

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

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

YEAR ENDED SEPTEMBER 30, 2004

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

YEAR ENDED SEPTEMBER 30, 2004

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FEDERATED STATES OF MICRONESIA**

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**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

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

YEAR ENDED SEPTEMBER 30, 2004

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Pohnpei, as of and for the year ended September 30, 2004, which collectively comprise the State of Pohnpei's basic financial statements as set forth in Section II of the foregoing table of contents. These financial statements are the responsibility of the management of the State of Pohnpei. Our responsibility is to express an opinion on the respective financial statements based on our audit.

Except as discussed in the following paragraph, 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 respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State of Pohnpei's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

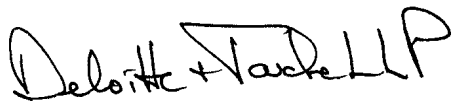
The financial statements referred to above include unaudited financial statements of the Pohnpei Economic Development Authority (EDA), the Pohnpei State Housing Authority (PSHA), the Pohnpei Transportation Authority (PTA), the Pohnpei Fisheries Corporation (PFC), and the Small Business Guarantee and Finance Corporation (SBGFC), whose financial activities are included in the aggregate discretely presented component units and represent 16% and 29%, respectively, of the assets and revenues of the State of Pohnpei's discretely presented component units. The entities comprising these financial activities did not produce audited financial statements and the effect on the accompanying financial statements of this matter is unknown.

In our opinion, except for the effects on the respective financial statements of such adjustments, if any, as might have been determined to be necessary had EDA, PSHA, PTA, PFC, and SBGFC been audited, as discussed in the third paragraph above, such financial statements, as set forth in Section II of the foregoing table of contents, present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Pohnpei as of September 30, 2004, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, on pages 3 through 9, as well as the Schedule of Revenues, Expenditures, and Changes in Unreserved Fund Balance - Budget and Actual - General Fund and notes thereto, on pages 38 and 39, are not a required part of the basic financial statements but are supplementary information required by GASB. Such information is the responsibility of the management of the State of Pohnpei. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The combining and individual fund financial statements and schedules listed in Section IV of the foregoing table of contents, which are also the responsibility of the management of the State of Pohnpei, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the State of Pohnpei. Such additional information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the matter specified in the third paragraph above, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2005, on our consideration of the State of Pohnpei's (Primary Government only) internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

December 19, 2005

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2004

This section of Pohnpei State' financial report presents our Management's Discussion and Analysis (MD&A) for the fiscal year ended September 30, 2004. This is the second year that MD&A is prepared in compliance with the GASB-34 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 primary government's total net assets for this year are \$42,668,741.
- The net change in governmental fund balance is \$2,169,283. The total revenues reported are \$35,572,863 with the total expenditures of \$33,403,580.
- Actual revenues for the general fund were \$6,027,073 higher than budgetary revenues and the total expenditures, budgetary basis showed favorable variance of \$293,231. The general fund reported an unreserved fund balance of \$1,583,342 as of the end of the fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The statement of activities on the other hand, account 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 governmental activities, which include public works, health, education and general administration. Sales taxes, revenue sharing, federal grants and Compact II/Sector grants are the major revenue sources of these activities. Compact II/Sector grants replaces the Compact I funding in fiscal year 2004.

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.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2004

- 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 a reconciliation at the bottom of the governmental funds statement, or on the subsequent page to explain the relationship between them. The State maintains individual governmental funds, which are categorized as major and non-major. The major fund includes the General Fund. The other major funds are consisting of the Compact II/Sector Grants, Federal Grants and Compact CIP.

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

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

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Current and other assets	\$ 18,029,829	\$ 23,975,725
Capital assets	17,958,983	16,404,598
Other non current assets	<u>15,905,901</u>	<u>8,102,204</u>
Total assets	<u>51,894,713</u>	<u>48,482,527</u>
Current liabilities	3,247,192	3,558,674
Long-term debt	4,200,000	4,200,000
Other liabilities	<u>1,778,780</u>	<u>1,129,264</u>
Total liabilities	<u>9,225,972</u>	<u>8,887,938</u>
Net Assets:		
Invested in capital assets, net of related debt	17,958,983	16,404,598
Restricted	19,937,452	21,987,627
Unrestricted fund balance	<u>4,772,306</u>	<u>1,202,364</u>
Total net assets	<u>\$ 42,668,741</u>	<u>\$ 39,594,589</u>

Changes in net assets. The State's Statement of Changes in Net Assets for fiscal year ended September 30, follows:

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Revenues		
Program revenues:		
Charges for services	\$ 403,469	\$ 2,631,450
Operating grants and contributions	4,562,809	8,117,773
Compact related	15,431,471	11,237,118
Capital grants and contributions	578,260	8,095,814
General revenues:		
Taxes	7,492,557	7,776,122
Investment earnings	669,437	1,179,973
Other	<u>6,434,860</u>	<u>301,526</u>
Total revenues	<u>35,572,863</u>	<u>39,339,776</u>

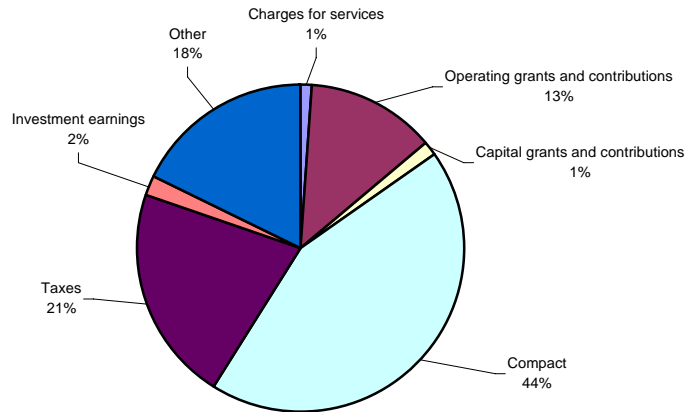
**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2004

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Expenses:		
General Government	5,316,602	12,871,988
Education	10,478,844	8,989,191
Health services	6,320,838	6,458,362
Land and natural resources	290,297	807,377
Public works	5,764,919	3,977,107
Public safety	1,101,446	1,031,874
Boards, commission and other appropriations	2,033,821	1,038,363
Other miscellaneous	<u>1,191,944</u>	<u>2,164,822</u>
 Total expenses	 <u>32,498,711</u>	 <u>37,359,084</u>
 Increase in net assets	 \$ <u>3,074,152</u>	 \$ <u>1,980,692</u>

Based on Exhibit I presented below, almost half of the State's revenues come from Compact II and 21% from taxes and licenses. The State's expenses encompass a range of services. Exhibit II showed that education and health represent the highest percentage, which are 33% and 19%, respectively, of the State's total expenses.

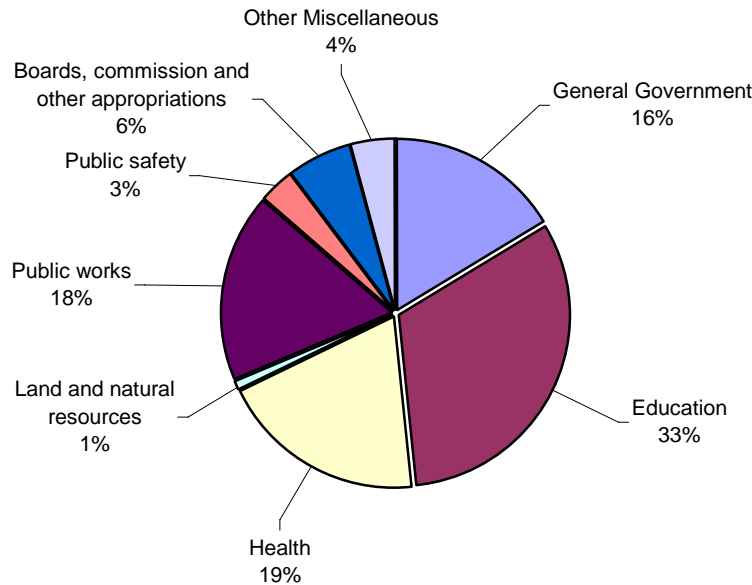
**Pohnpei State Government
Sources of Revenues for Fiscal Year 2004
Exhibit 1**



**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2004

**Pohnpei State Government
Expenses By Function For Fiscal Year 2004
Exhibit II**



GOVERNMENTAL ACTIVITIES

General Fund

The revenues decreased by \$4,665,642 compared to FY 2003 figures and the total expenditures also decreased by \$12,653,950. The decrease in revenues and expenditures were attributable to the operating grants from Compact II/Sector grants, which are categorized under special revenue funds.

Special Revenue

As mentioned in the preceding paragraph, Compact II/Sector Grants were the major source of the Pohnpei State's operating grants for fiscal year 2004. The total revenues and expenditures amounted to \$15,035,413 and \$15,035,413, respectively, which are detailed below:

- The education sector grant that shall support and improve the educational system of the Federated States of Micronesia, including, without limitation, the systems for primary, secondary, and post-secondary education. The total expenditures for the grant are \$7,132,719.
- The health sector grant that shall support and improve the delivery of preventive, curative and environmental care, and develop the human and material resources necessary for the Federated States of Micronesia to perform these services. The total funding for the year is \$5,349, 481.

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Management's Discussion and Analysis
September 30, 2004

- The sector grant for private sector development shall support the efforts of the Federated States of Micronesia to attract new foreign investment and increase indigenous business activity. Priorities will be in advancing the private development of fisheries, tourism and agriculture; employing new telecommunications technologies; and analyzing and developing new systems, laws, and policies to foster private sector development, to facilitate investment by potential private investors, and develop business and entrepreneurial skills. The total of \$514,855 was expended for this activity.
- The sector for capacity building shall support the efforts of the Federated States of Micronesia to build effective, accountable and transparent national and local government and other public sector institutions and systems. The total grant expenditures are \$1,476,517.
- The environment sector shall support the efforts of the Federated States of Micronesia to protect the Nation's land and marine environment and to conserve and achieve sustainable use of its natural resources. The amount of \$ 561,841 was expended for the fiscal year.
- Public Infrastructure grant shall give priority to primary and secondary education capital projects and programs that directly affect health and safety including water and wastewater projects, solid waste disposal projects and health care facilities. The State did not receive funding for this activity for the fiscal year.

Another source of funding under Special Revenue funds is the US Federal Grants, which supported \$4,237,251 of expenditures of the State.

Capital Projects

The fund for the capital projects decreased dramatically because of the termination of Compact I funding.

Other Governmental Funds

All the non-major funds from the Special Revenue and Capital Projects funds were grouped under this category.

FINANCIAL ANALYSIS OF THE STATE GOVERNMENT'S FUNDS

The State's governmental fund changes in fund balances for the year ended September 30, 2004 are shown below.

Changes in Fund Balances

	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
Revenues:			
Taxes	\$ 7,174,778	\$ 317,779	\$ 7,492,557
Compact	-	15,431,471	15,431,471
Other	<u>6,816,295</u>	<u>5,832,540</u>	<u>12,648,835</u>
 Total revenues	 13,991,073	 21,581,790	 35,572,863
 Expenditures and transfers	 <u>10,374,369</u>	 <u>23,029,211</u>	 <u>33,403,580</u>
 Net change in fund balance	 \$ <u>3,616,704</u>	 \$ <u>(1,447,421)</u>	 \$ <u>2,169,283</u>

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FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2004

General Fund Budgetary Highlights

During the year, the State revised its budget several times to accommodate supplemental funding for departments and offices requiring increases in appropriations to avoid budget overruns.

The State's general fund balance of \$7,545,269 comes from other income comprising of \$1,058,767; the prior year liabilities from the local governments that were reversed and the designation of more than \$4.6 million IDF fund in the general fund; although the revenue was restricted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The State's capital assets at the end of fiscal years 2004 and 2003 consist basically of equipment, buildings, roads, bridges, water and sewer lines. The summary of capital assets at the end of September 30, is shown below:

	<u>Primary Government Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Buildings	\$ 10,806,412	\$ 10,025,675
Infrastructure	16,673,311	14,358,270
Machinery, equipment and others	<u>3,972,755</u>	<u>3,624,089</u>
Total	\$ <u>31,452,478</u>	\$ <u>28,008,034</u>

The notes to the financial statements present more information about the State's capital assets.

Long-Term Debt

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

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Early retirement loan	\$ 4,200,000	\$ 4,200,000
Compensated absences	484,788	799,437
Claims and litigation	<u>1,293,992</u>	<u>721,682</u>
Total	\$ <u>5,978,780</u>	\$ <u>5,721,119</u>

Economic Factors and Next Year's Budget

Funding for the operations of most of the government service in fiscal year 2005 will still come from the Compact II.

Fiscal year 2005 is the second year of the implementation of the economic assistance under the Compact II/ Sector funding which replaces the funding sources from the old Compact I. Under the Compact II/Sector grant, the annual budget approved by JEMCO funding for fiscal year 2005 is as follows:

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2004

- For the education sector grant, which continues to be the funding priority, the annual budget is \$7,469,772.
- The health sector grant's budget is \$6,200,560.
- The sector grant funding for private sector development is \$657,602.
- The capacity building sector grant budget for fiscal year 2005 is \$1,542,488.
- The environment sector grant is \$688,181.
- For Public Infrastructure grant, 15% of the fiscal year 2005 compact funding is allocated to this grant.
- The Supplemental Education Grant (SEG) is considered the seventh-sector grant. SEG has been offered in lieu of grants that were formerly available from various federal agencies. The federal programs that were incorporated into SEG are Territories & Freely Associated States Education Grant (T&FASEG), Adult Education & Family Literacy, Workforce Investment Act, Pacific Vocational Education Improvement Program and Head Start. Because the State received FY 2004 funds for some of the programs incorporated into the SEG, its funding may not be available at the beginning of the fiscal year 2005. The State submitted a budget, which amounted to \$4,187,294.

The locally generated revenues and the revenue shares from the National Government are expected to remain at a range of \$7,000,000 plus per year. The Department of Treasury and Administration though, has been and will continue to intensify its collection effort to raise more revenues in the ensuing years. In addition, the final carry-over balances from the Compact II and I may be authorized to be used to fund other operations of the government.

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 Assets
September 30, 2004

	Primary Government	Component Units
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 585,576	\$ 2,047,692
Investments	7,941,239	551,000
Receivables, net of allowance for uncollectibles	9,016,680	9,230,351
Advances	399,873	-
Inventories	49,966	1,743,283
Other current assets	36,495	852,864
Total current assets	18,029,829	14,425,190
Noncurrent assets:		
Investments	1,000,000	-
Capital assets, net of accumulated depreciation	17,958,983	35,227,772
Due from component units	2,772,550	-
Restricted assets:		
Cash and cash equivalents	1,182,424	652,407
Investments	10,950,927	-
Total noncurrent assets	33,864,884	35,880,179
Total assets	\$ 51,894,713	\$ 50,305,369
<u>LIABILITIES</u>		
Current liabilities:		
Current portion of long-term obligations	\$ -	\$ 767,896
Accounts payable	1,576,870	2,389,434
Compensated absences payable	391,855	-
Other liabilities and accruals	1,278,467	796,426
Deferred revenue	-	430,124
Total current liabilities	3,247,192	4,383,880
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	4,200,000	2,296,089
Compensated absences payable	484,788	-
Due to primary government	-	3,752,343
Other noncurrent liabilities	1,293,992	-
Total noncurrent liabilities	5,978,780	6,048,432
Total liabilities	9,225,972	10,432,312
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	17,958,983	32,827,048
Restricted for:		
Compact related	8,713,221	-
Capital projects	1,428,337	-
Future operations	7,484,058	-
Other purposes	2,311,836	5,653,728
Unrestricted	4,772,306	1,392,281
Total net assets	42,668,741	39,873,057
Total liabilities and net assets	\$ 51,894,713	\$ 50,305,369

See accompanying notes to basic financial statements.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA

Statement of Activities
Year Ended September 30, 2004

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
Functions/Programs						
Primary government:						
Governmental activities:						
General government	\$ 5,316,602	\$ 182,797	\$ 3,612,428	\$ -	\$ (1,521,377)	\$ -
Land and natural resources	290,297	-	-	-	(290,297)	-
Education	10,478,844	4,228	10,293,610	-	(181,006)	-
Health services	6,320,838	216,444	6,081,021	-	(23,373)	-
Public safety	1,101,446	-	-	-	(1,101,446)	-
Attorney-general	455,396	-	-	-	(455,396)	-
Public works and transportation	845,055	-	-	-	(845,055)	-
Economic development	594,344	-	-	-	(594,344)	-
Municipal governments	2,033,821	-	-	-	(2,033,821)	-
Debt service	70,020	-	-	-	(70,020)	-
Future operations	-	-	-	500,000	500,000	-
Capital projects	4,919,864	-	7,221	78,260	(4,834,383)	-
Other appropriations	72,184	-	-	-	(72,184)	-
Total primary government	\$ 32,498,711	\$ 403,469	\$ 19,994,280	\$ 578,260	(11,522,702)	-
Component units:						
Pohnpei Utilities Corporation	\$ 9,404,453	\$ 8,232,181	\$ -	\$ 381,000	-	(791,272)
Pohnpei Port Authority	1,378,563	1,426,099	-	-	-	47,536
Pohnpei Fisheries Corporation	1,205,879	892,965	-	-	-	(312,914)
Pohnpei Transportation Authority	1,948,712	2,134,823	-	-	-	186,111
Small Business Guarantee and Finance Corporation	74,434	10,917	70,530	-	-	7,013
Economic Development Authority	1,012,147	1,069,122	-	-	-	56,975
Pohnpei State Housing Authority	256,871	-	106,759	10,138	-	(139,974)
Total component units	\$ 15,281,059	\$ 13,766,107	\$ 177,289	\$ 391,138	-	(946,525)
General revenues:						
Taxes:						
Revenue sharing					4,761,789	-
Excise taxes					2,730,768	-
Unrestricted investment earnings					669,437	-
Other					6,434,860	-
Total general revenues and transfers					14,596,854	-
Change in net assets					3,074,152	(946,525)
Net assets at the beginning of the year					39,594,589	40,819,582
Net assets at the end of the year					\$ 42,668,741	\$ 39,873,057

See accompanying notes to basic financial statements.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

**Balance Sheet
Governmental Funds
September 30, 2004**

	General	Special Revenue		Capital Projects	Permanent	Other Governmental Funds	Total
		U.S Federal Grants	Section 211 Sector Grant	Compact Capital Projects	Section 215 Compact Trust		
ASSETS							
Cash and cash equivalents	\$ 585,576	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 585,576
Investments	3,999,570	-	-	2,748,816	-	2,192,853	8,941,239
Receivables, net:							
Loans	-	-	-	-	-	-	-
Federal agencies	-	1,186,390	-	-	-	-	1,186,390
CFSM	-	-	1,509,044	-	-	440,757	1,949,801
Taxes	1,093,635	-	-	-	-	-	1,093,635
Other	4,782,236	-	-	690	-	3,928	4,786,854
Due from component units	322,550	-	-	2,450,000	-	-	2,772,550
Due from other funds	2,343,882	-	73,909	996,669	-	3,901,281	7,315,741
Advances	61,267	56,838	16,358	24,589	-	240,821	399,873
Prepaid items	-	-	-	-	-	36,495	36,495
Inventories	2,359	-	-	-	-	47,607	49,966
Restricted assets:							
Cash and cash equivalents	409,036	-	-	773,388	-	-	1,182,424
Investments	-	-	-	-	7,484,058	3,466,869	10,950,927
Total assets	<u>\$ 13,600,111</u>	<u>\$ 1,243,228</u>	<u>\$ 1,599,311</u>	<u>\$ 6,994,152</u>	<u>\$ 7,484,058</u>	<u>\$ 10,330,611</u>	<u>\$ 41,251,471</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 323,534	\$ 202,902	\$ 654,939	\$ 36,732	\$ -	\$ 358,763	\$ 1,576,870
Other liabilities and accruals	759,449	43,583	336,214	978	-	138,243	1,278,467
Due to other funds	4,971,859	996,743	602,420	-	-	744,719	7,315,741
Total liabilities	<u>6,054,842</u>	<u>1,243,228</u>	<u>1,593,573</u>	<u>37,710</u>	<u>-</u>	<u>1,241,725</u>	<u>10,171,078</u>
Fund balances:							
Reserved for:							
Related assets	442,814	-	-	4,242,600	7,484,058	-	12,169,472
Encumbrances	6,159	570,042	-	1,368,973	-	279,721	2,224,895
Continuing appropriations	156,443	-	-	2,458,334	-	948,109	3,562,886
Compact programs	4,623,380	-	5,738	-	-	1,501,266	6,130,384
Debt service	733,131	-	-	-	-	3,466,869	4,200,000
Unreserved:							
General fund	1,583,342	-	-	-	-	-	1,583,342
Special revenue funds	-	(570,042)	-	-	-	2,219,897	1,649,855
Debt service fund	-	-	-	-	-	42,473	42,473
Capital projects funds	-	-	-	(1,113,465)	-	630,551	(482,914)
Total fund balances	<u>7,545,269</u>	<u>-</u>	<u>5,738</u>	<u>6,956,442</u>	<u>7,484,058</u>	<u>9,088,886</u>	<u>31,080,393</u>
Total liabilities and fund balances	<u>\$ 13,600,111</u>	<u>\$ 1,243,228</u>	<u>\$ 1,599,311</u>	<u>\$ 6,994,152</u>	<u>\$ 7,484,058</u>	<u>\$ 10,330,611</u>	
Amounts reported for governmental activities in the statement of net assets are different because:							
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds							
							17,958,983
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							(4,200,000)
Compensated absences payable							(876,643)
Claims payable							(1,293,992)
							<u>(6,370,635)</u>
Net assets of governmental activities							<u>\$ 42,668,741</u>

See accompanying notes to basic financial statements.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA

Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficits)
Governmental Funds
Year Ended September 30, 2004

	General	Special Revenue		Capital Projects	Permanent	Other Governmental Funds	Total
		U.S Federal Grants	Section 211 Sector Grant	Compact Capital Projects	Section 215 Compact Trust		
Revenues:							
Compact funding	\$ -	\$ -	\$ 15,035,413	\$ -	\$ -	\$ 396,058	\$ 15,431,471
Investment income	381,435	-	5,738	7,221	-	288,002	682,396
Federal contributions	-	3,979,868	-	-	-	-	3,979,868
FSM revenue sharing	4,761,789	-	-	-	-	-	4,761,789
State taxes	2,412,989	-	-	-	-	317,779	2,730,768
CFSM grants	-	-	-	-	-	233,024	233,024
Other grants	-	257,383	-	-	500,000	157,835	915,218
Fees and charges	-	-	-	-	-	403,469	403,469
Other	6,434,860	-	-	-	-	-	6,434,860
Total revenues	13,991,073	4,237,251	15,041,151	7,221	500,000	1,796,167	35,572,863
Expenditures:							
Current:							
General government	2,122,843	903,436	2,553,213	-	-	718,357	6,297,849
Land and natural resources	279,361	-	-	-	-	-	279,361
Education	44,366	2,762,227	7,132,719	-	-	231,503	10,170,815
Health services	839	571,588	5,349,481	-	-	261,919	6,183,827
Public safety	1,042,674	-	-	-	-	-	1,042,674
Office of the Attorney-General	181,927	-	-	-	-	-	181,927
Public works	-	-	-	-	-	211,487	211,487
Other appropriations	1,805,560	-	-	-	-	-	1,805,560
Payments to non-governmental agencies	204,150	-	-	-	-	-	204,150
Grants to local governments	2,033,821	-	-	-	-	-	2,033,821
Boards, commissions and other	-	-	-	-	-	2,225	2,225
Debt service	-	-	-	-	-	70,020	70,020
Capital projects	-	-	-	2,774,549	-	2,145,315	4,919,864
Total expenditures	7,715,541	4,237,251	15,035,413	2,774,549	-	3,640,826	33,403,580
Excess (deficiency) of revenues over (under) expenditures	6,275,532	-	5,738	(2,767,328)	500,000	(1,844,659)	2,169,283
Other financing sources (uses):							
Operating transfers in	-	158,828	-	-	6,984,058	-	7,142,886
Operating transfers out	(2,658,828)	-	-	(4,484,058)	-	-	(7,142,886)
Total other financing sources (uses), net	(2,658,828)	158,828	-	(4,484,058)	6,984,058	-	-
Net change in fund balances	3,616,704	158,828	5,738	(7,251,386)	7,484,058	(1,844,659)	2,169,283
Fund balances (deficits) at the beginning of the year	3,928,565	(158,828)	-	14,207,828	-	10,933,545	28,911,110
Fund balances (deficits) at the end of the year	\$ 7,545,269	\$ -	\$ 5,738	\$ 6,956,442	\$ 7,484,058	\$ 9,088,886	\$ 31,080,393

See accompanying notes to basic financial statements.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Reconciliation of the Statement of Revenues, Expenditure, and Changes in Fund
Balances of Governmental Funds to the Statement of Activities
Year Ended September 30, 2004

Amounts reported for governmental activities in the statement of activities on page 11 are different because:

Net change in fund balances - total governmental funds from page 13	\$ 2,169,283
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 capital outlays exceeded depreciation in the current period	1,554,385
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. These expenses include accrued annual leave and claims and judgments payable that are reported in the statement of activities, but not in funds	<u>(649,516)</u>
Change in net assets of governmental activities as presented on page 11.	\$ <u>3,074,152</u>

See accompanying notes to basic financial statements.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA

Combining Statement of Net Assets
Component Units
September 30, 2004

	Pohnpei Utilities Corporation	Pohnpei Port Authority	Pohnpei Fisheries Corporation	Pohnpei Transportation Authority	Small Business Guarantee and Finance Corporation	Economic Development Authority	Pohnpei Housing Authority	Total
ASSETS								
Current assets:								
Cash and cash equivalents	\$ 327,239	\$ 251,318	\$ 2,478	\$ -	\$ 1,578,465	\$ (111,808)	\$ -	\$ 2,047,692
Investments	551,000	-	-	-	-	-	-	551,000
Receivables, net:								
General	4,841,003	381,072	113,588	198,782	6,421	237,085	3,421,250	9,199,201
Other	292	-	622	14,201	5,897	-	10,138	31,150
Inventories	1,456,224	-	45,612	239,858	-	-	1,589	1,743,283
Other current assets	46,551	4,405	3,057	17,708	-	550,859	230,284	852,864
Restricted assets:								
Cash and cash equivalents	-	322,959	-	-	-	-	-	322,959
Total current assets	7,222,309	959,754	165,357	470,549	1,590,783	676,136	3,663,261	14,748,149
Noncurrent assets:								
Capital assets, net of accumulated depreciation	28,453,386	4,858,755	1,182,084	460,295	124,030	125,529	23,693	35,227,772
Other	329,448	-	-	-	-	-	-	329,448
Total noncurrent assets	28,782,834	4,858,755	1,182,084	460,295	124,030	125,529	23,693	35,557,220
Total assets	<u>\$36,005,143</u>	<u>\$ 5,818,509</u>	<u>\$ 1,347,441</u>	<u>\$ 930,844</u>	<u>\$ 1,714,813</u>	<u>\$ 801,665</u>	<u>\$ 3,686,954</u>	<u>\$50,305,369</u>
LIABILITIES								
Current liabilities:								
Current portion of long-term debt	\$ 571,573	\$ -	\$ 196,323	\$ -	\$ -	\$ -	\$ -	\$ 767,896
Accounts payable	609,832	234,525	1,102,930	75,390	3,740	330,643	32,374	2,389,434
Other liabilities and accruals	189,631	163,515	52,707	29,226	2,234	349,749	9,364	796,426
Deferred revenue	33,717	361,552	-	34,855	-	-	-	430,124
Due to primary government	-	-	3,429,793	322,550	-	-	-	3,752,343
Total current liabilities	1,404,753	759,592	4,781,753	462,021	5,974	680,392	41,738	8,136,223
Noncurrent liabilities:								
Noncurrent portion of long-term debt	2,296,089	-	-	-	-	-	-	2,296,089
Total liabilities	<u>3,700,842</u>	<u>759,592</u>	<u>4,781,753</u>	<u>462,021</u>	<u>5,974</u>	<u>680,392</u>	<u>41,738</u>	<u>10,432,312</u>
NET ASSETS								
Invested in capital assets, net of related debt	26,052,662	4,858,755	1,182,084	460,295	124,030	125,529	23,693	32,827,048
Restricted	124,437	322,959	-	-	1,584,809	-	3,621,523	5,653,728
Unrestricted	6,127,202	(122,797)	(4,616,396)	8,528	-	(4,256)	-	1,392,281
Total net assets	<u>32,304,301</u>	<u>5,058,917</u>	<u>(3,434,312)</u>	<u>468,823</u>	<u>1,708,839</u>	<u>121,273</u>	<u>3,645,216</u>	<u>39,873,057</u>
	<u>\$36,005,143</u>	<u>\$ 5,818,509</u>	<u>\$ 1,347,441</u>	<u>\$ 930,844</u>	<u>\$ 1,714,813</u>	<u>\$ 801,665</u>	<u>\$ 3,686,954</u>	<u>\$50,305,369</u>

See accompanying notes to basic financial statements.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA

Combining Statement of Revenues, Expenses, and Changes in Net Assets
Component Units
Year Ended September 30, 2004

	Pohnpei Utilities Corporation	Pohnpei Port Authority	Pohnpei Fisheries Corporation	Pohnpei Transportation Authority	Small Business Guarantee and Finance Corporation	Economic Development Authority	Pohnpei Housing Authority	Total
Operating revenues:								
Charges for services	\$ -	\$ 1,356,254	\$ 50,450	\$ 2,099,723	\$ 10,917	\$ 887,269	\$ -	\$ 4,404,613
Sales	8,232,181	69,845	842,515	35,100	-	181,853	-	9,361,494
Total operating revenues	<u>8,232,181</u>	<u>1,426,099</u>	<u>892,965</u>	<u>2,134,823</u>	<u>10,917</u>	<u>1,069,122</u>	<u>-</u>	<u>13,766,107</u>
Operating expenses:								
Cost of services	-	924,912	1,048,407	1,948,712	-	803,908	-	4,725,939
Administration costs	7,615,341	20,849	146,193	-	94,348	342,253	472,865	8,691,849
Depreciation and amortization	1,976,598	498,427	3,405	-	2,482	-	-	2,480,912
Total operating expenses	<u>9,591,939</u>	<u>1,444,188</u>	<u>1,198,005</u>	<u>1,948,712</u>	<u>96,830</u>	<u>1,146,161</u>	<u>472,865</u>	<u>15,898,700</u>
Operating income (loss)	<u>(1,359,758)</u>	<u>(18,089)</u>	<u>(305,040)</u>	<u>186,111</u>	<u>(85,913)</u>	<u>(77,039)</u>	<u>(472,865)</u>	<u>(2,132,593)</u>
Nonoperating revenues (expenses):								
Contributions from the primary government	-	-	-	-	70,530	-	106,759	177,289
Interest income	-	-	-	-	26,774	-	279,147	305,921
Interest expense	-	-	(18,052)	-	-	-	-	(18,052)
Other	187,486	65,625	10,178	-	(4,378)	134,014	(63,153)	329,772
Total nonoperating revenues (expenses), net	<u>187,486</u>	<u>65,625</u>	<u>(7,874)</u>	<u>-</u>	<u>92,926</u>	<u>134,014</u>	<u>322,753</u>	<u>794,930</u>
Capital contributions	381,000	-	-	-	-	-	10,138	391,138
Net income (loss)	(791,272)	47,536	(312,914)	186,111	7,013	56,975	(139,974)	(946,525)
Net assets at the beginning of the year	<u>33,095,573</u>	<u>5,011,381</u>	<u>(3,121,398)</u>	<u>282,712</u>	<u>1,701,826</u>	<u>64,298</u>	<u>3,785,190</u>	<u>40,819,582</u>
Net assets at the end of the year	<u>\$32,304,301</u>	<u>\$ 5,058,917</u>	<u>\$ (3,434,312)</u>	<u>\$ 468,823</u>	<u>\$ 1,708,839</u>	<u>\$ 121,273</u>	<u>\$ 3,645,216</u>	<u>\$39,873,057</u>

See accompanying notes to basic financial statements.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2004

(1) Summary of Significant Accounting Policies

The accompanying financial statements of the State of Pohnpei (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.

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 net assets and results of operations of the following legally separate entities are presented as part of the State's operations:

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2004

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

i. 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.

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.

Pohnpei Fisheries Corporation (PFC): PFC was created by PSPL No. 3L-28-93 and is responsible for the operation and management of the fish processing plant, boats owned by the plant and the cold storage facility. PFC 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.

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.

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 reach various alternative modes of financing for small enterprises, including, but not limited to, direct and indirect project lending, venture capital, financial leasing, secondary mortgage and rediscounting of loan papers to small businesses. 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.

Pohnpei Economic Development Authority (PEDA): PEDA was created by PSPL No. 4L-159-78 for the purpose of promoting economic development through expansion of agriculture, marine resources, tourism, industry, energy development, banking, transportation and community development in Pohnpei. PEDA is also designated to succeed the Ponape District Fishing Authority as the sole entity to promote, develop, and support commercial utilization of living marine resources as provided in Public Law No. 7-110 of the Trust Territory Code. PEDA is governed by a seven-member Board of Developers appointed by the Governor with the advice and consent of the Legislature.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2004

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

i. 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'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.

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

B. Government-Wide Financial Statements

The Statement of Net Assets 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 Assets presents all of the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- Invested in capital assets, net of related debt 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.
- Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2004

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide Financial Statements, Continued

- Unrestricted net assets consist of net assets, which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, (for example, internally restricted), to indicate that management does not consider them to be available for general operations.

The government-wide Statement of Net Assets reports \$19,937,452 of restricted net assets, of which \$2,311,836 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.

D. Measurement Focus and Basis of Accounting

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.

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.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2004

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

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. Investments and related investment earnings are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. 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.

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.

Proprietary funds 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 proprietary fund'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.

The State reports the following Governmental Fund fund types:

i. 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.

ii. Special Revenue Funds

These funds account for specific revenue sources that have been aggregated according to enabling legislation to support specific governmental activities.

iii. Debt Service Fund

This fund accounts for the accumulation of resources for the retirement of long-term debt.

iv. Capital Projects Funds

These funds account for the acquisition or construction of major State capital facilities financed primarily from loans and federal reimbursements.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2004

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

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 - 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:

U.S. Federal Grants Fund, a Governmental Fund Type - Special Revenue Fund. This fund accounts for all financial transactions of federally assisted funds, which are subgranted to the Pohnpei State Government, as well as other direct federal grants that the Pohnpei State Government received from the United States government.

Section 211 Sector Grant Fund, a Governmental Fund Type - Special Revenue Fund. This fund accounts for United States Congress appropriations under United States Public Law 99-239, as amended, Title II, Article I, Section 211(a) and approved by FSM Congress to support and improve the education, health, private sector development, public sector capacity building, and environment sectors of the Federated States of Micronesia.

Compact Capital Projects Fund, a Governmental Fund Type - Capital Projects Fund. This fund accounts for United States Congress appropriations under United States Public Law 99-239, Title 2, Article 1, Section 211(a)(1) and approved by FSM Congress. The aforementioned section requires no less than 40% of the total amounts appropriated by the United States Congress to be applied to the capital account.

Section 215 Compact Trust Fund, a Governmental Fund Type - Permanent Fund. This fund accounts for United States Congress appropriations under United States Public Law 99-239, as amended, Title II, Article I, Section 215 and approved by FSM Congress 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. Earnings from funds invested would not be available for distribution until October 2023.

E. Reporting Standards

As allowed by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the State's proprietary funds follow all GASB pronouncements and those Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2004

(1) Summary of Significant Accounting Policies, Continued

F. Cash and Cash Equivalents

The State pools cash resources of its various funds in order to facilitate the management of cash. Unless otherwise required by law, interest income received on pooled cash accrues to the General Fund. Cash and cash equivalents applicable to a particular fund are readily identifiable. Cash and cash equivalents include cash held in demand accounts as well as short-term investments with a maturity date 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 assets/balance sheet.

As of September 30, 2004, the carrying amount of the primary government's total cash and cash equivalents were \$1,768,000 and the corresponding bank balances were \$3,296,195. Of the bank balance amounts, \$3,296,195 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2004, bank deposits in the amount of \$200,000 were FDIC insured. The State does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized.

G. Investments

Investments are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Investments in the equity of companies are carried at cost if less than twenty percent of the companies' total equity, on the equity method if greater than twenty percent and less than fifty percent and on a consolidated basis if greater than fifty percent.

H. 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 in the State's governmental funds primarily consist of taxes and federal revenues. 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.

Amounts due from other governments include those funds which are earned and have yet to be reimbursed by the FSM National Government in its role as the primary grant recipient of U.S. federal assistance programs, Congress of the Federated States of Micronesia public project grants, and U.S. Department of the Interior capital project grants through the Trust Territory Government and amounts due to the State under the FSM tax revenue sharing program.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2004

(1) Summary of Significant Accounting Policies, Continued

I. Inventories and Prepaid Items

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

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

J. 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 lag 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.

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. As of September 30, 2004, investments of \$7,484,058 recorded in the Section 215 Compact Trust Fund are restricted in that they are not available to be used in current operations. In addition, investments of \$3,466,869 recorded in the Debt Service Fund are restricted for future repayment of the Early Retirement Program loan. Furthermore, cash and cash equivalents were restricted for the following uses:

Deposit with a local bank restricted for the purchase of medical supplies for the State hospital.	\$ 155,489
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Deposit with a local bank as remaining loan proceeds of the \$4,200,000 Early Retirement loan with Asian Development Bank.	8,002
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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 the Pohnpei State Housing Authority, the trustee of the Loan Guarantee Escrow Account.	773,388
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Deposit with a local bank restricted for the renovation of the Pohnpei International Airport and the State hospital.	<u>245,545</u>
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\$ 1,182,424

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2004

(1) Summary of Significant Accounting Policies, Continued

L. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure (e.g. roads, bridges, ramps and other similar items), are reported in the applicable governmental or business-type activities columns of the government-wide financial statements. Singular pieces of equipment, vehicles, computer equipment and software that equal or exceed \$250 are capitalized. Buildings and infrastructure projects with a cost that equals or exceeds \$800 are capitalized. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at fair market value at the date of donation.

Property, plant and equipment of the primary government is depreciated, when assessed, using the straight-line method over the following estimated useful lives:

Buildings	50 years
Machinery and equipment	3 - 20 years
Infrastructure	50 years

M. Interfund/Intrafund Transactions

As a general rule, the effect of interfund activity has been eliminated in the government-wide 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.

N. 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 and fiduciary fund 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 the rate of 4 hours biweekly, if less than 3 years of service, 6 hours biweekly, if between 3 and 10 years of service, and 8 hours biweekly if over 10 years of service, limited to 45 working days.

O. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2004

(1) Summary of Significant Accounting Policies, Continued

O. Fund Equity, Continued

The unreserved fund balances for the governmental funds represent the amount available for budgeting future operations. The reserve for related assets as of September 30, 2004, is represented by the following assets:

	<u>General</u>	U.S. Federal <u>Grants</u>	Section 211 Sector <u>Grant</u>	Compact Capital <u>Projects</u>	Compact <u>Trust</u>	Other Governmental <u>Funds</u>	<u>Total</u>
Investments	\$ -	\$ -	\$ -	\$ 1,000,000	\$ -	\$ -	\$ 1,000,000
Due from component units	322,550	-	-	2,450,000	-	-	2,772,550
Due from other funds	56,638	-	-	-	-	-	56,638
Advances	61,267	-	-	19,212	-	-	80,479
Inventories	2,359	-	-	-	-	-	2,359
Restricted assets:							
Cash and cash equivalents	-	-	-	773,388	-	-	773,388
Investments	-	-	-	-	7,484,058	-	7,484,058
	<u>\$ 442,814</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,242,600</u>	<u>\$ 7,484,058</u>	<u>\$ -</u>	<u>\$ 12,169,472</u>

P. 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.

Q. New Accounting Standards

During fiscal year 2004, the State implemented GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units (an amendment of GASB Statement 14)*, and GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*. GASB Statement No. 39 provides additional guidance on GASB Statement No. 14, in determining whether an entity should be reported as a component unit based on the nature and significance of their relationship with a primary government. GASB Statement No. 46 establishes and modifies requirements of GASB Statement No. 34 related to restrictions of net assets resulting from enabling legislation.

For fiscal year 2005, the State will be implementing GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)*, and GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest risk, GASB Statement No. 40 requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 42 establishes standards for impairment of capital assets when service utility has declined significantly and unexpectedly. Management does not believe that the implementation of these statements will have a material effect on the financial statements of the State.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2004

(1) Summary of Significant Accounting Policies, Continued

Q. New Accounting Standards, Continued

In May 2004, GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section, an amendment to NCGA Statement 1*. GASB Statement No. 44 improves the understandability and usefulness of statistical section information and adds information from the new financial reporting model for state and local governments required by GASB Statement No. 34. The provisions of this Statement are effective for periods beginning after June 15, 2005. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of the State.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this Statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of the State.

R. Estimates

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

(2) Investments

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

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

- A. Investment managers may invest in stocks, bonds and cash equivalents. Minimum standards of quality for investments at the time of purchase are:
1. Stocks - A "B" rating by a national rating service. Non-rated or international stocks such as banks or insurance companies must be equal in quality or higher.
 2. Bonds - Confined to issues rated "A" or higher by a national rating service, except in the case of U.S. Treasury or Agency Securities which are not rated.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2004

(2) Investments, Continued

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

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

Category 1 - Insured or registered, or securities held by the State or its agent in the State's name.

Category 2 - Uninsured and unregistered, or securities held by a party other than the State or its agent, but in the State's name.

Category 3 - Uninsured and unregistered, with securities held by a party other than the State and not in the State's name.

Investments of the primary government and the discretely presented component units as of September 30, 2004, are as follows:

	Categories			Carrying Value
	1	2	3	
Fixed income	\$ -	\$ 10,846		\$ 10,846
Corporate notes and bonds	-	445,271	-	445,271
U.S. Government agencies	-	597,128	-	597,128
U.S. Government notes and bonds	-	268,851	-	268,851
Common stock/Mutual funds	<u>1,000,000</u>	<u>9,884,749</u>	<u>-</u>	<u>10,884,749</u>
	<u>\$ 1,000,000</u>	<u>\$ 11,206,845</u>	<u>\$ -</u>	12,206,845
Money market funds				<u>7,685,321</u>
				<u>\$ 19,892,166</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2004

(2) Investments, Continued

	Categories			Carrying Value
	1	2	3	
<u>Discretely Presented Component Units</u>				
Pohnpei Utilities Corporation:				
Corporate notes and bonds	\$ -	\$ 174,000	\$ -	\$ 174,000
U.S. Government agencies	-	116,000	-	116,000
Common Stock	-	255,000	-	255,000
	\$ -	\$ 545,000	\$ -	545,000
Money market funds				6,000
				\$ 551,000

The State currently holds 21.5% of the shares of the Pacific Islands Development Bank, which is carried at a cost of \$1,000,000 as the market value of these shares is difficult to assess since they are not publicly traded. Additionally, the State acquired an interest in an airline during fiscal year 2004 and recorded an impairment of such investment in the same period. Financial statements from the investee are not currently available.

(3) Receivables

Receivables of the primary government are primarily due from businesses and individuals residing in the FSM. The allowance for uncollectibles primarily represents those accounts that are more than ninety days delinquent as of September 30, 2004.

Receivables as of September 30, 2004, 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>U.S. Federal Grants</u>	<u>Section 211 Sector Grant</u>	<u>Compact Capital Projects</u>	<u>Compact Trust</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Receivables:							
Loans	\$ 94,697	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 94,697
Federal agencies	-	-	-	-	-	-	-
CFSM	2,034,915	1,474,268	1,509,044	-	-	422,855	5,212,521
Taxes	1,093,635	-	-	-	-	22,838	1,217,743
Other	4,782,236	-	-	690	-	566,131	5,190,229
	8,005,483	1,474,268	1,509,044	690	-	1,011,824	12,001,308
Less: allowance for uncollectibles	(2,129,612)	(287,878)	-	-	-	(567,139)	(2,984,629)
	\$ 5,875,871	\$ 1,186,390	\$ 1,509,044	\$ 690	\$ -	\$ 444,685	\$ 9,016,680

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2004

(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, 2004, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	U.S. Federal Grants	\$ 996,743
General	Section 211 Sector Grant	602,420
General	Nonmajor governmental funds	744,719
Section 211 Sector Grant	General	73,909
Compact Capital Projects	General	996,669
Nonmajor governmental funds	General	<u>3,901,281</u>
		\$ <u>7,315,741</u>

Receivables and payables between funds reflected as due to/from primary government in the statement of net assets at September 30, 2004, are summarized as follows:

<u>Discretely Presented Component Units</u>	<u>Due From</u>	<u>Due To</u>
Pohnpei Fisheries Corporation:		
Compact Capital Projects Fund	\$ -	\$ 2,450,000
Nonmajor component units:		
General Fund	<u>-</u>	<u>322,550</u>
	\$ <u>-</u>	\$ <u>2,772,550</u>

Receivables and payables between funds reflected as due to/from component units in the governmental funds balance sheet at September 30, 2004, are summarized as follows:

<u>Primary Government</u>	<u>Due From</u>	<u>Due To</u>
General Fund:		
Nonmajor component units	\$ 322,550	\$ -
Compact Capital Projects Fund:		
Pohnpei Fisheries Corporation	<u>2,450,000</u>	<u>-</u>
	\$ <u>2,772,550</u>	\$ <u>-</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2004

(5) Fixed Assets

Capital asset activities for the year ended September 30, 2004, are as follows:

	Balance October <u>1, 2003</u>	<u>Additions</u>	<u>Retirements</u>	Balance September <u>30, 2004</u>
Governmental activities:				
Capital assets, being depreciated:				
Buildings	\$ 10,025,675	\$ 780,737	\$ -	\$ 10,806,412
Machinery, equipment & others	3,624,089	348,666	-	3,972,755
Infrastructure	<u>14,358,270</u>	<u>2,315,041</u>	-	<u>16,673,311</u>
Total capital assets, being depreciated	28,008,034	3,444,444	-	31,452,478
Less accumulated depreciation for:				
Buildings	(4,279,724)	(96,088)	-	(4,375,812)
Machinery, equipment & others	(2,363,491)	(776,916)	-	(3,140,407)
Infrastructure	<u>(4,960,221)</u>	<u>(1,017,055)</u>	-	<u>(5,977,276)</u>
	<u>(11,603,436)</u>	<u>(1,890,059)</u>	-	<u>(13,493,495)</u>
Governmental activities capital assets, net	<u>\$ 16,404,598</u>	<u>\$ 1,554,385</u>	<u>\$ -</u>	<u>\$ 17,958,983</u>

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

General government	\$ 18,555
Department of Land and Natural Resources	10,936
Education	233,029
Health services	137,011
Public safety	58,772
Boards and commissions	1,428,282
Judiciary	<u>3,474</u>
	<u>\$ 1,890,059</u>

(6) Long-term Obligations

Primary Government

Asian Development Bank (ADB) Early Retirement Program Loan

During the year ended September 30, 1998, 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 ADB through the FSM National Government. The activities of the ERS Program are recorded in the General Fund.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2004

(6) Long-term Obligations, Continued

Primary Government, Continued

Asian Development Bank (ADB) Early Retirement Program Loan, Continued

The ADB loan has a grace period of ten years with the first payment due in February 2008 and the last payment in August 2038. 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.

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ -	\$ -	\$ -
2006	-	-	-
2007	-	-	-
2008	84,000	-	84,000
2009	84,000	-	84,000
2010 - 2014	420,000	-	420,000
2015 - 2019	420,000	-	420,000
2020 - 2024	840,000	-	840,000
2025 - 2029	840,000	-	840,000
2030 - 2034	840,000	-	840,000
2035 - 2038	<u>672,000</u>	<u>-</u>	<u>672,000</u>
	<u>\$ 4,200,000</u>	<u>\$ -</u>	<u>\$ 4,200,000</u>

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. As of September 30, 2004, \$3,466,869 has been deposited to the Trust Account, which is restricted for the repayment of this debt, and the remaining amount of \$733,131 is included in the General Fund reserve for debt service.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2004

(6) Long-term Obligations, Continued

Primary Government, Continued

Other long-term liabilities will be liquidated in the future from governmental funds. During the year ended September 30, 2004, the following changes occurred in liabilities reported as part of the primary government's long-term liabilities in the statement of net assets:

	Balance October 1, <u>2003</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2004	Due Within <u>One Year</u>
Loan payable:					
ADB loan	\$ 4,200,000	\$ -	\$ -	\$ 4,200,000	\$ -
Other:					
Compensated absences	799,707	76,936	-	876,643	391,855
Claims and litigation payable	<u>721,682</u>	<u>572,310</u>	<u>-</u>	<u>1,293,992</u>	<u>-</u>
	<u>1,521,389</u>	<u>649,246</u>	<u>-</u>	<u>2,170,635</u>	<u>391,855</u>
	<u>\$ 5,721,389</u>	<u>\$ 649,246</u>	<u>\$ -</u>	<u>\$ 6,370,635</u>	<u>\$ 391,855</u>

Discretely Presented Component Units

Pohnpei Utilities Corporation (PUC)

Loan payable for construction of certain electrification projects. This loan is uncollateralized and is a subsidiary loan to a loan agreement between the Asian Development Bank (ADB) and the FSM National Government, with interest at 6.82% on the outstanding balance; however, the FSM National Government has waived the interest payment requirement. The loan is repayable in Special Drawing Rights commencing February 2007. \$ 2,118,767

Loan payable to the FSM Development Bank, 5 year term, payable in monthly installments of \$10,379, interest at 9%, collateralized by a time certificate of deposit of \$150,000. 281,957

Notes payable drawn on a bank line of credit of \$392,000, interest at 3.3%, collateralized by time certificate of deposit, due on December 29, 2004. 60,000

Note payable to an investment company, interest at 4.625%, collateralized by the Corporation's investments. 406,938

Pohnpei Fisheries Corporation (PFC)

Notes payable to Pohnpei Economic Development Authority, uncollateralized and without interest, due in equal monthly installments beginning April 30, 1998 of \$20,000. 40,000

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2004

(6) Long-term Obligations, Continued

Discretely Presented Component Units, Continued

Pohnpei Fisheries Corporation (PFC), Continued

Loan payable to the FSM Development Bank, due May 2007, payable in monthly installments of \$4,655, including interest at 9%, collateralized by assets of PFC.	141,323
Loan payable to the FSM National Government, interest at 9%, with no specified repayment terms.	<u>15,000</u>
	<u>\$ 3,063,985</u>

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 767,896	\$ 65,207	\$ 833,103
2006	177,322	35,246	212,568
2007	45,123	19,859	64,982
2008	45,576	21,424	67,000
2009	46,961	20,039	67,000
2010 - 2014	237,202	97,798	335,000
2015 - 2019	249,298	85,702	335,000
2020 - 2024	262,011	72,989	335,000
2025 - 2029	275,373	59,627	335,000
2030 - 2034	289,417	45,583	335,000
2035 - 2039	304,176	30,824	335,000
2040 - 2044	289,989	15,517	305,506
2045 - 2046	73,641	1,372	75,013
	<u>\$ 3,063,985</u>	<u>\$ 571,185</u>	<u>\$ 3,635,170</u>

(7) Operating Transfers In/Out

Operating transfers in/out for each major governmental fund and nonmajor governmental funds in the aggregate, for the year ended September 30, 2004, are as follows:

<u>Source</u>	<u>Recipient</u>	<u>Transfers Out</u>	<u>Transfers In</u>
Major Governmental Funds			
General	U.S. Federal Grants	\$ 158,828	\$ 158,828
General	Section 215 Compact Trust	2,500,000	2,500,000
Compact Capital Projects	Section 215 Compact Trust	4,484,058	4,484,058
		<u>\$ 7,142,886</u>	<u>\$ 7,142,886</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2004

(7) Operating Transfers In/Out, Continued

Transfers are used to 1) move revenues from the fund that enabling legislation or budget requires to collect them to the fund that enabling legislation or budget requires to expend them, 2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and 3) record reductions in interfund loans for amounts that are not expected to be repaid.

(8) 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. The estimated accumulated amount of unused sick leave as of September 30, 2004 is \$3,148,993.

Insurance Coverage

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

Federal Grants

The State participates in a number of federally assisted grant programs. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs of \$311,385 relating to fiscal years 2004 and prior have been detailed in the State's Single Audit Report for the year ended September 30, 2004. 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.

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, 2004, is not predictable but could have a material impact on the accompanying financial statements. Such impact has currently been estimated to approximate \$1,293,992.

(9) Other Income

Other income includes approximately \$1.06 million that was previously recorded as a prior year liability to municipal governments.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2004

(10) Continuing Appropriations

Continuing appropriations as of September 30, 2004, are summarized as follows:

General Fund

Each fiscal year, the Pohnpei State Legislature appropriates funds for various programs, municipal projects and other projects which are available until fully expended or project completion. \$ 156,443

Compact Capital Projects Fund

Each fiscal year, the Pohnpei State Legislature appropriates funds for capital projects and economic development projects. \$ 2,458,334

Nonmajor Governmental Funds

Each fiscal year, the Pohnpei State Legislature appropriates funds for various programs and other projects. \$ 1,257,034

(11) Self-Insurance Fund - Component Units

In accordance with section 2(5) of State Law 3L-41-93, an amendment was made to the original enabling legislation for Pohnpei Utilities Corporation (PUC), a component unit - proprietary fund, establishing a self-insurance fund to defray costs of any unforeseen accidents or disasters. The funds are accumulated in a restricted self-insurance fund, held by a trustee, in the name of PUC. No other insurance is maintained by PUC.

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

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

(12) FSM Development Bank Loan Funds

Compact Capital Account funds in an aggregate amount of \$1.7 million were transferred to the control of the FSM Development Bank (FSMDB) (a component unit of the FSM National Government) to be loaned out to borrowers from Pohnpei State mainly for economic development projects. The loan fund is administered by FSMDB in a Trust capacity. All loan decisions are made by management of the State. These loans are not controlled by the State and are not currently recorded in the accompanying financial statements. As of December 31, 2004 (FSMDB fiscal year end), the outstanding fund balance aggregated \$719,915.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

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

YEAR ENDED SEPTEMBER 30, 2004

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA

Schedule of Revenues, Expenditures and Changes in Deficit - Budget and Actual
General Fund
Year Ended September 30, 2004

	Budgeted Amounts		Actual - Budgetary	Variance with Final Budget -
	Original	Final	Basis (see Note 1)	
Revenues:				
FSM Revenue sharing	4,600,000	4,600,000	4,761,789	161,789
State taxes	2,200,000	2,200,000	2,412,989	212,989
Investment income	525,000	525,000	381,435	(143,565)
Other	139,000	639,000	6,434,860	5,795,860
Total revenues	<u>7,464,000</u>	<u>7,964,000</u>	<u>13,991,073</u>	<u>6,027,073</u>
Expenditures:				
Current:				
General government	2,295,473	2,295,473	2,122,843	172,630
Department of Land and Natural Resources	415,062	415,062	279,361	135,701
Department of Education	-	-	44,366	(44,366)
Department of Health Services	-	-	839	(839)
Department of Public Safety	1,027,100	1,027,100	1,042,674	(15,574)
Office of the Attorney-General	227,500	227,500	181,927	45,573
Other appropriations	1,275,357	1,790,357	1,805,560	(15,203)
Payments to Non-governmental Agencies	213,280	213,280	204,150	9,130
Grants to local governments	2,040,000	2,040,000	2,033,821	6,179
Total expenditures	<u>7,493,772</u>	<u>8,008,772</u>	<u>7,715,541</u>	<u>293,231</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(29,772)</u>	<u>(44,772)</u>	<u>6,275,532</u>	<u>6,320,304</u>
Other financing uses:				
Operating transfers out	-	-	(2,658,828)	(2,658,828)
Net change in unreserved fund balance (deficit)	<u>(29,772)</u>	<u>(44,772)</u>	<u>3,616,704</u>	<u>3,661,476</u>
Other changes in unreserved fund balance (deficit):				
Decrease in reserve for related assets	-	-	1,428,061	1,428,061
Decrease in encumbrances	-	-	711,271	711,271
Increase in reserve for Compact programs	-	-	(4,623,380)	(4,623,380)
Increase in reserve for debt service	-	-	(733,131)	(733,131)
Decrease in reserve for continuing appropriations	-	-	2,512,916	2,512,916
Unreserved deficit at the beginning of the year	<u>(1,329,099)</u>	<u>(1,329,099)</u>	<u>(1,329,099)</u>	<u>-</u>
Unreserved fund balance (deficit) at the end of the year	<u>\$ (1,358,871)</u>	<u>\$ (1,373,871)</u>	<u>\$ 1,583,342</u>	<u>\$ 2,957,213</u>

See accompanying notes to required supplementary information - budgetary reporting.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Required Supplementary Information – Budgetary Reporting
September 30, 2004

(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 fiscal year end 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.

Accounting principles used in developing data on a budgetary basis differ from those used in preparing the basic financial statements in conformity with GAAP. Amounts included on the Statement of Revenues, Expenditures, and Changes in Deficit - Budget and Actual - General Fund (which are presented on a non-GAAP budgetary basis) are reconciled to unreserved deficit of the Governmental Fund Balance Sheet within the other changes in unreserved deficit section of that statement.

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.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2004

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA

Combining Schedule of Expenditures by Account
Governmental Funds
Year Ended September 30, 2004

	General	Special Revenue		Capital Projects	Permanent	Other Governmental Funds	Total
		U.S Federal Grants	Section 211 Sector Grant	Compact Capital Projects	Section 215 Compact Trust		
Expenditures:							
Salaries and wages	\$ 3,734,820	\$ 1,325,025	\$ 10,244,234	\$ 30,666	\$ -	\$ 106,873	\$ 15,441,618
Grants and subsidies	-	-	97,030	-	-	-	97,030
Contractual services	373,503	1,321,838	364,972	2,701,889	-	2,082,730	6,844,932
Capital outlay	73,183	424,969	183,835	22,098	-	184,468	888,553
Utilities	16,505	19,757	522,912	-	-	241,076	800,250
Travel	122,652	372,551	176,357	31,013	-	102,372	804,945
Supplies and materials	172,695	579,630	437,883	29,566	-	160,068	1,379,842
Medical supplies	-	27,656	1,402,215	-	-	197,170	1,627,041
Medical referral	-	-	311,692	-	-	38,000	349,692
Scholarship and training	-	200	342,675	-	-	172,906	515,781
POL	9,591	32,189	8,128	1,900	-	192,383	244,191
Communications	59,498	40,633	105,844	-	-	10,438	216,413
Food stuffs	83,710	18,336	227,025	-	-	6,527	335,598
Rentals	13,830	-	8,976	-	-	-	22,806
Principal and interest payments	-	-	-	-	-	70,020	70,020
Repairs and maintenance	42,512	23,006	49,741	4,502	-	5,446	125,207
Printing and reproduction	44,635	16,043	39,588	2,874	-	3,310	106,450
Freight	2,673	3,578	28,214	-	-	13,023	47,488
Other	2,965,734	31,840	484,092	(49,959)	-	54,016	3,485,723
	<u>\$ 7,715,541</u>	<u>\$ 4,237,251</u>	<u>\$ 15,035,413</u>	<u>\$ 2,774,549</u>	<u>\$ -</u>	<u>\$ 3,640,826</u>	<u>\$ 33,403,580</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, 2004

(with comparative totals for the year ended September 30, 2003)

	2004	2003
Revenues:		
Compact funds:		
Current Section 211(a) base grant	\$ -	\$ 7,112,100
Current Section 217 inflation adjustment	-	4,125,018
	-	11,237,118
FSM Revenue sharing	4,761,789	4,099,471
State taxes:		
Sales tax	2,130,645	2,043,236
Hotel tax	57,764	65,576
Use tax	703	327
Tax penalties	223,877	45,840
	2,412,989	2,154,979
Investment income	381,435	839,435
Other revenues	6,434,860	325,712
Total revenues	13,991,073	18,656,715
Expenditures:		
Current:		
General government:		
Governor and staff	378,180	1,959,106
Department of Treasury and Administration	229,744	5,162,867
Judiciary Branch	8,610	314,592
Legislative Branch	1,504,594	1,398,918
Public Auditor	1,715	205,308
	2,122,843	9,040,791
Department of Land and Natural Resources:		
Office of the Director	48,362	64,484
Division of Public Land	65,406	73,004
Division of Surveying and Mapping	165,593	157,404
Division of Forestry and Marine Conservation	-	121,687
Division of Historic Preservation	-	59,719
	279,361	476,298
Department of Education:		
Division of Administration, Educational Services and Specialized Education	-	315,129
Division of Pre-School and Primary Education	42,378	2,972,681
Post-secondary education	1,988	-
	44,366	3,287,810
Department of Health Services:		
Division of Administration and Health Planning	-	345,332
Division of Medical Services	1,155	1,467,846
Division of Dental Services	(417)	235,885
Division of Primary Health Care	17	372,493
Food services	-	117,235
Buildings and grounds	-	55,417
Medical supplies	(1,273)	179,823
Medical coordinator in Honolulu	-	44,714
Hemodialysis	-	102,085
Outer island referral program	1	(139)
Health service pharmaceutical supplies	1,356	516,048
	839	3,436,739

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, 2004
(with comparative totals for the year ended September 30, 2003)

	2004	2003
Expenditures, continued:		
Current, continued:		
Department of Public Safety:		
Office of the Director	82,579	87,581
Division of Police and Security	728,719	744,274
Division of Correction and Rehabilitation	231,376	193,905
	1,042,674	1,025,760
Office of the Attorney-General	181,927	-
Boards, Commissions and Other:		
Social Affairs	192,587	-
Transportation and Infrastructure	618,512	-
Election Commissioner	204,472	-
Environmental Protection Agency	-	151,233
Pohnpei Public Broadcasting Corporation	101,802	145,631
Pohnpei Health Care Plan	863	9,243
Ethics Commission	-	140
Foreign Investment Board	-	58,983
Economic Development Authority	-	24,090
Economic Planning Commission	2,098	54,625
Pohnpei Housing Authority	106,760	3,198
Small Business Guarantee and Finance Corporation	-	70,560
Pohnpei Land Commission	-	180,674
Palau Rock Island Air	500,000	-
Other	78,466	17,249
	1,805,560	715,626
Payments to Non-governmental Agencies:		
Aid to nonpublic schools	75,000	75,000
Pohnpei Public Library	-	49,464
Micronesia Legal Services Corporation	38,280	38,280
USDA Rural Development	90,870	97,169
Pohnpei Visitors Bureau	-	59,580
	204,150	319,493
Grants to local governments	2,033,821	2,066,974
Total expenditures	7,715,541	20,369,491
Excess (deficiency) of revenues over (under) expenditures	6,275,532	(1,712,776)
Other financing uses:		
Operating transfers out:		
U.S. Federal Grants Fund	(158,828)	-
Section 215 Compact Trust Fund	(2,500,000)	-
	(2,658,828)	-
Net change in fund balance	3,616,704	(1,712,776)
Fund balance at the beginning of the year	3,928,565	5,641,341
Fund balance at the end of the year	\$ 7,545,269	\$ 3,928,565

See Accompanying Independent Auditors' Report.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA

Statement of Revenues, Expenditures by Function and Changes in Fund Balance (Deficit)
Budget and Actual - General Fund
Year Ended September 30, 2004

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Revenues:				
FSM Revenue sharing:	\$ 4,600,000	\$ 4,600,000	\$ 4,761,789	\$ 161,789
State taxes:				
Sales tax	2,100,000	2,100,000	2,130,645	30,645
Hotel tax	60,000	60,000	57,764	(2,236)
Use tax	-	-	703	703
Tax penalties	40,000	40,000	223,877	183,877
	<u>2,200,000</u>	<u>2,200,000</u>	<u>2,412,989</u>	<u>212,989</u>
Investment income	525,000	525,000	381,435	(143,565)
Other revenues	139,000	639,000	6,434,860	5,795,860
Total revenues	<u>7,464,000</u>	<u>7,964,000</u>	<u>13,991,073</u>	<u>6,027,073</u>
Expenditures:				
Current:				
General government:				
Governor and staff	345,355	345,355	378,180	(32,825)
Department of Treasury and Administration	374,704	374,704	229,744	144,960
Judiciary Branch	8,000	8,000	8,610	(610)
Legislative Branch	1,565,414	1,565,414	1,504,594	60,820
Public Auditor	2,000	2,000	1,715	285
	<u>2,295,473</u>	<u>2,295,473</u>	<u>2,122,843</u>	<u>172,630</u>
Department of Land and Natural Resources:				
Office of the Director	136,318	136,318	48,362	87,956
Division of Public Land	89,157	89,157	65,406	23,751
Division of Surveying and Mapping	189,587	189,587	165,593	23,994
	<u>415,062</u>	<u>415,062</u>	<u>279,361</u>	<u>135,701</u>
Department of Education:				
Division of Pre-School and Primary Education	-	-	42,378	(42,378)
Post-secondary education	-	-	1,988	(1,988)
	<u>-</u>	<u>-</u>	<u>44,366</u>	<u>(44,366)</u>
Department of Health Services:				
Division of Medical Services	-	-	1,155	(1,155)
Division of Dental Services	-	-	(417)	417
Division of Primary Health Care	-	-	17	(17)
Medical supplies	-	-	(1,273)	1,273
Outer island referral program	-	-	1	(1)
Health service pharmaceutical supplies	-	-	1,356	(1,356)
	<u>-</u>	<u>-</u>	<u>839</u>	<u>(839)</u>
Department of Public Safety:				
Office of the Director	90,107	90,107	82,579	7,528
Division of Police and Security	729,021	729,021	728,719	302
Division of Correction and Rehabilitation	207,972	207,972	231,376	(23,404)
	<u>1,027,100</u>	<u>1,027,100</u>	<u>1,042,674</u>	<u>(15,574)</u>
Office of the Attorney-General	227,500	227,500	181,927	45,573

See Accompanying Independent Auditors' Report.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA

Statement of Revenues, Expenditures by Function and Changes in Fund Balance (Deficit), Continued
Budget and Actual - General Fund
Year Ended September 30, 2004

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Expenditures, continued:				
Current, continued:				
Boards, Commissions and Other:				
Social Affairs	204,468	219,468	192,587	26,881
Transportation and Infrastructure	650,938	650,938	618,512	32,426
Election Commissioner	177,739	177,739	204,472	(26,733)
Pohnpei Public Broadcasting Corporation	119,866	119,866	101,802	18,064
Pohnpei Health Care Plan	-	-	863	(863)
Ethics Commission	1,500	1,500	-	1,500
Economic Planning Commission	5,000	5,000	2,098	2,902
Pohnpei Housing Authority	115,846	115,846	106,760	9,086
Palau Rock Island Air	-	500,000	500,000	-
Other	-	-	78,466	(78,466)
	<u>1,275,357</u>	<u>1,790,357</u>	<u>1,805,560</u>	<u>(15,203)</u>
Payments to Non-governmental Agencies:				
Aid to nonpublic schools	75,000	75,000	75,000	-
Micronesia Legal Services Corporation	38,280	38,280	38,280	-
USDA Rural Development	100,000	100,000	90,870	9,130
	<u>213,280</u>	<u>213,280</u>	<u>204,150</u>	<u>9,130</u>
Grants to local governments	<u>2,040,000</u>	<u>2,040,000</u>	<u>2,033,821</u>	<u>6,179</u>
Total expenditures	<u>7,493,772</u>	<u>8,008,772</u>	<u>7,715,541</u>	<u>293,231</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(29,772)</u>	<u>(44,772)</u>	<u>6,275,532</u>	<u>6,320,304</u>
Other financing uses:				
Operating transfers out				
U.S. Federal Grants Fund	-	-	(158,828)	(158,828)
Section 215 Compact Trust Fund	-	-	(2,500,000)	(2,500,000)
	<u>-</u>	<u>-</u>	<u>(2,658,828)</u>	<u>(2,658,828)</u>
Net change in unreserved fund balance (deficit)	<u>(29,772)</u>	<u>(44,772)</u>	<u>3,616,704</u>	<u>3,661,476</u>
Other changes in unreserved fund balance (deficit):				
Decrease in reserve for related assets	-	-	1,428,061	1,428,061
Decrease in encumbrances	-	-	711,271	711,271
Increase in reserve for Compact programs	-	-	(4,623,380)	(4,623,380)
Increase in reserve for debt service	-	-	(733,131)	(733,131)
Decrease in reserve for continuing appropriations	-	-	2,512,916	2,512,916
Unreserved deficit at the beginning of the year	<u>(1,329,099)</u>	<u>(1,329,099)</u>	<u>(1,329,099)</u>	<u>-</u>
Unreserved fund balance (deficit) at the end of the year	<u>\$ (1,358,871)</u>	<u>\$ (1,373,871)</u>	<u>\$ 1,583,342</u>	<u>\$ 2,957,213</u>

See Accompanying Independent Auditors' Report.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA

Combined Balance Sheet
Nonmajor Governmental Funds
September 30, 2004

	Other Special Revenue	Other Debt Service	Other Capital Projects	Total
<u>ASSETS</u>				
Investments	\$ 2,192,853	\$ -	\$ -	\$ 2,192,853
Receivables, net:				
CFSM	417,919	-	22,838	440,757
Other	3,928	-	-	3,928
Due from other funds	2,401,377	42,473	1,457,431	3,901,281
Advances	228,046	-	12,775	240,821
Prepaid items	-	-	36,495	36,495
Inventories	47,607	-	-	47,607
Restricted assets:				
Investments	-	3,466,869	-	3,466,869
Total assets	\$ 5,291,730	\$ 3,509,342	\$ 1,529,539	\$ 10,330,611
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ 257,561	\$ -	\$ 101,202	\$ 358,763
Other liabilities and accruals	138,243	-	-	138,243
Due to other funds	726,334	-	18,385	744,719
Total liabilities	1,122,138	-	119,587	1,241,725
Fund balances:				
Reserved for:				
Encumbrances	202,414	-	77,307	279,721
Continuing appropriations	246,015	-	702,094	948,109
Compact programs	1,501,266	-	-	1,501,266
Debt service	-	3,466,869	-	3,466,869
Unreserved:				
Special revenue funds	2,219,897	-	-	2,219,897
Debt service fund	-	42,473	-	42,473
Capital projects funds	-	-	630,551	630,551
Total fund balances	4,169,592	3,509,342	1,409,952	9,088,886
Total liabilities and fund balances	\$ 5,291,730	\$ 3,509,342	\$ 1,529,539	\$ 10,330,611

See Accompanying Independent Auditors' Report.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA

Combined Statement of Revenues, Expenditures by Function,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended September 30, 2004

	<u>Other Special Revenue</u>	<u>Other Debt Service</u>	<u>Other Capital Projects</u>	<u>Total</u>
Revenues:				
Compact funding	\$ 396,058	\$ -	\$ -	\$ 396,058
Investment income	-	288,002	-	288,002
CFSM grants	154,764	-	78,260	233,024
Other grants	157,835	-	-	157,835
Sales tax	317,779	-	-	317,779
Fees and charges	403,469	-	-	403,469
Total revenues	<u>1,429,905</u>	<u>288,002</u>	<u>78,260</u>	<u>1,796,167</u>
Expenditures by function:				
Current:				
General government	718,357	-	-	718,357
Education	231,503	-	-	231,503
Health services	261,919	-	-	261,919
Public works	211,487	-	-	211,487
Boards, commissions and other	2,225	-	-	2,225
Debt service	-	70,020	-	70,020
Capital projects	-	-	2,145,315	2,145,315
Total expenditures	<u>1,425,491</u>	<u>70,020</u>	<u>2,145,315</u>	<u>3,640,826</u>
Net change in fund balances	4,414	217,982	(2,067,055)	(1,844,659)
Fund balances at the beginning of the year	4,165,178	3,291,360	3,477,007	10,933,545
Fund balances at the end of the year	<u>\$ 4,169,592</u>	<u>\$ 3,509,342</u>	<u>\$ 1,409,952</u>	<u>\$ 9,088,886</u>

See Accompanying Independent Auditors' Report.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA

Combined Statement of Revenues, Expenditures by Account,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended September 30, 2004

	Other Special Revenue	Other Debt Service	Other Capital Projects	Total
Revenues:				
Compact funding	\$ 396,058	\$ -	\$ -	\$ 396,058
Investment income	-	288,002	-	288,002
CFSM grants	154,764	-	78,260	233,024
Other grants	157,835	-	-	157,835
Sales tax	317,779	-	-	317,779
Fees and charges	403,469	-	-	403,469
Total revenues	<u>1,429,905</u>	<u>288,002</u>	<u>78,260</u>	<u>1,796,167</u>
Expenditures by account:				
Contractual services	160,433	-	1,922,297	2,082,730
Utilities	241,076	-	-	241,076
Medical supplies	197,170	-	-	197,170
POL	192,383	-	-	192,383
Capital outlay	54,289	-	130,179	184,468
Scholarship and training	172,906	-	-	172,906
Supplies and materials	143,200	-	16,868	160,068
Salaries and wages	93,229	-	13,644	106,873
Travel	40,381	-	61,991	102,372
Principal and interest payments	-	70,020	-	70,020
Medical referral	38,000	-	-	38,000
Freight	13,023	-	-	13,023
Communications	10,438	-	-	10,438
Food stuffs	6,527	-	-	6,527
Repairs and maintenance	5,446	-	-	5,446
Printing and reproduction	2,974	-	336	3,310
Other	54,016	-	-	54,016
Total expenditures	<u>1,425,491</u>	<u>70,020</u>	<u>2,145,315</u>	<u>3,640,826</u>
Net change in fund balances	4,414	217,982	(2,067,055)	(1,844,659)
Fund balances at the beginning of the year	<u>4,165,178</u>	<u>3,291,360</u>	<u>3,477,007</u>	<u>10,933,545</u>
Fund balances at the end of the year	<u>\$ 4,169,592</u>	<u>\$ 3,509,342</u>	<u>\$ 1,409,952</u>	<u>\$ 9,088,886</u>

See Accompanying Independent Auditors' Report.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA

NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

Combining Balance Sheet
September 30, 2004

	Section 211(b) Special Block Grant	Compact Other Grants	Non-U.S. Grants	CFSM Grants	Agriculture Revolving	SVAP Revolving	Airport Operations	Recycling Revolving	Pave Road Maintenance
ASSETS									
Investments	\$ 523,856	\$ 1,668,997	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receivables, net:									
CFSM	-	347,448	13,833	56,638	-	-	-	-	-
Other	-	-	-	3,928	-	-	-	-	-
Due from other funds	-	-	-	-	25,453	2,476	20,131	22,944	731,412
Advances	3,003	55,092	68,248	86,204	-	-	2,142	-	-
Inventories	-	-	-	-	47,607	-	-	-	-
Total assets	<u>\$ 526,859</u>	<u>\$ 2,071,537</u>	<u>\$ 82,081</u>	<u>\$ 146,770</u>	<u>\$ 73,060</u>	<u>\$ 2,476</u>	<u>\$ 22,273</u>	<u>\$ 22,944</u>	<u>\$ 731,412</u>
LIABILITIES AND FUND BALANCES (DEFICITS)									
Liabilities:									
Accounts payable	\$ -	\$ 188,140	\$ 17,399	\$ 34,230	\$ 10,617	\$ -	\$ -	\$ 45	\$ -
Other liabilities and accruals	5,256	131,066	932	989	-	-	-	-	-
Intergovernmental payable	-	-	-	-	-	-	-	-	-
Due to other funds	290,420	232,473	63,750	111,551	-	-	-	-	-
Total liabilities	<u>295,676</u>	<u>551,679</u>	<u>82,081</u>	<u>146,770</u>	<u>10,617</u>	<u>-</u>	<u>-</u>	<u>45</u>	<u>-</u>
Fund balances (deficits):									
Reserved for:									
Related assets	-	-	-	-	-	-	-	-	-
Encumbrances	-	48,255	2,494	124,794	6,250	1,879	-	-	-
Continuing appropriations	-	201,520	-	-	-	-	-	-	44,495
Compact programs	231,183	1,270,083	-	-	-	-	-	-	-
Unreserved (deficit)	-	-	(2,494)	(124,794)	56,193	597	22,273	22,899	686,917
Total fund balances (deficits)	<u>231,183</u>	<u>1,519,858</u>	<u>-</u>	<u>-</u>	<u>62,443</u>	<u>2,476</u>	<u>22,273</u>	<u>22,899</u>	<u>731,412</u>
Total liabilities and fund balances (deficits)	<u>\$ 526,859</u>	<u>\$ 2,071,537</u>	<u>\$ 82,081</u>	<u>\$ 146,770</u>	<u>\$ 73,060</u>	<u>\$ 2,476</u>	<u>\$ 22,273</u>	<u>\$ 22,944</u>	<u>\$ 731,412</u>

See Accompanying Independent Auditors' Report.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA

NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

Combining Balance Sheet, Continued
September 30, 2004

	Medical Supplies Revolving	Health Care Premiums	V6AH Revolving	Environmental Quality	Early Retirement	Special Police Fee	Fishing Fines	Public Lands Trust	Total
ASSETS									
Investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,192,853
Receivables, net:									
CFSM	-	-	-	-	-	-	-	-	417,919
Other	-	-	-	-	-	-	-	-	3,928
Due from other funds	91,075	860,900	34,979	512	-	25,786	585,709	-	2,401,377
Advances	-	-	1,546	1,135	-	-	-	10,676	228,046
Inventories	-	-	-	-	-	-	-	-	47,607
Total assets	<u>\$ 91,075</u>	<u>\$ 860,900</u>	<u>\$ 36,525</u>	<u>\$ 1,647</u>	<u>\$ -</u>	<u>\$ 25,786</u>	<u>\$ 585,709</u>	<u>\$ 10,676</u>	<u>\$ 5,291,730</u>
LIABILITIES AND FUND BALANCES (DEFICITS)									
Liabilities:									
Accounts payable	\$ 2,656	\$ -	\$ 1,811	\$ -	\$ -	\$ 900	\$ 1,763	\$ -	\$ 257,561
Other liabilities and accruals	-	-	-	-	-	-	-	-	138,243
Intergovernmental payable	-	-	-	-	-	-	-	-	-
Due to other funds	-	-	-	-	15,613	-	-	12,527	726,334
Total liabilities	<u>2,656</u>	<u>-</u>	<u>1,811</u>	<u>-</u>	<u>15,613</u>	<u>900</u>	<u>1,763</u>	<u>12,527</u>	<u>1,122,138</u>
Fund balances (deficits):									
Reserved for:									
Related assets	-	-	-	-	-	-	-	-	-
Encumbrances	4,600	-	2,435	-	-	-	11,707	-	202,414
Continuing appropriations	-	-	-	-	-	-	-	-	246,015
Compact programs	-	-	-	-	-	-	-	-	1,501,266
Unreserved (deficit)	<u>83,819</u>	<u>860,900</u>	<u>32,279</u>	<u>1,647</u>	<u>(15,613)</u>	<u>24,886</u>	<u>572,239</u>	<u>(1,851)</u>	<u>2,219,897</u>
Total fund balances (deficits)	<u>88,419</u>	<u>860,900</u>	<u>34,714</u>	<u>1,647</u>	<u>(15,613)</u>	<u>24,886</u>	<u>583,946</u>	<u>(1,851)</u>	<u>4,169,592</u>
Total liabilities and fund balances (deficits)	<u>\$ 91,075</u>	<u>\$ 860,900</u>	<u>\$ 36,525</u>	<u>\$ 1,647</u>	<u>\$ -</u>	<u>\$ 25,786</u>	<u>\$ 585,709</u>	<u>\$ 10,676</u>	<u>\$ 5,291,730</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 (Deficits)
Year Ended September 30, 2004

	Section 211(b) Special Block Grant	Compact Other Grants	Non-U.S. Grants	CFSM Grants	Agriculture Revolving	SVAP Revolving	Airport Operations	Recycling Revolving	Pave Road Maintenance
Revenues:									
Compact funding	\$ -	\$ 396,058	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investment income	-	-	-	-	-	-	-	-	-
CFSM grants	-	-	-	154,764	-	-	-	-	-
Other grants	-	-	157,835	-	-	-	-	-	-
Sales tax	-	-	-	-	-	-	-	-	190,870
Fees and charges	-	4,228	-	-	30,226	3,363	-	-	-
Total revenues	<u>-</u>	<u>400,286</u>	<u>157,835</u>	<u>154,764</u>	<u>30,226</u>	<u>3,363</u>	<u>-</u>	<u>-</u>	<u>190,870</u>
Expenditures by function:									
Current:									
General government	-	322,412	70,838	116,981	47,651	10,121	-	-	-
Education	40,622	172,906	17,975	-	-	-	-	-	-
Health services	-	47,226	7,882	-	-	-	-	-	-
Public works	-	124,648	-	-	-	-	-	-	86,839
Boards, commissions and other	-	-	-	-	-	-	-	-	-
Total expenditures	<u>40,622</u>	<u>667,192</u>	<u>96,695</u>	<u>116,981</u>	<u>47,651</u>	<u>10,121</u>	<u>-</u>	<u>-</u>	<u>86,839</u>
Net change in fund balances (deficits)	(40,622)	(266,906)	61,140	37,783	(17,425)	(6,758)	-	-	104,031
Fund balances (deficits) at the beginning of the year	<u>271,805</u>	<u>1,786,764</u>	<u>(61,140)</u>	<u>(37,783)</u>	<u>79,868</u>	<u>9,234</u>	<u>22,273</u>	<u>22,899</u>	<u>627,381</u>
Fund balances (deficits) at the end of the year	<u>\$ 231,183</u>	<u>\$ 1,519,858</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 62,443</u>	<u>\$ 2,476</u>	<u>\$ 22,273</u>	<u>\$ 22,899</u>	<u>\$ 731,412</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 (Deficits), Continued
Year Ended September 30, 2004

	Medical Supplies Revolving	Health Care Premiums	V6AH Revolving	Environmental Quality	Early Retirement	Special Police Fee	Fishing Fines	Public Lands Trust	Total
Revenues:									
Compact funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 396,058
Investment income	-	-	-	-	-	-	-	-	-
CFSM grants	-	-	-	-	-	-	-	-	154,764
Other grants	-	-	-	-	-	-	-	-	157,835
Sales tax	-	126,909	-	-	-	-	-	-	317,779
Fees and charges	216,444	-	48,663	1,600	-	50,036	-	48,909	403,469
Total revenues	216,444	126,909	48,663	1,600	-	50,036	-	48,909	1,429,905
Expenditures by function:									
Current:									
General government	-	-	27,690	2,880	-	63,782	56,002	-	718,357
Education	-	-	-	-	-	-	-	-	231,503
Health services	206,811	-	-	-	-	-	-	-	261,919
Public works	-	-	-	-	-	-	-	-	211,487
Boards, commissions and other	-	-	-	-	-	-	-	2,225	2,225
Total expenditures	206,811	-	27,690	2,880	-	63,782	56,002	2,225	1,425,491
Net change in fund balances (deficits)	9,633	126,909	20,973	(1,280)	-	(13,746)	(56,002)	46,684	4,414
Fund balances (deficits) at the beginning of the year	78,786	733,991	13,741	2,927	(15,613)	38,632	639,948	(48,535)	4,165,178
Fund balances (deficits) at the end of the year	\$ 88,419	\$ 860,900	\$ 34,714	\$ 1,647	\$ (15,613)	\$ 24,886	\$ 583,946	\$ (1,851)	\$ 4,169,592

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 (Deficits)
Year Ended September 30, 2004

	Section 211(b) Special Block Grant	Compact Other Grants	Non-U.S. Grants	CFSM Grants	Agriculture Revolving	SVAP Revolving	Airport Operations	Recycling Revolving	Pave Road Maintenance
Revenues:									
Compact funding	\$ -	\$ 396,058	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investment income	-	-	-	-	-	-	-	-	-
CFSM grants	-	-	-	154,764	-	-	-	-	-
Other grants	-	-	157,835	-	-	-	-	-	-
Sales tax	-	-	-	-	-	-	-	-	190,870
Fees and charges	-	4,228	-	-	30,226	3,363	-	-	-
Total revenues	-	400,286	157,835	154,764	30,226	3,363	-	-	190,870
Expenditures by account:									
Salaries and wages	-	-	18,320	27,127	-	-	-	-	-
Contractual services	-	28,350	2,085	5,146	150	-	-	-	86,839
Utilities	-	226,850	14,226	-	-	-	-	-	-
Supplies and materials	(462)	-	44,687	28,093	36,838	10,121	-	-	-
POL	-	191,860	523	-	-	-	-	-	-
Medical supplies	-	-	-	-	-	-	-	-	-
Scholarship and training	-	172,906	-	-	-	-	-	-	-
Capital outlay	-	-	5,654	27,598	-	-	-	-	-
Travel	-	9,226	2,197	25,316	-	-	-	-	-
Grants and subsidies	-	-	-	-	-	-	-	-	-
Communications	-	-	503	2,244	-	-	-	-	-
Medical referral	-	38,000	-	-	-	-	-	-	-
Repairs and maintenance	-	-	2,161	549	-	-	-	-	-
Printing and reproduction	-	-	250	-	-	-	-	-	-
Freight	780	-	177	125	9,279	-	-	-	-
Rentals	-	-	-	-	-	-	-	-	-
Food stuffs	60	-	4,974	-	-	-	-	-	-
Other	40,244	-	938	783	1,384	-	-	-	-
Total expenditures	40,622	667,192	96,695	116,981	47,651	10,121	-	-	86,839
Net change in fund balances (deficits)	(40,622)	(266,906)	61,140	37,783	(17,425)	(6,758)	-	-	104,031
Fund balances (deficits) at the beginning of the year	271,805	1,786,764	(61,140)	(37,783)	79,868	9,234	22,273	22,899	627,381
Fund balances (deficits) at the end of the year	<u>\$ 231,183</u>	<u>\$ 1,519,858</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 62,443</u>	<u>\$ 2,476</u>	<u>\$ 22,273</u>	<u>\$ 22,899</u>	<u>\$ 731,412</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 (Deficits), Continued
Year Ended September 30, 2004

	Medical Supplies Revolving	Health Care Premiums	V6AH Revolving	Environmental Quality	Early Retirement	Special Police Fee	Fishing Fines	Public Lands Trust	Total
Revenues:									
Compact funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 396,058
Investment income	-	-	-	-	-	-	-	-	-
CFSM grants	-	-	-	-	-	-	-	-	154,764
Other grants	-	-	-	-	-	-	-	-	157,835
Sales tax	-	126,909	-	-	-	-	-	-	317,779
Fees and charges	216,444	-	48,663	1,600	-	50,036	-	48,909	403,469
Total revenues	216,444	126,909	48,663	1,600	-	50,036	-	48,909	1,429,905
Expenditures by account:									
Salaries and wages	-	-	15,000	-	-	32,782	-	-	93,229
Contractual services	-	-	1,720	-	-	-	36,143	-	160,433
Utilities	-	-	-	-	-	-	-	-	241,076
Supplies and materials	-	-	4,089	580	-	18,720	534	-	143,200
POL	-	-	-	-	-	-	-	-	192,383
Medical supplies	197,170	-	-	-	-	-	-	-	197,170
Scholarship and training	-	-	-	-	-	-	-	-	172,906
Capital outlay	-	-	918	1,339	-	12,280	6,500	-	54,289
Travel	-	-	-	-	-	-	3,642	-	40,381
Grants and subsidies	-	-	-	-	-	-	-	-	-
Communications	-	-	2,268	-	-	-	5,423	-	10,438
Medical referral	-	-	-	-	-	-	-	-	38,000
Repairs and maintenance	-	-	880	716	-	-	1,140	-	5,446
Printing and reproduction	-	-	104	-	-	-	2,620	-	2,974
Freight	2,125	-	292	245	-	-	-	-	13,023
Rentals	-	-	-	-	-	-	-	-	-
Food stuffs	-	-	1,493	-	-	-	-	-	6,527
Other	7,516	-	926	-	-	-	-	2,225	54,016
Total expenditures	206,811	-	27,690	2,880	-	63,782	56,002	2,225	1,425,491
Net change in fund balances (deficits)	9,633	126,909	20,973	(1,280)	-	(13,746)	(56,002)	46,684	4,414
Fund balances (deficits) at the beginning of the year	78,786	733,991	13,741	2,927	(15,613)	38,632	639,948	(48,535)	4,165,178
Fund balances (deficits) at the end of the year	<u>\$ 88,419</u>	<u>\$ 860,900</u>	<u>\$ 34,714</u>	<u>\$ 1,647</u>	<u>\$ (15,613)</u>	<u>\$ 24,886</u>	<u>\$ 583,946</u>	<u>\$ (1,851)</u>	<u>\$ 4,169,592</u>

See Accompanying Independent Auditors' Report.

STATE OF POHNPEI
 FEDERATED STATES OF MICRONESIA
 NONMAJOR GOVERNMENTAL FUNDS
 CAPITAL PROJECTS FUNDS

Combining Balance Sheet
 September 30, 2004

	Health and Education Projects	OIA Capital Projects	Total
<u>ASSETS</u>			
Receivables, net:			
CFSM	\$ 22,838	\$ -	\$ 22,838
Due from other funds	1,457,431	-	1,457,431
Advances	12,775	-	12,775
Prepaid items	36,495	-	36,495
	\$ 1,529,539	\$ -	\$ 1,529,539
 <u>LIABILITIES AND FUND BALANCES (DEFICITS)</u>			
Liabilities:			
Accounts payable	\$ 101,202	\$ -	\$ 101,202
Due to other funds	-	18,385	18,385
Total liabilities	101,202	18,385	119,587
Fund balances (deficits):			
Reserved for:			
Encumbrances	76,753	554	77,307
Continuing appropriations	702,094	-	702,094
Unreserved	649,490	(18,939)	630,551
Total fund balances (deficits)	1,428,337	(18,385)	1,409,952
Total liabilities and fund balances	\$ 1,529,539	\$ -	\$ 1,529,539

See Accompanying Independent Auditors' Report.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA

NONMAJOR GOVERNMENTAL FUNDS
CAPITAL PROJECTS FUNDS

Combining Statement of Expenditures by Function,
and Changes in Fund Balances (Deficit)
Year Ended September 30, 2004

	Health and Education Projects	OIA Capital Projects	Total
Revenues:			
CFSM grants	\$ 78,258	\$ 2	\$ 78,260
	78,258	2	78,260
Expenditures by function:			
Capital projects	2,145,315	-	2,145,315
Total expenditures	2,145,315	-	2,145,315
Net change in fund balances (deficits)	(2,067,057)	2	(2,067,055)
Fund balances (deficit) at the beginning of the year	3,495,394	(18,387)	3,477,007
Fund balances (deficit) at the end of the year	\$ 1,428,337	\$ (18,385)	\$ 1,409,952

See Accompanying Independent Auditors' Report.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA

NONMAJOR GOVERNMENTAL FUNDS
CAPITAL PROJECTS FUNDS

Combining Statement of Expenditures by Account,
and Changes in Fund Balances (Deficit)
Year Ended September 30, 2004

	Health and Education Projects	OIA Capital Projects	Total
Revenues:			
CFSM grants	\$ 78,258	\$ 2	\$ 78,260
	78,258	2	78,260
Expenditures by account:			
Contractual services	1,922,297	-	1,922,297
Capital outlays	130,179	-	130,179
Travel	61,991	-	61,991
Supplies and materials	16,868	-	16,868
Salaries and wages	13,644	-	13,644
Printing and reproduction	336	-	336
Total expenditures	2,145,315	-	2,145,315
Net change in fund balances (deficits)	(2,067,057)	2	(2,067,055)
Fund balances (deficit) at the beginning of the year	3,495,394	(18,387)	3,477,007
Fund balances (deficit) at the end of the year	\$ 1,428,337	\$ (18,385)	\$ 1,409,952

See Accompanying Independent Auditors' Report.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA

SECTION 211 COMPACT SECTOR FUNDS

Combining Balance Sheet
September 30, 2004

	<u>Section 211(a)(1) Education Sector</u>	<u>Section 211(a)(2) Health Sector</u>	<u>Section 211(a)(3) Private Sector Development</u>	<u>Section 211(a)(4) Capacity Building</u>	<u>Section 211(a)(5) Environment</u>	<u>Total</u>
<u>ASSETS</u>						
Receivables, net:						
CFSM	\$ 988,014	\$ 358,262	\$ 77,003	\$ 79,712	\$ 6,053	\$ 1,509,044
Due from other funds	-	-	-	-	73,909	73,909
Advances	<u>504</u>	<u>6,870</u>	<u>986</u>	<u>7,998</u>	<u>-</u>	<u>16,358</u>
	<u>\$ 988,518</u>	<u>\$ 365,132</u>	<u>\$ 77,989</u>	<u>\$ 87,710</u>	<u>\$ 79,962</u>	<u>\$ 1,599,311</u>
 <u>LIABILITIES AND FUND BALANCES</u>						
Liabilities:						
Accounts payable	\$ 428,038	\$ 110,278	\$ 2,780	\$ 47,171	\$ 66,672	\$ 654,939
Other liabilities and accruals	195,215	78,949	9,300	39,696	13,054	336,214
Due to other funds	<u>362,659</u>	<u>173,788</u>	<u>65,723</u>	<u>250</u>	<u>-</u>	<u>602,420</u>
Total liabilities	<u>985,912</u>	<u>363,015</u>	<u>77,803</u>	<u>87,117</u>	<u>79,726</u>	<u>1,593,573</u>
Fund balances:						
Reserved for:						
Compact programs	<u>2,606</u>	<u>2,117</u>	<u>186</u>	<u>593</u>	<u>236</u>	<u>5,738</u>
Total fund balances	<u>2,606</u>	<u>2,117</u>	<u>186</u>	<u>593</u>	<u>236</u>	<u>5,738</u>
Total liabilities and fund balances	<u>\$ 988,518</u>	<u>\$ 365,132</u>	<u>\$ 77,989</u>	<u>\$ 87,710</u>	<u>\$ 79,962</u>	<u>\$ 1,599,311</u>

See Accompanying Independent Auditors' Report.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA

SECTION 211 COMPACT SECTOR FUNDS

Combining Statement of Expenditures by Account,
and Changes in Fund Balances (Deficit)
Year Ended September 30, 2004

	Section 211(a)(1) Education Sector	Section 211(a)(2) Health Sector	Section 211(a)(3) Private Sector Development	Section 211(a)(4) Capacity Building	Section 211(a)(5) Environment	Total
Revenues:						
Compact funding	\$ 7,132,719	\$ 5,349,481	\$ 514,855	\$ 1,476,517	\$ 561,841	\$ 15,035,413
Investment income	<u>2,606</u>	<u>2,117</u>	<u>186</u>	<u>593</u>	<u>236</u>	<u>5,738</u>
	<u>7,135,325</u>	<u>5,351,598</u>	<u>515,041</u>	<u>1,477,110</u>	<u>562,077</u>	<u>15,041,151</u>
Expenditures by function:						
Current:						
General government	-	-	514,855	1,476,517	561,841	2,553,213
Education	7,132,719	-	-	-	-	7,132,719
Health services	<u>-</u>	<u>5,349,481</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,349,481</u>
Total expenditures	<u>7,132,719</u>	<u>5,349,481</u>	<u>514,855</u>	<u>1,476,517</u>	<u>561,841</u>	<u>15,035,413</u>
Net change in fund balances	2,606	2,117	186	593	236	5,738
Fund balances at the beginning of the year	-	-	-	-	-	-
Fund balances at the end of the year	<u>\$ 2,606</u>	<u>\$ 2,117</u>	<u>\$ 186</u>	<u>\$ 593</u>	<u>\$ 236</u>	<u>\$ 5,738</u>

See Accompanying Independent Auditors' Report.

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA

SECTION 211 COMPACT SECTOR FUNDS

Combining Statement of Expenditures by Account,
and Changes in Fund Balances (Deficit)
Year Ended September 30, 2004

	Section 211(a)(1) Education Sector	Section 211(a)(2) Health Sector	Section 211(a)(3) Private Sector Development	Section 211(a)(4) Capacity Building	Section 211(a)(5) Environment	Total
Revenues:						
Compact funding	\$ 7,132,719	\$ 5,349,481	\$ 514,855	\$ 1,476,517	\$ 561,841	\$ 15,035,413
Investment income	2,606	2,117	186	593	236	5,738
	<u>7,135,325</u>	<u>5,351,598</u>	<u>515,041</u>	<u>1,477,110</u>	<u>562,077</u>	<u>15,041,151</u>
Expenditures by account:						
Salaries and wages	5,719,371	2,710,825	322,119	1,158,251	333,668	10,244,234
Contractual services	33,034	122,075	50,000	64,778	95,085	364,972
Utilities	126,754	374,465	2,002	10,227	9,464	522,912
Supplies and materials	216,656	101,731	10,352	57,940	51,204	437,883
POL	-	2,732	50	3,567	1,779	8,128
Medical supplies	-	1,402,215	-	-	-	1,402,215
Scholarship and training	342,675	-	-	-	-	342,675
Capital outlay	59,493	43,886	7,424	38,830	34,202	183,835
Travel	10,772	88,669	1,190	65,424	10,302	176,357
Grants and subsidies	-	-	97,030	-	-	97,030
Communications	27,486	31,714	6,832	24,696	15,116	105,844
Medical referral	-	311,692	-	-	-	311,692
Repairs and maintenance	14,397	11,188	4,906	11,444	7,806	49,741
Printing and reproduction	-	15,124	4,265	18,456	1,743	39,588
Freight	13,653	13,335	-	284	942	28,214
Rentals	976	-	-	8,000	-	8,976
Food stuffs	147,889	79,136	-	-	-	227,025
Other	419,563	40,694	8,685	14,620	530	484,092
Total expenditures	<u>7,132,719</u>	<u>5,349,481</u>	<u>514,855</u>	<u>1,476,517</u>	<u>561,841</u>	<u>15,035,413</u>
Net change in fund balances	2,606	2,117	186	593	236	5,738
Fund balances at the beginning of the year	-	-	-	-	-	-
Fund balances at the end of the year	<u>\$ 2,606</u>	<u>\$ 2,117</u>	<u>\$ 186</u>	<u>\$ 593</u>	<u>\$ 236</u>	<u>\$ 5,738</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 PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of the State of Pohnpei as of and for the year ended September 30, 2004, and have issued our report thereon dated December 19, 2005, which report was qualified due to the inclusion of unaudited financial statements of the Pohnpei Economic Development Authority, the Pohnpei Fisheries Corporation, the Small Business Guarantee and Finance Corporation, the Pohnpei State Housing Authority, and the Pohnpei Transportation Authority. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

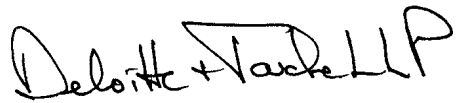
In planning and performing our audit, we considered the State of Pohnpei's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of Pohnpei's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs (pages 75 through 92) as items 2004-06 through 2004-12.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, none of the reportable conditions described above are considered to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Pohnpei's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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

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

December 19, 2005

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL
CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD
PROGRAM AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

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

Compliance

We have audited the compliance of the State of Pohnpei with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2004. The State of Pohnpei's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 75 and 76). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State of Pohnpei's management. Our responsibility is to express an opinion on the State of Pohnpei's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State of Pohnpei's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the State of Pohnpei's compliance with those requirements.

As described in items 2004-01 through 2004-05, in the accompanying Schedule of Findings and Questioned Costs, the State of Pohnpei did not comply with requirements regarding procurement and suspension and debarment applicable to the Sector Grants of the Compact of Free Association (CFDA #15.875), and the Twenty-First Century Community Learning Centers (CFDA #84.287); allowable costs/cost principles that are applicable to its Twenty-First Century Community Learning Centers (CFDA #84.287); and requirements regarding special tests and provisions of its Twenty-First Century Community Learning Centers (CFDA #84.287). Compliance with such requirements is necessary, in our opinion, for the State of Pohnpei to comply with requirements applicable to its federal award programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the State of Pohnpei complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2004.

Internal Control Over Compliance

The management of the State of Pohnpei is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State of Pohnpei's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

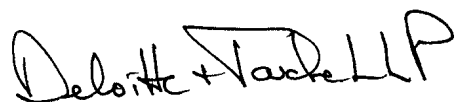
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State of Pohnpei's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2004-01 through 2004-05.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the State of Pohnpei as of and for the year ended September 30, 2004, and have issued our report thereon dated December 19, 2005, which report was qualified due to the inclusion of unaudited financial statements of the Pohnpei Economic Development Authority, the Pohnpei State Housing Authority, the Small Business Guarantee and Finance Corporation, the Pohnpei Fisheries Corporation, and the Pohnpei Transportation Authority. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards (pages 65 through 71) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of the State of Pohnpei. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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



December 19, 2005

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Summary Schedule of Expenditures of Federal Awards, by Grantor
Year Ended September 30, 2004

Agency/Program	CFDA#	Expenditures
U.S. Department of Agriculture		\$ 66,072
U.S. Department of the Interior		18,834,692
U.S. Department of Labor		502,786
Federal Emergency Management Agency		17,659
U.S. Department of Education		2,762,229
U.S. Department of Health and Human Services		571,588
 GRAND TOTAL		 \$ <u>22,755,026</u>

Note: All awards are received in a subgrantee capacity through the FSM National Government, except for the following, which are received directly from the grantor agencies:

U.S. Department of Education:		
Freely Associated States Educational Grants	84.256A	
Twenty-First Century Community Learning Center	84.287	
Vocational Education Improvement Program	84.994	

Reconciliation to the basic financial statements:

U.S. Federal Grants Fund (page 13)	\$ 4,237,251
Section 211 Compact Sector Grant (page 13)	15,035,413
Compact Capital Projects Fund (page 13)	2,774,549
Section 211 (b) Compact Special Block Grant (page 51)	40,622
Compact Other Grants Fund (page 51)	667,192
Rounding	(1)
	<u>\$ 22,755,026</u>

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, 2004

<u>Agency/Program</u>	<u>CFDA#</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE		
Cooperative Forestry Assistance	10.664	\$ <u>66,072</u>
U.S. DEPARTMENT OF AGRICULTURE TOTAL		\$ <u><u>66,072</u></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, 2004

Agency/Program	CFDA#	Expenditures
U.S. DEPARTMENT OF THE INTERIOR		
Economic, Social and Political Development of the Territories and the Freely Associated States:	15.875	
Compact Capital Improvement Projects		\$ 2,774,549
Compact Energy Grants		446,335
Compact Health and Medical Grants		47,479
Compact Scholarship Grants		172,906
Compact Special Block Grants		40,622
Compact II Capacity Build		1,476,516
Compact II Education Sector		7,132,719
Compact II Environment Sector		561,841
Compact II Health Sector		5,349,481
Compact II Private Sector		514,855
Technical Assistance:		
Hospital Renovation		229,305
Survey and Mapping		35,351
Y2K Remediation		7,496
Historic Preservation	15.904	<u>45,237</u>
U.S. DEPARTMENT OF THE INTERIOR TOTAL		<u>\$ 18,834,692</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, 2004

<u>Agency/Program</u>	<u>CFDA#</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF LABOR		
Job Training Partnership Act	17.250	\$ 20
WIA Administration	17.255	65,080
WIA Adult Program	17.258	116,630
WIA Youth Activities	17.259	137,602
WIA Dislocated Worker	17.260	<u>183,454</u>
U.S. DEPARTMENT OF LABOR TOTAL		<u>\$ 502,786</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, 2004

<u>Agency/Program</u>	<u>CFDA#</u>	<u>Expenditures</u>
FEDERAL EMERGENCY MANAGEMENT AGENCY		
Public Assistance Projects	83.516	\$ <u>17,659</u>
FEDERAL EMERGENCY MANAGEMENT AGENCY TOTAL		\$ <u><u>17,659</u></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, 2004

Agency/Program	CFDA#	Expenditures
U.S. DEPARTMENT OF EDUCATION		
Special Education - Grants to States	84.027	\$ 1,156,029
Freely Associated Educational Grants	84.256A	552,530
Twenty-First Century Community Learning Center	84.287	888,886
Bilingual Education	84.288	945
Vocational Education Improvement Program	84.994	<u>163,839</u>
U.S. DEPARTMENT OF EDUCATION TOTAL		<u>\$ 2,762,229</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, 2004

Agency/Program	CFDA#	Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
CDC Project Grants and Cooperative Agreements for Tuberculosis		
Control Programs	93.116	\$ 32,834
Hansen's Disease National Ambulatory Care Program	93.215	1,424
Family Planning - Services	93.217	31,182
Community Health Centers	93.224	180,664
Immunization Grants	93.268	79,935
CDC & Prevention-Investigations & Technical Assistance	93.283	6,920
HIV Prevention Activities-Health Department Based	93.940	13,928
Block Grants for Prevention and Treatment of Substance Abuse (Prevention and Treatment (SAPT) Block Grant)	93.959	115,575
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977	14,775
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988	11,213
Public Health Preparation/Bioterrorism	93.283	10,569
413792 FY00 PHHS	93.991	2,035
Maternal and Child Health Services Block Grant to the States	93.994	<u>70,534</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL		<u>\$ 571,588</u>
GRAND TOTAL		<u>\$ 22,755,026</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, 2004

1. Scope of Review

The State of Pohnpei is one of the four States of the Federated States of Micronesia. All significant operations of the State are included in the scope of the OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior has been designated as the State's cognizant agency for Single Audit.

A. Programs Subject to Single Audit

Schedules of expenditures of federal awards are presented for each federal program related to the following agencies:

- U.S. Department of Agriculture
- U.S. Department of Education
- U.S. Department of Health and Human Services
- U.S. Department of the Interior
- U.S. Department of Labor
- Federal Emergency Management Agency

2. Summary of Significant Accounting Policies

A. Basis of Accounting

For purposes of this report, certain accounting procedures were followed which help illustrate the expenditures of the individual programs. All expenses and capital outlays are reported as expenditures on the accrual basis of accounting.

B. Reporting Entity

The State of Pohnpei, for purposes of the basic financial statements, includes all of the funds of the primary government as defined by Governmental Accounting Standards Board (GASB) Statement 14, "The Financial Reporting Entity."

C. Subgrantees

Certain program funds are passed through the State to subgrantee organizations. The Schedule of Expenditures of Federal Awards does not contain separate schedules disclosing how the subgrantee outside of the State's control utilizes these funds.

D. Indirect Cost Allocation

The State does not receive any indirect cost allocation and does not charge indirect costs against federal programs.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2004

3. Discretely Presented Component Units

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

Pohnpei Utilities Corporation

The Pohnpei Utilities Corporation is the recipient of various pass-through funds from State of Pohnpei. No material instances of noncompliance or questioned costs are presented in its audit reports. Following is the Schedule of Expenditures of Federal Awards for Pohnpei Utilities Corporation:

<u>Grantor</u>	<u>CFDA #</u>	<u>Total Authorization</u>	<u>Prior Years Expenditures</u>	<u>2004 Expenditures</u>	<u>Total Program Expenditures</u>
U.S. Department of the Interior:					
Office of Territorial and International Affairs:					
Operations and Maintenance Improvement					
Programs (OMIP):	15.875				
Utility Development 2003		\$ 117,668	\$ 92,813	\$ -	\$ 92,813
OMIP Bench		562,500	440,723	15,201	455,924
HR Development 2003		12,500	7,380	1,500	8,880
OMIP Single Phase Prepaid Meter		200,000	-	67,288	67,288
OMIP Three Phase Prepaid Meter		72,000	-	8,500	8,500
OMIP Reimbursement of PUC assistance to CPUC		<u>2,464</u>	<u>-</u>	<u>2,464</u>	<u>2,464</u>
		<u>\$ 1,002,668</u>	<u>\$ 540,916</u>	<u>\$ 94,953</u>	<u>\$ 635,869</u>

The Schedule of Expenditures of Federal Awards for Pohnpei Utilities Corporation is prepared on the accrual basis of accounting.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Programs Selected For
Audit in Accordance with OMB Circular A-133
Year Ended September 30, 2004

<u>Grantor Program Title</u>	<u>CFDA No.</u>	<u>2004 Fiscal Year Expenditures</u>
<u>U.S. Department of the Interior</u>		
Compact of Free Association Sector Grants	15.875	\$ 15,035,412
Compact of Free Association Section 211(A) Capital	15.875	<u>2,774,549</u>
Total Major Programs Under CFDA #15.875		17,809,961
<u>U.S. Department of Education</u>		
Twenty-First Center Community Learning Center	84.287	<u>888,886</u>
Total Major Programs Under U.S. Department of Education		<u>888,886</u>
<u>U.S. Department of Health and Human Services</u>		
Community Health Centers	93.224	<u>180,664</u>
Total Major Programs Under U.S. Department of Labor		<u>180,664</u>
Total U.S. Federal program expenditures selected		\$ <u>18,879,511</u>
Total U.S. Federal program expenditures		\$ <u>22,755,027</u>
% of total U.S. Federal expenditures covered by major programs		<u>82%</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

Part I - Summary of Auditors' Results

1. The Independent Auditors' Report on the financial statements expressed a qualified opinion due to the inclusion of unaudited financial statements of the Pohnpei Economic Development Authority, the Pohnpei State Housing Authority, the Pohnpei Fisheries Corporation, the Small Business Guarantee and Finance Corporation, and the Pohnpei Transportation Authority.
2. Reportable conditions in internal control over financial reporting were identified, none of which are considered to be material weaknesses.
3. Instances of noncompliance considered material to the financial statements were not disclosed by the audit.
4. Reportable conditions in internal control over compliance with requirements applicable to major federal award programs were identified, none of which are considered to be material weaknesses.
5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed a qualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. The State's major programs were:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
U.S. Department of the Interior - Compact of Free Association Sector Grants	15.875
U.S. Department of the Interior – Compact of Free Association Section 211(A) Capital	15.875
U.S. Department of Education – Twenty-First Center Community Learning Center	84.287
U.S. Department of Health & Human Services – Community Health Centers	93.224

8. A threshold of \$682,651 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The State did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

Part II - Financial Statement Findings Section

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
2004-06	Bank Reconciliation	\$ -
2004-07	General Receivable	-
2004-08	Outstanding Checks	-
2004-09	Undeposited Cash	-
2004-10	Unidentified Bank Charges	-
2004-11	Travel	-
2004-12	Inventory	-

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

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

<u>Reference Number</u>	<u>CFDA Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
2004-01	15.875	Procurement and Suspension and Debarment	\$ 30,000
2004-02	84.287	Procurement and Suspension and Debarment	13,630
2004-03	84.287	Allowable Costs/Cost Principles	37,091
2004-04	84.287	Special Tests and Provisions	-
2004-05	84.287	Special Tests and Provisions	-

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Federal Award Findings and Questioned Costs Section

Finding No.: 2004-01
CFDA No.: 15.875
Agency: Department of the Interior, Office of Insular Affairs
Grant #: Compact II
Program Name: Pohnpei State Government
Requirement: Procurement and Suspension and Debarment
Questioned Costs: \$30,000

Criteria:

In accordance with OMB Circular A-133 procurement requirements, procurements shall provide full and open competition among vendors, any allowable exceptions must be properly documented and approved in accordance with applicable Pohnpei State Government procurement requirements and such approvals should be documented in the procurement file. Also, per local law, the procurement officer shall obtain price quotations from at least three vendors for all small purchases over \$25,000 not put to bid, unless the entity documents that only two vendors possess the required goods or services.

Condition:

For two of 25 (8%) non-payroll samples selected, there were no procurement documents on file evidencing the procurement rationale.

<u>Acct</u>	<u>Date</u>	<u>Contract/ JV/TA #</u>	<u>APV #</u>	<u>Check #</u>	<u>Amount per APV</u>
8460	6/8/2004		810275	172953	\$ 30,000
8405	6/3/2004	C40035	809680	172686	<u>4,317</u>
					<u>\$ 34,317</u>

Cause:

There appears to be weak controls over ensuring that competition remains open among vendors. However, if no more than two vendors possess required merchandise, no competitive procurement is required. In the above instances, no documentation was available that compliance with the Compact II regulations was met.

Effect:

The grantee appears to be in noncompliance with applicable Compact II procurement regulations.

Questioned costs of \$30,000 arise from this finding. No questioned costs result from the \$4,317 item as subsequently we verified that Pohnpei State credited this account and charged this amount against the State's general fund.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Federal Award Findings and Questioned Costs Section

Finding No.: 2004-01, Continued
CFDA No.: 15.875
Agency: Department of the Interior Office of Insular Affairs
Grant #: Compact II
Program Name: Pohnpei State Government
Requirement: Procurement and Suspension and Debarment
Questioned Costs: \$30,000

Recommendation:

The Department should strengthen internal controls on procurement to maximize competition while maintaining the best interest of the department. If there are any exceptions allowed by procurement regulations, they should be reviewed, approved and properly documented in the procurement file.

Auditee Response and Corrective Action Plan:

The Department of Treasury and Administration has communicated to the grantor agency to resolve the questioned costs. We are still waiting for the reply from OIA.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Federal Award Findings and Questioned Costs Section

Finding No.: 2004-02
 CFDA No. 84.287
 Agency: U.S. Department of Education
 Grant Number: S287B012146-03
 Program Name: Twenty-First Century Community Learning Centers
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$13,630

Criteria:

In accordance with OMB Circular A-133 procurement requirements, procurements shall provide full and open competition among vendors, and any allowable exceptions must be properly documented and approved in accordance with applicable Federal Program requirements and such approvals should be documented in the procurement file. Per local law, a contract under \$25,000 does not have to go through the formal bidding process, however, documentation of the selection procedure should be known. Also, the procurement officer shall obtain price quotations from at least three vendors for all small purchases.

Condition:

For eleven of thirty-four (32%) samples tested, Pohnpei State Government did not have procurement documents on file substantiating that three vendors were solicited:

<u>Acct</u>	<u>Date</u>	<u>Contract/ JV/TA #</u>	<u>APV #</u>	<u>Check #</u>	<u>Amount</u>
8405	12/9/2003	C40021	800203	165827	\$ 270
8405	3/04/2004	C40127	804600	169071	480
8405	3/23/2004	C40303	805617	169809	900
8405	6/1/2004	C40512	809638	172640	1,200
8405	9/21/2004	C40734	816197	176889	1,017
8405	10/1/2004	C40734	816922	177362	509
8405	10/7/2004	C40755	817246	177512	1,650
8312	4/20/2004	L41562	807196	170898	900
8110	7/13/2004	T40372	811994	174215	3,374
8405	9/29/04	C4075501	817246	177512	1,650
8405	6/29/2004	C40534	811737	173777	<u>1,680</u>
					<u>\$13,630</u>

Cause:

There appears to be weak controls over ensuring that competition remains open among vendors.

Effect:

The grantee may be in noncompliance with applicable federal or local procurement regulations.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Federal Award Findings and Questioned Costs Section

Finding No.: 2004-02, Continued
CFDA No. 84.287
Agency: U.S. Department of Education
Grant Number: S287B012146-03
Program Name: Twenty-First Century Community Learning Centers
Area: Procurement and Suspension and Debarment
Questioned Costs: \$13,630

Recommendation:

The Department should strengthen internal controls on procurement to maximize competition while maintaining the best interest of the department. If there are any exceptions allowed by procurement regulations, they should be reviewed, approved and properly documented in the procurement file.

Auditee Response and Corrective Action Plan:

There was a selection process made by the CCLC council and the Site Coordinator. The CCLC Council who did the selection process is composed of traditional leaders, church leaders, business leaders from the community where the participating school is located. The selection process was done informally, however, the process was unfortunately not documented. Review of each contract shows that even though selection process was informal an employment application was submitted by each applicant meaning that there was a selection process.

Services rendered for the program was fully funded by the 21st CLC and the services provided was solely for the benefit of the 21st Century program.

In the future, we will implement the recommendations given by the external auditor in such project or programs.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Federal Award Findings and Questioned Costs Section

Finding No.: 2004-03
CFDA No. 84.287
Agency: U.S. Department of Education
Grant Number: S287B012146-03
Program Name: Twenty-First Century Community Learning Centers
Area: Allowable Cost/Cost Principles
Questioned Costs: \$37,091

Criteria:

In accordance with OMB Circular A-87, Attachment B paragraph 11.h.4, if an employee is supported, in whole or in part, with a combination of Federal and state or local funds, the employee must maintain time and effort distribution records.

Condition:

The program did not maintain time and effort distribution records. Per initial discussions with program management, we were advised that employee time should have been charged 50% to the After School Learning program and 50% to local funds. However, based on documentation ultimately provided by the Department of Finance, we were able to substantiate direct teacher salaries and to conclude that such appear to be direct program costs. Support service salaries in the amount of \$37,091, such as for librarians, were also incurred and such costs were charged 100% to the program. We were unable to determine if these costs benefited other programs and whether such should have been subject to allocation. Hence, they have been questioned.

Cause:

There appears to be a lack of program control over maintenance of time and effort distribution records.

Effect:

Pohnpei State Government appears to be in noncompliance with the criteria. Due to lack of information available and provided by grantee, costs have been questioned.

Recommendation:

Pohnpei State Government should comply with the criteria.

Auditee Response and Corrective Action Plan:

The DOE did maintain time sheets on all personnel. If time and distribution records are needed for staff that worked the regular school day and in the 21st CLC program after school, the DOE will provide these records. We acknowledge that 21st CLC funding cannot be used to support the cost of personnel for regular day school activities. The CLC funds were for personnel costs to run after school, weekend or summer programs. There were separate contracts set up for staff working on the CLC to prevent such abuse of funds. To the best of our knowledge, there was no misuse of CLC funds.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Federal Award Findings and Questioned Costs Section

Finding No.: 2004-04
CFDA No. 84.287
Agency: U.S. Department of Education
Grant Number: S287B012146-03
Program Name: Twenty-First Century Community Learning Centers
Area: Special Tests and Provisions
Questioned Costs: \$0

Criteria:

An SEA, LEA, or any other educational service agency receiving financial assistance under the Elementary and Secondary Education Act (ESEA) program must provide eligible low income private school children and their teachers or other educational personnel with equitable services or other benefits under this program.

Condition:

According to program management, the program did not engage in consultation with private school officials to determine the types of educational services to provide to eligible private school children.

Cause:

There appears to be a lack of internal controls over providing services or benefits to private school teachers and students.

Effect:

Pohnpei State Government appears to be in noncompliance with applicable special tests and provision requirements. Due to lack of information available and provided by the grantee, questioned costs are undeterminable.

Recommendation:

Pohnpei State Government should comply with the criteria.

Auditee Response and Corrective Action Plan:

The 21st CLC program did not require Pohnpei DOE to use CLC funds to support low-income private school children and teachers. The grant was funded to support the schools listed in the original application. Private schools were not listed in the original application. There was very strong scrutiny by the federal project officer regarding which schools were eligible for funding and at no time was there any consideration for funding private schools. If needed we can document this with a copy of the grant that was approved.

Auditor Response:

The grantee has not provided us with documentation exempting it from this requirement.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Federal Award Findings and Questioned Costs Section

Finding No.: 2004-05
CFDA No. 84.287
Agency: U.S. Department of Education
Grant Number: S287B012146-03
Program Name: Twenty-First Century Community Learning Centers
Area: Special Tests and Provisions
Questioned Costs: \$0

Criteria:

A school participating under Title 1, Part A may upgrade the school's entire educational program in a schoolwide program. To qualify, the LEA is required to maintain records to demonstrate 40 percent of the children enrolled in the school or residing in the school attendance area are from low-income families.

Condition:

According to program management, the program does not have documentation (i.e. eligibility, income requirements, comparability requirements) for the program.

Cause:

There appears to be a lack of internal controls over maintaining records for the program.

Effect:

Pohnpei State Government appears to be in noncompliance with applicable federal requirements. Due to lack of information available and provided by grantee, questioned costs are undeterminable.

Recommendation:

Pohnpei State Government should establish internal controls over maintaining records for the program.

Auditee Response and Corrective Action Plan:

Data to support that 40% of school children enrolled or residing in the school attendance area are from low-income families was not required by the 21st CLC program. The federal project officer and readers that reviewed the grant accepted the data provided in the original application that the schools in Pohnpei State participating in the 21st CLC program contained children from low-income families. The CLC program did not require any additional data to substantiate the income levels of families. Pohnpei DOE can provide copies of the reports provided to the federal government. These reports were found to comply with all the federal requirements.

Auditor Response:

The grantee has not provided us with documentation exempting it from this requirement.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Local Findings Section

Finding No.: 2004-06
Area: Bank Reconciliation

Criteria: A functioning system of internal control requires all cash accounts be reconciled with bank statements monthly and on a timely basis.

Condition: Accurate bank reconciliations were not performed until the end of fiscal year 2004, when a financial advisor was hired.

Cause: The cause of the above condition is that a one-sided bank reconciliation was performed at the end of each month.

Effect: The effect of this condition is that during fiscal year 2004, inaccurate internal financial information resulted. However, we note that management corrected this situation in 2005 and monthly bank reconciliations are now occurring.

Prior Year Status: This finding was brought to management's attention in the 2003 Single Audit Report.

Recommendation: Management should ensure that bank reconciliations are prepared each month.

Auditee Response and Corrective Action Plan: Currently, bank reconciliations are being performed and will be continuously performed monthly in 2005. The Chief of Finance is tasked to ensure that the bank reconciliations are performed in a timely manner.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Local Findings Section

Finding No.: 2004-07
Area: General Receivables

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

Condition: Taxes and leases of \$2,034,915 owed to the State as of September 30, 2004 have been outstanding for a number of years. This amount does not reconcile with the schedule submitted by the Revenue Department.

Cause: The cause of this condition is that the difference between the two sets of records has not been reconciled.

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

Prior Year Status: This finding was brought to management's attention in the 2000, 2001, 2002 and 2003 Single Audit Reports.

Recommendation: We recommend that Pohnpei State pursue the collection of funds owed through legal means. Better correspondence with other departments should also result from this condition.

Auditee Response and Corrective Action Plan: The Revenue Division is committed in its effort to collect all accounts receivables, particularly the state taxes and land leases. Regarding taxes, except for collection action that is ongoing in almost all the receivables, majority of the accounts have installment plan in place and some are being litigated in court. As for the leases, the Division is working with the department of Land to recover all outstanding leases. Appropriate notices for payment are regularly sent to the leaseholders and public announcement on the radio has been made encouraging lessees to made prompt payment. The Chief of Revenue Division will continue to pursue recovery action in court for the delinquent accounts. In addition, the Division is now working with the Division of Finance to perform periodic reconciliation of the revenue accounts to ensure the accurate recording of state taxes.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Local Findings Section

Finding No.: 2004-08
Area: Outstanding Checks

Criteria:

Outstanding checks listing on the bank reconciliations should:

- a. include valid checks
- b. include checks that have not cleared the bank, and
- c. be regularly reviewed to establish allowances for stale dated items.

Condition:

1. Two voided checks were listed on the general fund outstanding check listing totaling \$15,000.

CK 167472	\$7,500
CK 174872	\$7,500

2. One check that had already cleared the bank was listed as outstanding as of September 30, 2004.

CK 161746 \$ 5,210.35 Date cleared: August 2003

3. Stale dated checks from 10/09/02 – 03/26/04 amounting to \$70,399, are included as reconciling items on the bank reconciliations.

	Total Stale dated checks	Date Range
General Fund Account	\$61,444	10/09/02-03/26/04
Payroll Account	\$ 8,955	07/20/03-03/2004

Cause:

There appears to be a weak internal control over ensuring that the outstanding check listing is properly reconciled.

Effect:

A misstatement in cash and income may be present.

Recommendation:

We recommend that the outstanding check listing be properly reconciled. Management should review the outstanding checklist for any possible stale dated checks on a quarterly basis. Any amounts greater than one hundred eighty days should be adjusted and voided.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Local Findings Section

Finding No.: 2004-08, Continued
Area: Outstanding Checks

Auditee Response and Corrective Action Plan:

1. Check numbers 167472 and 174872 for \$7,500 each were voided after September 30, 2004. These checks were returned to the Department of Treasury and Administration and were voided on May 23, 2005 and December 28, 2004, respectively. Starting fiscal year 2006; the reconciliation staffs are instructed to adjust all the outstanding checks that are over twelve months.
2. We agreed that check number 161746 was already cleared but was still in the outstanding check list as of September 30, 2004. This was overlooked because based on the attached bank statement; the check number indicated was 161740. In fiscal year 2003, the bank reconciliation was not updated. The bank reconciliation was performed annually. Due to the volume of the transactions and the closure of the former bank of Pohnpei State Government bank reconciliations was difficult; thus resulted to differences between book and bank balances. The situation effected fiscal year 2004 bank reconciliation also. Currently, our bank reconciliation for all bank account is being done monthly. Two reconciliation staffs are assigned to perform this task under the direct supervision of the Financial Advisor.
3. The journal voucher to reflect the stale-dated checks for more than twelve months was prepared per journal voucher number V50284. Beginning fiscal year 2006, all outstanding checks will be monitored and investigated accordingly.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Local Findings Section

Finding No. 2004-09
Area: Undeposited Cash

Criteria:

Cash should be reconciled on a timely basis to prevent any possible loss and to deter fraudulent activity.

Condition:

A deposit in transit included as a reconciling item on the general fund bank reconciliation totaling \$11,197 could not be traced to a subsequent bank statement.

Cause:

There appears to be weak internal controls over ensuring that bank deposits are safely transited to the bank.

Effect:

A misstatement in cash may be present.

Recommendation:

We recommend that internal controls be strengthened to ensure that bank deposits are safely transited to the bank.

Auditee Response and Corrective Action Plan:

This amount was already adjusted per journal voucher number V50321. This is an isolated case and the transaction happened in fiscal year 1996. The Department of Treasury and Administration will still pursue the collection.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Local Findings Section

Finding No. 2004-10
Area: Unidentified Bank Charges

Criteria:

Bank accounts should be properly reconciled on a monthly basis.

Condition:

We found an instance where unidentified bank charges totaling \$4,516 and \$1,050, respectively, were recorded against the general checking account and the payroll general fund accounts as of September 30, 2004.

Cause:

The cause of this finding is untimely resolution of bank reconciling items.

Effect:

The effect of this condition is unauthorized use of public funds.

Prior Year Status:

The above condition is reiterative of conditions identified in the prior year audit of Pohnpei State Government.

Recommendation:

We recommend a monthly review of bank statements be performed for clerical accuracy and to investigate any unidentified reconciling items in a timely manner.

Auditee Response and Corrective Action Plan:

We agree that the finding is still outstanding and we are still pursuing this matter from our bank for correction and identification. Our last resort is to evaluate our inquiry to the main branch of our bank for assistance.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Local Findings Section

Finding No. 2004-11
Area: Travel

Criteria:

1. Pohnpei State Government should ensure that all travel advances are liquidated within ten working days after trip completion.
2. Travel costs should be supported by boarding passes and receipts should be present that substantiate miscellaneous travel expenses.
3. Deviations from travel intent should be reimbursed by the traveler.

Condition:

1. Numerous travel advances were outstanding of which \$250,326 were over a year old.
2. The following travel authorization was insufficiently supported by receipts.
 - a. T40543-Advance totaling \$2,500 was for tuition and fees provided to the traveler; however, the expense was supported with an unofficial transcript printed online.
3. The following travel authorizations appeared to contain unapproved deviations from the original travel intent.
 - a. T40386-Travel was to attend a solid waste landfill training workshop in Saipan for 15 days on June 12-28. We reviewed hotel receipt for a 5 day stay in Guam at the Hunter's Inn from June 23-28. In review of the travel itinerary, the traveler should have been in Saipan and not Guam from June 13-26. The traveler did not repay the Guam hotel stay accommodations.

Cause:

The cause of this condition is that travel support is not always scrutinized adequately and that collection efforts were initiated in a subsequent fiscal year.

Effect:

The effect of this condition is a potential overstatement of the travel advances.

Prior Year Status:

The above condition is reiterative of conditions identified in the prior year audit of Pohnpei State Government.

Recommendation:

The State should ensure that travel vouchers are filed in a timely manner. The State should also consider requiring submittal of boarding passes in support of travel occurrence. We also recommend close scrutiny of travel that deviates from authorized rates.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Local Findings Section

Finding No. 2004-11, Continued
Area: Travel

Auditee Response and Corrective Action Plan:

We agreed to your finding on item no. 1. The amended financial management regulations (attached) require that the traveler will sign a form agreeing to payroll deductions if and when travel voucher claims are not filed on time. The form is attached for your information.

For item nos. 2(a) we will secure the official transcript from the traveler and submit them to you. For item nos. 2 (b-c), we will carefully ensure that boarding passes are submitted to support the travel.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Local Findings Section

Finding No. 2004-12
Area: Inventory

Criteria:

Inventory should be properly monitored.

Condition:

Inventory testing was conducted for items held at the Agriculture Development and a variance was noted in the physical existence of items reported at September 30, 2004.

Cause:

There appears to be a weak internal control over ensuring that inventory is properly monitored.

Effect:

A misstatement may be present in inventory.

Recommendation:

Internal controls should be enhanced to ensure inventory is properly controlled.

Auditee Response and Corrective Action Plan:

Prior to fiscal year 2006, stock cards are not being utilized at the Agriculture to record the receipt and issuance of stocks. Beginning fiscal year 2006, Agriculture will start the use of the stock card and the inventory issuance slip to ensure that inventory balance ties in to the physical count and any variances could be accounted for easily.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Summary Schedule of Prior Audits Findings and Questioned Costs
Year Ended September 30, 2004

The following is a summary of unresolved questioned costs of the State of Pohnpei as of September 30, 2004:

	Questioned Costs Set Forth in Prior Audit Report <u>2003</u>	Questioned Costs Resolved in Fiscal Year <u>2004</u>	Questioned Costs at <u>September 30, 2004</u>
Unresolved Questioned Costs FY 96	\$ 15,182	\$ -	\$ 15,182
Unresolved Questioned Costs FY 98	24,000	-	24,000
Unresolved Questioned Costs FY 99	39,439	-	39,439
Unresolved Questioned Costs FY 00	12,375	-	12,375
Unresolved Questioned Costs FY 01	-	-	-
Unresolved Questioned Costs FY 02	139,668	-	139,668
Unresolved Questioned Costs FY 03	-	-	-
Questioned Costs FY 04	<u>-</u>	<u>-</u>	<u>80,721</u>
	\$ <u>230,664</u>	\$ <u>-</u>	\$ <u>311,385</u>

Unresolved federal findings for fiscal year 1999:

<u>Page No.</u>	<u>Finding No.</u>	<u>Description</u>
74	99-2	Allowable Costs/Costs Principles
77	99-4	Allowable Costs/Costs Principles-Questionable Use of Compact Funds
78	99-5	Subrecipient Monitoring – PSHA
81	99-7	Compact Capital Fund – Allowable Costs/Cost Principles

Unresolved federal findings for fiscal year 2000:

<u>Page No.</u>	<u>Finding No.</u>	<u>Description</u>
72	2000-2	Allowable Costs/Costs Principles
74	2000-4	Allowable Costs/Costs Principles
75	2000-5	Allowable Costs/Costs Principles

Unresolved federal findings for fiscal year 2002:

<u>Page No.</u>	<u>Finding No.</u>	<u>Description</u>
68	2002-3	Allowable Costs/Cost Principles
69	2002-4	Procurement
70	2002-5	Allowable Costs/Cost Principles