Fund Type - Enterprise Fund) and the General Fixed Assets Account Group.

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, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance consist of failures to follow requirements or violations of prohibitions, contained in statutes, regulations, contracts, or grants, that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the general purpose financial statements. The results of our tests of compliance disclosed the material instance of noncompliance detailed in the following paragraph, the effects of which have not been corrected in the 1993 general purpose financial statements of the State of Pohnpei.

As explained in local finding no. 2 at page 100, Pohnpei State expended \$500,000 of fiscal year 1993 Compact Energy funds for payment of utility bills. Such may not be an allowable use of Compact Energy funds.

We considered this material instance of noncompliance in forming our opinion on whether the 1993 general purpose financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not effect our report dated March 16, 1994 on those general purpose financial statements.

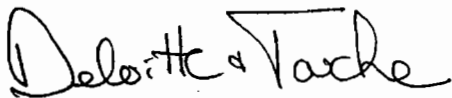
Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, the State of Pohnpei, complied, in all material respects, with the provisions referred to in the third paragraph of this report, and with respect to items not tested, nothing came to our attention that caused us to believe that the State of Pohnpei had not complied, in all material respects, with those provisions.

We also 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 Findings and Questioned Costs (pages 93 through 113).

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 March 16, 1994 on general requirements, specific requirements for major programs, and specific compliance for nonmajor program transactions.

This report is intended for the information of the management 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.

March 16, 1994



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, 1993, and have issued our report thereon dated March 16, 1994. 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 fixed assets of the Pohnpei Economic Development Authority (a Proprietary Fund Type - Enterprise Fund) and the General Fixed Assets Account Group.

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; 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 89), for the year ended September 30, 1993. 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.

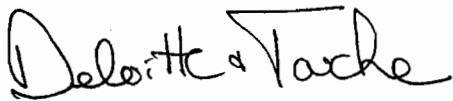
We conducted our audit of compliance with these requirements in accordance with generally accepted auditing standards; Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, Audits of State and Local Governments. 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 Findings and Questioned Costs (pages 93 to 113). 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; 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, 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.

March 16, 1994

A handwritten signature in cursive script that reads "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, 1993, and have issued our report thereon dated March 16, 1994. 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 fixed assets of the Pohnpei Economic Development Authority (a Proprietary Fund Type - Enterprise Fund) and the General Fixed Assets Account Group. 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 March 16, 1994.

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 89), for the year ended September 30, 1993: 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 89).

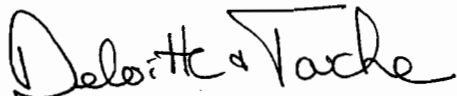
Our procedures were limited to the applicable procedures described in the Office of Management and Budget's Compliance Supplement for Single Audits of State and Local Governments. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the State of Pohnpei's compliance with the requirements listed in the second paragraph of this page. 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 Findings and Questioned Costs (pages 93 to 113).

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 March 16, 1994.

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.

March 16, 1994

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, 1993, and have issued our report thereon dated March 16, 1994. 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 fixed assets of the Pohnpei Economic Development Authority (a Proprietary Fund Type - Enterprise Fund) and the General Fixed Assets Account Group. 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 March 16, 1994.

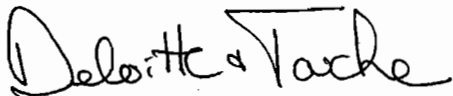
In connection with our audit of the 1993 general purpose financial statements of the State of Pohnpei, and with our consideration of the State of Pohnpei's control structure used to administer federal financial assistance programs, and assessment of control risk as required by Office of Management and 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, 1993.

As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing the 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 Findings and Questioned Costs (pages 93 to 113).

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.

March 16, 1994

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

Certified Public Accountants



INDEPENDENT AUDITORS' REPORT ON 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, 1993, and have issued our report thereon dated March 16, 1994. 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 fixed assets of the Pohnpei Economic Development Authority (a Proprietary Fund Type - Enterprise Fund) and the General Fixed Assets Account Group. 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 March 16, 1994.

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, 1993, 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 March 16, 1994.

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

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, 1993, the State of Pohnpei expended 93.8% of its total federal financial assistance under major federal financial assistance programs (see page 92).

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 89). Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the State's ability to administer federal financial assistance programs in accordance with applicable laws and regulations. These matters are set forth in the accompanying Schedule of Findings and Questioned Costs (pages 93 through 113).

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 of performing their assigned functions.

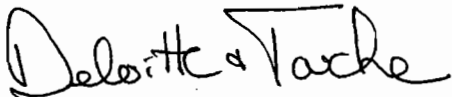
Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable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

We also noted matters involving the internal control structure and its operation based on our audit of the general purpose financial statements which we reported to the management of the State of Pohnpei in a report dated March 16, 1994.

However, we noted other matters involving the internal control structure and its operation which are described in the accompanying Schedule of Findings and Questioned Costs (pages 99 through 113).

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.

March 16, 1994

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

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:

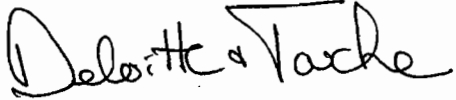
We have audited the general purpose financial statements of the State of Pohnpei as of and for the year ended September 30, 1993, and have issued our report thereon dated March 16, 1994. Our report on the audit of the general purpose financial statements was modified as a result of our inability to form an opinion as to the fairness of presentation of the fixed assets of the Pohnpei Economic Development Authority (a Proprietary Fund Type - Enterprise Fund) and the General Fixed Assets Account Group. 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, of 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 89) for the year ended September 30, 1993, 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.

March 16, 1994

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
INTRODUCTION TO COMPACT OF FREE ASSOCIATION
FUNDING, FEDERAL AND OTHER ASSISTANCE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 1993

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 1993, 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 the 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 the 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, 1993

<u>Grantor Program Title</u>	<u>Pohnpei Org. #</u>	<u>CFDA I.D. #</u>	<u>1993 Fiscal Year Expenditures</u>
<u>U.S. Department of Agriculture</u>			
FY91 Forestry Project	3346	10.664	\$ 11,437
FY92 Forestry Project	3348	10.664	1,843
FY93 Forestry Project	3351	10.664	4,591
FY92 Watershed Project	3349	10.418	30,317
Food Services	3388	10.560	35,796
			<u>83,984</u>
<u>U.S. Department of Education</u>			
FY92 Teacher Training	3102	84.124	62,127
FY93 Special Education Program	3110	84.027	639,745
			<u>701,872</u>
<u>U.S. Department of Health and Human Services</u>			
Dispensary Manager Training	3602	13.224	6,342
FY92 CHC	3603	13.224	42,351
FY92 Immunization Program	3604	13.224	3,553
FY92 Sexually Transmitted Diseases	3605	13.224	6,091
FY93 Family Planning	3607	13.217	22,738
FY92 ADAMHS	3608	13.991	80,338
FY93 Immunization	3609	13.224	13,432
FY92 MCH	3610	13.994	76,852
FY94 Family Planning	3611	13.217	4,400
FY93 CHC	3612	13.224	112,256
FY93 AIDS Prevention	3613	13.217	9,024
FY93 Substance Abuse	3614	13.992	1,323
FY93 MCH	3615	13.994	14,769
FY91 PH & PH ADAMS	3732	13.991	120
FY91 PH & PH	3733	13.991	431
MCH Dental Health	3734	13.994	1,910
FY91 MCH	3735	13.994	2,007
FY91 MCH/CSHCN	3736	13.994	400
FY92 PH & PH	3737	13.994	14,249
			<u>412,586</u>
Balance Forward			<u>1,198,442</u>

See accompanying notes to schedule of federal financial assistance.

STATE OF POHNPEI
 FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
U.S. FEDERAL ASSISTANCE FUND
YEAR ENDED SEPTEMBER 30, 1993

<u>Grantor Program Title</u>	<u>Pohnpei Org. #</u>	<u>CFDA I.D. #</u>	<u>1993 Fiscal Year Expenditures</u>
Balance Forwarded			\$ 1,198,442
<u>U.S. Department of the Interior</u>			
FY92 Historic Preservation	3461	15.904	32,555
FY91 Historic Preservation	3463	15.904	23,470
FY93 Historic Preservation	3466	15.904	260
Computer Advisor Training	3561	15.875	<u>12,818</u>
			<u>69,103</u>
<u>U.S. Department of Labor</u>			
FY91 JTPA Admin.	3210	17.250	5,037
FY91 JTPA Adult Program	3211	17.250	(170)
JTPA Youth Program	3212	17.250	24,968
FY91 JTPA Participant Support	3213	17.250	10,497
FY92 JTPA Admin.	3215	17.250	55,862
FY92 JTPA Adult Program	3216	17.250	139,868
FY92 JTPA Youth Program	3217	17.250	59,617
FY92 JTPA Participant Support	3218	17.250	56,025
FY90 Elderly Project	3219	17.250	36,808
FY92 Elderly Project	3221	17.250	<u>7,543</u>
			<u>396,055</u>
<u>U.S. Environmental Protection Agency</u>			
Janitorial services	3547	66.600	5
Environment Management Spec.	3562	66.418	9,708
Sokehs Deh Waste Disposal	3575	66.418	62,691
FY88 Paeis Water System	3189	66.418	9,509
Ipwal Water Project	3198	66.418	<u>22,974</u>
			<u>104,887</u>
Balance Forward			1,768,487

See accompanying notes to schedule of federal financial assistance.

STATE OF POHNPEI
 FEDERATED STATES OF MICRONESIA
 SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
 U.S. FEDERAL ASSISTANCE FUND
 YEAR ENDED SEPTEMBER 30, 1993

Grantor Program Title	Pohnpei Org. #	CFDA I.D. #	1993 Fiscal Year Expenditures
Balance Forwarded			\$ 1,768,487
<u>Federal Emergency Management Agency</u>			
Axel Public Safety	3753	83.516	13,512
Russ Assistance U	3754	83.516	6,540
Yuri Public Assistance PTA	3756	83.516	129,911
Public Assistance Kitti	3758	83.516	1,196
Yuri Environmental H	3761	83.516	455
Yuri Public Assistance Forestry	3763	83.516	836
Russ Assistance Health Services	3764	83.516	174,814
Yuri Aramas Kapw	3766	83.516	1,392
Yuri Marine Resources	3768	83.516	1,935
Russ Public Assistance EDA	3772	83.516	26
Axel Public Assistance Education	3773	83.516	5,848
Typhoon Yuri IFG	3774	83.516	(6,084)
Yuri Sokehs Municipal	3777	83.516	3,229
Yuri Governor Office	3783	83.516	5,699
Yuri Public Assistance Education	3788	83.516	7,263
Mwoakilloa Airstrip	3790	83.516	4,086
PTA Lehnmesi Bridge	3791	83.516	29,503
Typhoon Yuri OCMPM	3792	83.516	879
Public Assistance Agriculture	3793	83.516	11
PTA Axel Lehn Diadi	3794	83.516	67,496
Yuri Madolenihmw Municipal Government	3798	83.516	1,946
Axel Kitti Municipal	3799	83.516	21,041
			<u>471,534</u>
<u>Other U.S. Grants</u>			
Critical Population	3801	93.902	29,960
			<u>29,960</u>
Total U.S. Federal Assistance Fund			<u>\$ 2,269,981</u>

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

See accompanying notes to schedule of federal financial assistance.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
OTHER FEDERAL AND DIRECT ASSISTANCE FUND
YEAR ENDED SEPTEMBER 30, 1993**

<u>Grantor Program Title</u>	<u>Pohnpei Org. #</u>	<u>CFDA I.D. #</u>	<u>1993 Fiscal Year Expenditures</u>
<u>World Health Organization</u>			
Based Watershed	3925	N/A	\$ 26,683
FY89 Population Education	3956	N/A	<u>5,171</u>
			<u>31,854</u>
<u>U.S. Department of Commerce</u>			
Road Paving Matching	3810	11.300	<u>15,052</u>
			<u>15,052</u>
<u>Other Non-U.S. Grants</u>			
Pohnpei Community Health Center	3928	N/A	32,039
Historic Preservation	3943	N/A	(76)
Pohnpei Broiler Project	3945	N/A	36,844
Vocational Education Improvement Prog.	3947	N/A	32,781
Food Production & Nutrition	3948	N/A	4,779
PICS Peace Corp Training Program	3949	N/A	18,641
E.P.S. Prolines Computer	3952	N/A	1,450
Child Abuse/Neglect	3983	N/A	5,603
Hospital Contributed Fund	3988	N/A	5,933
Vocational Ed. Improvement Program	3989	N/A	1,769
Sports Council Contribution	3992	N/A	2,778
Hospital Equipment	3996	N/A	4,798
Environmental & Policy Inst. E.W.C.	3997	N/A	925
Child Abuse/Neglect	3998	N/A	<u>40</u>
			<u>148,304</u>
Total Other Federal and Direct Assistance Fund			<u><u>\$ 195,210</u></u>

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

See accompanying notes to schedule of federal financial assistance.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
CFSM PROJECTS FUND
STATEMENT OF EXPENDITURES AND QUESTIONED COSTS BY GRANTOR
YEAR ENDED SEPTEMBER 30, 1993**

Grantor Program Title	Pohnpei Org. #	CFDA I.D. #	1993 Fiscal Year Expenditures
Supreme Court Operations	4873	N/A	\$ 59,179
Sapwuaifik Airstrip	4894	N/A	20,666
PNI Rahn En Mwei Mwahu	4895	N/A	849
Pohnpei Medical Services	4906	N/A	150
Dental Services	4907	N/A	5,533
Farmers Home Administration	4910	N/A	475
Pohnpei Recreation Facilities	4914	N/A	54,296
Oroluk Marine Station	4915	N/A	5,276
Teacher Training Program	4916	N/A	15,329
Pohnpei Cultural Education	4917	N/A	821
Elementary & Secondary Education	4922	N/A	103,224
FY91 Joint Law Enforcement	4923	N/A	3,028
Medical Referral Coord.	4925	N/A	11,672
PCAA Administration	4926	N/A	8,775
Aramas Kapw	4927	N/A	13,535
Medical Supplies & Equipment	4928	N/A	23,467
PTA Lehn Diadi Bridge	4930	N/A	42,277
PTA Lehnmesi Bridge	4931	N/A	24,765
Mwoakilloa Airstrip	4933	N/A	3,173
Joint Law Voc. Rehab.	4935	N/A	82,807
Joint Law Police Sec.	4936	N/A	20,707
Congressional Election	4937	N/A	21,548
9668 Congressional Election	4938	N/A	54,583
Joint Law Public Safety	4939	N/A	7,573
Kitti Elementary School	4940	N/A	64,827
Madolenihmw Elementary School	4941	N/A	64,489
PICS High School	4942	N/A	41,438
1191 Medical Supplies & Equipment	4945	N/A	35,770
Marine Resources Trochus	4970	N/A	655
Total CFSM Projects Fund			<u>\$ 790,887</u>

Note 1: \$79,806 to the Pohnpei Transportation Authority (PTA) has been accounted for as a transfer from the CFSM Projects Fund in the General Purpose Financial Statements. A reconciliation of the above expenditures to the General Purpose Financial States is shown below:

CFSM Projects Expenditures	\$ 790,887
Less transfer to PTA	<u>79,806</u>
General Purpose Financial Statement Expenditures	<u>\$ 711,081</u>

Note 2: The above grants are received based on appropriations by the Congress of the Federated States of Micronesia.

See accompanying notes to schedule of federal financial assistance.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
POHNPEI UTILITIES CORPORATION
YEAR ENDED SEPTEMBER 30, 1993**

Grantor Program Title	CFDA I.D. #	1993 Fiscal Year Expenditures
<u>Office of Territorial and International Affairs</u>		
<u>Compact of Free Association:</u>		
Block Grant Funds—Energy Grant, Section 214(B)	15.875	\$ 595,000
Capital Account Funds—Capital Projects, Section 211(A)	15.875	<u>497,853</u>
		<u>1,092,853</u>
Initialization of the Pohnpei Utilities Corporation	15.875	27,688
Technical Assistance	15.875	17,100
Meter Calibration / Facility Inventory	15.875	<u>99,100</u>
		<u>143,888</u>
<u>Trust Territory of the Pacific Islands</u>		
Overhaul ALCO Generators—Pohnpei State	15.875	63,945
Deficiency Funding	15.875	<u>325,347</u>
		<u>389,292</u>
U.S. Army Corp of Engineers	N/A	<u>24,356</u>
Total Pohnpei Utilities Corporation		<u>\$ 1,650,389</u>

Note: The Compact of Free Association Funds are disbursed through the Office of Territorial and International Affairs (OTIA), Department of the Interior (DOI) to the FSM National Government which reallots such to the component States. Pohnpei State subsequently passed certain of these funds through to the Utilities Corporation (PUC). The initialization of the PUC, Technical Assistance, and Meter Calibration/Facility Inventory grants are also disbursed by OTIA, which provides these funds directly to the State of Pohnpei which are then passed through to the PUC. The Overhaul ALCO Generators—Pohnpei State, and Deficiency Funding are disbursed by the Trust Territory of the Pacific Islands (TTPI) Government directly to the State of Pohnpei and are then passed through to the PUC. All of the above funds, except the Army Corps of Engineers, bear CFDA No. 15.875. The Compact Funds are made available by Title Two, Article I, Section 214(B) for the Energy Grant, and Section 211(A) for the Capital Funds, of the Compact of Free Association. The U.S. Army Corp. of Engineers has not provided a CFDA #.

See accompanying notes to schedule of federal financial assistance.

**STATE OF POHNPEI
 FEDERATED STATES OF MICRONESIA
 SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
 POHNPEI STATE HOUSING AUTHORITY
 YEAR ENDED SEPTEMBER 30, 1993**

<u>Grantor Program Title</u>	<u>CFDA I.D. #</u>	<u>1993 Fiscal Year Expenditures</u>
<u>U.S. Department of Agriculture</u>		
Farmers Home Administration – Housing Preservation Grant	10.433	\$ 50,000
		<u>\$ 50,000</u>

Note: These funds are received in a subgrantee capacity through the Pohnpei Farmers Home Administration Office.

See accompanying notes to 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, 1993**

<u>Grantor Program Title</u>	<u>Pohnpei Org. #</u>	<u>CFDA I.D. #</u>	<u>1993 Fiscal Year Expenditures</u>
<u>Trust Territory of the Pacific Islands</u>			
Pohnpei Hospital Renovation	6323	15.875	\$ 27,644
Airport Runway Renovation	6325	15.875	<u>250</u>
Total TTPI Capital Projects Fund			<u>\$ 27,894</u>

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

See accompanying notes to schedule of federal financial assistance.

**STATE OF POHNPEI
 FEDERATED STATES OF MICRONESIA
 SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
 COMPACT OF FREE ASSOCIATION SPECIAL BLOCK GRANT FUND
 SECTION 221(B) SPECIAL BLOCK GRANT
 YEAR ENDED SEPTEMBER 30, 1993**

<u>Grantor Program Title</u>	<u>Pohnpei Org. #</u>	<u>CFDA I.D. #</u>	<u>1993 Fiscal Year Expenditures</u>
<u>Office of Territorial and International Affairs</u>			
Director's Office	2143	15.875	\$ (265)
Secondary Education	2144	15.875	1
Educational Services & Development	2145	15.875	50,381
Director's Office	2148	15.875	228,165
Preschool/Elementary Education	2149	15.875	1,353,173
Secondary Education	2150	15.875	1,222,539
Educational Services & Development	2151	15.875	<u>394,653</u>
Total Compact of Free Association Special Block Grant Fund – Section 221(B)			<u>\$ 3,248,647</u>

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

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

See accompanying notes to schedule of federal financial assistance.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
COMPACT OF FREE ASSOCIATION OTHER GRANTS FUND
YEAR ENDED SEPTEMBER 30, 1993**

Grantor Program Title	Pohnpei Org. #	CFDA I.D. #	1993 Fiscal Year Expenditures
<u>Section 212(A) – Special Development Programs</u>			
CAT Training	2513	15.875	\$ 2,415
Foreign Investment Board	2515	15.875	12,153
CAT Training	2516	15.875	3,000
CAT Training	2517	15.875	12,476
National Health Insurance	2518	15.875	130,808
Correction and Rehabilitation	2520	15.875	13,452
Office of Human Resources	2521	15.875	1,436
Special Development Drawdowns	2599	15.875	<u>250,000</u>
Total Section 212(A)			<u>425,740</u>
<u>Section 216(A)(2) – Health and Medical Programs</u>			
FY93 Medical Referrals	2356	15.875	<u>375,361</u>
<u>Section 214(B) – Energy Programs</u>			
Pohnpei Utility Corporation	2778	15.875	<u>500,000</u>
<u>Section 216(A)(3) – Scholarship Programs</u>			
FY90 Scholarship Grant	2906	15.875	1,619
FY92 Post Secondary Assistance	2908	15.875	37,751
FY93 Post Secondary Assistance	2909	15.875	<u>285,111</u>
Total Section 216(A)(3)			<u>324,481</u>
Total Compact of Free Association Other Grants Fund			<u>\$ 1,625,582</u>

(Note: These funds are made available by Title Two, Article I, Section 212(A), Section 214(B), and Section (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 reallots such to component States.

See accompanying notes to schedule of federal financial assistance.

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
 YEAR ENDED SEPTEMBER 30, 1993

Grantor Program Title	Pohnpei Org. #	CFDA I.D. #	1993 Fiscal Year Expenditures
<u>Office of Territorial and International Affairs</u>			
Rohnkitti Elementary School	6023	15.875	\$ 17,766
Sapwalap Elementary School	6028	15.875	549
Lukop Elementary School	6029	15.875	277
Construction of Saladak Elem. School	6031	15.875	1,202
Sokehs Powe Elementary School	6035	15.875	13,297
Mwoakilloa Elementary School	6039	15.875	5,317
Salapwuk Elementary School	6041	15.875	567
Developing & Maintaining Tourist Site	6097	15.875	7,070
Compact CIP Drawdowns	6099	15.875	8,984,056
Maintenance/Improvement—Kolonias Sewer	6118	15.875	2,865
Broiler Project Supplement	6144	15.875	3,411
Pepper Development Project	6146	15.875	497
EDA Fish Processing Plant Construction	6150	15.875	707,769
Coconut Rehabilitation	6155	15.875	5,070
Fencing Madolenihmw Schools	6160	15.875	28,838
Power Generator Equipment	6162	15.875	132
New Generator & Assoc.	6174	15.875	1,526,979
FY91 Broiler Dev.	6175	15.875	(18,011)
A&E Construction/Paving—S. Road	6177	15.875	278
Pohnpei Dock Extension	6179	15.875	1,040,606
Upgrading of Lewetik Road	6183	15.875	7,607
A&E Construction of 2 High Schools	6184	15.875	140
Upgrade Wone Kepine	6189	15.875	4,925
Construction of Two Clinics	6191	15.875	17,424
Landfill/Construction Sokehs Pah	6193	15.875	76,740
Trochus Clam Development	6194	15.875	1,353
Pepper Development	6197	15.875	57,552
Sup. Purchase of Generator	6204	15.875	1,475,400
Manpower Skill Development	6209	15.875	20,453
Nukuoro Black Pearl	6212	15.875	5,184
Land & Survey	6213	15.875	24,958
Renov. of Kapinga L. Dock	6214	15.875	3,975
Circumferential Road Maintenance	6216	15.875	43,304
Renovation of Pingelap Elementary School	6221	15.875	11,498
Kolonias Town Section 4 Road Maint.	6223	15.875	14,300
Expansion PICS High School	6224	15.875	11,358
Construction & Maintenance PICS School	6225	15.875	219,286
Sokehs Is. Circumferential Rd. Phase II	6226	15.875	47,755
Pohnpei Circumferential Rd. Phase III	6227	15.875	1,444,913
Upgrade Sapwuhfik Prim./Sec. Roads	6228	15.875	10,800
Upgrade Pingelap Prim./Sec. Roads	6229	15.875	20,500
Maintenance of Nanmadol Ruins	6230	15.875	16,068
A&E Construction/Upgrade Madolenihmw Rd.	6232	15.875	40,520
Water Distribution Kapinga	6233	15.875	18,683
Pepper Processing Plant	6234	15.875	5,933
Balance Forward			<u>15,929,164</u>

See accompanying notes to schedule of federal financial assistance.

**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
YEAR ENDED SEPTEMBER 30, 1993**

Grantor Program Title	Pohnpei Org. #	CFDA I.D. #	1993 Fiscal Year Expenditures
Balance Forwarded			\$ 15,929,164
Paving of Komwonlaid Road	6239	15.875	3,500
Paving of Dien Secondary Road	6240	15.875	4,410
Madolenihmw Infrastructure Project	6241	15.875	25,051
EDA Investment in FSM Bank	6242	15.875	500,000
Access Road Nanpohnmal/Nanpil	6243	15.875	132,170
Two Clinical Facilities	6245	15.875	79,022
Tourism Master Plan	6247	15.875	38,500
Tourism Promotion and Marketing	6248	15.875	46,915
Manpower Skill Development Program	6249	15.875	209,950
FY93 CIP Administration Cost	6250	15.875	88,085
Housing Loan Fund	6251	15.875	500,000
Fish Processing Plant MTN	6252	15.875	404,884
Pepper Development Project	6253	15.875	45,130
School Buses	6256	15.875	5,277
Mwoakilloa Development Project	6257	15.875	14,600
Pingelap Dispensary	6258	15.875	27,099
Family Food & Nutrition Program	6259	15.875	11,835
Water Resources Investigation	6262	15.875	15,000
Sapwuahfik Ground Water I	6263	15.875	80,000
Road Maintenance & Culverts C.	6267	15.875	150,000
Lehn Diadi and Lehn Mesi Brige Construction	6268	15.875	142,187
Broiler Project Subsidy	6271	15.875	84,223
Total Compact of Free Association Capital Projects Fund – Section 211 (A) Capital Accounts			<u>\$ 18,537,002</u>

Note 1: Transfers to Pohnpei Transportation Authority (PTA) and other reclassification of expenditures have been prepared in the General Purpose Financial Statements. A reconciliation of the above expenditures to the General Purpose Financial Statements is shown below:

Compact Capital Expenditures	\$ 18,537,002
Less: Transfer to PTA	1,909,423
FY91 MTN Debt payment	2,263,468
FY92 MTN Debt payment	4,177,845
FY93 MTN Debt payment	2,542,743
Reclassification of Pohnpei Fisheries Corporation operations as loan receivable	<u>404,884</u>
	<u>\$ 7,238,639</u>

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

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

See accompanying notes to schedule of federal financial assistance.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
COMPACT OF FREE ASSOCIATION GENERAL FUND
SECTION 211(A) CURRENT ACCOUNT
YEAR ENDED SEPTEMBER 30, 1993

Grantor Program Title	Pohnpei Org. #	CFDA I.D. #	1993 Fiscal Year Expenditures
<u>Office of Territorial and International Affairs</u>			
General Fund:			
Current Account	Various	15.875	\$ <u>7,320,438</u>
Total Compact of Free Association expenditures			\$ <u>31,824,522</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 FSM and reallocates such to the component States.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Notes to Schedule of Federal Financial Assistance
Year Ended September 30, 1993

1. Scope of Review

The State of Pohnpei is one of the four States of the Federated States of Micronesia. All significant operations of the State are included in the scope of the OMB Circular A-128 audit (the "Single Audit"). The U.S. Department of Interior has been designated as the State's cognizant agency for Single Audit.

A. Programs Subject to Single Audit

Statement of expenditures and questioned costs by grantor are presented for each federal program related to the following agencies:

- . U.S. Department of Agriculture
- . U.S. Department of Education
- . U.S. Department of Health and Human Services
- . U.S. Department of the Interior
- . U.S. Department of Labor
- . U.S. Environmental Protection Agency
- . U.S. Federal Emergency Management Agency
- . U.S. Housing and Urban Development
- . U.S. Department of Commerce

B. Fiscal Period Audited

Single audit testing procedures were performed for program transactions during the fiscal year ended September 30, 1993.

2. Summary of Significant Accounting Policies

A. Basis of Accounting

For purposes of this report, certain accounting procedures were followed which help illustrate the expenditures of the individual programs. All expenses and capital outlays are reported as expenditures.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Notes to Schedule of Federal Financial Assistance, Continued
Year Ended September 30, 1993

2. Summary of Significant Accounting Policies, Continued

B. Reporting Entity

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

C. Subgrantees

Certain program funds are passed through the State to subgrantee organizations. The statement of expenditures and questioned costs by grantor does not contain separate schedules disclosing how the subgrantee outside of the State's control utilize these funds.

D. Indirect Cost Allocation

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

3. Findings of Noncompliance

The findings of noncompliance identified in connection with the 1993 Single Audit are discussed in the Schedule of Findings and Questioned Costs. In determining compliance with requirements of awards received by the State, a representative sample was selected from 1993 expenditures for testing each major program as shown on the Schedule of Programs Selected for Audit in Accordance with OMB Circular A-128.

**STATE OF POHNPEI
 FEDERATED STATES OF MICRONESIA
 SCHEDULE OF PROGRAMS SELECTED FOR
 AUDIT IN ACCORDANCE WITH OMB CIRCULAR A-128
 YEAR ENDED SEPTEMBER 30, 1993**

<u>Grantor</u> <u>Program Title</u>	<u>CFDA No.</u>	1993 <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		\$19,034,855
221(B) Block Grant		3,248,647
212(A) Special Development Programs		425,740
216(A)(2) Health and Medical Programs		375,361
214(B) Energy Programs		1,095,000
216(A)(3) Scholarship Programs		324,481
TTPI Capital Projects		417,186
DOI OMIP-PUC		27,688
DOI Technical Assistance		29,918
DOI Meter Calibration/Facility Inventory		<u>99,100</u>
Total CFDA # 15.875 excluding Compact Section 211 (A) Current Account expenditures		25,077,976
 <u>U.S. Department of Education</u>		
Special Education Program	84.027	<u>639,745</u>
Total U.S. Federal program expenditures selected excluding Compact Section 211 (A) Current Account expenditures		<u>\$25,717,721</u>
Total U.S. Federal program expenditures excluding Compact Section 211 (A) Current Account expenditures		<u>\$27,424,547</u>
% of total U.S. Federal expenditures covered by major programs excluding Compact Section 211 (A) Current Account expenditures		<u>93.8%</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Findings and Questioned Costs
Year Ended September 30, 1993**

Federal Findings

Prior Year Outstanding Findings

1. **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>Page No.</u>	<u>Description</u>
<u>Fiscal Year 1990</u>		
4	94	Federal Grant Administration
<u>Fiscal Year 1991</u>		
3	91	CFDA Numbers
<u>Fiscal Year 1992</u>		
1	103	Drug-Free Workplace
6	107	Matching Documentation
10	110	Equipment Control

Cause: Unknown.

Effect: The non-resolution of these prior year findings will have the same impact in fiscal year 1993 as in fiscal year 1992, and will continue to hinder the effective maintenance of the State's compliance with federal financial assistance programs.

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

Auditee Response: See Corrective Action Plan.

Corrective Action Plan: The State is maximizing efforts to resolve the above prior year findings.

STATE OF POHNPEI
 FEDERATED STATES OF MICRONESIA
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1993

Federal Findings, Continued

<u>Program</u>	<u>Reason for Questioned Cost</u>	<u>Questioned Costs</u>															
2. U.S. Dept. of Education/ Education of the Handicapped /CFDA #84.027	<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 consistent with the underlying program objectives.</p> <p><u>Condition:</u> Adequate supporting documentation could not be obtained to determine if the following travel related expenditures meet program objectives:</p> <table border="0" style="margin-left: 40px; width: 80%;"> <thead> <tr> <th style="text-align: left; border-bottom: 1px solid black;"><u>Org. No.</u></th> <th style="text-align: left; border-bottom: 1px solid black;"><u>Check No.</u></th> <th style="text-align: right; width: 10%;"></th> </tr> </thead> <tbody> <tr> <td>3110</td> <td>68055</td> <td style="text-align: right;">\$ 1,534</td> </tr> <tr> <td>3110</td> <td>72830</td> <td style="text-align: right;">3,505</td> </tr> <tr> <td>3100</td> <td>73001</td> <td style="text-align: right;"><u>3,505</u></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>8,544</u></td> </tr> </tbody> </table>	<u>Org. No.</u>	<u>Check No.</u>		3110	68055	\$ 1,534	3110	72830	3,505	3100	73001	<u>3,505</u>			<u>8,544</u>	
<u>Org. No.</u>	<u>Check No.</u>																
3110	68055	\$ 1,534															
3110	72830	3,505															
3100	73001	<u>3,505</u>															
		<u>8,544</u>															

(The above is drawn from a sample of 25 items aggregating \$167,152 out of total program expenditures aggregating \$639,745, \$144,283 of which relate to payroll.)

Cause: Unknown.

Effect: The effect of the above condition is questioned costs.

Recommendation: We recommend that complete supporting documentation be obtained to support the above transactions. We also recommend that travel advance requests not be allowed until complete documentation is obtained.

Auditee Response: See Corrective Action Plan.

Corrective Action Plan: We will obtain the said documentation and resolve the questioned cost with the grantor agency.

STATE OF POHNPEI
 FEDERATED STATES OF MICRONESIA
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1993

Federal Findings, Continued

<u>Program</u>	<u>Reason for Questioned Cost</u>	<u>Questioned Costs</u>						
3. U.S. Dept. of Education/ Education of the Handicapped /CFDA #84.027	<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 consistent with the underlying program objectives.</p> <p><u>Condition:</u> Adequate supporting documentation could not be obtained to determine if the following training related expenditure meets program objectives:</p> <table style="margin-left: auto; margin-right: auto; border: none;"> <tr> <td style="text-align: center; border-bottom: 1px solid black;"><u>Org. No.</u></td> <td style="text-align: center; border-bottom: 1px solid black;"><u>Check No.</u></td> <td style="width: 50px;"></td> </tr> <tr> <td style="text-align: center;">3110</td> <td style="text-align: center;">70033</td> <td style="text-align: right; vertical-align: bottom;">2,057</td> </tr> </table> <p>(The above is drawn from a sample of 25 items aggregating \$167,152 out of total program expenditures aggregating \$639,745, \$144,283 of which relate to payroll.)</p> <p><u>Cause:</u> Unknown.</p> <p><u>Effect:</u> The effect of the above condition is questioned costs.</p> <p><u>Recommendation:</u> We recommend that complete supporting documentation be obtained to support the above transaction. We also recommend that payment requests not be 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 obtain the said documentation and resolve the questioned cost with the grantor agency.</p>	<u>Org. No.</u>	<u>Check No.</u>		3110	70033	2,057	<u>2,057</u>
<u>Org. No.</u>	<u>Check No.</u>							
3110	70033	2,057						
Total Department of Education Questioned Costs		<u>\$ 10,601</u>						

STATE OF POHNPEI
 FEDERATED STATES OF MICRONESIA
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1993

Federal Findings, Continued

<u>Program</u>	<u>Reason for Questioned Cost</u>	<u>Questioned Costs</u>
4. U.S. Dept. of Commerce/ Paving Road Project/CFDA #11.300	<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 consistent with the underlying program objectives.</p> <p><u>Condition:</u> The salary of a government advisor was charged to this account; however, no documentation to support the classification was located.</p> <p style="text-align: center;"><u>Org. No.</u> 3810</p> <p>(The above item was noted in isolation during the audit process.)</p> <p><u>Cause:</u> The State indicated a reclassification appears warranted; however, supporting documentation for such reclassification has yet to be provided.</p> <p><u>Effect:</u> The effect of the above condition is a questioned cost.</p> <p><u>Recommendation:</u> We recommend that the State locate the proper supporting documentation and prepare the necessary reclassification to clear the above questioned costs.</p> <p><u>Auditee Response:</u> See Corrective Action Plan.</p> <p><u>Corrective Action Plan:</u> We will obtain said documentation and resolve the questioned cost with the grantor agency.</p>	\$ 11,308
Total Department of Commerce Questioned Costs		<u>\$ 11,308</u>

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1993

Federal Findings, Continued

Program
5. U.S. Dept.
of Education/
Education of the
Handicapped
/CFDA #84.027

Criteria: Adequate records should be maintained by the grantee to support the number of handicapped recipients of the program.

Condition: Records maintained by Special Education at this time do not support the 700 recipients reported to the grantor agency.

Cause: Unknown.

Effect: Noncompliance with program requirements could be the result of this finding.

Recommendation: We recommend that documentation be obtained to properly support the 700 program recipients.

Auditee Response: We agree to this finding.

Corrective Action Plan: The program personnel are still in the process of compiling the recipient files and hope to have such completed by the end of fiscal year 1994.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1993

Federal Findings, Continued

Program
6. U.S. Dept.
of Education/
Education of the
Handicapped
/CFDA #84.027

Criteria: An Individualized Education Program (IEP) should be maintained for each recipient of the Special Education Program.

Condition: Based on our testing of 25 judgementally selected recipient files, only eleven contained IEPs.

Cause: Unknown.

Effect: Noncompliance with program requirements could be the result of this finding.

Recommendation: We recommend that IEPs be documented for each recipient of the program.

Auditee Response: We agree to this finding.

Corrective Action Plan: The program personnel are still in the process of compiling the IEPs for all the program recipients and hope to have such completed by the end of fiscal year 1994.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1993

Local Findings

Prior Year Outstanding Findings

1. **Criteria:** Prior year findings should be resolved appropriately by the State's management in a timely manner.

Condition: It appears that the following findings from the Schedule of Findings and Questioned Costs for previous fiscal years remain unresolved:

<u>Finding</u>	<u>Page No.</u>	<u>Description</u>
----------------	-----------------	--------------------

Fiscal Year 1992

4	114	Budgetary Control
7	116	Compact Capital Compliance

Cause: Unknown.

Effect: The non-resolution of these prior year findings will have the same impact in fiscal year 1993 as in fiscal year 1992, and will continue to hinder the effective maintenance of the State's compliance with federal financial assistance programs.

Recommendation: It is recommended that the State management resolve prior year findings appropriately in a timely manner.

Auditee Response: See Corrective Action Plan.

Corrective Action Plan: The State is maximizing efforts to resolve the above prior year findings.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1993

Local Findings, Continued

Use of Compact Capital Funds

2. Criteria: Compact Capital funds should be expended in accordance with local laws and regulations.

Condition: During the fiscal year ended September 30, 1993, Pohnpei State expended approximately \$600 of Compact Capital funds for auto repair and incurred an encumbrance (not an expenditure) of \$339,090 for Micro Glory dry docking. These items may not be an allowable use of Compact Capital funds.

Cause: Unknown.

Effect: Noncompliance with allowable uses of Compact Capital funds could be the result of this finding.

Recommendation: It is recommended that State management resolve this finding through the Office of the Attorney General with the FSM National Government.

Auditee Response: See Corrective Action Plan.

Corrective Action Plan: This matter has been referred to the Pohnpei State Attorney General and will be resolved accordingly.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1993

Local Findings, Continued

Use of Compact Energy Funds

3. Criteria: Compact Energy funds should be expended in accordance with the intent of Compact Section 214 (B).

Condition: During the fiscal year ended September 30, 1993, Pohnpei State expended approximately \$500,000 of Compact Energy funds for payment of utility bills. This does not appear to be an allowable use of Compact Energy funds.

Cause: Unknown.

Effect: Noncompliance with allowable uses of Compact Energy funds could be the result of this finding.

Recommendation: It is recommended that the State management resolve this finding through the cognizant audit agency and the U.S. Department of the Interior.

Auditee Response: We agree to this finding.

Corrective Action Plan: Measures will be taken to resolve this finding through the U.S. Department of the Interior.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1993

Local Findings-Pohnpei State Housing Authority

Processing and Approval of Loans

4. **Criteria:** Loan processing and approval procedures adopted by the Board of Directors should be followed.

Condition: In the review of loanees' files, we noted cases where the adopted procedures were not followed, particularly the point system for the rating of applications to ensure fairness.

Cause: Management and the Board of Directors are not requiring strict adherence to adopted procedures.

Effect: The failure to require strict adherence to loan procedures causes noncompliance with internal policies and may have created an impression that fairness is not exercised in the processing and approval of loans.

Recommendation: We recommended that management and the Board of Directors ensure that compliance occurs with policies and procedures of the Authority.

Auditee Response and Corrective Action Plan: During FY93, the Screening Point System was not used because many of the priorities established for the point system developed in 1988 has become obsolete and were no longer applicable to the housing situation in 1993. In lieu of the Screening Point System, the Board accepted an update on all applications under consideration and awarded based upon the priority of need for housing along with the ability to make loan repayments.

During FY93, the "Accepted and Approved" part of the Promissory Note and Loan Agreements, were not signed by the Board, but instead were signed only by the Executive Director, on behalf of the Board of Directors.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1993

Local Findings-Pohnpei State Housing Authority, Continued

Loan Requirements

5. **Criteria:** The "Loan Requirements" as stated in the by-laws and regulations adopted by the Board on May 9, 1988, should be followed.

Condition: From a sample of 69 approved loans, twelve loans had incomplete files. We also found one loanee who was not eligible for a housing loan from the Authority because of noncompliance with a citizenship requirement. However, this recipient received several housing loans.

Cause: Management and the Board of Directors are not requiring strict adherence to adopted requirements.

Effect: The effect is noncompliance with respect to the adopted loan requirements.

Recommendation: We recommended that management and the Board of Directors ensure that requirements of the Authority are strictly enforced. If requirements need to be revised, corrected, and/or updated, management should immediately remit such to the Board for approval.

Auditee Response and Corrective Action Plan:

- a. There were a number of difficulties involving land documentation. We tried to make sure that all applications identified the land where the housing unit is to be built, and the EPA and Historic Preservation permits included. However, on some renovation projects, where a house is already existing, once determined eligible for assistance, the Board reviews and approve based upon the need for such renovations.
- b. The citizenship requirement may be a matter of interpretation, as the Board feels that the long term resident status of some applicants qualifies them for assistance. (Proposed since 1992, amendments, to the existing regulations provides for long time residents to be allowed this assistance as they have been residing and working in Pohnpei for a long period of time).

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1993

Local Findings-Pohnpei State Housing Authority, Continued

Bidding for Construction

6. Criteria: The construction contract guidelines as stated in the by-laws and regulations as adopted by the Board on May 9, 1988, should be followed.

Condition: We noted no documents available in the loanees' files regarding compliance with bidding under the construction contract guidelines.

Cause: Management and the Board of Directors are not requiring strict adherence to adopted guidelines.

Effect: The effect is a lack of evidence to indicate compliance with adopted guidelines.

Recommendation: We recommended that adopted guidelines are followed and that documentation is maintained to indicate compliance.

Auditee Response and Corrective Action Plan: Our inability to fulfil the requirements of this policy was based on two reasons:

- a. With the low percentage of labor payment for projects, many professional contractors did not even bother to submit bids, we were forced to settle with whoever was interested in doing the project.
- b. Even then, among the few contractors who may be interested, loanees often intercede with their own choice of whom they approved in providing the labor.

The risk of not meeting the requirements of a building code is an ever-existing problem with us. Yet as we have continued to ensure the safety and the integrity of our projects, we have appealed to other government agencies to work together in the development of a more appropriate building code.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1993

Local Findings-Pohnpei State Housing Authority, Continued

Charges on Late Payments

7. **Criteria:** Section 5 of the terms and conditions of the promissory note signed by the loanee provides that all amounts not paid within thirty (30) days from the date when due, shall either accrue interest at the rate of 3% per annum until paid in full, or shall be charged \$10.00 for each month or portion thereof that the promissory note is delinquent.

Condition: Neither the 3% penalty charge or the \$10.00 charge for late payments have been enforced.

Cause: Management and the Board of Directors of the Authority have not required strict adherence to the terms and conditions of the promissory note.

Effect: The effect is a potential loss of late payment charge revenue. In addition, the failure to enforce these penalty charges may contribute to poor paying habits of loanees.

Recommendation: We recommended that management and the Board of Directors strictly enforce the terms and conditions of promissory notes.

Auditee Response and Corrective Action Plan: Accordingly, the late payment charges are supposed to be made. In the computation of the monthly payments, regular interest and late payment charges must be added as appropriate. Failure to comply constitutes an oversight on part of the form staff to pass this requirement to those who succeeded them in handling the agency accounts.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1993

Local Findings-Pohnpei State Housing Authority, Continued

Maximum Loanable Amount

8. Criteria: Under an Amendment to the Rules and Regulations, the maximum amount, interest rate, and repayment terms shall vary among the four (4) levels of low income as follows:

<u>Category</u>	<u>Salary/ Income</u>	<u>Maximum Amount</u>	<u>Interest Rate</u>	<u>Terms</u>
I	\$ 3,500	\$ 5,000	3%	15 years
II	8,000	12,000	3%	15 years
III	14,000	15,000	4.5%	7 years
IV	14,001	25,000	4.5%	5 years

Condition: Eight cases existed wherein the total amount of the original loan and supplemental loans were more than the \$25,000 maximum. Further, the repayment terms of these loans are for ten to fifteen years. Three of these eight cases involve loans to employees of the Authority.

Cause: Unknown.

Effect: The effect is noncompliance with rules and regulations regarding basic provisions of the housing loan program.

Recommendation: We recommended that the above adopted conditions be enforced, especially with regard to loans to related parties.

Auditee Response and Corrective Action Plan:

Concerning Granting of Supplemental Loans

The actual ceiling for supplemental requests was initially established at \$5,000 dollars maximum, later (1993) changed to \$10,000 dollars. In view of a loan applications which was submitted with 1990 estimates (i.e. \$5,000) but approved in 1993, the cost of the project had more than doubled. It can only be anticipated that a supplement of \$5,000, although equivalent to the initial loan request, will no longer be sufficient to complete the project. As a result, a few loans were granted with supplements larger than the initial loan request.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1993

Local Findings-Pohnpei State Housing Authority, Continued

Maximum Loanable Amount, Continued

8. Auditee Response and Corrective Action Plan, Continued:

Concerning Granting of Supplemental Loans, Continued

Accordingly, no supplement loans were recommended for those with poor credit records but despite this some were still approved by the Board of Directors. A number of projects were delayed and not provided supplements to complete until the loanee has improved repayment of the delinquent account. Many of the loans which lapsed into this category, became delinquent because the loanees refused to continue paying a project they could not use, as it remained incomplete. Sometimes we have to negotiate with these loanees to resume their payments in order to be eligible for a supplement loan to complete their homes.

Concerning Maximum Loanable Amount

Regarding the awarding of loans, the Board of Directors have not awarded a single loan exceeding the maximum loanable amount. However, based upon numerous factors ranging from the length of time between awards to the fluctuations in price quotations, added to the damages sustained to finished portions of the projects resulting from the exposure to the elements or sometimes to outright vandalism, costs of projects usually went beyond original estimates. Nevertheless, it has never been the intention of the management and the Board of Directors to award loans beyond the established ceiling, although the cost of building houses in 1993 had more than doubled the standard established in 1988.

Regarding borrowers whose income falls below the established in criteria, we were unable to verify the income in terms of a paycheck at the end of the two weeks, but many of these people have resources which they can convert to instant cash which far exceeded that of some people earning a regular much better than those earning a regular paycheck. The initial submission of the Board's proposed amendments on the existing regulations had taken this matter into consideration and approved amendments now reflect that income Level I shall include those applicants whose are earning up to \$5,000 per annum.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1993

Local Findings-Pohnpei State Housing Authority, Continued

Transfers of Fund From Housing Loan Fund to Warehouse Account

9. Criteria: Compact capital funds are to be used for capital purposes.

Condition: The Housing Loan Fund is a revolving fund for the housing loan program and is funded by Compact capital funds through annual appropriations. The Warehouse Fund is funded through the Authority's service fees and other miscellaneous income and the fund is used to pay other administrative and operating expenses of the Authority not covered by the State's operating appropriation.

We noted that \$23,714 of the Housing Loan Fund was transferred to the Warehouse Fund and was used to pay for office supplies, repairs, personnel services, transportation and travel, utilities, advances, computers and representation.

Cause: It appears that management considered certain operating and administrative expenses, which were not appropriated in the Authority's operating budget, necessary in the operations of the Authority, and therefore made the transfer.

Effect: The effect is noncompliance with the intent of the Compact of Free Association.

Recommendation: We recommend that Compact capital funds be used only within the intent of the Compact of the Free Association.

Auditee Response and Corrective Action Plan: As I indicated in my letter when I responded to this issue, the responsibility of the management is to ensure the successful implementation of the Housing Loan Program. When the administration of the program reaches a critical situation brought about by the limitation of its funding, we could not very well leave out important program requirements but had to accommodate them through the best means possible. Furthermore, the drawdowns can be justified by the fact that we did not use the loan fund itself but, instead we have merely utilized, aside from the 1.5% appropriated for our administrative cost, the interest earned from our savings account and a small percentage of the interest earned from our loan fund has been deposited only under a checking account which does not earn interest. With the Authority's desire to generate enough funds to support our much needed administrative expenses, we found out, by inquiring with the bank that we could actually earn interest from our loan fund by maintaining both a savings and checking account. Usage of this interest is, I believe, justifiable.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1993

Local Findings-Pohnpei State Housing Authority, Continued

Payment of Contractual Services Using PSHA Loan Fund

10. **Criteria:** All contracts should be properly authorized and appropriated funds spent under the intent of the appropriation.

Condition: The Authority entered into a contract which was not signed as to "Budget" and "Fund Certifications". We also noted that the Authority issued four checks totaling \$17,175 from the Housing Loan Fund against the contract, a condition which does not appear to be within the intent of the Housing Loan Fund appropriation.

Cause: Unknown.

Effect: The effect is noncompliance with the Financial Management Act and with the intent of the Housing Loan Fund appropriation.

Recommendation: We recommended that contracts not be issued until properly approved and that Housing Loan Funds be used only within the intent of the appropriation.

Auditee Response and Corrective Action Plan:

Concerning Open Bidding for A & E Contract

This may have been an oversight. We do have documents for the A & E bidding. The solicitation of bids took more than a month when we first announced it. When we did not receive any response from local contractors, we made another announcement and after waiting 30 days, we reviewed and accepted the two bids submitted, which were from Public Design, Ltd., a local firm and Chen & Associates which is based in Agana, Guam. After the Board had reviewed and decided on the proposals submitted by two interested firms, we still had to secure clearance through the State Attorney General's office to ensure that the contract agreement with Public Design Ltd., who won the contract, was in accord with the State Government policies.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1993

Local Findings-Pohnpei State Housing Authority, Continued

Payment of Contractual Services Using PSHA Loan Fund

10. Auditee Response and Corrective Action Plan:

Concerning Payment of Contractual Services Using PSHA Loan Fund

The matter pertaining to the utilization of services of an independent A & E firm was discussed with the Governor, his designated task force, the PSHA Board of Directors, and everyone concerned. It was determined that due to PSHA's inability to provide such important program requirements, it was necessary to contract an outside firm to handle this shortcoming. When this proposal was submitted for review, we included the project cost estimates. After the review of the two final bids received and the awarding of the contract, the cost estimates were included. However, upon approval of the A & E proposal, no other funding source was identified, it became our option to implement the program as approved utilizing whatever resources are available. As the services provided through the A & E contract were directly involved with the implementation of the individual project requirements, the cost of the A & E contract was then charged to the labor increment of the project costs.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1993

Local Findings-Pohnpei State Housing Authority, Continued

Supporting Documents

11. Criteria: Disbursements should not be made without supporting documents and the supporting documents should be filed for future reference.

Condition: We noted thirty-three checks totaling \$14,198 which were issued to loanees which were not supported by invoices or memos.

Cause: Unknown.

Effect: The effect is noncompliance with the Authority's disbursement policies.

Recommendation: We recommended that an attempt be made to locate supporting documents for the checks referred to above, and that in general, disbursements not be made without supporting documents filed for future reference.

Auditee Response: No response was provided.

Corrective Action Plan: No response was provided.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1993

Local Findings-Economic Development Authority

The Fishing Vessels

12. Criteria: SL 3L-28-92 provides that "the fishing boats purchased under the Medium Term Note borrowings shall remain the property of the Economic Development Authority" and "the Economic Development Authority, in conjunction with the Pohnpei Fisheries Corporation shall evaluate and report to the Legislature, within six months of the initial operation of the Fish Processing Plant, on the feasibility of operating said boats".

Condition: More than six months have passed since the initial operation of the Fish Processing Plant, yet we noted no definite action nor plan made regarding these fishing vessels. We did note, however, that the Fish Processing Complex Review Analysis and Recommendations report made by The Alliance Group, dated June 8, 1992, included recommendations on what to do with these fishing vessels.

Cause: Unknown.

Effect: The effect is noncompliance under SL-3L-28-92.

Recommendation: We recommend that management and the Board of Developers together with PFC evaluate the report made by the Alliance Group and any other recommendations to develop a plan of action regarding these fishing vessels in a timely manner.

Auditee Response and Corrective Action Plan: With the exception of the five Japanese fishing boats (Usuhan, Boat I and II, Miss Pohnpei and Miss Senyavin), the four Danish boats (Atet, Kutohr, Kasay and Sihk) were purchased under the Medium Term Note to fish for the fish processing plant.

Sometime in November of 1992, prior to the formation of this new Administration, the Board of Directors decided to suspend the bottom fishing activity. Request for fund to repair the Danish boats was made to be included in the operational budget of the fish processing plant but the amount requested for the boats was deleted. Also, an official request to OFCF for FY 1994 was made through the inspection team to repair the Japanese boats, however, EDA was told later that due to inadequate funding, OFCF was unable to provide the aid.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1993

Local Findings-Economic Development Authority

The Fishing Vessels

12. **Auditee Response and Corrective Action Plan, Continued:**

The Board of Developers in its regular meeting of May, 1994 approved a recommendation of the Management to offer the boats for lease. Public announcement is being made for any interested individual or groups to submit proposal for lease of any of these fishing boats. The announcement solicits proposals that will lease all of these vessels on terms agreeable with EDA and the lessee, the deadline of which is July 25, 1994. If this will materialize, the sunk cost will be reduced considerably by the lease income that will be generated.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
RESOLUTION OF PRIOR YEARS' QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 1993

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	118,431
FY93 unresolved questioned costs	<u>43,509</u>
 Total outstanding federal questioned costs	 <u>\$2,425,817</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, 1993**

**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, 1993, and have issued our report thereon dated March 16, 1994. 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 fixed assets of the Pohnpei Economic Development Authority (a Proprietary Fund Type - Enterprise Fund) and the General Fixed Assets Account Group.

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, 1993, 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. A description of these matters is presented in the following pages 119-137.

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

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

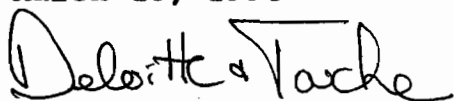
Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined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

We also noted other matters involving the internal control structure and its operation which are described in the accompanying Schedule of Internal Control Findings (pages 119 through 137).

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 March 16, 1994.

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.

March 16, 1994



Certified Public Accountants

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings
Year Ended September 30, 1993**

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		
16	Fixed Assets	112
18	Automated System	113
26	Contract Regulations	119
Fiscal Year 1991		
2	Data Processing	101
3	Compact Expenditures	102
8	Accounts Receivable	105
9	Uncollected Receivables	105
Fiscal Year 1992		
4	Disbursement Control	125
11	Treasury Fund	130

Cause: Unknown

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Finding No. 1, Continued

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: See Corrective Action Plan.

Corrective Action Plan: The State is maximizing efforts to resolve the above prior year findings.

Financials

Finding No. 2

Criteria: The State's balance sheets (101-Ps) should be periodically reviewed and discrepancies corrected in a timely manner.

Condition: We noted that generated balance sheets (101-Ps) reflect assets on the liability section and vice versa.

Cause: Unknown.

Effect: There is no effect on the financial statements as a result of this condition.

Recommendation: We recommend that State personnel periodically review the system's 101-Ps and correct the discrepancies at that time.

Auditee Response: We agree to this finding.

Corrective Action Plan: We have implemented procedures to ensure that system 101-P's are reviewed periodically and any discrepancies in account balances are corrected in a timely manner.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Payroll

Finding No. 3

Criteria: Pay rates of employees should reflect those rates approved in personnel action files.

Condition: Of a sample of 25 payroll items tested, one employee payroll rate for annual leave was \$1 in excess of his normal rate.

Cause: Unknown.

Effect: There is no material effect on the financial statements as a result of this condition.

Recommendation: We recommend that quality control be exercised over payroll master file information.

Auditee Response: The State was unaware of this occurrence, steps were taken to rectify the situation.

Corrective Action Plan: Per review we noted that such was due to a system error which has been corrected subsequently.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Payroll, Continued

Finding No. 4

Criteria: Maximum accruable annual leave is 360 hours per employee.

Condition: Numerous employees had in excess of 360 hours per the annual leave report.

Cause: Unknown.

Effect: The effect is an overstatement of liabilities.

Recommendation: The computer system should automatically disallow any annual leave accruals once the employee has reached 360 hours.

Auditee Response: See Corrective Action Plan.

Corrective Action Plan: At this time, the vacation accrual begins April 1, 19xx and ends on March 31, 19xx. Therefore the system continues to accrue over 360 hours until such is manually corrected at March 31, 19xx. Management is reviewing suggestions to rectify the situation.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Encumbrances

Finding No. 5

Criteria: Liquidation of encumbrances should be manually recorded in contract files prior to computer input.

Condition: Manual records have not been maintained.

Cause: Management has informed us that this control was neglected due to the lack of personnel.

Effect: A potential is created which could allow for overstatement of encumbrances.

Recommendation: Higher level personnel should ensure that this control is enforced.

Auditee Response: We agree to this finding.

Corrective Action Plan: The above finding has been discussed with the responsible finance personnel and manual liquidation records will be consistently maintained in the future.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Receivables

Finding No. 6

Criteria: Receivables should be periodically reviewed and collectibility assessed.

Condition: General receivables of \$558,529 are recorded and no collection was noted throughout fiscal year 1993.

Cause: Unknown.

Effect: An overstatement of receivables could be the result of this condition.

Recommendation: We recommend that management review the collectibility of the above receivables.

Auditee Response: We agree to this finding.

Corrective Action Plan: The above receivable will be referred to the State Department of Revenue & Taxation and appropriate measures taken to determine the collectibility of such.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Receivables, Continued

Finding No. 7

Criteria: Receivables should be periodically reviewed and needed collection procedures implemented.

Condition: Per our review of Due from Other Governments (CFSM), we noted outstanding receivables for projects dated back to fiscal year 1989.

Cause: Unknown.

Effect: A possible overstatement of receivables could be the result of this condition.

Recommendation: We recommend that management review the above receivable and attempt to collect such from the FSM National Government.

Auditee Response: We agree to the above finding.

Corrective Action Plan: The State is in the process of resolving the said receivable through the appropriate channels at the National Government.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Granting of Supplemental Loans-PSHA

Finding No. 8

Criteria: A policy regarding supplemental loans should be adopted by the Board of Directors.

Condition: Out of twenty-one supplemental loans selected for testing, fifteen loanees received supplemental loans which, when combined with their original loan, exceeded the amount approved in their application. In addition, supplemental loans were approved and released to loanees who have displayed a history of poor credit. Therefore, it appears that their capability to make increased monthly payments could be questionable.

Cause: Unknown.

Effect: The effect of this condition is a lack of control over supplemental loans. This condition may affect the Authority's goal to ensure maximum participation in the housing program by low-income families.

Recommendation: We recommended that management and the Board of Directors consider and adopt policies regarding supplemental loans.

Auditee Response and Corrective Action Plan: The actual ceiling for supplemental requests was initially established at \$5,000 dollars maximum, later (1993) changed to \$10,000 dollars. In view of a loan applications which was submitted with 1990 estimates (i.e. \$5,000) but approved in 1993, the cost of the project had more than doubled. It can only be anticipated that a supplement of \$5,000, although equivalent to the initial loan request, will no longer be sufficient to complete the project. As a result, a few loans were granted with supplements larger than the initial loan request.

Accordingly, no supplement loans were recommended for those with poor credit records but despite this some were still approved by the Board of Directors. A number of projects were delayed and not provided supplements to complete until the loanee has improved repayment of the delinquent account. Many of the loans which lapsed into this category, became delinquent because the loanees refused to continue paying a project they could not use, as it remained incomplete. Sometimes we have to negotiate with these loanees to resume their payments in order to be eligible for a supplement loan to complete their homes.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Monthly Amortization of the Loan-PSHA

Finding No. 9

Criteria: Required monthly payments should be sufficient to pay off loans per note terms.

Condition: Approximately 44% of monthly payments were not sufficient to pay off the loan per the note terms.

Cause: It appears that the required monthly payments are not being properly calculated or the terms of the note are not in line with the loanees' ability to repay the loan.

Effect: The effect is that the required monthly payments are often not in agreement with the terms of the notes.

Recommendation: We recommended that note terms be based on a comprehensive and efficient evaluation of the capability of the loanee to repay the loan. Additionally, we recommend a thorough review of the current files with adjustments made either to the monthly payments or terms of the note so that the terms of the note can be met.

Auditee Response and Corrective Action Plan: Accordingly, all loans (awarded since (1990) were computed based upon the formula indicated in the report. It would constitute a deviation from the accepted formula of computation if the reported cases were among those granted since 1990. In our daily operation, we have continually faced the problem of loanees altering their initially agreed payment schedule. In most cases, it takes two weeks for us to be able to identify changes in payment amounts, especially after our receiving the allotment check. It has been part of continuous effort, to keep after those altering payments and also agencies allowing such changes/adjustments without first clearing with us.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Delinquent Accounts-PSHA

Finding No. 10

Criteria: Delinquent accounts should be closely monitored and managed.

Condition: Approximately 37%, or approximately \$510,000, of loans are in default of note conditions and loan agreements. In addition, fifteen instances exist where delinquent accounts were provided supplemental loans.

Cause: This condition is due to management and the Board of Directors not closely monitoring delinquent loans and not enforcing collection policies.

Effect: It appears that delinquent accounts have restricted maximum participation by low-income families.

Recommendation: We recommended that management and the Board of Directors closely monitor and manage delinquent accounts the including enforcing of collection policies.

Auditee Response and Corrective Action Plan: Every month we are faced with alteration of account payments by borrowers, but this problem is being minimized. The more important problem however, is the fact that more than half of the 127 casefiles cited, the loanees were delinquent due to their inability to maintain originally agreed payment amounts. A number of these loans were supposed to have been paid up, however, due to irregular and delinquent payments combined with added interests, these loans remained delinquent. As a last resort, we appealed to the borrowers, and they agreed to restructuring the payment to a lower monthly payments in order to enable them to re-establish loan repayment.

The acceleration clause in the Mortgage Agreement has not been implemented as of yet. It was the intention of the Board of Directors to provide as much assistance as possible, and when all else failed, then we shall proceed into foreclosures. Under the direction of the Board of Directors, current effort is being concentrated in isolating the continually delinquent accounts for appropriate action. As of this date, PSHA has a number of casefiles being reviewed by the State Attorney General for appropriate legal action and expects a response soon.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Recording of Approved Loans-PSHA

Finding No. 11

Criteria: Support for the recording of loans into the accounting system should be clearly documented.

Condition: The accounting department was not provided with a document that summarizes the details and signifies the approval of a loan.

Cause: Unknown.

Effect: The effect is that a risk exists that loans may go unrecorded or may be recorded under erroneous terms.

Recommendation: We noted that for fiscal year 1994, the Accountant designed a pre-numbered form called "Loan Booking" that will be signed and approved by the Loan Officer and Executive Director, respectively. However, we further recommend that the Accounting Department be provided with the minutes of meetings indicating the approval of loans by the Board of Directors.

Auditee Response and Corrective Action Plan: Accordingly, the Loan division is responsible for the booking of all loans, and the Accounting correspondingly opens an account when the loan is booked. Procedurally, documentation formats were developed to connect the efforts of each division and maintain internal control of activities. Specifically for this, a Notice to Proceed is prepared by the Loan division and signed by the Executive Director, to enable the Accounting division to create the new account, and for Construction division to prepare and sign the contract agreement for the project. To safeguard against booking a loan with an unapproved loan amount, a copy of the approved applicant listing is usually provided to the division supervisors for purposes of cross-referencing the loan amounts that are booked. As this procedure is a recent modification in our operation, we anticipated some problems at the beginning, but at this time, I believe that it has improved a great deal.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Travel expenses-PSHA

Finding No. 12

Criteria: Funds should not be disbursed without documented authorization and travel restrictions should be followed.

Condition: One travel advance could not be matched with a travel authorization. Additionally, an expatriate employee received home leave benefits during a period when such benefits were disallowed.

Cause: Unknown.

Effect: No material effect on the financial statements occurs as a result of the condition.

Recommendation: We recommend that disbursements not be made without proper authorization. We recommend that only allowable benefits be provided employees.

Auditee Response: No response was provided.

Corrective Action Plan: No response was provided.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Rate of Storage-Pohnpei State EDA

Finding No. 13

Criteria: The Authority should follow its standard service charges with the reasons for any variances from the standard rate documented.

Condition: The Authority is not charging the standard rate for the storage of bait by foreign fishing vessels.

Cause: Unknown.

Effect: The effect is a loss of services revenues without explanation.

Recommendations: We recommend that management and the Board of Developers evaluate the Authority's standard rates and enforce their use. Any exceptions should be clearly documented.

Auditee Response and Corrective Action Plan: The reduced rate is only being applied on the baits being stored for use of the foreign fishing boats. This is being given only to owners and operators of these fishing boats as an incentive for the big and continued business they are giving EDA. But this resulted to reduction of the selling price of transshipment by catch which EDA is buying from \$0.70 to \$0.40 per kilo effective May, 1994 except for Ting Hong which is \$0.60 per kilo.

In the meantime, EDA is still in the process of working out the possibility of increasing the storage rates now that we have been paying for the utilities.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Travel Expenses-Pohnpei State EDA

Finding No. 14

Criteria: Board approved budgets should be followed.

Condition: Travel expenses exceeded the Board approved budget by approximately \$15,000.

Cause: Unknown.

Effect: The effect is a reduction of funds for other budget categories. Cash shortages also result which have seriously affected the operations of the Authority and its ability to settle outstanding obligations with creditors.

Recommendation: We recommend that the approved budget be closely followed with justification and approval for material budget overrides documented with an explanation of the source of excess funds.

Auditee Response and Corrective Action Plan: EDA, being an instrumentality of the Executive Branch of the State Government is now implementing Governor's directive which requires that all travels will only take place upon receipt of official invitations or acceptances from the hosting party. All trips to date have been reported to the Board of Developers, copies of which will be made available to Comptroller for audit purposes. Also, travelling expense is now being limited to the approved developmental budget.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Collection of Receivables - Pohnpei State EDA

Finding No. 15

Criteria: Receivables should be collected in a timely manner.

Condition: Approximately 85% of total receivables represent accounts that are more than ninety days outstanding. No collection effort was undertaken to collect loans receivable on small equipment fisheries.

Cause: It appears that the majority of past due balances are more than one year old and no invoices exist to support the validity of the accounts.

Effect: The effect is an overstatement of gross receivables and an understatement of the allowance for doubtful accounts.

Recommendation: We recommend that a search for supporting documents be conducted and a conscientious effort be made to collect outstanding accounts. For accounts in which supporting documents cannot be located, we recommend the accounts be written off to properly reflect gross accounts receivable and allowances for doubtful accounts.

Auditee's Response and Corrective Action Plan: We will be sending demand letters to all these past due accounts and the Billing and Collection staff are instructed to follow up closely these accounts and make a weekly report to me on the progress of the collection follow-ups.

On the PFC accounts, Management have talked to Treasury Department and also to PFC on who should pay us these accounts and Finance said that it should be PFC since they have released the money to them and PFC said that these expenses were prior to the law creating PFC so they can't pay them. Maybe, we should seek the advice of the State Attorney General's Office on what to do with this account and to determine the agency that should reimburse us.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Control and Handling of Inventory - Pohnpei State EDA

Finding No. 16

Criteria: Inventory should be stored and monitored to minimize losses due to handling and pilferage.

Condition: No inventory system or controls exist over the inventory at Nett Point. Additionally, the warehouse is dirty and stock is not stored in an orderly manner.

Cause: It appears the Authority has no written inventory system to be followed by the assigned Warehouseman.

Effect: The effect was the recognition of an inventory loss of \$23,000 during 1993 which is due to physical deterioration of the inventory, pilferage, and correction of previous year's inventory.

Recommendation: We recommend that management and the Board of Developers document an inventory system to track receipts and issuances of inventory. We also recommend that inventory be maintained in an orderly, clean, and safe environment and that idle inventory be utilized or sold.

Auditee's Response and Corrective Action Plan: Management has instructed the Administrative Officer and the Bottom Fishing staff to make an inventory and assessment of these goods stored at Nett Point warehouse and determine the items that can still be used in the bottom fishing projects. All the other items which are still in good condition will be brought to the Main Office and be offered for sale to the public and the damaged ones will be disposed of to clear the storage at Nett Point.

The warehouse has been asked to maintain a record of all the goods stored thereat and keep record of the withdrawals made and also maintain the place and the stocks in good and orderly condition always.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Monitoring of Ice and Fish Activities- Pohnpei State EDA

Finding No. 17

Criteria: Production and issuance of ice and fish trading operations should be accurately controlled, monitored, and accounted for.

Condition: The "Daily Ice Inventory Report" and the "Daily Fish Inventory Report" were not regularly prepared. Also, no indication of a review existed which checked the accuracy of these forms.

Cause: It appears that implementation of the above reports is not being enforced and that review by a supervisor is not occurring.

Effect: The effect is possible losses due to unauthorized issuance of ice or fish.

Recommendation: We recommend that management emphasize the importance of the above reports and provide necessary supervision and guidance to train personnel to properly prepare the reports.

Auditee's Response and Corrective Action Plan:

Concerning Monitoring of Ice Productions

We will try to come up with the written policies and procedures on the use of the Daily Ice Inventory Report. The Manger of the Cold Storage has met with the staff and stress to them the importance of accomplishing the pre-numbered form completely and accurately.

Concerning Purchasing and Selling of Fish

A written procedures will be made to implement the Daily Fish Inventory Report and this will be explained to all the staff responsible for its preparation and its importance will also be stressed to them. The Manager or the Marketing Supervisor is responsible to monitor compliance to these policies and procedures.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Cold Storage Operations-Pohnpei State EDA

Finding No. 18

Criteria: Stock in the cold storage should be duly accounted for, and the Authority's responsibility and accountability with regard to cold storage services should be well defined and documented.

Condition: The stock of customers with bulk items are accounted for through "Customer's Tally Sheets." Not all customers with bulk items have the corresponding Customer's Tally Sheets and the Customer's Tally Sheets are in loose files which are susceptible to loss.

For customers with few items, a Storage Log is used. The logbook does not indicate the type of product stored, there were instances wherein the withdrawal portion was not filled-out, and the customer's signature was not evidenced to acknowledge the receipt of items withdrawn.

The storage terms and conditions, and the responsibility and accountability of the Authority to the customer and vice-versa are not well defined.

Cause: There are no written guidelines to efficiently monitor and control stored stock. Also, there is no agreement nor contract signed by the Authority and the customer that defines cold storage terms and conditions.

Effect: The above condition may result in unaccounted shortages and problems with customers. Also, without a storage agreement, the Authority is exposed to the risks of facing storage claims and/or non-payment of storage fees by customers.

Recommendation: We recommend that written policies be formulated by management so that a consistent and efficient system of monitoring stored items exists. We also recommend that the Authority design a storage contract or agreement defining the terms and conditions of cold storage, and the responsibility and accountability of the Authority and the customers be addressed in this contract.

Auditee's Response and Corrective Action Plan: We will try to reiterate and make some changes on the written procedures regarding monitoring the stored stocks for bulk customers and evaluate the present storage log and other forms being used to improve the system. Also, we will try to come up with the terms, conditions and responsibilities of both parties with respect to the stored goods which we will incorporate on the receiving report that is presently being used.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Spoilage and Donations of Fish

Finding No. 19

Criteria: Spoilage and donated fish should be accurately accounted for.

Condition: Spoilage and donated fish are recorded in a logbook and are not reflected in the accounting records.

Cause: This condition appears to be due to an absence of policies with respect to spoilage and donations of fish.

Effect: The effect is a lack of accurate records to track spoilage and donations of fish for accounting and management purposes.

Recommendation: We recommend that management formulate written guidelines and procedures relative to spoilage and donations of fish.

Auditee's Response and Corrective Action Plan: Management will try to come up with written policies and procedures on the donation and disposal of fish so that everything will be documented and recorded.