

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

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

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**YEAR ENDED SEPTEMBER 30, 2005**

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

YEAR ENDED SEPTEMBER 30, 2005

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

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**YEAR ENDED SEPTEMBER 30, 2005**

## 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 (the State), as of and for the year ended September 30, 2005, which collectively comprise the State'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. Our responsibility is to express an opinion on the respective financial statements based on our audit.

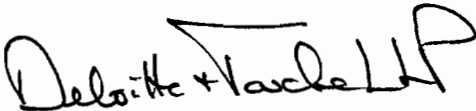
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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'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 provides a reasonable basis for our opinion.

In our opinion, 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, 2005, 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 39 and 40, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the management of the State. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the State's respective financial statements that collectively comprise the State's basic financial statements. The combining and individual fund financial statements, as set forth in Section IV of the foregoing table of contents, which are also the responsibility of the management of the State, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the State. Such additional information has been subjected to the auditing procedures applied in our 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2006, on our consideration of the State'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 considered in assessing the results of our audit.

A handwritten signature in black ink, appearing to read "Deloitte + Touche LLP". The signature is stylized and includes a large, sweeping flourish that extends upwards and to the right.

May 22, 2006

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis  
September 30, 2005

This section of Pohnpei State's financial report presents our Management's Discussion and Analysis (MD&A) for the fiscal year ended September 30, 2005. This is the third 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 \$43,697,982.
- The net change in governmental funds fund balance is \$390,760. The total revenues reported are \$30,489,903 with the total expenditures of \$30,099,143.
- Actual revenues for the general fund were \$1,976,335 higher than budgeted revenues and the total expenditures, budgetary basis showed unfavorable variance of \$170,224. The general fund reported an unreserved fund balance of \$3,157,139 for 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 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, accounts for the State's current year's revenues and expenses regardless of when cash is received or paid.

The government-wide financial statements of the State consist of its 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 sources of these activities. Compact II/Sector grants replace 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.

- 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



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FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis  
September 30, 2005

requirements of the State. Because this information does not encompass the additional long-term focus of the government wide statements, we provide reconciliation at the bottom of the governmental funds statement, 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>2005</u>	<u>2004</u>
Current and other assets	\$ 18,423,640	\$ 18,029,829
Capital assets	18,542,156	17,958,983
Other non current assets	<u>15,548,791</u>	<u>15,905,901</u>
Total assets	<u>52,514,587</u>	<u>51,894,713</u>
Current liabilities	2,695,575	3,247,192
Long-term debt	4,200,000	4,200,000
Other liabilities	<u>1,921,030</u>	<u>1,778,780</u>
Total liabilities	<u>8,816,605</u>	<u>9,225,972</u>
Net Assets:		
Invested in capital assets, net of related debt	18,542,156	17,958,983
Restricted	18,498,826	19,937,452
Unrestricted fund balance	<u>6,657,000</u>	<u>4,772,306</u>
Total net assets	<u>\$ 43,697,982</u>	<u>\$ 42,668,741</u>

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

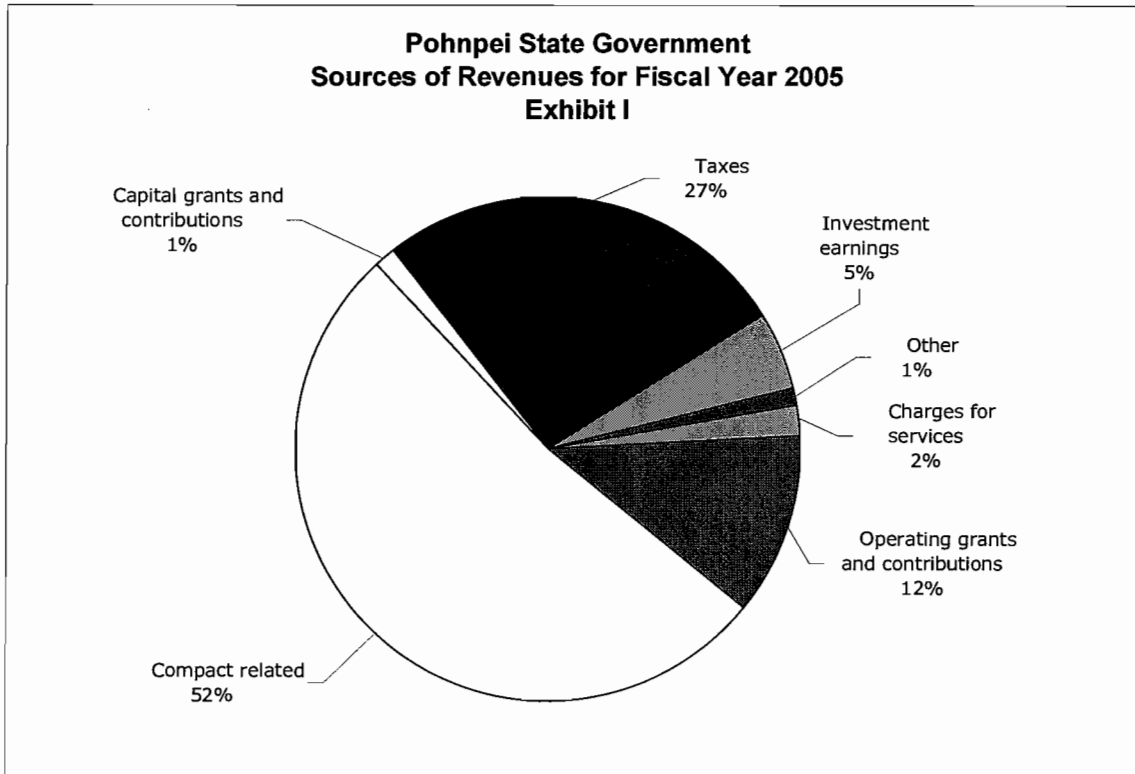
	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Program revenues:		
Charges for services	\$ 633,934	\$ 403,469
Operating grants and contributions	3,509,463	4,562,809
Compact related	15,962,149	15,431,471
Capital grants and contributions	354,778	578,260
General revenues:		
Taxes	8,155,747	7,492,557
Investment earnings	1,550,495	669,437
Other	<u>323,337</u>	<u>6,434,860</u>
Total revenues	<u>30,489,903</u>	<u>35,572,863</u>

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FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis  
September 30, 2005

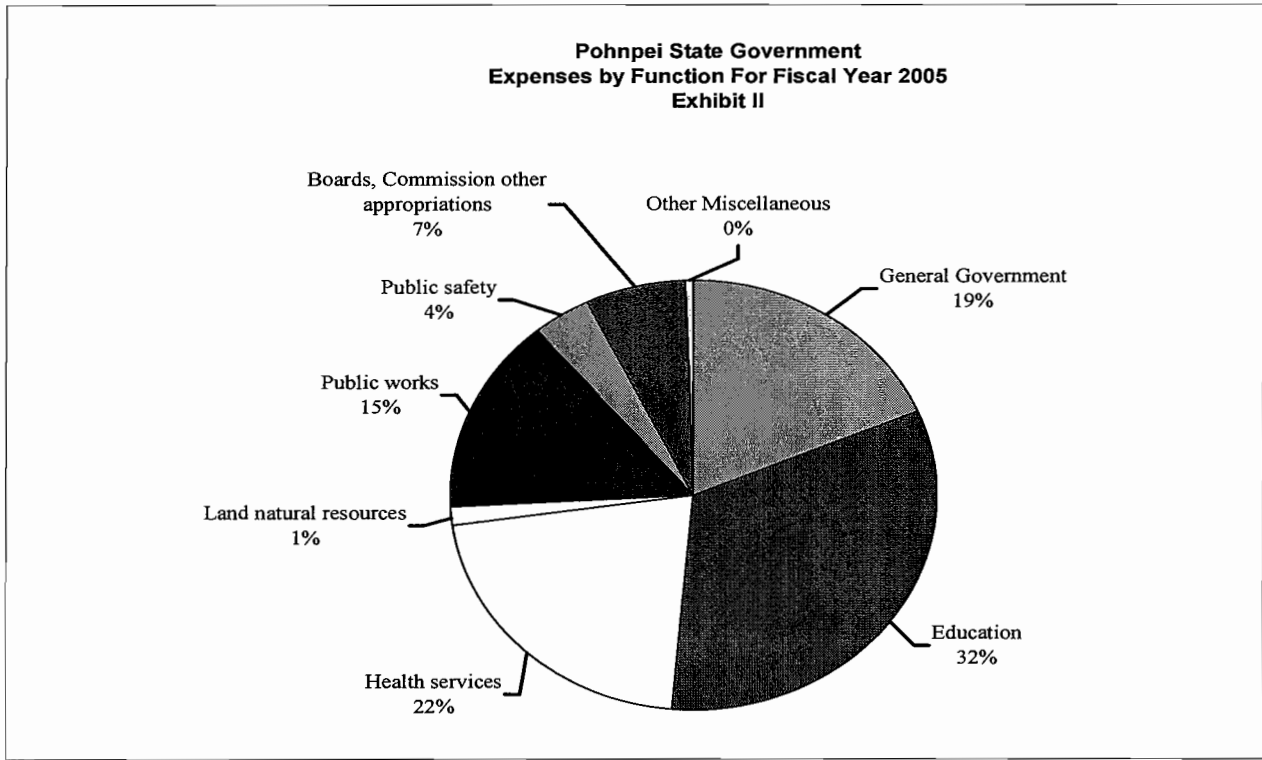
	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Expenses:		
General Government	5,859,081	5,316,602
Education	10,299,719	10,478,844
Health services	6,766,282	6,320,838
Land natural resources	403,758	290,297
Public works	4,652,816	5,764,919
Public safety	1,153,324	1,101,446
Boards, Commission and other appropriations	2,165,763	2,033,821
Other Miscellaneous	<u>140,400</u>	<u>1,191,944</u>
 Total expenses	 <u>31,441,143</u>	 <u>32,498,711</u>
 Increase (decrease) in net assets	 \$ <u>(951,240)</u>	 \$ <u>3,074,152</u>

Exhibit I below, showed that 52% of the State's revenues were derived from Compact II while 27% come from taxes and licenses. As expected the least source of revenues is other revenues. For expenses the State's encompass a range of services. Exhibit II illustrated that education got 32% of the State's total expenses while health represented 22%.



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis  
September 30, 2005



**Governmental Activities:**

**General Fund**

The revenues decreased by \$4,747,738 compared with fiscal year 2004 and the total expenditures also decreased by \$198,641 or 2.57 %. The 33.93 % decrease in revenues is due to “other revenues” that were recorded in fiscal year 2004 and were not realized for the year. Similar to fiscal year 2004, the major funding for the year for the operating expenditures comes from Compact II and was reported under Special Revenue funds; hence explained the slight decrease in expenditures.

**Special Revenue**

As mentioned in the preceding paragraph, Compact II/Sector Grants were the major sources of Pohnpei State’s operating grants for fiscal year 2005. The total revenues equals the expenditures in the amount of \$15,962,149 which are discussed 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 \$6,896,132.
- 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 \$5,998,019.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis  
September 30, 2005

- The sector grant for private sector development shall support the efforts of the Federated 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 \$648,386 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 \$1,417,685.
- 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 \$650,295 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.
- 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 Early Childhood Program (formerly Head Start). The SEG funding for the fiscal year was not released in time to cover expenses for the Early Childhood expenses. The grant ended May 31, 2005. On June 1, 2005, the Office of Insular Affairs agreed for the use of the State's local funds to support SEG (Early Childhood Program) expenses. The expenses were authorized as allowable pre-award costs subject to reimbursements. For the year, the total expenses incurred were \$351,632.

Another major source of funding under Special Revenue funds is the US Federal Grants, which supported \$ 3,539,148 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 CIP 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, 2005 are shown below.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis  
September 30, 2005

	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
Revenues:			
Taxes	\$ 7,735,182	\$ 420,565	\$ 8,155,747
Compact	-	15,962,149	15,962,149
Other	<u>1,508,153</u>	<u>4,863,854</u>	<u>6,372,007</u>
Total revenues	<u>9,243,335</u>	<u>21,246,568</u>	<u>30,489,903</u>
Expenditures	<u>7,516,900</u>	<u>22,582,243</u>	<u>30,099,143</u>
Net change in fund balance	\$ <u>1,726,435</u>	\$ <u>(1,335,675)</u>	\$ <u>390,760</u>

**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 net change in fund balance of \$1,726,435 comes mainly from investment income which registered at \$1,184,816 for the year.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

Capital Assets

The State's capital assets at the end of fiscal years 2005 and 2004 consist basically of equipment, buildings, roads and bridges. The summary of capital assets at the end of September 30 is shown below:

	<u>Primary Government Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Buildings	\$ 6,294,579	\$ 10,806,412
Infrastructure	20,870,910	16,673,311
Machinery	<u>5,985,609</u>	<u>3,972,755</u>
Total	\$ <u>33,151,098</u>	\$ <u>31,452,478</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>2005</u>	<u>2004</u>
Early Retirement	\$ 4,200,000	\$ 4,200,000
Compensated absences	587,030	484,788
Claims and litigation	<u>1,334,000</u>	<u>1,293,992</u>
Total	\$ <u>6,121,030</u>	\$ <u>5,978,780</u>

**STATE OF POHNPEI  
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Management's Discussion and Analysis  
September 30, 2005

**Economic Factors and Next Year's Budget**

Funding for the operations of most of the government services in fiscal year 2006 will still come from the Compact II.

Fiscal year 2006 is the third 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 for fiscal year 2006 is as follows:

- For education sector grant, which continues to be the funding priority, the annual budget is \$6,978,447.
- The health sector grant's budget is \$4,898,393.
- The sector grant funding for private sector development is \$887,817.
- The capacity building sector grant budget for fiscal year 2005 is \$759,254.
- The environment sector grant is \$665,807.
- The total grants for the Public Infrastructure for three years amounted to \$11,000,000. Priority projects are education, health related and private sector development. It is also required that 5% of the total grant be allocated to the Infrastructure Maintenance fund for the maintenance of the existing and new projects. Local matching of the same amount is required.
- In the case of the Supplemental Education Grant (SEG), the total funding from September 1, 2005 from March 31, 2007 is \$3,352,563. The programs covered in the funding are Early Childhood Education, Education Improvement Programs, Workforce Development/Skill Training, Vocational Education and Staff Development.

The locally generated revenues and the revenue share 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, 2005

	Primary Government	Component Units
<b><u>ASSETS</u></b>		
Current assets:		
Cash and cash equivalents	\$ 430,171	\$ 2,550,871
Investments	8,900,303	1,103,400
Receivables, net of allowance for uncollectibles	8,646,974	7,999,949
Advances	403,466	-
Inventories	42,726	1,713,345
Other current assets	-	220,133
Total current assets	18,423,640	13,587,698
Noncurrent assets:		
Capital assets, net of accumulated depreciation	18,542,156	34,757,551
Due from component units	2,963,564	-
Restricted assets:		
Cash and cash equivalents	1,106,332	852,218
Investments	11,478,895	-
Total noncurrent assets	34,090,947	35,609,769
Total assets	\$ 52,514,587	\$ 49,197,467
<b><u>LIABILITIES</u></b>		
Current liabilities:		
Current portion of long-term obligations	\$ -	\$ 636,856
Accounts payable	1,068,093	2,816,762
Compensated absences payable	194,297	-
Other liabilities and accruals	1,433,185	1,905,212
Deferred revenue	-	473,592
Total current liabilities	2,695,575	5,832,422
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	4,200,000	2,747,515
Compensated absences payable	587,030	-
Due to primary government	-	3,074,578
Other noncurrent liabilities	1,334,000	-
Total noncurrent liabilities	6,121,030	5,822,093
Total liabilities	8,816,605	11,654,515
<b><u>NET ASSETS</u></b>		
Invested in capital assets, net of related debt	18,542,156	31,473,180
Restricted for:		
Compact related	6,708,631	-
Capital projects	1,036,786	-
Future operations	7,717,747	-
Other purposes	3,035,662	5,217,586
Unrestricted	6,657,000	852,186
Total net assets	43,697,982	37,542,952
Total liabilities and net assets	\$ 52,514,587	\$ 49,197,467

See accompanying notes to basic financial statements.

STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA

Statement of Activities  
Year Ended September 30, 2005

	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
<b>Functions/Programs</b>						
<b>Primary government:</b>						
<b>Governmental activities:</b>						
General government	\$ 5,617,046	\$ 370,850	\$ 2,819,946	\$ 97,635	\$ (2,328,615)	\$ -
Land and natural resources	403,758	-	137,240	-	(266,518)	-
Education	10,299,719	-	9,999,041	4,645	(296,033)	-
Health services	6,766,282	263,084	6,515,385	9,399	21,586	-
Public safety	1,153,324	-	-	-	(1,153,324)	-
Attorney-general	242,035	-	-	-	(242,035)	-
Public works and transportation	9,318	-	-	-	(9,318)	-
Economic development	-	-	-	-	-	-
Municipal governments	2,165,763	-	-	-	(2,165,763)	-
Debt service	140,400	-	-	-	(140,400)	-
Future operations	-	-	-	233,689	233,689	-
Capital projects	1,885,229	-	-	9,410	(1,875,819)	-
Other appropriations	2,758,269	-	-	-	(2,758,269)	-
<b>Total primary government</b>	<b>\$ 31,441,143</b>	<b>\$ 633,934</b>	<b>\$ 19,471,612</b>	<b>\$ 354,778</b>	<b>(10,980,819)</b>	<b>-</b>
<b>Component units:</b>						
Pohnpei Utilities Corporation	\$ 12,599,106	\$ 9,042,447	\$ -	\$ 1,547,796	-	(2,008,863)
Pohnpei Port Authority	1,243,470	1,620,734	-	-	-	377,264
Pohnpei Fisheries Corporation	665,243	287,359	-	-	-	(377,884)
Pohnpei Transportation Authority	1,864,112	1,839,589	-	-	-	(24,523)
Small Business Guarantee and Finance Corporation	96,830	10,917	70,530	-	-	(15,383)
Economic Development Authority	706,035	437,336	-	-	-	(268,699)
Pohnpei State Housing Authority	416,693	-	99,017	-	-	(317,676)
<b>Total component units</b>	<b>\$ 17,591,489</b>	<b>\$ 13,238,382</b>	<b>\$ 169,547</b>	<b>\$ 1,547,796</b>	<b>-</b>	<b>(2,635,764)</b>
<b>General revenues:</b>						
<b>Taxes:</b>						
Revenue sharing					4,635,134	-
Excise taxes					3,520,613	-
Unrestricted investment earnings					1,550,495	173,117
Other					323,337	609,288
<b>Total general revenues and transfers</b>					<b>10,029,579</b>	<b>782,405</b>
Change in net assets					(951,240)	(1,853,359)
Net assets at the beginning of the year as restated					44,649,222	39,396,311
Net assets at the end of the year					<b>\$ 43,697,982</b>	<b>\$ 37,542,952</b>

See accompanying notes to basic financial statements.



STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA

Balance Sheet  
Governmental Funds  
September 30, 2005

	General	Special Revenue		Capital Projects	Permanent	Other Governmental Funds	Total
		U.S Federal Grants	Compact Sector Grants	Compact Capital Projects	Compact Trust		
<b>ASSETS</b>							
Cash and cash equivalents	\$ 430,171	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 430,171
Investments	5,058,633	-	-	1,648,817	-	2,192,853	8,900,303
Receivables, net:							
FSM National Government	-	1,419,928	1,088,162	-	-	412,957	2,921,047
Taxes	1,460,496	-	-	-	-	-	1,460,496
Other	4,260,369	-	-	1,134	-	3,928	4,265,431
Due from component units	513,564	-	-	2,450,000	-	-	2,963,564
Due from other funds	3,148,698	-	182,008	743,431	-	4,239,642	8,313,779
Advances	98,756	123,446	132,538	27,426	-	21,300	403,466
Inventories	985	-	-	-	-	41,741	42,726
Restricted assets:							
Cash and cash equivalents	470,715	-	-	635,617	-	-	1,106,332
Investments	-	-	-	-	7,717,747	3,761,148	11,478,895
Total assets	\$ 15,442,387	\$ 1,543,374	\$ 1,402,708	\$ 5,506,425	\$ 7,717,747	\$ 10,673,569	\$ 42,286,210
<b>LIABILITIES AND FUND BALANCES</b>							
<b>Liabilities:</b>							
Accounts payable	\$ 154,322	\$ 156,547	\$ 415,281	\$ 34,251	\$ -	\$ 307,692	\$ 1,068,093
Other liabilities and accruals	851,280	53,735	393,320	-	-	134,850	1,433,185
Due to other funds	5,165,081	1,333,092	584,528	-	-	1,231,078	8,313,779
Total liabilities	6,170,683	1,543,374	1,393,129	34,251	-	1,673,620	10,815,057
<b>Fund balances:</b>							
<b>Reserved for:</b>							
Related assets	1,642,912	-	-	4,242,600	7,717,747	41,741	13,645,000
Encumbrances	54,944	537,566	396,857	483,426	-	295,181	1,767,974
Continuing appropriations	167,575	-	-	1,343,156	-	755,814	2,266,545
Compact programs	4,249,134	-	9,579	-	-	-	4,258,713
Debt service fund	-	-	-	-	-	3,761,148	3,761,148
<b>Unreserved:</b>							
General fund	3,157,139	-	-	-	-	-	3,157,139
Special revenue funds	-	(537,566)	(396,857)	-	-	3,576,672	2,642,249
Debt service fund	-	-	-	-	-	(26,527)	(26,527)
Capital projects funds	-	-	-	(597,008)	-	595,919	(1,089)
Total fund balances	9,271,704	-	9,579	5,472,174	7,717,747	8,999,949	31,471,153
Total liabilities and fund balances	\$ 15,442,387	\$ 1,543,374	\$ 1,402,708	\$ 5,506,425	\$ 7,717,747	\$ 10,673,569	

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

18,542,156

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 (781,327)  
    Claims payable (1,334,000)

(6,315,327)

Net assets of governmental activities

\$ 43,697,982

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, 2005

	Special Revenue			Capital Projects	Permanent	Other Governmental Funds	Total
	General	U.S Federal Grants	Compact Sector Grants	Compact Capital Projects	Compact Trust		
<b>Revenues:</b>							
Compact funding	\$ -	\$ -	\$ 15,962,149	\$ -	\$ -	\$ -	\$ 15,962,149
Investment income	1,184,816	-	3,841	9,410	233,689	365,679	1,797,435
Federal contributions	-	2,421,184	-	-	-	-	2,421,184
FSM revenue sharing	4,635,134	-	-	-	-	-	4,635,134
State taxes	3,100,048	-	-	-	-	420,565	3,520,613
CFSM grants	-	-	-	-	-	52,061	52,061
Other grants	-	1,117,964	-	-	-	26,092	1,144,056
Fees and charges	-	-	-	-	-	633,934	633,934
Other	323,337	-	-	-	-	-	323,337
<b>Total revenues</b>	<b>9,243,335</b>	<b>3,539,148</b>	<b>15,965,990</b>	<b>9,410</b>	<b>233,689</b>	<b>1,498,331</b>	<b>30,489,903</b>
<b>Expenditures:</b>							
<b>Current:</b>							
General government	2,360,894	137,106	2,716,366	-	-	937,825	6,152,191
Land and natural resources	258,362	137,240	-	-	-	-	395,602
Education	757	2,747,436	7,247,764	-	-	(207)	9,995,750
Health services	-	517,366	5,998,019	-	-	92,450	6,607,835
Public safety	1,099,217	-	-	-	-	-	1,099,217
Office of the Attorney-General	242,035	-	-	-	-	-	242,035
Public works	-	-	-	-	-	9,318	9,318
Payments to non-governmental agencies	135,766	-	-	-	-	-	135,766
Boards, commissions and other	1,095,278	-	-	-	-	15,931	1,111,209
Grants to local governments	2,165,763	-	-	-	-	-	2,165,763
Bad Debts	158,828	-	-	-	-	-	158,828
Debt service	-	-	-	-	-	140,400	140,400
Capital projects	-	-	-	1,493,678	-	391,551	1,885,229
<b>Total expenditures</b>	<b>7,516,900</b>	<b>3,539,148</b>	<b>15,962,149</b>	<b>1,493,678</b>	<b>-</b>	<b>1,587,268</b>	<b>30,099,143</b>
<b>Net change in fund balances</b>	<b>1,726,435</b>	<b>-</b>	<b>3,841</b>	<b>(1,484,268)</b>	<b>233,689</b>	<b>(88,937)</b>	<b>390,760</b>
<b>Fund balances at the beginning of the year</b>	<b>7,545,269</b>	<b>-</b>	<b>5,738</b>	<b>6,956,442</b>	<b>7,484,058</b>	<b>9,088,886</b>	<b>31,080,393</b>
<b>Fund balances at the end of the year</b>	<b>\$ 9,271,704</b>	<b>\$ -</b>	<b>\$ 9,579</b>	<b>\$ 5,472,174</b>	<b>\$ 7,717,747</b>	<b>\$ 8,999,949</b>	<b>\$ 31,471,153</b>

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, 2005

Amounts reported for governmental activities in the statement of activities on page 11 are different than the net change in fund balances because:

Net change in fund balances - total governmental funds from page 13	\$ 390,760
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period	(1,397,308)
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>55,308</u>
Change in net assets of governmental activities as presented on page 11.	\$ <u>(951,240)</u>

See accompanying notes to basic financial statements.

STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA

Combining Statement of Net Assets  
Component Units  
September 30, 2005

	Pohnpei Corporation	Pohnpei Port Authority	Pohnpei Fisheries Corporation	Pohnpei Transportation Authority	Small Business Guarantee and Finance Corporation	Economic Development Authority	Pohnpei Housing Authority	Total
<b>ASSETS</b>								
Current assets:								
Cash and cash equivalents	\$ 333,314	\$ 616,056	\$ (189)	\$ -	\$ 1,578,465	\$ -	\$ 23,225	\$ 2,550,871
Investments	601,000	-	-	-	-	502,400	-	1,103,400
Receivables, net:								
General	3,048,181	322,666	42,385	206,933	5,946	167,709	3,241,310	7,035,130
Other	825,333	4,268	-	78,579	6,372	18,931	31,336	964,819
Inventories	1,522,861	-	45,612	144,647	-	100	125	1,713,345
Other current assets	1,130	-	4,163	-	-	-	214,840	220,133
Restricted assets:								
Cash and cash equivalents	481,702	326,413	-	-	-	-	-	808,115
Total current assets	6,813,521	1,269,403	91,971	430,159	1,590,783	689,140	3,510,836	14,395,813
Noncurrent assets:								
Capital assets, net of accumulated depreciator	28,719,385	4,820,143	829,039	203,501	124,030	46,669	14,784	34,757,551
Other	-	-	44,103	-	-	-	-	44,103
Total noncurrent assets	28,719,385	4,820,143	873,142	203,501	124,030	46,669	14,784	34,801,654
Total assets	\$ 35,532,906	\$ 6,089,546	\$ 965,113	\$ 633,660	\$ 1,714,813	\$ 735,809	\$ 3,525,620	\$ 49,197,467
<b>LIABILITIES</b>								
Current liabilities:								
Current portion of long-term debt	\$ 636,856	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 636,856
Accounts payable	1,228,304	108,317	1,104,507	20,379	3,740	351,515	-	2,816,762
Other liabilities and accruals	203,950	158,203	1,204,552	46,649	2,234	283,744	5,880	1,905,212
Deferred revenue	149,417	310,432	-	13,743	-	-	-	473,592
Due to primary government	-	-	2,450,000	513,578	-	111,000	-	3,074,578
Total current liabilities	2,218,527	576,952	4,759,059	594,349	5,974	746,259	5,880	8,907,000
Noncurrent liabilities:								
Noncurrent portion of long-term debt	2,747,515	-	-	-	-	-	-	2,747,515
Total liabilities	4,966,042	576,952	4,759,059	594,349	5,974	746,259	5,880	11,654,515
<b>NET ASSETS</b>								
Invested in capital assets, net of related debt	25,435,014	4,820,143	829,039	203,501	124,030	46,669	14,784	31,473,180
Restricted	127,821	-	-	-	1,584,809	-	3,504,956	5,217,586
Unrestricted	5,004,029	692,451	(4,622,985)	(164,190)	-	(57,119)	-	852,186
Total net assets	30,566,864	5,512,594	(3,793,946)	39,311	1,708,839	(10,450)	3,519,740	37,542,952
	\$ 35,532,906	\$ 6,089,546	\$ 965,113	\$ 633,660	\$ 1,714,813	\$ 735,809	\$ 3,525,620	\$ 49,197,467

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, 2005

	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
<b>Operating revenues:</b>								
Charges for services	\$ 9,042,447	\$ 1,620,734	\$ 287,359	\$ 1,839,589	\$ 10,917	\$ -	\$ -	\$12,801,046
Sales	-	-	-	-	-	437,336	-	437,336
<b>Total operating revenues</b>	<b>9,042,447</b>	<b>1,620,734</b>	<b>287,359</b>	<b>1,839,589</b>	<b>10,917</b>	<b>437,336</b>	<b>-</b>	<b>13,238,382</b>
<b>Operating expenses:</b>								
Cost of services	7,265,568	-	549,671	-	-	494,176	-	8,309,415
Administration costs	3,424,998	1,039,287	115,572	1,746,794	94,348	211,859	403,156	7,036,014
Depreciation and amortization	1,908,540	204,183	-	117,318	2,482	-	13,537	2,246,060
<b>Total operating expenses</b>	<b>12,599,106</b>	<b>1,243,470</b>	<b>665,243</b>	<b>1,864,112</b>	<b>96,830</b>	<b>706,035</b>	<b>416,693</b>	<b>17,591,489</b>
<b>Operating income (loss)</b>	<b>(3,556,659)</b>	<b>377,264</b>	<b>(377,884)</b>	<b>(24,523)</b>	<b>(85,913)</b>	<b>(268,699)</b>	<b>(416,693)</b>	<b>(4,353,107)</b>
<b>Nonoperating revenues (expenses):</b>								
Contributions from the primary government	-	-	-	-	70,530	-	99,017	169,547
Interest income	4,039	6,267	-	-	26,774	-	136,037	173,117
Other	267,387	70,146	18,250	-	(4,378)	201,720	56,163	609,288
<b>Total nonoperating revenues (expenses), net</b>	<b>271,426</b>	<b>76,413</b>	<b>18,250</b>	<b>-</b>	<b>92,926</b>	<b>201,720</b>	<b>291,217</b>	<b>951,952</b>
<b>Capital contributions</b>	<b>1,547,796</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,547,796</b>
<b>Net income (loss)</b>	<b>(1,737,437)</b>	<b>453,677</b>	<b>(359,634)</b>	<b>(24,523)</b>	<b>7,013</b>	<b>(66,979)</b>	<b>(125,476)</b>	<b>(1,853,359)</b>
<b>Net assets at the beginning of the year</b>	<b>32,304,301</b>	<b>5,058,917</b>	<b>(3,434,312)</b>	<b>63,834</b>	<b>1,701,826</b>	<b>56,529</b>	<b>3,645,216</b>	<b>39,396,311</b>
<b>Net assets at the end of the year</b>	<b>\$30,566,864</b>	<b>\$ 5,512,594</b>	<b>\$ (3,793,946)</b>	<b>\$ 39,311</b>	<b>\$ 1,708,839</b>	<b>\$ (10,450)</b>	<b>\$ 3,519,740</b>	<b>\$37,542,952</b>

See accompanying notes to basic financial statements.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2005

(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, 2005

(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.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

i. Discretely Presented Component Units, Continued

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.

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.

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Kolonia, 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.



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide Financial Statements, Continued

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.
- 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 \$18,498,826 of restricted net assets, of which \$3,035,662 is restricted by enabling legislation.

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

C. Fund Financial Statements

The fund financial statements present a balance sheet and a statement of revenues, expenditures, and changes in fund balances for its major and aggregated non-major funds.

Major individual governmental funds are reported as separate columns in the fund financial statements pursuant to GASB reporting standards, with nonmajor governmental funds being combined into a single column.

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

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

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.

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.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

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.

v. Permanent Fund

This fund accounts for resources that are legally restricted to the extent that only earnings, and not principal, may be used to support programs for the benefit of the government.

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.

Compact Sector Grants 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.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

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.

F. Cash and Cash Equivalents

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.

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, 2005

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

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, 2005, investments of \$7,717,747 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 \$3,761,148 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.	\$ 217,120
Deposit with a local bank as remaining loan proceeds of the \$4,200,000 Early Retirement loan with Asian Development Bank.	8,049
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.	635,617
Deposit with a local bank restricted for the renovation of the Pohnpei International Airport and the State hospital.	<u>245,546</u>
	\$ <u>1,106,332</u>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

L. Capital Assets

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

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

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

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

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.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

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.

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, 2005, is represented by the following assets:

	General	U.S. Federal Grants	Section 211 Sector Grant	Compact Capital Projects	Compact Trust	Other Governmental Funds	Total
Investments	\$ -	\$ -	\$ -	\$ 1,000,000	\$ -	\$ -	\$ 1,000,000
Due from component units	513,564	-	-	-	-	-	513,564
Advances and grants receivable	689,511	-	-	3,242,600	-	-	3,932,111
Inventories	985	-	-	-	-	41,741	42,726
Restricted assets:							
Cash and cash equivalents	8,049	-	-	-	-	-	8,049
Investments	<u>430,803</u>	-	-	-	<u>7,717,747</u>	<u>3,761,148</u>	<u>11,909,698</u>
	<u>\$ 1,642,912</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,242,600</u>	<u>\$ 7,717,747</u>	<u>\$ 41,741</u>	<u>\$ 17,406,148</u>

The reserve for related assets within the General Fund and the Other Governmental Funds includes the amount of \$4,200,000 set aside for future repayment of the Early Retirement Program Loan.

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 2005, the State implemented 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 its service utility has declined significantly and unexpectedly.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

Q. New Accounting Standards, Continued

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this Statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of the State.

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 July 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other post employment 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.

In December 2004, GASB issued Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers*. GASB Technical Bulletin No. 2004-2 clarifies the requirements of GASB Statement Nos. 27 and 45 for recognition of pension and other postemployment benefit expenditures/expense and liabilities by cost-sharing employers. Management does not believe the implementation of this pronouncement will have a material effect on the financial statements of the State.

In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*. GASB Statement No. 47 establishes guidance for state and local governmental employers on accounting and financial reporting for termination benefits. These benefits include incentives for voluntary terminations (e.g., early retirement window programs) and severance payments with respect to involuntary terminations. 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.

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.



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

S. Restatement of Primary Government Governmental Activities Net Assets

Net assets, as previously reported September 30, 2004	\$ 42,668,741
Understatement of capital assets, net of accumulated depreciation, previously reported for governmental activities	<u>1,980,481</u>
Net assets, as restated September 30, 2004	\$ <u>44,649,222</u>

T. Component units have been restated as follows:

Balance as stated in the September 30, 2004 financial statements:	\$ 39,873,057
Pohnpei Transportation Authority	(404,989)
Small Business Guarantee and Finance Corporation	(7,013)
Economic Development Authority	<u>(64,744)</u>
Net assets, as restated September 30, 2004	\$ <u>39,396,311</u>

(2) Deposits and Investments

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 rate risk, disclosure is required of investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 40 also requires disclosure of formal policies related to deposit and investment risks.

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. The State has invested the majority of its excess Compact Funds in a pooled investment fund which is managed under the control of the Federated Development Authority, an entity comprised of the FSM National Government and its four component states. Investment income originating from the pool accrues to the General Fund.

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

The Federated Development Authority has selected investment managers who are given authority to buy and sell securities. These investment managers may invest in stocks, bonds and cash equivalents, for which minimum standards of quality of such investments at the time of purchase shall be as follows:

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2005

(2) Deposits and Investments, Continued

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

The equity portfolio shall be diversified among issues and industry classifications. No more than 25% of the equity portfolio may be invested in any single classification, as described by the Standard and Poors 500 Index, unless prior approval is received from the Secretary of Finance.

No investment may be made in a single corporate entity which exceeds 5% of the total assets of the fund at the time of purchase without prior approval of the Secretary of Finance.

A. Deposits

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

Category 1 Deposits that are federally insured or collateralized with securities held by the State or its agent in the State's name;

Category 2 Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in the State's name; or

Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in the State's name and non-collateralized deposits.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the State's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The State does not have a deposit policy for custodial credit risk.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2005

(2) Deposits and Investments, Continued

As of September 30, 2005, the carrying amount of the primary government's total cash and cash equivalents were \$1,536,503 and the corresponding bank balances were \$2,318,342. Of the bank balance amounts, \$2,318,342 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2005, 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. Accordingly, these deposits are exposed to custodial credit risk.

**B. Investments**

GASB Statement No. 3 previously required government entities to present investment risks in terms of whether the investments fell into the following categories:

Category 1 Investments that are insured or registered, or securities held by the State or its agent in the State's name;

Category 2 Investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the State's name; or

Category 3 Investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the State's name.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for investments falling into categories 1 and 2, and provided for disclosure requirements addressing other common risks of investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the element of custodial credit risk in GASB Statement No. 3.

As of September 30, 2005, the State's investments at fair value are as follows:

Fixed income securities:	
Domestic fixed income	\$ <u>3,597,366</u>
Other investments:	
Domestic equities	7,100,565
Money market funds	648,595
Cash management account	<u>8,032,672</u>
	<u>15,781,832</u>
	\$ <u>19,379,198</u>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2005

(2) Deposits and Investments, Continued

B. Investments, Continued

As of September 30, 2005, the State's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

	Credit Ratings	Investment Maturities (In Years)				Fair Value
		Less Than 1	1 to 5	6 to 10	Greater Than 10	
U.S. government obligations	Aaa	\$ 137,983	\$ 314,999	\$ 206,857	\$ 274,218	\$ 934,057
U.S. government agency obligations	Aaa	177,539	369,587	101,183	709,140	1,357,449
Municipal bonds	Aaa	-	-	-	28,873	28,873
Corporate notes and bonds	Aaa	11,787	141,891	142,447	11,644	307,769
Corporate notes and bonds	Aa1	-	11,339	-	-	11,339
Corporate notes and bonds	Aa2	-	38,415	24,377	-	62,792
Corporate notes and bonds	Aa3	-	101,448	73,774	2,939	178,161
Corporate notes and bonds	A1	21,153	63,652	12,442	37,830	135,077
Corporate notes and bonds	A2	66,646	67,707	40,731	18,233	193,317
Corporate notes and bonds	A3	-	84	-	-	84
Corporate notes and bonds	Baa1	-	34,407	82,669	32,426	149,502
Corporate notes and bonds	Baa2	-	39,389	37,918	50,137	127,444
Corporate notes and bonds	Baa3	-	-	34,700	13,535	48,235
Corporate notes and bonds	Not rated	-	35,229	14,200	13,838	63,267
		<u>\$ 415,108</u>	<u>\$ 1,218,147</u>	<u>\$ 771,298</u>	<u>\$ 1,192,813</u>	<u>\$ 3,597,366</u>

As of September 30, 2005, the General Fund 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.

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

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the State will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The State's investments are held and administered by trustees. Based on negotiated trust and custody contracts, all of these investments were held in the State's name by the State's custodial financial institutions at September 30, 2005.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the State. As of September 30, 2005, the State did not hold an investment in any one issuer that represented more than 5% of the State's total investments.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2005

(2) Deposits and Investments, Continued

B. Investments, Continued

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

(3) Receivables

Receivables as of September 30, 2005, 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
CFSM	-	1,707,806	1,088,162	-	-	406,217	3,202,185
Taxes	1,460,496	-	-	-	-	-	1,460,496
Other	<u>6,170,192</u>	<u>-</u>	<u>-</u>	<u>1,134</u>	<u>-</u>	<u>577,807</u>	<u>6,749,133</u>
	7,725,385	1,707,806	1,088,162	1,134	-	984,024	11,506,511
Less: allowance for uncollectibles	<u>(2,004,520)</u>	<u>(287,878)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(567,139)</u>	<u>(2,859,537)</u>
	<u>\$ 5,720,865</u>	<u>\$ 1,419,928</u>	<u>\$ 1,088,162</u>	<u>\$ 1,134</u>	<u>\$ -</u>	<u>\$ 416,885</u>	<u>\$ 8,646,974</u>

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

(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, 2005, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	U.S. Federal Grants	\$ 1,333,092
General	Section 211 Sector Grant	584,528
General	Nonmajor governmental funds	1,231,078
Compact Sector Grants	General	182,008
Compact Capital Projects	General	743,431
Nonmajor governmental funds	General	<u>4,239,642</u>
		<u>\$ 8,313,779</u>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2005

**(4) Interfund Receivables and Payables, Continued**

Receivables and payables between funds reflected as due to/from primary government in the statement of net assets at September 30, 2005, 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
Pohnpei Transportation Authority:		
General Fund	<u>-</u>	<u>513,564</u>
	<u>\$ -</u>	<u>\$ 2,963,564</u>

Receivables and payables between funds reflected as due to/from component units in the governmental funds balance sheet at September 30, 2005, are summarized as follows:

<u>Primary Government</u>	<u>Due From</u>	<u>Due To</u>
General Fund:		
Pohnpei Transportation Authority	\$ 513,564	\$ -
Compact Capital Projects Fund:		
Pohnpei Fisheries Corporation	<u>2,450,000</u>	<u>-</u>
	<u>\$ 2,963,564</u>	<u>\$ -</u>

**(5) Fixed Assets**

Capital asset activities for the year ended September 30, 2005, are as follows:

	<u>Balance October 1, 2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance September 30, 2005</u>
Governmental activities:				
Capital assets, being depreciated:				
Buildings	\$ 6,195,999	\$ 98,580	-	\$ 6,294,579
Machinery, equipment & others	5,569,825	415,784	-	5,985,609
Infrastructure	<u>20,870,910</u>	<u>-</u>	<u>-</u>	<u>20,870,910</u>
Total capital assets, being depreciated	32,636,734	514,364	-	33,151,098
Less accumulated depreciation for:				
Buildings	(1,485,036)	(124,078)	-	(1,609,114)
Machinery, equipment & others	(4,238,723)	(770,190)	-	(5,008,913)
Infrastructure	<u>(6,973,511)</u>	<u>(1,017,404)</u>	<u>-</u>	<u>(7,990,915)</u>
	<u>(12,697,270)</u>	<u>(1,911,672)</u>	<u>-</u>	<u>(14,608,942)</u>
Governmental activities capital assets, net	<u>\$ 19,939,464</u>	<u>\$ (1,397,308)</u>	<u>\$ -</u>	<u>\$ 18,542,156</u>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2005

**(5) Fixed Assets, Continued**

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

General government	\$ 34,527
Department of Land and Natural Resources	8,156
Education	303,969
Health services	158,447
Public safety	54,107
Boards and commissions	<u>1,352,466</u>
	<u>\$ 1,911,672</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.

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>
2006	\$ -	\$ -	\$ -
2007	-	-	-
2008	140,000	-	140,000
2009	140,000	-	140,000
2010	140,000	-	140,000
2011 - 2015	700,000	-	700,000
2016 - 2020	700,000	-	700,000
2021 - 2025	700,000	-	700,000
2026 - 2030	700,000	-	700,000
2031 - 2035	700,000	-	700,000
2036 - 2038	<u>280,000</u>	<u>-</u>	<u>280,000</u>
	<u>\$ 4,200,000</u>	<u>\$ -</u>	<u>\$ 4,200,000</u>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2005

(6) Long-term Obligations, Continued

Primary Government, Continued

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

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, 2005, \$3,761,148 has been deposited to the Trust Account, which is restricted for the repayment of this debt, and the remaining amount of \$438,852 is included in the General Fund reserve for debt service.

Other long-term liabilities will be liquidated in the future from governmental funds. During the year ended September 30, 2005, 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, 2004	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2005	Due Within One Year
Loan payable:					
ADB loan	\$ 4,200,000	\$ -	\$ -	\$ 4,200,000	\$ -
Other:					
Compensated absences	876,643	-	(95,316)	781,327	194,297
Claims and litigation payable	<u>1,293,992</u>	<u>40,008</u>	<u>-</u>	<u>1,334,000</u>	<u>-</u>
	<u>2,170,635</u>	<u>40,008</u>	<u>(95,316)</u>	<u>2,115,327</u>	<u>194,297</u>
	<u>\$ 6,370,635</u>	<u>\$ 40,008</u>	<u>\$ (95,316)</u>	<u>\$ 6,315,327</u>	<u>\$ 194,297</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 United States Department of Agriculture, Rural Utilities Service, due in monthly installments of \$2,654 commencing October 28, 2006. The loan is collateralized by a revenue bond. The loan bears a fixed interest rate of 4.5%. 578,000

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. 180,666

\$ 2,877,433



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2005

(6) Long-term Obligations, Continued

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

Year ending September 30,	Principal	Interest	Total
2006	\$ 129,918	\$ 33,517	\$ 163,435
2007	102,195	135,023	237,218
2008	51,063	42,477	93,540
2009	52,889	45,959	98,848
2010	53,659	45,189	98,848
2011 - 2015	280,536	213,704	494,240
2016 - 2020	302,920	191,320	494,240
2021 - 2025	328,449	165,791	494,240
2026 - 2030	357,779	136,461	494,240
2031 - 2035	391,724	102,516	494,240
2036 - 2040	431,293	62,947	494,240
2041 - 2045	395,008	19,424	414,432
	<u>\$ 2,877,433</u>	<u>\$ 1,194,328</u>	<u>\$ 4,071,761</u>

(7) 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, 2005 is \$1,898,845.

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 \$80,721 relating to fiscal years 2005 and prior have been detailed in the State's Single Audit Report for the year ended September 30, 2005. 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.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2005

(7) Contingencies and Commitments, Continued

Litigation

The State is party to several legal proceedings arising from governmental operations. Claims are filed with the State's Attorney General. Approved claims are usually paid under general appropriations to the affected government agency. The State Attorney General is of the opinion that the probable outcome of suits existing at September 30, 2005, is not predictable but could have a material impact on the accompanying financial statements. Such impact has currently been estimated to approximate \$1,334,000.

(8) Continuing Appropriations

Continuing appropriations as of September 30, 2005, are summarized as follows:

Major Governmental Funds

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. \$ 167,575

Compact Capital Projects Fund:

Each fiscal year, the Pohnpei State Legislature appropriates funds for capital projects and economic development projects. \$ 1,343,156

Nonmajor Governmental Funds

Each fiscal year, the Pohnpei State Legislature appropriates funds for various programs and other projects. \$ 755,814

(9) 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.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2005

(10) 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, 2005 (FSMDB fiscal year end), the outstanding fund balance aggregated \$719,915.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

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

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**YEAR ENDED SEPTEMBER 30, 2005**

STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual  
General Fund  
Year Ended September 30, 2005

	Budgeted Amounts		Actual - Budgetary	Variance with Final Budget -
	Original	Final	Basis (see Note 1)	
<b>Revenues:</b>				
FSM Revenue sharing	\$ 4,600,000	\$ 4,600,000	\$ 4,635,134	\$ 35,134
State taxes	2,315,000	2,315,000	3,100,048	785,048
Investment income	200,000	200,000	1,184,816	984,816
Other	152,000	152,000	323,337	171,337
Total revenues	<u>7,267,000</u>	<u>7,267,000</u>	<u>9,243,335</u>	<u>1,976,335</u>
<b>Expenditures:</b>				
<b>Current:</b>				
General government	2,193,003	2,197,438	2,360,894	(163,456)
Department of Land and Natural Resources	288,481	288,481	258,362	30,119
Department of Education	1,783	1,783	757	1,026
Department of Health Services	-	-	-	-
Department of Public Safety	1,096,947	1,096,947	1,099,217	(2,270)
Office of the Attorney-General	303,774	303,774	242,035	61,739
Other appropriations	1,140,473	1,140,473	1,095,278	45,195
Payments to Non-governmental Agencies	138,280	138,280	135,766	2,514
Grants to local governments	2,179,497	2,179,500	2,165,763	13,737
Bad debt expense	-	-	158,828	(158,828)
Total expenditures	<u>7,342,238</u>	<u>7,346,676</u>	<u>7,516,900</u>	<u>(170,224)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(75,238)</u>	<u>(79,676)</u>	<u>1,726,435</u>	<u>1,806,111</u>
<b>Other financing uses:</b>				
Operating transfers out	-	-	-	-
Net change in unreserved fund balance	<u>(75,238)</u>	<u>(79,676)</u>	<u>1,726,435</u>	<u>1,806,111</u>
<b>Other changes in unreserved fund balance:</b>				
Increase in reserve for related assets	-	-	(1,200,098)	(1,200,098)
Increase in encumbrances	-	-	(48,785)	(48,785)
Decrease in reserve for Compact programs	-	-	374,246	374,246
Decrease in reserve for debt service	-	-	733,131	733,131
Increase in reserve for continuing appropriations	-	-	(11,132)	(11,132)
Unreserved fund balance at the beginning of the year	<u>1,583,342</u>	<u>1,583,342</u>	<u>1,583,342</u>	<u>-</u>
Unreserved fund balance at the end of the year	<u>\$ 1,508,104</u>	<u>\$ 1,503,666</u>	<u>\$ 3,157,139</u>	<u>\$ 1,653,473</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, 2005

(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 Fund Balance - Budget and Actual - General Fund (which are presented on a non-GAAP budgetary basis) are reconciled to unreserved fund balance of the Governmental Fund Balance Sheet within the other changes in unreserved fund balance 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**

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**OTHER SUPPLEMENTARY INFORMATION**

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**YEAR ENDED SEPTEMBER 30, 2005**

STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA

Combining Schedule of Expenditures by Account  
Governmental Funds  
Year Ended September 30, 2005

	General	Special Revenue		Capital	Permanent	Other Governmental Funds	Total
		U.S Federal Grants	Section 211 Sector Grant	Projects Compact Capital Projects	Section 215 Compact Trust		
Expenditures:							
Salaries and wages	\$ 3,886,072	\$ 1,295,834	\$ 10,478,375	\$ 13,080	\$ -	\$ 120,361	\$ 15,793,722
Grants and subsidies	38,280	-	234,329	-	-	-	272,609
Contractual services	80,805	1,100,442	320,332	1,400,948	-	308,924	3,211,451
Capital outlay	123,466	215,413	298,091	28,320	-	163,464	828,754
Utilities	18,620	22,586	569,840	863	-	261,355	873,264
Travel	120,861	287,014	296,932	25,015	-	49,685	779,507
Supplies and materials	170,439	457,264	494,709	19,224	-	133,733	1,275,369
Medical supplies	-	3,728	1,490,708	-	-	23,951	1,518,387
Medical referral	-	-	484,464	-	-	49,950	534,414
Scholarship and training	1,783	10	293,988	-	-	(4,412)	291,369
POL	27,038	32,636	57,161	500	-	277,552	394,887
Communications	91,408	41,379	112,747	12,941	-	12,812	271,287
Food stuffs	56,905	(500)	260,704	(176)	-	4,494	321,427
Rentals	5,232	5,702	3,009	-	-	197	14,140
Principal and interest payments	40,547	-	-	-	-	71,400	111,947
Repairs and maintenance	27,068	16,934	67,929	(7,500)	-	3,201	107,632
Printing and reproduction	18,395	6,319	42,265	-	-	945	67,924
Freight	1,616	11,707	16,988	463	-	5,301	36,075
Other	2,808,365	42,680	439,578	-	-	104,355	3,394,978
	<u>\$ 7,516,900</u>	<u>\$ 3,539,148</u>	<u>\$ 15,962,149</u>	<u>\$ 1,493,678</u>	<u>\$ -</u>	<u>\$ 1,587,268</u>	<u>\$ 30,099,143</u>

See Accompanying Independent Auditors' Report.



STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA

Statement of Revenues, Expenditures by Function, and Changes in Fund Balances  
General Fund

Year Ended September 30, 2005

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

	2005	2004
<b>Revenues:</b>		
FSM Revenue sharing	\$ 4,635,134	\$ 4,761,789
<b>State taxes:</b>		
Sales tax	2,875,233	2,130,645
Hotel tax	58,847	57,764
Use tax	-	703
Tax penalties	165,968	223,877
	3,100,048	2,412,989
Investment income	1,184,816	381,435
Other revenues	323,337	6,434,860
Total revenues	9,243,335	13,991,073
<b>Expenditures:</b>		
<b>Current:</b>		
<b>General government:</b>		
Governor and staff	411,094	378,180
Department of Treasury and Administration	432,440	229,744
Judiciary Branch	6,146	8,610
Legislative Branch	1,511,214	1,504,594
Public Auditor	-	1,715
	2,360,894	2,122,843
<b>Department of Land and Natural Resources:</b>		
Office of the Director	57,418	48,362
Division of Public Land	51,449	65,406
Division of Surveying and Mapping	149,495	165,593
Division of Forestry and Marine Conservation	-	-
Division of Historic Preservation	-	-
	258,362	279,361
<b>Department of Education:</b>		
Division of Administration, Educational Services and Specialized Education	-	-
Division of Pre-School and Primary Education	(1,026)	42,378
Post-secondary education	1,783	1,988
	757	44,366
<b>Department of Health Services:</b>		
Division of Administration and Health Planning	-	-
Division of Medical Services	-	1,155
Division of Dental Services	-	(417)
Division of Primary Health Care	-	17
Food services	-	-
Buildings and grounds	-	-
Medical supplies	-	(1,273)
Medical coordinator in Honolulu	-	-
Hemodialysis	-	-
Outer island referral program	-	1
Health service pharmaceutical supplies	-	1,356
	-	839

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, 2005  
(with comparative totals for the year ended September 30, 2004)

	2005	2004
Expenditures, continued:		
Current, continued:		
Department of Public Safety:		
Office of the Director	\$ 93,310	\$ 82,579
Division of Police and Security	771,629	728,719
Division of Correction and Rehabilitation	<u>234,278</u>	<u>231,376</u>
	<u>1,099,217</u>	<u>1,042,674</u>
Office of the Attorney-General	<u>242,035</u>	<u>181,927</u>
Boards, Commissions and Other:		
Social Affairs	190,822	192,587
Transportation and Infrastructure	625,086	618,512
Election Commissioner	53,331	204,472
Environmental Protection Agency	-	-
Pohnpei Public Broadcasting Corporation	102,173	101,802
Pohnpei Health Care Plan	-	863
Ethics Commission	-	-
Foreign Investment Board	-	-
Economic Development Authority	-	-
Economic Planning Commission	-	2,098
Pohnpei Housing Authority	120,215	106,760
Small Business Guarantee and Finance Corporation	-	-
Pohnpei Land Commission	-	-
Palau Rock Island Air	-	500,000
Other	<u>3,651</u>	<u>78,466</u>
	<u>1,095,278</u>	<u>1,805,560</u>
Payments to Non-governmental Agencies:		
Aid to nonpublic schools	-	75,000
Pohnpei Public Library	-	-
Micronesia Legal Services Corporation	38,281	38,280
USDA Rural Development	97,485	90,870
Pohnpei Visitors Bureau	-	-
	<u>135,766</u>	<u>204,150</u>
Grants to local governments	<u>2,165,763</u>	<u>2,033,821</u>
Bad Debt Expense	<u>158,828</u>	<u>-</u>
Total expenditures	<u>7,516,900</u>	<u>7,715,541</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,726,435</u>	<u>6,275,532</u>
Other financing uses:		
Operating transfers out:		
U.S. Federal Grants Fund	-	(158,828)
Section 215 Compact Trust Fund	-	(2,500,000)
	<u>-</u>	<u>(2,658,828)</u>
Net change in fund balance	1,726,435	3,616,704
Fund balance at the beginning of the year	<u>7,545,269</u>	<u>3,928,565</u>
Fund balance at the end of the year	<u>\$ 9,271,704</u>	<u>\$ 7,545,269</u>

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, 2005

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Revenues:				
FSM Revenue sharing:	\$ 4,600,000	\$ 4,600,000	\$ 4,635,134	\$ 35,134
State taxes:				
Sales tax	2,200,000	2,200,000	2,875,233	675,233
Hotel tax	65,000	65,000	58,847	(6,153)
Use tax	-	-	-	-
Tax penalties	50,000	50,000	165,968	115,968
	<u>2,315,000</u>	<u>2,315,000</u>	<u>3,100,048</u>	<u>785,048</u>
Investment income	200,000	200,000	1,184,816	984,816
Other revenues	152,000	152,000	323,337	171,337
Total revenues	<u>7,267,000</u>	<u>7,267,000</u>	<u>9,243,335</u>	<u>1,976,335</u>
Expenditures:				
Current:				
General government:				
Governor and staff	439,209	439,209	411,094	28,115
Department of Treasury and Administration	205,718	208,471	432,440	(223,969)
Judiciary Branch	8,000	8,000	6,146	1,854
Legislative Branch	1,540,076	1,541,758	1,511,214	30,544
Public Auditor	-	-	-	-
	<u>2,193,003</u>	<u>2,197,438</u>	<u>2,360,894</u>	<u>(163,456)</u>
Department of Land and Natural Resources:				
Office of the Director	60,443	60,443	57,418	3,025
Division of Public Land	50,629	50,629	51,449	(820)
Division of Surveying and Mapping	177,409	177,409	149,495	27,914
	<u>288,481</u>	<u>288,481</u>	<u>258,362</u>	<u>30,119</u>
Department of Education:				
Division of Pre-School and Primary Education	-	-	(1,026)	1,026
Post-secondary education	1,783	1,783	1,783	-
	<u>1,783</u>	<u>1,783</u>	<u>757</u>	<u>1,026</u>
Department of Health Services:				
Division of Medical Services	-	-	-	-
Division of Dental Services	-	-	-	-
Division of Primary Health Care	-	-	-	-
Medical supplies	-	-	-	-
Outer island referral program	-	-	-	-
Health service pharmaceutical supplies	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Department of Public Safety:				
Office of the Director	93,989	93,989	93,310	679
Division of Police and Security	772,483	772,483	771,629	854
Division of Correction and Rehabilitation	230,475	230,475	234,278	(3,803)
	<u>1,096,947</u>	<u>1,096,947</u>	<u>1,099,217</u>	<u>(2,270)</u>
Office of the Attorney-General	303,774	303,774	242,035	61,739

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, 2005

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Expenditures, continued:				
Current, continued:				
Boards, Commissions and Other:				
Social Affairs	220,771	220,771	190,822	29,949
Transportation and Infrastructure	635,828	635,828	625,086	10,742
Election Commissioner	55,734	55,734	53,331	2,403
Pohnpei Public Broadcasting Corporation	107,915	107,915	102,173	5,742
Pohnpei Health Care Plan	-	-	-	-
Ethics Commission	-	-	-	-
Economic Planning Commission	-	-	-	-
Pohnpei Housing Authority	120,225	120,225	120,215	10
Palau Rock Island Air	-	-	-	-
Other	-	-	3,651	(3,651)
	<u>1,140,473</u>	<u>1,140,473</u>	<u>1,095,278</u>	<u>45,195</u>
Payments to Non-governmental Agencies:				
Aid to nonpublic schools	-	-	-	-
Micronesia Legal Services Corporation	38,280	38,280	38,281	(1)
USDA Rural Development	100,000	100,000	97,485	2,515
	<u>138,280</u>	<u>138,280</u>	<u>135,766</u>	<u>2,514</u>
Grants to local governments	2,179,497	2,179,500	2,165,763	13,737
Bad debt expense	-	-	158,828	(158,828)
Total expenditures	<u>7,342,238</u>	<u>7,346,676</u>	<u>7,516,900</u>	<u>(170,224)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(75,238)</u>	<u>(79,676)</u>	<u>1,726,435</u>	<u>1,806,111</u>
Other financing uses:				
Operating transfers out				
U.S. Federal Grants Fund	-	-	-	-
Section 215 Compact Trust Fund	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in unreserved fund balance (deficit)	<u>(75,238)</u>	<u>(79,676)</u>	<u>1,726,435</u>	<u>1,806,111</u>
Other changes in unreserved fund balance (deficit):				
Increase in reserve for related assets	-	-	(1,200,098)	(1,200,098)
Increase in encumbrances	-	-	(48,785)	(48,785)
Decrease in reserve for Compact programs	-	-	374,246	374,246
Decrease in reserve for debt service	-	-	733,131	733,131
Increase in reserve for continuing appropriations	-	-	(11,132)	(11,132)
Unreserved deficit at the beginning of the year	1,583,342	1,583,342	1,583,342	-
Unreserved fund balance (deficit) at the end of the year	<u>\$ 1,508,104</u>	<u>\$ 1,503,666</u>	<u>\$ 3,157,139</u>	<u>\$ 1,653,473</u>

See Accompanying Independent Auditors' Report.

STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA

Combined Balance Sheet  
Nonmajor Governmental Funds  
September 30, 2005

	Other Special Revenue	Other Debt Service	Other Capital Projects	Total
<u>ASSETS</u>				
Investments	\$ 2,192,853	\$ -	\$ -	\$ 2,192,853
Receivables, net:				
CFSM	401,282	-	11,675	412,957
Other	3,928	-	-	3,928
Due from other funds	3,017,647	184,640	1,037,355	4,239,642
Advances	16,098	-	5,202	21,300
Prepaid items	-	-	-	-
Inventories	41,741	-	-	41,741
Restricted assets:				
Investments	-	3,761,148	-	3,761,148
Total assets	<u>\$ 5,673,549</u>	<u>\$ 3,945,788</u>	<u>\$ 1,054,232</u>	<u>\$ 10,673,569</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ 79,079	\$ 211,167	\$ 17,446	\$ 307,692
Other liabilities and accruals	134,850	-	-	134,850
Due to other funds	1,212,693	-	18,385	1,231,078
Total liabilities	<u>1,426,622</u>	<u>211,167</u>	<u>35,831</u>	<u>1,673,620</u>
Fund balances:				
Reserved for:				
Related assets	41,741	-	-	41,741
Encumbrances	218,670	-	76,511	295,181
Continuing appropriations	409,843	-	345,971	755,814
Compact programs	-	-	-	-
Debt service	-	3,761,148	-	3,761,148
Unreserved:				
Special revenue funds	3,576,672	-	-	3,576,672
Debt service fund	-	(26,527)	-	(26,527)
Capital projects funds	-	-	595,919	595,919
Total fund balances	<u>4,246,927</u>	<u>3,734,621</u>	<u>1,018,401</u>	<u>8,999,949</u>
Total liabilities and fund balances	<u>\$ 5,673,549</u>	<u>\$ 3,945,788</u>	<u>\$ 1,054,232</u>	<u>\$ 10,673,569</u>

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, 2005

	Other Special Revenue	Other Debt Service	Other Capital Projects	Total
Revenues:				
Compact funding	\$ -	\$ -	\$ -	\$ -
Investment income	-	365,679	-	365,679
CFSM grants	52,061	-	-	52,061
Other grants	26,092	-	-	26,092
Sales tax	420,565	-	-	420,565
Fees and charges	633,934	-	-	633,934
	<u>1,132,652</u>	<u>365,679</u>	<u>-</u>	<u>1,498,331</u>
Total revenues				
Expenditures by function:				
Current:				
General government	937,825	-	-	937,825
Education	(207)	-	-	(207)
Health services	92,450	-	-	92,450
Public works	9,318	-	-	9,318
Boards, commissions and other	15,931	-	-	15,931
Debt service	-	140,400	-	140,400
Capital projects	-	-	391,551	391,551
	<u>1,055,317</u>	<u>140,400</u>	<u>391,551</u>	<u>1,587,268</u>
Total expenditures				
Net change in fund balances	77,335	225,279	(391,551)	(88,937)
Fund balances at the beginning of the year	<u>4,169,592</u>	<u>3,509,342</u>	<u>1,409,952</u>	<u>9,088,886</u>
Fund balances at the end of the year	<u>\$ 4,246,927</u>	<u>\$ 3,734,621</u>	<u>\$ 1,018,401</u>	<u>\$ 8,999,949</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, 2005

	Other Special Revenue	Other Debt Service	Other Capital Projects	Total
Revenues:				
Compact funding	\$ -	\$ -	\$ -	\$ -
Investment income	-	365,679	-	365,679
CFSM grants	52,061	-	-	52,061
Other grants	26,092	-	-	26,092
Sales tax	420,565	-	-	420,565
Fees and charges	633,934	-	-	633,934
<b>Total revenues</b>	<b>1,132,652</b>	<b>365,679</b>	<b>-</b>	<b>1,498,331</b>
Expenditures by account:				
Salaries and wages	120,361	-	-	120,361
Contractual services	77,186	-	231,738	308,924
Utilities	261,355	-	-	261,355
Supplies and materials	76,646	-	57,087	133,733
POL	277,552	-	-	277,552
Medical supplies	23,951	-	-	23,951
Scholarship and training	(4,412)	-	-	(4,412)
Capital outlay	85,224	-	78,240	163,464
Travel	25,199	-	24,486	49,685
Communications	12,812	-	-	12,812
Medical referral	49,950	-	-	49,950
Repairs and maintenance	3,201	-	-	3,201
Printing and reproduction	945	-	-	945
Freight	5,301	-	-	5,301
Rent	197	-	-	197
Food stuffs	4,494	-	-	4,494
Principal and interest payments	-	71,400	-	71,400
Other	35,355	69,000	-	104,355
<b>Total expenditures</b>	<b>1,055,317</b>	<b>140,400</b>	<b>391,551</b>	<b>1,587,268</b>
<b>Net change in fund balances</b>	<b>77,335</b>	<b>225,279</b>	<b>(391,551)</b>	<b>(88,937)</b>
Fund balances at the beginning of the year	4,169,592	3,509,342	1,409,952	9,088,886
Fund balances at the end of the year	<u>\$ 4,246,927</u>	<u>\$ 3,734,621</u>	<u>\$ 1,018,401</u>	<u>\$ 8,999,949</u>

See Accompanying Independent Auditors' Report.

STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA  
NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS

Combining Balance Sheet  
September 30, 2005

	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
<b>ASSETS</b>									
Investments	\$ 523,856	\$ 1,668,997	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receivables, net:									
CFSM	-	347,448	23,056	30,778	-	-	-	-	-
Other	-	-	-	3,928	-	-	-	-	-
Due from other funds	-	-	-	-	22,399	8,781	22,273	22,944	986,997
Advances	2,653	-	4,269	5,106	-	-	-	-	-
Inventories	-	-	-	-	41,741	-	-	-	-
Total assets	\$ 526,509	\$ 2,016,445	\$ 27,325	\$ 39,812	\$ 64,140	\$ 8,781	\$ 22,273	\$ 22,944	\$ 986,997
<b>LIABILITIES AND FUND BALANCES (DEFICITS)</b>									
Liabilities:									
Accounts payable	\$ 5,256	\$ 40,905	\$ 3,985	\$ 3,822	\$ 11,177	\$ -	\$ -	\$ 45	\$ -
Other liabilities and accruals	-	131,066	235	864	-	-	-	-	-
Intergovernmental payable	-	-	-	-	-	-	-	-	-
Due to other funds	289,630	849,219	23,105	35,126	-	-	-	-	-
Total liabilities	294,886	1,021,190	27,325	39,812	11,177	-	-	45	-
Fund balances (deficits):									
Reserved for:									
Related assets	-	-	-	-	41,741	-	-	-	-
Encumbrances	-	127,329	3,824	12,458	1,253	-	-	-	59,381
Continuing appropriations	-	102,496	-	-	-	-	-	-	307,347
Compact programs	-	-	-	-	-	-	-	-	-
Unreserved (deficit)	231,623	765,430	(3,824)	(12,458)	9,970	8,781	22,273	22,899	620,270
Total fund balances (deficits)	231,623	995,255	-	-	52,964	8,781	22,273	22,899	986,997
Total liabilities and fund balances (deficits)	\$ 526,509	\$ 2,016,445	\$ 27,325	\$ 39,812	\$ 64,140	\$ 8,781	\$ 22,273	\$ 22,944	\$ 986,997

See Accompanying Independent Auditors' Report.



STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA  
NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS

Combining Balance Sheet, Continued  
September 30, 2005

	Medical Supplies Revolving	Health Care Premiums	V6AH Revolving	Environmental Quality	Early Retirement	Special Police Fee	Fishing Fines	Public Lands Trust	Total
<b>ASSETS</b>									
Investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,192,853
Receivables, net:									
CFSM	-	-	-	-	-	-	-	-	401,282
Other	-	-	-	-	-	-	-	-	3,928
Due from other funds	287,522	955,471	16,525	2,568	-	29,627	597,228	65,312	3,017,647
Advances	-	-	-	-	-	-	4,070	-	16,098
Inventories	-	-	-	-	-	-	-	-	41,741
Total assets	\$ 287,522	\$ 955,471	\$ 16,525	\$ 2,568	\$ -	\$ 29,627	\$ 601,298	\$ 65,312	\$ 5,673,549
<b>LIABILITIES AND FUND BALANCES (DEFICITS)</b>									
Liabilities:									
Accounts payable	\$ 9,970	\$ 352	\$ 3	\$ -	\$ -	\$ 25	\$ 3,060	\$ 480	\$ 79,079
Other liabilities and accruals	-	1,477	-	-	-	-	1,208	-	134,850
Intergovernmental payable	-	-	-	-	-	-	-	-	-
Due to other funds	-	-	-	-	15,613	-	-	-	1,212,693
Total liabilities	9,970	1,829	3	-	15,613	25	4,268	480	1,426,622
Fund balances (deficits):									
Reserved for:									
Related assets	-	-	-	-	-	-	-	-	41,741
Encumbrances	-	169	230	187	-	-	13,840	-	218,670
Continuing appropriations	-	-	-	-	-	-	-	-	409,843
Compact programs	-	-	-	-	-	-	-	-	-
Unreserved (deficit)	277,552	953,473	16,292	2,381	(15,613)	29,602	583,190	64,832	3,576,672
Total fund balances (deficits)	277,552	953,642	16,522	2,568	(15,613)	29,602	597,030	64,832	4,246,927
Total liabilities and fund balances (deficits)	\$ 287,522	\$ 955,471	\$ 16,525	\$ 2,568	\$ -	\$ 29,627	\$ 601,298	\$ 65,312	\$ 5,673,549

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, 2005

	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
<b>Revenues:</b>									
Compact funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investment income	-	-	-	-	-	-	-	-	-
CFSM grants	-	-	-	52,061	-	-	-	-	-
Other grants	-	-	26,092	-	-	-	-	-	-
Sales tax	-	-	-	-	-	-	-	-	-
Fees and charges	-	-	33,526	-	44,568	9,960	-	-	282,113
<b>Total revenues</b>	-	-	59,618	52,061	44,568	9,960	-	-	282,113
<b>Expenditures by function:</b>									
<b>Current:</b>									
General government	-	506,371	45,574	52,061	54,047	3,655	-	-	26,528
Education	(440)	(4,412)	4,645	-	-	-	-	-	-
Health services	-	9,100	9,399	-	-	-	-	-	-
Public works	-	9,318	-	-	-	-	-	-	-
Boards, commissions and other	-	4,225	-	-	-	-	-	-	-
<b>Total expenditures</b>	(440)	524,602	59,618	52,061	54,047	3,655	-	-	26,528
<b>Net change in fund balances (deficits)</b>	440	(524,602)	-	-	(9,479)	6,305	-	-	255,585
<b>Fund balances (deficits) at the beginning of the year</b>	231,183	1,519,858	-	-	62,443	2,476	22,273	22,899	731,412
<b>Fund balances (deficits) at the end of the year</b>	\$ 231,623	\$ 995,256	\$ -	\$ -	\$ 52,964	\$ 8,781	\$ 22,273	\$ 22,899	\$ 986,997

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, 2005

	Medical Supplies Revolving	Health Care Premiums	V6AH Revolving	Environmental Quality	Early Retirement	Special Police Fee	Fishing Fines	Public Lands Trust	Total
Revenues:									
Compact funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investment income	-	-	-	-	-	-	-	-	-
CFSM grants	-	-	-	-	-	-	-	-	52,061
Other grants	-	-	-	-	-	-	-	-	26,092
Sales tax	-	138,452	-	-	-	-	-	-	420,565
Fees and charges	263,084	-	26,292	1,400	-	41,715	135,000	78,389	633,934
Total revenues	263,084	138,452	26,292	1,400	-	41,715	135,000	78,389	1,132,652
Expenditures by function:									
Current:									
General government	-	45,710	44,484	479	-	36,999	121,917	-	937,825
Education	-	-	-	-	-	-	-	-	(207)
Health services	73,951	-	-	-	-	-	-	-	92,450
Public works	-	-	-	-	-	-	-	-	9,318
Boards, commissions and other	-	-	-	-	-	-	-	11,706	15,931
Total expenditures	73,951	45,710	44,484	479	-	36,999	121,917	11,706	1,055,317
Net change in fund balances (deficits)	189,133	92,742	(18,192)	921	-	4,716	13,083	66,683	77,335
Fund balances (deficits) at the beginning of the year	88,419	860,900	34,714	1,647	(15,613)	24,886	583,946	(1,851)	4,169,592
Fund balances (deficits) at the end of the year	\$ 277,552	\$ 953,642	\$ 16,522	\$ 2,568	\$ (15,613)	\$ 29,602	\$ 597,029	\$ 64,832	\$ 4,246,927

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, 2005

	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
<b>Revenues:</b>									
Compact funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investment income	-	-	-	-	-	-	-	-	-
CFSM grants	-	-	-	52,061	-	-	-	-	-
Other grants	-	-	26,092	-	-	-	-	-	-
Sales tax	-	-	-	-	-	-	-	-	282,113
Fees and charges	-	-	33,526	-	44,568	9,960	-	-	-
<b>Total revenues</b>	-	-	59,618	52,061	44,568	9,960	-	-	282,113
<b>Expenditures by account:</b>									
Salaries and wages	-	-	8,137	30,134	-	-	-	-	-
Contractual services	-	19,318	4,230	-	150	-	-	-	26,528
Utilities	-	233,883	15,617	-	-	-	-	-	-
Supplies and materials	-	-	8,269	7,170	46,477	3,655	-	-	-
POL	-	272,483	640	1,960	500	-	-	-	-
Medical supplies	-	-	-	-	-	-	-	-	-
Scholarship and training	-	(4,412)	-	-	-	-	-	-	-
Capital outlay	-	-	3,150	2,549	-	-	-	-	-
Travel	(440)	(850)	7,071	4,957	-	-	-	-	-
Grants and subsidies	-	-	1,000	750	262	-	-	-	-
Communications	-	(50)	-	-	-	-	-	-	-
Medical referral	-	-	362	2,291	-	-	-	-	-
Repairs and maintenance	-	-	659	-	-	-	-	-	-
Printing and reproduction	-	-	99	-	-	-	-	-	-
Freight	-	-	-	-	4,980	-	-	-	-
Rentals	-	-	2,805	1,689	20	-	-	-	-
Food stuffs	-	-	7,579	561	1,658	-	-	-	-
Other	-	4,230	-	-	-	-	-	-	-
<b>Total expenditures</b>	(440)	524,602	59,618	52,061	54,047	3,655	-	-	26,528
<b>Net change in fund balances (deficits)</b>	440	(524,602)	-	-	(9,479)	6,305	-	-	255,585
<b>Fund balances (deficits) at the beginning of the year</b>	231,183	1,519,858	-	-	62,443	2,476	22,273	22,899	731,412
<b>Fund balances (deficits) at the end of the year</b>	\$ 231,623	\$ 995,256	\$ -	\$ -	\$ 52,964	\$ 8,781	\$ 22,273	\$ 22,899	\$ 986,997

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, 2005

	Medical Supplies Revolving	Health Care Premiums	V6AH Revolving	Environmental Quality	Early Retirement	Special Police Fee	Fishing Fines	Public Lands Trust	Total
Revenues:									
Compact funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investment income	-	-	-	-	-	-	-	-	-
CFSM grants	-	-	-	-	-	-	-	-	52,061
Other grants	-	-	-	-	-	-	-	-	26,092
Sales tax	-	138,452	-	-	-	-	-	-	420,565
Fees and charges	263,084	-	26,292	1,400	-	41,715	135,000	78,389	633,934
Total revenues	<u>263,084</u>	<u>138,452</u>	<u>26,292</u>	<u>1,400</u>	<u>-</u>	<u>41,715</u>	<u>135,000</u>	<u>78,389</u>	<u>1,132,652</u>
Expenditures by account:									
Salaries and wages	-	18,499	20,000	-	-	36,999	(935)	7,527	120,361
Contractual services	-	11,000	300	-	-	-	15,660	-	77,186
Utilities	-	50	11,805	-	-	-	-	-	261,355
Supplies and materials	-	3,011	3,061	-	-	-	4,031	972	76,646
POL	-	356	-	479	-	-	1,134	-	277,552
Medical supplies	23,951	-	-	-	-	-	-	-	23,951
Scholarship and training	-	-	-	-	-	-	-	-	(4,412)
Capital outlay	-	9,625	5,540	-	-	-	64,360	-	85,224
Travel	-	-	-	-	-	-	14,461	-	25,199
Grants and subsidies	-	-	-	-	-	-	-	-	-
Communications	-	542	1,163	-	-	-	9,095	-	12,812
Medical referral	50,000	-	-	-	-	-	-	-	49,950
Repairs and maintenance	-	8	537	-	-	-	-	3	3,201
Printing and reproduction	-	264	22	-	-	-	-	-	945
Freight	-	62	-	-	-	-	160	-	5,301
Rentals	-	17	160	-	-	-	-	-	197
Food stuffs	-	-	-	-	-	-	-	-	4,494
Other	-	2,276	1,896	-	-	-	13,951	3,204	35,355
Total expenditures	<u>73,951</u>	<u>45,710</u>	<u>44,484</u>	<u>479</u>	<u>-</u>	<u>36,999</u>	<u>121,917</u>	<u>11,706</u>	<u>1,055,317</u>
Net change in fund balances (deficits)	189,133	92,742	(18,192)	921	-	4,716	13,083	66,683	77,335
Fund balances (deficits) at the beginning of the year	88,419	860,900	34,714	1,647	(15,613)	24,886	583,946	(1,851)	4,169,592
Fund balances (deficits) at the end of the year	\$ <u>277,552</u>	\$ <u>953,642</u>	\$ <u>16,522</u>	\$ <u>2,568</u>	\$ <u>(15,613)</u>	\$ <u>29,602</u>	\$ <u>597,029</u>	\$ <u>64,832</u>	\$ <u>4,246,927</u>

See Accompanying Independent Auditors' Report.

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

Combining Balance Sheet  
 September 30, 2005

	Health and Education Projects	OIA Capital Projects	Total
<u>ASSETS</u>			
Receivables, net:			
CFSM	\$ 11,675	\$ -	\$ 11,675
Due from other funds	1,037,355	-	1,037,355
Advances	<u>5,202</u>	-	<u>5,202</u>
	<u>\$ 1,054,232</u>	<u>\$ -</u>	<u>\$ 1,054,232</u>
 <u>LIABILITIES AND FUND BALANCES (DEFICITS)</u>			
Liabilities:			
Accounts payable	\$ 17,446	\$ -	\$ 17,446
Due to other funds	<u>-</u>	<u>18,385</u>	<u>18,385</u>
Total liabilities	<u>17,446</u>	<u>18,385</u>	<u>35,831</u>
Fund balances (deficits):			
Reserved for:			
Encumbrances	76,511	-	76,511
Continuing appropriations	345,971	-	345,971
Unreserved	<u>614,304</u>	<u>(18,385)</u>	<u>595,919</u>
Total fund balances (deficits)	<u>1,036,786</u>	<u>(18,385)</u>	<u>1,018,401</u>
Total liabilities and fund balances	<u>\$ 1,054,232</u>	<u>\$ -</u>	<u>\$ 1,054,232</u>

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, 2005

	Health and Education Projects	OIA Capital Projects	Total
Revenues:			
CFSM grants	\$ -	\$ -	\$ -
	-	-	-
Expenditures by function:			
Capital projects	391,551	-	391,551
Total expenditures	391,551	-	391,551
Net change in fund balances (deficits)	(391,551)	-	(391,551)
Fund balances (deficit) at the beginning of the year	1,428,337	(18,385)	1,409,952
Fund balances (deficit) at the end of the year	\$ 1,036,786	\$ (18,385)	\$ 1,018,401

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, 2005

	Health and Education Projects	OIA Capital Projects	Total
Revenues:			
CFMSM grants	\$ -	\$ -	\$ -
	-	-	-
Expenditures by account:			
Contractual services	231,738	-	231,738
Capital outlays	78,240	-	78,240
Travel	24,486	-	24,486
Supplies and materials	57,087	-	57,087
Total expenditures	391,551	-	391,551
Net change in fund balances (deficits)	(391,551)	-	(391,551)
Fund balances (deficit) at the beginning of the year	1,428,337	(18,385)	1,409,952
Fund balances (deficit) at the end of the year	\$ 1,036,786	\$ (18,385)	\$ 1,018,401

See Accompanying Independent Auditors' Report.



STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA

SECTION 211 COMPACT SECTOR FUNDS

Combining Balance Sheet  
September 30, 2005

	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	Section 211(a)(5) Supplemental Ed	Total
<b><u>ASSETS</u></b>							
Grants receivable net:	\$ 129,454	\$ 506,911	\$ 56,673	\$ 4,562	\$ 38,930	\$ 351,632	\$ 1,088,162
Due from other funds	135,632	-	-	46,376	-	-	182,008
Advances	<u>50,289</u>	<u>36,635</u>	<u>1,692</u>	<u>40,990</u>	<u>2,932</u>	-	<u>132,538</u>
	<u>\$ 315,375</u>	<u>\$ 543,546</u>	<u>\$ 58,365</u>	<u>\$ 91,928</u>	<u>\$ 41,862</u>	<u>\$ 351,632</u>	<u>\$ 1,402,708</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>							
Liabilities:							
Accounts payable	\$ 98,535	\$ 254,742	\$ 1,452	\$ 52,106	\$ 8,446	\$ -	\$ 415,281
Other liabilities and accruals	212,489	111,666	15,050	38,832	15,283	-	393,320
Due to other funds	-	<u>173,604</u>	<u>41,553</u>	-	<u>17,739</u>	<u>351,632</u>	<u>584,528</u>
Total liabilities	<u>311,024</u>	<u>540,012</u>	<u>58,055</u>	<u>90,938</u>	<u>41,468</u>	<u>351,632</u>	<u>1,393,129</u>
Fund balances:							
Reserved for:							
Encumbrances	216,220	100,255	3,619	44,514	21,092	11,157	396,857
Compact programs	4,351	3,534	310	990	394	-	9,579
Unreserved special revenue funds	<u>(216,220)</u>	<u>(100,255)</u>	<u>(3,619)</u>	<u>(44,514)</u>	<u>(21,092)</u>	<u>(11,157)</u>	<u>(396,857)</u>
Total fund balances	<u>4,351</u>	<u>3,534</u>	<u>310</u>	<u>990</u>	<u>394</u>	<u>-</u>	<u>9,579</u>
Total liabilities and fund balances	<u>\$ 315,375</u>	<u>\$ 543,546</u>	<u>\$ 58,365</u>	<u>\$ 91,928</u>	<u>\$ 41,862</u>	<u>\$ 351,632</u>	<u>\$ 1,402,708</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, 2005

	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	Supplement Education Grant	Total
<b>Revenues:</b>							
Compact funding	\$ 6,896,132	\$ 5,998,019	\$ 648,386	\$ 1,417,685	\$ 650,295	\$ 351,632	\$ 15,962,149
Investment income	1,745	1,417	124	397	158	-	3,841
	<u>6,897,877</u>	<u>5,999,436</u>	<u>648,510</u>	<u>1,418,082</u>	<u>650,453</u>	<u>351,632</u>	<u>15,965,990</u>
<b>Expenditures by function:</b>							
<b>Current:</b>							
General government	-	-	648,386	1,417,685	650,295	-	2,716,366
Education	6,896,132	-	-	-	-	351,632	7,247,764
Health services	-	5,998,019	-	-	-	-	5,998,019
Total expenditures	<u>6,896,132</u>	<u>5,998,019</u>	<u>648,386</u>	<u>1,417,685</u>	<u>650,295</u>	<u>351,632</u>	<u>15,962,149</u>
Net change in fund balances	1,745	1,417	124	397	158	-	3,841
Fund balances at the beginning of the year	<u>2,606</u>	<u>2,117</u>	<u>186</u>	<u>593</u>	<u>236</u>	<u>-</u>	<u>5,738</u>
Fund balances at the end of the year	<u>\$ 4,351</u>	<u>\$ 3,534</u>	<u>\$ 310</u>	<u>\$ 990</u>	<u>\$ 394</u>	<u>\$ -</u>	<u>\$ 9,579</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, 2005

	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	Section 211(a)(5) Supplemental Ed	Total
<b>Revenues:</b>							
Compact funding	\$ 6,896,132	\$ 5,998,019	\$ 648,386	\$ 1,417,685	\$ 650,295	\$ 351,632	\$ 15,962,149
Investment income	1,745	1,417	124	397	158	-	3,841
	<u>6,897,877</u>	<u>5,999,436</u>	<u>648,510</u>	<u>1,418,082</u>	<u>650,453</u>	<u>351,632</u>	<u>15,965,990</u>
<b>Expenditures by account:</b>							
Salaries and wages	5,591,470	2,910,238	402,936	945,657	382,695	245,379	10,478,375
Contractual services	13,338	129,495	43,500	39,896	94,103	-	320,332
Utilities	148,605	344,709	20,697	37,279	9,800	8,750	569,840
Supplies and materials	245,514	96,657	11,892	48,619	48,650	43,377	494,709
POL	21,922	16,837	1,624	5,130	1,513	10,135	57,161
Medical supplies	-	1,490,708	-	-	-	-	1,490,708
Scholarship and training	293,988	-	-	-	-	-	293,988
Capital outlay	21,996	214,487	14,180	28,397	19,031	-	298,091
Travel	14,491	108,502	12,461	159,880	1,598	-	296,932
Grants and subsidies	127,462	-	106,867	-	-	-	234,329
Communications	34,182	28,644	12,641	23,931	11,245	2,104	112,747
Medical referral	-	484,464	-	-	-	-	484,464
Repairs and maintenance	35,640	10,148	3,420	7,777	10,454	490	67,929
Printing and reproduction	9,089	16,422	1,530	8,704	5,724	796	42,265
Freight	1,319	15,043	253	100	273	-	16,988
Rentals	192	537	526	1,569	185	-	3,009
Food stuffs	160,140	64,666	-	-	-	35,898	260,704
Other	176,784	66,462	15,859	110,746	65,024	4,703	439,578
<b>Total expenditures</b>	<u>6,896,132</u>	<u>5,998,019</u>	<u>648,386</u>	<u>1,417,685</u>	<u>650,295</u>	<u>351,632</u>	<u>15,962,149</u>
Net change in fund balances	1,745	1,417	124	397	158	-	3,841
Fund balances at the beginning of the year	2,606	2,117	186	593	236	-	5,738
Fund balances at the end of the year	<u>\$ 4,351</u>	<u>\$ 3,534</u>	<u>\$ 310</u>	<u>\$ 990</u>	<u>\$ 394</u>	<u>\$ -</u>	<u>\$ 9,579</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, 2005, and have issued our report thereon dated May 22, 2006. 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**

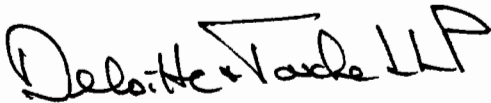
In planning and performing our audit, we considered the State of Pohnpei's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial 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 77 through 88) as items 2005-3 through 2005-7.

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.

May 22, 2006

**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, 2005. The State of Pohnpei's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (pages 76 and 77). 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 2005-1 and 2005-2, in the accompanying Schedule of Findings and Questioned Costs, the State of Pohnpei did not comply with requirements regarding allowable costs/cost principles applicable to the Compact II Sector Grants of the Compact of Free Association (CFDA #15.875), and procurement and suspension and debarment requirements of the Freely Associated States - Educational Grant Program (CFDA #84.256A). Compliance with such requirements is necessary, in our opinion, for the State of Pohnpei to comply with requirements applicable to those 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, 2005.

## 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.

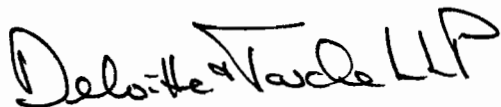
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance 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 2005-1 and 2005-2.

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 that none of the reportable conditions described above is a material weakness.

## 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, 2005, and have issued our report thereon dated May 22, 2006. The accompanying schedule of expenditures of federal awards (pages 67 through 73) 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.



May 22, 2006

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Summary Schedule of Expenditures of Federal Awards, by Grantor  
Year Ended September 30, 2005

Agency/Program	Expenditures
U.S. Department of Agriculture	\$ 63,163
U.S. Department of the Interior	18,143,209
U.S. Department of Labor	549,358
U.S. Department of Homeland Security	56,961
U.S. Department of Education	2,198,078
U.S. Department of Health and Human Services	508,368
GRAND TOTAL	\$ 21,519,137

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 or from the University of Hawaii:

Direct from the 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

Pass thru from the University of Hawaii:

Pacific Cancer Initiative (DHHS) U55/CCU923887.02

Reconciliation to the basic financial statements:

U.S. Federal Grants Fund (page 13)	\$ 3,539,148
Section 211 Compact Sector Grant (page 13)	15,962,149
Compact Capital Projects Fund (page 13)	1,493,678
Section 211 (b) Compact Special Block Grant (page 52)	(440)
Compact Other Grants Fund (page 52)	524,602
	\$ 21,519,137

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, 2005

<u>Agency/Program</u>	<u>CFDA#</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE		
Cooperative Forestry Assistance	10.664	\$ <u>63,163</u>
U.S. DEPARTMENT OF AGRICULTURE TOTAL		\$ <u><u>63,163</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, 2005

Agency/Program	CFDA#	Expenditures
<b>U.S. DEPARTMENT OF THE INTERIOR</b>		
Economic, Social and Political Development of the Territories:	15.875	
Compact Capital Improvement Projects		\$ 1,493,678
Compact Energy Grants		519,914
Compact Health and Medical Grants		9,100
Compact Scholarship Grants		(4,412)
Compact Special Block Grants		(440)
Compact II Capacity Build		1,417,685
Compact II Education Sector		6,896,132
Compact II Environment Sector		650,295
Compact II Health Sector		5,998,019
Compact II Private Sector		648,386
Compact II Supplemental Ed		351,632
Technical Assistance:		
Hospital Renovation		74,384
Survey and Mapping		29,384
Y2K Remediation		5,998
Pohnpei Buddy System		4,991
Economic Plann. Adv.		3,769
Historic Preservation Fund Grants-In-Aid	15.904	<u>44,694</u>
<b>U.S. DEPARTMENT OF THE INTERIOR TOTAL</b>		<b><u>\$ 18,143,209</u></b>

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, 2005

<u>Agency/Program</u>	<u>CFDA#</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF LABOR		
Job Training Partnership Act	17.250	\$ 135,347
WIA Administration	17.255	43,174
WIA Adult Program	17.258	126,757
WIA Youth Activities	17.259	111,950
WIA Dislocated Worker	17.260	<u>132,130</u>
U.S. DEPARTMENT OF LABOR TOTAL		<u>\$ 549,358</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, 2005

<u>Agency/Program</u>	<u>CFDA#</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HOMELAND SECURITY		
Public Assistance Grants	83.544	\$ <u>56,961</u>
U.S. DEPARTMENT OF HOMELAND SECURITY		\$ <u><u>56,961</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, 2005

Agency/Program	CFDA#	Expenditures
U.S. DEPARTMENT OF EDUCATION		
Special Education - Grants to States	84.027	\$ 1,140,991
Freely Associated States - Educational Grant Program	84.256A	548,021
FY 2000 Goals 2000 - State and Local Education Systemic Improvement Grant	84.276	(13)
Twenty-First Century Community Learning Center	84.287	365,730
Bilingual Education - Program Development and Implementation Grants	84.288	-
Vocational Education Improvement Program	84.994	<u>143,349</u>
U.S. DEPARTMENT OF EDUCATION TOTAL		<u>\$ 2,198,078</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, 2005

Agency/Program	CFDA#	Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
CDC Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	\$ 15,464
Hansen's Disease National Ambulatory Care Program	93.215	636
Family Planning - Services	93.217	31,230
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers)	93.224	106,901
Immunization Grants	93.268	64,823
CDC & Prevention-Investigations & Technical Assistance	93.283	19,777
National Bioterrorism Hospital Preparedness Program	93.889	28,701
HIV Prevention Activities-Health Department Based	93.940	10,479
Block Grants for Prevention and Treatment of Substance Abuse	93.959	119,738
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977	19,587
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988	8,031
413792 FY00 PHHS	93.991	3,061
Maternal and Child Health Services Block Grant to the States	93.994	70,510
Pacific Cancer Initiative	Note	<u>9,430</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL		<u>\$ 508,368</u>
GRAND TOTAL		<u>\$ 21,519,137</u>

Note: The grant is received through the University of Hawaii and the grant number is U55/CCU923887.02.

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, 2005

1. Scope

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 Homeland Security
- U.S. Department of the Interior
- U.S. Department of Labor

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, 2005

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 the 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>Receivable at Beginning of Year</u>	<u>Expenditures for the Year Ended Sept. 30, 2005</u>	<u>Cash Receipts for the Year Ended Sept. 30, 2005</u>	<u>Receivable at End of Year</u>
U.S. Department of the Interior:						
Office of Territorial and						
International Affairs:						
Operations and Maintenance						
Improvement Programs (OMIP):						
	15.875					
Utility Development 2001		\$ 117,668	\$ 292	\$ 20,651	\$ 20,651	\$ 292
OMIP Bench		562,500	-	30,872	30,872	-
HR Development 2003		12,500	-	-	-	-
OMIP Single Phase Prepaid Meter		200,000	-	132,712	132,712	-
OMIP Three Phase Prepaid Meter		75,000	-	9,224	9,224	-
OMIP Reimbursement of PUC assistance to CPUC		2,464	-	-	-	-
		<u>970,132</u>	<u>292</u>	<u>193,459</u>	<u>193,459</u>	<u>292</u>
U.S. Department of Agriculture:						
Rural Utilities Service:						
Water and Waste Disposal Systems						
for Rural Communities						
Grant	10.760					
		<u>2,761,000</u>	<u>-</u>	<u>2,125,796</u>	<u>1,300,755</u>	<u>825,041</u>
		<u>\$ 3,731,132</u>	<u>\$ 292</u>	<u>\$ 2,319,255</u>	<u>\$ 1,494,214</u>	<u>\$ 825,333</u>

Note 1: The grant from RUS includes a loan portion of \$578,000 and a grant portion of \$2,183,000. Expenditures are first applied to the loan.

Note 2: 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, 2005

<u>Grantor</u> <u>Program Title</u>	<u>CFDA No.</u>	<u>2005</u> <u>Fiscal Year</u> <u>Expenditures</u>
<u>U.S. Department of the Interior</u>		
Compact of Free Association Compact II Sector Grants	15.875	\$ 15,962,149
Compact of Free Association Section 211(A) Capital	15.875	<u>1,493,678</u>
Total Major Programs Under CFDA #15.875		<u>17,455,827</u>
<u>U.S. Department of Education</u>		
Freely Associated States - Educational Grant Program	84.256A	<u>548,021</u>
Total Major Programs Under U.S. Department of Education		<u>548,021</u>
Total U.S. Federal program expenditures selected		\$ <u>18,003,848</u>
Total U.S. Federal program expenditures		\$ <u>21,519,137</u>
% of total U.S. Federal expenditures covered by major programs		<u>84 %</u>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2005

**Part I - Summary of Auditors' Results**

1. The Independent Auditor's Report on the financial statements, expressed an unqualified opinion.
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 Compact II 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 – Freely Associated States – Educational Grant Program	84.256A

8. A threshold of \$645,574 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>
2005-3	Travel	\$ -
2005-4	Budgetary Expenditures	-
2005-5	Cash Receipts	-
2005-6	Reconciliation of Expenditures	-
2005-7	Encumbrance Processing	-

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2005

**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>
2005-1	15.875	Allowable Costs/Cost Principles	\$ -
2005-2	84.256A	Procurement	-

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2005

Federal Award Findings and Questioned Costs Section

Finding No.: 2005-1  
CFDA No.: 15.875  
Agency: Department of the Interior, Office of Insular Affairs  
Grant #: Compact II Sector Grants  
Program Name: Pohnpei State Government  
Requirement: Allowable Costs/Cost Principles  
Questioned Costs: \$0

Criteria:

Approved personnel action forms should reflect balances contained in payroll registers.

Condition:

For 2 of 25 (8%) payroll samples tested totaling \$17,570, the pay rate per the personnel action form did not agree with the payroll register.

Employee #	Org#	PPE	Pay Rate Per Personnel Action Form	Pay rate per Payroll Register
916696	7302	8/20/05	\$1,372.88/bw	\$1,372.80/bw
913223	7302	12/11/04	\$348.64/bw	\$348.80/bw

Cause:

There appears to be an internal control weakness over ensuring that pay rates reflected on the payroll register agree with approved personnel action forms.

Effect:

Employees may be paid unauthorized pay rates. As amount is below threshold calculation, no questioned costs result from this finding.

Recommendation:

Employee pay rates should be in agreement with approved personnel action forms.

Auditee Response and Corrective Action Plan:

The citation for employee nos. 916696 and 913223 resulted due to the rounding off numbers. Correction was already made for employee no. 916696 as per attached wage rate/standard distribution. Employee no. 913223 has resigned from the government effective January 18, 2005.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2005

Federal Award Findings and Questioned Costs Section

Finding No.: 2005-2  
CFDA No.: 84.256A  
Agency: Department of Education  
Grant #: Freely Associated Educational Grants  
Program Name: Freely Associated Education Grants  
Requirement: Procurement  
Questioned Costs: \$0

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 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 seven of 49 (14%) non-payroll samples selected, there were no procurement documents on file evidencing the procurement rationale. All of these items relate to travel and the State had not yet addressed this matter in its travel policy.

<u>Acct</u>	<u>Date</u>	<u>APV #</u>	<u>Check #</u>	<u>Amount per APV</u>
8110	6/10/05	827769	184115	\$ 3,442
8110	6/10/05	827770	184115	3,442
8110	7/08/05	828910	184820	1,831
8110	10/28/04	817817	177838	1,766
8110	12/13/04	820032	179128	1,033
8110	7/27/05	829796	185619	991
8110	4/28/05	825715	182790	548
				<u>\$13,053</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 federal procurement policies. No questioned costs result from this finding as the State has not addressed this travel matter in its policies and all related travel appears to be in accordance with program needs.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2005

Federal Award Findings and Questioned Costs Section

Finding No.:	2005-2, Continued
CFDA No.:	84.256A
Agency:	Department of Education
Grant #:	Freely Associated Educational Grants
Program Name:	Freely Associated Education Grants
Requirement:	Procurement
Questioned Costs:	\$0

Recommendation:

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

Auditee Response and Corrective Action Plan:

The finding has been the subject of prior year audit. Currently, we are now strictly requiring the three price quotations for all the travel arrangements of the government. To document our response, please refer to the attached memorandum (Attachment L) from the Governor concerning price quotations.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2005

Local Findings Section

Finding No.: 2005-3  
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.

Condition:

1. Numerous travel advances were outstanding of which \$104,162 were over a year old.
2. T50008 was paid an advance totaling \$300 of which \$202 was not supported with receipts.
3. T50601 was not supported with a boarding pass.
4. The following check disbursements for travel expense were not supported with boarding passes:

<u>Check #</u>	<u>Amount per APV</u>
185642	\$1,913
186572	1,898
185850	988
	<u>\$4,799</u>

Cause:

The cause of this condition is that travel support is not always scrutinized adequately and that collection efforts are not enforced.

Effect:

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

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.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2005

Local Findings Section

Finding No.: 2005-3, Continued  
Area: Travel

Auditee Response and Corrective Action Plan:

We believe the implementation of the amended Financial Management Regulations will resolve the outstanding travel advances.

For item nos. 2 and 3, we agree with your finding and recommendation. We will ensure that boarding passes are submitted as part of the travel advance liquidation.



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2005

Local Findings Section

Finding No.: 2005-4  
Area: Budgetary Expenditures

Criteria:

Pohnpei State Government should ensure that expenditures do not exceed approved budget levels.

Condition:

The following funds exceeded the approved budget:

<b>Org</b>	<b>Org Description</b>	<b>Acct Description</b>	<b>Expense</b>	<b>Budget</b>	<b>Over budget</b>
1010	GOVERNOR & STAFF	PERSONNEL EXPENSES	234,135	228,442	(5,693)
1710	MEMBER'S OPERATION	PERSONNEL EXPENSES	611,831	609,750	(2,081)

Cause:

There appears to be a weakness in internal controls over ensuring that expenditures do not exceed approved budgetary levels.

Effect:

Unapproved expenditures may result from this condition.

Recommendation:

We recommend that Pohnpei State Government ensure that expenditures as categorized in the appropriation laws are properly monitored and do not exceed approved budgetary levels.

Auditee Response and Corrective Action Plan:

1010 Governor and Staff – We agree with the finding. Currently, the payroll staffs are given instructions to monitor the balances of all the departments fund balance on payroll to ensure that no departments and offices will over-run their respective budgets.

1710 Member's Operation – The account was really an over-run. Again, we will ensure that all the government's payroll will be regularly monitored to keep track of the fund balances.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2005

Local Findings Section

Finding No.: 2005-5  
Area: Cash Receipts

Criteria:

1. Total cash collections should agree with the cash receipt total.
2. Cash receipts should be issued in numerical sequence.
3. Cash should be deposited in a timely basis.
4. There should be a separation of duties over cash management (i.e. authorization, recording, custody, and execution)

Condition:

1. For one of 49 (2%) samples tested, total cash collections did not agree with the cash receipt total.
2. For five of 49 (10%) samples tested, the cash receipts are not in numerical sequence. Furthermore, more than one type of cash receipt is being used in two of the departments tested.
3. For 10 of 49 (20%) receipts tested at the outer cash collection sites, cash was not deposited in timely basis.
4. For 15 of 55 (27%) receipts tested, cash was not deposited in a timely basis.
5. For three of 12 (25%) collection departments tested, there was no separation of duties over cash management.

Department	Date of Visit
Agriculture	2/16/06
V6AH Radio	2/16/06
Dispensary (Sokehs)	2/16/06

Cause:

There appears to be a weakness in internal control over cash collection.

Effect:

The effect of this condition is that it is not possible to determine whether all cash collected at the specified sites has been remitted to the Department of Treasury.

Recommendation:

Pohnpei State should centrally purchase, issue, implement, and monitor the cash receipts used by the different collection departments.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2005

Local Findings Section

Finding No.: 2005-5, Continued  
Area: Cash Receipts

Auditee Response and Corrective Action Plan:

We agree with the finding. Corrective action has been initiated with one of the department; wherein all the cash collections are now being receipted by the Department of Treasury & Administration. For the rest of the offices, the Chief of Finance and Property Accountability will work with the departments concern and will implement corrective measures no later than June 30, 2006.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2005

Local Findings Section

Finding No.: 2005-6  
Area: Reconciliation of Expenditures

Criteria:

Disbursements should be properly supported and monitored.

Condition:

For 2 of 40 (5%) local government expenditures tested, disbursements do not agree with the underlying invoice amount.

Organization #	Check #	Invoice Amount	Disbursed Amount	(Overpaid) Unpaid Balance
5101	184894, 187351	\$10,180	\$10,792	\$ (612)
3986	179123, 181618, 183684, 185772	\$22,684	\$15,618	\$7,066

Cause:

There appears to be an internal weakness in ensuring that expenditures are properly monitored.

Effect:

An overpayment may result from this condition.

Recommendation:

We recommend that Pohnpei State strengthen internal controls to ensure that disbursements are properly monitored to prevent overpayments.

Auditee Response and Corrective Action Plan:

For org. 5101 – We agree that there was an overpayment to the vendor by \$611.73. We have written to the vendor concerning the overpayment. (Attachment Q)

For org. 3986 – Subsequent payments were made to the vendor to settle the amount owed. Total payments to the vendor amounted to \$15,617.75. (Attachment Q-1)

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2005

Local Findings Section

Finding No.: 2005-7  
Area: Encumbrance Processing

Criteria:

1. Encumbrance rollforwards should be documented in writing and be subjected to independent edit before the encumbrances are actually rolled forward into the next year.
2. All encumbrances entered or amended should be supported by documentation to track the entry and to facilitate the review process.

Condition:

1. Encumbrance roll forwards are performed unilaterally without independent review by personnel directly involved in the financial accounting cycle, and
2. There are no documents to support the entry and review process of the rolled encumbrances.

Cause:

The State does not appear to have an appropriate segregation of duties for processing encumbrances. In addition, encumbrances entered into the system are not documented to track the entry and review process.

Effect:

There may be an inaccurate posting of expense classification and expenditures and encumbrances may be overstated and unauthorized.

Recommendation:

We recommend the State ensure that encumbrance roll forwards are independently verified and are documented.

Auditee Response and Corrective Action Plan:

We agree with the finding. We will ensure that your recommendation is followed. The Asst. Chief of Finance and Property Accountability is tasked to review year end encumbrances before roll-over and will maintain files of the posting list for audit purposes.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Summary Schedule of Prior Audits Findings and Questioned Costs  
Year Ended September 30, 2005

The following is a summary of unresolved questioned costs of the State of Pohnpei as of September 30, 2005:

	Questioned Costs Set Forth in Prior Audit Report <u>2004</u>	Questioned Costs Resolved in Fiscal Year <u>2005</u>	Questioned Costs at <u>September 30, 2005</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	-	-	-
Unresolved Questioned Costs FY 04	80,721	-	80,721
Questioned Costs FY 05	<u>-</u>	<u>-</u>	<u>-</u>
	\$ <u>311,385</u>	\$ <u>230,664</u>	\$ <u>80,721</u>

- (1) Questioned costs were resolved due to the application of the two year rule.
- (2) Unresolved federal findings for fiscal year 2004:

<u>Page No.</u>	<u>Finding No.</u>	<u>Description</u>
78	2004-1	Procurement and Suspension and Debarment
79	2004-2	Procurement and Suspension and Debarment
81	2004-3	Allowable Costs/Cost Principles
82	2004-4	Special Tests and Provisions
83	2004-5	Special Tests and Provisions