

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

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

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**YEAR ENDED SEPTEMBER 30, 1998**

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Year Ended September 30, 1998

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**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

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

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**YEAR ENDED SEPTEMBER 30, 1998**



## 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, 1998, 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 10% and 17%, 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, 1998, 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.

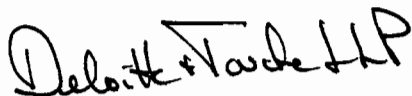
The general purpose financial statements referred to above do not include the Pohnpei Fisheries Corporation, a Component Unit - Proprietary Fund, which in our opinion, should be included to conform with generally accepted accounting principles.

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 the Pohnpei Fisheries Corporation been included as a Component Unit - Proprietary Fund, 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, 1998, and the results of its operations and the cash flows of its proprietary fund types for the year then ended, in conformity with generally accepted accounting principles.

The year 2000 supplementary information listed in Section III of the foregoing table of contents is not a required part of the basic financial statements, but is supplementary information required by the Government Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the unprecedented nature of the year 2000 issue and its effects, and the fact that authoritative measurement criteria regarding the status of remediation efforts have not been established. In addition, we do not provide assurance that the State is or will become year 2000 compliant, that the State's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the State does business are or will become year 2000 compliant.

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 IV 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, in our opinion, based on our audit and the reports of other auditors, 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 May 28, 1999 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.



May 28, 1999



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Units  
September 30, 1998  
(With comparative totals as of September 30, 1997)

	Governmental Fund Types			Proprietary Fund Types	Fiduciary Fund Type	Account Groups		Totals Primary Government (Memorandum Only)	Component Units Proprietary Funds	Totals Reporting Entity (Memorandum Only)	
	General	Special Revenue	Capital Projects	Internal Service	Expendable Trust	General Fixed Assets	General Long-Term Debt			1998	1997
<b>ASSETS</b>											
Cash and equivalents (note 2)	\$ 3,001,358	\$ 200,553	\$ 1,534,249	\$ -	\$ -	\$ -	\$ -	\$ 4,736,160	\$ 836,710	\$ 5,572,870	\$ 3,403,753
Cash - restricted (notes 2 and 18)	-	639,802	624,523	-	-	-	-	1,264,325	300,000	1,564,325	3,349,731
Investments (note 2)	3,851,573	787,170	-	-	-	-	-	4,638,743	-	4,638,743	6,907,403
Investments - other (note 7)	-	-	1,000,000	-	-	-	-	1,000,000	809,008	1,809,008	1,100,500
Receivables from other governments (note 3)	230,733	1,372,150	-	-	-	-	-	1,602,883	-	1,602,883	1,273,665
Receivables, federal agencies (note 3)	-	1,526,158	136,006	-	-	-	-	1,662,164	150,516	1,812,680	2,649,798
General receivables, net (note 4)	-	3,928	16,299	-	564,054	-	-	584,281	2,875,271	3,459,552	3,173,244
Taxes receivable (note 4)	3,719,437	-	-	-	-	-	-	3,719,437	-	3,719,437	2,637,011
Interest receivable	24,240	-	-	-	-	-	-	24,240	1,766	26,006	44,820
Advances (note 4)	246,904	354,472	79,518	-	10,676	-	-	691,570	43,318	734,888	622,039
Loans receivable (note 8)	-	-	2,450,000	-	-	-	-	2,450,000	3,742,229	6,192,229	10,904,122
Due from other funds (note 14)	-	1,421,528	1,271,402	4,682	-	-	-	2,697,612	-	2,697,612	2,660,115
Inventory, at cost (note 5)	-	15,747	-	5,969	-	-	-	21,716	1,150,467	1,172,183	1,261,996
Self insurance fund (note 16)	-	-	-	-	-	-	-	-	104,659	104,659	84,115
Scholarship fund	-	-	-	-	-	-	-	-	3,881	3,881	3,881
Prepaid expenses and other assets	-	-	-	-	-	-	-	-	58,176	58,176	45,233
Fixed assets, net (note 6)	-	-	-	-	-	49,323,802	-	49,323,802	40,078,085	89,401,887	97,367,191
Amount to be provided for retirement of long-term debt	-	-	-	-	-	-	8,511,932	8,511,932	-	8,511,932	10,931,932
Allowance for uncollectibles (notes 3, 4 and 8)	(3,719,437)	(1,542,601)	-	-	(562,203)	-	-	(5,824,241)	-	(5,824,241)	(9,939,822)
Due from primary government	-	-	-	-	-	-	-	-	82,142	82,142	66,253
<b>Total assets</b>	<b>\$ 7,354,808</b>	<b>\$ 4,778,907</b>	<b>\$ 7,111,997</b>	<b>\$ 10,651</b>	<b>\$ 12,527</b>	<b>\$ 49,323,802</b>	<b>\$ 8,511,932</b>	<b>\$ 77,104,624</b>	<b>\$ 50,236,228</b>	<b>\$ 127,340,852</b>	<b>\$ 138,546,980</b>

See accompanying notes to financial statements.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Units  
September 30, 1998  
(With comparative totals as of September 30, 1997)

	Governmental Fund Types			Proprietary	Fiduciary	Account Groups		Totals	Component	Totals		
	General	Special Revenue	Capital Projects	Internal	Expendable	General	General	Primary	Units	Reporting		
				Service	Trust	Fixed Assets	Long-Term Debt	Government (Memorandum Only)	Proprietary Funds	Entity (Memorandum Only)		
										1998	1997	
<b>LIABILITIES AND FUND EQUITY (DEFICIENCY)</b>												
<b>Liabilities:</b>												
Bank overdraft	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 44,075
Accounts payable	482,898	531,553	150,164	-	6,309	-	-	1,170,924	511,952	1,682,876	-	2,388,586
Accrued payroll and others	752,330	164,558	341	-	75	-	-	917,304	376,052	1,293,356	-	1,207,301
Due to other funds (note 14)	1,066,004	847,634	129,416	-	132,671	-	-	2,175,725	-	2,175,725	-	2,719,004
Deferred revenue	-	409,744	-	-	-	-	-	409,744	362,948	772,692	-	977,163
Notes payable (notes 13 and 18)	-	-	-	-	-	-	8,080,000	8,080,000	-	8,080,000	-	14,346,019
Vacation leave accrual	-	-	-	-	-	-	431,932	431,932	-	431,932	-	431,932
Other payables	2,471,853	-	-	-	-	-	-	2,471,853	16,973	2,488,826	-	3,278,874
<b>Total liabilities</b>	<b>4,773,085</b>	<b>1,953,489</b>	<b>279,921</b>	<b>-</b>	<b>139,055</b>	<b>-</b>	<b>8,511,932</b>	<b>15,657,482</b>	<b>1,267,925</b>	<b>16,925,407</b>	<b>-</b>	<b>25,392,954</b>
<b>Fund equity (deficiency):</b>												
Investment in general fixed assets	-	-	-	-	-	49,323,802	-	49,323,802	-	49,323,802	-	49,323,802
Retained earnings (deficit)	-	-	-	10,651	-	-	-	10,651	4,601,344	4,611,995	-	(515,124)
Contributed capital	-	-	-	-	-	-	-	-	44,366,959	44,366,959	-	52,053,557
<b>Fund balances (deficit):</b>												
<b>Reserved for:</b>												
Related assets	246,904	1,040,998	3,533,474	-	10,676	-	-	4,832,052	-	4,832,052	-	3,693,976
Encumbrances	475,581	946,660	831,559	-	-	-	-	2,253,800	-	2,253,800	-	4,132,240
Continuing appropriations (note 15)	247,229	-	3,378,898	-	-	-	-	3,626,127	-	3,626,127	-	3,694,759
Unreserved (deficit)	1,612,009	837,760	(911,855)	-	(137,204)	-	-	1,400,710	-	1,400,710	-	770,816
<b>Total fund equity (deficiency)</b>	<b>2,581,723</b>	<b>2,825,418</b>	<b>6,832,076</b>	<b>10,651</b>	<b>(126,528)</b>	<b>49,323,802</b>	<b>-</b>	<b>61,447,142</b>	<b>48,968,303</b>	<b>110,415,445</b>	<b>-</b>	<b>113,154,026</b>
<b>Contingencies and commitments (note 10)</b>												
<b>Total liabilities and fund equity (deficiency)</b>	<b>\$ 7,354,808</b>	<b>\$ 4,778,907</b>	<b>\$ 7,111,997</b>	<b>\$ 10,651</b>	<b>\$ 12,527</b>	<b>\$ 49,323,802</b>	<b>\$ 8,511,932</b>	<b>\$ 77,104,624</b>	<b>\$ 50,236,228</b>	<b>\$ 127,340,852</b>	<b>\$ -</b>	<b>\$ 138,546,980</b>

See accompanying notes to financial statements.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Combined Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) -  
All Governmental Fund Types and Expendable Trust Fund  
Year Ended September 30, 1998  
(With Comparative Totals for the Year Ended September 30, 1997)

	Governmental Fund Types			Fiduciary Fund Type Expendable Trust	Totals Reporting Entity (Memorandum Only)	
	General	Special Revenue	Capital Projects		1998	1997
<b>Revenues:</b>						
Compact of Free Association:						
Base grant	\$ 5,652,000	\$ 3,247,783	\$ 4,072,000	\$ -	\$ 12,971,783	\$ 12,971,783
Inflation adjustment (note 9)	4,195,560	530,000	958,160	-	5,683,720	5,362,000
U.S. Department of the Interior grants	-	-	649,992	-	649,992	274,343
Revenue sharing	4,268,318	-	-	-	4,268,318	4,085,155
Investment income (note 2)	303,535	-	29,214	-	332,749	2,056,563
Federal contributions	-	3,276,500	-	-	3,276,500	1,964,279
Taxes and licenses	1,244,737	-	-	-	1,244,737	1,348,515
Fines and penalties	505,251	-	-	-	505,251	-
Public service charges	30,218	-	-	-	30,218	-
CFSM Grants	-	452,604	-	-	452,604	1,135,857
Scholarships	-	288,003	-	-	288,003	259,231
Other	1,123,561	523,218	-	67,780	1,714,559	926,825
<b>Total revenues</b>	<b>17,323,180</b>	<b>8,318,108</b>	<b>5,709,366</b>	<b>67,780</b>	<b>31,418,434</b>	<b>30,384,551</b>
<b>Expenditures:</b>						
General government	3,641,129	500,690	-	17,564	4,159,383	5,049,935
Education	3,724,418	3,842,175	-	-	7,566,593	7,424,968
Health services	2,738,155	1,168,514	-	-	3,906,669	4,088,899
Resource management and development	1,185,624	506,488	-	-	1,692,112	1,574,064
Public works	-	508,051	-	-	508,051	505,579
Justice	1,209,968	208,666	-	-	1,418,634	1,406,786
Boards, commissions and other appropriations	900,513	-	-	-	900,513	505,769
Capital projects	-	-	4,058,039	-	4,058,039	3,474,994
Municipal governments	1,597,220	-	-	-	1,597,220	1,580,068
Other	-	3,024,558	-	-	3,024,558	883,273
<b>Total expenditures</b>	<b>14,997,027</b>	<b>9,759,142</b>	<b>4,058,039</b>	<b>17,564</b>	<b>28,831,772</b>	<b>26,494,335</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>2,326,153</b>	<b>(1,441,034)</b>	<b>1,651,327</b>	<b>50,216</b>	<b>2,586,662</b>	<b>3,890,216</b>
<b>Other financing sources (uses):</b>						
Repayment of notes payable (note 13)	-	-	(2,000,000)	-	(2,000,000)	(2,200,000)
Interest expense (note 13)	-	-	(569,275)	-	(569,275)	(1,007,413)
Transfers in (note 9)	-	420,000	-	-	420,000	-
Operating transfers out (note 9)	(591,377)	-	-	-	(591,377)	(255,676)
Other	(5,724)	-	(19,388)	-	(25,112)	219,946
Proceeds from notes payable (note 13)	-	-	-	-	-	2,500,000
<b>Total other financing sources (uses), net</b>	<b>(597,101)</b>	<b>420,000</b>	<b>(2,588,663)</b>	<b>-</b>	<b>(2,765,764)</b>	<b>(743,143)</b>
<b>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</b>	<b>1,729,052</b>	<b>(1,021,034)</b>	<b>(937,336)</b>	<b>50,216</b>	<b>(179,102)</b>	<b>3,147,073</b>
<b>Add: cumulative effect of a change in accounting principle</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>369,641</b>
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses</b>	<b>1,729,052</b>	<b>(1,021,034)</b>	<b>(937,336)</b>	<b>50,216</b>	<b>(179,102)</b>	<b>3,516,714</b>
<b>Fund balances (deficit) at beginning of year</b>	<b>852,671</b>	<b>3,846,452</b>	<b>7,769,412</b>	<b>(176,744)</b>	<b>12,291,791</b>	<b>8,775,077</b>
<b>Fund balances (deficit) at end of year</b>	<b>\$ 2,581,723</b>	<b>\$ 2,825,418</b>	<b>\$ 6,832,076</b>	<b>\$ (126,528)</b>	<b>\$ 12,112,689</b>	<b>\$ 12,291,791</b>

See accompanying notes to financial statements.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures and Changes in Unreserved Fund Balance (Deficit)  
Budget and Actual, Budgetary Basis - General Fund  
Year Ended September 30, 1998

	<u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
<b>Revenues:</b>			
Compact - current	\$ 9,791,040	\$ 9,847,560	\$ 56,520
Local revenues	5,697,939	7,172,085	1,474,146
Investment income	337,500	303,535	(33,965)
	<hr/>	<hr/>	<hr/>
Total revenues	15,826,479	17,323,180	1,496,701
<b>Expenditures:</b>			
General government	3,950,024	3,688,576	261,448
Health services	4,038,500	3,733,944	304,556
Education	1,298,717	1,207,707	91,010
Justice	1,351,631	1,225,470	126,161
Resource management and development	3,296,975	2,680,905	616,070
Boards, commissions and other external appropriations	1,054,396	913,636	140,760
Municipal governments and projects	1,583,959	1,597,220	(13,261)
	<hr/>	<hr/>	<hr/>
Total expenditures, budgetary basis	16,574,202	15,047,458	1,526,744
Excess (deficiency) of revenues over (under) expenditures	<hr/> (747,723)	<hr/> 2,275,722	<hr/> 3,023,445
<b>Other financing sources (uses):</b>			
Operating transfers out (note 9)	(495,700)	(591,120)	(95,420)
Other	-	(5,724)	(5,724)
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses), net	(495,700)	(596,844)	(101,144)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<hr/> (1,243,423)	<hr/> 1,678,878	<hr/> 2,922,301
Unreserved fund balance at beginning of year	147,858	147,858	-
<b>Other changes in unreserved fund balance:</b>			
Increase in reserve for related assets	-	(57,041)	(57,041)
Increase in reserve for continuing appropriations	-	(157,686)	(157,686)
	<hr/>	<hr/>	<hr/>
Unreserved fund balance at end of year	<u>\$ (1,095,565)</u>	<u>\$ 1,612,009</u>	<u>\$ 2,707,574</u>

See accompanying notes to financial statements.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**Combined Statement of Revenues, Expenses, and Changes in Fund Equity -  
All Proprietary Fund Types and Discretely Presented Component Units  
Year Ended September 30, 1998  
(With comparative totals for the year ended September 30, 1997)**

	Proprietary Fund Types	Totals Primary Government (Memorandum Only)	Component Units Proprietary Funds	Totals Reporting Entity (Memorandum Only)	
				1998	1997
				Internal Service	
<b>Operating revenues:</b>					
Charges for goods and services	\$ 2,501	\$ 2,501	\$ 8,880,199	\$ 8,882,700	\$ 10,713,634
Rental income	-	-	225,661	225,661	167,882
Other	-	-	20,642	20,642	251,751
<b>Total operating revenues</b>	<b>2,501</b>	<b>2,501</b>	<b>9,126,502</b>	<b>9,129,003</b>	<b>11,133,267</b>
<b>Operating expenses:</b>					
Cost of sales	-	-	1,345,209	1,345,209	-
Personnel services	-	-	2,157,535	2,157,535	2,259,480
Travel	-	-	112,456	112,456	72,299
Supplies and materials	-	-	124,793	124,793	116,519
Fuel	-	-	2,409,841	2,409,841	2,914,246
Contractual services	-	-	12,213	12,213	98,735
Doubtful debt expense	-	-	192,056	192,056	347,327
Utilities	-	-	54,781	54,781	56,904
Communications	-	-	45,345	45,345	116,860
Depreciation	-	-	2,862,729	2,862,729	2,867,277
Repairs and maintenance	-	-	828,075	828,075	576,933
Other	3,394	3,394	788,774	792,168	6,564,956
<b>Total operating expenses</b>	<b>3,394</b>	<b>3,394</b>	<b>10,933,807</b>	<b>10,937,201</b>	<b>15,991,536</b>
<b>Operating loss</b>	<b>(893)</b>	<b>(893)</b>	<b>(1,807,305)</b>	<b>(1,808,198)</b>	<b>(4,858,269)</b>
<b>Nonoperating revenues:</b>					
Operating transfers in (note 9)	-	-	475,910	475,910	672,648
Interest income	-	-	30,358	30,358	41,503
Spurline projects	-	-	80,688	80,688	108,430
Other	-	-	29,272	29,272	231,764
<b>Total nonoperating revenues, net</b>	<b>-</b>	<b>-</b>	<b>616,228</b>	<b>616,228</b>	<b>1,054,345</b>
<b>Net loss</b>	<b>(893)</b>	<b>(893)</b>	<b>(1,191,077)</b>	<b>(1,191,970)</b>	<b>(3,803,924)</b>
<b>Add depreciation on fixed assets acquired by capital contributions that reduce contributed capital</b>	<b>-</b>	<b>-</b>	<b>2,395,204</b>	<b>2,395,204</b>	<b>3,888,006</b>
<b>Increase (decrease) in retained earnings</b>	<b>(893)</b>	<b>(893)</b>	<b>1,204,127</b>	<b>1,203,234</b>	<b>84,082</b>
<b>Retained earnings (deficit) at beginning of year</b>	<b>11,544</b>	<b>11,544</b>	<b>3,397,217</b>	<b>3,408,761</b>	<b>(599,206)</b>
<b>Retained earnings (deficit) at end of year</b>	<b>10,651</b>	<b>10,651</b>	<b>4,601,344</b>	<b>4,611,995</b>	<b>(515,124)</b>
<b>Contributed capital at beginning of year</b>	<b>-</b>	<b>-</b>	<b>46,371,106</b>	<b>46,371,106</b>	<b>54,519,665</b>
<b>Contributions</b>	<b>-</b>	<b>-</b>	<b>391,057</b>	<b>391,057</b>	<b>1,421,898</b>
<b>Less depreciation on contributed fixed assets</b>	<b>-</b>	<b>-</b>	<b>(2,395,204)</b>	<b>(2,395,204)</b>	<b>(3,888,006)</b>
<b>Contributed capital at end of year</b>	<b>-</b>	<b>-</b>	<b>44,366,959</b>	<b>44,366,959</b>	<b>52,053,557</b>
<b>Fund equity at end of year</b>	<b>\$ 10,651</b>	<b>\$ 10,651</b>	<b>\$ 48,968,303</b>	<b>\$ 48,978,954</b>	<b>\$ 51,538,433</b>

See accompanying notes to financial statements.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**Combined Statement of Cash Flows  
All Proprietary Fund Types and Discretely Presented Component Units  
Year Ended September 30, 1998  
(With comparative totals for the year ended September 30, 1997)**

	Proprietary	Totals	Component	Totals	
	Fund Types	Primary	Units	Reporting	
	Internal	Government	Proprietary	Entity	
Service	(Memorandum	Funds	(Memorandum Only)		
	Only)		1998	1997	
<b>Cash flows from operating activities:</b>					
Operating loss	\$ (893)	\$ (893)	\$ (1,807,305)	\$ (1,808,198)	\$ (4,858,269)
Other income	-	-	19,277	19,277	294,096
Adjustments to reconcile operating loss to net cash provided by operating activities:					
Depreciation	-	-	2,916,793	2,916,793	4,838,733
Doubtful debt expense	-	-	192,056	192,056	212,935
Prior period adjustment	-	-	-	-	(86,417)
Non-operating expenses	-	-	18,467	18,467	-
	<u>(893)</u>	<u>(893)</u>	<u>1,339,288</u>	<u>1,338,395</u>	<u>401,078</u>
<b>Changes in assets and liabilities:</b>					
General receivables, gross	-	-	(460,652)	(460,652)	(253,295)
Advances	-	-	(11,567)	(11,567)	3,352
Loans receivable, gross	-	-	(230,040)	(230,040)	(324,154)
Due from other funds	893	893	-	893	(2,952)
Inventory, at cost	-	-	(60,054)	(60,054)	(186,534)
Interest receivable	-	-	16,091	16,091	(5,929)
Prepaid expenses and other assets	-	-	(46,560)	(46,560)	394,183
Due from primary government	-	-	(11,501)	(11,501)	(30,624)
Other receivables	-	-	848	848	-
Accounts payable	-	-	(115,493)	(115,493)	334,735
Accrued payroll and other	-	-	37,258	37,258	70,089
Deferred revenue	-	-	(39,888)	(39,888)	-
Advance from (payment to) clients	-	-	2,285	2,285	(256,499)
	<u>893</u>	<u>893</u>	<u>(919,273)</u>	<u>(918,380)</u>	<u>(257,628)</u>
<b>Net cash provided by operating activities</b>	<u>-</u>	<u>-</u>	<u>420,015</u>	<u>420,015</u>	<u>143,450</u>
<b>Cash flows from noncapital financing activities:</b>					
Repayments of notes payable, net	-	-	(66,281)	(66,281)	(27,503)
Operating transfers in	-	-	712,545	712,545	553,173
Other noncapital financing activities	-	-	107,032	107,032	124,398
	<u>-</u>	<u>-</u>	<u>753,296</u>	<u>753,296</u>	<u>650,068</u>
<b>Net cash provided by noncapital financing activities</b>	<u>-</u>	<u>-</u>	<u>753,296</u>	<u>753,296</u>	<u>650,068</u>
<b>Cash flows from capital and related financing activities:</b>					
Acquisition of fixed assets	-	-	(1,316,156)	(1,316,156)	(2,217,517)
Contributed capital	-	-	372,891	372,891	1,048,786
	<u>-</u>	<u>-</u>	<u>(943,265)</u>	<u>(943,265)</u>	<u>(1,168,731)</u>
<b>Net cash used for capital and related financing activities</b>	<u>-</u>	<u>-</u>	<u>(943,265)</u>	<u>(943,265)</u>	<u>(1,168,731)</u>
<b>Cash flows from investing activities:</b>					
Received from self-insurance and scholarship funds, net	-	-	(20,544)	(20,544)	2,033
Purchase of time certificates of deposit	-	-	-	-	(300,000)
Interest income	-	-	28,950	28,950	41,503
Other	-	-	(307,470)	(307,470)	24,085
	<u>-</u>	<u>-</u>	<u>(299,064)</u>	<u>(299,064)</u>	<u>(232,379)</u>
<b>Net cash used for investing activities</b>	<u>-</u>	<u>-</u>	<u>(299,064)</u>	<u>(299,064)</u>	<u>(232,379)</u>
<b>Net decrease in cash and equivalents</b>	<u>-</u>	<u>-</u>	<u>(69,018)</u>	<u>(69,018)</u>	<u>(607,592)</u>
<b>Cash and equivalents at beginning of year</b>	<u>-</u>	<u>-</u>	<u>905,728</u>	<u>905,728</u>	<u>1,529,346</u>
<b>Cash and equivalents at end of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 836,710</u>	<u>\$ 836,710</u>	<u>\$ 921,754</u>

See accompanying notes to financial statements.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1998

(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

The general purpose financial statements of the State of Pohnpei have been prepared in conformity with GAAP as applied to government units. GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting," requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. The State of Pohnpei has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

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.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1998

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

2. Discretely Presented Component Units, Continued

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

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

All functions and powers of the Authority are vested and exercised by a seven member Board of Developers appointed by the Governor with the advice and consent of the Legislature. The 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. PFC did not provide financial statements for inclusion in the accompanying general purpose financial statements.



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1998

**(1) Summary of Significant Accounting Policies, Continued**

**A. Reporting Entity, Continued**

**2. Discretely Presented Component Units, Continued**

- 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.

**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.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1998

(1) Summary of Significant Accounting Policies, Continued

**B. Fund Accounting, Continued**

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.

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 (business gross receipts tax, import tax, income tax, and fuel tax), charges for services, leases, and interest revenue. Fines, sales and related taxes 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.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1998

**(1) Summary of Significant Accounting Policies, Continued**

**D. Budget**

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.

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.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1998

(1) Summary of Significant Accounting Policies, Continued

H. Due From/To Other Funds

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

I. Advances and Prepayments

Prepayments represent amounts paid in advance to vendors. Certain advances and prepayments are offset by inclusion in a fund balance reserve account as they do not constitute expendable available resources and are therefore not available for appropriation.

J. Inventories

Inventories of materials and supplies are determined by physical count and are valued at the lower of cost (principally average cost) or market.

K. Fixed Assets

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

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

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

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, 1998 is \$431,932. No expenditure is reported for these amounts. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1998

**(1) Summary of Significant Accounting Policies, Continued**

**M. Long-Term Obligations**

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

**N. Fund Equity**

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

The discretely presented component units of the State of Pohnpei 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.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1998

**(1) Summary of Significant Accounting Policies, Continued**

**Q. Comparative Data/Reclassification**

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

**R. Fund Balance Reserves and Designations**

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

Reserves for related assets as of September 30, 1998, are as follows:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Expendable Trust Fund</u>
Receivables and advances	\$ 246,904	\$ 1,025,251	\$ 83,474	\$ 10,676
Inventory	-	15,747	-	-
Investment in Pacific Islands Development Bank	-	-	1,000,000	-
Loans receivable from Pohnpei Fisheries Corporation, a Component Unit - Proprietary Fund	-	-	<u>2,450,000</u>	-
	<u>\$ 246,904</u>	<u>\$ 1,040,998</u>	<u>\$ 3,533,474</u>	<u>\$ 10,676</u>

**S. Management Estimates**

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

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1998

**(2) Cash and Equivalents and Investments**

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

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

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

**STATE OF POHNPEI  
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**(2) Cash and Equivalents and Investments, Continued**

- 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, 1998, as summarized below:

<u>Cash and Equivalents</u>	<u>Market Value</u>
Cash management fund	\$ 250,091
 <u>Investments</u>	
Pooled investment securities	4,638,743
Total	\$ <u>4,888,834</u>

- D. The State's investment income at market value for the year ended September 30, 1998, is summarized below:

	<u>General</u>	<u>Capital Projects</u>
Interest	\$ 238,758	\$ 33,362
Dividends	110,772	-
Realized gains	964,120	-
Unrealized losses	(864,580)	-
Management fees	(68,822)	-
Other expenses	<u>(76,713)</u>	<u>(4,148)</u>
Total	\$ <u>303,535</u>	\$ <u>29,214</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, 1998, 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	\$ 2,951,820
Cash on deposit with Hawaiian Trust Co.	<u>49,538</u>
Total General Fund cash and equivalents	\$ <u>3,001,358</u>

**Special Revenue Fund**

Restricted cash (Early Retirement Program Funds)	\$ 639,802
Cash on deposit with Hawaiian Trust Co.	<u>200,553</u>
Total Special Revenue Funds cash and equivalents	\$ <u>840,355</u>



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

**Capital Project Funds**

Net bank balance in savings accounts with FDIC insured banks	\$ <u>2,158,772</u>
Total Capital Projects Funds cash and equivalents	\$ <u>2,158,772</u>

**Component Units - Proprietary Funds**

Pohnpei Economic Development Authority (EDA):	
Cash in checking and savings accounts with FDIC insured bank	\$ 87,740
Pohnpei State Housing Authority (PSHA):	
Cash in checking and savings accounts with FDIC insured banks	147,387
Pohnpei Utilities Corporation (PUC):	
Cash in checking and savings accounts with FDIC insured bank	533,995
Pohnpei Port Authority (PPA):	
Cash in checking accounts with FDIC insured bank	<u>67,588</u>
Total Component Units - Proprietary Funds cash and equivalents	\$ <u>836,710</u>

**Cash - Restricted (Loan Guarantee Escrow Account):** The Pohnpei State Legislature appropriated a total of \$500,000 through a continuing appropriation for the sole purpose of collateralization made through the 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, 1998, the escrow account has earned and reinvested \$124,523 of interest earnings. Therefore a total of \$624,523 has been reserved as restricted cash in the foregoing financial statements.

As of September 30, 1998, Pohnpei State had \$639,802 held on deposit with Pacific Century 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 this purpose. Consequently, such has been presented as restricted cash in the foregoing financial statements.

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

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

The State's demand and time deposits are non-categorized investments in accordance with Governmental Accounting Standards Board (GASB) Statement No. 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.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

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**(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:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>
Receivables from other Governments:			
Revenue sharing	\$ 230,733	\$ -	\$ -
CFSM grants	-	1,097,855	-
Other	<u>-</u>	<u>274,295</u>	<u>-</u>
	<u>230,733</u>	<u>1,372,150</u>	<u>-</u>
Receivables, federal agencies:			
Federal grants	-	1,526,158	-
Trust Territory Government	<u>-</u>	<u>-</u>	<u>136,006</u>
	<u>-</u>	<u>1,526,158</u>	<u>136,006</u>
	230,733	2,898,308	136,006
Allowance for uncollectibles	<u>-</u>	<u>(1,542,601)</u>	<u>-</u>
Net receivables	\$ <u>230,733</u>	\$ <u>1,355,707</u>	\$ <u>136,006</u>

Receivables of the expendable trust fund consist primarily of public land leases.

**(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, 1998, is presented below:

<u>General Receivables</u>	<u>Gross</u>	<u>Allowance</u>	<u>Net</u>
Delinquent taxes	\$ 3,032,686	\$ (3,032,686)	\$ -
Delinquent lease payments	686,751	(686,751)	-
Other	<u>24,240</u>	<u>-</u>	<u>24,240</u>
	\$ <u>3,743,677</u>	\$ <u>(3,719,437)</u>	\$ <u>24,240</u>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1998

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

**Advances**

Advances consist of advance payments made to State government employees for travel related expenditures. Travel advances outstanding as of September 30, 1998, are as follows:

General Fund	\$ 246,904
Special Revenue Fund	354,472
Capital Improvement Project Fund	79,518
Expendable Trust Fund	<u>10,676</u>
	<b>\$ <u>691,570</u></b>

**General Receivables - Component Units-Proprietary Funds**

	<u>Gross</u>	<u>Allowance</u>	<u>Net</u>
Pohnpei Port Authority	\$ 157,729	\$ (35,900)	\$ 121,829
Pohnpei Utilities Corporation	3,156,827	(623,269)	2,533,558
Pohnpei Economic Development Authority	<u>994,706</u>	<u>(774,822)</u>	<u>219,884</u>
	<b>\$ <u>4,309,262</u></b>	<b>\$ <u>(1,433,991)</u></b>	<b>\$ <u>2,875,271</u></b>

**(5) Inventory of Supplies**

The Agriculture Revolving Fund (a Special Revenue Fund) has \$15,747 of agriculture production supplies on hand at September 30, 1998. The Internal Service Fund has general operational and office supplies of \$5,969 as of September 30, 1998.

**(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, 1998, are as follows:

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

The State's investment in general fixed assets as of September 30, 1998, by source, is summarized below:

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

**STATE OF POHNPEI  
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Notes to Financial Statements  
September 30, 1998

**(6) Fixed Assets, Continued**

**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, 1998, are as follows:

	<u>Pohnpei Port Authority</u>	<u>Pohnpei Utilities Corporation</u>	<u>Pohnpei Economic Development Authority</u>	<u>Pohnpei State Housing Authority</u>	<u>Total</u>
Electric plant	\$ -	\$ 32,458,708	\$ -	\$ -	\$ 32,458,708
Water and sewer plant	-	9,916,673	-	-	9,916,673
Land	2,776,034	-	-	-	2,776,034
Buildings	12,625,045	-	42,033	26,061	12,693,139
Fishing vessels	-	-	1,352,300	-	1,352,300
Vehicles	-	-	180,632	-	180,632
Furniture, fixtures and office equipment	417,940	-	81,792	77,364	577,096
Other assets	-	-	203,904	-	203,904
Less accumulated depreciation	(8,424,833)	(12,296,266)	(1,518,790)	(76,912)	(22,316,801)
Construction in progress	<u>209,716</u>	<u>2,026,684</u>	<u>-</u>	<u>-</u>	<u>2,236,400</u>
Total fixed assets, net	<u>\$ 7,603,902</u>	<u>\$ 32,105,799</u>	<u>\$ 341,871</u>	<u>\$ 26,513</u>	<u>\$ 40,078,085</u>

**(7) Other Investments**

The State currently holds 24.5% of the shares of the Pacific Islands Development Bank, carried at a cost of \$1,000,000. 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. This investment is recorded at cost.

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

During fiscal year 1998, Pohnpei Utilities Corporation (PUC) established a sinking fund. The purpose of this fund is to finance future expansion and upgrade of the power plant and equipment. The goal of PUC is to build this fund to \$2,000,000 by June 2003, in anticipation of equipment purchases and upgrades.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1998

**(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 matured 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. CFC defaulted on its principal obligations and all its interest payments due as of September 30, 1997 to Pohnpei State.

On August 21, 1998, Caroline Fisheries Corporation, Pohnpei State Government and Economic Development Authority agreed as follows:

- In return for the transfer of the National Fisheries Corporation's shares in Caroline Fisheries Corporation, and as Caroline Fisheries Corporation paid a sum of \$500,000 to Pohnpei State Government in May 1998 to be applied to interest owed the State on loans to Caroline Fisheries Corporation and as Caroline Fisheries Corporation owns a judgment and writ of execution against Pohnpei Fisheries Corporation in the amount of \$997,430, the State of Pohnpei agreed to forgive the two loans due from Caroline Fisheries Corporation in the amounts of \$3,750,000 and \$1,000,000, respectively, and all interest accrued on such for the payment of \$500,000, the receipt of the NFC shares and the assignment of the Pohnpei Fisheries Corporation judgment to the State.

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, 1998, 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, 1998, it is reserved against fund balance as a related asset.

The Pohnpei State Housing Authority (PSHA) has loans receivable of \$4,963,716 with an allowance of \$1,283,962 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 \$22,474 as of September 30, 1998.

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Notes to Financial Statements  
September 30, 1998

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

Material operating transfers in/out for the year ended September 30, 1998, are as follows:

	<u>Transfers Out</u>
General Fund:	
Transfers out to Enterprise Fund:	
Pohnpei Transportation Authority	\$ <u>22,700</u>
Transfers out to Component Units:	
Pohnpei Economic Development Authority	33,100
Pohnpei State Housing Authority	<u>115,577</u>
Total transfers out to Component Units	<u>148,677</u>
Transfers out to Special Revenue Fund:	
Early Retirement Fund	\$ <u>420,000</u>
 Total Transfer Out General Fund	 \$ <u><u>591,377</u></u>

During the year ended September 30, 1998, Pohnpei State Government redesignated \$1,200,000 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 whether Federal laws and guidelines have been followed.

Currently, \$39,182 in questioned costs exist for the operation of fiscal year 1996 through 1998 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.

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FEDERATED STATES OF MICRONESIA**

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(10) Contingencies and Commitments, Continued

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, 1998, was \$3,013,569.

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, 1998, 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 Capital Funds Uses

Pohnpei State expended Compact Capital funds for the dry docking of a fieldtrip vessel and other uses which appear to be operational in nature. These matters will be resolved through the local Attorney General offices and 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.

Risk Management

The State of Pohnpei does not carry insurance to cover its potential risks. The State of Pohnpei is substantially self-insured for all risks. Management is of the opinion that no material losses have been sustained as a result of this practice.

(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, 1998, is as follows:

	<u>Pohnpei Port Authority</u>	<u>Pohnpei Utilities Corporation</u>	<u>Pohnpei Economic Development Authority</u>	<u>Pohnpei State Housing Authority</u>
Total assets	\$ <u>8,109,236</u>	\$ <u>36,961,633</u>	\$ <u>1,214,160</u>	\$ <u>3,951,199</u>
Total equity	\$ <u>7,696,028</u>	\$ <u>36,231,216</u>	\$ <u>1,098,234</u>	\$ <u>3,942,825</u>
Operating loss	\$ <u>(537,730)</u>	\$ <u>(965,670)</u>	\$ <u>(219,855)</u>	\$ <u>(84,050)</u>
Net income (loss)	\$ <u>(508,174)</u>	\$ <u>(547,923)</u>	\$ <u>(170,920)</u>	\$ <u>35,940</u>
Nonoperating revenues (expenses), net	\$ <u>29,556</u>	\$ <u>417,747</u>	\$ <u>48,935</u>	\$ <u>119,990</u>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

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September 30, 1998

**(11) Segment Data - Discretely Presented Component Units - Proprietary Funds, Continued**

	<u>Pohnpei Port Authority</u>	<u>Pohnpei Utilities Corporation</u>	<u>Pohnpei Economic Development Authority</u>	<u>Pohnpei State Housing Authority</u>
Operating revenues	\$ <u>830,858</u>	\$ <u>6,728,727</u>	\$ <u>1,318,149</u>	\$ <u>248,768</u>
Contributed capital	\$ <u>7,291,408</u>	\$ <u>28,784,783</u>	\$ <u>4,294,541</u>	\$ <u>3,996,227</u>
Depreciation	\$ <u>627,060</u>	\$ <u>2,171,800</u>	\$ <u>55,630</u>	\$ <u>8,239</u>
Retained earnings (deficit)	\$ <u>404,620</u>	\$ <u>7,446,433</u>	\$ <u>(3,196,307)</u>	\$ <u>(53,402)</u>
Operating transfers	\$ <u>4,450</u>	\$ <u>317,782</u>	\$ <u>36,146</u>	\$ <u>117,532</u>

**(12) Material Fund Deficits**

The following presents material fund deficits as of September 30, 1998. If operations of these funds cannot recover prior losses, the State's General Fund may have to absorb these amounts or a portion thereof.

	<u>Deficit</u>	<u>Contributed Capital</u>	<u>Fund Equity</u>
<u>Special Revenue Funds</u>			
U.S. Federal Assistance Fund	\$ (158,828)	\$ -	\$ (158,828)
CFSM State Projects Fund	(37,783)	-	(37,783)
V6AH Revolving Fund	<u>(2,598)</u>	<u>-</u>	<u>(2,598)</u>
	\$ <u>(199,209)</u>	\$ <u>-</u>	\$ <u>(199,209)</u>
<u>Component Units (Deficit) Retained Earnings</u>			
Pohnpei Economic Development Authority	\$ (3,196,307)	\$ 4,294,541	\$ 1,098,234
Pohnpei State Housing Authority	<u>(53,402)</u>	<u>3,996,227</u>	<u>3,942,825</u>
	\$ <u>(3,249,709)</u>	\$ <u>8,290,768</u>	\$ <u>5,041,059</u>
<u>Expendable Trust Fund (Deficit)</u>			
Public Land Trust Fund	\$ <u>(126,528)</u>	\$ <u>-</u>	\$ <u>(126,528)</u>

**(13) Notes Payable**

The State borrowed under a medium term note program sponsored by the Federated States of Micronesia, as a whole. Repayment of the debt will be made through a pledge of Compact revenues. The notes are repayable substantially on a quarterly basis corresponding to the drawdown of Compact revenues from the U.S. Government. The first issue of \$5,100,000 was made to assist in financing the construction of a Fish Processing Plant by Pohnpei State. The borrowing consists of one note for \$5,100,000 which was paid on October 15, 1995.

The second issue occurred on July 17, 1990, for a total of \$9,550,000 which was made to finance Pohnpei State's equity investment in and a \$7,500,000 loan to a fishing joint venture, the Caroline Fishing Corp. Inc. (CFC). The last of the notes under this borrowing was paid on October 15, 1997.



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

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>	<u>Interest Rate % P.A</u>	<u>Principal Amount</u>
10/15/98	9.10%	1,000,000
10/15/99	9.125%	1,000,000
10/15/2000	9.125%	<u>1,000,000</u>
Total		\$ <u>3,000,000</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>	<u>Interest Rate % P.A</u>	<u>Principal Amount</u>
10/15/98	7.10%	\$ 1,000,000
10/15/99	7.26%	1,000,000
10/15/2000	7.51%	<u>1,000,000</u>
Total		\$ <u>3,000,000</u>

Payments of principal and interest are entrusted to Banker's Trust, as Trustee. The FSM has pledged, as security for payments by the Trustee, a first priority lien on, and security interest in, all Compact of Free Association payments from the U.S. Government. During the year, Banker's Trust withheld \$569,275 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, 1998.

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 18)

Pursuant to the terms of the financing agreement between the State of Pohnpei and the FSM National Government, the State is required to deposit into the Early Retirement Scheme Trust Account held in the name of the State within the FSM National Government's investment portfolio, 100% of the outstanding principal balance by September 30, 2001. Funds for the repayment of the loan are expected to be derived from annual appropriations for salaries and wages earmarked for the positions abolished under the Early Retirement Scheme. The loan is to be repaid by the FSM National Government in semiannual installments commencing February 2008. During the year ended September 30, 1998, the State paid \$420,000 into the Early Retirement Trust Fund.

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

Activity in the General Long-Term Debt Account Group notes payable account for the year ended September 30, 1998, occurred as follows:

Balance as of September 30, 1997	\$ 10,500,000
Loan repayments made on October 15, 1997	(2,000,000)
Payment to Early Retirement fund	<u>(420,000)</u>
Balance as of September 30, 1998	<u>\$ 8,080,000</u>

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

<u>Years Ending September 30,</u>	<u>Amount</u>
1999	\$ 2,000,000
2000	2,000,000
2001	2,000,000
Thereafter	<u>2,080,000</u>
	<u>\$ 8,080,000</u>

The State was not able to produce a schedule of future interest payments attendant to the maturing debt.

**(14) Interfund Receivable and Payables**

As of September 30, 1998, interfund receivables and payables resulting from various interfund transactions are as follows:

	<u>Due to Other Funds</u>	<u>Due from Other Funds</u>
General Fund	\$ 1,066,004	\$ -
Special Revenue Funds:		
Compact Health & Education	-	1,015,558
Compact Other Grants	-	26,761
U.S. Federal Assistance	76,446	-
Other Federal and Direct	-	22,516
Agriculture Revolving	-	33,000
SVAP Revolving	-	14,463
Seaport Revolving	-	-
Airport Operations	-	49,988
CFSM Projects	767,226	-
Recycling Fund	-	21,120
V6AH Revolving Fund	3,962	-
Environmental Quality Fund	-	33,716
Medical Revolving Fund	-	83,270
Early Retirement Fund	-	121,136

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Notes to Financial Statements  
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**(14) Interfund Receivable and Payables, Continued**

Capital Projects Funds:		
Compact Capital Projects	-	1,271,402
TTG Capital Projects	129,416	-
Expendable Trust Funds:		
Public Land Trust	132,671	-
Internal Service Fund	-	4,682
Pohnpei Transportation Authority (PTA)	<u>521,887</u>	<u>-</u>
	<u>\$ 2,697,612</u>	<u>\$ 2,697,612</u>

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

**(15) Continuing Appropriations**

Continuing appropriations as of September 30, 1998, 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. \$ 247,229

**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. \$ 3,378,898

**(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 (PUC), 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 PUC. No other insurance is maintained by PUC.

**(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, 1998, the outstanding fund balance aggregated \$952,294.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1998

**(18) Early Retirement Program**

During the fiscal year ended September 30, 1997, Pohnpei State Government implemented an 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, 1998, Pohnpei State had expended \$2,177,173 under this program. (See Note 13)

**(19) Subsequent Events**

On November 4, 1998, the shareholders of Caroline Fisheries Corporation met, resolved and effectuated the transfer of 100% of FSM National Fisheries Corporation shares in Caroline Fisheries Corporation (1,500,000 shares) to Pohnpei State Government. Subsequent to this transaction, Pohnpei State Government and the Economic Development Authority became the sole shareholders of Caroline Fisheries Corporation.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**Supplementary Year 2000 Issue Information  
September 30, 1998**

Like other organizations and individuals around the world, Pohnpei State Government could be adversely affected if the computer systems it uses and those used by significant third parties (e.g. vendors, customers, third party administrators, etc.) do not properly process and calculate date-related information and data. This is commonly known as the "Year 2000 (Y2K) issue." Management is assessing its computer systems and business processes and intends to initiate actions to address the Y2K needs identified. Management is also assessing the actions being taken by significant third parties that interface with the State. As a result of these assessments, the State decided to upgrade its accounting software system to a Y2K compliant version. Management is of the opinion that the upgrade has been accomplished successfully and its accounting system is now Y2K compliant. Other upgrades are also scheduled to be implemented in 1999. At this time, management is not able to determine the estimated costs of remediation of the year 2000 issue.

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Combining Schedule of Expenditures by Account -  
All Governmental Fund Types and Expendable Trust Fund  
Year Ended September 30, 1998  
(With comparative totals for the year ended September 30, 1997)

	Governmental Fund Types			Fiduciary	Totals	
	General	Special	Capital	Expendable	(Memorandum Only)	
		Revenue	Projects	Trust	1998	1997
Expenditures:						
Personnel	\$ 11,237,980	\$ 2,841,281	\$ 50,577	\$ 6,504	\$ 14,136,342	\$ 15,830,544
Travel	203,301	351,177	58,340	-	612,818	606,514
Supplies and materials	288,637	649,690	28,166	2,103	968,596	527,944
Fuel	28,809	141,713	29,502	-	200,024	147,092
Equipment	240,314	700,924	296,009	-	1,237,247	565,067
Contractual services	239,839	758,307	2,585,469	-	3,583,615	3,879,192
Other	2,758,147	4,316,050	1,009,976	8,957	8,093,130	4,937,982
<b>Total expenditures</b>	<b>\$ 14,997,027</b>	<b>\$ 9,759,142</b>	<b>\$ 4,058,039</b>	<b>\$ 17,564</b>	<b>\$ 28,831,772</b>	<b>\$ 26,494,335</b>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

General Fund  
September 30, 1998

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

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**GENERAL FUND  
Balance Sheet - General Fund  
September 30, 1998**

(With comparative totals as of September 30, 1997)

<u>ASSETS</u>	<u>1998</u>	<u>1997</u>
Cash and equivalents	\$ 3,001,358	\$ -
Investments	3,851,573	4,181,077
Receivables from other governments	230,733	172,226
Taxes receivable	3,719,437	2,637,011
Interest receivable	24,240	26,116
Advances	246,904	189,863
Due from other funds	-	489,417
Allowance for uncollectibles	(3,719,437)	(2,637,011)
	<hr/>	<hr/>
Total assets	\$ 7,354,808	\$ 5,058,699
	<hr/> <hr/>	<hr/> <hr/>
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Bank overdraft	\$ -	\$ 44,075
Accounts payable	482,898	182,540
Accrued payroll and others	752,330	700,539
Due to other funds	1,066,004	-
Other payables	2,471,853	3,278,874
	<hr/>	<hr/>
Total liabilities	4,773,085	4,206,028
	<hr/>	<hr/>
Fund balance:		
Reserved for:		
Related assets	246,904	189,863
Encumbrances	475,581	425,407
Continuing appropriations	247,229	89,543
Unreserved fund balance	1,612,009	147,858
	<hr/>	<hr/>
Total fund balance	2,581,723	852,671
	<hr/>	<hr/>
Total liabilities and fund balance	\$ 7,354,808	\$ 5,058,699
	<hr/> <hr/>	<hr/> <hr/>

See Accompanying Independent Auditors' Report.



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**GENERAL FUND**

**Statement of Revenues, Expenditures by Account and  
Changes in Fund Balance (Deficit) - General Fund  
Year Ended September 30, 1998**

(With comparative totals for the year ended September 30, 1997)

	<u>1998</u>	<u>1997</u>
<b>Revenues:</b>		
<b>Compact of Free Association:</b>		
Base grant	\$ 5,652,000	\$ 5,652,000
Inflation adjustment	4,195,560	4,862,000
Revenue sharing	4,268,318	4,085,155
Investment income	303,535	2,016,575
Taxes and licenses	1,244,737	1,348,515
Fines and penalties	505,251	45,840
Public service charges	30,218	50,939
Other	1,123,561	118,209
	<hr/>	<hr/>
<b>Total revenues</b>	<b>17,323,180</b>	<b>18,179,233</b>
	<hr/>	<hr/>
<b>Expenditures:</b>		
Personnel	11,237,980	12,831,641
Travel	203,301	200,625
Supplies and materials	288,637	199,229
Fuel	28,809	134,447
Equipment	240,314	98,807
Contractual services	239,839	67,097
Other	2,758,147	2,506,634
	<hr/>	<hr/>
<b>Total expenditures</b>	<b>14,997,027</b>	<b>16,038,480</b>
	<hr/>	<hr/>
<b>Excess of revenues over expenditures</b>	<b>2,326,153</b>	<b>2,140,753</b>
	<hr/>	<hr/>
<b>Other financing sources (uses):</b>		
Operating transfers out	(591,377)	(255,676)
Other	(5,724)	96,271
	<hr/>	<hr/>
<b>Total other financing sources (uses), net</b>	<b>(597,101)</b>	<b>(159,405)</b>
	<hr/>	<hr/>
<b>Excess of revenues and other financing sources over   expenditures and other financing uses before the   cumulative effect of a change in accounting principle</b>	<b>1,729,052</b>	<b>1,981,348</b>
	<hr/>	<hr/>
<b>Add: cumulative effect of a change in accounting principle</b>	<b>-</b>	<b>369,641</b>
	<hr/>	<hr/>
<b>Excess of revenues and other financing sources over   expenditures and other financing uses</b>	<b>1,729,052</b>	<b>2,350,989</b>
	<hr/>	<hr/>
<b>Fund balance (deficit) at beginning of year</b>	<b>852,671</b>	<b>(1,498,318)</b>
	<hr/>	<hr/>
<b>Fund balance at end of year</b>	<b>\$ 2,581,723</b>	<b>\$ 852,671</b>
	<hr/> <hr/>	<hr/> <hr/>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**GENERAL FUND**

**Statement of Revenues, Expenditures by Function and Department and Changes in Fund Balance (Deficit) -  
Year Ended September 30, 1998**

(With comparative totals for the year ended September 30, 1997)

	1998		1997
<b>Revenues:</b>			
<b>U.S. Compact of Free Association:</b>			
Base grant	\$ 5,652,000		\$ 5,652,000
Inflation adjustment	4,195,560		4,862,000
FSM revenue sharing	4,268,318		4,085,155
Investment income	303,535		2,016,575
<b>State taxes and licenses:</b>			
Beer and malt beverages	\$ 467,784		\$ 453,792
Cigarettes	79,737		71,746
Motor vehicle sales tax	138,950		137,417
General merchandise sales tax	198,678		179,812
Hotel	76,615		87,034
Petroleum and fuel	105,682		83,638
Use tax	132,156		101,721
Others	45,135	1,244,737	233,355
			1,348,515
<b>Fines and penalties</b>		505,251	45,840
<b>Public service charges:</b>			
Hospital and dental	-		289
Transportation	30,218	30,218	50,939
Other		1,123,561	118,209
			18,179,233
<b>Total revenues</b>	17,323,180		18,179,233
<b>Expenditures:</b>			
<b>General Government:</b>			
Executive & Support	959,671		1,256,231
Department of Treasury and Administration	811,879		827,176
Public Auditor	139,077		154,918
Judiciary	392,476		338,308
Legislative operations	1,338,026		1,278,619
			3,855,252
<b>Total General Government</b>	3,641,129		3,855,252
<b>Department of Education:</b>			
Administration	59,800		399,727
Preschool and elementary	3,592,923		3,689,054
Secondary	71,695		125,352
			4,214,133
<b>Total Education</b>	3,724,418		4,214,133
<b>Department of Health Services:</b>			
Administration	353,409		369,603
Medical Coordinator-Honolulu	43,350		44,376
Medical services	1,283,284		1,417,597
Dental services	264,048		296,944
Medical supplies	287,374		345,135
Primary health care	361,896		343,234
Hemodialysis	46,861		66,116
Hospital buildings & grounds	7,814		5,742
Hospital food	54,620		43,633
Medical referrals	23,593		36,000
Outer islands medical referrals	11,906		-
			2,968,380
<b>Total Health Services</b>	2,738,155		2,968,380
<b>Department of Resource Management and Development:</b>			
Office of the Director	68,551		61,485
Division of Agriculture	502,460		654,701
Division of CM&PM	230,095		301,147
Commerce and industry	115,777		130,411
Division of Land	268,741		359,316
			1,507,060
<b>Total Resources Management and Development</b>	1,185,624		1,507,060

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**GENERAL FUND**  
Statement of Revenues, Expenditures by Function and Department and Changes in Fund Balance (Deficit), Continued  
Year Ended September 30, 1998  
(With comparative totals for the year ended September 30, 1997)

	1998	1997
<b>Expenditures, continued:</b>		
<b>Department of Justice:</b>		
Law and litigation division	328,959	391,505
Division of police and security	768,663	742,066
Correction and rehabilitation	111,461	113,347
Search and rescue	885	740
	1,209,968	1,247,658
<b>Boards, Commissions, and Other Appropriations:</b>		
Foreign investment commission	47,605	43,592
Micronesian legal services	33,600	31,500
Traditional affairs	3,000	3,200
USDA Rural Development	148,112	137,836
Alms fund	49,337	1,500
Pohnpei public library	11,536	11,144
Environmental protection agency	117,858	121,116
Micro Glory drydocking	24,426	-
Pohnpei health care plan board	12,771	3,868
Planning and zoning committee	7,010	1,747
Joint action committee	-	40,520
Soil and water conservation	6,917	-
Economic planning committee	22,145	28,967
Pohnpei broadcasting corporation	84,377	79,912
Sports development program	23,108	-
Pohnpei leasership conference	31,261	-
Palau Micronesian games	119,447	-
Pohnpei land commission	158,003	160,160
June 97 recall petition	-	867
	900,513	665,929
<b>Municipal Governments:</b>		
Kitti	294,860	285,777
Sokehs	270,712	270,709
Madolenihmw	276,096	269,098
Nett	190,042	187,608
Kolonias	175,500	175,500
Uh	154,101	155,734
Pingilap	81,236	81,236
Kapingamarangi	47,384	47,383
Sapwuahfik	40,868	40,868
Mwoakilloa	35,853	35,587
Nukuoro	30,568	30,568
	1,597,220	1,580,068
<b>Total Municipal Governments</b>	<b>1,597,220</b>	<b>1,580,068</b>
<b>Total expenditures</b>	<b>14,997,027</b>	<b>16,038,480</b>
<b>Excess of revenues over expenditures</b>	<b>2,326,153</b>	<b>2,140,753</b>
<b>Other financing sources (uses):</b>		
Operating transfers out	(591,377)	(255,676)
Other	(5,724)	96,271
	(597,101)	(159,405)
<b>Total other financing sources (uses), net</b>	<b>(597,101)</b>	<b>(159,405)</b>
<b>Excess of revenues and other financing sources over expenditures and other financing uses before the cumulative effect of a change in accounting principle</b>	<b>1,729,052</b>	<b>1,981,348</b>
<b>Add: cumulative effect of a change in accounting principle</b>	<b>-</b>	<b>369,641</b>
<b>Excess of revenues and other financing sources over expenditures and other financing uses</b>	<b>1,729,052</b>	<b>2,350,989</b>
<b>Fund balance (deficit) at beginning of year</b>	<b>852,671</b>	<b>(1,498,318)</b>
<b>Fund balance at end of year</b>	<b>\$ 2,581,723</b>	<b>\$ 852,671</b>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Special Revenue Funds  
September 30, 1998

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

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

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

Compact Other Grants Fund

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

U.S. Federal Assistance Fund

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

Other Federal and Direct Assistance Fund

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

Agriculture Revolving Fund

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

Student Vocational Arts Program (SVAP) Revolving Fund

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

Airport Operations Fund

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

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Special Revenue Funds, Continued  
September 30, 1998

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.

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.

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**SPECIAL REVENUE FUNDS  
Combining Balance Sheet  
September 30, 1998  
(With comparative totals as of September 30, 1997)**

	Compact	Compact	U.S.	Other	Agriculture	SVAP	Airport	CFSM	Recycling	V6AH	Environ-	Medical	Early	Totals		
	Health and Education	Other Grants	Federal Assistance	Federal and Direct Assistance										Revolving	Revolving	Operations
<b>ASSETS</b>																
Cash and equivalents	\$ 13,350	\$ 187,203	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 200,553	\$ 777,170
Cash - restricted	-	-	-	-	-	-	-	-	-	-	-	-	639,802	639,802	1,985,040	1,985,040
Investments	100,000	687,170	-	-	-	-	-	-	-	-	-	-	-	787,170	167,170	
Receivables:																
Other governments	-	274,295	-	-	-	-	-	1,097,855	-	-	-	-	-	-	1,372,150	1,101,439
Federal agencies, thru FSM National Government	-	-	1,526,158	-	-	-	-	-	-	-	-	-	-	-	1,526,158	2,078,392
General	-	-	-	-	-	-	-	3,928	-	-	-	-	-	-	3,928	3,928
Advances	3,308	52,123	181,949	35,660	-	-	2,143	77,899	-	1,390	-	-	-	354,472	318,207	
Due from other funds	1,015,538	26,761	-	22,516	33,000	14,463	49,988	-	21,120	-	33,716	83,270	121,136	1,421,528	2,165,123	
Inventory, at cost	-	-	-	-	15,747	-	-	-	-	-	-	-	-	15,747	49,760	49,760
Allowance for uncollectibles	-	-	(1,111,598)	-	-	-	-	(431,003)	-	-	-	-	-	-	(1,542,601)	(1,990,608)
<b>Total assets</b>	<b>\$ 1,132,216</b>	<b>\$ 1,227,552</b>	<b>\$ 596,509</b>	<b>\$ 58,176</b>	<b>\$ 48,747</b>	<b>\$ 14,463</b>	<b>\$ 52,131</b>	<b>\$ 748,679</b>	<b>\$ 21,120</b>	<b>\$ 1,390</b>	<b>\$ 33,716</b>	<b>\$ 83,270</b>	<b>\$ 760,938</b>	<b>\$ 4,778,907</b>	<b>\$ 6,655,621</b>	
<b>LIABILITIES AND FUND BALANCES (DEFICIT)</b>																
Liabilities:																
Accounts payable	\$ 46,773	\$ 191,986	\$ 259,896	\$ 1,607	\$ 391	\$ 257	\$ -	\$ 19,236	\$ -	\$ 26	\$ -	\$ 11,381	\$ -	\$ 531,553	\$ 347,876	
Accrued payroll and others	23,384	131,775	9,251	148	-	-	-	-	-	-	-	-	-	164,358	150,918	
Due to other funds	-	-	76,446	-	-	-	-	767,226	-	3,962	-	-	-	847,634	1,730,157	
Deferred revenue	-	-	409,744	-	-	-	-	-	-	-	-	-	-	409,744	580,218	
<b>Total liabilities</b>	<b>70,157</b>	<b>323,761</b>	<b>755,337</b>	<b>1,755</b>	<b>391</b>	<b>257</b>	<b>-</b>	<b>786,462</b>	<b>-</b>	<b>3,988</b>	<b>-</b>	<b>11,381</b>	<b>-</b>	<b>1,953,489</b>	<b>2,809,169</b>	
Fund balances (deficit):																
Reserved for:																
Related assets	3,308	52,123	181,949	35,660	15,747	-	2,142	748,679	-	1,390	-	-	-	1,040,998	371,895	
Encumbrances	2,636	246,286	481,787	7,090	2,935	242	-	180,877	-	4,001	267	20,539	-	946,660	1,504,724	
Unreserved (deficit)	1,056,115	605,382	(822,564)	13,671	29,674	13,964	49,989	(967,339)	21,120	(7,989)	33,449	51,350	760,938	837,760	1,969,833	
<b>Total fund balances (deficit)</b>	<b>1,062,059</b>	<b>903,791</b>	<b>(158,828)</b>	<b>56,421</b>	<b>48,356</b>	<b>14,206</b>	<b>52,131</b>	<b>(37,783)</b>	<b>21,120</b>	<b>(2,598)</b>	<b>33,716</b>	<b>71,889</b>	<b>760,938</b>	<b>2,825,418</b>	<b>3,846,452</b>	
<b>Total liabilities and fund balances (deficit)</b>	<b>\$ 1,132,216</b>	<b>\$ 1,227,552</b>	<b>\$ 596,509</b>	<b>\$ 58,176</b>	<b>\$ 48,747</b>	<b>\$ 14,463</b>	<b>\$ 52,131</b>	<b>\$ 748,679</b>	<b>\$ 21,120</b>	<b>\$ 1,390</b>	<b>\$ 33,716</b>	<b>\$ 83,270</b>	<b>\$ 760,938</b>	<b>\$ 4,778,907</b>	<b>\$ 6,655,621</b>	

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**SPECIAL REVENUE FUNDS  
Combining Statement of Revenues, Expenditures by Function and Changes in Fund Balances (Deficit)  
Year Ended September 30, 1998  
(With comparative totals for the year ended September 30, 1997)**

	Compact	Compact	U.S.	Other	Agriculture	SVAP	Airport	CFSM	Recycling	V6AH	Environ-	Medical	Early	Totals	
	Health and	Other	Federal	Federal										Revolving	Revolving
	Education	Grants	Assistance	and Direct				Projects		Revolving	Quality				
<b>Revenues:</b>															
<b>Compact:</b>															
Base grant	\$ 1,890,000	\$ 1,357,783	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,247,783	\$ 3,247,783
Inflation adjustment	-	530,000	-	-	-	-	-	-	-	-	-	-	-	530,000	500,000
Federal contributions	-	-	3,276,500	-	-	-	-	-	-	-	-	-	-	3,276,500	1,964,279
CFBM Grants	-	-	-	-	-	-	-	452,604	-	-	-	-	-	452,604	1,135,857
Scholarships	-	288,003	-	-	-	-	-	-	-	-	-	-	-	288,003	259,231
Other	-	-	-	166,575	22,519	8,565	110,121	-	-	4,828	47,500	144,999	18,111	523,218	648,093
<b>Total revenues</b>	<b>1,890,000</b>	<b>2,175,786</b>	<b>3,276,500</b>	<b>166,575</b>	<b>22,519</b>	<b>8,565</b>	<b>110,121</b>	<b>452,604</b>	<b>-</b>	<b>4,828</b>	<b>47,500</b>	<b>144,999</b>	<b>18,111</b>	<b>8,318,108</b>	<b>7,755,243</b>
<b>Expenditures:</b>															
General government	-	3,937	373,921	35,419	-	-	-	87,413	-	-	-	-	-	500,690	1,013,422
Education	1,887,364	-	1,864,190	85,639	-	-	-	4,962	-	-	-	-	-	3,842,175	3,210,835
Health services	-	313,063	436,274	66,709	-	-	-	151,643	-	-	19,844	180,979	-	1,168,514	1,120,519
Resources management and development	-	-	506,488	-	-	-	-	-	-	-	-	-	-	506,488	67,004
Public works	-	398,466	31,834	3,083	-	-	-	74,666	-	-	-	-	-	508,051	505,579
Justice	-	-	63,793	10,953	-	-	-	133,920	-	-	-	-	-	208,666	159,128
Capital projects	-	-	-	-	-	-	-	-	-	-	-	-	-	-	439,056
Other	-	1,096,451	-	-	46,184	10,857	103,525	-	-	4,686	-	-	1,762,835	3,024,558	883,273
<b>Total expenditures</b>	<b>1,887,364</b>	<b>1,811,919</b>	<b>3,276,500</b>	<b>201,823</b>	<b>46,184</b>	<b>10,857</b>	<b>103,525</b>	<b>452,604</b>	<b>-</b>	<b>4,686</b>	<b>19,844</b>	<b>180,979</b>	<b>1,762,835</b>	<b>9,759,142</b>	<b>7,418,816</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>2,636</b>	<b>363,867</b>	<b>-</b>	<b>(35,250)</b>	<b>(23,665)</b>	<b>(2,292)</b>	<b>6,596</b>	<b>-</b>	<b>-</b>	<b>142</b>	<b>27,656</b>	<b>(35,980)</b>	<b>(1,744,744)</b>	<b>(1,441,034)</b>	<b>336,427</b>
<b>Other financing sources (uses):</b>															
Operating transfers in	-	-	-	-	-	-	-	-	-	-	-	-	420,000	420,000	-
Proceeds from notes payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,500,000
<b>Total other financing sources (uses), net</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>420,000</b>	<b>420,000</b>	<b>2,500,000</b>
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses</b>	<b>2,636</b>	<b>363,867</b>	<b>-</b>	<b>(35,250)</b>	<b>(23,665)</b>	<b>(2,292)</b>	<b>6,596</b>	<b>-</b>	<b>-</b>	<b>142</b>	<b>27,656</b>	<b>(35,980)</b>	<b>(1,324,744)</b>	<b>(1,021,034)</b>	<b>2,836,427</b>
<b>Fund balances (deficit) at beginning of year</b>	<b>1,059,423</b>	<b>539,924</b>	<b>(158,828)</b>	<b>91,671</b>	<b>72,021</b>	<b>16,498</b>	<b>45,535</b>	<b>(37,783)</b>	<b>21,120</b>	<b>(2,740)</b>	<b>6,060</b>	<b>107,869</b>	<b>2,085,682</b>	<b>3,846,452</b>	<b>1,010,025</b>
<b>Fund balances (deficit) at end of year</b>	<b>\$ 1,062,059</b>	<b>\$ 903,791</b>	<b>\$ (158,828)</b>	<b>\$ 56,421</b>	<b>\$ 48,356</b>	<b>\$ 14,206</b>	<b>\$ 52,131</b>	<b>\$ (37,783)</b>	<b>\$ 21,120</b>	<b>\$ (2,598)</b>	<b>\$ 33,716</b>	<b>\$ 71,889</b>	<b>\$ 760,938</b>	<b>\$ 2,825,418</b>	<b>\$ 3,846,452</b>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**SPECIAL REVENUE FUNDS  
Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balances (Deficit)  
Year Ended September 30, 1998  
(With comparative totals for the year ended September 30, 1997)**

	Compact	Compact	U.S.	Other	Agriculture	SVAP	Airport	CFSM	Recycling	V6AH	Environ-	Medical	Early	Totals	
	Health and Education	Other Grants	Federal Assistance	Federal and Direct Assistance				State Projects		Revolving	Revolving	Quality	Revolving	Retirement	1998
<b>Revenues:</b>															
<b>Compact:</b>															
Base grant	\$ 1,890,000	\$ 1,357,783	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,247,783	\$ 3,247,783
Inflation adjustment	-	530,000	-	-	-	-	-	-	-	-	-	-	-	530,000	500,000
Federal contributions	-	-	3,276,500	-	-	-	-	-	-	-	-	-	-	3,276,500	1,964,279
CFSM Grants	-	-	-	-	-	-	452,604	-	-	-	-	-	-	452,604	1,135,837
Scholarship Grants	-	288,003	-	-	-	-	-	-	-	-	-	-	-	288,003	259,231
Other	-	-	-	166,375	22,519	8,565	110,121	-	-	4,828	47,500	144,999	18,111	523,218	648,093
<b>Total revenues</b>	<b>1,890,000</b>	<b>2,175,786</b>	<b>3,276,500</b>	<b>166,375</b>	<b>22,519</b>	<b>8,565</b>	<b>110,121</b>	<b>452,604</b>	<b>-</b>	<b>4,828</b>	<b>47,500</b>	<b>144,999</b>	<b>18,111</b>	<b>8,318,108</b>	<b>7,755,243</b>
<b>Expenditures:</b>															
Personnel	1,691,715	72,357	894,228	10,933	-	-	-	171,431	-	-	597	-	-	2,841,281	2,888,338
Travel	722	29,588	222,623	53,168	-	-	-	45,076	-	-	-	-	-	351,177	369,543
Supplies and materials	35,093	21,126	334,704	26,383	7,304	10,857	-	44,539	-	450	72	169,160	-	649,690	290,164
Fuel	-	128,644	12,239	379	-	-	-	451	-	-	-	-	-	141,713	12,645
Equipment	586	65,772	507,676	63,835	-	-	-	41,961	-	807	18,894	1,393	-	700,924	340,668
Contractual services	-	8,000	631,545	29,928	-	-	-	86,434	-	2,400	-	-	-	758,307	1,201,766
Other	159,246	1,486,432	673,485	17,179	38,880	-	103,525	62,712	-	1,029	281	10,426	1,762,855	4,316,050	2,315,692
<b>Total expenditures</b>	<b>1,887,364</b>	<b>1,811,919</b>	<b>3,276,500</b>	<b>201,825</b>	<b>46,184</b>	<b>10,857</b>	<b>103,525</b>	<b>452,604</b>	<b>-</b>	<b>4,686</b>	<b>19,844</b>	<b>180,979</b>	<b>1,762,855</b>	<b>9,759,142</b>	<b>7,418,816</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>2,636</b>	<b>363,867</b>	<b>-</b>	<b>(35,250)</b>	<b>(23,665)</b>	<b>(2,292)</b>	<b>6,596</b>	<b>-</b>	<b>-</b>	<b>142</b>	<b>27,656</b>	<b>(35,980)</b>	<b>(1,744,744)</b>	<b>(1,441,034)</b>	<b>336,427</b>
<b>Other financing sources (uses):</b>															
Operating transfers in	-	-	-	-	-	-	-	-	-	-	-	-	420,000	420,000	-
Proceeds from notes payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,500,000
<b>Total other financing sources (uses), net</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>420,000</b>	<b>420,000</b>	<b>2,500,000</b>
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses</b>	<b>2,636</b>	<b>363,867</b>	<b>-</b>	<b>(35,250)</b>	<b>(23,665)</b>	<b>(2,292)</b>	<b>6,596</b>	<b>-</b>	<b>-</b>	<b>142</b>	<b>27,656</b>	<b>(35,980)</b>	<b>(1,324,744)</b>	<b>(1,021,034)</b>	<b>2,836,427</b>
<b>Fund balances (deficit) at beginning of year</b>	<b>1,059,423</b>	<b>539,924</b>	<b>(158,828)</b>	<b>91,671</b>	<b>72,021</b>	<b>16,498</b>	<b>45,535</b>	<b>(37,783)</b>	<b>21,120</b>	<b>(2,740)</b>	<b>6,060</b>	<b>107,869</b>	<b>2,085,682</b>	<b>3,846,452</b>	<b>1,010,025</b>
<b>Fund balances (deficit) at end of year</b>	<b>\$ 1,062,059</b>	<b>\$ 903,791</b>	<b>\$ (158,828)</b>	<b>\$ 56,421</b>	<b>\$ 48,356</b>	<b>\$ 14,206</b>	<b>\$ 52,131</b>	<b>\$ (37,783)</b>	<b>\$ 21,120</b>	<b>\$ (2,598)</b>	<b>\$ 33,716</b>	<b>\$ 71,889</b>	<b>\$ 760,938</b>	<b>\$ 2,825,418</b>	<b>\$ 3,846,452</b>

See Accompanying Independent Auditors' Report.



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Capital Projects Funds  
September 30, 1998

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

Compact - Capital Projects Fund

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

TTG - Capital Projects Fund

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

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**CAPITAL PROJECTS FUNDS**

Combining Balance Sheet

September 30, 1998

(With comparative totals as of September 30, 1997)

	<u>Compact Capital Projects Fund</u>	<u>TTG Capital Projects Fund</u>	<u>Totals</u>	
			<u>1998</u>	<u>1997</u>
 <u>ASSETS</u>				
Cash and equivalents	\$ 1,534,249	\$ -	\$ 1,534,249	\$ 1,704,829
Cash - restricted	624,523	-	624,523	1,064,691
Investments	-	-	-	2,559,156
Investments - other	1,000,000	-	1,000,000	600,000
Receivables from federal agencies	-	136,006	136,006	184,254
General receivables	3,956	12,343	16,299	17,370
Advances	79,518	-	79,518	71,542
Loans receivable	2,450,000	-	2,450,000	7,200,000
Due from other funds	1,271,402	-	1,271,402	-
Allowance for uncollectibles	-	-	-	(4,750,000)
 Total assets	 <u>\$ 6,963,648</u>	 <u>\$ 148,349</u>	 <u>\$ 7,111,997</u>	 <u>\$ 8,651,842</u>
 <u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ 150,164	\$ -	\$ 150,164	\$ 74,261
Accrued payroll and others	341	-	341	558
Due to other funds	-	129,416	129,416	807,611
 Total liabilities	 <u>150,505</u>	 <u>129,416</u>	 <u>279,921</u>	 <u>882,430</u>
Fund balances:				
Reserved for:				
Related assets	3,533,474	-	3,533,474	3,121,542
Encumbrances	629,049	202,510	831,559	2,202,109
Continuing appropriations	3,378,898	-	3,378,898	3,605,216
Unreserved (deficit)	(728,278)	(183,577)	(911,855)	(1,159,455)
 Total fund balances	 <u>6,813,143</u>	 <u>18,933</u>	 <u>6,832,076</u>	 <u>7,769,412</u>
 Total liabilities and fund balances	 <u>\$ 6,963,648</u>	 <u>\$ 148,349</u>	 <u>\$ 7,111,997</u>	 <u>\$ 8,651,842</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**CAPITAL PROJECTS FUNDS**

Combining Statement of Revenues, Expenditures by Function and Changes in Fund Balances  
Year Ended September 30, 1998  
(With comparative totals for the year ended September 30, 1997)

	Compact Capital Projects Fund	TTG Capital Projects Fund	Totals	
			1998	1997
<b>Revenues:</b>				
Compact of Free Association:				
Base grant	\$ 4,072,000	\$ -	\$ 4,072,000	\$ 4,072,000
Inflation adjustment	958,160	-	958,160	-
U.S. Department of the Interior grants	-	649,992	649,992	274,343
Investment income	29,214	-	29,214	39,988
<b>Total revenues</b>	<u>5,059,374</u>	<u>649,992</u>	<u>5,709,366</u>	<u>4,386,331</u>
<b>Expenditures:</b>				
Capital projects	<u>3,408,047</u>	<u>649,992</u>	<u>4,058,039</u>	<u>3,015,938</u>
<b>Total expenditures</b>	<u>3,408,047</u>	<u>649,992</u>	<u>4,058,039</u>	<u>3,015,938</u>
Excess of revenues over expenditures	<u>1,651,327</u>	<u>-</u>	<u>1,651,327</u>	<u>1,370,393</u>
<b>Other financing sources (uses):</b>				
Repayment of notes payable	(2,000,000)	-	(2,000,000)	(2,200,000)
Interest expense	(569,275)	-	(569,275)	(1,007,413)
Other income (expense)	(19,388)	-	(19,388)	123,675
<b>Total other financing sources (uses), net</b>	<u>(2,588,663)</u>	<u>-</u>	<u>(2,588,663)</u>	<u>(3,083,738)</u>
Deficiency of revenues and other financing sources under expenditures and other financing uses	(937,336)	-	(937,336)	(1,713,345)
Fund balances at beginning of year	<u>7,750,479</u>	<u>18,933</u>	<u>7,769,412</u>	<u>9,482,757</u>
Fund balances at end of year	<u>\$ 6,813,143</u>	<u>\$ 18,933</u>	<u>\$ 6,832,076</u>	<u>\$ 7,769,412</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**CAPITAL PROJECTS FUNDS**

Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balances  
Year Ended September 30, 1998

(With comparative totals for the year ended September 30, 1997)

	Compact Capital Projects Fund	TTG Capital Projects Fund	Totals	
			1998	1997
<b>Revenues:</b>				
<b>Compact of Free Association:</b>				
Base grant	\$ 4,072,000	\$ -	\$ 4,072,000	\$ 4,072,000
Inflation adjustment	958,160	-	958,160	-
U.S. Department of the Interior grants	-	649,992	649,992	274,343
Investment income	29,214	-	29,214	39,988
	<b>5,059,374</b>	<b>649,992</b>	<b>5,709,366</b>	<b>4,386,331</b>
<b>Expenditures:</b>				
Personnel	50,577	-	50,577	100,622
Travel	58,340	-	58,340	36,346
Supplies and materials	28,166	-	28,166	32,943
Fuel	29,502	-	29,502	-
Equipment	296,009	-	296,009	125,592
Contractual services	1,935,477	649,992	2,585,469	2,610,329
Other	1,009,976	-	1,009,976	110,106
	<b>3,408,047</b>	<b>649,992</b>	<b>4,058,039</b>	<b>3,015,938</b>
Excess of revenues over expenditures	<b>1,651,327</b>	<b>-</b>	<b>1,651,327</b>	<b>1,370,393</b>
<b>Other financing sources (uses) :</b>				
Repayment of notes payable	(2,000,000)	-	(2,000,000)	(2,200,000)
Interest expense	(569,275)	-	(569,275)	(1,007,413)
Other income (expense)	(19,388)	-	(19,388)	123,675
	<b>(2,588,663)</b>	<b>-</b>	<b>(2,588,663)</b>	<b>(3,083,738)</b>
Deficiency of revenues and other financing sources under expenditures and other financing uses	<b>(937,336)</b>	<b>-</b>	<b>(937,336)</b>	<b>(1,713,345)</b>
<b>Fund balances at beginning of year</b>	<b>7,750,479</b>	<b>18,933</b>	<b>7,769,412</b>	<b>9,482,757</b>
<b>Fund balances at end of year</b>	<b>\$ 6,813,143</b>	<b>\$ 18,933</b>	<b>\$ 6,832,076</b>	<b>\$ 7,769,412</b>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Component Units - Proprietary Funds  
September 30, 1998

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

Pohnpei Fisheries Corporation (PFC) was established by State Public Law 3L-28-93. The primary purpose of the Corporation is to operate and monitor the Pohnpei fish processing plant and other fisheries projects of Pohnpei State. PFC was not able to provide financial statements for inclusion in the accompanying presentation.

Pohnpei Port Authority (PPA) was established by State Public Law 2L-224-91. The primary purpose of the Authority is to oversee the use and maintenance of Pohnpei State's sea and air ports. PPA began operating as a separate entity in fiscal year 1993; however, the accounting for the Authority continued to be handled by Pohnpei State Treasury until January, 1994.

Pohnpei Utilities Corporation (PUC) was established by State Public Law 2L-179-91. The primary purpose of the Corporation is to provide electrical services to the public through the operation and maintenance of the State's electric power system.

Pohnpei Economic Development Authority (EDA) was established pursuant to Pohnpei State Law 4L-159-78 in 1978. The purpose of the Authority is to promote economic development projects within the State of Pohnpei.

Pohnpei State Housing Authority (PSHA) was established by State Public Law 2L-81-88. The Authority's primary purpose is to facilitate, through low interest loans, the construction of safe and sanitary residential housing for low income families of Pohnpei State.

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**COMPONENT UNITS - PROPRIETARY FUNDS  
Combining Balance Sheet  
September 30, 1998  
(With comparative totals as of September 30, 1997)**

<u>ASSETS</u>	Pohnpei	Pohnpei	Pohnpei	Pohnpei	Totals	
	Port Authority	Utilities Corporation	Economic Development Authority	State Housing Authority	1998	1997
Cash and equivalents	\$ 67,588	\$ 533,995	\$ 87,740	\$ 147,387	\$ 836,710	\$ 921,754
Cash - restricted	300,000	-	-	-	300,000	300,000
Investments - other	-	308,508	500,500	-	809,008	500,500
Grants receivable	-	150,516	-	-	150,516	387,152
General receivable, net	121,829	2,533,558	219,884	-	2,875,271	2,587,892
Interest receivable	636	1,130	-	-	1,766	18,704
Advances	15,181	-	14,984	13,153	43,318	31,751
Loans receivables, net	-	22,474	40,000	3,679,755	3,742,229	3,704,122
Inventory, at cost	-	1,139,037	9,181	2,249	1,150,467	1,206,267
Self insurance fund	-	104,659	-	-	104,659	84,115
Scholarship fund	-	3,881	-	-	3,881	3,881
Prepaid expenses and other assets	100	58,076	-	-	58,176	45,233
Fixed assets, net	7,603,902	32,105,799	341,871	26,513	40,078,085	48,043,389
Due from primary government	-	-	-	82,142	82,142	66,253
<b>Total assets</b>	<b>\$ 8,109,236</b>	<b>\$ 36,961,633</b>	<b>\$ 1,214,160</b>	<b>\$ 3,951,199</b>	<b>\$ 50,236,228</b>	<b>\$ 57,901,013</b>
<b><u>LIABILITIES AND FUND EQUITY</u></b>						
<b>Liabilities:</b>						
Accounts payable	\$ 26,440	\$ 399,312	\$ 79,612	\$ 6,588	\$ 511,952	\$ 1,775,918
Accrued payroll and others	80,518	274,407	19,626	1,501	376,052	355,242
Deferred revenue	306,250	56,698	-	-	362,948	396,945
Due to primary government	-	-	14,688	-	14,688	-
Advances from clients	-	-	2,000	285	2,285	-
Notes payable	-	-	-	-	-	3,846,019
<b>Total liabilities</b>	<b>413,208</b>	<b>730,417</b>	<b>115,926</b>	<b>8,374</b>	<b>1,267,925</b>	<b>6,374,124</b>
<b>Fund equity:</b>						
Retained earnings (deficit)	404,620	7,446,433	(3,196,307)	(53,402)	4,601,344	(526,668)
Contributed capital	7,291,408	28,784,783	4,294,541	3,996,227	44,366,959	52,053,557
<b>Total fund equity</b>	<b>7,696,028</b>	<b>36,231,216</b>	<b>1,098,234</b>	<b>3,942,825</b>	<b>48,968,303</b>	<b>51,526,889</b>
<b>Total liabilities and fund equity</b>	<b>\$ 8,109,236</b>	<b>\$ 36,961,633</b>	<b>\$ 1,214,160</b>	<b>\$ 3,951,199</b>	<b>\$ 50,236,228</b>	<b>\$ 57,901,013</b>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**COMPONENT UNITS - PROPRIETARY FUNDS**  
Combining Statement of Revenues, Expenses and Changes in Fund Equity  
Year Ended September 30, 1998  
(With comparative totals for the year ended September 30, 1997)

	Pohnpei Port Authority	Pohnpei Utilities Corporation	Pohnpei Economic Development Authority	Pohnpei State Housing Authority	Totals	
					1998	1997
<b>Operating revenues:</b>						
Charges for goods and services	\$ 584,555	\$ 6,728,727	\$ 1,318,149	\$ 248,768	\$ 8,880,199	\$ 10,709,360
Rental income	225,661	-	-	-	225,661	167,882
Other	20,642	-	-	-	20,642	251,751
<b>Total operating revenues</b>	<b>830,858</b>	<b>6,728,727</b>	<b>1,318,149</b>	<b>248,768</b>	<b>9,126,502</b>	<b>11,128,993</b>
<b>Operating expenses:</b>						
Cost of sales	-	-	1,345,209	-	1,345,209	-
Personnel services	550,157	1,409,464	84,782	113,132	2,157,535	2,259,480
Travel	55,837	56,591	28	-	112,456	72,299
Supplies and materials	34,334	88,809	780	870	124,793	116,519
Fuel	8,333	2,401,178	330	-	2,409,841	2,914,246
Contractual services	1,213	-	-	11,000	12,213	98,735
Doubtful debt expense	-	-	-	192,056	192,056	347,327
Utilities	45,443	-	6,488	2,850	54,781	56,904
Communications	4,154	36,088	4,603	500	45,345	116,860
Depreciation	627,060	2,171,800	55,630	8,239	2,862,729	2,867,277
Repairs and maintenance	18,986	805,746	1,268	2,075	828,075	576,933
Other	23,071	724,721	38,886	2,096	788,774	6,551,030
<b>Total operating expenses</b>	<b>1,368,588</b>	<b>7,694,397</b>	<b>1,538,004</b>	<b>332,818</b>	<b>10,933,807</b>	<b>15,977,610</b>
<b>Operating loss</b>	<b>(537,730)</b>	<b>(965,670)</b>	<b>(219,855)</b>	<b>(84,050)</b>	<b>(1,807,305)</b>	<b>(4,848,617)</b>
<b>Nonoperating revenues (expenses):</b>						
Operating transfers in	4,450	317,782	36,146	117,532	475,910	672,648
Interest income	21,881	-	4,611	3,866	30,358	41,503
Spurline projects	-	80,688	-	-	80,688	108,430
Other	3,225	19,277	8,178	(1,408)	29,272	231,764
<b>Total nonoperating revenues (expenses), net</b>	<b>29,556</b>	<b>417,747</b>	<b>48,935</b>	<b>119,990</b>	<b>616,228</b>	<b>1,054,345</b>
<b>Net income (loss)</b>	<b>(508,174)</b>	<b>(547,923)</b>	<b>(170,920)</b>	<b>35,940</b>	<b>(1,191,077)</b>	<b>(3,794,272)</b>
<b>Add depreciation on fixed assets acquired by capital contributions that reduce contributed capital</b>	<b>565,309</b>	<b>1,829,895</b>	<b>-</b>	<b>-</b>	<b>2,395,204</b>	<b>3,888,006</b>
<b>Increase (decrease) in retained earnings</b>	<b>57,135</b>	<b>1,281,972</b>	<b>(170,920)</b>	<b>35,940</b>	<b>1,204,127</b>	<b>93,734</b>
<b>Retained earnings (deficit) at beginning of year</b>	<b>347,485</b>	<b>6,164,461</b>	<b>(3,025,387)</b>	<b>(89,342)</b>	<b>3,397,217</b>	<b>(620,402)</b>
<b>Retained earnings (deficit) at end of year</b>	<b>404,620</b>	<b>7,446,433</b>	<b>(3,196,307)</b>	<b>(53,402)</b>	<b>4,601,344</b>	<b>(526,668)</b>
<b>Contributed capital at beginning of year</b>	<b>7,718,407</b>	<b>30,380,097</b>	<b>4,294,541</b>	<b>3,978,061</b>	<b>46,371,106</b>	<b>54,519,665</b>
Contributions	138,310	234,581	-	18,166	391,057	1,421,898
Less depreciation	(565,309)	(1,829,895)	-	-	(2,395,204)	(3,888,006)
<b>Contributed capital at end of year</b>	<b>7,291,408</b>	<b>28,784,783</b>	<b>4,294,541</b>	<b>3,996,227</b>	<b>44,366,959</b>	<b>52,053,557</b>
<b>Fund equity at end of year</b>	<b>\$ 7,696,028</b>	<b>\$ 36,231,216</b>	<b>\$ 1,098,234</b>	<b>\$ 3,942,825</b>	<b>\$ 48,968,303</b>	<b>\$ 51,526,889</b>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**COMPONENT UNITS - PROPRIETARY FUNDS**

Combining Statement of Cash Flows

Year Ended September 30, 1998

(With comparative totals for the year ended September 30, 1997)

	Pohnpei Port Authority	Pohnpei Utilities Corporation	Pohnpei Economic Development Authority	Pohnpei State Housing Authority	Totals	
					1998	1997
Cash flows from operating activities:						
Operating loss	\$ (537,730)	\$ (965,670)	\$ (219,855)	\$ (84,050)	\$ (1,807,305)	\$ (4,848,617)
Other income	-	19,277	-	-	19,277	294,096
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:						
Depreciation	627,060	2,171,800	109,694	8,239	2,916,793	4,838,733
Doubtful debt expense	-	-	-	192,056	192,056	212,935
Prior period adjustment	-	-	-	-	-	(86,417)
Non-operating expenses, net	(742)	-	19,332	(123)	18,467	-
	<u>88,588</u>	<u>1,225,407</u>	<u>(90,829)</u>	<u>116,122</u>	<u>1,339,288</u>	<u>410,730</u>
Changes in assets and liabilities:						
General receivables, gross	(71,688)	(348,389)	(40,575)	-	(460,652)	(253,295)
Advances	(886)	-	(13,087)	2,406	(11,567)	3,352
Loans receivable, gross	-	(9,762)	(40,000)	(180,278)	(230,040)	(324,154)
Inventory, at cost	-	(54,550)	(5,531)	27	(60,054)	(199,514)
Interest receivable	-	14,349	1,742	-	16,091	(5,929)
Prepaid expenses and other assets	4,475	(51,035)	-	-	(46,560)	394,183
Due from primary government	2,278	-	4,387	(18,166)	(11,501)	(30,624)
Other receivables	848	-	-	-	848	-
Accounts payable	(26,667)	(73,552)	(12,104)	(3,170)	(115,493)	335,111
Accrued payroll and others	49,873	(6,724)	(5,891)	-	37,258	70,089
Deferred revenue	-	(40,247)	-	359	(39,888)	(256,499)
Advance from (payment to) clients	-	-	2,000	285	2,285	(256,499)
	<u>(41,767)</u>	<u>(569,910)</u>	<u>(109,059)</u>	<u>(198,537)</u>	<u>(919,273)</u>	<u>(523,779)</u>
Net cash provided by (used in) operating activities	<u>46,821</u>	<u>655,497</u>	<u>(199,888)</u>	<u>(82,415)</u>	<u>420,015</u>	<u>(113,049)</u>
Cash flows from noncapital financing activities:						
Repayment of notes payable	-	(66,281)	-	-	(66,281)	(27,503)
Operating transfers in	4,450	554,417	36,146	117,532	712,545	553,173
Other noncapital financing activities	-	80,688	8,178	-	88,866	124,398
Net cash provided by noncapital financing activities	<u>4,450</u>	<u>568,824</u>	<u>44,324</u>	<u>117,532</u>	<u>735,130</u>	<u>650,068</u>
Cash flows from capital and related financing activities:						
Acquisition of fixed assets	(384,017)	(902,277)	(16,612)	(13,250)	(1,316,156)	(2,217,517)
Contributed capital	138,310	234,581	-	18,166	391,057	1,048,786
Net cash used in capital and related financing activities	<u>(245,707)</u>	<u>(667,696)</u>	<u>(16,612)</u>	<u>4,916</u>	<u>(925,099)</u>	<u>(1,168,731)</u>
Cash flows from investing activities:						
Received from self-insurance fund, net	-	(20,544)	-	-	(20,544)	2,033
Purchase of time certificates of deposit	-	-	-	-	-	(300,000)
Interest income	21,881	-	4,611	2,458	28,950	41,503
Other	1,038	(308,508)	-	-	(307,470)	24,085
Net cash provided by (used in) investing activities	<u>22,919</u>	<u>(329,052)</u>	<u>4,611</u>	<u>2,458</u>	<u>(299,064)</u>	<u>(232,379)</u>
Net increase (decrease) in cash and equivalents	<u>(171,517)</u>	<u>227,573</u>	<u>(167,565)</u>	<u>42,491</u>	<u>(69,018)</u>	<u>(864,091)</u>
Cash and equivalents at beginning of year	<u>239,105</u>	<u>306,422</u>	<u>255,305</u>	<u>104,896</u>	<u>905,728</u>	<u>1,529,346</u>
Cash and equivalents at end of year	<u>\$ 67,588</u>	<u>\$ 533,995</u>	<u>\$ 87,740</u>	<u>\$ 147,387</u>	<u>\$ 836,710</u>	<u>\$ 665,255</u>

See Accompanying Independent Auditors' Report.





**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, 1998, and have issued our report thereon dated May 28, 1999, which report was qualified due to the lack of updating the General Fund Fixed Assets Account Group and the omission of the Pohnpei Transportation Authority, a Proprietary Fund Type - Enterprise Fund and the Pohnpei Fisheries Corporation, a Component Unit – Proprietary Fund. Except as discussed in the preceding sentence, 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**

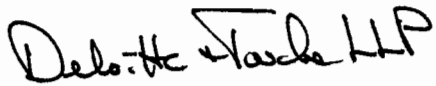
As part of obtaining reasonable assurance about whether the State of Pohnpei's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct 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 instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings and Questioned Costs (pages 70 through 84) in findings 98L-1, 98L-2, 98L-3 and 98L-4.

**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 98-6 through 98-9.

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, of the reportable conditions described above, we consider item 98-6 to be 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.

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

May 28, 1999



## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND 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, 1998. 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 84). 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 the 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 findings 98-1, 98-2 and 98-6 in the accompanying Schedule of Findings and Questioned Costs, the State of Pohnpei, did not comply with requirements regarding cash management and reporting that are applicable to its Educational Grant (CFDA #84.256A) and real property management (all programs). Compliance with such requirements is necessary, in our opinion, for the State of Pohnpei to comply with requirements applicable to its federal award programs.

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, 1998.

### 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

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.

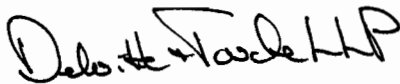
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance 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 98-1 through 98-6.

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, of the reportable conditions described above, we consider item 98-6 to be a material weakness.

#### Schedule of Expenditures of Federal Awards

We have audited the general purpose financial statements of the State of Pohnpei as of and for the year ended September 30, 1998, and have issued our report thereon dated May 28, 1999, which report was qualified due to the lack of updating the General Fund Fixed Assets Account Group and the omission of the Pohnpei Transportation Authority, a Proprietary Fund Type - Enterprise Fund and 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 (pages 55 through 65) 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.



May 28, 1999

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards  
U.S. Federal Assistance Fund  
Year Ended September 30, 1998

<u>Grantor Program Title</u>	<u>CFDA I.D. #</u>	<u>Pohnpei Org. #</u>	<u>1998 Fiscal Year Expenditures</u>
<b><u>U.S. Department of Agriculture</u></b>			
FY95 Forestry Project	10.664	3341	\$ 927
FY 97 Fire Prevention Project	10.664	3355	8,494
FY 97 Forestry Urban	10.664	3356	8,931
FY 97 Forestry Seedling	10.664	3357	660
FY 97 Forestry/Resource Management	10.664	3358	4,656
Total CFDA #10.664			<u>23,668</u>
Food Services	10.555	3388	3,078
Total CFDA #10.555			<u>3,078</u>
Total U.S. Department of Agriculture			<u>26,746</u>
<b><u>U.S. Department of Education</u></b>			
FY96 Goal 2000 Program	84.276	3107	(1,227)
FY98 Goal 2000 Program	84.276	3109	76,484
Total CFDA #84.276			<u>75,257</u>
FY95 Special Education	84.027	3114	(48)
FY98 Special Education	84.027	3118	593,375
Total CFDA #84.027			<u>593,327</u>
FY-98 Title VII Bilingual Education	84.914Q	3821	46,316
FY-99 Title VII Bilingual Education	84.914Q	3828	1,051
			<u>47,367</u>
Total U.S. Department of Education			<u>715,951</u>
<b><u>U.S. Department of the Interior</u></b>			
FY96 Historic Preservation	15.904	3452	4,064
FY97 Historic Preservation	15.904	3370	37,030
Total CFDA #15.904			<u>41,094</u>
Land and Survey	15.875	3451	438,648
Economic Planning Advisor	15.875	3454	60,365
Law Enforcement Need	15.875	3455	3,307
Pohnpei State O&M Engineer	15.875	3531	7,285
FY95 OMIP Program Hospital	15.875	3532	48
FY95 OMIP Sea/Airport	15.875	3533	(22,781)
Financial Management Improvement	15.875	3541	444
FY95 Treasury OMIP	15.875	3543	20,645
FY97 OMIP Facility Rep.	15.875	3544	97,494
Economic Planning Advisor	15.875	3545	2,155
Solid Waste O&M Program	15.875	3546	78,750
Land and Survey	15.875	3548	(131,158)
Multi Agency Anti Fraud	15.875	3566	120
Total CFDA #15.875			<u>555,322</u>
Total U.S. Department of the Interior			<u>596,416</u>
Balance Forward			<u>1,339,113</u>

See accompanying notes to schedule of expenditures of federal awards.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued  
U.S. Federal Assistance Fund, Continued  
Year Ended September 30, 1998

<u>Grantor Program Title</u>	<u>CFDA I.D. #</u>	<u>Pohnpei Org. #</u>	<u>1998 Fiscal Year Expenditures</u>
Balance Forwarded			\$ 1,339,113
<u>U.S. Department of Health and Human Services</u>			
FY97 Tuberculosis & Aids	93.116	3659	4,350
FY98 Tuberculosis & Aids	93.116	3668	7,042
Total CFDA #93.116			<u>11,392</u>
FY98 Family Planning	93.217	3664	42,189
FY99 Family Planning	93.217	3672	4,845
Total CFDA #93.217			<u>47,034</u>
FY97 Community Health Center	93.224	3662	75,113
FY98 Community Health Center	93.224	3670	70,170
Total CFDA #93.224			<u>145,283</u>
FY97 Immunization	93.268	3658	13,788
FY98 Immunization	93.268	3669	28,256
Total CFDA #93.268			<u>42,044</u>
FY98 Aids Prevention	93.940	3671	3,351
Total CFDA #93.940			<u>3,351</u>
FY96 Substance Abuse	93.959	3655	19
FY97 Substance Abuse	93.959	3666	96,632
Total CFDA #93.959			<u>96,651</u>
FY97 Sexually Transmitted Diseases	93.977	3660	1,839
Total CFDA #93.977			<u>1,839</u>
FY-97 Diabetes Program	93.988	3665	5,617
FY-98 Diabetes Program	93.988	3673	2,084
Total CFDA #93.988			<u>7,701</u>
FY96 MCH Program	93.994	3654	1
FY97 MCH Program	93.994	3667	80,978
Total CFDA #93.994			<u>80,979</u>
Total U.S. Department of Health and Human Services			<u>436,274</u>
Balance Forward			<u>1,775,387</u>

See accompanying notes to schedule of expenditures of federal awards.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued  
U.S. Federal Assistance Fund, Continued  
Year Ended September 30, 1998

<u>Grantor Program Title</u>	<u>CFDA I.D. #</u>	<u>Pohnpei Org. #</u>	1998 Fiscal Year Expenditures
Balance Forwarded			\$ 1,775,387
<b><u>U.S. Department of Labor</u></b>			
FY95 JTPA Administration	17.250	3207	2,175
FY95 JTPA Adult Program	17.250	3208	1,614
FY95 JTPA Youth Program	17.250	3209	6,252
FY96 JTPA Administration	17.250	3210	6,972
FY96 JTPA Youth Program	17.250	3211	10,602
FY96 JTPA Adult Program	17.250	3212	5,099
FY96 JTPA Participant Support	17.250	3213	4,809
FY97 JTPA Participant Support	17.250	3232	38,925
FY97 JTPA Adult Program	17.250	3233	111,210
FY97 JTPA Administration	17.250	3234	56,193
FY97 JTPA Youth Program	17.250	3235	33,562
FY98 JTPA Administration	17.250	3236	18,412
FY98 JTPA Youth Program	17.250	3237	3,788
FY98 JTPA Adult Program	17.250	3238	15,063
FY98 JTPA Participant Support	17.250	3239	11,560
Total CFDA #17.250			<u>326,236</u>
FY95 School to Work Program	17.249	3108	25,131
Total CFDA #17.249			<u>25,131</u>
Total U.S. Department of Labor			<u>351,367</u>
<b><u>Federal Emergency Management Agency</u></b>			
Hazard Mitigation Food	83.516	3789	23,212
Hazard Mitigation Project	83.516	3796	1,441
El Nino Drought/Public Assistance	83.516	3797	38
El Nino Drought/Sub.	83.516	3798	1,946
Total Federal Emergency Management Agency (CFDA #83.516)			<u>26,637</u>
<b><u>Direct U.S Grants - U.S. Department of Education</u></b>			
Freely Assoc. Ed. Grant	84.256A	3820	24,938
Freely Assoc. Ed. Grant	84.256A	3825	649,594
FY-98 Freely Assoc. Ed. Grant	84.256A	3827	448,577
Total U.S Department of Education (CFDA #84.256A)			<u>1,123,109</u>
Total U.S. Federal Assistance Fund			<u>\$ 3,276,500</u>

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

See accompanying notes to schedule of expenditures of federal awards.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued  
Other Federal and Direct Assistance Fund  
Year Ended September 30, 1998

Grantor Program Title	CFDA I.D. #	Pohnpei Org. #	1998 Fiscal Year Expenditures
<u>World Health Organization</u>			
EPA Awareness Raising Act	N/A	3914	150
Biodiversity/Administration	N/A	3972	680
Biodiversity/Awareness	N/A	3973	700
Biodiversity/Management	N/A	3974	1100
Biodiversity/Training	N/A	3976	<u>1,080</u>
			<u>3,710</u>
<u>Other Grants</u>			
Typhoon Isa Contribution Fund	N/A	3922	29,928
Capacity 21/Earth Day Celebration	N/A	3927	1,782
Pediatric & Nursery Equipment	N/A	3929	39,403
FY95 Watershed Biodivers	N/A	3932	1,490
Palikir Elementary School Improvement	N/A	3935	1,595
Quarentine Collection	N/A	3940	10,827
Legislative Investigation Division	N/A	3941	126
Vocational Education Improvement Program	N/A	3947	80,988
Food Production & Nutrition	N/A	3948	4,298
Math and Science Program	N/A	3955	2,120
FY95 Pohnpei Visions & Dreams	N/A	3962	2,551
Health Services Computers	N/A	3966	20,007
Nan U Drinking Water	N/A	3993	<u>3,000</u>
			<u>198,115</u>
Total Other Federal and Direct Assistance Fund			\$ <u><u>201,825</u></u>

Note: The above grants are received directly from foreign governments and private organizations.

See accompanying notes to schedule of expenditures of federal awards.



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued  
CFSM Projects Fund  
Year Ended September 30, 1998

<u>Program Title</u>	<u>CFDA I.D. #</u>	<u>Pohnpei Org. #</u>	<u>1998 Fiscal Year Expenditures</u>
Supreme Court Operations	N/A	4873	\$ 87,412
Sapwuafik Airstrip	N/A	4894	11,260
Pohnpei Cultural Education	N/A	4917	427
Elementary & Secondary Education	N/A	4922	4,533
Madolenihmw Elementary School	N/A	4941	648
PICS Facilities Improvement	N/A	4954	2,735
FY-98 Joint Law Enforcement	N/A	4956	133,920
Second Year OMIP Matching	N/A	4959	100
Circumferential Road Paving Phase VI	N/A	4961	4,939
Office Building Expansion	N/A	4967	552
Pohnpei State Hospital Needs	N/A	4968	83,201
Kitti & Madolenihmw Substation	N/A	4971	3,903
Repair/Cooling System Health	N/A	4972	68,442
Emergency Typhoon Isa	N/A	4973	34,458
Pohnpei Rural Development	N/A	4974	<u>16,074</u>
Total CFSM Projects Fund			<u>\$ 452,604</u>

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

See accompanying notes to schedule of expenditures of federal awards.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued  
TTPI Capital Projects Fund  
Year Ended September 30, 1998

<u>Grantor Program Title</u>	<u>CFDA I.D. #</u>	<u>Pohnpei Org. #</u>	<u>1998 Fiscal Year Expenditures</u>
<b><u>Trust Territory of the Pacific Islands</u></b>			
Airport Runway Renovation	15.875	6325	\$ <u>649,992</u>
Total TTPI Capital Projects Fund			\$ <u><u>649,992</u></u>

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

See accompanying notes to schedule of expenditures of federal awards.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued  
Compact of Free Association Special Block Grant Fund  
Section 221(B)  
Year Ended September 30, 1998

Grantor Program Title	CFDA I.D. #	Pohnpei Org. #	1998 Fiscal Year Expenditures
<u>Office of Insular Affairs</u>			
Administration ES&D	15.875	2148	\$ 351,665
Secondary Education	15.875	2150	<u>1,535,699</u>
Total Compact of Free Association Special Block Grant Fund - Section 221(B)			\$ <u><u>1,887,364</u></u>

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 Insular Affairs (OIA), U.S. Department of the Interior and bear CFDA No. 15.875. The FSM National Government receives all grant awards on behalf of the FSM and reallots such to the component States.

See accompanying notes to schedule of expenditures of federal awards.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued  
Compact of Free Association Other Grants Fund  
Year Ended September 30, 1998

Program Title	CFDA I.D. #	Pohnpei Org. #	1998 Fiscal Year Expenditures
<b><u>Section 212(A) - Special Development Programs</u></b>			
OMIP Matching	15.875	2529	\$ 444
Relief Storm Isa	15.875	2533	148,022
Kapinga Special Election	15.875	2534	1,722
State Anthem	15.875	2535	2,215
Transmitter & Accessories	15.875	2536	65,753
Civic Action Team	15.875	2913	250,000
			<u>468,156</u>
<b><u>Section 216(A)(2) - Health and Medical Programs</u></b>			
FY93 Medical Referrals	15.875	2356	312,085
			<u>312,085</u>
<b><u>Section 214(B) - Energy Programs</u></b>			
Treasury and Administration Utilities	15.875	2752	47,500
Justice Utilities	15.875	2753	36,000
Court of Land Tenure	15.875	2756	4,313
Social Affairs Utilities	15.875	2758	2,423
Public Broadcasting Corporation	15.875	2759	11,000
Supreme Court Utilities	15.875	2762	13,299
Micro Glory POL	15.875	2763	93,644
Governor's Office	15.875	2764	35,000
Pohnpei Health Care	15.875	2767	980
Power Supply Pohnlanags	15.875	2768	12,500
Health Services Utilities	15.875	2780	339,139
Public Auditor's Office Utilities	15.875	2781	2,500
Foreign Investment Board Utilities	15.875	2782	1,800
Public Library Utilities	15.875	2786	9,000
Budget Office Utilities	15.875	2787	15,000
Resource Management & Development Utilities	15.875	2789	55,999
Legislative Branch Utilities	15.875	2792	30,182
Education Utilities	15.875	2793	83,625
Pohnpei State Housing Authority Utilities	15.875	2795	2,362
Environmental Protection Agency Utilities	15.875	2797	4,087
Office of the Governor Utilities	15.875	2798	7,800
			<u>808,153</u>

See accompanying notes to schedule of expenditures of federal awards.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued

Compact of Free Association Other Grants Fund, Continued  
Year Ended September 30, 1998

Program Title	CFDA I.D. #	Pohnpei Org. #	1998 Fiscal Year Expenditures
<u>Section 216(A)(3) - Scholarship Programs</u>			
FY98 Post Secondary Assistance	15.875	2904	<u>223,525</u>
			<u>223,525</u>
Total Compact of Free Association Other Grants Fund			\$ <u>1,811,919</u>

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

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

See accompanying notes to schedule of expenditures of federal awards.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued  
Compact of Free Association Capital Projects Fund  
Section 211 (A) Capital Account  
Year Ended September 30, 1998

Grantor Program Title	CFDA I.D. #	Pohnpei Org. #	1998 Fiscal Year Expenditures
<b><u>Office of Territorial and International Affairs</u></b>			
Wone Elementary School	15.875	6024	\$ 2,414
Sokehs Powe Elementary School	15.875	6035	174
Mwoakilloa Elementary School	15.875	6039	3,219
Uh Section V Piggery Project	15.875	6168	9,850
Meitik Nankurupwung Bridge	15.875	6178	10,394
A&E Construction/Upgrade Madolenihmw Road	15.875	6232	32,000
Pepper Processing Plant	15.875	6234	10,154
Madolenihmw Infrastructure Project	15.875	6241	39,318
Access Road Nanpohnmal/Nanpil	15.875	6243	13,000
A&E Study for New Administration Building	15.875	6244	4,515
Development and Maintenance	15.875	6279	54
Tourist Promotion &	15.875	6280	1,138
Second Five Year Development Plan	15.875	6281	500
Broiler Development	15.875	6283	93
Nukuoro Municipal CIP	15.875	6292	2,142
Pehleng Water Supply System	15.875	6402	6,408
Land & Survey	15.875	6416	1,948
Madolenihmw Development Project	15.875	6417	58,557
Tourist Promotion and Marketing	15.875	6418	1,730
Kolonia Town Road Project	15.875	6419	15,221
Development/Maintenance Tourist A/Site	15.875	6420	12,381
Mwoakilloa Municipal Development Project	15.875	6426	11,097
Nukuoro Agriculture Project	15.875	6431	4,312
Enpein Powe Power Distribution	15.875	6441	8,653
Oloapoal Power Distribution	15.875	6443	15,982
U.H. Business Center Contribution	15.875	6445	495
Financial Management Performance	15.875	6447	20,646
Dekehtik Dumpsite Improvement	15.875	6448	6,592
Major Repair of Unpaved Road	15.875	6449	12,416
Nett District CIP	15.875	6450	2,488
Renovation of Governor's Office	15.875	6451	3,659
Road Paving in Nett	15.875	6452	90,627
Circumferential Road Paving/Phase VII	15.875	6453	496,239
Technical Assistance Fund	15.875	6455	26,412
Treasury & Administration Computers	15.875	6456	150,854
Secondary Road Repair	15.875	6458	14,557
Circumferential Road	15.875	6459	52,762
Sokehs Pah Circumferential Road	15.875	6463	83,515
Construction of Meitik Bridge	15.875	6464	75,000
Expansion & Renovation of PICS Cafeteria	15.875	6465	111,752
Balance Forward			<u>1,413,268</u>

See accompanying notes to schedule of expenditures of federal awards.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued  
Compact of Free Association Capital Projects Fund  
Section 211 (A) Capital Account, Continued  
Year Ended September 30, 1998

Grantor Program Title	CFDA I.D. #	Pohnpei Org. #	1998 Fiscal Year Expenditures
Balance Forwarded			\$ 1,413,268
Purchase or Major Farm Equipment	15.875	6466	87,955
Purchase of Rohi School Site	15.875	6467	50,000
PFC Subsidy	15.875	6468	691,737
Drydocking/Repair of Micro Glory	15.875	6469	540,900
Kepine Power Distribution	15.875	6471	13,717
Pohnpei Water Resource Program	15.875	6472	528,782
Sapwatakai Water System	15.875	6475	2,700
Sekere Bypass Road	15.875	6476	37,858
OMIP Matching Technical Assistance	15.875	6477	7,772
Technical Assistance Fund	15.875	6478	33,358
MTN Principal	15.875	6099	2,000,000
MTN Interest	15.875	6100	<u>569,275</u>
Total Compact of Free Association Capital Projects Fund - Section 211 (A) Capital Account			<u>\$ 5,977,322</u>

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

	\$ 5,977,322
FY98 MTN Debt payments (6099 and 6100)	<u>(2,569,275)</u>
Per general purpose financial statements	<u>\$ 3,408,047</u>

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 Insular Affairs (OIA), U.S. Department of the Interior and bear CFDA No. 15.875. The FSM National Government receives all grant awards on behalf of the FSM and reallots such to the component States.

See accompanying notes to schedule of expenditures of federal awards.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards  
Year Ended September 30, 1998

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 on the modified accrual basis of accounting.

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.



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards  
Year Ended September 30, 1998

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 1998 matters.

<u>Grant Title</u>	<u>Grantor Agency</u>	<u>CFDA No.</u>	<u>Loans Outstanding as of September 30, 1998</u>
Compact of Free Association:			
Capital Account Funds - Capital Projects, Section 211(A)	DOI-OTIA	15.875	\$ <u>4,585,500</u>
Total U.S. Department of the Interior			\$ <u>4,585,500</u>
USDA Rural Development:			
Housing Preservation Grant	USDA	10.433	\$ <u>378,094</u>
Total U.S. Department of Agriculture			\$ <u>378,094</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.

**STATE OF POHNPEI  
FEDERATED STATES OF MCRONESIA**

**Pohnpei Utilities Corporation  
Schedule of Expenditures of Federal Awards  
Year Ended September 30, 1998**

Grantor/Program Title	CFDA No.	Total Authorizations	Prior Years' Expenditures	Expenditures for the Year Ended Sept. 30, 1998	Total Program Expenditures
<b>U.S. Department of the Interior:</b>					
Office of Territorial and International Affairs:					
<b>Compact of Free Association:</b>					
Energy Program funds, Section 214(B)	15.875	\$ 2,774,370	\$ 2,822,274	\$ -	\$ 2,822,274
Capital Account funds, Section 211(A):	15.875				
OMIP-First Year Electrical Match		322,250	296,592	-	296,592
OMIP-First Year Water and Sewer Match		1,535,250	1,498,628	36,622	1,535,250
Power Hook-Ups		492,500	492,500	-	492,500
Kolonia Sewer		33,119	33,119	-	33,119
OMIP-Second Year Water and Sewer Match		280,425	280,425	-	280,425
Second Year Water and Sewer Subsidy		110,200	110,200	-	110,200
Pingelap Solar		196,000	217,046	-	217,046
		<u>2,969,744</u>	<u>2,928,510</u>	<u>36,622</u>	<u>2,965,132</u>
<b>Operations and Maintenance Improvement Programs (OMIP):</b>					
Initialization of the PUC	15.875	430,250	430,249	-	430,249
Pohnpei Water, Sewerage, and Solid Waste Utilities Development, First-Year		810,000	773,377	36,622	809,999
Pohnpei Water, Sewerage, and Solid Waste Utilities Development, Second-Year		665,000	512,100	51,332	563,432
Pohnpei Water, Sewerage, and Solid Waste Utilities Development, Third-Year		443,500	46,182	53,532	99,714
Pohnpei Water, Sewerage, and Solid Waste Utilities Development, Fourth-Year		285,000	-	35,585	35,585
Pohnpei Power Generation and Distribution Second-Year		273,468	273,468	-	273,468
Pohnpei Power Generation and Distribution Third-Year		370,000	371,902	-	371,902
Pohnpei Power Generation and Distribution Fourth-Year		462,000	199,067	75,217	274,284
Pohnpei Power Generation and Distribution Fifth-Year		456,000	-	57,256	57,256
OMIP Bench		71,000	71,000	-	71,000
		<u>4,266,218</u>	<u>2,677,345</u>	<u>309,544</u>	<u>2,986,889</u>
<b>Technical Assistance:</b>					
PUC FSM-58	15.875	110,000	110,000	-	110,000
ALCO Repairs		25,000	25,000	-	25,000
		<u>135,000</u>	<u>135,000</u>	<u>-</u>	<u>135,000</u>
Meter Calibration/Facility Inventory	15.875	100,000	100,000	-	100,000
Overhaul ALCO Generators-Pohnpei State	15.875	100,000	100,000	-	100,000
DOI Hazard Mitigation Program	15.875	1,100,000	879,824	206,197	1,086,021
Audit Grant	15.875	32,000	32,000	-	32,000
		<u>1,332,000</u>	<u>1,111,824</u>	<u>206,197</u>	<u>1,318,021</u>
<b>Trust Territory of the Pacific Islands (TTPI):</b>					
Deficiency Funding:					
Pohnpei Power	15.875	328,271	328,271	-	328,271
Kolonia Sewer		659,328	797,411 *	-	797,411
		<u>987,599</u>	<u>1,125,682</u>	<u>-</u>	<u>1,125,682</u>
Kolonia Water Improvements	15.875	290,700	290,700	-	290,700
		<u>\$ 12,755,631</u>	<u>\$ 11,091,335</u>	<u>\$ 552,363</u>	<u>\$ 11,643,698</u>

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.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Programs Selected For  
Audit in Accordance with OMB Circular A-133  
Year Ended September 30, 1998

<u>Grantor Program Title</u>	<u>CFDA No.</u>	<u>1998 Fiscal Year Expenditures</u>
<u>U.S. Dept. of the Interior</u>	15.875	
Compact of Free Association:		
211(A) Capital Account		\$ 5,977,322
221(B) Block Grant		1,887,364
TTPI Airport Runway Renovation		649,992
OMIP Land and Survey		<u>307,490</u>
Total Major Programs Under CFDA # 15.875 excluding Compact Section 211 (A) Current Account expenditures		<u>8,822,168</u>
 <u>U.S. Department of Education</u>		
Special Education Program	84.027	593,237
Compact Educational Grant	84.256A	<u>1,123,109</u>
Total Major Programs Under U.S. Department of Education		<u>1,716,346</u>
 <u>U.S. Department of Health and Human Services</u>		
Community Health Center	93.224	<u>145,283</u>
Total Major Programs Under U.S. Department of Health and Human Services		<u>145,283</u>
Total U.S. Federal program expenditures selected excluding Compact Section 211 (A) Current Account expenditures		\$ <u>10,683,797</u>
Total U.S. Federal program expenditures excluding Compact Section 211 (A) Current Account expenditures		\$ <u>13,603,097</u>
% of total U.S. Federal expenditures covered by major programs excluding Compact Section 211 (A) Current Account expenditures		<u>78.5%</u>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 1998

**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, one of which is considered to be a material weakness.
3. Instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. Reportable conditions in internal control over compliance with requirements applicable to major federal award programs were identified, one of which is considered to be a material weakness.
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:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
U.S. Department of the Interior - Compact of Free Association Capital Account	15.875
U.S. Department of the Interior - Compact of Free Association Special Block Grant	15.875
U.S. Department of the Interior - TTPI Airport Runway Renovation	15.875
U.S. Department of the Interior - OMIP Technical Assistance Land and Survey	15.875
U.S. Department of Education - Special Education Program	84.027
U.S. Department of Education - TFAS Educational Grant	84.256A
U.S. Department of Health and Human Services - Community Health Center	93.224

8. A threshold of \$408,093 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**

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
98-6	Fixed assets	\$ -
98-7	Encumbrances	-
98-8	Revenue and receipt cycle	-
98-9	Travel advances	-

**Part III - Federal Award Findings and Questioned Cost Section**

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
98-1	Cash management	-
98-2	Cash management	-

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1998

**Part III - Federal Award Findings and Questioned Cost Section, Continued**

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
98-3	Program Income	\$ -
98-4	Program Income	-
98-5	Subrecipient Monitoring	24,000
98-6	Equipment and Real Property Management	-

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1998

Federal Findings

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
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**Cash Management**

98-1. U.S. Dept.  
of Education/TFAS  
Educational Grant-  
CFDA #84.256A

**Criteria:** Federal Regulations require that cash advances be limited to the program's cash requirements of not more than three days. US Treasury regulations also require that federal cash advances be deposited in interest bearing accounts and interest income be reported to the grantor

**Condition:** At the beginning of fiscal year 1998, Pohnpei State had available approximately \$580,218 in cash advances for the TFAS Educational Grant. In June 1998, two drawdowns were received totaling \$952,635. Through-out the fiscal year 1998, program cash available with Pohnpei State averaged \$470,180 per month, whereas program expenditures averaged \$93,899. In addition, program cash was deposited in the general checking account which is non-interest bearing. Based on preclosing September 30, 1998 information, it appears that \$409,744 in cash advances for the Program were available at the end of the fiscal year.

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

**Effect:** Pohnpei State appears to be in noncompliance with federal cash management requirements.

**Recommendation:** We recommend that Pohnpei State limit its drawdown of federal cash to the program's immediate needs.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1998

Federal Findings, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
<b><u>Cash Management</u></b>		
98-2. US Dept. of Education/TFAS Educational Grant- CFDA #84.256A	<p><u>Criteria:</u> Financial reports prepared by grantees should be based on information obtained from the underlying financial statements.</p> <p><u>Condition:</u> In January 1998, the TFAS Educational Grant began using the U.S. Department of Education GPAS drawdown system which allows grantees to request drawdowns over the Internet. The program coordinator informed us that the new system does not allow Pohnpei State to keep a hard copy of data transferred to the grantor. Pohnpei State did not keep written documentation of information transferred; consequently, we were not able to verify that cash drawdown requests were based on information obtained from the general ledger.</p> <p><u>Cause:</u> The cause of this condition is unknown.</p> <p><u>Effect:</u> Pohnpei State did not keep written documentation of cash drawdown requests, consequently we were not able to verify that cash drawdown requests were based on information obtained from the general ledger.</p> <p><u>Recommendation:</u> We recommend that Pohnpei State find an alternative mean of maintaining a file copy of its request of funds drawdown for the TFAS Educational Grant.</p>	

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1998

Federal Findings, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
<b><u>Program Income</u></b>		
98-3. Dept. of Health and Human Services/ Community Health Grant/ CFDA #93.224	<p><u>Criteria:</u> Adequate controls should be in place to ensure that program income is properly recorded as earned and collected in a timely manner.</p> <p><u>Condition:</u> Our review of procedures for collection of patient fees at the Pohnpei Community Health Center shows no assurance that all patient fees are billed and collected. The cash receipt forms in use were not prenumbered for greater accountability. In addition, no formal invoice was in use for billing patients. Responsibility for billing and collection was placed with the Department of Health Services and it appears that there were no formalized procedures for maintaining accounts receivable and ensuring collection of such accounts.</p> <p><u>Cause:</u> It appears that inadequate accounting forms in use and procedures in place is the underlying cause of the above condition.</p> <p><u>Effect:</u> Inadequate controls over program income results from the above condition.</p> <p><u>Recommendation:</u> We recommend that Pohnpei Community Health Center adopt new prenumbered cash receipt forms and prenumbered invoices for billing patients. In addition, procedures for recording and collecting accounts receivable should be formalized and implemented to ensure that all Community Health receivables are collected.</p>	



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1998

Federal Findings, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
<b><u>Program Income</u></b>		
98-4. Dept. of Health and Human Services / Community Health Grant/ CFDA #93.224	<p><u>Criteria:</u> The Community Health Center should maximize its program income by charging for its services based on patients' ability to pay.</p> <p><u>Condition:</u> The DHHS Community Health Grant requires grantees to maximize non-grant revenue, in part by securing payments from clients in accordance with a sliding fee schedule determined based on each patients' ability to pay. The Pohnpei Community Health Center has not adopted a sliding fee schedule, but instead charges its patients using the fixed fee schedule for the Pohnpei State Department of Health Services.</p> <p><u>Cause:</u> Efforts by the former Board of Directors to adopt a sliding fee scale was discontinued when the Board was abolished in 1996 and operations of the Pohnpei Community Health Center transferred under the direction of the Department of Health Services.</p> <p><u>Effect:</u> Potential noncompliance with grant requirements exists as a result of the above condition.</p> <p><u>Recommendation:</u> We recommend that Pohnpei Community Health Center adopt a sliding scale fee schedule as required by the DHHS Community Health Grant or obtain from its grantor specific exemption from the sliding scale fee schedule.</p>	

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1998

Federal Findings, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>														
<b><u>Subrecipient Monitoring</u></b>																
98-5. Compact of Free Association/ Capital Project Fund/CFDA #15.875	<p><u>Criteria:</u> Compact capital funds received in a subrecipient capacity should be expended in accordance with local laws and regulations.</p> <p><u>Condition:</u> A review of Pohnpei State Housing Authority (PSHA) disbursements disclosed that the amount of \$24,000 was transferred from the revolving loan account to the warehouse and labor account used for operating and administrative expenses. Of this amount, \$13,000 was used to purchase two (2) vehicles in December, 1997 and \$11,000 was paid to a collection agency to help loan collections. Moreover, PSHA's Board of Directors approved these transfers only after the transfers were made.</p> <p><u>Cause:</u> The Executive Director approved the said transfers of funds and its subsequent disbursements prior to the Board's approval.</p> <p><u>Effect:</u> The above condition defeated the purpose of the loan funds being used exclusively for extending loans. Also, it resulted to unauthorized disbursements.</p> <p><u>Recommendation:</u> We recommend that PSHA immediately resolve this matter with the Pohnpei State Legislature and if possible, request Budget Office to allow PSHA share in the use of the Administrative cost. We also recommend that the PSHA Board should approve all major transfers and/or disbursements prior to effecting said transactions.</p> <p><u>Prior Year Status:</u> This was also reported in 1993 up to 1998 audit. A summary of the annual fund transfers is as follows:</p> <table style="margin-left: 20px; border: none;"> <tr><td>Fiscal year 1993</td><td style="text-align: right;">\$ 23,714</td></tr> <tr><td>Fiscal year 1994</td><td style="text-align: right;">47,518</td></tr> <tr><td>Fiscal year 1995</td><td style="text-align: right;">35,266</td></tr> <tr><td>Fiscal year 1996</td><td style="text-align: right;">15,182</td></tr> <tr><td>Fiscal year 1997</td><td style="text-align: right;">20,738</td></tr> <tr><td>Fiscal year 1998</td><td style="text-align: right;"><u>24,000</u></td></tr> <tr><td></td><td style="text-align: right;"><u>\$ 166,418</u></td></tr> </table>	Fiscal year 1993	\$ 23,714	Fiscal year 1994	47,518	Fiscal year 1995	35,266	Fiscal year 1996	15,182	Fiscal year 1997	20,738	Fiscal year 1998	<u>24,000</u>		<u>\$ 166,418</u>	\$ <u>24,000</u>
Fiscal year 1993	\$ 23,714															
Fiscal year 1994	47,518															
Fiscal year 1995	35,266															
Fiscal year 1996	15,182															
Fiscal year 1997	20,738															
Fiscal year 1998	<u>24,000</u>															
	<u>\$ 166,418</u>															
	<b>Total Questioned Costs</b>	<b>\$ <u>24,000</u></b>														

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1998

Federal Findings and Financial Statements Finding

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
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**Equipment and Real Property Management**

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>
98-6	All	A summary schedule of the fixed asset detail produced by the automated fixed asset subsystem, classified by major assets category, should be maintained. Additionally, the Common Rule for Uniform Administration Requirements for Federal Grants, Section 33(d)(2) requires that a physical inventory of property acquired with federal funds be performed biannually.

Condition: A summarization of the asset data from the automated fixed asset subsystem was not available nor was a schedule of asset deletions prepared to facilitate the preparation of a statement of changes in fixed assets. Additionally, a physical inventory of property has not been performed in over two years.

Cause: The cause of the above condition is unknown.

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

Prior Year Status: Insufficient controls over updating of fixed assets data was reported as a finding in the Single Audit of Pohnpei State for the years 1988 through 1997.

Recommendation: We recommend that Pohnpei State Government update the automated master fixed asset listing based on acquisition and survey activity, summarize the master listing detail appropriately and prepare a statement of changes in fixed assets on a timely basis. Additionally, biennial physical inventories should be performed.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1998

**Encumbrances**

**Finding No. 98-7**

**Criteria:** Documentation in contract files should be updated with the latest transaction so that the amount outstanding on an encumbrance agrees to the amount contained on the system.

**Condition:** We tested fifteen encumbrances at September 30, 1998, by comparing the remaining balance per the general ledger to the remaining balance per the contract file. Seven of the fifteen encumbrances tested either did not have details of payments in the contract file or had details that were not updated. We did not find cause to believe that the general ledger balance was incorrect.

**Cause:** The cause of this condition is that the manual history of payments and remaining balances of long-standing purchase orders and contracts which should be maintained in encumbrance agrees to the amount contained on the system.

**Effect:** The above condition results in the general ledger encumbrance ledger being the only source of balances for open encumbrances. This condition increases the risk of errors in encumbrance balances.

**Recommendation:** We recommend that management ensure that contract files are updated on a periodic basis.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1998

**Revenue and Receipt Cycle**

**Finding No. 98-8**

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

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

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

**Effect:** Undeposited receipts increase the risk that theft or fraud may occur.

**Prior Year Status:** Untimely deposit of receipts collected at the Pohnpei Supreme Court was reported as a finding in the Single Audit of Pohnpei State for fiscal years 1994 through 1997.

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

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1998

**Travel Advances**

**Finding No. 98-9**

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

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

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

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

**Prior Year Status:** The lack of detail of travel advances was reported as a finding in the Single Audit of Pohnpei State for fiscal years 1995 and 1997.

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

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1998

**Local Findings**

**Compact Capital Funds**

98L-1. Criteria: Pohnpei State should ensure compliance with the intent of the Compact treaty.

Condition: In a sample tested, a case was found where monies from Compact Capital funds were used for settlement of a legal case with a vendor in the amount of \$309,000.

Cause: The cause of this condition is unknown.

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

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

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1998

**Local Findings, Continued**

**Compact Capital Funds**

98L-2. Criteria: Pohnpei State should ensure compliance with the intent of the Compact treaty.

Condition: We noted the following appropriations and related expenditures in fiscal year 1998 which may be operational in nature and therefore may to be inconsistent with the intent of the Compact Capital Funding.

<u>Org. #</u>	<u>Title</u>	<u>FY98 Expenditure</u>
6449	Major Repair of Unpaved Road	\$ 12,416
6458	Secondary Road Repair	14,557
6468	PFC Subsidy	671,737
6465	Expansion & Renovation of PICS Cafeteria	111,752
6469	Dry-docking/Repair of Micro Glory (Refer finding on Pg. 92)	540,900
6451	Renovation of Governor's Office	<u>3,659</u>
		<u>\$ 1,355,021</u>

Cause: The cause of this condition is unknown.

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

Recommendation: Regarding the use of Compact CIP Funds for dry-docking, the Pohnpei State Attorney General, in a letter dated December 27, 1995, stated that the use of Compact Capital Funds for use of dry-docking 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 CIP Funds for general dry-docking. Additionally, this matter has not been resolved with the USDOJ, the grantor agency. We are cognizant that this matter must be resolved with 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.



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1998

**Local Findings, Continued**

**Compact Capital Funds**

98L-3. **Criteria:** Pohnpei State has the responsibility to ensure that the subrecipients comply with applicable requirements of Compact and federal funds subgranted by the State. During the fiscal year ended September 30, 1998, the State provided \$671,737 to Pohnpei Fisheries Corporation in form of an operating subsidy.

**Condition:** Pohnpei State currently has no procedures in place to ensure that subrecipients of Compact Funds are made aware of compliance requirements and the applicability of A-133 audit requirements.

**Cause:** Current procedures do not require that transfer of funds to subrecipients be supported by an agreement in which the compliance requirements of the funds transferred are specified.

**Effect:** Subrecipients may be unaware of compliance requirements of Compact Capital Funds as a result of the above condition.

**Recommendation:** We recommend that transfer of Compact Capital and Federal Funds be supported by an agreement in which the compliance requirements of the grants are specified.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1998

**Local Findings, Continued**

**Compact Capital Funds**

98L-4. 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 dry-docking 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 dry-docking. Additionally, this matter has not been resolved with the US Department of the Interior, the grantor agency.

Cause: The cause of this condition is unknown.

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

Prior Year Status: Use of Compact CIP funds for general maintenance of the M/S Micro Glory was cited as a finding in the fiscal year 1995 through and 1997 Single Audit reports.

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

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**Unresolved Prior Years' Findings and Questioned Costs  
Year Ended September 30, 1998**

The following is a summary of unresolved questioned costs of the State of Pohnpei as of September 30, 1998:

	Questioned Costs Set Forth in Prior Audit Report <u>1997</u>	Questioned Costs Resolved in Fiscal Year <u>1998</u>	Questioned Costs at <u>September 30, 1998</u>
Unresolved Questioned Costs FY 95	\$ 63,266	\$ 63,266 (1)	\$ -
Unresolved Questioned Costs FY 96	15,182	-	15,182
Unresolved Questioned Costs FY 98	<u>-</u>	<u>-</u>	<u>24,000</u>
	<u>\$ 78,448</u>	<u>\$ 63,266</u>	<u>\$ 39,182</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.



# POHNPEI STATE GOVERNMENT

DEPARTMENT OF TREASURY AND ADMINISTRATION

P.O. Box 1567

Kolonia, Pohnpei

Federated States of Micronesia 96941

Phone: (691) 320-2243/2631 Fax: (691) 320-5505

Office of the Director

October 11, 1999

Deloitte and Touche  
Kolonia, Pohnpei  
FSM 96941

Gentlemen:

Thank you for allowing us the opportunity to respond to the audit findings of fiscal year ending September 30, 1998. The following are Pohnpei State's responses to the Schedule of Findings and Question Cost:

Federal finding no. 98-1. Response: Pohnpei State concurs with this finding.

Corrective Action Plan: Director of Treasury and Administration in collaboration with the Director of Education will ensure that future cash drawdown is done against Encumbrance (Obligation) or Pending Disbursement (AP) report.

Federal finding no. 98-2. Response: Pohnpei State concurs with this finding.

Corrective Action Plan: The Bank Reconciliation Branch has been tasked to obtain a copy of the cash drawdown from the Director of Education or his designee each time a drawdown is been processed.

Federal finding no. 98-3. Response: Pohnpei State concurs with this finding.

Corrective Action Plan: The Director of Treasury and Administration along with the Director of Health Services will ensure that pre numbered cash receipts are purchased for future use. They will also try to establish and formalize a procedure for recording program income.

Federal finding no. 98-4. Response: Pohnpei State concurs with this finding.

Corrective Action Plan: Department of Treasury and Administration and the Director of Health Service will revisit the Sliding Fee Scale idea if it does not in conflict with local laws and request for exemption.

Federal finding no. 98-5. Response: Pohnpei State concurs with this finding. A copy of the Audit Draft will be forwarded to PSHA for their comment.

Corrective Action Plan: None

Federal finding no. 98-6. Response: Pohnpei State concurs with this finding. However, please be advised that month end reconciliation procedures be in place.

Corrective Action Plan: Management will ensure that procedures are followed as required.

Federal finding no. 98-7. Response: Pohnpei State concurs with this finding.

Corrective Action Plan: Department of Treasury and Administration will ensure that the Fixed Asset System is updated for fiscal year 2000.

Federal finding no. 98-8. Response: Pohnpei State concurs with this finding.

Corrective Action Plan: Department of Treasury and Administration will again ask for Chief Justice assistance and support toward the timely deposit of their collection.

Federal finding no. 98-9. Response: Pohnpei State concurs with this finding.

Corrective Action Plan: The Chief Division of Public Finance will ensure that such report is available for fiscal year 2000.

Federal finding no. 98L-1. Response: Pohnpei State does not concur with this finding. Although, the payment was for court settlement, the work done was for Capital Improvement purposes.

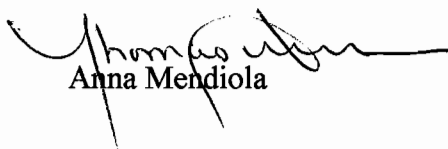
Corrective Action Plan: The Director of Treasury and Administration will request for a legal opinion for this finding.

Federal finding no. 98L-3. Response: Pohnpei State does not concur with this finding. All sub-recipients signed a Grant/Project Compliance Certification form before any fund is either obligated or disbursed.

Corrective Action Plan: None

Again, I thank you and wish to assure you that we will immediately act on our Corrective Action Plan to prevent or eliminate these sorts of findings in the future.

Sincerely,

  
Anna Mendiola