On this 5th day of October 2006, JEMCO adopted the following resolutions regarding Fiscal Year 2007 sector grant funding allocations and special conditions:

JEMCO Resolution # 1

JEMCO resolves to approve the following amounts for use of Fiscal Year 2007 Compact sector grant funding, subject to the conditions specified in resolutions #2, #3, and #4 of this date:

- $ 28,051,609 Education
- $ 17,309,531 Health
- $ 23,753,270 Infrastructure
- $  5,609,691 Public Sector Capacity Building
- $  1,011,048 Private Sector Development
- $  1,408,631 Environment
- $ 77,143,780

JEMCO Resolution # 2

JEMCO resolves that the following condition shall be applied to all sector grant awards:

Within thirty days (30) of acceptance of the six grant awards, the FSM Government must submit to the Office of Insular Affairs, all FSM national and state government appropriated or authorized budgets that match the adjustments to the FSM budget submission of September 19, 2006 reflected in worksheet 1 (attached).

JEMCO Resolution # 3

JEMCO resolves that $2,033,786 may be approved for Private Sector Development and Environment Sector grants in the four FSM states; however, the awarding of such funds shall be contingent on the receipt of project-based budgets submitted to the Office of Insular Affairs within thirty (30) days of grant award. The personnel costs within each of these budgets shall not exceed seventy percent (70%) of the total budgets. If such submissions fail to meet the deadline or are not acceptable to JEMCO, then the funds shall be made available for other conforming, high priority projects within the FSM. OIA and the FSM shall confer prior to the awarding of such grants.
JEMCO Resolution # 4

JEMCO resolves that the following special conditions shall apply to the FY 2007 Compact sector grants:

A. Compact sector carry-over funding from Fiscal Years 2004 and 2005 may not be used as local funds for budget allocation purposes or to address recurring operating shortfalls.

B. Sector-specific special grant conditions are as follows:

**EDUCATION**

1. Sub-allocations are as follows:

   National Government:
   - Nat’l Division of Education $604,149
   - College of Micronesia – FSM $3,852,833
   - Chuuk State $9,710,276
   - Kosrae State $2,300,057
   - Pohnpei State $7,187,007
   - Yap State $4,397,287
   - $28,051,609

2. Special conditions are as follows:

   a. The FSM must utilize the $200,000 added to the National Government -National Division of Education’s requested budget of $359,081, to cover the cost of independent professional evaluations approved by OIA, including but not limited to the evaluation of the national student testing systems, and a personnel audit of the Chuuk State school system.

   b. The FSM must use the additional funds allocated to the requested budgets to make up shortfalls in essential operating expenses. The additional amounts, incorporated in item 1 above, must only be used for fuel, utilities, communication, equipment, and contractual services. The increases are as follows:

   i. National Government:
      1. Nat’l Division of Education $45,068
      2. College of Micronesia – FSM $52,833
   ii. Chuuk State $82,238
   iii. Kosrae State $85,786
   iv. Pohnpei State $81,903
   v. Yap State $68,403

   $416,231
c. The Chuuk State School System secondary nutrition program may be reinstated in ten of the original twelve schools. Secondary nutrition program funds are not approved for use at Chuuk High School and Weno High School until further approval is received from OIA.

d. The FSM Department of Health, Education and Social Affairs, in consultation with the states, shall compile and submit a report to OIA no later than January 31, 2007, describing textbook purchasing timelines and adoption cycles of each state for the next five years.

e. All 20 indicators of educational progress shall be reported by July 1, 2007.

f. Compact sector funds are not approved for use by the FSM Fisheries and Maritime Institute.

HEALTH

1. Sub-allocations are as follows:

   
   Chuuk State       $6,594,327
   Kosrae State       $1,945,848
   Pohnpei State       $4,945,959
   Yap State       $2,999,233
   National Government (HESA)     $ 824,164
                                  $17,309,531

2. Special conditions are as follows:

   Chuuk State sub-allocation special conditions :

   a. Within thirty (30) days of grant award, the FSM Government must provide the Office of Insular Affairs with the Chuuk Department of Health Services’ budget and performance plan for public health and public health-related programs funded by U.S. federal grants, with special emphasis given to those activities co-funded by the Compact health sector grant.

   b. Within thirty (30) days of grant award, the FSM Government must provide the Office of Insular Affairs with the Chuuk Department of Health Services’ accounting of special revenues earned from fees and a description of how it intends to use these funds in Fiscal Year 2007.

   c. Compact sector funds in the amount of $160,000 are specifically provided to offset projected shortfalls in POL ($60,000) and off-island medical referrals of uninsured patients ($100,000).
Kosrae State sub-allocation:

d. If local funds are not appropriated as allocated in the September 19, 2006 line item budget submitted to OIA, then the total Compact sector grant award to Kosrae shall increase by a like amount from the Private Sector Development and Environment Sector grants that are the subject of resolution #3, to make up the difference.

e. Compact sector funds in the amount of $305,740 are specifically provided to offset projected shortfalls in POL ($4,000), utilities ($37,740), communication ($4,000), pharmaceuticals and medical supplies ($150,000), medical specialist contracts ($50,000), and medical referrals ($60,000).

Pohnpei State sub-allocation:

f. Compact sector funds in the amount of $265,000 are specifically provided to offset projected shortfalls in utilities ($165,000) and medical referrals ($100,000).

Yap State sub-allocation:

g. No special conditions are recommended.

FSM National Government (HESA) sub-allocation:

h. Compact sector funds in the amount of $57,000 are specifically provided to offset projected shortfalls in communications ($2,000), drugs and medical supplies for the Mental Health and Substance Abuse Program ($10,000), contractual off-island visiting medical specialists ($28,000), TB and STD clinical supplies for state governments ($3,000), and travel for off-island visiting medical specialists ($14,000).

i. The FSM Government must submit HESA’s written outline of its plan to resurvey Pohnpei (STEPS) to the Office of Insular Affairs within thirty (30) days of grant award.

INFRASTRUCTURE

An allocation of $23,753,270 is approved for the infrastructure sector; however, individual projects shall not be approved for Fiscal Year 2007 until OIA concurs with project development plans to be submitted by the FSM Government.

PUBLIC SECTOR CAPACITY BUILDING

1. Sub-allocations are as follows:

   Chuuk State               $2,950,592
   Kosrae State              $1,231,867
   Pohnpei State             $  729,991
2. Special conditions are as follows:

a. The FSM National Government shall utilize Public Sector Capacity Building (PSCB) funding for the FSM Office of the Public Auditor to establish and implement additional Chuuk-based oversight, audit, and monitoring of Compact sector grants.

b. Within thirty (30) days of acceptance of grant award, the FSM shall submit a performance plan and line item budget to the Office of Insular Affairs for the additional oversight activities to be provided in Chuuk by the FSM Office of the Public Auditor.

c. $500,000 has been added to PSCB for additional oversight and monitoring of Compact sector funds in Chuuk State. This funding shall be administered by the FSM National Government. Specific use of the funding shall be based upon a plan to be developed by the FSM National Government and the Office of Insular Affairs within sixty (60) days of acceptance of grant award.

d. Within thirty (30) days of acceptance of grant award, the FSM shall submit to the Office of Insular Affairs a list and detailed description of specific capacity-building outcomes based on FSM-defined “conforming” activities to be funded by the PSCB.

PRIVATE SECTOR DEVELOPMENT

1. Sub-allocations are as follows:

<table>
<thead>
<tr>
<th>State</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chuuk State</td>
<td>$506,932</td>
</tr>
<tr>
<td>Kosrae State</td>
<td>$135,900</td>
</tr>
<tr>
<td>Pohnpei State</td>
<td>$143,206</td>
</tr>
<tr>
<td>Yap State</td>
<td>$225,010</td>
</tr>
<tr>
<td></td>
<td>$1,011,048</td>
</tr>
</tbody>
</table>

2. Specific uses of and special conditions relating of to these sub-allocated funds are as follows:

<table>
<thead>
<tr>
<th>State</th>
<th>Project</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chuuk</td>
<td>Land Management</td>
<td>$103,339</td>
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<tr>
<td></td>
<td>Chuuk Visitor’s Bureau</td>
<td>$223,593</td>
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<tr>
<td></td>
<td>Small Business Dev. Center</td>
<td>$100,000 ($15,000 add-on)</td>
</tr>
<tr>
<td></td>
<td>COM Land Grant</td>
<td>$ 80,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$506,932</td>
</tr>
<tr>
<td>Kosrae</td>
<td>Small Business Dev. Center</td>
<td>$ 36,077</td>
</tr>
<tr>
<td></td>
<td>Kosrae Visitor’s Bureau</td>
<td>$ 99,823</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$135,900</td>
</tr>
</tbody>
</table>
Pohnpei: Pohnpei Visitor’s Bureau $143,206
Yap: Small Business Dev. Center $225,010

3. Revised budgets shall be submitted to OIA within 30 days of grant award for the grant-supported offices and programs listed below. These budgets must demonstrate that personnel costs do not exceed 70%.

COM Land Grant – Chuuk State
Small Business Development Center – Kosrae

ENVIRONMENT SECTOR

1. Sub-allocations are as follows:

   Chuuk State $534,315
   Kosrae State $149,277
   Pohnpei State $470,623
   Yap State $254,416
   $1,408,631

2. Specific uses of these sub-allocated funds are as follows:

   Chuuk State: EPA $534,315
   Kosrae State: KIRMA $149,277
   Pohnpei State: Marine Conservation $ 71,037
                   T & I $ 84,000
                   EPA $315,586
                   $470,623
   Yap State: PW&T $ 20,100
              EPA $184,000
              YAPCAP $ 50,316 ($3,060 for turtle tagging project)
              $254,416

3. No special conditions are recommended.