REPORT ON THE AUDIT OF FINANCIAL STATEMENTS IN ACCORDANCE WITH OMB CIRCULAR A-133

YEAR ENDED SEPTEMBER 30, 1997

Year Ended September 30, 1997

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INDEPENDENT AUDITORS' REPORT AND GENERAL PURPOSE FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION

YEAR ENDED SEPTEMBER 30, 1997



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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, 1997, 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. We did not audit the financial statements of the Pohnpei Economic Development Authority (PEDA) and the Pohnpei State Housing Authority (PSHA) which represent 9% and 12%, respectively, of the assets and revenues of the component units - proprietary funds. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for PEDA and PSHA, is based solely on the reports of the other auditors.

Except as discussed in the following paragraphs, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *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, 1997, 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.

The general purpose financial statements referred to above do not include the Pohnpei Transportation Authority, a proprietary fund type - enterprise fund, which in our opinion, should be included to conform with generally accepted accounting principles.

We were unable to ascertain the propriety of certain withholding and other liability accounts for the Pohnpei Fisheries Corporation, a component unit - proprietary fund.



In our opinion, based on our audit and the reports of other auditors, except for the effects on the general purpose financial statements of such adjustments, if any, as might have been determined to be necessary had the General Fixed Assets Account Group been updated, the Pohnpei Transportation Authority been included as a proprietary fund type - enterprise fund and had we been able to satisfy ourselves as to the propriety of withholding and other liability accounts of the Pohnpei Fisheries Corporation, 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, 1997, 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.

During the year ended September 30, 1997, Pohnpei State Government changed its method of accounting for certain investments (Note 2).

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 such adjustments, if any, which may be required had we been able to ensure the propriety of certain withholding and other liability accounts of the Pohnpei Fisheries Corporation, a component unit - proprietary fund, 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 our report dated July 14, 1998 on our consideration of the State of Pohnpei's (Primary Government only) internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

July 14, 1998

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Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Units September 30, 1997

(With comparative totals as of September 30, 1996)

	Governmental Fund Types		Proprietary Fund Types	Fiduciary Fund Type		nt Groups	Totals Primary Government	Component	• • •		
		Special	Capital	Internal	Expendable	General Fixed	General General Fixed Long-Term		Units Proprietary		tity dum Only)
	General	Revenue	Projects	Service	Trust	Assets	Debt	(Memorandum Only)	Funds	1997	1996
<u>ASSETS</u>											
Cash and equivalents (note 2)	\$ -	\$ 777,170	\$ 1,704,829	\$ -	\$ -	\$ -	\$ -	\$ 2,481,999	\$ 921,754	\$ 3,403,753	\$ 3,774,989
Cash - restricted (notes 2 and 19)	-	1,985,040	1,064,691	-	-	-	-	3,049,731	300,000	3,349,731	2,139,118
Investments (note 2)	4,181,077	167,170	2,559,156	-	-	-	-	6,907,403	-	6,907,403	4,949,963
Investments - other (note 7)	-	-	600,000	-	-	-	-	600,000	500,500	1,100,500	1,100,500
Receivables from other governments (note 3)	172,226	1,101,439	-	-	-	-	-	1,273,665	-	1,273,665	431,003
Receivables, federal agencies (note 3)	-	2,078,392	184,254	-	-	-	-	2,262,646	387,152	2,649,798	2,427,932
General receivables (note 4)	-	3,928	17,370	-	564,054	-	-	585,352	2,587,892	3,173,244	3,387,799
Taxes receivable (note 4)	2,637,011	-	-	-	-	-	-	2,637,011	-	2,637,011	2,261,457
Interest receivable	26,116	-	-	•	-	-	-	26,116	18,704	44,820	-
Advances (note 4)	189,863	318,207	71,542	-	10,676	-	-	590,288	31,751	622,039	558,169
Loans receivable (note 8)	-	-	7,200,000	-	-	-	-	7,200,000	3,704,122	10,904,122	10,711,407
Due from other funds (note 14)	489,417	2,165,123	-	5,575	-	-	-	2,660,115	-	2,660,115	3,648,736
Inventory, at cost (note 5)	-	49,760	-	5,969	-	-	-	55,729	1,206,267	1,261,996	1,355,748
Self insurance fund (note 16)	-	-	-	-	-	-	-	-	84,115	84,115	86,199
Scholarship fund	-	•	-	-	-	-	-	-	3,881	3,881	3,830
Prepaid expenses and other assets	-	-	-	-	-	-	-	-	45,233	45,233	457,843
Fixed assets, net (note 6)	-	-	-	-	-	49,323,802	-	49,323,802	48,043,389	97,367,191	100,837,510
Amount to be provided for											
retirement of long-term debt	-	-	•	-	-	-	10,931,932	10,931,932	-	10,931,932	11,414,626
Allowance for uncollectibles (notes 3, 4 and 8)	(2,637,011)	(1,990,608)	(4,750,000)) -	(562,203)	-	-	(9,939,822)	-	(9,939,822)	(9,195,437)
Due from primary government		<u> </u>	<u> </u>	- -	-	-		·	66,253	66,253	80,799
Total assets	\$ 5,058,699	\$ 6,655,621	\$ 8,651,842	\$ 11,544	\$ 12,527	\$ 49,323,802	\$ 10,931,932	\$ 80,645,967	\$ 57,901,013	\$ 138,546,980	\$ 140,432,191

See accompanying notes to financial statements.

Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Units September 30, 1997

(With comparative totals as of September 30, 1996)

				Proprietary	Fiduciary		. •	Totals	_	Tota	
_	Gov	ernmental Fund Ty	pes	Fund Types	Fund Type	General	t Groups General	Primary Government	Component Units	Repor Enti	-
		Special	Capital	Internal	Expendable	Fixed	Long-Term	(Memorandum	Proprietary	(Memorand	•
_	General	Revenue	Projects	Service	Trust	Assets	Debt	Only)	Funds	1997	1996
LIABILITIES AND FUND EQUITY (DEFICIENCY))										
Liabilities:	•										
Bank overdraft (note 2) \$	44,075	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 44,075	\$ -	\$ 44,075	\$ -
Accounts payable	182,540	347,876	74,261	-	7,991	-	-	612,668	1,775,918	2,388,586	2,197,417
Accrued payroll and others	700,539	150,918	558	-	44	-	-	852,059	355,242	1,207,301	1,226,296
Due to other funds (note 14)	-	1,730,157	807,611	-	181,236	-	-	2,719,004	-	2,719,004	3,648,736
Deferred revenue	-	580,218	-	-	-	-	-	580,218	396,945	977,163	706,288
Notes payable (notes 13 and 19)	-	-	-	-	-	-	10,500,000	10,500,000	3,846,019	14,346,019	14,073,522
Vacation leave accrual	-	-	-	-	-	-	431,932	431,932	-	431,932	1,252,588
Other payables	3,278,874	<u> </u>		. <u> </u>			. <u> </u>	3,278,874		3,278,874	3,304,694
Total liabilities	4,206,028	2,809,169	882,430		189,271	-	10,931,932	19,018,830	6,374,124	25,392,954	26,409,541
Fund equity (deficiency):											
Investment in general fixed assets	-	-	-	-	-	49,323,802	-	49,323,802	-	49,323,802	49,323,802
Retained earnings (deficit)	-	-	-	11,544	-	•	-	11,544	(526,668)	(515,124)	232,180
Contributed capital	-	-	-	-	-	•	-	-	52,053,557	52,053,557	55,739,591
Fund balances (deficit):											
Reserved for:											
Related assets	189,863	371,895	3,121,542	-	10,676	-	-	3,693,976	-	3,693,976	3,402,338
Encumbrances	425,407	1,504,724	2,202,109	-	-	-	-	4,132,240	-	4,132,240	2,517,115
Continuing appropriations (note 15)	89,543	-	3,605,216	-	-	-	-	3,694,759	•	3,694,759	7,006,265
Unreserved (deficit)	147,858	1,969,833	(1,159,455)	<u> </u>	(187,420)		. <u> </u>	770,816		770,816	(4,198,641)
Total fund equity (deficiency)	852,671	3,846,452	7,769,412	11,544	(176,744)	49,323,802		61,627,137	51,526,889	113,154,026	114,022,650
Contingencies and commitments (note 10)											
Total liabilities and fund equity (deficiency) \$	5,058,699	\$ 6,655,621	\$ 8,651,842	\$ 11,544	\$12,527	\$ 49,323,802	\$ 10,931,932	\$ 80,645,967	\$ 57,901,013	\$ 138,546,980	\$ 140,432,191

See accompanying notes to financial statements.

Combined Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) All Governmental Fund Types and Expendable Trust Fund
Year Ended September 30, 1997
(With Comparative Totals for the Year Ended September 30, 1996)

	Governmental Fund Types			Fı	iduciary and Type	Totals Reporting Entity (Memorandum Only)						
		General		Special Revenue		Capital Projects	Ех	rpendable Trust	_	(Memorar	dum	1996 —
	_		_		_				_		_	
Revenues: Compact of Free Association:												
Base grant	\$	5,652,000	\$	3,247,783	\$	4,072,000	\$	_	\$	12,971,783	\$	15,645,883
Inflation adjustment (note 9)	Ψ	4,862,000	Ψ	500,000	Ψ	4,072,000	Ψ	_	Ψ	5,362,000	Ψ	6,431,089
U.S. Department of the Interior grants		-,002,000		-		274,343		_		274,343		491,695
Revenue sharing		4,085,155		_						4,085,155		4,195,372
Investment income (note 2)		2,016,575		_		39,988		_		2,056,563		1,069,181
Federal contributions		-,010,010		1,964,279		-		-		1,964,279		2,174,895
Taxes and licenses		1,348,515		-		-		_		1,348,515		1,305,152
CFSM Grants		-		1,135,857		_		-		1,135,857		1,842,320
Scholarships		-		259,231		-		-		259,231		316,722
Other	_	214,988	_	648,093		-	_	63,744		926,825	_	719,324
Total revenues	_	18,179,233	_	7,755,243		4,386,331	_	63,744	,	30,384,551	_	34,191,633
Expenditures:												
General government		4,015,412		1,013,422		-		21,101		5,049,935		6,041,542
Education		4,214,133		3,210,835		-				7,424,968		8,105,059
Health services		2,968,380		1,120,519		-		-		4,088,899		4,826,470
Resource management and development		1,507,060		67,004		-		-		1,574,064		2,061,278
Public works		-		505,579		-		-		505,579		322,996
Justice		1,247,658		159,128		-		-		1,406,786		1,459,077
Boards, commissions and other appropriations		505,769		-		-		-		505,769		495,539
Capital projects		-		459,056		3,015,938		-		3,474,994		3,169,151
Municipal governments		1,580,068		-		-		-		1,580,068		1,601,502
Other		-		883,273		-		-		883,273		356,424
Uncollectible grant funds	_	-	_	<u>-</u>		-	_	-		<u> </u>	_	52,154
Total expenditures	_	16,038,480	_	7,418,816		3,015,938	_	21,101		26,494,335	_	28,491,192
Excess of revenues over expenditures	_	2,140,753	_	336,427		1,370,393	_	42,643		3,890,216	_	5,700,441
Other financing sources (uses):												
Repayment of notes payable (note 13)		-		-		(2,200,000)		-		(2,200,000)		(7,100,000)
Interest expense (note 13)		-		-		(1,007,413)		-		(1,007,413)		(1,198,185)
Transfer in		-		-		-		•		-		300,000
Operating transfers out (note 9)		(255,676)		-		-		-		(255,676)		(907,216)
Other		96,271		-		123,675		-		219,946		•
Proceeds from notes payable (note 13)	-		_	2,500,000			_			2,500,000	_	•
Total other financing sources (uses), net	_	(159,405)	_	2,500,000		(3,083,738)	_	•		(743,143)	_	(8,905,401)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses before the cumulative effect of a												
change in accounting principle		1,981,348		2,836,427		(1,713,345)		42,643		3,147,073		(3,204,960)
Add: cumulative effect of a change in accounting principle (note 2)		369,641	-	-			_			369,641	_	
Excess (deficiency) of revenues and other financing financing sources over (under) expenditures and other financing uses		2,350,989		2,836,427		(1,713,345)		42,643		3,516,714		(3,204,960)
Fund balances (deficit) at beginning of year (note 18)		(1,498,318)		1,010,025		9,482,757		(219,387)		8,775,077		11,932,037
Fund balances (deficit) at end of year	\$ \$	852,671	\$	3,846,452	\$	7,769,412	\$	(176,744)	\$	12,291,791	- \$	8,727,077
· ····································	•	-,	-	-, -,	•				~		-	

Statement of Revenues, Expenditures and Changes in Unreserved Fund Balance (Deficit)
Budget and Actual, Budgetary Basis - General Fund
Year Ended September 30, 1997

n.		Budget		<u>Actual</u>		Variance Favorable Infavorable)
Revenues:	ø	10.514.000	ø	10 514 000	ø	
Compact - current Local revenues	\$	10,514,000 6,568,746	\$	10,514,000	\$	(920,088)
Investment income		292,505		5,648,658 2,016,575		(920,088) 1,724,070
investment income	-		_	2,010,373	_	1,724,070
Total revenues	_	17,375,251	_	18,179,233	_	803,982
Expenditures:						
General government		4,150,418		3,937,960		212,458
Health services		3,037,564		2,919,281		118,283
Education		4,232,788		4,196,779		36,009
Justice		1,225,036		1,229,454		(4,418)
Resource management and development		1,517,440		1,506,785		10,655
Boards, commissions and other external appropriations		623,531		558,202		65,329
Municipal governments and projects		1,583,959		1,557,642		26,317
Other expenditures		-		(593)		593
Outer experientares	-		-	(373)	_	
Total expenditures, budgetary basis	_	16,370,736	_	15,905,510	_	465,226
Excess of revenues over expenditures	_	1,004,515	_	2,273,723		1,269,208
Other financing sources (uses):						
Operating transfers out (note 9)		(255,669)		(255,944)		(275)
Other		-		96,271		96,271
	-		-		_	
Total other financing sources (uses), net	_	(255,669)	_	(159,673)	_	95,996
Excess of revenues and other financing sources over expenditures and other financing uses before						
cumulative effect of a change in accounting principles		748,846		2,114,050		1,365,204
Add: cumulative effect of a change in accounting principle	-	-		369,641	_	369,641
Excess of revenues and other financing sources						
over expenditures and other financing uses		748,846		2,483,691		1,734,845
Unreserved fund balance (deficit) at beginning of year		(2,153,767)		(2,153,767)		-
Other changes in unreserved fund balance:						
Increase in reserve for related assets		-		(189,863)		(189,863)
Decrease in reserve for continuing appropriations				7,797		7,797
Unreserved fund balance (deficit) at end of year	\$ =	(1,404,921)	\$_	147,858	\$ 	1,552,779

Combined Statement of Revenues, Expenses, and Changes in Fund Equity All Proprietary Fund Types and Discretely Presented Component Units
Year Ended September 30, 1997
(With comparative totals for the year ended September 30, 1996)

Operating revenues:	Proprietary Fund Types Internal Service	Totals Primary Government (Memorandum Only)	Component Units Proprietary Funds	Rep Er	otals orting ntity ndum Only)
	\$ 4,274	\$ 4,274	\$ 10,709,360	£ 10.712.624	6 14 070 040
Charges for goods and services	D 4,2/4	\$ 4,274		\$ 10,713,634	\$ 14,072,243
Rental income	-	•	167,882	167,882	132,696
Other			251,751	251,751	209,437
Total operating revenues	4,274	4,274	11,128,993	11,133,267	14,414,376
Operating expenses:					
Personnel services	-	-	2,259,480	2,259,480	3,327,328
Travel	-	-	72,299	72,299	156,296
Supplies and materials	-	-	116,519	116,519	1,066,086
Fuel	-	-	2,914,246	2,914,246	2,867,371
Contractual services		-	98,735	98,735	119,500
Doubtful debt expense	-	-	347,327	347,327	-
Utilities			56,904	56,904	
Communications	-		116,860	116,860	
Depreciation			2,867,277	2,867,277	3,300,801
Repairs and maintenance		_	576,933	576,933	5,500,001
Other	13,926	13,926	•	•	0.617.666
Other	13,926	13,926	6,551,030	6,564,956	9,517,556
Total operating expenses	13,926	13,926	15,977,610	15,991,536	20,354,938
Operating income (loss)	(9,652)	(9,652)	(4,848,617)	(4,858,269)	(5,940,562)
Nonoperating revenues (expenses):	(-)/	(-,)	(1,010,021)	(1,000,200)	(5,5 10,5 02)
Operating transfers in (Note 9)	_		672,648	672,648	607,216
Interest income	•	-	-	•	607,216
	•	•	41,503	41,503	-
Spurline projects	-	-	108,430	108,430	-
Other			231,764	231,764	690,592
Total nonoperating revenues (expenses), net			1,054,345	1,054,345	1,297,808
Net income (loss)	(9,652)	(9,652)	(3,794,272)	(3,803,924)	(4,642,754)
Add depreciation on fixed assets acquired by capital contributions that reduce					
contributed capital			3,888,006	3,888,006	4,410,255
Total of the same					4,410,222
Increase (decrease) in retained earnings	(9,652)	(9,652)	93,734	84,082	(232,499)
Retained earnings (deficit) at beginning of year	21,196	21,196	(620,402)	(599,206)	464,679
Retained earnings (deficit) at end of year	11,544	11,544	(526,668)	(515,124)	232,180
Contributed capital at beginning of year	-	_	54,519,665	54,519,665	48,546,100
Contributions	-	_	1,421,898	1,421,898	11,603,746
Less depreciation on contributed fixed assets,	_	-	1,721,070	1,721,070	11,003,740
net of prior period adjustments			(3,888,006)	(3,888,006)	(4,410,255)
Contributed capital at end of year		-	52,053,557	52,053,557	55,739,591
Fund equity at end of year	\$ 11,544	\$ 11,544	\$ 51,526,889	\$ 51,538,433	\$ 55,971,771

See accompanying notes to financial statements.

Combined Statement of Cash Flows All Proprietary Fund Types and Discretely Presented Component Units Year Ended September 30, 1997 (With comparative totals for the year ended September 30, 1996)

		Totals		Tot	tals			
	Proprietary	Primary	Component	Reporting				
	Fund Types	Government	Units	Entity				
	Internal	(Memorandum	Proprietary	(Memoran	dum Only)			
	Service	Only)	Funds	1997	1996			
Cash flows from operating activities:								
Operating loss	\$ (9,652)	\$ (9,652)	\$ (4,848,617)	\$ (4,858,269)	\$ (5,940,562)			
Other income	-	•	294,096	294,096	47,701			
Adjustments to reconcile operating loss to net cash			271,070	251,050	47,701			
provided by (used for) operating activities:								
Depreciation	_	_	4,838,733	4,838,733	5,437,969			
Doubtful debt expense	_	•	212,935					
•	-	-		212,935	293,963			
Prior period adjustment	-	•	(86,417)	(86,417)				
Inventory loss					3,490			
	(2.420)	(0.480)						
	(9,652)	(9,652)	410,730	401,078	(157,439)			
Changes in assets and liabilites:								
General receivables, gross	-	-	(253,295)	(253,295)	(403,743)			
Advances	-	-	3,352	3,352	18,309			
Loans receivable, gross	-	-	(324,154)	(324,154)	(189,236)			
Due from other funds	(2,952)	(2,952)	-	(2,952)	(2,623)			
Inventory, at cost	12,980	12,980	(199,514)	(186,534)	347,466			
Interest receivable	-	-	(5,929)	(5,929)				
Prepaid expenses and other assets		-	394,183	394,183	(408,703)			
Due from primary government		-	(30,624)	(30,624)	-			
Accounts payable	(376)	(376)	335,111	334,735	273,979			
Accrued payroll and other	(5.6)	(0.0)	70,089	70,089	40,582			
Due to other funds		_	70,005	70,005	(12,767)			
Deferred revenue		-	(256 400)	(256.400)				
Deterred revenue			(256,499)	(256,499)	33,517			
	0.650	0.000	(0 (# 000)	(222 (22)	(
	9,652	9,652	(267,280)	(257,628)	(303,219)			
Net cash provided by (used for) operating activities			143,450	143,450	(460,658)			
			_					
Cash flows from noncapital financing activities:								
Repayments of notes payable, net	-	-	(27,503)	(27,503)	(85,954)			
Operating transfers in	-	-	553,173	553,173	607,216			
Other noncapital financing activities	-	-	124,398	124,398	1,012,689			
Net cash provided by noncapital financing activities		-	650,068	650,068	1,533,951			
								
Cash flows from capital and related financing activities:								
Acquisition of fixed assets			(2,217,517)	(2,217,517)	(1,497,292)			
Contributed capital			1,048,786	1,048,786	755,121			
Interest paid, net	_		-,,	-,010,700	(14,544)			
Investment in Pacific Tuna Ventures, Inc.			_	-	(500)			
myesunent in Facilite I una Ventures, inc.					(300)			
Not as I am I for a mind and advant formula and distant			(1.160.721)	(1.169.731)	(353.015)			
Net cash used for capital and related financing activities			(1,168,731)	(1,168,731)	(757,215)			
Cash flows from investing activities:								
Received from self-insurance and scholarship funds, net	-	-	2,033	2,033	25,000			
Purchase of time certificates of deposit	-	-	(300,000)	(300,000)	•			
Interest income	-	-	41,503	41,503	40,743			
Other	-	-	24,085	24,085	2,306			
Net cash provided by (used in) investing activities	-	-	(232,379)	(232,379)	68,049			
Net increase (decrease) in cash and equivalents	-	-	(607,592)	(607,592)	384,127			
Cash and equivalents at beginning of year	-	-	1,529,346	1,529,346	1,145,219			
					,,			
Cash and equivalents at end of year	\$ -	s -	\$ 921,754	\$ 921,754	\$ 1,529,346			
				,				

See accompanying notes to financial statements.

Notes to Financial Statements September 30, 1997

(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 of the State and has not been able to present its financial statements in the accompanying general purpose financial statements. This matter accounts for the imbalance of the interfund receivables and payables on the accompanying balance sheet as portions of PTA are accounted for by the Primary Government.

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.

Notes to Financial Statements September 30, 1997

(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 United States Department of Agriculture Rural Development.

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, water and sewer services to the people of Pohnpei through the operation of the electric power, water and sewer systems. The affairs of the Corporation are managed by a seven member board appointed by the Governor with the advice and consent of the Legislature.

Notes to Financial Statements September 30, 1997

(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 (enterprise 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.

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.

Notes to Financial Statements September 30, 1997

(1) Summary of Significant Accounting Policies, Continued

C. Basis of Presentation, Continued

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. Expenditures are recorded when the related fund liability is incurred, except for certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

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.

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.

Notes to Financial Statements September 30, 1997

(1) Summary of Significant Accounting Policies, Continued

D. Budgets, Continued

Budgetary expenditures, which are on a basis other than generally accepted accounting principles, represent current charges against appropriations; current charges consist of all current year liquidated and unliquidated encumbrances. Budgetary expenditures are therefore determined by subtracting both current year liquidations of prior year encumbrances and unliquidated prior year encumbrances from the combined total of current year 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 (Deficit), 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 recorded at market value. Investments in the equity of companies are carried at cost if less than twenty percent of the companies' total equity, on the equity method if greater than twenty percent and less than fifty percent and on a consolidated basis if greater than fifty percent. (See Notes 2 and 7)

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.

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.

Notes to Financial Statements September 30, 1997

(1) Summary of Significant Accounting Policies, Continued

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.

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, 1997 is \$431,932. 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, 1997, 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.

Notes to Financial Statements September 30, 1997

(1) Summary of Significant Accounting Policies, Continued

N. Fund Equity

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

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

O. Interfund Transactions

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

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

P. Memorandum Only - Total Columns

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

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.

Notes to Financial Statements September 30, 1997

(1) Summary of Significant Accounting Policies, Continued

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, 1997, are as follows:

	General <u>Fund</u>	Special Revenue <u>Funds</u>		Capital Projects <u>Funds</u>	Ex	pendable Trust <u>Fund</u>
Receivables and advances	\$ 189,863	\$ 322,135	\$	71,542	\$	10,676
Inventory	-	49,760		-		-
Investment in Pacific Islands						
Development Bank	-	-		600,000		-
Loans receivable from Pohnpei						
Fisheries Corporation, a Component						
Unit - Proprietary Fund		· <u>-</u>	2	2,450,000		
	\$ <u>189,863</u>	\$ <u>371,895</u>	\$ <u>3</u>	3,121,542	\$	10,676

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.

(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.

Notes to Financial Statements September 30, 1997

(2) Cash and Equivalents and Investments, Continued

- 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.

Funds held with Hawaiian Trust Co. and Bankers Trust are invested on behalf of Pohnpei State as of September 30, 1997, as summarized below:

Montrot

Cash and Equivalents	<u>Value</u>
Cash management fund	\$ 2,877,014
<u>Investments</u>	
Pooled investment securities	<u>6,907,403</u>
Total	\$ <u>9,784,417</u>

Notes to Financial Statements September 30, 1997

(2) Cash and Equivalents and Investments, Continued

D. The State's investment income at market value for the year ended September 30, 1997, is summarized below:

	<u>General</u>	Capital Projects
Interest Dividends Realized gains (losses), net Management fees Other expenses	\$ 556,918 88,273 720,631 (80,180) (3,561)	\$ 42,971 - - - (2,983)
Sub-total Unrealized gains (losses), net	1,282,081 	39,988 ——————————————————————————————————

Pohnpei State has opted to implement GASB-31 as of September 30, 1997. GASB-31 requires that governmental entities who have external investment pools should report such investments at fair value in the balance sheet. Following is an analysis of the effect of this change in accounting principle in the current year and prior years:

Current year effect on investment income Cumulative effect of prior years (shown as an other financing source) Total increase in investment income as a result of using market	\$ 734,494 369,641
value in place of cost	1,104,135
Investment income for the year ended September 30, 1997 without this change	1,282,081
Total general fund investment income reported for the year ended September 30, 1997	\$ <u>2,386,216</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, 1997, 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 Cash on deposit with Hawaiian Trust Co.	\$ 464,810 (508,885)
General Fund bank overdraft	\$ <u>(44,075</u>)
Special Revenue Fund	
Restricted cash (Early Retirement Program Funds) Cash on deposit with Hawaiian Trust Co.	\$ 1,985,040
Total Special Revenue Funds cash and equivalents	\$ <u>2,762,210</u>

Notes to Financial Statements September 30, 1997

(2) Cash and Equivalents and Investments, Continued

Capital Project Funds

Cash on deposit with Hawaiian Trust Co. Net bank balance in savings accounts with FDIC insured banks	\$ 623,688 2,145,832
Total Capital Projects Funds cash and equivalents	\$ <u>2,769,520</u>
Component Units - Proprietary Funds	
Pohnpei Economic Development Authority (EDA): Cash in checking and savings accounts with FDIC insured bank	\$ 255,305
Pohnpei State Housing Authority (PSHA): Cash in checking and savings accounts with FDIC insured banks	104,896
Pohnpei Utilities Corporation (PUC): Cash in checking and savings accounts with FDIC insured bank	306,422
Pohnpei Fisheries Corporation (PFC): Cash in checking accounts with FDIC insured bank	16,026
Pohnpei Port Authority (PPA): Cash in checking accounts with FDIC insured bank	239,105
Total Component Units - Proprietary Funds cash and equivalents	\$ 921,754

<u>Cash</u> - <u>Restricted (Loan Guarantee Escrow Account)</u>: The Pohnpei State Legislature appropriated a total of \$500,000 through a continuing appropriation for the sole purpose of collateralization made through the USDA Rural Development. 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, 1997, the escrow account has earned and reinvested \$123,675 of interest earnings. Therefore a total of \$623,675 has been reserved as restricted cash in the foregoing financial statements.

As of September 30, 1997, Pohnpei State had \$441,016 held on deposit with 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.

As of September 30, 1997, Pohnpei State had \$1,985,040 held on deposit with the Hawaiian Trust. Pohnpei has committed the above funds for financing its early retirement program which was implemented in fiscal year 1997. 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.

Notes to Financial Statements September 30, 1997

(2) Cash and Equivalents and Investments, Continued

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

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

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

(3) Receivables from other Governments and Federal Agencies

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

Receivables from other Governments:	General Fund	Special Revenue <u>Funds</u>	Capital Projects <u>Funds</u>
Revenue Sharing	\$ 172,226	\$ -	\$ -
CFSM Grants	-	890,622	-
Other		<u>210,817</u>	
	<u>172,226</u>	1,101,439	
Receivables, federal agencies:		2.079.202	
Federal grants	-	2,078,392	194.254
Trust Territory Government			<u>184,254</u>
		2,078,392	<u>184,254</u>
	172,226	3,179,831	184,254
Allowance for uncollectibles		(<u>1,990,608</u>)	
Net receivables	\$ <u>172,226</u>	\$ <u>1,189,223</u>	\$ <u>184,254</u>

Notes to Financial Statements September 30, 1997

(4) General Receivables, Advances, Taxes Receivable and Others

A summary of general receivables against which allowances for doubtful accounts have been recorded as of September 30, 1997, is presented below:

General Receivables	<u>Gross</u>	<u>Allowance</u>	<u>Net</u>
Delinquent taxes Delinquent lease payments	\$ 2,637,011 562,203	\$ (2,637,011) (562,203)	\$ -
Other	21,298		21,298
	\$ <u>3,220,512</u>	\$ <u>(3,199,214)</u>	\$ 21,298

Advances

Advances consist of advance payments made to State government employees for travel related expenditures. Travel advances outstanding as of September 30, 1997, are as follows:

General Fund	\$ 189,863
Special Revenue Fund	318,207
Capital Improvement Project Fund	71,542
Expendable Trust Fund	10,676
	\$ 590,288

General Receivables - Component Units-Proprietary Funds

	Gross	Allowance	<u>Net</u>
Pohnpei Fisheries Corporation Pohnpei Port Authority Pohnpei Utilities Corporation Pohnpei Economic Development Authority	\$ 231,371 104,935 2,808,438 954,109	\$ (77,420) (54,794) (623,269) (755,478)	\$ 153,951 50,141 2,185,169 <u>198,631</u>
	\$ 4,098,853	\$ (1,510,961)	\$ 2,587,892

(5) Inventory of Supplies

The Agriculture Revolving Fund (a Special Revenue Fund) has \$49,760 of agriculture production supplies on hand at September 30, 1997. The Internal Service Fund has general operational and office supplies of \$5,969 as of September 30, 1997.

(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, 1997, are as follows:

Building Infrastructure Equipment	\$ 10,055,450 34,590,935 4,677,417
_4	\$ 49,323,802

Notes to Financial Statements September 30, 1997

(6) Fixed Assets, Continued

The State's investment in general fixed assets as of September 30, 1997, 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>
	\$ 49 323 802

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, 1997, are as follows:

				Pohnpei	Pohnpei	
	Pohnpei	Pohnpei	Pohnpei	Economic	State	
	Fisheries	Port	Utilities	Development	Development Housing	
	<u>Corporation</u>	<u>Authority</u>	Corporation	Authority	Authority	<u>Total</u>
Electric plant	\$ -	\$ -	\$ 32,136,455	\$ -	\$ -	\$ 32,136,455
Water and sewer plant	-	-	9,185,834	-	-	9,185,834
Land	-	2,776,034	-	-	-	2,776,034
Buildings	282,462	12,578,600	-	42,033	26,061	12,929,156
Fishing vessels	-	-	-	1,352,300	-	1,352,300
Vehicles	50,400	-	-	166,188	-	216,588
Furniture, fixtures						
and office equipment	27,568	222,535	-	87,883	64,114	402,100
Other assets	13,685,186	-	-	203,904	-	13,889,090
Less accumulated						
depreciation	(7,752,348)	(7,797,773)	(10,124,466)	(1,417,356)	(68,673)	(27,160,616)
Construction in						
progress	<u>74,329</u>	64,621	<u>2,177,498</u>			2,316,448
Total fixed assets, net	\$ <u>6,367,597</u>	\$ <u>7,844,017</u>	\$ <u>33,375,321</u>	\$ <u>434,952</u>	\$ <u>21,502</u>	\$ <u>48,043,389</u>

(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 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. 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, 1997. This investment is recorded at cost.

Notes to Financial Statements September 30, 1997

(7) Other Investments, Continued

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, 1997, 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 payable semi-annually at rates ranging from 9.11% to 9.44% per annum. The second loan, for \$1,000,000 matured on April 15, 1994, with interest payable 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, 1997 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 in 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 the portion of MTN funds (Refer Note 13) used in its operations. The drawdown of these funds for operations at September 30, 1997, 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, 1997, it is reserved against fund balance as a related asset.

The Pohnpei State Housing Authority (PSHA) has loans receivable of \$4,783,315 with an allowance of \$1,091,905 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 \$12,712 as of September 30, 1997.

Notes to Financial Statements September 30, 1997

(9) Operating Transfers In/Out

Material operating transfers in/out for the year ended September 30, 1997, are as follows:

	Transfers Out	Transfers In
General Fund:		
Transfers out to Enterprise Fund:		
Pohnpei Transportation Authority	\$ <u>18,000</u>	\$
Transfers out to Component Units:		
Pohnpei Economic Development Authority	106,768	-
Pohnpei State Housing Authority	<u>130,908</u>	
Total transfers out to Component Units	237,676	
Total General Fund	\$ <u>255,676</u>	\$ <u> -</u>

During the fiscal year ended September 30, 1997, Pohnpei State Government redesignated \$2,036,000 of Compact Capital Account Inflation funds (Section 217) as current account funds to be used by the General Fund.

(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, \$78,448 in questioned costs exist for the operation of fiscal year 1985 through 1996 grants. 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, 1997, was not available.

Notes to Financial Statements September 30, 1997

(10) Contingencies and Commitments, Continued

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 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 General of Pohnpei is of the opinion that the probable outcome of suits existing at September 30, 1997, is not predictable but could have a material impact on the accompanying financial statements. However, no provision for any losses that may be sustained as a result of the ultimate resolution of these matters has been made in the accompanying financial statements.

Compact Energy and Capital Funds Uses

During the fiscal year ended September 30, 1997 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 is not predictable at this time. Accordingly, no provision for a reserve of fund balance or a liability has been recorded in the accompanying general purpose financial statements. In the event that these expenditures are determined to be unallowable, the General Fund may bear responsibility for absorbing the amounts disallowed.

Pohnpei Fisheries Corporation, a Component Unit - Proprietary Fund

As of September 30, 1997, the Corporation has accumulated a deficit of \$3,923,619. Management will attempt to return to profitability by securing a steady supply of fish and by reducing its cost of operations.

The Corporation is in default on a certain debt. This matter has been litigated and the Corporation is liable for an undeterminable amount of legal and related costs which have not been provided for in its financial statements.

Notes to Financial Statements September 30, 1997

(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, 1997, is as follows:

	Pohnpei Fisheries Corporation	Pohnpei Port <u>Authority</u>	Pohnpei Utilities Corporation	Pohnpei Economic Development <u>Authority</u>	Pohnpei State Housing <u>Authority</u>
Total assets	\$ <u>6,687,045</u>	\$ <u>8,455,894</u>	\$ <u>7,208,894</u>	\$ <u>1,396,677</u>	\$ <u>3,899,618</u>
Total equity (deficit)	\$ <u>1,758,833</u>	\$ <u>8,065,892</u>	\$ <u>36,544,558</u>	\$ <u>1,268,877</u>	\$ <u>3,888,719</u>
Operating loss	\$ (<u>2,754,176</u>)	\$ <u>(600,624</u>)	\$ <u>(1,157,311</u>)	\$ <u>(296,590)</u>	\$ <u>(39,916</u>)
Net income (loss)	\$ (<u>2,491,762</u>)	\$ <u>(632,607)</u>	\$ <u>(618,437</u>)	\$ <u>(150,441</u>)	\$ <u>98,975</u>
Nonoperating revenues (expenses), net	\$ <u>262,414</u>	\$ <u>(31,983</u>)	\$538,874	\$ <u>146,149</u>	\$ <u>138,891</u>
Operating revenues	\$ <u>1,777,072</u>	\$ <u>799,663</u>	\$ <u>4,208,894</u>	\$ <u>1,132,074</u>	\$ <u>211,290</u>
Contributed capital	\$ <u>5,682,452</u>	\$ <u>7,718,407</u>	\$ <u>30,380,097</u>	\$ <u>4,294,541</u>	\$ <u>3,978,060</u>
Depreciation	\$ <u>1,918,482</u>	\$ <u>629,135</u>	\$ <u>2,173,967</u>	\$ <u>109,632</u>	\$ <u>7,517</u>
Retained earnings (deficit)	\$ (<u>3,923,619</u>)	\$ <u>347,485</u>	\$ <u>6,164,461</u>	\$ (<u>3,025,654</u>)	\$ <u>(89,341</u>)
Operating transfers	\$	\$ <u>29,510</u>	\$398,672	\$ <u>113,468</u>	\$ <u>130,908</u>

(12) Material Fund Deficits

The following presents material fund deficits as of September 30, 1997. If operations of these funds cannot recover prior losses, the State's General Fund may have to absorb these amounts or a portion thereof.

Special Revenue Funds	<u>Deficit</u>	Contributed Capital	Fund <u>Equity</u>
U.S. Federal Assistance Fund Airport Revolving Fund CFSM State Projects Fund V6AH Revolving Fund	\$ (158,828) (849,698) (37,783) (2,740)	\$ - - - -	\$ (158,828) (849,698) (37,783) (2,740)
	\$ (<u>1,049,049</u>)	\$ 	\$ (<u>1,049,049</u>)
Component Units (Deficit Retained Earnings) Pohnpei Fisheries Corporation Pohnpei Economic Development Authority Pohnpei State Housing Authority	\$ (3,923,619) (3,025,654) (89,341)	5,682,452 4,294,541 3,978,060	\$ 1,758,833 1,268,887 3,888,719
	\$ $(\underline{7,038,614})$	\$ 13,955,053	\$ <u>6,916,439</u>
Expendable Trust Fund (Deficit) Public Land Trust Fund	\$ (176,744)	\$ - _	\$ (176,744)

Notes to Financial Statements September 30, 1997

(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 equity investment in and a \$7,500,000 loan to a fishing joint venture, the Caroline Fishing Corp. Inc. (CFC).

The outstanding balance of the second issue notes payable as of September 30, 1997, was comprised of one note with principal, interest and maturity as follows:

<u>Maturity</u>	Interest Rate % P.A	Principal Amount
10/15/97	9.49%	\$ <u>1,000,000</u>

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. Future maturities of these notes are as follows:

<u>Maturity</u>	Interest Rate % P.A	Principal Amount
10/15/97 10/15/98 10/15/99	9.05% 9.10% 9.125% 9.125%	\$ 1,000,000 1,000,000 1,000,000 1,000,000
10/15/2000 Total	9.12376	\$ <u>4,000,000</u>

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 and maturities. Future maturities of these notes are as follows:

<u>Maturity</u>	Interest Rate % P.A	Principal Amount
10/15/98 10/15/99 10/15/2000	7.10% 7.26% 7.51%	\$ 1,000,000 1,000,000 <u>1,000,000</u>
Total		\$ 3,000,000

Notes to Financial Statements September 30, 1997

(13) Notes Payable, Continued

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 \$1,007,413 for interest payments.

Upon receipt of Compact payments, the Trustee is responsible for withdrawal of amounts necessary for payments of principal and interest. Various other restrictive covenants exist and are detailed in the Trust Agreement dated January 4, 1990. Management is of the opinion that it has complied with such covenants through September 30, 1997.

During the fiscal year ended September 30, 1997, Pohnpei State Government implemented an early retirement program for all eligible public service system employees. This program is funded through a \$2,500,000 loan from the Asian Development Bank through the FSM National Government. (See Note 19)

Activity in the General Long-Term Debt Account Group notes payable account for the year ended September 30, 1997, occurred as follows:

Balance as of September 30, 1996	\$ 10,200,000
Loan repayment made on October 15, 1996	(2,200,000)
ADB early retirement program loan	2,500,000
Balance as of September 30, 1997	\$ <u>10,500,000</u>

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

Years Ending September 30,	<u>Amount</u>
1998 1999 2000 2001 2002	\$ 2,000,000 2,000,000 2,000,000 2,000,000 2,500,000
	\$ 10,500,000

The component units notes payable represent \$2,450,000 payable by the Pohnpei Fisheries Corporation (PFC) to Pohnpei State for funds drawndown 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 \$112,896 (7%) due to the FSM Development Bank and \$1,123,692 due to a corporation (9%). The balance due to the corporation is in default and this matter has been litigated. Additionally, loans of \$93,150 are due for equipment loans with interest rates of either 0% or 9%. PUC has a loan with the FSM Development Bank of \$66,281 at September 30, 1997. The 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:

Notes to Financial Statements September 30, 1997

(13) Notes Payable, Continued

Years Ending September 30,	<u>Amount</u>
1998 1999 2000 2001 2002	\$ 1,335,203 33,112 13,992 13,712
Thereafter	2,450,000 \$ 3,846,019

(14) Interfund Receivable and Payables

As of September 30, 1997, interfund receivables and payables resulting from various interfund transactions are as follows:

	Due to Other <u>Funds</u>	Due from Other Funds
General Fund	\$ -	\$ 489,417
Special Revenue Funds:		
Compact Health & Education	-	946,451
Compact Other Grants	298,929	-
U.S. Federal Assistance	72,349	-
Other Federal and Direct	-	50,205
Agriculture Revolving	-	22,361
SVAP Revolving	-	16,896
Seaport Revolving	-	240,269
Airport Revolving	849,698	-
Airport Operations	-	652,822
CFSM Projects	506,963	-
Recycling Fund	-	21,120
V6AH Revolving Fund	2,218	-
Environmental Quality Fund	-	6,156
Medical Revolving Fund	-	108,197
Early Retirement Fund	-	100,646
Capital Projects Funds:		
Compact Capital Projects	629,947	-
TTG Capital Projects	177,664	-
Expendable Trust Funds:		
Public Land Trust	181,236	-
Internal Service Fund	-	5,575
Pohnpei Transportation Authority (PTA)		58,889
	\$ <u>2,719,004</u>	\$ <u>2,719,004</u>

The offsetting balance of PTA is not included in the accompanying balance sheet due to noninclusion of PTA financial statements.

Notes to Financial Statements September 30, 1997

(15) Continuing Appropriations

Continuing appropriations as of September 30, 1997, 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.

\$ __89,543

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.

\$ 3,605,216

(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 Loan Funds

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, 1997, the outstanding fund balance aggregated \$952,294.

(18) Restatement of Compact Capital Fund Balance

The financial statements of a Compact Capital Account Capital Projects Fund have been restated to correct for an amount previously recorded as capital account revenue. The 1997 beginning fund balance is therefore \$48,000 greater than as previously stated.

(19) Early Retirement Program

During the fiscal year ended September 30, 1997, Pohnpei State Government implemented the early retirement program for employees within the public service system. The program is funded through a loan from the Asian Development Bank through the FSM National Government of \$2,500,000. As of September 30, 1997, Pohnpei State had expended \$414,318 under this program. (See Note 13)

Notes to Financial Statements September 30, 1997

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Combining Schedule of Expenditures by Account All Governmental Fund Types and Expendable Trust Fund
Year Ended September 30, 1997
(With comparative totals for the year ended September 30, 1996)

							F	iduciary				
		Gov	ernm	ental Fund Ty	pes		Fu	nd Type		To	otals	
	_			Special		Capital	Ex	pendable	•	(Memorai	ndum	Only)
	_	General	_	Revenue		Projects		Trust	_	1997		1996
Expenditures:												
Personnel	\$	12,831,641	\$	2,888,338	\$	100,622	\$	9,943	\$	15,830,544	\$	18,094,736
Travel		200,625		369,543		36,346		-		606,514		553,263
Supplies and materials		199,229		290,164		32,943		5,608		527,944		912,572
Fuel		134,447		12,645		-		-		147,092		199,803
Equipment		98,807		340,668		125,592		-		565,067		481,751
Contractual services		67,097		1,201,766		2,610,329		-		3,879,192		2,888,823
Other		2,506,634		2,315,692		110,106		5,550		4,937,982		5,308,090
Uncollectible grant funds		-	_			-	_	-			_	52,154
Total expenditures	\$	16,038,480	\$_	7,418,816	\$	3,015,938	\$_	21,101	\$_	26,494,335	\$_	28,491,192

General Fund September 30, 1997

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.

GENERAL FUND

Balance Sheet - General Fund September 30, 1997

(With comparative totals as of September 30, 1996)

<u>ASSETS</u>		<u>1997</u>		<u>1996</u>
Cash and equivalents Restricted cash Investments Receivables from other governments Taxes receivable Interest receivable Advances Due from other funds Allowance for uncollectibles	\$	4,181,077 172,226 2,637,011 26,116 189,863 489,417 (2,637,011)	\$	910,931 902,426 1,446,856 68,132 2,261,457 - 192,961 545,513 (2,010,230)
Total assets	\$ _	5,058,699	\$	4,318,046
LIABILITIES AND FUND BALANCE (DEFICIT) Liabilities: Bank overdrfat Accounts payable Accrued payroll and others Due to other funds Other payables Total liabilities	\$	44,075 182,540 700,539 - 3,278,874 4,206,028	\$	257,923 803,119 1,450,628 3,304,694 5,816,364
Fund balance (deficit):				
Reserved for: Related assets Encumbrances Continuing appropriations Unreserved fund balance (deficit) Total fund balance (deficit)	-	189,863 425,407 89,543 147,858	_	558,109 97,340 (2,153,767) (1,498,318)
Total liabilities and fund balance (deficit)	\$ _	5,058,699	\$_	4,318,046

GENERAL FUND

Statement of Revenues, Expenditures by Account and Changes in Fund Balance (Deficit) - General Fund Year Ended September 30, 1997

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

		<u>1997</u>			<u>1996</u>
Revenues:					
Compact of Free Association:	ø	5 (52 000	4	ħ	7.206.200
Base grant	\$	5,652,000	\$	5	7,206,300
Inflation adjustment		4,862,000			3,459,024
Revenue sharing		4,085,155			4,195,372
Investment income		2,016,575			1,018,759
Taxes and licenses		1,348,515			1,305,152
Other		214,988			362,160
Total revenues		18,179,233			17,546,767
Expenditures:					
Personnel		12,831,641			14,615,869
Travel		200,625			211,045
Supplies and materials		199,229			416,410
Fuel		134,447			178,745
Equipment		98,807			92,586
Contractual services		67,097			150,987
Other		2,506,634			3,050,258
Uncollectible grant funds		-			52,154
Total expenditures		16,038,480		_	18,768,054
Excess (deficiency) of revenues over (under) expenditures		2,140,753		_	(1,221,287)
Other financing sources (uses):					
Operating transfers in		_			286,739
Operating transfers out		(255,676)			(304,355)
Other		96,271			-
Total other financing sources (uses), net		(159,405)			(17,616)
Francisco (1. Gaine and a Communication of the Communication					
Excess (deficiency) of revenues and other financing					
sources over (under) expenditures and other financing uses before the cumulative effect of a change in accounting principal pr	les	1,981,348			(1,238,903)
Add: cumulative effect of a change in accounting principles		369,641			_
F (1 C. town) Course 1 d Course					
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses		2,350,989			(1,238,903)
Fund balance (deficit) at beginning of year	,	(1,498,318)		_	(259,415)
Fund balance (deficit) at end of year	\$	852,671	5	\$	(1,498,318)
				_	

GENERAL FUND

Statement of Revenues, Expenditures by Function and Department and Changes in Fund Balance (Deficit) Year Ended September 30, 1997
(With comparative totals for the year ended September 30, 1996)

			1997			1	996	
Revenues:								
U.S. Compact of Free Association:			•	E (E2 000			•	7 204 200
Base grant Inflation adjustment			\$	5,652,000 4,862,000			\$	7,206,300
FSM revenue sharing				4,085,155				3,459,024 4,195,372
Investment income				2,016,575				1,018,759
State taxes and licenses:				2,010,575				1,010,757
Beer and malt beverages	\$	453,792			\$	404,133		
Cigarettes		71,746				69,740		
Motor vehicle sales tax		137,417				151,284		
General merchandise sales tax		179,812				227,434		
Hotel		87,034				84,798		
Petroleum and fuel		83,638				91,616		
Use tax		101,721				119,497		
Others		233,355		1,348,515		156,650		1,305,152
Fines and penalties				45,840	_	_		207,036
Public service charges:								
Hospital and dental		289				157		
Transportation	_	50,650		50,939	_	83,190		83,347
Other			_	118,209			_	71,777
Total revenues			_	18,179,233			_	17,546,767
Expenditures:								
General Government:								
Executive & Support				1,416,391				1,286,010
Department of Treasury and Administration				827,176				847,014
Public Auditor				154,918				172,253
Judiciary				338,308				615,070
Legislative operations				1,278,619			_	1,560,305
Total General Government			_	4,015,412			_	4,480,652
Department of Education:								
Administration				399,727				389,512
Preschool and elementary				3,689,054				4,450,724
Secondary			_	125,352			_	90,048
Total Education			_	4,214,133			_	4,930,284
Department of Health Services:								
Administration				369,603				463,192
Medical Coordinator-Honolulu				44,376				56,756
Medical services				1,417,597				1,658,262
Dental services				296,944				354,269
Medical supplies				345,135				501,729
Public health				343,234				416,812
Hemodialysis Hospital buildings & grounds				66,116				106,432
				5,742 43,633				7,303
Hospital food Medical referrals				36,000				49,781
Outer islands medical referrals				50,000				27,489
Total Health Services				2,968,380			_	3,642,025
Department of Resource Management and Development:							_	
Office of the Director				61,485				60,282
Division of Agriculture				654,701				763,336
Energy				-				155
Division of CM&PM				301,147				406,004
Division of Public Works				-				92,542
Commerce and industry				130,411				138,042
Division of Land			_	359,316			_	452,778
Total Resources Management and Development			_	1,507,060			-	1,913,139

GENERAL FUND

Statement of Revenues, Expenditures by Function and Department and Changes in Fund Balance (Deficit), Continued
Year Ended September 30, 1997

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

	1997	1996
Expenditures, continued:		
Department of Justice:		
Law and litigation division	391,505	332,402
Division of police and security	742,066	760,515
Correction and rehabilitation	113,347	163,343
Legal affairs	740	168
Search and rescue	740	1,217
Civil liability fund	-	38,690
Total Justice	1,247,658	1,296,335
Boards, Commissions, and Other Appropriations:	107.00	
USDA Rural Development	137,836	168,684
Environmental protection agency	121,116	156,421
Pohnpei broadcasting corporation	79,912	3,200
Foreign investment commission	43,592	50,995
Joint action committee	40,520	-
Micronesian legal services	31,500	42,000
Economic planning committee	28,967	-
Pohnpei public library	11,144	17,785
Pohnpei health care plan board	3,868	-
Traditional affairs	3,200	1,994
Alms fund	1,500	
Planning and zoning committee	1,747	1,540
June 97 recall petition	867	
Sports council	- _	52,920
Total Boards, Commissions, and Other Appropriations	505,769	495,539
Municipal Governments:		
Kitti	285,777	286,857
Sokehs	270,709	270,712
Madolenihmw	269,098	268,837
Nett	187,608	190,143
Kolonia	175,500	175,501
Uh	155,734	155,734
Pingilap	81,236	81,238
Kapingamarangi	47,383	69,258
Sapwuahfik	40,868	40,868
Mokil	35,587	31,785
Nukuoro	30,568	30,569
Total Municipal Governments	1,580,068	1,601,502
Uncollectible grant funds		52,154
Other		356,424
Total expenditures	16,038,480	18,768,054
Excess (deficiency) of revenues over (under) expenditures	2,140,753	(1,221,287)
	2,140,733	(1,221,207)
Other financing sources (uses):		206 722
Operating transfers in	(255 676)	286,739
Operating transfers out Other	(255,676) 96,271	(304,355)
Total other financing sources (uses), net	(159,405)	(17,616)
Excess (deficiency) of revenues and other financing sources		
over (under) cumulative effect of a change in accounting		
principle	1,981,348	(1,238,903)
Add: cumulative effect of a change in accounting principle	369,641	
Excess (deficiency) of revenues and other financing sources	2.250.000	(1.220.002)
over (under) expenditures and other financing uses	2,350,989	(1,238,903)
	(1,498,318)	(259,415)
Fund balance (deficit) at beginning of year Fund balance (deficit) at end of year	\$ 852,671	\$ (1,498,318)

Special Revenue Funds September 30, 1997

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.

Special Revenue Funds, Continued September 30, 1997

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.

Early Retirement Fund

This fund is used to account for the revenues and expenditures related to the early retirement program implemented by Pohnpei State Government.

SPECIAL REVENUE FUNDS

Combining Balance Sheet
September 30, 1997
(With comparative totals as of September 30, 1996)

				Other													
	Compact	Compact	U.S.	Federal						CFSM			Environ-				
	Health and	Other	Federal	and Direct	Agriculture	SVAP	Scaport	Airport	Airport	Stato		V6AH	mental	Medical	Early	To	tals
	Education	Grants	Assistance	Assistance	Revolving	Revolving	Revolving	Revolving	Operations	Projects	Recycling	Revolving	Quality	Revolving	Retirement	1997	1996
ASSETS																	
Cash and equivalents	\$ 149,148	\$ 628,022	s .	s -	s -	s -	s .	s -	s -	s -	s .	s -	s -	s -	s -	\$ 777,170	\$ 515,587
Cash - restricted		-		•				-	-			-	-	-	1,985,040	1,985,040	
Investments	-	167,170		-	-		-	-	-				-	•		167,170	167,170
Receivables:																	
Other governments	-	210,817		-	-	-	-	-	-	890,622	-		-		-	1,101,439	431,003
Federal agencies, thru FSM National																	
Government	-		2,078,392	•	-	-	-		-		-		-	-	-	2,078,392	2,258,965
General	-	-		-		-	-	-	-	3,928	•	-	-	-	-	3,928	42,078
Advances	3,307	53,459	142,419	44,165	•	-	-	-	2,142	72,715	-	-		-	-	318,207	267,874
Due from other funds	946,451	-		50,205	22,361	16,896	240,269	-	652,822	-	21,120	-	6,156	108,197	100,646	2,165,123	1,981,402
Inventory, at cost			•	-	49,760	-		-	•	-	-		-	-		49,760	27,412
Allowance for uncollectible		 	(1,559,605)				<u>·</u>	<u>·</u>		(431,003)	_ -	<u> </u>			-	(1,990,608)	(2,336,972)
Total essets	S 1,098,906	\$ 1,059,468	S661,206	\$ 94,370	\$ 72,121	\$ 16,896	\$ 240,269	s	\$ <u>654,964</u>	S 536,262	\$ 21,120	s	\$ 6,156	\$ 108,197	2,085,686	\$ 6,655,621	S 3,354,519
LIABILITIES AND FUND BALANCES (DEFICE	<u>n</u>																
Liabilities:																	
Accounts payable	\$ 24,859	\$ 88,840	S 162,561	S 2,699	\$ 100	S 398	s -	s -	s -	\$ 67,473	s -	S 522	S 96	\$ 328	s -	\$ 347,876	\$ 458,667
Accrued payroll and others	14,624	131,775	4,906	-	-	-		-	-	(391)	-		-	-	4	150,918	10,924
Due to other funds		298,929	72,349	-	-	-		849,698	-	506,963	-	2,218	-	-	-	1,730,157	1,822,059
Deferred revenue	·	<u> </u>	580,218			<u>·</u>	<u> </u>	<u>·</u>		<u>·</u>		<u> </u>			<u>·</u>	580,218	52,844
Total liabilities	39,483	519,544	820,034	2,699	100	398		849,698		574,045		2,740	96	328	4	2,809,169	2,344,494
Fund balances (deficit):																	
Reserved for:																	
Related assets	3,307	53,459	142,419	44,165	49,760	-	-	-	2,142	76,643		-	-	-	-	371,895	350,487
Encumbrances	7,034	3,413	442,276	88,991	5,312	945	-	-	652,822	210,853	-	189	267	92,622	-	1,504,724	918,222
Unreserved (deficit)	1,049,082	483,052	(743,523)	(41,485)	16,949	15,553	240,269	(849,698)	<u> </u>	(325,279)	21,120	(2,929)	5,793	15,247	2,085,682	1,969,833	(258,684)
Total find balances (deficit)	1,059,423	539,924	(158,828)	91,671	72,021	16,498	240,269	(849,698)	654,964	(37,783)	21,120	(2,740)	6,060	107,869	2,085,682	3,846,452	1,010,025
Total liabilities and fund balances (deficit	t) \$ 1,098,906	\$ 1,059,468	s 661,206	\$ 94,370	\$ 72,121	\$ 16,896	\$ 240,269	s <u> </u>	\$ 654,964	\$ 536,262	\$ 21,120	s <u> </u>	\$ 6,156	\$ 108,197	\$ 2,085,686	\$ 6,655,621	S 3,354,519

SPECIAL REVENUE FUNDS

Combining Statement of Revenues, Expenditures by Function and Changes in Fund Balances (Deficit)
Year Ended September 30, 1997
(With comparative totals for the year ended September 30, 1996)

				Other													
	Compact	Compact	U.S.	Federal						CFSM			Environ-				
	Health and	Other	Federal	and Direct	Agriculture	SVAP	Sesport	Airport	Airport	State		V6AH	mental	Medical	Early	Tot	ıls
	Education	Grants	Assistance	Assistance	Revolving	Revolving	Revolving	Revolving	Operations	Projects	Recycling	Revolving	Quality	Revolving	Retirement	1997	1996
Revenues:																	
Compact:					_	_	_	_	_	_	_	_	_	_	_		
Base grant	\$ 1,890,000	S 1,357,783	s -	s -	s -	s -	s -	s -	s -	s -	s -	s -	s .	s -	s -	\$ 3,247,783	S 3,247,783
Inflation adjustment	-	500,000		•	•	•	-	-	-	•	-	-	•	-	•	500,000	480,000
Federal contributions			1,964,279	•	-	-	•		-		-		•	•	•	1,964,279	2,174,895
CFSM Grants	-				-	•	-		-	1,135,857	-	•	-	•	-	1,135,857	1,842,320
Scholarships	•	259,231	-			-		•		-	-				-	259,231	316,722
Other			<u> </u>	326,964	45,868	10,729	<u> </u>		121,425	<u>·</u>	<u> </u>	9,274	1,070	132,763		648,093	301,286
Total revenues	1,890,000	2,117,014	1,964,279	326,964	45,868	10,729			121,425	1,135,857		9,274	1,070	132,763	<u>·</u>	7,755,243	8,363,006
Expenditures:																	
General government	_		524,325	6,310	_				-	68,469					414,318	1,013,422	1,511,902
Education	1,711,631	275,553	743,420	104,337		-			_	375,894	_				-	3,210,835	3,174,775
Health services	92,442	344,892	412,893	10,840	_				-	86,682				172,770		1,120,519	1,184,445
Resources management and development			63,949							3,055						67,004	148,139
Public works		258,696	213,684	33,199							-				_	505,579	322,996
Justice			3,257	13,170	-	-				142,701				-		159,128	162,742
Capital projects					_				-	459,056					_	459,056	844,778
Other		736,572			23,477	5,023			110,390			496	7,315			883,273	
Total expenditures	1,804,073	1,615,723	1,961,528	167,856	23,477	5,023	<u> </u>		110,390	1,135,857		496	7,315	172,770	414,318	7,418,816	7,349,777
Excess (deficiency) of revenues																	
over (under) expenditures	85,927	501,301	2,751	159,108	22,391	5,706			11,035	<u>·</u>	·	8,778	(6,245)	(40,007)	(414,318)	336,427	1,013,229
Other financing sources (uses):																	
Operating transfers in	-		-	-	-		-	-	-	-	-		-		-	-	13,261
Operating transfers out	-		-		•		-	-		-	-					-	(602,861)
Proceeds from notes payable					<u> </u>			<u> </u>			.	<u> </u>		-	2,500,000	2,500,000	<u> </u>
Total other financing sources (uses), net	<u> </u>		<u>.</u>	<u> </u>	<u> </u>		<u> </u>	·	<u>·</u>	<u>·</u>	-	<u> </u>		<u> </u>	2,500,000	2,500,000	(589,600)
Excess (deficiency) of revenues and other finance	ing																
sources over (under) expenditures and																	
other financing uses	85,927	501,301	2,751	159,108	22,391	5,706		•	11,035	-	-	8,778	(6,245)	(40,007)	2,085,682	2,836,427	423,629
Fund balances (deficit) at beginning of year	973,496	38,623	(161,579)	(67,437)	49,630	10,792	240,269	(849,698)	643,929	(37,783)	21,120	(11,518)	12,305	147,876		1,010,025	586,396
Fund balances (deficit) at end of year	\$ 1,059,423	S 539,924	\$ (158,828)	\$ 91,671	\$ 72,021	\$ 16,498	\$ 240,269	\$ (849,698)	\$ 654,964	\$ (37,783)	S 21,120	\$ (2,740)	\$ 6,060	S 107,869	\$ 2,085,682	\$ 3,846,452	\$ 1,010,025

SPECIAL REVENUE FUNDS

Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balances (Deficit)
Year Ended September 30, 1997
(With comparative totals for the year ended September 30, 1996)

				Other													
	Compact	Compact	U.S.	Federal						CFSM			Environ-				
	Health and	Other	Federal	and Direct	Agriculture	SVAP	Scaport	Airport	Airport	State		V6AH	mental	Medical	Early	Total	als
	Education	Grants	Assistance	Assistance	Revolving	Revolving	Revolving	Revolving	Operations	Projects	Recycling	Revolving	Quality	Revolving	Retirement	1997	1996
Revenues:																	
Compact:																	
Bese grant	\$ 1,890,000	\$ 1,357,783	s -	s -	s -	s -	s -	s -	s -	s -	s -	s -	s -	s -	s -	S 3,247,783	\$ 3,247,783
Inflation adjustment		500,000	-	-	-		-	-	-	-	-	•	-	-	•	500,000	480,000
Federal contributions	-	-	1,964,279	-	•		•	-	-			-	•	-	-	1,964,279	2,174,895
CFSM Grants	-	-	-	-	-			-	-	1,135,857	-	-	-	-	-	1,135,857	1,842,320
Scholarship Grants		259,231		-	-	-	-	•	-	•		-	-	-	•	259,231	316,722
Other	<u>·</u>	<u> </u>		326,964	45,868	10,729	·		121,425	·	.	9,274	1,070	132,763		648,093	301,286
Total revenues	1,890,000	2,117,014	1,964,279	326,964	45,868	10,729	<u>·</u>	<u>·</u>	121,425	1,135,857	<u> </u>	9,274	1,070	132,763	·	7,755,243	8,363,006
Expenditures:																	
Personnel	1,661,056		600,420	11,149	-	-	-	-	-	613,759	-	-	1,954	-		2,888,338	3,283,507
Travel	-	82,906	167,266	32,282	-	-	-	-	•	84,101	-	-	2,988	-	-	369,543	295,250
Supplies and materials	42,853		127,771	37,505	13,813	4,508	•		•	53,044	-	371	786	9,513	-	290,164	410,172
Fuel	-	2,447	9,853	•	-	-	-	-	-	345	-	-	-	-	•	12,645	21,058
Equipment		B,696	232,689	49,842		•	•	-	-	46,574	-	109	-	2,758		340,668	237,991
Contractual services	-	535,538	358,405	2,500		-	-	•	-	305,323		-	-	-	-	1,201,766	1,170,556
Other	100,164	986,126	465,124	34,578	9,664	515	·	_ 	110,390	32,711	<u> </u>	16	1,587	160,499	414,318	2,315,692	1,931,243
Total expenditures	1,804,073	1,615,713	1,961,528	167,856	23,477	5,023	<u> </u>	<u> </u>	110,390	1,135,857	<u> </u>	496	7,315	172,770	414,318	7,418,816	7,349,777
Excess (deficiency) of revenues																	
over (under) expenditures	85,927	501,301	2,751	159,108	22,391	5,706	-	·	11,035			8,778	(6,245)	(40,007)	(414,318)	336,427	1,013,229
Other financing sources (uses):																	
Operating transfers in	-	-		-	-			-	•	-	-		-	-	-	-	13,261
Operating transfers out		•	-	-	-		-	-	-		-		-	•			(602,861)
Proceeds from notes payable	<u>·</u>						<u> </u>			<u>·</u>		<u> </u>	<u> </u>	·	2,500,000	2,500,000	
Total other financing sources (uses), net		<u> </u>				<u> </u>	<u> </u>	<u> </u>		<u> </u>		<u> </u>	<u> </u>	<u> </u>	2,500,000	2,500,000	(589,600)
Excess (deficiency) of revenues and other finan	ncing																
sources over (under) expenditures and																	
other financing uses	85,927	501,301	2,751	159,108	22,391	5,706		•	11,035	-	•	8,778	(6,245)	(40,007)	2,085,682	2,836,427	423,629
Fund balances (deficit) at beginning of year	973,496	38,623	(161,579)	(67,437)	49,630	10,792	240,269	(849,698)	643,929	(37,783)	21,120	(11,518)	12,305	147,876		1,010,025	586,396
Fund balances (deficit) at end of year	\$ 1,059,423	\$ 539,924	\$ (158,828)	\$ 91,671	\$ 72,021	\$ 16,498	\$ 240,269	\$ (849,698)	\$ 654,964	\$ (37,783)	\$ 21,120	\$ (2,740)	\$ 6,060	\$ 107,869	\$ 2,085,682	S 3,846,452	\$ 1,010,025

Capital Projects Funds September 30, 1997

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.

CAPITAL PROJECTS FUNDS

Combining Balance Sheet September 30, 1997

(With comparative totals as of September 30, 1996)

		Compact Capital Projects	TTG Capital Projects		То	tals	
		Fund	Fund	_	1997	lais	1996
	_			_	1557	_	
<u>ASSETS</u>							
Cash and equivalents	\$	1,704,829	-	\$	1,704,829	\$	819,125
Cash - restricted		1,064,691	-		1,064,691		1,236,692
Investments		2,559,156	-		2,559,156		3,335,937
Investments - other		600,000	-		600,000		600,000
Receivables from federal agencies		-	184,254		184,254		168,967
General receivables		5,027	12,343		17,370		-
Advances		71,542	-		71,542		40,838
Loans receivable		7,200,000	-		7,200,000		7,200,000
Due from other funds		-	-		-		986,586
Allowance for uncollectibles	_	(4,750,000)		_	(4,750,000)	-	(4,750,000)
Total assets	\$ _	8,455,245	196,597	\$_	8,651,842	\$_	9,638,145
LIABILITIES AND FUND BALANCES Liabilities: Accounts payable Accrued payroll and others	\$	74,261 558	- -	\$	74,261 558	\$	52,957 70
Due to other funds	_	629,947	177,664	_	807,611		150,361
Total liabilities	_	704,766	177,664	_	882,430	_	203,388
Fund balances:							
Reserved for:							
Related assets		3,121,542	-		3,121,542		3,050,000
Encumbrances		1,486,955	715,154		2,202,109		1,040,182
Continuing appropriations		3,605,216	-		3,605,216		6,908,925
Unreserved (deficit)	_	(463,234)	(696,221)	_	(1,159,455)	_	(1,564,350)
Total fund balances	_	7,750,479	18,933	_	7,769,412	_	9,434,757
Total liabilities and fund balances	\$	8,455,245	196,597	\$_	8,651,842	\$_	9,638,145

CAPITAL PROJECTS FUNDS

Combining Statement of Revenues, Expenditures by Function and Changes in Fund Balances Year Ended September 30, 1997

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

		Compact Capital		TTG Capital				
		Projects		Projects			tals	·
		Fund	_	Fund ————		1997		1996
Revenues:								
Compact of Free Association:	•	4.072.000	•		•	4.0=2.000	•	
Base grant	\$	4,072,000	\$	-	\$	4,072,000	\$	5,191,800
Inflation adjustment		-		-		-		2,492,065
U.S. Department of the Interior grants		-		274,343		274,343		491,695
Investment income	_	39,988	-		-	39,988	-	50,422
Total revenues	_	4,111,988	_	274,343	_	4,386,331	_	8,225,982
Expenditures:								
Capital projects	_	2,741,595	_	274,343	_	3,015,938	_	2,324,373
Total expenditures	_	2,741,595	_	274,343	_	3,015,938	_	2,324,373
Excess of revenues over expenditures	_	1,370,393	_		_	1,370,393	_	5,901,609
Other financing sources (uses):								
Repayment of notes payable		(2,200,000)		-		(2,200,000)		(7,100,000)
Interest expense		(1,007,413)		-		(1,007,413)		(1,198,185)
Other income	_	123,675			_	123,675	_	
Total other financing sources (uses), net	_	(3,083,738)	_		_	(3,083,738)	_	(8,298,185)
Deficiency of revenues and other financing sources under expenditures and other								
financing uses		(1,713,345)		-		(1,713,345)		(2,396,576)
Fund balances at beginning of year, as restated	_	9,463,824		18,933	_	9,482,757	_	11,831,333
Fund balances at end of year	\$_	7,750,479	\$	18,933	\$_	7,769,412	\$_	9,434,757

CAPITAL PROJECTS FUNDS

Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balances Year Ended September 30, 1997

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

		Compact Capital			TTG Capital				
		Projects			Projects		To	tals	
		Fund			Fund	_	1997		1996
Revenues:			_				_		
Compact of Free Association:									
Base grant	\$	4,072,000	\$		-	\$	4,072,000	\$	5,191,800
Inflation adjustment		-			-		-		2,492,065
U.S. Department of the Interior grants		-			274,343		274,343		491,695
Investment income	_	39,988		_		_	39,988	_	50,422
Total revenues	_	4,111,988			274,343	_	4,386,331	_	8,225,982
Expenditures:									
Personnel		99,992			630		100,622		154,768
Travel		36,346			-		36,346		46,968
Supplies and materials		32,943			-		32,943		82,912
Equipment		125,592			-		125,592		151,174
Contractual services		2,336,616			273,713		2,610,329		1,567,425
Other	_	110,106		_		_	110,106	_	321,126
Total expenditures	_	2,741,595		_	274,343	_	3,015,938	_	2,324,373
Excess of revenues over expenditures	_	1,370,393		_		_	1,370,393	_	5,901,609
Other financing sources (uses):									
Repayment of notes payable		(2,200,000)			-		(2,200,000)		(7,100,000)
Interest expense		(1,007,413)			-		(1,007,413)		(1,198,185)
Other income	_	123,675		_		_	123,675	_	
Total other financing sources									
(uses), net	_	(3,083,738)		_		_	(3,083,738)	_	(8,298,185)
Deficiency of revenues and other financing sources under expenditures and other									
financing uses		(1,713,345)			-		(1,713,345)		(2,396,576)
Fund balances at beginning of year, as restated	_	9,463,824			18,933	_	9,482,757	_	11,831,333
Fund balances at end of year	\$ _	7,750,479	\$	_	18,933	\$_	7,769,412	\$_	9,434,757

Component Units - Proprietary Funds September 30, 1997

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.

<u>Pohnpei Fisheries Corporation (PFC)</u> 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.

<u>Pohnpei Port Authority (PPA)</u> 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.

<u>Pohnpei Utilities Corporation (PUC)</u> 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.

<u>Pohnpei Economic Development Authority (EDA)</u> 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.

<u>Pohnpei State Housing Authority (PSHA)</u> 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.

COMPONENT UNITS - PROPRIETARY FUNDS

Combining Balance Sheet September 30, 1997

(With comparative totals as of September 30, 1996)

		Pohnpei Fisheries		Pohnpei Port		Pohnpei Utilities	ı	Pohnpei Economic Development		Pohnpei State Housing		To	tals	
ASSETS	(Corporation		Authority		Corporation	•	Authority		Authority	_	1997		1996
			_		_		_		_		_		_	
Cash and equivalents	\$	16,026	\$	239,105	\$	306,422	\$	255,305	\$	104,896	\$	921,754	\$	1,529,346
Cash - restricted		-		300,000		-						300,000		•
Investments - other		-		-		-		500,500		-		500,500		500,500
Grants receivable		-		-		387,152		•		-		387,152		-
General receivable, net		153,951		50,141		2,185,169		198,631		-		2,587,892		2,679,680
Interest receivable		-		1,483		15,479		1,742				18,704		•
Advances		-		14,295		-		1,897		15,559		31,751		35,102
Loans receivables, net		-		-		12,712		-		3,691,410		3,704,122		3,475,604
Inventory, at cost		115,854		-		1,084,487		3,650		2,276		1,206,267		1,006,753
Self insurance fund		-		-		84,115				-		84,115		86,199
Scholarship fund		•		-		3,881		-		-		3,881		3,830
Prepaid expenses and														
other assets		33,617		4,575		7,041		-		-		45,233		439,416
Fixed assets, net		6,367,597		7,844,017		33,375,321		434,952		21,502		48,043,389		50,314,960
Due from primary government				2,278		•				63,975		66,253		80,799
Total assets	\$.	6,687,045	\$	8,455,894	\$	37,461,779	\$	1,396,677	\$	3,899,618	\$	57,901,013	\$	60,152,189
LIABILITIES AND FUND EQUITY (DEFICIENCY)														
Liabilities:														
	\$	1,148,474	\$	53,107	\$	472,864	\$	91,715	\$	9,758	\$	1,775,918	\$	1,382,445
Accounts payable	J	1,140,474	J	36,895	J	281,131	Ψ	36,075	J	1,141	Ψ	355,242	Ψ	343,515
Accrued payroll and others Deferred revenue				300,000		96,945		50,075		1,141		396,945		653,444
		3,779,738		300,000		66,281				-		3,846,019		3,873,522
Notes payable		3,779,730		<u> </u>		00,281						3,040,019		3,673,322
Total liabilities		4,928,212		390,002		917,221		127,790		10,899		6,374,124		6,252,926
Fund equity (deficiency):														
Retained earnings (deficit)		(3,923,619)		347,485		6,164,461		(3,025,654)		(89,341)		(526,668)		(620,402)
Contributed capital		5,682,452		7,718,407		30,380,097		4,294,541		3,978,060		52,053,557		54,519,665
Total fund equity (deficiency)	,	1,758,833		8,065,892		36,544,558		1,268,887		3,888,719		51,526,889		53,899,263
Total liabilities and fund equity (deficiency)	\$	6,687,045	\$	8,455,894	\$	37,461,779	\$	1,396,677	\$	3,899,618	\$	57,901,013	\$	60,152,189

COMPONENT UNITS - PROPRIETARY FUNDS

Combining Statement of Revenues, Expenses and Changes in Fund Equity

Year Ended September 30, 1997

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

	Pohnpei Fisheries	Pohnpei Port	Pohnpei Utilities	Pohnpei Economic Development	Pohnpei State Housing	Tota	ıls
	Corporation	Authority	Corporation	Authority	Authority	1997	1996
Operating revenues:							
Charges for goods and services	\$ 1,777,072	\$ 593,864	\$ 7,208,894	\$ 1,129,530	s -	\$ 10,709,360	\$ 11,969,910
Rental income	-	167,882		-	•	167,882	123,545
Other	-	37,917	<u> </u>	2,544	211,290	251,751	143,562
Total operating revenues	1,777,072	799,663	7,208,894	1,132,074	211,290	11,128,993	12,237,017
Operating expenses:							
Personnel services	121,734	473,341	1,357,999	170,347	136,059	2,259,480	2,124,197
Travel	3,826	42,235	23,828		2,410	72,299	151,564
Supplies and materials	-	39,289	77,230		-,	116,519	182,167
Fuel		6,700	2,907,546		_	2,914,246	2,669,946
Contractual services	51,776	46,959	_,,,,,,,,,	_	_	98,735	115,760
Doubtful debt expense	51,770	54,472	134,392	62,827	95,636	347,327	115,700
Utilities	•	47,503	134,392	8,903	498	56,904	-
Communications	28,622	17,576	64,886	5,416	360	116,860	-
	28,622	,	,	-		•	
Depreciation	-	629,135	2,173,967	56,658	7,517	2,867,277	2,811,814
Repairs and maintenance	8,990	25,091	538,078	1,275	3,499	576,933	
Other	4,316,300	17,986	1,088,279	1,123,238	5,227	6,551,030	9,393,993
Total operating expenses	4,531,248	1,400,287	8,366,205	1,428,664	251,206	15,977,610	17,449,441
Operating loss	(2,754,176)	(600,624)	(1,157,311)	(296,590)	(39,916)	(4,848,617)	(5,212,424)
Nonoperating revenues (expenses):							
		29,510	398,762	113,468	130,908	672,648	583,216
Operating transfers in	•	•	398,702	,	7,983	41,503	363,210
Interest income	•	22,981	100 400	10,539	7,983	•	•
Spurline projects		-	108,430	-	-	108,430	
Other	262,414	(84,474)	31,682	22,142	·	231,764	436,741
Total nonoperating							
revenues (expenses), net	262,414	(31,983)	538,874	146,149	138,891	1,054,345	1,019,957
Tovendes (expenses), not	202,111	(21,222)					
Net income (loss)	(2,491,762)	(632,607)	(618,437)	(150,441)	98,975	(3,794,272)	(4,192,467)
Add depreciation on fixed assets							
acquired by capital contributions							
that reduce contributed capital	1,515,844	565,309	1,806,853	<u> </u>	<u> </u>	3,888,006	4,083,922
Increase (decrease) in retained earnings	(975,918)	(67,298)	1,188,416	(150,441)	98,975	93,734	(108,545)
Retained earnings (deficit) at							
beginning of year	(2,947,701)	414,783	4,976,045	(2,875,213)	(188,316)	(620,402)	(511,857)
beginning of year	(2,947,701)	414,763	4,970,043	(2,075,215)	(188,510)	(020,402)	(311,837)
Retained earnings (deficit) at end of year	(3,923,619)	347,485	6,164,461	(3,025,654)	(89,341)	(526,668)	(620,402)
Contributed capital at beginning of year	7,198,296	7,914,882	31,149,854	4,294,541	3,962,092	54,519,665	47,072,317
Contributions		368,834	1,037,096		15,968	1,421,898	11,531,270
Less depreciation	(1,515,844)	(565,309)	(1,806,853)			(3,888,006)	(4,083,922)
Contributed capital at end of year	5,682,452	7,718,407	30,380,097	4,294,541	3,978,060	52,053,557	54,519,665
			• • • • • • • • • • • • • • • • • • • •				6 62 600 000
Fund equity at end of year	\$ 1,758,833	\$ 8,065,892	\$ 36,544,558	\$1,268,887	\$ 3,888,719	\$ 51,526,889	\$ 53,899,263

COMPONENT UNITS - PROPRIETARY FUNDS

Combining Statement of Cash Flows

Year Ended September 30, 1997

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

	Pohnpei Fisheries Corporation	Pohnpei Port Authority	Pohnpei Utilities Corporation	Pohnpei Economic Development Authority	Pohnpei State Housing Authority	Totals	1996
Cash flows from operating activities: Operating loss Other income	\$ (2,754,176) 262,414	\$ (600,624) -	\$ (1,157,311) 31,682	\$ (296,590) -	\$ (39,916) -	\$ (4,848,617) 294,096	\$ (5,212,424) 47,701
Adjustments to reconcile operating loss to net cash provided by							
(used for)operating activities:							
Depreciation	1,918,482	629,135	2,173,967	109,632	7,517	4,838,733	4,948,982
Doubtful debt expense	-	54,472	-	62,827	95,636	212,935	293,963
Prior period adjustment	•	(86,417)	-	•	-	(86,417)	-
Inventory loss		-	<u> </u>	<u> </u>		<u> </u>	3,490
	(573,280)	(3,434)	1,048,338	(124,131)	63,237	410,730	81,712
Changes in assets and liabilites:							
General receivables, gross	63,185	111,689	(427,569)	(600)	-	(253,295)	(184,955)
Advances	-	(3,395)	•	5,982	765	3,352	21,784
Loans receivable, gross	-	•	68,336	-	(392,490)	(324,154)	(189,236)
Inventory, at cost	20,098	-	(218,309)	(1,303)	-	(199,514)	168,940
Interest receivable	•	-	(6,167)	238	-	(5,929)	•
Prepaid expenses and other assets	(23,431)	(4,575)	422,189	-	-	394,183	(392,036)
Due from primary government Accounts payable	- 283,767	(16,472) 44,207	- 34,474	1,816 (24,750)	(15,968)	(30,624)	205 104
Accrued payroll and others	283,767	(456)	65,262	9,636	(2,587) (4,353)	335,111 70,089	295,104 (24,734)
Deferred revenue		-	(256,499)	-	-	(256,499)	33,517
	343,619	130,998	(318,283)	(8,981)	(414,633)	(267,280)	(271,616)
Net cash provided by (used in)							
operating activities	(229,661)	127,564	730,055	(133,112)	(351,396)	143,450	(189,904)
Cash flows from noncapital							
financing activities:							
Proceeds from (payments of) notes payable	236,263	-	(263,766)	-	•	(27,503)	(85,954)
Operating transfers in	-	29,510	279,287	113,468	130,908	553,173	583,216
Other noncapital financing activities	<u> </u>		108,430		15,968	124,398	730,467
Net cash provided by noncapital							
financing activities	236,263	29,510	123,951	113,468	146,876	650,068	1,227,729
Cash flows from capital and related							
financing activities:	(07.004)	(10. (10.)	(1.00< (50)	(04 (00)	(50.0)	(2.2.2.2.2)	(
Acquisition of fixed assets Contributed capital	(97,226)	(101,443) 11,690	(1,926,659)	(91,683)	(506)	(2,217,517) 1,048,786	(1,458,873)
Interest paid, net		11,090	1,037,096	-	-	1,048,780	755,121 (14,544)
Investment in Pacific Tuna Ventures, Inc.		<u> </u>	<u> </u>		<u>-</u> -	<u> </u>	(500)
Net cash used in capital and related							
financing activities	(97,226)	(89,753)	(889,563)	(91,683)	(506)	(1,168,731)	(718,796)
Cash flows from investing activities: Received from self-insurance	Config.						
fund, net	-	-	2,033	-		2,033	25,000
Purchase of time certificates of deposit	-	(300,000)		-	-	(300,000)	-
Interest income	-	22,981	-	10,539	7,983	41,503	37,792
Other		1,943	<u> </u>	22,142	<u> </u>	24,085	2,306
Net cash provided by (used in) investing activities		(275,076)	2,033	32,681	7,983	(232,379)	65,098
-							
Net increase (decrease) in cash and equivalents	(90,624)	(207,755)	(33,524)	(78,646)	(197,043)	(607,592)	384,127
Cash and equivalents at beginning of year	106,650	446,860	339,946	333,951	301,939	1,529,346	1,145,219
Cash and equivalents at end of year	\$ 16,026	\$ 239,105	\$ 306,422	\$ 255,305	\$ 104,896	\$ 921,754	
					17,000	221,734	



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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, 1997, and have issued our report thereon dated July 14, 1998, which report was modified due to the lack of updating the General Fund Fixed Assets Account Group, the absence of financial statements of the Pohnpei Transportation Authority, a proprietary fund type - enterprise fund and due to our inability to satisfy ourselves with respect to the fairness of certain withholding and other liability accounts of the Pohnpei Fisheries Corporation, a component unit - proprietary fund. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the State of Pohnpei's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, certain immaterial instances of noncompliance have been reported by us to management in the accompanying Schedule of Findings and Questioned Costs (pages 70 through 81) in finding numbers 97L-1, 97L-2 and 97L-3.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Pohnpei's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting 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. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 97-3 through 97-8.

Deloitte Touche Tohmatsu International A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the 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 over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions, and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

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

July 14, 1998

elotte TarleUP





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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Honorable Del S. Pangelinan Governor, State of Pohnpei Federated States of Micronesia:

Compliance

We have audited the compliance of the State of Pohnpei with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended September 30, 1997. The State of Pohnpei's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 70 through 81). Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the State of Pohnpei's management. Our responsibility is to express an opinion on State of Pohnpei's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State of Pohnpei's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the State of Pohnpei's compliance with those requirements.

As described in Federal findings 97-1, 97-2 and 97-3 in the accompanying Schedule of Findings and Questioned Costs, the State of Pohnpei, did not comply with requirements regarding cash management, reporting and federal property standards that are applicable to its Educational Grant (CFDA #84.256A). Compliance with such requirements is necessary, in our opinion, for the State of Pohnpei to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the State of Pohnpei, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 1997.

Internal Control Over Compliance

The management of the State of Pohnpei is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the State of Pohnpei's internal

Deloitte Touche Tohmatsu International control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State of Pohnpei's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 97-1, 97-2 and 97-3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above to be a material weakness.

Schedule of Expenditures of Federal Awards

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We have audited the general purpose financial statements of the State of Pohnpei, as of and for the year ended September 30, 1997, and have issued our report thereon dated July 14, 1998, which report was modified due to the lack of updating the General Fixed Assets Account Group, the absence of financial statements of the Pohnpei Transportation Authority, a proprietary fund type - enterprise fund and our inability to satisfy ourselves with respect to the fairness of certain withholding and other liability accounts of the Pohnpei Fisheries Corporation, a component unit - proprietary fund. Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the general purpose financial statements. This schedule is the responsibility of the management of the State of Pohnpei. Such information 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, federal awarding agencies, pass-through entities and the cognizant audit and other federal agencies. However, this report is a matter of public record and its distribution is not limited.

July 14, 1998

Schedule of Expenditures of Federal Awards U.S. Federal Assistance Fund Year Ended September 30, 1997

Grantor Program Title	CFDA I.D. #	Pohnpei Org. #		1997 Siscal Year Expenditures
U.S. Department of Agriculture				
FY93 Forestry Project	10.664	3339	\$	664
FY96 Forestry Project	10.664	3340	Ф	5,084
FY95 Forestry Project	10.664	3341		1,927
FY 95 Fire Prevention Project	10.664	3354		5,921
FY 97 Fire Prevention Project	10.664	3355		2,216
r 1 97 rue rievention rioject	10.004	3333	-	2,210
Total U.S. Department of Agric	culture (CFDA	#10.664)	_	15,812
U.S. Department of Education				
FY96 Goal 2000 Program	84.276	3107		105,887
· ·			-	
Total CFDA #84.276			_	105,887
FY95 Special Education	84.027	3114		445
-			-	
Total CFDA #84.027			_	445
Total U.S. Department of Educ	ation		_	106,332
IIC Dangetment of the Interior				
U.S. Department of the Interior FY96 Historic Preservation	15.904	3452		40.761
FY95 Historic Preservation	15.904			40,761
		3453		6,841
FY94 Historic Preservation	15.904	3467	-	536
Total CFDA #15.904			_	48,138
FY95 Pohnpei OMIP Program Hospital	15.875	3532		35,297
FY95 OMIP Seaport Airport	15.875	3533		62,990
Financial Management Improvement	15.875	3541		8,696
Hospital Maintenance & Improvements	15.875	3542		15,366
Treasury OMIP Matching	15.875	3543		42,875
Economic Planning Advisor	15.875	3545		38,922
Land and Survey	15.875	3548		131,158
Law Enforcement Need	15.875	3455		275
Multi-agency Anti Fraud	15.875	3566		2,982
Train agency tantition	15.6.5	3300	-	2,702
Total CFDA #15.875			_	338,561
Total U.S. Department of the In	nterior		_	386,699
U.S. Department of Health and Human Services				
FY97 Systems Div. Initiative	93.110	3663		17
1197 Systems 2177 minute	201110	5005	-	
Total CFDA #93.110			_	17
FY96 Tuberculosis & Aids	93.116	3650		5,305
FY97 Tuberculosis & Aids	93.116	3659		8,519
1177 Tubbleatosis & Tilds	33.110	3037	-	0,517
Total CFDA #93.116			_	13,824
Balance Forward U.S. DHHS			_	13,841
Balance Forward				508,843
			_	

Schedule of Expenditures of Federal Awards, Continued U.S. Federal Assistance Fund, Continued Year Ended September 30, 1997

Grantor Program Title	CFDA I.D.#	Pohnpei Org. #	1997 Fiscal Year Expenditures	
Balance Forwarded			\$	508,843
U.S. Department of Health and Human Services I	Balance Forwarded	<u>i</u>		13,841
FY95 Mental Health Information	93.119	3627	_	26
Total CFDA #93.119			_	26
FY97 Family Planning FY98 Family Planning	93.217 93.217	3652 3664	_	20,047 2,767
Total CFDA #93.217			_	22,814
FY96 Community Health Center FY97 Community Health Center	93.224 93.224	3647 3662	_	54,749 90,323
Total CFDA #93.224			_	145,072
FY96 Immunization FY97 Immunization	93.268 93.268	3649 3658	_	15,193 26,224
Total CFDA #93.268			_	41,417
FY96 Aids Prevention	93.940	3651	_	3,107
Total CFDA #93.940			_	3,107
FY96 Substance Abuse FY95 Substance Abuse	93.959 93.959	3655 3644	_	86,717 260
Total CFDA #93.959			_	86,977
FY96 Sexually Transmitted Diseases FY97 Sexually Transmited Diseases	93.977 93.977	3648 3660	_	1,016 5,112
Total CFDA #93.977			_	6,128
FY96 Public Health & Preventive Health	93.991	3657	_	8,462
Total CFDA #93.991			_	8,462
FY96 MCH Program FY96 MCH/CSHCN FY97 MCH Program	93.994 93.994 93.994	3654 3656 3667	_	71,954 11,855 362
Total CFDA #93.994			_	84,171
Clinical Protocol Nurses	N/A	3641	_	876
Total U.S. Department of He	ealth and Human S	Services	_	412,891
Balance Forward			_	921,734

Schedule of Expenditures of Federal Awards, Continued U.S. Federal Assistance Fund, Continued Year Ended September 30, 1997

Grantor Program Title	CFDA I.D. #	Pohnpei Org. #		1997 iscal Year ependitures
Balance Forwarded			\$	921,734
U.S. Department of Labor				
FY94 JTPA Youth Program	17.250	3202		10,380
FY94 JTPA Adult Program	17.250	3203		4,780
FY94 JTPA Participant Support	17.250	3204		246
FY95 JTPA Administration	17.250	3207		436
FY95 JTPA Adult Program	17.250	3208		8,661
FY95 JTPA Youth Program	17.250	3209		21,646
FY96 JTPA Administration	17.250	3210		47,986
FY96 JTPA Youth Program	17.250	3211		74,022
FY96 JTPA Adult Program	17.250	3212		104,594
FY96 JTPA Participant Support	17.250	3213		30,631
FY95 JTPA Technical Assistance	17.250	3219		20
FY95 JTPA Participant Support	17.250	3229		5,401
FY97 JTPA Participant Support	17.250	3232		14,105
FY97 JTPA Adult Program	17.250	3233		7,182
FY97 JTPA Administration	17.250	3234		96
Total U.S. Department of Lab	-	330,186		
Federal Emergency Management Agency	02 516	2756		(10.600)
Yuri Public Assistance PTA	83.516	3756 3761		(10,600)
Environmental Health	83.516	3761		114
Hazard Mitigation Management Cost	83.516	3765		28
Hazard Mitigation Typhoon	83.516	3778		10,600
Pingelap Airstrip Typhoon	83.516	3780		45,502
Hazard Mitigation Food	83.516	3789		163
Mwoakilloa Airstrip	83.516	3790		22,760
Typhoon Yuri OCMPM	83.516	3792 3796		1,910
Hazard Mitigation Project	83.516	3/90	_	2,043
Total Federal Emergency Management Agency (CFDA #83.516)				
Direct U.S Grants - U.S. Department of Education				
Title VII Bilingual Education	84.256A	3819		2,308
Freely Assoc. Ed. Grant	84.256A	3820		544,518
Freely Assoc. Ed. Grant	84.256A	3825		90,262
Total U.S Department of Educ	cation (CFDA #8	4.256A)	-	637,088
•	,	,	_	
Total U.S. Federal Assistance Fund			\$ =	1,961,528

Note: The above grants are received in a subgrant capacity through the FSM National Government, except for the Pohnpei Educational Grant programs (org. 3819 and 3820, and 3825 with CFDA #84.256A) which were received directly from the U.S. Department of Education.

Schedule of Expenditures of Federal Awards, Continued Other Federal and Direct Assistance Fund Year Ended September 30, 1997

Grantor Program Title	CFDA I.D. #	Pohnpei Org. #	1997 Fiscal Year Expenditures
World Health Organization	27/4	2005	1 000
Pohnpei Literacy Project Plan	N/A	3985	1,890
			1,890
Other Grants			
Typhoon Isa Contribution Fund	N/A	3922	1,369
Sea Turtle Enhancement	N/A	3926	173
Capacity 21/Earth Day Celebration	N/A	3927	4,940
Pediatric & Nursery Equipment	N/A	3929	60
Oumoar/Iohl Land Slide	N/A	3930	20,515
FY95 Watershed Biodivers	N/A	3932	8,521
Palikir Elementary School Improvement	N/A	3935	2,990
Quarentine Collection	N/A	3940	8,344
Legislative Investigation Division	N/A	3941	4,827
Vocational Education Improvement Program	N/A	3947	84,901
Food Production & Nutrition	N/A	3948	3,857
Math and Science Program	N/A	3955	7,414
Hemodialysis Medical Supplies	N/A	3958	403
FY95 Pohnpei Visions & Dreams	N/A	3962	10,132
RM&D Contributed Funds	N/A	3964	1,000
Hospital Equipment	N/A	3996	6,520
			165,966
Total Other Federal and Direct Assistance	ce		\$ 167,856

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

Schedule of Expenditures of Federal Awards, Continued CFSM Projects Fund Year Ended September 30, 1997

				1997
	CFDA	Pohnpei	F	iscal Year
Program Title	I.D. #	Org. #	Ex	penditures
Special Education Direct	N/A	4101	\$	135,784
Supreme Court Operations	N/A	4873		68,312
Sapwuafik Airstrip	N/A	4894		20,982
JLE Public Safety	N/A	4911		15
Oroluk Marine Station	N/A	4915		158
Elementary & Secondary Education	N/A	4922		11,409
Mwoakilloa Airstrip	N/A	4933		150
Madolenihmw Elementary School	N/A	4941		882
Hospital Renovation	N/A	4952		9,209
PICS Facilities Improvement	N/A	4954		4,531
OMIP Matching-Pohnpei 91	N/A	4955		(26)
Joint Law Enforcement/Correction Rehab.	N/A	4956		142,686
Pohnpei Tourist Commission	N/A	4958		3,055
Second Year OMIP Matching	N/A	4959		39,855
Circumferential Road/Paving VI	N/A	4961		200,888
Pohnpei State Scholarship	N/A	4962		(3,600)
Pharmaceuticals/Equipment/Refferals	N/A	4963		2,056
Special Education Program	N/A	4964		232,301
Sokehs Pah Elementary School Building	N/A	4965		94,000
Emergency Typhoon Isa	N/A	4966		47,710
Office Building Expansion	N/A	4967		29,847
Pohnpei State Hospital Needs	N/A	4968		60,304
FY97 CHC Operation	N/A	4969		24,323
Kitti & Madolenihmw Substation	N/A	4971	_	11,026
Total CFSM Projects Fund			\$_	1,135,857

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

Schedule of Expenditures of Federal Awards, Continued TTPI Capital Projects Fund Year Ended September 30, 1997

Grantor Program Title	CFDA I.D. #	Pohnpei Org. #	1997 Fiscal Year Expenditures	
Trust Territory of the Pacific Islands				
Pohnpei Hospital Renovation	15.875	6323	\$	630
Kolonia Sewer System	15.875	6324		120,733
Airport Runway Renovation	15.875	6325		79,400
Kolonia Roadside	15.875	6329		60,446
PNI Circumferential Road	15.875	6338	_	13,134
Total TTPI Capital Projects Fund			\$_	274,343

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

Schedule of Expenditures of Federal Awards, Continued Compact of Free Association Special Block Grant Fund Section 221(B) Year Ended September 30, 1997

Grantor Program Title	CFDA I.D. #	Pohnpei Org. #	1997 Fiscal Year Expenditures	
Office of Territorial and International Affairs				
Preschool and Elementary Education	15.875	2149	\$	122,809
Secondary Education	15.875	2150		1,588,822
Medical Services	15.875	2152		79,180
Dental Services	15.875	2154		6,524
Administration & Health Services	15.875	2155	_	6,738
Total Compact of Free Association S Section 221(B)	pecial Block Grant	Fund -	\$ _	1,804,073

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

Schedule of Expenditures of Federal Awards, Continued Compact of Free Association Other Grants Fund Year Ended September 30, 1997

Program Title	CFDA I.D. #	Pohnpei Org. #		1997 iscal Year penditures
Section 212(A) - Special Development Programs				
OMIP Matching	15.875	2529	\$	8,696
Civic Action Team	15.875	2913	Ψ	250,000
Civic Action Team	15.675	2713	_	250,000
			_	258,696
Section 216(A)(2) - Health and Medical Programs				
Outer Island Medical Referrals	15.875	2355		12,854
FY93 Medical Referrals	15.875	2356		332,037
			_	344,891
			_	544,071
Section 214(B) - Energy Programs				
Treasury and Administration Utilities	15.875	2752		33,013
Justice Utilities	15.875	2753		36,402
Public and Governmental Relations Utilities	15.875	2755		8,476
Court of Land Tenure	15.875	2756		4,211
Pohnpei Utilities Corporation	15.875	2757		133,334
Social Affairs Utilities	15.875	2758		3,063
Public Broadcasting Corporation	15.875	2759		10,872
Supreme Court Utilities	15.875	2762		12,300
Micro Glory POL	15.875	2763		3,218
Rural Development Utilities	15.875	2765		5,500
Health Services Utilities	15.875	2780		291,208
Public Auditor's Office Utilities	15.875	2781		2,000
Foreign Investment Board Utilities	15.875	2782		1,922
Public Library Utilities	15.875	2786		7,600
Budget Office Utilities	15.875	2787		8,951
Resource Management & Development Utilities	15.875	2789		67,726
Executive Branch POL	15.875	2790		1,579
Legislative Utilities	15.875	2792		22,466
Education Utilities	15.875	2793		62,895
Economic Development Authority Utilities	15.875	2794		6,700
Pohnpei State Housing Authority Utilities	15.875	2795		2,259
Environmental Protection Agency Utilities	15.875	2797		3,339
Office of the Governor Utilities	15.875	2798	_	7,539
			_	736,573

Schedule of Expenditures of Federal Awards, Continued Compact of Free Association Other Grants Fund, Continued Year Ended September 30, 1997

Program Title	CFDA I.D. #	Pohnpei Org. #	1997 Fiscal Year Expenditures
Section 216(A)(3) - Scholarship Programs			
FY87 Scholarship Assistance Grant	15.875	2901	(1,500)
FY88 Scholarship Assistance Grant	15.875	2902	(2,500)
FY97 Post Secondary Assistance	15.875	2903	282,253
FY92 Post Secondary Assistance	15.875	2908	(750)
FY95 Post Secondary Assistance	15.875	2911	(1,500)
FY96 Post Secondary Assistance	15.875	2912	(450)
			275,553
Total Compact of Free Associaton Oth	\$ 1,615,713		

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 reallots such to the component States.

Schedule of Expenditures of Federal Awards, Continued Compact of Free Association Capital Projects Fund Section 211 (A) Capital Account Year Ended September 30, 1997

				1997
Grantor	CFDA	Pohnpei	Fis	scal Year
Program Title	I.D. #	Org. #	Exp	penditures
0.00 0.00 1.1 1.1 1.1 1.0 1.1 1.0 1.1 1.0 1.1 1.0 1.1 1.1				
Office of Territorial and International Affairs	15.055	6024	•	2 122
Wone Elementary School	15.875	6024	\$	2,132
Sokehs Powe Elementary School	15.875	6035		1,157
Kitti Secondary Road	15.875	6069		5,000
Construction Upgrade Salapwuk Road	15.875	6134		49,250
Landfill/Consruction Sokehs Pah	15.875	6193		44,196
Construction & Maintenance PICS	15.875	6225		8,489
Pepper Processing Plant	15.875	6234		62,834
Legislature Chamber Renovation	15.875	6236		32,313
Paving of Dien Second Road	15.875	6240		(4,843)
Madolenihmw Infrastructure Project	15.875	6241		4,570
Sanitary Water Tank	15.875	6246		6,425
Tourism Master Plan	15.875	6247		(48,500)
Tourism Promotion and Marketing	15.875	6248		4,410
Broiler Project	15.875	6254		136
Pingelap Dispensary	15.875	6258		136
Uh Power Extension Project	15.875	6266		15,000
Development and Maintenance	15.875	6279		6,038
Second Five Year Development Plan	15.875	6281		5,574
Broiler Development	15.875	6283		1,391
Kolonia Town CIP	15.875	6287		1,600
Circumferential Road Paving	15.875	6289		115,000
Kitti Municipal CIP	15.875	6291		3,573
Nukuoro Municipal CIP	15.875	6292		8,192
Pehleng Water Supply System	15.875	6402		2,694
U Power Extention Pahlap Section 2	15.875	6403		10,000
U Power Extention Nanwel en Rohi	15.875	6405		5,000
Renovation of Public Land Office	15.875	6412		24,312
Purchase of School Buses	15.875	6414		72,384
Family Food Nutrition	15.875	6415		172
Land & Survey	15.875	6416		12,303
Madolenihmw Development Project	15.875	6417		19,651
Tourist Promotion and Marketing	15.875	6418		1,626
Kolonia Town Road Project	15.875	6419		16,201
Development/Maintenance Tourist A/Site	15.875	6420		15,801
Apwarahn Road Maintenance	15.875	6424		4,500
Mwoakilloa Municipal Development Project	15.875	6426		9,849
Pingilap Municipal CIP	15.875	6427		46,000
Nukuoro Agriculture Project	15.875	6431		3,240
Circumferential Road Paving	15.875	6433		99,008
Dien Single Suprline	15.875	6434		16,312
Uh Municipal Vehicle	15.875	6439		263
Enpein Powe Power Distribution	15.875	6441		8,654
Tomworalong S/Spurline	15.875	6442		4,961
Balance Forward				697,004

Schedule of Expenditures of Federal Awards, Continued Compact of Free Association Capital Projects Fund Section 211 (A) Capital Account, Continued Year Ended September 30, 1997

Grantor Program Title	CFDA I.D. #	Pohnpei Org. #	1997 Fiscal Year Expenditures	
Balance Forwarded			\$	697,004
Oloapoal Power Distribution	15.875	6443		15,982
Voter Registration Project	15.875	6446		5,544
Financial Management Performance	15.875	6447		42,875
Dekehtik Dumpsite Improvement	15.875	6448		93,407
Major Repair of Unpaved Road	15.875	6449		187,584
Nett District CIP	15.875	6450		44,000
Renovation of Gov. Office	15.875	6451		95,085
Road Paving in Nett	15.875	6452		12,000
Circumferential Road Paving/Phase VII	15.875	6453		1,003,886
Technical Assistance Fund	15.875	6455		27,458
Treasury & Administration Computers	15.875	6456		30,855
Kolonia Sewer Phase I	15.875	6457		107,000
Secondary Road Repair	15.875	6458		181,676
Circumferential Road	15.875	6459		197,239
MTN Principal	15.875	6099		2,200,000
MTN Interest	15.875	6100	_	1,007,413
Total Compact of Free Association Capital Projects Fund - Section 211 (A) Capital Account			\$ _	5,949,008
Note 1: A reconciliation of the above expenditures to general-purpose financial statements is shown				
FY97 MTN Debt payments (6099 and 6100)			\$_	5,949,008 (3,207,413)
Per general-purpose financial statements			\$_	2,741,595

Note 2: These funds are made available by Title Two, Article I, Section 211(A) of the Compact of Free Association and are disbursed through the Office of Territorial and International Afairs (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.

Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 1997

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-133 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 expenditures of federal awards 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 Expenditures of Federal Awards does not contain separate schedules disclosing how the subgrantee outside of the State's control utilizes these funds (see note 3).

D. Indirect Cost Allocation

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

Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 1997

3. Component Units

The State of Pohnpei's component units separately satisfy the requirements of OMB Circular A-133. 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. No material instances of noncompliance or questioned costs are presented in its audit reports. On page 68 is the Pohnpei Utilities Corporation's Schedule of Expenditures of Federal Awards, 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 Expenditures of Federal Awards is extracted from the Authority's audit reports. Material instances of noncompliance or questioned costs are presented in those audit reports which are not contained in the accompanying Schedule of Findings and Questioned Costs as the State of Pohnpei has yet to issue a management decision with respect to these 1997 matters.

Grant Title	Grantor Agency	CFDA <u>No.</u>	Loans Outstanding as of September 30, 1997
Compact of Free Association: Capital Account Funds - Capital Projects, Section 211(A)	DOI-OTIA	15.875	\$ <u>4,420,588</u>
Total U.S. Department of the Interior			\$ <u>4,420,588</u>
USDA Rural Development: Housing Preservation Grant	USDA	10.433	\$ _200,000
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 USDA Rural Development Office.

Pohnpei Utilities Corporation Schedule of Expenditures of Federal Awards Year Ended September 30, 1997

Grantor/Program Title	CFDA No.	_A	Total uthorizations	_E ₂	Prior Years' ependitures	7	expenditures for the Year Ended ept. 30, 1997	_ <u>E</u>	Total Program expenditures
U.S. Department of the Interior: Office of Territorial and									
International Affairs:									
Compact of Free Association:									
Energy Program funds, Section 214(B)	15.875	\$	2,774,370	\$	2,822,274	\$		\$	2,822,274
Capital Account funds, Section 211(A): OMIP-First Year Electrical Match OMIP-First Year Water and Sewer Match	15.875		322,250 1,535,250		296,592 1,230,301		268,327		296,592 1,498,628
Power Hook-Ups			492,500		492,500		•		492,500
Kolonia Sewer			33,119		33,119		-		33,119
OMIP-Second Year Water and Sewer Match	h		280,425		280,425		-		280,425
Second Year Water and Sewer Subsidy			110,200		110,200		-		110,200
Pingelap Solar			196,000		103,175		113,871		217,046
			2,969,744		2,546,312		382,198		2,928,510
Operations and Maintenance Improvement Programs (OMIP): Initialization of the PUC	15.875		430,250		430,249		_		430,249
Pohnpei Water, Sewerage, and Solid Waste			,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,		,				,
Utilities Development, First-Year			810,000		612,050		161,327		773,377
Pohnpei Water, Sewerage, and Solid Waste Utilities Development, Second-Year Pohnpei Water, Sewerage, and Solid Waste			665,000		391,359		120,741		512,100
Utilities Development, Third-Year			443,500		-		46,182		46,182
Pohnpei Power Generation and Distribution Second-Year Pohnpei Power Generation and Distribution Third-Year Pohnpei Power Generation and Distribution			273,468		273,468		-		273,468
			370,000		337,228		34,674		371,902
Fourth-Year			462,000		-		199,067		199,067
OMIP Bench			71,000		71,000		<u>-</u>		71,000
			3,525,218	-	2,115,354		561,991		2,677,345
Technical Assistance:	15.875								
PUC FSM-58			110,000		110,000		-		110,000
ALCO Repairs			25,000		25,000				25,000
			135,000		135,000		-		135,000
Meter Calibration/Facility Inventory	15.875		100,000		100,000		-		100,000
Overhaul ALCO Generators-Pohnpei State	15.875		100,000		100,000		-		100,000
DOI Hazard Mitigation Program	15.875		1,100,000		365,207		514,617		879,824
Audit Grant	15.875		32,000		32,000		<u> </u>		32,000
			1,332,000		597,207		514,617		1,111,824
Trust Territory of the Pacific Islands (TTPI):									
Deficiency Funding:	15.875								
Pohnpei Power			328,271		328,271		-		328,271
Kolonia Sewer			659,328		782,149	•	15,262		797,411
			987,599		1,110,420		15,262		1,125,682
Kolonia Water Improvements	15.875		290,700		290,700				290,700
		\$	12,014,631	\$	9,617,267	\$	1,474,068	\$	11,091,335

Note: The above programs are passed through Pohnpei State to the Pohnpei Utilities Corporation (PUC). The difference between expenditures per this Schedule and the sum of federal grants and contributions per the financial statements, represents PUC contributions to the projects expended in excess of federal contributions.

^{*}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, 1997.

Schedule of Programs Selected For Audit in Accordance with OMB Circular A-133 Year Ended September 30, 1997

Grantor Program Title	<u>CFDA No.</u>	1997 Fiscal Year <u>Expenditures</u>
U.S. Dept. of the Interior Compact of Free Association: 211(A) Capital Account	15.875	\$ 5,949,008
221(B) Block Grant 216(A)(2) Health and Medical Programs 214(B) Energy Programs		1,804,073 344,891 <u>736,573</u>
Total Major Programs Under CFDA # 15.875 excluding Compact Section 211 (A)		
Current Account expenditures		8,834,545
U.S. Department of Education Compact Educational Grant	84.256A	634,780
Total U.S. Federal program expenditures selected excluding Compact Section		
211 (A) Current Account expenditures		\$ <u>9,469,325</u>
Total U.S. Federal program expenditures excluding Compact Section 211 (A) Current Account expenditures		\$ <u>11,604,652</u>
% of total U.S. Federal expenditures covered by major programs excluding Compact		
Section 211 (A) Current Account expenditures		<u>81.6</u> %

Schedule of Findings and Questioned Costs Year Ended September 30, 1997

Part I - Summary of Auditors' Results

- 1. The Independent Auditors' Report on the financial statements expressed a qualified opinion.
- 2. Reportable conditions in internal control over financial reporting were identified, none of which are considered to be material weaknesses.
- 3. No instance of noncompliance considered material to the financial statements was disclosed by the audit.
- 4. Reportable conditions in internal control over compliance with requirements applicable to major federal award programs were identified, none of which are considered to be material weaknesses.
- 5. The independent auditors' report on compliance with requirements applicable to major federal award programs expressed a qualified opinion.
- 6. The audit disclosed findings required to be reported by OMB Circular A-133.
- 7. The State's major programs were:

Name of Federal Program or Cluster	CFDA Number
U.S. Department of the Interior - Compact of Free Association U.S. Department of the Interior - Kosrae Okat Dock U.S. Department of Education - TFAS Educational Grant	15.875 15.875 84.256A

- 8. A threshold of \$348,140 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
- 9. The State did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

Part II - Financial Statement Findings Section

Reference Number	<u>Findings</u>	Questioned Costs
97-3	Federal property standards	\$ -
97-4	Fixed assets	-
97-5	Automated system	-
97-6	Revenue and receipt cycle	-
97-7	Travel advances	-
97-8	Revolving funds	-

Part III - Federal Award Findings and Questioned Cost Section

Reference Number	<u>Findings</u>	Questioned Costs
97-1	Cash management	\$ -
97-2	Reporting	-
97-3	Federal property standards	-

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 1997

Federal Findings

Program

Reason for Ouestioned Costs

Questioned Costs

97-1. U.S. Dept. of Education/TFAS Educational Grant-CFDA #84.256A

<u>Criteria</u>: Federal Regulations require that cash advances be limited to the program's cash requirements for not more than three days.

Condition: At September 30, 1997, approximately \$580,218 in cash advances for the TFAS Educational Grant remained with Pohnpei State. According to the program manager, the amount represents cash requirements for the program for approximately five months. The grantor agency appeared to have not been made aware of the existence of excess cash remaining with Pohnpei State.

<u>Cause</u>: The disbursement amounts reported by Pohnpei State on the PMS 272 reports were not taken from the Dilog General Ledger System. Instead, our review showed the disbursements reported on the PMS 272 were matched to the dollar amount of the previous cash advance requests instead of the cumulative expenditures of the grants as recorded in Dilog.

<u>Effect</u>: Pohnpei State appears to be in noncompliance with federal cash management requirements.

Recommendation: We recommend that Pohnpei State immediately revise its September 30, 1997 PMS 272 report and resubmit such to the grantor agency. We also recommend that in the future, Pohnpei State ensure that financial figures reported on the PMS reports are obtained from the Dilog System.

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 1997

Federal Findings, Continued

Program Questioned Costs Questioned Costs Costs

97-2. U.S. Dept. of Education/TFAS Educational Grant-CFDA #84.256A

<u>Criteria</u>: Unless specifically waived by the grantor, Pohnpei State should prepare federal financial reports and such other reports for its direct grants as may be required by the grantor agency.

<u>Condition</u>: Pohnpei State did not prepare the federal financial reports (SF 269) for its TFAS Educational Grant for the year ended September 30, 1997.

<u>Cause</u>: The State appears to be uncertain of its reporting requirements.

<u>Effect</u>: The State may be in noncompliance with federal reporting requirements for its TFAS Educational Grants.

<u>Recommendation</u>: We recommend that Pohnpei State contact the grantor agency and inquire as to its reporting requirements and then ensure that such requirements are complied with.

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 1997

Federal Property Standards - All Programs

97-3. <u>Criteria</u>: The State of Pohnpei should maintain an accounting system in accordance with federal property standards for fixed assets acquired with federal funds.

<u>Condition</u>: Based on our review of the State's accounting for the General Fixed Asset Account Group, it appears that no detailed accounting of these fixed assets, by funding source, is being performed.

<u>Cause</u>: It appears that the Division of Property management has not obtained a level of proficiency on the automated system which allows them to achieve a sufficient level of accounting efficiency to be in compliance with federal property standards.

Effect: The State of Pohnpei is not in compliance with federal property standards.

<u>Recommendation</u>: The State of Pohnpei should ensure that its assets are properly incorporated into the accounting system and that it is in compliance with applicable federal property rules and regulations.

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 1997

Fixed Assets

Finding No. 97-4

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

<u>Condition</u>: 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.

<u>Cause</u>: 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.

<u>Prior Year Status</u>: 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 1996.

<u>Recommendation</u>: 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.

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 1997

Automated System

Finding No. 97-5

<u>Criteria</u>: The State should maintain copies of back up computer 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.

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

<u>Prior Year Status</u>: 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 1996.

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

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 1997

Revenue and Receipt Cycle

Finding No. 97-6

<u>Criteria</u>: Timely deposit of cash receipts from the Supreme Court should occur to minimize exposure to theft or fraud.

<u>Condition</u>: 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.

<u>Prior Year Status</u>: 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 through 1996.

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

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 1997

Travel Advances

Finding No. 97-7

<u>Criteria</u>: 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.

<u>Prior Year Status</u>: The lack of detail of travel advances was reported as a finding in the Single Audit of Pohnpei State for fiscal years 1995 and 1996.

<u>Recommendation</u>: We recommend that Pohnpei State reconcile the detail of outstanding travel advances to the general ledger.

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 1997

Revolving Funds

Finding No. 97-8

<u>Criteria</u>: Inactive funds should be reviewed and recommended to the legislative branch for disposition.

<u>Condition</u>: Pohnpei State continues to maintain the accounting for the Seaport and Airport Revolving Funds while component units have been established by the Legislature to provide these services.

<u>Cause</u>: 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.

<u>Prior Year Status</u>: 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 years 1995 and 1996.

<u>Recommendation</u>: We recommend that the Legislature be requested to resolve the status of these funds.

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 1997

Local Findings

Compact Capital Funds

97L-1. Criteria: Pohnpei State should ensure compliance with the intent of the Compact treaty.

<u>Condition</u>: \$10,421 of CIP funds were used to purchase pepper stock from the Pohnpei Pepper Plant. We were unable to determine, based on review of underlying supporting documentation, the reason for the purchase and were unable to determine if the use of Compact Capital funds in such a manner is consistent with the intent of Compact Section 211 (A).

Cause: The cause of this condition is unknown.

<u>Effect</u>: Potential noncompliance with the intent of the Compact Treaty could result from the above condition.

<u>Recommendation</u>: We recommend that Pohnpei State resolve this question through the Offices of the State and National Attorney Generals.

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 1997

Local Findings, Continued

Compact Energy Funds

97L-2. <u>Criteria</u>: Pohnpei State should ensure compliance with the intent of the Compact treaty.

<u>Condition</u>: During fiscal year 1997, Compact Energy Funds totaling \$736,573 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.

<u>Cause</u>: 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 also not yet been resolved with the U.S. Department of the Interior, the grantor agency.

<u>Effect</u>: Potential noncompliance with the intent of the Compact Treaty could result from the above condition.

<u>Prior Year Status</u>: Use of Compact Energy Funds for payment of the State's Utility bills was cited as a finding in the fiscal year 1995 and 1996 Single Audit reports.

<u>Recommendation</u>: 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.

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 1997

Local Findings, Continued

Unresolved Prior Year's Local Finding

Compact Capital Funds

97L-3. Criteria: Pohnpei State should ensure that it complies with the intent of the Compact treaty.

Condition: Compact CIP funds were expended in the prior years 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.

<u>Prior Year Status</u>: Use of Compact CIP funds for general maintenance of the M/S Micro Glory was cited as a finding in the fiscal year 1995 and 1996 Single Audit reports.

<u>Recommendation</u>: 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.

Unresolved Prior Years' Findings and Questioned Costs Year Ended September 30, 1997

The following is a summary of unresolved questioned costs of the State of Pohnpei as of September 30, 1997:

	Questioned Costs Set Forth in	Questioned Costs Resolved	
	Prior Audit Report 1996	in Fiscal Year	Questioned Costs at
	<u>1990</u>	<u>1997</u>	<u>September 30, 1997</u>
Unresolved Questioned Costs FY 85	\$ 227,940	\$ 227,940 (1)	\$ -
Unresolved Questioned Costs FY 86	171,686	171,686 (1)	-
Unresolved Questioned Costs FY 88	393,372	393,372 (1)	-
Unresolved Questioned Costs FY 89	271,650	271,650 (1)	-
Unresolved Questioned Costs FY 90	73,342	73,342 (1)	-
Unresolved Questioned Costs FY 91	62,193	62,193 (1)	-
Unresolved Questioned Costs FY 92	118,431	118,431 (1)	-
Unresolved Questioned Costs FY 93	21,909	21,909 (1)	-
Unresolved Questioned Costs FY 94	55,100	55,100 (1)	-
Unresolved Questioned Costs FY 95	72,465	9,199 (2)	63,266
Unresolved Questioned Costs FY 96	<u>15,182</u>		<u>15,182</u>
	\$ <u>1,483,270</u>	\$ <u>1,404,822</u>	\$ <u>78,448</u>

- (1) Findings have been reported to federal agencies for in excess of the two year threshold or the questioned costs were forgiven under the laws of the Compact of Free Association and its subsidiary agreements.
- (2) The amount of the original questioned costs were less than the \$10,000 threshold established by OMB Circular A-133. Remaining questioned costs remaining are as follows:

1995-4	\$ 18,800
1995-7	16,052
1995-9	<u>28,414</u>
	\$ 63,266



POHNPEI STATE GOVERNMENT

DEPARTMENT OF TREASURY AND ADMINISTRATION P.O. Box 1567

Kolonia, Pohnpei

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Office of the Director

October 27, 1998

Deloitte and Touche Kolonia, Pohnpei 96941

Gentlemen:

Following are Pohnpei States' responses to the audit findings in the Audit of the Financial Statement for the Fiscal Year ending September 30, 1997.

Schedule of Findings and Questioned Costs:

Federal Finding No. 1. Response: Pohnpei State concurs with this finding.

Corrective Action Plan: Director of Treasury met with the Director of Education regarding this issue. The Director of Education is in the process of resolving this with their Federal program officer. Future reports will reflect expenditure report from the Dilog system.

Federal Finding No. 2. Response: Pohnpei State concurs with this finding.

Corrective Action Plan: Director of Education is in touch with their federal counterparts to obtain reporting requirements. See attached documents from Department of Education.

Federal Finding No. 3. Response: Pohnpei State concurs with this finding.

Corrective Action Plan: By end of next fiscal year, Pohnpei State will have a separate listing of federally funded fixed assets. Request for assistance to being made to our computer system provider.

Finding No. 4. Response: Pohnpei State concurs with this finding.

Corrective Action Plan: The Property Management Specialist of the Department of Treasury will conduct an inventory of all fixed asset from all branches and update the listing by end of next fiscal year.

Finding No. 5. Response: This situation has been remedied. A safe deposit box was rented from Bank of Hawaii on August 12, 1998.

Finding No. 6. Response: Pohnpei State concurs with this finding. The Chief Justice is reviewing their court collection procedures to help reduce the delay in deposits.

Corrective Action Plan: Department of Treasury is working with the Administration of the Supreme Court to find a workable solution that will satisfy both working procedures of the Supreme Court and the Department of Treasury and Administration.

Finding No.7. Response: Pohnpei State concurs with this finding.

Corrective Action Plan: Department of Treasury and Administration will work with IDC to advise travel section staff on how to prepare the detail listing from the Computer System. The current listing is done manually. Funding for further training is being requested in FY 1999 from the Pacific Islands Training Initiatives in Honolulu.

Finding No. 8. Response: Pohnpei State partially concurs with this finding. The Airport Revolving Fund was abolished by Public Law. No. SL 2L-194-91 and was superceded by the Airport Operations and Maintenance Fund. It is possible that the Seaport Revolving Fund was also abolished by the same law.

Corrective Action Plan: Another request will be submitted to the Legislature to remind them to abolished the Seaport Revolving Fund.

Local Findings:

Local Finding No. 97L-1. Response: Pohnpei State concurs with this finding.

Corrective Action Plan: Department of Treasury has requested a legal opinion from the State Attorney General's Office and will seek clarification from National Attorney General.

Local Finding No. 97L-2. Response: Pohnpei State concurs with this finding.

Corrective Action Plan: Pohnpei State will continue its effort to obtain a legal opinion from the National Government to support the State's position.

Local Finding No. 97L-3. Response: Pohnpei State disagrees with this finding. A legal opinion issued by the FSM National Government Attorney General's Office does support Pohnpei State's position.

Corrective Action Plan: none

Thank you for allowing us the opportunity to respond to the audit findings. We will continue to pursue our corrective action plan to ensure that remaining findings are resolved.

Sincerely,

Arma Mendiola

Director