

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

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

YEAR ENDED SEPTEMBER 30, 2001

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

YEAR ENDED SEPTEMBER 30, 2001

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FEDERATED STATES OF MICRONESIA**

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**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

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

YEAR ENDED SEPTEMBER 30, 2001



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, 2001, and for the year then ended. These general purpose financial statements are the responsibility of the management of the State of Pohnpei. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

Except as discussed in the following paragraphs, we conducted our audit in accordance with 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 general purpose financial statements referred to above do not include the Pohnpei Economic Development Authority and Pohnpei State Housing Authority, Component Units - Proprietary Funds, which in our opinion, should be included to conform with accounting principles generally accepted in the United States of America.

The general purpose financial statements referred to above include unaudited financial statements supporting the financial activities of the Pohnpei Transportation Authority which comprises the Proprietary Fund Type – Enterprise Fund.

We were not able to apply sufficient alternative procedures to assure ourselves as to the propriety of advances receivable, accounts payable and continuing appropriations for all Governmental Fund Types, inventories of the Proprietary Fund Type – Internal Service Fund, notes payable and charges for goods and services of the Pohnpei Fisheries Corporation, a Component Unit – Proprietary Fund and accounts payable and related expenses of the Pohnpei Port Authority, a Component Unit – Proprietary Fund as of and for the year ended September 30, 2001.

The State of Pohnpei has not adequately updated its General Fixed Assets Account Group during the year ended September 30, 2001, 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.

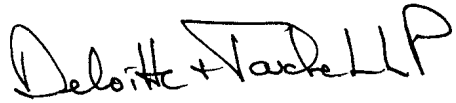
We were not able to obtain financial statements for Caroline Fisheries Corporation to support Pohnpei State's equity investment as described in note 6 to the general purpose financial statements. Accordingly, we were not able to verify the carrying value of Pohnpei State's Capital Project Fund investment in Caroline Fisheries Corporation and whether all disclosures related to this investee have been included in the accompanying general purpose financial statements.

In our opinion, except for the effects on the general purpose financial statements of such adjustments, if any, as might have been determined to be necessary had we been able to 1) assure ourselves as to the propriety of advances receivable, accounts payable, and continuing appropriations of all Governmental Fund Types; inventories of the Proprietary Fund Type – Internal Service Fund; notes payable and charges for goods and services of the Pohnpei Fisheries Corporation, a Component Unit – Proprietary Funds; accounts payable and related expenses of the Pohnpei Port Authority, a Component Unit – Proprietary Fund; and the General Fixed Assets Account Group; 2) obtain financial statements of Pohnpei Economic Development Authority and Pohnpei State Housing Authority, Component Units – Proprietary Funds; 3) obtain audited financial statements of Pohnpei Transportation Authority, Proprietary Fund Type – Enterprise Fund; and 4) examine evidence regarding the investment in Caroline Fisheries Corporation; as discussed in the third through seventh 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 sixth paragraph above, present fairly, in all material respects, the financial position of the State of Pohnpei as of September 30, 2001, 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.

As discussed in note 18 to the general purpose financial statements, the State changed its method of accounting for nonexchange transactions to conform with Governmental Accounting Standards Board Statement No. 33 and has restated the 2000 financial statements to reflect the change.

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, 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 September 6, 2002 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.

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

September 6, 2002

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Units
September 30, 2001
(With comparative totals as of September 30, 2000)

	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			2001	2000
ASSETS													
Cash and equivalents (note 2)	\$ 1,202,432	\$ 500,042	\$ 837,942	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,540,416	\$ 2,166,359	\$ 4,706,775	\$ 2,995,120
Cash - restricted (note 2)	1,994,921	-	1,306,274	2,735,208	-	-	-	-	-	6,036,403	308,841	6,345,244	7,249,893
Investments (notes 2 and 6)	3,778,777	847,170	1,000,000	-	-	-	-	-	-	5,625,947	-	5,625,947	5,675,310
Investments - other (note 6)	-	-	-	-	-	-	-	-	-	-	542,429	542,429	1,602,293
Receivables from other governments (note 3)	1,012,501	2,751,451	406,028	-	14,201	-	-	-	-	4,184,181	-	4,184,181	1,681,320
Receivables, federal agencies (note 3)	-	1,011,051	200,419	-	-	-	-	-	-	1,211,470	41,536	1,253,006	1,260,454
General receivables, net (note 4)	-	3,928	16,298	-	607,031	42,612	1,851	-	-	671,720	2,683,027	3,354,747	3,322,322
Taxes and leases receivable (note 4)	2,034,915	-	-	-	-	-	-	-	-	2,034,915	-	2,034,915	2,077,527
Allowance for uncollectibles (note 4)	(2,034,915)	-	-	-	-	-	-	-	-	(2,034,915)	-	(2,034,915)	(2,034,915)
Interest receivable (note 4)	24,227	-	-	-	-	-	-	-	-	24,227	143,905	168,132	32,013
Advances	393,350	439,232	123,757	-	-	-	10,676	-	-	967,015	33,628	1,000,643	938,256
Loans receivable, net (note 7)	-	-	2,544,697	-	-	-	-	-	-	2,544,697	15,813	2,560,510	6,231,478
Due from other funds (note 12)	1,222,160	2,463,469	3,536,982	42,474	-	-	-	-	-	7,265,085	-	7,265,085	7,219,343
Inventory, at cost	-	15,747	-	-	246,559	5,969	-	-	-	268,275	1,345,204	1,613,479	1,607,756
Self insurance fund (note 14)	-	-	-	-	-	-	-	-	-	-	121,331	121,331	115,632
Scholarship fund	-	-	-	-	-	-	-	-	-	-	3,881	3,881	3,881
Prepaid expenses and other assets	-	-	-	-	-	-	-	-	-	-	42,100	42,100	75,997
Fixed assets, net (note 5)	-	-	-	-	940,543	-	-	49,323,802	-	50,264,345	39,327,178	89,591,523	91,152,402
Amount available in debt service fund	-	-	-	-	-	-	-	-	2,777,682	2,777,682	-	2,777,682	1,943,499
Amount to be provided for retirement of long-term debt	-	-	-	-	-	-	-	-	2,705,650	2,705,650	-	2,705,650	5,069,470
Due from primary government	-	-	-	-	-	-	-	-	-	-	4,313	-	85,830
Total assets	\$ 9,628,368	\$ 8,032,090	\$ 9,972,397	\$ 2,777,682	\$ 1,808,334	\$ 48,581	\$ 12,527	\$ 49,323,802	\$ 5,483,332	\$ 87,087,113	\$ 46,779,545	\$ 133,862,345	\$ 138,304,881

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, 2001
(With comparative totals as of September 30, 2000)

	Governmental Fund Types				Proprietary	Fiduciary	Account Groups		Totals	Component	Totals		
	General	Special Revenue	Capital Projects	Debt Service	Enterprise	Internal Service	Expendable Trust	General	General	Primary Government (Memorandum Only)	Units Proprietary Funds	Reporting Entity (Memorandum Only)	
								Fixed Assets	Long-Term Debt			2001	2000
LIABILITIES AND FUND EQUITY (DEFICIENCY)													
Liabilities:													
Accounts payable	\$ 737,583	\$ 458,272	\$ 99,175	\$ -	\$ 274,983	\$ -	\$ 6,128	\$ -	\$ -	\$ 1,576,141	\$ 2,388,200	\$ 3,964,341	\$ 3,060,846
Accrued payroll and others	581,773	184,504	1,939	-	16,493	-	140	-	-	784,849	546,755	1,331,604	1,585,006
Due to other funds (note 12)	2,407,420	3,710,646	292,048	-	682,913	66,656	105,402	-	-	7,265,085	-	7,265,085	7,219,343
Deferred revenue	-	-	-	-	5,100	-	-	-	-	5,100	369,463	374,563	371,542
Notes payable (note 11)	-	-	-	-	-	-	-	-	4,200,000	4,200,000	5,081,790	9,281,790	10,671,754
Vacation leave accrual	-	-	-	-	-	-	-	-	527,332	527,332	-	527,332	394,877
Other payables (notes 9 and 17)	1,758,816	-	-	-	-	-	-	-	756,000	2,514,816	-	2,514,816	2,338,816
Total liabilities	5,485,592	4,353,422	393,162	-	979,489	66,656	111,670	-	5,483,332	16,873,323	8,386,208	25,259,531	25,642,184
Fund equity (deficiency):													
Investment in general fixed assets	-	-	-	-	-	-	-	49,323,802	-	49,323,802	-	49,323,802	49,323,802
Retained earnings (deficit)	-	-	-	-	828,845	(18,075)	-	-	-	810,770	38,393,337	39,204,107	42,923,007
Fund balances (deficit):													
Reserved for:													
Related assets	3,495,188	395,121	4,072,413	-	-	-	-	-	-	7,962,722	-	7,962,722	6,553,220
Encumbrances	568,093	1,252,083	2,710,051	-	-	-	-	-	-	4,530,227	-	4,530,227	3,956,605
Continuing appropriations (note 13)	97,340	-	6,908,925	-	-	-	-	-	-	7,006,265	-	7,006,265	7,272,895
Long-term debt	-	-	-	2,777,682	-	-	-	-	-	2,777,682	-	2,777,682	1,943,499
Unreserved (deficit)	(17,845)	2,031,464	(4,112,154)	-	-	-	(99,143)	-	-	(2,197,678)	-	(2,197,678)	689,669
Total fund equity (deficiency)	4,142,776	3,678,668	9,579,235	2,777,682	828,845	(18,075)	(99,143)	49,323,802	-	70,213,790	38,393,337	108,607,127	112,662,697
Contingencies and commitments (note 9)													
Total liabilities and fund equity (deficiency)	\$ 9,628,368	\$ 8,032,090	\$ 9,972,397	\$ 2,777,682	\$ 1,808,334	\$ 48,581	\$ 12,527	\$ 49,323,802	\$ 5,483,332	\$ 87,087,113	\$ 46,779,545	\$ 133,866,658	\$ 138,304,881

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 Funds
Year Ended September 30, 2001
(With Comparative Totals for the Year Ended September 30, 2000)

	Governmental Fund Types				Fiduciary Fund Type Expendable Trust	Totals Reporting Entity (Memorandum Only)	
	General	Special Revenue	Capital Projects	Debt Service		2001	2000
Revenues:							
Compact of Free Association:							
Base grant	\$ 5,652,000	\$ 3,247,783	\$ 4,072,000	\$ -	\$ -	\$ 12,971,783	\$ 12,971,055
Inflation adjustment	3,165,120	560,000	2,280,320	-	-	6,005,440	5,791,688
Revenue sharing	4,589,177	-	1,798,200	-	-	6,387,377	7,057,726
Investment income (loss) (note 2)	(824,858)	-	(2,588)	(594,892)	-	(1,422,338)	1,123,494
Interest income	71,627	-	-	-	-	71,627	125,517
Federal grants	-	3,141,682	-	-	-	3,141,682	3,099,300
Taxes and licenses	2,277,381	479,581	-	-	-	2,756,962	2,608,150
Fines and penalties	141,647	-	-	-	-	141,647	131,437
Public service charges	26,296	-	-	-	-	26,296	29,854
CFSM grants	-	1,247,203	-	-	-	1,247,203	378,594
Other	102,807	383,240	-	-	25,038	511,085	421,944
Total revenues	15,201,197	9,059,489	8,147,932	(594,892)	25,038	31,838,764	33,738,759
Expenditures:							
General government	4,481,808	1,454,316	-	-	-	5,936,124	5,377,434
Education	3,935,455	4,093,028	-	-	-	8,028,483	7,822,048
Health services	3,135,751	1,023,032	-	-	-	4,158,783	4,041,548
Land and natural resources	419,470	-	-	-	34,336	453,806	889,602
Public works	-	1,761,579	-	-	-	1,761,579	479,845
Public safety	941,114	149,814	-	-	-	1,090,928	1,380,739
Boards, commissions and other appropriations	947,714	-	-	-	-	947,714	738,021
Capital projects	-	-	5,872,420	-	-	5,872,420	3,814,158
Municipal governments	1,954,380	-	-	-	-	1,954,380	2,020,976
Other	-	29,893	-	-	-	29,893	70,713
Total expenditures	15,815,692	8,511,662	5,872,420	-	34,336	30,234,110	26,635,084
Excess (deficiency) of revenues over (under) expenditures	(614,495)	547,827	2,275,512	(594,892)	(9,298)	1,604,654	7,103,675
Other financing sources (uses):							
Repayment of notes payable (note 11)	(640,000)	-	(2,000,000)	-	-	(2,640,000)	(2,000,000)
Interest expense (note 11)	-	-	(64,283)	(42,000)	-	(106,283)	(248,135)
Transfers in (note 8)	-	-	-	1,471,075	-	1,471,075	600,000
Transfers out (note 8)	(13,660)	(1,594,734)	-	-	-	(1,608,394)	(2,879,589)
Total other financing sources (uses), net	(653,660)	(1,594,734)	(2,064,283)	1,429,075	-	(2,883,602)	(4,527,724)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(1,268,155)	(1,046,907)	211,229	834,183	(9,298)	(1,278,948)	2,575,951
Fund balances (deficit) at beginning of year (as restated, note 18)	5,410,931	4,725,575	9,368,006	1,943,499	(89,845)	21,358,166	18,782,215
Fund balances (deficit) at end of year	\$ 4,142,776	\$ 3,678,668	\$ 9,579,235	\$ 2,777,682	\$ (99,143)	\$ 20,079,218	\$ 21,358,166

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, 2001

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues:			
Compact	\$ 8,704,080	\$ 8,817,120	\$ 113,040
Local revenues	6,728,871	7,208,935	480,064
Investment income (loss) (note 2)	550,000	(824,858)	(1,374,858)
	<u>15,982,951</u>	<u>15,201,197</u>	<u>(781,754)</u>
Total revenues			
Expenditures:			
General government	5,605,335	5,011,449	593,886
Health services	3,345,939	3,101,658	244,281
Education	3,943,277	3,924,253	19,024
Public safety	991,462	945,263	46,199
Boards, commissions and other external appropriations	832,496	637,821	194,675
Municipal governments and projects	1,955,100	1,954,383	717
	<u>16,673,609</u>	<u>15,574,827</u>	<u>1,098,782</u>
Total expenditures, budgetary basis			
Excess (deficiency) of revenues over (under) expenditures	<u>(690,658)</u>	<u>(373,630)</u>	<u>317,028</u>
Other financing sources (uses):			
Operating transfers out	<u>(652,929)</u>	<u>(652,707)</u>	<u>222</u>
Total other financing sources (uses), net	<u>(652,929)</u>	<u>(652,707)</u>	<u>222</u>
Deficiency of revenues and other financing sources under expenditures and other financing uses	(1,343,587)	(1,026,337)	317,250
Unreserved fund balance at beginning of year	2,036,055	2,036,055	-
Other changes in unreserved fund balance:			
Increase in reserve for related assets	-	(1,294,193)	(1,294,193)
Decrease in reserve for continuing appropriations	<u>-</u>	<u>266,630</u>	<u>266,630</u>
Unreserved fund balance at end of year	<u>\$ 692,468</u>	<u>\$ (17,845)</u>	<u>\$ (710,313)</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 Unit
Year Ended September 30, 2001
(With comparative totals for the year ended September 30, 2000)

	Proprietary Fund Types		Totals Primary Government	Component Units	Totals Reporting Entity	
	Enterprise	Internal Service	(Memorandum Only)	Proprietary Funds	(Memorandum Only)	
					2001	2000
Operating revenues:						
Charges for goods and services	\$ 2,945,079	\$ 5,473	\$ 2,950,552	\$ 9,938,548	\$ 12,889,100	\$ 10,282,373
Rental income	-	-	-	248,113	248,113	252,924
Other	525,643	-	525,643	17,046	542,689	719,847
Total operating revenues	3,470,722	5,473	3,476,195	10,203,707	13,679,902	11,255,144
Operating expenses:						
Cost of sales	2,160,953	-	2,160,953	1,466,126	3,627,079	3,295,457
Personnel services	-	-	-	2,281,771	2,281,771	2,305,558
Travel	-	-	-	97,536	97,536	160,496
Supplies and materials	-	-	-	224,701	224,701	168,188
Fuel	-	-	-	3,571,797	3,571,797	3,131,679
Contractual services	-	-	-	11,179	11,179	36,107
Bad debt	-	-	-	998,920	998,920	725,043
Utilities	-	-	-	36,984	36,984	52,505
Communications	-	-	-	57,798	57,798	73,536
Depreciation	-	-	-	2,640,224	2,640,224	3,226,513
Repairs and maintenance	-	-	-	724,009	724,009	847,635
Employee benefits	-	-	-	501,845	501,845	455,759
Training and safety	-	-	-	86,366	86,366	135,812
Other	-	13,289	13,289	487,797	501,086	325,793
Total operating expenses	2,160,953	13,289	2,174,242	13,187,053	15,361,295	14,940,081
Operating income (loss)	1,309,769	(7,816)	1,301,953	(2,983,346)	(1,681,393)	(3,684,937)
Nonoperating revenues (expenses):						
Transfers in	-	-	-	-	-	407,686
Interest income	-	-	-	93,306	93,306	16,317
Spurline projects	-	-	-	127,207	127,207	178,235
Other	-	-	-	(111,419)	(111,419)	757,031
Total nonoperating revenues (expense), net	-	-	-	109,094	109,094	1,359,269
Net income (loss)	1,309,769	(7,816)	1,301,953	(2,874,252)	(1,572,299)	(2,325,668)
Retained earnings (deficit) at beginning of year (notes 16 and 18)	(480,924)	(10,259)	(491,183)	41,267,589	40,776,406	45,248,675
Retained earnings (deficit) at end of year	828,845	(18,075)	810,770	38,393,337	39,204,107	42,923,007

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 Unit
Year Ended September 30, 2001
(With comparative totals for the year ended September 30, 2000)

	Proprietary Fund Types		Totals Primary Government	Component Units	Totals Reporting Entity	
	Enterprise	Internal Service	(Memorandum Only)	Proprietary Funds	(Memorandum Only)	
					2001	2000
Cash flows from operating activities						
Operating income (loss)	\$ 1,309,769	\$ (7,816)	\$ 1,301,953	\$ (2,892,178)	\$ (1,590,225)	\$ (3,684,937)
Other income	-	-	-	(48,134)	(48,134)	113,420
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	-	-	-	-	-	-
Depreciation	-	-	-	3,186,583	3,186,583	3,226,513
Bad debt	-	-	-	998,920	998,920	725,043
Non-operating expenses, net	-	-	-	(640,409)	(640,409)	-
	<u>1,309,769</u>	<u>(7,816)</u>	<u>1,301,953</u>	<u>604,782</u>	<u>1,906,735</u>	<u>380,039</u>
Changes in assets and liabilities						
General receivables, gross	(1,898)	-	(1,898)	(952,236)	(954,134)	(656,397)
Advances	-	-	-	(9,702)	(9,702)	(12,364)
Loans receivable, gross	-	-	-	12,207	12,207	(260,679)
Due from other funds	(1,277,793)	7,816	(1,269,977)	-	(1,269,977)	870,862
Inventory, at cost	-	-	-	10,038	10,038	80,648
Prepaid expenses and other assets	-	-	-	21,760	21,760	(52,254)
Due from primary government	-	-	-	-	-	42,611
Other receivables	-	-	-	(56,077)	(56,077)	(5,427)
Accounts payable	(31,723)	-	(31,723)	559,323	527,600	(470,946)
Accrued payroll and other	1,645	-	1,645	43,291	44,936	96,818
Deferred revenue	-	-	-	3,021	3,021	(19,747)
	<u>(1,309,769)</u>	<u>7,816</u>	<u>(1,301,953)</u>	<u>(368,375)</u>	<u>(1,670,328)</u>	<u>(386,875)</u>
Net cash provided by (used in) operating activities:	-	-	-	236,407	236,407	(6,836)
Cash flows from noncapital financing activities						
Proceeds from notes payable, net	-	-	-	594,976	594,976	585,186
Transfers in	-	-	-	-	-	995,676
Other noncapital financing activities:	-	-	-	660,346	660,346	-
Spurline projects	-	-	-	127,207	127,207	178,235
Acquisition of debt	-	-	-	-	-	181,682
	-	-	-	1,382,529	1,382,529	1,940,779
Net cash provided by noncapital financing activities:	-	-	-	1,382,529	1,382,529	1,940,779
Cash flows from capital and related financing activities						
Acquisition of fixed assets	-	-	-	(1,702,764)	(1,702,764)	(1,844,282)
Repayment of debt	-	-	-	(95,167)	(95,167)	(64,000)
	-	-	-	(1,797,931)	(1,797,931)	(1,908,282)
Net cash used in capital and related financing activities:	-	-	-	(1,797,931)	(1,797,931)	(1,908,282)
Cash flows from investing activities						
Payment to self-insurance and scholarship funds, net	-	-	-	(5,699)	(5,699)	(10,973)
Interest income	-	-	-	12,710	12,710	16,317
Decrease (increase) in PUC sinking fund, restricted investment:	-	-	-	59,864	59,864	(49,650)
Other	-	-	-	1,002,370	1,002,370	11,968
	-	-	-	1,069,245	1,069,245	(32,338)
Net cash provided by (used in) investing activities:	-	-	-	1,069,245	1,069,245	(32,338)
Net decrease in cash and equivalents	-	-	-	890,250	890,250	(6,677)
Cash and equivalents at beginning of year (note 16)	-	-	-	1,276,109	1,276,109	742,797
Cash and equivalents at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,166,359</u>	<u>\$ 2,166,359</u>	<u>\$ 736,120</u>

See accompanying notes to financial statements

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2001

(1) Summary of Significant Accounting Policies

The general purpose financial statements of Pohnpei State have been prepared in conformity with accounting principles generally accepted in the United States of America (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 GAAP, 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.

2. Discretely Presented Component Units

a) The Pohnpei Port Authority was established by Public Law 2L-224-91. The primary purpose of the Authority is to oversee the use and maintenance of Pohnpei State's sea and air ports. The Authority began operating as a separate entity in fiscal year 1993 although accounting for the Authority was not transferred from the Pohnpei State Department of Treasury until January 1994.

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

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2001

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

2. Discretely Presented Component Units, Continued

- b) 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.
- c) 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.
- d) The Small Business Guarantee and Finance Corporation was established by State Law No. 3L-86-95 to provide, promote, develop and widen in both scope and services reach various alternative modes of financing for small enterprises, including, but not limited to, direct and indirect project lending, venture capital, financial leasing, secondary mortgage and rediscounting of loan papers to small businesses. The affairs of the Corporation are managed by a seven-member board of directors with three members from the private sector appointed by the Governor.

3. Component Units Not Included in the General Purpose Financial Statements

- a) 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.

- b) 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.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2001

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

3. Component Units Not Included in the General Purpose Financial Statement, Continued

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.

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 11).

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, 2001

(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. 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.

The State of Pohnpei considers all revenues available if they are collected within sixty days after year end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

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.

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.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2001

(1) Summary of Significant Accounting Policies, Continued

Encumbrance accounting is utilized for budgetary control purposes. Encumbrances outstanding at year-end are reported as reservations of fund balance and will be funded as expenditures in the ensuing year. Encumbrances remain reservations of fund balance until becoming expended or canceled. If an encumbrance is subsequently canceled, the funds revert to the applicable unreserved fund balance unless otherwise required by law.

Budgetary expenditures, which are on a basis other than GAAP, 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.

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.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2001

(1) Summary of Significant Accounting Policies, Continued

I. Advances and Prepayments

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

J. Inventories

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

K. Fixed Assets

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

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

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

L. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the General Long-Term Debt Account Group. The liability as of September 30, 2001 is \$527,332. No expenditure is reported for these amounts. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

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.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2001

(1) Summary of Significant Accounting Policies, Continued

N. Fund Equity

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.

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 GAAP. Neither are such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Q. Comparative Data/Reclassification

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

R. Fund Balance Reserves and Designations

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

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2001

(1) Summary of Significant Accounting Policies, Continued

R. Fund Balance Reserves and Designations, Continued

Reserves for related assets as of September 30, 2001, are as follows:

	General <u>Fund</u>	Special Revenue <u>Funds</u>	Capital Projects <u>Funds</u>	<u>Total</u>
Receivables and advances	\$ 22,289	\$ 395,121	\$ -	\$ 417,410
Federal Grants receivables	102,832	-	-	102,832
U.S. Federal Assistance fund deficit	158,828	-	-	158,828
Other Direct Assistance fund deficit	56,832	-	-	56,832
CFSM State Projects fund deficit	37,783	-	-	37,783
Expendable Trust fund deficit 99,143	-	-	99,143	
Internal Service fund deficit	18,075	-	-	18,075
Advances to PTA	682,913	-	-	682,913
CFSM grants receivable	1,333,756	-	-	1,333,756
TTPI CIP receivables	200,419	-	-	200,419
Loan guarantee escrow fund	-	-	622,413	622,413
Investment in Pacific Islands Development Bank	-	-	1,000,000	1,000,000
Loans receivable from Pohnpei Fisheries Corporation, a Component Unit – Proprietary Fund	-	-	2,450,000	2,450,000
Reserved for Early Retirement debt	<u>782,318</u>	<u>-</u>	<u>-</u>	<u>782,318</u>
	<u>\$ 3,495,188</u>	<u>\$ 395,121</u>	<u>\$ 4,072,413</u>	<u>\$ 7,962,722</u>

S. Management Estimates

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

(2) Cash and Equivalents and Investments

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

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2001

(2) Cash and Equivalents and Investments, Continued

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

- A. Investment managers may invest in stocks, bonds and cash equivalents. Minimum standards of quality for investments at the time of purchase are:
1. Stocks - A "B" rating by a national rating service. Non-rated or international stocks such as banks or insurance companies must be equal in quality or higher.
 2. Bonds - Confined to issues rated "A" or higher by a national rating service, except in the case of U.S. Treasury or Agency Securities which are not rated.
 3. Cash equivalents - The manager may engage in all normally accepted short-term investment practices including, but not limited to: U.S. Treasury and Agency securities, bankers acceptances, certificates of deposit, commercial paper and repurchase agreements using any of the foregoing as collateral. The following restrictions apply:
 - a. Commercial paper must be rated A-1/P-1 or higher by Standard & Poors Corporation and Moodys Investor Services.
 - b. Certificates of deposit must be from FDIC insured banks which must have assets in excess of two billion dollars. Deposits in smaller institutions are acceptable, but must not exceed the amount of the insurance unless collateralized by U.S. Treasury Securities at 102%.
- B. The equity portfolio shall be diversified among issues and industry classifications. No more than 25% of the equity portfolio may be invested in any single classification, as described by the Standard and Poors 500 Index, unless prior approval is received from the FSM Secretary of Finance.
- C. No investment may be made in a single corporate entity which exceeds 5% of the total assets of the fund at the time of purchase without prior approval of the Secretary of Finance.

Funds held with Pacific Century Trust and Bankers Trust are invested on behalf of Pohnpei State as of September 30, 2001, as summarized below:

<u>Cash and Equivalents</u>	<u>Fair Value</u>
Cash management fund	\$ 2,086,607
<u>Investments</u>	
Pooled investment securities	<u>4,625,947</u>
Total	\$ <u>6,712,554</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2001

(2) Cash and Equivalents and Investments, Continued

D. The State's investment loss for the year ended September 30, 2001, is summarized below:

	<u>General</u>	<u>Debt Service</u>
Interest	\$ 591,854	\$ 10,921
Dividends	26,665	93,974
Realized loss	(489,760)	-
Unrealized loss	(860,974)	(673,026)
Management fees	<u>(92,643)</u>	<u>(26,761)</u>
Total	\$ <u>(824,858)</u>	\$ <u>(594,892)</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, 2001, the State has deposits and cash on hand as follows (in each situation, cost approximates market value):

General Fund

Cash management fund	\$ 787,807
Net bank balances in checking and savings accounts with FDIC insured banks	414,625
Restricted cash with FDIC insured bank	<u>1,994,921</u>
Total General Fund cash and equivalents and restricted cash	\$ <u>3,197,353</u>

Special Revenue Fund

Cash management fund	\$ 460,858
Net bank balance with FDIC insured bank	<u>39,184</u>
Total Special Revenue Funds cash and equivalents and restricted cash	\$ <u>500,042</u>

Capital Project Funds

Cash management fund	\$ 837,942
Restricted cash with FDIC insured banks	<u>1,306,274</u>
Total Capital Projects Funds cash and equivalents and restricted cash	\$ <u>2,144,216</u>

Debt Service Fund

Cash management fund	\$ <u>2,735,208</u>
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**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2001

(2) Cash and Equivalents and Investments, Continued

Component Units - Proprietary Funds

Pohnpei Fisheries Corporation (PFC):	
Cash in checking and savings accounts with FDIC insured bank	\$ 30,239
Pohnpei Utilities Corporation (PUC):	
Cash in checking and savings accounts with FDIC insured bank	362,393
Pohnpei Port Authority (PPA):	
Cash in checking accounts with FDIC insured bank	170,890
Small Business Guarantee & Finance Corporation:	
Cash in checking accounts with FDIC insured bank	<u>1,602,837</u>
Total Component Units - Proprietary Funds cash and equivalents	\$ <u>2,166,359</u>

Cash - Restricted (Loan Guarantee Escrow Account-Capital Projects Fund)

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, 2001, the escrow account has earned and reinvested \$122,413 of interest earnings. Therefore a total of \$622,413 has been reserved as restricted cash in the foregoing financial statements.

Cash - Restricted (TTPI Deficiency Fund-Capital Projects Fund)

As of September 30, 2001, Pohnpei State had \$751,039 held in deposit with local banks for TTPI CIP Deficiency Projects. Funds can only be used for renovation of the Pohnpei International Airport and Pohnpei State Hospital. This deposit is recorded in the Compact Capital Projects Fund.

Cash - Restricted (Early Retirement Program)

As of September 30, 2001, Pohnpei State had \$2,735,208 held on deposit with Pacific Century Trust which funds relate to the early retirement program. This deposit is recorded in the debt service fund.

Cash - Restricted (Medical Supplies Revolving Fund)

As of September 30, 2001, Pohnpei State had \$147,624 held in deposit with local banks. Funds can only be used solely for the purchase of medical supplies, inclusive of pharmaceuticals.

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

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

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2001

(2) Cash and Equivalents and Investments, Continued

The State's demand and time deposits are non-categorized investments in accordance with 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	\$ 1,012,501	\$ -	\$ 406,028
CFMSM grants	-	2,812,556	-
Other	-	369,898	-
Less allowance for uncollectibles	<u>-</u>	<u>(431,003)</u>	<u>-</u>
	\$ <u>1,012,501</u>	\$ <u>2,751,451</u>	\$ <u>406,028</u>
Receivables, federal agencies:			
Federal grants	\$ -	\$ 2,122,649	\$ -
Trust Territory Government	-	-	200,419
Less allowance for uncollectibles	<u>-</u>	<u>(1,111,598)</u>	<u>-</u>
	\$ <u>-</u>	\$ <u>1,011,051</u>	\$ <u>200,419</u>

(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, 2001, 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)	-
Interest receivable	<u>24,227</u>	<u>-</u>	<u>24,227</u>
	\$ <u>2,059,142</u>	\$ <u>(2,034,915)</u>	\$ <u>24,227</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2001

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

General Receivables - Component Units-Proprietary Funds

	<u>Gross</u>	<u>Allowance</u>	<u>Net</u>
Pohnpei Port Authority	\$ 164,363	\$ (69,529)	\$ 94,834
Pohnpei Utilities Corporation	5,290,546	(2,784,023)	2,506,523
Pohnpei Fisheries Corporation	<u>222,534</u>	<u>(140,864)</u>	<u>81,670</u>
	<u>\$ 5,677,443</u>	<u>\$ (2,994,416)</u>	<u>\$ 2,683,027</u>
<u>General Receivables – Enterprise Fund</u>			
Pohnpei Transportation Authority	\$ <u>1,080,749</u>	\$ <u>(473,718)</u>	\$ <u>607,031</u>
<u>General Receivables – Internal Service Fund</u>			
Stock Revolving Fund	\$ <u>42,612</u>	\$ <u>-</u>	\$ <u>42,612</u>

(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, 2001, 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, 2001, by source, is summarized below:

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

Fixed Assets - 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, 2001, are as follows:

	<u>Pohnpei Port Authority</u>	<u>Pohnpei Utilities Corporation</u>	<u>Pohnpei Fisheries Corporation</u>	<u>Small Business Guarantee & Finance Corporation</u>	<u>Total</u>
Electric plant	\$ -	\$ 34,917,726	\$ -	\$ -	\$ 34,917,726
Water and sewer plant	-	10,897,743	-	-	10,897,743
Land	2,776,034	-	-	-	2,776,034
Buildings	12,930,752	-	282,463	-	13,213,215

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2001

(5) Fixed Assets, Continued

Fixed Assets - Component Units-Proprietary Funds, Continued

Vehicles	-	-	86,405	8,998	95,403
Furniture, fixtures and office equipment	463,290	-	1,889,333	16,805	2,369,428
Other assets	-	-	11,864,155	-	11,864,155
Less accumulated depreciation	(10,421,240)	(18,358,782)	(11,386,585)	(9,130)	(40,175,737)
Construction in progress	<u>548,807</u>	<u>2,823,553</u>	<u>-</u>	<u>-</u>	<u>3,372,360</u>
Total fixed assets, net	\$ <u>6,297,643</u>	\$ <u>30,280,240</u>	\$ <u>2,735,771</u>	\$ <u>13,524</u>	\$ <u>39,327,178</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, 2001, are as follows:

<u>Description</u>	<u>Useful Life</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>426,598</u>
		6,119,130
Less accumulated depreciation		<u>(5,178,587)</u>
Total fixed assets, net		\$ <u>940,543</u>

(6) Other Investments

a) Equity 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.

On August 21, 1998, Pohnpei State became a 50% owner of Caroline Fisheries Corporation (see note 7). Pohnpei State has not recorded such investment on its books due to absence of financial statements of Caroline Fisheries Corporation.

b) Component Unit Investments

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. Financial activities of EDA are not presented in the general purpose financial statements.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2001

(6) Other Investments, Continued

b) Component Unit Investments, Continued

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

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, 2001, the fund aggregated \$542,429.

(7) Loans Receivable

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 \$979,793, the State of Pohnpei agreed to forgive the two loans due from Caroline Fisheries Corporation in the amounts of \$3,750,000 and \$1,000,000, respectively, and all interest accrued on such for the payment of \$500,000, the receipt of the NFC shares and the assignment of the Pohnpei Fisheries Corporation judgment to the State.

Under its enabling legislation, Public Law 3L-28-93, Pohnpei Fisheries Corporation (PFC) is to pay back the portion of MTN funds used in its operations. The drawdown of these funds for operations at September 30, 2001, 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, 2001, it is reserved against fund balance as a related asset.

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. Management of PUC is of the opinion that the current portion of notes receivable is not material to the financial statements.

(8) Operating Transfers In/Out

Material operating transfers in/out for the year ended September 30, 2001, are as follows:

	<u>Transfers In/Out</u>
Transfers out to Component Units:	
Economic Development Authority	\$ <u>(13,660)</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2001

(8) Operating Transfers In/Out, Continued

Transfers in to Debt Service Fund:	
Early Retirement Loan Fund	\$ <u>1,471,075</u>
Transfers out of the Special Revenue Funds are as follows:	
Compact Other Grants to Pohnpei State Housing Authority	\$ (123,660)
Early Retirement Fund	\$ <u>(1,471,074)</u>
Total Transfers Out – Special Revenue Fund	\$ <u>(1,594,734)</u>

(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, \$165,328 in questioned costs exist for the operation of fiscal year 1996 through 2001 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 general purpose 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, 2001, was not available.

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, 2001, is not predictable but could have a material impact on the accompanying financial statements. Such impact has currently been estimated to approximate \$756,000. Accordingly, this amount has been accrued within the General Long-Term Debt Account Group.

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.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2001

(9) Contingencies and Commitments

PUC Loans

As of September 30, 2001, Pohnpei Utilities Corporation, a Component Unit, has drawn \$1,474,779 on a note payable facilitated by an Asian Development Bank loan to the FSM. The loan is ultimately collateralized by a Pohnpei State pledge of Compact of Free Association revenues to the FSM National Government. The State of Pohnpei has not imposed collateralization on PUC.

(10) Material Fund Deficits

The following presents material fund deficits as of September 30, 2001. 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>Fund Deficit</u>
<u>Special Revenue Funds</u>	
U.S. Federal Assistance Fund	\$ (158,828)
Other Federal and Direct Assistance Fund	(56,832)
CFSM State Projects Fund	<u>(37,783)</u>
	\$ <u><u>(253,443)</u></u>
 <u>Capital Projects Fund</u>	
TTPI CIP	\$ <u><u>(18,387)</u></u>
 <u>Internal Service Fund</u>	
Stock Revolving Fund	\$ <u><u>(18,075)</u></u>
 <u>Component Units (Deficit) Retained Earnings</u>	
Pohnpei Fisheries Corporation	\$ <u><u>(2,216,744)</u></u>
 <u>Expendable Trust Fund (Deficit)</u>	
Public Land Trust Fund	\$ <u><u>(99,143)</u></u>

(11) 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 was made through a pledge of Compact revenues. The notes were repayable substantially on a quarterly basis corresponding to the drawdown of Compact revenues from the U.S. Government. Final repayments related to various issuances on these notes were made on October 15, 2000 in the amount of \$2,000,000. Payments of principal and interest were entrusted to Banker's Trust, as Trustee. The FSM 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 \$64,283 for interest payments.

During fiscal year 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 (ADB) through the FSM National Government.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2001

(11) Notes Payable, Continued

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.

As of September 30, 2001, the State had prepared a check in the amount of \$640,000 as an additional contribution to the Early Retirement Trust Account. However, the receipt of this check was not properly credited to the Trust Account by the National Government until substantially later in fiscal year 2002. As a result, management has determined that it is appropriate to record the payment to the trust account and a related payable until the matter was cleared by the National Government.

The ADB loan has a grace period of 10 years and no payments commence until February 2008. The State was not able to produce a schedule of future interest payments attendant to the maturing debt.

Notes Payable - Component Units:

Pohnpei Port Authority:

Notes due to FSM Development Bank, interest at 9%, collateralized by chattel mortgage	\$ 53,635
Bank note, interest at 6.6%, collateralized by substantially all assets	<u>54,353</u>
	<u>107,988</u>

Pohnpei Fisheries Corporation:

Notes due to FSM Development Bank, interest at 7%, uncollateralized	14,230
Payable to State of Pohnpei	2,450,000
Payable to Caroline Fisheries Corporation, interest at 9%	979,793
Payable to FSM National Government	15,000
Payable to Pohnpei Economic Development Authority	<u>40,000</u>
	<u>3,499,023</u>

Pohnpei Utilities Corporation:

Payable to FSM National Government, interest at 6.85%, collateralized by a pledge of Compact revenues to the FSM National Government	1,474,779
	<u>\$ 5,081,790</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2001

(11) Notes Payable, Continued

Maturities of this debt are as follows:

<u>Years Ending September 30,</u>	<u>Amount</u>
2002	\$ 1,061,306
2003	-
2004	-
2005	-
2006	-
Thereafter	<u>4,020,484</u>
	<u>\$ 5,081,790</u>

The component units were not able to produce schedules of future interest payments attendant to the maturing debt.

(12) Interfund Receivable and Payables

As of September 30, 2001, interfund receivables and payables resulting from various interfund transactions are as follows:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 1,222,160	\$ 2,407,420
Debt Service Fund	42,474	-
Special Revenue Funds:		
Compact Special Block Grant	1,358,712	-
Compact Other Grants	80,178	-
U.S. Federal Assistance	-	1,132,376
Other Federal and Direct	-	118,235
CFSM Projects	-	2,460,035
Agriculture Revolving	22,605	-
SVAP Revolving	17,273	-
Airport Operations	20,131	-
Recycling Fund	21,282	-
Paved Road Maintenance	415,689	-
Medical Supplies Revolving Fund	55,426	-
Health Care Premium	452,715	-
V6AH Revolving Fund	10,443	-
Environmental Quality Fund	9,015	-
Capital Projects Funds:		
Compact Capital Projects	1,049,081	60,900
TTG Capital Projects	-	231,148
Health and Education Projects	2,487,901	-
Expendable Trust Funds:		
Public Land Trust	-	105,402
Internal Service Fund	-	66,656
Pohnpei Transportation Authority (PTA)	<u>-</u>	<u>682,913</u>
	<u>\$ 7,265,085</u>	<u>\$ 7,265,085</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2001

(13) Continuing Appropriations

Continuing appropriations as of September 30, 2001, 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. \$ 97,340

Capital Projects

Each fiscal year, Pohnpei State Legislature appropriates funds for capital projects and economic development projects. These funds are available until fully expended or project completion. \$ 6,908,925

(14) 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 Port Authority and Pohnpei Fisheries Corporation purchase insurance to cover workmen's compensation and life insurance risks. Both entities are substantially self-insured for all other risks. Management of both entities are of the opinion that no material losses have been sustained as a result of this practice.

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.

(15) 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, 2001 (FSMDB fiscal year end), the outstanding fund balance aggregated \$719,915.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2001

(16) Reconciliation of Opening Fund Balance and Cash and Equivalents – Component Units – Proprietary Fund

Fund balance, beginning of year, as previously reported	\$ 43,414,190
Noninclusion of Pohnpei State Housing Authority	<u>(3,954,306)</u>
Fund balance, beginning of year, as reported in the accompanying general purpose financial statements	\$ <u>39,459,884</u>
Cash and equivalents, beginning of year, as previously reported	\$ 736,120
Noninclusion of Pohnpei State Housing Authority	<u>(145,237)</u>
Cash and equivalents, beginning of year, as reported in the accompanying general purpose financial statements	\$ <u>590,883</u>

(17) Other Payables

Pohnpei State has recorded liabilities of \$1,758,816 to Municipal Governments for revenue sharing required under the State Constitution, and for other payables to vendors, all of which relate to 1996 and prior years.

(18) Adoption of New Accounting Principle

Effective October 1, 2000, Pohnpei State Government adopted GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions." GASB No. 33 establishes more uniform revenue recognition criteria and financial reporting standards regarding the timing of recognition of the results of nonexchange transactions involving cash and other financial and capital resources. The provisions of GASB No. 33 were applied to all periods presented. The impact from the implementation of GASB No. 33 on the 2000 financial statements is documented below:

	<u>General Fund</u>	<u>Health & Education Project Fund</u>
Fund balance at September 30, 2000	\$ 4,737,875	\$ 2,728,754
Accrual of revenue share	<u>673,056</u>	<u>269,222</u>
Fund balance at September 30, 2000, as restated	\$ <u>5,410,931</u>	\$ <u>2,997,976</u>

For component units, as a result of GASB 33, total fund equity has not been changed. However, contributed capital has been combined with retained earnings as follows:

2000 retained earnings, beginning of year, as previously reported	\$ 4,387,366
Add contributed capital as adjusted for GASB 33 application	<u>35,072,518</u>
2000 retained earnings, beginning of year, as restated	\$ <u>39,459,884</u>

**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, 2001
(With comparative totals for the year ended September 30, 2000)

	Governmental Fund Types			Fiduciary	Totals	
	General	Special Revenue	Capital Projects	Expendable	(Memorandum Only)	
				Trust	2001	2000
Expenditures:						
Personnel	\$ 10,945,102	\$ 2,701,245	\$ 94,421	\$ 24,050	\$ 13,764,818	\$ 14,079,917
Travel	244,389	489,752	54,590	-	788,731	630,359
Supplies and materials	356,706	817,609	31,884	4,640	1,210,839	1,087,495
Fuel	-	308,738	38,775	-	347,513	213,635
Equipment	152,052	507,064	934,114	-	1,593,230	917,038
Contractual services	312,094	2,164,060	4,685,689	4,026	7,165,869	7,043,259
Other	3,805,349	1,523,194	32,947	1,620	5,363,110	2,663,381
Total expenditures	<u>\$ 15,815,692</u>	<u>\$ 8,511,662</u>	<u>\$ 5,872,420</u>	<u>\$ 34,336</u>	<u>\$ 30,234,110</u>	<u>\$ 26,635,084</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

General Fund
September 30, 2001

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
September 30, 2001

(With comparative totals as of September 30, 2000)

<u>ASSETS</u>	<u>2001</u>	<u>2000</u> (As restated)
Cash and equivalents	\$ 1,202,432	\$ 473,298
Cash - restricted	1,994,921	2,236,742
Investments	3,778,777	5,452,216
Receivables from other governments	1,012,501	857,324
Taxes and leases receivable	2,034,915	2,034,915
Allowance for uncollectibles	(2,034,915)	(2,034,915)
Interest receivable	24,227	24,255
Advances	393,350	303,509
Due from other funds	1,222,160	1,614,145
Total assets	\$ 9,628,368	\$ 10,961,489
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accounts payable	\$ 737,583	\$ 192,255
Accrued payroll and others	581,773	891,573
Due to other funds	2,407,420	2,707,914
Other payables	1,758,816	1,758,816
Total liabilities	5,485,592	5,550,558
Fund balance:		
Reserved for:		
Related assets	3,495,188	2,200,995
Encumbrances	568,093	809,911
Continuing appropriations	97,340	363,970
Unreserved	(17,845)	2,036,055
Total fund balance	4,142,776	5,410,931
Total liabilities and fund balance	\$ 9,628,368	\$ 10,961,489

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

Year Ended September 30, 2001

(With comparative totals for the year ended September 30, 2000)

	<u>2001</u>	<u>2000</u> (As restated)
Revenues:		
Compact of Free Association:		
Base grant	\$ 5,652,000	\$ 5,652,000
Inflation adjustment	3,165,120	3,052,808
Revenue sharing	4,589,177	5,022,026
Investment (loss) income	(824,858)	1,040,391
Interest income	71,627	125,517
Taxes and licenses	2,277,381	2,253,081
Fines and penalties	141,647	131,437
Public service charges	26,296	29,854
Other	102,807	40,707
Total revenues	<u>15,201,197</u>	<u>17,347,821</u>
Expenditures:		
Personnel	10,945,102	11,082,576
Travel	244,389	135,022
Supplies and materials	356,706	307,799
Equipment	152,052	261,572
Contractual services	312,094	2,676,747
Other	3,805,349	1,184,637
Total expenditures	<u>15,815,692</u>	<u>15,648,353</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(614,495)</u>	<u>1,699,468</u>
Other financing sources (uses):		
Early retirement loan repayment	(640,000)	-
Transfers out	(13,660)	(881,062)
Total other financing sources (uses), net	<u>(653,660)</u>	<u>(881,062)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(1,268,155)	818,406
Fund balance at beginning of year	<u>5,410,931</u>	<u>4,592,525</u>
Fund balance at end of year	<u>\$ 4,142,776</u>	<u>\$ 5,410,931</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, 2001
(With comparative totals for the year ended September 30, 2000)

	2001	2000 As restated
Revenues:		
Compact of Free Association:		
Base grant	\$ 5,652,000	\$ 5,652,000
Inflation adjustment	3,165,120	3,052,808
FSM revenue sharing	4,589,177	5,022,026
Investment income (loss)	(824,858)	1,040,391
Interest income	71,627	125,517
State taxes and licenses:		
Beer, malt beverages and tobacco	\$ 571,445	\$ 565,756
Motor vehicle sales tax	101,043	113,675
General merchandise sales tax	1,446,734	1,413,791
Hotel	56,520	50,646
Petroleum and fuel	-	2,116
Use tax	105	51,295
Others	101,534	55,802
Fines and penalties	141,647	131,437
Public service charges:		
Hospital and dental	(25)	15,181
Transportation	26,321	14,673
Other	102,807	40,707
Total revenues	15,201,197	17,347,821
Expenditures:		
General Government:		
Executive and Support	1,629,763	1,140,716
Department of Treasury and Administration	892,169	865,544
Public Auditor	175,532	193,408
Judiciary	364,627	349,174
Legislative operations	1,419,717	1,412,087
Total General Government	4,481,808	3,960,929
Department of Education:		
Administration	359,904	312,743
Preschool and elementary	3,516,551	3,443,342
Secondary	-	(23)
Aid to non-public school	50,000	50,000
PICS supper and weekend meals	9,000	-
Total Education	3,935,455	3,806,062
Department of Health Services:		
Administration	330,303	311,372
Medical Coordinator-Honolulu	42,630	42,101
Medical services	1,277,432	1,245,640
Dental services	208,659	247,081
Medical supplies	81,044	104,959
Primary health care	539,787	521,167
Hemodialysis	69,803	48,952
Hospital buildings & grounds	73,864	69,386
Hospital food	113,721	115,661
Outer island referral program	7,944	-
Health service pharmaceutical supplies	389,050	205,759
Dispensary pharmaceutical supplies	1,514	164,669
Total Health Services	3,135,751	3,076,747
Department of Land and Natural Resources:		
Office of the Director	74,525	77,165
Division of Resource Management & Development	-	398,321
Division of CM&PM	-	151,221
Surveys and mapping	163,612	231,302
Historic and preservation	60,799	-
Forestry and marine conservation	99,579	-
Management and administration/public land	20,955	-
Total Land and Natural Resources	419,470	858,009

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, 2001
(With comparative totals for the year ended September 30, 2000)

	2001	2000 As restated
Expenditures, continued:		
Department of Public Safety:		
Office of Director	64,322	328,791
Division of police and security	738,128	724,213
Correction and rehabilitation	135,982	133,240
Search and rescue	2,682	1,365
	941,114	1,187,609
Total Public Safety		
Boards, Commissions, and Other Appropriations:		
Foreign investment commission	43,995	50,364
Supplementary Fundary for PFHSPJ	15,100	-
Micronesia Legal Services Corporation	35,280	-
Traditional affairs	(90)	5,398
USDA Rural Development	100,073	134,057
Alms fund	19,895	26,427
Pohnpei public library	40,578	29,200
Environmental protection agency	124,163	114,884
Pohnpei health care plan board	9,470	32,776
Planning and zoning committee	3,286	7,899
Soil and water conservation	1,500	1,200
Sports development	95,361	-
Economic planning committee	48,544	(437)
Pohnpei broadcasting corporation	101,422	92,258
Sports development program	48,314	14,040
Pohnpei leadership conference	48	-
Pohnpei land commission	165,230	173,678
Election Commissioner's operations	40,724	663
Special Election	-	213
Pohnpei Aramas Kapw	-	20,000
Pohnpei Visitors Bureau	51,854	19,620
Pohnpei CHC Tele. Med. Program	2,967	15,781
	947,714	738,021
Total Boards, Commissions, and Other Appropriations		
Municipal Governments:		
Kitti	351,425	364,430
Sokehs	331,643	343,772
Madolenihmw	329,665	342,557
Nett	234,170	256,123
Kolonia	214,283	222,980
Uh	190,787	197,406
Pingilap constitutional convention	-	10,000
Pingilap	91,041	87,167
Kapingamarangi	58,048	60,202
Sapwuahfik	50,067	51,925
Mwoakilloa	43,928	45,576
Kapingamarangi illegal fishing fee	21,875	-
Nukuoro	37,448	38,838
	1,954,380	2,020,976
Total Municipal Governments		
Total expenditures	15,815,692	15,648,353
Excess (deficiency) of revenues over (under) expenditures	(614,495)	1,699,468
Other financing sources (uses):		
Early retirement loan repayment	(640,000)	-
Transfers out	(13,660)	(881,062)
	(653,660)	(881,062)
Total other financing sources (uses), net		
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(1,268,155)	818,406
Fund balance at beginning of year	5,410,931	4,592,525
Fund balance at end of year	\$ 4,142,776	\$ 5,410,931

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Special Revenue Funds
September 30, 2001

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, 2001

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.

Special Police Fee

This fund was established to account for certain fees such as police clearance, driver's license, liquor license, etc. pursuant to State Law 4L-139-99.

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

SPECIAL REVENUE FUNDS
Combining Balance Sheet
September 30, 2001
(With comparative totals as of September 30, 2000)

	Compact Health and Education	Compact Other Grants	U.S. Federal Assistance	Other Federal and Direct Assistance	CFSM State Projects	Agriculture Revolving	SVAP Revolving	Airport Operations	Recycling	Paved Road Maintenance	Medical Supplies Revolving	Health Care Premium	V6AH Revolving	Environ- mental Quality	Early Retirement	Special Police Fee	Totals	
																	2001	2000
ASSETS																		
Cash and equivalents	\$ 27,902	\$ 432,956	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 39,184	\$ 500,042	\$ 227,453
Cash - restricted	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,428,601
Investments	100,000	747,170	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	339,772
Receivables:																		
Other governments	-	369,898	-	-	2,381,553	-	-	-	-	-	-	-	-	-	-	-	-	1,409,707
Federal agencies, thru FSM National																		
Government	-	-	1,011,051	-	-	-	-	-	-	-	-	-	-	-	-	-	-	919,057
General	-	-	-	-	3,928	-	-	-	-	-	-	-	-	-	-	-	-	3,928
Advances	2,203	55,632	229,740	67,498	79,336	-	-	2,142	-	-	-	-	1,546	1,135	-	-	-	452,125
Due from other funds	1,358,712	80,178	-	-	-	22,605	17,273	20,131	21,282	415,689	55,426	452,715	10,443	9,015	-	-	-	2,871,963
Inventory, at cost	-	-	-	-	-	15,747	-	-	-	-	-	-	-	-	-	-	-	15,747
Total assets	\$ 1,488,817	\$ 1,685,834	\$ 1,240,791	\$ 67,498	\$ 2,464,817	\$ 38,352	\$ 17,273	\$ 22,273	\$ 21,282	\$ 415,689	\$ 55,426	\$ 452,715	\$ 11,989	\$ 10,150	\$ -	\$ 39,184	\$ 8,032,090	\$ 7,668,338
LIABILITIES AND FUND BALANCES (DEFICIT)																		
Liabilities:																		
Accounts payable	\$ 42,367	\$ 114,214	\$ 249,004	\$ 5,479	\$ 42,565	\$ 1,877	\$ 860	\$ -	\$ 45	\$ -	\$ 346	\$ -	\$ 528	\$ 987	\$ -	\$ -	\$ -	\$ 573,784
Accrued payroll and others	31,903	133,746	18,239	616	-	-	-	-	-	-	-	-	-	-	-	-	-	178,253
Due to other funds	-	-	1,132,376	118,235	2,460,035	-	-	-	-	-	-	-	-	-	-	-	-	2,190,726
Total liabilities	74,270	247,960	1,399,619	124,330	2,502,600	1,877	860	-	45	-	346	-	528	987	-	-	-	2,942,763
Fund balances (deficit):																		
Reserved for:																		
Related assets	3,301	89,476	157,019	24,648	76,457	42,078	-	2,142	-	-	-	-	-	-	-	-	-	877,672
Encumbrances	66,694	76,822	733,672	1,690	283,267	1,499	425	-	17,679	64,252	-	4,591	1,492	-	-	-	-	1,081,636
Unreserved (deficit)	1,344,552	1,271,576	(1,049,519)	(83,170)	(397,507)	(7,102)	15,988	20,131	21,237	398,010	(9,172)	452,715	6,870	7,671	-	39,184	2,031,464	2,766,267
Total fund balances (deficit)	1,414,547	1,437,874	(158,828)	(56,832)	(37,783)	36,475	16,413	22,273	21,237	415,689	55,080	452,715	11,461	9,163	-	39,184	3,678,668	4,725,575
Total liabilities and fund balances (deficit)	\$ 1,488,817	\$ 1,685,834	\$ 1,240,791	\$ 67,498	\$ 2,464,817	\$ 38,352	\$ 17,273	\$ 22,273	\$ 21,282	\$ 415,689	\$ 55,426	\$ 452,715	\$ 11,989	\$ 10,150	\$ -	\$ 39,184	\$ 8,032,090	\$ 7,668,338

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, 2001
(With comparative totals for the year ended September 30, 2000)

	Compact Health and Education	Compact Other Grants	U.S. Federal Assistance	Other Federal and Direct Assistance	CFSM State Projects	Agriculture Revolving	SVAP Revolving	Airport Operations	Recycling	Paved Road Maintenance	Medical Supplies Revolving	Health Care Premium	V6AH Revolving	Environ- mental Quality	Early Retirement	Special Police Fee	Totals		
																	2001	2000	
Revenues:																			
Compact:																			
Base grant	\$ 1,890,000	\$ 1,357,783	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,247,783	\$ 3,247,783
Inflation adjustment	-	560,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	560,000	540,000
Federal grants	-	-	3,141,682	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,141,682	3,099,300
Taxes	-	-	-	-	-	-	-	-	-	291,388	-	188,193	-	-	-	-	-	479,581	355,069
CFSM Grants	-	-	-	-	1,247,203	-	-	-	-	-	-	-	-	-	-	-	-	1,247,203	378,594
Other	-	-	-	45,587	-	13,911	5,517	-	117	-	247,893	-	27,531	3,500	-	39,184	-	383,240	325,480
Total revenues	1,890,000	1,917,783	3,141,682	45,587	1,247,203	13,911	5,517	-	117	291,388	247,893	188,193	27,531	3,500	-	39,184	9,059,489	7,946,226	
Expenditures:																			
General government	-	1,045,832	251,533	6,397	86,655	20,807	4,255	-	-	-	-	-	28,437	10,400	-	-	-	1,454,316	1,416,505
Education	1,810,253	-	2,195,523	83,762	3,490	-	-	-	-	-	-	-	-	-	-	-	-	4,093,028	4,015,986
Health services	-	241,469	585,602	-	-	-	-	-	-	-	195,961	-	-	-	-	-	-	1,023,032	964,801
Public works	-	523,262	86,668	-	1,029,600	-	-	-	-	122,049	-	-	-	-	-	-	-	1,761,579	479,845
Public safety	-	-	22,356	-	127,458	-	-	-	-	-	-	-	-	-	-	-	-	149,814	193,130
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	29,893	-	-	29,893	70,713
Total expenditures	1,810,253	1,810,563	3,141,682	90,159	1,247,203	20,807	4,255	-	-	122,049	195,961	-	28,437	10,400	29,893	-	8,511,662	7,140,980	
Excess (deficiency) of revenues over (under) expenditures	79,747	107,220	(under) -	(44,572)	-	(6,896)	1,262	-	117	169,339	51,932	188,193	(906)	(6,900)	(29,893)	39,184	547,827	805,246	
Other financing sources (uses):																			
Transfers out	-	(123,660)	-	-	-	-	-	-	-	-	-	-	-	-	(1,471,074)	-	-	(1,594,734)	(337,739)
Proceeds from notes payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses), net	-	(123,660)	-	-	-	-	-	-	-	-	-	-	-	-	(1,471,074)	-	(1,594,734)	(337,739)	
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	79,747	(16,440)	-	(44,572)	-	(6,896)	1,262	-	117	169,339	51,932	188,193	(906)	(6,900)	(1,500,967)	39,184	(1,046,907)	467,507	
Fund balances (deficit) at beginning of year	1,334,800	1,454,314	(158,828)	(12,260)	(37,783)	43,371	15,151	22,273	21,120	246,350	3,148	264,522	12,367	16,063	1,500,967	-	4,725,575	4,258,068	
Fund balances (deficit) at end of year	\$ 1,414,547	\$ 1,437,874	\$ (158,828)	\$ (56,832)	\$ (37,783)	\$ 36,475	\$ 16,413	\$ 22,273	\$ 21,237	\$ 415,689	\$ 55,080	\$ 452,715	\$ 11,461	\$ 9,163	\$ -	\$ 39,184	\$ 3,678,668	\$ 4,725,575	

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, 2001
(With comparative totals for the year ended September 30, 2000)

	Compact Health and Education	Compact Other Grants	U.S. Federal Assistance	Other Federal and Direct Assistance	CFSM State Projects	Agriculture Revolving	SVAP Revolving	Airport Operations	Recycling	Paved Road Maintenance	Medical Supplies Revolving	Health Care Premium	V6AH Revolving	Environ- mental Quality	Early Retirement	Special Police Fee	Totals		
																	2001	2000	
Revenues:																			
Compact:																			
Base grant	\$ 1,890,000	\$ 1,357,783	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,247,783	\$ 3,247,783
Inflation adjustment	-	560,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	560,000	540,000
Federal grants	-	-	3,141,682	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,141,682	3,099,300
Taxes	-	-	-	-	-	-	-	-	-	291,388	-	188,193	-	-	-	-	-	479,581	355,069
CFSM Grants	-	-	-	-	1,247,203	-	-	-	-	-	-	-	-	-	-	-	-	1,247,203	378,594
Other	-	-	-	45,587	-	13,911	5,517	-	117	-	247,893	-	27,531	3,500	-	39,184	-	383,240	325,480
Total revenues	1,890,000	1,917,783	3,141,682	45,587	1,247,203	13,911	5,517	-	117	291,388	247,893	188,193	27,531	3,500	-	39,184	-	9,059,489	7,946,226
Expenditures:																			
Personnel	1,447,335	112,258	1,001,362	24,374	110,171	-	-	-	-	-	-	-	5,191	554	-	-	-	2,701,245	2,702,147
Travel	240	79,088	351,045	28,860	28,731	-	-	-	-	-	-	-	-	1,788	-	-	-	489,752	461,456
Supplies and materials	124,793	9,232	606,507	14,742	25,045	13,388	4,255	-	-	-	9,499	-	6,694	3,454	-	-	-	817,609	685,202
Fuel	-	264,296	34,758	1,000	8,684	-	-	-	-	-	-	-	-	-	-	-	-	308,738	209,635
Equipment	7,157	6,666	450,983	5,229	27,586	1,825	-	-	-	-	-	-	6,623	995	-	-	-	507,064	355,728
Contractual services	3,475	473,353	516,066	11,257	1,033,764	-	-	-	-	122,049	-	-	3,069	1,027	-	-	-	2,164,060	1,278,209
Other	227,253	865,670	180,961	4,697	13,222	5,594	-	-	-	-	186,462	-	6,860	2,582	29,893	-	-	1,523,194	1,448,603
Total expenditures	1,810,253	1,810,563	3,141,682	90,159	1,247,203	20,807	4,255	-	-	122,049	195,961	-	28,437	10,400	29,893	-	-	8,511,662	7,140,980
Excess (deficiency) of revenues over (under) expenditures	79,747	107,220	-	(44,572)	-	(6,896)	1,262	-	117	169,339	51,932	188,193	(906)	(6,900)	(29,893)	39,184	-	547,827	805,246
Other financing sources (uses):																			
Transfers out	-	(123,660)	-	-	-	-	-	-	-	-	-	-	-	-	(1,471,074)	-	-	(1,594,734)	(337,739)
Proceeds from notes payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses), net	-	(123,660)	-	-	-	-	-	-	-	-	-	-	-	-	(1,471,074)	-	-	(1,594,734)	(337,739)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	79,747	(16,440)	-	(44,572)	-	(6,896)	1,262	-	117	169,339	51,932	188,193	(906)	(6,900)	(1,500,967)	39,184	-	(1,046,907)	467,507
Fund balances (deficit) at beginning of year	1,334,800	1,454,314	(158,828)	(12,260)	(37,783)	43,371	15,151	22,273	21,120	246,350	3,148	264,522	12,367	16,063	1,500,967	-	-	4,725,575	4,258,068
Fund balances (deficit) at end of year	\$ 1,414,547	\$ 1,437,874	\$ (158,828)	\$ (56,832)	\$ (37,783)	\$ 36,475	\$ 16,413	\$ 22,273	\$ 21,237	\$ 415,689	\$ 55,080	\$ 452,715	\$ 11,461	\$ 9,163	\$ -	\$ 39,184	\$ -	\$ 3,678,668	\$ 4,725,575

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Capital Projects Funds
September 30, 2001

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, 2001
(With comparative totals as of September 30, 2000)

	Compact Capital Projects	TTG Capital Projects	Health and Education Projects	Totals	
				2001	2000 (As restated)
<u>ASSETS</u>					
Cash and equivalents	\$ 837,942	\$ -	\$ -	\$ 837,942	\$ 1,558,249
Cash - restricted	1,306,274	-	-	1,306,274	1,341,051
Investments	1,000,000	-	-	1,000,000	883,322
Receivables from other governments	-	-	406,028	406,028	342,366
Receivables from federal agencies	-	200,419	-	200,419	200,418
General receivables, net	3,956	12,342	-	16,298	16,299
Advances	123,757	-	-	123,757	97,501
Loans receivable, net	2,544,697	-	-	2,544,697	2,544,697
Due from other funds	1,049,081	-	2,487,901	3,536,982	2,733,235
	<u>\$ 6,865,707</u>	<u>\$ 212,761</u>	<u>\$ 2,893,929</u>	<u>\$ 9,972,397</u>	<u>\$ 9,717,138</u>
 <u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Accounts payable	\$ 38,169	\$ -	\$ 61,006	\$ 99,175	\$ 144,037
Accrued payroll and others	1,939	-	-	1,939	179
Due to other funds	60,900	231,148	-	292,048	204,916
	<u>101,008</u>	<u>231,148</u>	<u>61,006</u>	<u>393,162</u>	<u>349,132</u>
Fund balances:					
Reserved for:					
Related assets	4,072,413	-	-	4,072,413	3,451,350
Encumbrances	1,995,083	734	714,234	2,710,051	2,064,873
Continuing appropriations	6,908,925	-	-	6,908,925	6,908,925
Unreserved (deficit)	(6,211,722)	(19,121)	2,118,689	(4,112,154)	(3,057,142)
	<u>6,764,699</u>	<u>(18,387)</u>	<u>2,832,923</u>	<u>9,579,235</u>	<u>9,368,006</u>
Total liabilities and fund balances	<u>\$ 6,865,707</u>	<u>\$ 212,761</u>	<u>\$ 2,893,929</u>	<u>\$ 9,972,397</u>	<u>\$ 9,717,138</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 (Deficit)
Year Ended September 30, 2001
(With comparative totals for the year ended September 30, 2000)

	Compact Capital Projects	TTG Capital Projects	Health and Education Projects	Totals	
				2001	2000 (As restated)
Revenues:					
Compact of Free Association:					
Base grant	\$ 4,072,000	\$ -	\$ -	\$ 4,072,000	\$ 4,072,000
Inflation adjustment	2,280,320	-	-	2,280,320	2,198,880
Revenue sharing	-	-	1,798,200	1,798,200	2,035,700
Investment income	(2,588)	-	-	(2,588)	25,828
Total revenues	<u>6,349,732</u>	<u>-</u>	<u>1,798,200</u>	<u>8,147,932</u>	<u>8,332,408</u>
Expenditures:					
Capital projects	<u>3,871,847</u>	<u>37,320</u>	<u>1,963,253</u>	<u>5,872,420</u>	<u>3,814,158</u>
Total expenditures	<u>3,871,847</u>	<u>37,320</u>	<u>1,963,253</u>	<u>5,872,420</u>	<u>3,814,158</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,477,885</u>	<u>(37,320)</u>	<u>(165,053)</u>	<u>2,275,512</u>	<u>4,518,250</u>
Other financing sources (uses):					
Repayment of notes payable	(2,000,000)	-	-	(2,000,000)	(2,000,000)
Interest expense	(64,283)	-	-	(64,283)	(248,135)
Transfer out	-	-	-	-	(1,660,788)
Total other financing sources (uses), net	<u>(2,064,283)</u>	<u>-</u>	<u>-</u>	<u>(2,064,283)</u>	<u>(3,908,923)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>413,602</u>	<u>(37,320)</u>	<u>(165,053)</u>	<u>211,229</u>	<u>609,327</u>
Fund balances at beginning of year	<u>6,351,097</u>	<u>18,933</u>	<u>2,997,976</u>	<u>9,368,006</u>	<u>8,758,679</u>
Fund balances (deficit) at end of year	<u>\$ 6,764,699</u>	<u>\$ (18,387)</u>	<u>\$ 2,832,923</u>	<u>\$ 9,579,235</u>	<u>\$ 9,368,006</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 (Deficit)
Year Ended September 30, 2001
(With comparative totals for the year ended September 30, 2000)

	Compact Capital Projects	TTG Capital Projects	Health and Education Projects	Totals	
				2001	2000 (As restated)
Revenues:					
Compact of Free Association:					
Base grant	\$ 4,072,000	\$ -	\$ -	\$ 4,072,000	\$ 4,072,000
Inflation adjustment	2,280,320	-	-	2,280,320	2,198,880
Revenue sharing	-	-	1,798,200	1,798,200	2,035,700
Investment income	(2,588)	-	-	(2,588)	25,828
Total revenues	<u>6,349,732</u>	<u>-</u>	<u>1,798,200</u>	<u>8,147,932</u>	<u>8,332,408</u>
Expenditures:					
Personnel	94,421	-	-	94,421	288,653
Travel	54,590	-	-	54,590	33,881
Supplies and materials	30,786	-	1,098	31,884	88,365
Fuel	38,775	-	-	38,775	4,000
Equipment	286,392	-	647,722	934,114	296,393
Contractual services	3,334,081	37,320	1,314,288	4,685,689	3,088,303
Other	32,802	-	145	32,947	14,563
Total expenditures	<u>3,871,847</u>	<u>37,320</u>	<u>1,963,253</u>	<u>5,872,420</u>	<u>3,814,158</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,477,885</u>	<u>(37,320)</u>	<u>(165,053)</u>	<u>2,275,512</u>	<u>4,518,250</u>
Other financing sources (uses):					
Repayment of notes payable	(2,000,000)	-	-	(2,000,000)	(2,000,000)
Interest expense	(64,283)	-	-	(64,283)	(248,135)
Transfer out	-	-	-	-	(1,660,788)
Total other financing sources (uses), net	<u>(2,064,283)</u>	<u>-</u>	<u>-</u>	<u>(2,064,283)</u>	<u>(3,908,923)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	413,602	(37,320)	(165,053)	211,229	609,327
Fund balances at beginning of year	<u>6,351,097</u>	<u>18,933</u>	<u>2,997,976</u>	<u>9,368,006</u>	<u>8,758,679</u>
Fund balances (deficit) at end of year	<u>\$ 6,764,699</u>	<u>\$ (18,387)</u>	<u>\$ 2,832,923</u>	<u>\$ 9,579,235</u>	<u>\$ 9,368,006</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Component Units - Proprietary Funds
September 30, 2001

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

Pohnpei Fisheries Corporation (PFC) was established by State Public Law 3L-28-93. The primary purpose of the Corporation is to operate and monitor the Pohnpei fish processing plant and other fisheries projects of Pohnpei State.

Pohnpei Port Authority (PPA) was established by State Public Law 2L-224-91. The primary purpose of the Authority is to oversee the use and maintenance of Pohnpei State's sea and air ports. PPA began operating as a separate entity in fiscal year 1993.

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. EDA was not able to provide financial statements for inclusion in the accompanying presentation.

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. The Authority was not able to provide financial statements for the inclusion in the accompanying presentation.

Small Business Guarantee and Finance Corporation (SBGFC) was established by State Public Law 3L-86-95. The primary purpose of the Corporation is to provide loan guarantees and other financial incentives through commercial banks.

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

COMPONENT UNITS - PROPRIETARY FUNDS
Combining Balance Sheet
September 30, 2001
(With comparative totals as of September 30, 2000)

<u>ASSETS</u>	Pohnpei	Pohnpei	Pohnpei	Small Business Guarantee & Finance Corporation	Totals	
	Port Authority	Utilities Corporation	Fisheries Corporation	Corporation	2001	2000
Cash and equivalents	\$ 170,890	\$ 362,393	\$ 30,239	\$ 1,602,837	\$ 2,166,359	\$ 736,120
Cash - restricted	308,841	-	-	-	308,841	300,000
Investments - other	-	542,429	-	-	542,429	602,293
Receivables, federal agencies	-	41,536	-	-	41,536	140,979
General receivables, net	94,834	2,506,523	81,670	-	2,683,027	2,729,428
Interest receivable	6,628	1,130	-	136,147	143,905	7,758
Advances	10,934	-	-	22,694	33,628	40,142
Loans receivables, net	-	-	-	15,813	15,813	3,686,781
Inventory, at cost	-	1,227,793	117,411	-	1,345,204	1,357,211
Self insurance fund	-	121,331	-	-	121,331	115,632
Scholarship fund	-	3,881	-	-	3,881	3,881
Prepaid expenses and other assets	3,273	34,846	412	3,569	42,100	58,267
Fixed assets, net	6,297,643	30,280,240	2,735,771	13,524	39,327,178	40,888,057
Due from primary government	-	-	-	4,313	4,313	85,830
Total assets	\$ 6,893,043	\$ 35,122,102	\$ 2,965,503	\$ 1,798,897	\$ 46,779,545	\$ 50,752,379
 <u>LIABILITIES AND FUND EQUITY (DEFICIENCY)</u>						
Liabilities:						
Accounts payable	\$ 559,218	\$ 145,457	\$ 1,683,224	\$ 301	\$ 2,388,200	\$ 1,853,651
Accrued payroll and others	168,906	372,257	-	5,592	546,755	500,027
Deferred revenue	306,250	63,213	-	-	369,463	366,442
Notes payable	107,988	1,474,779	3,499,023	-	5,081,790	4,618,069
Total liabilities	1,142,362	2,055,706	5,182,247	5,893	8,386,208	7,338,189
Retained earnings (deficit)	5,750,681	33,066,396	(2,216,744)	1,793,004	38,393,337	43,414,190
	\$ 6,893,043	\$ 35,122,102	\$ 2,965,503	\$ 1,798,897	\$ 46,779,545	\$ 50,752,379

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 (Deficiency)
Year Ended September 30, 2001
(With comparative totals for the year ended September 30, 2000)

	Pohnpei Port Authority	Pohnpei Utilities Corporation	Pohnpei Fisheries Corporation	Small Business Guarantee & Finance Corporation	Totals	
					2001	2000
Operating revenues:						
Charges for goods and services	\$ 875,130	\$ 7,888,415	\$ 1,171,805	\$ 3,198	\$ 9,938,548	\$ 8,752,171
Rental income	248,113	-	-	-	248,113	252,924
Other	17,046	-	-	-	17,046	8,809
Total operating revenues	1,140,289	7,888,415	1,171,805	3,198	10,203,707	9,013,904
Operating expenses:						
Cost of sales	-	-	1,466,126	-	1,466,126	354,324
Personnel services	581,660	1,544,378	85,525	70,208	2,281,771	2,305,558
Travel	20,182	66,864	4,935	5,555	97,536	160,496
Supplies and materials	37,912	185,128	-	1,661	224,701	168,188
Fuel	8,899	3,562,248	-	650	3,571,797	3,131,679
Contractual services	11,179	-	-	-	11,179	36,107
Bad debts	31,428	948,711	18,781	-	998,920	725,043
Utilities	35,336	-	-	1,648	36,984	52,505
Communications	17,097	32,641	5,663	2,397	57,798	73,536
Depreciation	664,113	1,969,104	-	7,007	2,640,224	3,226,513
Repairs and maintenance	22,645	697,928	1,082	2,354	724,009	847,635
Employee benefits	-	500,100	-	1,745	501,845	455,759
Training and safety	-	86,366	-	-	86,366	135,812
Other	18,210	285,581	168,164	15,842	487,797	324,612
Total operating expenses	1,448,661	9,879,049	1,750,276	109,067	13,187,053	11,997,767
Operating loss	(308,372)	(1,990,634)	(578,471)	(105,869)	(2,983,346)	(2,983,863)
Nonoperating revenues (expenses):						
Transfers in	-	-	-	-	-	407,686
Interest income (expense)	12,710	-	(10,562)	91,158	93,306	16,317
Spurline projects	-	127,207	-	-	127,207	178,235
Other	(629,198)	501,848	15,921	10	(111,419)	757,031
Total nonoperating revenues (expenses), net	(616,488)	629,055	5,359	91,168	109,094	1,359,269
Net loss	(924,860)	(1,361,579)	(573,112)	(14,701)	(2,874,252)	(1,624,594)
Retained earnings (deficit) at beginning of year (note 17)	6,675,541	34,427,975	(1,643,632)	1,807,705	41,267,589	45,038,784
Retained earnings (deficit) at end of year	\$ 5,750,681	\$ 33,066,396	\$ (2,216,744)	\$ 1,793,004	\$ 38,393,337	\$ 43,414,190

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, 2001

(With comparative totals for the year ended September 30, 2000)

	Pohnpei Port Authority	Pohnpei Utilities Corporation	Pohnpei Fisheries Corporation	Small Business Guarantee & Finance Corporation	Totals	
					2001	2000
Cash flows from operating activities:						
Operating loss	\$ (308,372)	\$ (1,990,634)	\$ (578,471)	\$ (14,701)	\$ (2,892,178)	\$ (2,983,863)
Other income (expense)	-	(48,134)	-	-	(48,134)	113,420
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:						
Depreciation	664,113	1,969,104	546,359	7,007	3,186,583	3,226,513
Bad debt	31,428	948,711	18,781	-	998,920	725,043
Non-operating expenses, net	(640,409)	-	-	-	(640,409)	-
	<u>(253,240)</u>	<u>879,047</u>	<u>(13,331)</u>	<u>(7,694)</u>	<u>604,782</u>	<u>1,081,113</u>
Changes in assets and liabilities:						
General receivables, gross	(78,513)	(811,785)	(62,221)	283	(952,236)	(656,397)
Advances	2,990	-	-	(12,692)	(9,702)	(12,364)
Loans receivable, gross	-	18,916	-	(6,709)	12,207	(260,679)
Inventory, at cost	-	29,120	(19,082)	-	10,038	80,648
Prepaid expenses and other assets	6,890	13,258	(412)	2,024	21,760	(52,254)
Due from primary government	-	-	-	-	-	42,611
Other receivables	-	-	-	(56,077)	(56,077)	(5,427)
Accounts payable	552,993	(155,257)	161,286	301	559,323	(309,615)
Accrued payroll and others	42,675	(709)	-	1,325	43,291	105,275
Deferred revenue	-	3,021	-	-	3,021	(19,747)
	<u>527,035</u>	<u>(903,436)</u>	<u>79,571</u>	<u>(71,545)</u>	<u>(368,375)</u>	<u>(1,087,949)</u>
Net cash provided by (used in) operating activities	<u>273,795</u>	<u>(24,389)</u>	<u>66,240</u>	<u>(79,239)</u>	<u>236,407</u>	<u>(6,836)</u>
Cash flows from noncapital financing activities:						
Proceeds from (repayment of) notes payable, net	-	631,781	(36,805)	-	594,976	585,186
Transfers in	-	-	-	-	-	995,676
Other noncapital financing activities	-	649,425	10,921	-	660,346	-
Spurline projects	-	127,207	-	-	127,207	178,235
Acquisition of debt	-	-	-	-	-	181,682
Net cash provided by (used in) noncapital financing activities	<u>-</u>	<u>1,408,413</u>	<u>(25,884)</u>	<u>-</u>	<u>1,382,529</u>	<u>1,940,779</u>
Cash flows from capital and related financing activities:						
Acquisition of fixed assets	(63,245)	(1,586,857)	(49,512)	(3,150)	(1,702,764)	(1,844,282)
Repayment of debt	(95,167)	-	-	-	(95,167)	(64,000)
Net cash used in capital and related financing activities	<u>(158,412)</u>	<u>(1,586,857)</u>	<u>(49,512)</u>	<u>(3,150)</u>	<u>(1,797,931)</u>	<u>(1,908,282)</u>
Cash flows from investing activities:						
Payment to self-insurance and scholarship funds, net	-	(5,699)	-	-	(5,699)	(10,973)
Interest income	12,710	-	-	-	12,710	16,317
Decrease (increase) in PUC sinking fund, restricted investments	-	59,864	-	-	59,864	(49,650)
Other	2,370	-	-	1,000,000	1,002,370	11,968
Net cash provided by (used in) investing activities	<u>15,080</u>	<u>54,165</u>	<u>-</u>	<u>1,000,000</u>	<u>1,069,245</u>	<u>(32,338)</u>
Net increase (decrease) in cash and equivalents	130,463	(148,668)	(9,156)	917,611	890,250	(6,677)
Cash and equivalents at beginning of year (note 17)	<u>40,427</u>	<u>511,061</u>	<u>39,395</u>	<u>685,226</u>	<u>1,276,109</u>	<u>742,797</u>
Cash and equivalents at end of year	<u>\$ 170,890</u>	<u>\$ 362,393</u>	<u>\$ 30,239</u>	<u>\$ 1,602,837</u>	<u>\$ 2,166,359</u>	<u>\$ 736,120</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, 2001, and have issued our report thereon dated September 6, 2002, which report was qualified due to 1) our inability to determine the propriety of advances receivable, accounts payable, and continuing appropriations of all Governmental Fund Types; inventories of the Proprietary Fund Type – Internal Service Fund; notes payable, accounts payable, charges for goods and services and related expenses of the Component Units – Proprietary Funds; and the General Fixed Asset Account Group; 2) our inability to obtain financial statements of Pohnpei Economic Development Authority and the Pohnpei State Housing Authority, Component Units – Proprietary Funds; 3) our inability to obtain audited financial statements of Pohnpei Transportation Authority, Proprietary Fund Type – Enterprise Fund; and 4) our inability to examine evidence regarding the investment in Caroline Fisheries Corporation. 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

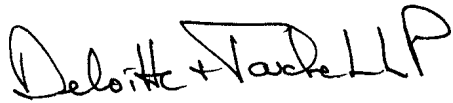
As part of obtaining reasonable assurance about whether the State of Pohnpei's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct 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 one instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings and Questioned Costs (pages 70 through 83) in finding 2001-1.

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 2001-1 and 2001-3 through 2001-13.

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 items 2001-1 and 2001-3 through 2000-11 to be material weaknesses.

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.

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

September 6, 2002



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, 2001. The State of Pohnpei's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 70 through 83). 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 2001-1 and 2001-2 in the accompanying Schedule of Findings and Questioned Costs, the State of Pohnpei, did not comply with requirements regarding equipment and real property management (all programs) and allowable costs/cost principles that are applicable to its Compact Energy Fund (CFDA #15.875). 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, 2001.

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 2001-1 and 2001-2.

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. We consider the reportable conditions described above, items 2001-1 and 2001-2, to be material weaknesses.

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, 2001, and have issued our report thereon dated September 6, 2002, which report was qualified due to 1) our inability to determine the propriety of advances receivable, accounts payable, and continuing appropriations of all Governmental Fund Types; inventories of the Proprietary Fund Type – Internal Service Fund; notes payable, accounts payable, charges for goods and services and related expenses of the Component Units – Proprietary Funds; and the General Fixed Asset Account Group; 2) our inability to obtain financial statements of Pohnpei Economic Development Authority and the Pohnpei State Housing Authority, Component Units – Proprietary Funds; 3) our inability to obtain audited financial statements of Pohnpei Transportation Authority, Proprietary Fund Type – Enterprise Fund; and 4) our inability to examine evidence regarding the investment in Caroline Fisheries Corporation. 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 65) is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the general purpose financial statements. This schedule is the responsibility of the management of the State of Pohnpei. Such information has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects when considered in relation to the general purpose financial statements taken as a whole.

This report is intended 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.



Delo H. Stachler

September 6, 2002

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards
U.S. Federal Assistance Fund
Year Ended September 30, 2001

Grantor Program Title	CFDA I.D. #	Pohnpei Org. #	2001 Fiscal Year Expenditures
<u>U.S. Department of Agriculture</u>			
FY 99 Forestry Urban	10.664	3361	\$ 9,395
FY 99 Forestry/SNTI	10.664	3363	808
FY 99 Fire Prevention	10.664	3364	3,054
FY 00 Forestry/Resource Management	10.664	3365	5,220
FY 00 Urban and Community	10.664	3366	7,645
FY 98 Forestry/Resource Management	10.664	3374	(758)
FY 98 Forestry/SNTI	10.664	3376	(300)
Total U.S. Department of Agriculture (CFDA #10.664)			<u>25,064</u>
<u>U.S. Department of Education</u>			
FY2000 Goal 2000 Program	84.276	3112	62,433
Total CFDA #84.276			<u>62,433</u>
FY2000-01 Special Education	84.027	3113	718,990
FY97 Special Education	84.027	3118	(265)
FY99 Special Education	84.027	3119	536,700
Total CFDA #84.027			<u>1,255,425</u>
Total U.S. Department of Education			<u>1,317,858</u>
<u>U.S. Department of the Interior</u>			
FY98 Historic Preservation	15.904	3373	(3,000)
FY99 Historic Preservation Operation	15.904	3377	1,164
FY99 Historic Preservation/Special Program	15.904	3378	1,473
FY2000 Historic Preservation	15.904	3379	37,062
Total CFDA #15.904			<u>36,699</u>
Land and Survey	15.875	3451	766
Economic Planning Advisor	15.875	3454	836
Patient Finance Accountability	15.875	3456	21,520
Y2K Remediation	15.875	3458	49,973
PUC	15.875	3506	122
Pohnpei State O&M Engineer	15.875	3531	969
OMIP Program-Hospital	15.875	3532	6,652
Preventive Maintenance	15.875	3534	16,107
Financial Management Improvement	15.875	3541	(51)
FY97 OMIP Facility Rep.	15.875	3544	(28)
Construction Engineer	15.875	3547	9,700
Total CFDA #15.875			<u>106,566</u>
Total U.S. Department of the Interior			<u>143,265</u>
Balance Forward			<u>1,486,187</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, 2001

<u>Grantor Program Title</u>	<u>CFDA I.D. #</u>	<u>Pohnpei Org. #</u>	<u>2001 Fiscal Year Expenditures</u>
Balance Forwarded			\$ 1,486,187
<u>U.S. Department of Health and Human Services</u>			
FY01 Tuberculosis & Aids	93.116	3607	2,314
FY2000 Tuberculosis & Aids	93.116	3695	<u>11,666</u>
Total CFDA #93.116			<u>13,980</u>
FY2002 Family Planning	93.217	3610	6,704
FY2000 Family Planning	93.217	3686	
FY2001 Family Planning	93.217	3698	<u>50,343</u>
Total CFDA #93.217			<u>57,047</u>
FY01 Community Health Center	93.224	3606	86,182
FY99 Community Health Center	93.224	3684	
FY2000 Community Health Center	93.224	3693	<u>34,677</u>
Total CFDA #93.224			<u>120,859</u>
FY01 Immunization	93.268	3605	45,985
FY99 Immunization	93.268	3681	<u>417</u>
Total CFDA #93.268			<u>46,402</u>
FY01 AIDS Prevention	93.940	3608	7,055
FY2000 AIDS Prevention	93.940	3696	<u>1,646</u>
Total CFDA #93.940			<u>8,701</u>
FY00-01 Substance Abuse Prevention & Treatment	93.959	3602	125,412
FY99 Substance Abuse Prevention & Treatment/HS	93.959	3687	460
FY99 Substance Abuse Prevention & Treatment/Youth	93.959	3688	<u>162</u>
Total CFDA #93.959			<u>126,034</u>
FY01 Sexually Transmitted Diseases	93.977	3609	5,163
FY2000 Sexually Transmitted Diseases	93.977	3694	<u>1,382</u>
Total CFDA #93.977			<u>6,545</u>
FY-2000 Diabetes Program	93.988	3601	5,837
FY01 Diabetes Program	93.988	3611	<u>740</u>
Total CFDA #93.988			<u>6,577</u>
FY00 Preventive Health & Health Service Block Grant	93.991	3603	<u>5,268</u>
FY00 MCH Program/Dental	93.994	3604	1,818
FY98 MCH Program	93.994	3676	(180)
FY00 MCH Program	93.994	3697	71,219
FY00 MCH Program/CSHCN	93.994	3699	<u>8,831</u>
Total CFDA #93.994			<u>81,688</u>
Total U.S. Department of Health and Human Services			<u>473,101</u>
Balance Forward			<u>1,959,288</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, 2001

<u>Grantor Program Title</u>	<u>CFDA I.D. #</u>	<u>Pohnpei Org. #</u>	<u>2001 Fiscal Year Expenditures</u>
Balance Forwarded			\$ 1,959,288
<u>U.S. Department of Labor</u>			
FY98 JTPA Administration	17.250	3236	1,999
FY98 JTPA Youth Program	17.250	3237	1,710
FY98 JTPA Adult Program	17.250	3238	44,992
FY98 JTPA Participant Support	17.250	3239	9,808
FY99 JTPA Administration	17.250	3240	(13,424)
FY99 JTPA Adult Program	17.250	3241	11,398
FY99 JTPA Youth Program	17.250	3242	(660)
FY99 JTPA Participant Support	17.250	3243	4,529
FY00 WIA Admin.	17.250	3246	24,351
FY00 WIA Title I/Adult	17.250	3247	40,799
FY00 WIA Title I/Youth	17.250	3248	57,498
WIA Dislocated Worker	17.250	3249	58,912
Total U.S. Department of Labor (CFDA #17.250)			<u>241,912</u>
<u>Federal Emergency Management Agency</u>			
El Nino HMGP/Drill	83.516	3794	62,817
Total Federal Emergency Management Agency (CFDA #83.516)			<u>62,817</u>
<u>Direct U.S Grants - U.S. Department of Education</u>			
FY-98 Freely Assoc. Ed. Grant	84.256A	3827	8,567
FY-99 Freely Assoc. Ed. Grant	84.256A	3829	166,453
FY-2000 Freely Assoc. Ed. Grant	84.256A	3831	251,697
FY-2001 Freely Assoc. Ed. Grant	84.256A	3831	255,403
Total U.S Department of Education (CFDA #84.256A)			<u>682,120</u>
Title VII Bilingual Education	84.194	3819	46,811
FY-98 Title VII Bilingual Education Support Services	84.194	3821	34,847
FY-99 Title VII Bilingual Education Support Services	84.194	3828	18,018
Total CFDA #84.194			<u>99,676</u>
Vocational Education Improvement Program Year 9	84.994	3812	62,447
Twenty-First Century Community Learning Center	84.287	3816	33,422
Total U.S Department of Education Direct Grants			<u>877,665</u>
Total U.S. Federal Assistance Fund			<u>\$ 3,141,682</u>

Note: The above grants are received in a subgrant capacity through the FSM National Government, except for the Freely Associated States Educational Grant (CFDA #84.256A) and Title VII Bilingual Education Program, (CFDA #84.194), Vocational Education Improvement Program (CFDA #84.994) and Twenty-First Century Community Learning Center (CFDA #84.287), 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, 2001

Grantor Program Title	CFDA I.D. #	Pohnpei Org. #	2001 Fiscal Year Expenditures
<u>World Health Organization</u>			
Family Planning UNFPA	N/A	3913	\$ 1,050
EPA Awareness Raising Act	N/A	3914	487
Biodiversity/Management	N/A	3974	1,499
Biodiversity/Sustainable Development	N/A	3975	3,000
Biodiversity/Training	N/A	3976	681
PNI Literacy Project Plan	N/A	3985	1,391
PNI Atisanal Fisheries	N/A	3986	5,296
			<u>13,404</u>
<u>Other Grants</u>			
Capacity 21/Earth Day Celebration	N/A	3927	(320)
Vocational Education Improvement program	N/A	3947	72,997
FY95 Pohnpei Vision and Dreams	N/A	3962	4,078
			<u>76,755</u>
Total Other Federal and Direct Assistance Fund			\$ <u><u>90,159</u></u>

Note: Except for the Vocational Education Improvement Program, 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
Compact of Free Association Special Block Grant Fund
Section 221(B)
Year Ended September 30, 2001

<u>Grantor Program Title</u>	<u>CFDA I.D. #</u>	<u>Pohnpei Org. #</u>	<u>2001 Fiscal Year Expenditures</u>
<u>Office of Insular Affairs</u>			
Administration ES&D	15.875	2148	\$ 6,298
Preschool and Elementary Education	15.875	2149	271,181
Secondary Education	15.875	2150	<u>1,532,774</u>
Total Compact of Free Association Special Block Grant Fund - Section 221(B)			\$ <u><u>1,810,253</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 reallocates 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, 2001

Program Title	CFDA I.D. #	Pohnpei Org. #	2001 Fiscal Year Expenditures
<u>Section 212 - Special Development Program</u>			
Pohnpei State Housing Authority	15.875	2517	\$ 123,659
Aid to Kapinga Atoll Rehab	15.875	2519	15,121
Foreign Investment Board	15.875	2520	8,098
OMIP Matching	15.875	2529	51
Relief Storm Isa	15.875	2533	(5,969)
Civic Action Team	15.875	N/A	250,000
			<u>390,960</u>
<u>Section 214 - Energy Program</u>			
Household Solar Pakin	15.875	2701	23,616
Mwoakilloa Solar Energy	15.875	2702	3,785
Election Utilities	15.875	2703	558
Treasury & Administration Utilities	15.875	2752	47,494
Public & Government Relation Utilities	15.875	2755	360
Court of Land Tenure Utilities	15.875	2756	5,064
Social Affairs Utilities	15.875	2758	6,544
Public Broadcasting Corporation Utilities	15.875	2759	15,499
Supreme Court Utilities	15.875	2762	14,500
Micro Glory POL	15.875	2763	152,055
Governor's Office Utilities	15.875	2764	111,457
Solar System Parem/Lenger	15.875	2766	4,981
Land & Natural Resources Utilities	15.875	2771	37,499
Public Safety Utilities	15.875	2772	28,484
Transportation & Infrastructure Utilities	15.875	2774	7,000
Law & Litigation Utilities	15.875	2775	12,198
Economic Affairs Utilities	15.875	2776	6,099
Health Services Utilities	15.875	2780	341,720
Public Auditor Utilities	15.875	2781	3,478
Foreign Investment Board Utilities	15.875	2782	2,000
PFC Utilities Debt to PUC	15.875	2783	963
Solar Freezer Pingelap	15.875	2785	5,520
Budget Office Utilities	15.875	2787	8,795
RM&D Department Utilities	15.875	2789	5,482
Legislative Branch Utilities	15.875	2792	33,168
Education Utilities	15.875	2793	125,600
EPA Utilities	15.875	2793	3,401
Governor's Office Utilities	15.875	2798	15,295
			<u>1,022,615</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, 2001

Program Title	CFDA I.D. #	Pohnpei Org. #	2001 Fiscal Year Expenditures
<u>Section 216(A)(2) - Health and Medical Programs</u>			
Outer Island Medical Referral	15.875	2355	11,780
FY93 Medical Referrals	15.875	2356	<u>229,688</u>
			<u>241,468</u>
<u>Section 216(A)(3) - Scholarship Programs</u>			
FY2001 Scholarship	15.875	2913	<u>279,180</u>
			<u>279,180</u>
Total Compact of Free Association Other Grants Fund			\$ <u><u>1,934,223</u></u>
Balance per the fund financial statements			\$ 1,810,563
Transfer out to component units	N/A	2517	<u>123,660</u>
			\$ <u><u>1,934,223</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, 2001

Grantor Program Title	CFDA I.D. #	Pohnpei Org. #	2001 Fiscal Year Expenditures
<u>Office of Insular Affairs</u>			
Wone Elementary School	15.875	6024	\$ 6,740
U Section II Piggery Project	15.875	6169	3,410
Construction of Nanpil Bridge	15.875	6170	40,500
Meitik Nankurupwung Bridge	15.875	6178	8,564
Landfill/Construction of Parem School	15.875	6192	48,405
Madolenihmw Development Project	15.875	6417	2,353
Kolonia Town Road Project	15.875	6419	27,566
Lenger Island Water System	15.875	6422	8,865
U.H. Business Center Contribution	15.875	6445	450
Nett District CIP	15.875	6450	9,100
Renovation of Governor's Office	15.875	6451	28
Expansion & Renovation of PICS Cafeteria	15.875	6465	2,481
OMIP Matching Technical Assistance Fund	15.875	6477	(968)
Supp. Section 4 Water System	15.875	6480	19,000
Trochus Development	15.875	6489	2,252
Tamworohi/Kepirohi Water System	15.875	6495	1,145
Pehleng Community Fishing Project	15.875	6506	435
Completion of Wone Elementary School	15.875	6507	5,366
Lighting Devices Pwudoi	15.875	6509	450
Lighting Devices & Fence, Pehleng	15.875	6511	450
Kapingamarangi Dispensary	15.875	6525	1,436
Nanmand Youth Fishing Project	15.875	6534	1,049
Nukuoro Black Pearl	15.875	6535	8,499
Meitik Bridge	15.875	6538	1,973
Technical Assistance FY99	15.875	6545	10,034
CIP Administration Cost	15.875	6546	4,000
Sport Facilities Development	15.875	6550	46,458
Renovation of Sapwuhfik Municipal Office	15.875	6551	26,595
Sokehs Powe, Sapwohn Road	15.875	6553	4,931
Mapping & Survey Project	15.875	6554	95,252
Construction of Leh dau/Kitam Road	15.875	6555	11,502
Cert. Project on Sapwuhfik	15.875	6559	11,889
Relocation of Agriculture Station	15.875	6561	73,953
Upgrading Secondary Road	15.875	6562	346
Botanical Garden Upgrade	15.875	6563	10,998
Eirike Road Paving	15.875	6567	2,660
Pohnlangas Mand Road Paving	15.875	6571	2,847
Pingelap Solar System Project	15.875	6572	8,640
Renovation of Pingilap Office	15.875	6575	1,988
Kipar Lewetik Road Paving	15.875	6576	98,500
Rohi Farm Road Paving	15.875	6577	6,890
Nankepinsouna Road Paving	15.875	6579	1,330
Nansoaksoak Road Upgrade	15.875	6580	1,330
Beautification of Dekehtik Causeway	15.875	6585	3,036
OMIP Matching For O&M Engineer	15.875	6586	422
Sekere/Likie Road Paving II	15.875	6588	8,865
Pingilap Circumferential Road	15.875	6589	8,100
Circumferential Road Paving	15.875	6590	226,304
Balance Forward			866,419

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, 2001

Grantor Program Title	CFDA I.D. #	Pohnpei Org. #	2001 Fiscal Year Expenditures
Balance Forwarded			\$ 866,419
Lukop Basketball Court	15.875	6591	8,957
Mwoakilloa Dispensary Extension	15.875	6592	2,471
Renovation of Mwoakilloa Warehouse	15.875	6593	3,959
Maintenance of Mwoakilloa Airstrip	15.875	6594	4,925
Improvement of Pingelap Municipal Office	15.875	6595	17,871
Maintenance of Mwoakilloa Main Road	15.875	6596	13,551
Pingilap Solar Power Freezer	15.875	6597	12,210
U Youth and Women Center	15.875	6598	709
Dehphek/Pahndau Mangrove Channel	15.875	6603	929
Rohi Spurline Extension	15.875	6605	9,928
Mwakot Electrification	15.875	6606	8,593
Nanmand Road Project	15.875	6608	2,999
Section III Road Construction	15.875	6609	3,200
Madolenihmw Police Substation	15.875	6610	25,850
Renovation of Personnel & Labor Offices	15.875	6611	10,279
Extension of Public Auditor's Office	15.875	6612	14,144
Oumoar & Likie Power Restoration	15.875	6613	20,000
Spurline in Rentu/Nintok	15.875	6614	5,797
Pingelap Community House Improvement	15.875	6616	24,529
Nukuoro FY2000 CIP	15.875	6617	19,414
Parks Maintenance/Upgrade	15.875	6618	46,272
Circumferential Road Paving	15.875	6619	1,399,570
Sports Facilities	15.875	6620	385,246
Circumferential Road Maintenance	15.875	6621	79,864
Ohmine/Kaselel/Nantuelek	15.875	6623	2,068
Catholic Mission Bell Tower	15.875	6624	27,522
Paies & Kepine Bridges	15.875	6625	21,670
Spot. Maintenance of Koedai Road	15.875	6626	5,600
GEO Engineering Services	15.875	6628	60,000
Upgrade Draining, GP-LP	15.875	6629	30,944
Ohmine School Parking Area	15.875	6630	114
Legislatures Office Building Renovation	15.875	6631	50,000
Construction Admin./Budget Building	15.875	6632	40,127
V6AH Equipment Upgrade	15.875	6633	50,050
Construction of Kapinga Municipal Office	15.875	6634	9,000
Madolenihmw Section IV Water System	15.875	6635	26,000
Construction of Kapwarsou Street	15.875	6636	16,000
Reconstruction of Former Jail	15.875	6638	36,731
Fire Truck & Accessories	15.875	6639	149,111
Lewetik Piggery Project	15.875	6640	20,000
Construction of Pohnrakied Road Dock	15.875	6641	42,326
Manpower Skill Development	15.875	6642	65,520
Section IV Playground	15.875	6643	352
Rohi School Land Clearance	15.875	6644	19,529
Kolonia Town Court House	15.875	6645	28,220
Kehpara Sanctuary Project	15.875	6646	8,769
Balance Forward			<u>3,697,339</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, 2001

Grantor Program Title	CFDA I.D. #	Pohnpei Org. #	2001 Fiscal Year Expenditures
Balance Forwarded			\$ 3,697,339
Tipwen Delehur Bridge	15.875	6647	10,000
Dekehtik Dumpsite Improvement	15.875	6648	49,583
Micro Glory Drydocking	15.875	6649	53,350
Pohnpei Traditional Nahs	15.875	6651	675
Sports Facilities	15.875	6910	60,900
FY-99 MTN debt payments (Org. 6099 & 6100)	15.875	-	<u>2,000,000</u>
Total Compact of Free Association Capital Projects Fund - Section 211 (A) Capital Account			<u>\$ 5,871,847</u>
Note 1: A reconciliation of the above expenditures to the general purpose financial statements is shown below:			\$ 3,871,847
FY-99 MTN debt payments (Org. 6099 & 6100)			<u>2,000,000</u>
			<u>\$ 5,871,847</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 reallocates 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
TTPI Capital Projects Fund
Year Ended September 30, 2001

<u>Grantor Program Title</u>	<u>CFDA I.D. #</u>	<u>Pohnpei Org. #</u>	<u>2001 Fiscal Year Expenditures</u>
<u>U.S. Department of the Interior</u> Airport Runway Renovation	15.875	6325	\$ <u>37,320</u>

Note: The above grant was received in a direct capacity from the U.S. Department of Interior.

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, 2001

<u>Grantor Program Title</u>	<u>CFDA I.D. #</u>	<u>Pohnpei Org. #</u>	<u>2001 Fiscal Year Expenditures</u>
General Fund: Current Account	15.875	Various	\$ <u><u>8,817,120</u></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, 2001

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 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, 2001

3. Component Units

The State of Pohnpei's component units separately satisfy the requirements of OMB Circular A-133. The following presents information concerning the respective component units.

Pohnpei Utilities Corporation

The Pohnpei Utilities Corporation, a component unit - proprietary fund, is the recipient of various pass-through funds from Pohnpei State. No material instances of noncompliance or questioned costs are presented in its audit reports. On page 68 is the Pohnpei Utilities Corporation's Schedule of Expenditures of Federal Awards, as extracted from the above mentioned audit reports.

Pohnpei Housing Authority

The Pohnpei Housing Authority is the recipient of various pass-through funds from Pohnpei State. The Authority has yet to complete its audit for the year ended September 30, 2001 and has accordingly yet to meet its OMB Circular A-133 requirements.

**STATE OF POHNPEI
FEDERATED STATES OF MCRONESIA**

Pohnpei Utilities Corporation
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2001

Grantor/Program Title	CFDA No.	Total Authorizations	Prior Years' Expenditures	Expenditures for the Year Ended Sept. 30, 2001	Total Program Expenditures
<u>U.S. Department of the Interior:</u>					
<u>Office of Insular Affairs:</u>					
<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	636,822	16,452	653,274
Pohnpei Water, Sewerage, and Solid Waste Utilities Development, Third-Year		443,500	319,014	49,935	368,949
Pohnpei Water, Sewerage, and Solid Waste Utilities Development, Fourth-Year		285,000	139,204	140,294	279,498
Pohnpei Power Generation and Distribution Second-Year		273,468	273,468	-	273,468
Pohnpei Power Generation and Distribution Third-Year		370,000	370,000	-	370,000
Pohnpei Power Generation and Distribution Fourth-Year		465,498	473,070	-	473,070
Pohnpei Power Generation and Distribution Fifth Year		456,000	394,111	61,889	456,000
Pohnpei Power Generation and Distribution Sixth Year-					
Apprenticeship training		60,000	34,345	18,000	52,345
Continuation of Prepaid Meter Program		250,000	-	250,000	250,000
Utility Development 2001		117,668	-	13,412	-
OMIP Bench		71,000	71,000	-	71,000
		<u>4,697,384</u>	<u>3,951,282</u>	<u>549,982</u>	<u>4,487,852</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>190,665</u>	<u>-</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 (TTPI):</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>\$ 13,242,462</u>	<u>\$ 12,663,756</u>	<u>\$ 549,982</u>	<u>\$ 13,200,326</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, 2001

<u>Grantor</u> <u>Program Title</u>	<u>CFDA No.</u>	2001 <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	\$ 5,871,847
214 Compact Energy	15.875	1,022,615
216(A)(3) Compact Scholarship	15.875	<u>279,180</u>
Total Major Programs Under CFDA # 15.875 excluding Compact Section 211 (A) Current Account expenditures		<u>7,173,642</u>
<u>U.S. Department of Education</u>		
TFAS Educational Grant	84.256A	<u>682,120</u>
Total Major Programs Under U.S. Department of Education		<u>682,120</u>
Total U.S. Federal program expenditures selected excluding Compact Section 211 (A) Current Account expenditures		\$ <u>7,855,762</u>
Total U.S. Federal program expenditures excluding Compact Section 211 (A) Current Account expenditures		\$ <u>12,795,325</u>
% of total U.S. Federal expenditures covered by major programs excluding Compact Section 211 (A) Current Account expenditures		<u>61%</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2001

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, some of which are considered to be material weaknesses.
3. One instance of noncompliance considered material to the financial statements was disclosed by the audit.
4. Reportable conditions in internal control over compliance with requirements applicable to major federal award programs were identified, which are considered to be material weaknesses.
5. The independent auditors' report on compliance with requirements applicable to major federal award programs expressed a qualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. The State's major programs were:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
U.S. Department of the Interior - Compact of Free Association	15.875
U.S. Department of Education - TFAS Educational Grant	84.256A

8. A threshold of \$383,860 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>
2001-1	Equipment and Real Property Management	\$ -
2001-3	Equity Investment	\$ -
2001-4	Travel Advance	\$ -
2001-5	Accounts Payable	\$ -
2001-6	Continuing Appropriations	\$ -
2001-7	Inventory	\$ -
2001-8	General Receivables	\$ -
2001-9	Interfund Reconciliation	\$ -
2001-10	Other Accrued Liabilities	\$ -
2001-11	Bank Reconciliation	\$ -
2001-12	Prepayments	\$ -
2001-13	Interest Income	\$ -

Part III - Federal Award Findings and Questioned Cost Section

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
2001-1	Equipment and Real Property Management	\$ -
2001-2	Allowable Costs/Cost Principles	\$ 74,332

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Federal Award Findings and Questioned Costs Section

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
<u>Equipment and Real Property Management</u>		
2001-1. All Federal Grants	<p><u>Criteria:</u> A summary schedule of the fixed asset detail produced by the automated fixed asset subsystem, classified by major assets category, should be maintained. Additionally, the Common Rule for Uniform Administration Requirements for Federal Grants, Section 33(d)(2) require 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 as required by law.</p> <p><u>Cause:</u> The cause of the above condition is that Division of Property has not updated the fixed assets register.</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 asset data was reported as a finding in the Single Audit of Pohnpei State for the years 1988 through 2000.</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> <p><u>Auditee Response and Corrective Action Plan in a letter dated January 28, 2003:</u></p> <p>Pohnpei State concurs with this finding.</p> <p>Corrective Action Plan: Pohnpei State has an updated automated fixed asset master listing on file and it continues to add to its master file as it acquires more fixed assets. We are still working on the appraised value of our major fixed assets such as buildings, roads, bridges and etc. We hope that this process can be completed sometimes in FY 2003.</p>	

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Local Findings and Questioned Costs Section

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
<u>Allowable Costs/Cost Principles</u>		
2001-02. U.S. Dept. of Interior/Compact Energy Fund– CFDA #15.875	<p><u>Criteria:</u> Pohnpei State should comply with the intent of the Compact Treaty.</p> <p><u>Condition:</u> Expenses that are operational in nature (fuel for the government owned ship, Micro Glory) aggregating \$74,332 were charged to the Compact Energy Grant. This use does not appear to represent an eligible use of Compact Energy funds.</p> <p><u>Cause:</u> The cause of this condition has not been established.</p> <p><u>Effect:</u> The effect of this condition is questioned costs.</p> <p><u>Recommendation:</u> We recommend that Pohnpei State ensure compliance with the intent of the Compact of Free Association.</p> <p><u>Auditee Response and Corrective Action Plan in a letter dated January 28, 2003:</u></p> <p>Pohnpei State concurs that we should comply with the intent of the Compact Treaty.</p> <p>Corrective Action Plan: Pohnpei State believes that this issue is similar to payment of its utilities from Compact Energy, however, we are seeking the assistance of FSM National Government Attorney General to render an opinion on this issue.</p>	<p>\$ <u>74,332</u></p>
Total Federal Findings Questioned Costs		\$ <u>74,332</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Financial Statement Findings Section

Equity Investment

Finding No. 2001-3

Criteria: Pohnpei State should ensure that financial statements are furnished by all investees at the end of each fiscal year.

Condition: No financial statements for Caroline Fisheries Corporation were furnished in support of the State's equity investment.

Cause: The cause of this condition is that Caroline Fisheries Corporation was not able to provide financial statements to Pohnpei State Government.

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

Prior Year Status: This finding was brought to management's attention in the 1999 and 2000 Single Audit Reports.

Recommendation: We recommend that the Department of Administration and Treasury ensure that financial statements are furnished by its material investees at the end of each fiscal year.

Auditee Response and Corrective Action Plan in a letter dated January 28, 2003: Pohnpei State concurs with this finding,

Corrective Action Plan: Department of Treasury & Administration is working with the Comptroller of the Caroline Fisheries Corporation in resolving this issue and has targeted to have FY 2001 & 2002 financial statements available not later than the end of FY 2003.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Financial Statement Findings Section, Continued

Travel Advance

Finding No. 2001-4

Criteria: Pohnpei State should maintain details of travel advances to support the general ledger balance.

Condition: The details of travel advances stated at \$843,237 at September 30, 2001, were not available for inspection.

Cause: The cause of this condition is that Division of Finance did not ensure that details of travel advances are maintained.

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

Prior Year Status: This finding was brought to management's attention in the 1999 and 2000 Single Audit Reports.

Recommendation: We recommend that Pohnpei State ensure that travel advance details are maintained to support general ledger balances.

Auditee Response and Corrective Action Plan in a letter dated January 28, 2003: Pohnpei State concurs with this finding,

Corrective Action Plan: Pohnpei State will need the technical capabilities in generating such reports. The information is available on its networking system. The Department of Treasury & Administration is working with its software provider and will be able to provide such reports for its FY 2002 audit.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Financial Statement Findings Section, Continued

Accounts Payable

Finding No. 2001-5

Criteria: Pohnpei State should ensure that details of the accounts payable subsidiary ledger reconcile with the general ledger balance at the end of each fiscal year.

Condition: The accounts payable subsidiary ledger is less than the general ledger control account by \$881,362 for all governmental fund types at September 30, 2001.

Cause: The cause of this finding is that Division of Finance did not ensure that details of accounts payable are maintained.

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

Prior Year Status: This finding was brought to management's attention in the 2000 Single Audit Reports.

Recommendation: We recommend that Pohnpei State ensure that accounts payable are reconciled at the end of each fiscal year.

Auditee Response and Corrective Action Plan in a letter dated January 28, 2003: Department of Treasury & Administration concurs with this finding.

Corrective Action Plan: Department of Treasury & Administration is working with its software provider for its assistance in generating such reports since these information are available in its automated system.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Financial Statement Findings Section, Continued

Continuing Appropriations

Finding No. 2001-06

Criteria: A functioning system of internal control requires that the subsidiary ledger for continuing appropriations be reconciled with the general ledger control account.

Condition: No detail of continuing appropriations for all fund types was available.

Cause: The cause of this finding is that Division of Finance did not ensure that reconciliation of continuing appropriations was performed.

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

Prior Year Status: This finding was brought to management's attention in the 2000 Single Audit Reports.

Recommendation: We recommend that Pohnpei State reconcile continuing appropriations on a recurring basis.

Auditee Response and Corrective Action Plan in a letter dated January 28, 2003: Department of Treasury & Administration concurs with this finding.

Corrective Action Plan: Department of Treasury & Administration maintains an updated manual listing of its continuing appropriations. It is in the process of reconciling this manual listing with its ledgers in its automated system.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Financial Statement Findings Section, Continued

Inventory

Finding No. 2001-7

Criteria: Details of the internal service fund inventory should be maintained to support the general ledger balance.

Condition: Details of inventory of the internal service fund were not available.

Cause: The cause of this condition is that Division of Finance did not ensure that details of inventory was maintained.

Effect: The effect of this condition is a qualification of the report on the 2001 general purpose financial statements.

Prior Year Status: This finding was brought to management's attention in the 2000 Single Audit Reports.

Recommendation: We recommend that Pohnpei State Government ensure that details of inventory for the internal service fund are maintained to support the general ledger balance.

Auditee Response and Corrective Action Plan in a letter dated January 28, 2003: Department of Treasury & Administration does not concur with this finding because it provided the automated inventory of its internal service fund to its independent auditors.

Auditors' Response: The auditee appears mistaken as no documents indicating the costing of the September 30, 2001 were provided us.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Financial Statement Findings Section, Continued

General Receivables

Finding No. 2001-8

Criteria: Money owed to Pohnpei State Government should be collected in a timely manner.

Condition: Taxes and leases of \$2.03 million owed to the State as of September 30, 2001 have been outstanding for a number of years.

Cause: The cause of this condition is Division of Finance did not ensure that money owed to State Government was collected.

Effect: The effect of this condition is a negative impact on cash flows for operations.

Prior Year Status: This finding was brought to management's attention in the 2000 Single Audit Reports.

Recommendation: We recommend that Pohnpei State pursue the collection of funds owed through legal means.

Auditee Response and Corrective Action Plan in a letter dated January 28, 2003: Department of Treasury & Administration concurs with this finding.

Corrective Action Plan: Department of Treasury & Administration had established an allowance for bad debts account for this receivable. We are still reconciling our books to determine if subsequent tax collections made in the preceding years should be applied to this receivable.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Financial Statement Findings Section, Continued

Interfund Reconciliation

Finding No. 2001-9

Criteria: Interfund due from/to balances should be reconciled at all times.

Condition: A \$60,900 out-of balance condition for interfund receivables and payables existed at September 30, 2001.

Cause: The opening Cash 100 accounts were out-of balance.

Effect: The effect of this condition is a misstatement of the financial statements. However, such misstatement was corrected through the audit process.

Prior Year Status: This finding was brought to management's attention in the 2000 Single Audit Reports.

Recommendation: We recommend that Pohnpei State ensure that interfund accounts are reconciled at all times.

Auditee Response and Corrective Action Plan in a letter dated January 28, 2003: Department of Treasury & Administration concurs with this finding.

Corrective Action Plan: Department of Treasury & Administration continues to reconcile its interfund accounts and targeted the end of FY 2003 to complete all the unreconciled interfund accounts.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Financial Statement Findings Section, Continued

Other Accrued Liabilities

Finding No. 2001-10

Criteria: A functioning system of internal control requires all balance sheet accounts to be reconciled on a recurring basis.

Condition: The following general fund and special revenue fund accounts lacked details to support the propriety of the year-end balance.

<u>Fund</u>	<u>Account</u>	<u>Balance</u>
100000	517	\$ 63,437
100000	518	\$ 9,172
200000	518	\$ 5,256
250000	518	\$ 131,066

Cause: The cause of this condition is Division of Finance did not ensure that details are maintained.

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

Prior Year Status: This finding was brought to management's attention in the 2000 Single Audit Reports.

Recommendation: We recommend that Pohnpei State Finance review all general ledger accounts to ensure that all accounts are properly supported and reconciled at the end of each fiscal year.

Auditee Response and Corrective Action Plan in a letter dated January 28, 2003: Department of Treasury & Administration concurs with this finding.

Corrective Action Plan: Department of Treasury & Administration is in the process of completing its reconciliation of the questioned funds and has targeted to complete this process not later than the end of FY 2003.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Financial Statement Findings Section, Continued

Bank Reconciliation

Finding No. 2001-11

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

Condition: At the end of June 2002, Pohnpei State had not reconciled the majority of its general ledger bank accounts for the month of September 30, 2001.

Cause: The cause of this condition is that the Division of Finance did not ensure that bank reconciliations were performed on a timely basis.

Effect: Untimely reconciliation increases the risk of errors and fraud.

Recommendation: We recommend that the chief accountant review and monitor monthly reconciliations to ensure their accuracy and timeliness.

Auditee Response and Corrective Action Plan in a letter dated January 28, 2003: We concur with this finding.

Corrective Action Plan: Reconciliation of this questioned cost is ongoing. We have also targeted to complete reconciliation not later the end of FY 2003.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Financial Statement Findings Section, Continued

Prepayments

Finding No. 2001-12

Criteria: Accounting principles generally accepted in the United States of America (GAAP) requires prepaid expenditures to be recorded as assets.

Condition: Due to nature of certain procurements, prepayments have to be made. However, a detailed schedule of prepayments as of September 30, 2001 was not available for inspection.

Cause: The cause of this condition is that the Division of Finance has not created general ledger accounts to track prepayments.

Effect: The effect of this condition is noncompliance with GAAP.

Recommendation: We recommend that the chief accountant implement procedures to ensure that prepayments to vendors are properly recorded in the accounting system.

Auditee Response and Corrective Action Plan in a letter dated January 28, 2003: Department of Treasury and Administration concurs with this finding.

Corrective Action Plan: Department of Treasury and Administration kept a manual listing of all its prepayments, however, it will institute the recording of such transactions in its general ledger beginning FY 2004.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Financial Statement Findings Section, Continued

Interest Income

Finding No. 2001-13

Criteria: A functioning system of internal control requires all general ledger accounts to be reconciled on a recurring basis.

Condition: We found that the general ledger has not been reconciled with details of interest income on all interest bearing accounts as of September 30, 2001.

Cause: The cause of this condition is that the Division of Finance did not ensure that interest earned on interest bearing accounts are recorded in the accounting system.

Effect: Untimely reconciliation increases the risk of errors and fraud.

Recommendation: We recommend that the chief accountant reconciles all general ledger accounts to ensure their accuracy.

Auditee Response and Corrective Action Plan in a letter dated January 28, 2003: Department of Treasury and Administration concurs with this finding.

Corrective Action Plan: Division of Public Finance and Property Accountability reconciles its general ledger on a quarter basis but will institute a monthly reconciliation of its ledgers to ensure timely and accurate information on its books.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Summary Schedule of Prior Audits Findings and Questioned Costs
Year Ended September 30, 2001

The following is a summary of unresolved questioned costs of the State of Pohnpei as of September 30, 2001:

	Questioned Costs Set Forth in Prior Audit Report <u>2000</u>	Questioned Costs Resolved in Fiscal Year <u>2001</u>	Questioned Costs at <u>September 30, 2001</u>
Unresolved Questioned Costs FY 96	\$ 15,182	\$ -	\$ 15,182
Unresolved Questioned Costs FY 98	24,000	-	24,000
Unresolved Questioned Costs FY 99	39,439	-	39,439
Unresolved Questioned Costs FY 00	12,375	-	12,375
Unresolved Questioned Costs FY 01	<u>-</u>	<u>-</u>	<u>74,332</u>
	\$ <u>90,996</u>	\$ <u>-</u>	\$ <u>165,328</u>

Unresolved findings for fiscal year 1999:

<u>Page No.</u>	<u>Finding No.</u>	<u>Description</u>
74	99-2	Allowable Costs/Costs Principles
75	99-3	Allowable Costs/Costs Principles-Specific Support
77	99-4	Allowable Costs/Costs Principles-Questionable Use of Compact Funds
78	99-5	Subrecipient Monitoring – PSHA
80	99-6	Equipment and Real Property Management
81	99-7	Compact Capital Fund – Allowable Costs/Cost Principles

Unresolved findings for fiscal year 2000:

<u>Page No.</u>	<u>Finding No.</u>	<u>Description</u>
71	2000-1	Equipment and Real Property Management
72	2000-2	Allowable Costs/Costs Principles
74	2000-4	Allowable Costs/Costs Principles
75	2000-5	Allowable Costs/Costs Principles