

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

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

**YEAR ENDED SEPTEMBER 30, 1995**

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Year Ended September 30, 1995

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**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA  
INDEPENDENT AUDITORS' REPORT AND  
GENERAL-PURPOSE FINANCIAL STATEMENTS  
AND ADDITIONAL INFORMATION  
YEAR ENDED SEPTEMBER 30, 1995**

**INDEPENDENT AUDITORS' REPORT**

Honorable Del S. Pangelinan  
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, 1995, and for the year then ended. These general-purpose financial statements are the responsibility of the management of the State of Pohnpei. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

Except as discussed in the following paragraphs, we conducted our audit in accordance with 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.

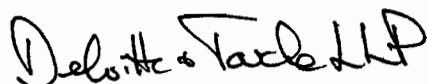
Because of inadequacies in the accounting records and because of the inclusion in fixed assets of certain items for which substantial uncertainty exists concerning their long-term value, we were unable to determine whether fixed assets of the Pohnpei Economic Development Authority (EDA) or the Pohnpei Port Authority (PPA) were fairly stated. EDA and PPA are included within the Component Units-Proprietary Funds and represent 17% of the fixed assets of the Component Units-Proprietary Funds. Additionally, we were unable to determine whether notes payable and accounts payable of the Pohnpei Fisheries Corporation (PFC) were fairly stated. PFC is included within the Component Units-Proprietary Funds and represents 83% and 40%, respectively, of notes payable and accounts payable of the Component Units-Proprietary Funds.

The State of Pohnpei has not adequately updated its General Fixed Assets Account Group during the year ended September 30, 1995, 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, notes payable and accounts payable of the component units-proprietary funds 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 fourth paragraph above, present fairly, in all material respects, the financial position of the State of Pohnpei as of September 30, 1995, 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 January 18, 1996 on our consideration of the State of Pohnpei's internal control structure and a report dated January 18, 1996 on its compliance with laws and regulations.

Our audit was conducted for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The combining and individual fund financial statements and schedules listed in Section III of the foregoing table of contents, which are also the responsibility of the management of the State of Pohnpei, are presented for purposes of additional analysis and are not a required part of the general-purpose financial statements of the State of Pohnpei. Such additional information has been subjected to the auditing procedures applied in our audit of the general-purpose financial statements and, except for the matters specified in our report dated January 18, 1996, in our opinion, is fairly stated in all material respects when considered in relation to the general-purpose financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

January 18, 1996



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Units  
September 30, 1995  
(With comparative totals as of September 30, 1994)**

	Governmental Fund Types			Proprietary Fund Types		Fiduciary	Account Groups		Totals	Component	Totals	
	General	Special Revenue	Capital Projects	Enterprise	Internal Service	Expendable Trust	General Fixed Assets	General Long-Term Debt	Primary Government (Memorandum Only)	Units Proprietary Funds	Reporting Entity (Memorandum Only)	
											1995	1994
<b>ASSETS</b>												
Cash and equivalents (note 2)	\$ 53,683	\$ 334,912	\$ 253,797	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 642,392	\$ 1,145,219	\$ 1,787,611	\$ 998,192
Cash - restricted (note 2)	-	-	6,954,107	-	-	-	-	-	6,954,107	-	6,954,107	6,792,734
Investments (note 2)	1,865,302	167,170	2,335,937	-	-	-	-	-	4,368,409	-	4,368,409	5,580,009
Investments - other (note 7)	-	-	350,000	-	-	-	-	-	350,000	500,000	850,000	850,000
Receivables from other governments (note 3)	17,439	-	181,026	-	-	-	-	-	198,465	-	198,465	1,888,114
Receivables, federal agencies (note 3)	-	1,595,281	-	-	-	-	-	-	1,595,281	-	1,595,281	2,299,372
General receivables, net (note 4)	104,395	63,345	141,477	237,894	-	1,851	-	-	548,962	3,004,367	3,553,329	3,204,872
Advances (note 4)	210,845	299,732	65,118	51,050	-	10,676	-	-	637,421	53,769	691,190	611,889
Loans receivable, net (note 8)	-	-	2,295,881	-	-	-	-	-	2,295,881	3,373,952	5,669,833	5,855,470
Due from other funds (note 14)	1,973,399	1,552,710	344,756	153,067	-	-	-	-	4,023,932	-	4,023,932	6,163,910
Inventory, at cost (note 5)	-	25,953	-	488,297	11,812	-	-	-	526,062	1,179,184	1,705,246	1,458,870
Self insurance fund (note 16)	-	-	-	-	-	-	-	-	-	111,199	111,199	84,262
Scholarship fund	-	-	-	-	-	-	-	-	-	3,830	3,830	3,531
Prepaid expenses and other assets	16,892	-	-	1,760	-	-	-	-	18,652	47,380	66,032	394,918
Fixed assets, net (note 6)	-	-	-	1,608,162	-	-	49,323,802	-	50,931,964	43,671,472	94,603,436	81,648,148
Amount to be provided for retirement of long-term debt	-	-	-	-	-	-	-	18,879,983	18,879,983	-	18,879,983	19,626,742
Due from primary government	-	-	-	-	-	-	-	-	-	43,800	43,800	-
<b>Total assets</b>	<b>\$ 4,241,955</b>	<b>\$ 4,039,103</b>	<b>\$ 12,922,099</b>	<b>\$ 2,540,230</b>	<b>\$ 11,812</b>	<b>\$ 12,527</b>	<b>\$ 49,323,802</b>	<b>\$ 18,879,983</b>	<b>\$ 91,971,511</b>	<b>\$ 53,134,172</b>	<b>\$ 145,105,683</b>	<b>\$ 137,461,033</b>

See accompanying notes to financial statements.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Units  
September 30, 1995  
(With comparative totals as of September 30, 1994)**

	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			1995	1994
<b>LIABILITIES AND FUND EQUITY (DEFICIENCY)</b>												
<b>Liabilities:</b>												
Accounts payable	\$ 614,810	\$ 595,673	\$ 73,415	\$ 57,530	\$ 3,141	\$ 5,519	\$ -	\$ -	\$ 1,350,088	\$ 2,614,828	\$ 3,964,916	\$ 3,409,018
Accrued payroll and others	756,459	-	-	40,967	-	-	-	-	797,426	376,040	1,173,466	1,043,205
Due to other funds (note 14)	-	2,773,211	1,017,351	-	85	233,285	-	-	4,023,932	-	4,023,932	6,163,910
Deferred revenue	-	83,823	-	-	-	-	-	-	83,823	619,927	703,750	567,543
Long-term notes payable (note 13)	-	-	-	-	-	-	-	17,300,000	17,300,000	2,508,862	19,808,862	20,573,415
Vacation leave accrual	-	-	-	-	-	-	-	1,579,983	1,579,983	-	1,579,983	1,326,742
Other payables (note 18)	3,130,101	-	-	-	-	-	-	-	3,130,101	-	3,130,101	-
<b>Total liabilities</b>	<b>4,501,370</b>	<b>3,452,707</b>	<b>1,090,766</b>	<b>98,497</b>	<b>3,226</b>	<b>238,804</b>	<b>-</b>	<b>18,879,983</b>	<b>28,265,353</b>	<b>6,119,657</b>	<b>34,385,010</b>	<b>33,083,833</b>
<b>Fund equity (deficiency):</b>												
Investment in general fixed assets	-	-	-	-	-	-	49,323,802	-	49,323,802	-	49,323,802	49,323,802
Retained earnings (deficit)	-	-	-	967,950	8,586	-	-	-	976,536	(57,802)	918,734	432,366
Contributed capital	-	-	-	1,473,783	-	-	-	-	1,473,783	47,072,317	48,546,100	36,197,120
<b>Fund balances (deficit):</b>												
<b>Reserved for:</b>												
Related assets	34,331	-	2,645,881	-	-	12,527	-	-	2,692,739	-	2,692,739	3,132,262
Encumbrances	737,170	1,977,834	1,061,432	-	-	-	-	-	3,776,436	-	3,776,436	5,031,064
Continuing appropriations (note 15)	182,770	-	5,526,994	-	-	-	-	-	5,709,764	-	5,709,764	10,123,790
Unreserved (deficit)	(1,213,686)	(1,391,438)	2,597,026	-	-	(238,804)	-	-	(246,902)	-	(246,902)	136,796
<b>Total fund equity (deficiency)</b>	<b>(259,415)</b>	<b>586,396</b>	<b>11,831,333</b>	<b>2,441,733</b>	<b>8,586</b>	<b>(226,277)</b>	<b>49,323,802</b>	<b>-</b>	<b>63,706,158</b>	<b>47,014,515</b>	<b>110,720,673</b>	<b>104,377,200</b>
<b>Contingencies and commitments (note 10)</b>												
<b>Total liabilities and fund equity (deficiency)</b>	<b>\$ 4,241,955</b>	<b>\$ 4,039,103</b>	<b>\$ 12,922,099</b>	<b>\$ 2,540,230</b>	<b>\$ 11,812</b>	<b>\$ 12,527</b>	<b>\$ 49,323,802</b>	<b>\$ 18,879,983</b>	<b>\$ 91,971,511</b>	<b>\$ 53,134,172</b>	<b>\$ 145,105,683</b>	<b>\$ 137,461,033</b>

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, 1995  
(With comparative totals for the year ended September 30, 1994)

	Governmental Fund Types			Fiduciary Fund Type	Totals Reporting Entity (Memorandum Only)	
	General	Special Revenue	Capital Projects	Expendable Trust	1995	1994
<b>Revenues:</b>						
Compact of Free Association:						
Base grant	\$ 7,206,300	\$ 3,556,573	\$ 5,191,800	\$ -	\$ 15,954,673	\$ 15,645,883
Inflation adjustment	3,314,898	460,000	2,388,228	-	6,163,126	5,895,164
U.S. Department of the Interior grants	-	-	512,275	-	512,275	58,203
Revenue sharing	4,313,220	-	-	-	4,313,220	3,790,535
Federal contributions	-	4,608,116	-	-	4,608,116	4,696,842
Taxes and licenses	1,345,732	-	-	-	1,345,732	1,295,653
Investment income (note 2)	557,152	-	413,561	-	970,713	998,804
Other	348,720	521,980	-	32,976	903,676	1,077,446
<b>Total revenues</b>	<b>17,086,022</b>	<b>9,146,669</b>	<b>8,505,864</b>	<b>32,976</b>	<b>34,771,531</b>	<b>33,458,530</b>
<b>Expenditures:</b>						
General government	5,034,849	1,562,256	-	172,361	6,769,466	6,135,249
Education	4,932,818	3,662,730	-	-	8,595,548	8,418,239
Health services	3,609,335	1,150,805	-	-	4,760,140	4,808,691
Resources and development	810,538	233,953	-	-	1,044,491	1,096,850
Public works	527,114	656,440	-	-	1,183,554	1,258,391
Public safety	1,532,244	-	-	-	1,532,244	1,266,457
Commerce and industry	153,130	-	-	-	153,130	132,621
Boards, commissions and other appropriations	678,612	-	-	-	678,612	535,117
Capital projects	-	-	3,669,862	-	3,669,862	1,966,706
Municipal governments	1,477,027	-	-	-	1,477,027	1,255,882
Other (note 18)	3,130,101	424,524	-	-	3,554,625	184,481
Uncollectible grant funds	2,606,146	-	-	-	2,606,146	-
<b>Total expenditures</b>	<b>24,491,914</b>	<b>7,690,708</b>	<b>3,669,862</b>	<b>172,361</b>	<b>36,024,845</b>	<b>27,058,684</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(7,405,892)</b>	<b>1,455,961</b>	<b>4,836,002</b>	<b>(139,385)</b>	<b>(1,253,314)</b>	<b>6,399,846</b>
<b>Other financing sources (uses):</b>						
Repayment of notes payable (note 13)	-	-	(1,000,000)	-	(1,000,000)	(1,000,000)
Interest expense (note 13)	-	-	(1,562,720)	-	(1,562,720)	(1,654,670)
Transfer in (note 9)	64,626	-	-	-	64,626	(5,024,851)
Transfer out to component units (note 9)	(326,778)	(1,404,019)	(681,325)	-	(2,412,122)	(5,024,851)
<b>Total other financing sources (uses), net</b>	<b>(262,152)</b>	<b>(1,404,019)</b>	<b>(3,244,045)</b>	<b>-</b>	<b>(4,910,216)</b>	<b>(12,704,372)</b>
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses</b>	<b>(7,668,044)</b>	<b>51,942</b>	<b>1,591,957</b>	<b>(139,385)</b>	<b>(6,163,530)</b>	<b>(6,304,526)</b>
<b>Fund balances (deficit) at beginning of year</b>	<b>7,408,629</b>	<b>534,454</b>	<b>10,239,376</b>	<b>(86,892)</b>	<b>18,095,567</b>	<b>19,703,587</b>
<b>Fund balances (deficit) at end of year</b>	<b>\$ (259,415)</b>	<b>\$ 586,396</b>	<b>\$ 11,831,333</b>	<b>\$ (226,277)</b>	<b>\$ 11,932,037</b>	<b>\$ 13,399,061</b>

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, 1995

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Revenues:</b>			
Compact - current	\$ 10,593,261	\$ 10,521,198	\$ (72,063)
Local revenues	6,110,878	6,007,672	(103,206)
Investment income	3,397,308	557,152	(2,840,156)
	<u>20,101,447</u>	<u>17,086,022</u>	<u>(3,015,425)</u>
<b>Expenditures:</b>			
General government	5,553,340	5,078,619	474,721
Health services	3,854,973	3,747,059	107,914
Education	5,060,838	4,925,345	135,493
Justice	1,654,963	1,542,888	112,075
Commerce and industry	161,190	152,705	8,485
Public works	662,624	563,421	99,203
Conservation and resources	818,906	773,435	45,471
Boards, commissions and other external appropriations	1,068,176	663,455	404,721
Municipal governments and projects	1,445,976	1,464,856	(18,880)
Uncollectible grant funds	-	2,606,146	(2,606,146)
Other expenditures (note 18)	-	3,130,101	(3,130,101)
	<u>20,280,986</u>	<u>24,648,030</u>	<u>(4,367,044)</u>
Deficiency of revenues under expenditures	<u>(179,539)</u>	<u>(7,562,008)</u>	<u>(7,382,469)</u>
<b>Other financing sources (uses):</b>			
Operating transfers in (note 9)	-	64,626	64,626
Operating transfers out (note 9)	(344,650)	(326,382)	18,268
	<u>(344,650)</u>	<u>(261,756)</u>	<u>82,894</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(524,189)	(7,823,764)	(7,299,575)
Unreserved fund balance at beginning of year	6,465,780	6,465,780	-
<b>Other changes in unreserved fund balance:</b>			
Decrease in reserve for related assets	-	120,874	120,874
Decrease in reserve for continuing appropriations	-	23,424	23,424
	<u>-</u>	<u>144,298</u>	<u>144,298</u>
Unreserved fund balance at end of year	<u>\$ 5,941,591</u>	<u>\$ (1,213,686)</u>	<u>\$ (7,155,277)</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, 1995  
(With comparative totals for the year ended September 30, 1994)

	Proprietary Fund Types		Totals	Component	Totals	
	Enterprise	Internal Service	Primary	Units	Reporting	
			Government (Memorandum Only)	Proprietary Funds	Entity (Memorandum Only)	
					1995	1994
Operating revenues:						
Charges for goods and services	\$ 2,163,499	\$ 8,588	\$ 2,172,087	\$ 10,915,955	\$ 13,088,042	\$ 8,175,287
Rental income	75,941	-	75,941	131,080	207,021	166,322
Other	-	-	-	290,387	290,387	123,621
<b>Total operating revenues</b>	<b>2,239,440</b>	<b>8,588</b>	<b>2,248,028</b>	<b>11,337,422</b>	<b>13,585,450</b>	<b>8,465,230</b>
Operating expenses:						
Personnel services	995,542	-	995,542	2,726,266	3,721,808	3,572,959
Travel	7,203	-	7,203	324,313	331,516	202,904
Supplies and materials	779,483	6,760	786,243	366,252	1,152,495	706,945
Fuel	187,725	-	187,725	2,463,301	2,651,026	2,239,192
Contractual services	3,600	-	3,600	106,752	110,352	162,078
Depreciation	530,827	-	530,827	2,761,707	3,292,534	2,344,991
Other	144,978	3,512	148,490	7,035,011	7,183,501	3,523,596
<b>Total operating expenses</b>	<b>2,649,358</b>	<b>10,272</b>	<b>2,659,630</b>	<b>15,783,602</b>	<b>18,443,232</b>	<b>12,752,665</b>
<b>Operating loss</b>	<b>(409,918)</b>	<b>(1,684)</b>	<b>(411,602)</b>	<b>(4,446,180)</b>	<b>(4,857,782)</b>	<b>(4,287,435)</b>
Nonoperating revenues (expenses):						
Operating transfers in (Note 9)	24,000	-	24,000	1,480,941	1,504,941	4,018,805
Other	11,538	-	11,538	339,314	350,852	1,872,840
<b>Total nonoperating revenues (expenses), net</b>	<b>35,538</b>	<b>-</b>	<b>35,538</b>	<b>1,820,255</b>	<b>1,855,793</b>	<b>5,891,645</b>
<b>Net income (loss)</b>	<b>(374,380)</b>	<b>(1,684)</b>	<b>(376,064)</b>	<b>(2,625,925)</b>	<b>(3,001,989)</b>	<b>1,604,210</b>
Add cumulative effect of change in accounting principle (note 19)	-	-	-	778,198	778,198	-
Add depreciation on fixed assets acquired by capital contributions that reduce contributed capital	343,006	-	343,006	2,367,093	2,710,099	1,813,370
<b>Increase (decrease) in retained earnings</b>	<b>(31,374)</b>	<b>(1,684)</b>	<b>(33,058)</b>	<b>519,366</b>	<b>486,308</b>	<b>3,417,580</b>
Retained earnings (deficit) at beginning of year	999,324	10,270	1,009,594	(577,168)	432,426	(2,985,214)
Retained earnings (deficit) at end of year	967,950	8,586	976,536	(57,802)	918,734	432,366
Contributed capital at beginning of year	1,581,982	-	1,581,982	34,615,138	36,197,120	28,193,376
Contributions	234,807	-	234,807	14,824,272	15,059,079	9,817,114
Less depreciation on contributed fixed assets, net of prior period adjustments	(343,006)	-	(343,006)	(2,367,093)	(2,710,099)	(1,813,370)
Additions for the year, net	-	-	-	-	-	9,817,114
Contributed capital at end of year	1,473,783	-	1,473,783	47,072,317	48,546,100	46,014,234
<b>Fund equity at end of year</b>	<b>\$ 2,441,733</b>	<b>\$ 8,586</b>	<b>\$ 2,450,319</b>	<b>\$ 47,014,515</b>	<b>\$ 49,464,834</b>	<b>\$ 46,446,600</b>

See accompanying notes to financial statements.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Combined Statement of Cash Flows  
All Proprietary Fund Types and Discretely Presented Component Units  
Year Ended September 30, 1995  
(With comparative totals for the year ended September 30, 1994)

	Proprietary Fund Types		Totals	Component	Totals	
	Enterprise	Internal Service	Primary	Units	Reporting	
			Government (Memorandum Only)	Proprietary Funds	Entity (Memorandum Only)	
					1995	1994
<b>Cash flows from operating activities:</b>						
Operating loss	\$ (409,918)	\$ (1,684)	\$ (411,602)	\$ (4,446,180)	\$ (4,857,782)	\$ (4,287,435)
Other income	-	-	-	12,052	12,052	262,875
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:						
Depreciation	530,827	-	530,827	2,952,596	3,483,423	2,344,991
Doubtful debt expense	-	-	-	694,410	694,410	205,728
Other	-	-	-	(2,575)	(2,575)	415,432
	<u>120,909</u>	<u>(1,684)</u>	<u>119,225</u>	<u>(789,697)</u>	<u>(670,472)</u>	<u>(1,058,409)</u>
<b>Changes in assets and liabilities:</b>						
General receivables, gross	93,858	-	93,858	(1,156,646)	(1,062,788)	(1,253,194)
Advances	(940)	-	(940)	(25,958)	(26,898)	(85,935)
Loans receivable, gross	-	-	-	102,876	102,876	(243,247)
Due from other funds	-	954	954	-	954	29,807
Inventory, at cost	33,290	-	33,290	484,869	518,159	(800,178)
Prepaid expenses and other assets	-	-	-	(14,906)	(14,906)	(11,650)
Accounts payable	26,880	730	27,610	623,230	650,840	623,766
Accrued payroll and other	(42,576)	-	(42,576)	(6,615)	(49,191)	134,081
Due to other funds	(140,459)	-	(140,459)	-	(140,459)	(513,752)
Deferred revenue	-	-	-	71,054	71,054	451,507
Due from primary government	-	-	-	24,397	24,397	-
Receivable from grantor	-	-	-	69,359	69,359	-
	<u>(29,947)</u>	<u>1,684</u>	<u>(28,263)</u>	<u>171,660</u>	<u>143,397</u>	<u>(1,668,795)</u>
Net cash provided by (used for) operating activities	<u>90,962</u>	<u>-</u>	<u>90,962</u>	<u>(618,037)</u>	<u>(527,075)</u>	<u>(2,727,204)</u>
<b>Cash flows from noncapital financing activities:</b>						
Proceeds from notes payable	-	-	-	(46,143)	(46,143)	1,657,268
Repayments of notes payable	-	-	-	-	-	(187,856)
Operating transfers in	24,000	-	24,000	1,768,188	1,792,188	3,559,941
Other noncapital financing activities	246,507	-	246,507	132,056	378,563	316,271
Net cash provided by noncapital financing activities	<u>270,507</u>	<u>-</u>	<u>270,507</u>	<u>1,854,101</u>	<u>2,124,608</u>	<u>5,345,624</u>
<b>Cash flows from capital and related financing activities:</b>						
Acquisition of fixed assets	(361,469)	-	(361,469)	(2,576,188)	(2,937,657)	(3,087,167)
Contributed capital	-	-	-	600,000	600,000	1,382,344
Proceeds from notes payable	-	-	-	281,590	281,590	-
Interest received, net	-	-	-	720,938	720,938	-
Net cash used for capital and related financing activities	<u>(361,469)</u>	<u>-</u>	<u>(361,469)</u>	<u>(973,660)</u>	<u>(1,335,129)</u>	<u>(1,704,823)</u>
<b>Cash flows from investing activities:</b>						
Payments to self-insurance and scholarship funds, net	-	-	-	(27,236)	(27,236)	(37,793)
Investment dividend received	-	-	-	-	-	50,000
Investment dividend transferred to primary government	-	-	-	-	-	(50,000)
Interest income	-	-	-	27,632	27,632	-
Increase in loans	-	-	-	-	-	(157,089)
Net cash provided by (used for) investing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>396</u>	<u>396</u>	<u>(194,882)</u>
Net increase in cash and equivalents	-	-	-	262,800	262,800	718,715
Cash and equivalents at beginning of year	-	-	-	882,419	882,419	163,644
Cash and equivalents at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,145,219</u>	<u>\$ 1,145,219</u>	<u>\$ 882,359</u>

See accompanying notes to financial statements.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1995

(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.

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.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1995

(1) Summary Of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

2. Discretely Presented Component Units, Continued

- 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 enabling legislation also place responsibilities of the administration of the Authority's day-to-day operations on the Executive Director, an ex-officio member of the board, who is appointed by the Board of Developers with the advise and consent of the Legislature Committee on Resources and Development.

- 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).

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.



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1995

(1) Summary Of Significant Accounting Policies, Continued

B. Fund Accounting

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

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

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

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

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  
September 30, 1995

(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 National Government of the Federated States of Micronesia (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 are incurred.

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 are not included in the annual Appropriations Act. Accordingly, a budget to actual presentation for Special Revenue Funds is not required or presented. Project-length financial plans are generally adopted for all capital project funds.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1995

(1) Summary Of Significant Accounting Policies, Continued

D. Budgets, Continued

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.

Budgetary expenditures, which are on a basis other than generally accepted accounting principles, represent current charges against appropriations; current charges consist of all current year liquidated and unliquidated encumbrances. Budgetary expenditures are therefore determined by subtracting both current year liquidations of prior year encumbrances and unliquidated prior year encumbrances from the combined total of current year expenditures and encumbrances. When reviewed in relation to respective budgets, budgetary expenditures provide the principal means of evaluating current year operating performance and management stewardship. Amounts included on the Statement of Revenues, Expenditures and Changes in Fund Balance, 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  
September 30, 1995

(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.

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

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

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1995

(1) Summary Of Significant Accounting Policies, Continued

L. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the general long-term debt account group. The liability as of September 30, 1995 is \$1,579,983. 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, 1995, 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.

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 appropriate for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

The discretely presented component units of the State of Pohnpei 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.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1995

(1) Summary Of Significant Accounting Policies, Continued

O. Interfund Transactions, Continued

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.

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, 1995, are as follows:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>
Receivables	\$ 34,331	\$ -	\$ -
Investment in Pacific Islands Development Bank	-	-	350,000
Loans receivable from Pohnpei Fisheries Corporation, a Component Unit - Proprietary Fund	-	-	2,295,881
	<u>\$ 34,331</u>	<u>\$ -</u>	<u>\$ 2,645,881</u>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1995

**(2) Cash And Equivalents And Investments**

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

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

- A. Investment managers may invest in stocks, bonds and cash equivalents. Minimum standards of quality for investments at the time of purchase are:
1. Stocks - A "B" rating by a national rating service. Non-rated or international stocks such as banks or insurance companies must be equal in quality or higher.
  2. Bonds - Confined to issues rated "A" or higher by a national rating service, except in the case of U.S. Treasury or Agency Securities which are not rated.
  3. Cash equivalents - The manager may engage in all normally accepted short-term investment practices including, but not limited to: U.S. Treasury and Agency securities, bankers acceptances, certificates of deposit, commercial paper and repurchase agreements using any of the foregoing as collateral. The following restrictions apply:
    - a. Commercial paper must be rated A-1/P-1 or higher by Standard & Poors Corporation and Moodys Investor Services.
    - b. Certificates of deposit must be from FDIC insured banks which must have assets in excess of two billion dollars. Deposits in smaller institutions are acceptable, but must not exceed the amount of the insurance unless collateralized by U.S. Treasury Securities at 102%.
- B. The equity portfolio shall be diversified among issues and industry classifications. No more than 25% of the equity portfolio may be invested in any single classification, as described by the Standard and Poors 500 Index, unless prior approval is received from the FSM Secretary of Finance.
- 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  
September 30, 1995

(2) Cash And Equivalents And Investments, Continued

Funds held with Hawaiian Trust Co. and Bankers Trust are invested on behalf of Pohnpei State as of September 30, 1995, as summarized below:

<u>Cash and Equivalents</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Cash management fund	\$ 626,777	\$ 626,777
Cash restricted	5,010,019	5,010,019
 <u>Investments</u>		
Pooled investment securities	<u>4,368,409</u>	<u>5,173,333</u>
Total	\$ <u>10,005,205</u>	\$ <u>10,810,129</u>

D. The State's investment income for the year ended September 30, 1995, is summarized below:

Interest	\$ 861,828
Dividends	77,335
Realized gains	177,140
Realized losses	(53,421)
Management fees	(91,585)
Other expenses	<u>(584)</u>
	\$ <u>970,713</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, 1995, the State has deposits and cash on hand as follows (in each situation, cost approximates market value):

General Fund

Net bank balances in checking and savings accounts with FDIC insured banks	\$ 15,615
Cash on deposit with Hawaiian Trust Co.	<u>38,068</u>
Total General Fund cash and equivalents	\$ <u>53,683</u>

Special Revenue Fund

Cash on deposit with Hawaiian Trust Co.	\$ <u>334,912</u>
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**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1995

(2) Cash And Equivalents And Investments, Continued

Capital Project Funds

Cash on deposit with Bankers Trust Co.	\$ 253,797
Net bank balance in savings accounts with FDIC insured bank	<u>          -</u>
Total Capital Projects Funds cash and equivalents	\$ <u>253,797</u>

Component Units - Proprietary Funds

Pohnpei Economic Development Authority (EDA):	
Cash in checking and savings accounts with FDIC insured bank	\$ 196,224
Pohnpei State Housing Authority (PSHA):	
Cash in checking and savings accounts with FDIC insured banks	381,672
Pohnpei Utilities Corporation (PUC):	
Cash in checking and savings accounts with FDIC insured bank	38,768
Pohnpei Fisheries Corporation (PFC):	
Cash in checking accounts with FDIC insured bank	15,143
Pohnpei Port Authority (PPA):	
Cash in checking accounts with FDIC insured bank	<u>513,412</u>
Total Component Units - Proprietary Funds cash and equivalents	\$ <u>1,145,219</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. As of September 30, 1995, the escrow account has earned and reinvested \$91,092 of interest earnings.

As of September 30, 1995, Pohnpei State had \$5,010,019 held on deposit with the Bankers Trust and \$526,737 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 purposes. Consequently, such has been presented as restricted cash in the foregoing financial statements.

Cash - Restricted (Deficiency Fund): As of September 30, 1995, Pohnpei held \$826,259 in a savings account which is restricted for use connected with Trust Territory Government capital improvement projects.

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.

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**(2) Cash And Equivalents And Investments, Continued**

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

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

**(3) Receivables From Other Governments And Federal Agencies**

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

Receivables from other Governments:		
Trust Territory Government		\$ 181,026
Other		<u>17,439</u>
		<u>198,465</u>
Receivables, Federal Agencies:		
Federal Grants		2,165,754
CFSM Grants		1,963,659
Other		72,014
Allowance for doubtful accounts		<u>(2,606,146)</u>
		<u>1,595,281</u>
Total receivables		\$ <u>1,793,746</u>

**(4) General Receivables And Advances**

A summary of General Fund receivables against which allowances for doubtful accounts have been recorded as of September 30, 1995, is presented below:

<u>General Receivables</u>	<u>Gross</u>	<u>Allowance</u>	<u>Net</u>
Delinquent taxes	\$ 716,585	\$ (716,585)	\$ -
Revenue sharing	66,070	-	66,070
Interest receivable	<u>38,325</u>	<u>-</u>	<u>38,325</u>
	\$ <u>820,980</u>	\$ <u>(716,585)</u>	\$ <u>104,395</u>

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(4) General Receivables And Advances, Continued

Advances

Advances consist of advance payments made to State government employees, medical referral patients and other travel related expenditures. The travel related advances are to be liquidated by submission of an expense voucher following the completion of travel.

General receivables are comprised of amounts 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	\$ 435,912	\$ (50,000)	\$ 385,912
Pohnpei Port Authority	300,621	(203,385)	97,236
Pohnpei Utilities Corporation	2,232,923	(55,220)	2,177,703
Pohnpei Economic Development Authority	<u>869,472</u>	<u>(525,956)</u>	<u>343,516</u>
	\$ <u>3,838,928</u>	\$ <u>(834,561)</u>	\$ <u>3,004,367</u>

(5) Inventory Of Supplies

The Agriculture Revolving fund (a Special Revenue Fund) had \$25,953 of agriculture production supplies on hand at September 30, 1995. The Internal Service Fund has general operational and office supplies of \$11,812 as of September 30, 1995. Inventories of the enterprise fund consist primarily of coral aggregate.

(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, 1995, are as follows:

	<u>Balance September 30, 1995</u>
Building	\$ 10,055,450
Infrastructure	34,590,935
Equipment	<u>4,677,417</u>
	\$ <u>49,323,802</u>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

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**(6) Fixed Assets, Continued**

The State's investment in general fixed assets as of September 30, 1995, by source, is summarized below:

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

**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, 1995, 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	\$ -	\$ 29,076,026	\$ -	\$ -	\$ -	\$ 29,076,026
Distribution plant	-	9,028,645	-	-	-	9,028,645
General plant	1,297,577	1,345,667	-	-	-	2,643,244
Building	271,478	-	6,614,894	12,833	24,173	6,923,378
Fishing vessel	-	-	-	1,352,300	-	1,352,300
Vehicles	28,000	-	-	117,348	40,891	186,239
Furniture, fixtures and office equipment	21,734	-	122,145	74,754	22,717	241,350
Other assets	-	-	-	218,415	-	218,415
Less accumulated depreciation	<u>(257,610)</u>	<u>(5,815,035)</u>	<u>(597,691)</u>	<u>(1,287,820)</u>	<u>(49,972)</u>	<u>(8,008,128)</u>
	1,361,179	33,635,303	6,139,348	487,830	37,809	41,661,469
Construction in progress	<u>331,554</u>	<u>1,054,272</u>	<u>624,177</u>	<u>-</u>	<u>-</u>	<u>2,010,003</u>
Total fixed assets, net	<b>\$ <u>1,692,733</u></b>	<b>\$ <u>34,689,575</u></b>	<b>\$ <u>6,763,525</u></b>	<b>\$ <u>487,830</u></b>	<b>\$ <u>37,809</u></b>	<b>\$ <u>43,671,472</u></b>

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**(7) Other Investments**

The State currently holds 11.6% of the shares of the Pacific Islands Development Bank, carried at a cost of \$350,000. 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, 1995. This investment is recorded at cost.

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

**(8) Loans Receivable**

As of September 30, 1995, 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, 1995 to Pohnpei State.

This condition raises substantial doubt as to the collectibility of these loans from CFC. The entire \$4,750,000 of loans receivable has therefore been reserved for as bad debts of the Capital Project Funds. Accordingly, since these loans have been reserved, they are also no longer accruing interest income for financial accounting purposes.

Under its enabling legislation, Public Law 3L-28-93, Pohnpei Fisheries Corporation (PFC) is to pay back all MTN funds (Refer Note 13) used in its operations. The drawdown of these funds for operations at September 30, 1995, 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, 1995, it is reserved against fund balance as a related asset.

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FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
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**(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 \$4,125,450 with an allowance of \$908,685 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 \$157,187 as of September 30, 1995.

**(9) Operating Transfers In/Out**

Material operating transfers in/out for the year ended September 30, 1995, are as follows:

	<u>Transfers Out</u>	<u>Transfers In</u>
<b>General Fund:</b>		
Transfers out to Enterprise Fund:		
Pohnpei Transportation Authority	\$ <u>24,000</u>	\$ <u>-</u>
Transfers out to Component Units:		
Pohnpei Economic Development Authority	155,438	-
Pohnpei State Housing Authority	<u>147,340</u>	<u>-</u>
Total transfers out to Component Units	<u>302,778</u>	<u>-</u>
Total General Fund	\$ <u><u>326,778</u></u>	\$ <u><u>-</u></u>
<b>Capital Projects Funds:</b>		
Transfers out to (in from) Component Units:		
Pohnpei Utilities Corporation	\$ 681,325	\$ -
General Fund	-	64,626
Transfers out to Enterprise Fund:		
Pohnpei Transportation Authority	<u>-</u>	<u>-</u>
Total CIP Fund	\$ <u><u>681,325</u></u>	\$ <u><u>64,626</u></u>
<b>Special Revenue Funds:</b>		
Transfers out to Component Units:		
Pohnpei Port Authority	\$ 132,593	\$ -
Pohnpei Utilities Corporation	671,426	-
Pohnpei Fisheries Corporation	<u>600,000</u>	<u>-</u>
Total Special Revenue Funds	\$ <u><u>1,404,019</u></u>	\$ <u><u>-</u></u>

**STATE OF POHNPEI  
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Notes to Financial Statements  
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**(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, \$1,531,981 in questioned costs exist for the operation of fiscal year 1985 through 1995 grants, including \$136,358 relating to fiscal year 1995. If these questioned costs are ultimately disallowed, the General Fund may bear responsibility for absorbing the amount disallowed. Accordingly, no provision for any liability that may result from this matter has been recorded in the accompanying financial statements.

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

**Sick Leave**

It is the policy of the State of Pohnpei to record the cost of sick leave when leave is actually taken and a liability is actually incurred. The accumulated estimated amount of unused sick leave at September 30, 1995, 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.

**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, 1995, 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.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
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**(10) Contingencies And Commitments, Continued**

**Compact Energy and Capital Funds Uses**

During the fiscal year ended September 30, 1995, Pohnpei State expended \$714,644 of Compact Energy Fund (Section 214B) for payment of utility bills. The FSM National Government which acts as the grantor agency for Compact funds was not able to provide a definite position as to the use of Energy Funds for payment of utility bills. Pohnpei State also expended \$676,871 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) 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, 1995, is 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>
Total assets	\$ <u>2,503,510</u>	\$ <u>37,985,752</u>	\$ <u>7,415,630</u>	\$ <u>1,539,126</u>	\$ <u>3,690,154</u>
Total equity (deficit)	\$ <u>(730,671)</u>	\$ <u>36,183,544</u>	\$ <u>6,517,294</u>	\$ <u>1,368,581</u>	\$ <u>3,675,767</u>
Operating loss	\$ <u>(1,182,014)</u>	\$ <u>(2,393,378)</u>	\$ <u>(770,338)</u>	\$ <u>(5,400)</u>	\$ <u>(95,050)</u>
Net income (loss)	\$ <u>(1,188,782)</u>	\$ <u>(297,996)</u>	\$ <u>(573,669)</u>	\$ <u>148,942</u>	\$ <u>63,778</u>
Non operating revenues (expenses), net	\$ <u>(6,768)</u>	\$ <u>1,317,184</u>	\$ <u>196,669</u>	\$ <u>154,342</u>	\$ <u>158,828</u>
Operating revenues	\$ <u>3,655,637</u>	\$ <u>5,384,190</u>	\$ <u>834,171</u>	\$ <u>1,284,777</u>	\$ <u>178,647</u>
Contributed capital	\$ <u>600,000</u>	\$ <u>32,178,619</u>	\$ <u>6,055,443</u>	\$ <u>4,294,541</u>	\$ <u>3,943,714</u>
Depreciation	\$ <u>190,889</u>	\$ <u>2,080,028</u>	\$ <u>593,641</u>	\$ <u>80,095</u>	\$ <u>7,943</u>
Retained earnings (deficit)	\$ <u>(1,330,671)</u>	\$ <u>4,004,925</u>	\$ <u>461,851</u>	\$ <u>(2,925,960)</u>	\$ <u>(267,947)</u>
Operating transfers	\$ <u>-</u>	\$ <u>1,153,076</u>	\$ <u>181,237</u>	\$ <u>-</u>	\$ <u>146,628</u>



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

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**(12) Material Fund Deficits**

The following presents material fund deficits as of September 30, 1995. 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	(169,525)	-	(169,525)
CFSM State Projects Fund	(37,783)	-	(37,783)
Airport Revolving Fund	<u>(701,207)</u>	<u>-</u>	<u>(701,207)</u>
	<u>\$ (1,137,531)</u>	<u>\$ -</u>	<u>\$ (1,137,531)</u>
<u>Component Units (Deficit Retained Earnings)</u>			
Pohnpei Fisheries Corporation	\$ (1,330,671)	\$ 600,000	\$ (730,671)
Pohnpei Economic Development Authority	(2,925,960)	4,294,541	1,368,581
Pohnpei State Housing Authority	<u>(267,947)</u>	<u>3,943,714</u>	<u>3,675,767</u>
	<u>\$ (4,524,578)</u>	<u>\$ 8,838,255</u>	<u>\$ 4,313,677</u>
<u>Expendable Trust Fund (Deficit)</u>			
Public Land Trust Fund	<u>\$ (226,277)</u>	<u>\$ -</u>	<u>\$ (226,277)</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 the U.S. Government. The first issue of \$5,100,000 was made to assist in financing the construction of a Fish Processing Plant by Pohnpei State. The borrowing consists of one note for \$5,100,000 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).

**STATE OF POHNPEI  
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(13) Notes Payable, Continued

The outstanding balance of the second issue notes payable as of September 30, 1995, 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>
10/15/95	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>3,000,000</u>	\$ <u>1,759,087</u>

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

A third issue was made on December 26, 1990, for a total of \$5,200,000 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>
10/15/96	8.90%	\$ 1,200,000	\$ 619,737
10/15/97	9.05%	1,000,000	615,651
10/15/98	9.10%	1,000,000	710,053
10/15/99	9.125%	1,000,000	803,253
10/15/2000	9.125%	<u>1,000,000</u>	<u>895,010</u>
Total		\$ <u>5,200,000</u>	\$ <u>3,643,704</u>

Interest is payable semi-annually, beginning on April 15, 1991.

The fourth issue was made on February 4, 1993, for a total of \$4,000,000 as an additional borrowing for the two projects specified above. The borrowing consists of various notes with varying amounts of principal, 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	\$ 155,090
10/15/98	7.10%	1,000,000	404,503
10/15/99	7.26%	1,000,000	486,218
10/15/2000	7.51%	<u>1,000,000</u>	<u>578,061</u>
Total		\$ <u>4,000,000</u>	\$ <u>1,623,872</u>

Interest is payable semi-annually, beginning on April 15, 1993.

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 \$1,562,720 for interest payments.

**STATE OF POHNPEI  
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**(13) Notes Payable, Continued**

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, 1995.

Activity in the General Long-Term Debt Account Group notes payable account for the year ended September 30, 1995, occurred as follows:

Balance as of September 30, 1994	\$ 18,300,000
Loan repayment made on 10/15/94	<u>(1,000,000)</u>
Balance as of September 30, 1995	<u>\$ 17,300,000</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>
1996	\$ 7,100,000
1997	2,200,000
1998	2,000,000
1999	2,000,000
2000	2,000,000
Thereafter	<u>2,000,000</u>
	<u>\$ 17,300,000</u>

The component units notes payable represent \$2,092,861 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 \$250,000 utilized at September 30, 1995. PUC also has a long-term loan with the FSM Development Bank of \$166,001 at September 30, 1995. The line of credit has an interest rate of prime plus 2% and the long-term loan has an interest rate of 9% with monthly installments of \$5,190 including interest thereon, beginning November 10, 1993.

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

1996	\$ 2,182,903
1997	146,249
1998	158,052
1999	<u>21,658</u>
	<u>\$ 2,508,862</u>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1995

**(14) Interfund Receivable And Payables**

As of September 30, 1995, interfund receivables and payables resulting from various interfund transactions are as follows:

	Due to Other <u>Funds</u>	Due from <u>Other Funds</u>
General Fund	\$ -	\$ 1,973,399
Special Revenue Funds:		
Compact Other Grants	400,681	-
Compact Health & Education	-	678,345
U.S. Federal Assistance	635,103	-
Other Federal and Direct	131	-
Agriculture Revolving	-	55,191
SVAP Revolving	-	7,897
Airport Revolving	722,474	-
Seaport Revolving	-	240,068
Airport Operations	-	509,317
CFSM Projects	1,014,822	-
Recycling Fund	-	21,120
V6AH Revolving Fund	-	23,535
Environmental Quality Fund	-	17,237
Capital Projects Funds:		
Compact Capital Projects	-	344,756
TTG Capital Projects	1,017,351	-
Expendable Trust Funds:		
Public Land Trust	233,285	-
Enterprise Funds:		
Pohnpei Transportation Authority	-	153,067
Internal Service Fund	<u>85</u>	<u>-</u>
	<u>\$ 4,023,932</u>	<u>\$ 4,023,932</u>

**(15) Continuing Appropriations**

Continuing appropriations as of September 30, 1995, 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.

\$ 182,770

**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.

\$ 5,526,994

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1995

(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, establishing a self-insurance fund to defray costs of any unforeseen accidents or disasters. The funds are accumulated in a restricted self-insurance fund, held by a trustee, in the name of Pohnpei Utilities Corporation.

(17) FSM Development Bank Loans Receivable

Compact Capital Account funds in an aggregate amount of \$1.7 million were transferred to the control of the FSM Development Bank (a component unit of the FSM National Government) to be loaned out to borrowers from Pohnpei State mainly for economic development projects. The loan fund is administered by FSMDB in a Trust capacity. All loan decisions are made by management of Pohnpei State. These loans are not controlled by the State and are not currently recorded in the accompanying general-purpose financial statements. As of September 30, 1995, the outstanding loan balances aggregated \$738,416.

(18) Other Expenditures

Management of the State has recorded a 1995 expenditure of \$3,130,101 for amounts due to Municipal Governments and for other payables to vendors which relate to 1995 and prior years, which were previously unrecorded. The State Attorney General has opined that the amount due to the Municipal Governments is a liability of the State.

(19) Cumulative Effect of Change in Accounting Principle

Effective October 1, 1994, Pohnpei Utilities Corporation, a component unit - proprietary fund, changed its accounting policy to include in inventory certain supplies that were previously expensed. The proforma effect of this change on years prior to 1995 was not determinable.

(20) Special Revenue Funds

The beginning 1995 fund balance differs from the ending 1994 fund balance due to the inclusion in 1995 of two funds related to the Pohnpei State airport and seaport. In 1994, these funds were incorporated in the financial statements of the Pohnpei Ports Authority, a component unit - proprietary fund. However, the Pohnpei State Legislature has yet to approve the formal transfer of these funds and therefore, management restored these funds in the 1995 presentation. The ultimate resolution of this matter is dependent upon action of the Pohnpei State Legislature.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1995

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**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, 1995  
(With comparative totals for the year ended September 30, 1994)

	Governmental Fund Types			Fiduciary	Totals	
	General	Special Revenue	Capital Projects	Expendable Trust	(Memorandum Only)	
					1995	1994
<b>Expenditures:</b>						
Personnel	\$ 14,461,625	\$ 3,192,809	\$ 124,953	\$ 137,082	\$ 17,916,469	\$ 16,491,299
Travel	473,419	484,445	46,387	-	1,004,251	1,087,512
Supplies and materials	402,048	648,905	126,278	6,274	1,183,505	1,214,316
Fuel	139,410	27,403	24	-	166,837	149,755
Equipment	210,570	346,961	53,066	16,385	626,982	1,109,086
Contractual services	226,058	872,314	3,185,118	-	4,283,490	2,193,514
Other	5,972,638	2,117,871	134,036	12,620	8,237,165	4,813,202
Uncollectible grant funds	<u>2,606,146</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,606,146</u>	<u>-</u>
<b>Total expenditures</b>	<u>\$ 24,491,914</u>	<u>\$ 7,690,708</u>	<u>\$ 3,669,862</u>	<u>\$ 172,361</u>	<u>\$ 36,024,845</u>	<u>\$ 27,058,684</u>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

GENERAL FUND  
September 30, 1995

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, 1995  
(With comparative totals as of September 30, 1994)

<u>ASSETS</u>	<u>1995</u>	<u>1994</u>
Cash and equivalents	\$ 53,683	\$ 115,833
Investments	1,865,302	3,049,119
Receivables from other governments	17,439	75,384
General receivables, net	104,395	130,881
Advances	210,845	155,204
Due from other funds	1,973,399	5,046,870
Prepaid expenses and other assets	<u>16,892</u>	<u>17,347</u>
 Total assets	 <u>\$ 4,241,955</u>	 <u>\$ 8,590,638</u>

LIABILITIES AND FUND BALANCE (DEFICIT)

Liabilities:		
Accounts payable	\$ 614,810	\$ 130,349
Accrued payroll and others	756,459	577,136
Other payables	<u>3,130,101</u>	<u>474,524</u>
 Total liabilities	 <u>4,501,370</u>	 <u>1,182,009</u>
Fund balance:		
Reserved for:		
Related assets	34,331	155,205
Encumbrances	737,170	581,450
Continuing appropriations	182,770	206,194
Unreserved (deficit)	<u>(1,213,686)</u>	<u>6,465,780</u>
 Total fund balance (deficit)	 <u>(259,415)</u>	 <u>7,408,629</u>
 Total liabilities and fund balance (deficit)	 <u>\$ 4,241,955</u>	 <u>\$ 8,590,638</u>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures by Account and  
Changes in Fund Balance (Deficit) - General Fund  
Year Ended September 30, 1995  
(With comparative totals for the year ended September 30, 1994)

	<u>1995</u>	<u>1994</u>
<b>Revenues:</b>		
Compact of Free Association:		
Base grant	\$ 7,206,300	\$ 7,206,300
Inflation adjustment	3,314,898	3,170,772
Revenue sharing	4,313,220	3,790,535
Taxes and licenses	1,345,732	1,295,653
Investment income	557,152	805,776
Other	348,720	594,325
	<hr/>	<hr/>
Total revenues	17,086,022	16,863,361
	<hr/>	<hr/>
<b>Expenditures:</b>		
Personnel	14,461,625	13,719,930
Travel	473,419	419,060
Supplies and materials	402,048	385,854
Fuel	139,410	94,262
Equipment	210,570	262,287
Contractual services	226,058	118,333
Other	5,972,638	2,379,958
Uncollectible grant funds	2,606,146	-
	<hr/>	<hr/>
Total expenditures	24,491,914	17,379,684
	<hr/>	<hr/>
Excess (deficiency) of revenues (under) over expenditures	(7,405,892)	(516,323)
	<hr/>	<hr/>
<b>Other financing sources (uses):</b>		
Operating transfers in	64,626	-
Operating transfers out	(326,778)	(571,102)
	<hr/>	<hr/>
Total other financing sources (uses), net	(262,152)	(571,102)
	<hr/>	<hr/>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(7,668,044)	(1,087,425)
	<hr/>	<hr/>
Fund balance at beginning of year	7,408,629	8,496,004
	<hr/>	<hr/>
Fund balance (deficit) at end of year	\$ (259,415)	\$ 7,408,579
	<hr/>	<hr/>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures by Function and Department and Changes in Fund Balance (Deficit) -  
General Fund  
Year Ended September 30, 1995  
(With comparative totals for the year ended September 30, 1994)

	1995	1994
<b>Revenues:</b>		
U.S. Compact of Free Association:		
Base grant	\$ 7,206,300	\$ 7,206,300
Inflation adjustment	3,314,898	3,170,772
FSM revenue sharing	4,313,220	3,790,535
Investment income	557,152	805,776
State taxes and licenses:		
Beer and malt beverages	362,183	\$ 427,520
Cigarettes	110,286	134,909
Motor vehicle sales tax	81,789	103,531
General merchandise sales tax	177,330	157,791
Hotel	87,865	68,398
Petroleum and fuel sales tax	76,770	71,380
Use tax	99,137	162,036
Others	350,372	170,088
	1,345,732	1,295,653
Public service charges:		
Hospital and dental	268,814	303,012
Transportation	43,374	52,875
Other	36,532	238,488
Total revenues	17,086,022	16,863,411
 <b>Expenditures:</b>		
General Government:		
Governor and staff	260,730	233,403
Special assistants and miscellaneous	1,148,545	1,233,192
Director of Treasury	673,056	592,939
Public Auditor	165,032	162,337
Judiciary	634,800	535,883
Legislative operations	1,752,900	1,691,776
Sub-total	4,635,063	4,449,530
Department of Land:		
Administration	5,773	90
Surveys and mapping	311,259	332,925
Historic preservation	43,530	41,134
Parks and recreation	39,224	21,366
Sub-total	399,786	395,515
Total General Government	5,034,849	4,845,045
Department of Education:		
Administration	84,063	89,123
Preschool and elementary	4,325,920	4,217,397
Secondary	522,835	586,440
Total Education	4,932,818	4,892,960

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures by Function and Department and Changes in Fund Balance (Deficit) -  
General Fund, Continued  
Year Ended September 30, 1995  
(With comparative totals for the year ended September 30, 1994)

	1995	1994
Expenditures, continued:		
Department of Health Services:		
Administration	\$ 476,987	\$ 455,384
Medical Coordinator-Honolulu	46,971	-
Medical services	1,656,616	1,559,028
Dental services	321,634	323,257
Medical supplies	470,695	90,564
Public health	409,651	423,097
Environmental protection	-	129
National health insurance	-	41,018
Hemodialysis	36,740	80,468
Hospital buildings & grounds	647	9,896
Hospital food	46,162	49,943
Medical referrals	143,232	331,948
	<u>3,609,335</u>	<u>3,364,732</u>
Department of Resources and Development:		
Administration	64,933	64,477
Marine resources	113,117	105,038
Agriculture	475,686	427,085
Forestry	105,105	110,040
Energy	51,697	48,730
	<u>810,538</u>	<u>755,370</u>
Department of Public Works:		
Administration	479,023	281,649
Other	48,091	49,746
	<u>527,114</u>	<u>331,395</u>
Department of Public Safety:		
Administration	118,579	92,112
Public Safety	819,706	747,536
Correction and rehabilitation	179,435	156,799
Legal affairs	329,513	269,707
Search and rescue	4,692	303
Civil liability fund	80,319	-
	<u>1,532,244</u>	<u>1,266,457</u>
Department of Commerce and Industry :		
Administration	53,544	50,413
Business development statistics	59,485	43,692
Consumer protection	20,175	19,499
Registrar of corporation	19,926	19,017
	<u>153,130</u>	<u>132,621</u>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures by Function and Department and Changes in Fund Balance (Deficit) -  
General Fund, Continued  
Year Ended September 30, 1995  
(With comparative totals for the year ended September 30, 1994)

	1995	1994
Expenditures, continued:		
Boards, Commissions, and Other Appropriations:		
Tourist commission	\$ 52,132	\$ 65,331
Micronesian legal services	42,000	42,000
Sports council	36,762	28,955
Farmers home administration	149,454	82,556
Traditional affairs	2,100	900
Pohnpei public library	29,086	32,721
Environmental protection agency	166,316	123,638
Pohnpei health care center	3,000	6,168
Police uniform	14,606	-
FY95 FSM Games	25,209	-
Community Action Agency	40,491	-
PBC contractual services	66,564	-
Micro games	2,540	92,139
Foreign investment commission	47,218	60,709
Land planning and zoning	1,134	-
	678,612	535,117
Total Boards, Commissions, and Other Appropriations		
Municipal Governments:		
Sokehs	246,603	212,401
Kitti	257,901	220,755
Madolenihmw	242,270	211,086
Uh	141,719	124,076
Kolonia	159,337	139,058
Pingilap	75,902	66,516
Nett	190,614	140,311
Kapingamarangi	45,939	40,463
Sapwuahfik	40,173	35,451
Mokil	45,483	30,594
Nukuoro	31,086	35,171
	1,477,027	1,255,882
Total Municipal Governments		
Uncollectible grant funds	2,606,146	-
Other	3,130,101	105
Total expenditures	24,491,914	17,379,684
Deficiency of revenues under expenditures	(7,405,892)	(516,273)
Other financing sources (uses):		
Operating transfers in	64,626	-
Operating transfers out	(326,778)	(571,102)
Total other financing sources (uses), net	(262,152)	(571,102)
Excess (deficiency) of revenues and other financing sources (under) over expenditures and other financing uses	(7,668,044)	(1,087,375)
Fund balance at beginning of year	7,408,629	8,496,004
Fund balance (deficit) at end of year	\$ (259,415)	\$ 7,408,629

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**SPECIAL REVENUE FUNDS  
September 30, 1995**

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

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

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

Compact Other Grants Fund

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

U.S. Federal Assistance Fund

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

Other Federal and Direct Assistance Fund

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

Agriculture Revolving Fund

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

Student Vocational Arts Program (SVAP) Revolving Fund

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

Airport Operations Fund

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

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**SPECIAL REVENUE FUNDS, CONTINUED  
September 30, 1995**

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, 1995  
(With comparative totals as of September 30, 1994)**

	Compact	Compact	U.S.	Other	Agriculture	SVAP	Seaport	Airport	Airport	CFSM	Recycling	V6AH	Environ- mental	Totals	
	Health and Education	Other Grants	Federal Assistance	Federal and Direct Assistance										Revolving	Revolving
<b>ASSETS</b>															
Cash and equivalents	\$ 156,000	\$ 178,912	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 334,912	\$ -
Investments	-	167,170	-	-	-	-	-	-	-	-	-	-	-	167,170	194,954
Receivables:															
Federal agencies, thru FSM National															
Government	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,299,372
Federal agencies, direct															
General	-	72,014	541,438	-	-	-	-	-	-	981,829	-	-	-	1,595,281	1,668,022
Advances	3,312	52,821	146,484	23,707	-	-	201	2,450	2,143	67,028	-	-	1,586	299,732	276,571
Due from other funds	678,345	-	-	-	55,191	7,897	240,068	-	509,317	-	21,120	23,535	17,237	1,552,710	1,116,171
Inventory, at cost	-	-	-	-	25,953	-	-	-	-	-	-	-	-	25,953	25,953
<b>Total assets</b>	<b>\$ 837,657</b>	<b>\$ 470,917</b>	<b>\$ 687,922</b>	<b>\$ 23,707</b>	<b>\$ 123,223</b>	<b>\$ 7,897</b>	<b>\$ 240,269</b>	<b>\$ 23,716</b>	<b>\$ 511,460</b>	<b>\$ 1,048,857</b>	<b>\$ 21,120</b>	<b>\$ 23,535</b>	<b>\$ 18,823</b>	<b>\$ 4,039,103</b>	<b>\$ 5,623,121</b>
<b>LIABILITIES AND FUND BALANCES (DEFICIT)</b>															
Liabilities:															
Accounts payable	\$ 41,925	\$ 239,761	\$ 214,398	\$ 7,190	\$ 14,830	\$ 454	\$ -	\$ 2,449	\$ -	\$ 71,818	\$ -	\$ 25	\$ 2,823	\$ 595,673	\$ 646,862
Due to other funds	-	400,681	635,103	131	-	-	-	722,474	-	1,014,822	-	-	-	2,773,211	4,094,790
Deferred revenue	-	-	-	83,823	-	-	-	-	-	-	-	-	-	83,823	18,670
<b>Total liabilities</b>	<b>41,925</b>	<b>640,442</b>	<b>849,501</b>	<b>91,144</b>	<b>14,830</b>	<b>454</b>	<b>-</b>	<b>724,923</b>	<b>-</b>	<b>1,086,640</b>	<b>-</b>	<b>25</b>	<b>2,823</b>	<b>3,452,707</b>	<b>4,760,322</b>
Fund balances (deficit):															
Reserved for:															
Related assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	318,649
Encumbrances	144,049	101,406	513,955	18,256	17,331	-	-	-	-	1,182,671	-	-	166	1,977,834	1,296,169
Unreserved (deficit)	651,683	(270,931)	(675,534)	(85,693)	91,062	7,443	240,269	(701,207)	511,460	(1,220,454)	21,120	23,510	15,834	(1,391,438)	(752,019)
<b>Total fund balances (deficit)</b>	<b>795,732</b>	<b>(169,525)</b>	<b>(161,579)</b>	<b>(67,437)</b>	<b>108,393</b>	<b>7,443</b>	<b>240,269</b>	<b>(701,207)</b>	<b>511,460</b>	<b>(37,783)</b>	<b>21,120</b>	<b>23,510</b>	<b>16,000</b>	<b>586,396</b>	<b>862,799</b>
<b>Total liabilities and fund balances (deficit)</b>	<b>\$ 837,657</b>	<b>\$ 470,917</b>	<b>\$ 687,922</b>	<b>\$ 23,707</b>	<b>\$ 123,223</b>	<b>\$ 7,897</b>	<b>\$ 240,269</b>	<b>\$ 23,716</b>	<b>\$ 511,460</b>	<b>\$ 1,048,857</b>	<b>\$ 21,120</b>	<b>\$ 23,535</b>	<b>\$ 18,823</b>	<b>\$ 4,039,103</b>	<b>\$ 5,623,121</b>



**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, 1995  
(With comparative totals for the year ended September 30, 1994)**

	Compact	Compact	U.S.	Other	Agriculture	SVAP	Seaport	Airport	Airport	CFSM	Recycling	V6AH	Environ- mental	Totals		
	Health and Education	Other Grants	Federal Assistance	Federal and Direct Assistance										Revolving	Revolving	Revolving
<b>Revenues:</b>																
<b>Compact:</b>																
Base grant	\$ 1,890,000	\$ 1,666,573	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,556,573	\$ 3,247,783	
Inflation adjustment	-	460,000	-	-	-	-	-	-	-	-	-	-	-	460,000	440,000	
Federal contributions	-	-	3,095,114	-	-	-	-	-	-	1,513,002	-	-	-	4,608,116	4,696,842	
Other	-	-	-	125,607	123,177	7,327	-	-	145,160	-	-	100,393	20,316	521,980	457,361	
<b>Total revenues</b>	<b>1,890,000</b>	<b>2,126,573</b>	<b>3,095,114</b>	<b>125,607</b>	<b>123,177</b>	<b>7,327</b>	<b>-</b>	<b>-</b>	<b>145,160</b>	<b>1,513,002</b>	<b>-</b>	<b>100,393</b>	<b>20,316</b>	<b>9,146,669</b>	<b>8,841,986</b>	
<b>Expenditures:</b>																
General government	-	723,754	642,610	10,995	-	5,265	-	-	-	84,757	-	94,875	-	1,562,256	1,120,671	
Education	1,740,444	308,790	1,422,484	71,896	-	-	-	-	-	119,116	-	-	-	3,662,730	3,525,279	
Health services	-	570,673	537,170	18,064	-	-	-	-	-	8,095	-	-	16,803	1,150,805	1,443,959	
Resources and development	-	-	36,385	24,652	112,438	-	-	-	-	60,478	-	-	-	233,953	341,480	
Public works	-	155,369	840	-	-	-	-	-	-	500,231	-	-	-	656,440	926,996	
Other	-	-	284,199	-	-	-	-	-	-	140,325	-	-	-	424,524	184,376	
<b>Total expenditures</b>	<b>1,740,444</b>	<b>1,758,586</b>	<b>2,923,688</b>	<b>125,607</b>	<b>112,438</b>	<b>5,265</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>913,002</b>	<b>-</b>	<b>94,875</b>	<b>16,803</b>	<b>7,690,708</b>	<b>7,542,761</b>	
Excess (deficiency) of revenues over (under) expenditures	149,556	367,987	171,426	-	10,739	2,062	-	-	145,160	600,000	-	5,518	3,513	1,455,961	1,299,225	
<b>Other financing uses:</b>																
Operating transfers out	-	(500,000)	(171,426)	-	-	-	-	(132,593)	-	(600,000)	-	-	-	(1,404,019)	(1,200,323)	
Excess (deficiency) of revenues over (under) expenditures and other financing uses	149,556	(132,013)	-	-	10,739	2,062	-	(132,593)	145,160	-	-	5,518	3,513	51,942	98,902	
<b>Fund balances (deficit) at beginning of year</b>	<b>646,176</b>	<b>(37,512)</b>	<b>(161,579)</b>	<b>(67,437)</b>	<b>97,654</b>	<b>5,381</b>	<b>240,269</b>	<b>(568,614)</b>	<b>366,300</b>	<b>(37,783)</b>	<b>21,120</b>	<b>17,992</b>	<b>12,487</b>	<b>534,454</b>	<b>763,897</b>	
<b>Fund balances (deficit) at end of year</b>	<b>\$ 795,732</b>	<b>\$ (169,525)</b>	<b>\$ (161,579)</b>	<b>\$ (67,437)</b>	<b>\$ 108,393</b>	<b>\$ 7,443</b>	<b>\$ 240,269</b>	<b>\$ (701,207)</b>	<b>\$ 511,460</b>	<b>\$ (37,783)</b>	<b>\$ 21,120</b>	<b>\$ 23,510</b>	<b>\$ 16,000</b>	<b>\$ 586,396</b>	<b>\$ 862,799</b>	

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**Special Revenue Funds  
Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balances (Deficit)  
Year Ended September 30, 1995  
(With comparative totals for the year ended September 30, 1994)**

	Compact Health and Education	Compact Other Grants	U.S. Federal Assistance	Other	Agriculture Revolving	SVAP Revolving	Seaport Revolving	Airport Revolving	Airport Operations	CFSM State Projects	Recycling	V6AH Revolving	Environ- mental Quality	Totals	
				and Direct Assistance									1995	1994	
<b>Revenues:</b>															
<b>Compact:</b>															
Base grant	\$ 1,890,000	\$ 1,666,573	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,556,573	\$ 3,247,783
Inflation adjustment	-	460,000	-	-	-	-	-	-	-	-	-	-	-	460,000	440,000
Federal contributions	-	-	3,095,114	-	-	-	-	-	-	1,513,002	-	-	-	4,608,116	4,696,842
Other	-	-	-	125,607	123,177	7,327	-	-	145,160	-	-	100,393	20,316	521,980	457,361
<b>Total revenues</b>	<b>1,890,000</b>	<b>2,126,573</b>	<b>3,095,114</b>	<b>125,607</b>	<b>123,177</b>	<b>7,327</b>	<b>-</b>	<b>-</b>	<b>145,160</b>	<b>1,513,002</b>	<b>-</b>	<b>100,393</b>	<b>20,316</b>	<b>9,146,669</b>	<b>8,841,986</b>
<b>Expenditures:</b>															
Personnel	1,526,274	181,321	1,243,950	11,598	-	-	-	-	-	141,211	-	88,455	-	3,192,809	2,461,328
Travel	2,686	128,360	276,372	38,265	-	-	-	-	-	35,998	-	-	2,764	484,445	496,150
Supplies and materials	25,647	64,638	294,463	10,080	95,265	5,134	-	-	-	151,878	-	955	845	648,905	702,468
Fuel	-	-	17,146	9,171	-	-	-	-	-	1,086	-	-	-	27,403	53,858
Equipment	-	3,034	194,138	10,463	-	131	-	-	-	139,195	-	-	-	346,961	722,632
Contractual services	-	43,849	532,784	21,425	-	-	-	-	-	269,912	-	4,344	-	872,314	807,932
Other	185,837	1,337,384	364,835	24,605	17,173	-	-	-	-	173,722	-	1,121	13,194	2,117,871	2,298,393
<b>Total expenditures</b>	<b>1,740,444</b>	<b>1,758,586</b>	<b>2,923,688</b>	<b>125,607</b>	<b>112,438</b>	<b>5,265</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>913,002</b>	<b>-</b>	<b>94,875</b>	<b>16,803</b>	<b>7,690,708</b>	<b>7,542,761</b>
Excess (deficiency) of revenues over (under) expenditures	149,556	367,987	171,426	-	10,739	2,062	-	-	145,160	600,000	-	5,518	3,513	1,455,961	1,299,225
<b>Other financing uses:</b>															
Operating transfers out	-	(500,000)	(171,426)	-	-	-	-	(132,593)	-	(600,000)	-	-	-	(1,404,019)	(1,200,323)
Excess (deficiency) of revenues over (under) expenditures and other financing uses	149,556	(132,013)	-	-	10,739	2,062	-	(132,593)	145,160	-	-	5,518	3,513	51,942	98,902
Fund balances (deficit) at beginning of year	646,176	(37,512)	(161,379)	(67,437)	97,654	5,381	240,269	(568,614)	366,300	(37,783)	21,120	17,992	12,487	534,454	763,897
Fund balances (deficit) at end of year	\$ 795,732	\$ (169,525)	\$ (161,379)	\$ (67,437)	\$ 108,393	\$ 7,443	\$ 240,269	\$ (701,207)	\$ 511,460	\$ (37,783)	\$ 21,120	\$ 23,510	\$ 16,000	\$ 586,396	\$ 862,799

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**CAPITAL PROJECTS FUNDS  
September 30, 1995**

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, 1995  
(With comparative totals as of September 30, 1994)**

	<u>Compact Capital Projects Fund</u>	<u>TTG Capital Projects Fund</u>	<u>Totals</u>	
			<u>1995</u>	<u>1994</u>
 <u>ASSETS</u>				
Cash and equivalents	\$ 253,797	\$ -	\$ 253,797	\$ -
Cash - restricted	6,127,848	826,259	6,954,107	6,792,734
Investments	2,335,937	-	2,335,937	2,335,936
Investments - other	350,000	-	350,000	350,000
Receivables from TTG	-	181,026	181,026	144,708
General receivables, net	141,477	-	141,477	5,483
Advances	65,118	-	65,118	45,317
Loans receivable, net	2,295,881	-	2,295,881	2,295,881
Due from other funds	344,756	-	344,756	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	\$ <u>11,914,814</u>	\$ <u>1,007,285</u>	\$ <u>12,922,099</u>	\$ <u>11,970,059</u>
 <u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ 83,481	\$ (10,066)	\$ 73,415	\$ 127,805
Due to other funds	<u>-</u>	<u>1,017,351</u>	<u>1,017,351</u>	<u>1,602,878</u>
	<u>83,481</u>	<u>1,007,285</u>	<u>1,090,766</u>	<u>1,730,683</u>
Fund balances:				
Reserved for:				
Related assets	2,645,881	-	2,645,881	2,645,881
Encumbrances	983,556	77,876	1,061,432	3,147,565
Continuing appropriations	5,526,994	-	5,526,994	9,917,596
Unreserved (deficit)	<u>2,674,902</u>	<u>(77,876)</u>	<u>2,597,026</u>	<u>(5,471,666)</u>
	<u>11,831,333</u>	<u>-</u>	<u>11,831,333</u>	<u>10,239,376</u>
Total fund balances	<u>11,831,333</u>	<u>-</u>	<u>11,831,333</u>	<u>10,239,376</u>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities and fund balances	\$ <u>11,914,814</u>	\$ <u>1,007,285</u>	\$ <u>12,922,099</u>	\$ <u>11,970,059</u>

**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, 1995

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

	Compact Capital Projects Fund	TTG Capital Projects Fund	Totals	
			1995	1994
<b>Revenues:</b>				
<b>Compact of Free Association:</b>				
Base grant	\$ 5,191,800	\$ -	\$ 5,191,800	\$ 5,191,800
Inflation adjustment	2,388,228	-	2,388,228	2,284,392
U.S. Department of the Interior grants	-	512,275	512,275	58,203
Investment income	413,561	-	413,561	193,028
<b>Total revenues</b>	<u>7,993,589</u>	<u>512,275</u>	<u>8,505,864</u>	<u>7,727,423</u>
<b>Expenditures:</b>				
Capital projects	<u>3,448,287</u>	<u>221,575</u>	<u>3,669,862</u>	<u>1,966,706</u>
<b>Total expenditures</b>	<u>3,448,287</u>	<u>221,575</u>	<u>3,669,862</u>	<u>1,966,706</u>
Excess of revenues over expenditures	<u>4,545,302</u>	<u>290,700</u>	<u>4,836,002</u>	<u>5,760,717</u>
<b>Other financing sources (uses):</b>				
Repayment of notes payable	(1,000,000)	-	(1,000,000)	(1,000,000)
Interest expense	(1,562,720)	-	(1,562,720)	(1,654,670)
Operating transfers out	<u>(390,625)</u>	<u>(290,700)</u>	<u>(681,325)</u>	<u>(3,253,426)</u>
<b>Total other financing sources (uses), net</b>	<u>(2,953,345)</u>	<u>(290,700)</u>	<u>(3,244,045)</u>	<u>(5,908,096)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	1,591,957	-	1,591,957	(147,379)
Fund balances at beginning of year	<u>10,239,376</u>	<u>-</u>	<u>10,239,376</u>	<u>10,386,755</u>
Fund balances at end of year	<u>\$ 11,831,333</u>	<u>\$ -</u>	<u>\$ 11,831,333</u>	<u>\$ 10,239,376</u>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**CAPITAL PROJECTS FUNDS**

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

Year Ended September 30, 1995

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

	Compact Capital Projects Fund	TTG Capital Projects Fund	Totals	
			1995	1994
<b>Revenues:</b>				
<b>Compact of Free Association:</b>				
Base grant	\$ 5,191,800	\$ -	\$ 5,191,800	\$ 5,191,800
Inflation adjustment	2,388,228	-	2,388,228	2,284,392
U.S. Department of the Interior grants	-	512,275	512,275	58,203
Investment income	413,561	-	413,561	193,028
<b>Total revenues</b>	<u>7,993,589</u>	<u>512,275</u>	<u>8,505,864</u>	<u>7,727,423</u>
<b>Expenditures:</b>				
Personnel	111,595	13,358	124,953	152,194
Travel	46,387	-	46,387	172,302
Supplies and materials	123,095	3,183	126,278	123,300
Fuel	24	-	24	787
Equipment	53,066	-	53,066	123,717
Contractual services	2,980,084	205,034	3,185,118	1,267,249
Other	134,036	-	134,036	127,157
<b>Total expenditures</b>	<u>3,448,287</u>	<u>221,575</u>	<u>3,669,862</u>	<u>1,966,706</u>
<b>Excess of revenues over expenditures</b>	<u>4,545,302</u>	<u>290,700</u>	<u>4,836,002</u>	<u>5,760,717</u>
<b>Other financing sources (uses) :</b>				
Repayment of notes payable	(1,000,000)	-	(1,000,000)	(1,000,000)
Interest expense	(1,562,720)	-	(1,562,720)	(1,654,670)
Operating transfers out	(390,625)	(290,700)	(681,325)	(3,253,426)
<b>Total other financing sources   (uses), net</b>	<u>(2,953,345)</u>	<u>(290,700)</u>	<u>(3,244,045)</u>	<u>(5,908,096)</u>
<b>Excess (deficiency) of revenues and   other financing sources over (under)   expenditures and other financing uses</b>	<u>1,591,957</u>	<u>-</u>	<u>1,591,957</u>	<u>(147,379)</u>
<b>Fund balances at beginning of year</b>	<u>10,239,376</u>	<u>-</u>	<u>10,239,376</u>	<u>10,386,755</u>
<b>Fund balances at end of year</b>	<u>\$ 11,831,333</u>	<u>\$ -</u>	<u>\$ 11,831,333</u>	<u>\$ 10,239,376</u>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**COMPONENT UNITS - PROPRIETARY FUNDS  
September 30, 1995**

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 1995; however, the accounting for the Authority continued to be handled by Pohnpei State Treasury until January, 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 2L-81-88. The Authority's primary purpose is to facilitate, through low interest loans, the construction of safe and sanitary residential housing for low income families of Pohnpei State.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**COMPONENT UNITS - PROPRIETARY FUNDS  
Combining Balance Sheet  
September 30, 1995  
(With comparative totals as of September 30, 1994)**

<u>ASSETS</u>	Pohnpei Fisheries Corporation	Pohnpei Port Authority	Pohnpei Utilities Corporation	Pohnpei Economic Development Authority	Pohnpei State Housing Authority	<u>Totals</u>	
						1995	1994
Cash and equivalents	\$ 15,143	\$ 513,412	\$ 38,768	\$ 196,224	\$ 381,672	\$ 1,145,219	\$ 882,359
Investments	-	-	-	500,000	-	500,000	500,000
General receivable, net	385,912	97,236	2,177,703	343,516	-	3,004,367	2,608,236
Advances	-	27,415	-	7,842	18,512	53,769	124,121
Loans receivables, net	-	-	157,187	-	3,216,765	3,373,952	3,559,589
Inventory, at cost	391,634	-	778,198	3,585	5,767	1,179,184	899,518
Self insurance fund	-	-	111,199	-	-	111,199	84,262
Scholarship fund	-	-	3,830	-	-	3,830	3,531
Prepaid expenses and other assets	18,088	-	29,292	-	-	47,380	375,811
Fixed assets, net	1,692,733	6,763,525	34,689,575	487,830	37,809	43,671,472	30,546,664
Due from primary government	-	14,042	-	129	29,629	43,800	-
<b>Total assets</b>	<b>\$ 2,503,510</b>	<b>\$ 7,415,630</b>	<b>\$ 37,985,752</b>	<b>\$ 1,539,126</b>	<b>\$ 3,690,154</b>	<b>\$ 53,134,172</b>	<b>\$ 39,584,091</b>
<b><u>LIABILITIES AND FUND EQUITY (DEFICIENCY)</u></b>							
<b>Liabilities:</b>							
Accounts payable	\$ 1,056,122	\$ 552,852	\$ 876,660	\$ 119,963	\$ 9,231	\$ 2,614,828	\$ 1,991,598
Due to other funds	-	-	-	-	-	-	349,769
Accrued payroll and others	85,198	45,484	189,620	50,582	5,156	376,040	382,526
Deferred revenue	-	300,000	319,927	-	-	619,927	548,873
Notes payable	2,092,861	-	416,001	-	-	2,508,862	2,273,415
<b>Total liabilities</b>	<b>3,234,181</b>	<b>898,336</b>	<b>1,802,208</b>	<b>170,545</b>	<b>14,387</b>	<b>6,119,657</b>	<b>5,546,181</b>
<b>Fund equity (deficiency):</b>							
Retained earnings (deficit)	(1,330,671)	461,851	4,004,925	(2,925,960)	(267,947)	(57,802)	(577,228)
Contributed capital	600,000	6,055,443	32,178,619	4,294,541	3,943,714	47,072,317	34,615,138
<b>Total fund equity (deficiency)</b>	<b>(730,671)</b>	<b>6,517,294</b>	<b>36,183,544</b>	<b>1,368,581</b>	<b>3,675,767</b>	<b>47,014,515</b>	<b>34,037,910</b>
<b>Total liabilities and fund equity (deficiency)</b>	<b>\$ 2,503,510</b>	<b>\$ 7,415,630</b>	<b>\$ 37,985,752</b>	<b>\$ 1,539,126</b>	<b>\$ 3,690,154</b>	<b>\$ 53,134,172</b>	<b>\$ 39,584,091</b>



**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, 1995  
(With comparative totals for the year ended September 30, 1994)

	Pohnpei	Pohnpei	Pohnpei	Pohnpei	Pohnpei	Totals	
	Corporation	Port Authority	Utilities Corporation	Economic Development Authority	State Housing Authority	1995	1994
<b>Operating revenues:</b>							
Charges for goods and services	\$ 3,655,637	\$ 424,410	\$ 5,384,190	\$ 1,273,071	\$ 178,647	\$ 10,915,955	\$ 7,536,167
Rental income	-	131,080	-	-	-	131,080	150,441
Other	-	278,681	-	11,706	-	290,387	39,040
<b>Total operating revenues</b>	<b>3,655,637</b>	<b>834,171</b>	<b>5,384,190</b>	<b>1,284,777</b>	<b>178,647</b>	<b>11,337,422</b>	<b>7,725,648</b>
<b>Operating expenses:</b>							
Personnel services	128,880	414,078	1,517,269	515,685	150,354	2,726,266	2,655,757
Travel	82,840	138,766	47,793	41,749	13,165	324,313	185,712
Supplies and materials	-	103,598	227,476	29,238	5,940	366,252	229,837
Fuel	-	3,794	2,451,257	8,250	-	2,463,301	2,135,663
Contractual services	37,680	63,798	-	4,055	1,219	106,752	102,378
Depreciation	190,889	593,641	2,080,028	80,095	7,943	2,952,596	1,792,035
Other	4,397,362	286,834	1,453,745	611,105	95,076	6,844,122	3,257,094
<b>Total operating expenses</b>	<b>4,837,651</b>	<b>1,604,509</b>	<b>7,777,568</b>	<b>1,290,177</b>	<b>273,697</b>	<b>15,783,602</b>	<b>10,358,476</b>
<b>Operating loss</b>	<b>(1,182,014)</b>	<b>(770,338)</b>	<b>(2,393,378)</b>	<b>(5,400)</b>	<b>(95,050)</b>	<b>(4,446,180)</b>	<b>(2,632,828)</b>
<b>Nonoperating revenues (expenses):</b>							
Operating transfers in	-	181,237	1,153,076	154,342	146,628	1,635,283	2,262,726
Other	(6,768)	15,432	164,108	-	12,200	184,972	430,604
<b>Total nonoperating revenues (expenses), net</b>	<b>(6,768)</b>	<b>196,669</b>	<b>1,317,184</b>	<b>154,342</b>	<b>158,828</b>	<b>1,820,255</b>	<b>2,693,330</b>
<b>Net income (loss)</b>	<b>(1,188,782)</b>	<b>(573,669)</b>	<b>(1,076,194)</b>	<b>148,942</b>	<b>63,778</b>	<b>(2,625,925)</b>	<b>60,502</b>
<b>Add cumulative effect of change in accounting principle</b>	<b>-</b>	<b>-</b>	<b>778,198</b>	<b>-</b>	<b>-</b>	<b>778,198</b>	<b>-</b>
<b>Add depreciation on fixed assets acquired by capital contributions that reduce contributed capital</b>	<b>-</b>	<b>559,451</b>	<b>1,807,642</b>	<b>-</b>	<b>-</b>	<b>2,367,093</b>	<b>1,473,869</b>
<b>Increase (decrease) in retained earnings</b>	<b>(1,188,782)</b>	<b>(14,218)</b>	<b>1,509,646</b>	<b>148,942</b>	<b>63,778</b>	<b>519,366</b>	<b>1,534,371</b>
<b>Retained earnings (deficit) at beginning of year</b>	<b>(141,889)</b>	<b>476,069</b>	<b>2,495,279</b>	<b>(3,074,902)</b>	<b>(331,725)</b>	<b>(577,168)</b>	<b>(2,111,599)</b>
<b>Retained earnings (deficit) at end of year</b>	<b>(1,330,671)</b>	<b>461,851</b>	<b>4,004,925</b>	<b>(2,925,960)</b>	<b>(267,947)</b>	<b>(57,802)</b>	<b>(577,228)</b>
<b>Contributed capital at beginning of year</b>	<b>-</b>	<b>-</b>	<b>26,384,860</b>	<b>4,294,541</b>	<b>3,935,737</b>	<b>34,615,138</b>	<b>27,870,949</b>
Contributions	600,000	6,614,894	7,601,401	-	7,977	14,824,272	-
Less depreciation	-	(559,451)	(1,807,642)	-	-	(2,367,093)	(1,473,869)
Other additions for the year, net	-	-	-	-	-	-	8,218,058
<b>Contributed capital at end of year</b>	<b>600,000</b>	<b>6,055,443</b>	<b>32,178,619</b>	<b>4,294,541</b>	<b>3,943,714</b>	<b>47,072,317</b>	<b>34,615,138</b>
<b>Fund equity (deficiency) at end of year</b>	<b>\$ (730,671)</b>	<b>\$ 6,517,294</b>	<b>\$ 36,183,544</b>	<b>\$ 1,368,581</b>	<b>\$ 3,675,767</b>	<b>\$ 47,014,515</b>	<b>\$ 34,037,910</b>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**COMPONENT UNITS - PROPRIETARY FUNDS  
Combining Statement of Cash Flows  
Year Ended September 30, 1995  
(With comparative totals for the year ended September 30, 1994)**

	Pohnpei	Pohnpei	Pohnpei	Pohnpei	Pohnpei	Totals	
	Fisheries Corporation	Port Authority	Utilities Corporation	Economic Development Authority	State Housing Authority	1995	1994
<b>Cash flows from operating activities:</b>							
Operating loss	\$ (1,182,014)	\$ (770,338)	\$ (2,393,378)	\$ (5,400)	\$ (95,050)	\$ (4,446,180)	\$ (2,632,828)
Other income	-	-	12,052	-	-	12,052	262,875
<b>Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:</b>							
Depreciation	190,889	593,641	2,080,028	80,095	7,943	2,952,596	1,792,035
Doubtful debt expense	-	249,483	-	362,167	82,760	694,410	205,728
Reclassification of fixed assets	-	-	-	-	-	-	4,934
Recovery of bad debts	-	-	-	(3,612)	-	(3,612)	410,498
Inventory loss	-	-	-	-	1,037	1,037	-
	<u>(991,125)</u>	<u>72,786</u>	<u>(301,298)</u>	<u>433,250</u>	<u>(3,310)</u>	<u>(789,697)</u>	<u>43,242</u>
<b>Changes in assets and liabilities:</b>							
General receivables, gross	(216,300)	(194,622)	(275,409)	(470,315)	-	(1,156,646)	(1,147,833)
Loans receivable, gross	-	-	86,060	-	16,816	102,876	(243,247)
Advances	900	(33,757)	-	1,473	5,426	(25,958)	(83,356)
Due from primary government	-	350	-	-	24,047	24,397	38,188
Inventory, at cost	474,216	-	-	9,322	1,331	484,869	(824,515)
Prepaid expenses and other assets	(6,438)	-	(8,468)	-	-	(14,906)	(11,650)
Accounts payable	679,822	(77,829)	47,133	(26,558)	662	623,230	635,943
Accrued payroll and others	(27,365)	22,900	(19,360)	16,427	783	(6,615)	170,596
Deferred revenue	-	233,962	(162,908)	-	-	71,054	451,507
Receivable from grantor	-	-	-	-	69,359	69,359	-
	<u>904,835</u>	<u>(48,996)</u>	<u>(332,952)</u>	<u>(469,651)</u>	<u>118,424</u>	<u>171,660</u>	<u>(1,014,367)</u>
<b>Net cash provided by (used for) operating activities</b>	<u>(86,290)</u>	<u>23,790</u>	<u>(634,250)</u>	<u>(36,401)</u>	<u>115,114</u>	<u>(618,037)</u>	<u>(971,125)</u>
<b>Cash flows from noncapital financing activities:</b>							
Proceeds from notes payable	-	-	(46,143)	-	-	(46,143)	1,657,268
Repayments of notes payable	-	-	-	-	-	-	(187,856)
Operating transfers in	-	181,237	1,278,004	154,342	154,605	1,768,188	1,803,862
Other noncapital financing activities	-	-	132,056	-	-	132,056	316,271
<b>Net cash provided by noncapital financing activities</b>	<u>-</u>	<u>181,237</u>	<u>1,363,917</u>	<u>154,342</u>	<u>154,605</u>	<u>1,854,101</u>	<u>3,589,545</u>
<b>Cash flows from capital and related financing activities:</b>							
Acquisition of fixed assets	(892,251)	(106,853)	(1,506,802)	(66,080)	(4,202)	(2,576,188)	(3,087,167)
Contributed capital	600,000	-	-	-	-	600,000	-
Proceeds from notes payable	281,590	-	-	-	-	281,590	-
Interest received (paid)	(6,768)	-	727,706	-	-	720,938	1,382,344
<b>Net cash used for capital and related financing activities</b>	<u>(17,429)</u>	<u>(106,853)</u>	<u>(779,096)</u>	<u>(66,080)</u>	<u>(4,202)</u>	<u>(973,660)</u>	<u>(1,704,823)</u>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**COMPONENT UNITS - PROPRIETARY FUNDS  
Combining Statement of Cash Flows, Continued  
Year Ended September 30, 1995  
(With comparative totals for the year ended September 30, 1994)**

	Pohnpei	Pohnpei	Pohnpei	Pohnpei	Pohnpei	Totals	
	Fisheries Corporation	Port Authority	Utilities Corporation	Economic Development Authority	State Housing Authority	1995	1994
Cash flows from investing activities:							
Payments to self-insurance fund, net	-	-	(26,937)	-	-	(26,937)	(34,262)
Payments for scholarship fund, net	-	-	(299)	-	-	(299)	(3,531)
Investment dividend received	-	-	-	-	-	-	50,000
Investment dividend transferred to primary government	-	-	-	-	-	-	(50,000)
Increase in loans	-	-	-	-	-	-	(157,089)
Interest income	-	15,432	-	-	12,200	27,632	-
Net cash provided by (used for) investing activities	-	15,432	(27,236)	-	12,200	396	(194,882)
Net increase (decrease) in cash and equivalents	(103,719)	113,606	(76,665)	51,861	277,717	262,800	718,715
Cash and equivalents at beginning of year	118,862	399,806	115,433	144,363	103,955	882,419	163,644
Cash and equivalents at end of year	<u>\$ 15,143</u>	<u>\$ 513,412</u>	<u>\$ 38,768</u>	<u>\$ 196,224</u>	<u>\$ 381,672</u>	<u>\$ 1,145,219</u>	<u>\$ 882,359</u>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA  
INDEPENDENT AUDITORS' REPORTS ON COMPLIANCE  
WITH LAWS AND REGULATIONS  
YEAR ENDED SEPTEMBER 30, 1995**



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

Honorable Del S. Pangelinan  
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, 1995, and have issued our report thereon dated January 18, 1996. Our report on the audit of the general-purpose financial statements was modified due to 1) our inability to determine the propriety of fixed assets, notes payable and accounts payable of the Component Units - Proprietary Funds; and 2) our inability to determine the effects of not updating 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.

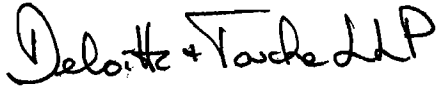
The results of our tests disclosed material instances of noncompliance, detailed in the accompanying Schedule of Findings and Questioned Costs (pages 84 through 110) in Local Findings 1 and 2, that are required to be reported herein under Government Auditing Standards the ultimate resolution of which cannot be presently determined. Accordingly, no provision for any liability that may result as been recognized in the 1995 general-purpose financial statements.

We considered these material instances of noncompliance in forming our opinion on whether the 1995 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 January 18, 1996 on those general-purpose financial statements.

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 in Federal Findings 1 through 21 and in Local Finding 3-5.

We also noted matters involving compliance with laws and regulations related to federal financial assistance which we reported to the State of Pohnpei's management in our reports dated January 18, 1996 on compliance related to federal financial assistance programs.

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 black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

January 18, 1996



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

Honorable Del S. Pangelinan  
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, 1995, and have issued our report thereon dated January 18, 1996. Our report on the audit of the general-purpose financial statements was modified due to 1) our inability to determine the propriety of fixed assets, notes payable and accounts payable of the Component Units - Proprietary Funds; and 2) our inability to determine the effects of not updating 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 67 through 78), for the year ended September 30, 1995. 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 on disclosed material instances of noncompliance with the requirements referred to above which are described in the accompanying Schedule of Findings and Questioned Costs (pages 84 through 110) in Federal Findings 4, 7, 9 and 11-13.

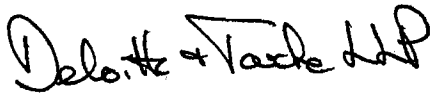
In addition, the results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying Schedule of Findings and Questioned Costs in Federal Findings 1-3, 5, 6, 8, 10 and 14-21. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, except for those instances of noncompliance referred to in the fourth paragraph of this report and identified in the accompanying Schedule of Findings and Questioned Costs, 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, 1995.

Resolving instances of noncompliance identified in the fourth and fifth paragraphs of this report is the responsibility of the grantor agencies. The determination of whether the identified instances of noncompliance will ultimately result in a disallowance of costs cannot presently be determined. Accordingly, no adjustment for any disallowances that may result has been made to the federal program amounts listed in the accompanying Schedule of Federal Financial Assistance and no provision for any liability that may result has been recognized in the State of Pohnpei's 1995 general-purpose financial statements.

We considered these instances of noncompliance in forming our opinion on whether the State of Pohnpei's 1995 general-purpose financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated January 18, 1996, on those general-purpose financial statements.

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 black ink, appearing to read "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

January 18, 1996





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

Honorable Del S. Pangelinan  
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, 1995, and have issued our report thereon dated January 18, 1996. Our report on the audit of the general-purpose financial statements was modified due to 1) our inability to determine the propriety of fixed assets, notes payable and accounts payable of the Component Units - Proprietary Funds; and 2) our inability to determine the effects of not updating 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 January 18, 1996.

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 67 through 78), for the year ended September 30, 1995: 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 84 through 110) in Federal Findings 4, 9, 17 and 21.

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 January 18, 1996.

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 LLP*

January 18, 1996



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

Honorable Del S. Pangelinan  
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, 1995, and have issued our report thereon dated January 18, 1996. Our report on the audit of the general-purpose financial statements was modified due to 1) our inability to determine the propriety of fixed assets, notes payable and accounts payable of the Component Units - Proprietary Funds; and 2) our inability to determine the effects of not updating the General Fixed Assets Account Group. We have also audited the State of Pohnpei's compliance to applicable requirements of major federal financial assistance programs and applied procedures to test compliance with general requirements applicable to federal financial assistance programs and have issued our reports thereon dated January 18, 1996.

In connection with our audit of the 1995 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, 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, 1995.

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 84 through 110) in Federal Finding 4, 5, 6, 17, 20 and 21.

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 LLP*

January 18, 1996



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

Honorable Del S. Pangelinan  
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, 1995, and have issued our report thereon dated January 18, 1996. Our report on the audit of the general-purpose financial statements was modified due to 1) our inability to determine the propriety of fixed assets, notes payable and accounts payable of the Component Units - Proprietary Funds; and 2) our inability to determine the effects of not updating 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 January 18, 1996.

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, 1995, 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 January 18, 1996.

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 operation 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

- Purchases and disbursement cycle
- Revenue and receipt 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, 1995, the State of Pohnpei expended 86% of its total federal financial assistance under major federal financial assistance programs (see page 83).

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 67 through 78). 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 84 through 110) in Federal Findings 1-17.

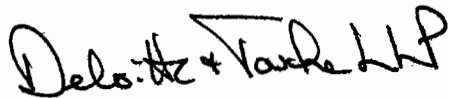
A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may 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 January 18, 1996.

We also noted other matters involving the internal control structure and its operation, which are described in the accompanying Schedule of Findings and Questioned Costs in Federal Findings 18-21, which we have reported to management of the State of Pohnpei.

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 black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

January 18, 1996



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

Honorable Del S. Pangelinan  
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, 1995, and have issued our report thereon dated January 18, 1996. Our report on the audit of the general-purpose financial statements was modified due to 1) our inability to determine the propriety of fixed assets, notes payable and accounts payable of the Component Units - Proprietary Funds; and 2) our inability to determine the effects of not updating 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, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted 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 67 through 78) for the year ended September 30, 1995, 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 our audit of the general-purpose financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the general-purpose financial statements taken as a whole.

This report is intended 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.

January 18, 1996



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Federal Financial Assistance  
U.S. Federal Assistance Fund  
Year Ended September 30, 1995

Grantor Program Title	Pohnpei Org. #	CFDA I.D. #	1995 Fiscal Year Expenditures
<u>U.S. Department of Agriculture</u>			
FY93 Forestry Project	3339	10.664	\$ 14,543
FY95 Forestry Project	3341	10.664	460
FY93 Forestry Project	3351	10.664	12,428
FY93 Fire Prevention	3352	10.418	728
FY 94 Fire Prevention Project	3353	10.664	3,088
Food Services	3388	10.560	5,138
			36,385
<u>U.S. Department of Education</u>			
FY93 Teacher Training	3103	84.124	475
FY94 Teacher Training	3106	84.124	58,173
FY93 Special Education Program	3110	84.027	4,497
FY94 Special Education Program	3113	84.027	717,051
FY95 Special Education	3114	84.027	307,517
			1,087,713
<u>U.S. Department of the Interior</u>			
FY93 Historic Preservation	3466	15.904	754
FY94 Historic Preservation	3467	15.904	39,538
PUC Power Upgrade	3503	15.875	25,000
PNI Utility Corp Assistance	3505	15.875	21,883
Financial Management Improvement	3541	15.875	17,821
Hospital Maintenance & Improvements	3542	15.875	66,616
Computer Advisor Training	3561	15.875	27,331
Multi-agency Anti Fraud	3566	15.875	73,310
Pohnpei Utilities Corporation	3565	15.875	124,543
FY95 OMIP Hospital	3532	15.875	157
			396,953
<u>U.S. Department of Health and Human Services</u>			
FY93 Substance Abuse	3614	93.959	768
FY92 MCH Dental	3616	93.994	466
Pohnpei Community Based	3618	93.163	1,180
FY94 AIDS Prevention Program	3620	93.940	648
FY94 Community Health Center	3622	93.224	22,690
FY94 Sexually Transmitted Diseases	3623	93.977	1,139
FY94 Immunization Program	3624	93.268	8,602
FY94 Tuberculosis Program	3625	93.116	7,130
FY95 Family Planning	3626	93.217	25,977
FY95 Mental Health Information	3627	93.128	2,973
FY94 MCH Program	3628	93.994	83,038
FY94 Substance Abuse Prevention	3629	93.959	118,634
			273,245
Balance Forward U.S. DHHS			273,245
			1,521,051

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, Continued  
Year Ended September 30, 1995

Grantor Program Title	Pohnpei Org. #	CFDA I.D. #	1995 Fiscal Year Expenditures
Balance Forwarded			\$ 1,521,051
<u>U.S. Department of Health and Human Services Balance Forwarded</u>			273,245
FY94 Preventive Health	3630	96.991	9,242
FY94 Diabetes Program	3631	93.988	5,789
FY95 State System Development	3632	93.110	2,900
FY95 Sexually Transmitted Diseases	3633	93.977	5,083
FY 95 Immunization Program	3634	93.268	26,918
FY95 Community Health	3635	93.224	110,135
FY95 Aids Prevention	3636	93.940	8,562
FY95 Tuberculosis Control	3637	93.116	10,509
FY95 Family Planning	3638	93.217	8,598
Community Based Health Education	3639	96.993	9,416
			<u>470,397</u>
<u>U.S. Department of Labor</u>			
FY94 JTPA Administration	3201	17.250	85,327
FY94 JTPA Youth Program	3202	17.250	98,021
FY94 JTPA Adult Program	3203	17.250	138,424
FY94 JTPA Participant Support	3204	17.250	45,312
FY94 JTPA Technical Assistant	3205	17.250	19,518
FY92 JTPA Administration	3215	17.250	(2,136)
FY92 JTPA Adult Program	3216	17.250	2,708
FY92 JTPA Youth Program	3217	17.250	19,945
FY92 JTPA Participant Support	3218	17.250	1,180
FY93 JTPA Administration	3222	17.250	11,100
FY93 JTPA Adult Program	3223	17.250	37,630
FY93 JTPA Youth Program	3224	17.250	19,814
FY93 Participant Support	3225	17.250	6,575
FY93 JTPA Education Coordinator	3226	17.250	16,700
FY92 JTPA Education Coordinator	3228	17.250	17,273
FY94 Elderly Project	3231	17.250	39,775
			<u>557,166</u>
Balance Forward			<u>2,548,614</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, Continued  
Year Ended September 30, 1995

Grantor Program Title	Pohnpei Org. #	CFDA I.D. #	1995 Fiscal Year Expenditures
Balance Forwarded			\$ 2,548,614
<u>Federal Emergency Management Agency</u>			
PTA Typhoon Yuri	3756	83.516	40,779
FEMA Administration Cost	3757	83.516	7,237
Environmental Health	3761	83.516	1,255
Russ Assistance Forestry	3765	83.516	2,627
Pingelap Airstrip Typhoon	3780	83.516	21,036
Governor Office Yuri	3783	83.516	4,772
Hazard Mitigation Food	3789	83.516	100,459
Mwoakilloa Airstrip	3790	83.516	4,856
PTA Lehn Mesi Bridge Axel	3791	83.516	11,131
PTA Lehn Diadi Bridge	3794	83.516	16,737
			210,889
<u>Direct U.S Grants</u>			
Road Paving Matching	3810	11.300	840
Pohnpei Educational Grant	3815	84.256A	133,102
FY95 PNI Educational Grant	3818	84.256A	201,669
			335,611
Total U.S. Federal Assistance Fund			\$ 3,095,114
A reconciliation of the above expenditures is shown below:			
Per the U.S. Federal Assistance Fund financial statements			\$ 2,923,688
Transfer out to Pohnpei Utilities Corporation (org. 3503, 3505 and 3565).			171,426
			\$ 3,095,114

Note: The above grants are received in a subgrant capacity through the FSM National Government, except for the Pohnpei Educational Grant programs (org. 3815 and 3818 with CFDA #84.256A) which were received directly from the U.S. Department of Education and the Road Paving Matching grant (org. 3810 and CFDA #11.300) which was received directly from the U.S. Department of Commerce.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Federal Financial Assistance, Continued  
Other Federal and Direct Assistance Fund  
Year Ended September 30, 1995

Grantor Program Title	Pohnpei Org. #	CFDA I.D. #	1995 Fiscal Year Expenditures
<u>World Health Organization</u>			
Community Based Watershed	3925	N/A	\$ 12,454
			<u>12,454</u>
<u>Other Non-U.S. Grants</u>			
Pohnpei Community Health Center	3928	N/A	280
State Marine Resources	3933	N/A	6,555
Vocational Education Improvement Program	3947	N/A	65,295
Food Production & Nutrition	3948	N/A	1,346
PICS Peace Corp Training Program	3949	N/A	514
Division of Forestry	3951	N/A	2,644
Math and Science Program	3955	N/A	4,740
EDA Purchases of Fuel	3957	N/A	8,796
Hemodialysis Medical Supplies	3958	N/A	17,174
Finance Conference FY 95	3971	N/A	150
Hospital Contribution Fund	3988	N/A	609
Nan U Drinking Water	3993	N/A	3,000
Hospital Equipment	3996	N/A	2,050
			<u>113,153</u>
Total Other Federal and Direct Assistance Fund			\$ <u>125,607</u>

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

See accompanying notes to schedule of federal financial assistance.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Federal Financial Assistance, Continued  
CFSM Projects Fund  
Year Ended September 30, 1995

Program Title	Pohnpei Org. #	CFDA I.D. #	1995 Fiscal Year Expenditures
Supreme Court Operations	4873	N/A	\$ 76,660
Sapwuaifik Airstrip	4894	N/A	7,337
Dental Services	4907	N/A	2,825
Pohnpei Recreation Facilities	4914	N/A	1,342
Oroluk Marine Station	4915	N/A	1,338
Teacher Training Program	4916	N/A	119
Pohnpei Cultural Education	4917	N/A	2,982
Elementary & Secondary Education	4922	N/A	29,822
Medical Supplies & Equipment	4928	N/A	5,270
Pingelap Airstrip	4932	N/A	16,500
Mwoakilloa Airstrip	4933	N/A	2,996
Congressional Election	4938	N/A	25
PICS High School	4942	N/A	(255)
Law Enforcement	4946	N/A	1,085
Police and Security	4948	N/A	1,120
Aramas Kapw	4951	N/A	8,072
Hospital Renovation	4952	N/A	214,046
PICS Facilities Improvement	4954	N/A	46,692
OMIP Matching-Pohnpei 91	4955	N/A	37,759
Joint Law Enforcement/Correctional Rehab	4956	N/A	140,325
Construction Cold Storage Facilities	4957	N/A	600,000
Pohnpei Tourist Commission	4958	N/A	59,140
Second Year OMIP Matching	4959	N/A	158
Circumferential Road/Paving VI	4961	N/A	171,196
Pohnpei State Scholarship	4962	N/A	86,448
<b>Total CFSM Projects Fund</b>			<b>\$ 1,513,002</b>

A reconciliation of the above expenditures to the general-purpose financial statements is shown below:

Per CFSM State Projects financial statements	\$ 913,002
Transfer out to Pohnpei Fisheries Corporation (org. 4957)	600,000
	<u>\$ 1,513,002</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, 1995

Grantor Program Title	Pohnpei Org. #	CFDA I.D. #	1995 Fiscal Year Expenditures
<u>Trust Territory of the Pacific Islands</u>			
Pohnpei Airport Administration	6322	15.875	\$ 30,623
Pohnpei Hospital Renovation	6323	15.875	17,141
Kolonia Sewer System	6324	15.875	22,196
Airport Runway Renovation	6325	15.875	15,391
Kolonia Roadside	6329	15.875	25,796
Kolonia Sewer System	6336	15.875	28,874
Kolonia Water Improvement	6337	15.875	290,700
PNI Circumferential Road	6338	15.875	81,554
Total TTPI Capital Projects Fund			\$ 512,275

A reconciliation of the above expenditures to the general-purpose financial statements is shown below:

Per TTPI Capital Projects Fund financial statements	\$ 221,575
Transfer out to Pohnpei Utilities Corporation (org. 6337)	290,700
	\$ 512,275

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)  
Year Ended September 30, 1995

Grantor Program Title	Pohnpei Org. #	CFDA I.D. #	1995 Fiscal Year Expenditures
<u>Office of Territorial and International Affairs</u>			
Secondary Education	2150	15.875	\$ 1,724,741
Educational Services & Development	2151	15.875	<u>15,703</u>
Total Compact of Free Association Special Block Grant Fund - Section 221(B)			<u><u>\$ 1,740,444</u></u>

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

These funds are disbursed through the Office of Territorial and International Affairs (OTIA), 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 Other Grants Fund  
Year Ended September 30, 1995

Program Title	Pohnpei Org. #	CFDA I.D. #	1995 Fiscal Year Expenditures
<b><u>Section 212(A) - Special Development Programs</u></b>			
CAT Training	2516	15.875	\$ 1,225
National Health Insurance	2523	15.875	163,500
CAT Training	2525	15.875	9,240
Hospital Buildings & Grounds	2526	15.875	9,110
CAT Training	2527	15.875	2,146
Maintenance Unpaved Protio Circuit	2528	15.875	90,760
OMIP Matching	2529	15.875	25,321
CAT Training	2529	15.875	26,677
			<hr/> 327,979 <hr/>
<b><u>Section 216(A)(2) - Health and Medical Programs</u></b>			
FY93 Medical Referrals	2356	15.875	349,640
Medical supplies	2153	15.875	57,533
			<hr/> 407,173 <hr/>
<b><u>Section 214(B) - Energy Programs</u></b>			
Human Resources	2751	15.875	5,857
Treasury	2752	15.875	51,623
Public Safety	2753	15.875	37,871
Land	2754	15.875	12,156
OP & GR	2755	15.875	8,113
Land Commission	2756	15.875	4,235
PUC	2757	15.875	500,000
PBC Electricity	2759	15.875	28,554
Health Services	2780	15.875	374,186
Public Auditor's Office	2781	15.875	2,096
Foreign Investment Board	2782	15.875	934
Tourist Commission	2783	15.875	658
Commerce and Industry	2784	15.875	3,183
Election Commission	2785	15.875	532
Public Library	2786	15.875	12,128
OBP&S	2787	15.875	8,673
Office of the Attorney General	2788	15.875	3,728
Conservation & Resource Surveillance	2789	15.875	25,784
Construction Management	2791	15.875	7,990
Legislature	2792	15.875	32,526
Education	2793	15.875	72,781
Economic Development Authority	2794	15.875	2,525
Pohnpei State Housing Authority	2795	15.875	1,804
Sports Council	2796	15.875	734
Environmental Protection Agency	2797	15.875	4,270
Office of the Govenor Utility	2798	15.875	5,953
Energy Assistance Drawdown	2799	15.875	5,750
			<hr/> 1,214,644 <hr/>

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, Continued  
Year Ended September 30, 1995

Program Title	Pohnpei Org. #	CFDA I.D. #	1995 Fiscal Year Expenditures
<u>Section 216(A)(3) - Scholarship Programs</u>			
FY92 Post Secondary Assistance	2908	15.875	9,554
FY 94 Post Secondary Assistance	2910	15.875	13,500
FY95 Post Secondary Assistance	2911	15.875	285,736
			<u>308,790</u>
Total Compact of Free Association Other Grants Fund			\$ <u><u>2,258,586</u></u>

A reconciliation of the above expenditure is shown below:

Per the respective fund financial statements	\$ 1,758,586
Transfer out to PUC (org. 2757)	<u>500,000</u>
	\$ <u><u>2,258,586</u></u>

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

These funds are disbursed through the Office of 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, 1995

Grantor Program Title	Pohnpei Org. #	CFDA I.D. #	1995 Fiscal Year Expenditures
<u>Office of Territorial and International Affairs</u>			
Nett Elementary School	6032	15.875	\$ 11,841
Mwoakilloa Elementary School	6039	15.875	2,353
Mand Road Madol	6063	15.875	5,071
Compact CIP Drawdowns	6099	15.875	1,197
Coconut Rehabilitation	6155	15.875	254
Kolonia Secondary Road Project	6156	15.875	65
Meitik Nankurupwung Bridge	6178	15.875	30,949
Pohnpei Dock Extension	6179	15.875	13,000
Power Distribution Nett	6190	15.875	29,550
Landfill/Construction/Sokehs Pah	6193	15.875	6,986
Wone Elementary School Road	6202	15.875	13,790
OMIP Grant Matching	6211	15.875	196
Land & Survey	6213	15.875	6,375
Pepper Processing Plant	6234	15.875	48,462
Dry docking of Micro Glory	6235	15.875	36,277
Legislature Chamber Renovation	6236	15.875	10,000
Renovation Kapingamarangi Office	6237	15.875	8,009
Sapwuahfik Construction	6238	15.875	62
Madolenihmw Infrastructure Project	6241	15.875	15,070
Access Road Nanpohnmal/Nanpil	6243	15.875	423,719
Sanitary Water Tank	6246	15.875	3,970
Tourism Promotion and Marketing	6248	15.875	65
Manpower Skills Development Program	6249	15.875	60,040
FY93 CIP Administration Cost	6250	15.875	16,667
Fish Processing Plant Maintenance	6252	15.875	(1,633)
Pepper Development Project	6253	15.875	10,175
Broiler Project	6254	15.875	2,743
Pingelap Dispensary	6258	15.875	123
Family Food & Nutrition Program	6259	15.875	742
Road Maintenance & Culverts Construction	6267	15.875	37,327
Paies Water System	6269	15.875	65,046
Broiler Project Subsidy	6271	15.875	(344)
Fish Processing Plant/MTN Sup.	6273	15.875	5,226
Pepper Development Project	6274	15.875	34,616
Upgrading Lewetik	6278	15.875	375
Development and Maintenance	6279	15.875	29,165
Tourist Promotion	6280	15.875	44,852
Second Five Year Development Plan	6281	15.875	14,689
Lehdau & Nanpil Community	6282	15.875	11,700
Broiler Development	6283	15.875	44,964
Construction of 10 Classrooms	6284	15.875	221,513
Mwoakilloa Development Project	6285	15.875	10,000
Micro Glory Drydocking	6286	15.875	520,753
Balance Forward			1,796,000

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, Continued  
Year Ended September 30, 1995

Grantor Program Title	Pohnpei Org. #	CFDA I.D. #	1995 Fiscal Year Expenditures
Balance Forwarded			\$ 1,796,000
Kolonia Town CIP	6287	15.875	46,792
Kitti Road Improvements and Upgrading	6288	15.875	10,000
Circumferential Road Paving	6289	15.875	1,293,536
Parau / Tamworoi Repairs and Maintenance	6290	15.875	18,500
Kitti Municipal CIP	6291	15.875	6,409
Water & Sewer Major Repairs	6293	15.875	134,000
Water & Sewer Hookups	6294	15.875	90,625
Manpower Skill Development	6295	15.875	55,800
Water & Sewage Testing	6296	15.875	110,200
Upper Sapwohn Road Maintenance	6297	15.875	500
Nanmadop Road Maintenance	6299	15.875	10,000
Pehleing Water Supply System	6402	15.875	29,904
Pahnmeitol Power Extention	6406	15.875	10,000
Street Light Purchases	6407	15.875	3,000
Pepperoom Purchase	6408	15.875	15,230
Micro Glory Drydocking	6409	15.875	119,841
Grandstand for FSM Games	6410	15.875	20,000
Enpeinpah Water System Construction	6411	15.875	18,695
Unpaved Road Maintenance	6413	15.875	49,836
Family Food Nutrition	6415	15.875	44
MTN Repayments	6099	15.875	2,562,720
			<u>4,605,632</u>
Total Compact of Free Association Capital Projects Fund - Section 211 (A) Capital Accounts			<u>\$ 6,401,632</u>

Note 1: A reconciliation of the above expenditures to the General-Purpose Financial Statements is shown below:

Per general-purpose financial statements	\$ 3,448,287
Transfer out to PUC (orgs 6293, 6294, 6295 and 6296)	390,625
FY95 MTN Debt payment (6099)	<u>2,562,720</u>
	<u>\$ 6,401,632</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, 1995

Grantor Program Title	Pohnpei Org. #	CFDA I.D. #	1995 Fiscal Year Expenditures
<u>Office of Territorial and International Affairs</u>			
General Fund: Current Account	Various	15.875	\$ <u>10,521,198</u>
Total Compact of Free Association expenditures			\$ <u>20,921,860</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 reallocates such to the component States.

See accompanying notes to schedule of federal financial assistance.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Federal Financial Assistance  
Year Ended September 30, 1995

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. Federal Emergency Management Agency
- . U.S. Department of Commerce

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."

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.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Federal Financial Assistance  
Year Ended September 30, 1995

3. Component Units

The State of Pohnpei's 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. All material instances of noncompliance or questioned costs presented in its audit reports are contained in the accompanying Schedule of Findings and Questioned Costs. The following is the Pohnpei Utilities Corporation's Schedule of Federal Financial Assistance, as extracted from the abovementioned audit reports.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Pohnpei Utilities Corporation  
Schedule of Federal Financial Assistance  
Year Ended September 30, 1995

Grantor/Program Title	CFDA No.	Total Authorizations	Prior Years' Expenditures	Expenditures for the Year Ended Sept. 30, 1995	Total Program Expenditures
<b>U.S. Department of the Interior:</b>					
Office of Territorial and International Affairs:					
<b>Compact of Free Association:</b>					
Energy Program funds, Section 214(B)	15.875	\$ 2,620,000	\$ 2,167,904	\$ 500,000	\$ 2,667,904
Capital Account funds, Section 211(A)	15.875				
OMIP-First Year Electrical Match		322,250	296,120	472	296,592
OMIP-First Year Water and Sewer Match		1,428,250	1,003,919	187,992	1,191,911
Power Hook-Ups		492,500	492,500	-	492,500
Kolonia Sewer		33,119	33,119	-	33,119
OMIP-Second Year Water and Sewer Match		280,425	-	280,425	280,425
Second Year Water and Sewer Subsidy		110,200	-	110,200	110,200
		<u>2,666,744</u>	<u>1,825,658</u>	<u>579,089</u>	<u>2,404,747</u>
<b>Operations and Maintenance Improvement</b>					
<b>Programs (OMIP):</b>					
Initialization of the PUC	15.815	430,250	422,767	7,482	430,249
Pohnpei Water, Sewerage and Solid Waste Utilities Development, First-Year		810,000	549,627	24,033	573,660
Pohnpei Water, Sewerage and Solid Waste Utilities Development, Second-Year		665,000	-	177,790	177,790
Pohnpei Power Generation and Distribution Second-Year		273,468	218,351	55,117	273,468
Pohnpei Power Generation and Distribution Third-Year		370,000	-	119,965	119,965
OMIP Bench		71,000	-	44,521	44,521
		<u>2,619,718</u>	<u>1,190,745</u>	<u>428,908</u>	<u>1,619,653</u>
<b>Technical Assistance:</b>					
PUC FSM-58	15.875	110,000	110,000	-	110,000
ALCO Repairs		25,000	25,000	-	25,000
		<u>135,000</u>	<u>135,000</u>	<u>-</u>	<u>135,000</u>
Meter Calibration/Facility Inventory	15.875	100,000	100,000	-	100,000
Overhaul ALCO Generators-Pohnpei State	15.875	100,000	100,000	-	100,000
Audit Grant	15.875	32,000	12,000	20,000	32,000
		<u>232,000</u>	<u>212,000</u>	<u>20,000</u>	<u>232,000</u>
<b>Trust Territory of the Pacific Islands (TTPI):</b>					
<b>Deficiency Funding:</b>					
Pohnpei Power	15.875	328,271	328,271	-	328,271
Kolonia Sewer		659,328	53,459	372,785	426,244
		<u>987,599</u>	<u>381,730</u>	<u>372,785</u>	<u>754,515</u>
Kolonia Water Improvements	15.875	290,700	290,700	-	290,700
		<u>\$ 9,551,761</u>	<u>\$ 6,203,737</u>	<u>\$ 1,900,782</u>	<u>\$ 8,104,519</u>

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  
Year Ended September 30, 1995

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. All material instances 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 September 30, 1995</u>
Compact of Free Association:			
Capital Account Funds - Capital Projects, Section 211(A)	DOI-OTIA	15.875	\$ <u>3,837,965</u>
Total U.S. Department of the Interior			\$ <u>3,837,965</u>
Farmers Home Administration:			
Housing Preservation Grant	USDA	10.433	\$ <u>200,000</u>
Total U.S. Department of Agriculture			\$ <u>200,000</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 reallocates 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, 1995

<u>Grantor</u> <u>Program Title</u>	<u>CFDA No.</u>	<u>1995</u> <u>Fiscal Year</u> <u>Expenditures</u>
<u>U.S. Dept. of the Interior</u>	15.875	
Compact of Free Association:		
211(A) Capital Account		\$ 6,401,632
221(B) Block Grant		1,740,444
212(A) Special Development Programs		327,979
216(A)(2) Health and Medical Programs		407,173
214(B) Energy Programs		1,214,644
216(A)(3) Scholarship Programs		<u>308,790</u>
Total Major Programs Under CFDA # 15.875 excluding Compact Section 211 (A) Current Account expenditures		10,400,662
 <u>U.S. Department of Education</u>		
Special Education Program	84.027	1,029,065
 <u>U.S. Department of Labor</u>		
JTPA	17.250	<u>557,166</u>
Total U.S. Federal program expenditures selected excluding Compact Section 211 (A) Current Account expenditures		\$ <u>11,986,893</u>
Total U.S. Federal program expenditures excluding Compact Section 211 (A) Current Account expenditures		\$ <u>14,008,051</u>
% of total U.S. Federal expenditures covered by major programs excluding Compact Section 211 (A) Current Account expenditures		<u><u>86%</u></u>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 1995

**Federal Findings and Questioned Costs**

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>						
1. U.S. Dept. of Education/ Special Education/CFDA #84.027	<p><u>Criteria:</u> Recipients of U.S. federal assistance should follow applicable federal procurement standards.</p> <p><u>Condition:</u> There is no evidence of informal procurement procedures being utilized in the following transaction:</p> <table border="0" style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center; border-bottom: 1px solid black;"><u>Org. #</u></th> <th style="text-align: center; border-bottom: 1px solid black;"><u>Document #</u></th> <th style="text-align: center; border-bottom: 1px solid black;"><u>APV #</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">3113</td> <td style="text-align: center;">P50244</td> <td style="text-align: center;">507938</td> </tr> </tbody> </table> <p><u>Cause:</u> The cause of this condition is unknown.</p> <p><u>Effect:</u> Questioned costs result from this condition.</p> <p><u>Recommendation:</u> The State should ensure that procurement purchases conform to the requirements of the Common Rule and other applicable federal regulations.</p> <p><u>Auditee Response:</u> We concur with the finding.</p> <p><u>Corrective Action Plan:</u> Finance will ensure careful review to prevent inappropriate charges in the future.</p>	<u>Org. #</u>	<u>Document #</u>	<u>APV #</u>	3113	P50244	507938	\$ <u>2,327</u>
<u>Org. #</u>	<u>Document #</u>	<u>APV #</u>						
3113	P50244	507938						

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Federal Findings and Questioned Costs, Continued**

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
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2. U.S. Dept. of  
Education/ Special  
Education/CFDA  
#84.027

Criteria: Federal regulations require that disbursements involving federal funds be reasonable and necessary for program needs.

Condition: There was insufficient evidence relating this activity to the Special Education Program.

<u>Doc. #</u>	<u>APV #</u>	<u>Description</u>	
L51722	504459	Picnic retreat	\$ <u>270</u>

Cause: The cause of this condition is unknown.

Effect: Questioned costs result from this condition.

Recommendation: The State should ensure that procurement purchases conform to the requirements of the Common Rule and other applicable federal regulations.

Auditee Response: We agree with the above finding.

Corrective Action Plan: We will ensure that procurement purchases conform to the requirements of the Common Rule and other applicable federal regulations starting in fiscal year 1996.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Federal Findings and Questioned Costs, Continued**

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>																				
3. U.S. Dept. of Education/ Special Education/CFDA #84.027	<p><u>Criteria:</u> Recipients of U.S. federal assistance should follow federal procurement standards.</p> <p><u>Condition:</u> Affidavits stating that original receipts were lost were accepted in lieu of original receipts supporting travel costs (ground transportation):</p> <table border="0" style="width: 100%; margin-top: 10px;"> <thead> <tr> <th style="text-align: left; border-bottom: 1px solid black;"><u>Org. #</u></th> <th style="text-align: left; border-bottom: 1px solid black;"><u>TA #</u></th> <th style="text-align: left; border-bottom: 1px solid black;"><u>APV #</u></th> <th style="text-align: right; border-bottom: 1px solid black;"><u>Costs</u></th> </tr> </thead> <tbody> <tr> <td>3113</td> <td>T50304</td> <td>505453</td> <td style="text-align: right;">\$ 180</td> </tr> <tr> <td>3110</td> <td>T30682</td> <td>509758</td> <td style="text-align: right;">200</td> </tr> <tr> <td>3110</td> <td>T40346</td> <td>505062</td> <td style="text-align: right; border-bottom: 1px solid black;">100</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right; border-bottom: 3px double black;">480</td> </tr> </tbody> </table>	<u>Org. #</u>	<u>TA #</u>	<u>APV #</u>	<u>Costs</u>	3113	T50304	505453	\$ 180	3110	T30682	509758	200	3110	T40346	505062	100				480	
<u>Org. #</u>	<u>TA #</u>	<u>APV #</u>	<u>Costs</u>																			
3113	T50304	505453	\$ 180																			
3110	T30682	509758	200																			
3110	T40346	505062	100																			
			480																			

Cause: The cause of this condition is unknown.

Effect: Questioned costs result from this condition.

Recommendation: The State should ensure that procurement purchases conform to the requirements of the Common Rule and other applicable federal regulations.

Auditee Response: We agree with the above finding.

Corrective Action Plan: A memorandum from the Acting Director of Treasury dated January 11, 1995 was sent to the departments and offices stating that Department of Treasury and Administration will no longer accept affidavits as acceptable documentary evidence to support travel vouchers.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Federal Findings and Questioned Costs, Continued**

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>						
4. U.S. Dept. of Education/ Educational Grant/ CFDA #84.256A	<p><u>Criteria:</u> Federal regulations require that procurement transactions involving federal funds be documented by evidence of informal bidding or price comparisons from a representative number of vendors.</p> <p><u>Condition:</u> The procurement transactions did not contain evidence of compliance with informal procurement requirements:</p> <table border="0" style="width: 100%; margin-top: 10px;"> <thead> <tr> <th style="text-align: left; border-bottom: 1px solid black;"><u>Org. #</u></th> <th style="text-align: left; border-bottom: 1px solid black;"><u>Document #</u></th> <th style="text-align: left; border-bottom: 1px solid black;"><u>APV #</u></th> </tr> </thead> <tbody> <tr> <td>3818</td> <td>L53253</td> <td>508206</td> </tr> </tbody> </table> <p>In addition, L53253 was specifically disapproved by the grantor agency.</p> <p><u>Cause:</u> The cause of this condition is unknown.</p> <p><u>Effect:</u> Questioned costs result from this condition.</p> <p><u>Recommendation:</u> The State should ensure that procurement purchases conform to the requirements of the Common Rule and other applicable federal regulations.</p> <p><u>Auditee Response:</u> We agree with the above finding.</p> <p><u>Corrective Action Plan:</u> We will ensure that procurement purchases conform to the requirements of the Common Rule and other applicable federal guidelines starting in fiscal year 1996.</p>	<u>Org. #</u>	<u>Document #</u>	<u>APV #</u>	3818	L53253	508206	\$ <u>18,800</u>
<u>Org. #</u>	<u>Document #</u>	<u>APV #</u>						
3818	L53253	508206						

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Federal Findings and Questioned Costs, Continued**

Program	Reason for Questioned Costs	Questioned Costs																
5. U.S. Dept. of Education/Educational Grant/CFDA #84.256A	<p><u>Criteria:</u> The U.S. Department of Education Program Officer recommended that the travel budget under the fiscal year 1995 Educational Grant be limited to the PREL annual conferences and the PREL PRESS seminar.</p> <p><u>Condition:</u> Off-island travel costs other than trips designated in the approved budget were charged to the grant under the following travel authorizations:</p> <table border="0" style="margin-left: 40px; width: 80%;"> <thead> <tr> <th style="text-align: left;"><u>Org. #</u></th> <th style="text-align: left;"><u>TA #</u></th> <th style="text-align: left;"><u>APV #</u></th> <th style="text-align: right;"></th> </tr> </thead> <tbody> <tr> <td>3818</td> <td>T50368</td> <td>505625</td> <td style="text-align: right;">\$ 1,157</td> </tr> <tr> <td>3818</td> <td>T50369</td> <td>505808</td> <td style="text-align: right;"><u>625</u></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;"><u>1,782</u></td> </tr> </tbody> </table>	<u>Org. #</u>	<u>TA #</u>	<u>APV #</u>		3818	T50368	505625	\$ 1,157	3818	T50369	505808	<u>625</u>				<u>1,782</u>	<p>\$ 1,157</p> <p><u>625</u></p> <p><u>1,782</u></p>
<u>Org. #</u>	<u>TA #</u>	<u>APV #</u>																
3818	T50368	505625	\$ 1,157															
3818	T50369	505808	<u>625</u>															
			<u>1,782</u>															

Cause: The cause of this condition is unknown.

Effect: Questioned costs result from this condition.

Recommendation: The State should ensure that procurement purchases conform to the requirements of the Common Rule and other applicable federal regulations.

Auditee Response: We agree with the above finding.

Corrective Action Plan: We will ensure that procurement purchases conform to the requirements of the Common Rule and other applicable federal guidelines starting in fiscal year 1996.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Federal Findings and Questioned Costs, Continued**

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
6. U.S. Dept. of Education/Teacher Training Program/CFDA #84.124	<p><u>Criteria:</u> Federal expenditures incurred should be necessary and reasonable for program needs.</p> <p><u>Condition:</u> Travel costs for participants to an office secretarial training were charged to the Teacher Training program.</p> <p style="text-align: center; padding-left: 100px;"><u>Document #</u></p> <p style="padding-left: 100px;">T50503 C50109</p>	<p>\$ 1,230 <u>1,610</u> <u>2,840</u></p>
	<u>Cause:</u> The cause of this condition is unknown.	
	<u>Effect:</u> Questioned costs results from this condition.	
	<u>Recommendation:</u> The State should ensure that expenditures incurred are necessary and reasonable for program needs.	
	<u>Auditee Response:</u> We agree with the above finding.	
	<u>Corrective Action Plan:</u> We will ensure that all federal program expenditures are reviewed for conformance with the Common Rule and other applicable federal regulations starting in fiscal year 1996.	

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Federal Findings and Questioned Costs, Continued**

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>																																
7. U.S. Dept. of Labor/ JTPA Program/CFDA #17.250	<p><u>Criteria:</u> Individuals eligible to receive services under the JTPA Program must meet certain age requirements and be economically disadvantaged or have some other barriers to employment.</p> <p><u>Condition:</u> Six permanent full-time employees of other government agencies were recipients of services funded by the JTPA program. Use of JTPA funds in such manner appears inconsistent with Section 204 (c) of the JTPA program.</p> <table style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;"><u>Org #</u></th> <th style="text-align: center;"><u>Document #</u></th> <th style="text-align: center;"><u>APV #</u></th> <th></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">3203</td> <td style="text-align: center;">T50445</td> <td style="text-align: center;">507134</td> <td style="text-align: right;">\$ 1,635</td> </tr> <tr> <td style="text-align: center;">3201</td> <td style="text-align: center;">T50219</td> <td style="text-align: center;">503952</td> <td style="text-align: right;">4,620</td> </tr> <tr> <td style="text-align: center;">3205</td> <td style="text-align: center;">T50502</td> <td style="text-align: center;">507838</td> <td style="text-align: right;">692</td> </tr> <tr> <td style="text-align: center;">3201</td> <td style="text-align: center;">T50220</td> <td style="text-align: center;">503953</td> <td style="text-align: right;">4,620</td> </tr> <tr> <td style="text-align: center;">3203</td> <td style="text-align: center;">T50336</td> <td style="text-align: center;">505762</td> <td style="text-align: right;">2,325</td> </tr> <tr> <td style="text-align: center;">3203</td> <td style="text-align: center;">T50365</td> <td style="text-align: center;">505934</td> <td style="text-align: right;"><u>2,160</u></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;"><u>16,052</u></td> </tr> </tbody> </table>	<u>Org #</u>	<u>Document #</u>	<u>APV #</u>		3203	T50445	507134	\$ 1,635	3201	T50219	503952	4,620	3205	T50502	507838	692	3201	T50220	503953	4,620	3203	T50336	505762	2,325	3203	T50365	505934	<u>2,160</u>				<u>16,052</u>	
<u>Org #</u>	<u>Document #</u>	<u>APV #</u>																																
3203	T50445	507134	\$ 1,635																															
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3203	T50336	505762	2,325																															
3203	T50365	505934	<u>2,160</u>																															
			<u>16,052</u>																															

Cause: The cause of this condition is unknown.

Effect: Questioned costs result from this condition.

Recommendation: Program managers should ensure that individuals to be served meet eligibility requirements.

Auditee Response: We agree with the above finding.

Corrective Action Plan: We will ensure that participants are properly evaluated for the eligibility requirements of the JTPA program starting in fiscal year 1996.



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Federal Findings and Questioned Costs, Continued**

Program	Reason for Questioned Costs	Questioned Costs
---------	-----------------------------	---------------------

8. U.S. Dept. of  
Labor/ JTPA  
Program/CFDA  
#17.250

Criteria: Program expenditure should be properly classified and charged to the program accounts.

Condition: The Coordinator's travel costs to a workshop were charged to the Youth Program account. It appears the costs would be more appropriately classified as an admin. cost:

<u>Org #</u>	<u>Contract #</u>	<u>APV #</u>	
3203	T50382	506192	\$ <u>1,500</u>

Cause: The cause of this condition is unknown.

Effect: Questioned cost results from this condition.

Recommendation: A distinction should be made between Administration and Program costs and expenditures should be charged accordingly.

Auditee Response: We agree with the above finding.

Corrective Action Plan: Finance Division will ensure that this does not happen again by rejecting the processing of TA's inappropriately charged. Program Managers will be required to provide budgetary reprogramming authority or request that Finance Division process a JV to charge appropriate accounts.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Federal Findings and Questioned Costs, Continued**

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>																		
9. U.S. Dept. of Labor/ JTPA Program/CFDA #17.250	<p><u>Criteria:</u> Recipients of U.S. federal assistance must document the procurement methodology used for all disbursements.</p> <p><u>Condition:</u> The following disbursements for the JTPA program lacked evidence of the use of informal procurement procedures.</p> <table style="margin-left: auto; margin-right: auto; border: none;"> <tr> <td style="text-align: center;"><u>APV #</u></td> <td style="text-align: right; width: 100px;"></td> </tr> <tr> <td style="text-align: center;">505885</td> <td style="text-align: right;">\$ 2,500</td> </tr> <tr> <td style="text-align: center;">503036</td> <td style="text-align: right;">3,922</td> </tr> <tr> <td style="text-align: center;">501015</td> <td style="text-align: right;">4,349</td> </tr> <tr> <td style="text-align: center;">501533</td> <td style="text-align: right;">5,728</td> </tr> <tr> <td style="text-align: center;">502774</td> <td style="text-align: right;">4,920</td> </tr> <tr> <td style="text-align: center;">504427</td> <td style="text-align: right;">3,956</td> </tr> <tr> <td style="text-align: center;">505233</td> <td style="text-align: right;"><u>3,039</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>28,414</u></td> </tr> </table>	<u>APV #</u>		505885	\$ 2,500	503036	3,922	501015	4,349	501533	5,728	502774	4,920	504427	3,956	505233	<u>3,039</u>		<u>28,414</u>	
<u>APV #</u>																				
505885	\$ 2,500																			
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502774	4,920																			
504427	3,956																			
505233	<u>3,039</u>																			
	<u>28,414</u>																			

Cause: The cause of this condition is unknown.

Effect: Questioned costs result from this condition.

Recommendation: The State should ensure that merchandise acquired through prepayment is ultimately received. Additionally, procurement purchases should conform to the requirements of the Common Rule and other applicable federal regulations.

Auditee Response: We agree with the above finding.

Corrective Action Plan: We will ensure that procurement purchases conform to the requirements of the Common Rule and other applicable federal regulations.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Federal Findings and Questioned Costs, Continued**

**Funds Passed through to Pohnpei Utilities Corporation - a Subrecipient**

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
10. Trust Territory of the Pacific Islands - Kolonia Sewer/ CFDA #15.875	<p><u>Criteria:</u> Per OMB Circular A-87, Attachment A, Section A, paragraph 2(b), the grantee assumes the responsibility for ensuring that federally assisted program funds have been expended and accounted for consistently with underlying agreements and program objectives.</p> <p><u>Condition:</u> In fiscal year 1995, payroll expenditures were incurred for holidays and vacation. We are unable to determine if this may be charged to the federal program.</p> <p><u>Cause:</u> The cause of this condition is unknown.</p> <p><u>Effect:</u> The effect of the above condition is questioned costs.</p> <p><u>Recommendation:</u> We recommend that PUC institute a checking procedure that will eliminate the chance that project labor charges are made for time spent on vacation, sick days, or holidays.</p> <p><u>Auditee Response:</u> PUC concurs with this finding.</p> <p><u>Corrective Action Plan:</u> PUC will initiate a closer cross check of labor charges to ensure that no holidays, sick leave or vacation time is charged to the federal program or project account.</p>	\$ <u>72</u>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Federal Findings and Questioned Costs, Continued**

**Funds Passed through to Pohnpei Utilities Corporation - a Subrecipient**

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
<p>11. Trust Territory of the Pacific Islands - Kolonia Sewer/ CFDA #15.875</p>	<p><u>Criteria:</u> Payroll expenditures charged to federal programs should be supported by authorized timesheets used to track hours to be charged to each program.</p> <p><u>Condition:</u> Payroll expenditures for the Corporation's mechanics charged to federal programs were based on an arbitrary allocation and not based on actual timesheets. Related charges for the year ended September 30, 1995 were as follows:</p> <p style="margin-left: 40px;">TTPI-Kolonia Sewer</p> <p><u>Cause:</u> The cause of this condition is unknown.</p> <p><u>Effect:</u> The effect of the above condition is questioned costs.</p> <p><u>Recommendation:</u> We recommend that a method of tracking hours by the Corporation's mechanics be established if future allocations are anticipated.</p> <p><u>Auditee Response:</u> PUC concurs with this finding. PUC has discussed this finding with the auditor indicating our reasoned decision to include vehicle maintenance costs with project costs because project vehicles have been repaired by our Vehicle Maintenance Division.</p> <p><u>Corrective Action Plan:</u> PUC is implementing in fiscal year 1996 a better method of tracking labor charges associated with project work. This "job order" system should clarify the use of indirect labor and other costs onto the project expenditure list.</p>	<p><u>\$ 12,413</u></p>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Federal Findings and Questioned Costs, Continued**

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
<p>12. Compact Capital Projects Fund-CFDA # 15.875-Compact of Free Association</p>	<p><u>Criteria:</u> Pohnpei State should ensure that it complies with the intent of the Compact treaty.</p> <p><u>Condition:</u> Litigation costs relating to the Caroline Fisheries Corporation's lawsuit in Western Australia's federal court has been charged to Compact Capital Improvement Project funds administrative cost. Litigation costs do not appear to be a valid CIP administrative cost.</p> <p style="text-align: center;"><u>APV #</u></p> <p style="text-align: center;">508692</p> <p><u>Cause:</u> The cause of this condition is unknown.</p> <p><u>Effect:</u> Questioned costs result from this condition.</p> <p><u>Recommendation:</u> We recommend that Pohnpei State consider charging this amount to the general fund.</p> <p><u>Auditee Response:</u> We disagree with this finding. We believe that litigation costs incurred was part of the CIP project.</p> <p><u>Corrective Action Plan:</u> We will refrain from incurring such in the future.</p>	<p>\$ <u>16,142</u></p>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Federal Findings and Questioned Costs, Continued**

**Funds Passed through to Pohnpei State Housing Authority - a Subrecipient**

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
<p>13. Compact Capital Projects Fund-CFDA # 15.875-Compact of Free Association</p>	<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 \$35,266 from the Housing Loan Fund to the Warehouse Fund which was used for administrative expenses incurred in the current year.</p> <p><u>Cause:</u> Management approved the transfer of funds and its subsequent disbursements.</p> <p><u>Effect:</u> The effect of using housing loan funds for administrative expenses is potential noncompliance with the intent of the compact of Free Association.</p> <p><u>Recommendation:</u> We recommend that the management and the Board of Directors immediately resolve this matter with the Pohnpei State Legislature.</p> <p><u>Auditee Response:</u> We concur with this finding.</p> <p><u>Corrective Action Plan:</u> We will refrain from such in the future.</p>	<p>\$ <u>35,266</u></p>
Total questioned costs		\$ <u>136,358</u>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Federal Findings and Questioned Costs, Continued**

**Special Education Program - Individualized Education Programs (CFDA #84.027)**

14. Criteria: An individualized education program (IEP) should be developed and implemented for each child receiving special education or related services.

Condition: We reviewed pupil files at the Kolonia development centers. In general, pupil IEPs met the minimum requirements. However, improvements are needed to ensure that all IEP forms are completely and thoroughly filled out.

Cause: The current IEP forms were recently introduced. Consequently, teachers have not had the opportunity to completely fill out all parts of IEP forms for continuing students.

Effect: No effect on the financial statements occurs as a result of this condition. However, a complete history associated with pupils is lacking.

Recommendation: Program managers should ensure that all pupil IEPs are completed and contain all required information.

Auditee Response: We agree with the above finding.

Corrective Action Plan: The Director of Education is responsible for ensuring that individualized education program (IEP) are developed and implemented for each child receiving special education services.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Federal Findings and Questioned Costs, Continued**

**U.S. Department of Labor - JTPA Program (CFDA #17.250)**

15. Criteria: Participant files should be appropriately maintained to ensure compliance with program requirements.

Condition: Of twenty-five selections, eight applications approved by JTPA lacked pertinent details, such as participants family income, eligibility determination, etc.

Cause: The cause of this condition is that JTPA authorized payments based on incomplete applications.

Effect: Noncompliance with program guidelines results.

Recommendation: Participant files should be established and maintained in accordance with program requirements.

Auditee Response: We agree with the above finding.

Corrective Action Plan: We will ensure that participant files are properly maintained in accordance with program requirements starting in fiscal year 1996.



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Federal Findings and Questioned Costs, Continued**

**Pohnpei Utilities Corporation - A Subrecipient - Bidding Procedures - (15.875)**

16. Criteria: Per OMB Circular A-87, Attachment A, Section A, paragraph 2(b), the grantee assumes the responsibility for ensuring that federally assisted program funds have been expended and accounted for consistently with underlying agreements and program objectives.

Condition: We could not determine that informal procurement regulations were used in obtaining the following items:

<u>Program</u>	<u>Check No.</u>	<u>Amount</u>
TTPI-Kolonia Sewer	6122	\$ 5,200
TTPI-Kolonia Sewer	7138	<u>5,900</u>
		\$ <u>11,100</u>

Cause: The cause of this condition is unknown.

Effect: Possible noncompliance with federal regulations could be the result of this finding.

Recommendation: We recommend that documentation pertaining to bidding procedures be made readily available for review.

Auditee Response: PUC concurs with this finding.

Corrective Action Plan: PUC has reviewed its procedures with respect to purchasing of vehicles or equipment that are used. Because of the small budget for vehicles, PUC had instituted a program of purchasing used vehicles from a local dealer. In the instance cited, the vehicle served the operational purpose and was the cheapest vehicle on the market. All other vehicles to specifications were new vehicles. PUC has now reviewed its purchase policy, particularly with respect to purchasing of used vehicles with U.S. Federal Program Funds. We now understand that U.S. regulations prohibit purchase of a used vehicle with U.S. Federal funds. PUC will not do so in the future and will follow standard bidding procedures required for the use of Federal Program funds and PUC financial management regulations.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Federal Findings and Questioned Costs, Continued**

**Drug-Free Workplace Act**

17. **Criteria:** Per the Office of Management and Budget General Compliance Supplement, grantees are required to provide employees a drug-free workplace. In order to satisfy the above requirement, the following procedures must be performed:
- a) Publishing a policy statement notifying employees that the unlawful manufacture, distribution, dispensing, possession or use of a controlled substance is prohibited in the grantee's workplace and specifying the actions that will be taken against employees for violation of such prohibition;
  - b) Establishing an ongoing drug-free awareness program to inform employees about:
    - The dangers of drug abuse in the workplace;
    - The grantee's policy of maintaining a drug-free workplace;
    - Any available drug counseling, rehabilitation, and employee assistance programs, and,
    - The penalties that may be imposed upon employees for drug abuse violations occurring in the workplace;
  - c) Making it a requirement that each employee to be engaged in the performance of the grant be given a copy of the statement required by paragraph (a);
  - d) Notifying the employee in the statement required by paragraph (a) that, as a condition of employment under the grant, the employee will:
    - Abide by the terms of the statement; and
    - Notify the employer in writing of any criminal drug statute conviction for a violation occurring in the workplace no later than five calendar days after such conviction;
  - e) Notifying the agency in writing within ten calendar days after receiving notice under subparagraph (d) (2) from an employee or otherwise receiving actual notice of such conviction;
  - f) Taking one of the following actions, within 30 calendar days of receiving notice under subparagraph (d) (2), with respect to any employee who is so convicted:
    - Taking appropriate personnel action against such an employee, up to and including termination; or
    - Requiring such employees to participate satisfactorily in a drug abuse assistance or rehabilitation program approved for such purposes by a Federal, State, or local health, law enforcement, or other appropriate agency.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Federal Findings and Questioned Costs, Continued**

**Drug-Free Workplace Act, Continued**

Condition: Per our inquiries, we noted the State of Pohnpei is not in compliance with the Drug-Free Workplace Act. However, the rest of the Drug-Free Workplace requirements were implemented in fiscal year 1996.

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

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

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

Prior Year Status: Not complying with the Drug-Free Workplace general requirements was reported as a finding in the Single Audit of Pohnpei State for fiscal years 1992 through 1994.

Auditee Response: We agree with the above finding.

Corrective Action Plan: A policy statement was issued by the Governor's office on January 5, 1996, establishing policies to ensure compliance with the Drug Free Workplace Act.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Federal Findings and Questioned Costs, Continued**

**Matching Documentation - JTPA (CFDA #17.250)**

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

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

Cause: The cause of this condition is unknown.

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

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

Prior Year Status: Not complying with the program specific requirements was reported as a finding in the Single Audit of Pohnpei State for fiscal years 1992 through 1994.

Auditee Response: See corrective action plan.

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

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Federal Findings and Questioned Costs, Continued**

**Equipment Control - JTPA (CFDA #17.250)**

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

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

Cause: The cause of this condition is unknown.

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

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

Prior Year Status: Not complying with the federal grant administrative guidelines was reported as a finding in the Single Audit of Pohnpei State for fiscal years 1992 through 1994.

Auditee Response: See corrective action plan.

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

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Federal Findings and Questioned Costs, Continued**

**Pohnpei State Housing Authority (a subrecipient) USDA, Farmers Home Administration -  
CFDA #10.433**

20. Criteria: 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.

Condition: Officers and employees engaged in the disbursement of the Housing Preservation Grant are not covered by a fidelity bond.

Cause: 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.

Effect: The effect is noncompliance with HPG Agreement requiring fidelity bond coverage for all officers authorized to receive and/or disburse the grant.

Recommendation: 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.

Prior Year Status: Not complying with Part B, No. 9 of the HPG Agreement was reported as a finding in the Single Audit of Pohnpei State for fiscal year 1994.

Auditee Response and Corrective Action Plan: 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.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Federal Findings and Questioned Costs, Continued**

**Pohnpei State Housing Authority (a subrecipient) USDA, Farmers Home Administration -  
CFDA #10.433**

21. Criteria: Part B, No. 9 of the HPG Agreement stated that the grantee submit a quarterly "Financial Status Report".

Condition: The Financial Status Report is not prepared quarterly and only one report was prepared covering the period September 30, 1993 to December 31, 1994.

Cause: The Authority is not aware of the details and frequency of the financial reports that need to be provided to Farmers Home Administration.

Effect: The effect is noncompliance with the reporting requirements per HPG Agreement.

Recommendation: We recommend that the Authority comply with the submission of the required performance and financial reports stated in the aforementioned criteria.

Prior Year Status: Not complying with Part B, No. 9 of the HPG Agreement was reported as a finding in the Single Audit of Pohnpei State for fiscal year 1994.

Auditee Response and Corrective Action Plan: 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, 1995

**Local Findings**

**Compact Energy Funds**

1. **Criteria:** Pohnpei State should ensure that it complies with the intent of the Compact treaty.

**Condition:** During fiscal year 1995, Compact Energy funds aggregating \$714,644 were used to pay for the State's utility bills. The use of Compact Energy funds in such a manner may be inconsistent with Section 214 of the Compact. The Pohnpei State Attorney General, in a letter dated December 27, 1995, stated that the use of Section 214 funds for utility payments seems consistent with the stated goals and purposes of the grant funds. However the FSM National Government, being the primary recipient of all Compact funds, in a letter from the FSM Attorney General dated June 16, 1994, has not provided a definite position as to the use of Energy funds for payment of utility bills. This matter has not yet been resolved with the U.S. Department of the Interior, the grantor agency.

**Cause:** The cause of this condition is unknown.

**Effect:** Noncompliance with the Compact treaty could result from this condition.

**Prior Year Status:** Potential noncompliance with the Compact Treaty with respect to the use of Compact Energy funds to pay utility billings in the amount of \$437,263 was cited in the 1994 Single Audit report.

**Recommendation:** We are pleased that the management of Pohnpei State has acted on this matter to the extent possible to resolve this issue. We are cognizant that this matter must be resolved by the FSM National Government which acts as the grantor agency. Therefore we recommend that the State management aggressively pursue this issue with the FSM National Government.

**Auditee Response and Corrective Action Plan:** Pohnpei State complied with National Government directives as evidenced by FSM National Government Advice of Allotment issued to Pohnpei State Government.



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Local Findings, Continued**

**Compact Capital Funds**

2. Criteria: Pohnpei State should ensure that it complies with the intent of the Compact treaty.

Condition: During fiscal year 1995, Compact CIP funds amounting to \$676,871 were used for the general maintenance of the M/S Micro Glory. Such may be an unallowable use of Compact funds. The Pohnpei State Attorney General, in a letter dated December 27, 1995, stated that the use of Compact Capital Account under Section 211 of the Compact Agreement for use of drydocking seems entirely proper. However, the FSM National Government, being the primary recipient of all Compact funds, has not provided a definite position as to the use of Compact Capital funds for general drydocking. Additionally, this matter has not been resolved with the U.S. Department of the Interior, the grantor agency.

Cause: The cause of this condition is unknown.

Effect: Noncompliance with the Compact treaty could result from this condition.

Prior Year Status: Potential noncompliance with the use of Compact CIP funds used for drydocking in the amount of \$339,070 was cited in the 1994 Single Audit report.

Recommendation: We are pleased that the management of Pohnpei State has acted on this matter to the extent possible to resolve this issue. We are cognizant that this matter must be resolved by the FSM National Government which acts as the grantor agency. Therefore we recommend that the State management aggressively pursue this issue with the FSM National Government.

Auditee Response and Corrective Action Plan: Pohnpei State complied with National Government directives as evidenced by FSM National Government Advice of Allotment issued to Pohnpei State Government.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Local Findings, Continued**

**Compact Capital Funds, Continued**

3. Criteria: Pohnpei State should ensure that it complies with the intent of the Compact treaty.

Condition: There was lack of documentary evidence available to substantiate how the authorization of \$20,000 for the construction of the FSM Games Grandstand relates to compact CIP. Such does not appear to be consistent with the intended use of Compact CIP funds.

Cause: The cause of this condition is unknown.

Effect: Potential noncompliance with the Compact treaty results from this condition.

Recommendation: Pohnpei State should ensure that CIP expenditures comply with the applicable provisions of the Compact.

Auditee Response and Corrective Action Plan: We disagree with the above finding. Given that youth is about half of the population of the FSM, their development in all aspects, including sports, is a priority to the Government. The construction of sport infrastructures should qualify for CIP funds, it enhances sports activities for the youth of Pohnpei.

Auditors' Response: We recommend that this issue be specifically addressed with the grantee, the FSM National Government as we can not determine the manner in which the aforementioned expenditure relates to eligible Compact Capital uses.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Local Findings, Continued**

**Compact Special Development Fund**

4. **Criteria:** Compact Special Development fund should be expended in accordance with local laws and regulations.

**Condition:** Pohnpei State Government charged \$163,500 to Special Development Org. 2520, National Health Insurance. However, only \$81,883 was appropriated under Special Development.

**Cause:** The cause of this condition is unknown.

**Effect:** Noncompliance with local laws and regulations could result from this condition.

**Recommendation:** It is recommended that Pohnpei State ensure that it complies with local laws and regulations.

**Auditee Response and Corrective Action Plan:** The Budget issued by the State Government was inaccurate and payment to the National Government was made out of payroll on employee by employee basis. The State is obligated to provide for health care coverage to its employees who so elect to choose that option.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Local Findings, Continued**

**Payroll Ceilings**

5. Criteria: Employment levels for departments and programs within the State Government should not exceed limits set under State Law No. 3L-64-94.

Condition: Payroll register for pay period 19 showed that the Legislature Admin and Budget exceeded their payroll ceiling by 3 and Pohnpei Transportation Authority exceeded theirs by 130.

Cause: The cause of this condition is unknown.

Effect: Noncompliance with State Law 3L-64-94 could result from this condition.

Recommendation: It is recommended that Pohnpei State ensure that it complies with State Law 3L-64-94.

Auditee Response and Corrective Action Plan: We concur with this finding. We will refrain from such in the future.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Resolution of Prior Years' Findings and Questioned Costs  
Year Ended September 30, 1995

Questioned Costs

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	73,342
FY91 unresolved questioned costs	62,193
FY92 unresolved questioned costs	118,431
FY93 unresolved questioned costs	21,909
FY94 unresolved questioned costs	55,100
FY95 unresolved questioned costs	<u>136,358</u>
Total outstanding federal questioned costs	\$ <u>1,531,981</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.

Findings

The status of unresolved prior year findings is discussed within the Schedule of Findings and Questioned Costs (pages 84 through 110)

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA  
INDEPENDENT AUDITORS' REPORT ON THE  
INTERNAL CONTROL STRUCTURE  
YEAR ENDED SEPTEMBER 30, 1995**

**INDEPENDENT AUDITORS' REPORT ON THE INTERNAL CONTROL STRUCTURE  
BASED ON THE AUDIT OF THE GENERAL-PURPOSE FINANCIAL STATEMENTS**

Honorable Del S. Pangilinan  
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, 1995, and have issued our report thereon dated January 18, 1996. Our report on the audit of the general-purpose financial statements was modified due to 1) our inability to determine the propriety of fixed assets, notes payable and accounts payable of the Component Units - Proprietary Fund; and 2) our inability to determine the effects of not updating 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 the 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, 1995, 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 115 through 132) in Findings 1, 2, 7 and 8, involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the State of Pohnpei's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general-purpose financial statements.

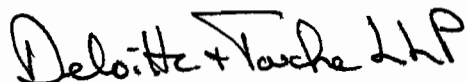
A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general-purpose financial 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 findings 3 through 6 and 9 through 16, involving the internal control structure and its operation that we have reported to the management of the State of Pohnpei.

We also noted matters involving the internal control structure and its operation used to administer federal financial assistance programs which we reported to the management of the State of Pohnpei in a report dated January 18, 1996.

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

January 18, 1996



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings  
Year Ended September 30, 1995

**Fixed Assets**

**Finding No. 1**

**Criteria:** A summary schedule of the fixed asset detail produced by the automated fixed asset subsystem, classified by major assets category, should be maintained. In addition, the property management division should monitor and inventory all fixed assets on a timely basis.

**Condition:** A summarization of the asset data from the automated fixed asset subsystem was not available nor was a schedule of asset deletions prepared to facilitate the preparation of a statement of changes in fixed assets. In addition, we noted twelve exceptions out of a sample of forty assets selected where the asset on the master listing could not be found at its indicated location or a properly tagged asset was not on the master listing.

**Cause:** It appears that insufficient controls exist over the timely updating of fixed asset data.

**Effect:** A misstatement of the State's General Fixed Asset Account Group could result.

**Recommendation:** We recommend that property management division personnel update the automated master fixed asset listing based on acquisition and survey activity, summarize the master listing detail appropriately and prepare a statement of changes in fixed assets on a timely basis.

**Prior Years Status:** Insufficient controls over updating of fixed assets data was reported as a finding in the Single Audits of Pohnpei State for the fiscal years 1988 through 1994.

**Auditee Response and Corrective Action Plan:** We concur with this finding. We are currently working to resolve this finding in fiscal year 1996.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

**Fixed Assets, Continued**

**Finding No. 2**

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

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

**Cause:** The cause of this condition is unknown.

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

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

**Prior Years Status:** Failure to record fixed assets was reported as a finding in the Single Audits of Pohnpei State for the fiscal years 1990 through 1994.

**Auditee Response and Corrective Action Plan:** We concur with this finding. We are currently working to resolve this finding in fiscal year 1996.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

**Automated System**

**Finding No. 3**

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

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

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

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

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

**Prior Years Status:** Inadequate controls over safeguarding of back-up files or tapes was reported as a finding in the Single Audits of Pohnpei State for the fiscal years 1990 through 1994.

**Auditee Response and Corrective Action Plan:** We concur with this finding. We are currently working to resolve this finding in fiscal year 1996.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

**Stale Dated Checks**

**Finding No. 4**

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.

Prior Year Status: Stale dated checks was reported as a finding in the Single Audit of Pohnpei State for fiscal year 1994.

Auditee Response and Corrective Action Plan: We concur with this finding. We are currently working to resolve this finding in fiscal year 1996.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

**External Financial Reporting**

**Finding No. 5**

**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 1995, the Office of Budget estimated investment income at \$3 million while investment revenue recorded at the State Treasury approximated \$557,000.

**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.

**Prior Year Status:** Inadequate forecasting of estimated revenue was reported as a finding in the Single Audit of Pohnpei State for fiscal year 1994.

**Auditee Response and Corrective Action Plan:** We concur with this finding. We are currently working to resolve this finding in fiscal year 1996.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

**Revenue and Receipt Cycle**

**Finding No. 6**

**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.

**Prior Year Status:** Untimely deposit of receipts collected at the Pohnpei Supreme Court was reported as a finding in the Single Audit of Pohnpei State for fiscal year 1994.

**Auditee Response and Corrective Action Plan:** We agree to the above finding. The Director of Treasury and Administration is responsible for ensuring that your recommendation is implemented in fiscal year 1996.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

**Due From Other Governments**

**Finding No. 7**

**Criteria:** Pohnpei State Government should reconcile its amount due from the FSM National Government.

**Condition:** An unreconciled difference of \$1.4 million exists between Pohnpei State Government and FSM National Government's records for the federal grants fund.

**Cause:** Pohnpei State Government and FSM National Government have not reconciled such.

**Effect:** The effect of this condition may result in a material misstatement of the financial statements. This balance has been reserved for by management in the financial statements.

**Recommendation:** We recommend that Pohnpei State reconcile its accounts receivable with the FSM National Government.

**Auditee Response and Corrective Action Plan:** We concur with this finding. We are in the process of doing so.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

**Travel Advances**

**Finding No. 8**

**Criteria:** A functioning system of internal control requires that the travel advance subsidiary ledger be reconciled to the general ledger on a periodic basis.

**Condition:** Pohnpei State was not able to provide the detail of travel advances.

**Cause:** The cause of this condition is unknown.

**Effect:** A potential misstatement of the financial statements could result from this condition.

**Recommendation:** We recommend that Pohnpei State reconcile the detail of outstanding travel advances to the general ledger.

**Auditee Response and Corrective Action Plan:** We concur with this finding. We are currently reconciling this account.



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

**Cash Disbursements**

**Finding No. 9**

**Criteria:** As a preventive internal control mechanism, vendor's invoices should be stamped as paid after payments via wire transfers are processed.

**Condition:** Pohnpei State used the same invoice to pay a vendor twice, thereby duplicating payments to the payee. Total overpayments of \$13,777 were noted.

**Cause:** After funds were wired to the payee, the same invoice was then kept and reused to wire an additional payment.

**Effect:** The effect of this condition is an immaterial misstatement of the financial statements.

**Recommendation:** We recommend that Pohnpei State communicate with the vendor and ask for reimbursement. In addition, Pohnpei State Government should maintain a log of all disbursements that are not processed through the normal disbursement cycle.

**Auditee Response and Corrective Action Plan:** We concur with this finding. All future wire transfers will be approved by the Director of Treasury and Administration.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

**TTPI CIP Funds**

**Finding No. 10**

**Criteria:** Management should ensure that org. numbers are indexed under the proper account hierarchy.

**Condition:** Expenditures and revenue for org. # 6337 (Kolonias, Water System - a TTPI CIP Project) were accounted for in the Compact Capital account fund.

**Cause:** The cause of this condition is unknown.

**Effect:** A misstatement of the financial statements results from this condition.

**Recommendation:** We recommend that management review the 132-P on a periodic basis to ensure that expenditures and revenues are charged to the correct org. and fund.

**Auditee Response and Corrective Action Plan:** We concur with this finding. Condition noted above has been corrected.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

**Revolving Funds**

**Finding No. 11**

**Criteria:** Inactive funds should be reviewed and recommended to the legislative branch for disposition.

**Condition:** Pohnpei State continues to maintain the Seaport Revolving Fund and Airport Revolving Fund on its books while component units had been established by the Legislature to provide these services.

**Cause:** The Legislature has not promulgated legislation determining whether these special revenue funds should continue to exist or be transferred to the respective component units.

**Effect:** A potential misstatement of the financial statements results from this condition.

**Recommendation:** We recommend that the Legislature be requested to resolve the status of these funds.

**Auditee Response and Corrective Action Plan:** We concur with this finding. The Director of Department of Treasury and Administration has written to the Governor to request he ask the Legislature to amend the legislations to eliminate the Seaport Revolving Fund and the Airport Revolving Fund.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

**Bank Reconciliation**

**Finding No. 12**

**Criteria:** Pohnpei State should ensure that balances of bank reconciliations agree with general ledger balances.

**Condition:** A variance of \$7,101 was noted on the general account bank reconciliation and a \$4,156 difference for the payroll account reconciliation.

**Cause:** The cause of this condition is unknown.

**Effect:** The effect of this condition is a potential misstatement of cash.

**Recommendation:** We recommend that Pohnpei State ensure that balances per bank reconciliations agree to balances per books.

**Auditee Response and Corrective Action Plan:** We concur with this finding. Additional monthly reconciliation procedures are being implemented.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

**Imprest Account**

**Finding No. 13**

**Criteria:** The imprest accounts should be reconciled on a periodic basis.

**Condition:** Account 100000/102 was never reconciled to the bank reconciliations.

**Cause:** The cause of this condition is unknown.

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

**Recommendation:** We recommend periodic reconciliation of the imprest funds to the general ledger.

**Auditee Response and Corrective Action Plan:** We concur with this finding. The Director of Treasury and Administration has requested the State Public Auditor's Office to perform an audit of this account before corrective measures can be taken.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

**Reconciliations**

**Finding No. 14**

**Criteria:** General ledger control accounts should be properly identified and reconciled on a periodic basis.

**Condition:** The following accounts were not reconciled as of September 30, 1995:

<u>Account</u>	<u>Account Title</u>	<u>Balance</u>
100000-190	Other investments	\$ 16,892
100000-260	Receivable - Due from other governments	<u>17,439</u>
		\$ <u>34,331</u>

**Cause:** The cause of this condition is unknown.

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

**Recommendation:** We recommend that these accounts be reconciled on a periodic basis.

**Auditee Response and Corrective Action Plan:** We concur with this finding. Condition noted has been corrected.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

**General Receivables**

**Finding No. 15**

**Criteria:** General ledger account 810000-250 should be reconciled to the subsidiary ledger on a periodic basis.

**Condition:** Pohnpei State was not able to provide the detail of general receivables applicable to the Public Land Trust Fund. Therefore, no reconciliation of such was performed or provided.

**Cause:** The cause of this condition is unknown.

**Effect:** A potential misstatement of the financial statements results from this condition.

**Recommendation:** We recommend that the general ledger be reconciled to the subsidiary ledger on a periodic basis.

**Auditee Response and Corrective Action Plan:** We concur with this finding. Such reconciliation is currently underway.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

**Inventory**

**Finding No. 16**

**Criteria:** The Agriculture Revolving Fund inventories on hand should be subject to physical count and be reconciled to the general ledger control accounts.

**Condition:** Pohnpei State was not able to provide the September 30, 1995 physical count of its revolving fund inventories.

**Cause:** The cause of this condition is unknown.

**Effect:** A potential misstatement of the financial statements results from this condition.

**Recommendation:** We recommend that inventory counts of the Agriculture Revolving fund inventory be documented.

**Auditee Response and Corrective Action Plan:** We concur with this finding. A physical inventory count was performed in fiscal year 1996.



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

Unresolved Prior Year Comments

The status of unresolved prior year internal control findings is disclosed within the Schedule of Internal Control Findings section of this report (pages 115 through 130).