

**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, 1996**

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Year Ended September 30, 1996

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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, 1996**



**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, 1996, 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.

The State of Pohnpei has not adequately updated its General Fixed Assets Account Group during the year ended September 30, 1996, 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.

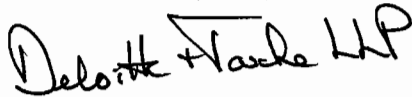
Because documentation supporting the carrying value of certain donated assets has not been provided to the Pohnpei Economic Development Authority (EDA), we were unable to determine whether fixed assets of EDA were fairly stated. EDA is included within the Component Units-Proprietary Funds and represent 1% of the fixed assets of the Component Units-Proprietary Funds.

We did not observe the taking of the physical inventory of the Pohnpei Transportation Authority, which comprises the Fiduciary Fund Type - Enterprise Fund, which inventory amounted to \$302,634 at September 30, 1996, and we were unable to satisfy ourselves regarding inventory quantities by means of other auditing procedures. Inventory amounts as of September 30, 1996 enter into the determination of results of operations and cash flows of the Fiduciary Fund Type - Enterprise Fund.

In our opinion, except for the effects on the general purpose financial statements of such adjustments, if any, as might have been determined to be necessary had we been able to determine the propriety of fixed assets of the Component Units - Proprietary Funds and of inventory of the Fiduciary fund Type - Enterprise Fund and had the General Fixed Assets Account Group been updated, as discussed in the third through fifth paragraphs above, such 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 third paragraph above, present fairly, in all material respects, the financial position of the State of Pohnpei as of September 30, 1996, 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.

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 effects of the item described in the fourth paragraph above, in our opinion, is fairly stated in all material respects when considered in relation to the general purpose financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued a report dated January 28, 1997 on our consideration of the State of Pohnpei's internal control structure and a report dated January 28, 1997 on its compliance with laws and regulations.

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

January 28, 1997



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Units  
September 30, 1996  
(With comparative totals as of September 30, 1995)

	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			1996	1995
<b>ASSETS</b>												
Cash and equivalents (note 2)	\$ 910,931	\$ 515,587	\$ 819,125	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,245,643	\$ 1,529,346	\$ 3,774,989	\$ 1,787,611
Cash - restricted (note 2)	902,426	-	1,236,692	-	-	-	-	-	2,139,118	-	2,139,118	6,954,107
Investments (note 2)	1,446,856	167,170	3,335,937	-	-	-	-	-	4,949,963	-	4,949,963	4,368,409
Investments - other (note 7)	-	-	600,000	-	-	-	-	-	600,000	500,500	1,100,500	850,000
Receivables from other governments (note 3)	-	431,003	-	-	-	-	-	-	431,003	-	431,003	198,465
Receivables, federal agencies (note 3)	-	2,258,965	168,967	-	-	-	-	-	2,427,932	-	2,427,932	4,201,427
General receivables, net (note 4)	2,329,589	42,078	-	497,823	-	100,086	-	-	2,969,576	2,679,680	5,649,256	4,411,949
Advances (note 4)	192,961	267,874	40,838	10,718	-	10,676	-	-	523,067	35,102	558,169	691,190
Loans receivable, net (note 8)	-	-	7,200,000	35,803	-	-	-	-	7,235,803	3,475,604	10,711,407	10,419,833
Due from other funds (note 14)	545,513	1,981,402	986,586	132,612	2,623	-	-	-	3,648,736	-	3,648,736	4,023,932
Inventory, at cost (note 5)	-	27,412	-	302,634	18,949	-	-	-	348,995	1,006,753	1,355,748	1,705,246
Self insurance fund (note 16)	-	-	-	-	-	-	-	-	-	86,199	86,199	111,199
Scholarship fund	-	-	-	-	-	-	-	-	-	3,830	3,830	3,830
Prepaid expenses and other assets	-	-	-	18,427	-	-	-	-	18,427	439,416	457,843	66,032
Fixed assets, net (note 6)	-	-	-	1,198,748	-	-	49,323,802	-	50,522,550	50,314,960	100,837,510	94,603,436
Amount to be provided for retirement of long-term debt	-	-	-	-	-	-	-	11,414,626	11,414,626	-	11,414,626	18,879,983
Allowance for uncollectibles	(2,010,230)	(2,336,972)	(4,750,000)	-	-	(98,235)	-	-	(9,195,437)	-	(9,195,437)	(8,170,966)
Due from primary government	-	-	-	-	-	-	-	-	-	80,799	80,799	-
<b>Total assets</b>	<b>\$ 4,318,046</b>	<b>\$ 3,354,519</b>	<b>\$ 9,638,145</b>	<b>\$ 2,196,765</b>	<b>\$ 21,572</b>	<b>\$ 12,527</b>	<b>\$ 49,323,802</b>	<b>\$ 11,414,626</b>	<b>\$ 80,280,002</b>	<b>\$ 60,152,189</b>	<b>\$ 140,432,191</b>	<b>\$ 145,105,683</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, 1996  
(With comparative totals as of September 30, 1995)

	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			1996	1995
<b>LIABILITIES AND FUND EQUITY (DEFICIENCY)</b>												
<b>Liabilities:</b>												
Accounts payable	\$ 257,923	\$ 458,667	\$ 52,957	\$ 39,170	\$ 376	\$ 5,879	\$ -	\$ -	\$ 814,972	\$ 1,382,445	\$ 2,197,417	\$ 3,964,916
Accrued payroll and others	803,119	10,924	70	68,321	-	347	-	-	882,781	343,515	1,226,296	1,173,466
Due to other funds (note 14)	1,450,628	1,822,059	150,361	-	-	225,688	-	-	3,648,736	-	3,648,736	4,023,932
Deferred revenue	-	52,844	-	-	-	-	-	-	52,844	653,444	706,288	703,750
Notes payable (note 13)	-	-	-	-	-	-	-	10,200,000	10,200,000	3,873,522	14,073,522	19,808,862
Vacation leave accrual	-	-	-	37,962	-	-	-	-	1,252,588	-	1,252,588	1,579,983
Other payables (note 18)	3,304,694	-	-	-	-	-	-	-	3,304,694	-	3,304,694	3,130,101
<b>Total liabilities</b>	<b>5,816,364</b>	<b>2,344,494</b>	<b>203,388</b>	<b>145,453</b>	<b>376</b>	<b>231,914</b>	<b>-</b>	<b>11,414,626</b>	<b>20,156,615</b>	<b>6,252,926</b>	<b>26,409,541</b>	<b>34,385,010</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)	-	-	-	831,386	21,196	-	-	-	852,582	(620,402)	232,180	918,734
Contributed capital	-	-	-	1,219,926	-	-	-	-	1,219,926	54,519,665	55,739,591	48,546,100
<b>Fund balances (deficit):</b>												
<b>Reserved for:</b>												
Related assets	-	350,487	3,050,000	-	-	1,851	-	-	3,402,338	-	3,402,338	2,692,739
Encumbrances	558,109	918,222	1,040,182	-	-	602	-	-	2,517,115	-	2,517,115	3,776,436
Continuing appropriations (note 15)	97,340	-	6,908,925	-	-	-	-	-	7,006,265	-	7,006,265	5,709,764
Unreserved (deficit)	(2,153,767)	(258,684)	(1,564,350)	-	-	(221,840)	-	-	(4,198,641)	-	(4,198,641)	(246,902)
<b>Total fund equity (deficiency)</b>	<b>(1,498,318)</b>	<b>1,010,025</b>	<b>9,434,757</b>	<b>2,051,312</b>	<b>21,196</b>	<b>(219,387)</b>	<b>49,323,802</b>	<b>-</b>	<b>60,123,387</b>	<b>53,899,263</b>	<b>114,022,650</b>	<b>110,720,673</b>
<b>Contingencies and commitments (note 10)</b>												
<b>Total liabilities and fund equity (deficiency)</b>	<b>\$ 4,318,046</b>	<b>\$ 3,354,519</b>	<b>\$ 9,638,145</b>	<b>\$ 2,196,765</b>	<b>\$ 21,572</b>	<b>\$ 12,527</b>	<b>\$ 49,323,802</b>	<b>\$ 11,414,626</b>	<b>\$ 80,280,002</b>	<b>\$ 60,152,189</b>	<b>\$ 140,432,191</b>	<b>\$ 145,105,683</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, 1996  
(With Comparative Totals for the Year Ended September 30, 1995)

	Governmental Fund Types			Fiduciary Fund Type	Totals Reporting Entity (Memorandum Only)	
	General	Special Revenue	Capital Projects	Expendable Trust	1996	1995
<b>Revenues:</b>						
<b>Compact of Free Association:</b>						
Base grant	\$ 3,459,024	\$ -	\$ 5,191,800	\$ -	\$ 8,650,824	\$ 15,645,883
Inflation adjustment	4,195,372	-	2,492,065	-	6,687,437	6,163,126
U.S. Department of the Interior grants	-	-	491,695	-	491,695	512,275
Revenue sharing	1,018,759	-	-	-	1,018,759	4,313,220
Investment income (note 2)	1,305,152	-	50,422	-	1,355,574	970,713
Federal contributions	-	3,247,783	-	-	3,247,783	3,095,114
Taxes and licenses	362,160	-	-	-	362,160	1,345,732
CFSM Grants	-	480,000	-	-	480,000	1,821,792
Other	-	2,174,895	-	55,878	2,230,773	903,676
<b>Total revenues</b>	<b>10,340,467</b>	<b>5,902,678</b>	<b>8,225,982</b>	<b>55,878</b>	<b>24,525,005</b>	<b>34,771,531</b>
<b>Expenditures:</b>						
General government	4,480,652	-	-	48,988	4,529,640	7,193,990
Education	4,930,284	-	-	-	4,930,284	8,595,548
Health services	3,642,025	1,511,902	-	-	5,153,927	4,760,140
Resource management and development	1,913,139	3,174,775	-	-	5,087,914	1,197,621
Public works	-	1,184,445	-	-	1,184,445	1,183,554
Public safety	1,296,335	148,139	-	-	1,444,474	1,532,244
Boards, commissions and other appropriations	495,539	-	-	-	495,539	678,612
Capital projects	-	322,996	2,324,373	-	2,647,369	3,669,862
Municipal governments	1,601,502	-	-	-	1,601,502	1,477,027
Other (note 18)	356,424	-	-	-	356,424	3,130,101
Uncollectible grant funds	52,154	-	-	-	52,154	2,606,146
<b>Total expenditures</b>	<b>18,768,054</b>	<b>6,342,257</b>	<b>2,324,373</b>	<b>48,988</b>	<b>27,483,672</b>	<b>36,024,845</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(8,427,587)</b>	<b>(439,579)</b>	<b>5,901,609</b>	<b>6,890</b>	<b>(2,958,667)</b>	<b>(1,253,314)</b>
<b>Other financing sources (uses):</b>						
Repayment of notes payable (note 13)	-	-	(7,100,000)	-	(7,100,000)	(1,000,000)
Interest expense (note 13)	-	-	(1,198,185)	-	(1,198,185)	(1,562,720)
Transfer in (note 9)	286,739	-	-	-	286,739	64,626
Transfer out to component units (note 9)	(304,355)	-	-	-	(304,355)	(2,412,122)
<b>Total other financing sources (uses), net</b>	<b>(17,616)</b>	<b>-</b>	<b>(8,298,185)</b>	<b>-</b>	<b>(8,315,801)</b>	<b>(4,910,216)</b>
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses</b>	<b>(8,445,203)</b>	<b>(439,579)</b>	<b>(2,396,576)</b>	<b>6,890</b>	<b>(11,274,468)</b>	<b>(6,163,530)</b>
Fund balances (deficit) at beginning of year	(259,415)	586,396	11,831,333	(226,277)	11,932,037	18,095,567
<b>Fund balances (deficit) at end of year</b>	<b>\$ (8,704,618)</b>	<b>\$ 146,817</b>	<b>\$ 9,434,757</b>	<b>\$ (219,387)</b>	<b>\$ 657,569</b>	<b>\$ 11,932,037</b>

See accompanying notes to financial statements.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures and Changes in Unreserved Fund Balance (Deficit)  
Budget and Actual, Budgetary Basis - General Fund  
Year Ended September 30, 1996

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues:</b>			
Compact - current	\$ 10,521,198	\$ 10,665,324	\$ 144,126
Local revenues	8,136,002	5,862,684	(2,273,318)
Investment income	800,000	1,018,759	218,759
	<u>19,457,200</u>	<u>17,546,767</u>	<u>(1,910,433)</u>
<b>Expenditures:</b>			
General government	4,661,569	4,350,619	310,950
Health services	3,733,804	3,672,906	60,898
Education	5,008,247	4,944,830	63,417
Justice	1,368,513	1,269,313	99,200
Resource management and development	1,938,423	1,868,394	70,029
Boards, commissions and other external appropriations	510,967	486,159	24,808
Municipal governments and projects	1,605,834	1,601,501	4,333
Other expenditures	-	356,424	(356,424)
Uncollectible grant fund	-	52,154	(52,154)
	<u>18,827,357</u>	<u>18,602,300</u>	<u>225,057</u>
Deficiency of revenues over (under) expenditures	<u>629,843</u>	<u>(1,055,533)</u>	<u>(1,685,376)</u>
<b>Other financing sources (uses):</b>			
Operating transfers in (note 9)	286,739	286,739	-
Operating transfers out (note 9)	(314,438)	(291,049)	23,389
	<u>(27,699)</u>	<u>(4,310)</u>	<u>23,389</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>602,144</u>	<u>(1,059,843)</u>	<u>(1,661,987)</u>
Unreserved fund balance (deficit) at beginning of year	(1,213,686)	(1,213,686)	-
<b>Other changes in unreserved fund balance:</b>			
Decrease in reserve for related assets	-	34,331	34,331
Decrease in reserve for continuing appropriations	-	85,431	85,431
	<u>-</u>	<u>119,762</u>	<u>119,762</u>
Unreserved fund balance (deficit) at end of year	<u>\$ (611,542)</u>	<u>\$ (2,153,767)</u>	<u>\$ (1,542,225)</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, 1996  
(With comparative totals for the year ended September 30, 1995)**

	Proprietary Fund Types		Totals Primary Government (Memorandum Only)	Component Units Proprietary Funds	Totals Reporting Entity (Memorandum Only)	
	Enterprise	Internal Service			1996	1995
Operating revenues:						
Charges for goods and services	\$ 2,087,851	\$ 14,482	\$ 2,102,333	\$ 11,969,910	\$ 14,072,243	\$ 13,088,042
Rental income	9,151	-	9,151	123,545	132,696	207,021
Other	65,875	-	65,875	143,562	209,437	290,387
<b>Total operating revenues</b>	<b>2,162,877</b>	<b>14,482</b>	<b>2,177,359</b>	<b>12,237,017</b>	<b>14,414,376</b>	<b>13,585,450</b>
Operating expenses:						
Personnel services	1,203,131	-	1,203,131	2,124,197	3,327,328	3,721,808
Travel	4,732	-	4,732	151,564	156,296	331,516
Supplies and materials	881,987	1,932	883,919	182,167	1,066,086	1,152,495
Fuel	197,425	-	197,425	2,669,946	2,867,371	2,651,026
Contractual services	3,740	-	3,740	115,760	119,500	110,352
Depreciation	488,987	-	488,987	2,811,814	3,300,801	3,292,534
Other	123,623	(60)	123,563	9,393,993	9,517,556	7,183,501
<b>Total operating expenses</b>	<b>2,903,625</b>	<b>1,872</b>	<b>2,905,497</b>	<b>17,449,441</b>	<b>20,354,938</b>	<b>18,443,232</b>
Operating income (loss)	(740,748)	12,610	(728,138)	(5,212,424)	(5,940,562)	(4,857,782)
Nonoperating revenues (expenses):						
Operating transfers in (Note 9)	24,000	-	24,000	583,216	607,216	1,504,941
Other	253,851	-	253,851	436,741	690,592	350,852
<b>Total nonoperating revenues (expenses), net</b>	<b>277,851</b>	<b>-</b>	<b>277,851</b>	<b>1,019,957</b>	<b>1,297,808</b>	<b>1,855,793</b>
<b>Net income (loss)</b>	<b>(462,897)</b>	<b>12,610</b>	<b>(450,287)</b>	<b>(4,192,467)</b>	<b>(4,642,754)</b>	<b>(3,001,989)</b>
Add cumulative effect of change in accounting principle	-	-	-	-	-	778,198
Add depreciation on fixed assets acquired by capital contributions that reduce contributed capital	326,333	-	326,333	4,083,922	4,410,255	2,710,099
<b>Increase (decrease) in retained earnings</b>	<b>(136,564)</b>	<b>12,610</b>	<b>(123,954)</b>	<b>(108,545)</b>	<b>(232,499)</b>	<b>486,308</b>
Retained earnings (deficit) at beginning of year, as restated (note 19)	967,950	8,586	976,536	(511,857)	464,679	432,426
Retained earnings (deficit) at end of year	831,386	21,196	852,582	(620,402)	232,180	918,734
Contributed capital at beginning of year	1,473,783	-	1,473,783	47,072,317	48,546,100	36,197,120
Contributions	72,476	-	72,476	11,531,270	11,603,746	15,059,079
Less depreciation on contributed fixed assets, net of prior period adjustments	(326,333)	-	(326,333)	(4,083,922)	(4,410,255)	(2,710,099)
Contributed capital at end of year	1,219,926	-	1,219,926	54,519,665	55,739,591	48,546,100
<b>Fund equity at end of year</b>	<b>\$ 2,051,312</b>	<b>\$ 21,196</b>	<b>\$ 2,072,508</b>	<b>\$ 53,899,263</b>	<b>\$ 55,971,771</b>	<b>\$ 49,464,834</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, 1996  
(With comparative totals for the year ended September 30, 1995)**

	Proprietary Fund Types		Totals	Component	Totals	
	Enterprise	Internal Service	Primary	Units	Reporting	
			Government (Memorandum Only)	Proprietary Funds	Entity (Memorandum Only)	
					1996	1995
<b>Cash flows from operating activities:</b>						
Operating income (loss)	\$ (740,748)	\$ 12,610	\$ (728,138)	\$ (5,212,424)	\$ (5,940,562)	\$ (4,857,782)
Other income	-	-	-	47,701	47,701	12,052
Adjustments to reconcile operating income (loss) to net cash used for operating activities:						
Depreciation	488,987	-	488,987	4,948,982	5,437,969	3,483,423
Doubtful debt expense	-	-	-	293,963	293,963	694,410
Inventory loss	-	-	-	3,490	3,490	-
Other	-	-	-	-	-	(2,575)
	<u>(251,761)</u>	<u>12,610</u>	<u>(239,151)</u>	<u>81,712</u>	<u>(157,439)</u>	<u>(670,472)</u>
<b>Changes in assets and liabilities:</b>						
General receivables, gross	(218,788)	-	(218,788)	(184,955)	(403,743)	(1,038,391)
Advances	(3,475)	-	(3,475)	21,784	18,309	(26,898)
Loans receivable, gross	-	-	-	(189,236)	(189,236)	102,876
Due from other funds	-	(2,623)	(2,623)	-	(2,623)	954
Inventory, at cost	185,663	(7,137)	178,526	168,940	347,466	518,159
Prepaid expenses and other assets	(16,667)	-	(16,667)	(392,036)	(408,703)	(14,906)
Deferred revenue	-	-	-	33,517	33,517	71,054
Receivable from grantor	-	-	-	-	-	69,359
Accounts payable	(18,360)	(2,765)	(21,125)	295,104	273,979	650,840
Accrued payroll and other	65,316	-	65,316	(24,734)	40,582	(49,191)
Due to other funds	(12,682)	(85)	(12,767)	-	(12,767)	(140,459)
	<u>(18,993)</u>	<u>(12,610)</u>	<u>(31,603)</u>	<u>(271,616)</u>	<u>(303,219)</u>	<u>143,397</u>
Net cash used for operating activities	<u>(270,754)</u>	<u>-</u>	<u>(270,754)</u>	<u>(189,904)</u>	<u>(460,658)</u>	<u>(527,075)</u>
<b>Cash flows from noncapital financing activities:</b>						
Proceeds from notes payable	-	-	-	-	-	(46,143)
Repayments of notes payable	-	-	-	(85,954)	(85,954)	-
Operating transfers in	24,000	-	24,000	583,216	607,216	1,792,188
Other noncapital financing activities	282,222	-	282,222	730,467	1,012,689	378,563
Net cash provided by noncapital financing activities	<u>306,222</u>	<u>-</u>	<u>306,222</u>	<u>1,227,729</u>	<u>1,533,951</u>	<u>2,124,608</u>
<b>Cash flows from capital and related financing activities:</b>						
Acquisition of fixed assets	(38,419)	-	(38,419)	(1,458,873)	(1,497,292)	(2,937,657)
Contributed capital	-	-	-	755,121	755,121	600,000
Proceeds from notes payable	-	-	-	-	-	281,590
Interest received, net	-	-	-	(14,544)	(14,544)	720,938
Investment in Pacific Tuna Ventures, Inc.	-	-	-	(500)	(500)	-
Net cash used for capital and related financing activities	<u>(38,419)</u>	<u>-</u>	<u>(38,419)</u>	<u>(718,796)</u>	<u>(757,215)</u>	<u>(1,335,129)</u>
<b>Cash flows from investing activities:</b>						
Payments to self-insurance and scholarship funds, net	-	-	-	25,000	25,000	(27,236)
Interest income	2,951	-	2,951	37,792	40,743	27,632
Other	-	-	-	2,306	2,306	-
Net cash provided by investing activities	<u>2,951</u>	<u>-</u>	<u>2,951</u>	<u>65,098</u>	<u>68,049</u>	<u>396</u>
Net increase in cash and equivalents	-	-	-	384,127	384,127	262,800
Cash and equivalents at beginning of year	-	-	-	1,145,219	1,145,219	882,419
Cash and equivalents at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,529,346</u>	<u>\$ 1,529,346</u>	<u>\$ 1,145,219</u>

See accompanying notes to financial statements.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1996

(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, 1996

(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, 1996

(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, 1996

(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, 1996

(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 canceled. If an encumbrance is subsequently canceled, 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, 1996

(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 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.

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.

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, 1996

(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, 1996 is \$1,214,626. No expenditure is reported for these amounts. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. The accumulated amount of unused sick leave at September 30, 1996, 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 appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

The discretely presented component 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.

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.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1996

(1) Summary of Significant Accounting Policies, Continued

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, 1996, are as follows:

	Special Revenue <u>Funds</u>	Capital Projects <u>Funds</u>	Expendable Trust <u>Funds</u>
Receivables	\$ 350,487	\$ -	\$ 1,851
Investment in Pacific Islands Development Bank	-	600,000	-
Loans receivable from Pohnpei Fisheries Corporation, a Component Unit - Proprietary Fund	-	2,450,000	-
	<u>\$ 350,487</u>	<u>\$ 3,050,000</u>	<u>\$ 1,851</u>

S. Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1996

**(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, 1996

(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, 1996, as summarized below:

<u>Cash and Equivalents</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Cash management fund	\$ 1,522,065	\$ 1,522,065
Cash with FDIC insured banks	2,862,696	2,862,696
 <u>Investments</u>		
Pooled investment securities	4,949,963	5,684,457
Total	\$ <u>9,334,724</u>	\$ <u>10,069,218</u>

D. The State's investment income for the year ended September 30, 1996, is summarized below:

	<u>General</u>	<u>Capital Projects</u>
Interest	\$ 555,010	\$ 50,422
Dividends	80,530	-
Realized gains	531,404	-
Management fees	(66,562)	-
Other expenses	<u>(81,623)</u>	<u>-</u>
	\$ <u>1,018,759</u>	\$ <u>50,422</u>

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

At September 30, 1996, 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	\$ 1,724,127
Cash on deposit with Hawaiian Trust Co.	<u>89,230</u>
Total General Fund cash and equivalents	\$ <u>1,813,357</u>

Special Revenue Fund

Cash on deposit with Hawaiian Trust Co.	\$ <u>515,587</u>
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**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1996

(2) Cash and Equivalents and Investments, Continued

Capital Project Funds

Cash on deposit with Hawaiian Trust Co.	\$ 277,923
Net bank balance in savings accounts with FDIC insured bank	<u>1,777,894</u>
Total Capital Projects Funds cash and equivalents	\$ <u>2,055,817</u>

Component Units - Proprietary Funds

Pohnpei Economic Development Authority (EDA):	
Cash in checking and savings accounts with FDIC insured bank	\$ 333,951
Pohnpei State Housing Authority (PSHA):	
Cash in checking and savings accounts with FDIC insured banks	301,939
Pohnpei Utilities Corporation (PUC):	
Cash in checking and savings accounts with FDIC insured bank	339,946
Pohnpei Fisheries Corporation (PFC):	
Cash in checking accounts with FDIC insured bank	106,650
Pohnpei Port Authority (PPA):	
Cash in checking accounts with FDIC insured bank	<u>446,860</u>
Total Component Units - Proprietary Funds cash and equivalents	\$ <u>1,529,346</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, 1996, the escrow account has earned and reinvested \$97,256 of interest earnings.

As of September 30, 1996, Pohnpei State had \$639,436 held on deposit with the Bankers Trust. Pohnpei has committed the above funds for management of its 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 part of restricted cash in the foregoing financial statements.

Cash - Restricted (Deficiency Fund): As of September 30, 1996, Pohnpei held \$902,426 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.

	<u>1996</u>	<u>1995</u>
Receivables from other Governments:		
CFSM Grants	\$ 431,003	\$ 1,963,658
Other	-	17,439
Allowance for doubtful accounts	<u>(431,003)</u>	<u>(981,829)</u>
	<u>-</u>	<u>999,268</u>
Receivables, federal agencies:		
Federal grants	2,258,965	2,237,769
Trust Territory Government	168,967	181,026
Allowance for uncollectibles	<u>(1,863,891)</u>	<u>(1,624,317)</u>
	<u>564,041</u>	<u>794,478</u>
Net receivables	\$ <u><u>564,041</u></u>	\$ <u><u>1,793,746</u></u>

**(4) General Receivables and Advances**

A summary of general receivables against which allowances for doubtful accounts have been recorded as of September 30, 1996, is presented below:

<u>General Receivables</u>	<u>Gross</u>	<u>Allowance</u>	<u>Net</u>
Delinquent taxes	\$ 2,010,230	\$ (2,010,230)	\$ -
Revenue sharing	140,754	-	140,754
Interest receivable	110,473	-	110,473
Fishing fines	68,132	-	68,132
Other	<u>42,078</u>	<u>(42,078)</u>	<u>-</u>
	\$ <u><u>2,371,667</u></u>	\$ <u><u>(2,052,308)</u></u>	\$ <u><u>319,359</u></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. Travel advances outstanding as of September 30, 1996, are as follows:

General Fund	\$ 192,961
Special Revenue Fund	267,874
Capital Improvement Project Fund	<u>40,838</u>
	<u>\$ 501,673</u>

General Receivables - Component Units-Proprietary Funds

	<u>Gross</u>	<u>Allowance</u>	<u>Net</u>
Pohnpei Fisheries Corporation	\$ 294,556	\$ (77,420)	\$ 217,136
Pohnpei Port Authority	409,486	(246,173)	163,313
Pohnpei Utilities Corporation	2,523,465	(488,876)	2,034,589
Pohnpei Economic Development Authority	<u>957,305</u>	<u>(692,663)</u>	<u>264,642</u>
	<u>\$ 4,184,812</u>	<u>\$ (1,505,132)</u>	<u>\$ 2,679,680</u>

(5) Inventory of Supplies

The Agriculture Revolving Fund (a Special Revenue Fund) has \$27,412 of agriculture production supplies on hand at September 30, 1996. The Internal Service Fund has general operational and office supplies of \$18,949 as of September 30, 1996. 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, 1996, are as follows:

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

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**(6) Fixed Assets, Continued**

The State's investment in general fixed assets as of September 30, 1996, 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>
	<u>\$ 49,323,802</u>

**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, 1996, 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>
Electric plant	\$ -	\$ 31,535,071	\$ -	\$ -	\$ -	\$ 31,535,071
Water and sewer plant	-	8,326,835	-	-	-	8,326,835
Building	271,478	-	12,578,600	12,833	26,061	12,888,972
Fishing vessel	-	-	-	1,352,300	-	1,352,300
Vehicles	28,000	-	-	152,348	-	180,348
Furniture, fixtures and office equipment	21,734	-	193,200	95,063	63,608	373,605
Other assets	13,519,073	-	2,418,890	227,304	-	16,165,267
Less accumulated depreciation	<u>(5,833,866)</u>	<u>(7,950,499)</u>	<u>(7,168,638)</u>	<u>(1,386,935)</u>	<u>(61,156)</u>	<u>(22,401,094)</u>
Construction in progress	<u>182,434</u>	<u>1,711,222</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,893,656</u>
Total fixed assets, net	<u>\$ 8,188,853</u>	<u>\$ 33,622,629</u>	<u>\$ 8,022,052</u>	<u>\$ 452,913</u>	<u>\$ 28,513</u>	<u>\$ 50,314,960</u>

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**(7) Other Investments**

The State currently holds 18% of the shares of the Pacific Islands Development Bank, carried at a cost of \$600,000. 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 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 5.3% interest as of September 30, 1996. 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, 1996, 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 its principal obligations and all its interest payments due as of September 30, 1996 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, 1996, is \$2,450,000 and is therefore classified as loans receivable. As this balance does not represent a currently appropriable amount as of September 30, 1996, it is reserved against fund balance as a related asset.

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**(8) Loans Receivable, Continued**

The Pohnpei State Housing Authority (PSHA) has loans receivable of \$4,390,825 with an allowance of \$996,269 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 \$81,048 as of September 30, 1996.

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

Material operating transfers in/out for the year ended September 30, 1996, 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	143,200	
Pohnpei State Housing Authority	<u>137,155</u>	<u>-</u>
Total transfers out to Component Units	<u>280,355</u>	<u>-</u>
Transfer in from Special Revenue Fund:		
CFSM Fund	<u>-</u>	<u>286,739</u>
Total General Fund	\$ <u>304,355</u>	\$ <u>286,739</u>
<b>Special Revenue Funds:</b>		
Transfers out to Component Units:		
Pohnpei Port Authority	\$ 148,491	\$ -
Pohnpei Utilities Corporation	154,370	-
Pohnpei Fisheries Corporation	<u>-</u>	<u>-</u>
Total transfers out to Component Units	<u>302,861</u>	<u>-</u>
Transfer out to General Fund	<u>300,000</u>	<u>-</u>
Transfer in to Medical Revolving Fund	<u>-</u>	<u>13,261</u>
Total Special Revenue Funds	\$ <u>602,861</u>	\$ <u>13,261</u>

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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, \$1,483,270 in questioned costs exist for the operation of fiscal year 1985 through 1996 grants, including \$15,182 relating to fiscal year 1996. 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, 1996, 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 totaling \$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, 1996, 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.

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**(10) Contingencies and Commitments, Continued**

**Compact Energy and Capital Funds Uses**

During the fiscal year ended September 30, 1996 and prior, Pohnpei State has expended Compact Energy Fund monies (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 has also expended Compact Capital funds for the dry docking of a fieldtrip vessel. 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, 1996, 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>8,658,777</u>	\$ <u>37,463,649</u>	\$ <u>8,675,917</u>	\$ <u>1,562,232</u>	\$ <u>3,791,617</u>
Total equity (deficit)	\$ <u>4,250,595</u>	\$ <u>36,125,899</u>	\$ <u>8,329,666</u>	\$ <u>1,419,328</u>	\$ <u>3,773,775</u>
Operating loss	\$ <u>(2,896,256)</u>	\$ <u>(1,594,275)</u>	\$ <u>(552,203)</u>	\$ <u>(99,002)</u>	\$ <u>(70,688)</u>
Net income (loss)	\$ <u>(2,895,768)</u>	\$ <u>(812,766)</u>	\$ <u>(606,518)</u>	\$ <u>42,955</u>	\$ <u>79,630</u>
Non operating revenues (expenses), net	\$ <u>488</u>	\$ <u>781,509</u>	\$ <u>(54,315)</u>	\$ <u>141,957</u>	\$ <u>150,318</u>
Operating revenues	\$ <u>3,899,097</u>	\$ <u>6,671,385</u>	\$ <u>880,793</u>	\$ <u>599,148</u>	\$ <u>186,594</u>
Contributed capital	\$ <u>7,198,296</u>	\$ <u>31,149,854</u>	\$ <u>7,914,882</u>	\$ <u>4,294,541</u>	\$ <u>3,962,092</u>
Depreciation	\$ <u>-</u>	\$ <u>7,950,499</u>	\$ <u>607,241</u>	\$ <u>57,924</u>	\$ <u>11,185</u>
Retained earnings (deficit)	\$ <u>(2,947,701)</u>	\$ <u>4,976,045</u>	\$ <u>414,784</u>	\$ <u>(2,875,213)</u>	\$ <u>(188,317)</u>
Operating transfers	\$ <u>-</u>	\$ <u>634,806</u>	\$ <u>18,750</u>	\$ <u>141,957</u>	\$ <u>137,155</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, 1996. 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)
V6AH Revolving Fund	(11,518)	-	(11,518)
CFSM State Projects Fund	(37,783)	-	(37,783)
Airport Revolving Fund	<u>(849,698)</u>	<u>-</u>	<u>(849,698)</u>
	<u>\$ (1,128,015)</u>	<u>\$ -</u>	<u>\$ (1,128,015)</u>
<u>Component Units (Deficit Retained Earnings)</u>			
Pohnpei Fisheries Corporation	\$ (2,947,701)	\$ 7,198,296	\$ 4,250,595
Pohnpei Economic Development Authority	(2,875,213)	4,294,541	1,419,328
Pohnpei State Housing Authority	<u>(188,317)</u>	<u>3,962,092</u>	<u>3,773,775</u>
	<u>\$ (6,011,231)</u>	<u>\$ 15,454,929</u>	<u>\$ 9,443,698</u>
<u>Expendable Trust Fund (Deficit)</u>			
Public Land Trust Fund	<u>\$ (219,387)</u>	<u>\$ -</u>	<u>\$ (219,387)</u>

**(13) Notes Payable**

The State borrowed 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 which was paid on October 15, 1995.

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).

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Notes to Financial Statements  
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**(13) Notes Payable, Continued**

The outstanding balance of the second issue notes payable as of September 30, 1996, 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>
10/15/96	9.35%	\$ 1,000,000	\$ 583,856
10/15/97	9.49%	<u>1,000,000</u>	<u>687,498</u>
Total		\$ <u>2,000,000</u>	\$ <u>1,271,354</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>
10/15/98	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>3,000,000</u>	\$ <u>1,468,782</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 \$1,198,185 for interest payments.

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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 through September 30, 1996.

Activity in the General Long-Term Debt Account Group notes payable account for the year ended September 30, 1996, occurred as follows:

Balance as of September 30, 1995	\$ 17,300,000
Loan repayment made on October 15, 1995	<u>(7,100,000)</u>
Balance as of September 30, 1996	<u>\$ 10,200,000</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>
1997	\$ 2,200,000
1998	2,000,000
1999	2,000,000
2000	2,000,000
2001	<u>2,000,000</u>
	<u>\$ 10,200,000</u>

The component units notes payable represent \$2,450,000 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. Additionally, PFC has notes payable of \$204,680 (7%) due to the FSM Development Bank and \$888,795 due to a corporation (9%). PUC has a long-term loan with the FSM Development Bank of \$330,047 at September 30, 1996. 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:

1997	\$ 178,873
1998	616,657
1999	2,862,136
2000	44,666
2001	48,855
Thereafter	<u>122,335</u>
	<u>\$ 3,873,522</u>

**STATE OF POHNPEI  
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Notes to Financial Statements  
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**(14) Interfund Receivable and Payables**

As of September 30, 1996, interfund receivables and payables resulting from various interfund transactions are as follows:

	<u>Due to Other Funds</u>	<u>Due from Other Funds</u>
General Fund	\$ 1,450,628	\$ 545,513
Special Revenue Funds:		
Compact Other Grants	488,879	-
Compact Health & Education	-	850,764
U.S. Federal Assistance	375,660	-
Other Federal and Direct	29,378	-
Agriculture Revolving	-	30,656
SVAP Revolving	-	11,080
Airport Revolving	849,698	-
Seaport Revolving	-	240,269
Airport Operations	-	641,786
CFSM Projects	66,952	-
Recycling Fund	-	21,120
V6AH Revolving Fund	11,492	-
Environmental Quality Fund	-	12,305
Medical Revolving Fund	-	173,422
Capital Projects Funds:		
Compact Capital Projects	-	986,586
TTG Capital Projects	150,361	-
Expendable Trust Funds:		
Public Land Trust	225,688	-
Enterprise Funds:		
Pohnpei Transportation Authority	-	132,612
Internal Service Fund	-	2,623
	<u>\$ 3,648,736</u>	<u>\$ 3,648,736</u>

**(15) Continuing Appropriations**

Continuing appropriations as of September 30, 1996, 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.

\$ 97,340

**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.

\$ 6,908,925

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1996

**(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, 1996, the outstanding loan balances aggregated \$582,766.

**(18) Other Expenditures**

Management of Pohnpei State has recorded expenditures of \$356,424 and \$3,130,101 in fiscal years 1996 and 1995, respectively, for amounts due to Municipal Governments and for other payables to vendors which relate to 1996 and prior years, which were previously unrecorded.

**(19) Restatement of Proprietary Funds - Component Units Retained Earnings (Deficit)**

Financial statements of a component unit - proprietary fund, Pohnpei Fisheries Corporation have been restated to correct the amount of a previously recorded note payable to Pohnpei State. The beginning deficit is therefore \$461,847 greater than as previously stated.

Other immaterial prior period adjustments have been recorded by another component unit - proprietary fund.

**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, 1996  
(With comparative totals for the year ended September 30, 1995)

	Governmental Fund Types			Fiduciary Fund Type	Totals (Memorandum Only)	
	General	Special Revenue	Capital Projects	Expendable Trust	1996	1995
<b>Expenditures:</b>						
Personnel	\$ 211,045	\$ 3,283,507	\$ 154,768	\$ 40,592	\$ 3,689,912	\$ 17,916,469
Travel	416,410	295,250	46,968	-	758,628	1,004,251
Supplies and materials	178,745	410,172	82,912	3,078	674,907	1,183,505
Fuel	92,586	21,058	-	-	113,644	166,837
Equipment	150,987	237,991	151,174	-	540,152	626,982
Contractual services	3,050,258	1,170,556	1,567,425	(145)	5,788,094	4,283,490
Other	52,154	1,931,243	321,126	5,463	2,309,986	8,237,165
Uncollectible grant funds	-	-	-	-	-	2,606,146
<b>Total expenditures</b>	<b>\$ 4,152,185</b>	<b>\$ 7,349,777</b>	<b>\$ 2,324,373</b>	<b>\$ 48,988</b>	<b>\$ 13,875,323</b>	<b>\$ 36,024,845</b>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

General Fund  
September 30, 1996

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.

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Balance Sheet - General Fund  
September 30, 1996  
(With comparative totals as of September 30, 1995)

<u>ASSETS</u>	<u>1996</u>	<u>1995</u>
Cash and equivalents	\$ 910,931	\$ 53,683
Restricted cash	902,426	-
Investments	1,446,856	1,865,302
Receivables from other governments	68,132	17,439
General receivables	2,261,457	820,980
Advances	192,961	210,845
Due from other funds	545,513	1,973,399
Prepaid expenses and other assets	-	16,892
Allowance for bad debts	(2,010,230)	(716,585)
	<hr/>	<hr/>
Total assets	\$ 4,318,046	\$ 4,241,955
	<hr/> <hr/>	<hr/> <hr/>

LIABILITIES AND FUND BALANCE (DEFICIT)

Liabilities:		
Accounts payable	\$ 257,923	\$ 614,810
Accrued payroll and others	803,119	756,459
Due to other funds	1,450,628	-
Other payables	3,304,694	3,130,101
	<hr/>	<hr/>
Total liabilities	5,816,364	4,501,370
	<hr/>	<hr/>
Fund balance:		
Reserved for:		
Related assets	-	34,331
Encumbrances	558,109	737,170
Continuing appropriations	97,340	182,770
Unreserved (deficit)	(2,153,767)	(1,213,686)
	<hr/>	<hr/>
Total fund balance (deficit)	(1,498,318)	(259,415)
	<hr/>	<hr/>
Total liabilities and fund balance (deficit)	\$ 4,318,046	\$ 4,241,955
	<hr/> <hr/>	<hr/> <hr/>

See Accompanying Independent Auditors' Report.



**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, 1996  
(With comparative totals for the year ended September 30, 1995)

	<u>1996</u>	<u>1995</u>
<b>Revenues:</b>		
Compact of Free Association:		
Base grant	\$ 7,206,300	\$ 7,206,300
Inflation adjustment	3,459,024	3,314,898
Revenue sharing	4,195,372	4,313,220
Investment income	1,018,759	557,152
Taxes and licenses	1,305,152	1,345,732
Other	362,160	348,720
	<hr/>	<hr/>
Total revenues	17,546,767	17,086,022
	<hr/>	<hr/>
<b>Expenditures:</b>		
Personnel	14,615,869	14,461,625
Travel	211,045	473,419
Supplies and materials	416,410	402,048
Fuel	178,745	139,410
Equipment	92,586	210,570
Contractual services	150,987	226,058
Other	3,050,258	5,972,638
Uncollectible grant funds	52,154	2,606,146
	<hr/>	<hr/>
Total expenditures	18,768,054	24,491,914
	<hr/>	<hr/>
Excess (deficiency) of revenues (under) over expenditures	(1,221,287)	(7,405,892)
	<hr/>	<hr/>
<b>Other financing sources (uses):</b>		
Operating transfers in	286,739	64,626
Operating transfers out	(304,355)	(326,778)
	<hr/>	<hr/>
Total other financing sources (uses), net	(17,616)	(262,152)
	<hr/>	<hr/>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(1,238,903)	(7,668,044)
	<hr/>	<hr/>
Fund balance (deficit) at beginning of year	(259,415)	7,408,629
	<hr/>	<hr/>
Fund balance (deficit) at end of year	\$ (1,498,318)	\$ (259,415)
	<hr/> <hr/>	<hr/> <hr/>

See Accompanying Independent Auditors' Report.

**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, 1996  
(With comparative totals for the year ended September 30, 1995)

	1996		1995
<b>Revenues:</b>			
U.S. Compact of Free Association:			
Base grant	\$ 7,206,300		\$ 7,206,300
Inflation adjustment	3,459,024		3,314,898
FSM revenue sharing	4,195,372		4,313,220
Investment income	1,018,759		557,152
State taxes and licenses:			
Beer and malt beverages	\$ 404,133		\$ 362,183
Cigarettes	69,740		110,286
Motor vehicle sales tax	151,284		81,789
General merchandise sales tax	227,434		177,330
Hotel	84,798		87,865
Petroleum and fuel sales tax	91,616		76,770
Use tax	119,497		99,137
Others	156,650	1,305,152	350,372
Fines and penalties		207,036	-
Public service charges:			
Hospital and dental	157		268,814
Transportation	83,190	83,347	43,374
Other		71,777	36,532
<b>Total revenues</b>		<b>17,546,767</b>	<b>17,086,022</b>
<b>Expenditures:</b>			
General Government:			
Executive & Support	1,286,010		1,409,275
Director of Treasury	847,014		673,056
Public Auditor	172,253		165,032
Judiciary	615,070		634,800
Legislative operations	1,560,305		1,752,900
<b>Total General Government</b>		<b>4,480,652</b>	<b>4,635,063</b>
Department of Education:			
Administration	389,512		84,063
Preschool and elementary	4,450,724		4,325,920
Secondary	90,048		522,835
<b>Total Education</b>		<b>4,930,284</b>	<b>4,932,818</b>
Department of Health Services:			
Administration	463,192		476,987
Medical Coordinator-Honolulu	56,756		46,971
Medical services	1,658,262		1,656,616
Dental services	354,269		321,634
Medical supplies	501,729		470,695
Public health	416,812		409,651
Hemodialysis	106,432		36,740
Hospital buildings & grounds	7,303		647
Hospital food	49,781		46,162
Medical referrals	-		143,232
Outer islands medical referrals	27,489		-
<b>Total Health Services</b>		<b>3,642,025</b>	<b>3,609,335</b>
Department of Resource Management and Development			
Division of Resource Management and Development	60,282		178,050
Division of Agriculture	763,336		580,791
Energy	155		51,697
Division of CM&PM	406,004		527,114
Division of Public Works	92,542		-
Commerce and industry	138,042		153,130
Division of Land	452,778		399,786
<b>Total Resources Management and Development</b>		<b>1,913,139</b>	<b>1,890,568</b>

See Accompanying Independent Auditors' Report.

**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, 1996  
(With comparative totals for the year ended September 30, 1995)

	1996	1995
Expenditures, continued:		
Department of Justice:		
Director of Justice	332,402	118,579
Public Safety	760,515	819,706
Correction and rehabilitation	163,343	179,435
Legal affairs	168	329,513
Search and rescue	1,217	4,692
Civil liability fund	38,690	80,319
	<u>1,296,335</u>	<u>1,532,244</u>
Total Public Safety		
	<u>1,296,335</u>	<u>1,532,244</u>
Boards, Commissions, and Other Appropriations:		
Tourist commission	-	52,132
Micronesian legal services	42,000	42,000
Sports council	52,920	36,762
Farmers home administration	168,684	149,454
Traditional affairs	1,994	2,100
Pohnpei public library	17,785	29,086
Environmental protection agency	156,421	166,316
Pohnpei health care center	-	3,000
Police uniform	-	14,606
FY95 FSM Games	-	25,209
Community Action Agency	-	40,491
PBC contractual services	3,200	66,564
Micro games	-	2,540
Foreign investment commission	50,995	47,218
Land planning and zoning	1,540	1,134
	<u>495,539</u>	<u>678,612</u>
Total Boards, Commissions, and Other Appropriations		
	<u>495,539</u>	<u>678,612</u>
Municipal Governments:		
Sokehs	270,712	246,603
Kitti	286,857	257,901
Madolenihmw	268,837	242,270
Uh	155,734	141,719
Kolonia	175,501	159,337
Pingilap	81,238	75,902
Nett	190,143	190,614
Kapingamarangi	69,258	45,939
Sapwuahfik	40,868	40,173
Mokil	31,785	45,483
Nukuoro	30,569	31,086
	<u>1,601,502</u>	<u>1,477,027</u>
Total Municipal Governments		
	<u>1,601,502</u>	<u>1,477,027</u>
Uncollectible grant funds	52,154	2,606,146
	<u>52,154</u>	<u>2,606,146</u>
Other	356,424	3,130,101
	<u>356,424</u>	<u>3,130,101</u>
Total expenditures	18,768,054	24,491,914
	<u>18,768,054</u>	<u>24,491,914</u>
Deficiency of revenues under expenditures	(1,221,287)	(7,405,892)
	<u>(1,221,287)</u>	<u>(7,405,892)</u>
Other financing sources (uses):		
Operating transfers in	286,739	64,626
Operating transfers out	(304,355)	(326,778)
	<u>(17,616)</u>	<u>(262,152)</u>
Total other financing sources (uses), net		
	<u>(17,616)</u>	<u>(262,152)</u>
Excess (deficiency) of revenues and other financing sources (under) over expenditures and other financing uses	(1,238,903)	(7,668,044)
	<u>(1,238,903)</u>	<u>(7,668,044)</u>
Fund balance (deficit) at beginning of year	(259,415)	7,408,629
	<u>(259,415)</u>	<u>7,408,629</u>
Fund balance (deficit) at end of year	\$ (1,498,318)	\$ (259,415)
	<u>\$ (1,498,318)</u>	<u>\$ (259,415)</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Special Revenue Funds  
September 30, 1996

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.

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Special Revenue Funds, Continued  
September 30, 1996

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.

Medical Supplies Revolving Fund

This fund was established by SL No. 3L-100-95 to account for funds collected from or on behalf of patients or clients of the Pohnpei Department of Health Services, and payments from the FSM National Health Insurance Program. Funds collected are to be used solely for the purchase of medical supplies, inclusive of pharmaceuticals.

Airport Revolving and Seaport Revolving Fund

These funds are awaiting formal transfer to Pohnpei Ports Authority and are to be used for that entity's benefit.

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**Special Revenue Funds  
Combining Balance Sheet  
September 30, 1996  
(With comparative totals as of September 30, 1995)**

	Compact	Compact	U.S.	Other	Agriculture	SVAP	Seaport	Airport	Airport	CFSM	V6AH	Environ-	Medical	Totals		
	Health and Education	Other Grants	Federal Assistance	Federal and Direct Assistance										Revolving	Revolving	Revolving
<b>ASSETS</b>																
Cash and equivalents	\$ 149,148	\$ 366,439	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 515,587	\$ 334,912
Investments	-	167,170	-	-	-	-	-	-	-	-	-	-	-	-	167,170	167,170
Receivables:																
Other governments	-	-	-	-	-	-	-	-	-	431,003	-	-	-	-	431,003	1,963,658
Federal agencies, thru FSM National																
Government	-	169,772	2,089,193	-	-	-	-	-	-	-	-	-	-	-	2,258,965	2,237,769
General	-	-	-	-	42,078	-	-	-	-	-	-	-	-	-	42,078	63,345
Advances	3,307	53,317	126,741	23,573	-	-	-	-	2,143	58,793	-	-	-	-	267,874	299,732
Allowance for uncollectible	-	-	(1,863,891)	-	(42,078)	-	-	-	-	(431,003)	-	-	-	-	(2,336,972)	(2,606,146)
Due from other funds	850,764	-	-	-	30,656	11,080	240,269	-	641,786	-	21,120	-	12,305	173,422	1,981,402	1,552,710
Inventory, at cost	-	-	-	-	27,412	-	-	-	-	-	-	-	-	-	27,412	25,953
<b>Total assets</b>	<b>\$ 1,003,219</b>	<b>\$ 756,698</b>	<b>\$ 352,043</b>	<b>\$ 23,573</b>	<b>\$ 58,068</b>	<b>\$ 11,080</b>	<b>\$ 240,269</b>	<b>\$ -</b>	<b>\$ 643,929</b>	<b>\$ 58,793</b>	<b>\$ 21,120</b>	<b>\$ -</b>	<b>\$ 12,305</b>	<b>\$ 173,422</b>	<b>\$ 3,354,519</b>	<b>\$ 4,039,103</b>
<b>LIABILITIES AND FUND BALANCES (DEFICIT)</b>																
Liabilities:																
Accounts payable	\$ 23,989	\$ 228,318	\$ 134,505	\$ 8,515	\$ 8,438	\$ 288	\$ -	\$ -	\$ -	\$ 29,042	\$ -	\$ 26	\$ -	\$ 25,546	\$ 458,667	\$ 595,673
Accrued payroll and others	5,734	878	3,457	273	-	-	-	-	-	582	-	-	-	-	10,924	-
Due to other funds	-	488,879	375,660	29,378	-	-	-	849,698	-	66,952	-	11,492	-	-	1,822,059	2,773,211
Deferred revenue	-	-	-	52,844	-	-	-	-	-	-	-	-	-	-	52,844	83,823
<b>Total liabilities</b>	<b>29,723</b>	<b>718,075</b>	<b>513,622</b>	<b>91,010</b>	<b>8,438</b>	<b>288</b>	<b>-</b>	<b>849,698</b>	<b>-</b>	<b>96,576</b>	<b>-</b>	<b>11,518</b>	<b>-</b>	<b>25,546</b>	<b>2,344,494</b>	<b>3,452,707</b>
Fund balances (deficit):																
Reserved for:																
Related assets	3,301	44,844	157,018	24,648	42,078	-	-	-	2,142	76,456	-	-	-	-	350,487	-
Encumbrances	3,048	11,240	375,017	4,972	10,933	-	-	-	-	362,165	-	-	290	150,557	918,222	1,977,834
Unreserved (deficit)	967,147	(17,461)	(693,614)	(97,057)	(3,381)	10,792	240,269	(849,698)	641,787	(476,404)	21,120	(11,518)	12,015	(2,681)	(258,684)	(1,391,438)
<b>Total fund balances (deficit)</b>	<b>973,496</b>	<b>38,623</b>	<b>(161,579)</b>	<b>(67,437)</b>	<b>49,630</b>	<b>10,792</b>	<b>240,269</b>	<b>(849,698)</b>	<b>643,929</b>	<b>(37,783)</b>	<b>21,120</b>	<b>(11,518)</b>	<b>12,305</b>	<b>147,876</b>	<b>1,010,025</b>	<b>586,396</b>
<b>Total liabilities and fund balances (deficit)</b>	<b>\$ 1,003,219</b>	<b>\$ 756,698</b>	<b>\$ 352,043</b>	<b>\$ 23,573</b>	<b>\$ 58,068</b>	<b>\$ 11,080</b>	<b>\$ 240,269</b>	<b>\$ -</b>	<b>\$ 643,929</b>	<b>\$ 58,793</b>	<b>\$ 21,120</b>	<b>\$ -</b>	<b>\$ 12,305</b>	<b>\$ 173,422</b>	<b>\$ 3,354,519</b>	<b>\$ 4,039,103</b>

See Accompanying Independent Auditors' Report.

**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, 1996  
(With comparative totals for the year ended September 30, 1995)**

	Compact	Compact	U.S.	Other	Agriculture	SVAP	Seaport	Airport	Airport	CFSM	Recycling	VSAH	Environ-	Medical	Totals	
	Health and Education	Other Grants	Federal Assistance	Federal and Direct Assistance											Revolving	Revolving
<b>Revenues:</b>																
<b>Compact:</b>																
Base grant	\$ 1,890,000	\$ 1,357,783	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,247,783	\$ 3,247,783
Inflation adjustment	-	480,000	-	-	-	-	-	-	-	-	-	-	-	-	480,000	460,000
Federal contributions	-	-	2,174,895	-	-	-	-	-	-	-	-	-	-	-	2,174,895	3,095,114
CFSM Grants	-	316,725	-	-	-	-	-	-	-	1,525,595	-	-	-	-	1,842,320	1,821,792
Other	-	-	-	177,061	53,974	10,684	-	-	132,469	-	-	25,691	2,300	215,829	618,008	521,980
<b>Total revenues</b>	<b>1,890,000</b>	<b>2,154,508</b>	<b>2,174,895</b>	<b>177,061</b>	<b>53,974</b>	<b>10,684</b>	<b>-</b>	<b>-</b>	<b>132,469</b>	<b>1,525,595</b>	<b>-</b>	<b>25,691</b>	<b>2,300</b>	<b>215,829</b>	<b>8,363,006</b>	<b>9,146,669</b>
<b>Expenditures:</b>																
General government	-	665,588	677,550	13,041	-	7,335	-	-	-	87,669	-	60,719	-	-	1,511,902	1,562,256
Education	1,712,236	316,723	1,028,353	93,980	-	-	-	-	-	23,483	-	-	-	-	3,174,775	3,662,730
Health services	-	531,868	423,807	20,396	-	-	-	-	-	121,165	-	5,995	81,214	-	1,184,445	1,150,805
Resources management and development	-	-	-	25,645	112,737	-	-	-	-	9,757	-	-	-	-	148,139	890,393
Public works	-	277,811	45,185	-	-	-	-	-	-	-	-	-	-	-	322,996	-
Public safety	-	-	-	23,999	-	-	-	-	-	138,743	-	-	-	-	162,742	-
Capital projects	-	-	-	-	-	-	-	-	-	844,778	-	-	-	-	844,778	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	424,524
<b>Total expenditures</b>	<b>1,712,236</b>	<b>1,791,990</b>	<b>2,174,895</b>	<b>177,061</b>	<b>112,737</b>	<b>7,335</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,225,595</b>	<b>-</b>	<b>60,719</b>	<b>5,995</b>	<b>81,214</b>	<b>7,349,777</b>	<b>7,690,708</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>177,764</b>	<b>362,518</b>	<b>-</b>	<b>-</b>	<b>(58,763)</b>	<b>3,349</b>	<b>-</b>	<b>-</b>	<b>132,469</b>	<b>300,000</b>	<b>-</b>	<b>(35,028)</b>	<b>(3,695)</b>	<b>134,615</b>	<b>1,013,229</b>	<b>1,455,961</b>
<b>Other financing sources (uses):</b>																
Operating transfers in	-	-	-	-	-	-	-	-	-	-	-	-	-	13,261	13,261	-
Operating transfers out	-	(154,370)	-	-	-	-	-	(148,491)	-	(300,000)	-	-	-	-	(602,861)	(1,404,019)
<b>Total other financing sources (uses), net</b>	<b>-</b>	<b>(154,370)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(148,491)</b>	<b>-</b>	<b>(300,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13,261</b>	<b>(589,600)</b>	<b>(1,404,019)</b>
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses</b>	<b>177,764</b>	<b>208,148</b>	<b>-</b>	<b>-</b>	<b>(58,763)</b>	<b>3,349</b>	<b>-</b>	<b>(148,491)</b>	<b>132,469</b>	<b>-</b>	<b>-</b>	<b>(35,028)</b>	<b>(3,695)</b>	<b>147,876</b>	<b>423,629</b>	<b>51,942</b>
<b>Fund balances (deficit) at beginning 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>-</b>	<b>586,396</b>	<b>534,454</b>
<b>Fund balances (deficit) at end of year</b>	<b>\$ 973,496</b>	<b>\$ 38,623</b>	<b>\$ (161,579)</b>	<b>\$ (67,437)</b>	<b>\$ 49,630</b>	<b>\$ 10,792</b>	<b>\$ 240,269</b>	<b>\$ (849,698)</b>	<b>\$ 643,929</b>	<b>\$ (37,783)</b>	<b>\$ 21,120</b>	<b>\$ (11,518)</b>	<b>\$ 12,305</b>	<b>\$ 147,876</b>	<b>\$ 1,010,025</b>	<b>\$ 586,396</b>

See Accompanying Independent Auditors' Report.

**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, 1996  
(With comparative totals for the year ended September 30, 1995)**

	Compact Health and Education	Compact Other Grants	U.S. Federal Assistance	Other Federal and Direct Assistance	Agriculture Revolving	SVAP Revolving	Seaport Revolving	Airport Revolving	Airport Operations	CFSM State Projects	Recycling	V6AH Revolving	Environ- mental Quality	Medical Revolving	Totals	
															1996	1995
<b>Revenues:</b>																
<b>Compact:</b>																
Base grant	\$ 1,890,000	1,357,783	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,247,783	\$ 3,247,783
Inflation adjustment	-	480,000	-	-	-	-	-	-	-	-	-	-	-	-	480,000	460,000
Federal contributions	-	-	2,174,895	-	-	-	-	-	-	-	-	-	-	-	2,174,895	3,095,114
CFSM Grants	-	316,725	-	-	-	-	-	-	-	1,525,595	-	-	-	-	1,842,320	1,821,792
Other	-	-	-	177,061	53,974	10,684	-	-	132,469	-	-	25,691	2,300	215,829	618,008	521,980
<b>Total revenues</b>	<b>1,890,000</b>	<b>2,154,508</b>	<b>2,174,895</b>	<b>177,061</b>	<b>53,974</b>	<b>10,684</b>	<b>-</b>	<b>-</b>	<b>132,469</b>	<b>1,525,595</b>	<b>-</b>	<b>25,691</b>	<b>2,300</b>	<b>215,829</b>	<b>8,363,006</b>	<b>9,146,669</b>
<b>Expenditures:</b>																
Personnel	1,570,503	295,799	1,163,593	13,646	-	-	-	-	-	181,470	-	58,496	-	-	3,283,507	3,192,809
Travel	18	105,802	126,490	36,048	-	-	-	-	-	25,601	-	1,385	(94)	-	295,250	484,445
Supplies and materials	48,434	1,338	66,105	45,195	99,741	6,747	-	-	-	138,014	-	332	89	4,177	410,172	648,905
Fuel	-	500	17,031	3,420	-	-	-	-	-	107	-	-	-	-	21,058	27,403
Equipment	495	13,860	51,398	44,597	-	-	-	-	-	127,641	-	-	-	-	237,991	346,561
Contractual services	-	141,240	290,895	9,600	-	-	-	-	-	723,821	-	-	5,000	-	1,170,556	872,314
Other	92,786	1,233,451	459,383	24,555	12,996	588	-	-	-	28,941	-	506	1,000	77,037	1,931,243	2,117,871
<b>Total expenditures</b>	<b>1,712,236</b>	<b>1,791,990</b>	<b>2,174,895</b>	<b>177,061</b>	<b>112,737</b>	<b>7,335</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,225,595</b>	<b>-</b>	<b>60,719</b>	<b>5,995</b>	<b>81,214</b>	<b>7,349,777</b>	<b>7,690,708</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>177,764</b>	<b>362,518</b>	<b>-</b>	<b>-</b>	<b>(58,763)</b>	<b>3,349</b>	<b>-</b>	<b>-</b>	<b>132,469</b>	<b>300,000</b>	<b>-</b>	<b>(35,028)</b>	<b>(3,695)</b>	<b>134,615</b>	<b>1,013,229</b>	<b>1,455,961</b>
<b>Other financing sources (uses):</b>																
Operating transfers in	-	-	-	-	-	-	-	-	-	-	-	-	-	13,261	13,261	-
Operating transfers out	-	(154,370)	-	-	-	-	-	(148,491)	-	(300,000)	-	-	-	-	(602,861)	(1,404,019)
<b>Total other financing sources (uses), net</b>	<b>-</b>	<b>(154,370)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(148,491)</b>	<b>-</b>	<b>(300,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13,261</b>	<b>(589,600)</b>	<b>(1,404,019)</b>
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses</b>	<b>177,764</b>	<b>208,148</b>	<b>-</b>	<b>-</b>	<b>(58,763)</b>	<b>3,349</b>	<b>-</b>	<b>(148,491)</b>	<b>132,469</b>	<b>-</b>	<b>-</b>	<b>(35,028)</b>	<b>(3,695)</b>	<b>147,876</b>	<b>423,629</b>	<b>51,942</b>
<b>Fund balances (deficit) at beginning 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>-</b>	<b>586,396</b>	<b>534,454</b>
<b>Fund balances (deficit) at end of year</b>	<b>\$ 973,496</b>	<b>38,623</b>	<b>\$ (161,579)</b>	<b>\$ (67,437)</b>	<b>\$ 49,630</b>	<b>\$ 10,792</b>	<b>\$ 240,269</b>	<b>\$ (849,698)</b>	<b>\$ 643,929</b>	<b>\$ (37,783)</b>	<b>\$ 21,120</b>	<b>\$ (11,518)</b>	<b>\$ 12,305</b>	<b>\$ 147,876</b>	<b>\$ 1,010,025</b>	<b>\$ 586,396</b>

See Accompanying Independent Auditors' Report.



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Capital Projects Funds  
September 30, 1996

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.

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**CAPITAL PROJECTS FUNDS**

Combining Balance Sheet

September 30, 1996

(With comparative totals as of September 30, 1995)

	Compact Capital Projects Fund	TTG Capital Projects Fund	Totals	
			1996	1995
<u>ASSETS</u>				
Cash and equivalents	\$ 819,125	-	\$ 819,125	\$ 253,797
Cash - restricted	1,236,692	-	1,236,692	6,954,107
Investments	3,335,937	-	3,335,937	2,335,937
Investments - other	600,000	-	600,000	350,000
Receivables from TTG	-	168,967	168,967	181,026
General receivable	-	-	-	141,477
Advances	40,838	-	40,838	65,118
Loans receivable	7,200,000	-	7,200,000	7,045,881
Due from other funds	986,586	-	986,586	344,756
Allowance for doubtful accounts	(4,750,000)	-	(4,750,000)	(4,750,000)
	<u>\$ 9,469,178</u>	<u>168,967</u>	<u>\$ 9,638,145</u>	<u>\$ 12,922,099</u>
 <u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ 53,354	(397)	\$ 52,957	\$ 73,415
Other liabilities	-	70	70	-
Due to other funds	-	150,361	150,361	1,017,351
	<u>53,354</u>	<u>150,034</u>	<u>203,388</u>	<u>1,090,766</u>
Fund balances:				
Reserved for:				
Related assets	3,050,000	-	3,050,000	2,645,881
Encumbrances	979,132	61,050	1,040,182	1,061,432
Continuing appropriations	6,908,925	-	6,908,925	5,526,994
Unreserved (deficit)	(1,522,233)	(42,117)	(1,564,350)	2,597,026
	<u>9,415,824</u>	<u>18,933</u>	<u>9,434,757</u>	<u>11,831,333</u>
Total liabilities and fund balances	<u>\$ 9,469,178</u>	<u>168,967</u>	<u>\$ 9,638,145</u>	<u>\$ 12,922,099</u>

See Accompanying Independent Auditors' Report.

**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, 1996

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

	Compact Capital Projects Fund	TTG Capital Projects Fund	Totals	
			1996	1995
<b>Revenues:</b>				
<b>Compact of Free Association:</b>				
Base grant	\$ 5,191,800	\$ -	\$ 5,191,800	\$ 5,191,800
Inflation adjustment	2,492,065	-	2,492,065	2,388,228
U.S. Department of the Interior grants	-	491,695	491,695	512,275
Investment income	31,489	18,933	50,422	413,561
<b>Total revenues</b>	<u>7,715,354</u>	<u>510,628</u>	<u>8,225,982</u>	<u>8,505,864</u>
<b>Expenditures:</b>				
Capital projects	1,832,678	491,695	2,324,373	3,669,862
<b>Total expenditures</b>	<u>1,832,678</u>	<u>491,695</u>	<u>2,324,373</u>	<u>3,669,862</u>
Excess of revenues over expenditures	<u>5,882,676</u>	<u>18,933</u>	<u>5,901,609</u>	<u>4,836,002</u>
<b>Other financing sources (uses):</b>				
Repayment of notes payable	(7,100,000)	-	(7,100,000)	(1,000,000)
Interest expense	(1,198,185)	-	(1,198,185)	(1,562,720)
Operating transfers out	-	-	-	(681,325)
<b>Total other financing sources   (uses), net</b>	<u>(8,298,185)</u>	<u>-</u>	<u>(8,298,185)</u>	<u>(3,244,045)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(2,415,509)	18,933	(2,396,576)	1,591,957
Fund balances at beginning of year	11,831,333	-	11,831,333	10,239,376
Fund balances at end of year	<u>\$ 9,415,824</u>	<u>\$ 18,933</u>	<u>\$ 9,434,757</u>	<u>\$ 11,831,333</u>

See Accompanying Independent Auditors' Report.

**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, 1996

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

	Compact Capital Projects Fund	TTG Capital Projects Fund	Totals	
			1996	1995
<b>Revenues:</b>				
<b>Compact of Free Association:</b>				
Base grant	\$ 5,191,800	\$ -	\$ 5,191,800	\$ 5,191,800
Inflation adjustment	2,492,065	-	2,492,065	2,388,228
U.S. Department of the Interior grants	-	491,695	491,695	512,275
Investment income	31,489	18,933	50,422	413,561
<b>Total revenues</b>	<u>7,715,354</u>	<u>510,628</u>	<u>8,225,982</u>	<u>8,505,864</u>
<b>Expenditures:</b>				
Personnel	152,623	2,145	154,768	124,953
Travel	46,968	-	46,968	46,387
Supplies and materials	76,956	5,956	82,912	126,278
Fuel	-	-	-	24
Equipment	151,174	-	151,174	53,066
Contractual services	1,085,094	482,331	1,567,425	3,185,118
Other	319,863	1,263	321,126	134,036
<b>Total expenditures</b>	<u>1,832,678</u>	<u>491,695</u>	<u>2,324,373</u>	<u>3,669,862</u>
<b>Excess of revenues over expenditures</b>	<u>5,882,676</u>	<u>18,933</u>	<u>5,901,609</u>	<u>4,836,002</u>
<b>Other financing sources (uses) :</b>				
Repayment of notes payable	(7,100,000)	-	(7,100,000)	(1,000,000)
Interest expense	(1,198,185)	-	(1,198,185)	(1,562,720)
Operating transfers out	-	-	-	(681,325)
<b>Total other financing sources   (uses), net</b>	<u>(8,298,185)</u>	<u>-</u>	<u>(8,298,185)</u>	<u>(3,244,045)</u>
<b>Excess (deficiency) of revenues and   other financing sources over (under)   expenditures and other financing uses</b>	<u>(2,415,509)</u>	<u>18,933</u>	<u>(2,396,576)</u>	<u>1,591,957</u>
<b>Fund balances at beginning of year</b>	<u>11,831,333</u>	<u>-</u>	<u>11,831,333</u>	<u>10,239,376</u>
<b>Fund balances at end of year</b>	<u>\$ 9,415,824</u>	<u>\$ 18,933</u>	<u>\$ 9,434,757</u>	<u>\$ 11,831,333</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Component Units - Proprietary Funds  
September 30, 1996

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 1993; 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 4L-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.

See Accompanying Independent Auditors' Report.

**STATE OF PohnPEI  
FEDERATED STATES OF MICRONESIA**

**COMPONENT UNITS - PROPRIETARY FUNDS  
Combining Balance Sheet  
September 30, 1996  
(With comparative totals as of September 30, 1995)**

<u>ASSETS</u>	Pohnpei Fisheries Corporation	Pohnpei Port Authority	Pohnpei Utilities Corporation	Pohnpei Economic Development Authority	Pohnpei State Housing Authority	Totals	
						1996	1995
Cash and equivalents	\$ 106,650	\$ 446,860	\$ 339,946	\$ 333,951	\$ 301,939	\$ 1,529,346	\$ 1,145,219
Investments - other	-	-	-	500,500	-	500,500	500,000
General receivable, net	217,136	163,313	2,034,589	264,642	-	2,679,680	3,048,167
Advances	-	10,900	-	7,879	16,323	35,102	53,769
Loans receivables, net	-	-	81,048	-	3,394,556	3,475,604	3,373,952
Inventory, at cost	135,952	-	866,178	2,347	2,276	1,006,753	1,179,184
Self insurance fund	-	-	86,199	-	-	86,199	111,199
Scholarship fund	-	-	3,830	-	-	3,830	3,830
Prepaid expenses and other assets	10,186	-	429,230	-	-	439,416	47,380
Fixed assets, net	8,188,853	8,022,052	33,622,629	452,913	28,513	50,314,960	43,671,472
Due from primary government	-	32,792	-	-	48,007	80,799	-
<b>Total assets</b>	<b>\$ 8,658,777</b>	<b>\$ 8,675,917</b>	<b>\$ 37,463,649</b>	<b>\$ 1,562,232</b>	<b>\$ 3,791,614</b>	<b>\$ 60,152,189</b>	<b>\$ 53,134,172</b>
<b><u>LIABILITIES AND FUND EQUITY (DEFICIENCY)</u></b>							
Liabilities:							
Accounts payable	\$ 806,345	\$ 8,900	\$ 438,390	\$ 116,465	\$ 12,345	\$ 1,382,445	\$ 2,614,828
Accrued payroll and others	58,362	37,351	215,869	26,439	5,494	343,515	376,040
Deferred revenue	-	300,000	353,444	-	-	653,444	619,927
Notes payable	3,543,475	-	330,047	-	-	3,873,522	2,508,862
<b>Total liabilities</b>	<b>4,408,182</b>	<b>346,251</b>	<b>1,337,750</b>	<b>142,904</b>	<b>17,839</b>	<b>6,252,926</b>	<b>6,119,657</b>
Fund equity (deficiency):							
Retained earnings (deficit)	(2,947,701)	414,784	4,976,045	(2,875,213)	(188,317)	(620,402)	(57,802)
Contributed capital	7,198,296	7,914,882	31,149,854	4,294,541	3,962,092	54,519,665	47,072,317
<b>Total fund equity (deficiency)</b>	<b>4,250,595</b>	<b>8,329,666</b>	<b>36,125,899</b>	<b>1,419,328</b>	<b>3,773,775</b>	<b>53,899,263</b>	<b>47,014,515</b>
<b>Total liabilities and fund equity (deficiency)</b>	<b>\$ 8,658,777</b>	<b>\$ 8,675,917</b>	<b>\$ 37,463,649</b>	<b>\$ 1,562,232</b>	<b>\$ 3,791,614</b>	<b>\$ 60,152,189</b>	<b>\$ 53,134,172</b>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**COMPONENT UNITS - PROPRIETARY FUNDS**  
**Combining Statement of Revenues, Expenses and Changes in Fund Equity**  
**Year Ended September 30, 1996**  
**(With comparative totals for the year ended September 30, 1995)**

	Pohnpei Fisheries Corporation	Pohnpei Port Authority	Pohnpei Utilities Corporation	Pohnpei Economic Development Authority	Pohnpei State Housing Authority	Totals	
						1996	1995
<b>Operating revenues:</b>							
Charges for goods and services	\$ 3,899,097	\$ 622,602	\$ 6,671,385	\$ 590,232	\$ 186,594	\$ 11,969,910	\$ 10,915,955
Rental income	-	123,545	-	-	-	123,545	131,080
Other	-	134,646	-	8,916	-	143,562	290,387
<b>Total operating revenues</b>	<b>3,899,097</b>	<b>880,793</b>	<b>6,671,385</b>	<b>599,148</b>	<b>186,594</b>	<b>12,237,017</b>	<b>11,337,422</b>
<b>Operating expenses:</b>							
Personnel services	111,870	460,734	1,242,730	166,674	142,189	2,124,197	2,726,266
Travel	14,445	121,666	15,035	-	418	151,564	324,313
Supplies and materials	-	49,252	122,329	4,811	5,775	182,167	366,252
Fuel	-	4,810	2,664,666	470	-	2,669,946	2,463,301
Contractual services	34,396	81,364	-	-	-	115,760	106,752
Depreciation	-	607,241	2,135,464	57,924	11,185	2,811,814	2,952,596
Other	6,634,642	107,929	2,085,436	468,271	97,715	9,393,993	6,844,122
<b>Total operating expenses</b>	<b>6,795,353</b>	<b>1,432,996</b>	<b>8,265,660</b>	<b>698,150</b>	<b>257,282</b>	<b>17,449,441</b>	<b>15,783,602</b>
<b>Operating loss</b>	<b>(2,896,256)</b>	<b>(552,203)</b>	<b>(1,594,275)</b>	<b>(99,002)</b>	<b>(70,688)</b>	<b>(5,212,424)</b>	<b>(4,446,180)</b>
<b>Nonoperating revenues (expenses):</b>							
Operating transfers in	-	148,491	154,370	143,200	137,155	583,216	1,635,283
Other	488	(202,806)	627,139	(1,243)	13,163	436,741	184,972
<b>Total nonoperating revenues (expenses), net</b>	<b>488</b>	<b>(54,315)</b>	<b>781,509</b>	<b>141,957</b>	<b>150,318</b>	<b>1,019,957</b>	<b>1,820,255</b>
<b>Net income (loss)</b>	<b>(2,895,768)</b>	<b>(606,518)</b>	<b>(812,766)</b>	<b>42,955</b>	<b>79,630</b>	<b>(4,192,467)</b>	<b>(2,625,925)</b>
<b>Add cumulative effect of change in accounting principles</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>778,198</b>
<b>Add depreciation on fixed assets acquired by capital contributions that reduce contributed capital</b>	<b>1,740,585</b>	<b>559,451</b>	<b>1,783,886</b>	<b>-</b>	<b>-</b>	<b>4,083,922</b>	<b>2,367,093</b>
<b>Increase (decrease) in retained earnings</b>	<b>(1,155,183)</b>	<b>(47,067)</b>	<b>971,120</b>	<b>42,955</b>	<b>79,630</b>	<b>(108,545)</b>	<b>519,366</b>
<b>Retained earnings (deficit) at beginning of year, as restated</b>	<b>(1,792,518)</b>	<b>461,851</b>	<b>4,004,925</b>	<b>(2,918,168)</b>	<b>(267,947)</b>	<b>(511,857)</b>	<b>(577,168)</b>
<b>Retained earnings (deficit) at end of year</b>	<b>(2,947,701)</b>	<b>414,784</b>	<b>4,976,045</b>	<b>(2,875,213)</b>	<b>(188,317)</b>	<b>(620,402)</b>	<b>(57,802)</b>
<b>Contributed capital at beginning 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>Contributions</b>	<b>8,338,881</b>	<b>2,418,890</b>	<b>755,121</b>	<b>-</b>	<b>18,378</b>	<b>11,531,270</b>	<b>14,824,272</b>
<b>Less depreciation</b>	<b>(1,740,585)</b>	<b>(559,451)</b>	<b>(1,783,886)</b>	<b>-</b>	<b>-</b>	<b>(4,083,922)</b>	<b>(2,367,093)</b>
<b>Contributed capital at end of year</b>	<b>7,198,296</b>	<b>7,914,882</b>	<b>31,149,854</b>	<b>4,294,541</b>	<b>3,962,092</b>	<b>54,519,665</b>	<b>47,072,317</b>
<b>Fund equity at end of year</b>	<b>\$ 4,250,595</b>	<b>\$ 8,329,666</b>	<b>\$ 36,125,899</b>	<b>\$ 1,419,328</b>	<b>\$ 3,773,775</b>	<b>\$ 53,899,263</b>	<b>\$ 47,014,515</b>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**COMPONENT UNITS - PROPRIETARY FUNDS**

Combining Statement of Cash Flows

Year Ended September 30, 1996

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

	Pohnpei Fisheries Corporation	Pohnpei Port Authority	Pohnpei Utilities Corporation	Pohnpei Economic Development Authority	Pohnpei State Housing Authority	Totals	
						1996	1995
<b>Cash flows from operating activities:</b>							
Operating loss	\$ (2,896,256)	\$ (552,203)	\$ (1,594,275)	\$ (99,002)	\$ (70,688)	\$ (5,212,424)	\$ (4,446,180)
Other income	488	-	47,213	-	-	47,701	12,052
<b>Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:</b>							
Depreciation	2,095,977	607,241	2,135,464	99,115	11,185	4,948,982	2,952,596
Doubtful debt expense	-	39,671	-	166,707	87,585	293,963	694,410
Recovery of bad debts	-	-	-	-	-	-	(3,612)
Inventory loss	-	-	-	-	3,490	3,490	1,037
	<u>(799,791)</u>	<u>94,709</u>	<u>588,402</u>	<u>166,820</u>	<u>31,572</u>	<u>81,712</u>	<u>(789,697)</u>
<b>Changes in assets and liabilities:</b>							
General receivables, gross	168,776	(127,616)	(120,033)	(87,704)	(18,378)	(184,955)	(1,132,249)
Advances	-	19,633	-	(37)	2,188	21,784	(25,958)
Loans receivable, gross	-	-	76,139	-	(265,375)	(189,236)	102,876
Inventory, at cost	255,682	-	(87,980)	1,238	-	168,940	484,869
Prepaid expenses and other assets	7,902	-	(399,938)	-	-	(392,036)	(14,906)
Deferred revenue	-	-	33,517	-	-	33,517	71,054
Receivable from grantor	-	-	-	-	-	-	69,359
Accounts payable	753,533	(19,775)	(438,270)	(3,498)	3,114	295,104	623,230
Accrued payroll and others	(26,836)	(8,133)	26,249	(16,352)	338	(24,734)	(6,615)
	<u>1,159,057</u>	<u>(135,891)</u>	<u>(910,316)</u>	<u>(106,353)</u>	<u>(278,113)</u>	<u>(271,616)</u>	<u>171,660</u>
<b>Net cash provided by (used for) operating activities</b>	<u>359,266</u>	<u>(41,182)</u>	<u>(321,914)</u>	<u>60,467</u>	<u>(246,541)</u>	<u>(189,904)</u>	<u>(618,037)</u>
<b>Cash flows from noncapital financing activities:</b>							
Proceeds from notes payable	-	-	-	-	-	-	(46,143)
Repayments of notes payable	-	-	(85,954)	-	-	(85,954)	-
Operating transfers in	-	148,491	154,370	143,200	137,155	583,216	1,768,188
Other noncapital financing activities	-	(129,741)	843,073	(1,243)	18,378	730,467	132,056
<b>Net cash provided by noncapital financing activities</b>	<u>-</u>	<u>18,750</u>	<u>911,489</u>	<u>141,957</u>	<u>155,533</u>	<u>1,227,729</u>	<u>1,854,101</u>
<b>Cash flows from capital and related financing activities:</b>							
Acquisition of fixed assets	(253,215)	(71,055)	(1,068,518)	(64,197)	(1,888)	(1,458,873)	(2,576,188)
Contributed capital	-	-	755,121	-	-	755,121	600,000
Proceeds from notes payable	-	-	-	-	-	-	281,590
Interest received (paid)	(14,544)	-	-	-	-	(14,544)	720,938
Investment in Pacific Tuna Ventures, Inc.	-	-	-	(500)	-	(500)	-
<b>Net cash used for capital and related financing activities</b>	<u>(267,759)</u>	<u>(71,055)</u>	<u>(313,397)</u>	<u>(64,697)</u>	<u>(1,888)</u>	<u>(718,796)</u>	<u>(973,660)</u>
<b>Cash flows from investing activities:</b>							
Received from (payments to) self-insurance fund, net	-	-	25,000	-	-	25,000	(26,937)
Payments for scholarship fund, net	-	-	-	-	-	-	(299)
Interest income	-	24,629	-	-	13,163	37,792	27,632
Other	-	2,306	-	-	-	2,306	-
<b>Net cash provided by investing activities</b>	<u>-</u>	<u>26,935</u>	<u>25,000</u>	<u>-</u>	<u>13,163</u>	<u>65,098</u>	<u>396</u>
<b>Net increase (decrease) in cash and equivalents</b>	<u>91,507</u>	<u>(66,552)</u>	<u>301,178</u>	<u>137,727</u>	<u>(79,733)</u>	<u>384,127</u>	<u>262,800</u>
Cash and equivalents at beginning of year	15,143	513,412	38,768	196,224	381,672	1,145,219	882,419
Cash and equivalents at end of year	<u>\$ 106,650</u>	<u>\$ 446,860</u>	<u>\$ 339,946</u>	<u>\$ 333,951</u>	<u>\$ 301,939</u>	<u>\$ 1,529,346</u>	<u>\$ 1,145,219</u>

See Accompanying Independent Auditors' Report.



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA  
INDEPENDENT AUDITORS' REPORTS ON COMPLIANCE  
WITH LAWS AND REGULATIONS  
YEAR ENDED SEPTEMBER 30, 1996**



**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, 1996, and have issued our report thereon dated January 28, 1997. 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 of the Component Units - Proprietary Funds; 2) our inability to determine the effects of not updating the General Fixed Assets Account Group; and 3) our inability to determine the propriety of inventory of the Fiduciary Fund Type - Enterprise Fund.

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

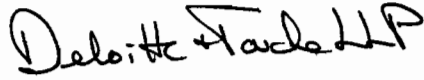
Compliance with laws, regulations, contracts, and grants applicable to the State of Pohnpei is the responsibility of the State of Pohnpei's management. As part of obtaining reasonable assurance about whether the general purpose financial statements are free of material misstatement, we performed tests of the State of Pohnpei's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit 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 no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

We noted certain immaterial instances of noncompliance that we have reported to the management of the State of Pohnpei, which are described in the accompanying Schedule of Findings and Questioned Costs (pages 79 through 87) in Federal findings 1 through 4 and in local findings 1 through 4.

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 28, 1997 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, flowing style.

January 28, 1997



**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, 1996, and have issued our report thereon dated January 28, 1997. 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 of the Component Units - Proprietary Funds; 2) our inability to determine the effects of not updating the General Fixed Assets Account Group; and 3) our inability to determine the propriety of inventory of the Fiduciary Fund Type - Enterprise Fund.

We have also audited the State of Pohnpei's compliance with the requirements governing the Compact of Free Association; types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and claims for advances and reimbursements that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance (pages 63 through 74), for the year ended September 30, 1996. The management of the State of Pohnpei is responsible for the State of Pohnpei's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

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

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying Schedule of Findings and Questioned Costs (pages 79 through 87) in Federal findings 2 through 4. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the State of Pohnpei, complied, in all material respects, with the requirements governing the Compact of Free Association; types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and claims for advances and reimbursements that are applicable to each of its major federal financial assistance programs for the year ended September 30, 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 28, 1997



**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, 1996, and have issued our report thereon dated January 28, 1997. 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 of the Component Units - Proprietary Funds; 2) our inability to determine the effects of not updating the General Fixed Assets Account Group; and 3) our inability to determine the propriety of inventory of the Fiduciary Fund Type - Enterprise Fund. We have also audited the State of Pohnpei's compliance applicable to requirements of major federal financial assistance programs and have issued our report thereon dated January 28, 1997.

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 63 through 74), for the year ended September 30, 1996: cash management, federal financial reports, allowable costs/cost principles, Drug-Free Workplace Act, and administrative requirements.

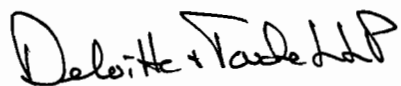
The requirements of political activity, Davis-Bacon Act, civil rights and relocation assistance and real property acquisition are not applicable to the federal financial assistance programs of the State of Pohnpei, which are identified in the Schedule of Federal Financial Assistance.

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 79 through 87) in Federal Findings 3 and 4.

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 28, 1997.

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 28, 1997



**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, 1996, and have issued our report thereon dated January 28, 1997. 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 of the Component Units - Proprietary Funds; 2) our inability to determine the effects of not updating the General Fixed Assets Account Group; and 3) our inability to determine the propriety of inventory of the Fiduciary Fund Type - Enterprise Fund. 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 28, 1997.

In connection with our audit of the 1996 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, 1996.

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 an immaterial instance of noncompliance with these requirements, which is described in the accompanying Schedule of Findings and Questioned Costs (pages 79 through 87) in Federal finding number 1.

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 28, 1997





**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, 1996, and have issued our report thereon dated January 28, 1997. 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 of the Component Units - Proprietary Funds; 2) our inability to determine the effects of not updating the General Fixed Assets Account Group; and 3) our inability to determine the propriety of inventory of the Fiduciary Fund Type - Enterprise Fund. We have also audited the State of Pohnpei's compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated January 28, 1997.

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, 1996, 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 28, 1997.

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

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, 1996, the State of Pohnpei expended 91% of its total federal financial assistance under major federal financial assistance programs (see page 78).

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 63 through 74). 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.

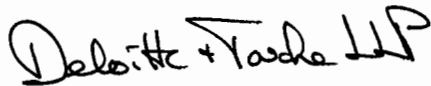
We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant 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 79 through 87) in Federal findings 1 through 4.

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 communicated other observation 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 28, 1997.

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 28, 1997

**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, 1996, and have issued our report thereon dated January 28, 1997. 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 of the Component Units - Proprietary Funds; 2) our inability to determine the effects of not updating the General Fixed Assets Account Group; and 3) our inability to determine the propriety of inventory of the Fiduciary Fund Type - Enterprise Fund. 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 statements based on our audit.

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

Our audit was 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 63 through 74) for the year ended September 30, 1996, 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 28, 1997

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Federal Financial Assistance  
U.S. Federal Assistance Fund  
Year Ended September 30, 1996

Grantor Program Title	Pohnpei Org. #	CFDA I.D. #	1996 Fiscal Year Expenditures
<u>U.S. Department of Agriculture</u>			
FY93 Forestry Project	3339	10.664	\$ 5,792
FY95 Forestry Project	3341	10.664	10,282
FY93 Forestry Project	3351	10.664	4,243
FY 94 Fire Prevention Project	3353	10.664	4,060
FY 95 Fire Prevention Project	3354	10.664	2,121
Food Services	3388	10.555	6,187
			<u>32,685</u>
<u>U.S. Department of Education</u>			
FY93 Special Education Program	3110	84.027	3
FY94 Special Education Program	3113	84.027	(187)
FY95 Special Education	3114	84.027	805,486
			<u>805,302</u>
<u>U.S. Department of the Interior</u>			
FY95 Historic Preservation	3453	15.904	35,660
FY94 Historic Preservation	3467	15.904	203
FY95 Pohnpei OMIP Program Hospital	3532	15.875	55,051
Financial Management Improvement	3541	15.875	81,539
Hospital Maintenance & Improvements	3542	15.875	44,348
Treasury OMIP Matching	3543	15.875	3,523
FY95 OMIP Seaport Airport	3553	15.875	12,500
Multi-agency Anti Fraud	3566	15.875	6,994
			<u>239,818</u>
<u>U.S. Department of Health and Human Services</u>			
FY95 Mental Health Information	3627	93.119	7,528
FY95 Sexually Transmitted Diseases	3633	93.977	915
FY 95 Immunization Program	3634	93.268	14,058
FY95 Community Health	3635	93.224	29,936
FY95 Aids Prevention	3636	93.940	3,667
FY95 Tuberculosis Control	3637	93.116	6,439
FY95 Family Planning	3638	93.217	18,444
Community Based Health Education	3639	93.163	180
FY95 MCH Program	3642	93.994	84,360
			<u>165,527</u>
Balance Forward U.S. DHHS			<u>1,077,805</u>
Balance Forward			<u>1,077,805</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, 1996

Grantor Program Title	Pohnpei Org. #	CFDA I.D. #	1996 Fiscal Year Expenditures
Balance Forwarded			\$ 1,077,805
<u>U.S. Department of Health and Human Services Balance Forwarded</u>			165,527
FY95 MCH/CSHCN	3643	93.994	11,943
FY95 Substance Abuse	3644	93.959	86,207
FY95 Substance Abuse	3645	93.959	14,439
FY95 Public Health & Preventive Health	3646	93.991	5,475
FY96 Community Health Center	3647	93.163	84,703
FY96 Sexually Transmitted Diseases	3648	93.977	6,058
FY96 Immunization	3649	93.268	29,027
FY96 Tuberculosis & Aids	3650	93.116	15,353
FY96 Aids Prevention	3651	93.940	2,793
FY97 Family Planning	3652	93.217	1,884
FY96 MCH Program	3654	93.944	213
			<u>423,622</u>
<u>U.S. Department of Labor</u>			
FY94 JTPA Administration	3201	17.250	1,320
FY94 JTPA Youth Program	3202	17.250	2,542
FY94 JTPA Adult Program	3203	17.250	7,456
FY94 JTPA Participant Support	3204	17.250	1,461
FY95 JTPA Administration	3207	17.250	64,081
FY95 JTPA Adult Program	3208	17.250	109,140
FY95 JTPA Youth Program	3209	17.250	56,777
FY95 JTPA Technical Assistance	3219	17.250	13,132
FY93 Participant Support	3225	17.250	6,343
FY93 JTPA Education Coordinator	3229	17.250	49,802
			<u>312,054</u>
Balance Forward			<u>1,813,481</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, 1996

Grantor Program Title	Pohnpei Org. #	CFDA I.D. #	1996 Fiscal Year Expenditures
Balance Forwarded			\$ 1,813,481
<u>Federal Emergency Management Agency</u>			
FEMA Administration Cost	3757	83.516	2,903
Environmental Health	3761	83.516	803
Hazard Mitigation Management Cost	3765	83.516	7,568
Pingelap Airstrip Typhoon	3780	83.516	49,887
Governor Office Yuri	3783	83.516	47
Hazard Mitigation Food	3789	83.516	27,003
Mwoakilloa Airstrip	3790	83.516	49,029
Hazard Mitigation Project	3796	83.516	938
			<u>138,178</u>
<u>Direct U.S. Grants - U.S. Department of Education</u>			
FY95 PNI Educational Grant	3818	84.256A	105,376
Freely Assoc. Ed. Grant	3820	84.256A	117,677
			<u>223,053</u>
Total U.S. Federal Assistance Fund			<u>\$ 2,174,712</u>

Note: The above grants are received in a subgrant capacity through the FSM National Government, except for the Pohnpei Educational Grant programs (org. 3818 and 3820 with CFDA #84.256A) which were received directly from the U.S. Department of Education.

Reconciliation to financial statements:

Expenditures above	\$ 2,174,712
Clinical Protocol Nurses - a WHO grant	<u>183</u>
Balance per financial statements	<u>\$ 2,174,895</u>

See accompanying notes to schedule of federal financial assistance.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Federal Financial Assistance, Continued  
Other Federal and Direct Assistance Fund  
Year Ended September 30, 1996

Grantor Program Title	Pohnpei Org. #	CFDA I.D. #	1996 Fiscal Year Expenditures
<u>World Health Organization</u>			
Community Based Watershed	3925	N/A	\$ (9,310)
Clinical Protocol Nurse	3641	N/A	<u>183</u>
			<u>(9,127)</u>
 <u>Other Non-U.S. Grants</u>			
Ultrasound Health Service	3924	N/A	11,615
Sea Turtle Enhancement	3926	N/A	5,652
Capacity 21/Earth Day Celebration	3927	N/A	9,721
FY95 Watershed Biodivers	3932	N/A	28,018
Correction/Rehab/Ed. Project	3936	N/A	999
Peasat	3938	N/A	9,600
PREL Confrence Contribution F.	3939	N/A	1,897
Vocational Education Improvement Program	3947	N/A	69,193
Food Production & Nutrition	3948	N/A	5,912
Division of Forestry	3951	N/A	440
Medical Equipment/Instruments	3953	N/A	1,160
Math and Science Program	3955	N/A	12,812
EDA Purchases of Fuel	3957	N/A	3,320
Hemodialysis Medical Supplies	3958	N/A	1,709
Public Safety Computer	3959	N/A	23,000
TCPC Teacher Training Program	3960	N/A	478
Marine Environment Education Program	3965	N/A	<u>845</u>
			<u>186,371</u>
Total Other Federal and Direct Assistance Fund			<u>\$ 177,244</u>

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

Reconciliation to financial statements:

Expenditures above	\$ 177,244
Clinical Protocol Nurse Grant	<u>(183)</u>
Balance per financial statements	<u>\$ 177,061</u>

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, 1996

Program Title	Pohnpei Org. #	CFDA I.D. #	1996 Fiscal Year Expenditures
Supreme Court Operations	4873	N/A	\$ 87,517
Sapwufik Airstrip	4894	N/A	18,447
Pohnpei Medical Services	4906	N/A	8,041
Oroluk Marine Station	4915	N/A	1,361
Pohnpei Cultural Education	4917	N/A	436
Elementary & Secondary Education	4922	N/A	356
Pingelap Airstrip	4932	N/A	21
Mwoakilloa Airstrip	4933	N/A	1,854
Police and Security	4948	N/A	1,120
Aramas Kapw	4951	N/A	152
Hospital Renovation	4952	N/A	62,631
PICS Facilities Improvement	4954	N/A	24,692
OMIP Matching-Pohnpei 91	4955	N/A	65,714
Joint Law Enforcement/Corr. Rehab.	4956	N/A	137,623
Pohnpei Tourist Commission	4958	N/A	8,395
Second Year OMIP Matching	4959	N/A	63,744
Circumferential Road/Paving VI	4961	N/A	694,998
Pohnpei State Scholarship	4962	N/A	(2,000)
Pharmaceuticals/Equipment/Refferals	4963	N/A	50,493
Medical Supplies/Hemodialysis	4966	N/A	300,000
			<u>300,000</u>
Total CFSM Projects Fund			\$ <u><u>1,525,595</u></u>

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

Per CFSM State Projects financial statements	\$ 1,225,595
Transfer out to General Fund (org. 4963)	286,739
Transfer out to Medical Revolving Fund (org. 4963)	<u>13,261</u>
	\$ <u><u>1,525,595</u></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, 1996

Grantor Program Title	Pohnpei Org. #	CFDA I.D. #	1996 Fiscal Year Expenditures
<u>Trust Territory of the Pacific Islands</u>			
Pohnpei Hospital Renovation	6323	15.875	\$ 9,364
Kolonia Sewer System	6324	15.875	52,298
Kolonia Road Paving CIP	6326	15.875	49,000
Kolonia Roadside	6329	15.875	261,454
Kolonia Sewer System	6336	15.875	68,334
PNI Circumferential Road	6338	15.875	51,245
Total TTPI Capital Projects Fund			<u>\$ 491,695</u>

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

See accompanying notes to schedule of federal financial assistance.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Federal Financial Assistance, Continued  
Compact of Free Association Special Block Grant Fund  
Section 221(B)  
Year Ended September 30, 1996

Grantor Program Title	Pohnpei Org. #	CFDA I.D. #	1996 Fiscal Year Expenditures
<u>Office of Territorial and International Affairs</u>			
Secondary Education	2150	15.875	\$ <u>1,712,236</u>
Total Compact of Free Association Special Block Grant Fund - Section 221(B)			\$ <u><u>1,712,236</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 reallocates such to the component States.

See accompanying notes to schedule of federal financial assistance.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Federal Financial Assistance, Continued  
Compact of Free Association Other Grants Fund  
Year Ended September 30, 1996

<u>Program Title</u>	<u>Pohnpei Org. #</u>	<u>CFDA I.D. #</u>	<u>1996 Fiscal Year Expenditures</u>
<u>Section 212(A) - Special Development Programs</u>			
Maintenance Unpaved Protio Circuit	2528	15.875	\$ 9,240
OMIP Matching	2529	15.875	81,539
FY96 National Health Ins.	2530	15.875	184,020
FY96 Hotel Resort C. Comm.	2531	15.875	3,771
FY95 Runoff Election	2532	15.875	51,262
FY96 CAT Team Operation	2533	15.875	132,000
			<u>461,832</u>
<u>Section 216(A)(2) - Health and Medical Programs</u>			
FY93 Medical Referrals	2356	15.875	347,849
			<u>347,849</u>
<u>Section 214(B) - Energy Programs</u>			
Treasury	2752	15.875	29,179
Public Safety	2753	15.875	35,161
OP & GR	2755	15.875	13,499
Land Commission	2756	15.875	4,144
PUC	2757	15.875	3,759
PBC Electicity	2759	15.875	3,800
PUC	2761	15.875	154,370
State Court	2762	15.875	21,760
RECDS (Farmers Home Adminstration)	2765	15.875	6,151
Health Services	2780	15.875	338,253
Public Auditor's Office	2781	15.875	2,952
Foreign Investment Board	2782	15.875	1,348
Election Commission	2785	15.875	12
Public Library	2786	15.875	8,659
OBP&S	2787	15.875	8,205
Conservation & Resource Surveillance	2789	15.875	79,864
Legislature	2792	15.875	27,258
Education	2793	15.875	66,924
Economic Development Authority	2794	15.875	3,236
Pohnpei State Housing Authority	2795	15.875	1,575
Sports Council	2796	15.875	1,589
Environmental Protection Agency	2797	15.875	2,250
Office of the Governor	2798	15.875	6,009
			<u>819,957</u>

See accompanying notes to schedule of federal financial assistance.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Federal Financial Assistance, Continued  
Compact of Free Association Other Grants Fund, Continued  
Year Ended September 30, 1996

<u>Program Title</u>	<u>Pohnpei Org. #</u>	<u>CFDA I.D. #</u>	<u>1996 Fiscal Year Expenditures</u>
<b><u>Section 216(A)(3) - Scholarship Programs</u></b>			
FY88 Scholarship Assistance Grant	2902	15.875	12,500
FY92 Post Secondary Assistance	2908	15.875	17,250
FY 94 Post Secondary Assistance	2910	15.875	2,000
FY95 Post Secondary Assistance	2911	15.875	250
FY96 Post Secondary Assistance	2912	15.875	284,722
			<u>316,722</u>
<b>Total Compact of Free Association Other Grants Fund</b>			<b>\$ <u>1,946,360</u></b>

A reconciliation of the above expenditures is shown below:

Per the respective fund financial statements	\$ 1,791,990
Transfer out to PUC (org. 2761)	<u>154,370</u>
	<b>\$ <u>1,946,360</u></b>

**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, 1996

Grantor Program Title	Pohnpei Org. #	CFDA I.D. #	1996 Fiscal Year Expenditures
<b><u>Office of Territorial and International Affairs</u></b>			
6065 A&E Circumferential Road	6009	15.875	\$ 49,409
Kinalapw Elementary School	6030	15.875	12,016
FY96 MTN Debt Payment	6099	15.875	8,298,185
Kitti/Sokehs/Madolenihmw Circumferential Road	6172	15.875	16,566
Meitik Nankurupwung Bridge	6178	15.875	(52,000)
Pohnpei Dock Extension	6179	15.875	102,000
Land & Survey	6213	15.875	1,490
Circumferential Road Maintenance	6216	15.875	4,689
Maintenance of Nanmadol Ruins	6230	15.875	8,297
A&E Construction/Upgrade Madol R	6232	15.875	(520)
Water Distribution/Kapinga	6233	15.875	520
Pepper Processing Plant	6234	15.875	29,860
Legislature Chamber Renovation	6236	15.875	69,686
Sapwuahfik Construction	6238	15.875	15,000
Paving of Dien Second Road	6240	15.875	433
Madolenihmw Infrastructure Project	6241	15.875	1,444
Access Road Nanpohnmal/Nanpil	6243	15.875	85,396
Sanitary Water Tank	6246	15.875	3,807
Tourism Master Plan	6247	15.875	46,000
Tourism Promotion and Marketing	6248	15.875	150,000
Manpower Skills Development Program	6249	15.875	12,559
FY93 CIP Administration Cost	6250	15.875	2,575
Fish Processing Plant Maintenance	6252	15.875	20,537
Pepper Development Project	6253	15.875	50
Broiler Project	6254	15.875	2,215
School Buses	6256	15.875	(2,069)
Pingelap Dispensary	6258	15.875	2,321
Road Maintenance & Culverts Construction	6267	15.875	4,758
Paies Water System	6269	15.875	12,671
Development and Maintenance	6279	15.875	6,243
Second Five Year Development Plan	6281	15.875	2,742
Broiler Development	6283	15.875	14,485
Micro Glory Drydocking	6286	15.875	23,000
Kolonia Town CIP	6287	15.875	1,606
Circumferential Road Paving	6289	15.875	30,468
Kitti Municipal CIP	6291	15.875	30,000
Nukuoro Municipal CIP	6292	15.875	9,714
Upper Sapwohn Road Maintenance	6297	15.875	4,500
U Poder Ext. Pohnwet Sec 3	6404	15.875	17,000
Pepperoom Purchase	6408	15.875	34,685
Enpeinpah Water System Construction	6411	15.875	30,976
Renovation of Public Land Office	6412	15.875	90,688
Unpaved Road Maintenance	6413	15.875	52,564
Purchase of School Buses	6414	15.875	77,616
Family Food Nutrition	6415	15.875	4,458
<b>Balance Forward</b>			<b>9,328,640</b>

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, 1996

Grantor Program Title	Pohnpei Org. #	CFDA I.D. #	1996 Fiscal Year Expenditures
Balance Forwarded			\$ 9,328,640
Land & Survey	6416	15.875	53,580
Madolenihmw Development Project	6417	15.875	11,023
Tourist Promotion and Marketing	6418	15.875	63,685
Kolonia Town Road Project	6419	15.875	9,200
Development/Maintenance Tourist A/Site	6420	15.875	102,483
Upgrading Public Market	6421	15.875	6,000
Danpei/Ipwal Road Maintenance	6423	15.875	10,000
Apwarahn Road Maintenance	6424	15.875	500
Sapwuahfik Municipal Development Project	6425	15.875	19,791
Mwoakilloa Municipal Development Project	6426	15.875	21,829
Purchase and installation	6428	15.875	85
Nukuoro Agriculture Project	6431	15.875	820
Circumferential Road Paving	6433	15.875	400,992
Contingency for Power	6435	15.875	5,165
Spur Line Rohi Elementary School	6436	15.875	3,960
Pepper Project	6437	15.875	14,850
Nukuoro Black Pearl	6438	15.875	35,000
Uh Municipal Vehicle	6439	15.875	19,737
UH Business Center Contribution	6445	15.875	20,000
Financial Management Performance	6447	15.875	3,523
Total Compact of Free Association Capital Projects Fund - Section 211 (A) Capital Accounts			<u>\$ 10,130,863</u>

Note 1: A reconciliation of the above expenditures to the general-purpose financial statements is shown below:

Per general-purpose financial statements	\$ 1,832,678
FY95 MTN Debt payment (6099)	<u>8,298,185</u>
	<u>\$ 10,130,863</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, 1996

<u>Grantor Program Title</u>	<u>Pohnpei Org. #</u>	<u>CFDA I.D. #</u>	<u>1996 Fiscal Year Expenditures</u>
<u>Office of Territorial and International Affairs</u>			
General Fund:			
Current Account	Various	15.875	\$ <u>10,665,324</u>
Total Compact of Free Association expenditures			\$ <u>24,454,783</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 reallocs 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, 1996

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

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, 1996

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. On page 77 is the Pohnpei Utilities Corporation's Schedule of Federal Financial Assistance, as extracted from the above mentioned audit reports.

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, 1996</u>
Compact of Free Association:			
Capital Account Funds - Capital Projects, Section 211(A)	DOI-OTIA	15.875	\$ <u>4,049,220</u>
Total U.S. Department of the Interior			\$ <u>4,049,220</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 reallots such to the component States. Pohnpei State subsequently passed certain of these funds through to the Pohnpei State Housing Authority (PSHA). The Housing Preservation Grant (HPG) funds are received in a subgrantee capacity through the Pohnpei Farmers Home Administration Office.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Pohnpei Utilities Corporation  
Schedule of Federal Financial Assistance  
Year Ended September 30, 1996

Grantor/Program Title	CFDA No.	Total Authorizations	Prior Years' Expenditures	Expenditures for the Year Ended Sept. 30, 1996	Total Program Expenditures
<b>U.S. Department of the Interior:</b>					
<b>Office of Territorial and International Affairs:</b>					
<b>Compact of Free Association:</b>					
Energy Program funds, Section 214(B)	15.875	\$ 2,620,000	\$ 2,667,904	\$ 154,370	\$ 2,822,274
Capital Account funds, Section 211(A)	15.875				
OMIP-First Year Electrical Match		322,250	296,592	-	296,592
OMIP-First Year Water and Sewer Match		1,428,250	1,191,911	38,390	1,230,301
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
Pingelap Solar		196,000	-	103,175	103,175
		<u>2,862,744</u>	<u>2,404,747</u>	<u>141,565</u>	<u>2,546,312</u>
<b>Operations and Maintenance Improvement</b>					
<b>Programs (OMIP):</b>					
Initialization of the PUC	15.875	430,250	430,249	-	430,249
Pohnpei Water, Sewerage and Solid Waste Utilities Development, First-Year		810,000	573,660	38,390	612,050
Pohnpei Water, Sewerage and Solid Waste Utilities Development, Second-Year		665,000	177,790	213,569	391,359
Pohnpei Power Generation and Distribution Second-Year		273,468	273,468	-	273,468
Pohnpei Power Generation and Distribution Third-Year		370,000	119,965	217,263	337,228
OMIP Bench		71,000	44,521	26,479	71,000
		<u>2,619,718</u>	<u>1,619,653</u>	<u>495,701</u>	<u>2,115,354</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
DOI Hazard Mitigation Program	15.875	1,100,000	100,000	365,207	465,207
Audit Grant	15.875	32,000	32,000	-	32,000
		<u>1,332,000</u>	<u>332,000</u>	<u>365,207</u>	<u>697,207</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	426,244	233,084 *	659,328
		<u>987,599</u>	<u>754,515</u>	<u>233,084</u>	<u>987,599</u>
Kolonia Water Improvements	15.875	290,700	290,700	-	290,700
		<u>\$ 10,847,761</u>	<u>\$ 8,204,519</u>	<u>\$ 1,389,927</u>	<u>\$ 9,594,446</u>

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

\* The Kolonia Sewer Project is contracted with the State of Pohnpei and therefore this information is provided to the State relative to the amount of expenditures incurred to September 30, 1996.



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 1996

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

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

Condition: Of thirty-nine participants approved by JTPA, two files could not be located and seven participants' applications lacked information about family income.

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

Effect: Noncompliance with program guidelines results.

Prior Year Status: Incomplete participant files was cited as a finding in the 1995 Single Audit Reports.

Recommendation: Participant files should be established and maintained in accordance with program requirements starting in fiscal year 1997.

Auditee Response and Corrective Action Plan: We concur with the finding. Staff of JTPA has been instructed to review and complete the participant files.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs, Continued**

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

2. **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 PICS Transition Center. Improvements are needed to ensure that all IEP forms are completely and thoroughly filled out.

1. The State should procure a parent consent form when reviews and/or re-evaluations are to be performed. For 6 (or 43%) out of 14 students tested, the State did not have a parent consent form in the IEP file.
2. The State should ensure that IEPs include a statement of present levels of educational performance.
3. The State should complete the statement of annual goals including short term objectives to ensure that an eligible student's needs are met. For 1 (or 7%) out of 14 IEPs tested, one IEP did not include a statement of annual goals.
4. The State should complete the statement of the special education and related services to be provided to ensure that an eligible student's needs are met. For 2 (14%) out of 14 IEPs tested, two IEPs did not include a statement of the special education and related services to be provided.
5. The State should ensure that the IEPs have projected dates for initiation and the anticipated duration of the services for the purpose of meeting an eligible student's unique needs. For 9 (or 64%) out of 14 IEPs tested, the IEPs did not include projected dates for initiation and the anticipated duration of the services.
6. The State should ensure that each student's education performance is determined at least annually. For 1 (or 7%) out of 14 students tested, one participant's annual review for fiscal year 1996 was not performed.

We also randomly selected for review 24 pupil IEP files from outlying resource centers. Twenty two of the twenty four files selected were unavailable for review.

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

**Effect:** Pohnpei State appears to be in noncompliance with DHHS requirements regarding maintenance of pupil IEP files. Records maintained do not allow a determination of the amount of Special Education funds spent for pupil with inadequate IEPs.

**Prior Year Status:** Inadequate pupil files was reported as a finding in the 1995 Single Audit Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs, Continued**

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

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

Auditee Response and Corrective Action Plan: We concur with this finding. A memo was sent to the Director of Education last year regarding 1995 audit. Another memo and a meeting will be held with the Director of Education to ensure the Auditors' recommendations are carried through.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Federal Findings and Questioned Costs, Continued**

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

3. 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>Check #</u>	<u>Amount</u>
8358	\$ 5,216
8083	<u>3,050</u>
	\$ <u>8,266</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 and Corrective Action Plan: The PUC concurs with the finding. The PUC follows informal procurement regulations particular to obtaining or various quotations before awarding or purchases. However, for the items cited, the regulation was not followed because of the following reasons.

- a. Check 8358 \$ 5,216

Time constrains. The PUC needed the computer as soon as possible to be used for the networking of the PUC Finance department. Only one quotation was obtained which had all specifications required for the networking. The PUC concurs however that such exceptions be documented.

- b. Check 8083 \$ 3,050

The Company in charge of installing the telemetering system for the PUC recommended the purchase of the computer from Decision Support Services. No other quotations were obtained. The PUC concurs that such exceptions are necessary to be documented.



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**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>4. 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> Compact capital funds were used to fund administrative expenses. It is uncertain whether this amount falls within the 1.5% administrative allowance and has therefore been questioned.</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 and Corrective Action Plan:</u> The previous Executive Director had submitted to the Board and same with the Governor an annual budget that is reasonable to cover all expenditures for the sound operations of the Authority. Nevertheless, the Pohnpei State Legislature had cut said budget, the salary of the Loan Packager in particular, along with other indispensable expenditures. With the increasing housing loan assistance given by both PSHA and Rural Development, the services of the unbudgeted Loan Packager is essential for packaging and processing housing loans. In order to continue the sound implementation of the low cost housing program for the low income families of Pohnpei, the Authority was constrained to seek the Board's approval for the fund transfer and thereafter inevitably incurred such unbudgeted administrative expenditures.</p>	<p>\$ 15,182</p>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Local Findings**

**Financial Management Act/Unappropriated Expenditures**

1. **Criteria:** The Financial Management Regulations requires that unless otherwise specifically authorized by law, no officer or employee of the Pohnpei State Government or allottee of funds shall make or authorize an expenditure from, or create or authorize an obligation pursuant to any appropriation, apportionment, reapportionment, grant, or allotment of funds of the Pohnpei State Government in excess of the amount made available by law or grant agreement.

**Condition:** Total medical referral expenditures incurred exceeded the budgetary authority.

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

**Effect:** Noncompliance with the Financial Management Act results.

**Recommendation:** Medical referral expenditures have been accrued in the financial statements do not appear to have been originated in accordance with law. While we understand that the State may ultimately be liable for these amounts, it appears that these medical referral liabilities were incurred outside of the Financial Management Act. Therefore, we recommend additional legal review of this matter occur to ensure that the State does not create a precedent. Additionally, if the Financial Management Act is not currently enforceable, the recommended legal review should suggest necessary revision.

**Auditee Response and Corrective Action:** We concur with the finding. On the technical side, Department of Treasury and Department of Health Services will develop a system where an estimate for the cost of medical referral could be established and booked. On the policy side, the leadership needs to make a decision on whether the State could continue to refer patients when funding for services are exhausted.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Local Findings, Continued**

**Compact Energy Funds**

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

**Condition:** Compact energy funds totaling \$665,587 were expended in payment of the State's utility bills. The use of Compact Energy Funds in such a manner may be inconsistent with Section 214 of the Compact.

**Cause:** 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.

**Effect:** Potential noncompliance with the intent of the Compact Treaty could result from the above condition.

**Prior Year Status:** Use of Compact energy funds for payment of the State's Utility bills was cited as a finding in the 1995 Single Audit report.

**Recommendation:** Pohnpei State should continue its efforts to obtain a legal opinion from the National Government which supports the State's position to ensure that Compact Capital expenditures comply with the applicable provisions of the Compact.

**Auditee Response and Corrective Action Plan:** We concur with this finding. The State will continue to lobby and put pressure on the National Government to resolve this finding.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Local Findings, Continued**

**Compact Capital Funds**

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

Condition: During fiscal year 1996, Compact CIP funds amounting to \$23,000 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: Use of Compact CIP funds for general maintenance of the M/S Micro Glory was cited as a finding in the 1995 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: We concur with this finding. The State will work with the National Government in resolving this finding.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1996

**Local Findings, Continued**

**Compact Special Development Fund**

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

**Condition:** During fiscal year 1996, Pohnpei State Government charged \$184,020 to Special Development Org. 2530, National Health Insurance. However, only \$159,000 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.

**Prior Year Status:** Charging Special Development funds in excess of appropriated amounts was reported as a finding in the 1995 Single Audit Report.

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

**Auditee Response and Corrective Action Plan:** We concur with this finding. The Budget estimate for this expenditure was inaccurate resulting in an under appropriation by the State Legislature in fiscal year 1996 budget. 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. A memorandum was sent to Governor's office advising of this shortfall however an appropriation failed to materialize. A request will be made to the Legislature to approve this expenditures. The appropriation in fiscal year 1997 was increased to ensure that sufficient budget is allocated to cover the government share of the health care insurance.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**Resolution of Prior Years' Findings and Questioned Costs  
Year Ended September 30, 1996**

**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	72,465
FY96 unresolved questioned costs	<u>15,182</u>
Total outstanding federal questioned costs	\$ <u>1,483,270</u>

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

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA  
INDEPENDENT AUDITORS' REPORT ON THE  
INTERNAL CONTROL STRUCTURE  
YEAR ENDED SEPTEMBER 30, 1996**

**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, 1996, and have issued our report thereon dated January 28, 1997. 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 of the Component Units - Proprietary Funds; 2) our inability to determine the effects of not updating the General Fixed Assets Account Group; and 3) our inability to determine the propriety of inventory of the Fiduciary Fund Type - Enterprise Fund.

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

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, 1996, 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 92 through 99) in Findings 1 - 3, 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.

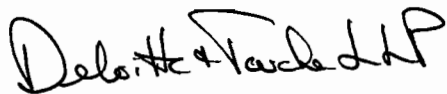
A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose financial 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 communicated other observations, which are presented in the accompanying Schedule of Internal Control Findings in finding numbers 4 through 8, 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 28, 1997.

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, stylized font.

January 28, 1997

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings  
Year Ended September 30, 1996

**Unfunded Expenditures**

**Finding No. 1**

**Criteria:** A functioning system of internal controls requires that expenditures incurred should not exceed budgetary authority.

**Condition:** Medical referral services expenditures exceeded budgetary authority.

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

**Effect:** Pohnpei State had \$356,000 of outstanding medical referral bills in excess of the authorized medical referral funding for the fiscal year 1996.

**Recommendation:** Pohnpei State Department of Health Services should ensure that funds are available prior to committing the State to incur expenditures that are not legally authorized.

**Auditee Response and Corrective Action Plan:** We concur with this finding. On the technical side, Department of Treasury and Department of Health Services will develop a system where an estimate for the cost of medical referral could be established and booked. On the policy side, the leadership needs to make a decision on whether the State could continued to refer patients when funding for services are exhausted.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1996

**Encumbrance Reconciliation**

**Finding No. 2**

**Criteria:** A functioning system of internal control requires that the encumbrance subsidiary ledger be reviewed periodically for voided or invalid transactions.

**Condition:** A local purchase order which had been voided and reissued under a different number was not removed from the encumbrance ledger. In addition, a review of encumbrances revealed the following:

**All Funds:** Approximately half of the funds encumbered for travel expenses appear to be related to travel authorizations originating in fiscal years 1991 to 1994.

**General Fund:** \$21,200 in municipal government contracts showed no movement in fiscal year 1996 and were still open as of year-end.

**Cause:** The departments and agencies have the responsibility to inform State Finance to deobligate invalid encumbrances.

**Effect:** The above condition results in an overstatement of encumbrance reserves.

**Recommendation:** Pohnpei State should ensure that the encumbrance subsidiary ledger is reconciled by the appropriate departments on a regular basis and that the basis for dated encumbrances is documented.

**Auditee Response and Corrective Action Plan:** We agree with this finding. We have reconciled this account in fiscal year 1997.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1996

**Fixed Assets**

**Finding No. 3**

**Criteria:** A summary schedule of the fixed asset detail produced by the automated fixed asset subsystem, classified by major assets category, should be maintained.

**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 the other branches of the State Government are maintaining their own fixed assets ledger with different tag number systems, therefore such assets are not included on the official fixed assets register stipulated by Financial Management Act.

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

**Prior Year Status:** Insufficient controls over updating of fixed assets data was reported as a finding in the Single Audit of Pohnpei State for the years 1988 through 1995.

**Recommendation:** We recommend that Pohnpei State Government 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.

**Auditee Response and Corrective Action Plan:** We concur with this finding. We have a problem with the fixed assets system and have tried to correct this problem with the assistance of computer advisors, however, the problem did not get resolved. Pohnpei is migrating to UNIX with new versions of dilog in October 1997. With this new system we expect the fixed assets problem to be resolved.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1996

**Automated System**

**Finding No. 4**

**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.

**Prior Year Status:** Inadequate controls over safeguarding back-up files or tapes was reported as a finding in the Single Audits of Pohnpei State for fiscal years 1990 through 1995.

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

**Auditee Response and Corrective Action Plan:** We concur with this finding. We plan to purchase some fire proof cabinets to store the back-up files. Other alternatives would be too costly.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1996

**Revenue and Receipt Cycle**

**Finding No. 5**

**Criteria:** Timely deposit of cash receipts from the Supreme Court 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 increase the risk that theft or fraud may occur.

**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 years 1994 and 1995.

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

**Auditee Response and Corrective Action Plan:** We concur this finding. Some effort to correct this situation has been made. We will continue to pursue this with the Chief Justice and his Director of Court Administration.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1996

**Travel Advances**

**Finding No. 6**

**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.

**Prior Year Status:** The lack of detail of travel advances was reported as a finding in the Single Audit of Pohnpei State for fiscal year 1995.

**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 doing manual reconciliation. When reconciliation is done, we will expense out the old travel advances.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1996

**Revolving Funds**

**Finding No. 7**

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

**Condition:** Pohnpei State continues to maintain the accounting for the Seaport Revolving Fund and Airport Revolving Fund while component units have 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.

**Prior Year Status:** The maintenance of the Seaport Revolving Fund and the Airport Revolving Fund on Pohnpei State's books was reported as a finding in the Single Audit of Pohnpei State for fiscal year 1995.

**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 Airport Revolving Fund was repealed by State Law 4L-09-96 which created the Airport Operations & Maintenance Fund. We will recommend again to the Legislature that the Seaport Revolving Fund be abolished.



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1996

**General Receivables**

**Finding No. 8**

**Criteria:** General receivables 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.

**Prior Year Status:** The lack of detail of general receivables applicable to the Public Land Trust Fund was reported as a finding in the Single Audit of Pohnpei State for fiscal year 1995.

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

**Auditee Response and Corrective Action Plan:** We agree with this finding. We have fully reconciled this account in fiscal year 1997.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1996

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 92 through 99).