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**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

YEAR ENDED SEPTEMBER 30, 1994

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**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

YEAR ENDED SEPTEMBER 30, 1994

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**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
INDEPENDENT AUDITORS' REPORT AND
GENERAL-PURPOSE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 1994**

**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 set forth in Section II of the foregoing table of contents, as of September 30, 1994, and for the year then ended. These general-purpose financial statements are the responsibility of Pohnpei State management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

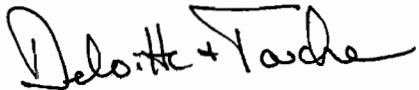
Except as discussed in the following paragraphs, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance 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.

Because of inadequacies in the accounting records and because of the inclusion in fixed assets of certain items for which substantial uncertainty exists concerning their long-term value, we were unable to determine whether fixed assets of the Pohnpei Economic Development Authority (EDA) or the Pohnpei Port Authority (PPA) were fairly stated. EDA and PPA are included within the Component Units-Proprietary Funds and represent 4% of the fixed assets of the Component Units-Proprietary Funds.

Pohnpei State has not adequately updated its General Fixed Assets Account Group during the year ended September 30, 1994, 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 on the general-purpose financial statements of such adjustments, if any, as might have been determined to be necessary had we been able to determine the propriety of fixed assets of EDA and PPA and had the General Fixed Assets Account Group been updated, as discussed in the third and fourth paragraphs above, the accompanying general-purpose financial statements, as set forth in Section II of the table of contents, with the exception of the General Fixed Assets Account Group upon which we are unable to express an opinion because of matters set forth in the paragraph above, present fairly, in all material respects, the financial position of the State of Pohnpei as of September 30, 1994, and the results of its operations and the cash flows of its proprietary funds for the year then ended, in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated December 12, 1994 on our consideration of the State of Pohnpei's internal control structure and a report dated December 12, 1994 on its compliance with laws and regulations.

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

December 12, 1994

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Combined Balance Sheet – All Fund Types, Account Groups and Discretely Presented Component Units
September 30, 1994
(With comparative totals as of September 30, 1993)

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Type	Account Groups		Totals Primary Government	Component Units	Totals Reporting Entity	
	General	Special	Capital	Enterprise	Internal	Expendable	General	General	(Memorandum Only)	Proprietary Funds	(Memorandum Only)	
		Revenue	Projects		Service	Trust	Fixed	Long-Term			1994	1993
						Assets	Debt					
Assets												
Cash and equivalents (Notes 1 and 2)	\$ 115,833	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 115,833	\$ 882,359	\$ 998,192	\$ 4,860,842
Cash – restricted (Notes 1 and 2)	-	-	6,792,734	-	-	-	-	-	6,792,734	-	6,792,734	3,678,503
Investments (Notes 1 and 2)	3,049,119	194,954	2,335,936	-	-	-	-	-	5,580,009	-	5,580,009	6,419,615
Investments – other (Notes 1 and 7)	-	-	350,000	-	-	-	-	-	350,000	500,000	850,000	867,348
Receivables from other governments (Notes 1 and 3)	75,384	1,668,022	144,708	-	-	-	-	-	1,888,114	-	1,888,114	3,077,026
Receivables, federal agencies (Notes 1 and 3)	-	2,299,372	-	-	-	-	-	-	2,299,372	-	2,299,372	1,304,163
General receivables, net (Notes 1 and 4)	130,881	42,078	5,483	416,343	-	1,851	-	-	596,636	2,608,236	3,204,872	896,742
Advances (Note 4)	155,204	276,571	45,317	-	-	10,676	-	-	487,768	124,121	611,889	394,432
Loans receivable, net (Note 8)	-	-	2,295,881	-	-	-	-	-	2,295,881	3,559,589	5,855,470	3,646,101
Due from other funds (Note 14)	5,046,870	1,116,171	-	-	869	-	-	-	6,163,910	-	6,163,910	5,077,728
Inventory, at cost (Notes 1 and 5)	-	25,953	-	521,587	11,812	-	-	-	559,352	899,518	1,458,870	117,036
Self insurance fund (Note 16)	-	-	-	-	-	-	-	-	-	84,262	84,262	50,000
Scholarship fund	-	-	-	-	-	-	-	-	-	3,531	3,531	-
Prepaid expenses and other assets (Note 1)	17,347	-	-	1,760	-	-	-	-	19,107	375,811	394,918	-
Fixed assets, net (Notes 1 and 6)	-	-	-	1,777,682	-	-	49,323,802	-	51,101,484	30,546,664	81,648,148	71,918,089
Amount to be provided for retirement of long-term debt	-	-	-	-	-	-	-	19,626,742	19,626,742	-	19,626,742	20,498,644
Total assets	\$ 8,590,638	\$ 5,623,121	\$ 11,970,059	\$ 2,717,372	\$ 12,681	\$ 12,527	\$ 49,323,802	\$ 19,626,742	\$ 97,876,942	\$ 39,584,091	\$ 137,461,033	\$ 122,806,269

See accompanying notes to financial statements.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Combined Balance Sheet – All Fund Types, Account Groups and Discretely Presented Component Units, Continued
September 30, 1994
(With comparative totals as of September 30, 1993)

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Type	Account Groups		Totals Primary Government (Memorandum Only)	Component Units Proprietary Funds	Totals Reporting Entity (Memorandum Only)	
	General	Special Revenue	Capital Projects	Enterprise	Internal Service	Expendable Trust	General Fixed Assets	General Long-Term Debt			1994	1993
Liabilities and Fund Equity (Deficiency)												
Liabilities:												
Bank overdraft	\$ 474,524	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 474,524	\$ -	\$ 474,524	\$ -
Accounts payable	130,349	646,862	127,805	30,650	2,411	4,819	-	-	942,896	1,991,598	2,934,494	1,297,571
Accrued payroll and others	577,136	-	-	83,543	-	-	-	-	660,679	382,526	1,043,205	842,774
Due to other funds (Note 14)	-	4,094,790	1,602,878	21,873	-	94,600	-	-	5,814,141	349,769	6,163,910	5,077,728
Deferred revenue	-	18,670	-	-	-	-	-	-	18,670	548,873	567,543	49,998
Long-term notes payable (Notes 1 and 13)	-	-	-	-	-	-	-	18,300,000	18,300,000	2,273,415	20,573,415	20,104,003
Vacation leave accrual	-	-	-	-	-	-	-	1,326,742	1,326,742	-	1,326,742	1,198,644
Total liabilities	1,182,009	4,760,322	1,730,683	136,066	2,411	99,419	-	19,626,742	27,537,652	5,546,181	33,083,833	28,570,718
Contingencies and Commitments (Note 10)												
Fund equity (deficiency) (Note 1):												
Investment in general fixed assets	-	-	-	-	-	-	49,323,802	-	49,323,802	-	49,323,802	49,323,802
Retained earnings (deficit)	-	-	-	999,324	10,270	-	-	-	1,009,594	(577,228)	432,366	(3,011,440)
Contributed capital	-	-	-	1,581,982	-	-	-	-	1,581,982	34,615,138	36,197,120	28,193,376
Fund balances (deficit):												
Reserved for:												
Related assets (Note 1)	155,205	318,649	2,645,881	-	-	12,527	-	-	3,132,262	-	3,132,262	1,968,477
Encumbrances	581,450	1,296,169	3,147,565	-	-	5,880	-	-	5,031,064	-	5,031,064	4,789,422
Continuing appropriations (Note 15)	206,194	-	9,917,596	-	-	-	-	-	10,123,790	-	10,123,790	7,953,995
Unreserved (deficit)	6,465,780	(752,019)	(5,471,666)	-	-	(105,299)	-	-	136,796	-	136,796	5,017,919
Total fund equity (deficiency)	7,408,629	862,799	10,239,376	2,581,306	10,270	(86,892)	49,323,802	-	70,339,290	34,037,910	104,377,200	94,235,551
Total liabilities and fund equity (deficiency)	\$ 8,590,638	\$ 5,623,121	\$ 11,970,059	\$ 2,717,372	\$ 12,681	\$ 12,527	\$ 49,323,802	\$ 19,626,742	\$ 97,876,942	\$ 39,584,091	\$ 137,461,033	\$ 122,806,269

See accompanying notes to financial statements.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Combined Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)
All Governmental Fund Types and Expendable Trust Fund
Year Ended September 30, 1994
(With comparative totals for the year ended September 30, 1993)

	Governmental Fund Types			Fiduciary Fund Type Expendable Trust	Totals Reporting Entity (Memorandum Only)	
	General	Special Revenue	Capital Projects		1994	1993
Revenues:						
Compact of Free Association:						
Base grant	\$ 7,206,300	\$ 3,247,783	\$ 5,191,800	\$ --	\$ 15,645,883	\$ 15,645,882
Inflation adjustment	3,170,772	440,000	2,284,392	--	5,895,164	5,493,221
U.S. Department of the Interior grants	--	--	58,203	--	58,203	456,165
Revenue sharing	3,790,535	--	--	--	3,790,535	3,811,847
Federal contributions	--	4,696,842	--	--	4,696,842	2,702,772
Taxes and licenses	1,295,653	--	--	--	1,295,653	1,045,530
Fines and penalties	123,646	--	--	--	123,646	307,633
Investment income (Note 2)	805,776	--	--	--	805,776	1,162,437
Other	470,729	457,361	193,028	25,710	1,146,828	1,864,490
Total revenues	16,863,411	8,841,986	7,727,423	25,710	33,458,530	32,489,977
Expenditures:						
General government	4,845,045	1,120,671	--	169,533	6,135,249	5,804,796
Education	4,892,960	3,525,279	--	--	8,418,239	7,500,653
Health services	3,364,732	1,443,959	--	--	4,808,691	4,737,088
Resources and development	755,370	341,480	--	--	1,096,850	1,336,897
Public works	331,395	926,996	--	--	1,258,391	832,737
Public safety	1,266,457	--	--	--	1,266,457	1,072,182
Commerce and industry	132,621	--	--	--	132,621	75,749
Boards, commissions and other appropriations	535,117	--	--	--	535,117	322,235
Capital projects	--	--	1,966,706	--	1,966,706	7,266,533
Municipal governments	1,255,882	--	--	--	1,255,882	1,107,099
Other	105	184,376	--	--	184,481	1,192,038
Total expenditures	17,379,684	7,542,761	1,966,706	169,533	27,058,684	31,248,007
Excess (deficiency) of revenues over (under) expenditures	(516,273)	1,299,225	5,760,717	(143,823)	6,399,846	1,241,970
Other financing sources (uses):						
Proceeds from notes payable	--	--	--	--	--	4,000,000
Repayment of notes payable (Note 13)	--	--	(1,000,000)	--	(1,000,000)	(1,000,000)
Interest expense (Note 13)	--	--	(1,654,670)	--	(1,654,670)	(1,542,743)
Other income	--	--	--	--	--	28,334
Operating transfers out and transfers out to component units (Note 9)	(571,102)	(1,200,323)	(3,253,426)	--	(5,024,851)	(3,946,849)
Total other financing sources (uses)	(571,102)	(1,200,323)	(5,908,096)	--	(7,679,521)	(2,461,258)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(1,087,375)	98,902	(147,379)	(143,823)	(1,279,675)	(1,219,288)
Fund balances, beginning of year	8,496,004	763,897	10,386,755	56,931	19,703,587	20,922,875
Fund balances (deficit), end of year	\$ 7,408,629	\$ 862,799	\$ 10,239,376	\$ (86,892)	\$ 18,423,912	\$ 19,703,587

See accompanying notes to 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, 1994

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Compact – current	\$ 10,181,270	\$ 10,377,072	\$ 195,802
Local revenues	5,328,180	5,680,562	352,382
Investment income	3,279,218	805,776	(2,473,442)
Total revenues	<u>18,788,668</u>	<u>16,863,410</u>	<u>(1,925,258)</u>
Expenditures:			
General government	4,765,524	4,569,470	196,054
Health services	3,399,752	3,219,433	180,319
Education	4,879,205	4,902,167	(22,962)
Justice	1,295,111	1,223,077	72,034
Commerce and industry	165,735	133,605	32,130
Public works	342,544	330,325	12,219
Conservation and resources	1,256,015	1,189,429	66,586
Boards, commissions and other external appropriations	591,647	550,137	41,510
Municipal governments and projects	1,255,452	1,250,370	5,082
Other	–	105	(105)
Total expenditures, budgetary basis	<u>17,950,985</u>	<u>17,368,118</u>	<u>582,867</u>
Excess (deficiency) of revenues over (under) expenditures	<u>837,683</u>	<u>(504,708)</u>	<u>(1,342,391)</u>
Other financing uses:			
Operating transfers out	(605,856)	(574,337)	31,519
Total other financing uses	<u>(605,856)</u>	<u>(574,337)</u>	<u>31,519</u>
Excess (deficiency) of revenues over (under) expenditures and other financing uses	231,827	(1,079,045)	(1,310,872)
Unreserved fund balance, beginning of year	7,526,078	7,526,078	–
Other changes in unreserved fund balance:			
Increase in reserve for related assets	–	(41,065)	(41,065)
Decrease in reserve for continuing appropriations	–	59,812	59,812
Unreserved fund balance, end of year	<u>\$ 7,757,905</u>	<u>\$ 6,465,780</u>	<u>\$ (1,292,125)</u>

See accompanying notes to financial statements.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Combined Statement of Revenues, Expenses, and Changes in Fund Equity –
All Proprietary Fund Types and Discretely Presented Component Units
Year Ended September 30, 1994
(With comparative totals for the year ended September 30, 1993)

	Proprietary Fund Types		Totals Primary Government	Component Units	Totals Reporting Entity	
	Enterprise	Internal Service	(Memorandum Only)	Proprietary Funds	(Memorandum Only)	
					1994	1993
Operating revenues:						
Charges for services	\$ 622,689	\$ 16,431	\$ 639,120	\$ 7,536,167	\$ 8,175,287	\$ 5,016,254
Rental income	15,881	–	15,881	150,441	166,322	111,073
Other	84,581	–	84,581	39,040	123,621	48,376
Total operating revenues	723,151	16,431	739,582	7,725,648	8,465,230	5,175,703
Operating expenses:						
Personnel services	917,202	–	917,202	2,655,757	3,572,959	1,912,863
Travel	17,192	–	17,192	185,712	202,904	128,810
Supplies and materials	445,540	31,568	477,108	229,837	706,945	150,413
Fuel	103,529	–	103,529	2,135,663	2,239,192	2,166,829
Contractual services	59,700	–	59,700	102,378	162,078	2,345,338
Depreciation	552,956	–	552,956	1,792,035	2,344,991	1,286,730
Other	265,683	819	266,502	3,257,094	3,523,596	2,273,475
Total operating expenses	2,361,802	32,387	2,394,189	10,358,476	12,752,665	10,264,458
Operating loss	(1,638,651)	(15,956)	(1,654,607)	(2,632,828)	(4,287,435)	(5,088,755)
Nonoperating revenues (expenses):						
Operating transfers in (Note 9)	1,756,079	–	1,756,079	2,262,726	4,018,805	3,946,849
Equity loss on investment	–	–	–	–	–	(134,322)
Other	1,442,236	–	1,442,236	430,604	1,872,840	52,739
Total nonoperating revenues (expenses), net	3,198,315	–	3,198,315	2,693,330	5,891,645	3,865,266
Net income (loss)	1,559,664	(15,956)	1,543,708	60,502	1,604,210	(1,223,489)
Add depreciation on fixed assets acquired by capital contributions that reduce contributed capital	339,501	–	339,501	1,473,869	1,813,370	1,090,457
Increase (decrease) in retained earnings	1,899,165	(15,956)	1,883,209	1,534,371	3,417,580	(133,032)
Retained earnings (deficit), beginning of year	(899,841)	26,226	(873,615)	(2,111,599)	(2,985,214)	(2,816,422)
Prior period adjustments	–	–	–	–	–	(35,760)
Retained earnings (deficit), end of year	999,324	10,270	1,009,594	(577,228)	432,366	(2,985,214)
Contributed capital, beginning of year	322,427	–	322,427	27,870,949	28,193,376	25,267,088
Less depreciation on contributed fixed assets, net of prior period adjustments	(339,501)	–	(339,501)	(1,473,869)	(1,813,370)	–
Additions for the year, net	1,599,056	–	1,599,056	8,218,058	9,817,114	2,926,288
Contributed capital, end of year	1,581,982	–	1,581,982	34,615,138	36,197,120	28,193,376
Fund equity, end of year	\$ 2,581,306	\$ 10,270	\$ 2,591,576	\$ 34,037,910	\$ 36,629,486	\$ 25,208,162

See accompanying notes to financial statements.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Combined Statement of Cash Flows, Continued
All Proprietary Fund Types and Discretely Presented Component Units
Year Ended September 30, 1994
(With comparative totals for the year ended September 30, 1993)

	Proprietary Fund Types		Totals	Component	Totals	
	Enterprise	Internal Service	Primary	Units	Reporting	
			Government (Memorandum Only)	Proprietary Funds	Entity (Memorandum Only)	
					1994	1993
Cash flows from operating activities:						
Operating loss	\$ (1,638,651)	\$ (15,956)	\$ (1,654,607)	\$ (2,632,828)	\$ (4,287,435)	\$ (5,088,755)
Other income	-	-	-	262,875	262,875	-
Adjustments to reconcile operating loss to net cash used by operating activities						
Depreciation	552,956	-	552,956	1,792,035	2,344,991	1,286,730
Doubtful debt expense	-	-	-	205,728	205,728	353,199
Other	-	-	-	415,432	415,432	-
	<u>(1,085,695)</u>	<u>(15,956)</u>	<u>(1,101,651)</u>	<u>43,242</u>	<u>(1,058,409)</u>	<u>(3,448,826)</u>
Changes in assets and liabilities:						
General receivables, gross	(105,361)	-	(105,361)	(1,147,833)	(1,253,194)	108,368
Advances	(2,579)	-	(2,579)	(83,356)	(85,935)	(35,964)
Loans receivable, gross	-	-	-	(243,247)	(243,247)	(820,068)
Due from other funds	-	(8,381)	(8,381)	38,188	29,807	72,408
Inventory, at cost	-	24,337	24,337	(824,515)	(800,178)	112,102
Prepaid expenses and other assets	-	-	-	(11,650)	(11,650)	-
Accounts payable	(12,177)	-	(12,177)	635,943	623,766	181,332
Accrued payroll and other	(36,515)	-	(36,515)	170,596	134,081	69,709
Due to other funds	(513,752)	-	(513,752)	-	(513,752)	(102,920)
Deferred revenue	-	-	-	451,507	451,507	31,328
	<u>(670,384)</u>	<u>15,956</u>	<u>(654,428)</u>	<u>(1,014,367)</u>	<u>(1,668,795)</u>	<u>(383,705)</u>
Net cash used for operating activities	<u>(1,756,079)</u>	<u>-</u>	<u>(1,756,079)</u>	<u>(971,125)</u>	<u>(2,727,204)</u>	<u>(3,832,531)</u>
Cash flows from noncapital financing activities:						
Proceeds from notes payable	-	-	-	1,657,268	1,657,268	979,003
Repayments of notes payable	-	-	-	(187,856)	(187,856)	(196,722)
Operating transfers in	1,756,079	-	1,756,079	1,803,862	3,559,941	3,931,326
Other noncapital financing activities	-	-	-	316,271	316,271	(67,498)
Net cash provided by noncapital financing activities	<u>1,756,079</u>	<u>-</u>	<u>1,756,079</u>	<u>3,589,545</u>	<u>5,345,624</u>	<u>4,646,109</u>
Cash flows from capital and related financing activities:						
Acquisition of fixed assets	-	-	-	(3,087,167)	(3,087,167)	(1,525,803)
Contributed capital	-	-	-	1,382,344	1,382,344	564,366
Net cash used for capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,704,823)</u>	<u>(1,704,823)</u>	<u>(961,437)</u>
Cash flows from investing activities:						
Payments to self-insurance and scholarship funds, net	-	-	-	(37,793)	(37,793)	-
Investment dividend received	-	-	-	50,000	50,000	-
Investment dividend transferred to primary government	-	-	-	(50,000)	(50,000)	-
Contribution for investment	-	-	-	-	-	500,000
Payment for investment	-	-	-	-	-	(500,000)
Increase in loans	-	-	-	(157,089)	(157,089)	-
Net cash used for investing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>(194,882)</u>	<u>(194,882)</u>	<u>-</u>
Net increase (decrease) in cash and equivalents	<u>-</u>	<u>-</u>	<u>-</u>	<u>718,715</u>	<u>718,715</u>	<u>(147,859)</u>
Cash and equivalents, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>163,644</u>	<u>163,644</u>	<u>311,503</u>
Cash and equivalents, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 882,359</u>	<u>\$ 882,359</u>	<u>\$ 163,644</u>

See accompanying notes to financial statements.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Notes to Financial Statements
September 30, 1994

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general-purpose financial statements of Pohnpei State have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of Pohnpei State's accounting policies are described below.

A. Reporting Entity

As required by generally accepted accounting principles, the general-purpose financial statements of the State of Pohnpei present the government and its component units; entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the general-purpose financial statements to emphasize that they are legally separate from the government. Each blended and discretely presented component unit has a September 30 year end.

1. Blended Component Units

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

PTA is the only enterprise fund presented in the accompanying general-purpose financial statements.

2. Discretely Presented Component Units

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

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Notes to Financial Statements, Continued
September 30, 1994

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

A. Reporting Entity, Continued

2. Discretely Presented Component Units, Continued

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

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

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

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

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Notes to Financial Statements, Continued
September 30, 1994

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

A. Reporting Entity, Continued

2. Discretely Presented Component Unit, Continued

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

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

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

B. Fund Accounting

The State of Pohnpei uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain Pohnpei State functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. They are concerned only with the measurement of financial position and are not involved with measurement of results of operations.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Notes to Financial Statements, Continued
September 30, 1994

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

B. Fund Accounting, Continued

Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types."

Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds) and the acquisition or construction of general fixed assets (capital projects funds). The general fund is used to account for all activities of the general government not accounted for in some other fund.

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

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the State of Pohnpei. When these assets are held under the terms of a formal trust agreement, either a pension trust fund, a nonexpendable trust fund or an expendable trust fund is used. The terms "nonexpendable" and "expendable" refer to whether or not the State of Pohnpei is under an obligation to maintain the trust principal. Only one expendable trust fund exists which is the Public Land Trust Fund.

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

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Notes to Financial Statements, Continued
September 30, 1994

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

C. Basis of Presentation

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The modified accrual basis of accounting is used by all governmental fund types and expendable trust funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Those revenues susceptible to accrual are FSM shared revenues of business gross receipts tax, import tax, income tax, and fuel tax, charges for services, leases, and interest revenue. Fines and permit revenues are not susceptible to accrual because they are generally not measurable until received in cash.

The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities incurred.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Notes to Financial Statements, Continued
September 30, 1994

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

C. Basis of Presentation, Continued

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

D. Budgets

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

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

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Notes to Financial Statements, Continued
September 30, 1994

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

D. Budgets, Continued

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

E. Cash and Equivalents

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

F. 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 Note 7)

G. Receivables

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

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Notes to Financial Statements, Continued
September 30, 1994

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

H. Due From/To Other Funds

The majority of the State's financial operations are centrally administered, and this administration is facilitated by the use of a "pooled" cash account; for practical purposes, cash is primarily maintained in a single bank account which is considered to be an asset of the State's general fund. As a result of this cash pooling practice, cash transactions normally include entries which adjust the relative balances of affected funds' interfund asset/liability accounts; each fund's Due From/To Other Funds Account therefore represents a net interest in the State's actual cash. Interest earned on the "pooled" funds benefits the General Fund.

I. Advances and Prepayments

Prepayments represent amounts paid in advance to vendors. Certain of the general fund advances and prepayments are offset by inclusion in a fund balance reserve account as they do not constitute expendable available resources and are therefore not available for appropriation (See Note 1R).

J. Inventories

Inventories of materials and supplies are determined by physical count and are valued at the lower of cost (principally average cost) or market. Inventories of the general fund are offset by a fund balance reserve account as they represent an asset not available for appropriation.

K. Fixed Assets

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

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Notes to Financial Statements, Continued
September 30, 1994

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

K. Fixed Assets, Continued

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

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

L. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the general long-term debt account group. The liability as of September 30, 1994 is \$1,326,742. No expenditure is reported for these amounts. In accordance with the provisions of FASB Statement No. 43 - Accounting for Compensated Absences, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits. The accumulated amount of unused sick leave at September 30, 1994, was not available.

M. Long-Term Obligations

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

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Notes to Financial Statements, Continued
September 30, 1994

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

N. Fund Equity

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

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

O. Interfund Transactions

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

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

P. Memorandum Only - Total Columns

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

STATE OF POHNPEI
 FEDERATED STATES OF MICRONESIA
Notes to Financial Statements, Continued
September 30, 1994

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Q. Comparative Data/Reclassification

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

R. Fund Balance Reserves and Designations

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

Reserves for related assets as of September 30, 1994, are as follows:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>
Travel advances	\$ 155,205	\$ 276,571	\$ -
Receivables	-	42,078	-
Investments	-	-	350,000
Loans receivable	-	-	2,295,881
	<u>\$ 155,205</u>	<u>\$ 318,649</u>	<u>\$2,645,881</u>

(2) CASH AND EQUIVALENTS AND INVESTMENTS

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

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Notes to Financial Statements, Continued
September 30, 1994

(2) CASH AND EQUIVALENTS AND INVESTMENTS, CONTINUED

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

- A. Investment managers may invest in stocks, bonds and cash equivalents. Minimum standards of quality for investments at the time of purchase are:
1. Stocks - A "B" rating by a national rating service. Non-rated stocks such as banks or insurance companies must be equal in quality or higher.
 2. Bonds - Confined to issues rated "A" or higher by a national rating service, except in the case of U.S. Treasury or Agency Securities which are not rated.
 3. Cash equivalents - The manager may engage in all normally accepted short-term investment practices including, but not limited to: U.S. Treasury and Agency securities, bankers acceptances, certificates of deposit, commercial paper and repurchase agreements using any of the foregoing as collateral. The following restrictions apply:
 - a. Commercial paper must be rated A-1/P-1 or higher by Standard & Poors Corporation and Moodys Investor Services.
 - b. Certificates of deposit must be from FDIC insured banks or FSLIC insured savings and loan associations, both of which must have assets in excess of two billion dollars. Deposits in smaller institutions are acceptable, but must not exceed the amount of the insurance unless collateralized by U.S. Treasury Securities at 102%.
- B. The equity portfolio shall be diversified among issues and industry classifications. No more than 25% of the equity portfolio may be invested in any single classification, as described by the Standard and Poors 500 Index, unless prior approval is received from the FSM Secretary of Finance.
- C. No investment may be made in a single corporate entity which exceeds 5% of the total assets of the fund at the time of purchase without prior approval of the Secretary of Finance.

STATE OF POHNPEI
 FEDERATED STATES OF MICRONESIA
Notes to Financial Statements, Continued
September 30, 1994

(2) CASH AND EQUIVALENTS AND INVESTMENTS, CONTINUED

Funds held with Hawaiian Trust Co. and Bankers Trust were invested on behalf of Pohnpei State as of September 30, 1994, are summarized below:

<u>Cash and Equivalents</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Cash management fund	\$ 3,569,526	\$ 3,569,526
<u>Investments</u>		
Pooled Investment Securities	<u>5,580,009</u>	<u>5,868,672</u>
Total	<u>\$ 9,149,535</u>	<u>\$ 9,438,198</u>

D. The State's investment income for the year ended September 30, 1994, is summarized below:

Interest	\$ 647,726
Dividends	38,381
Realized gains	310,821
Realized losses	(100,945)
Management fees	(76,218)
Other expenses	<u>(13,989)</u>
	<u>\$ 805,776</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, 1994, the State had deposits and cash on hand as follows (in each situation, cost approximates market value):

General Fund

Net bank balances in checking and savings accounts with FDIC insured banks	\$ 33,171
Cash on deposit with Hawaiian Trust Co.	<u>82,662</u>
Total General Fund cash and equivalents	<u>\$ 115,833</u>

STATE OF POHNPEI
 FEDERATED STATES OF MICRONESIA
Notes to Financial Statements, Continued
September 30, 1994

(2) CASH AND EQUIVALENTS AND INVESTMENTS, CONTINUED

Capital Project Funds

Cash on deposit with Bankers Trust Co.	\$3,486,864
Net bank balance in savings accounts with FDIC insured bank	<u>3,305,870</u>
 Total Capital Projects Funds cash and equivalents	 <u>\$6,792,734</u>

Component Units - Proprietary Funds

Pohnpei Economic Development Authority (EDA): Cash in checking and savings accounts with FDIC insured bank	\$ 144,363
 Pohnpei State Housing Authority (PSHA): Cash in checking and savings accounts with FDIC insured banks	 103,955
 Pohnpei Utilities Corporation (PUC): Cash in checking and savings accounts with FDIC insured bank	 115,433
 Pohnpei Fisheries Corporation (PFC): Cash in checking accounts with FDIC insured bank	 118,802
 Pohnpei Port Authority (PPA): Cash in checking accounts with FDIC insured bank	 <u>399,806</u>
 Total Component Units cash and equivalents	 <u>\$ 882,359</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 collateralization 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 supporting such note and for which such note is guaranteed by the Pohnpei State Housing Authority, the trustee of the Loan Guarantee Escrow Account.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Notes to Financial Statements, Continued
September 30, 1994

(2) CASH AND EQUIVALENTS AND INVESTMENTS, CONTINUED

As of September 30, 1994, Pohnpei State had \$3,486,864 held on deposit with the Bankers Trust and \$3,305,870 with FDIC insured Banks. 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.

Category 1 - Insured or registered, or securities held by the State or its agent in the State's name.

Category 2 - Uninsured and unregistered, or securities held by a party other than the State or its agent, but in the State's name.

Category 3 - Uninsured and unregistered, with securities held by a party other than the State and not in the State's name.

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

(3) RECEIVABLES FROM OTHER GOVERNMENTS AND FEDERAL AGENCIES

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

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Notes to Financial Statements, Continued
September 30, 1994

(4) GENERAL RECEIVABLES AND ADVANCES

A summary of General Fund receivables against which allowances for doubtful accounts have been recorded as of September 30, 1994, 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>130,881</u>	<u>-</u>	<u>130,881</u>
	<u>\$ 689,410</u>	<u>\$ 558,529</u>	<u>\$ 130,881</u>

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.

General receivables are comprised of amount due from U.S. federal agencies, trade receivables and travel advances:

General Receivables - Component Units-Proprietary Funds

	<u>Gross</u>	<u>Allowance</u>	<u>Net</u>
Pohnpei Fisheries Corporation	\$ 169,612	\$ -	\$ 169,612
Pohnpei Port Authority	105,999	29,388	76,611
Pohnpei Utilities Corporation	2,042,900	35,678	2,007,222
Pohnpei Economic Development Authority	399,157	167,401	231,756
Pohnpei State Housing Authority	<u>123,035</u>	<u>-</u>	<u>123,035</u>
	<u>\$ 2,840,703</u>	<u>\$ 232,467</u>	<u>\$ 2,608,236</u>

(5) INVENTORY OF SUPPLIES

The Internal Service Fund has general operational and office supplies of \$11,812 as of September 30, 1994. The Agriculture Revolving fund (a Special Revenue Fund) had \$25,953 of agriculture production supplies on hand at September 30, 1994.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Notes to Financial Statements, Continued
September 30, 1994

(6) FIXED ASSETS

The State has not updated the General Fixed Assets Account Group in recent years. Balances carried in the General Fixed Assets Account Group as of September 30, 1994, are as follows:

	Balance September 30, 1994
Building	\$10,055,450
Infrastructure	34,590,935
Equipment	4,667,417
	\$49,323,802

The State's investment in general fixed assets as of September 30, 1994, by source, is summarized below:

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

Fixed Assets - Enterprise Fund - Pohnpei Transportation Authority

Substantially all fixed assets of the Pohnpei Transportation Authority are comprised of equipment. The assets are depreciated over estimated useful lives of two to fifteen years.

Fixed Assets - Component Units-Proprietary Funds

Component unit fixed assets are recorded at cost or estimated cost. The assets are being depreciated principally on a straight line basis over estimated useful lives ranging from 5 to 40 years. The assets, at September 30, 1994, are as follows:

		<u>Pohnpei Fisheries Corporation</u>	<u>Pohnpei Utilities Corporation</u>	<u>Pohnpei Port Authority</u>	<u>Pohnpei Economic Development Authority</u>	<u>Pohnpei State Housing Authority</u>	<u>Total</u>	
Production								
plant	\$	-	\$15,868,073	\$	-	\$	-	\$15,868,073
Distribution								
plant		-	7,014,038	-	-	-	-	7,014,038

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Notes to Financial Statements, Continued
September 30, 1994

(6) FIXED ASSETS, CONTINUED

	<u>Pohnpei Fisheries Corporation</u>	<u>Pohnpei Utilities Corporation</u>	<u>Pohnpei Port Authority</u>	<u>Pohnpei Economic Development Authority</u>	<u>Pohnpei State Housing Authority</u>	<u>Total</u>
General						
plant	936,109	703,131	-	-	-	1,639,240
Building	33,877	-	-	12,833	11,546	58,256
Fishing						
Vessel	-	-	-	1,352,300	-	1,352,300
Vehicles	28,000	-	-	64,161	-	92,161
Furniture, fixtures and office equipment	21,734	-	15,292	62,072	-	99,098
Other assets	-	7,356,360	-	218,205	59,174	7,633,739
Less						
accumulated depre- ciation	<u>(66,721)</u>	<u>(3,798,038)</u>	<u>(4,050)</u>	<u>(1,207,726)</u>	<u>(41,797)</u>	<u>(5,118,332)</u>
	952,999	27,143,564	11,242	501,845	28,923	28,638,573
Construction in progress	<u>38,372</u>	<u>1,245,542</u>	<u>624,177</u>	<u>-</u>	<u>-</u>	<u>1,908,091</u>
Total fixed assets, net	<u>\$ 991,371</u>	<u>\$28,389,106</u>	<u>\$ 635,419</u>	<u>\$ 501,845</u>	<u>\$ 28,923</u>	<u>\$30,546,664</u>

(7) OTHER INVESTMENTS

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 reserve for related assets component of the fund balance.

During 1993, Pohnpei State Economic Development Authority (EDA), a component - unit proprietary fund invested \$500,000 in the Bank of the Federated States of Micronesia, which represents a 5.4% interest as of September 30, 1994. This investment is recorded at cost.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Notes to Financial Statements, Continued
September 30, 1994

(7) OTHER INVESTMENTS, CONTINUED

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

(8) LOANS RECEIVABLE

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

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, 1994, is \$2,295,881 and is therefore classified as loans receivable. As this balance does not represent a currently appropriable amount as of September 30, 1994, it is reserved against fund balance as a related asset.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Notes to Financial Statements, Continued
September 30, 1994

(8) LOANS RECEIVABLE, CONTINUED

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 \$4,142,266 with an allowance of \$825,924 for doubtful accounts. These loans represent amounts borrowed by qualified applicants for purposes of the construction and improvement of housing. The Pohnpei Utilities Corporation entered into several settlement agreements with customers with large outstanding balances due to inaccurate billings from previous years. The agreements carry terms of one to five years, with interest of eight to fifteen percent. The net loan receivable is \$243,247 as of September 30, 1994.

(9) OPERATING TRANSFERS IN/OUT

Material operating transfers in/out for the year ended September 30, 1994, are as follows:

	<u>Transfers Out</u>	<u>Transfers In</u>
General Fund:		
Transfers out to Enterprise Fund:		
Pohnpei Transportation Authority	\$ 23,969	\$ -
Transfers out to Component Units:		
Pohnpei Economic Development Authority	145,181	-
Pohnpei Utilities Corporation	260,400	-
Pohnpei State Housing Authority	<u>141,553</u>	<u>-</u>
Total transfers out to Component Units	<u>547,134</u>	<u>-</u>
Total General Fund	<u>\$ 571,102</u>	<u>\$ -</u>
Capital Projects Funds:		
Transfers out to Component Units:		
Pohnpei Utilities Corporation	\$1,521,316	\$ -
Transfers out to Enterprise Fund:		
Pohnpei Transportation Authority	<u>1,732,110</u>	<u>-</u>
Total CIP Fund	<u>\$3,253,426</u>	<u>\$ -</u>
Special Revenue Funds:		
Transfers out to Component Units:		
Pohnpei Utilities Corporation	<u>\$1,200,323</u>	<u>\$ -</u>
Total Special Revenue Funds	<u>\$1,200,323</u>	<u>\$ -</u>

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Notes to Financial Statements, Continued
September 30, 1994

(10) CONTINGENCIES AND COMMITMENTS

Federal Program Questioned Costs

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

Currently, \$1,431,452 in questioned costs exist for the operation of fiscal year 1985 through 1994 grants, including \$55,375 relating to fiscal year 1994. If these questioned costs are ultimately disallowed, the General Fund may bear responsibility for absorbing the amount disallowed. Accordingly, no provision for any liability that may result from this matter has been recorded in the accompanying financial statements.

Pursuant to Title I, Section 105 of United States Public Law 99-239 the Government of the Federated States of Micronesia (FSM) 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, 1994, was not available.

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 13). 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.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Notes to Financial Statements, Continued
September 30, 1994

(10) CONTINGENCIES AND COMMITMENTS, CONTINUED

Litigation

The State of Pohnpei is party to numerous legal proceedings, many of which are normal recurrences in governmental operations. The State Attorney of Pohnpei is of the opinion that the probable outcome of suits existing at September 30, 1994, 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 and Capital Funds Uses

During the fiscal year ended September 30, 1994, Pohnpei State expended \$437,262 of Compact Energy Fund (Section 214B) for payment of utility bills. The FSM Attorney General, in a letter dated June 16, 1994, was not able to provide a definite position as to the use of Energy Funds for payment of utility bills. Pohnpei State also expended \$339,070 of Compact Capital funds for the dry docking of MS Micro Glory. These matters will be resolved through the U.S. Department of the Interior, the grantor agency. The ultimate outcome of these issues are not predictable at this time. Accordingly, no provision for a reserve of fund balance or a liability has been recorded in the accompanying general-purpose financial statements. In the event that these expenditures are determined to be unallowable, the General Fund may bear responsibility for absorbing the amounts disallowed.

(11) COMPONENT UNITS

Segment Data - Discretely Presented Component Units - Proprietary Funds

Selected financial data for material discretely presented component units as of and for the year ended September 30, 1994, is as follows:

	Pohnpei Fisheries Corporation	Pohnpei Utilities Corporation	Pohnpei Port Authority	Pohnpei Economic Development Authority	Pohnpei State Housing Authority
Total assets	<u>\$ 2,158,185</u>	<u>\$30,863,625</u>	<u>\$ 1,545,141</u>	<u>\$ 1,400,186</u>	<u>\$3,616,954</u>
Total equity (deficit)	<u>\$ (141,949)</u>	<u>\$28,880,139</u>	<u>\$ 476,069</u>	<u>\$ 1,219,639</u>	<u>\$3,604,012</u>

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Notes to Financial Statements, Continued
September 30, 1994

(11) COMPONENT UNITS, CONTINUED

	<u>Pohnpei Fisheries Corporation</u>	<u>Pohnpei Utilities Corporation</u>	<u>Pohnpei Port Authority</u>	<u>Pohnpei Economic Development Authority</u>	<u>Pohnpei State Housing Authority</u>
Operating income (loss)	\$ <u>35,367</u>	\$ <u>(2,690,292)</u>	\$ <u>63,871</u>	\$ <u>123,669</u>	\$ <u>(165,443)</u>
1994 net earnings (loss)	\$ <u>233,683</u>	\$ <u>(151,354)</u>	\$ <u>409,638</u>	\$ <u>(358,128)</u>	\$ <u>(73,337)</u>
1994 non-operating (expenses) revenues, net	\$ <u>198,316</u>	\$ <u>2,538,938</u>	\$ <u>345,767</u>	\$ <u>(481,797)</u>	\$ <u>92,106</u>
Revenues	\$ <u>1,434,836</u>	\$ <u>4,876,425</u>	\$ <u>492,342</u>	\$ <u>743,284</u>	\$ <u>178,761</u>
Contributed capital	\$ <u>-</u>	\$ <u>26,384,860</u>	\$ <u>-</u>	\$ <u>4,294,541</u>	\$ <u>3,935,737</u>
Depreciation	\$ <u>66,721</u>	\$ <u>1,684,642</u>	\$ <u>4,050</u>	\$ <u>25,468</u>	\$ <u>11,154</u>
Retained earnings (deficit)	\$ <u>(141,949)</u>	\$ <u>2,495,279</u>	\$ <u>476,069</u>	\$ <u>(3,074,902)</u>	\$ <u>(331,725)</u>
Operating transfers	\$ <u>-</u>	\$ <u>2,982,039</u>	\$ <u>77,875</u>	\$ <u>145,181</u>	\$ <u>141,553</u>

(12) MATERIAL FUND DEFICITS

The following presents material fund deficits as of September 30, 1994. If operations of these funds cannot recover prior losses, the State's General Fund may have to absorb these amounts or a portion thereof.

	<u>Deficit</u>	<u>Contributed Capital</u>	<u>Fund Equity</u>
<u>Special Revenue Funds</u>			
U.S. Federal Assistance Fund	\$ (161,579)	\$ -	\$ (161,579)
Other Federal and Direct Assistance Fund	(67,437)	-	(67,437)
Compact Other Grants Fund	(37,512)	-	(37,512)
CFSM State Project Fund	<u>(37,783)</u>	<u>-</u>	<u>(37,783)</u>
	<u>\$ (304,311)</u>	<u>\$ -</u>	<u>\$ (304,311)</u>

STATE OF POHNPEI
 FEDERATED STATES OF MICRONESIA
Notes to Financial Statements, Continued
September 30, 1994

(12) MATERIAL FUND DEFICITS, CONTINUED

	<u>Deficit</u>	<u>Contributed Capital</u>	<u>Fund Equity</u>
<u>Component Units (Deficit Retained Earnings)</u>			
Pohnpei Fisheries Corporation	\$ (141,949)	\$ -	\$ (141,949)
Pohnpei Economic Development Authority	(3,074,902)	4,294,541	1,219,639
Pohnpei State Housing Authority	<u>(331,725)</u>	<u>3,935,737</u>	<u>3,604,012</u>
	<u>\$ (3,548,576)</u>	<u>\$8,230,278</u>	<u>\$4,681,702</u>
<u>Expendable Trust Fund (Deficit)</u>			
Public Land Trust Fund	<u>\$ (86,892)</u>	<u>\$ -</u>	<u>\$ (86,892)</u>

(13) NOTES PAYABLE

On April 26, 1990, the State borrowed \$5,100,000 under a medium term note program sponsored by the Federated States of Micronesia, as a whole. Repayment of the debt will be made through a pledge of Compact revenues. The notes are repayable substantially on a quarterly basis corresponding to the drawdown of Compact revenues from U.S. Government. The first issue of \$5,100,000 was made to assist in financing the construction of a Fish Processing Plant by Pohnpei State. The borrowing consists of one note for \$5,100,000 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 to be 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 the second issue notes payable as of September 30, 1994, 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>
10/15/94	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>\$4,000,000</u>	<u>\$2,151,698</u>

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Notes to Financial Statements, Continued
September 30, 1994

(13) NOTES PAYABLE, CONTINUED

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

A 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>

The fourth issue was made on February 4, 1994, for a total of \$4,000,000 as an additional borrowing for the two projects specified above. The borrowing consists of various notes with varying amounts of principal, 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. During the year, Banker's Trust withheld \$1,654,670 for interest payments.

Upon receipt of Compact payments, the Trustee is responsible for withdrawal of amounts necessary for payments of principal and interest. Various other restrictive covenants exist and are detailed in the Trust Agreement dated January 4, 1990. Management is of the opinion that it has complied with such covenants thru September 30, 1994.

STATE OF POHNPEI
 FEDERATED STATES OF MICRONESIA
Notes to Financial Statements, Continued
September 30, 1994

(13) NOTES PAYABLE, CONTINUED

Activity in the General Long-Term Debt Account Group notes payable account for the year ended September 30, 1994, occurred as follows:

Balance as of September 30, 1993	\$19,300,000
Loan repayment made on 10/15/93	<u>(1,000,000)</u>
Balance as of September 30, 1994	<u>\$18,300,000</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>
1995	\$ 1,000,000
1996	8,100,000
1997	2,200,000
1998	2,000,000
1999	2,000,000
Thereafter	<u>3,000,000</u>
	<u>\$18,300,000</u>

The component units notes payable represent \$2,273,415 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, 1994. PUC also has a long-term loan with the FSM Development Bank of \$250,000 at September 30, 1994. 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, 1994.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Notes to Financial Statements, Continued
September 30, 1994

(14) INTERFUND RECEIVABLE AND PAYABLES

As of September 30, 1994, 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	\$ -	\$ 5,046,870
Special Revenue Funds:		
Compact Other Grants	204,968	-
Compact Health & Education	-	658,226
U.S. Federal Assistance	2,238,842	-
Other Federal and Direct Assistance	60,196	-
Agriculture Revolving	-	36,747
SVAP Revolving	-	5,436
Airport Operations	-	364,163
CFSM Projects	1,590,784	-
Recycling Fund	-	21,120
VGAH Revolving Fund	-	17,992
Environmental Quality Fund	-	12,487
Capital Projects Funds:		
Compact Capital Projects	1,458,704	-
TTG Capital Projects	144,174	-
Expendable Trust Funds:		
Public Land Trust	94,600	-
Enterprise Funds:		
Pohnpei Transportation Authority	21,873	-
Component Units:		
Pohnpei Port Authority	349,769	-
Internal Service Fund	-	869
	<u>\$ 6,163,910</u>	<u>\$ 6,163,910</u>

(15) CONTINUING APPROPRIATIONS

Continuing appropriations as of September 30, 1994, 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.

\$ 206,194

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Notes to Financial Statements, Continued
September 30, 1994

(15) CONTINUING APPROPRIATIONS, CONTINUED

Capital Projects

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

\$9,917,596

(16) SELF-INSURANCE FUND - COMPONENT UNITS

In accordance with section 2(5) of state Law 3L-41-93, an amendment was made to the original enabling legislation for Pohnpei Utilities Corporation, a component unit - proprietary fund, a self-insurance fund was established to defray costs of any unforeseen accidents or disasters. The funds are accumulated in a restricted self-insurance fund, held by a trustee, in the name of Pohnpei Utilities Corporation.

(17) FSM Development Bank Loans Receivable

Certain loan funds in an original amount of \$1.7 million were transferred to the control of the FSM Development Bank (a component unit of the FSM National Government). These loans are not controlled by the State and are not currently recorded in the accompanying general-purpose financial statements. As of September 30, 1994, the outstanding loan balances aggregated \$908,545.

**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 December 12, 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.

December 12, 1994

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Combining Schedule of Expenditures by Account –
All Governmental Fund Types and Expendable Trust Fund
Year Ended September 30, 1994
(With comparative totals for the year ended September 30, 1993)

	<u>Governmental Fund Types</u>			<u>Fiduciary</u> <u>Fund Type</u>	<u>Totals</u> <u>(Memorandum Only)</u>	
	<u>General</u>	<u>Special</u> <u>Revenue</u>	<u>Capital</u> <u>Projects</u>	<u>Expendable</u> <u>Trust</u>	<u>1994</u>	<u>1993</u>
Expenditures:						
Personnel	\$ 13,719,930	\$ 2,461,328	\$ 152,194	\$ 157,847	\$ 16,491,299	\$ 16,089,299
Travel	419,060	496,150	172,302	–	1,087,512	777,618
Supplies and materials	385,854	702,468	123,300	2,694	1,214,316	1,502,215
Fuel	94,262	53,858	787	848	149,755	309,989
Equipment	262,287	722,632	123,717	450	1,109,086	568,162
Contractual services	118,333	807,932	1,267,249	–	2,193,514	7,404,640
Other	2,379,958	2,298,393	127,157	7,694	4,813,202	4,596,084
Total expenditures	<u>\$ 17,379,684</u>	<u>\$ 7,542,761</u>	<u>\$ 1,966,706</u>	<u>\$ 169,533</u>	<u>\$ 27,058,684</u>	<u>\$ 31,248,007</u>

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
GENERAL FUND
September 30, 1994

General Fund

The general fund is used to account for resources traditionally associated with government which are not required legally or by sound financial management to be accounted for in another fund. The United States Compact of Free Association current account and inflation adjustment funds associated with the current account are accounted for in this fund in addition to local taxes and other revenues.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Balance Sheet – General Fund

September 30, 1994

(With comparative totals as of September 30, 1993)

<u>Assets</u>	<u>1994</u>	<u>1993</u>
Cash and equivalents	\$ 115,833	\$ 742,217
Investments	3,049,119	3,641,660
Prepaid expenses and other assets	17,347	17,348
Receivables from other governments	75,384	75,941
General receivables	130,881	70,084
Advances	155,204	114,140
Due from other funds	<u>5,046,870</u>	<u>4,496,177</u>
 Total assets	 <u>\$ 8,590,638</u>	 <u>\$ 9,157,567</u>
<u>Liabilities and Fund Balance</u>		
Liabilities:		
Bank overdraft	\$ 474,524	\$ –
Accounts payable	130,349	206,322
Accrued payroll and others	<u>577,136</u>	<u>455,241</u>
 Total liabilities	 <u>1,182,009</u>	 <u>661,563</u>
Fund balance:		
Reserved for:		
Related assets	155,205	114,140
Encumbrances	581,450	589,780
Continuing appropriations	206,194	266,006
Unreserved	<u>6,465,780</u>	<u>7,526,078</u>
 Total fund balance	 <u>7,408,629</u>	 <u>8,496,004</u>
 Total liabilities and fund balance	 <u>\$ 8,590,638</u>	 <u>\$ 9,157,567</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, 1994

(With comparative totals for the year ended September 30, 1993)

	<u>1994</u>	<u>1993</u>
Revenues:		
Compact of Free Association:		
Base grant	\$ 7,206,300	\$ 7,206,300
Inflation adjustment	3,170,772	2,954,583
Revenue sharing	3,790,535	3,811,847
Taxes and licenses	1,295,653	1,045,530
Fines and penalties	123,646	307,633
Investment income	805,776	1,162,437
Other	<u>470,729</u>	<u>695,550</u>
Total revenues	<u>16,863,411</u>	<u>17,183,880</u>
Expenditures:		
Personnel	13,719,930	11,597,776
Travel	419,060	281,118
Supplies and materials	385,854	584,355
Fuel	94,262	150,295
Equipment	262,287	155,107
Contractual services	118,333	1,257,197
Other	<u>2,379,958</u>	<u>1,689,962</u>
Total expenditures	<u>17,379,684</u>	<u>15,715,810</u>
Excess (deficiency) of revenues (under) over expenditures	<u>(516,273)</u>	<u>1,468,070</u>
Other financing uses:		
Operating transfers out	<u>(571,102)</u>	<u>(291,708)</u>
Total other financing uses	<u>(571,102)</u>	<u>(291,708)</u>
Excess (deficiency) of revenues (under) over expenditures and other financing uses	<u>(1,087,375)</u>	<u>1,176,362</u>
Fund balance, beginning of year	<u>8,496,004</u>	<u>7,319,642</u>
Fund balance, end of year	<u>\$ 7,408,629</u>	<u>\$ 8,496,004</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, 1994
(With comparative totals for the year ended September 30, 1993)

	1994	1993
Revenues:		
U.S. Compact of Free Association:		
Base grant	\$ 7,206,300	\$ 7,206,300
Inflation adjustment	3,170,772	2,954,583
FSM revenue sharing	3,790,535	3,811,847
Investment income	805,776	1,162,437
State taxes and licenses:		
Beer and malt beverages	\$ 427,520	\$ 355,222
Cigarettes	134,909	54,831
Motor vehicle sales tax	103,531	96,067
General merchandise sales tax	157,791	162,744
Hotel	68,398	77,016
Petroleum and fuel sales tax	71,380	47,026
Use tax	162,036	154,755
Others	170,088	97,869
	1,295,653	1,045,530
Public service charges:		
Hospital and dental	303,012	375,347
Transportation	52,875	85,156
	355,887	460,503
Fines and penalties	123,646	307,633
Other	114,842	235,047
	114,842	235,047
Total revenues	16,863,411	17,183,880
Expenditures:		
General Government:		
Governor and staff	233,403	283,447
Special assistants and miscellaneous	1,233,192	1,204,439
Director of treasury	592,939	573,548
Public auditor	162,337	175,747
Public affairs	–	156
Judiciary	535,883	586,347
Legislative operations	1,691,776	1,627,707
	1,691,776	1,627,707
Sub–total	4,449,530	4,451,391
Department of Land:		
Administration	90	50,904
Surveys and mapping	332,925	321,425
Historic preservation	41,134	41,579
Parks and recreation	21,366	26,917
Management of public lands	–	12,931
	–	12,931
Sub–total	395,515	453,756
Total General Government	4,845,045	4,905,147
Department of Education:		
Administration	89,123	135,478
Preschool and elementary	4,217,397	2,650,314
Secondary	586,440	115,184
	586,440	115,184
Total Education	4,892,960	2,900,976

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, 1994
(With comparative totals for the year ended September 30, 1993)

	1994	1993
Expenditures by department, continued:		
Department of Health Services:		
Administration	\$ 455,384	\$ 1,054,525
Medical services	1,559,028	1,455,465
Dental services	323,257	330,894
Medical supplies	90,564	454,741
Public health	423,097	376,224
Environmental protection	129	—
National health insurance	41,018	—
Hemodialysis	80,468	—
Hospital buildings & grounds	9,896	—
Hospital food	49,943	—
Medical referrals	331,948	115,653
	<u>3,364,732</u>	<u>3,787,502</u>
Total Health Services		
Department of Conservation and Resource Development:		
Administration	64,477	63,089
Marine resources	105,038	114,626
Agriculture	427,085	392,333
Forestry	110,040	109,147
Economic planning	—	(146)
Energy	48,730	48,059
	<u>755,370</u>	<u>727,108</u>
Total Resources and Development		
Department of Public Works:		
Administration	281,649	596,330
Utility services	—	15,831
Other	49,746	45,041
	<u>331,395</u>	<u>657,202</u>
Total Public Works		
Department of Justice/Public Safety:		
Administration	92,112	94,082
Public Safety	747,536	670,464
Correction and rehabilitation	156,799	153,762
Fire and disaster	—	(10)
Legal affairs	269,707	152,895
Search and rescue	303	989
	<u>1,266,457</u>	<u>1,072,182</u>
Total Public Safety		
Department of Commerce and Industry :		
Administration	50,413	20,094
Business development statistics	43,692	29,648
Consumer protection	19,499	13,281
Registrar of corporation	19,017	12,726
	<u>132,621</u>	<u>75,749</u>
Total Commerce and Industry		

**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, 1994
(With comparative totals for the year ended September 30, 1993)

	1994	1993
Expenditures by department, continued:		
Boards, Commissions, and Other Appropriations:		
Pohnpei housing authority	\$ —	\$ 11,600
Tourist commission	65,331	67,559
Micronesian legal services	42,000	42,000
Sports council	28,955	40,546
Farmers home administration	82,556	74,054
Traditional affairs	900	2,500
Pohnpei public library	32,721	32,732
ALMS fund	—	2,574
Environmental protection agency	123,638	—
Pohnpei health care center	6,168	—
Micro games	92,139	—
Foreign investment commission	60,709	48,494
Recycling project	—	176
	535,117	322,235
Municipal Governments:		
Sokehs	212,401	191,948
Kitti	220,755	203,396
Madolenihmw	211,086	190,804
Uh	124,076	109,296
Kolonia	139,058	124,439
Pingilap	66,516	57,600
Nett	140,311	122,290
Kapingamarangi	40,463	32,829
Sapwuahfik	35,451	28,978
Mokil	30,594	25,425
Nukuoro	35,171	13,818
Other municipal projects	—	6,276
	1,255,882	1,107,099
Other	105	160,610
Total expenditures	17,379,684	15,715,810
Excess (deficiency) of revenues (under) over exp	(516,273)	1,468,070
Other financing uses:		
Operating transfers out	(571,102)	(291,708)
Total other financing uses	(571,102)	(291,708)
Excess (deficiency) of revenues (under) over expenditures and other financing uses	(1,087,375)	1,176,362
Fund balance, beginning of year	8,496,004	7,319,642
Fund balance, end of year	\$ 7,408,629	\$ 8,496,004

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
SPECIAL REVENUE FUNDS
September 30, 1994

Specific revenues that are legally restricted to expenditures for particular purposes are accounted for in Special Revenue Funds. A brief discussion of Pohnpei State's Special Revenue Funds follows:

Compact - Special Block Grant - Health and Education, Title Two, Article I, Section 221 (b)

This fund accounts for the funds granted under the Compact of Free Association with the United States. These funds are specifically restricted for health and education programs.

Compact Other Grants Fund

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

U.S. Federal Assistance Fund

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

Other Federal and Direct Assistance Fund

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

Agriculture Revolving Fund

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

Student Vocational Arts Program (SVAP) Revolving Fund

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

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
SPECIAL REVENUE FUNDS, CONTINUED
September 30, 1994**

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.

V6AH Revolving Fund

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

Environmental Quality Fund

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

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
SPECIAL REVENUE FUNDS
Combining Balance Sheet
September 30, 1994
(With comparative totals as of September 30, 1993)**

Assets	Compact	Compact	U.S.	Other	Agriculture	SVAP	Airport	CFSM	V6AH	Environ-	Totals		
	Health and	Other	Federal	Federal							ment-	1994	1993
	Education	Grants	Assistance	and Direct	Revolving	Revolving	Operations	State	Revolving	Quality			
Cash and equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 456,740
Investments	-	194,954	-	-	-	-	-	-	-	-	-	194,954	194,953
Receivables:													
Federal agencies, thru FSM National Government	-	-	2,299,372	-	-	-	-	-	-	-	-	2,299,372	2,672,365
Federal agencies direct, other governments	-	51,227	-	(2,731)	-	-	-	1,619,526	-	-	-	1,668,022	1,304,163
General	-	-	-	-	42,078	-	-	-	-	-	-	42,078	42,078
Advances	3,301	50,477	141,735	18,573	-	-	2,142	60,343	-	-	-	276,571	185,215
Due from other funds	658,226	-	-	-	36,747	5,436	364,163	-	21,120	17,992	12,487	1,116,171	437,940
Inventory	-	-	-	-	25,953	-	-	-	-	-	-	25,953	5,884
Total assets	\$ 661,527	\$ 296,658	\$ 2,441,107	\$ 15,842	\$ 104,778	\$ 5,436	\$ 366,305	\$ 1,679,869	\$ 21,120	\$ 17,992	\$ 12,487	\$ 5,623,121	\$ 5,299,338
Liabilities and Fund Balances (Deficit)													
Liabilities:													
Accounts payable	\$ 15,351	\$ 129,202	\$ 363,844	\$ 4,413	\$ 7,124	\$ 55	\$ 5	\$ 126,868	\$ -	\$ -	\$ -	\$ 646,862	\$ 161,240
Accrued payroll	-	-	-	-	-	-	-	-	-	-	-	-	151,560
Due to other funds	-	204,968	2,238,842	60,196	-	-	-	1,590,784	-	-	-	4,094,790	4,203,971
Deferred revenue	-	-	-	18,670	-	-	-	-	-	-	-	18,670	18,670
Total liabilities	15,351	334,170	2,602,686	83,279	7,124	55	5	1,717,652	-	-	-	4,760,322	4,535,441
Fund balances (deficit):													
Reserved for:													
Related assets	3,301	50,477	141,735	18,573	42,078	-	2,142	60,343	-	-	-	318,649	1,013,196
Encumbrances	88,267	126,714	621,402	-	6,946	975	-	451,865	-	-	-	1,296,169	1,052,410
Unreserved	554,608	(214,703)	(924,716)	(86,010)	48,630	4,406	364,158	(549,991)	21,120	17,992	12,487	(752,019)	(1,301,709)
Total fund balances (deficit)	646,176	(37,512)	(161,579)	(67,437)	97,654	5,381	366,300	(37,783)	21,120	17,992	12,487	862,799	763,897
Total liabilities and fund balances	\$ 661,527	\$ 296,658	\$ 2,441,107	\$ 15,842	\$ 104,778	\$ 5,436	\$ 366,305	\$ 1,679,869	\$ 21,120	\$ 17,992	\$ 12,487	\$ 5,623,121	\$ 5,299,338

**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, 1994
(With comparative totals for the year ended September 30, 1993)

Assets	Compact	Compact	U.S.	Other	Agriculture	SVAP	Airport	CFSM	V6AH	Environ-	Totals		
	Health and	Other	Federal	Federal							ment-	1994	1993
	Education	Grants	Assistance	and Direct	Revolving	Revolving	Operations	State	Revolving	Quality			
Revenues:													
Compact:													
Base grant	\$ 1,890,000	\$ 1,357,783	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,247,783	\$ 3,247,782
Inflation adjustment	-	440,000	-	-	-	-	-	-	-	-	-	440,000	410,000
FSM													
National Contributions	-	275,111	3,114,600	-	-	-	-	1,307,131	-	-	-	4,696,842	2,702,772
Other	-	-	-	205,494	103,901	9,382	106,739	-	3	17,992	13,850	457,361	1,158,926
Total revenues	1,890,000	2,072,894	3,114,600	205,494	103,901	9,382	106,739	1,307,131	3	17,992	13,850	8,841,986	7,519,480
Expenditures:													
General													
government	-	437,263	429,600	6,935	-	9,029	-	237,844	-	-	-	1,120,671	760,216
Education	1,588,511	270,459	1,257,706	87,398	-	-	-	321,205	-	-	-	3,525,279	4,599,677
Health services	-	898,854	408,430	46,667	-	-	-	88,645	-	-	1,363	1,443,959	949,586
Resources and development	-	-	138,044	64,494	129,380	-	-	9,562	-	-	-	341,480	609,789
Public works	-	256,000	21,121	-	-	-	-	649,875	-	-	-	926,996	175,535
Other	-	-	184,376	-	-	-	-	-	-	-	-	184,376	1,031,428
Total expenditures	1,588,511	1,862,576	2,439,277	205,494	129,380	9,029	-	1,307,131	-	-	1,363	7,542,761	8,126,231
Excess (deficiency) of revenues over (under) expenditures	301,489	210,318	675,323	-	(25,479)	353	106,739	-	3	17,992	12,487	1,299,225	(606,751)
Other financing uses:													
Operating transfers out	-	(525,000)	(675,323)	-	-	-	-	-	-	-	-	(1,200,323)	(819,594)
Excess (deficiency) of revenues over (under) expenditures and other financing uses	301,489	(314,682)	-	-	(25,479)	353	106,739	-	3	17,992	12,487	98,902	(1,426,345)
Fund balances (deficit), beginning of year													
	344,687	277,170	(161,579)	(67,437)	123,133	5,028	259,561	(37,783)	21,117	-	-	763,897	2,190,242
Fund balances (deficit), end of year													
	\$ 646,176	\$ (37,512)	\$ (161,579)	\$ (67,437)	\$ 97,654	\$ 5,381	\$ 366,300	\$ (37,783)	\$ 21,120	\$ 17,992	\$ 12,487	\$ 862,799	\$ 763,897

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

**Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balances (Deficit), Continued
Year Ended September 30, 1994
(With comparative totals for the year ended September 30, 1993)**

Assets	Compact	Compact	U.S.	Other	Agriculture	SVAP	Airport	CFSM	Recycling	V6AH	Environ-	Totals	
	Health and	Other	Federal	Federal							mental	1994	1993
	Education	Grants	Assistance	and Direct	Revolving	Revolving	Operations	State		Revolving	Quality		
Revenues:													
Compact:													
Base grant	\$ 1,890,000	\$ 1,357,783	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,247,783	\$ 3,247,782
Inflation adjustment	-	440,000	-	-	-	-	-	-	-	-	-	440,000	410,000
FSM National contributions	-	275,111	3,114,600	-	-	-	-	1,307,131	-	-	-	4,696,842	2,702,772
Other	-	-	-	205,494	103,901	9,382	106,739	-	3	17,992	13,850	457,361	1,158,926
Total revenues	1,890,000	2,072,894	3,114,600	205,494	103,901	9,382	106,739	1,307,131	3	17,992	13,850	8,841,986	7,519,480
Expenditures:													
Personnel	1,412,837	117,152	798,061	8,063	-	-	-	125,215	-	-	-	2,461,328	3,987,273
Travel	1,491	108,698	339,479	27,683	-	-	-	17,961	-	-	838	496,150	373,677
Supplies and materials	34,033	107,629	175,946	19,433	122,657	7,131	-	235,514	-	-	125	702,468	745,078
Fuel	17,967	-	19,894	3,009	346	-	-	12,642	-	-	-	53,858	39,935
Equipment	-	2,280	160,314	109,771	-	290	-	449,977	-	-	-	722,632	393,689
Contractual services	-	-	507,598	(586)	150	190	-	300,580	-	-	-	807,932	752,023
Other	122,183	1,526,817	437,985	38,121	6,227	1,418	-	165,242	-	-	400	2,298,393	1,834,556
Total expenditures	1,588,511	1,862,576	2,439,277	205,494	129,380	9,029	-	1,307,131	-	-	1,363	7,542,761	8,126,231
Excess (deficiency) of revenues over (under) expenditures	301,489	210,318	675,323	-	(25,479)	353	106,739	-	3	17,992	12,487	1,299,225	(606,751)
Other financing uses:													
Operating transfers out	-	(525,000)	(675,323)	-	-	-	-	-	-	-	-	(1,200,323)	(819,594)
Excess (deficiency) of revenues over (under) and other financing uses	301,489	(314,682)	-	-	(25,479)	353	106,739	-	3	17,992	12,487	98,902	(1,426,345)
Fund balances (deficit), beginning of year													
	344,687	277,170	(161,579)	(67,437)	123,133	5,028	259,561	(37,783)	21,117	-	-	763,897	2,190,242
Fund balances (deficit), end of year													
	\$ 646,176	\$ (37,512)	\$ (161,579)	\$ (67,437)	\$ 97,654	\$ 5,381	\$ 366,300	\$ (37,783)	\$ 21,120	\$ 17,992	\$ 12,487	\$ 862,799	\$ 763,897

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
CAPITAL PROJECTS FUNDS
September 30, 1994

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

Compact - Capital Projects Fund

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

TTG - Capital Projects Fund

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

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
CAPITAL PROJECTS FUNDS**

Combining Balance Sheet

September 30, 1994

(With comparative totals as of September 30, 1993)

	Compact Capital Projects Fund	TTG Capital Projects Fund	Totals	
			1994	1993
<u>Assets</u>				
Cash and equivalents	\$ -	\$ -	\$ -	\$ 3,498,241
Cash – restricted	6,792,734	-	6,792,734	3,678,503
Investments	2,335,936	-	2,335,936	2,583,002
Investments – other	350,000	-	350,000	350,000
Receivables from TTG	-	144,708	144,708	328,720
General receivables, net	5,483	-	5,483	-
Loans receivable, net	2,295,881	-	2,295,881	404,003
Advances	45,317	-	45,317	38,462
Due from other funds	-	-	-	38,042
Total assets	\$ 11,825,351	\$ 144,708	\$ 11,970,059	\$ 10,918,973
 <u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 127,271	\$ 534	\$ 127,805	\$ 182,944
Accrued payroll	-	-	-	21,065
Due to other funds	1,458,704	144,174	1,602,878	328,209
Total liabilities	1,585,975	144,708	1,730,683	532,218
Fund balances:				
Reserved for:				
Related assets	2,645,881	-	2,645,881	792,465
Encumbrances	3,116,815	30,750	3,147,565	3,143,885
Continuing appropriations	9,917,596	-	9,917,596	7,687,989
Unreserved (deficit)	(5,440,916)	(30,750)	(5,471,666)	(1,237,584)
Total fund balances	10,239,376	-	10,239,376	10,386,755
Total liabilities and fund balances	\$ 11,825,351	\$ 144,708	\$ 11,970,059	\$ 10,918,973

**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, 1994

(With comparative totals for the year ended September 30, 1993)

	Compact Capital Projects Fund	TTG Capital Projects Fund	Totals	
			1994	1993
Revenues:				
Compact of Free Association:				
Base grant	\$ 5,191,800	\$ -	\$ 5,191,800	\$ 5,191,800
Inflation adjustment	2,284,392	-	2,284,392	2,128,638
U.S. Department of the Interior grants	-	58,203	58,203	456,165
Other	193,028	-	193,028	10,000
Total revenues	7,669,220	58,203	7,727,423	7,786,603
Expenditures:				
Capital projects	1,908,503	58,203	1,966,706	7,266,533
Total expenditures	1,908,503	58,203	1,966,706	7,266,533
Excess of revenues over expenditures	5,760,717	-	5,760,717	520,070
Other financing sources (uses):				
Proceeds from notes payable	-	-	-	4,000,000
Net principal repayment	(1,000,000)	-	(1,000,000)	(1,000,000)
Interest expense	(1,654,670)	-	(1,654,670)	(1,542,743)
Other income	-	-	-	28,334
Operating transfers out	(3,253,426)	-	(3,253,426)	(2,835,547)
Total other financing sources (uses), net	(5,908,096)	-	(5,908,096)	(1,349,956)
Deficiency of revenues and other financing sources under expenditures and other financing uses	(147,379)	-	(147,379)	(829,886)
Fund balances, beginning of year	10,386,755	-	10,386,755	11,216,641
Fund balances, end of year	\$ 10,239,376	\$ -	\$ 10,239,376	\$ 10,386,755

**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, 1994
(With comparative totals for the year ended September 30, 1993)

	Compact Capital Projects Fund	TTG Capital Projects Fund	Totals	
			1994	1993
Revenues:				
Compact of Free Association:				
Base grant	\$ 5,191,800	\$ —	\$ 5,191,800	\$ 5,191,800
Inflation adjustment	2,284,392	—	2,284,392	2,128,638
U.S. Department of the Interior grants	—	58,203	58,203	456,165
Other	193,028	—	193,028	10,000
Total revenues	7,669,220	58,203	7,727,423	7,786,603
Expenditures:				
Personnel	144,110	8,084	152,194	408,620
Travel	172,302	—	172,302	122,823
Supplies and materials	94,717	28,583	123,300	165,904
Fuel	508	279	787	118,517
Equipment	101,889	21,828	123,717	18,310
Contractual services	1,267,820	(571)	1,267,249	5,395,420
Other	127,157	—	127,157	1,036,939
Total expenditures	1,908,503	58,203	1,966,706	7,266,533
Excess of revenues over expenditures	5,760,717	—	5,760,717	520,070
Other financing sources (uses) :				
Proceeds from notes payable	—	—	—	4,000,000
Net principal repayment	(1,000,000)	—	(1,000,000)	(1,000,000)
Interest expense	(1,654,670)	—	(1,654,670)	(1,542,743)
Other income	—	—	—	28,334
Operating transfers out	(3,253,426)	—	(3,253,426)	(2,835,547)
Total other financing sources (uses), net	(5,908,096)	—	(5,908,096)	(1,349,956)
Deficiency of revenues and other financing sources under expenditures and other financing uses	(147,379)	—	(147,379)	(829,886)
Fund balances, beginning of year	10,386,755	—	10,386,755	11,216,641
Fund balances, end of year	\$ 10,239,376	\$ —	\$ 10,239,376	\$ 10,386,755

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
COMPONENT UNITS - PROPRIETARY FUNDS
September 30, 1994

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

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

Pohnpei Port Authority (PPA) was established by State Public Law 2L-224-91. The primary purpose of the Authority is to oversee the use and maintenance of Pohnpei State's sea and air ports. PPA began operating as a separate entity in fiscal year 1994; however, the accounting for the Authority continued to be handled by Pohnpei State Finance through September 30, 1994.

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 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
COMPONENT UNITS – PROPRIETARY FUNDS**

Combining Balance Sheet

September 30, 1994

(With comparative totals as of September 30, 1993)

<u>Assets</u>	<u>Pohnpei</u>	<u>Pohnpei</u>	<u>Pohnpei</u>	<u>Pohnpei</u>	<u>Pohnpei</u>	<u>Totals</u>	
	<u>Fisheries</u>	<u>Port</u>	<u>Utilities</u>	<u>Economic</u>	<u>State</u>	<u>1994</u>	<u>1993</u>
	<u>Corporation</u>	<u>Authority</u>	<u>Corporation</u>	<u>Development</u>	<u>Housing</u>		
				<u>Authority</u>	<u>Authority</u>		
Cash and equivalents	\$ 118,802	\$ 399,806	\$ 115,433	\$ 144,363	\$ 103,955	\$ 882,359	\$ 163,644
Investments	–	–	–	500,000	–	500,000	500,000
General receivables, net	169,612	76,611	2,007,222	231,756	123,035	2,608,236	782,729
Loans receivables, net	–	–	243,247	–	3,316,342	3,559,589	3,242,098
Advances	900	69,144	20,824	9,315	23,938	124,121	40,565
Due from other funds	–	–	–	–	–	–	52,580
Inventory, at cost	865,850	–	–	12,907	20,761	899,518	75,003
Self insurance fund	–	–	84,262	–	–	84,262	50,000
Scholarship fund	–	–	3,531	–	–	3,531	–
Prepaid expenses and other assets	11,650	364,161	–	–	–	375,811	–
Fixed assets, net	<u>991,371</u>	<u>635,419</u>	<u>28,389,106</u>	<u>501,845</u>	<u>28,923</u>	<u>30,546,664</u>	<u>22,594,287</u>
Total assets	<u>\$ 2,158,185</u>	<u>\$ 1,545,141</u>	<u>\$ 30,863,625</u>	<u>\$ 1,400,186</u>	<u>\$ 3,616,954</u>	<u>\$ 39,584,091</u>	<u>\$ 27,500,906</u>
Liabilities and Fund Equity (Deficiency)							
Liabilities:							
Notes payable	\$ 1,811,271	\$ –	\$ 462,144	\$ –	\$ –	\$ 2,273,415	\$ 804,003
Accounts payable	376,300	630,681	829,527	146,521	8,569	1,991,598	731,478
Due to other funds	–	349,769	–	–	–	349,769	–
Accrued payroll and others	112,563	22,584	208,980	34,026	4,373	382,526	174,747
Deferred revenue	–	66,038	482,835	–	–	548,873	31,328
Total liabilities	<u>2,300,134</u>	<u>1,069,072</u>	<u>1,983,486</u>	<u>180,547</u>	<u>12,942</u>	<u>5,546,181</u>	<u>1,741,556</u>
Fund equity (deficiency):							
Contributed capital	–	–	26,384,860	4,294,541	3,935,737	34,615,138	27,870,949
Retained earnings (deficit)	<u>(141,949)</u>	<u>476,069</u>	<u>2,495,279</u>	<u>(3,074,902)</u>	<u>(331,725)</u>	<u>(577,228)</u>	<u>(2,111,599)</u>
Total fund equity (deficiency)	<u>(141,949)</u>	<u>476,069</u>	<u>28,880,139</u>	<u>1,219,639</u>	<u>3,604,012</u>	<u>34,037,910</u>	<u>25,759,350</u>
Total liabilities and fund equity (deficiency)	<u>\$ 2,158,185</u>	<u>\$ 1,545,141</u>	<u>\$ 30,863,625</u>	<u>\$ 1,400,186</u>	<u>\$ 3,616,954</u>	<u>\$ 39,584,091</u>	<u>\$ 27,500,906</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
COMPONENT UNITS – PROPRIETARY FUNDS**
Combining Statement of Revenues, Expenses and Changes in Fund Equity (Deficiency)
Year Ended September 30, 1994
(With comparative totals for the year ended September 30, 1993)

	Pohnpei	Pohnpei	Pohnpei	Pohnpei	Pohnpei	Totals	
	Fisheries Corporation	Port Authority	Utilities Corporation	Economic Development Authority	State Housing Authority	1994	1993
Operating revenues:							
Charges for goods and services	\$ 1,434,836	\$ 309,946	\$ 4,876,425	\$ 736,199	\$ 178,761	\$ 7,536,167	\$ 4,669,565
Rental income	–	150,441	–	–	–	150,441	100,133
Other	–	31,955	–	7,085	–	39,040	14,607
Total operating revenues	1,434,836	492,342	4,876,425	743,284	178,761	7,725,648	4,784,305
Operating expenses:							
Personnel services	240,170	216,707	1,685,946	371,383	141,551	2,655,757	1,883,636
Travel	65,568	34,127	62,696	19,407	3,914	185,712	128,810
Supplies and materials	47,121	39,032	129,361	8,720	5,603	229,837	84,781
Fuel	145,881	2,677	1,973,839	11,612	1,654	2,135,663	2,166,829
Contractual services	–	53,078	–	–	49,300	102,378	142,588
Depreciation	66,721	4,050	1,684,642	25,468	11,154	1,792,035	1,286,730
Other	834,008	78,800	2,030,233	183,025	131,028	3,257,094	2,246,431
Total operating expenses	1,399,469	428,471	7,566,717	619,615	344,204	10,358,476	7,939,805
Operating income (loss)	35,367	63,871	(2,690,292)	123,669	(165,443)	(2,632,828)	(3,155,500)
Nonoperating revenues (expenses):							
Operating transfers in	–	77,875	1,898,117	145,181	141,553	2,262,726	1,944,954
Equity loss on investment	–	–	–	–	–	–	(134,322)
Other	198,316	267,892	640,821	(626,978)	(49,447)	430,604	52,739
Total nonoperating revenues (expenses), net	198,316	345,767	2,538,938	(481,797)	92,106	2,693,330	1,863,371
Net income (loss)	233,683	409,638	(151,354)	(358,128)	(73,337)	60,502	(1,292,129)
Add depreciation on fixed assets acquired by capital contributions that reduce contributed capital	–	–	1,473,869	–	–	1,473,869	1,090,457
Increase (decrease) in retained earnings	233,683	409,638	1,322,515	(358,128)	(73,337)	1,534,371	(201,672)
Retained earnings (deficit), beginning of year	(375,632)	66,431	1,172,764	(2,716,774)	(258,388)	(2,111,599)	(1,874,167)
Prior period adjustments	–	–	–	–	–	–	(35,760)
Retained earnings (deficit), end of year	(141,949)	476,069	2,495,279	(3,074,902)	(331,725)	(577,228)	(2,111,599)
Contributed capital, beginning of year	–	–	19,843,273	4,294,541	3,733,135	27,870,949	24,944,661
Less depreciation	–	–	(1,473,869)	–	–	(1,473,869)	–
Other additions for the year, net	–	–	8,015,456	–	202,602	8,218,058	2,926,288
Contributed capital, end of year	–	–	26,384,860	4,294,541	3,935,737	34,615,138	27,870,949
Fund equity (deficiency), end of year	\$ (141,949)	\$ 476,069	\$ 28,880,139	\$ 1,219,639	\$ 3,604,012	\$ 34,037,910	\$ 25,759,350

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
COMPONENT UNITS – PROPRIETARY FUNDS
Combining Statement of Cash Flows
Year Ended September 30, 1994**

(With comparative totals for the year ended September 30, 1993)

	Pohnpei	Pohnpei	Pohnpei	Pohnpei	Pohnpei	Totals	
	Fisheries Corporation	Port Authority	Utilities Corporation	Economic Development Authority	State Housing Authority	1994	1993
Cash flows from operating activities:							
Operating income (loss)	\$ 35,367	\$ 63,871	\$ (2,690,292)	\$ 123,669	\$ (165,443)	\$ (2,632,828)	\$ (3,155,500)
Other income	198,316	8,330	51,952	–	4,277	262,875	–
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:							
Depreciation	66,721	4,050	1,684,642	25,468	11,154	1,792,035	1,286,730
Doubtful debt expense	–	29,388	–	58,857	117,483	205,728	353,199
Reclassification of fixed assets	–	4,934	–	–	–	4,934	–
Recovery of bad debts	–	–	410,498	–	–	410,498	–
	<u>300,404</u>	<u>110,573</u>	<u>(543,200)</u>	<u>207,994</u>	<u>(32,529)</u>	<u>43,242</u>	<u>(1,515,571)</u>
Changes in assets and liabilities:							
General receivables, gross	(108,455)	(104,959)	(775,900)	(159,019)	500	(1,147,833)	98,545
Loans receivable, gross	–	–	(243,247)	–	–	(243,247)	(820,068)
Advances	16,543	(67,944)	(13,433)	(3,505)	(15,017)	(83,356)	(33,066)
Due from other funds	–	38,188	–	–	–	38,188	62,598
Inventory, at cost	(864,539)	–	–	42,562	(2,538)	(824,515)	109,123
Prepaid expenses and other assets	(11,650)	–	–	–	–	(11,650)	–
Accounts payable	296,875	2,489	348,131	(15,457)	3,905	635,943	173,474
Accrued liabilities payroll and others	101,608	17,984	63,670	(12,570)	(96)	170,596	63,001
Deferred revenue	–	–	451,507	–	–	451,507	31,328
	<u>(569,618)</u>	<u>(114,242)</u>	<u>(169,272)</u>	<u>(147,989)</u>	<u>(13,246)</u>	<u>(1,014,367)</u>	<u>(315,065)</u>
Net cash provided by (used for) operating activities	<u>(269,214)</u>	<u>(3,669)</u>	<u>(712,472)</u>	<u>60,005</u>	<u>(45,775)</u>	<u>(971,125)</u>	<u>(1,830,636)</u>
Cash flows from noncapital financing activities:							
Proceeds from notes payable	1,407,268	–	250,000	–	–	1,657,268	979,003
Repayments of notes payable	–	–	(187,856)	–	–	(187,856)	(196,722)
Operating transfers in	–	77,875	1,439,849	145,181	140,957	1,803,862	1,929,431
Other noncapital financing activities	–	325,600	(9,329)	–	–	316,271	(67,498)
Net cash provided by noncapital financing activities	<u>1,407,268</u>	<u>403,475</u>	<u>1,492,664</u>	<u>145,181</u>	<u>140,957</u>	<u>3,589,545</u>	<u>2,644,214</u>
Cash flows from capital and related financing activities:							
Acquisition of fixed assets	(1,030,517)	–	(1,939,124)	(109,523)	(8,003)	(3,087,167)	(1,525,803)
Contributed capital	–	–	1,307,344	–	75,000	1,382,344	564,366
Net cash provided by (used for) capital and related financing activities	<u>(1,030,517)</u>	<u>–</u>	<u>(631,780)</u>	<u>(109,523)</u>	<u>66,997</u>	<u>(1,704,823)</u>	<u>(961,437)</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
COMPONENT UNITS – PROPRIETARY FUNDS
Combining Statement of Cash Flows, Continued
Year Ended September 30, 1994**

(With comparative totals for the year ended September 30, 1993)

	Pohnpei Fisheries Corporation	Pohnpei Port Authority	Pohnpei Utilities Corporation	Pohnpei Economic Development Authority	Pohnpei State Housing Authority	Totals	
						1994	1993
Cash flows from investing activities:							
Payments to self-insurance fund, net	-	-	(34,262)	-	-	(34,262)	-
Payments for scholarship fund, net	-	-	(3,531)	-	-	(3,531)	-
Investment dividend received	-	-	-	50,000	-	50,000	-
Investment dividend transferred to primary government	-	-	-	(50,000)	-	(50,000)	-
Contribution for investment	-	-	-	-	-	-	500,000
Payment for investment	-	-	-	-	-	-	(500,000)
Increase in loans	-	-	-	-	(157,089)	(157,089)	-
Net cash used for investing activities	-	-	(37,793)	-	(157,089)	(194,882)	-
Net increase (decrease) in cash and equivalents	107,537	399,806	110,619	95,663	5,090	718,715	(147,859)
Cash and equivalents, beginning of year	11,265	-	4,814	48,700	98,865	163,644	311,503
Cash and equivalents, end of year	<u>\$ 118,802</u>	<u>\$ 399,806</u>	<u>\$ 115,433</u>	<u>\$ 144,363</u>	<u>\$ 103,955</u>	<u>\$ 882,359</u>	<u>\$ 163,644</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
INDEPENDENT AUDITORS' REPORTS ON COMPLIANCE
WITH LAWS AND REGULATIONS
YEAR ENDED SEPTEMBER 30, 1994**



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
BASED ON AN AUDIT OF GENERAL-PURPOSE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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, 1994, and have issued our report thereon dated December 12, 1994. Our report on the audit of the general-purpose financial statements was modified due to our inability to determine the propriety of fixed assets of the Component Units - Proprietary Funds 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, the objective of our audit of the general-purpose financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

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 1994 general-purpose financial statements of the State of Pohnpei.

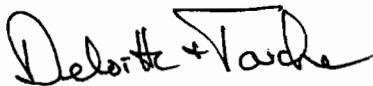
As explained in local finding no. 2 at page 102, Pohnpei State expended \$437,263 of fiscal year 1994 Compact Energy funds for payment of utility bills. Pohnpei State also expended \$339,070 in Compact capital funds for the drydocking of MS Micro Glory (finding no. 1 on page 102). These may not be allowable uses of Compact Energy and Compact Capital funds.

We considered these material instances of noncompliance in forming our opinion on whether the 1994 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 December 12, 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 91 through 102) in Federal Findings 1 through 8.

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.



December 12, 1994



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, 1994, and have issued our report thereon dated December 12, 1994. Our report on the audit of the general-purpose financial statements was modified due to our inability to determine the propriety of fixed assets of the Component Units - Proprietary Funds and the General Fixed Assets Account Group.

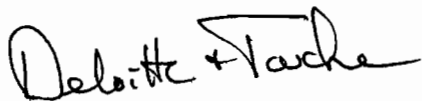
We have also audited the State of Pohnpei's compliance with the requirements governing the Compact of Free Association; types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance (pages 74 through 84), for the year ended September 30, 1994. 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 91 through 102) in Federal Findings 2 through 4 and finding number 8. 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, 1994.

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.

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

December 12, 1994



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, 1994, and have issued our report thereon dated December 12, 1994. Our report on the audit of the general-purpose financial statements was modified due to our inability to determine the propriety of fixed assets of the Component Units - Proprietary Funds 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 December 12, 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 74 through 84), for the year ended September 30, 1994: cash management, federal financial reports, allowable costs/cost principles, Drug-Free Workplace Act, and administrative requirements.

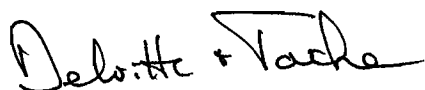
The requirements of political activity, Davis-Bacon Act, civil rights and relocation assistance and real property acquisition are not applicable to the federal financial assistance programs of the State of Pohnpei, which are identified in the Schedule of Federal Financial Assistance.

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

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the State of 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 91 through 102) in Federal Finding Numbers 2 and 7.

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 December 12, 1994.

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.

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

December 12, 1994



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:

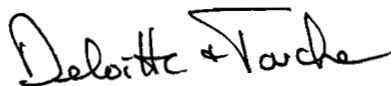
We have audited the general-purpose financial statements of the State of Pohnpei as of and for the year ended September 30, 1994, and have issued our report thereon dated December 12, 1994. Our report on the audit of the general-purpose financial statements was modified due to our inability to determine the propriety of fixed assets of the Component Units - Proprietary Funds and the General Fixed Assets Account Group. We have also audited the State of Pohnpei's compliance applicable to major federal financial assistance programs and applied procedures to test compliance with general requirements applicable to federal financial assistance programs and have issued our report thereon dated December 12, 1994.

In connection with our audit of the 1994 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, 1994.

As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing types of services allowed or unallowed; eligibility; 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 accompany Schedule of Findings and Questioned Costs (pages 91 through 102) in Federal Findings 1 and 5 through 7.

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.

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

December 12, 1994



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

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

We have audited the general-purpose financial statements of the State of Pohnpei as of and for the year ended September 30, 1994, and have issued our report thereon dated December 12, 1994. Our report on the audit of the general-purpose financial statements was modified due to our inability to determine the propriety of fixed assets of the Component Units - Proprietary Funds and the General Fixed Assets Account Group. We have also audited the State of Pohnpei's compliance applicable to major federal financial assistance programs and have issued our report thereon dated December 12, 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, 1994, 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 December 12, 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:

Controls Used in Administering Federal Programs

General Requirements

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

Specific Requirements

- Compact of Free Association
- Types of services allowed or unallowed
- Eligibility
- Matching, level of effort, or earmarking
- Reporting

Claims for Advances and Reimbursements

Amounts Claimed or Used for Matching

Accounting Controls

- Revenue and receipt cycle
- Purchases and disbursement cycle
- Payroll and personnel cycle
- External financial reporting
- Cash and equivalents
- Fixed assets

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, 1994, the State of Pohnpei expended 85% of its total federal financial assistance under major federal financial assistance programs (see page 86).

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 74 through 84). 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 Pohnpei 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 91 through 102) in Federal findings 1, 2, 3, 4 and 8.

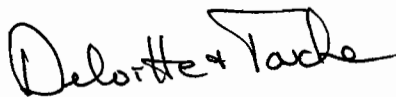
A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may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

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe 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 December 12, 1994.

We also noted other matters involving the internal control structure and its operation that we have reported to the management of Pohnpei State in the accompanying Schedule of Findings and Questioned Costs in Federal Findings 5 through 7.

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.

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

December 12, 1994

**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, 1994, and have issued our report thereon dated December 12, 1994. Our report on the audit of the general-purpose financial statements was modified due to our inability to determine the propriety of fixed assets of the Component Units - Proprietary Funds and the General Fixed Assets Account Group. These general-purpose financial statements are the responsibility of the management of Pohnpei State. Our responsibility is to express an opinion on these general-purpose financial statement 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 74 through 84) for the year ended September 30, 1994, 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 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.

Deloitte & Touche

December 12, 1994

STATE OF POHNPEI
 FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
U.S. FEDERAL ASSISTANCE FUND
YEAR ENDED SEPTEMBER 30, 1994

<u>Grantor Program Title</u>	<u>Pohnpei Org. #</u>	<u>CFDA I.D. #</u>	<u>1994 Fiscal Year Expenditures</u>
<u>U.S. Department of Agriculture</u>			
FY92 Watershed Project	3349	10.418	\$ 674
FY93 Fire Prevention	3352	10.418	3,392
Food Services	3388	10.560	85,167
FY93 Forestry Project	3339	10.664	1,282
FY92 Forestry Project	3348	10.664	4,293
FY93 Forestry Project	3351	10.664	<u>43,236</u>
			<u>138,044</u>
<u>U.S. Department of Education</u>			
FY93 Special Education Program	3110	84.027	474,040
FY94 Special Education Program	3113	84.027	417,255
FY93 Teacher Training	3103	84.124	57,410
Pohnpei Educational Grant	3815	84.256A	<u>309,001</u>
			<u>1,257,706</u>
<u>U.S. Department of Energy</u>			
Pohnpei Utilities Corporation	3565	15.875	<u>97,000</u>
			<u>97,000</u>
<u>U.S. Environmental Protection Agency</u>			
Environment Management Spec.	3562	66.418	<u>21,121</u>
			<u>21,121</u>
<u>U.S. Department of the Interior</u>			
Computer Advisor Training	3561	15.875	15,447
Land & Survey R. System	3563	15.875	21,460
Multi-agency Anti Fraud	3566	15.875	48,496
Pohnpei Utilities Corporation	3505	15.875	10,617
Pohnpei Utilities Corporation	3506	15.875	141,440
Water, Sewage, Solid	3564	15.875	426,266
FY92 Historic Preservation	3461	15.904	3,322
FY91 Historic Preservation	3463	15.904	3,113
FY93 Historic Preservation	3466	15.904	35,234
FY94 Historic Preservation	3467	15.904	<u>2,978</u>
			<u>708,373</u>
Balance Forward			<u>2,222,244</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, 1994

<u>Grantor Program Title</u>	<u>Pohnpei Org. #</u>	<u>CFDA I.D. #</u>	<u>1994 Fiscal Year Expenditures</u>
Balance Forwarded			\$ 2,222,244
<u>U.S. Department of Health and Human Services</u>			
State System Development	3619	93.110	16,306
FY94 Tuberculosis Program	3625	93.116	4,029
FY93 AIDS Prevention	3613	93.118	1,218
FY94 Family Planning	3611	93.217	25,859
FY95 Family Planning	3626	93.217	7,596
FY94 Community Health Center	3622	93.224	87,876
FY93 Immunization Program	3609	93.268	11,504
FY94 Immunization Program	3624	93.268	20,241
FY93 Community Health Center	3612	93.924	41,942
FY94 AIDS Prevention Program	3620	93.940	8,456
FY93 Substance Abuse	3614	93.959	60,023
Pohnpei Community Based	3618	93.963	13,921
FY94 Sexually Transmitted Diseases	3623	93.977	4,878
FY93 Preventive Health	3617	96.991	17,174
FY92 PH & PH	3737	93.991	336
FY92 ADAMHS	3608	93.992	308
FY93 MCH	3615	93.994	85,282
FY92 MCH Dental	3616	93.994	176
FY92 Sexually Transmitted Diseases	3605	93.997	<u>1,305</u>
			<u>408,430</u>
Balance Forward			<u>2,630,674</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, 1994

Grantor Program Title	Pohnpei Org. #	CFDA I.D. #	1994 Fiscal Year Expenditures
Balance Forwarded			\$ 2,630,674
<u>U.S. Department of Labor</u>			
FY91 JTPA Administration	3210	17.250	3,581
FY91 JTPA Adult Program	3211	17.250	(2,242)
JTPA Youth Program	3212	17.250	(15,785)
FY91 JTPA Participant Support	3213	17.250	(4,370)
FY92 JTPA Administration	3215	17.250	(1,416)
FY92 JTPA Adult Program	3216	17.250	7,063
FY92 JTPA Youth Program	3217	17.250	17,963
FY92 JTPA Participant Support	3218	17.250	8,548
FY90 Elderly Project	3219	17.250	163
FY92 Elderly Project	3221	17.250	32,013
FY93 JTPA Administration	3222	17.250	55,857
FY93 JTPA Adult Program	3223	17.250	56,849
FY93 JTPA Youth Program	3224	17.250	89,001
FY93 Participant Support	3225	17.250	41,349
FY93 JTPA Education Coordinator	3226	17.250	10,976
			<u>299,550</u>
<u>Federal Emergency Management Agency</u>			
Hazard Mitigation Typhoon	3778	83.516	1,798
Pingelap Airstrip Typhoon	3780	83.516	6,000
Governor Office Yuri	3783	83.516	30,458
Hazard Mitigation Typhoon	3785	83.516	23,202
Yuri Public Assistance Education	3788	83.516	238
Hazard Mitigation Food	3789	83.516	46,057
Mwoakilloa Airstrip	3790	83.516	48,282
Hazard Mitigation Project	3796	83.516	5,608
Madolenihmw Municipal Government	3798	83.516	4,276
Nett Secondary Road	3752	83.516	7,643
			<u>173,562</u>
<u>Other U.S Grants</u>			
Critical Population	3801	N/A	10,814
			<u>10,814</u>
Total U.S. Federal Assistance Fund			<u>\$ 3,114,600</u>

A reconciliation of the above expenditures is shown below:

Per the general – purpose financial statements	\$ 2,439,277
Transfer out to Pohnpei Utilities Corporation	<u>675,323</u>
	<u>\$ 3,114,600</u>

Note: The above grants are received in a subgrant capacity through the FSM National Government, except for Pohnpei Education Grant program (org. 3815) which was received directly from U.S. Department of Education.

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, 1994

Grantor Program Title	Pohnpei Org. #	CFDA I.D. #	1994 Fiscal Year Expenditures
<u>World Health Organization</u>			
Community Based Watershed	3925	N/A	\$ 3,364
			<u>3,364</u>
<u>Other Non-U.S. Grants</u>			
Solar Hot Water Heater	3923	N/A	35,632
Pohnpei Community Health Center	3928	N/A	811
Pohnpei State Investment	3944	N/A	5,768
Vocational Education Improvement Program	3947	N/A	54,879
Food Production & Nutrition	3948	N/A	2,856
PICS Peace Corp Training Program	3949	N/A	12,454
Division of Forestry	3951	N/A	16,845
Medical Equipment/Instruments	3953	N/A	26,287
Math and Science Program	3955	N/A	20,065
EDA Purchases of Fuel	3957	N/A	2,884
Child Abuse/Neglect	3983	N/A	22
Hospital Contribution Fund	3988	N/A	9,397
Sports Council Contribution	3992	N/A	6,935
Hospital Equipment	3996	N/A	7,295
			<u>202,130</u>
Total Other Federal and Direct Assistance Fund			<u>\$ 205,494</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
 CFMS PROJECTS FUND
 YEAR ENDED SEPTEMBER 30, 1994

Program Title	Pohnpei Org. #	CFDA I.D. #	1994 Fiscal Year Expenditures
Supreme Court Operations	4873	N/A	\$ 89,088
Sapwuafik Airstrip	4894	N/A	9,913
Pohnpei Recreation Facilities	4914	N/A	7,310
Oroluk Marine Station	4915	N/A	9,562
Teacher Training Program	4916	N/A	1,513
Pohnpei Cultural Education	4917	N/A	4,223
Elementary & Secondary Education	4922	N/A	150,176
Medical Referral Coord.	4925	N/A	38
Medical Supplies & Equipment	4928	N/A	3,129
Pingelap Airstrip	4932	N/A	32,629
Mwoakilloa Airstrip	4933	N/A	23,641
Joint Law Police Security	4936	N/A	3,735
Congressional Election	4938	N/A	(80)
Joint Law Public Safety	4939	N/A	923
Kitti Elementary School	4940	N/A	35,000
Madolenihmw Elementary School	4941	N/A	31,922
PICS High School	4942	N/A	93,455
Medical Supplies & Equipment	4945	N/A	85,478
Law Enforcement	4946	N/A	116,525
Police and Security	4948	N/A	14,945
Aramas Kapw	4951	N/A	12,708
Hospital Renovation	4952	N/A	462,026
PICS Music and Drama Club	4953	N/A	4,916
PICS Facilities Improvement	4954	N/A	114,356
Total CFMS Projects Fund			<u>\$ 1,307,131</u>

Note: 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
TTPI CAPITAL PROJECTS FUND
YEAR ENDED SEPTEMBER 30, 1994

<u>Grantor Program Title</u>	<u>Pohnpei Org. #</u>	<u>CFDA I.D. #</u>	<u>1994 Fiscal Year Expenditures</u>
<u>Trust Territory of the Pacific Islands</u>			
Pohnpei Hospital Renovation	6323	15.875	\$ 58,774
Kolonia Roadside Drainage	6327	15.875	<u>(571)</u>
Total TTPI Capital Projects Fund			<u>\$ 58,203</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, 1994

Grantor Program Title	Pohnpei Org. #	CFDA I.D. #	1994 Fiscal Year Expenditures
<u>Office of Territorial and International Affairs</u>			
Director's Office	2148	15.875	\$ 946
Preschool/Elementary Education	2149	15.875	5,769
Secondary Education	2150	15.875	1,575,218
Educational Services & Development	2151	15.875	<u>6,578</u>
Total Compact of Free Association Special Block Grant Fund – Section 221(B)			<u>\$ 1,588,511</u>

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

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

See accompanying notes to schedule of federal financial assistance.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
COMPACT OF FREE ASSOCIATION OTHER GRANTS FUND
YEAR ENDED SEPTEMBER 30, 1994**

Program Title	Pohnpei Org. #	CFDA I.D. #	1994 Fiscal Year Expenditures
<u>Section 212(A) – Special Development Programs</u>			
Medical Supplies	2153	15.875	\$ 402,917
Office of Human Resources	2521	15.875	3,310
National Health Insurance	2523	15.875	118,282
CAT Training	2525	15.875	6,000
CAT Training	2513	15.875	250,000
			780,509
<u>Section 216(A)(2) – Health and Medical Programs</u>			
FY93 Medical Referrals	2356	15.875	374,346
<u>Section 214(B) – Energy Programs</u>			
Human Resources	2751	15.875	2,590
Treasury	2752	15.875	10,600
Public Safety	2753	15.875	18,042
Land	2754	15.875	2,923
OP & GR	2755	15.875	3,982
Land Commission	2756	15.875	4,333
PUC	2757	15.875	25,000
PUC	2761	15.875	500,000
Health Services	2780	15.875	277,801
Public Auditor's Office	2781	15.875	1,990
Foreign Investment Board	2782	15.875	222
Tourist Commission	2783	15.875	542
Commerce and Industry	2784	15.875	635
Election Commission	2785	15.875	164
Public Library	2786	15.875	5,417
OBP&S	2787	15.875	8,247
Office of the Attorney General	2788	15.875	1,125
Conservation & Resource Surveillance	2789	15.875	17,632
Construction Management	2791	15.875	6,436
Legislature	2792	15.875	25,421
Education	2793	15.875	39,430
Economic Development Authority	2794	15.875	1,865
Pohnpei State Housing Authority	2795	15.875	482
Sports Council	2796	15.875	283
Environmental Protection Agency	2797	15.875	2,200
Office of the Governor	2798	15.875	4,900
			962,262
<u>Section 216(A)(3) – Scholarship Programs</u>			
FY90 Scholarship Grant	2906	15.875	189
FY92 Post Secondary Assistance	2908	15.875	626
FY93 Post Secondary Assistance	2909	15.875	(2,421)
FY94 Post Secondary Assistance	2910	15.875	272,065
			270,459
Total Compact of Free Association Other Grants Fund			\$ 2,387,576
 A reconciliation of the above expenditure is shown below:			
Per the general purpose financial statements			\$ 1,862,576
Transfer out to PUC			525,000
			\$ 2,387,576

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

These funds are disbursed through the Office of Territorial and International Affairs (OTIA), U.S. Department of the Interior and bear CFDA No. 15.875. The FSM National Government receives all grant awards on behalf of the FSM and 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 CAPITAL PROJECTS FUND
 SECTION 211 (A) CAPITAL ACCOUNT
 YEAR ENDED SEPTEMBER 30, 1994

Grantor Program Title	Pohnpei Org. #	CFDA I.D. #	1994 Fiscal Year Expenditures
<u>Office of Territorial and International Affairs</u>			
Rohnkitti Elementary School	6023	15.875	\$ 2,946
Lukop Elementary School	6029	15.875	365
Sokehs Powe Elementary School	6035	15.875	1,284
Nukuoro Elementary School	6038	15.875	1,442
Tourism Development Plan	6096	15.875	799
Developing & Maintaining Tourist Site	6097	15.875	3,968
Maintenance/Improvement – Kolonia Sewer	6118	15.875	33,119
Circumferential Road Paving Phase II	6153	15.875	2,987
Coconut Rehabilitation	6155	15.875	17
FY91 Broiler Development	6175	15.875	812
Upgrade Enipein Pah Road	6176	15.875	26,527
Meitik Nankurupwung Bridge	6178	15.875	42,089
Pohnpei Dock Extension	6179	15.875	306,577
Upgrade Wone Kepine	6189	15.875	25,000
Landfill/Construction/Sokehs Pah	6193	15.875	8,644
Palipohn Nett Road	6200	15.875	24,625
Upgrade/Construction Kitti Road	6201	15.875	49,250
Manpower Skill Development	6209	15.875	296
OMPI Grant Matching	6211	15.875	59,947
Land & Survey	6213	15.875	33,212
Renovation of Kapinga L./Dock	6214	15.875	16,025
Renovation of Pingelap Elementary School	6221	15.875	7,236
Construction & Maintenance PICS School	6225	15.875	15,961
Sokehs Island Circumferential Road Phase II	6226	15.875	17,000
Pohnpei Circumferential Road Paving Phase III	6227	15.875	328,743
A&E Construction/Upgrade Madolenihmw Road	6232	15.875	38,000
Water Distribution/Kapinga	6233	15.875	5,100
Pepper Processing Plant	6234	15.875	15,352
Dry docking of Micro Glory	6235	15.875	352,275
Renovation Kapingamarangi Office	6237	15.875	21,891
Paving of Komwonlaid Road	6239	15.875	31,500
Paving of Dien Secondary Road	6240	15.875	50,000
Madolenihmw Infrastructure Project	6241	15.875	40,437
Access Road Nanpohnmal/Nanpil	6243	15.875	486,090
A&E Study for New Administration Building	6244	15.875	69,184
Sanitary Water Tank	6246	15.875	71,284
Tourism Master Plan	6247	15.875	14,000
Tourism Promotion and Marketing	6248	15.875	9,740
Manpower Skills Development Program	6249	15.875	143,781
FY93 CIP Administration Cost	6250	15.875	76,075
Pepper Development Project	6253	15.875	35,562
Broiler Project	6254	15.875	18,468
School Buses	6256	15.875	93,550
Pingelap Dispensary	6258	15.875	6,638
Family Food & Nutrition Program	6259	15.875	8,218
A/E Additional Raw Water Line	6264	15.875	1,305,125
Replace 12" Pipe – SDA/PICS	6265	15.875	123,125
Road Maintenance & Culverts Construction	6267	15.875	403,500
Lehn Diadi and Lehn Mesi Bridge Construction	6268	15.875	218,777
Balance Forward			<u>4,646,542</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, 1994**

Grantor Program Title	Pohnpei Org. #	CFDA I.D. #	1994 Fiscal Year Expenditures
Balance Forwarded			\$ 4,646,542
Paies Water System	6269	15.875	63,076
U Power Extension Otoih	6270	15.875	13,000
Broiler Project Subsidy	6271	15.875	49,753
Fish Processing Plant/MTN Sup.	6273	15.875	37,443
Pepper Development Project	6274	15.875	65,061
Road Maintenance Nan Soumwuhmw	6275	15.875	7,000
Road Maintenance Meitik	6276	15.875	7,000
Road Maintenance Eirike	6277	15.875	10,000
Upgrading Lewetik	6278	15.875	3,000
Development and Maintenance	6279	15.875	12,379
Tourist Promotion	6280	15.875	12,307
Second Five Year Development Plan	6281	15.875	3,866
Lehdau and Nanpil Community	6282	15.875	1,300
Broiler Development	6283	15.875	4,402
Construction of 10 Classrooms	6284	15.875	50,800
Mwoakilloa Development Project	6285	15.875	10,000
Circumferential Road Paving	6289	15.875	165,000
MTN Repayment	6099	15.875	<u>2,654,670</u>
Total Compact of Free Association Capital Projects Fund – Section 211 (A) Capital Accounts			<u>\$ 7,816,599</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	\$ 7,816,599
Less: Transfer to PTA	1,732,110
FY94 MTN Debt payment	2,654,670
Transfer to Pohnpei Utilities Corporation	<u>1,521,316</u>
	<u>\$ 1,908,503</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), U.S. Department of the Interior and bear CFDA No 15.875. The FSM National Government receives all grant awards on behalf of the FSM and reallots such to the component States.

See accompanying notes to schedule of federal financial assistance.

STATE OF 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, 1994

Grantor Program Title	Pohnpei Org. #	CFDA I.D. #	1994 Fiscal Year Expenditures
<u>Office of Territorial and International Affairs</u>			
General Fund:			
Current Account	Various	15.875	<u>\$ 10,377,072</u>
Total Compact of Free Association expenditures			<u>\$ 22,169,758</u>

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

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

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Notes to Schedule of Federal Financial Assistance
Year Ended September 30, 1994

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 the Interior has been designated as the State's cognizant agency for Single Audit.

A. Programs Subject to Single Audit

Schedules of federal financial assistance 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. Department of Energy

2. Summary of Significant Accounting Policies

A. Basis of Accounting

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

B. Reporting Entity

The 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."

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Notes to Schedule of Federal Financial Assistance, Continued
Year Ended September 30, 1994

2. Summary of Significant Accounting Policies, Continued

C. Subgrantees

Certain program funds are passed through the State to subgrantee organizations. The Schedule of Federal Financial Assistance 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. Component Units

State of Pohnpei component units separately satisfy the requirements of OMB Circular A-128. The following presents information concerning the respective component units.

Pohnpei Utilities Corporation

The Pohnpei Utilities Corporation, a component unit - proprietary fund, is the recipient of various pass-through funds from Pohnpei State. Pohnpei Utilities Corporation, per its audit reports dated December 12, 1994, indicated the existence of no questioned costs or material noncompliance (material weaknesses or reportable conditions) with federal program administration requirements. The following is the Pohnpei Utilities Corporation's Schedule of Federal Financial Assistance, as extracted from the abovementioned audit reports.

POHNPEI UTILITIES CORPORATION
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
YEAR ENDED SEPTEMBER 30, 1994

Grantor/Program Title	CFDA No.	Total Authorizations	Prior Years' Expenditures	Expenditures for the Year Ended Sept. 30, 1994	Total Program Expenditures	Authorization Over Program Expenditures
U.S. Department of the Interior:						
Office of Territorial and International Affairs:						
<u>Compact of Free Association:</u>						
Energy Program funds, Section 214(B)	15.875	\$ 2,120,000	\$ 1,642,904	\$ 525,000	\$ 2,167,904	\$ (47,904)
Capital Account funds, Section 211(A)	15.875	322,250	236,173	59,947	296,120	26,130
OMIP—First Year Electrical Match		1,428,250	—	1,003,919	1,003,919	424,331
OMIP—First Year Water and Sewer Match		492,500	492,500	—	492,500	—
Power Hook—Ups		33,119	—	33,119	33,119	—
Kolonia Sewer		—	—	—	—	—
		2,276,119	728,673	1,096,985	1,825,658	450,461
<u>Operations and Maintenance Improvement</u>						
<u>Programs (OMIP):</u>						
Initialization of the PUC	15.815	430,250	281,327	141,440	422,767	7,483
Pohnpei Water, Sewerage and Solid Waste Utilities Development, First—Year		810,000	—	549,627	549,627	260,373
Pohnpei Power Generation and Distribution Second—Year		273,468	—	218,351	218,351	55,117
		1,513,718	281,327	909,418	1,190,745	322,973
<u>Technical Assistance:</u>						
PUC FSM—58	15.875	110,000	77,500	32,500	110,000	—
ALCO Repairs		25,000	—	25,000	25,000	—
		135,000	77,500	57,500	135,000	—
Meter Calibration/Facility Inventory	15.875	100,000	100,000	—	100,000	—
Overhaul ALCO Generators—Pohnpei State	15.875	100,000	100,000	—	100,000	—
Audit Grant	15.875	12,000	—	12,000	12,000	—
		212,000	200,000	12,000	212,000	—
Trust Territory of the Pacific Islands (TTPI):						
<u>Deficiency Funding:</u>						
Pohnpei Power	15.875	328,271	328,271	—	328,271	—
Kolonia Sewer		610,328	—	53,459	53,459	556,869
		938,599	328,271	53,459	381,730	556,869
Kolonia Water Improvements	15.875	290,700	—	290,700	290,700	—
		\$ 7,486,136	\$ 3,258,675	\$ 2,945,062	\$ 6,203,737	\$ 1,282,399

Note: The above programs are passed through Pohnpei State to the Pohnpei Utilities Corporation

STATE OF POHNPEI
 FEDERATED STATES OF MICRONESIA
Notes to Schedule of Federal Financial Assistance, Continued
Year Ended September 30, 1994

3. Component Units, Continued

Pohnpei State Housing Authority

The Pohnpei State Housing Authority, a component unit - proprietary fund, is a subrecipient of various pass-through funds as explained hereunder. The following Schedule of Federal Financial Assistance is extracted from the Authority's audit reports dated March 28, 1995. All material instance of noncompliance or questioned costs presented in those audit reports are contained in the accompanying Schedule of Findings and Questioned Costs.

<u>Grant Title</u>	<u>Grantor Agency</u>	<u>CFDA No.</u>	<u>Loans Outstanding as of Sept. 30, 1994</u>
Compact of Free Association: Capital Account Funds -Capital Projects, Section 211(A)	DOI-OTIA	15.875	<u>\$ 3,950,894</u>
Total U.S. Department of the Interior			<u>\$ 3,950,894</u>
 Farmers Home Administration: Housing Preservation Grant	 USDA	 10.433	 <u>\$ 191,372</u>
Total U.S. Department of Agriculture			<u>\$ 191,372</u>

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

**STATE OF POHNPEI
 FEDERATED STATES OF MICRONESIA
 SCHEDULE OF PROGRAMS SELECTED FOR
 AUDIT IN ACCORDANCE WITH OMB CIRCULAR A-128
 YEAR ENDED SEPTEMBER 30, 1994**

<u>Grantor</u>	<u>CFDA No.</u>	<u>1994 Fiscal Year Expenditures</u>
<u>U.S. Dept. of the Interior</u>	15.875	
Compact of Free Association:		
211(A) Capital Account		\$ 7,816,599
221(B) Block Grant		1,588,511
212(A) Special Development Programs		780,509
216(A)(2) Health and Medical Programs		374,346
214(B) Energy Programs		962,262
216(A)(3) Scholarship Programs		<u>270,459</u>
Total Major Programs Under CFDA # 15.875 excluding Compact Section 211 (A) Current Account expenditures		11,792,686
 <u>U.S. Department of Education</u>		
Special Education Program	84.027	<u>891,295</u>
Total U.S. Federal program expenditures selected excluding Compact Section 211 (A) Current Account expenditures		<u>\$12,683,981</u>
Total U.S. Federal program expenditures excluding Compact Section 211 (A) Current Account expenditures		<u>\$14,965,489</u>
% of total U.S. Federal expenditures covered by major programs excluding Compact Section 211 (A) Current Account expenditures		<u>85%</u>

STATE OF POHNPEI
 FEDERATED STATES OF MICRONESIA
Schedule of Findings and Questioned Costs
Year Ended September 30, 1994

Federal Findings and Questioned Costs

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
1. U.S. Dept. of Education, CFDA #84.256A	<p><u>Criteria:</u> Program expenditures must be reasonable and necessary for program need.</p> <p><u>Condition:</u> Check No. 80976 includes paying \$495 for Microsoft Excel 4.0 for the Education program. However, Check # 81866 invoice shows payment for Microsoft Office which includes Excel for \$275 for the same program.</p> <p><u>Cause:</u> The cause of this condition is unknown.</p> <p><u>Effect:</u> Potential questioned costs result from the above condition.</p> <p><u>Recommendation:</u> We recommend that subrecipients comply with federal procurement standards.</p> <p><u>Auditee Response:</u> We agree to this finding.</p> <p><u>Corrective Action Plan:</u> We will adopt your recommendation and the Chief of Finance is responsible for the resolution of this questioned cost in fiscal year 1995.</p>	<p>\$ <u>275</u></p>
Total U.S. Department of Education Questioned Costs		<p>\$ <u><u>275</u></u></p>

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Findings and Questioned Costs
Year Ended September 30, 1994

Federal Findings and Questioned Costs, Continued

Prior Year Outstanding Findings

2. Criteria: Prior year findings should be resolved in a timely manner by State management.

Condition: It appears that the following prior year findings 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 1992</u>		
1	103	Drug-Free Workplace Act
6	107	Matching Documentation
10	110	Equipment Control

Cause: The cause of this condition is unknown.

Effect: The non-resolution of these prior year findings will have the same impact in fiscal year 1994 as in fiscal year 1993, 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 and Corrective Action Plan: We agree to the finding. The State is maximizing efforts to resolve the above prior year findings and believes that such will occur in 1995/1996

STATE OF POHNPEI
 FEDERATED STATES OF MICRONESIA
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1994

Federal Findings and Questioned Costs, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
3. Compact C a p i t a l P r o j e c t s Fund-CFDA # 15.875-Compact o f F r e e Association	<p><u>Criteria:</u> Compact capital funds should be expended in accordance with local laws and regulations.</p> <p><u>Condition:</u> The CIP administrative cost organization (6250) reveals \$4,614.75 in travel, per diem and transportation costs incurred for a government official to travel to Australia for matters involving lawsuits related to Caroline Fisheries Corporation, a private corporation established under the laws of FSM. Costs incurred for such activity are not valid CIP administration costs and should not have been charged to the CIP administrative cost account.</p>	<p style="text-align: center;"><u>Org. No.</u> 6250</p> <p style="text-align: center;"><u>TA No.</u> 40769</p> <p style="text-align: right;"><u>\$4,615</u></p>
	<p><u>Cause:</u> The cause of this condition is unknown.</p> <p><u>Effect:</u> Questioned costs may result from improper use of Compact CIP funds.</p> <p><u>Recommendation:</u> It is recommended that Pohnpei State Government either establish an account receivable from the traveler or charge the amount incurred as an unappropriated expenditure of the general fund.</p> <p><u>Auditee Response and Corrective Action Plan:</u> We agree to the above finding. We will adopt your recommendation and the Chief of Finance is responsible for preparing the journal voucher in fiscal year 1995.</p>	

STATE OF POHNPEI
 FEDERATED STATES OF MICRONESIA
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1994

Federal Findings and Questioned Costs, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
4. Compact of Free Association (CFDA # 15.875) Health and Medical Referral Funds	<p><u>Criteria:</u> Pohnpei State should ensure that it complies with Compact intent.</p> <p><u>Condition:</u> Expenditures incurred under org. 2356 for \$2,967 were paid to a funeral home for embalming. This does not appear to be an allowable Health & Medical expenditure.</p> <p><u>Cause:</u> The cause of this condition is unknown.</p> <p><u>Effect:</u> Noncompliance with the intent of the Compact could result from this finding.</p> <p><u>Recommendation:</u> We recommended that Pohnpei State Government resolve this finding.</p> <p><u>Auditee Response and Corrective Action Plan:</u> We agree to the above finding. The Chief of Finance is responsible for the resolution of this questioned cost in fiscal year 1995.</p>	<p>\$ 2,967</p>
Total Compact of Free Association Questioned Costs		<p><u>\$ 7,582</u></p>

STATE OF POHNPEI
 FEDERATED STATES OF MICRONESIA
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1994

Federal Findings and Questioned Costs, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
5. Pohnpei State Housing Authority (subrecipient) #10.433 Pohnpei State Housing Grant (HPG) Activities approved by Authority Farmers Home Administration CFDA	<p><u>Criteria:</u> The Housing Preservation Grant (HPG) Activities approved by Farmers Home Administration shall commence on July 20, 1992 and be completed on September 30, 1994.</p> <p><u>Condition:</u> There is no documented extension of the completion date. However, some \$27,000 of the HPG loans were released to loanees after the stated completion date of September 30, 1994.</p> <p><u>Cause:</u> Management approved the release of HPG loans after September 30, 1994 because there is a verbal understanding that the completion date of the program will be extended.</p> <p><u>Effect:</u> The effect is noncompliance with the stated completion date of the program.</p> <p><u>Recommendation:</u> We recommend that the Authority seek from Farmers Home Administration documentation on the extension of the completion date, if any.</p>	

STATE OF POHNPEI
 FEDERATED STATES OF MICRONESIA
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1994

Federal Findings and Questioned Costs, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
5. Pohnpei State Housing Authority (subrecipient) usda, Farmers Home Administration CFDA #10.433	<u>Auditee Response and Corrective Action Plan:</u> This is in reference to the Housing Preservation Grant program which was delayed due mostly to logistical requirements of getting the construction supplies to the project sites. Since most of the HPG was applied to the outer islands of Mwokilloa and Pingelap, the shipping of construction supplies had to depend on the schedule of ships to these islands, hence the delays in the shipment of construction materials. Furthermore, the delays were documented in requested program extensions submitted and approved by the RECDS, the program funding source.	

STATE OF POHNPEI
 FEDERATED STATES OF MICRONESIA
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1994

Federal Findings and Questioned Costs, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
6. Pohnpei State Housing Authority (subrecipient) usda, Farmers Home Administration CFDA #10.433	<p><u>Criteria:</u> Part B, No. 9 of the HPG Agreement states that the grantee shall provide satisfactory evidence to Farmers Home Administration that all officers of the grantee organization authorized to receive and/or disburse Federal funds are covered by fidelity bonds.</p> <p><u>Condition:</u> Officers and employees engaged in the disbursement of the Housing Preservation Grant are not covered by a fidelity bond.</p> <p><u>Cause:</u> The Authority is not aware that there is a fidelity bond requirement, and there appears to be no insurance agency on the island that accepts fidelity bond coverage.</p> <p><u>Effect:</u> The effect is noncompliance with HPG Agreement requiring fidelity bond coverage for all officers authorized to receive and/or disburse the grant.</p> <p><u>Recommendation:</u> We recommend that the Authority discuss this matter with the Farmers Home Administration and secure a documented exception for this provision due to non-availability of fidelity bond coverage in Micronesia.</p> <p><u>Auditee Response and Corrective Action Plan:</u> The absence of a Fidelity Bond company here on the island made it difficult for the agency to fulfill this requirement. We have agreed to work with the local RECDS office to either do away with this requirement or to replace it with a more appropriate alternative.</p>	

STATE OF POHNPEI
 FEDERATED STATES OF MICRONESIA
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1994

Federal Findings and Questioned Costs, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
7. Pohnpei State Housing Authority (subrecipient) usda, Farmers Home Administration CFDA #10.433	<p><u>Criteria:</u> Part B, No. 9 of the HPG Agreement stated that the grantee submit a quarterly "Financial Status Report".</p> <p><u>Condition:</u> The Financial Status Report is not prepared quarterly and only one report was prepared covering the period September 30, 1993 to December 31, 1994.</p> <p><u>Cause:</u> The Authority is not aware of the details and frequency of the financial report that need to be provided to Farmers Home Administration.</p> <p><u>Effect:</u> The effect is noncompliance with the reporting requirements per HPG Agreement.</p> <p><u>Recommendation:</u> We recommend that the Authority comply with the submission of the required performance and financial reports stated in the aforementioned criteria.</p>	

STATE OF POHNPEI
 FEDERATED STATES OF MICRONESIA
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1994

Federal Findings and Questioned Costs, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
7. Pohnpei State Housing Authority (subrecipient) usda, Farmers Home Administration CFDA #10.433	<u>Auditee Response and Corrective Action Plan:</u> According to our records there were eight quarterly performance reports submitted to the local RECDS office of the required signatories and eventual submission to the responsible offices. Because of the procedures involved, we had to prepare reports and submit to the local RECDS office for their signatures before submission. As such, final copies of the reports were to be returned to us via RECDS local office. We have had difficulties in obtaining copies of the same. We are however, in the process of clearing with the local RECDS office and securing the copies of the reports submitted.	

STATE OF POHNPEI
 FEDERATED STATES OF MICRONESIA
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1994

Federal Findings and Questioned Costs, Continued

Program	Reason for Questioned Costs	Questioned Costs
8. Pohnpei State Housing Authority (subrecipient) Compact Capital Account Funds CFDA #15.875	<p><u>Criteria:</u> Compact capital funds received in a subrecipient capacity should be expended in accordance with local laws and regulations.</p> <p><u>Condition:</u> We found a transfer of compact capital funds for \$47,518 from Housing Loan Fund to Warehouse Fund which was used for administrative expenses in the current year. The funds were expended as follows:</p>	
	Advances	\$17,683
	Office equipment and tools	5,229
	Personnel services	5,029
	Travel	6,267
	Repairs and maintenance	5,887
	Office supplies	3,878
	Others	3,545
		47,518

Cause: Management approved the above noted expenditures.

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

Recommendation: We recommend that this issue of expending Compact capital loan fund for administrative expenses be immediately resolved by the management and Board of the Authority, Pohnpei State Legislature and Attorney General's office.

STATE OF POHNPEI
 FEDERATED STATES OF MICRONESIA
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1994

Federal Findings and Questioned Costs, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
8. Pohnpei State Housing Authority (subrecipient) USDA, Farmers Home Administration CFDA #10.433	<u>Auditee Response and Corrective Action Plan:</u> Management's reply to the issue when raised during the previous year's audit, which has been cited herein, should have included some facts mentioned about the Housing Preservation Grant (HPG) program which was added to the regular Pohnpei State Housing Authority programs without funding for its administration thereof. The State matching contribution for the administration of the HPG program was to be \$50,000. Whereas in-kind contributions were accepted, the State share then came out of the funding for the regular programming, in order to extend additional assistance (\$200,000) to more families.	
	Total Questioned Costs For Reporting Entity	<u>\$ 55,375</u>

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1994

Local Findings

Compact Capital Funds

1. Criteria: Compact capital funds should be expended in accordance with local laws and regulations.

Condition: Pohnpei State Government expended \$339,070 for dry docking of MS Micro Glory. This expenditure may not be an allowable use of Compact capital funds.

Cause: This matter was represented as being referred to the State Attorney General because \$339,090 of Compact capital projects funds were obligated for the dry docking of MS Micro Glory. To date, the Attorney General's office has not acted on the matter.

Effect: Noncompliance with allowable uses of Compact capital funds could occur as a result of a failure to resolve the matter.

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

Auditee Response and Corrective Action Plan: We agree to the above finding. This matter has been referred to the State Attorney General in fiscal year 1993 for resolution.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1994

Local Findings, Continued

Compact Energy Funds

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

Condition: Pohnpei State Government expended \$437,263 in Compact energy funds for payment of utility bills.

Cause: The cause of this condition is unknown.

Effect: Noncompliance with allowable uses of Compact energy funds may result from this condition.

Recommendation: It is recommended that Pohnpei State Government resolve this finding with the grantor agency.

Auditee Response and Corrective Action Plan: We agree to the above finding. We will adopt your recommendation and the Chief of Finance is responsible for the resolution of this finding in fiscal year 1995.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
RESOLUTION OF PRIOR YEARS' QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 1994

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
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	43,509
FY94 unresolved questioned costs	<u>55,375</u>
 Total outstanding federal questioned costs	 <u>\$1,431,452</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.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
INDEPENDENT AUDITORS' REPORT ON THE
INTERNAL CONTROL STRUCTURE
YEAR ENDED SEPTEMBER 30, 1994**



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
BASED ON AN AUDIT OF GENERAL-PURPOSE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARD

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, 1994, and have issued our report thereon dated December 12, 1994. Our report on the audit of the general-purpose financial statements was modified due to our inability to determine the propriety of fixed assets of the Component Units - Proprietary 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.

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, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general-purpose financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may

nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the general-purpose financial statements of the State of Pohnpei for the year ended September 30, 1994, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters, which are presented in the accompanying Schedule of Internal Control Findings (pages 108 through 112) in Findings 1, 3, 4 and 5, involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general-purpose financial statements.

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, which are presented in the accompanying Schedule of Internal Control Findings in finding 2, involving the internal control structure and its operation that we have reported to the management of Pohnpei State.

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.

Deloitte + Touche

December 12, 1994

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings
Year Ended September 30, 1994

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' Reports on Internal Controls.

<u>Finding No.</u>	<u>Description</u>	<u>Page No.</u>
	Fiscal Year 1988	
13	Fixed Assets	15
	Fiscal Year 1990	
16	Fixed Assets	112
18	Automated System Offsite	113

Cause: The cause of this condition is unknown.

Effect: The nonresolution 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 and Corrective Action Plan: We agree to the above finding. We will adopt your recommendation and the Chief of Finance is responsible for ensuring that your recommendation is implemented in fiscal year 1995.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1994

Stale Dated Checks

Finding No. 2

Criteria: Checks that have been outstanding for more than twelve months should be returned to cash until such time as the payable is to be liquidated.

Condition: Checks outstanding for more than twelve months exist which are included in the outstanding checklist.

Cause: The cause of this condition is unknown.

Effect: A possible understatement of cash could result from this condition.

Recommendation: We recommend that the reconciliation division periodically review outstanding checks to ensure all stale items are returned to cash.

Auditee Response and Corrective Action Plan: We agree to the above finding. We will adopt your recommendation and the Chief of Finance is responsible for ensuring that your recommendation is implemented in fiscal year 1995.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1994

External Financial Reporting

Finding No. 3

Criteria: The Pohnpei State operational plan (annual budget) must be coordinated and developed by the appropriate branches, departments and offices of the State government.

Condition: Budgeted revenue estimates should be based on past and expected results. In 1994 the Office of Budget estimated investment income at \$3,200,000 while investment revenue recorded at State Treasury was \$805,000 (\$1,162,437 in 1993).

Cause: The cause of this condition is unknown.

Effect: Potential cash flow problems can result from over appropriations of actual revenues.

Recommendation: We recommend that forecasts of estimated revenue for the annual operational plan be based on historical data and be continuously tracked during the year to determine whether adjustments to appropriation levels may be required.

Auditee Response and Corrective Action Plan: We agree to the above finding. We will adopt your recommendation and the Chief of Finance is responsible for ensuring that your recommendation is implemented in fiscal year 1995.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1994

External Financial Reporting

Finding No. 4

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

Condition: Of \$9,912,596 of continuing appropriations for the Compact Capital Account, as of September 30, 1994, \$5,412,172 relate to appropriations made in 1988-1991.

Cause: The cause of this condition is unknown.

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

Recommendation: Continuing appropriations should be periodically reviewed to determine whether such appropriations should be cancelled.

Auditee Response and Corrective Action Plan: We agree to the above finding. We will adopt your recommendation and the Chief of Finance is responsible for ensuring that your recommendation is implemented in fiscal year 1995.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1994

Revenue and Receipt Cycle

Finding No. 5

Criteria: Timely deposit of cash receipts should occur to minimize exposure to theft or fraud.

Condition: Receipts collected at the Pohnpei Supreme Court do not appear to be deposited to Treasury in a timely manner. It appears that deposits are made approximately once a month.

Cause: The cause of this condition is unknown.

Effect: Undeposited receipts are subject to the risk that theft or fraud may occur.

Recommendation: Cash collected should be deposited to Treasury at a minimum, on a weekly basis.

Auditee Response and Corrective Action Plan: We agree to the above finding. We will adopt your recommendation and the Chief of Finance is responsible for ensuring that your recommendation is implemented in fiscal year 1995.