

**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, 1999**

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

YEAR ENDED SEPTEMBER 30, 1999

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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, 1999**



## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying general purpose financial statements of the State of Pohnpei, as set forth in Section II of the foregoing table of contents, as of September 30, 1999, 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 12%, respectively, of the assets and operating revenues of the Component Units - Proprietary Funds, or the Pohnpei Transportation Authority (PTA) which comprises the Enterprise Fund - Proprietary Fund Type. 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, PSHA and PTA, is based solely on the reports of the other auditors.

Except as discussed in the following paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America 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, 1999, 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 Fisheries Corporation, a Component Unit - Proprietary Fund, which in our opinion, should be included to conform with accounting principles generally accepted in the United States of America.

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 and the Pohnpei Fisheries Corporation been included as a Component Unit – Proprietary Fund, as discussed in the third and fourth 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 the 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, 1999, and the results of its operations and the cash flows of its proprietary fund types for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund financial statements and schedules listed in Section III of the foregoing table of contents, which are also the responsibility of the management of the State of Pohnpei, are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the State of Pohnpei. Such additional information has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, 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 August 28, 2000 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

August 28, 2000



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Units  
September 30, 1999  
(With comparative totals as of September 30, 1998)

	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	Debt Service	Enterprise	Internal Service	Expendable Trust	General Fixed Assets	General Long-Term Debt			1999	1998
<b>ASSETS</b>													
Cash and equivalents (note 2)	\$ 1,815,368	\$ 128,869	\$ 1,582,463	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,526,700	\$ 789,898	\$ 4,316,598	\$ 5,572,870
Cash - restricted (notes 2, 12 and 17)	1,524,907	1,428,601	628,824	1,286,224	-	-	-	-	-	4,868,556	300,000	5,168,556	1,564,325
Investments (note 2)	5,496,219	465,220	-	-	-	-	-	-	-	5,961,439	-	5,961,439	4,638,743
Investments - other (note 6)	-	-	1,000,000	-	-	-	-	-	-	1,000,000	1,053,142	2,053,142	1,809,008
Receivables from other governments (note 3)	572,452	1,258,204	262,957	-	-	-	-	-	-	2,093,613	-	2,093,613	1,602,883
Receivables, federal agencies (note 3)	-	578,324	200,418	-	-	-	-	-	-	778,742	97,326	876,068	1,812,680
General receivables, net (note 4)	-	3,928	16,299	-	585,564	-	1,851	-	-	607,642	2,472,086	3,079,728	3,459,552
Taxes receivable (note 4)	2,034,915	-	-	-	-	-	-	-	-	2,034,915	-	2,034,915	3,719,437
Allowance for uncollectibles (note 4)	(2,034,915)	-	-	-	-	-	-	-	-	(2,034,915)	-	(2,034,915)	(5,824,241)
Interest receivable (note 4)	24,240	-	-	-	-	-	-	-	-	24,240	2,331	26,571	26,006
Advances (note 4)	285,819	420,869	98,671	-	19,499	-	10,676	-	-	835,534	38,743	874,277	734,888
Loans receivable, net (note 7)	-	-	2,450,000	-	-	-	-	-	-	2,450,000	3,721,625	6,171,625	6,192,229
Due from other funds (note 13)	-	2,481,920	2,809,490	-	-	27,542	-	-	-	5,318,952	-	5,318,952	2,697,612
Inventory, at cost	-	15,747	-	-	228,829	5,969	-	-	-	250,545	1,314,913	1,565,458	1,172,183
Self insurance fund	-	-	-	-	-	-	-	-	-	-	104,659	104,659	104,659
Scholarship fund	-	-	-	-	-	-	-	-	-	-	3,881	3,881	3,881
Prepaid expenses and other assets	-	-	-	-	17,730	-	-	-	-	17,730	6,013	23,743	58,176
Fixed assets, net (note 5)	-	-	-	-	940,544	-	-	49,323,802	-	50,264,346	38,698,575	88,962,921	89,401,887
Amount available in debt service fund	-	-	-	-	-	-	-	-	1,286,224	1,286,224	-	1,286,224	-
Amount to be provided for retirement of long-term debt	-	-	-	-	-	-	-	-	7,135,072	7,135,072	-	7,135,072	8,511,932
Due from primary government	-	-	-	-	14,201	-	-	-	-	14,201	128,441	142,642	82,142
<b>Total assets</b>	<b>\$ 9,719,005</b>	<b>\$ 6,781,682</b>	<b>\$ 9,049,122</b>	<b>\$ 1,286,224</b>	<b>\$ 1,806,367</b>	<b>\$ 33,511</b>	<b>\$ 12,527</b>	<b>\$ 49,323,802</b>	<b>\$ 8,421,296</b>	<b>\$ 86,433,536</b>	<b>\$ 48,731,633</b>	<b>\$ 135,165,169</b>	<b>\$ 127,340,852</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, 1999  
(With comparative totals as of September 30, 1998)

	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	Debt Service	Enterprise	Internal Service	Expendable Trust	General	General	Fixed Assets	Long-Term Debt	1999	1998
								Assets	Debt				
<b>LIABILITIES AND FUND EQUITY (DEFICIENCY)</b>													
<b>Liabilities:</b>													
Accounts payable	\$ 315,310	\$ 613,689	\$ 95,167	\$ -	\$ 364,722	\$ 45,113	\$ 4,586	\$ -	\$ -	\$ 1,438,587	\$ 495,057	\$ 1,933,644	\$ 1,682,876
Accrued payroll and others	905,487	173,521	1,448	-	38,820	-	100	-	-	1,119,376	406,870	1,526,246	1,293,356
Due to other funds (note 13)	2,061,867	1,736,404	193,828	-	1,176,232	-	121,122	-	-	5,289,453	-	5,289,453	2,175,725
Deferred revenue	-	-	-	-	5,100	-	-	-	-	5,100	386,189	391,289	772,692
Due to primary government	-	-	-	-	-	-	-	-	-	-	15,990	15,990	14,688
Notes payable (notes 12 and 17)	-	-	-	-	-	-	-	-	8,053,685	8,053,685	335,469	8,389,154	8,080,000
Vacation leave accrual	-	-	-	-	-	-	-	-	367,611	367,611	-	367,611	431,932
Other payables	1,843,816	-	-	-	-	-	-	-	-	1,843,816	-	1,843,816	2,474,138
<b>Total liabilities</b>	<b>5,126,480</b>	<b>2,523,614</b>	<b>290,443</b>	<b>-</b>	<b>1,584,874</b>	<b>45,113</b>	<b>125,808</b>	<b>-</b>	<b>8,421,296</b>	<b>18,117,628</b>	<b>1,639,575</b>	<b>19,757,203</b>	<b>16,925,407</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)	-	-	-	-	(223,031)	(11,602)	-	-	-	(234,633)	4,942,129	4,707,496	4,611,995
Contributed capital	-	-	-	-	444,524	-	-	-	-	444,524	42,149,929	42,594,453	44,366,959
<b>Fund balances (deficit):</b>													
<b>Reserved for:</b>													
Related assets	2,516,569	174,391	3,459,007	-	-	-	-	-	-	6,149,967	-	6,149,967	4,832,052
Encumbrances	199,603	640,846	1,471,637	-	-	-	-	-	-	2,312,086	-	2,312,086	2,253,800
Continuing appropriations (note 14)	287,562	-	4,248,192	-	-	-	-	-	-	4,535,754	-	4,535,754	3,626,127
Long-term debt (note 12)	-	-	-	1,286,224	-	-	-	-	-	1,286,224	-	1,286,224	-
Unreserved (deficit)	1,588,791	3,442,831	(420,157)	-	-	-	(113,281)	-	-	4,498,184	-	4,498,184	1,400,710
<b>Total fund equity (deficiency)</b>	<b>4,592,525</b>	<b>4,258,068</b>	<b>8,758,679</b>	<b>1,286,224</b>	<b>221,493</b>	<b>(11,602)</b>	<b>(113,281)</b>	<b>49,323,802</b>	<b>-</b>	<b>68,315,908</b>	<b>47,092,058</b>	<b>115,407,966</b>	<b>110,415,445</b>
<b>Contingencies and commitments (note 9)</b>													
<b>Total liabilities and fund equity (deficiency)</b>	<b>\$ 9,719,005</b>	<b>\$ 6,781,682</b>	<b>\$ 9,049,122</b>	<b>\$ 1,286,224</b>	<b>\$ 1,806,367</b>	<b>\$ 33,511</b>	<b>\$ 12,527</b>	<b>\$ 49,323,802</b>	<b>\$ 8,421,296</b>	<b>\$ 86,433,536</b>	<b>\$ 48,731,633</b>	<b>\$ 135,165,169</b>	<b>\$ 127,340,852</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, 1999  
(With Comparative Totals for the Year Ended September 30, 1998)

	Governmental Fund Types				Fiduciary Fund Type Expendable Trust	Totals Reporting Entity (Memorandum Only)	
	General	Special Revenue	Capital Projects	Debt Service		1999	1998
<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 8)	3,795,560	530,000	1,358,160	-	-	5,683,720	5,683,720
U.S. Department of the Interior grants	-	-	246,649	-	-	246,649	649,992
Revenue sharing	4,199,432	-	1,956,303	-	-	6,155,735	4,268,318
Investment income (note 2)	1,539,213	-	116,482	-	-	1,655,695	332,749
Interest income	270,397	-	-	-	-	270,397	-
Federal grants	-	2,558,985	-	-	-	2,558,985	3,276,500
Taxes and licenses	1,826,500	155,803	-	-	-	1,982,303	1,244,737
Fines and penalties	458,917	-	-	-	-	458,917	505,251
Public service charges	24,116	-	-	-	-	24,116	30,218
CFSM grants	-	270,711	-	-	-	270,711	452,604
Scholarships	-	288,003	-	-	-	288,003	288,003
Other	222,033	633,797	-	26,224	26,359	908,413	1,714,559
<b>Total revenues</b>	<b>17,988,168</b>	<b>7,685,082</b>	<b>7,749,594</b>	<b>26,224</b>	<b>26,359</b>	<b>33,475,427</b>	<b>31,418,434</b>
<b>Expenditures:</b>							
General government	3,830,646	398,635	-	-	-	4,229,281	4,159,383
Education	3,964,541	3,458,808	-	-	-	7,423,349	7,566,593
Health services	2,780,287	922,982	-	-	-	3,703,269	3,906,669
Resource management and development	919,386	172,400	-	-	13,112	1,104,898	1,692,112
Public works	-	284,161	-	-	-	284,161	508,051
Justice	1,197,504	213,577	-	-	-	1,411,081	1,418,634
Boards, commissions and other appropriations	769,949	-	-	-	-	769,949	900,513
Capital projects	-	-	3,425,962	-	-	3,425,962	4,058,039
Municipal governments	1,611,812	-	-	-	-	1,611,812	1,597,220
Other	-	1,689,764	-	-	-	1,689,764	3,024,558
<b>Total expenditures</b>	<b>15,074,125</b>	<b>7,140,327</b>	<b>3,425,962</b>	<b>-</b>	<b>13,112</b>	<b>25,653,526</b>	<b>28,831,772</b>
<b>Excess of revenues over expenditures</b>	<b>2,914,043</b>	<b>544,755</b>	<b>4,323,632</b>	<b>26,224</b>	<b>13,247</b>	<b>7,821,901</b>	<b>2,586,662</b>
<b>Other financing sources (uses):</b>							
Repayment of notes payable (note 12)	-	-	(2,000,000)	-	-	(2,000,000)	(2,000,000)
Interest expense (note 12)	-	-	(411,200)	-	-	(411,200)	(569,275)
Transfers in (notes 8 and 12)	-	(665,790)	-	1,260,000	-	594,210	420,000
Operating transfers out (note 8)	(903,576)	-	-	-	-	(903,576)	(591,377)
Other	335	-	14,171	-	-	14,506	(25,112)
Proceeds from notes payable (note 12)	-	1,553,685	-	-	-	1,553,685	-
<b>Total other financing sources (uses), net</b>	<b>(903,241)</b>	<b>887,895</b>	<b>(2,397,029)</b>	<b>1,260,000</b>	<b>-</b>	<b>(1,152,375)</b>	<b>(2,765,764)</b>
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses</b>	<b>2,010,802</b>	<b>1,432,650</b>	<b>1,926,603</b>	<b>1,286,224</b>	<b>13,247</b>	<b>6,669,526</b>	<b>(179,102)</b>
<b>Fund balances (deficit) at beginning of year</b>	<b>2,581,723</b>	<b>2,825,418</b>	<b>6,832,076</b>	<b>-</b>	<b>(126,528)</b>	<b>12,112,689</b>	<b>12,291,791</b>
<b>Fund balances (deficit) at end of year</b>	<b>\$ 4,592,525</b>	<b>\$ 4,258,068</b>	<b>\$ 8,758,679</b>	<b>\$ 1,286,224</b>	<b>\$ (113,281)</b>	<b>\$ 18,782,215</b>	<b>\$ 12,112,689</b>

See accompanying notes to financial statements.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures and Changes in Unreserved Fund Balance  
Budget and Actual, Budgetary Basis - General Fund  
Year Ended September 30, 1999

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues:			
Compact - current	\$ 8,760,580	\$ 9,447,560	\$ 686,980
Local revenues	6,628,370	6,730,998	102,628
Investment income	<u>1,731,708</u>	<u>1,809,610</u>	<u>77,902</u>
Total revenues	<u>17,120,658</u>	<u>17,988,168</u>	<u>867,510</u>
Expenditures:			
General government	4,019,732	3,918,604	101,128
Health services	2,848,343	2,673,633	174,710
Education	4,068,440	3,981,333	87,107
Justice	1,246,094	1,192,102	53,992
Resource management and development	918,048	885,129	32,919
Boards, commissions and other external appropriations	654,958	536,212	118,746
Municipal governments and projects	<u>2,116,490</u>	<u>1,611,810</u>	<u>504,680</u>
Total expenditures, budgetary basis	<u>15,872,105</u>	<u>14,798,823</u>	<u>1,073,282</u>
Excess of revenues over expenditures	<u>1,248,553</u>	<u>3,189,345</u>	<u>1,940,792</u>
Other financing sources (uses):			
Operating transfers out	(902,900)	(902,900)	-
Other	<u>-</u>	<u>335</u>	<u>335</u>
Total other financing sources (uses), net	<u>(902,900)</u>	<u>(902,565)</u>	<u>335</u>
Excess of revenues and other financing sources over expenditures and other financing uses	345,653	2,286,780	1,941,127
Unreserved fund balance at beginning of year	1,612,009	1,612,009	-
Other changes in unreserved fund balance:			
Increase in reserve for related assets	-	(2,269,665)	(2,269,665)
Increase in reserve for continuing appropriations	<u>-</u>	<u>(40,333)</u>	<u>(40,333)</u>
Unreserved fund balance at end of year	<u>\$ 1,957,662</u>	<u>\$ 1,588,791</u>	<u>\$ (368,871)</u>

See accompanying notes to financial statements.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Combined Statement of Revenues, Expenses, and Changes in Fund Equity (Deficiency) -  
All Proprietary Fund Types and Discretely Presented Component Units  
Year Ended September 30, 1999  
(With comparative totals for the year ended September 30, 1998)

	Proprietary Fund Types		Totals Primary Government	Component Units	Totals Reporting Entity	
	Enterprise	Internal Service	(Memorandum Only)	Proprietary Funds	(Memorandum Only)	
					1999	1998
<b>Operating revenues:</b>						
Charges for goods and services	\$ 3,503,397	\$ 2,029	\$ 3,505,426	\$ 8,156,755	\$ 11,662,181	\$ 8,882,700
Rental income	3,536	-	3,536	257,235	260,771	225,661
Other	115,469	-	115,469	21,826	137,295	20,642
<b>Total operating revenues</b>	<b>3,622,402</b>	<b>2,029</b>	<b>3,624,431</b>	<b>8,435,816</b>	<b>12,060,247</b>	<b>9,129,003</b>
<b>Operating expenses:</b>						
Cost of sales	-	-	-	1,140,225	1,140,225	1,345,209
Personnel services	1,491,072	-	1,491,072	2,087,880	3,578,952	2,157,535
Travel	35,284	-	35,284	94,140	129,424	112,456
Supplies and materials	1,014,564	-	1,014,564	215,754	1,230,318	124,793
Fuel	248,495	-	248,495	2,160,959	2,409,454	2,409,841
Contractual services	9,328	-	9,328	27,026	36,354	12,213
Doubtful debt expense	215,385	-	215,385	960,174	1,175,559	192,056
Utilities	64,461	-	64,461	36,439	100,900	54,781
Communications	7,469	-	7,469	48,975	56,444	45,345
Depreciation	384,412	-	384,412	2,835,440	3,219,852	2,862,729
Repairs and maintenance	5,412	-	5,412	882,155	887,567	828,075
Employee benefits	82,862	-	82,862	404,713	487,575	-
Training and safety	-	-	-	126,620	126,620	-
Equipment rentals	445,923	-	445,923	-	445,923	-
Court settlements	92,800	-	92,800	-	92,800	-
Leases	49,177	-	49,177	-	49,177	-
Other	48,141	24,282	72,423	260,805	333,228	792,168
<b>Total operating expenses</b>	<b>4,194,785</b>	<b>24,282</b>	<b>4,219,067</b>	<b>11,281,305</b>	<b>15,500,372</b>	<b>10,937,201</b>
<b>Operating loss</b>	<b>(572,383)</b>	<b>(22,253)</b>	<b>(594,636)</b>	<b>(2,845,489)</b>	<b>(3,440,125)</b>	<b>(1,808,198)</b>
<b>Nonoperating revenues (expenses):</b>						
Operating transfers in (note 8)	-	-	-	111,612	111,612	475,910
Interest income	-	-	-	21,566	21,566	30,358
Spurline projects	-	-	-	136,780	136,780	80,688
Other nonoperating revenues (expenses)	(20,148)	-	(20,148)	482,660	462,512	29,272
<b>Total nonoperating revenues, net</b>	<b>(20,148)</b>	<b>-</b>	<b>(20,148)</b>	<b>752,618</b>	<b>732,470</b>	<b>616,228</b>
<b>Net loss</b>	<b>(592,531)</b>	<b>(22,253)</b>	<b>(614,784)</b>	<b>(2,092,871)</b>	<b>(2,707,655)</b>	<b>(1,191,970)</b>
<b>Add depreciation on fixed assets acquired by capital contributions that reduce contributed capital</b>						
	244,043	-	244,043	2,433,656	2,677,699	2,395,204
<b>Increase (decrease) in retained earnings</b>	<b>(348,488)</b>	<b>(22,253)</b>	<b>(370,741)</b>	<b>340,785</b>	<b>(29,956)</b>	<b>1,203,234</b>
<b>Retained earnings (deficit) at beginning of year</b>	<b>125,457</b>	<b>10,651</b>	<b>136,108</b>	<b>4,601,344</b>	<b>4,737,452</b>	<b>3,408,761</b>
<b>Retained earnings (deficit) at end of year</b>	<b>(223,031)</b>	<b>(11,602)</b>	<b>(234,633)</b>	<b>4,942,129</b>	<b>4,707,496</b>	<b>4,611,995</b>
<b>Contributed capital at beginning of year</b>	<b>688,567</b>	<b>-</b>	<b>688,567</b>	<b>44,366,959</b>	<b>45,055,526</b>	<b>46,371,106</b>
<b>Contributions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>216,626</b>	<b>216,626</b>	<b>391,057</b>
<b>Less depreciation on contributed fixed assets</b>	<b>(244,043)</b>	<b>-</b>	<b>(244,043)</b>	<b>(2,433,656)</b>	<b>(2,677,699)</b>	<b>(2,395,204)</b>
<b>Contributed capital at end of year</b>	<b>444,524</b>	<b>-</b>	<b>444,524</b>	<b>42,149,929</b>	<b>42,594,453</b>	<b>44,366,959</b>
<b>Fund equity (deficiency) at end of year</b>	<b>\$ 221,493</b>	<b>\$ (11,602)</b>	<b>\$ 209,891</b>	<b>\$ 47,092,058</b>	<b>\$ 47,301,949</b>	<b>\$ 48,978,954</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, 1999  
(With comparative totals for the year ended September 30, 1998)

	Proprietary Fund Types		Totals Primary Government	Component Units	Totals Reporting Entity	
	Enterprise	Internal Service	(Memorandum Only)	Proprietary Funds	(Memorandum Only)	
					1999	1998
<b>Cash flows from operating activities:</b>						
Operating loss	\$ (572,383)	\$ (22,253)	\$ (594,636)	\$ (2,845,489)	\$ (3,440,125)	\$ (1,808,198)
Other income	-	-	-	71,268	71,268	19,277
Adjustments to reconcile operating loss to net cash provided by operating activities:						
Depreciation	384,412	-	384,412	2,946,301	3,330,713	2,916,793
Doubtful debt expense	215,385	-	215,385	1,138,322	1,353,707	192,056
Non-operating expenses	-	-	-	(2,557)	(2,557)	18,467
	<u>27,414</u>	<u>(22,253)</u>	<u>5,161</u>	<u>1,307,845</u>	<u>1,313,006</u>	<u>1,338,395</u>
<b>Changes in assets and liabilities:</b>						
General receivables, gross	(390,017)	-	(390,017)	(503,407)	(893,424)	(460,652)
Advances	44,363	-	44,363	(9,503)	34,860	(11,567)
Loans receivable, gross	-	-	-	(70,340)	(70,340)	(230,040)
Due from other funds	-	22,253	22,253	-	22,253	893
Inventory, at cost	(2,882)	-	(2,882)	(164,446)	(167,328)	(60,054)
Interest receivable	-	-	-	-	-	16,091
Prepaid expenses and other assets	(1,063)	-	(1,063)	52,163	51,100	(46,560)
Due from primary government	-	-	-	(158,948)	(158,948)	(11,501)
Other receivables	-	-	-	(565)	(565)	848
Accounts payable	3,225	-	3,225	(16,894)	(13,669)	(115,493)
Accrued payroll and other	5,702	-	5,702	30,819	36,521	37,258
Deferred revenue	(17,340)	-	(17,340)	23,241	5,901	(39,888)
Due to primary government	683,948	-	683,948	-	683,948	-
Advance from (payment to) clients	-	-	-	(2,285)	(2,285)	2,285
	<u>325,936</u>	<u>22,253</u>	<u>348,189</u>	<u>(820,165)</u>	<u>(471,976)</u>	<u>(918,380)</u>
Net cash provided by operating activities	<u>353,350</u>	<u>-</u>	<u>353,350</u>	<u>487,680</u>	<u>841,030</u>	<u>420,015</u>
<b>Cash flows from noncapital financing activities:</b>						
Proceeds from (repayments of) notes payable, net	-	-	-	250,000	250,000	(66,281)
Operating transfers in (note 8)	-	-	-	111,612	111,612	712,545
Other noncapital financing activities	-	-	-	469,352	469,352	-
Spurline projects	-	-	-	136,780	136,780	-
Acquisition of debt	-	-	-	85,469	85,469	107,032
Net cash provided by noncapital financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,053,213</u>	<u>1,053,213</u>	<u>753,296</u>
<b>Cash flows from capital and related financing activities:</b>						
Proceeds from sale of fixed assets	50	-	50	-	50	-
Acquisition of fixed assets	(353,400)	-	(353,400)	(1,479,524)	(1,832,924)	(1,316,156)
Contributed capital	-	-	-	112,912	112,912	372,891
Net cash used in capital and related financing activities	<u>(353,350)</u>	<u>-</u>	<u>(353,350)</u>	<u>(1,366,612)</u>	<u>(1,719,962)</u>	<u>(943,265)</u>
<b>Cash flows from investing activities:</b>						
Payment to self-insurance and scholarship funds, net	-	-	-	-	-	(20,544)
Interest income	-	-	-	22,767	22,767	28,950
Payment to PUC sinking fund, restricted investments	-	-	-	(244,134)	(244,134)	-
Other	-	-	-	274	274	(307,470)
Net cash used in investing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>(221,093)</u>	<u>(221,093)</u>	<u>(299,064)</u>
Net decrease in cash and equivalents	-	-	-	(46,812)	(46,812)	(69,018)
Cash and equivalents at beginning of year	-	-	-	836,710	836,710	905,728
Cash and equivalents at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 789,898</u>	<u>\$ 789,898</u>	<u>\$ 836,710</u>

See accompanying notes to financial statements.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1999

(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 did not present its financial statements in the prior year general purpose financial statements. The imbalance of the interfund receivables and payables on the accompanying balance sheet is due to differences between PTA and records of 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, 1999

(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, 1999

(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. The Debt Service Fund accounts for the accumulation of revenues for the repayment of interest and principal on an Early Retirement Scheme (see note 12).

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, 1999

(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 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, 1999

(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 6).

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, 1999

(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, 1999 is \$367,611. 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, 1999

(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, 1999

(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, 1999, are as follows:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Total</u>
Receivables and advances	\$ 251,613	\$ 174,391	\$ 9,007	\$ 435,011
Advances to PTA	1,176,232	-	-	1,176,232
CFSM grants receivable	888,306	-	-	888,306
TTPI CIP receivable	200,418	-	-	200,418
Investment in Pacific Islands Development Bank	-	-	1,000,000	1,000,000
Loans receivable from Pohnpei Fisheries Corporation, a Component Unit – Proprietary Fund	-	-	<u>2,450,000</u>	<u>2,450,000</u>
	<u>\$ 2,516,569</u>	<u>\$ 174,391</u>	<u>\$ 3,459,007</u>	<u>\$ 6,149,967</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  
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**(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  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1999

**(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 Pacific Century Trust and Bankers Trust are invested on behalf of Pohnpei State as of September 30, 1999, as summarized below:

<u>Cash and Equivalents</u>	<u>Market Value</u>
Cash management fund	\$ 560,912
 <u>Investments</u>	
Pooled investment securities	<u>5,961,439</u>
Total	\$ <u>6,522,351</u>

- D. The State's General Fund investment income for the year ended September 30, 1999, is summarized below:

	<u>General</u>
Interest	\$ 348,409
Dividends	90,416
Realized gains	687,837
Unrealized gains	494,529
Management fees	(81,708)
Other expenses	<u>(270)</u>
Total	\$ <u>1,539,213</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, 1999, the State has deposits and cash on hand as follows (in each situation, cost approximates market value):

**General Fund**

Net bank balances in checking and savings accounts with FDIC insured banks	\$ 1,383,325
Cash on deposit with Hawaiian Trust Co.	<u>432,043</u>
Total General Fund cash and equivalents	\$ <u>1,815,368</u>

**Special Revenue Fund**

Restricted cash (Early Retirement Program Funds)	\$ 1,428,601
Cash on deposit with Hawaiian Trust Co.	<u>128,869</u>
Total Special Revenue Funds cash and equivalents	\$ <u>1,557,470</u>



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1999

(2) Cash and Equivalents and Investments, Continued

Capital Project Funds

Net bank balance in savings accounts with FDIC insured banks	\$ 1,158,195
Cash on deposit with Bankers' Trust Company	<u>424,268</u>
Total Capital Projects Funds cash and equivalents	\$ <u>1,582,463</u>

Component Units - Proprietary Funds

Pohnpei Economic Development Authority (EDA):	
Cash in checking and savings accounts with FDIC insured bank	\$ 38,070
Pohnpei State Housing Authority (PSHA):	
Cash in checking and savings accounts with FDIC insured banks	191,939
Pohnpei Utilities Corporation (PUC):	
Cash in checking and savings accounts with FDIC insured bank	483,644
Pohnpei Port Authority (PPA):	
Cash in checking accounts with FDIC insured bank	<u>76,245</u>
Total Component Units - Proprietary Funds cash and equivalents	\$ <u>789,898</u>

Cash - Restricted (Small Business Loan Guarantee): At September 30, 1999, Pohnpei State had \$1,524,907 in General Fund cash restricted for the Small Business Guarantee and Finance Corporation. These funds were appropriated in the prior year for the Small Business Guarantee Loan Program. The funds were held by Pohnpei State pending formation of the Small Business Guarantee and Finance Corporation, the intended recipient of the Small Business Guarantee Loan Fund.

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 loan 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. During the year, Pohnpei State accounted for the Escrow Account under the Compact Capital Projects Fund. As of September 30, 1999, the escrow account has earned and reinvested \$128,824 of interest earnings. Therefore a total of \$628,824 has been reserved as restricted cash in the foregoing financial statements.

As of September 30, 1999, Pohnpei State had \$2,714,825 held on deposit with Pacific Century Trust which funds relate to the early retirement program. This deposit is recorded in a special revenue fund and in the debt service fund. It is the intent of Pohnpei State that the cash in the special revenue fund will substantially be used to repay existing early retirement debt.

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.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1999

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

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

The State's demand and time deposits are non-categorized investments in accordance with Governmental Accounting Standards Board (GASB) Statement 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.

**(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	\$ 572,452	\$ -	\$ 262,957
CFMS grants	-	1,319,309	-
Other	-	369,898	-
Less allowance for uncollectibles	<u>-</u>	<u>(431,003)</u>	<u>-</u>
	<u>\$ 572,452</u>	<u>\$ 1,258,204</u>	<u>\$ 262,957</u>
Receivables, federal agencies:			
Federal grants	\$ -	\$ 1,689,923	\$ -
Trust Territory Government	-	-	200,418
Less allowance for uncollectibles	<u>-</u>	<u>(1,111,599)</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ 578,324</u>	<u>\$ 200,418</u>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1999

**(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, 1999, is presented below:

<u>General Fund Receivables</u>	<u>Gross</u>	<u>Allowance</u>	<u>Net</u>
Delinquent taxes	\$ 1,380,927	\$ (1,380,927)	\$ -
Delinquent lease payments	653,988	(653,988)	-
Other	<u>24,240</u>	<u>-</u>	<u>24,240</u>
	<u>\$ 2,059,155</u>	<u>\$ (2,034,915)</u>	<u>\$ 24,240</u>

**Advances**

Advances primarily consist of advance payments made to State government employees for travel related expenditures.

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

	<u>Gross</u>	<u>Allowance</u>	<u>Net</u>
Pohnpei Port Authority	\$ 148,472	\$ (37,352)	\$ 111,120
Pohnpei Utilities Corporation	3,697,023	(1,365,791)	2,331,232
Pohnpei Economic Development Authority	<u>968,626</u>	<u>(938,892)</u>	<u>29,734</u>
	<u>\$ 4,814,121</u>	<u>\$ (2,342,035)</u>	<u>\$ 2,472,086</u>

**General Receivables - Enterprise Fund**

Pohnpei Transportation Authority	\$ <u>1,044,549</u>	\$ <u>(458,985)</u>	\$ <u>585,564</u>
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**(5) 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, 1999, are as follows:

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

The State's investment in general fixed assets as of September 30, 1999, by source, is summarized below:

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

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1999

**(5) 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, 1999, 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	\$ -	\$ 33,083,086	\$ -	\$ -	\$ 33,083,086
Water and sewer plant	-	10,046,327	-	-	10,046,327
Land	2,776,034	-	-	-	2,776,034
Buildings	12,924,481	-	42,033	26,061	12,992,575
Fishing vessels	-	-	1,352,300	-	1,352,300
Vehicles	-	-	217,343	-	217,343
Furniture, fixtures and office equipment	391,109	-	81,148	83,168	555,425
Other assets	-	-	267,220	-	267,220
Less accumulated depreciation	(9,093,741)	(14,455,617)	(1,627,175)	(84,094)	(25,260,627)
Construction in progress	<u>227,077</u>	<u>2,441,815</u>	<u>-</u>	<u>-</u>	<u>2,668,892</u>
Total fixed assets, net	<u>\$ 7,224,960</u>	<u>\$ 31,115,611</u>	<u>\$ 332,869</u>	<u>\$ 25,135</u>	<u>\$ 38,698,575</u>

Fixed Assets – Enterprise Fund

Pohnpei Transportation Authority's 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 2 to 15 years. The assets, at September 30, 1999, are as follows:

<u>Description</u>	<u>Useful Life</u>	<u>Cost</u>
Buildings	15 years	\$ 70,000
Communication equipment	2 years	30,650
Heavy equipment	5-10 years	5,456,406
Machinery, tools and equipment	2 years	79,593
Furniture and fixtures	3 years	55,883
Vehicles	5 years	<u>426,599</u>
		6,119,131
Less accumulated depreciation		<u>(5,178,587)</u>
Total fixed assets, net		<u>\$ 940,544</u>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1999

**(6) 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. At September 30, 1999, the fund aggregated \$552,642.

**(7) 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 6), 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 to Pohnpei State.

On August 21, 1998, Caroline Fisheries Corporation, Pohnpei State Government, the National Fisheries Corporation (NFC) (a component unit of the FSM National Government) and the Pohnpei 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.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1999

(7) Loans Receivable, Continued

Under its enabling legislation, Public Law 3L-28-93, Pohnpei Fisheries Corporation (PFC) is to pay back the portion of MTN funds (Refer Note 12) used in its operations. The drawdown of these funds for operations at September 30, 1999, 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, 1999, it is reserved against fund balance as a related asset.

The Pohnpei State Housing Authority (PSHA) has loans receivable of \$5,123,966 with an allowance of \$1,488,855 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 \$46,514 as of September 30, 1999.

As of September 30, 1999, the Economic Development Authority's (EDA) loan receivable from Pohnpei Fisheries Corporation (PFC), a component unit-proprietary fund of Pohnpei State Government, is \$40,000. The amount of the loan was used to assist in liquidating PFC's account with a major vendor. This interest-free loan was due on March 1998.

(8) Operating Transfers In/Out

Material operating transfers in/out for the year ended September 30, 1999, are as follows:

	<u>Transfers In/Out</u>
Transfers out to Component Units:	
Pohnpei State Housing Authority	\$ 63,576
Transfers out to Debt Service Fund:	
Early Retirement Fund	<u>840,000</u>
Total Transfers Out - General Fund	\$ <u>903,576</u>
Debt Service Fund:	
Transfer in from Early Retirement Fund	\$ 420,000
Transfer in from General Fund	<u>840,000</u>
Total Transfers In – Debt Service Fund	\$ <u>1,260,000</u>
Transfers out of the Special Revenue Funds are as follows:	
Compact Other Grants to:	
Pohnpei State Housing Authority	\$ 53,063
Pohnpei Fisheries Corporation	<u>80,000</u>
	133,063
Early Retirement Fund to Debt Service Fund	420,000
Airport Operations to Pohnpei Port Authority	<u>112,727</u>
Total Transfers Out – Special Revenue Fund	\$ <u>665,790</u>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1999

(8) Operating Transfers In/Out, Continued

During the year ended September 30, 1999, Pohnpei State Government redesignated \$800,000 of Compact Capital Account Inflation funds (Section 217) as current account funds to be used by the General Fund.

(9) 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, \$78,621 in questioned costs exist for the operation of fiscal year 1996 through 1999 grants. If these questioned costs are ultimately disallowed, the General Fund may bear responsibility for absorbing the amount disallowed. Accordingly, no provision for any liability that may result from this matter has been recorded in the accompanying financial statements.

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

Sick Leave

It is the policy of the State of Pohnpei to record the cost of sick leave when leave is actually taken and a liability is actually incurred. The accumulated estimated amount of unused sick leave at September 30, 1999, was \$2,751,119.

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, 1999, 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.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
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(9) Contingencies and Commitments, Continued

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.

(10) 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, 1999, 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>7,729,004</u>	\$ <u>36,045,876</u>	\$ <u>958,460</u>	\$ <u>3,998,293</u>
Total equity	\$ <u>7,227,352</u>	\$ <u>35,082,648</u>	\$ <u>800,738</u>	\$ <u>3,981,320</u>
Operating loss	\$ <u>(594,951)</u>	\$ <u>(1,766,606)</u>	\$ <u>(400,006)</u>	\$ <u>(83,926)</u>
Net income (loss)	\$ <u>(581,588)</u>	\$ <u>(1,148,568)</u>	\$ <u>(397,522)</u>	\$ <u>34,807</u>
Nonoperating revenues (expenses), net	\$ <u>13,363</u>	\$ <u>618,038</u>	\$ <u>2,484</u>	\$ <u>118,733</u>
Operating revenues	\$ <u>890,768</u>	\$ <u>6,551,517</u>	\$ <u>740,219</u>	\$ <u>253,312</u>
Contributed capital	\$ <u>6,816,429</u>	\$ <u>26,958,255</u>	\$ <u>4,375,330</u>	\$ <u>3,999,915</u>
Depreciation	\$ <u>668,907</u>	\$ <u>2,159,351</u>	\$ <u>-</u>	\$ <u>7,182</u>
Retained earnings (deficit)	\$ <u>410,923</u>	\$ <u>8,124,393</u>	\$ <u>(3,574,592)</u>	\$ <u>(18,595)</u>
Operating transfers	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>111,612</u>

(11) Material Fund Deficits

The following presents material fund deficits as of September 30, 1999. 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	<u>(37,783)</u>	<u>-</u>	<u>(37,783)</u>
	\$ <u>(196,611)</u>	\$ <u>-</u>	\$ <u>(196,611)</u>
<u>Component Units (Deficit) Retained Earnings</u>			
Pohnpei Economic Development Authority	\$ (3,574,592)	\$ 4,375,330	\$ 800,738
Pohnpei State Housing Authority	<u>(18,595)</u>	<u>3,999,915</u>	<u>3,981,320</u>
	\$ <u>(3,593,187)</u>	\$ <u>8,375,245</u>	\$ <u>4,782,058</u>



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1999

(11) Material Fund Deficits, Continued

Expendable Trust Fund (Deficit)

Public Land Trust Fund	\$ <u>(113,281)</u>	\$ <u>      -</u>	\$ <u>(113,281)</u>
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(12) 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.

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>
10/15/99	9.125%	\$ 1,000,000
10/15/2000	9.125%	<u>1,000,000</u>
Total		\$ <u>2,000,000</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>
10/15/99	7.26%	\$ 1,000,000
10/15/2000	7.51%	<u>1,000,000</u>
Total		\$ <u>2,000,000</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 \$411,200 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, 1999.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1999

**(12) Notes Payable, Continued**

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 \$4,200,000 loan from the Asian Development Bank through the FSM National Government. (See Note 17)

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 (debt service fund) 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, through accessing of the State's debt service fund, in semiannual installments commencing February 2008. During the year ended September 30, 1999, the State paid \$840,000 into an Early Retirement Trust Fund debt service account (\$420,000 in 1998) and drew down \$1,553,685 of proceeds.

Activity in the General Long-Term Debt Account Group notes payable account for the year ended September 30, 1999, occurred as follows:

Balance as of September 30, 1998	\$ 8,080,000
Loan MTN repayments made on October 15, 1998	(2,000,000)
Drawing on Early Retirement fund facility	1,553,685
Reclassification of prior year deposit to debt service fund transfer	<u>420,000</u>
Balance as of September 30, 1999	\$ <u>8,053,685</u>

Future minimum payments on the MTN notes payable for subsequent years ending September 30, are shown below. The ADB loan has a grace period of 10 years and will be due in February 2008:

<u>Years Ending September 30,</u>	<u>Amount</u>
2000	\$ 2,000,000
2001	2,000,000
Thereafter	<u>4,053,685</u>
	\$ <u>8,053,685</u>

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

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1999

**(13) Interfund Receivable and Payables**

As of September 30, 1999, 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	\$ 2,061,867	\$ -
Special Revenue Funds:		
Compact Health & Education	-	1,452,892
Compact Other Grants	-	416,171
U.S. Federal Assistance	755,594	-
Other Federal and Direct	-	42,448
Agriculture Revolving	-	36,457
SVAP Revolving	-	16,838
Airport Operations	-	64,010
CFSM Projects	980,810	-
Recycling Fund	-	21,120
V6AH Revolving Fund	-	8,034
Environmental Quality Fund	-	33,352
Medical Revolving Fund	-	104,716
Early Retirement Fund	-	130,079
Paved Road Maintenance	-	68,524
Health Care Premium	-	87,279
Capital Projects Funds:		
Compact Capital Projects	-	1,116,144
TTG Capital Projects	193,828	-
Health and Education Projects	-	1,693,346
Expendable Trust Funds:		
Public Land Trust	121,122	-
Internal Service Fund	-	27,542
Pohnpei Transportation Authority (PTA)	1,176,232	-
Unreconciled variance – PTA/General Fund	<u>29,499</u>	<u>-</u>
	<u>\$ 5,318,952</u>	<u>\$ 5,318,952</u>

**(14) Continuing Appropriations**

Continuing appropriations as of September 30, 1999, are summarized as follows:

**General Fund**

Each fiscal year, the Pohnpei State Legislature appropriates funds for various programs, municipal projects and other projects which are available until fully expended or project completion.

\$ 287,562

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1999

(14) Continuing Appropriations, Continued

Capital Projects

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

\$ 4,248,192

(15) 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.

Pohnpei Transportation Authority, Pohnpei State Housing Authority and Pohnpei Economic Development Authority do not purchase commercial insurance covering potential risks. Management of those entities represent that no material losses have been sustained as a result of this practice during the last three years.

(16) 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 (FSMDB) (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 December 31, 1999 (FSMDB fiscal year end), the outstanding fund balance aggregated \$874,394.

(17) 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 a total of \$4,053,685. As of September 30, 1999, Pohnpei State had expended \$2,495,005 under this program. (See Note 12)

**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, 1999  
(With comparative totals for the year ended September 30, 1998)

	Governmental Fund Types			Fiduciary	Totals	
	General	Special	Capital	Expendable	(Memorandum Only)	
		Revenue	Projects	Trust	1999	1998
Expenditures:						
Personnel	\$ 11,119,139	\$ 2,949,214	\$ 78,494	\$ 6,521	\$ 14,153,368	\$ 14,136,342
Travel	199,987	413,929	84,083	-	697,999	612,818
Supplies and materials	308,281	457,087	3,785	432	769,585	968,596
Fuel	13,320	189,813	352	-	203,485	200,024
Equipment	164,540	534,475	38,070	-	737,085	1,237,247
Contractual services	196,435	1,168,853	3,178,188	-	4,543,476	3,583,615
Other	3,072,423	1,426,956	42,990	6,159	4,548,528	8,093,130
<b>Total expenditures</b>	<b>\$ 15,074,125</b>	<b>\$ 7,140,327</b>	<b>\$ 3,425,962</b>	<b>\$ 13,112</b>	<b>\$ 25,653,526</b>	<b>\$ 28,831,772</b>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

General Fund  
September 30, 1999

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, 1999  
(With comparative totals as of September 30, 1998)

<u>ASSETS</u>	<u>1999</u>	<u>1998</u>
Cash and equivalents	\$ 1,815,368	\$ 3,001,358
Cash - restricted	1,524,907	-
Investments	5,496,219	3,851,573
Receivables from other governments	572,452	230,733
Taxes receivable	2,034,915	3,719,437
Allowance for uncollectibles	(2,034,915)	(3,719,437)
Interest receivable	24,240	24,240
Advances	<u>285,819</u>	<u>246,904</u>
 Total assets	 \$ <u><u>9,719,005</u></u>	 \$ <u><u>7,354,808</u></u>

LIABILITIES AND FUND BALANCE

Liabilities:		
Accounts payable	\$ 315,310	\$ 482,898
Accrued payroll and others	905,487	752,330
Due to other funds	2,061,867	1,066,004
Other payables	<u>1,843,816</u>	<u>2,471,853</u>
 Total liabilities	 <u>5,126,480</u>	 <u>4,773,085</u>
Fund balance:		
Reserved for:		
Related assets	2,516,569	246,904
Encumbrances	199,603	475,581
Continuing appropriations	287,562	247,229
Unreserved	<u>1,588,791</u>	<u>1,612,009</u>
 Total fund balance	 <u>4,592,525</u>	 <u>2,581,723</u>
 Total liabilities and fund balance	 \$ <u><u>9,719,005</u></u>	 \$ <u><u>7,354,808</u></u>

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 - General Fund  
Year Ended September 30, 1999

(With comparative totals for the year ended September 30, 1998)

	<u>1999</u>	<u>1998</u>
Revenues:		
Compact of Free Association:		
Base grant	\$ 5,652,000	\$ 5,652,000
Inflation adjustment	3,795,560	4,195,560
Revenue sharing	4,199,432	4,268,318
Investment income	1,539,213	303,535
Interest income	270,397	-
Taxes and licenses	1,826,500	1,244,737
Fines and penalties	458,917	505,251
Public service charges	24,116	30,218
Other	<u>222,033</u>	<u>1,123,561</u>
Total revenues	<u>17,988,168</u>	<u>17,323,180</u>
Expenditures:		
Personnel	11,119,139	11,237,980
Travel	199,987	203,301
Supplies and materials	308,281	288,637
Equipment	164,540	240,314
Contractual services	196,435	239,839
Other	<u>3,085,743</u>	<u>2,786,956</u>
Total expenditures	<u>15,074,125</u>	<u>14,997,027</u>
Excess of revenues over expenditures	<u>2,914,043</u>	<u>2,326,153</u>
Other financing sources (uses):		
Operating transfers out	(903,576)	(591,377)
Other	<u>335</u>	<u>(5,724)</u>
Total other financing sources (uses), net	<u>(903,241)</u>	<u>(597,101)</u>
Excess of revenues and other financing sources over expenditures and other financing uses	2,010,802	1,729,052
Fund balance at beginning of year	<u>2,581,723</u>	<u>852,671</u>
Fund balance at end of year	<u>\$ 4,592,525</u>	<u>\$ 2,581,723</u>

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 -  
Year Ended September 30, 1999  
(With comparative totals for the year ended September 30, 1998)

	1999	1998
<b>Revenues:</b>		
U.S. Compact of Free Association:		
Base grant	\$ 5,652,000	\$ 5,652,000
Inflation adjustment	3,795,560	4,195,560
FSM revenue sharing	4,199,432	4,268,318
Investment income	1,539,213	303,535
Interest income	270,397	-
State taxes and licenses:		
Beer and malt beverages	\$ 480,645	\$ 467,784
Cigarettes	33,247	79,737
Motor vehicle sales tax	151,988	138,950
General merchandise sales tax	636,184	198,678
Hotel	64,095	76,615
Petroleum and fuel	75,014	105,682
Use tax	330,655	132,156
Others	54,672	45,135
	1,826,500	1,244,737
Fines and penalties	458,917	505,251
Public service charges:		
Transportation	24,116	30,218
Other	222,033	1,123,561
<b>Total revenues</b>	<b>17,988,168</b>	<b>17,323,180</b>
<b>Expenditures:</b>		
General Government:		
Executive & Support	1,026,551	959,671
Department of Treasury and Administration	869,491	811,879
Public Auditor	155,650	139,077
Judiciary	334,066	392,476
Legislative operations	1,444,888	1,338,026
<b>Total General Government</b>	<b>3,830,646</b>	<b>3,641,129</b>
Department of Education:		
Administration	5,000	59,800
Preschool and elementary	3,772,631	3,592,923
Secondary	186,910	71,695
<b>Total Education</b>	<b>3,964,541</b>	<b>3,724,418</b>
Department of Health Services:		
Administration	391,923	353,409
Medical Coordinator-Honolulu	42,376	43,350
Medical services	1,345,720	1,283,284
Dental services	280,586	264,048
Medical supplies	217,850	287,374
Primary health care	376,472	361,896
Hemodialysis	67,450	46,861
Hospital buildings & grounds	8,121	7,814
Hospital food	49,887	54,620
Medical referrals	-	23,593
Outer islands medical referrals	(98)	11,906
<b>Total Health Services</b>	<b>2,780,287</b>	<b>2,738,155</b>
Department of Resource Management and Development:		
Office of the Director	77,398	68,551
Division of Resource Management & Development	420,345	502,460
Division of CM&PM	156,290	230,095
Commerce and industry	-	115,777
Division of Land	265,353	268,741
<b>Total Resources Management and Development</b>	<b>919,386</b>	<b>1,185,624</b>

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, Continued  
Year Ended September 30, 1999  
(With comparative totals for the year ended September 30, 1998)**

	1999	1998
Expenditures, continued:		
Department of Justice:		
Law and litigation division	349,403	328,959
Division of police and security	693,889	768,663
Correction and rehabilitation	130,685	111,461
Independent Counsel	20,000	-
Search and rescue	3,527	885
	1,197,504	1,209,968
Boards, Commissions, and Other Appropriations:		
Foreign investment commission	45,494	47,605
Micronesian legal services	-	33,600
Traditional affairs	28,686	3,000
USDA Rural Development	145,067	148,112
Alms fund	-	49,337
Pohnpei public library	29,200	11,536
Environmental protection agency	116,541	117,858
Micro Glory drydocking	-	24,426
Pohnpei health care plan board	6,048	12,771
Planning and zoning committee	6,684	7,010
Small Business Guarantee & Finance Corp.	60,462	-
Soil and water conservation	2,555	6,917
Economic planning committee	28,677	22,145
Pohnpei broadcasting corporation	88,883	84,377
Sports development program	15,588	23,108
Pohnpei leadership conference	-	31,261
Palau Micronesian games	2,100	119,447
Pohnpei land commission	165,702	158,003
Election Commissioner's operations	10,163	-
Special Election	11,482	-
Fifth FSM Women's Conference	6,617	-
	769,949	900,513
Municipal Governments:		
Kitti	252,288	294,860
Sokeh	270,699	270,712
Madolenihmw	280,337	276,096
Nett	184,658	190,042
Kolonias	182,821	175,500
Uh	161,924	154,101
Pingilap	84,291	81,236
Kapingamarangi	49,329	47,384
Sapwuahfik	42,568	40,868
Mwoakilloa	37,272	35,853
Mwoakilloa illegal fishing fee	23,845	-
Settlement fee for Kyowa	15,000	-
Nukuoro	26,780	30,568
	1,611,812	1,597,220
Total Municipal Governments	1,611,812	1,597,220
Total expenditures	15,074,125	14,997,027
Excess of revenues over expenditures	2,914,043	2,326,153
Other financing sources (uses):		
Operating transfers out	(903,576)	(591,377)
Other	335	(5,724)
	(903,241)	(597,101)
Total other financing sources (uses), net	(903,241)	(597,101)
Excess of revenues and other financing sources over expenditures and other financing uses	2,010,802	1,729,052
Fund balance at beginning of year	2,581,723	852,671
Fund balance at end of year	\$ 4,592,525	\$ 2,581,723

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Special Revenue Funds  
September 30, 1999

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, 1999

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.

Paved Road Maintenance

This fund was established to account for certain sales taxes which are restricted for the maintenance and minor repair of paved roads.

Health Care Premium

This fund was established to account for certain sales taxes which are restricted for use by the Health Care Premium Fund created by Section 8-3 of State Law 3L-39-93.

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**SPECIAL REVENUE FUNDS  
Combining Balance Sheet  
September 30, 1999  
(With comparative totals as of September 30, 1998)**

	Compact	Compact	U.S.	Other	Agriculture	SVAP	Airport	CFSM	V6AH	Environ-	Medical	Early	Paved	Health	Totals		
	Health and Education	Other Grants	Federal Assistance	Federal and Direct Assistance											Revolving	Revolving	Operations
<b>ASSETS</b>																	
Cash and equivalents	\$ -	\$ 128,869	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 128,869	\$ 200,553
Cash - restricted	-	-	-	-	-	-	-	-	-	-	-	1,428,601	-	-	1,428,601	639,802	
Investments	(221,950)	687,170	-	-	-	-	-	-	-	-	-	-	-	-	465,220	787,170	
Receivables:																	
Other governments	-	369,898	-	-	-	-	-	888,306	-	-	-	-	-	-	-	1,258,204	1,372,150
Federal agencies, thru FSM National																	
Government	-	-	578,324	-	-	-	-	-	-	-	-	-	-	-	-	578,324	1,536,158
General	-	-	-	-	-	-	-	3,928	-	-	-	-	-	-	-	3,928	3,928
Advances	2,932	54,762	183,519	97,002	-	-	2,142	79,056	1,456	-	-	-	-	-	420,869	354,472	
Due from other funds	1,452,892	416,171	-	42,448	36,457	16,838	64,010	-	21,120	8,034	33,352	104,716	130,079	68,524	87,279	2,481,920	1,421,528
Inventory, at cost	-	-	-	-	15,747	-	-	-	-	-	-	-	-	-	-	15,747	15,747
Allowance for uncollectibles	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,542,601)
<b>Total assets</b>	<b>\$ 1,233,874</b>	<b>\$ 1,656,870</b>	<b>\$ 761,843</b>	<b>\$ 139,450</b>	<b>\$ 52,204</b>	<b>\$ 16,838</b>	<b>\$ 66,152</b>	<b>\$ 971,290</b>	<b>\$ 21,120</b>	<b>\$ 9,490</b>	<b>\$ 33,352</b>	<b>\$ 104,716</b>	<b>\$ 1,558,680</b>	<b>\$ 68,524</b>	<b>\$ 87,279</b>	<b>\$ 6,781,682</b>	<b>\$ 4,778,907</b>
<b>LIABILITIES AND FUND BALANCES (DEFICIT)</b>																	
Liabilities:																	
Accounts payable	\$ 37,772	\$ 244,520	\$ 152,309	\$ 56,079	\$ 8,977	\$ 663	\$ 31,651	\$ 28,675	\$ -	\$ 250	\$ -	\$ 52,793	\$ -	\$ -	\$ -	\$ 613,689	\$ 531,553
Accrued payroll and others	27,410	133,501	12,768	254	-	-	-	(412)	-	-	-	-	-	-	-	173,521	164,558
Due to other funds	-	-	755,594	-	-	-	-	980,810	-	-	-	-	-	-	-	1,736,404	847,634
Deferred revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	409,744
<b>Total liabilities</b>	<b>65,182</b>	<b>378,021</b>	<b>920,671</b>	<b>56,333</b>	<b>8,977</b>	<b>663</b>	<b>31,651</b>	<b>1,009,073</b>	<b>-</b>	<b>250</b>	<b>-</b>	<b>52,793</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,523,614</b>	<b>1,953,489</b>
Fund balances (deficit):																	
Reserved for:																	
Related assets	2,952	54,762	-	97,002	15,747	-	-	3,928	-	-	-	-	-	-	-	174,391	1,040,998
Encumbrances	3,028	38,881	432,123	37,352	3,587	242	-	60,241	-	7,692	-	57,700	-	-	-	640,846	946,660
Unreserved (deficit)	1,162,712	1,185,206	(590,951)	(51,237)	23,893	15,933	34,501	(101,953)	21,120	1,548	33,352	(5,777)	1,558,680	68,524	87,279	3,442,831	837,760
<b>Total fund balances (deficit)</b>	<b>1,168,692</b>	<b>1,278,849</b>	<b>(158,828)</b>	<b>83,117</b>	<b>43,227</b>	<b>16,175</b>	<b>34,501</b>	<b>(37,783)</b>	<b>21,120</b>	<b>9,240</b>	<b>33,352</b>	<b>51,923</b>	<b>1,558,680</b>	<b>68,524</b>	<b>87,279</b>	<b>4,258,068</b>	<b>2,825,418</b>
<b>Total liabilities and fund balances (deficit)</b>	<b>\$ 1,233,874</b>	<b>\$ 1,656,870</b>	<b>\$ 761,843</b>	<b>\$ 139,450</b>	<b>\$ 52,204</b>	<b>\$ 16,838</b>	<b>\$ 66,152</b>	<b>\$ 971,290</b>	<b>\$ 21,120</b>	<b>\$ 9,490</b>	<b>\$ 33,352</b>	<b>\$ 104,716</b>	<b>\$ 1,558,680</b>	<b>\$ 68,524</b>	<b>\$ 87,279</b>	<b>\$ 6,781,682</b>	<b>\$ 4,778,907</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, 1999  
(With comparative totals for the year ended September 30, 1998)**

	Compact	Compact	U.S.	Other	Agriculture	SVAP	Airport	CFSM	V6AII	Environ-	Medical	Early	Paved	Health	Totals		
	Health and Education	Other Grants	Federal Assistance	Federal and Direct Assistance											Revolving	Revolving	Operations
<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	530,000
Federal grants	-	-	2,558,985	-	-	-	-	-	-	-	-	-	-	-	-	2,558,985	3,276,500
CFSM Grants	-	-	-	-	-	-	-	270,711	-	-	-	-	-	-	-	270,711	452,604
Scholarships	-	288,003	-	-	-	-	-	-	-	-	-	-	-	-	-	288,003	288,003
Taxes	-	-	-	-	-	-	-	-	-	-	-	-	68,524	87,279	155,803	-	-
Interest and investment income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	18,111
Other	-	-	-	186,758	7,048	7,213	95,097	-	20,813	7,300	309,568	-	-	-	-	633,797	505,107
<b>Total revenues</b>	<b>1,890,000</b>	<b>2,175,786</b>	<b>2,558,985</b>	<b>186,758</b>	<b>7,048</b>	<b>7,213</b>	<b>95,097</b>	<b>270,711</b>	<b>-</b>	<b>20,813</b>	<b>7,300</b>	<b>309,568</b>	<b>68,524</b>	<b>87,279</b>	<b>7,685,082</b>	<b>8,318,108</b>	
<b>Expenditures:</b>																	
General government	-	21,233	282,600	19,785	-	-	-	75,017	-	-	-	-	-	-	-	398,635	500,690
Education	1,783,367	-	1,552,166	123,275	-	-	-	-	-	-	-	-	-	-	-	3,458,808	3,842,175
Health services	-	69,007	444,253	16,623	-	-	-	55,901	-	7,664	329,534	-	-	-	-	922,982	1,168,514
Resources management and development	-	-	172,400	-	-	-	-	-	-	-	-	-	-	-	-	172,400	506,488
Public works	-	250,000	34,128	33	-	-	-	-	-	-	-	-	-	-	-	284,161	508,051
Justice	-	-	73,438	346	-	-	-	139,793	-	-	-	-	-	-	-	213,577	208,666
Other	-	1,327,425	-	-	12,177	5,244	-	-	8,975	-	-	335,943	-	-	-	1,689,764	3,024,558
<b>Total expenditures</b>	<b>1,783,367</b>	<b>1,667,665</b>	<b>2,558,985</b>	<b>160,062</b>	<b>12,177</b>	<b>5,244</b>	<b>-</b>	<b>270,711</b>	<b>-</b>	<b>8,975</b>	<b>7,664</b>	<b>329,534</b>	<b>335,943</b>	<b>-</b>	<b>-</b>	<b>7,140,327</b>	<b>9,759,142</b>
Excess (deficiency) of revenues over (under) expenditures	106,633	508,121	-	26,696	(5,129)	1,969	95,097	-	-	11,838	(364)	(19,966)	68,524	87,279	544,755	(1,441,034)	
<b>Other financing sources (uses):</b>																	
Operating transfers in (out)	-	(133,063)	-	-	-	-	(112,727)	-	-	-	-	(420,000)	-	-	(665,790)	420,000	
Proceeds from notes payable	-	-	-	-	-	-	-	-	-	-	-	1,553,685	-	-	1,553,685	-	
<b>Total other financing sources (uses), net</b>	<b>-</b>	<b>(133,063)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(112,727)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,133,685</b>	<b>-</b>	<b>-</b>	<b>887,895</b>	<b>420,000</b>	
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	106,633	375,058	-	26,696	(5,129)	1,969	(17,630)	-	-	11,838	(364)	(19,966)	797,742	87,279	1,432,650	(1,021,034)	
<b>Fund balances (deficit) at beginning 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>-</b>	<b>-</b>	<b>2,825,418</b>	<b>3,846,452</b>
<b>Fund balances (deficit) at end of year</b>	<b>\$ 1,168,692</b>	<b>\$ 1,278,849</b>	<b>\$ (158,828)</b>	<b>\$ 83,117</b>	<b>\$ 43,227</b>	<b>\$ 16,175</b>	<b>\$ 34,501</b>	<b>\$ (37,783)</b>	<b>\$ 21,120</b>	<b>\$ 9,240</b>	<b>\$ 33,352</b>	<b>\$ 51,923</b>	<b>\$ 1,558,680</b>	<b>\$ 68,524</b>	<b>\$ 87,279</b>	<b>\$ 4,258,068</b>	<b>\$ 2,825,418</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, 1999  
(With comparative totals for the year ended September 30, 1998)**

	Compact	Compact	U.S.	Other	Agriculture	SVAP	Airport	CFSM	V6AH	Environ-	Medical	Early	Paved	Health	Totals	
	Health and	Other	Federal	Federal											Revolving	Revolving
	Education	Grants	Assistance	and Direct				Projects	Recycling	Quality	Revolving		Maintenance	Premium		
<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	530,000
Federal contributions	-	-	2,558,985	-	-	-	-	-	-	-	-	-	-	-	2,558,985	3,276,500
CFSM Grants	-	-	-	-	-	-	-	270,711	-	-	-	-	-	-	270,711	452,604
Scholarship Grants	-	288,003	-	-	-	-	-	-	-	-	-	-	-	-	288,003	288,003
Taxes	-	-	-	-	-	-	-	-	-	-	-	-	68,524	87,279	155,803	-
Interest and investment income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	18,111
Other	-	-	-	186,758	7,048	7,213	95,097	-	-	20,813	7,300	309,568	-	-	633,797	505,107
<b>Total revenues</b>	<b>1,890,000</b>	<b>2,175,786</b>	<b>2,558,985</b>	<b>186,758</b>	<b>7,048</b>	<b>7,213</b>	<b>95,097</b>	<b>270,711</b>	<b>-</b>	<b>20,813</b>	<b>7,300</b>	<b>309,568</b>	<b>68,524</b>	<b>87,279</b>	<b>7,685,082</b>	<b>8,318,108</b>
<b>Expenditures:</b>																
Personnel	1,566,179	26,969	833,357	11,548	-	-	-	175,218	-	-	-	335,943	-	-	2,949,214	2,841,281
Travel	-	37,275	266,100	82,138	-	-	-	26,165	-	636	1,615	-	-	-	413,929	351,177
Supplies and materials	91,961	13,148	280,770	21,924	7,548	4,894	-	23,018	-	1,133	5,083	7,608	-	-	457,087	649,690
Fuel	-	176,425	13,040	100	95	-	-	139	-	14	-	-	-	-	189,813	141,713
Equipment	36,754	3,325	447,478	19,940	-	350	-	21,116	-	5,192	320	-	-	-	534,475	700,924
Contractual services	40	566,514	575,451	17,110	-	-	-	5,686	-	220	-	3,832	-	-	1,168,853	758,307
Other	88,433	844,009	142,789	7,302	4,534	-	-	19,369	-	1,780	646	318,094	-	-	1,426,956	4,316,050
<b>Total expenditures</b>	<b>1,783,367</b>	<b>1,667,665</b>	<b>2,558,985</b>	<b>160,062</b>	<b>12,177</b>	<b>5,244</b>	<b>-</b>	<b>270,711</b>	<b>-</b>	<b>8,975</b>	<b>7,664</b>	<b>329,534</b>	<b>335,943</b>	<b>-</b>	<b>7,140,327</b>	<b>9,759,142</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>106,633</b>	<b>508,121</b>	<b>-</b>	<b>26,696</b>	<b>(5,129)</b>	<b>1,969</b>	<b>95,097</b>	<b>-</b>	<b>-</b>	<b>11,838</b>	<b>(364)</b>	<b>(19,966)</b>	<b>68,524</b>	<b>87,279</b>	<b>544,755</b>	<b>(1,441,034)</b>
<b>Other financing sources (uses):</b>																
Operating transfers in (out)	-	(133,063)	-	-	-	-	(112,727)	-	-	-	-	(420,000)	-	-	(665,790)	420,000
Proceeds from notes payable	-	-	-	-	-	-	-	-	-	-	-	1,553,685	-	-	1,553,685	-
<b>Total other financing sources (uses), net</b>	<b>-</b>	<b>(133,063)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(112,727)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,133,685</b>	<b>-</b>	<b>-</b>	<b>887,895</b>	<b>420,000</b>
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses</b>	<b>106,633</b>	<b>375,058</b>	<b>-</b>	<b>26,696</b>	<b>(5,129)</b>	<b>1,969</b>	<b>(17,630)</b>	<b>-</b>	<b>-</b>	<b>11,838</b>	<b>(364)</b>	<b>(19,966)</b>	<b>797,742</b>	<b>87,279</b>	<b>1,432,650</b>	<b>(1,021,034)</b>
<b>Fund balances (deficit) at beginning 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>-</b>	<b>2,825,418</b>	<b>3,846,452</b>
<b>Fund balances (deficit) at end of year</b>	<b>\$ 1,168,692</b>	<b>\$ 1,278,849</b>	<b>\$ (158,828)</b>	<b>\$ 83,117</b>	<b>\$ 43,227</b>	<b>\$ 16,175</b>	<b>\$ 34,501</b>	<b>\$ (37,783)</b>	<b>\$ 21,120</b>	<b>\$ 9,240</b>	<b>\$ 33,352</b>	<b>\$ 51,923</b>	<b>\$ 1,558,680</b>	<b>\$ 68,524</b>	<b>\$ 4,258,068</b>	<b>\$ 3,825,418</b>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Capital Projects Funds  
September 30, 1999

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.

Health and Education Projects Fund

This fund accounts for revenue sharing restricted for capital projects that are health and education related.

See Accompanying Independent Auditors' Report.



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**CAPITAL PROJECTS FUNDS  
Combining Balance Sheet  
September 30, 1999  
(With comparative totals as of September 30, 1998)**

	<u>Compact Capital Projects</u>	<u>TTG Capital Projects</u>	<u>Health &amp; Education Projects</u>	<u>Totals</u>	
				<u>1999</u>	<u>1998</u>
<b><u>ASSETS</u></b>					
Cash and equivalents	\$ 1,582,463	\$ -	\$ -	\$ 1,582,463	\$ 1,534,249
Cash - restricted	628,824	-	-	628,824	624,523
Investments - other	1,000,000	-	-	1,000,000	1,000,000
Receivables from other governments	-	-	262,957	262,957	-
Receivables from federal agencies	-	200,418	-	200,418	136,006
General receivables	3,956	12,343	-	16,299	16,299
Advances	98,671	-	-	98,671	79,518
Loans receivable	2,450,000	-	-	2,450,000	2,450,000
Due from other funds	1,116,144	-	1,693,346	2,809,490	1,271,402
	<u>1,116,144</u>	<u>-</u>	<u>1,693,346</u>	<u>2,809,490</u>	<u>1,271,402</u>
Total assets	<u>\$ 6,880,058</u>	<u>\$ 212,761</u>	<u>\$ 1,956,303</u>	<u>\$ 9,049,122</u>	<u>\$ 7,111,997</u>
 <b><u>LIABILITIES AND FUND BALANCES</u></b>					
Liabilities:					
Accounts payable	\$ 95,167	\$ -	\$ -	\$ 95,167	\$ 150,164
Accrued payroll and others	1,448	-	-	1,448	341
Due to other funds	-	193,828	-	193,828	129,416
	<u>-</u>	<u>193,828</u>	<u>-</u>	<u>193,828</u>	<u>129,416</u>
Total liabilities	<u>96,615</u>	<u>193,828</u>	<u>-</u>	<u>290,443</u>	<u>279,921</u>
Fund balances:					
Reserved for:					
Related assets	3,459,007	-	-	3,459,007	3,533,474
Encumbrances	1,471,083	554	-	1,471,637	831,559
Continuing appropriations	4,248,192	-	-	4,248,192	3,378,898
Unreserved (deficit)	<u>(2,394,839)</u>	<u>18,379</u>	<u>1,956,303</u>	<u>(420,157)</u>	<u>(911,855)</u>
Total fund balances	<u>6,783,443</u>	<u>18,933</u>	<u>1,956,303</u>	<u>8,758,679</u>	<u>6,832,076</u>
Total liabilities and fund balances	<u>\$ 6,880,058</u>	<u>\$ 212,761</u>	<u>\$ 1,956,303</u>	<u>\$ 9,049,122</u>	<u>\$ 7,111,997</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, 1999

(With comparative totals for the year ended September 30, 1998)

	Compact Capital Projects	TTG Capital Projects	Health & Education Projects	Totals	
				1999	1998
<b>Revenues:</b>					
Compact of Free Association:					
Base grant	\$ 4,072,000	\$ -	\$ -	\$ 4,072,000	\$ 4,072,000
Inflation adjustment	1,358,160	-	-	1,358,160	958,160
U.S. Department of the Interior grants	-	246,649	-	246,649	649,992
Investment income	116,482	-	-	116,482	29,214
Additional 20% revenue share	-	-	1,956,303	1,956,303	-
Total revenues	<u>5,546,642</u>	<u>246,649</u>	<u>1,956,303</u>	<u>7,749,594</u>	<u>5,709,366</u>
<b>Expenditures:</b>					
Capital projects	<u>3,179,313</u>	<u>246,649</u>	<u>-</u>	<u>3,425,962</u>	<u>4,058,039</u>
Total expenditures	<u>3,179,313</u>	<u>246,649</u>	<u>-</u>	<u>3,425,962</u>	<u>4,058,039</u>
Excess of revenues over expenditures	<u>2,367,329</u>	<u>-</u>	<u>1,956,303</u>	<u>4,323,632</u>	<u>1,651,327</u>
<b>Other financing sources (uses):</b>					
Repayment of notes payable	(2,000,000)	-	-	(2,000,000)	(2,000,000)
Interest expense	(411,200)	-	-	(411,200)	(569,275)
Other income (expense)	14,171	-	-	14,171	(19,388)
Total other financing sources (uses), net	<u>(2,397,029)</u>	<u>-</u>	<u>-</u>	<u>(2,397,029)</u>	<u>(2,588,663)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(29,700)	-	1,956,303	1,926,603	(937,336)
Fund balances at beginning of year	<u>6,813,143</u>	<u>18,933</u>	<u>-</u>	<u>6,832,076</u>	<u>7,769,412</u>
Fund balances at end of year	<u>\$ 6,783,443</u>	<u>\$ 18,933</u>	<u>\$ 1,956,303</u>	<u>\$ 8,758,679</u>	<u>\$ 6,832,076</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, 1999

(With comparative totals for the year ended September 30, 1998)

	Compact Capital Projects	TTG Capital Projects	Health & Education Projects	Totals	
				1999	1998
<b>Revenues:</b>					
Compact of Free Association:					
Base grant	\$ 4,072,000	\$ -	\$ -	\$ 4,072,000	\$ 4,072,000
Inflation adjustment	1,358,160	-	-	1,358,160	958,160
U.S. Department of the Interior grants	-	246,649	-	246,649	649,992
Investment income	116,482	-	-	116,482	29,214
Additional 20% revenue share	-	-	1,956,303	1,956,303	-
	<u>5,546,642</u>	<u>246,649</u>	<u>1,956,303</u>	<u>7,749,594</u>	<u>5,709,366</u>
<b>Total revenues</b>					
<b>Expenditures:</b>					
Personnel	78,494	-	-	78,494	50,577
Travel	84,083	-	-	84,083	58,340
Supplies and materials	3,785	-	-	3,785	28,166
Fuel	352	-	-	352	29,502
Equipment	38,070	-	-	38,070	296,009
Contractual services	2,931,539	246,649	-	3,178,188	2,585,469
Other	42,990	-	-	42,990	1,009,976
	<u>3,179,313</u>	<u>246,649</u>	<u>-</u>	<u>3,425,962</u>	<u>4,058,039</u>
<b>Total expenditures</b>					
Excess of revenues over expenditures	<u>2,367,329</u>	<u>-</u>	<u>1,956,303</u>	<u>4,323,632</u>	<u>1,651,327</u>
<b>Other financing sources (uses) :</b>					
Repayment of notes payable	(2,000,000)	-	-	(2,000,000)	(2,000,000)
Interest expense	(411,200)	-	-	(411,200)	(569,275)
Other income (expense)	14,171	-	-	14,171	(19,388)
	<u>(2,397,029)</u>	<u>-</u>	<u>-</u>	<u>(2,397,029)</u>	<u>(2,588,663)</u>
<b>Total other financing sources (uses), net</b>					
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(29,700)	-	1,956,303	1,926,603	(937,336)
Fund balances at beginning of year	<u>6,813,143</u>	<u>18,933</u>	<u>-</u>	<u>6,832,076</u>	<u>7,769,412</u>
Fund balances at end of year	<u>\$ 6,783,443</u>	<u>\$ 18,933</u>	<u>\$ 1,956,303</u>	<u>\$ 8,758,679</u>	<u>\$ 6,832,076</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Component Units - Proprietary Funds  
September 30, 1999

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.

Pohnpei Utilities Corporation (PUC) was established by State Public Law 2L-179-91. The primary purpose of the Corporation is to provide electrical, water and sewage 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, 1999

(With comparative totals as of September 30, 1998)

<u>ASSETS</u>	Pohnpei Port Authority	Pohnpei Utilities Corporation	Pohnpei Economic Development Authority	Pohnpei State Housing Authority	Totals	
					1999	1998
Cash and equivalents	\$ 76,245	\$ 483,644	\$ 38,070	\$ 191,939	\$ 789,898	\$ 836,710
Cash - restricted	300,000	-	-	-	300,000	300,000
Investments - other	-	552,642	500,500	-	1,053,142	809,008
Receivables, federal agencies	-	97,326	-	-	97,326	150,516
General receivable, net	111,120	2,331,232	29,734	-	2,472,086	2,875,271
Interest receivable	1,201	1,130	-	-	2,331	1,766
Advances	12,105	-	10,965	15,673	38,743	43,318
Loans receivables, net	-	46,514	40,000	3,635,111	3,721,625	3,742,229
Inventory, at cost	-	1,306,597	6,322	1,994	1,314,913	1,150,467
Self insurance fund	-	104,659	-	-	104,659	104,659
Scholarship fund	-	3,881	-	-	3,881	3,881
Prepaid expenses and other assets	3,373	2,640	-	-	6,013	58,176
Fixed assets, net	7,224,960	31,115,611	332,869	25,135	38,698,575	40,078,085
Due from primary government	-	-	-	128,441	128,441	82,142
<b>Total assets</b>	<b>\$ 7,729,004</b>	<b>\$ 36,045,876</b>	<b>\$ 958,460</b>	<b>\$ 3,998,293</b>	<b>\$ 48,731,633</b>	<b>\$ 50,236,228</b>
 <u>LIABILITIES AND FUND EQUITY</u> 						
Liabilities:						
Accounts payable	\$ 25,818	\$ 323,481	\$ 129,615	\$ 16,143	\$ 495,057	\$ 511,952
Accrued payroll and others	84,115	309,808	12,117	830	406,870	376,052
Deferred revenue	306,250	79,939	-	-	386,189	362,948
Due to primary government	-	-	15,990	-	15,990	14,688
Advances from clients	-	-	-	-	-	2,285
Notes payable	85,469	250,000	-	-	335,469	-
<b>Total liabilities</b>	<b>501,652</b>	<b>963,228</b>	<b>157,722</b>	<b>16,973</b>	<b>1,639,575</b>	<b>1,267,925</b>
Fund equity:						
Retained earnings (deficit)	410,923	8,124,393	(3,574,592)	(18,595)	4,942,129	4,601,344
Contributed capital	6,816,429	26,958,255	4,375,330	3,999,915	42,149,929	44,366,959
<b>Total fund equity</b>	<b>7,227,352</b>	<b>35,082,648</b>	<b>800,738</b>	<b>3,981,320</b>	<b>47,092,058</b>	<b>48,968,303</b>
<b>Total liabilities and fund equity</b>	<b>\$ 7,729,004</b>	<b>\$ 36,045,876</b>	<b>\$ 958,460</b>	<b>\$ 3,998,293</b>	<b>\$ 48,731,633</b>	<b>\$ 50,236,228</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, 1999  
(With comparative totals for the year ended September 30, 1998)

	Pohnpei Port Authority	Pohnpei Utilities Corporation	Pohnpei Economic Development Authority	Pohnpei State Housing Authority	Totals	
					1999	1998
<b>Operating revenues:</b>						
Charges for goods and services	\$ 611,707	\$ 6,551,517	\$ 740,219	\$ 253,312	\$ 8,156,755	\$ 8,880,199
Rental income	257,235	-	-	-	257,235	225,661
Other	21,826	-	-	-	21,826	20,642
<b>Total operating revenues</b>	<b>890,768</b>	<b>6,551,517</b>	<b>740,219</b>	<b>253,312</b>	<b>8,435,816</b>	<b>9,126,502</b>
<b>Operating expenses:</b>						
Cost of sales	-	-	1,140,225	-	1,140,225	1,345,209
Personnel services	560,756	1,416,986	-	110,138	2,087,880	2,157,535
Travel	55,310	32,860	-	5,970	94,140	112,456
Supplies and materials	43,119	171,348	-	1,287	215,754	124,793
Fuel	8,925	2,152,034	-	-	2,160,959	2,409,841
Contractual services	25,306	-	-	1,720	27,026	12,213
Doubtful debt expense	12,758	742,522	-	204,894	960,174	192,056
Utilities	35,316	-	-	1,123	36,439	54,781
Communications	12,826	34,997	-	1,152	48,975	45,345
Depreciation	668,907	2,159,351	-	7,182	2,835,440	2,862,729
Repairs and maintenance	38,791	841,491	-	1,873	882,155	828,075
Employee benefits	-	404,713	-	-	404,713	-
Training and safety	-	126,620	-	-	126,620	-
Other	23,705	235,201	-	1,899	260,805	788,774
<b>Total operating expenses</b>	<b>1,485,719</b>	<b>8,318,123</b>	<b>1,140,225</b>	<b>337,238</b>	<b>11,281,305</b>	<b>10,933,807</b>
<b>Operating loss</b>	<b>(594,951)</b>	<b>(1,766,606)</b>	<b>(400,006)</b>	<b>(83,926)</b>	<b>(2,845,489)</b>	<b>(1,807,305)</b>
<b>Nonoperating revenues (expenses):</b>						
Operating transfers in	-	-	-	111,612	111,612	475,910
Interest income	15,645	-	446	5,475	21,566	30,358
Spurline projects	-	136,780	-	-	136,780	80,688
Other	(2,282)	481,258	2,038	1,646	482,660	29,272
<b>Total nonoperating revenues (expenses), net</b>	<b>13,363</b>	<b>618,038</b>	<b>2,484</b>	<b>118,733</b>	<b>752,618</b>	<b>616,228</b>
<b>Net income (loss)</b>	<b>(581,588)</b>	<b>(1,148,568)</b>	<b>(397,522)</b>	<b>34,807</b>	<b>(2,092,871)</b>	<b>(1,191,077)</b>
<b>Add depreciation on fixed assets acquired by capital contributions that reduce contributed capital</b>	<b>587,891</b>	<b>1,826,528</b>	<b>19,237</b>	<b>-</b>	<b>2,433,656</b>	<b>2,395,204</b>
<b>Increase (decrease) in retained earnings</b>	<b>6,303</b>	<b>677,960</b>	<b>(378,285)</b>	<b>34,807</b>	<b>340,785</b>	<b>1,204,127</b>
<b>Retained earnings (deficit) at beginning 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>3,397,217</b>
<b>Retained earnings (deficit) at end of year</b>	<b>410,923</b>	<b>8,124,393</b>	<b>(3,574,592)</b>	<b>(18,595)</b>	<b>4,942,129</b>	<b>4,601,344</b>
<b>Contributed capital at beginning 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>46,371,106</b>
Contributions	112,912	-	100,026	3,688	216,626	391,057
Less depreciation	(587,891)	(1,826,528)	(19,237)	-	(2,433,656)	(2,395,204)
<b>Contributed capital at end of year</b>	<b>6,816,429</b>	<b>26,958,255</b>	<b>4,375,330</b>	<b>3,999,915</b>	<b>42,149,929</b>	<b>44,366,959</b>
<b>Fund equity at end of year</b>	<b>\$ 7,227,352</b>	<b>\$ 35,082,648</b>	<b>\$ 800,738</b>	<b>\$ 3,981,320</b>	<b>\$ 47,092,058</b>	<b>\$ 48,968,303</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, 1999  
(With comparative totals for the year ended September 30, 1998)

	Pohnpei Port Authority	Pohnpei Utilities Corporation	Pohnpei Economic Development Authority	Pohnpei State Housing Authority	Totals	
					1999	1998
<b>Cash flows from operating activities:</b>						
Operating loss	\$ (598,951)	\$ (1,766,606)	\$ (400,006)	\$ (83,926)	\$ (2,845,489)	\$ (1,807,305)
Other income	-	71,268	-	-	71,268	19,277
<b>Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:</b>						
Depreciation	668,907	2,159,351	110,861	7,182	2,946,301	2,916,793
Doubtful debt expense	12,758	742,522	178,148	204,894	1,138,322	192,056
Non-operating expenses, net	(2,556)	-	(2)	1	(2,557)	18,467
	<u>84,158</u>	<u>1,206,535</u>	<u>(110,999)</u>	<u>128,151</u>	<u>1,307,845</u>	<u>1,339,288</u>
<b>Changes in assets and liabilities:</b>						
General receivables, gross	10,709	(540,196)	26,080	-	(503,407)	(460,652)
Advances	3,076	-	(10,059)	(2,520)	(9,503)	(11,567)
Loans receivable, gross	-	(24,040)	-	(46,300)	(70,340)	(230,040)
Inventory, at cost	-	(167,560)	2,859	255	(164,446)	(60,054)
Interest receivable	-	-	-	-	-	16,091
Prepaid expenses and other assets	(3,273)	55,436	-	-	52,163	(46,560)
Due from primary government	-	-	1,302	(160,250)	(158,948)	(11,501)
Other receivables	(565)	-	-	-	(565)	848
Accounts payable	(622)	(75,831)	50,004	9,555	(16,894)	(115,493)
Accrued payroll and others	3,597	35,401	(7,508)	(671)	30,819	37,258
Deferred revenue	-	23,241	-	-	23,241	(39,888)
Advance from (payment to) clients	-	-	(2,000)	(285)	(2,285)	2,285
	<u>12,922</u>	<u>(693,549)</u>	<u>60,678</u>	<u>(200,216)</u>	<u>(820,165)</u>	<u>(919,273)</u>
<b>Net cash provided by (used in) operating activities</b>	<u>97,080</u>	<u>512,986</u>	<u>(50,321)</u>	<u>(72,065)</u>	<u>487,680</u>	<u>420,015</u>
<b>Cash flows from noncapital financing activities:</b>						
Proceeds from (repayment of) notes payable, net	-	250,000	-	-	250,000	(66,281)
Operating transfers in	-	-	-	111,612	111,612	712,545
Other noncapital financing activities	-	463,180	2,484	3,688	469,352	-
Spurline projects	-	136,780	-	-	136,780	-
Acquisition of debt	85,469	-	-	-	85,469	88,866
<b>Net cash provided by noncapital financing activities</b>	<u>85,469</u>	<u>849,960</u>	<u>2,484</u>	<u>115,300</u>	<u>1,053,213</u>	<u>735,130</u>
<b>Cash flows from capital and related financing activities:</b>						
Acquisition of fixed assets	(302,723)	(1,169,163)	(1,833)	(5,805)	(1,479,524)	(1,316,156)
Contributed capital	112,912	-	-	-	112,912	391,057
<b>Net cash used in capital and related financing activities</b>	<u>(189,811)</u>	<u>(1,169,163)</u>	<u>(1,833)</u>	<u>(5,805)</u>	<u>(1,366,612)</u>	<u>(925,099)</u>
<b>Cash flows from investing activities:</b>						
Payment to self-insurance fund, net	-	-	-	-	-	(20,544)
Interest income	15,645	-	-	7,122	22,767	28,950
Payments to PUC sinking fund, restricted investments	-	(244,134)	-	-	(244,134)	-
Other	274	-	-	-	274	(307,470)
<b>Net cash provided by (used in) investing activities</b>	<u>15,919</u>	<u>(244,134)</u>	<u>-</u>	<u>7,122</u>	<u>(221,093)</u>	<u>(299,064)</u>
<b>Net increase (decrease) in cash and equivalents</b>	<u>8,657</u>	<u>(50,351)</u>	<u>(49,670)</u>	<u>44,552</u>	<u>(46,812)</u>	<u>(69,018)</u>
<b>Cash and equivalents at beginning of year</b>	<u>67,588</u>	<u>533,995</u>	<u>87,740</u>	<u>147,387</u>	<u>836,710</u>	<u>905,728</u>
<b>Cash and equivalents at end of year</b>	<u>\$ 76,245</u>	<u>\$ 483,644</u>	<u>\$ 38,070</u>	<u>\$ 191,939</u>	<u>\$ 789,898</u>	<u>\$ 836,710</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 Johnny P. David  
Governor, State of Pohnpei  
Federated States of Micronesia:

We have audited the general purpose financial statements of the State of Pohnpei as of and for the year ended September 30, 1999, and have issued our report thereon dated August 28, 2000, which report was qualified due to the lack of updating the General Fixed Assets Account Group and the omission of the Pohnpei Fisheries Corporation, a Component Unit – Proprietary Fund. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 71 through 98) in findings 99-1 through 99-7 and 99L-1 and 99L-2.

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 99-6 through 99-21.



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 99-6 to be a material weakness.

This report is intended solely for the information and use of the management of the State of Pohnpei, federal awarding agencies, pass-through entities and the cognizant audit and other federal agencies, and is not intended to be and should not be used by anyone other than those specified parties.

*Deloitte + Touche LLP*

August 28, 2000



**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 Johnny P. David  
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, 1999. 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 71 through 98). 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 auditing standards generally accepted in the United States of America; 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 99-1 through 99-7 in the accompanying Schedule of Findings and Questioned Costs, the State of Pohnpei, did not comply with requirements regarding allowable costs/cost principles and subrecipient monitoring that are applicable to its Educational Grant (CFDA #84.256A), Special Education Grant (CFDA #84.027) and Compact Capital Funds (CFDA #15.875) 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, 1999.

### 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 99-1 through 99-7.

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 99-6 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, 1999, and have issued our report thereon dated August 28, 2000, which report was qualified due to the lack of updating the General Fund Fixed Assets Account Group and the omission of the Pohnpei Fisheries Corporation, a Component Unit – Proprietary Fund. Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards (pages 54 through 66) 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 solely for the information and use of the management of the State of Pohnpei, federal awarding agencies, pass-through entities and the cognizant audit and other federal agencies, and is not intended to be and should not be used by anyone other than those specified parties.

*Deloitte & Touche LLP*

August 28, 2000

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards  
U.S. Federal Assistance Fund  
Year Ended September 30, 1999

Grantor Program Title	CFDA I.D. #	Pohnpei Org. #	1999 Fiscal Year Expenditures
<u>U.S. Department of Agriculture</u>			
FY 97 Forestry Urban	10.664	3356	\$ 9,794
FY 97 Forestry Seedling	10.664	3357	1,153
FY 97 Forestry/Resource Management	10.664	3358	2,116
FY 98 Fire Prevention	10.664	3359	16,371
FY 98 Forestry	10.664	3375	14,812
Total U.S. Department of Agriculture (CFDA #10.664)			44,246
<u>U.S. Department of Education</u>			
FY98 Goal 2000 Program	84.276	3109	77,722
Total CFDA #84.276			77,722
FY98 Special Education	84.027	3116	457,571
FY97 Special Education	84.027	3118	326,968
Total CFDA #84.027			784,539
FY-98 Title VII Bilingual Education Support Services	84.194	3821	39,079
FY-99 Title VII Bilingual Education Support Services	84.194	3828	72,721
Total CFDA #84.194			111,800
Total U.S. Department of Education			974,061
<u>U.S. Department of the Interior</u>			
FY97 Historic Preservation	15.904	3370	3,536
FY97 Historic Preservation/Archive	15.904	3372	6,336
FY98 Historic Preservation	15.904	3373	50,287
FY99 Historic Preservation	15.904	3377	116
Total CFDA #15.904			60,275
Land and Survey	15.875	3451	67,879
Economic Planning Advisor	15.875	3454	72,819
Law Enforcement Need	15.875	3455	1,434
Pohnpei State O&M Engineer	15.875	3531	15,447
Financial Management Improvement	15.875	3541	4,887
FY95 Treasury OMIP	15.875	3543	3,456
FY97 OMIP Facility Rep.	15.875	3544	1,188
Economic Planning Advisor	15.875	3545	(42,432)
Solid Waste O&M Program	15.875	3546	21,250
Multi Agency Anti Fraud	15.875	3566	(815)
Total CFDA #15.875			145,113
Total U.S. Department of the Interior			205,388
Balance Forward			1,223,695

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, 1999

Grantor Program Title	CFDA I.D. #	Pohnpei Org. #	1999 Fiscal Year Expenditures
Balance Forwarded			\$ 1,223,695
<u>U.S. Department of Health and Human Services</u>			
FY98 Tuberculosis & Aids	93.116	3668	3,286
FY98 Tuberculosis & Aids	93.116	3682	<u>4,500</u>
Total CFDA #93.116			<u>7,786</u>
FY99 Family Planning	93.217	3672	82,247
FY2000 Family Planning	93.217	3686	<u>4,042</u>
Total CFDA #93.217			<u>86,289</u>
FY98 Community Health Center	93.224	3670	64,846
FY99 Community Health Center	93.224	3684	44,613
FY90 Community Health Center	93.224	3687	<u>147</u>
Total CFDA #93.224			<u>109,606</u>
FY98 Immunization	93.268	3669	9,685
FY99 Immunization	93.268	3681	<u>28,311</u>
Total CFDA #93.268			<u>37,996</u>
FY98 AIDS Prevention	93.940	3671	2,974
FY99 AIDS Prevention	93.940	3683	<u>8,160</u>
Total CFDA #93.940			<u>11,134</u>
FY97 Substance Abuse Prevention & Treatment	93.959	3666	(189)
FY98 Substance Abuse Prevention & Treatment	93.959	3675	<u>92,185</u>
Total CFDA #93.959			<u>91,996</u>
FY98 Sexually Transmitted Diseases	93.977	3674	747
FY99 Sexually Transmitted Diseases	93.977	3680	<u>4,511</u>
Total CFDA #93.977			<u>5,258</u>
FY-98 Diabetes Program	93.988	3673	6,500
FY-99 Diabetes Program	93.988	3690	<u>926</u>
Total CFDA #93.988			<u>7,426</u>
FY-98 Preventive Health	93.991	3679	<u>5,991</u>
Total CFDA #93.991			<u>5,991</u>
FY96 MCH Program	93.994	3656	365
FY97 MCH Program	93.994	3667	860
FY98 MCH Program	93.994	3676	78,744
FY98 MCH Program/Dental	93.994	3677	<u>10</u>
Total CFDA #93.994			<u>79,979</u>
Expanding Internet	93.879	3685	<u>792</u>
Total CFDA #93.879			<u>792</u>
Total U.S. Department of Health and Human Services			<u>444,253</u>
Balance Forward			<u>1,667,948</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, 1999

<u>Grantor Program Title</u>	<u>CFDA I.D. #</u>	<u>Pohnpei Org. #</u>	<u>1999 Fiscal Year Expenditures</u>
Balance Forwarded			\$ 1,667,948
<u>U.S. Department of Labor</u>			
FY96 JTPA Adult Program	17.250	3212	1,939
FY96 JTPA Participant Support	17.250	3213	151
FY97 JTPA Participant Support	17.250	3232	12,477
FY97 JTPA Adult Program	17.250	3233	19,116
FY97 JTPA Administration	17.250	3234	579
FY97 JTPA Youth Program	17.250	3235	2,040
FY98 JTPA Administration	17.250	3236	37,584
FY98 JTPA Youth Program	17.250	3237	15,514
FY98 JTPA Adult Program	17.250	3238	114,861
FY98 JTPA Participant Support	17.250	3239	59,418
FY99 JTPA Administration	17.250	3240	19,158
FY99 JTPA Adult Program	17.250	3241	14,871
Total CFDA #17.250			<u>297,708</u>
FY95 School to Work Program	17.249	3108	5,339
Total CFDA #17.249			<u>5,339</u>
Total U.S. Department of Labor			<u>303,047</u>
<u>Federal Emergency Management Agency</u>			
El Nino Drought/Public Assistance	83.516	3797	15,205
El Nino Drought/Sub.	83.516	3798	20
Total Federal Emergency Management Agency (CFDA #83.516)			<u>15,225</u>
<u>Direct U.S Grants - U.S. Department of Education</u>			
Freely Assoc. Ed. Grant	84.256A	3825	32,891
FY-98 Freely Assoc. Ed. Grant	84.256A	3827	149,333
FY-99 Freely Assoc. Ed. Grant	84.256A	3829	390,541
Total U.S Department of Education (CFDA #84.256A)			<u>572,765</u>
Total U.S. Federal Assistance Fund			<u>\$ 2,558,985</u>
Balance per the fund financial statements			\$ 2,558,985
Vocational Education Improvement Program grant transferred from Non U.S. Grants fund	84.256A	3947	113,846
FY95 Pohnpei Vision & Dreams grant transferred from Non U.S. Grants fund	84.256A	3962	5,110
Pacific Education in Residence grant transferred from Non U.S. Grants fund	84.256A	3965	1,500
			<u>\$ 2,679,441</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, 1999

<u>Grantor Program Title</u>	<u>CFDA I.D. #</u>	<u>Pohnpei Org. #</u>	<u>1999 Fiscal Year Expenditures</u>
<u>World Health Organization</u>			
Biodiversity/Administration	N/A	3972	\$ 7,810
Biodiversity/Awareness	N/A	3973	813
Biodiversity/Management	N/A	3974	2,241
Biodiversity/Training	N/A	3976	<u>1,271</u>
			<u>12,135</u>
<u>Other Grants</u>			
Capacity 21/Earth Day Celebration	N/A	3927	150
Capacity 21/Earth Day Celebration	N/A	3928	495
FY95 Watershed Biodivers	N/A	3932	33
Trochus Harverst Administration	N/A	3934	3,985
Quarentine Collection	N/A	3940	346
Vocational Education Improvement program	N/A	3947	113,846
Ohmine Elementary School Library	N/A	3961	2,819
FY95 Pohnpei Vision and Dreams	N/A	3962	5,110
Pacific Education in Residence	N/A	3965	1,500
Health Services Computer	N/A	3966	14,202
Official Allowance (Edward)	N/A	3967	2,421
Australian Grant Scheme	N/A	3968	<u>3,020</u>
			<u>147,927</u>
Total Other Federal and Direct Assistance Fund			<u>\$ 160,062</u>
Balance per the fund financial statements			\$ 160,062
Vocational Education Improvement Program grant			
transferred to U.S. Federal Grants fund	84.256A	3947	(113,846)
FY95 Pohnpei Vision & Dreams grant			
transferred to U.S. Federal Grants fund	84.256A	3962	(5,110)
Pacific Education in Residence grant			
transferred to U.S. Federal Grants fund	84.256A	3965	<u>(1,500)</u>
			<u>\$ 39,606</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, 1999

<u>Program Title</u>	<u>CFDA I.D. #</u>	<u>Pohnpei Org. #</u>	<u>1999 Fiscal Year Expenditures</u>
Supreme Court Operations	N/A	4873	\$ 75,017
FY-98 Joint Law Enforcement	N/A	4956	139,790
Pohnpei State Hospital Needs	N/A	4968	34,995
FY97 CHC Operation	N/A	4969	<u>20,909</u>
Total CFSM Projects Fund			<u>\$ 270,711</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, 1999

<u>Grantor Program Title</u>	<u>CFDA I.D. #</u>	<u>Pohnpei Org. #</u>	<u>1999 Fiscal Year Expenditures</u>
<u>Trust Territory of the Pacific Islands</u>			
Airport Runway Renovation	15.875	6325	\$ <u>246,649</u>
Total TTPI Capital Projects Fund			\$ <u><u>246,649</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, 1999

<u>Grantor Program Title</u>	<u>CFDA I.D. #</u>	<u>Pohnpei Org. #</u>	<u>1999 Fiscal Year Expenditures</u>
<u>Office of Insular Affairs</u>			
Administration ES&D	15.875	2148	\$ 354,653
Secondary Education	15.875	2150	<u>1,428,714</u>
Total Compact of Free Association Special Block Grant Fund - Section 221(B)			\$ <u><u>1,783,367</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, 1999

Program Title	CFDA I.D. #	Pohnpei Org. #	1999 Fiscal Year Expenditures
<u>Section 212(A) - Special Development Programs</u>			
ALMS Fund	15.875	2514	\$ 29,670
Department of Justice Supplement	15.875	2515	10,000
Land Use Planning & Zoning	15.875	2516	11,233
Pohnpei Housing Authority	15.875	2517	53,065
Micronesia Legal Services Corporation	15.875	2518	33,600
Aid to Kapinga Atoll Rehabilitation	15.875	2519	7,927
Transmitter & Accessories	15.875	2536	11,955
Civic Action Team	15.875	2913	250,000
			<u>407,450</u>
<u>Section 216(A)(2) - Health and Medical Programs</u>			
Outer Island Medical Referral	15.875	2355	9,235
FY93 Medical Referrals	15.875	2356	59,771
			<u>69,006</u>
<u>Section 214(B) - Energy Programs</u>			
Treasury and Administration Utilities	15.875	2752	31,168
Justice Utilities	15.875	2753	34,528
SBGFC Utilities	15.875	2754	80
Court of Land Tenure	15.875	2756	5,400
Social Affairs Utilities	15.875	2758	4,356
Public Broadcasting Corporation	15.875	2759	10,000
Supreme Court Utilities	15.875	2762	14,500
Micro Glory POL	15.875	2763	104,466
Governor's Office	15.875	2764	70,000
Sapwuahfik Household Solar	15.875	2769	177,260
Health Services Utilities	15.875	2780	264,148
Public Auditor's Office Utilities	15.875	2781	2,310
Foreign Investment Board Utilities	15.875	2782	1,216
Pohnpei Fisheries Corporation	15.875	2783	80,000
Budget Office Utilities	15.875	2787	6,311
Resource Management & Development Utilities	15.875	2789	46,660
Legislative Branch Utilities	15.875	2792	27,182
Education Utilities	15.875	2793	80,171
Environmental Protection Agency Utilities	15.875	2797	5,364
Office of the Governor Utilities	15.875	2798	10,503
			<u>975,623</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, 1999

<u>Program Title</u>	<u>CFDA I.D. #</u>	<u>Pohnpei Org. #</u>	<u>1999 Fiscal Year Expenditures</u>
<u>Section 216(A)(3) - Scholarship Programs</u>			
FY98 Post Secondary Assistance	15.875	2904	60,500
FY99 Post Secondary Assistance	15.875	2905	<u>288,150</u>
			<u>348,650</u>
Total Compact of Free Association Other Grants Fund			\$ <u><u>1,800,729</u></u>
Balance per the fund financial statements			\$ 1,667,665
Transfer out to component units	N/A	2517 & 2783	133,063
Unlocated			<u>1</u>
			\$ <u><u>1,800,729</u></u>

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

These funds are disbursed through the Office of 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, 1999

Grantor Program Title	CFDA I.D. #	Pohnpei Org. #	1999 Fiscal Year Expenditures
<u>Office of Territorial and International Affairs</u>			
Wone Elementary School	15.875	6024	\$ 19,110
Compact CIP Drawdowns	15.875	6099	202
FMHA Escrow Account	15.875	6122	42,739
Pohnpei Dock Extension	15.875	6179	12,500
Drydocking of MS Micro Glory	15.875	6235	3,197
Madolenihmw Infrastructure Project	15.875	6241	2,898
Access Road Nanpohnmal/Nanpil	15.875	6243	12,500
U Power Generation Extension Project	15.875	6266	10,000
Tourist Promotion &	15.875	6280	126
Upper Sapwohn Road Maintenance	15.875	6297	500
U Power Extension/Nanwel En Rohi	15.875	6405	5,000
Madolenihmw Development Project	15.875	6417	68,051
Kolonia Town Road Project	15.875	6419	18,375
Development/Maintenance Tourist A/Site	15.875	6420	5,326
Mwoakilloa Municipal Development Project	15.875	6426	3,180
Construction of Rohi & Rehntu	15.875	6430	45,240
Nukuoro Agriculture Project	15.875	6431	2,160
Kapingamarangi Municipal CIP 95	15.875	6432	30,025
U Municipal Vehicle	15.875	6439	31,523
Tomworoalong S. Spurline	15.875	6442	4,961
Financial Management Performance	15.875	6447	3,456
Nett District CIP	15.875	6450	24,913
Road Paving in Nett	15.875	6452	17,373
Technical Assistance Fund	15.875	6455	1,620
Takaieu Causeway	15.875	6462	31,523
Expansion & Renovation of PICS Cafeteria	15.875	6465	12,248
Kepine Power Distribution	15.875	6471	13,565
Pohnpei Water Resources Program	15.875	6472	19,188
Sapwata kai Water System	15.875	6475	22,518
Sekere Bypass Road	15.875	6476	59,418
OMIP Matching Technical Assistance Fund	15.875	6477	13,877
OMIP Technical Assistance Fund	15.875	6478	54,299
Kepine Spurline Extension	15.875	6481	16,152
Initial Paving of FSM Capital	15.875	6482	64,638
A&E Pohnlangas High School Project	15.875	6483	72,300
Circumferential Road Paving Phase IX	15.875	6484	849,082
Matching Fund Class Renovation	15.875	6485	96,692
Classroom Paliapailong School	15.875	6486	48,200
Construction of Classroom at Madolenihmw School	15.875	6487	226,277
Micro Glory Drydocking	15.875	6488	166,842
Trochus Development	15.875	6489	5,046
Dekehtik Dumpsite	15.875	6490	56,667
Tomworohi Power Extension	15.875	6491	407
Jail Renovation	15.875	6492	18,293
Arew Powe Road Paving	15.875	6493	32,760
Construction of Mand Basketball Court	15.875	6494	5,047
Balance Forward			<u>2,250,014</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, 1999

Grantor Program Title	CFDA I.D. #	Pohnpei Org. #	1999 Fiscal Year Expenditures
Balance Forwarded			\$ 2,250,014
Tamworohi/Kepirohi Water System	15.875	6495	8,203
Site Preparation of Chinese Demo.	15.875	6497	15,580
Upgrade Botanical Garden	15.875	6498	14,187
Dolosowi/Depe Power Line	15.875	6499	1,700
Sokehs Pah Road Paving	15.875	6501	91,000
Enipein Pah Road Paving	15.875	6502	22,413
Tamwoaroalong Road Paving	15.875	6503	2,500
Mwoakot Road Paving	15.875	6504	17,930
Kepin Mwomwi Road Paving	15.875	6505	2,000
Pehleng Community Fishing Project	15.875	6506	8,380
Completion of Wone Elementary School	15.875	6507	16,744
Upgrade of Secondary Road	15.875	6508	6,240
Lighting Devices Pwudoi	15.875	6509	500
Lighting Devices & Fence, Enipein	15.875	6510	500
Lighting Devices & Fence, Pehleng\	15.875	6511	500
Lighting Devices & Fence, Wone	15.875	6512	500
Eirke Road Paving	15.875	6513	3,000
Concrete Paving of Silversose Road	15.875	6514	15,470
Pahnsoumwuhmw Road Paving	15.875	6515	1,000
Kapingamarangi Basketball Court	15.875	6517	8,232
Kolonia School Basketball Court	15.875	6518	13,813
Nansokosok Road Upgrade	15.875	6519	10,000
Paving of Pahnelinmwahng Road	15.875	6520	13,650
Maintenance of Oloapoal Road	15.875	6521	700
Palipohn Nett Road Paving	15.875	6522	54,600
Kahmar Basketball Court	15.875	6523	1,000
Enipein Sponge Culture Project	15.875	6524	500
Kapingamarangi Dispensary	15.875	6525	19,079
Kapingamarangi Municipal CIP/Bridge	15.875	6526	8,131
Kepinle Retaining Wall	15.875	6527	3,674
Renovation of Lukop Dispensary	15.875	6531	12,264
Kolonia Town Government Building Renovation	15.875	6533	21,495
Nanmand Youth Fishing Project	15.875	6534	1,165
Nukuoro Black Pearl	15.875	6535	3,433
Pahnios Bridge Construction	15.875	6536	36,024
Temwen Basketball Court	15.875	6537	5,533
Meitik Bridge	15.875	6538	17,754
Can Recycling Program	15.875	6540	8,235
Sekere Road Paving	15.875	6541	87,992
Upgrade S/Wall Basketball Court	15.875	6542	10,533
Box Culverts Kolonia	15.875	6543	9,751
Nett Resource Management	15.875	6544	10,325
Technical Assistance FY99	15.875	6545	114,915
CIP Administration Cost	15.875	6546	15,681
Kitti Municipal Fishing Project	15.875	6547	28,691
Renovation of Rohi Elementary School	15.875	6548	18,188
Balance Forward			3,013,719

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, 1999

Grantor Program Title	CFDA I.D. #	Pohnpei Org. #	1999 Fiscal Year Expenditures
Balance Forwarded			\$ 3,013,719
Pahnpe Road Paving	15.875	6549	89,635
Sport Facilities Development	15.875	6550	49,304
Renovation of Sapwuahfik Municipal Office	15.875	6551	2,955
Construction of Ohmine Basketball Court	15.875	6552	14,623
Sokehs Powe, Sapwohn Road	15.875	6553	4,600
Mapping & Survey Project	15.875	6554	4,477
MTN Principal	15.875	6099	2,000,000
MTN Interest	15.875	6100	<u>411,200</u>
Total Compact of Free Association Capital Projects Fund - Section 211 (A) Capital Account			<u>\$ 5,590,513</u>
Note 1: A reconciliation of the above expenditures to the general purpose financial statements is shown below:			\$ 5,590,513
FY-99 MTN debt payments (Org. 6099 & 6100)			<u>(2,411,200)</u>
			<u>\$ 3,179,313</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**

Schedule of Expenditures of Federal Awards, Continued  
Compact of Free Association Section 211(a)  
Current Account Fund  
Year Ended September 30, 1999

Grantor Program Title	CFDA I.D. #	Pohnpei Org. #	1999 Fiscal Year Expenditures
General Fund:			
Current Account	15.875	Various	\$ <u>9,447,560</u>

Note: 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 then reallocates 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, 1999

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, 1999

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 69 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 1999 matters.

<u>Grant Title</u>	<u>Grantor Agency</u>	<u>CFDA No.</u>	<u>Loans Outstanding as of September 30, 1999</u>
Compact of Free Association:			
Capital Account Funds - Capital Projects, Section 211(A)	DOI-OTIA	15.875	\$ <u>4,731,100</u>
Total U.S. Department of the Interior			\$ <u>4,731,100</u>
USDA Rural Development:			
Housing Preservation Grant	USDA	10.433	\$ <u>392,866</u>
Total U.S. Department of Agriculture			\$ <u>392,866</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, 1999

Grantor/Program Title	CFDA No.	Total Authorizations	Prior Years' Expenditures	Expenditures for the Year Ended Sept. 30, 1999	Total Program Expenditures
<u>U.S. Department of the Interior:</u>					
Office of Territorial and International Affairs:					
<u>Compact of Free Association:</u>					
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	1,535,250	-	1,535,250
Power Hook-Ups		492,500	492,500	-	492,500
Kolonias 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>2,965,132</u>	<u>-</u>	<u>2,965,132</u>
<u>Operations and Maintenance Improvement</u>					
<u>Programs (OMIP):</u>					
Initialization of the PUC	15.875	430,250	430,249	-	430,249
Pohnpei Water, Sewerage, and Solid Waste Utilities Development, First-Year		810,000	809,999	-	809,999
Pohnpei Water, Sewerage, and Solid Waste Utilities Development, Second-Year		665,000	563,432	26,009	589,441
Pohnpei Water, Sewerage, and Solid Waste Utilities Development, Third-Year		443,500	99,714	127,297	227,011
Pohnpei Water, Sewerage, and Solid Waste Utilities Development, Fourth-Year		285,000	35,585	17,317	52,902
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	274,284	17,975	292,259
Pohnpei Power Generation and Distribution Fifth-Year		456,000	57,256	173,299	230,555
OMIP Bench		71,000	71,000	-	71,000
		<u>4,266,218</u>	<u>2,986,889</u>	<u>361,897</u>	<u>3,348,786</u>
<u>Technical Assistance:</u>					
PUC FSM-58	15.875	110,000	110,000	-	110,000
ALCO Repairs		25,000	25,000	-	25,000
Y2K Program		55,665	-	55,665	55,665
		<u>190,665</u>	<u>135,000</u>	<u>55,665</u>	<u>190,665</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	1,086,021	-	1,086,021
Audit Grant	15.875	32,000	32,000	-	32,000
		<u>1,332,000</u>	<u>1,318,021</u>	<u>-</u>	<u>1,318,021</u>
<u>Trust Territory of the Pacific Islands (TTP):</u>					
<u>Deficiency Funding:</u>					
Pohnpei Power	15.875	328,271	328,271	-	328,271
Kolonias Sewer		659,328	797,411 *	-	797,411
		<u>987,599</u>	<u>1,125,682</u>	<u>-</u>	<u>1,125,682</u>
Kolonias Water Improvements	15.875	290,700	290,700	-	290,700
		<u>\$ 12,811,296</u>	<u>\$ 11,643,698</u>	<u>\$ 417,562</u>	<u>\$ 12,061,260</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 Kolonias 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, 1999

<u>Grantor</u> <u>Program Title</u>	<u>CFDA No.</u>	1999 <u>Fiscal Year</u> <u>Expenditures</u>
<u>U.S. Dept. of the Interior</u> Compact of Free Association: 211(A) Capital Account	15.875	\$ <u>5,590,513</u>
Total Major Programs Under CFDA # 15.875 excluding Compact Section 211 (A) Current Account expenditures		<u>5,590,513</u>
<u>U.S. Department of Education</u> Special Education Program TFAS Educational Grant	84.027 84.256A	784,539 <u>693,221</u>
Total Major Programs Under U.S. Department of Education		<u>1,477,760</u>
Total U.S. Federal program expenditures selected excluding Compact Section 211 (A) Current Account expenditures		\$ <u>7,068,273</u>
Total U.S. Federal program expenditures excluding Compact Section 211 (A) Current Account expenditures		\$ <u>12,100,699</u>
% of total U.S. Federal expenditures covered by major programs excluding Compact Section 211 (A) Current Account expenditures		<u>58%</u>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 1999

**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 Education - Special Education Program	84.027
U.S. Department of Education - TFAS Educational Grant	84.256A

8. A threshold of \$363,021 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>
99-8	Compact Capital Unreserved Fund Balance	\$ -
99-9	Supporting Documentation	\$ -
99-10	Invoice Validation	\$ -
99-11	Payroll-Missing Checks	\$ -
99-12	Payroll-Keep Employee File Current	\$ -
99-13	Improper Classification of Federal Grants	\$ -
99-14	Bank Reconciliation	\$ -
99-15	Payroll-Distribution Report Does Not Agree to General Ledger	\$ -
99-16	Daily Edit and Update Procedures	\$ -
99-17	Interest Earned in Bank Accounts	\$ -
99-18	Carryover of Unexpended Grant Balances	\$ -
99-19	Cash Advances to Pohnpei Transportation Authority	\$ -
99-20	Revenue and Receipt Cycle	\$ -
99-21	Travel Advances	\$ -

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1999

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

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
99-1	Allowable Costs/Cost Principles	\$ -
99-2	Allowable Costs/Cost Principles	\$ -
99-3	Allowable Costs/Cost Principles	\$ -
99-4	Allowable Costs/Cost Principles	\$ -
99-5	Subrecipient Monitoring	\$ 18,424
99-6	Equipment and Real Property Management	\$ -
99-7	Allowable Costs/Cost Principles	\$ 21,015

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1999

Federal Findings

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
<b><u>Allowable Costs/Cost Principles - Refreshments</u></b>		
99-1. U.S. Dept. of Education/TFAS Educational Grant-CFDA #84.256A	<p><u>Criteria:</u> Program expenses should be limited to costs which are necessary and reasonable for program needs and which meet the cost principles of Federal grants to states and local governments.</p> <p><u>Condition:</u> The Dilog 135p report for the Freely Associated States Educational Grant Org. 3827 showed that during the year ended September 30, 1999, Pohnpei State expended \$12,155 for food costs purchased from individuals and various restaurants in Pohnpei.</p> <p><u>Cause:</u> The budget proposal for the project period March 1, 1998 to February 29, 1999 alluded to such costs in the categories for meeting expenses of \$3,000 and school and community expenses of \$10,000.</p> <p><u>Effect:</u> The U.S. Department of Education requested Pohnpei State to remove such expenses from its budget proposal for the period March 1, 1999 to February 28, 2000 citing such costs as unallowable. No questioned costs result from this finding as subsequently, Pohnpei State absorbed these expenditures in its general fund.</p> <p><u>Recommendation:</u> We recommend that Pohnpei State Department of Education ensure that costs charged to Federal awards be limited to costs which meet the costs principles of OMB Circular A-87.</p>	

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1999

Federal Findings, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
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**Allowable Costs/Cost Principles**

99-2. U.S. Dept.  
of Education/  
Special Education  
Grant-CFDA  
#84.027

Criteria: Allowable Costs/Cost Principles requires that costs charged be adequately supported by underlying documentation.

Condition: Supporting invoices for the following transactions could not be found (from a sample of 26 transactions aggregating \$144,745 out of a total population of \$784,539):

<u>Org. #</u>	<u>Acct. #</u>	<u>APV #</u>	<u>APV Amount</u>	<u>Ref./ Doc. #</u>	<u>Check #</u>
3118	8110	732427	\$1,351	T90248	120757
3118	8305	728356	\$1,082	N/A	117872
3118	8110	726273	\$1,629	T80150	-

Cause: Invoice files were not maintained in a manner to prevent documents from being misplaced.

Effect: We were unable to determine if the above transactions represent allowable costs under the Special Education Grant. No questioned costs result from this finding due to our inability to determine the extent of the above potential noncompliance.

Recommendation: We recommend that Pohnpei State ensure that all payments be adequately supported by authoritative documents before being filed and that supporting documents are filed in a timely and orderly manner.



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1999

Federal Findings, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
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**Allowable Costs/Cost Principles - Specific Support**

99-3. U.S. Dept.  
of Education/  
Special Education  
Grant-  
CFDA #84.027 &  
Educational  
Grant-CFDA #  
84.256A

Criteria: Allowable Costs/Cost principles require that costs charged to federal awards be sufficiently documented to show that such are necessary and reasonable for program needs.

Condition: Our tests of major programs showed insufficient documentation for space rental. Of the transactions below, the supporting invoice merely stated "space rental" and the department officials requesting payments did not offer details as to who utilized the space rental and for what purpose. Two of the invoices (APV 731134 and 116817) were from two islands on the reef of Pohnpei where picnic facilities are available. No justification was provided as to why space was rented at these locations rather than at one of the more widely used conference room areas on the main island. The invoice for APV 731916 was from a hotel/restaurant with no known conference room. The space rental was charged at the nightly room rate for the hotel, but no travel authorization was issued which would have been done had those been actual lodging costs.

The transactions below relate to the TFAS Education Grant (from a sample of 28 transactions aggregating \$184,208):

<u>Org.</u>	<u>Ref. Doc. #</u>	<u>APV #</u>	<u>APV Amt.</u>
3829	L91460	731134	\$2,477
3829	L91621	731916	\$585

These transactions relate to the SEPIIE Grant (Special Education) taken from a sample of 26 transactions aggregating \$144,745:

<u>Org.</u>	<u>Ref. Doc. #</u>	<u>APV #</u>	<u>APV Amt.</u>
3116	N/A	116817	\$189
3116	N/A	120236	\$200
3116	N/A	121669	\$500

Cause: The above condition occurred because Pohnpei State does not require that sufficient details be provided on invoices before processing of payments.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1999

Federal Findings, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
<b><u>Allowable Costs/Cost Principles - Specific Support, Continued</u></b>		
99-3. U.S. Dept. of Education/ Special Education Grant-CFDA #84.027 & Educational Grant-CFDA #84.256A	<u>Effect:</u> Costs which are not allowable under federal grants may have been charged to program funds. No questioned costs result from this condition as subsequently, these costs were charged to the Pohnpei State general fund.  <u>Recommendation:</u> We recommend that Pohnpei State require departments and vendors to provide sufficient description of expenses before processing payments.	

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1999

Federal Findings, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>																
<b><u>Allowable Costs/Cost Principles - Questionable Use of Compact Funds</u></b>																		
99-4. U.S. Dept. of Interior/ Compact CIP Fund -CFDA #15.875	<p><u>Criteria:</u> Costs charged to Compact Capital Funds should be consistent with the intent of the Compact Treaty.</p> <p><u>Condition:</u> The transactions below appear to be operational in nature and may not be allowable uses of Compact Capital funds (from a sample of 47 transactions aggregating \$930,033):</p> <table border="0" style="width: 100%; margin-left: 40px;"> <thead> <tr> <th style="text-align: left;"><u>Org./Acct. #</u></th> <th style="text-align: left;"><u>APV #</u></th> <th style="text-align: left;"><u>Ref./ Doc. #</u></th> <th style="text-align: left;"><u>Description</u></th> </tr> </thead> <tbody> <tr> <td>6478/8110</td> <td>730255</td> <td>T90178</td> <td>To attend APIL meeting on transportation matters - \$1,697</td> </tr> <tr> <td>6478/8110</td> <td>734086</td> <td>T90299</td> <td>Meetings in Guam and Saipan and closing ceremonies for South Pacific Games - \$2,415</td> </tr> <tr> <td>6478/8110</td> <td>N/A</td> <td>V90090</td> <td>Payroll for additional work on election - \$5,600</td> </tr> </tbody> </table> <p><u>Cause:</u> Pohnpei State may not be adequately reviewing costs charged to Compact Capital Funds for consistency with funding requirements.</p> <p><u>Effect:</u> The above transactions may not be allowable under Compact Capital funding. However, no questioned costs result as these charges have been subsequently absorbed by the State's general fund.</p> <p><u>Recommendation:</u> We recommend that Pohnpei State review transactions charged to the Compact Capital fund to ensure that costs charged are consistent with established guidelines.</p>	<u>Org./Acct. #</u>	<u>APV #</u>	<u>Ref./ Doc. #</u>	<u>Description</u>	6478/8110	730255	T90178	To attend APIL meeting on transportation matters - \$1,697	6478/8110	734086	T90299	Meetings in Guam and Saipan and closing ceremonies for South Pacific Games - \$2,415	6478/8110	N/A	V90090	Payroll for additional work on election - \$5,600	
<u>Org./Acct. #</u>	<u>APV #</u>	<u>Ref./ Doc. #</u>	<u>Description</u>															
6478/8110	730255	T90178	To attend APIL meeting on transportation matters - \$1,697															
6478/8110	734086	T90299	Meetings in Guam and Saipan and closing ceremonies for South Pacific Games - \$2,415															
6478/8110	N/A	V90090	Payroll for additional work on election - \$5,600															

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1999

Federal Findings, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
<b><u>Subrecipient Monitoring- PSHA</u></b>		
99-5. 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 \$42,776 was transferred from the revolving loan account to the warehouse and labor account. A material payment of employees' advance of \$24,352 was received in August 1999, and was credited back to the loan account.</p> <p>We also noted that the fund transfers made to the warehouse and labor account were used for employee advances and to pay other operating expenses.</p> <p>Furthermore, PSHA could not provide minutes of board meetings approving the transfers made.</p> <p><u>Cause:</u> It appears that the former Executive Director approved the fund transfers and the subsequent disbursements without the Board's approval.</p> <p><u>Effect:</u> The above condition resulted to noncompliance with the intent of the Compact of Free Association and also resulted in unauthorized disbursements.</p> <p><u>Recommendation:</u> We recommend that PSHA immediately resolve this matter with the Pohnpei State Legislature.</p>	<p>\$ <u>18,424</u></p>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1999

Federal Findings, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
<b><u>Subrecipient Monitoring- PSHA, Continued</u></b>		
99-5. Compact of Free Association/ Capital Project Fund - CFDA #15.875, Continued	<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:	
	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	24,000
	Fiscal year 1999	<u>18,424</u>
		<b>\$ <u>184,842</u></b>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1999

Federal Findings, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
<b><u>Equipment and Real Property Management</u></b>		
<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>
99-6	All	<p>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.</p> <p><u>Condition:</u> A summarization of the asset data from the automated fixed asset subsystem was not available nor was a schedule of asset deletions prepared to facilitate the preparation of a statement of changes in fixed assets. Additionally, a physical inventory of property has not been performed in over two years.</p> <p><u>Cause:</u> The cause of the above condition is unknown.</p> <p><u>Effect:</u> A misstatement of the State's General Fixed Asset Account Group could result.</p> <p><u>Prior Year Status:</u> Insufficient controls over updating of fixed assets data was reported as a finding in the Single Audit of Pohnpei State for the years 1988 through 1998.</p> <p><u>Recommendation:</u> We recommend that Pohnpei State Government update the automated master fixed asset listing based on acquisition and survey activity, summarize the master listing detail appropriately and prepare a statement of changes in fixed assets on a timely basis. Additionally, biannual physical inventories should be performed.</p>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1999

Federal Findings, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>																				
<b><u>Compact Capital Fund – Allowable Costs/Cost Principles</u></b>																						
<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>																				
99-7	15.875	Transactions should be supported by underlying documentation.																				
		<u>Condition:</u> Pohnpei State was unable to locate invoices and supporting contracts for the transactions below (from a sample of 47 Compact Capital funds transactions aggregating \$933,033):																				
		<table border="0" style="width: 100%; margin-left: 40px;"> <thead> <tr> <th style="text-align: left;"><u>Org. /Acct. #</u></th> <th style="text-align: left;"><u>APV #</u></th> <th style="text-align: left;"><u>APV Amount</u></th> <th style="text-align: left;"><u>Ref./ Doc. #</u></th> <th style="text-align: left;"><u>Check #</u></th> </tr> </thead> <tbody> <tr> <td>6235/ 8303</td> <td>735396</td> <td>\$ 3,197</td> <td>P90259</td> <td>3817</td> </tr> <tr> <td>6417/8400</td> <td>727813</td> <td>\$13,318</td> <td>C89158</td> <td>3333</td> </tr> <tr> <td>6506/8405</td> <td>732581</td> <td>\$ 4,500</td> <td>C90463</td> <td>3584</td> </tr> </tbody> </table>	<u>Org. /Acct. #</u>	<u>APV #</u>	<u>APV Amount</u>	<u>Ref./ Doc. #</u>	<u>Check #</u>	6235/ 8303	735396	\$ 3,197	P90259	3817	6417/8400	727813	\$13,318	C89158	3333	6506/8405	732581	\$ 4,500	C90463	3584
<u>Org. /Acct. #</u>	<u>APV #</u>	<u>APV Amount</u>	<u>Ref./ Doc. #</u>	<u>Check #</u>																		
6235/ 8303	735396	\$ 3,197	P90259	3817																		
6417/8400	727813	\$13,318	C89158	3333																		
6506/8405	732581	\$ 4,500	C90463	3584																		
		<u>Cause:</u> The above condition occurred as a result of inadequate maintenance of invoice and contract files.																				
		<u>Effect:</u> We were unable to determine if the above transactions were allowable costs under Compact CIP funding. As a result, we have designated \$21,015 as questioned costs.																				
		<u>21,015</u>																				
		<u>Recommendation:</u> We recommend that Pohnpei State ensure that all payments be adequately supported by authoritative documents before being filed and that supporting documents be filed in a timely and accurate manner.																				
	Total Questioned Costs	\$ <u>39,439</u>																				

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1999

**Compact Capital Unreserved Fund Balance**

Finding No. 99-8

Criteria: Governmental funds should have a positive unreserved fund balance.

Condition: The fund balance for the Compact Capital Fund was \$6,783,443 as of September 30, 1999. After deductions for reserves for related assets, continuing appropriations, and encumbrances, the unreserved fund balance for the Compact Fund at September 30, 1999 was a deficiency of \$3,607,366.

Cause: Appropriations have exceeded available revenues.

Effect: Funding for future capital projects may not be available.

Recommendation: We recommend that Pohnpei State limit future appropriations to the level necessary to eliminate the negative unreserved fund balance. Alternatively, the State should review the Compact Capital Fund continuing appropriations of \$5.4 million at September 30, 1999, to determine which projects can be canceled to help eliminate the negative unreserved fund balance.



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1999

**Supporting Documentation - Journal Vouchers**

**Finding No. 99-9**

Criteria: Journal voucher entries should be supported by authoritative support.

Condition: Two journal vouchers recorded approximately \$100,000 in interest income. However, we were unable to locate the attendant investment or basis for these entries.

Cause: The above condition occurred because personnel did not ensure that the journal vouchers were adequately supported.

Effect: Insufficient supporting documentation increases the risk of misstatements in the financial statements.

Recommendation: We recommend that the Chief of Finance or a designee review and approve all journal vouchers and ensure that transactions are properly classified and documented.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1999

**Invoice Validation**

Finding No. 99-10

Criteria: Altered invoices or other source documents which contains potential evidence of fraud should not be accepted as underlying support for transactions.

Condition: Our tests revealed a car rental invoice which may have been altered. An invoice was provided as support that had ink written over the original amount increasing the daily rate from \$25 to \$65 (from a sample of 47 transactions aggregating \$930,033). Tests also found another car rental invoice which appeared to have been altered (from a sample of 28 transactions aggregating \$184,208):

<u>Org. /Acct. #</u>	<u>APV #</u>	<u>APV Amount</u>	<u>Ref./ Doc. #</u>	<u>Check #</u>	<u>Check Amt.</u>
6478/8110	730255	\$1,697	T90178	3427	\$ 19
3827/8110	729158	\$2,198	T80353	118588	<u>116</u>
					\$ <u>135</u>

Cause: The cause of this condition is unknown.

Effect: The above transactions may have been processed in violation of local travel policies which require that travel-related car rental costs be supported by invoices to a maximum of \$65 per day. A combined total of \$532 over actual invoices were expensed as a result of the above condition.

Recommendation: We recommend that Pohnpei State ensure that invoices which may have subject to alteration be subject to detail investigation. The State should also ensure that travel costs are processed in accordance with State Financial Management regulations.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1999

**Payroll – Missing Checks**

**Finding No. 99-11**

Criteria: Proper controls should be in place to prevent documents from being misplaced.

Condition: Pohnpei State was unable to provide the cancelled payroll checks below (from a sample of 25 transactions aggregating \$10,093).

<u>Check #</u>	<u>Check Amt.</u>	<u>Pay Period</u>
619596	\$207	6
621868	\$156	8

Cause: The above checks appeared to have been misplaced.

Effect: The above condition has no effect on the financial statements.

Recommendation: We recommend that Pohnpei State ensure that documents are properly filed in an orderly manner.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1999

**Payroll – Keep Employee File Current**

**Finding No. 99-12**

Criteria: Employee's authorization for payroll deductions should be maintained on file.

Condition: Our review of employee files showed that for the employees below, authorizations for various payroll deductions could not be found on file (from a sample of 25 transactions aggregating \$10,093):

<u>Org. #</u>	<u>Check #</u>	<u>Employee #.</u>	<u>Pay Period</u>
7101	634862	046274	17
1410	624160	059308	10
1731	627223	069531	12
2150	621935	046002	8
1620	617420	065710	3
1510	615907	073571	2
1230	632428	002206	16
1410	632500	002508	16
2148	621868	045205	8

Cause: Employee files do not appear to contain current information.

Effect: The above condition has no impact on the financial statements. However, inadequate maintenance of employee files increases the risk of errors in payroll information.

Recommendation: We recommend that Pohnpei State ensure that employee files are regularly reviewed for accuracy.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1999

**Improper Classification of Federal Grants**

**Finding No. 99-13**

Criteria: To ensure the accuracy of the Schedule of Federal Awards, grants from the U.S. Federal Government should be properly identified in the general ledger.

Condition: Three U.S. federal programs whose expenditures for fiscal year 1999 aggregated \$120,456 were recorded in Fund 390000, titled "Non-U.S. Grants Fund". All other federal grants were recorded in Fund 300000.

Cause: Pohnpei State has been using Fund 390000 to record direct U.S. Federal grants, in addition to other one-time grants from non-U.S. Federal governments.

Effect: Improper classification of federal grants in the financial statements increases the risk of errors in the Schedule of Federal Awards.

Recommendation: We recommend that the three grants above be reassigned to Fund 300000.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1999

**Bank Reconciliation**

**Finding No. 99-14**

Criteria: General ledger accounts for cash accounts should be reconciled with bank statements on a regular and timely basis.

Condition: At the end of August 2000, Pohnpei State had not reconciled the majority of its general ledger bank accounts for the month of September 30, 1999. Reconciliation of the major accounts was completed by the second week of September 2000, but smaller accounts such as the Payroll imprest account remain unreconciled.

Cause: Some of the bank accounts had been previously reconciled but postings of the adjusting entries to the General Ledger were double and triple entered. State personnel did not check postings of adjusting entries to ensure that such were recorded properly.

Effect: Untimely reconciliations increase the risk of errors and fraud.

Recommendation: We recommend that the Chief of Finance establish a schedule of monthly reconciliations of all checking accounts and monitor the schedule to ensure compliance. In addition, a person independent of the preparer should review for accuracy before posting to the general ledger.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1999

**Payroll – Distribution Report Does not Agree to General Ledger**

**Finding No. 99-15**

**Criteria:** To ensure accurate posting of payroll information to the general ledger, the summarized information on payroll distribution transaction reports should agree with the payroll register summary by Organizations.

**Condition:** Employer contributions for the category “All Others” did not agree when comparing the payroll register to the distribution transaction reports as noted below:

<u>Org. #</u>	<u>Pay Period #</u>	<u>All Other Employer Contribution per Payroll Register</u>	<u>Distribution Transaction Report</u>	<u>Variance</u>
7101	12	\$ 532.99	\$ 1,481.89	\$ (948.90)
1410	3	3,677.01	1,804.01	1,873.00
7101	17	1,430.12	517.62	912.50
7101	15	1,471.32	527.62	943.70
1410	23	1,381.16	536.16	845.00
1410	25	3,669.48	1,788.68	1,880.80
1410	21	3,643.41	1,767.81	1,875.60
1620	3	483.14	275.14	208.00
1861	13	31.50	21.10	10.40
1510	2	24.61	120.81	(96.20)
1230	16	192.08	114.08	78.00
1410	16	3,785.61	1,785.21	2,000.40
1410	17	3,739.52	1,754.72	1,984.80
1410	4	3,642.99	1,801.99	1,841.00
1620	11	549.35	291.95	257.40
4956	18	50.07	34.47	15.60
2150	23	1,327.31	536.91	790.40
1410	5	3,675.91	1,802.91	1,873.00
1732	6	133.25	44.85	88.40
1620	11	549.35	291.55	257.80
1220	20	<u>1,540.15</u>	<u>468.95</u>	<u>1,071.20</u>
		\$ <u>35,530.33</u>	\$ <u>17,768.43</u>	\$ <u>17,761.90</u>

**Cause:** An understanding of the reasons for the two reports to disagree was not established and it was not determinable which report contained the correct information.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1999

**Payroll – Distribution Report Does not Agree to General Ledger, Continued**

Finding No. 99-15, Continued

Effect: It appears that employer contributions posted to the general ledger were approximately 50% less than amounts recorded in the payroll register. Total gross pay for the tested transactions was \$1,726,560. All other contributions by employer for these transactions per the payroll register was \$35,530 or 2% of total gross salaries. Extrapolating that percentage over total payroll expenditures of the General Fund for the year ended September 30, 1999 of \$11,119,139 would provide an estimated \$222,383 of payroll expense attributable to employer contributions for all others. If the payroll register figures for “All Other” employer contributions is correct, then the payroll expenditures per the general ledger may be understated by 50% of 222,383 or \$111,192.

Recommendation: We recommend that Pohnpei State review and reconcile the employer “all other” contributions variances between the distribution transaction report and the payroll register report and ensure that the amounts posted to the general ledger are accurate.



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1999

**Daily Edit and Update Procedures**

**Finding No. 99-16**

Criteria: Transactions entered into the automated accounting system should be edited for accuracy and updated (posted) to the general ledger on a timely basis.

Condition: Journal voucher transactions adjusting cash in bank balances were entered into the automated accounting system and remained in the "edit" mode for weeks.

Cause: There appears to be no procedures in place requiring daily edit and update of transactions entered.

Effect: The same adjusting entries to cash balances were doubled and tripled in posting to the general ledgers materially misstating cash general ledger balances and rendering previous bank reconciliations useless. Finance personnel spent an additional two weeks attempting to reverse out the duplicated entries.

Recommendation: We recommend that the Chief of Finance establish procedures to ensure that transactions are reviewed for accuracy and posted to the general ledger on a timely basis.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1999

**Interest Earned in Bank Accounts**

**Finding No. 99-17**

Criteria: Interest income should be recorded as revenue of the General Fund.

Condition: In the previous years, Pohnpei State established a savings account with a general ledger balance of \$209,784 at September 30, 1999 into which is transferred all interest earned on time certificates of deposits and other savings accounts. Although the interest income is recorded in the General Fund, the cash in bank balance is reported in Fund 600000-Compact Capital Projects Fund.

Cause: The cause for the above condition is unknown.

Effect: Cash and equivalents for the General and Capital Projects Funds for the year ended September 30, 1999 are immaterially misstated.

Recommendation: We recommend that the Pohnpei State Finance move the earned interest account to the Treasury Fund 955555.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1999

**Carryover of Unexpended Grant Balances**

**Finding No. 99-18**

**Criteria:** Proper accounting controls should be in place to ensure that expenditures are maintained within authorized spending limits.

**Condition:** In recent years, Pohnpei State has elected not to carry forward the unexpended balances of continuing grants from one fiscal year to the next. For projects with multi-year funding, only the current year budget is shown in the system. The system does not reflect any unexpended balances from the prior year which are still available. Instead, a manual ledger of unexpended balances is maintained for purposes of funds certification. The material funds affected by this practice are the U.S. Federal Grants Fund and Compact Capital Projects Fund.

**Cause:** The cause of the above condition is unknown.

**Effect:** Risk of budget overruns is increased because the built-in controls for funds certification in the automated accounting system are not being utilized. In addition, manual ledgers increase the risk of errors in the compilation of amounts for continuing appropriations in the Compact Capital Projects fund, which at the end of fiscal year 1999 were approximately \$5.4 million.

**Recommendation:** We recommend that Pohnpei State re-evaluate the effectiveness of its current practice and reconsider rolling forward the unexpended balances of continuing grants.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1999

**Cash Advances to Pohnpei Transportation Authority**

**Finding No. 99-19**

Criteria: Proper controls should be in place to ensure timely collection of receivables.

Condition: Pohnpei State advances cash to the Pohnpei Transportation Authority (an enterprise fund) for its operations. At the end of September 30, 1999, the amount of outstanding cash advances from the State Treasury for PTA's operations was \$1.17 million.

Cause: There currently appears to be no policy in place to limit advances to PTA to the extent of revenues collected by the Authority or based on appropriations.

Effect: PTA incurred an operating loss of \$572,383 for the year ended September 30, 1999 and it appears unlikely that the Authority will be able to repay the General Fund for the cash advances in the near future.

Recommendation: We recommend that Pohnpei State review its policy of advancing cash to PTA and institute controls to ensure that losses to the General Fund are minimized.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1999

**Revenue and Receipt Cycle**

**Finding No. 99-20**

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 1998.

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, 1999

**Travel Advances**

**Finding No. 99-21**

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 1998.

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, 1999

**Local Findings**

**Compact Capital Funds**

99L-1. 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 1998 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**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1999

**Missing Bidding Documents**

Finding No. 99L-2

Criteria: Pohnpei State Financial Management Regulations require that contracts over \$15,000 be formally let out for bid.

Condition: Pohnpei State was unable to provide evidence of competitive bidding for the contracts listed below (from a sample of 47 Compact Capital Funds transactions aggregating \$930,033):

<u>Org. #</u>	<u>Acct. #</u>	<u>APV #</u>	<u>Amt.</u>	<u>APV Doc. #</u>	<u>Ref. Check #</u>	<u>Check Amt.</u>
6417	8400	727813	\$13,318	C89158	3333	\$ 15,683
6419	8210	726609	\$18,375	N/A	3273	18,375
6476	8405	726064	\$50,864	C80250	3254	50,863
6489	8410	729775	\$128,100	N/A	3405	128,100
6490	8405	730490	\$21,250	C90114	3442	21,250
6538	8405	734008	\$17,754	C80053	3683	<u>17,754</u>
						\$ <u>252,025</u>

Cause: The above condition occurred due to the absence of the enforcement of existing procedures that require that evidence of competitive bidding be maintained on file.

Effect: We were unable to determine if the above transactions complied with local bidding laws.

Recommendation: We recommend that Pohnpei State ensure that evidence of competitive bidding is maintained for contracts exceeding \$15,000.



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Unresolved Prior Years' Findings and Questioned Costs  
Year Ended September 30, 1999

The following is a summary of unresolved questioned costs of the State of Pohnpei as of September 30, 1999:

	Questioned Costs Set Forth in Prior Audit Report <u>1998</u>	Questioned Costs Resolved in Fiscal Year <u>1999</u>	<u>Questioned Costs at September 30, 1999</u>
Unresolved Questioned Costs FY 96	\$ 15,182	\$ -	\$ 15,182
Unresolved Questioned Costs FY 98	24,000	-	24,000
Unresolved Questioned Costs FY 99	<u>-</u>	<u>-</u>	<u>39,439</u>
	\$ <u>39,182</u>	\$ <u>-</u>	\$ <u>78,621</u>



# 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

November 29, 2000

Deloitte and Touche  
Kolonia, Pohnpei FM 96941

Gentlemen:

Thank you for allowing us the opportunity to respond to the audit findings of fiscal year ending September 30, 1999. The following are Pohnpei State's responses to the Schedule of Findings and Questioned Costs:

**Federal Finding 99-1: The Department of Treasury and Administration concurs with this finding.**

Corrective Action Plan: The Department of Treasury and Administration have already JV'd this question cost from org 3827 to Education general fund org 1405 for FY 2000.

**Federal Finding 99-2: The Department of Treasury and Administration concurs with this finding.**

Corrective Action Plan: Director of Treasury and Administration with the assistance of the Chief-Division of Public Finance will make sure that supporting documents are properly filed on a daily basis. Checks are being filed numerically instead of by vendor, which use to be case which will minimize this kind of problem. We believe that this will minimize this kind of problem.

**Federal Finding 99-3: The Department of Treasury and Administration concurs with this finding. Division of Public Finance have been accepting registration receipts as evidence of conference attendance.**

Corrective Action Plan: Dept. of Treasury Administration effective FY2000 started requiring filing of trip report, registration fee receipts and certificate of completion of workshop/conference.

**Federal Finding 99-4: Department of Treasury and Administration concurs with this finding.**

Corrective Action Plan: The Department of Treasury and Administration will adopt the auditor's recommendation to eliminate such non compliance in the future.

**Federal Finding 99-5: The Department of Treasury and Administration concurs with this finding.**

Corrective Action Plan- Director of Treasury and Administration had met with the governor to help resolve this question cost and was assured that this issue is brought to the attention of PSHA Board of Directors.

**Federal Finding 99-6: Department of Treasury Administration concurs with this finding.**

Corrective Action Plan: Division of Public Finance is working with IDC to resolve this finding. Our system for FY2000 can now produce summary of the fixed asset detail.

**Federal Finding 99-7: Department of Treasury and Administration concurs with this finding.**

Corrective Action Plan: The Department of Treasury and Administration will adopt the auditor's recommendation and have these resolved in FY 2000.

**Federal Finding 99-8: The Department of Treasury and Administration concurs with this finding.**

Corrective Action Plan: We have started on intensive reconciliation of the Compact Capital Fund continuing appropriation which we are sure will help eliminate the negative unreserved fund balance.

**Federal Finding 99-9: Response Dept. of Treasury Administration does not concur with this finding. Further review of Journal Voucher for interest income indicates that they were properly supported.**

**Federal Finding 99-10: Response : Department of Treasury & Administration does not concur with this finding. Review of supporting documents indicates that total rental receipts exceeded the amount authorized on the TA.**

**Federal Finding 99-11: The Department of Treasury and Administration concurs with this finding.**

Corrective Action Plan: The Department of Treasury and Administration will adopt the auditor's recommendation and will make sure that non-compliance is eliminated in the future.

**Federal Finding 99-12: The Department of Treasury & Administration concurs with this finding.**

Corrective Action Plan: The Department will adopt the auditor's recommendation and will ensure that this non-compliance does not happen again in Fiscal Year 2000.

**Federal Finding 99-13: The Department of Treasury and Administration concurs with this finding.**

Corrective Action Plan – The Department of Treasury and Administration effective FY2000 will make the necessary adjustments to transfer and book such transaction in Fund 300000 instead of Fund 390000.

**Federal Finding 99-14: The Department of Treasury Administration does concur with this finding. The Division of Public Finance will make sure that reconciliation of each account is done on a monthly basis effective FY 2000.**

**Federal Finding 99-15 : The Department of Treasury and Administration does concur with this finding.**

Corrective Action Plan: We have already contacted IDC our software company to look into this problem. Note that employee's contribution for the category "All Others" were pre-set to effect this contribution.

**Federal Finding 99-16 : The Department of Treasury Administration does not concur with this finding. Transactions entered into the automated accounting system are edited on a weekly basis.**

**Federal Finding 99-17 The Department of Treasury and Administration concur with this finding.**

Corrective Action planning effective FY2000 all interests earned is being transfer from fund 600000 to fund 955555.

**Federal Finding 99-18: The Department of Treasury and Administration concurs with this finding.**

Corrective Action Plan: This is just a matter of changing an option in the automated computer system. Effective FY2001 the option to carry forward the unexpended balances of continuing grants will be reinstalled in the system.

**Federal Finding 99-19 : The Department of Treasury Administration concurs with this finding.**

Corrective Action Plan: PTA with the assistance of The Dept. of Treasury and Administration has eliminated 31 positions in FY2000. At the same time PTA with the approval of Dept. of Treasury Administration had purchased some heavy equipment that PTA used to rent. Dept. of Treasury and Administration during the same period had given its assistance to PTA in its collection of its receivables. At the beginning of FY2001 Director of Treasury and Administration met with the governor regarding advancing of general fund money to PTA. He was assured by the governor that he will seek legislature assistance through appropriation in resolving this issue.

**Federal Finding No. 99-20: The Department. of Treasury and Administration concurs with this finding.**

Corrective Action Plan: An effort has been made by the Dept. of Treasury and Administration to ensure that Pohnpei Supreme Court abides by Financial Management Regulations regarding daily deposits of cash collections.

**Federal Finding No. 99-21- The Department. of Treasury and Administration concurs with the finding.**

Corrective Action Plan- Division of Public Finance through Director of Treasury and Administration will seek the assistance of IDC our software company to resolve this finding for FY2000.

**Federal Finding 99L-1: The Department. of Treasury and Administration concurs with the finding.**

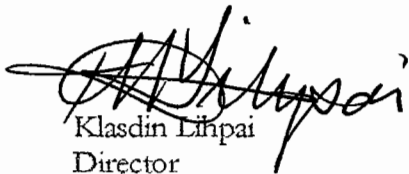
Corrective Action Plan. Dept. of Treasury and Administration will seek an opinion from the FSM Attorney General to provide a definite position on this issue before the completion of the audit for FY2000.

**Federal Finding 99L-2: The Department of Treasury and Administration concurs with this finding.**

Corrective Action Plan: The Department of Treasury and Administration started requiring filing of bid awards before funds certification of a project contract.

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

Sincerely,



Klasdin Lihpai  
Director

Department of Treasury & Administration