

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

**REPORT ON THE AUDIT OF
FINANCIAL STATEMENTS IN ACCORDANCE
WITH THE UNIFORM GUIDANCE**

YEAR ENDED SEPTEMBER 30, 2021

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

YEAR ENDED SEPTEMBER 30, 2021

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FEDERATED STATES OF MICRONESIA**

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**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

**INDEPENDENT AUDITORS' REPORT,
FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION**

YEAR ENDED SEPTEMBER 30, 2021

INDEPENDENT AUDITORS' REPORT

Honorable Reed B. Oliver
Governor, State of Pohnpei
Federated States of Micronesia:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, and each major fund of the State of Pohnpei (the State), as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as set forth in Section III of the foregoing table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Pohnpei Transportation Authority and the Small Business Guarantee and Finance Corporation, which represent 8%, 7%, and 9%, respectively, of the assets, net position, and operating revenues of the State's discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Pohnpei Transportation Authority and the Small Business Guarantee and Finance Corporation, is based solely on the reports of the other auditors. 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified and unmodified audit opinions.

Summary of Opinions

Opinion Unit	Type of Opinion
Governmental Activities	Qualified
Aggregate Discretely Presented Component Units	Unmodified
General Fund	Unmodified
Grants Assistance Fund	Unmodified
Compact Trust Fund	Unmodified
Other Governmental Funds	Unmodified

Basis for Qualified Opinion on Governmental Activities

As more fully described in Note 13 to the financial statements, the State has not recorded a liability for a nonexchange financial guarantee for discretely presented component unit debt. In our opinion, accounting principles generally accepted in the United States of America require that a liability be recognized when the State will be required to make a payment on the guarantee. The effects of this departure on the governmental activities of the State are not reasonably determinable.

Qualified Opinion

In our opinion, except for the matter described in the “Basis for Qualified Opinion on Governmental Activities” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the State of Pohnpei as of September 30, 2021, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinion

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the aggregate discretely presented component units, and each major fund of the State of Pohnpei as of September 30, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matters

Receivables from the FSM National Government

As discussed in Note 3 to the financial statements, the State is in discussions with the FSM National Government to determine the ultimate collectability of certain receivables due from the FSM National Government in consultation with federal grantor agencies arising from Compact sector grant transactions.

COVID-19

As discussed in the Note 14 to the financial statements, the State has determined that the COVID-19 pandemic may negatively impact its results of operations and net position.

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

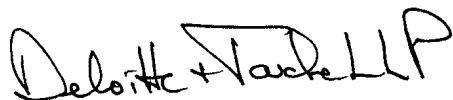
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 10 as well as the Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund and notes thereto, on pages 51 and 52, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The combining and individual fund financial statements, as set forth in Section V of the foregoing table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2023 on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance.



April 28, 2023

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2021

This section of the Pohnpei State's financial report presents our Management's Discussion and Analysis (MD&A) for the fiscal year ended September 30, 2021. This MD&A is prepared in compliance with the GASB 54 requirement. Readers are requested to read this MD&A in conjunction with the State's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The Pohnpei State's total governmental net position for the year is \$67,899,320.
- The net change in total governmental fund balance is an increase of \$8,232,097. Total revenues and other contributions reported are \$52,515,308 (\$48,073,919+\$4,441,389) against total expenditures of \$44,283,211.
- Actual revenues for the general fund were \$4,679,715 higher than the budgeted revenues. The total expenditures-budgetary basis showed a favorable variance of \$4,695,851. The general fund reported an unassigned fund balance of \$3,177,566, with an increase of \$3,105,458 from the prior year unassigned fund balance of \$72,108.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of four parts – management's discussion and analysis (this section), the basic financial statements, required supplemental information, and the notes to the financial statements.

The basic financial statements include two types of statements that present different views of the State:

Government-Wide Financial Statements

The government-wide financial statements report information about the State as a whole using an accounting method similar to those used by the private-sector companies. It provides both long-term and short-term information about the State's financial status.

The statement of net position includes all of the government's assets and liabilities. The difference between the two is called net position. Over time, increases or decreases in the State's net position serve as an indicator to measure the State's financial position.

The statement of activities, on the other hand, accounts for the State's current year's revenues and expenses regardless of when cash is received or paid.

The government-wide financial statements of the State consist of its government activities, which include public works, health, education and general administration. Sales taxes, revenue sharing, federal grants and Compact II/Sector grants are the major sources of these activities. Compact II/Sector grants replaced the Compact I funding in the fiscal year 2004.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2021

Fund Financial Statements

The fund financial statements provide more detailed information about the State's significant funds. The State uses fund accounting to comply with financial related legal requirements.

- Governmental funds. Most of the State's basic services are included in governmental funds, which focus on how cash and other financial assets that can readily be converted to cash flow in and out and the balances left at year-end that are available for spending. Unlike the government-wide financial statements, the governmental funds statements focus on the short-term financial requirements of the State. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide reconciliation at the bottom of the governmental funds statement, to explain the relationship between them. The State maintains individual governmental funds, which are categorized as major and non-major. The major funds include the General Fund. The other major funds consist of the Grants Assistance Fund and the Compact Trust Fund.

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE (GOVERNMENT-WIDE)

The following is a summary of the State's net position as of September 30:

	Government Net Position	
	2021	2020
Current and other assets	\$ 56,706,168	\$ 45,478,487
Capital assets	20,664,717	22,342,125
Total assets	\$ 77,370,885	\$ 67,820,612
Current liabilities	6,080,360	4,557,435
Long-term debt and other liabilities	3,391,205	3,595,954
Total liabilities	9,471,565	8,153,389
Net position:		
Net investment in capital assets	20,664,717	22,342,125
Restricted	37,625,769	31,159,418
Unrestricted fund balance	9,608,834	6,165,680
Total net position	67,899,320	59,667,223
	\$ 77,370,885	\$ 67,820,612

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2021

Change in net position. The State's Statement of Changes in Net Position for the fiscal year ended September 30 follows:

	Government Activities	
	2021	2020
Revenues:		
Program revenues:		
Charges for services	\$ 2,945,312	\$ 3,185,047
Operating grants and contributions	23,033,714	22,357,089
Capital grants and contributions	2,949,628	2,803,402
General Revenues:		-
Taxes	17,472,438	13,219,525
Investment earnings	1,733,258	1,245,534
Other	(60,431)	573,661
Total revenues	<u>48,073,919</u>	<u>43,384,258</u>
Expenses:		
General Government	9,722,030	9,004,629
Education	13,301,476	11,647,948
Health services	9,759,464	10,387,152
Land and natural resources	607,829	509,170
Public works and transportation	364,592	387,249
Public safety	2,014,508	1,846,543
Boards, commission and others	1,399,777	2,175,698
Municipal governments	2,951,738	4,344,616
Capital projects and others	4,161,797	2,803,402
Total expenses	<u>44,283,211</u>	<u>44,412,589</u>
Other items:		
SDR-foreign exchange gain (loss)	(71,376)	(504,320)
Contributions to permanent fund	4,512,765	1,582,418
Total other items	<u>4,441,389</u>	<u>1,078,098</u>
Change in net positions	8,232,097	49,767
Net position - beginning	<u>59,667,223</u>	<u>59,617,456</u>
Net position - ending	<u>\$ 67,899,320</u>	<u>\$ 59,667,223</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2021

Exhibit I, below, showed that 54% of the State's revenues were derived from the Compact II while 46% came from taxes and other government charges.

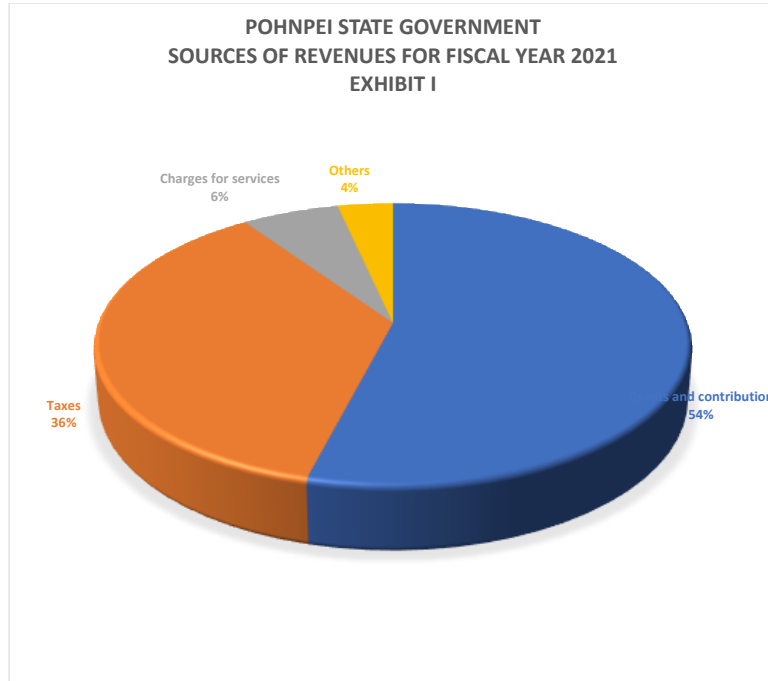
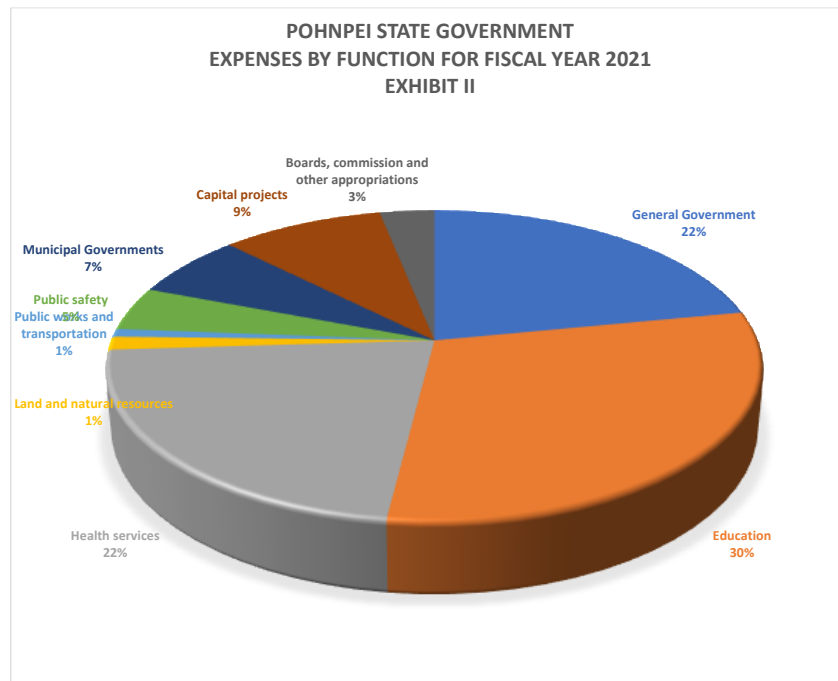


Exhibit II, illustrated that Education represented 30% of the State's total expenses followed by 22% for General Government and 22% for Health services.



**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2021

FINANCIAL ANALYSIS OF THE STATE GOVERNMENTAL FUNDS

The State's governmental fund changes in fund balances for the years ended September 30, 2021 and 2020 are shown below:

	General Fund		Grants Assistance Fund		Compact Trust Fund		Other Funds	
	2021	2020	2021	2020	2021	2020	2021	2020
Revenues:								
Taxes	\$ 16,828,290	\$ 12,583,466		\$ -	\$ -	\$ -	\$ 644,148	\$ 636,059
Compact	-	-	20,290,583	21,015,749	-	-	-	-
Other/transfer in	2,040,514	2,982,674	5,692,759	3,859,668	4,512,765	1,582,418	2,577,625	2,306,642
Total revenues	18,868,804	15,566,140	25,983,342	24,875,417	4,512,765	1,582,418	3,221,773	2,942,701
Expenditures/transfers out	14,411,924	15,049,326	26,058,614	24,954,458	-	-	2,507,565	3,156,412
Net change in fund balances	\$ 4,456,880	\$ 516,814	\$ (75,272)	\$ (79,041)	\$ 4,512,765	\$ 1,582,418	\$ 714,208	\$ (213,711)
% of FB Net Change	3,940,066	762%	3,769	-5%	2,930,347	185%	927,919	-434%
Increase (Decrease) in Revenue	3,302,664	21%	1,107,925	4%	-	0%	279,072	9%
(Increase) Decrease in expenditure	637,402	4%	(1,104,156)	-4%	-	0%	648,847	21%

General Fund

The net change of Fund Balance in General Fund increased by \$3,940,066 or 762%, due to increases in revenue of \$3,302,664 and decreased in expenditures of \$637,402.

Grant Assistance Fund

The net change of Fund Balance in Grant Assistance Fund increased by 3,769 or 5%, due to increases in revenue \$1,107,925 more than increases in grants expenditure of \$1,104,156.

Compact Trust Fund

The net change of Fund Balance in Compact Trust Fund increased by \$2,930,347 or 184%, due to deposits of \$4,512,765 into the trust fund in 2021 compared to \$1,582,418 in 2020.

General Fund Budgetary Highlights

During the year, the State revised its budget several times in the aggregate amount of \$568,062 to accommodate supplemental funding for departments and offices requiring increases in appropriations to avoid budget overruns. These matters are not believed to have a significant effect on future services. The State conforms to the most appropriate measures of utilizing its net assets due to inflationary adjustments.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2021

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The State's capital assets at the end of fiscal year 2021 consist basically of equipment, buildings, roads and bridges. Decrease in capital assets was due to higher depreciation than replacement of machinery, equipment and others. The summary of gross capital assets at the end of September 30 is shown below:

	Primary Government Government Activities	
	2021	2020
Buildings	\$ 24,841,744	\$ 24,841,744
Machinery	27,930,071	27,705,566
Infrastructure	53,690,078	53,690,078
Total	\$ 106,461,893	\$ 106,237,388

Note 5 to the financial statements presents more information about the State's capital assets.

Long-term Debt

At September 30 the State had long-term debt as shown below:

	Government Activities	
	2021	2020
Asian Development Bank Loan	\$ 3,424,672	\$ 3,626,929

Notes 7 and 8 to the financial statements present more information about the State's long-term debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Funding for the operations of most of the government services in fiscal year 2022 will still come from the Compact II.

Fiscal year 2022 is the 19th year of the implementation of the economic assistance under the Compact II/Sector Grant. Sector funding replaces the funding sources from the old Compact I. Under the Compact II/Sector grant, the annual budget approved by JEMCO for fiscal year 2022 is as follows:

- For Education Sector Grant, which continues to be the funding priority, the annual budget is \$8,201,140
- The Health Sector Grant's budget is \$6,564,125
- Infrastructure Grant is \$5,267,244.
- The Public Sector Capacity Building Sector Grant budget is \$160,500.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2021

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET, CONTINUED

- The funding of the office of PMO is \$792,280.
- The Enhanced Reporting and Accounting Sector Grant budget is \$452,116.
- The US Army Corps of Engineer total budget is \$316,000
- Infrastructure maintenance fund budget is \$335,554. This is to be locally matched.
- In the case of the Supplemental Education Grant (SEG), the total funding for fiscal year 2022 is \$2,674,118. The programs covered in the funding are Early Childhood Education, Education Improvement Programs, Workforce Development/Skill Training, Vocational Education and Staff Development. Five percent of this supplemental grant or \$565,085 is set aside for education data management.

For fiscal year 2022, locally generated revenues, investment income and the revenue shares from the FSM National Government are projected at \$21,297,000: higher than recorded revenues of \$18,868,000 in fiscal year 2021.

FINANCIAL CONTACT

This financial report is designed to provide all interested users with a general overview of the State of Pohnpei's finances. If you have questions about this report or need additional financial information, please contact the Office of the Director of Treasury and Administration, P.O. Box 1567 Kolonia, Pohnpei FM 96941.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Statement of Net Position
September 30, 2021

	<u>Primary Government</u>	<u>Component Units</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 7,194,569	\$ 8,746,726
Time certificate of deposit	-	235,176
Investments	3,801,472	-
Receivables, net	5,892,706	5,628,738
Advances	719,812	1,005,638
Inventories	-	574,879
Restricted assets:		
Cash and cash equivalents	6,780,109	281,490
Total current assets	<u>24,388,668</u>	<u>16,472,647</u>
Noncurrent assets:		
Capital assets:		
Nondepreciable capital assets	-	4,189,977
Capital assets, net of accumulated depreciation	20,664,717	32,178,067
Investments	1,360,850	3,366,682
Receivables, net	-	1,647,699
Other assets	1,300,000	-
Restricted assets:		
Cash and cash equivalents	-	817,869
Investments	29,656,650	-
Total noncurrent assets	<u>52,982,217</u>	<u>42,200,294</u>
Total assets	<u>\$ 77,370,885</u>	<u>\$ 58,672,941</u>
<u>LIABILITIES</u>		
Current liabilities:		
Short-term debt	\$ -	\$ 301,536
Current portion of long-term obligations	244,435	492,942
Compensated absences payable	366,735	-
Accounts payable	2,618,648	1,447,252
Other liabilities and accruals	330,116	1,051,670
Due to primary government	-	3,948,636
Unearned revenues	2,520,426	623,111
Total current liabilities	<u>6,080,360</u>	<u>7,865,147</u>
Noncurrent liabilities:		
Long-term obligations, net of current portion	3,180,237	8,192,171
Claims and judgments payable	210,968	-
Total noncurrent liabilities	<u>3,391,205</u>	<u>8,192,171</u>
Total liabilities	<u>9,471,565</u>	<u>16,057,318</u>
Contingencies and commitments		
<u>NET POSITION</u>		
Net investment in capital assets	20,664,717	29,357,793
Restricted for:		
Nonexpendable:		
Future operations	24,099,408	-
Expendable:		
Debt service	5,557,242	-
Compact related	299,627	-
Other purposes	7,669,492	7,273,967
Unrestricted	9,608,834	6,044,073
Total net position	<u>67,899,320</u>	<u>42,675,833</u>
Total liabilities and net position	<u>\$ 77,370,885</u>	<u>\$ 58,733,151</u>

See accompanying notes to financial statements.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Statement of Activities
Year Ended September 30, 2021

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
Primary government:						
Governmental activities:						
General government	\$ 9,722,030	\$ 1,358,772	\$ 3,056,440	\$ -	\$ (5,306,818)	\$ -
Land and natural resources	607,829	106,564	116,568	-	(384,697)	-
Education	13,301,476	-	11,746,644	-	(1,554,832)	-
Health services	9,759,464	1,121,445	8,114,062	-	(523,957)	-
Public safety	2,014,508	214,247	-	-	(1,800,261)	-
Attorney-general	408,254	-	-	-	(408,254)	-
Public works and transportation	364,592	144,284	-	-	(220,308)	-
Resource and development	567,313	-	-	-	(567,313)	-
Non-governmental agencies	236,602	-	-	-	(236,602)	-
Boards, commissions and others	1,399,777	-	-	-	(1,399,777)	-
Municipal governments	2,951,738	-	-	-	(2,951,738)	-
Capital projects	2,949,628	-	-	2,949,628	-	-
Total primary government	\$ 44,283,211	\$ 2,945,312	\$ 23,033,714	\$ 2,949,628	(15,354,557)	-
Component units:						
Pohnpei Utilities Corporation	\$ 15,403,366	\$ 14,624,633	\$ -	\$ 3,113,390	-	2,334,657
Pohnpei Port Authority	2,664,111	2,377,178	-	-	-	(286,933)
Pohnpei Transportation Authority	2,022,600	2,145,495	-	105,454	-	228,349
Small Business Guarantee and Finance Corporation	169,314	139,706	-	-	-	(29,608)
Pohnpei State Housing Authority	189,070	260,789	-	-	-	71,719
Total component units	\$ 20,448,461	\$ 19,547,801	\$ -	\$ 3,218,844	-	2,318,184
General revenues:						
Taxes:						
FSM revenue sharing:						
Gross revenue taxes					2,304,043	-
Import taxes					3,865,308	-
Income taxes					2,757,687	-
20% additional taxes					3,538,984	-
Other 20% taxes					294,021	-
State taxes					4,712,395	-
Unrestricted investment earnings					1,733,258	-
Other					(60,431)	603,591
Total general revenues					19,145,265	603,591
Special item - loss on SDR foreign exchange					(16,292)	-
Special item - Escrow funds payments on defaulted Farmers Home Admin Loans					(55,084)	-
Contributions to permanent fund					4,512,765	-
Total general revenues, special item and contributions					23,586,654	603,591
Change in net position					8,232,097	2,921,775
Net position at the beginning of the year					59,667,223	39,693,850
Net position at the end of the year					\$ 67,899,320	\$ 42,615,625

See accompanying notes to financial statements.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Balance Sheet
Governmental Funds
September 30, 2021

		Special Revenue	Permanent	Other Governmental Funds	Total
	General	Grants Assistance	Compact Trust		
ASSETS					
Cash and cash equivalents	\$ 7,194,569	\$ -	\$ -	\$ -	\$ 7,194,569
Investments	5,162,322	-	-	-	5,162,322
Receivables, net:					
General	6,710	-	-	-	6,710
Taxes	2,651,588	-	-	-	2,651,588
Due from FSM National Government	-	2,559,248	-	-	2,559,248
Due from grantor agencies - Direct	-	472,247	-	-	472,247
Other	202,345	568	-	-	202,913
Due from other funds	2,512,711	2,997,876	-	8,122,613	13,633,200
Advances	258,935	433,143	-	27,734	719,812
Other assets	1,300,000	-	-	-	1,300,000
Restricted assets:					
Cash and cash equivalents	6,772,409	7,700	-	-	6,780,109
Investments	5,557,242	-	24,099,408	-	29,656,650
Total assets	<u>\$ 31,618,831</u>	<u>\$ 6,470,782</u>	<u>\$ 24,099,408</u>	<u>\$ 8,150,347</u>	<u>\$ 70,339,368</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 950,645	\$ 1,175,224	\$ -	\$ 492,779	\$ 2,618,648
Other liabilities and accruals	177,704	150,767	-	1,645	330,116
Unearned revenues	-	2,520,426	-	-	2,520,426
Due to other funds	11,120,489	2,512,711	-	-	13,633,200
Total liabilities	<u>12,248,838</u>	<u>6,359,128</u>	<u>-</u>	<u>494,424</u>	<u>19,102,390</u>
Fund balances:					
Non-spendable	3,128,840	-	24,099,408	17,427	27,245,675
Restricted	12,329,651	111,654	-	-	12,441,305
Committed	414,074	-	-	7,638,496	8,052,570
Assigned	319,862	-	-	-	319,862
Unassigned:					
General fund	3,177,566	-	-	-	3,177,566
Special revenue funds	-	-	-	-	-
Total fund balances	<u>19,369,993</u>	<u>111,654</u>	<u>24,099,408</u>	<u>7,655,923</u>	<u>51,236,978</u>
Total liabilities and fund balances	<u>\$ 31,618,831</u>	<u>\$ 6,470,782</u>	<u>\$ 24,099,408</u>	<u>\$ 8,150,347</u>	

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	20,664,717
Long-term liabilities, including loans payable, are not due and payable in the current period and, therefore, are not reported in the funds. The liabilities include:	
Long-term debt payable	(3,424,672)
Compensated absences payable	(366,735)
Claims and judgments payable	<u>(210,968)</u>
	<u>(4,002,375)</u>
Net position of governmental activities	<u>\$ 67,899,320</u>

See accompanying notes to financial statements.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2021

	General	Special Revenue	Permanent	Other Governmental Funds	Total
		Grants Assistance	Compact Trust		
Revenues:					
Compact funding	\$ -	\$ 20,290,853	\$ -	\$ -	\$ 20,290,853
Net change in the fair value of investments	1,733,258	-	4,512,765	-	6,246,023
CFSM grants	-	480,486	-	-	480,486
Federal contributions and other grants	129,790	5,212,003	-	-	5,341,793
FSM revenue sharing	12,760,043	-	-	-	12,760,043
State taxes	4,068,247	-	-	644,148	4,712,395
Fees and charges	237,897	-	-	2,577,625	2,815,522
Other	(60,431)	-	-	-	(60,431)
Total revenues	18,868,804	25,983,342	4,512,765	3,221,773	52,586,684
Expenditures:					
Current:					
General government	5,033,994	3,131,712	-	1,251,519	9,417,225
Land and natural resources	461,097	116,568	-	-	577,665
Education	823,614	11,746,644	-	-	12,570,258
Health services	329,595	8,114,062	-	1,256,046	9,699,703
Public safety	1,761,125	-	-	-	1,761,125
Office of the Attorney-General	419,188	-	-	-	419,188
Public works	399,545	-	-	-	399,545
Department of resources and development	589,208	-	-	-	589,208
Payments to non-governmental agencies	236,602	-	-	-	236,602
Boards, commissions and other	1,094,299	-	-	-	1,094,299
Local revenue share payments to municipal governments	2,951,738	-	-	-	2,951,738
Capital projects	-	2,949,628	-	-	2,949,628
Debt service	256,835	-	-	-	256,835
Total expenditures	14,356,840	26,058,614	-	2,507,565	42,923,019
Excess (deficiency) of revenues over (under) expenditures	4,511,964	(75,272)	4,512,765	714,208	9,663,665
Special items:					
Escrow account payments for defaulted FHA Housing Loan	(55,084)	-	-	-	(55,084)
Net change in fund balances	4,456,880	(75,272)	4,512,765	714,208	9,608,581
Fund balances at the beginning of the year	14,913,113	186,926	19,586,643	6,941,715	41,628,397
Fund balances at the end of the year	\$ 19,369,993	\$ 111,654	\$ 24,099,408	\$ 7,655,923	\$ 51,236,978

See accompanying notes to financial statements.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund
Balances of Governmental Funds to the Statement of Activities
Year Ended September 30, 2021

Amounts reported for governmental activities in the statement of activities are different than the net change in fund balances because:

Net change in fund balances - total governmental funds	\$ 9,608,581
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$2,210,214) exceeded capital outlays of \$724,653 and disposals of \$191,847 in the current period.	(1,677,408)
The repayment of principal of long-term debt consumes the current financial resources of governmental funds and such transaction has no effect on net position.	218,549
SDR foreign exchange adjustment.	(16,292)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. For the current year, these activities consist of:	
Net change in compensated absences payable	<u>98,667</u>
Change in net position of governmental activities	\$ <u><u>8,232,097</u></u>

See accompanying notes to financial statements.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Combining Statement of Net Position
Component Units
September 30, 2021

	Pohnpei Utilities Corporation	Pohnpei Port Authority	Pohnpei Transportation Authority	Small Business Guarantee and Finance Corporation	Pohnpei State Housing Authority	Total
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 2,826,907	\$ 5,698,815	\$ -	\$ 300	\$ 220,704	\$ 8,746,726
Time certificate of deposit	235,176	-	-	-	-	235,176
Investments	-	-	-	-	-	-
Receivables, net	1,768,830	315,717	152,757	63,186	3,328,248	5,628,738
Inventories	419,862	-	155,017	-	-	574,879
Advances	878,589	118,210	4,124	4,585	130	1,005,638
Other current assets	-	-	-	-	-	-
Restricted assets:	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	281,490	-	281,490
Total current assets	<u>6,129,364</u>	<u>6,132,742</u>	<u>311,898</u>	<u>349,561</u>	<u>3,549,082</u>	<u>16,472,647</u>
Noncurrent assets:						
Receivables, net	-	-	-	1,647,699	-	1,647,699
Investment	3,075,460	291,222	-	-	-	3,366,682
Capital assets:						
Nondepreciable capital assets	1,413,943	2,776,034	-	-	-	4,189,977
Capital assets, net of accumulated depreciation	26,134,109	3,495,007	2,467,407	44,685	36,859	32,178,067
Restricted:						
Cash and cash equivalents	817,869	-	-	-	-	817,869
Total noncurrent assets	<u>31,441,381</u>	<u>6,562,263</u>	<u>2,467,407</u>	<u>1,692,384</u>	<u>36,859</u>	<u>42,200,294</u>
Total assets	<u>\$ 37,570,745</u>	<u>\$ 12,695,005</u>	<u>\$ 2,779,305</u>	<u>\$ 2,041,945</u>	<u>\$ 3,585,941</u>	<u>\$ 58,672,941</u>
LIABILITIES						
Current liabilities:						
Short-term debt	\$ 301,536	\$ -	\$ -	\$ -	\$ -	\$ 301,536
Current portion of long-term debt	492,942	-	-	-	-	492,942
Accounts payable	1,321,303	22,339	66,495	17,370	19,745	1,447,252
Other liabilities and accruals	720,004	277,806	47,702	6,158	-	1,051,670
Due to primary government	3,842,729	-	-	-	105,907	3,948,636
Unearned revenues	586,849	-	3,174	33,088	-	623,111
Total current liabilities	<u>7,265,363</u>	<u>300,145</u>	<u>117,371</u>	<u>56,616</u>	<u>125,652</u>	<u>7,865,147</u>
Noncurrent liabilities:						
Noncurrent portion of long-term debt	6,517,311	-	1,674,860	-	-	8,192,171
Total liabilities	<u>13,782,674</u>	<u>300,145</u>	<u>1,792,231</u>	<u>56,616</u>	<u>125,652</u>	<u>16,057,318</u>
NET POSITION						
Net investment in capital assets	20,537,801	6,271,041	2,467,407	44,685	36,859	29,357,793
Restricted	1,704,781	-	216,567	1,929,189	3,423,430	7,273,967
Unrestricted	1,545,491	6,184,027	(1,696,900)	11,455	-	6,044,073
Total net position	<u>23,788,073</u>	<u>12,455,068</u>	<u>987,074</u>	<u>1,985,329</u>	<u>3,460,289</u>	<u>42,675,833</u>
	<u>\$ 37,570,747</u>	<u>\$ 12,755,213</u>	<u>\$ 2,779,305</u>	<u>\$ 2,041,945</u>	<u>\$ 3,585,941</u>	<u>\$ 58,733,151</u>

See accompanying notes to financial statements.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Combining Statement of Revenues, Expenses, and Changes in Net Position
Component Units
Year Ended September 30, 2021

	Pohnpei Utilities Corporation	Pohnpei Port Authority	Pohnpei Transportation Authority	Small Business Guarantee and Finance Corporation	Pohnpei State Housing Authority	Total
Operating revenues:						
Charges for services	\$ 14,624,633	\$ 2,377,178	\$ 2,145,495	\$ 139,706	\$ 260,789	\$ 19,547,801
Total operating revenues	<u>14,624,633</u>	<u>2,377,178</u>	<u>2,145,495</u>	<u>139,706</u>	<u>260,789</u>	<u>19,547,801</u>
Operating expenses:						
Cost of services	11,421,308	-	-	-	-	11,421,308
Administration costs	1,954,225	2,285,854	1,678,717	153,658	178,169	6,250,623
Depreciation and amortization	2,027,833	378,257	343,883	15,656	10,901	2,776,530
Total operating expenses	<u>15,403,366</u>	<u>2,664,111</u>	<u>2,022,600</u>	<u>169,314</u>	<u>189,070</u>	<u>20,448,461</u>
Operating income (loss)	<u>(778,733)</u>	<u>(286,933)</u>	<u>122,895</u>	<u>(29,608)</u>	<u>71,719</u>	<u>(900,660)</u>
Nonoperating revenues (expenses):						
Contributions from the primary government	282,423	64,472	-	141,598	150,295	638,788
Interest income (expense)	(195,632)	14,327	-	2,255	-	(179,050)
Provision for losses	-	-	-	-	-	-
Other	121,781	-	-	602	21,470	143,853
Total nonoperating revenues (expenses), net	<u>208,572</u>	<u>78,799</u>	<u>-</u>	<u>144,455</u>	<u>171,765</u>	<u>603,591</u>
Net income (loss) before capital contributions	<u>(570,161)</u>	<u>(208,134)</u>	<u>122,895</u>	<u>114,847</u>	<u>243,484</u>	<u>(297,069)</u>
Capital contributions	3,113,390	-	105,454	-	-	3,218,844
Change in net position	<u>2,543,229</u>	<u>(208,134)</u>	<u>228,349</u>	<u>114,847</u>	<u>243,484</u>	<u>2,921,775</u>
Net position at the beginning of the year	<u>21,244,844</u>	<u>12,602,994</u>	<u>758,725</u>	<u>1,870,482</u>	<u>3,216,805</u>	<u>39,693,850</u>
Net position at the end of the year	<u>\$ 23,788,073</u>	<u>\$ 12,394,860</u>	<u>\$ 987,074</u>	<u>\$ 1,985,329</u>	<u>\$ 3,460,289</u>	<u>\$ 42,615,625</u>

See accompanying notes to financial statements.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(1) Summary of Significant Accounting Policies

The State of Pohnpei (the State) was constituted on November 8, 1984, under the provisions of the Pohnpei State Constitution (the Constitution) as approved by the people of Pohnpei. The Constitution provides for the separation of powers of the executive, legislative, and judicial branches of the government.

The accompanying financial statements of the State have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the State's accounting policies are described below.

A. Reporting Entity

The State is one of the four states that make up the Federated States of Micronesia (FSM), along with the states of Chuuk, Kosrae and Yap. The State is a constitutional government comprised of three branches: the Legislative Branch, consisting of 23 members elected for a term of four years by qualified voters of their respective election districts; the Executive Branch, headed by the Governor and Lt. Governor, who are primarily responsible for executing the laws and administering state government services; and the Judiciary Branch made up of the State Supreme Court, which consists of a Chief Justice and up to four Associate Justices, and other courts that may be created by law.

For financial reporting purposes, the State has included all funds, organizations, agencies, boards, commissions and institutions. The State has also considered all potential component units for which it is financially accountable as well as other entities for which the nature and significance of their relationship with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. The criteria to be considered in determining financial accountability include whether the State, as the primary government, has appointed a voting majority of an organization's governing body and either has the ability to impose its will on that organization or there is potential for the organization to provide specific financial benefits to or impose specific financial burdens on the State. Financial accountability also exists if an organization is determined to be fiscally dependent on the primary government, although the primary government does not appoint a voting majority of the organization's governing board.

Each blended and discretely presented component unit of the State has a September 30 year-end.

Once financial accountability has been determined for a potential component unit, that component unit is either blended into the primary government or discretely presented from the primary government. Potential component units that do not meet the financial accountability criteria, but where a voting majority of the governing board is appointed by the State, are deemed to be related organizations. The nature and relationship of the State's component units and related organizations are disclosed in the following section.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

Blended component units are entities that are legally separate from the State, but are so related to the State that they are, in substance, the same as the State or entities providing services entirely or almost entirely to the State. The State has not identified any entities that should be so blended.

Discretely Presented Component Units:

Discretely presented component units are entities which are legally separate from the State, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's basic financial statements to be misleading or incomplete. The component units' column of the basic financial statements includes the financial data of the following major component units:

Pohnpei Utilities Corporation (PUC): PUC was created by Pohnpei State Public Law (PSPL) No. 2L-179-91 and is responsible for providing electrical, water and sewer services to the people of Pohnpei through the operation of the electric power, water and sewer systems. PUC is governed by a seven-member Board of Directors appointed by the Governor with the advice and consent of the Legislature. The State provides financial support to PUC through legislative appropriations and has the ability to impose its will on PUC.

Pohnpei Port Authority (PPA): PPA was created by PSPL No. 2L-224-91 and is responsible for overseeing the use and maintenance of the State's sea and air ports. PPA is governed by a seven-member Board of Directors, consisting of representatives of the State appointed by the Governor with the advice and consent of the Legislature. The State has the ability to impose its will on PPA.

Pohnpei Transportation Authority (PTA): PTA was created by PSPL No. 169-69 and is responsible for promotion, development, and improving transportation facilities of the State. PTA is governed by a seven-member Board of Directors, consisting of representatives of the State appointed by the Governor with the advice and consent of the Legislature. The State has the ability to impose its will on PTA.

Small Business Guarantee and Finance Corporation (SBGFC): SBGFC was created by PSPL No. 3L-86-95 to provide, promote, develop and widen in both scope and services 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. SBGFC is governed by a seven-member Board of Directors, consisting of four representatives of the State and three representatives from the private sector appointed by the Governor with the advice and consent of the Legislature. The State provides financial support to SBGFC through legislative appropriations and has the ability to impose its will on SBGFC.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

Discretely Presented Component Units, Continued:

Pohnpei State Housing Authority (PSHA): PSHA was created by PSPL No. 2L-81-88 for the purpose of facilitating, through low-interest loans, the construction of safe and sanitary residential housing for low income families of the State, and for monitoring the Housing Preservation Grant (HPG) loan funds extended by United States Department of Agriculture Rural Development. PSHA is governed by a five-member Board of Directors appointed by the Governor with the advice and consent of the Legislature. The State provides financial support to PSHA through legislative appropriations and has the ability to impose its will on PSHA.

The State's component units, departments, and funds that are separately audited issue their own financial statements. These statements may be obtained by directly contacting the various entities or obtaining them directly from the Office of the Public Auditor at the following address:

P.O. Box 370
Kolonias, Pohnpei, FSM 96941

B. Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities report financial information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been eliminated from these statements except for other charges between the primary government and the discretely presented component units. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Primary government activities are defined as either governmental or business-type activities. Governmental activities, which normally are supported by taxes, intergovernmental revenues and other non-exchange revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties for goods or services. As such, business-type activities account for operations similarly to a for-profit business. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. Discretely presented component unit activities are presented with their business-type focus.

The Statement of Net Position presents all of the reporting entity's non-fiduciary assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories:

- Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide Financial Statements, Continued

- Restricted net position - nonexpendable consists of permanent funds in which donors or other outside sources have stipulated that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to the principal.
- Restricted net position - expendable consists of resources in which the State is legally or contractually obligated to spend resources in accordance with restrictions either externally imposed by creditors, grantors, contributors, and the like, or imposed by law.
- Unrestricted net position consists of net position, which does not meet the definition of the two preceding categories. Unrestricted net position often is designated, (for example, internally restricted), to indicate that management does not consider such to be available for general operations.

The government-wide Statement of Net Position reports \$37,625,769 of restricted net position, of which \$7,669,492 is restricted by enabling legislation.

The Statement of Activities demonstrates the degree to which the direct expenses of given functions or segments are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are, instead, reported as general revenue.

C. Fund Financial Statements

The fund financial statements present a balance sheet and a statement of revenues, expenditures, and changes in fund balances for its major and aggregated non-major funds. Major individual governmental funds are reported as separate columns in the fund financial statements pursuant to GASB reporting standards, with nonmajor governmental funds being combined into a single column.

The State reports its financial position and results of operations in funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. Transactions between funds within a fund type, if any, have not been eliminated.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting

Government-Wide Financial Statements:

The government-wide financial statements are reported using the economic resources management focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. General revenue is derived from taxation, investment income and other fees that are not allocated to specific programs.

Governmental Fund Financial Statements:

Governmental fund financial statements account for the general governmental activities of the State and are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Significant revenues susceptible to accrual include income and gross revenue taxes, federal grants, federal reimbursements and other reimbursements for use of materials and services. Miscellaneous revenues from other financing sources are recognized when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures generally are recorded in the period in which the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Component Unit Financial Statements:

Discretely presented component units distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a discretely presented component unit's principal ongoing operations. All other revenues are reported as nonoperating. Operating expenses includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

Fund Accounting:

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses for either fund category or the governmental and enterprise combined) for the determination of major funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The nonmajor funds are combined in a column in the fund financial statements and detailed in the combining statements. The State reports the following major funds:

General Fund - this fund is the primary operating fund of the State. It is used to account for all governmental transactions, except those required to be accounted for in another fund.

Grants Assistance Fund - a Special Revenue Fund that accounts for funds received under sector grants pursuant to the amended Compact of Free Association; all financial transactions of federally assisted funds, which are subgranted to the State, as well as other direct federal grants that the State received from the United States government, and foreign assistance grants.

Section 215 Compact Trust Fund - a Permanent Fund that accounts for the State's contributions to the Trust Fund established in accordance with Section 215 of the Compact of Free Association, as amended, to provide for an additional source of revenue for the government budget that will be needed to substitute for the absence of Compact of Free Association funding.

E. Cash and Cash Equivalents and Time Certificates of Deposit

Cash and cash equivalents of the primary government and the discretely presented component units include cash held in demand accounts as well as short-term investments with maturity dates within three months of the date acquired by the State. Deposits maintained in time certificates of deposit with original maturity dates greater than ninety days are separately classified on the statement of net position/balance sheet.

F. Investments

Investments and related investment earnings of the primary government and the discretely presented component units are recorded at fair value using quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability (ie., the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(1) Summary of Significant Accounting Policies, Continued

F. Investments, Continued

The State categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In certain instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy is based on the lowest level of input that is significant to the fair measurement. Investments not categorized under the fair value hierarchy are shown at either Net Asset Value (NAV) or amortized cost.

G. Receivables

In general, tax revenue is recognized on the government-wide financial statements when assessed or levied and on the governmental fund financial statements to the extent that it is both measurable and available. Receivables are stated net of estimated allowances for uncollectible accounts. Federal receivables include those funds which are earned, primarily from FSM National Government administered federal grants, which have yet to be reimbursed by the applicable grantor.

Receivables of the primary government and the discretely presented component units are primarily due from businesses and individuals residing in the State. The State establishes an allowance for doubtful accounts receivable based on the credit risk of specific customers, historical trends and other information.

H. Prepaid Items

Certain payments made to vendors or persons for services reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and governmental fund financial statements.

I. Interfund Receivables/Payables

During the course of its operations, the State records transactions between individual funds for goods provided or services rendered. Receivables and payables resulting from transactions between funds are classified as "due from other funds" or "due to other funds" on the governmental fund balance sheet.

These balances result from time lags between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made, and are scheduled to be collected in the subsequent year.

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.

Inventories of the discretely presented component units are comprised of materials and diesel fuel and are valued at the lower of cost (FIFO) or market.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(1) Summary of Significant Accounting Policies, Continued

K. Restricted Assets

Certain assets of the primary government are classified as restricted assets because their use is completely restricted through enabling legislation and loan agreements. Specifically, the State has collateralized investments in the amount of \$5,557,242 for the Pohnpei State Early Retirement Scheme. Furthermore, investments recorded in the Compact Trust Fund of \$ 24,099,408 are restricted in that they are not available to be used in current operations.

As of September 30, 2021, cash and cash equivalents were restricted for the following uses:

Primary Government:

Deposits with a local bank restricted for the purchase of medical supplies for the State hospital.	\$ 2,150,940
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State Hospital's Honolulu imprest fund.	7,700
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Savings accounts established in accordance with Section 211(d)(2) of the Compact of Free Association, as amended, for the purpose of funding the State's infrastructure maintenance plan	844,978
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Compact Sector Grants	3,711,084
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Loan Guarantee Escrow Account established 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 PSHA, the trustee of the Loan Guarantee Escrow Account.	30,395
--	--------

Judiciary Escrow funds	<u>18,984</u>
	<u>\$ 6,780,109</u>

Discretely Presented Component Units:

Pohnpei Utilities Corporation:

Deposit accounts collateralizing loans payable to the FSM Development Bank and the Bank of the FSM	\$ 817,869
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Small Business Guarantee and Finance Corporation:

Deposit accounts restricted for various operations of the Small Business Guarantee and Finance Corporation	<u>281,490</u>
--	----------------

\$ 1,099,359

L. Other Assets

The State holds approximately 13.2 % of the outstanding shares of Pacific Islands Development Bank with a carrying value of \$1,300,000. This equity interest does not meet the definition of an investment as the asset is held primarily for economic development and is presented as other assets in the accompanying financial statements.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(1) Summary of Significant Accounting Policies, Continued

M. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, ramps and other similar items), are reported in the governmental activity column of the government-wide financial statements. Such assets, whether purchased or constructed, are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at fair market value at the date of donation.

The State currently holds no title to land. Machinery and equipment, other than vehicles and boats, are capitalized when the cost of individual items exceed \$50,000. Vehicles and boats, along with significant repair and maintenance qualifying as a betterment of such, are capitalized regardless of cost and depreciated. Building and infrastructure projects, along with significant improvements or reconstruction qualifying as a betterment of such, are capitalized when the cost of individual items or projects exceed \$100,000. The costs of normal maintenance and repairs that do not add to the value of the capital asset or materially extend capital asset lives are not capitalized. Additionally, as of fiscal year 2004, the State chose to capitalize assets acquired with U.S. federal funds that have an acquisition cost of \$5,000 or more.

Capital assets of the primary government and the discretely presented component units are depreciated using the straight line method over their estimated useful lives, with a full year's depreciation charged in the year of acquisition and disposal, regardless of date. Estimated useful lives are as follows:

Buildings	40 - 50 years
Infrastructure	25 - 50 years
Facilities	3 - 40 years
Machinery and equipment	3 - 25 years
Furniture and fixtures	3 - 10 years

N. Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. The State has no items that qualify for reporting in this category.

O. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Annual leave accumulates at 240 hours per calendar year. All unused annual leave is cancelled at the end of each calendar year.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(1) Summary of Significant Accounting Policies, Continued

P. Deferred Inflows of Resources

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. The State has no items that qualify for reporting in this category.

Q. Unearned Revenues

In the government-wide financial statements, unearned revenues are recognized when cash, receivables or other assets are recorded prior to being earned. In the governmental fund financial statements, unearned revenues represent monies received or revenues accrued which have not been earned or do not meet the "available" criterion for revenue recognition under the modified accrual basis of accounting. The unearned revenue in the governmental fund financial statements has primarily resulted as federal funds are received in advance of eligible expenditures.

R. Fund Balance

Fund balance classifications are based on the extent to which the State is bound to honor constraints on the specific purposes for which amounts in those funds can be spent and are reported under the following fund balance classifications:

- Non-spendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed.
- Unassigned - includes negative fund balances in other governmental funds.

The State has a general policy to first use restricted resources for expenditures incurred for which both restricted and unrestricted (committed, assigned, and unassigned) resources are available. When expenditures are incurred for which only unrestricted resources are available, the general policy of the State is to use committed resources first, followed by assigned, and then unassigned. The use of restricted/committed resources may be deferred based on a review of the specific transaction.

A formal minimum fund balance policy has not been adopted.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(1) Summary of Significant Accounting Policies, Continued

S. Interfund/Intrafund Transactions

As a general rule, the effect of interfund activity has been eliminated in the government-wide financial statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned.

T. New Accounting Standards

In 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective dates of GASB Statement No. 84, 89, 90, 91, 92 and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

During the year ended September 30, 2021, Pohnpei State Government implemented the following pronouncements:

- GASB Statement No. 84, *Fiduciary Activities*, which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.
- GASB Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units.
- GASB Statement No. 93, *Replacement of Interbank Offered Rates*, which establishes accounting and reporting requirements related to the replacement of Interbank Offered Rates such as the London Interbank Offered Rate (LIBOR) for hedging derivative instruments. The provision removing LIBOR as an appropriate benchmark interest rate for the evaluation of the effectiveness of derivative instruments is effective for the year ending September 30, 2022.

The implementation of these statements did not have a material effect on the accompanying financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. Management believes that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 will be effective for fiscal year ending September 30, 2022.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards, Continued

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 89 will be effective for fiscal year ending September 30, 2022.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefits. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance. In accordance with GASB Statement No. 95, the remaining requirements of GASB Statement No. 92 are effective for the fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards, Continued

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

U. Risk Financing

The State is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the primary government not to purchase commercial insurance for the risks of loss to which it is exposed. Instead, the State management believes it is more economical to manage its risks internally. In the event of claim settlements and judgments, the State reports all of its risk management activities in its General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. No losses have occurred as a result of these risks in any of the past three fiscal years.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(1) Summary of Significant Accounting Policies, Continued

V. Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and deferred outflows of resources, liabilities and deferred inflows of resources, 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.

W. Total Columns

Total columns are presented primarily to facilitate financial analysis. The Management's Discussion and Analysis includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with the State's financial statements for the year ended September 30, 2021 from which summarized information was derived.

(2) Deposits and Investments

The deposit and investment policies of the State are governed by State legislation. The Treasurer is responsible for ensuring that deposits of the General Fund are maintained in commercial checking or savings accounts of any financial institution whose assets are at least \$1 billion and whose deposits are subject to Federal Deposit Insurance Corporation (FDIC) insurance. The Governor is responsible for the investment of any monies of the State that are deemed not necessary for immediate use.

The Federated Development Authority (FDA), an advisory entity comprised of FSM National Government and the four state governments has selected investment managers who are given authority to buy and sell securities. These investment managers may invest in stocks, bonds and cash equivalents, for which minimum standards of quality of such investments at the time of purchase shall be as follows:

- i. Cash equivalents - the investment manager may engage in all normally accepted short-term investment practices including, but not limited to U.S. Treasury and government agency securities, bankers acceptances, certificates of deposit, commercial paper and repurchase agreements using any of the foregoing as collateral. The following restrictions apply: (1) Commercial paper must be rated A-1/P-1 or higher by Standard & Poors Corporation and Moody's Investor Services; and (2) Certificates of deposit must be from FDIC insured banks or FSLIC insured savings and loan associations, both of which must have assets in excess of \$2 billion. Deposits in smaller institutions are acceptable, but must not exceed the amount of the insurance, unless collateralized by U.S. Treasury obligations at 102%.
- ii. Stocks - A "B" rating by a national rating service. Non-rated stocks, such as banks or insurance companies, must be equal in quality or higher.
- iii. Bonds - Confined to issues rated "A" or higher by a national rating service, except in the case of U.S. Treasury or government agency obligations which are not rated.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(2) Deposits and Investments, Continued

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 Secretary of Finance.

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.

The Secretary of Administration and Finance shall be responsible for investment of all public funds collected or appropriated for use by the State. Funds under this arrangement shall include all appropriations from the State, whether funds are appropriated from the State Treasury or funds from other sources. Any funds in excess of the amount necessary for the operation of the State shall be deposited or invested to earn the safest optimum interest. The Secretary shall determine the amount to be invested with the consideration that such amount should not cause disruption of any government service due to low or lack of funds in the operational budget. The Secretary shall cause all investments to be made into financially secure institutions in Pohnpei or abroad as determined by the financial institution paying the highest rate of interest on savings when the investment is made.

The investment policy for the Compact Trust Fund (the Trust Fund), which was adopted by the Trust Fund Committee on September 15, 2010 and amended through December 17, 2013 requires the Trust Fund to allocate its managed investment portfolios among domestic and foreign equity and fixed income securities. All or a portion of the Trust Fund may be invested in exchange traded funds ("ETFs"), mutual funds, real estate investment trusts ("REITs"), separate accounts and common trust funds (commingled vehicles), hedge funds, private equity funds, and other pooled investment vehicles ("pooled vehicles"). A common trust fund is similar to an open-ended investment company or mutual fund, but participation is limited to investors with trust accounts. Commingled and pooled vehicles that invest exclusively in marketable fixed income securities are considered to be fixed income securities for the purpose of compliance with the Trust Fund's investment policy.

The fair values of ETFs, mutual funds, and common trust funds are generally determined by the fair value of the underlying marketable equity and debt securities owned, which are principally common stocks and bonds, respectively. Publicly traded ETFs, mutual funds, and similar vehicles may trade at prices above or below the fair values of the underlying investments held; therefore the fair value of such investments may differ from the sum of the fair values of the underlying investments owned. The core fixed income portfolios may be invested in debt securities issued by the U.S. government and government agencies, foreign governments, domestic and international corporate securities, including asset-backed and mortgage-backed obligations. The fixed income portfolio may invest in convertible and high yield debt securities; however the average quality of the fixed income portfolio must be rated "investment grade" by at least one nationally recognized rating agency at the time of purchase. The Trust Fund's fixed income investment objective is for each portfolio to achieve total return similar to a relevant index, such as Barclays Capital Aggregate Index and the Bank of America Merrill Lynch Global High Yield Index.

The Trust Fund's equity investment objective is for its various portfolios to achieve total returns similar to their benchmark equity indices. Benchmark indices include the Russell 3000, the S&P 500 and the MSCI EAFE.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(2) Deposits and Investments, Continued

Private equity funds are a form of pooled investment vehicle, typically limited partnerships controlled by a private equity firm that acts as general partner. The general partner seeks to obtain specific dollar commitments from qualified institutional and accredited investors to invest capital in the fund as limited partners. The passive limited partners fund pro rata portions of their commitments when the general partner has identified an appropriate opportunity, which may be venture capital in the form of equity securities, convertible debt securities, or real estate for which no active markets exist. Venture capital is often used to finance new products and technologies, expand working capital, make acquisitions, or finance leveraged buyouts. A typical private equity fund could make between 15 and 25 separate investments over a ten-year life, with no single investment exceeding 10% of the total capital commitment. The fair values of the underlying investments held by each private equity fund are generally determined by management of the equity investee or as determined by the general partner or manager of the private equity fund and is based upon the Trust Fund's percentage ownership of the underlying investments. Investments in private equity funds generally tend to be illiquid for significant periods of time.

Hedge funds are a form of pooled investment vehicle, generally a limited partnership or a foreign (off-shore) investment corporation, that seeks to maximize absolute returns whose offering memorandum allows for the fund to take both long and short positions, use leverage and derivatives, and invest in many markets. Hedge funds often take large risks using a broad range of speculative strategies, including investing in unconventional and illiquid investments. The fair value of the Trust Fund's investment in a hedge fund is determined by the hedge fund manager and is based upon the Trust Fund's percentage ownership of the underlying investments.

Commingled separate accounts invested in real estate and related assets are carried at fair value of the underlying investments. The fair value of separate account investments in real property real estate partnerships are generally determined based on independent appraisals obtained no less frequently than annually. The fair value of separate account investments in real estate partnerships are generally determined based upon the equity method of accounting, and the fair value of underlying investments in real estate loans and mortgages are generally determined through the use of cash flow forecasting or other models by management of the insurance company that manages the separate account.

Derivatives, options and future contracts are permitted investments for the purpose of reducing risk and efficient portfolio management. Derivatives, options and futures may not be used for speculative purposes.

A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the State's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The State does not have a deposit policy for custodial credit risk.

As of September 30, 2021, the carrying amount of the primary government's total cash and cash equivalents was \$13,974,678 and the corresponding bank balances were \$15,441,129, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2021, bank deposits in the amount of \$500,000 were FDIC insured.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(2) Deposits and Investments, Continued

A. Deposits, Continued

As of September 30, 2021, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$10,081,261 and the corresponding bank balances were \$10,484,001 which were maintained in financial institutions subject to FDIC insurance. As of September 30, 2021, bank deposits in the amount of \$1,501,097 were FDIC insured. The component units do not require collateralization of their cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Therefore, these deposits are exposed to custodial credit risk.

B. Investments

Primary Government:

As of September 30, 2021, the State's investments are as follows:

General Fund:

Fixed income	\$ 5,556,219
Domestic equities	1,360,850
Common equities	3,620,268
Cash management account	<u>182,227</u>

10,719,564

Compact Trust Fund:

Common trust funds:

Domestic Equity	6,558,511
International Equity	5,863,962
Global Equity	2,211,966
Private Equity	2,601,370
Fixed Income	3,588,379
Hedge Fund	1,288,660
Real Estate	1,926,822
Money market funds	<u>59,738</u>

24,099,408

\$ 34,818,972

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued:

As of September 30, 2021, the State's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

<u>Investment Type</u>	<u>Moody's Rating</u>	<u>Market Value</u>	<u>Investment Maturity (in Years)</u>			
			<u>Current</u>	<u>1-5</u>	<u>6-10</u>	<u>Over 10</u>
U.S. Treasury Notes	Aaa	\$ 451,338	\$ 42,470	\$ 267,797	\$ 9,473	\$ 131,598
U.S. Government Agencies:						
Federal Farm Credit Bank	Aaa	102,158	47,173	7,004	18,913	29,068
Federal Home Loan Bank	Aaa	136,549	12,113	87,436	37,000	-
Federal Home Loan Mortgage Corporation	Aaa	5,606	-	-	-	5,606
Federal National Mortgage Association	Aaa	11,733	-	-	10,261	1,472
Overseas Private Investment Corporation	Aaa	57,585	-	57,585	-	-
Tennessee Valley Authority	Aaa	113,964	26,314	-	-	87,650
Municipal Obligations	Aa1	83,488	-	29,521	33,001	20,966
Municipal Obligations	Aa2	86,158	-	29,943	14,353	41,862
Municipal Obligations	Aa3	12,263	-	7,476	-	4,787
Corporate Bonds	Aaa	185,199	83,753	83,688	-	17,758
Corporate Bonds	Aa1	18,698	-	18,698	-	-
Corporate Bonds	Aa2	50,464	12,004	38,460	-	-
Corporate Bonds	Aa3	30,366	-	-	9,711	20,655
Corporate Bonds	A1	139,619	-	79,416	9,819	50,384
Corporate Bonds	A2	85,977	-	36,949	43,837	5,191
Corporate Bonds	A3	78,899	1,687	38,145	-	39,067
Corporate Bonds	Baa1	122,117	-	39,931	9,672	72,514
Corporate Bonds	Baa2	42,924	9,598	4,811	5,252	23,263
Corporate Bonds	Not Listed	4,281	-	4,281	-	-
Corporate Bonds	No Rating	17,751	-	17,751	-	-
		<u>\$ 1,837,137</u>	<u>\$ 235,112</u>	<u>\$ 848,892</u>	<u>\$ 201,292</u>	<u>\$ 551,841</u>

<u>Investment Type (no aging schedule)</u>	<u>Credit Ratings</u>	<u>Fair Value</u>
Government Securities		
U.S. Treasury	Aaa	\$ 1,060,611
U.S. Agency	A3	35,354
Securitized:		
Mortgage-Backed	Aa1	884,222
Asset Backed	B3	225,427
Corporate Securities:		
Industrial	Baa1	589,228
Financial	A3	425,385
Yankee Bond	Baa1	84,773
Utilities	A2	101,879
Other	A1	<u>312,203</u>
		<u>\$ 3,719,082</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued:

The State has the following recurring fair value measurements as of September 30, 2021:

General Fund:	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level:				
Fixed income:				
U.S Treasury obligation	\$ 1,511,949	\$ -	\$ 1,511,949	\$ -
U.S Government agencies	462,949	-	462,949	-
Municipal obligation	1,291,558	-	1,291,558	-
Corporate notes	<u>2,289,763</u>	-	<u>2,289,763</u>	-
	5,556,219	-	5,556,219	-
Equity securities:				
U.S equities	<u>3,620,268</u>	<u>3,620,268</u>	-	-
Total investment at fair value	9,176,487	<u>\$3,620,268</u>	<u>\$5,556,219</u>	<u>\$ -</u>
Investments measured at NAV:				
Equity investment in Bank of the FSM	1,360,850			
Investment measured amortized cost:				
Cash management account	<u>182,227</u>			
	<u>\$10,719,564</u>			
Compact Trust Fund:	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level:				
Common trust funds:				
Domestic Equity	\$ 6,558,511	\$ 6,558,511	\$ -	\$ -
International Equity	5,863,962	5,863,962	-	-
Global Equity	2,211,966	2,211,966	-	-
Private Equity	2,601,370	-	-	2,601,370
Fixed Income	<u>3,588,379</u>	<u>3,588,379</u>	-	-
Total investment at fair value	20,824,188	<u>\$18,222,818</u>	<u>\$ -</u>	<u>\$2,601,370</u>
Investments measured at NAV:				
Hedge Fund	1,288,660			
Real Estate	1,926,822			
Investment measured amortized cost:				
Money market funds	<u>59,738</u>			
	<u>\$24,099,408</u>			

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. With the exception of investments in U.S. government securities, which are explicitly or implicitly guaranteed by the United States government, all other investments must be rated in accordance with the State's investment policy.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued:

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the State will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The State's investments are held and administered by trustees. Based on negotiated trust and custody contracts, all of these investments were held in the State's name by the State's custodial financial institutions at September 30, 2021.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the State. As of September 30, 2021, the State did not hold an investment in any one issuer that represented more than 5% of the State's total investments.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. The State does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The Trust Fund's fixed income allocation consists of a Mercer Investment Management Opportunistic Fixed Income mutual fund ("MIM OFI") and a Mercer Investment Management Core Fixed Income Fund ("MIM CFI"); the performance of these funds is expected to closely replicate the performance of 50% of the JP Morgan Government Bond Index Emerging Market Global Diversified Index and 50% of the Bank of America/Merrill Lynch Global High Yield and the Barclays Capital U.S. Aggregate Bond Index, respectively. The bonds held by MIM CFI vary in credit quality with an average overall rating of "Aa3" as rated by Moody's as of September 30, 2021. High yield debt receiving a credit rating below "A" comprises approximately 29.9% of the MIM CFI fixed income portfolio as rated by Moody's at September 30, 2021. At September 30, 2021, the weighted average maturity of the bonds comprising MIM CFI is 9.46 years.

The bonds held by MIM OFI vary in credit quality with an average overall rating of "Ba1" as rated by Moody's as of September 30, 2021. High yield debt receiving a credit rating below "A" comprises approximately 62.8% of the MIM OFI fixed income portfolio as rated by Moody's at September 30, 2021. At September 30, 2021, the weighted average maturity of the bonds comprising MIM OFI is 7.3 years.

The Trust Fund's investment policy does not require direct investment in fixed maturity securities ("Bonds") as a means of managing its exposure to loss of principal due to increasing interest rates. The Trust Fund's investment policy requires the performance of each investment class to be periodically compared with an associated benchmark. Bonds and bond funds generally decrease in value in response to rising interest rates. Bonds, however, have a fixed date of maturity and do not have exposure to loss of principal from rising interest rates, whereas shares of a common trust fund, ETF, or similar investment vehicle have no maturity date.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued:

The Trust Fund's exposure to foreign currency risk is derived from its investment in common trust funds, ETFs and REITs that hold investments in securities of foreign issuers and sovereigns. Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair values of an investment or deposit. At September 30, 2021, the Trust Fund held approximately \$276,891,000 in securities of foreign issuers held in common trust funds. Of this amount, approximately \$59,453,000 was held in securities whose functional currency is the Euro, \$20,194,000 whose functional currency is the British pound, \$48,715,000 whose functional currency is the Japanese yen, and \$148,529,000 in functional currencies of 36 other countries. Foreign currency exposure data is not available for the Trust Fund's investment in the Hedge Funds and its investments in Global Private Equity Funds, which comprise 4.3% of invested assets at September 30, 2021.

The Trust Fund's investment in hedge funds includes ownership of the Mercer Hedge Fund Series A ("Mercer Hedge Fund") and the Blackstone Partners Offshore Fund Ltd. Mercer Hedge Funds Investors SPC, who incorporated the Mercer Hedge Fund, and the Blackstone Partners Offshore Fund Ltd. are registered under the Mutual Funds Law of the Cayman Islands. The fair value of the Trust Fund's position in the hedge fund pools are equivalent to the value of the pool shares.

The State owns 50,000 shares of the outstanding common stock of the Bank of the Federated States of Micronesia, which engages in commercial banking services in the FSM. An equity investment in the common stock of the Bank of the Federated States of Micronesia (investee) is stated at the net asset value (NAV). The NAV is used as a practical expedient to estimate fair value. The NAV is determined based on the total shareholders' equity reported by the investee.

Discretely Presented Component Units:

Investments of the discretely presented component units are as follows:

Pohnpei Port Authority:	
Domestic equities	\$ <u>291,222</u>
Investments measured at NAV:	
Equity investment in Bank of the FSM	\$ <u>291,222</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(3) Receivables

Primary Government:

Receivables as of September 30, 2021, for the primary government's individual major governmental funds, and nonmajor governmental funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Grants Assistance</u>	<u>Compact Trust</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Receivables:					
General	\$ 7,586,745	\$ -	\$ -	\$ -	\$ 7,586,745
Taxes	2,928,149	-	-	-	2,928,149
Due from FSM National Government	-	4,085,562	-	-	4,085,562
Due from grantor agencies - Direct	-	472,247	-	-	472,247
Other	35,000	12,115	-	-	47,115
	<u>10,549,894</u>	<u>4,569,924</u>	<u>-</u>	<u>-</u>	<u>15,119,818</u>
Allowance for uncollectible accounts	<u>(7,689,251)</u>	<u>(1,537,861)</u>	<u>-</u>	<u>-</u>	<u>(9,227,112)</u>
	<u>\$ 2,860,643</u>	<u>\$ 3,032,063</u>	<u>-</u>	<u>-</u>	<u>\$ 5,892,706</u>

The final settlement of receivables due from the FSM National Government arising from Compact sector grant transactions can be determined only by final action of the FSM National Government in consultation with the grantor agency. Management is of the opinion that 2021 reconciliation efforts will be favorable and thus no allowance for uncollectible accounts is considered necessary.

Discretely Presented Component Units:

Receivables as of September 30, 2021, for the discretely presented component units, including applicable allowances for uncollectible accounts, are as follows:

	<u>Pohnpei Utilities Corporation</u>	<u>Pohnpei Port Authority</u>	<u>Pohnpei Transportation Authority</u>	<u>Small Business Guarantee and Finance Corporation</u>	<u>Pohnpei State Housing Authority</u>	<u>Total</u>
General	\$ 9,047,739	\$418,711	\$152,757	\$ 63,186	\$ 3,318	\$ 9,685,711
Loans	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,200,080</u>	<u>8,690,871</u>	<u>10,890,951</u>
	9,047,739	418,711	152,757	2,263,266	8,694,189	20,576,662
Less: allowance for uncollectibles	<u>(7,278,909)</u>	<u>(102,994)</u>	<u>-</u>	<u>(552,381)</u>	<u>(5,365,941)</u>	<u>(13,300,225)</u>
	<u>\$ 1,768,830</u>	<u>\$315,717</u>	<u>\$152,757</u>	<u>\$1,710,885</u>	<u>\$3,328,248</u>	<u>\$ 7,276,437</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(3) Receivables, Continued

Discretely Presented Component Units, Continued:

Loans receivable consist of the following:

Small Business Guarantee and Finance Corporation

Loans to qualified businesses under Micro Loan and Loan Guarantee Programs with interest at 9% per annum. \$ 1,647,699

Pohnpei State Housing Authority (PSHA)

PSHA's loan portfolio is derived from three sources: (1) capital contributions of Compact of Free Association Capital Account Funds - Capital Projects by Pohnpei State to fund the Housing Development Loan Fund; (2) Housing Preservation Grant (HPG) loans from a grant extended by the United States Department of Agriculture (USDA) Rural Development through the Housing and Community Facilities Program; and (3) Rural Development loans under the USDA funded Direct Single Family Housing Program. Loans are stated at face value, net of an allowance for loan losses. The allowance represents an amount which, in management's judgment, will be adequate to absorb possible losses on existing loans that may become uncollectible. Management's judgment in determining the adequacy of the allowance is based on evaluations of the collectability of loans. The allowance for loan losses are reported based on certain assumptions pertaining to PSHA's periodic review and evaluation of the loan portfolio, which is subject to change. A summary of loans receivable as of September 30, 2021 are presented below:

Pohnpei State Housing Authority loans	\$	6,812,564
HPG loans		477,392
USDA Rural Development loans		<u>1,400,915</u>
	\$	<u>8,690,871</u>

All loans, other than the USDA RD loans, bear interest rate fixed substantially at 4.5 % per annum with terms ranging from 3 to 25 years. The USDA RD loans are non-interest bearing.

(4) Interfund Receivables and Payables

Receivables and payables between funds reflected as due to/from other funds in the combined balance sheet at September 30, 2021, are summarized as follows:

Receivable Fund	Payable Fund	Amount
Grants Assistance	General	\$ 2,997,876
Nonmajor governmental funds	General	8,122,613
General	Grants Assistance	<u>2,512,711</u>
		\$ <u>13,633,200</u>

The amount recorded as due from component units of the primary government does not equal the corresponding due to primary government of the discretely presented component units of \$3,571,232 due to an allowance for doubtful accounts recorded by the General Fund of \$5,019,740.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(5) Capital Assets

Capital asset activities for the year ended September 30, 2021, are as follows:

Primary Government:

	Balance October 1, 2020	Additions	Retirements	Balance September 30, 2021
Governmental activities:				
Capital assets being depreciated:				
Buildings	\$ 24,841,744	\$ -	\$ -	\$ 24,841,744
Machinery, equipment, others	27,705,566	724,653	(500,148)	27,903,071
Infrastructure	<u>53,690,078</u>	<u>-</u>	<u>-</u>	<u>53,690,078</u>
	106,237,385	724,653	(500,148)	106,461,893
Less accumulated depreciation for:				
Buildings	(8,214,848)	(422,260)	-	(8,637,108)
Machinery, equipment, others	(26,024,098)	(863,183)	308,301	(26,578,980)
Infrastructure	<u>(49,656,317)</u>	<u>(924,771)</u>	<u>-</u>	<u>(50,581,088)</u>
	(83,895,263)	(2,210,214)	308,301	(85,797,176)
Governmental activities capital assets, net	<u>\$ 22,342,125</u>	<u>\$ (1,485,561)</u>	<u>\$ (191,847)</u>	<u>\$ 20,664,717</u>

Depreciation expense was charged to functions/programs of the primary government's governmental activities as follows:

General government	\$ 307,156
Land and natural resources	36,517
Education	395,621
Health services	183,667
Public safety	279,837
Boards and commissions	<u>1,007,416</u>
	<u>\$ 2,210,214</u>

Discretely Presented Component Units:

	Balance October 1, 2020	Additions	Retirement	Balance September 30, 2021
Depreciable assets:				
Buildings	\$18,228,086	\$ 117,754	\$ (30,000)	\$18,315,840
Utility plants	69,206,007	209,969	-	69,415,976
Machinery, equipment, and others	<u>7,941,276</u>	<u>547,828</u>	<u>(9,031)</u>	<u>8,480,073</u>
Total capital assets, being depreciated	95,375,369	875,551	(39,031)	96,211,889
Less accumulated depreciation	(61,296,325)	(2,776,528)	39,031	(64,033,822)
	34,079,044	(1,900,977)	-	32,178,067
Nondepreciable assets:				
Land	2,776,034	-	-	2,776,034
Construction work-in-progress	<u>599,541</u>	<u>825,849</u>	<u>(11,447)</u>	<u>1,413,943</u>
	<u>\$37,454,619</u>	<u>\$ (1,075,128)</u>	<u>\$ (11,447)</u>	<u>\$36,368,044</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(6) Short-term Debt

Discretely Presented Component Units:

Pohnpei Utilities Corporation (PUC)

Line of credit with a bank in the original amount of \$190,000, interest at 5% over the TCD rate (5.25% per annum at September 30, 2021), collateralized by a time certificate of deposit (TCD) with the bank, and expires on September 2020.

Short-term activity for the year ended September 30, 2021, was as follows:

	Balance October 1, <u>2020</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2021</u>
Note payable:				
PUC	\$ <u>316,094</u>	\$ <u> -</u>	\$ <u>(14,558)</u>	\$ <u>301,536</u>

(7) Long-Term Obligations

Primary Government:

The State implemented an Early Retirement Scheme (ERS) in which employees holding certain nonessential positions as identified by the State were retired early with a payout of the equivalent of two-years wages. This ERS program is funded by a \$4,200,000 loan from the Asian Development Bank (ADB) (Loan Number 1520 (SF)) through the FSM National Government, non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. The activities of the ERS Program are recorded in the General Fund.

The ADB loan has a grace period of ten years with the first payment due in February 2008 and the last payment in August 2037. However, pursuant to the terms of the Financing Agreement between the State and the FSM National Government, the State is required to deposit into the ERS Trust account held in the name of the State within the FSM National Government investment portfolio, 100% of the outstanding principal balance by September 30, 2002.

Funds for the repayment of the ADB loan are expected to be derived from the annual appropriations for salaries and wages earmarked for the positions abolished under the Early Retirement Scheme. The Financing Agreement requires the State to continue to appropriate salaries for the abolished positions and deposit the appropriate funds into the ERS Trust Account. These funds had not been deposited to the Trust Account as of September 30, 2002. Of the required \$4,200,000 identified for future debt service payments, \$5,557,242 is deposited in an investment account held jointly with the FSM National Government. That investment account is restricted for the repayment of this debt. As of September 30, 2021, the balance payable on this loan amounted to \$2,766,259.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(7) Long-Term Obligations, Continued

Primary Government, Continued:

The State also entered into an agreement with the FSM National Government to borrow a portion of the proceeds of the FSM National Government Program Loans with the ADB (Loan Number 1873 (SF) and Loan Number 1874 FSM (SF)) for the purpose of promoting private sector development in Pohnpei, with interest at 1% to 1.5% per annum. Principal payments shall be made in 32 equal semi-annual payments with the first payment due on May 15, 2010 and the last payment on November 15, 2025. As of September 30, 2021, the balances payable on these loans amounted to \$132,573 and \$ 525,840, respectively.

Annual debt service requirements to maturity for principal and interest are as follows:

Year Ending			
September 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 244,435	\$ 26,556	\$ 270,991
2023	244,434	24,574	269,008
2024	244,434	22,592	267,026
2025	244,434	20,609	265,043
2026	229,701	18,627	248,328
2027-2031	1,074,866	67,312	1,142,178
2032-2036	969,697	26,464	996,161
2037	<u>172,671</u>	<u>1,225</u>	<u>173,896</u>
	<u>\$ 3,424,672</u>	<u>\$ 207,959</u>	<u>\$ 3,632,631</u>

Discretely Presented Component Units:

Pohnpei Utilities Corporation (PUC)

Loan payable to the State, facilitated by an ADB loan (Loan Number 1459-FSM) to the FSM National Government; original amount of \$2,413,487. Repayments as allocated by the FSM National Government indicates annual principal payment of \$95,315 through FY2017 and \$98,297 for FY2019 through FY2036, including interest at 1.0% per annum. \$ 1,475,295

Loan payable to United States Department of Agriculture, Rural Utilities Service (RUS), original amount of \$578,000, due in monthly installments of \$2,654 from October 2006 to July 2044. The loan is collateralized by a revenue pledge. The loan bears fixed interest of 4.5% per annum. 449,438

Loan payable to the State, facilitated by an ADB loan (Loan Number 2099-FSM) to the FSM National Government, original amount of \$5,624,910. Repayments as allocated by the FSM National Government indicates annual principal payment of \$255,678 through FY2035, with interest payable at 1.0% per annum during the grace period and at 1.5% thereafter. Proceeds are used for infrastructure projects to overhaul sewage pumps, extend sewage lines, and for treatment plants. 3,402,757

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(7) Long-Term Obligations, Continued

Pohnpei Utilities Corporation (PUC), Continued

Discretely Presented Component Units, Continued:

Loan payable to the State, facilitated by an ADB loan (Loan Number 2100-FSM) to the FSM National Government, original amount of \$1,445,549, principal due in semi-annual installments of varying amounts as a percentage of total drawings through 2029. Interest is payable at LIBOR plus 0.6% (effective rate of 0.88% at September 30, 2021). Proceeds are used for infrastructure projects to overhaul sewage pumps, extend sewage lines, and for treatment plants. 1,137,362

Loan payable to bank, original amount of \$830,000, interest at 7% per annum and monthly installments of \$7,529 from December 15, 2014 to November 15, 2029. The loan is collateralized by a certain chattel mortgage on the three generators purchased in 2015. 545,401

\$ 7,010,253

Future minimum principal and interest payments on all long-term debt for subsequent years ending September 30, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 492,942	\$ 140,371	\$ 633,313
2023	508,015	129,551	637,566
2024	524,590	118,227	642,817
2025	540,709	105,937	646,646
2026	562,196	93,012	655,208
2027-2031	2,442,303	260,693	2,702,996
2032-2036	1,669,700	99,298	1,768,998
2037-2041	129,217	30,024	159,241
2042-2044	<u>140,581</u>	<u>65,319</u>	<u>205,900</u>
	<u>\$7,010,253</u>	<u>\$1,042,432</u>	<u>\$8,052,685</u>

Pohnpei Transportation Authority (PTA)

Long-term debt balance of \$1,674,860 represents accumulated advances made by Pohnpei State Government to fund PTA's operation.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(8) Change in Long-Term Obligations

Primary Government:

Long-term liabilities will be liquidated in the future from governmental funds. During the year ended September 30, 2021, the following changes occurred in liabilities reported as part of the primary government's long-term liabilities in the statement of net position:

	Balance October <u>1, 2020</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2021</u>	Due Within <u>One Year</u>
Loans payable:					
ADB loans:					
Loan 1520	\$ 2,916,091	\$ -	\$ (149,832)	\$ 2,766,259	\$ 172,906
Loan 1873	164,646	-	(32,073)	132,573	29,461
Loan 1874	<u>546,192</u>	<u>-</u>	<u>(20,352)</u>	<u>525,840</u>	<u>42,068</u>
	3,626,929	-	(202,257)	3,424,672	244,435
Other:					
Compensated absences	465,402	604,860	(703,527)	366,735	366,735
Claims and judgments	<u>210,968</u>	<u>-</u>	<u>-</u>	<u>210,968</u>	<u>-</u>
	<u>\$ 4,303,299</u>	<u>\$ 604,860</u>	<u>\$ (905,784)</u>	<u>\$ 4,002,375</u>	<u>\$ 611,120</u>

When the ADB extends credit to a particular country, the loan is booked in Special Drawing Rights (SDRs) but the actual loan is delivered in the currency of the borrower, at the current exchange rate between the currency and the SDR. The value of the SDR is subject to periodic review by the International Monetary Fund, which may result in the recognition of a foreign exchange gain or loss. During the year ended September 30, 2021, the State recognized a foreign exchange gain of \$16,292 associated with valuation of the SDR, which is presented as a special item in the accompanying financial statements, and which results in a reduction in ADB loans payable.

Discretely Presented Component Units:

During the year ended September 30, 2021, the following changes occurred in long-term obligations of the discretely presented component units:

	Balance October 1, <u>2020</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2021</u>	Due Within <u>One Year</u>
Loans payable:					
Pohnpei Utilities Corporation	\$ <u>7,482,525</u>	\$ <u>28,489</u>	\$ <u>(500,761)</u>	\$ <u>7,010,253</u>	\$ <u>492,942</u>

(9) Contingencies and Commitments

Sick Leave

It is the policy of the State to record expenditures for sick leave when leave is actually taken. Sick leave is compensated time for absence during working hours arising from employee illness or injury.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(9) Contingencies and Commitments, Continued

Encumbrances

The State utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2021, the State has significant encumbrances summarized as follows:

	<u>General</u>	<u>Grants Assistance</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Encumbrances	<u>\$418,245</u>	<u>\$8,171,167</u>	<u>\$1,130,256</u>	<u>\$9,719,668</u>

Federal Grants

The State participates in a number of federally assisted grant programs and other various U.S. Department of the Interior grants. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs have been set forth in the State's Single Audit Report for the year ended September 30, 2021. In addition, the State is considered to have responsibility for any questioned costs that may result from Single Audits of subgrantees who have not satisfied the audit requirements of the Uniform Guidance. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

Pursuant to Title I, Section 105 of United States Public Law 99-239, the Government of the Federated States of Micronesia (FSM) (which includes the State) 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.

Loan Guarantees

As discussed in Note 1K, if after exhaustive efforts between PSHA and the United State of Department of Agriculture (USDA) Rural Development (parties to the MOU) have failed to collect from the defaulted borrowers, the State may be ultimately responsible for various USDA Rural Development loans. On March 28, 2007, the State was notified that various loans in the program may be in default. No provision for any liability that may result from this matter has been provided for within the accompanying financial statements.

PSHA's management is of the opinion that the primary government will become ultimately liable for such defaulted liabilities to USDA Rural Development. Therefore, such loans and related liability are not recorded by PSHA in the accompanying financial statements. The State is of the opinion that these loans have not been communicated timely in accordance with the underlying agreement and therefore, does not believe that it is liable for the balance.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(9) Contingencies and Commitments, Continued

Litigation

The State is party to several legal proceedings arising from governmental operations. Claims are filed with the State's Attorney General. Approved claims are usually paid under general appropriations to the affected government agency. The State Attorney General is of the opinion that the probable outcome of suits existing at September 30, 2021, is not predictable but could have a material impact on the accompanying financial statements. Such impact has currently been estimated to approximate \$210,968.

Insurance Coverage

The State does not maintain insurance coverage for a significant amount of capital assets. In the event of a catastrophe, the State may be self-insured to a material extent.

Other

The State Legislature has authorized various Compact Infrastructure and Infrastructure Maintenance projects. However, the State Legislature has required that additional approvals be provided by that body prior to these projects being expended. As a result, no continuing appropriation has been recorded or will be recorded for these authorizations until such time as the additional requirements have been satisfied. State law mandates that 30% of fishing fines be shared with applicable municipalities. Given the lack of certain legal clarifications, no specific dollar amount can be determined to be recorded as either a continuing appropriation or as a liability due to the municipalities.

(10) 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) 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 (PPA) purchase insurance to cover workmen's compensation and life insurance risks but is substantially self-insured for all other risks. Management of PPA is of the opinion that no material losses have been sustained as a result of this practice.

Pohnpei Transportation Authority (PTA) does not purchase commercial insurance covering potential risks. Management of PTA represents that no material losses have been sustained as a result of this practice during the last three years.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(11) Fund Balance

Classifications of fund balances comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following table enumerates the fund balance classifications:

	<u>General Fund</u>	Grant Assistance <u>Fund</u>	Compact <u>Trust Fund</u>	Nonmajor <u>Fund</u>	Total Governmenta l <u>Funds</u>
Non-spendable:					
General government	\$ 467,990	\$ -	\$ -	\$ -	\$ 467,990
Economic development	-	-	-	17,427	17,427
Pacific Islands Development Bank	1,300,000	-	-	-	1,300,000
Bank of the FSM	1,360,850	-	-	-	1,360,850
Permanent fund principal	-	-	24,099,408	-	24,099,408
Restricted for:					
General government	4,583,374	99,751	-	-	4,683,125
Debt service	5,557,242	-	-	-	5,557,242
USDA development loans	30,395	-	-	-	30,395
Education	-	7,116	-	-	7,116
Health services	2,158,640	4,787	-	-	2,163,427
Committed:					
General government	414,074	-	-	2,976,158	3,390,232
Economic development	-	-	-	945,510	945,510
Health services	-	-	-	3,716,828	3,716,828
Assigned					
Assigned	319,862	-	-	-	319,862
Unassigned					
Unassigned	<u>3,177,566</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,177,566</u>
	<u>\$ 19,369,993</u>	<u>\$ 111,654</u>	<u>\$ 24,099,408</u>	<u>\$ 7,655,923</u>	<u>\$ 51,236,978</u>

(12) Budgetary Compliance

For the year ended September 30, 2021, material over-expenditures exceeded appropriations within the General Fund for the following:

Governor and staff	\$ 157,455
Department of Treasury and Administration	1,032,273
Division of Education	55,542
Debt service	256,835
Escrow Account Payments on FHA loans	<u>55,084</u>
	<u>\$ 1,557,189</u>

These over-expenditures of the General Fund have not been funded by legislative authorization.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(13) Asian Development Bank (ADB) Loan Guarantee

The State has guaranteed certain loan obligations of Pohnpei Utilities Corporation (PUC), which are subsidiary loans of the FSM National Government payable to the ADB. The loans require annual principal and interest payments through September 30, 2036. As a result of prior default by PUC in remitting loan payments to the FSM National Government, the FSM National Government has withheld certain revenue shares owed to the State. During the year ended September 30, 2021, the FSM National Government withheld revenue share in the amount of \$527,404 associated with this guarantee. The State has not made the determination whether it is more likely than not that the State would be required to pay the remaining portion of PUC's debt service payments based on this guarantee. Accordingly, the State has not recognized a liability for the discounted present value of future outflows expected to be incurred as a result. As at September 30, 2021, PUC has recorded long-term debt associated with ADB loans of \$6,015,414.

(14) COVID-19

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. As of December 27, 2022, there have been no confirmed cases of COVID-19 in the Federated States of Micronesia. The State has determined that should the pandemic reach the FSM, it may negatively impact the State's results of operations and financial position and the State may become dependent upon the financial support of the FSM National Government. However, the effect of the pandemic on FSM National Government is also uncertain and future available funding may be limited. Therefore, while the State expects this matter to potentially have a negative impact on its operations and financial position, the related financial impact cannot be reasonably estimated at this time.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

**REQUIRED SUPPLEMENTARY INFORMATION-
OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS**

YEAR ENDED SEPTEMBER 30, 2021

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
General Fund
Year Ended September 30, 2021

	Budgeted Amounts		Actual - Budgetary	Variance with Final Budget -
	Original	Final	Basis (see Note 1)	
Revenues:				
FSM revenue sharing	\$ 9,052,643	\$ 9,052,643	\$ 12,760,043	\$ 3,707,400
State taxes	3,530,823	3,530,823	4,068,247	537,424
Fees and charges	1,226,014	1,226,014	237,897	(988,117)
Net change in the fair value of investments	379,609	379,609	1,733,258	1,353,649
Other	-	-	69,359	69,359
Total revenues	<u>14,189,089</u>	<u>14,189,089</u>	<u>18,868,804</u>	<u>4,679,715</u>
Expenditures:				
Current:				
General government	4,105,876	4,299,257	5,240,964	(941,707)
Department of Land and Natural Resources	473,445	475,584	463,232	12,352
Department of Education	768,072	770,019	825,561	(55,542)
Department of Health Services	405,664	407,611	331,542	76,069
Department of Public Safety	1,840,992	1,851,902	1,772,035	79,867
Office of the Attorney-General	652,678	675,020	441,530	233,490
Department of Public Works	504,820	538,584	432,679	105,905
Department of Resource and Development	981,162	1,005,487	613,532	391,955
Boards, commissions and other	1,139,650	1,155,336	1,110,450	44,886
Payments to non-governmental agencies	249,260	249,260	236,602	12,658
Local revenue share payments to municipal governments	3,000,000	3,000,000	2,951,738	48,262
Debt service	-	-	256,835	(256,835)
Total expenditures	<u>14,121,619</u>	<u>14,428,060</u>	<u>14,676,700</u>	<u>(248,640)</u>
excess (deficiency) or revenue over (under) expenditures	<u>67,470</u>	<u>(238,971)</u>	<u>4,192,104</u>	<u>4,431,075</u>
Special items:				
Escrow account payments for delinquent FHA housing loans	-	-	(55,084)	(55,084)
Net change in fund balance	67,470	(238,971)	4,137,020	4,375,991
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes but in the year the supplies are received for financial reporting purposes	-	-	319,860	319,860
	67,470	(238,971)	4,456,880	4,695,851
Fund balance at the beginning of the year	<u>14,913,113</u>	<u>14,913,113</u>	<u>14,913,113</u>	<u>-</u>
Fund balance at the end of the year	<u>\$ 14,980,583</u>	<u>\$ 14,674,142</u>	<u>\$ 19,369,993</u>	<u>\$ 4,695,851</u>

See accompanying Independent Auditors' Report and notes to required supplementary information - budgetary reporting.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Required Supplementary Information – Budgetary Reporting
September 30, 2021

(1) Budgetary Information

The Governor presents to the Pohnpei State Legislature, prior to September 30, proposed budget estimates for the fiscal year commencing October 1. The budget estimates include the overall and total proposed expenditures of the State and the means of financing those expenditures. The Pohnpei State Legislature reviews and approves these estimates making changes, as it deems appropriate. The Appropriation Committee of the Pohnpei State Legislature, during the regular session of the Pohnpei State Legislature, holds public hearings at which time Departments and Offices are required to justify their budget estimates. During the regular session of the Pohnpei State Legislature, an appropriation bill, as required by the Constitution, is introduced and budget estimates are then legally enacted by the Pohnpei State Legislature.

Formal budget integration is employed as a management control device during the year for all funds. The Pohnpei State Legislature has the authority to reprogram budgeted estimates in accordance with the Constitution. All annual appropriations lapse at the end of the fiscal year unless otherwise specified by law. Supplemental appropriations may occur throughout the year. Unexpended encumbrances at each fiscal year end are carried forward until they are expended or canceled without further legislative action. The State does not establish budgets for the operations of its other governmental funds.

Encumbrance accounting is employed in governmental funds. For budgetary purposes, the encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent fiscal year.

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2021

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA

Combining Schedule of Expenditures by Account
Governmental Funds
Year Ended September 30, 2021

	General	Special	988	Other	Total
		Revenue	Permanent		
		Grants	Compact	Funds	
		Assistance	Trust		
Expenditures:					
Salaries and wages:					
Regular	\$ 4,972,300	\$ 10,995,041	\$ -	\$ 67,620	\$ 16,034,961
Overtime	174,615	620,578	-	-	795,193
Fringe benefits	2,194,115	2,459,451	-	29,522	4,683,088
Travel and transportation	17,994	91,077	-	7,626	116,697
Books and instructional materials	-	431,507	-	-	431,507
Communications	138,475	193,754	-	14,275	346,504
Dues, membership, and subscription	18,649	6,078	-	-	24,727
Food stuffs	302,898	692,002	-	4,357	999,257
Freight and port charges	3,764	65,039	-	16,101	84,904
Non-capitalized equipment	68,688	266,795	-	22,095	357,578
Capital outlays	179,101	1,165,153	-	81,350	1,425,604
Office supplies and materials	327,871	1,502,096	-	135,513	1,965,480
POL	139,093	212,808	-	33,258	385,159
Printing and reproduction	31,384	37,468	-	12,724	81,576
Rental services	54,723	145,366	-	4,503	204,592
Repairs and maintenance	33,265	12,152	-	5,732	51,149
Utilities	272,826	783,885	-	35,423	1,092,134
Miscellaneous goods and services	46,101	177,880	-	513,861	737,842
Subsidies and contributions	157,000	-	-	-	157,000
Medical referrals	-	14,882	-	-	14,882
Medical supplies	-	839,497	-	1,152,844	1,992,341
Contractual services	956,941	4,900,606	-	364,301	6,221,848
Housing allowance	34,200	160,960	-	-	195,160
Non-payroll compensation	25,220	-	-	-	25,220
Court settlements	12,034	-	-	-	12,034
Scholarships and allowances	-	255,659	-	-	255,659
Insurance	2,720	-	-	-	2,720
Official allowance	228,750	-	-	-	228,750
Meeting allowance	5,739	28,880	-	6,460	41,079
Leased housing, buildings and land	300	-	-	-	300
Principal repayment	256,835	-	-	-	256,835
Payments to municipalities	2,437,593	-	-	-	2,437,593
Bad debt expense	1,028,934	-	-	-	1,028,934
Bank charges	7,286	-	-	-	7,286
Miscellaneous	227,426	-	-	-	227,426
	<u>\$ 14,356,840</u>	<u>\$ 26,058,614</u>	<u>\$ -</u>	<u>\$ 2,507,565</u>	<u>\$ 42,923,019</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures by Function,
and Changes in Fund Balance
General Fund
Year Ended September 30, 2021
(with comparative totals for the year ended September 30, 2020)

	<u>2021</u>	<u>2020</u>
Revenues:		
FSM revenue sharing:		
Gross revenue taxes	\$ 2,304,043	\$ 2,442,359
Import taxes	3,865,308	3,246,896
Income taxes	2,757,687	3,093,785
20% bgrt and income	3,538,984	-
Other taxes	294,021	269,603
	<u>12,760,043</u>	<u>9,052,643</u>
State taxes:		
Sales tax	4,039,917	3,443,920
Hotel tax	28,330	86,903
	<u>4,068,247</u>	<u>3,530,823</u>
Fees and charges:		
Licenses and fees:	237,897	878,405
Other grants	129,790	285,074
Net change in the fair value of investments	1,733,258	1,245,534
Other revenues	(60,431)	573,661
Total revenues	<u>18,868,804</u>	<u>15,566,140</u>
Expenditures:		
Current:		
General government:		
Governor and staff	500,327	730,806
Department of Treasury and Administration	1,710,831	1,223,977
Office of Pohnpei Public Auditor	260,226	258,381
Judiciary Branch	744,742	730,149
Legislative Branch	1,817,868	1,806,734
	<u>5,033,994</u>	<u>4,750,047</u>
Department of Land and Natural Resources:		
Office of the Director	120,640	93,894
Divison of Public Land	1,918	37,653
Division of Surveying and Mapping	212,021	213,919
Division of Forestry and Marine Conservation	-	-
Division of Historic Preservation	50,108	55,723
Division of Parks and Recreation	76,410	64,336
	<u>461,097</u>	<u>465,525</u>
Department of Education:		
Division of Primary and Secondary Education	823,614	563,725
Department of Health:		
Medical services	230,751	196,313
Office of Social Affairs	98,844	109,096
	<u>329,595</u>	<u>305,409</u>
Department of Public Safety:		
Office of the Director	183,830	69,909
Fish and Wildlife	124,848	115,964
Police Commission	22,252	22,628
Division of Fire & Emergency	209,577	255,761
Division of Police and Security	928,442	830,999
Division of Correction and Rehabilitation	292,176	274,272
	<u>1,761,125</u>	<u>1,569,533</u>
Office of the Attorney-General	419,188	547,371
Public Works	399,545	384,377

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures by Function,
and Changes in Fund Balance, Continued
General Fund
Year Ended September 30, 2021
(with comparative totals for the year ended September 30, 2020)

	2021	2020
Expenditures, continued:		
Current:		
Department of Resource and Development		
Office of Director	111,607	79,489
Division of Agriculture	199,284	207,773
Division of Natural Resources	123,432	91,715
Division of Toursim	113,204	98,068
Division of Commerce and Industry	41,681	42,778
	589,208	519,823
Boards, commissions and other:		
Office of Social Affairs	-	-
Election Commissioner's Office	60,772	201,320
Pohnpei Public Broadcasting Corporation	195,770	137,526
Public Land Board	2,010	15,017
Pohnpei Housing Authority	150,295	137,751
Sports and Recreation	136,360	129,243
Micronesian Games	-	-
Office of Fisheries and Aquaculture	218,743	206,103
Environmental Protection Agency	330,349	305,569
	1,094,299	1,132,529
Payments to non-governmental agencies:		
Small Business Guarantee and Finance Corporation	107,000	94,000
Pohnpei Public Library	-	-
Micronesian Legal Services Corporation	50,000	43,000
U.S.D.A. Rural Development	79,602	83,598
Emergency No. 182	-	-
Other	-	-
	236,602	220,598
Local revenue share payments to municipal governments	2,951,738	4,344,616
Debt service:		
Principal repayment	218,549	212,702
Debt interest payments	38,286	33,071
	256,835	245,773
Total expenditures	14,356,840	15,049,326
Excess (deficiency) of revenue over (under) expenditures	4,511,964	516,814
Special items:		
Escrow account payments for defaluted FHA Housing Loans	(55,084)	(402,374)
Net change in fund balance	4,456,880	114,440
Fund balance at the beginning of the year	14,913,113	14,798,673
Fund balance at the end of the year	\$ 19,369,993	\$ 14,913,113

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures by Function and Changes in Fund Balance
Budget and Actual - General Fund
Year Ended September 30, 2021

	Budgeted Amounts		Actual - Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
FSM revenue sharing	\$ 9,052,643	\$ 9,052,643	\$ 12,760,043	\$ 3,707,400
State taxes:				
Sales tax	3,443,920	3,443,920	4,039,917	595,997
Hotel tax	86,903	86,903	28,330	(58,573)
	<u>3,530,823</u>	<u>3,530,823</u>	<u>4,068,247</u>	<u>537,424</u>
Fees and charges:				
Licenses and fees	1,226,014	1,226,014	237,897	(988,117)
Net change in the fair value of investments	379,609	379,609	1,733,258	1,353,649
Other	-	-	69,359	69,359
Total revenues	<u>14,189,089</u>	<u>14,189,089</u>	<u>18,868,804</u>	<u>4,679,715</u>
Expenditures:				
Current:				
General government:				
Governor and staff	342,872	416,976	574,431	(157,455)
Department of Treasury and Administration	692,147	695,737	1,728,010	(1,032,273)
Office of the Pohnpei Public Auditor	318,426	322,390	264,190	58,200
Judiciary Branch	825,629	834,699	753,812	80,887
Legislative Branch	1,926,802	2,029,455	1,920,521	108,934
	<u>4,105,876</u>	<u>4,299,257</u>	<u>5,240,964</u>	<u>(941,707)</u>
Department of Land and Natural Resources:				
Office of the Director	104,721	104,806	120,725	(15,919)
Division of Public Land	-	-	1,918	(1,918)
Division of Surveying and Mapping	226,913	227,060	212,168	14,892
Division of Forestry and Marine Conservation	-	1,465	1,465	-
Division of Historic Preservation	61,416	61,416	50,104	11,312
Division of Parks and Recreation	80,395	80,837	76,852	3,985
	<u>473,445</u>	<u>475,584</u>	<u>463,232</u>	<u>12,352</u>
Department of Education:				
Divisions of Primary & Secondary Education	768,072	770,019	825,561	(55,542)
Department of Health Services:				
Division of Medical Services	279,595	279,595	230,751	48,844
Division of Social Service	126,069	128,016	100,791	27,225
	<u>405,664</u>	<u>407,611</u>	<u>331,542</u>	<u>76,069</u>
Department of Public Safety:				
Office of the Director	147,668	148,612	184,774	(36,162)
Police Commission	24,875	24,875	22,252	2,623
Division of Police and Security	1,005,233	1,007,634	930,843	76,791
Division of Correction and Rehabilitation	303,982	304,212	292,406	11,806
Division of Fire & Emergency	235,907	238,117	211,787	26,330
Fish and Wildlife	123,327	128,452	129,973	(1,521)
	<u>1,840,992</u>	<u>1,851,902</u>	<u>1,772,035</u>	<u>79,867</u>
Office of the Attorney-General	652,678	675,020	441,530	233,490
Department of Public Works:				
Office of Transportation and Infrastructure	504,820	538,584	432,679	105,905

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures by Function and Changes in Fund Balance, Continued
Budget and Actual - General Fund
Year Ended September 30, 2021

	Budgeted Amounts		Actual - Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
Expenditures, continued:				
Department of Resources and Development:				
Office of Director	287,981	292,150	115,776	176,374
Division of Agriculture	256,157	257,304	200,431	56,873
Division of Natural Resources	193,222	193,889	124,099	69,790
Division of Tourism	177,787	193,477	128,417	65,060
Division of Commerce & Industry	66,015	68,667	44,809	23,858
	<u>981,162</u>	<u>1,005,487</u>	<u>613,532</u>	<u>391,955</u>
Boards, commissions and other:				
Election Commissioner's Office	61,529	61,668	60,911	757
Ethics Commission	-	-	-	-
Pohnpei Public Broadcasting Corporation	208,786	208,786	195,770	13,016
Public Land Board	-	257	2,267	(2,010)
Pohnpei Housing Authority	159,498	160,763	151,560	9,203
Sports and Recreation	151,274	152,288	137,374	14,914
Office of Fisheries and Aquaculture	229,214	240,230	229,759	10,471
Micronesia Games	-	1,995	1,995	-
Environmental Protection Agency	329,349	329,349	330,814	(1,465)
	<u>1,139,650</u>	<u>1,155,336</u>	<u>1,110,450</u>	<u>44,886</u>
Payments to non-governmental agencies:				
Small Business Guarantee and Finance Corporation	104,345	104,345	107,000	(2,655)
Pohnpei Public Library	-	-	-	-
Micronesia Legal Services Corporation	50,000	50,000	50,000	-
U.S.D.A. Rural Development	94,915	94,915	79,602	15,313
Others	-	-	-	-
	<u>249,260</u>	<u>249,260</u>	<u>236,602</u>	<u>12,658</u>
Local revenue share payments to municipal governments	<u>3,000,000</u>	<u>3,000,000</u>	<u>2,951,738</u>	<u>48,262</u>
Debt service:				
Principal repayment	-	-	218,549	(218,549)
Debt guarantee payments	-	-	38,286	(38,286)
	<u>-</u>	<u>-</u>	<u>256,835</u>	<u>(256,835)</u>
Total expenditures	<u>14,121,619</u>	<u>14,428,060</u>	<u>14,676,700</u>	<u>(248,640)</u>
Excess (deficiency) of revenue over (under) expenditures	<u>67,470</u>	<u>(238,971)</u>	<u>4,192,104</u>	<u>4,431,075</u>
Special items:				
Escrow account payments for defaulted FHA Housing Loans	-	-	(55,084)	55,084
Net change in fund balance	67,470	(238,971)	4,137,020	4,375,991
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes but in the year the supplies are received for financial reporting purposes	-	-	319,860	319,860
	<u>67,470</u>	<u>(238,971)</u>	<u>4,456,880</u>	<u>4,695,851</u>
Fund balance at the beginning of the year	<u>14,913,113</u>	<u>14,913,113</u>	<u>14,913,113</u>	<u>-</u>
Fund balance at the end of the year	<u>\$ 14,980,583</u>	<u>\$ 14,674,142</u>	<u>\$ 19,369,993</u>	<u>\$ 4,695,851</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

Combining Balance Sheet
September 30, 2021

	26	27	29	32	33	34	35	36	37	38	56	87	Total
	Alien Registration Revolving	Pohnpei State Farmers' Revolving	Fisheries Enforcement and Development	Recycling Revolving	Paved Road Maintenance	Medical Supplies Revolving	Public Broadcasting Corporation	Health Care Premium	Department of Public Safety Fees	Environmental Quality	Judicial Escrow	Public Lands Trust	Total
ASSETS													
Due from other funds	\$ 443,255	\$ 51,359	\$ 184,252	\$ 737,068	\$ 1,863,399	\$ 2,161,459	\$ 7,920	\$ 1,934,913	\$ 105,712	\$ 31,058	\$ 14,490	\$ 587,728	\$ 8,122,613
Advances	-	12,430	4,997	-	-	10,307	-	-	-	-	-	-	27,734
Total assets	<u>\$ 443,255</u>	<u>\$ 63,789</u>	<u>\$ 189,249</u>	<u>\$ 737,068</u>	<u>\$ 1,863,399</u>	<u>\$ 2,171,766</u>	<u>\$ 7,920</u>	<u>\$ 1,934,913</u>	<u>\$ 105,712</u>	<u>\$ 31,058</u>	<u>\$ 14,490</u>	<u>\$ 587,728</u>	<u>\$ 8,150,347</u>
LIABILITIES AND FUND BALANCES													
Liabilities:													
Accounts payable	\$ -	\$ 6,004	\$ 21,796	\$ (631)	\$ 57,422	\$ 389,851	\$ 4,354	\$ -	\$ 7,611	\$ -	\$ -	\$ 6,372	\$ 492,779
Other liabilities and accruals	-	-	-	-	-	-	-	-	2,863	-	8,014	(9,232)	1,645
Total liabilities	<u>-</u>	<u>6,004</u>	<u>21,796</u>	<u>(631)</u>	<u>57,422</u>	<u>389,851</u>	<u>4,354</u>	<u>-</u>	<u>10,474</u>	<u>-</u>	<u>8,014</u>	<u>(2,860)</u>	<u>494,424</u>
Fund balances:													
Non-spendable	-	12,430	4,997	-	-	-	-	-	-	-	-	-	17,427
Committed	443,255	45,355	162,456	737,699	1,805,977	1,781,915	3,566	1,934,913	95,238	31,058	6,476	590,588	7,638,496
Unassigned	-	-	-	-	-	-	-	-	-	-	-	-	-
Total fund balances	<u>443,255</u>	<u>57,785</u>	<u>167,453</u>	<u>737,699</u>	<u>1,805,977</u>	<u>1,781,915</u>	<u>3,566</u>	<u>1,934,913</u>	<u>95,238</u>	<u>31,058</u>	<u>6,476</u>	<u>590,588</u>	<u>7,655,923</u>
Total liabilities and fund balances	<u>\$ 443,255</u>	<u>\$ 63,789</u>	<u>\$ 189,249</u>	<u>\$ 737,068</u>	<u>\$ 1,863,399</u>	<u>\$ 2,171,766</u>	<u>\$ 7,920</u>	<u>\$ 1,934,913</u>	<u>\$ 105,712</u>	<u>\$ 31,058</u>	<u>\$ 14,490</u>	<u>\$ 587,728</u>	<u>\$ 8,150,347</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

Combining Statement of Revenues, Expenditures By Function,
and Changes in Fund Balances (Deficit)
Year Ended September 30, 2021

	26	27	29	32	33	34	35	36	37	38	56	87	
	Alien Registration Revolving	Pohnpei State Farmers' Revolving	Fisheries Enforcement and Development	Recycling Revolving	Paved Road Maintenance	Medical Supplies Revolving	Public Broadcasting Corporation	Health Care Premium	Department of Public Safety Fees	Environmental Quality	Judicial Escrow	Public Lands Trust	Total
Revenues:													
Excise tax	\$ -	\$ -	\$ -	\$ -	\$ 358,542	\$ -	\$ -	\$ 285,606	\$ -	\$ -	\$ -	\$ -	\$ 644,148
Fees and charges	<u>36,901</u>	<u>46,776</u>	<u>66,356</u>	<u>665,438</u>	<u>144,284</u>	<u>1,121,445</u>	<u>17,246</u>	<u>-</u>	<u>129,402</u>	<u>59,400</u>	<u>6,476</u>	<u>283,901</u>	<u>2,577,625</u>
Total revenues	<u>36,901</u>	<u>46,776</u>	<u>66,356</u>	<u>665,438</u>	<u>502,826</u>	<u>1,121,445</u>	<u>17,246</u>	<u>285,606</u>	<u>129,402</u>	<u>59,400</u>	<u>6,476</u>	<u>283,901</u>	<u>3,221,773</u>
Expenditures by function:													
Current:													
General government	-	22,441	138,734	546,733	257,025	-	17,599	-	126,642	25,995	-	116,350	1,251,519
Health services	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,214,514</u>	<u>-</u>	<u>41,532</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,256,046</u>
Total expenditures	<u>-</u>	<u>22,441</u>	<u>138,734</u>	<u>546,733</u>	<u>257,025</u>	<u>1,214,514</u>	<u>17,599</u>	<u>41,532</u>	<u>126,642</u>	<u>25,995</u>	<u>-</u>	<u>116,350</u>	<u>2,507,565</u>
Excess (deficiency) of revenues over (under) expenditures	<u>36,901</u>	<u>24,335</u>	<u>(72,378)</u>	<u>118,705</u>	<u>245,801</u>	<u>(93,069)</u>	<u>(353)</u>	<u>244,074</u>	<u>2,760</u>	<u>33,405</u>	<u>6,476</u>	<u>167,551</u>	<u>714,208</u>
Net change in fund balances (deficit)	36,901	24,335	(72,378)	118,705	245,801	(93,069)	(353)	244,074	2,760	33,405	6,476	167,551	714,208
Fund balances (deficit) at the beginning of the year	<u>406,354</u>	<u>33,450</u>	<u>239,831</u>	<u>618,994</u>	<u>1,560,176</u>	<u>1,874,984</u>	<u>3,919</u>	<u>1,690,839</u>	<u>92,478</u>	<u>(2,347)</u>	<u>-</u>	<u>423,037</u>	<u>6,941,715</u>
Fund balances at the end of the year	<u>\$ 443,255</u>	<u>\$ 57,785</u>	<u>\$ 167,453</u>	<u>\$ 737,699</u>	<u>\$ 1,805,977</u>	<u>\$ 1,781,915</u>	<u>\$ 3,566</u>	<u>\$ 1,934,913</u>	<u>\$ 95,238</u>	<u>\$ 31,058</u>	<u>\$ 6,476</u>	<u>\$ 590,588</u>	<u>\$ 7,655,923</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

Combining Statement of Revenues, Expenditures By Account,
and Changes in Fund Balances (Deficit)
Year Ended September 30, 2021

	26	27	29	32	33	34	35	36	37	38	56	87	
	Alien Registration Revolving	Pohnpei State Farmers' Revolving	Fisheries Enforcement and Development	Recycling Revolving	Paved Road Maintenance	Medical Supplies Revolving	Public Broadcasting Corporation	Health Care Premium	Department of Public Safety Fees	Environmental Quality	Judicial Escrow	Public Lands Trust	Total
Revenues:													
Excise tax	\$ -	\$ -	\$ -	\$ -	\$ 358,542	\$ -	\$ -	\$ 285,606	\$ -	\$ -	\$ -	\$ -	\$ 644,148
Fees and charges	<u>36,901</u>	<u>46,776</u>	<u>66,356</u>	<u>665,438</u>	<u>144,284</u>	<u>1,121,445</u>	<u>17,246</u>	<u>-</u>	<u>129,402</u>	<u>59,400</u>	<u>6,476</u>	<u>283,901</u>	<u>2,577,625</u>
Total revenues	<u>36,901</u>	<u>46,776</u>	<u>66,356</u>	<u>665,438</u>	<u>502,826</u>	<u>1,121,445</u>	<u>17,246</u>	<u>285,606</u>	<u>129,402</u>	<u>59,400</u>	<u>6,476</u>	<u>283,901</u>	<u>3,221,773</u>
Expenditures by account:													
Salaries and wages:													
Regular	-	-	-	-	-	-	-	-	-	-	-	67,620	67,620
Benefits	-	-	-	-	-	-	-	-	-	-	-	29,522	29,522
Travel	-	-	6,896	-	-	-	-	-	-	-	-	-	7,626
Communications	-	-	9,673	-	-	-	205	-	4,397	-	-	-	14,275
Food stuff	-	-	3,824	309	-	-	-	-	224	-	-	-	4,357
Freight and port charges	-	582	299	11,093	-	-	-	-	4,127	-	-	-	16,101
Non-capitalized equipment	-	-	9,247	917	-	-	3,120	-	4,493	-	-	4,318	22,095
Capital outlay	-	-	3,600	12,300	-	38,455	-	-	-	25,995	-	1,000	81,350
Office supplies and materials	-	17,049	28,686	35,791	-	23,040	749	-	25,215	-	-	4,983	135,513
POL	-	136	26,249	4,734	-	-	2,139	-	-	-	-	-	33,258
Printing and reproduction	-	-	2,765	80	-	-	-	-	8,308	-	-	1,571	12,724
Rental	-	(20)	30	3,575	-	-	540	-	378	-	-	-	4,503
Repairs and maintenance	-	-	3,833	60	-	-	-	-	803	-	-	1,036	5,732
Utilities	-	-	27,624	3,769	-	-	4,000	-	30	-	-	-	35,423
Miscellaneous goods and services	-	4,694	3,562	462,478	-	175	-	-	42,952	-	-	-	513,861
Medical supplies	-	-	-	-	-	1,152,844	-	-	-	-	-	-	1,152,844
Insurance	-	-	-	-	-	-	-	-	-	-	-	-	-
Contractual services	-	-	12,306	11,627	257,025	-	6,826	41,532	34,985	-	-	-	364,301
Bank charges	-	-	-	-	-	-	-	-	-	-	-	-	-
Court settlements	-	-	-	-	-	-	-	-	-	-	-	-	-
Meeting allowance	-	-	140	-	-	-	20	-	-	-	-	6,300	6,460
Total expenditures	<u>-</u>	<u>22,441</u>	<u>138,734</u>	<u>546,733</u>	<u>257,025</u>	<u>1,214,514</u>	<u>17,599.00</u>	<u>41,532.00</u>	<u>126,642</u>	<u>25,995</u>	<u>-</u>	<u>116,350</u>	<u>2,507,565</u>
Excess (deficiency) of revenues over (under) expenditures	<u>36,901</u>	<u>24,335</u>	<u>(72,378)</u>	<u>118,705</u>	<u>245,801</u>	<u>(93,069)</u>	<u>(353)</u>	<u>244,074</u>	<u>2,760</u>	<u>33,405</u>	<u>6,476</u>	<u>167,551</u>	<u>714,208</u>
Net change in fund balances (deficit)	36,901	24,335	(72,378)	118,705	245,801	(93,069)	(353)	244,074	2,760	33,405	6,476	167,551	714,208
Fund balances (deficit) at the beginning of the year	<u>406,354</u>	<u>33,450</u>	<u>239,831</u>	<u>618,994</u>	<u>1,560,176</u>	<u>1,874,984</u>	<u>3,919</u>	<u>1,690,839</u>	<u>92,478</u>	<u>(2,347)</u>	<u>-</u>	<u>423,037</u>	<u>6,941,715</u>
Fund balances at the end of the year	<u>\$ 443,255</u>	<u>\$ 57,785</u>	<u>\$ 167,453</u>	<u>\$ 737,699</u>	<u>\$ 1,805,977</u>	<u>\$ 1,781,915</u>	<u>\$ 3,566</u>	<u>\$ 1,934,913</u>	<u>\$ 95,238</u>	<u>\$ 31,058</u>	<u>\$ 6,476</u>	<u>\$ 590,588</u>	<u>\$ 7,655,923</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

GRANTS ASSISTANCE FUNDS

Combining Balance Sheet
September 30, 2021

	10	11	12	13	14	15	16	17	18	19	6	7	20	21	23	25	
	Section 211(a)(1) Education Sector	Section 211(a)(2) Health Sector	Section 211(a)(5) Environment	Section 211(a)(3) Private Sector Development	Section 211(a)(4) Capacity Building	Section 211(a)(1) Supplemental Education	Enhanced Reporting Accountability	Health COVID	Infrastructure Maintenance	Infrastructure	Section 221(b) Special Block Grant	Compact I Other Grants	U.S. Federal Grants	Direct U.S. Federal Grants	Non-U.S. Grants	CFSM Grants	Total
ASSETS																	
Receivables:																	
Due from FSM National and grantor agencies	\$1,169,528	\$ -	\$ -	\$ -		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,378,174	\$ -	\$ 11,546	\$ -	\$ 2,559,248
Due from grantor agencies - Direct	-	-	-	-	-	-	-	-	-	-	-	-	-	472,247	-	-	472,247
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	568	568
Due from other funds	-	1,073,982	24,972	537	195,433	435,799	163,544	816,298	-	-	44,188	35,588	-	-	207,535	-	2,997,876
Advances	2,645	24,682	-	-	-	27,850	-	-	-	277,633	-	-	43,017	6,117	4,814	46,385	433,143
Restricted cash	-	7,700	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7,700
	<u>\$1,172,173</u>	<u>\$ 1,106,364</u>	<u>\$ 24,972</u>	<u>\$ 537</u>	<u>\$ 195,433</u>	<u>\$ 463,649</u>	<u>\$ 163,544</u>	<u>\$ 816,298</u>	<u>\$ -</u>	<u>\$ 277,633</u>	<u>\$ 44,188</u>	<u>\$ 35,588</u>	<u>\$ 1,421,191</u>	<u>\$ 478,364</u>	<u>\$ 223,895</u>	<u>\$ 46,953</u>	<u>\$ 6,470,782</u>
LIABILITIES AND FUND BALANCES (DEFICIT)																	
Liabilities:																	
Accounts payable	\$ 373,977	\$ 286,196	\$ -	\$ -	\$ 1,361	\$ 75,241	\$ 7,315	\$ -	\$ 57,223	\$ 29,344	\$ -	\$ -	\$ 236,631	\$ 19,561	\$ 47,057	\$ 41,318	\$ 1,175,224
Other liabilities and accruals	65,484	37,274	-	-	7,328	14,853	(194)	-	-	3,865	-	-	15,866	5,622	311	358	150,767
Unearned revenues	-	778,107	24,972	-	185,560	366,062	156,423	816,298	-	182,046	-	-	-	-	10,958	-	2,520,426
Due to other funds	725,596	-	-	-	-	-	-	-	116,554	43,409	-	-	1,168,694	453,181	-	5,277	2,512,711
Total liabilities	<u>1,165,057</u>	<u>1,101,577</u>	<u>24,972</u>	<u>-</u>	<u>194,249</u>	<u>456,156</u>	<u>163,544</u>	<u>816,298</u>	<u>173,777</u>	<u>258,664</u>	<u>-</u>	<u>-</u>	<u>1,421,191</u>	<u>478,364</u>	<u>58,326</u>	<u>46,953</u>	<u>6,359,128</u>
Fund balances:																	
Restricted	7,116	4,787	-	537	1,184	7,493	-	-	(173,777)	18,969	44,188	35,588	-	-	165,569	-	111,654
Total fund balances	<u>7,116</u>	<u>4,787</u>	<u>-</u>	<u>537</u>	<u>1,184</u>	<u>7,493</u>	<u>-</u>	<u>-</u>	<u>(173,777)</u>	<u>18,969</u>	<u>44,188</u>	<u>35,588</u>	<u>-</u>	<u>-</u>	<u>165,569</u>	<u>-</u>	<u>111,654</u>
Total liabilities and fund balances	<u>\$1,172,173</u>	<u>\$ 1,106,364</u>	<u>\$ 24,972</u>	<u>\$ 537</u>	<u>\$ 195,433</u>	<u>\$ 463,649</u>	<u>\$ 163,544</u>	<u>\$ 816,298</u>	<u>\$ -</u>	<u>\$ 277,633</u>	<u>\$ 44,188</u>	<u>\$ 35,588</u>	<u>\$ 1,421,191</u>	<u>\$ 478,364</u>	<u>\$ 223,895</u>	<u>\$ 46,953</u>	<u>\$ 6,470,782</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

GRANTS ASSISTANCE FUNDS

Combining Statement of Revenues, Expenditures by Function,
and Changes in Fund Balances (Deficit)
Year Ended September 30, 2021

	10	11	12	13	14	15	16	17	18	19	6	7	20	21	23	25	
	Section 211(a)(1) Education Sector	Section 211(a)(2) Health Sector	Section 211(a)(5) Environment	Section 211(a)(3) Private Sector Development	Section 211(a)(4) Capacity Building	Section 211(a)(1) Supplemental Education	Enhanced Reporting Accountability	Health COVID	Infrastructure Maintenance	Infrastructure	Section 221(b) Special Block Grant	Compact I Other Grants	U.S. Federal Grants	Direct U.S. Federal Grants	Non-U.S. Grants	CFSM Grants	Total
Revenues:																	
Compact funding	\$ 8,181,618	\$ 5,468,467	\$ -	\$ -	\$ 141,033	\$ 2,537,684	\$ 407,282	\$ 558,858	\$ 262,917	\$ 2,732,994	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,290,853
CFSM grants	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	480,486	480,486
Federal contributions and other grants	-	-	-	-	-	-	-	-	-	-	-	-	3,346,962	1,710,911	154,130	-	5,212,003
	<u>8,181,618</u>	<u>5,468,467</u>	<u>-</u>	<u>-</u>	<u>141,033</u>	<u>2,537,684</u>	<u>407,282</u>	<u>558,858</u>	<u>262,917</u>	<u>2,732,994</u>	<u>-</u>	<u>-</u>	<u>3,346,962</u>	<u>1,710,911</u>	<u>154,130</u>	<u>480,486</u>	<u>25,983,342</u>
Expenditures by function:																	
Current:																	
General government	-	-	-	-	141,033	-	407,282	558,858	-	-	-	-	1,237,434	30,934	275,685	480,486	3,131,712
Land and natural resources	-	-	-	-	-	-	-	-	-	-	-	-	108,218	8,350	-	-	116,568
Education	8,181,618	-	-	-	-	2,537,684	-	-	-	-	-	-	1,027,342	-	-	-	11,746,644
Health services	-	5,468,467	-	-	-	-	-	-	-	-	-	-	973,968	1,671,627	-	-	8,114,062
Capital projects	-	-	-	-	-	-	-	-	216,634	2,732,994	-	-	-	-	-	-	2,949,628
Total expenditures	<u>8,181,618</u>	<u>5,468,467</u>	<u>-</u>	<u>-</u>	<u>141,033</u>	<u>2,537,684</u>	<u>407,282</u>	<u>558,858</u>	<u>216,634</u>	<u>2,732,994</u>	<u>-</u>	<u>-</u>	<u>3,346,962</u>	<u>1,710,911</u>	<u>275,685</u>	<u>480,486</u>	<u>26,058,614</u>
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-	-	-	-	-	46,283	-	-	-	-	-	(121,555)	-	(75,272)
Net change in fund balances	-	-	-	-	-	-	-	-	46,283	-	-	-	-	-	(121,555)	-	(75,272)
Fund balances (deficit) at the beginning of the year	7,116	4,787	-	537	1,184	7,493	-	-	(220,060)	18,969	44,188	35,588	-	-	287,124	-	186,926
Fund balances at the end of the year	<u>\$ 7,116</u>	<u>\$ 4,787</u>	<u>\$ -</u>	<u>\$ 537</u>	<u>\$ 1,184</u>	<u>\$ 7,493</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (173,777)</u>	<u>\$ 18,969</u>	<u>\$ 44,188</u>	<u>\$ 35,588</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 165,569</u>	<u>\$ -</u>	<u>\$ 111,654</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

GRANTS ASSISTANCE FUNDS

Combining Statement of Revenues, Expenditures by Account,
and Changes in Fund Balances (Deficit)
Year Ended September 30, 2021

	10 Section 211(a)(1) Education Sector	11 Section 211(a)(2) Health Sector	12 Section 211(a)(5) Environment	13 Section 211(a)(3) Private Sector Development	14 Section 211(a)(4) Capacity Building	15 Section 211(a)(1) Supplemental Education	16 Enhanced Reporting Accountability	17 Health COVID	18 Infrastructure Maintenance	19 Infrastructure	6 Section 221(b) Special Block Grant	7 Compact I Other Grants	20 U.S. Federal Grants	21 Direct U.S. Federal Grants	23 Non-U.S. Grants	25 CFSM Grants	Total
Revenues:																	
Compact funding	\$ 8,181,618	\$ 5,468,467	\$ -	\$ -	\$ 141,033	\$ 2,537,684	\$ 407,282	\$ 558,858	\$ 262,917	\$ 2,732,994	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,290,853
CFSM grants	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	480,486	480,486
Federal contributions and other grants	-	-	-	-	-	-	-	-	-	-	-	-	3,346,962	1,710,911	154,130	-	5,212,003
	<u>8,181,618</u>	<u>5,468,467</u>	<u>-</u>	<u>-</u>	<u>141,033</u>	<u>2,537,684</u>	<u>407,282</u>	<u>558,858</u>	<u>262,917</u>	<u>2,732,994</u>	<u>-</u>	<u>-</u>	<u>3,346,962</u>	<u>1,710,911</u>	<u>154,130</u>	<u>480,486</u>	<u>25,983,342</u>
Expenditures by account:																	
Salaries and wages:																	
Regular	4,884,287	2,817,365	-	-	-	1,100,487	286,445	-	-	287,654	-	-	1,174,952	392,704	24,605	26,542	10,995,041
Overtime	(72)	251,631	-	-	-	-	6,372	22,436	-	-	-	-	179,931	132,452	8,828	19,000	620,578
Fringe benefits	1,123,514	492,791	-	-	-	282,207	55,083	4,046	-	26,913	-	-	364,835	94,096	6,807	9,159	2,459,451
Travel and transportation	6,698	55,183	-	-	-	5,155	-	-	-	-	-	-	21,138	2,903	-	-	91,077
Communications	33,675	45,763	-	-	-	72,223	-	106	-	7,871	-	-	29,424	4,646	-	46	193,754
Dues, membership, and subscriptions	-	3,537	-	-	-	-	-	-	-	-	-	-	-	2,541	-	-	6,078
Food stuffs	44,340	213,757	-	-	-	180,652	-	13,748	-	220	-	-	210,913	592	98	27,682	692,002
Freight and port charges	(21)	21,834	-	-	-	6,718	-	27,336	-	347	-	-	221	5,524	-	3,080	65,039
Non-capitalized equipment and furniture	68,979	21,026	-	-	2,680	130,678	6,352	-	-	-	-	-	20,805	9,984	-	6,291	266,795
Capital outlays	402,732	159,083	-	-	1,750	28,606	13,444	323,248	-	35,014	-	-	79,154	83,816	-	38,306	1,165,153
Office supplies and materials	369,750	196,757	-	-	10,628	339,701	38,850	27,043	-	21,509	-	-	373,741	88,099	-	36,018	1,502,096
Books and instructional supplies	408,059	-	-	-	-	22,860	-	-	-	-	-	-	588	-	-	-	431,507
POL	94,640	30,272	-	-	-	34,940	-	-	-	8,441	-	-	38,644	5,871	-	-	212,808
Printing and reproduction	3,388	11,941	-	-	4,799	1,584	490	-	-	-	-	-	11,044	1,074	-	3,148	37,468
Rental services	6,819	11,224	-	-	-	5,180	-	150	-	-	-	-	119,993	-	2,000	-	145,366
Repairs and maintenance	3,510	2,682	-	-	-	160	45	-	-	1,064	-	-	829	822	-	3,040	12,152
Utilities	172,678	514,738	-	-	830	31,703	-	-	-	5,014	-	-	32,422	22,000	-	4,500	783,885
Medical referrals	-	14,882	-	-	-	-	-	-	-	-	-	-	-	-	-	-	14,882
Medical supplies	-	166,993	-	-	-	-	-	-	-	-	-	-	18,775	653,729	-	-	839,497
Contractual services	297,171	257,228	-	-	115,174	194,444	50	139,000	216,634	2,338,254	-	-	621,648	201,310	216,019	303,674	4,900,606
Scholarships and allowances	255,659	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	255,659
Housing allowance	-	153,160	-	-	-	-	-	-	-	-	-	-	-	7,800	-	-	160,960
Meeting allowance	-	9,620	-	-	-	-	-	-	-	-	-	-	18,360	900	-	-	28,880
Non-payroll compensation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous goods and services	5,812	17,000	-	-	5,172	100,386	151	1,745	-	693	-	-	29,545	48	17,328	-	177,880
Bank charges	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total expenditures	<u>8,181,618</u>	<u>5,468,467</u>	<u>-</u>	<u>-</u>	<u>141,033</u>	<u>2,537,684</u>	<u>407,282</u>	<u>558,858</u>	<u>216,634</u>	<u>2,732,994</u>	<u>-</u>	<u>-</u>	<u>3,346,962</u>	<u>1,710,911</u>	<u>275,685</u>	<u>480,486</u>	<u>26,058,614</u>
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-	-	-	-	-	46,283	-	-	-	-	-	(121,555)	-	(75,272)
Net change in fund balances	-	-	-	-	-	-	-	-	46,283	-	-	-	-	-	(121,555)	-	(75,272)
Fund balances (deficit) at the beginning of the year	<u>7,116</u>	<u>4,787</u>	<u>-</u>	<u>537</u>	<u>1,184</u>	<u>7,493</u>	<u>-</u>	<u>-</u>	<u>(220,060)</u>	<u>18,969</u>	<u>44,188</u>	<u>35,588</u>	<u>-</u>	<u>-</u>	<u>287,124</u>	<u>-</u>	<u>186,926</u>
Fund balances at the end of the year	<u>\$ 7,116</u>	<u>\$ 4,787</u>	<u>\$ -</u>	<u>\$ 537</u>	<u>\$ 1,184</u>	<u>\$ 7,493</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (173,777)</u>	<u>\$ 18,969</u>	<u>\$ 44,188</u>	<u>\$ 35,588</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 165,569</u>	<u>\$ -</u>	<u>\$ 111,654</u>

See Accompanying Independent Auditors' Report.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Reed B. Oliver
Governor, State of Pohnpei
Federated States of Micronesia:

We have audited, 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, the financial statements of the governmental activities, the aggregate discretely presented component units, and each major fund of the State of Pohnpei (the State) as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the State's basic financial statements, and have issued our report thereon dated April 28, 2023. Our report was qualified with respect to GASB 70 noncompliance related to lack of recognition of a liability associated with a guaranteed debt obligation, and included explanatory paragraphs concerning collectability of receivables and the impact of COVID-19. Our report includes a reference to other auditors who audited the financial statements of the Pohnpei Transportation Authority and the Small Business Guarantee and Finance Corporation, as described in our report on the State's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors.

For purposes of this report, our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters did not include the Pohnpei Utilities Corporation, the Pohnpei Port Authority, and the Pohnpei State Housing Authority, which were all audited by us. We have issued separate reports on our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for these entities. Other auditors issued separate reports on their consideration of internal control over financial reporting and their tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for the Pohnpei Transportation Authority and the Small Business Guarantee and Finance Corporation. The findings, if any, included in those reports are not included herein.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2021-005 that we consider to be a material weakness.

Compliance and Other Matters

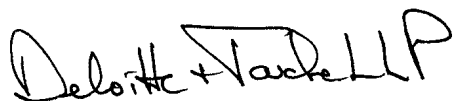
As part of obtaining reasonable assurance about whether the State's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 did not disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The State's Response to Findings

The State's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The State's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



April 28, 2023

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT
ON INTERNAL CONTROL OVER COMPLIANCE; AND
REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE**

Honorable Reed B. Oliver
Governor, State of Pohnpei
Federated States of Micronesia:

Report on Compliance for Each Major Federal Program

We have audited the State of Pohnpei's (the State's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the State's major federal programs for the year ended September 30, 2021. The State's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

As discussed in Note 3B to the Schedule of Expenditures of Federal Awards, the State's basic financial statements include the operations of certain entities whose federal awards are not included in the accompanying Schedule of Expenditures of Federal Awards for the year ended September 30, 2021. Our audit, described below, did not include the operations of the entities identified in Note 3B as these entities conducted separate audits in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), if required.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the State's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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'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 qualified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of the State’s compliance.

Basis for Qualified Opinion on ALN 15.875 and ALN 93.224 Major Federal Programs

As described in Findings 2021-001 and 2021-002 in the accompanying Schedule of Findings and Questioned Costs, the State did not comply with requirements regarding the following:

Finding #	ALN	Program (or Cluster) Name	Compliance Requirement
2021-001	15.875	Economic, Social and Political Development of the Territories – Compact of Free Association, As Amended, Compact Sector Grants	Special Tests and Provisions
2021-002	93.224	Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	Procurement, Suspension, and Debarment

Compliance with such requirements is necessary, in our opinion, for the State to comply with the requirements applicable to those programs.

Qualified Opinion on ALN 15.875 and ALN 93.224 Major Federal Programs

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its ALN 15.875 and ALN 93.224 major federal programs for the year ended September 30, 2021.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs for the year ended September 30, 2021.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2021-003 and 2021-004. Our opinion on each major federal program is not modified with respect to these matters.

The State’s response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The State’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the State is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the State's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2021-001 through 2021-002 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2021-003 and 2021-004 to be significant deficiencies.

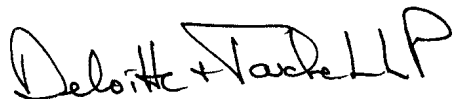
The State's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The State's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The State is responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. The State's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, and each major fund of the State as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the State's basic financial statements. We issued our report thereon dated April 28, 2023, which contained a qualified opinion on those financial statements with respect to noncompliance with GASB 70 related to lack of recognition of a liability associated with a guaranteed debt obligation, and which included explanatory paragraphs concerning collectability of receivables and the impact of COVID-19. Our report includes a reference to other auditors. We did not audit the financial statements of Pohnpei Transportation Authority and Small Business Guarantee and Finance Corporation which represent 8%, 7% and 9%, respectively, of the assets, net position, and revenues of the State's discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Pohnpei Transportation Authority and the Small Business Guarantee and Finance Corporation, is based solely on the reports of the other auditors. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



April 28, 2023

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Summary Schedule of Expenditures of Federal Awards, by Grantor
Year Ended September 30, 2021

Agency/Program	Expenditures
U.S. Department of Agriculture	\$ 8,350
U.S. Department of the Interior	20,383,922
U.S. Department of Education	1,027,342
U.S. Department of Health and Human Services	3,882,829
GRAND TOTAL	\$ 25,302,443
Reconciliation to the basic financial statements:	
Grants Assistance Fund	\$ 26,058,614
Less:	
Non-U.S. Federal Grants Fund expenditures	(275,685)
CFSM Grants Fund expenditures	(480,486)
	\$ 25,302,443

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2021

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal ALN	Pass-Through Entity Identifying #	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Urban and Community Forestry Program	10.675		\$ <u>8,350</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>8,350</u>
U.S. DEPARTMENT OF THE INTERIOR			
Pass-Through From the FSM National Government:		A4	
Economic, Social and Political Development of the Territories:	15.875		
Compact of Free Association, As Amended, Sector Grants:			
Compact II Education Sector	15.875		8,181,618
Compact II Health Sector	15.875		5,468,467
Compact II Capacity Building Sector	15.875		141,033
Compact II Supplemental Education	15.875		2,537,684
Compact II ERA	15.875		407,282
Compact II Infrastructure Maintenance	15.875		216,634
Compact II Infrastructure Fund	15.875		2,732,994
Compact II Health COVID-19	15.875		558,858
Technical Assistance			
Office of State Auditor	15.875		2,541
ODA Aid Coordinator	15.875		<u>28,393</u>
Total ALN 15.875			20,275,504
Historic Preservation Fund Grants-In-Aid	15.904		<u>108,418</u>
TOTAL U.S. DEPARTMENT OF THE INTERIOR			<u>\$ 20,383,922</u>
U.S. DEPARTMENT OF EDUCATION			
Pass-Through From the FSM National Government:		A4	
Special Education Cluster (IDEA):			
Special Education - Grants to States	84.027		\$ <u>1,027,342</u>
Special Education Cluster (IDEA) Total and TOTAL U.S. DEPARTMENT OF EDUCATION			<u>\$ 1,027,342</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
Year Ended September 30, 2021

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal ALN	Pass-Through Entity Identifying #	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Direct Program:			
Health Center Program Cluster:			
Health Center Program (Consolidated Health Centers)	93.224		\$ 856,053
Health Center Program - Covid 19 funding			<u>815,576</u>
Health Center Program Cluster Total			<u>1,671,629</u>
Subtotal U.S. Department of Health and Human Services Direct Programs			<u>1,671,629</u>
Pass-Through From the FSM National Government:			
		A4	
Public Health Emergency Preparedness	93.069		5,054
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092		1,274,364
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	93.104		55,567
State Systems Development Initiative Grant Program	93.110		7,619
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116		81,007
Family Planning - Services	93.217		56,563
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243		118,326
Universal Newborn Hearing Screening UNHS	93.251		15,787
Health Systems Strengthening and HIV/AIDS Prevention, Care and Treatment under the President's Emergency Plan for AIDS Relief	93.266		-
Immunization Cooperative Agreements	93.268		322,326
PH&HCEP Hospital Preparedness Program	93.889		13,921
Prevention Health Services	93.758		10,273
OPIOID STR	93.788		36,441
Tobacco Prevention	93.377		11,521
Com. Cancer Control	93.898		38,083
HIV Care Formula- Ryan White	93.917		11,658
HIV Prevention Activities-Health Department Based	93.940		23,720
Block Grants for Community Mental Health Services	93.958		16,821
Block Grants for Prevention and Treatment of Substance Abuse	93.959		2,010
Sexually Transmitted Diseases (STD) Prevention and Control Grants	93.977		10,048
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988		12,192
Maternal and Child Health Services Block Grant to the States	93.994		<u>87,899</u>
Subtotal U.S. Department of Health and Human Services Pass-Through Programs			<u>2,211,200</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL			\$ <u>3,882,829</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ <u>25,302,443</u>

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, 2021

1. Scope

State of Pohnpei is one of the four States of the Federated States of Micronesia. All significant operations of State of Pohnpei are included in the scope of the Single Audit. The U.S. Department of the Interior has been designated as State of Pohnpei's cognizant agency for the Single Audit.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of State of Pohnpei under programs of the federal government for the year ended September 30, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of State of Pohnpei, it is not intended to and does not present the financial positions or changes in financial positions of State of Pohnpei.

3. Summary of Significant Accounting Policies

A. Basis of Accounting

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, consistent with the manner in which State of Pohnpei maintains its accounting records. All expenditures and capital outlays that represent the federal share are reported as expenditures. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented, where available.

B. Reporting Entity

For purposes of complying with the Single Audit Act of 1984, as amended in 1996, State of Pohnpei's reporting entity is defined in Note 1A to its September 30, 2021 basic financial statements; and all of the discretely presented component units are excluded. Accordingly, the accompanying Schedule presents the federal award programs administered by State of Pohnpei, as defined above, for the year ended September 30, 2021.

The federal expenditure totals for the excluded departments and component units as of September 30, 2021, are as follows:

<u>Department or Component Unit</u>	<u>Federal Expenditure Total</u>
Pohnpei Port Authority	\$ -
Pohnpei State Housing Authority	\$ -
Pohnpei Transportation Authority	\$ -
Pohnpei Utilities Corporation	\$ 1,296,733
Small Business Guarantee and Finance Corporation	\$ -

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2021

3. Summary of Significant Accounting Policies, Continued

C. Indirect Cost Allocation

State of Pohnpei did not receive any indirect cost allocation and did not elect to use the de minimis indirect cost rate allowed under the Uniform Guidance. State of Pohnpei did not charge indirect costs against federal programs.

D. ALN 15.875

ALN 15.875 represents the Office of Insular Affairs (OIA), U.S. Department of the Interior. Funding from this source is subject to varying rules and regulations since OIA administers the Compact of Free Association, which is a treaty, and is not a federal program. The Compact is comprised of various funded programs, each with separate compliance requirements. To maximize audit coverage of OIA funding, the OIG has recommended that programs administered under ALN 15.875 be grouped by like compliance requirements and such groupings be separately evaluated for purposes of major program determinations.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2021

Section I - Summary of Auditors' Results

Financial Statements

- | | |
|--|--------------------------|
| 1. Type of report the auditors issued on whether the financial statements audited were prepared in accordance with GAAP: | Unmodified and Qualified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | Yes |
| 3. Significant deficiency(ies) identified? | None Reported |
| 4. Noncompliance material to financial statements noted? | Yes |

Federal Awards

Internal control over major federal programs:

- | | |
|---|------------|
| 5. Material weakness(es) identified? | Yes |
| 6. Significant deficiency(ies) identified? | Yes |
| 7. Type of auditors' report issued on compliance for major federal programs: | |
| ALN 84.027 | Unmodified |
| All other major programs | Qualified |
| 8. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | Yes |

9. Identification of major federal programs:

<u>AL Numbers</u>	<u>Name of Federal Program or Cluster</u>
15.875	Economic, Social and Political Development of the Territories – Compact of Free Association, As Amended, Sector Grants
84.027	Special Education - Grants to States (IDEA, Part B)
93.224	Health Center Program Cluster: Health Center Program (Community Health Centers, Migrant Health Center Health Care for the Homeless, and Public Housing Primary Care)

- | | |
|--|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$759,073 |
| 11. Auditee qualified as low-risk auditee? | No |

Section II – Financial Statements Findings

<u>Finding #</u>	<u>Finding</u>
2021-005	Loan Guarantee Obligation

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2021

Section III - Federal Award Findings and Questioned Costs

<u>Finding #</u>	<u>ALN</u>	<u>Finding</u>	<u>Questioned Costs</u>
2021-001	15.875	Special Tests and Provisions	\$ 218,692
2021-002	93.224	Procurement and Suspension and Debarment	454,221
2021-003	15.875	Procurement and Suspension and Debarment	286,910
2021-004	84.027	Allowable Costs/Cost Principles	1,489
			<hr/>
			\$ 961,312
			<hr/>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2021

Finding No.: 2021-001
 Pass-Through Entity: Federated States of Micronesia National Government
 Federal Agency: U.S. Department of the Interior
 AL Program: 15.875 Economic, Social, and Political Development of the Territories
 Federal Award No.: Various Compact Sector Grants
 Area: Special Tests and Provisions
 Questioned Costs: \$218,692

Criteria:

- 1) The Grantor required a bank issued Letter of Credit to process payments against the award.
- 2) Pursuant to compact sector grants for Education program, the requirement is that: Prior to selection and notification to any vendor, supplier or contract for a procurement action with a value over \$25,000, the grantee must submit a copy of the procurement announcement, evaluation criteria, and proposed selection rationale to OIA for its review and concurrence.

Condition:

- 1) For 1 (or 6%) of 17 transactions tested, aggregating \$1,442,136 out of \$20,275,503 in program expenditures, Pohnpei State Government made an advance payment using Federal cash and no documents were provided evidencing that a Bank letter of credit was created for the payment. We were also not provided with documentation evidencing communication with the grantor that waived the specific special provision.

Per Transaction Detail:											
No.	Date	Trans	Ref_1	\$ Amount	St	Fund	Dept	Div	Prgm	Yr	GL_Acct
1	04/30/2021	418255	298943	98,472	4	10	60	60	10100	21	8612
				<u>\$ 98,472</u>							

- 2) For 2 (or 12%) of 17 transactions tested, aggregating \$1,442,136 out of \$20,275,503 in program expenditures, Pohnpei State Government provided evidence substantiating that it performed adequate bid evaluations and procurement processes but no documents were provided evidencing that the State complied with the special provision 2 set forth in the above criteria.

Per Transaction Detail:												
No.	Date	Trans	Ref_1	\$ Amount	St	Fund	Dept	Div	Prgm	Yr	GL_Acct	
1	04/30/2021	418255	298943	98,472	4	10	60	60	10100	21	8612	
2	01/27/2021	407956	279965	120,220	4	10	60	60	10100	20	8610	
				<u>218,692</u>								
				<u>(98,472)</u>								
				<u>120,220</u>								
				Cost already questioned in condition no. 1								
				<u>120,220</u>								

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2021

Finding No.:	2021-001, Continued
Pass-Through Entity:	Federated States of Micronesia National Government
Federal Agency:	U.S. Department of the Interior
AL Program:	15.875 Economic, Social, and Political Development of the Territories
Federal Award No.:	Various Compact Sector Grants
Area:	Special Tests and Provisions
Questioned Costs:	\$218,692

Cause: The State lacks controls over compliance with stated special conditions.

Effect: The State appears to be in noncompliance with the stated special tests and provisions requirements. The total related questioned cost is \$ 218,692.

Recommendation: The State should strengthen monitoring controls over special tests and provisions requirements.

Views of Responsible Officials: The views of the responsible officials are identified in the Corrective Action Plan.

Auditors' Response: Per the State's response to Condition 1), the State was not able to obtain a Letter of Credit as required by the Grantor in April 2021 due to an inability to obtain Legislative approval to authorize opening an LOC. Another FSM State had a similar pre-requisite from the same grantor and was able to obtain the necessary Letter of Credit. The Grantor had further advised on April 30, 2021, that Compact funds may not be used for advance payments, however suggested that in the absence of a letter of credit, the State may alternatively choose to use General fund revenues for advance payments and after the related materials/supplies/goods/equipment are received and accepted by the State, the Compact funds can be used to reimburse such expenditures. The State proceeded to advance 50%, \$98,472, of the purchase price prior to receiving the vehicles, charging it to the Sector grant award. For Condition 2), the aforementioned details rendered the State noncompliant with the special provision set forth in Criteria 2) for transaction 418255. For transaction 407956, the State responded that Criteria 2) was not applicable to the FY2020 Education Sector grant award. We examined the underlying grant award, Grant No. D20AF00005-00040, noting under Special Terms & Conditions 4c. "Prior to selection and notification to any vendor, supplier or contractor for a procurement action with a value over \$25,000, the grantee must submit a copy of the procurement announcement, evaluation criteria, and propose selection rational to OIA for its review and concurrence." We additionally inquired of the grantor agency with respect to the continuing applicability of this provision in fiscal year 2021 and were informed that such provision had not be removed or amended. Therefore, the instances of noncompliance in the above finding remain.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2021

Finding No.: 2021-002
 Federal Agency: U.S. Department of Health and Human Services
 AL Program: 93.224-Health Center Program (Community Health Centers, Migrant Health Center Health Care for the Homeless, and Public Housing Primary Care)
 Federal Award No.: H80CS04302-15-01
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$454,221

Criteria: In accordance with applicable procurement and suspension and debarment requirements, the procurement file must document the history of the procurement, including the rationale for the method of procurement, selection of contract type, basis for contractor selection, and the basis for contract price.

Condition: For 7 (or 32%) of 22 transactions tested, aggregating \$544,320 out of \$1,644,225 in total program expenditures, either a second price quotation was obtained after the vendor was selected or the second price quotation indicated a lack of stock condition. In such cases, a positive comparative quotation was not obtained.

Per Transaction Detail:										
No.	Date	trans	ref1	\$ amt	fund	dep	div	prog	yr	acct
1	12/22/2020	404865	287570	193,977*	21	70	70	37127	20	8226
2	04/19/2021	416812	288096	44,943*	21	70	70	37127	20	8260
3	06/30/2021	424982	297306	35,852*	21	70	70	37127	20	8260
4	06/30/2021	424982	297306	66,717*	21	70	70	37127	20	8260
5	06/30/2021	424982	297306	18,031*	21	70	70	37127	20	8260
6	06/30/2021	424982	297377	22,863**	21	70	70	37127	20	8260
7	04/19/2021	416812	288096	71,839*	21	70	70	37127	20	8610

\$ 454,221

* A second price quotation dated after the date of the purchase requisition with the selected vendor was obtained.

** A no-quote was obtained from a second vendor after the date of purchase requisition with the selected vendor was produced.

Cause: We are cognizant that the State waived bidding requirements in fiscal year 2020 due to the pandemic. However, in fiscal year 2021, despite the border closure, we believe the State had adequate time to obtain valid quotes from more than one supplier and could have obtained quotations from off island vendors as the State had adequate time to plan for its needs. We were additionally provided a request from the program administrator that asked for bid waivers for brand named vehicles from off island sources, which transactions are not included in the above condition, and for which other off island vendors existed and for which quotations could have been obtained with minimal effort. With respect to the bid waiver request for the vehicles, the stated exigency was not the pandemic, it was because of a lack of time provided the State to exercise adequate procurement. While it does not appear as if these transactions were included in the FY 2021 SEFA, we did not locate a State response to this request. This request was provided to us by the State to evidence its opinion that sole source without underlying basis is authorized. We recommend that the grantor consider additional safeguards in grant terms and conditions to protect its interests.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2021

Finding No.:	2021-002, Continued
Federal Agency:	U.S. Department of Health and Human Services
AL Program:	93.224-Health Center Program (Community Health Centers, Migrant Health Center Health Care for the Homeless, and Public Housing Primary Care)
Federal Award No.:	H80CS04302-15-01
Area:	Procurement and Suspension and Debarment
Questioned Costs:	\$454,221

Effect: The State appears to be in noncompliance with applicable procurement requirements. The total questioned cost presented at this finding is \$454,221. A finding results due to the reportable condition of noncompliance with the requirement. Based on the matters set forth in the cause, additional questioned costs could result from additional tests.

Identification as a repeat finding: 2020-004

Recommendation: The State should consider whether only one positive quotation is sufficient and whether a lack of time constitutes an emergency.

Views of Responsible Officials: The views of the responsible officials are identified in the Corrective Action Plan.

Auditors' response: The Pohnpei Community Health Center had written letters to the Pohnpei State Government requesting for waiver of bidding requirements on August 12, 2020 and on March 30, 2021 due to the COVID-19 crisis. Based on the files provided relative to the purchases for the transactions identified in the above condition, there was no additional communication between PCHC and the State as to the decision to approve waiver of the State's bidding requirements. In addition, the grant award terms and conditions indicated that the grantee is required to request prior approval from HRSA through EHBs if some or all of the funding will be used to purchase unit(s) of equipment exceeding \$5,000. Therefore, the instances of noncompliance in the above finding remain.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2021

Finding No.: 2021-003
 Pass-Through Entity: Federated States of Micronesia National Government
 Federal Agency: U.S. Department of the Interior
 AL Program: 15.875 Economic, Social, and Political Development of the Territories
 Federal Award No.: CARES ACT (COVID-19) Funding D20AP00054
 Compliance Requirement: Procurement and Suspension and Debarment
 Questioned Costs: \$286,910

Criteria: In accordance with applicable procurement and suspension and debarment requirements, the procurement file must document the history of the procurement, including the rationale for the method of procurement, selection of contract type, basis for contractor selection, and the basis for contract price.

Condition: For 6 (or 75%) of 8 transactions tested, aggregating \$458,315 out of \$1,274,364 in total program expenditures, no price quotation or bid documents were provided to support compliance with applicable procurement requirements. The following transactions occurred 12 months or more after the declaration of Corona Virus (COVID-19), and as such, we are unable to determine the rationale for not obtaining price comparisons or for documenting the basis of the contract price for temporarily housing repatriated citizens of which the following comprise \$280,000 of payments. We were not provided with documentation of the negotiation or consideration of the cost of alternative venues.

Per Transaction Detail											
No.	Date	Trans	Ref_1	Amount	St	Fund	Dept	Div	Prgm	Yr	GL_Acc
1	04/15/2021	416419	V210119	120,000	4	20	4	10	426	21	8310
2	06/15/2021	423193	301686	80,000	4	20	4	10	426	21	8310
3	09/13/2021	434644	308206	80,000	4	20	4	10	426	21	8310
4	07/08/2021	425812	303184	2,410	4	20	4	10	426	21	8220
5	06/02/2021	421698	299714	4,000	4	20	4	10	426	21	8225
6	03/30/2021	418113	V210138	500	4	20	4	10	426	21	8310

\$ 286,910

Cause: The State did not provide contemporaneous documentation in support of the contract cost basis and the negotiation process

Effect: The State appear to be in noncompliance with applicable procurement requirements. The total questioned cost presented at this finding is \$286,910.

Identification as a repeat finding: 2020-002

Recommendation: The State should retain sufficient documentation on file to support an understanding of negotiated costs and the basis of the resulting contract to ensure an adequate history of procurement procedures is maintained in file.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2021

Finding No.:	2021-003, Continued
Pass-Through Entity:	Federated States of Micronesia National Government
Federal Agency:	U.S. Department of the Interior
AL Program:	15.875 Economic, Social, and Political Development of the Territories
Federal Award No.:	CARES ACT (COVID-19) Funding D20AP00054
Compliance Requirement:	Procurement and Suspension and Debarment
Questioned Costs:	\$286,910

Views of Responsible Officials: The views of the responsible officials are identified in the Corrective Action Plan.

Auditors' response: The State indicated in its letter that the hotel selected was based on the premise of its vicinity to the airport and that the emergency declaration allowed the State to mobilize any fund to secure its border. The reason for the associated transactions being raised in the finding and the costs questioned, is the lack of sufficient documentation to support and identify the rationale in vendor selection and basis for the contract price. Furthermore, the transactions occurred over a year after the COVID-19 pandemic had been declared, and there was no evidence that a reassessment of contract price or cost negotiation occurred as there were other facilities on-island that could have provided the same accommodations. In accordance with 2 CFR 200.318 (i) "The non-Federal entity must maintain records sufficient to detail the history of procurement. These records will include, but are not necessarily limited to, the following: Rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price." In the absence of documentation supporting such, the finding and questioned costs remain.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2021

Finding No.: 2021-004
 Pass-Through Entity: Federated States of Micronesia National Government
 Federal Agency: U.S. Department of the Education
 AL Program: 84.027 Special Education - Grants to States (IDEA, Part B)
 Federal Award No.: H027A200005-20A
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$1,489

Criteria: In accordance with applicable allowable costs/cost principles requirements, expenditures should be necessary and reasonable for program needs, and the related financial and programmatic records supporting such should be adequately documented.

Condition: For 1 (or 14%) of 7 transactions tested, aggregating \$30,498 out of \$1,027,342 in the program expenditures, there no financial, programmatic records and/or grantor approved budget (e.g., vendor invoices, contracts, receiving reports, etc.) on file to substantiate allowability of the cost.

Per Transaction Detail:												
No.	Date	Trans	Jnl	Ref_1	Amount	St	Fund	Dept	Div	Prgm	Yr	GL_Acc
1	04/09/2021	415811	GLJ	V210109	\$1,489	4	20	60	60	20010	21	8226

\$ 1,489

Cause: The State lacks controls over compliance with maintaining underlying financial and programmatic records.

Effect: The State is in noncompliance with applicable allowable costs/cost principles requirements. Projected questioned costs exceed \$25,000 and therefore the known amount of \$1,489 is questioned.

Recommendation: The State should strengthen monitoring controls over applicable costs/cost principles requirements. The State should consider Compliance Oversight to perform a full understanding of the Uniform Guidance and more closely monitor the maintenance of financial and programmatic records supporting allowability to ensure such are adequately documented.

Views of Responsible Officials: The views of the responsible officials are identified in the Corrective Action Plan.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2021

Finding No: 2021-005
Area: Loan Guarantee Obligation

Criteria: ADB loans payable guaranteed by the State of Pohnpei should be recorded in the financial statements to comply with GASB 70.

Condition: ADB loans guaranteed by the State of Pohnpei on behalf of a component unit, which does not evidence the ability to repay the debt were not recorded in the accounting system to conform with GASB 70.

Cause: Management is of the opinion that such loans are not a State liability as drastic measures have been put in place or are being proposed at the component unit to allow it to return to profitable operations.

Effect: The departure from GASB 70 requirements resulted in a report modification.

Identification as a Repeat Finding: Finding No. 2020-008

Recommendation: State of Pohnpei should comply with GASB 70 requirements and record the debt until such time when the component unit evidences the ability to make required debt repayments.

Views of Responsible Officials: The views of the responsible officials are identified in the Corrective Action Plan.



POHNPEI STATE GOVERNMENT

Department of Treasury and Administration

P.O. Box 1567

Kolonia, Pohnpei FM 96941

Tel: (691) 320-2243/2323 FAX: (691) 320-5505

Email: elnei1221@gmail.com

Office of the Director

CORRECTIVE ACTION PLAN 2 CFR § 200.511(c) Year Ended September 30, 2021

Finding Number	Corrective Action Plan	Anticipated Completion Date	Responsible Person (Contact details)
2021-001	See letter from PSG to Deloitte December 28, 2022	Nil	Ms. Judy Rodriquez Chief of Finance rodrigjudz@gmail.com
2021-002	See letter from PSG to Deloitte December 28, 2022	Nil	Ms. Josephine M. Saimon jmsaimons@yahoo.com and Ms. Judy Rodriquez Chief of Finance rodrigjudz@gmail.com
2021-003	See letter from PSG to Deloitte December 28, 2022	Nil	Ms. Judy Rodriquez Chief of Finance rodrigjudz@gmail.com
2021-004	See letter from PSG to Deloitte December 28, 2022	Nil	Ms. Judy Rodriquez Chief of Finance rodrigjudz@gmail.com and Jesse Solomon, Special Head Coordinator jessesolomon822@gmail.com
2021-005	See letter from PSG to Deloitte December 28, 2022	Nil	Ms. Judy Rodriquez Chief of Finance rodrigjudz@gmail.com



POHNPEI STATE GOVERNMENT

Department of Treasury and Administration

P.O. Box 1567

Kolonia, Pohnpei FM 96941

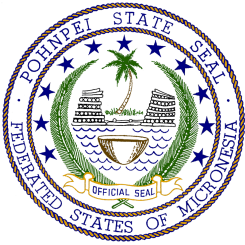
Tel: (691) 320-2243/2323 FAX: (691) 320-5505

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Office of the Director

Summary Schedule of Prior Year Audit Findings and Question Costs Year End September 30, 2021

Finding Number	CFDA Number	Questioned Cost	Status
2019-001	15.875	\$21,500	In Progress
2019-002	15.875	86,943	In Progress
2019-005	15.875	0	Resolved
2019-009	-	0	Resolved
2020-001	15.875	103,552	In Progress
2020-002	15.875	668,888	In Progress
2020-003	93.224	0	Resolved
2020-004	93.224	0	Resolved
2020-005	15.875	0	Resolved
2020-006	93.224	0	Resolved
2020-007	93.224	0	Resolved
2020-008	-	0	In Progress
2020-009	93.224	0	Resolved
		\$880,883	



POHNPEI STATE GOVERNMENT

Department of Treasury and Administration

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Office of the Director

December 28, 2022

Deloitte & Touche, LLP
Kolonia Pohnpei 96941

Subject: PSG Responses to the FY 2021 Audit Findings

Dear Deloitte & Touche:

Our Holiday Greetings to you and your staff and may the warmed of Christmas spirit be with all of us before we delve into much serious business.

First, I would like to issue my disappointment on record that when we met in your office on December 12, 2022, I expressly stated that the Pohnpei State Government would not like to miss the deadline of audit submission which was slated for December 16, 2022. We started providing documentation way back in April of this year and I would have thought, that the audit would have been wrapped up a long time ago. I think that eight months of audit is not an acceptable outcome because it consumed a lot of our time, resources and energy away from our duties and responsibilities to the people of the State. In your future audits I wish that you put this aspect of our operation into your consideration.

Below are our responses to the finding shown on your compliance report.

Finding 2021-001

Auditee Response:

We object to the finding as these are new audit requirements that were not afforded us to comment before the final decision.

On December 10, 2022, we responded to criteria #1. That Pohnpei State Government is not eligible for Bank letter of Credit. The auditor said she would come back to us, but didn't until this report was issued yesterday, December 27, 2022, and the citation remained.

The Government had taken the following steps to secure the Bank letter of credit. The application was submitted to Bank of Guam. The BOG required a resolution from Legislature to established a letter of credit. Resolution was drafted and submitted to Legislature. Legislature wanted a JEMCO resolution/directive for the passage of the bill, the JEMCO resolution/directive was not provided, the decision to pass the resolution became deadlocked. Without the Legislature resolution the Bank Letter of credit became and void.

As such we complied in all we could to follow the OIA email instruction, however the decision was out of our hands. Either way we process the transaction, we would violate our own laws (Budget Act for use of general fund) or the OIA new requirement. We had to decide in the best interest of the public, which is maintaining integrity of our procurement process and avoiding lawsuit from the bidder(s).

If we were given the opportunity to comment first, we would have provided you the evidence we cited above.

We also object to criteria #2, OIA did concur, we provided the evidence of this requirement on December 10, 2022 when the auditor requested.

We also object to the inclusion of Question Cost amount \$120,220 dated 1/27/21. The issue on the transaction as emailed to us on December 9, 2021 was that we did not obtain prior approval. We responded that the prior approval was not applicable for the FY 2020 Education sector procurement. We requested the auditor to show us on the FY 2020 grant award that requires prior approval; we never got our answer back, but the finding remain published.

Finding 2021-002

Auditee Response:

We were emailed the pending items to comment on December 10, 2022. We responded to all of the citations, which none of these requirements were included under the discussion. We object to the new requirements for they were not afforded us to comment before this is published.

We also object to the statement made by the auditor that the State appears of the opinion that it is legally authorized to waive bid requirements for the above items, this is a misrepresentation of facts. We also object to auditors' using Vehicles as part of the notion conceiving the statement, when there were no Vehicles purchased by CHC in FY 2021, nor were Vehicles part of any selection for audit tested in FY 2021.

In line with the above objection, here is the communication between the auditor and us on the item selected for testing that the auditor is misrepresenting:

Dear Auditor [name taken out]:

OUR RESPONSES IS IN THE BODY OF YOUR QUERY - ALL CAPS

Hi [name taken out],

Good morning!

For the attached items no. 6,7 and 8 in regards to Finding no. 2021-003 – we would appreciate receiving the detail budget WE OBJECT TO THE REQUIREMENT OF DETAILED BUDGET approved by grantor THE BUDGET APPROVED BY THE GRANTOR IS INCLUDED ON THE FACE OF THE GRANT AWARD - PLEASE SEE 1ST PAGE and procurement waiver approved by grantor. WE OBJECT TO THIS REQUIREMENT - FIRST HRSA PROGRAM MANAGERS DO NOT AND WILL NOT PARTICIATE IN THE ADMINISTRATION OF CHC, NOR WILL THEY ISSUE LETTER OF NO OBJECTION ON ANY PROCUREMENT OF CHC, EXPECIALLY COVID. SECOND, WHEN TWO LAWS COLLIDED OVER OUR HEAD, POHNPEI CONSTITUTION AND GRANT CONDITION, WE MAKE DECISION BASED ON WHAT IS IN THE BEST INTEREST OF THE PUBLIC WE SERVE, IN THIS CASE SAVING LIVES. BTW, PLEASE SHOW US WHERE ON THE GRANT AWARD DOES IT REQUIRE WAIVER.

Please let us know for any question or concern you may have.

Thank you and regards,

Finding 2021-003

Auditee Response:

We object to the findings as these were new audit requirements that were not afforded us to comment before the final decision.

On December 9, 2022, the auditor issued the pending requirement for us not obtaining waiver of bid for the selection of the Hotel in the vicinity of the airport. We responded that the selection of the hotel was based on the premise that it is in the vicinity of the airport and that the emergency declaration allowed the State to mobilize any fund to secure its border. The auditor responded to come back to us but never did and the finding remained.

We object to all that is written for the criteria, the condition, the cause and the recommendation as these were new requirements that were never discussed nor shown to us before this publication.

The requirement of 12 months after the declaration of coronavirus is an opinion of an auditor, irrelevant to the selection of the hotel, Question Cost 1,2,3. If we have known that negotiated documentation is a requirement for the citation, we would insist on the auditor speaking to the Covid-19 Taskforce to get more facts before publishing this citation.

Finding 2021-004

Auditee Response:

On December 5 2022, schedule of findings submitted to my office, the finding indicated that the file for transaction #406340 dated 1/12/2021 was not provided to Auditor. The file was found today and we would accept that this file was never provided for the benefit of the doubt on our part. We are providing you the file today, should it meet your requirement.

Finding 2021-005

Auditee Response:

We object to the criteria that the State did not perform the required physical inventory of property acquired by Federal awards.

The State performed the fiscal inventory and the survey of the federally funded equipment and assets on August 2021, the evidence of the physical inventory and the survey were forwarded to the auditor. This list of assets were also recorded according to the funding sources and forwarded to the auditor.

Finding 2021-006

Auditee Response:

We object to this finding. We provided the evidence of drawdown for CHC on December 7, 2022. The drawdowns were performed on a quarterly basis and the most recent drawdown update downloaded from the PMS system was forwarded to the auditor.

Finding 2021-007

Auditee Response:

The State is aware of the finding that repeatedly qualify its audited financial statement. The position of the State is unchanged, it hasn't appropriated the obligation of the PUC ADB loan as its own, therefore maintaining status quo,

that the obligation remains PUC liability. It should be noted that the State has entered into a promissory note that PUC recognizes this liability and started paying the State on the amount owed.

Thank you very much,

Sincerely,

A handwritten signature in black ink, appearing to read 'Christina Elnei', with a long horizontal flourish extending to the right.

Christina Elnei
Director

cc: Governor Reed B. Oliver, Pohnpei State Government