

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

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

YEAR ENDED SEPTEMBER 30, 2010

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

YEAR ENDED SEPTEMBER 30, 2010

INDEX

	<u>Page No.</u>
INDEPENDENT AUDITORS' REPORT, BASIC FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION	1 - 61
INDEPENDENT AUDITORS' REPORTS ON INTERNAL CONTROL AND ON COMPLIANCE	62 - 77

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Table of Contents
Year Ended September 30, 2010

	<u>Page No.</u>
I. Independent Auditors' Report	1
II. Basic Financial Statements:	
Management's Discussion and Analysis	3
Government-Wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Governmental Fund Financial Statements:	
Balance Sheet	13
Statement of Revenues, Expenditures, and Changes in Fund Balances	14
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Discretely Presented Component Unit Financial Statements:	
Combining Statement of Net Assets	16
Combining Statement of Revenues, Expenses and Changes in Net Assets	17
Notes to the Basic Financial Statements	18
III. Required Supplementary Information - Other than Management's Discussion and Analysis	41
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual - General Fund	42
Note to Required Supplementary Information - Budgetary Reporting	43
IV. Other Supplementary Information	44
Combining Schedule of Expenditures by Account - Governmental Funds	45
General Fund:	
Statement of Revenues, Expenditures by Function and Changes in Fund Balance	46
Statement of Revenues, Expenditures by Function and Changes in Fund Balance – Budget and Actual	48

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Table of Contents, Continued
Year Ended September 30, 2010

	<u>Page No.</u>
IV. Other Supplementary Information, Continued	
Nonmajor Governmental Funds:	
Combined Balance Sheet	50
Combined Statement of Revenues, Expenditures by Function, and Changes in Fund Balances	51
Combined Statement of Revenues, Expenditures by Account, and Changes in Fund Balances	52
Nonmajor Governmental Funds - Special Revenue Funds:	
Combining Balance Sheet	53
Combining Statement of Revenues, Expenditures by Function, and Changes in Fund Balances (Deficit)	55
Combining Statement of Revenues, Expenditures by Account, and Changes in Fund Balances (Deficit)	57
Grant Assistance Funds:	
Combining Balance Sheet	59
Combining Statement of Expenditures by Function, and Changes in Fund Balances (Deficit)	60
Combining Statement of Expenditures by Account, and Changes in Fund Balances (Deficit)	61
V. Independent Auditors' Reports Internal Control and on Compliance	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	62
Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards	64
Schedule of Expenditures of Federal Awards	67
Notes to Schedule of Expenditures of Federal Awards	73
Schedule of Programs Selected for Audit in Accordance with OMB Circular A-133	74
Schedule of Findings and Questioned Costs	75
Summary Schedule of Prior Audit Findings and Questioned Costs	77

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

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

YEAR ENDED SEPTEMBER 30, 2010

INDEPENDENT AUDITORS' REPORT

Honorable John Ehsa
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, 2010, 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 did not audit the financial statements of the Pohnpei Transportation Authority and the Small Business Guarantee and Finance Corporation, which represents 4%, 1% and 3%, respectively, of the assets, net assets and operating revenues of the State's discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the Pohnpei Transportation Authority and the Small Business Guarantee and Finance Corporation, is based solely on the reports of the other auditors.

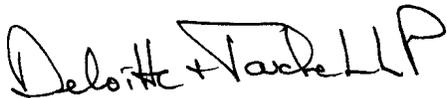
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the 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, 2010, 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 10, as well as the Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund and notes thereto, as set forth in Section III of the foregoing table of contents, 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the 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. Such additional 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2011, on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

June 27, 2011

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2010

This section of Pohnpei State's financial report presents our Management's Discussion and Analysis (MD&A) for the fiscal year ended September 30, 2010. This 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 \$43,723,066.
- The net change in governmental fund balance is an increase of \$2,157,235. Total revenues reported are \$34,464,458 against total expenditures of \$32,442,240.
- Actual revenues for the general fund were \$2,089,045 higher than budgeted revenues. The total expenditures- budgetary basis showed a favorable variance of \$683,136. The general fund reported an unreserved fund balance of \$3,711,103 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 an accounting method similar to those used by the private-sector companies. It provides both long-term and short-term information about the State's financial status.

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

The statement of activities, on the other hand, 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.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2010

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

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

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

	<u>Governmental Activities</u>	
	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 15,199,269	\$ 14,266,313
Capital assets	26,375,497	24,261,881
Other non current assets	<u>13,537,676</u>	<u>11,664,947</u>
Total assets	<u>55,112,442</u>	<u>50,193,141</u>
Current liabilities	4,844,205	3,992,811
Long-term debt and other liabilities	<u>6,545,171</u>	<u>6,120,176</u>
Total liabilities	<u>11,389,376</u>	<u>10,112,987</u>
Net assets:		
Invested in capital assets, net of related debt	26,375,497	24,261,881
Restricted	19,870,850	17,884,113
Unrestricted fund balance	<u>(2,523,281)</u>	<u>(2,065,840)</u>
Total net assets	<u>\$ 43,723,066</u>	<u>\$ 40,080,154</u>

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

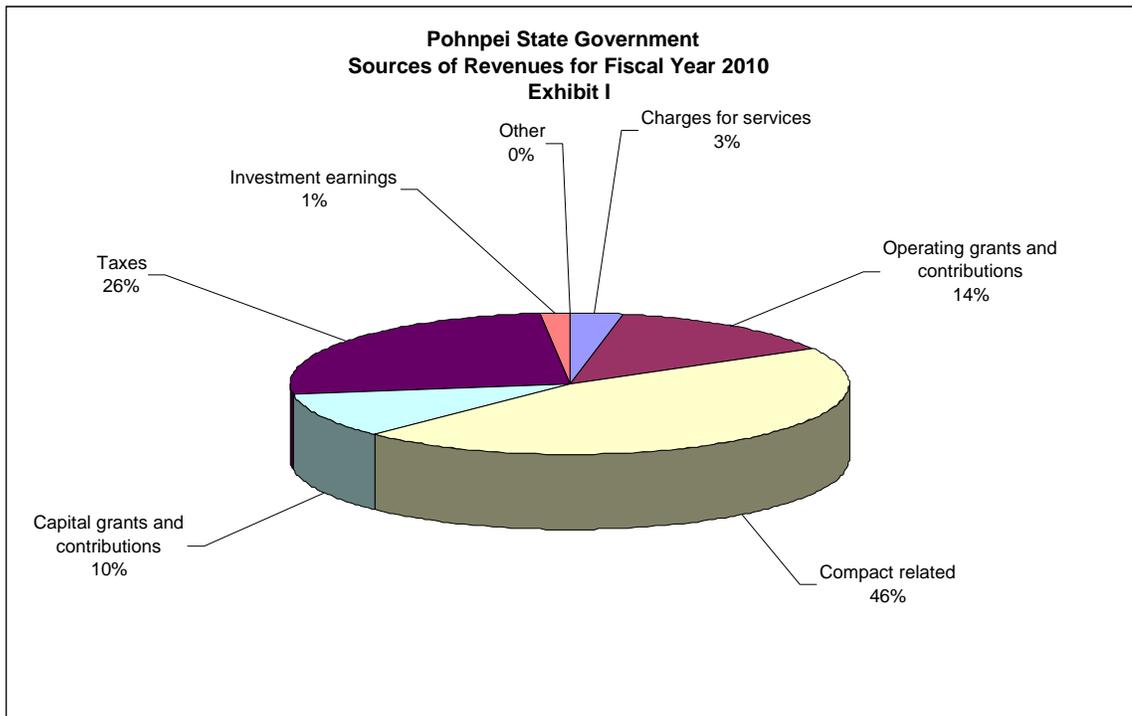
	<u>Governmental Activities</u>	
	<u>2010</u>	<u>2009</u>
Revenues:		
Program revenues:		
Charges for services	\$ 1,226,274	\$ 811,306
Operating grants and contributions	4,352,898	2,425,265
Compact related	17,680,454	17,467,672
Capital grants and contributions	4,039,825	1,094,793

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2010

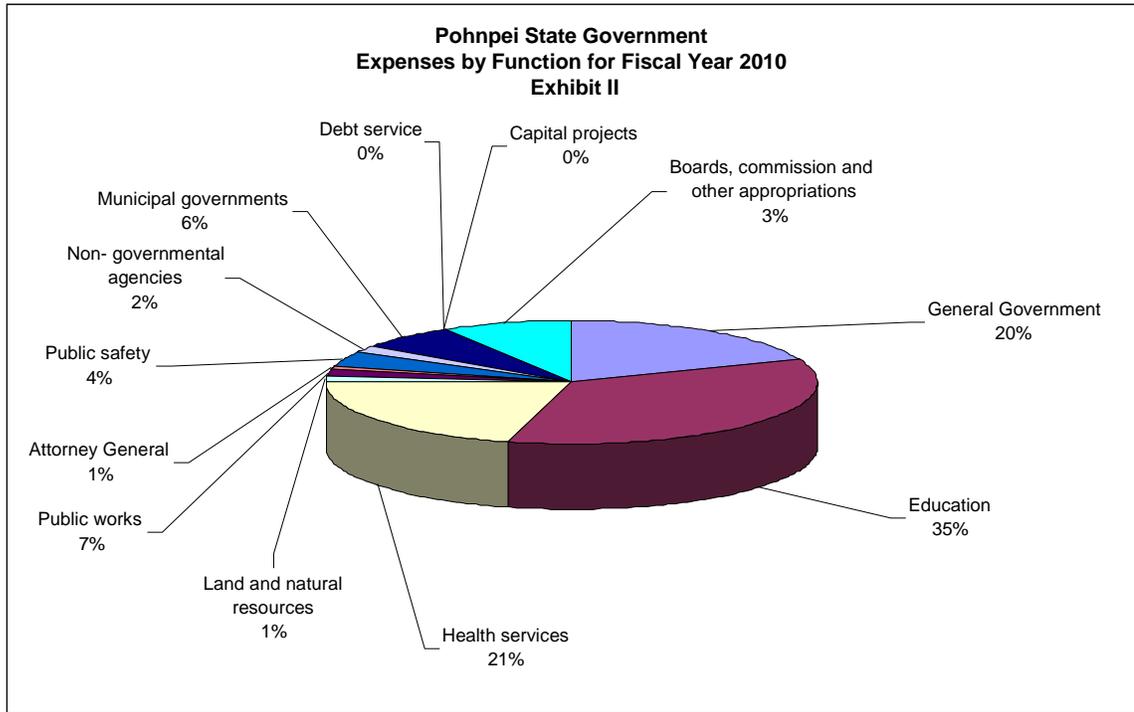
General revenues:		
Taxes	9,815,533	9,155,312
Investment earnings	574,823	581,513
Other	<u>574,651</u>	<u>129,575</u>
 Total revenues	 <u>38,264,458</u>	 <u>31,665,436</u>
Expenses:		
General Government	6,792,085	5,171,171
Education	12,047,239	11,785,146
Health services	7,128,173	7,014,037
Land and natural resources	431,471	626,021
Public works and transportation	2,404,162	2,503,307
Public safety	1,362,735	1,323,240
Boards, commission and other appropriations	<u>4,455,681</u>	<u>4,708,519</u>
 Total expenses	 <u>34,621,546</u>	 <u>33,131,441</u>
 Increase (decrease) in net assets	 \$ <u>3,642,912</u>	 \$ <u>(1,466,005)</u>

Exhibit I below, showed that 46% of the State's revenues were derived from Compact II while 26% came from taxes and licenses. The least source of revenues is capital grants and contributions. For expenses, the State encompasses a range of services. Exhibit II illustrated that education represented 35% of the State's total expenses while health represented 21%.



**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2010



FINANCIAL ANALYSIS OF THE STATE GOVERNMENTAL FUNDS

The State's governmental fund changes in fund balances for the year ended September 30, 2010 are shown below.

	<u>General Fund</u>	<u>Grants Assistance</u>	<u>Compact Trust</u>	<u>Other Funds</u>	<u>Total</u>
Revenues:					
Taxes	\$ 9,285,034	\$ -	\$ -	\$ 530,499	\$ 9,815,533
Compact	-	17,680,454	-	-	17,680,454
Other/transfers in	<u>1,357,890</u>	<u>2,609,123</u>	<u>1,790,787</u>	<u>1,210,671</u>	<u>6,968,471</u>
Total revenues	10,642,924	20,289,577	1,790,787	1,741,170	34,464,458
Expenditures	<u>10,921,737</u>	<u>20,127,564</u>	<u>-</u>	<u>1,392,939</u>	<u>32,442,240</u>
Net change in fund balance	\$ <u>(278,813)</u>	\$ <u>162,013</u>	\$ <u>1,790,787</u>	\$ <u>348,231</u>	\$ <u>2,022,218</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2010

General Fund

Revenues increased by \$877,179 compared to fiscal year 2009 which was caused by an increase in revenue sharing and State taxes. The increase in fair value of investments, and fees and other charges, however, are lower than the previous year. Likewise, total expenditures without write-offs increased by \$570,532 or 5.51% more than last year. Subsidy to Department of Health Services and Non-governmental Agencies and an increase in expenditures of the General Government for fiscal year 2010 explained the increase in expenditures.

Grant Assistance Fund

As mentioned in the preceding paragraph, Compact II/Sector Grants were the major sources of Pohnpei State's operating grants for fiscal year 2010. The total revenues amounted to \$17,680,454 while total expenditures are in the amount of \$17,545,279, which is 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 revenues are \$7,407,262 against total expenditures of the same amount.
- 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 equals the total expenditures in the amount of \$5,811,106.
- 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. For fiscal year 2010, Pohnpei State did not receive funding from private sector development grant.
- 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 revenues and expenditures are \$489,416.
- 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 total revenue is \$325,929 with the same total of expenditures.
- 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 total funding is \$750,000 and received the other \$375,000 in fiscal year 2010 and expended \$239,825.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2010

- 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). For the year, the total expenditures incurred were \$3,271,741.

Another major source of funding under Grant Assistance Fund is the US Federal Grants, which supported \$2,409,414 of expenditures of the State.

General Fund Budgetary Highlights

During the year, the State revised its budget several times in the aggregate amount of \$1,330,931 to accommodate supplemental funding for departments and offices requiring increases in appropriations to avoid budget overruns. These matters are not believed to have a significant effect on future services. The State conforms to the most appropriate measures of utilizing its net assets due to the current global economic crisis.

The net decrease in the State's general fund balance of \$278,813 is 48% lower than the prior fiscal year's decrease.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The State's capital assets at the end of fiscal year 2010 consist basically of equipment, buildings, roads and bridges. In fiscal year 2010, construction of the Administration Building was completed and turned over to the Pohnpei State Government. The donated asset was from Chinese government with a cost of \$3,800,000. The summary of capital assets at the end of September 30 is shown below:

	<u>Primary Government Governmental Activities</u>	
	<u>2010</u>	<u>2009</u>
Buildings	\$ 13,728,473	\$ 9,928,473
Infrastructure	52,446,727	52,341,781
Machinery	<u>21,467,832</u>	<u>21,860,176</u>
Total	\$ <u>87,643,032</u>	\$ <u>84,130,430</u>

The notes to the financial statements (primarily note 5) present more information about the State's capital assets.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2010

Long-term Debt

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

	<u>Governmental Activities</u>	
	<u>2010</u>	<u>2009</u>
Asian Development Bank loans	\$ <u>5,964,852</u>	\$ <u>5,335,005</u>

Note 6 to the financial statements presents more information about the State's long-term debt.

Economic Factors and Next Year's Budget

Funding for the operations of most of the government services in fiscal year 2011 will still come from the Compact II.

Fiscal year 2011 is the eight year of the implementation of the economic assistance under the Compact II/ Sector Grant. Sector funding replaces the funding sources from the old Compact I. Under the Compact II/Sector grant, the annual budget approved by JEMCO for fiscal year 2011 is as follows:

- For education sector grant, which continues to be the funding priority, the annual budget is \$7,488,013.
- The health sector grant's budget is \$5,880,791.
- There is no sector grant funding for private sector development for fiscal year 2011.
- The capacity building sector grant budget for fiscal year 2011 is \$468,069.
- The environment sector grant is \$446,290.
- The cumulative grants for the Public Infrastructure from fiscal years 2005 through 2011 is more than \$40,000,000. 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 for fiscal year 2011 is \$2,984,265. The programs covered in the funding are Early Childhood Education, Education Improvement Programs, Workforce Development/Skill Training, Vocational Education and Staff Development. The grant award was signed on September 30, 2010.

For fiscal year 2011, the locally generated revenues and the revenue shares from the FSM National Government are projected at a range of \$9,600,000 or less due to the implementation of FSM Public Law 14-90. FSM Public Law 14-90 allows taxpayers to deduct the wages and benefits paid to their employees from the taxable revenues; hence reducing the amount of gross revenue taxes. In fiscal year 2010; increase in the FSM revenue sharing was more than \$500,000. For Pohnpei State; increase in collection of taxes was more than \$150,000. The Department of Treasury and Administration will however 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 may be authorized to be used to fund other operations of the government.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2010

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, 2010

	Primary Government	Component Units
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 39,504	\$ 3,749,053
Investments	8,961,771	174,257
Receivables, net of allowance for uncollectibles	4,247,369	3,942,272
Advances	95,288	44,519
Inventories	40,075	933,742
Due from component units	200,000	-
Restricted assets:		
Cash and cash equivalents	1,615,262	1,225,709
Total current assets	15,199,269	10,069,552
Noncurrent assets:		
Capital assets, net of accumulated depreciation	26,375,497	29,525,163
Investments	1,000,000	145,112
Receivables	-	654,497
Other	-	258,404
Restricted assets:		
Investments	12,537,676	-
Total noncurrent assets	39,913,173	30,583,176
Total assets	\$ 55,112,442	\$ 40,652,728
<u>LIABILITIES</u>		
Current liabilities:		
Current portion of long-term obligations	\$ 170,031	\$ 222,478
Accounts payable	2,038,506	929,088
Current portion of compensated absences payable	400,000	-
Other liabilities and accruals	972,980	942,057
Due to primary government	-	1,483,734
Deferred revenues	1,262,688	185,745
Total current liabilities	4,844,205	3,763,102
Noncurrent liabilities:		
Long-term obligations, net of current portion	5,794,821	3,461,434
Compensated absences payable, net of current portion	539,382	-
Claims and judgments payable	210,968	-
Total noncurrent liabilities	6,545,171	3,461,434
Total liabilities	11,389,376	7,224,536
Contingencies and commitments		
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	26,375,497	25,991,251
Restricted for:		
Nonexpendable:		
Future operations	9,234,144	-
Expendable:		
Compact related	2,026,207	-
Capital projects	208,474	-
Debt service	3,543,757	-
Other purposes	4,858,268	3,532,544
Unrestricted	(2,523,281)	3,904,397
Total net assets	43,723,066	33,428,192
Total liabilities and net assets	\$ 55,112,442	\$ 40,652,728

See accompanying notes to basic financial statements.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Statement of Activities
Year Ended September 30, 2010

	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
Functions/Programs						
Primary government:						
Governmental activities:						
General government	\$ 6,792,085	435,328	\$ 1,221,133	\$ 4,039,825	\$ (1,095,799)	\$ -
Land and natural resources	431,471	54,399	28,984	-	(348,088)	-
Education	12,047,239	-	11,861,646	-	(185,593)	-
Health services	7,128,173	690,370	6,775,394	-	337,591	-
Public safety	1,362,735	46,177	108,973	-	(1,207,585)	-
Attorney-general	299,181	-	-	-	(299,181)	-
Public works and transportation	2,404,162	-	-	-	(2,404,162)	-
Non-governmental agencies	764,310	-	-	-	(764,310)	-
Boards, commissions and others	1,040,311	-	-	-	(1,040,311)	-
Municipal governments	2,185,869	-	-	-	(2,185,869)	-
Payments to PTA	116,837	-	-	-	(116,837)	-
Unallocated interest	44,766	-	246,435	-	201,669	-
Future operations	-	-	1,790,787	-	1,790,787	-
Capital projects	4,407	-	-	-	(4,407)	-
Total primary government	\$ 34,621,546	\$ 1,226,274	\$ 22,033,352	\$ 4,039,825	(7,322,095)	-
Component units:						
Pohnpei Utilities Corporation	\$ 15,026,423	\$ 12,639,486	\$ -	\$ -	-	(2,386,937)
Pohnpei Port Authority	2,228,068	2,789,088	-	-	-	561,020
Pohnpei Transportation Authority	585,415	380,563	-	-	-	(204,852)
Small Business Guarantee and Finance Corporation	127,256	49,817	-	-	-	(77,439)
Pohnpei State Housing Authority	140,834	163,704	-	-	-	22,870
Total component units	\$ 18,107,996	\$ 16,022,658	\$ -	\$ -	-	(2,085,338)
General revenues:						
Taxes:						
FSM revenue sharing					6,781,617	-
State taxes					3,033,916	-
Unrestricted investment earnings					574,823	-
Other					574,651	492,903
Total general revenues					10,965,007	492,903
Change in net assets					3,642,912	(1,592,435)
Net assets at the beginning of the year					40,080,154	35,020,627
Net assets at the end of the year					\$ 43,723,066	\$ 33,428,192

See accompanying notes to basic financial statements.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Balance Sheet
Governmental Funds
September 30, 2010

		Special Revenue	Permanent	Other Governmental Funds	Total
	General	Grants Assistance	Compact Trust		
ASSETS					
Cash and cash equivalents	\$ 39,504	\$ -	\$ -	\$ -	\$ 39,504
Investments	5,852,787	4,108,984	-	-	9,961,771
Receivables, net:					
Taxes	1,774,451	2,026,490	-	-	3,800,941
Other	433,742	3,928	-	8,758	446,428
Due from component units	200,000	-	-	-	200,000
Due from other funds	7,481,559	4,730,794	-	6,504,218	18,716,571
Advances	39,894	52,945	-	2,449	95,288
Inventories	-	-	-	40,075	40,075
Restricted assets:					
Cash and cash equivalents	1,505,682	109,580	-	-	1,615,262
Investments	-	-	9,234,144	3,303,532	12,537,676
Total assets	<u>\$ 17,327,619</u>	<u>\$ 11,032,721</u>	<u>\$ 9,234,144</u>	<u>\$ 9,859,032</u>	<u>\$ 47,453,516</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 1,157,664	\$ 828,493	\$ -	\$ 52,349	\$ 2,038,506
Other liabilities and accruals	792,332	176,186	-	4,462	972,980
Deferred revenues	-	1,262,688	-	-	1,262,688
Due to other funds	11,235,012	6,668,398	-	813,161	18,716,571
Total liabilities	<u>13,185,008</u>	<u>8,935,765</u>	<u>-</u>	<u>869,972</u>	<u>22,990,745</u>
Fund balances:					
Reserved for:					
Related assets	-	101,880	9,234,144	40,075	9,376,099
Encumbrances	282,792	1,834,410	-	572,359	2,689,561
Continuing appropriations	148,716	1,000,000	-	682,908	1,831,624
Debt service	-	-	-	3,303,532	3,303,532
Unreserved:					
General fund	3,711,103	-	-	-	3,711,103
Special revenue funds	-	(839,334)	-	4,294,015	3,454,681
Debt service funds	-	-	-	66,166	66,166
Capital projects funds	-	-	-	30,005	30,005
Total fund balances	<u>4,142,611</u>	<u>2,096,956</u>	<u>9,234,144</u>	<u>8,989,060</u>	<u>24,462,771</u>
Total liabilities and fund balances	<u>\$ 17,327,619</u>	<u>\$ 11,032,721</u>	<u>\$ 9,234,144</u>	<u>\$ 9,859,032</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	26,375,497
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	(5,964,852)
Compensated absences payable	(939,382)
Claims and judgments payable	(210,968)
	<u>(7,115,202)</u>
Net assets of governmental activities	<u>\$ 43,723,066</u>

See accompanying notes to basic financial statements.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2010

	General	Special Revenue Grants Assistance	Permanent Compact Trust	Other Governmental Funds	Total
Revenues:					
Compact funding	\$ -	\$ 17,680,454	\$ -	\$ -	\$ 17,680,454
Net change in the fair value of investments	574,823	-	1,790,787	246,435	2,612,045
CFSM grants	-	83,495	-	-	83,495
Federal contributions and other grants	-	2,472,006	-	-	2,472,006
FSM revenue sharing	6,781,617	-	-	-	6,781,617
State taxes	2,503,417	-	-	530,499	3,033,916
Fees and charges	262,038	-	-	964,236	1,226,274
Other	521,029	53,622	-	-	574,651
Total revenues	10,642,924	20,289,577	1,790,787	1,741,170	34,464,458
Expenditures:					
Current:					
General government	3,923,036	1,349,226	-	884,091	6,156,353
Land and natural resources	435,035	28,983	-	-	464,018
Education	7,236	11,861,464	-	-	11,868,700
Health services	164,180	6,775,395	-	339,948	7,279,523
Public safety	1,270,251	108,973	-	-	1,379,224
Office of the Attorney-General	299,181	-	-	-	299,181
Public works	705,014	-	-	-	705,014
Payments to non-governmental agencies	764,310	-	-	-	764,310
Boards, commissions and other	1,050,788	3,523	-	-	1,054,311
Grants to local governments	2,185,869	-	-	-	2,185,869
Pohnpei Transportation Authority	116,837	-	-	-	116,837
Debt service	-	-	-	164,493	164,493
Capital projects	-	-	-	4,407	4,407
Total expenditures	10,921,737	20,127,564	-	1,392,939	32,442,240
Excess (deficiency) of revenues over (under) expenditures	(278,813)	162,013	1,790,787	348,231	2,022,218
Other financing sources:					
Proceeds from issuance of long-term debt	-	-	-	135,017	135,017
Net change in fund balances	(278,813)	162,013	1,790,787	483,248	2,157,235
Fund balances at the beginning of the year	4,421,424	1,934,943	7,443,357	8,505,812	22,305,536
Fund balances at the end of the year	\$ 4,142,611	\$ 2,096,956	\$ 9,234,144	\$ 8,989,060	\$ 24,462,771

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, 2010

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

Net change in fund balances - total governmental funds	\$ 2,157,235
--	--------------

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period	2,113,616
---	-----------

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. For the current year, these amounts consist of:

Long-term debt proceeds	\$ (135,017)	
Repayment of ADB Loans	<u>119,727</u>	(15,290)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. For the current year, these activities consist of:

Change in compensated absences payable	\$ 1,908	
Foreign exchange adjustment in SDR amount for ADB Loans	<u>(614,557)</u>	<u>(612,649)</u>

Change in net assets of governmental activities	\$ <u>3,642,912</u>
---	---------------------

See accompanying notes to basic financial statements.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Combining Statement of Net Assets
Component Units
September 30, 2010

	Pohnpei Utilities Corporation	Pohnpei Port Authority	Pohnpei Transportation Authority	Small Business Guarantee and Finance Corporation	Pohnpei State Housing Authority	Total
<u>ASSETS</u>						
Current assets:						
Cash and cash equivalents	\$ 395,853	\$ 3,148,233	\$ -	\$ 300	\$ 204,667	\$ 3,749,053
Investments	174,257	-	-	-	-	174,257
Receivables, net	1,649,571	243,124	25,980	27,775	1,995,822	3,942,272
Inventories	919,780	-	13,962	-	-	933,742
Advances	9,778	34,698	-	-	43	44,519
Restricted assets:						
Cash and cash equivalents	150,000	-	-	1,075,709	-	1,225,709
Total current assets	<u>3,299,239</u>	<u>3,426,055</u>	<u>39,942</u>	<u>1,103,784</u>	<u>2,200,532</u>	<u>10,069,552</u>
Noncurrent assets:						
Capital assets, net of accumulated depreciation	23,246,150	6,200,595	14,501	3,080	60,837	29,525,163
Investments	145,112	-	-	-	-	145,112
Receivables	-	-	-	654,497	-	654,497
Other	-	258,404	-	-	-	258,404
Total noncurrent assets	<u>23,391,262</u>	<u>6,458,999</u>	<u>14,501</u>	<u>657,577</u>	<u>60,837</u>	<u>30,583,176</u>
Total assets	<u>\$ 26,690,501</u>	<u>\$ 9,885,054</u>	<u>\$ 54,443</u>	<u>\$ 1,761,361</u>	<u>\$ 2,261,369</u>	<u>\$ 40,652,728</u>
<u>LIABILITIES</u>						
Current liabilities:						
Current portion of long-term debt	\$ 222,478	\$ -	\$ -	\$ -	\$ -	\$ 222,478
Accounts payable	768,305	107,241	53,542	-	-	929,088
Other liabilities and accruals	227,043	155,393	13,295	3,019	543,307	942,057
Due to primary government	200,000	-	1,283,734	-	-	1,483,734
Deferred revenue	182,751	-	2,994	-	-	185,745
Total current liabilities	<u>1,600,577</u>	<u>262,634</u>	<u>1,353,565</u>	<u>3,019</u>	<u>543,307</u>	<u>3,763,102</u>
Noncurrent liabilities:						
Noncurrent portion of long-term debt	<u>3,461,434</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,461,434</u>
Total liabilities	<u>5,062,011</u>	<u>262,634</u>	<u>1,353,565</u>	<u>3,019</u>	<u>543,307</u>	<u>7,224,536</u>
<u>NET ASSETS</u>						
Invested in capital assets, net of related debt	19,712,238	6,200,595	14,501	3,080	60,837	25,991,251
Restricted	145,112	-	-	1,730,207	1,657,225	3,532,544
Unrestricted	<u>1,771,140</u>	<u>3,421,825</u>	<u>(1,313,623)</u>	<u>25,055</u>	<u>-</u>	<u>3,904,397</u>
Total net assets	<u>21,628,490</u>	<u>9,622,420</u>	<u>(1,299,122)</u>	<u>1,758,342</u>	<u>1,718,062</u>	<u>33,428,192</u>
	<u>\$ 26,690,501</u>	<u>\$ 9,885,054</u>	<u>\$ 54,443</u>	<u>\$ 1,761,361</u>	<u>\$ 2,261,369</u>	<u>\$ 40,652,728</u>

See accompanying notes to basic financial statements.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Combining Statement of Revenues, Expenses, and Changes in Net Assets
Component Units
Year Ended September 30, 2010

	Pohnpei Utilities Corporation	Pohnpei Port Authority	Pohnpei Transportation Authority	Small Business Guarantee and Finance Corporation	Pohnpei State Housing Authority	Total
Operating revenues:						
Charges for services	\$ 11,274,042	\$ 2,789,088	\$ 380,563	\$ 49,817	\$ 163,704	\$ 14,657,214
Sales	<u>1,365,444</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,365,444</u>
Total operating revenues	<u>12,639,486</u>	<u>2,789,088</u>	<u>380,563</u>	<u>49,817</u>	<u>163,704</u>	<u>16,022,658</u>
Operating expenses:						
Cost of services	11,934,331	-	-	-	-	11,934,331
Administration costs	963,705	1,758,659	567,255	126,031	135,586	3,551,236
Depreciation and amortization	<u>2,128,387</u>	<u>469,409</u>	<u>18,160</u>	<u>1,225</u>	<u>5,248</u>	<u>2,622,429</u>
Total operating expenses	<u>15,026,423</u>	<u>2,228,068</u>	<u>585,415</u>	<u>127,256</u>	<u>140,834</u>	<u>18,107,996</u>
Operating income (loss)	<u>(2,386,937)</u>	<u>561,020</u>	<u>(204,852)</u>	<u>(77,439)</u>	<u>22,870</u>	<u>(2,085,338)</u>
Nonoperating revenues (expenses):						
Contributions from the primary government	154,116	-	-	117,000	130,845	401,961
Interest income (expense)	(143,465)	13,693	-	4,258	-	(125,514)
Loss on disposal of fixed assets	-	(13,250)	-	-	-	(13,250)
Other	<u>63,178</u>	<u>-</u>	<u>154,783</u>	<u>11,745</u>	<u>-</u>	<u>229,706</u>
Total nonoperating revenues (expenses), net	<u>73,829</u>	<u>443</u>	<u>154,783</u>	<u>133,003</u>	<u>130,845</u>	<u>492,903</u>
Change in net assets	(2,313,108)	561,463	(50,069)	55,564	153,715	(1,592,435)
Net assets at the beginning of the year	<u>23,941,598</u>	<u>9,060,957</u>	<u>(1,249,053)</u>	<u>1,702,778</u>	<u>1,564,347</u>	<u>35,020,627</u>
Net assets at the end of the year	<u>\$ 21,628,490</u>	<u>\$ 9,622,420</u>	<u>\$ (1,299,122)</u>	<u>\$ 1,758,342</u>	<u>\$ 1,718,062</u>	<u>\$ 33,428,192</u>

See accompanying notes to basic financial statements.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2010

(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 State has not identified any entities that should be so blended.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2010

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

Small Business Guarantee and Finance Corporation (SBGFC): SBGFC was created by PSPL No. 3L-86-95 to provide, promote, develop and widen in both scope and services reach various alternative modes of financing for small enterprises, including, but not limited to, direct and indirect project lending, venture capital, financial leasing, secondary mortgage and rediscounting of loan papers to small businesses. SBGFC is governed by a seven-member Board of Directors, consisting of four representatives of the State and three representatives from the private sector appointed by the Governor with the advice and consent of the Legislature.

Pohnpei 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.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2010

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

i. Discretely Presented Component Units, Continued

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

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

B. Government-Wide Financial Statements

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

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

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

- Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.
- Restricted net assets - nonexpendable consists of permanent funds in which donors or other outside sources have stipulated that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to the principal.
- Restricted net assets - expendable consists of resources in which the State is legally or contractually obligated to spend resources in accordance with restrictions either externally imposed by creditors, grantors, contributors, and the like, or imposed by law.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2010

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide Financial Statements, Continued

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

The government-wide Statement of Net Assets reports \$19,870,850 of restricted net assets, of which \$4,858,268 is restricted by enabling legislation.

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

C. Fund Financial Statements

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

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

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

D. Measurement Focus and Basis of Accounting

Government-Wide Financial Statements:

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

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

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2010

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

Governmental Fund Financial Statements:

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

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

Component Unit Financial Statements:

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

The State reports the following Governmental Fund types:

i. General Fund

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

ii. Special Revenue Funds

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

iii. Debt Service Funds

These funds account for the accumulation of resources for the retirement of long-term debt.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2010

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

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 Funds

These funds account 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 - For State and Local Governments: Omnibus*, sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses for either fund category or the governmental and enterprise combined) for the determination of major funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The nonmajor funds are combined in a column in the fund financial statements and detailed in the combining statements. The State reports the following major funds:

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

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

E. 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 discretely presented component units 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 maturity dates within three months of the date acquired by the State.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2010

(1) Summary of Significant Accounting Policies, Continued

G. Investments

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. 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 are stated net of estimated allowances for uncollectible accounts. Federal receivables include those funds which are earned, primarily from FSM National Government administered federal grants, which have yet to be reimbursed by the applicable grantor.

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

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 the government-wide and governmental 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, 2010, investments of \$9,234,144 recorded in the Compact Trust Fund are restricted in that they are not available to be used in current operations. In addition, investments of \$3,303,532 recorded in the other governmental funds are restricted for future repayment of the Early Retirement Program loan. Furthermore, cash and cash equivalents were restricted for the following uses:

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2010

(1) Summary of Significant Accounting Policies, Continued

K. Restricted Assets, Continued

Deposits with a local bank restricted for the purchase of medical supplies for the State hospital.	\$ 81,556
Savings accounts established in accordance with Section 211(d)(2) of the Compact of Free Association, as amended, for the purpose of funding the State's infrastructure maintenance plan	1,346,131
Deposit accounts established for the purpose of receiving payments pursuant to the Compact of Free Association, as amended	71,106
Small Business Development Center deposit account	14,589
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.	<u>101,880</u>
	<u>\$ 1,615,262</u>

Cash and cash equivalents of the discretely presented component units were restricted for the following uses:

Pohnpei Utilities Corporation:

Deposit account collateralizing a loan payable to the FSM Development Bank	\$ 150,000
--	------------

Small Business Guarantee and Finance Corporation:

Deposit accounts restricted for various operations of the Small Business Guarantee and Finance Corporation	<u>1,075,709</u>
	<u>\$ 1,225,709</u>

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.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2010

(1) Summary of Significant Accounting Policies, Continued

L. Capital Assets

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

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

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

M. Interfund/Intrafund Transactions

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

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 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, 2010

(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. 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, 2010, is represented by the following assets:

	<u>General</u>	<u>Grant Assistance</u>	<u>Compact Trust</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Inventories	\$ -	\$ -	\$ -	\$ 40,075	\$ 40,075
Restricted assets:					
Cash and cash equivalents	-	101,880	-	-	101,880
Investments	-	-	9,234,144	-	9,234,144
	<u>\$ -</u>	<u>\$ 101,880</u>	<u>\$ 9,234,144</u>	<u>\$ 40,075</u>	<u>\$ 9,376,099</u>

P. Risk Financing

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

Q. New Accounting Standards

During fiscal year 2010, the State implemented the following pronouncements:

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes.
- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements.
- GASB Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2010

(1) Summary of Significant Accounting Policies, Continued

Q. New Accounting Standards, Continued

- GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code, and establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs.

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

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of the State.

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the State.

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have 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, 2010

(1) Summary of Significant Accounting Policies, Continued

S. Deferred Revenues

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

T. Total Columns

Total columns are presented primarily to facilitate financial analysis. The Management’s Discussion and Analysis includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with the State’s financial statements for the year ended September 30, 2009 from which summarized information was derived.

(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 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:

- 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%.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2010

(2) Deposits and Investments, Continued

- 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.

As of September 30, 2010, the carrying amount of the primary government's total cash and cash equivalents were \$1,654,766 and the corresponding bank balances were \$2,421,769, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2010, bank deposits in the amount of \$500,000 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.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2010

(2) Deposits and Investments, Continued

A. Deposits, Continued

As of September 30, 2010, the carrying amount of the discretely presented component units' total cash and cash equivalents was \$4,974,762, and the corresponding bank balances were \$5,051,288, which were maintained in financial institutions subject to FDIC insurance. As of September 30, 2010, bank deposits in the amount of \$1,204,667 were FDIC insured. The component units do not require collateralization of their cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Therefore, these deposits are exposed to custodial credit risk.

B. Investments

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.

Primary Government:

As of September 30, 2010, the State's investments at fair value are as follows:

Fixed income securities:	
Domestic fixed income	\$ <u>4,401,340</u>
Other investments:	
Domestic equities	16,584,089
Cash management account	<u>14,018</u>
	<u>16,598,107</u>
	\$ <u>20,999,447</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2010

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued:

As of September 30, 2010, the State's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

Investment Type	Investment Maturities (In Years)					Credit Ratings
	Fair Value	Current	1-5	6-10	Over 10	
U.S. Treasury Notes and Bonds	\$ 898,895	\$63,514	\$ 416,355	\$182,969	\$ 236,057	Aaa/AAA
U.S. Government Agency Obligations:						
Federal Home Loan Mortgage Corporation	566,278	-	6,925	27,187	532,166	AAA
Government National Mortgage Association	579,587	-	-	-	579,587	AAA
Federal National Mortgage Association	277,230	-	71,944	13,549	191,737	AAA
Private Export Funding Corporation	89,099	-	89,099	-	-	AAA
Tennessee Valley Authority	10,771	-	-	-	10,771	AAA
Small Business Administration	55,161	-	-	-	55,161	No rating
Housing Urban Development	18,840	-	18,840	-	-	No rating
Financing Corporation	48,089	-	-	48,089	-	No rating
Municipal Obligations	24,050	-	17,546	-	6,504	Aa1
Municipal Obligations	36,435	-	32,573	-	3,862	Aa2
Municipal Obligations	49,854	-	-	-	49,854	A1/A+
Municipal Obligations	33,129	-	-	-	33,129	A
Municipal Obligations	48,225	-	-	16,566	31,659	Baa1/BBB+
Corporate Bonds	211,806	-	90,830	-	120,976	Aaa/AAA
Corporate Bonds	48,215	-	34,413	13,802	-	Aa1/AA+
Corporate Bonds	56,236	18,654	-	22,275	15,307	Aa2/AA
Corporate Bonds	116,035	-	-	116,035	-	Aa3/AA-
Corporate Bonds	200,892	-	68,231	-	132,661	A1/A+
Corporate Bonds	301,883	-	231,922	49,742	20,219	A2/A
Corporate Bonds	325,095	-	209,821	95,944	19,330	A3/A-
Corporate Bonds	192,780	-	142,286	24,451	26,043	Baa1/BBB+
Corporate Bonds	102,639	-	84,369	18,270	-	Baa2/BBB
Corporate Bonds	110,116	-	37,162	9,314	63,640	No rating
	<u>\$4,401,340</u>	<u>\$82,168</u>	<u>\$1,552,316</u>	<u>\$638,193</u>	<u>\$2,128,663</u>	

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

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, 2010.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2010

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued:

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, 2010, the State did not hold an investment in any one issuer that represented more than 5% of the State's total investments.

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

As of September 30, 2010, the Grants Assistance Fund holds 5.4% of the outstanding shares of the Bank of the Federated States of Micronesia in the amount of \$500,000 and 19% of the outstanding shares of the Pacific Islands Development Bank in the amount of \$1,000,000. As the fair market value of these investments is not readily available, such have been recorded at cost. 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.

Discretely Presented Component Units:

Investments of the discretely presented component units at fair value are as follows:

Pohnpei Utilities Corporation:	
Mutual funds	\$ <u>319,369</u>

(3) Receivables

Receivables as of September 30, 2010, for the primary government's individual major governmental funds, and nonmajor governmental funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Grants Assistance</u>	<u>Compact Trust</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Receivables:					
Taxes	\$ 1,801,930	\$ -	\$ -	\$ 20,431	\$ 1,822,361
Other	<u>3,061,280</u>	<u>2,484,015</u>	<u>-</u>	<u>562,203</u>	<u>6,107,498</u>
	4,863,210	2,484,015	-	582,634	7,929,859
Allowance for uncollectible accounts	<u>(2,655,017)</u>	<u>(453,597)</u>	<u>-</u>	<u>(573,876)</u>	<u>(3,682,490)</u>
	<u>\$ 2,208,193</u>	<u>\$ 2,030,418</u>	<u>\$ -</u>	<u>\$ 8,758</u>	<u>\$ 4,247,369</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2010

(3) Receivables, Continued

Receivables as of September 30, 2010, for the discretely presented component units, including applicable allowances for uncollectible accounts, are as follows:

	<u>Pohnpei Utilities Corporation</u>	<u>Pohnpei Port Authority</u>	<u>Pohnpei Transportation Authority</u>	<u>Small Business Guarantee and Finance Corporation</u>	<u>Pohnpei State Housing Authority</u>	<u>Total</u>
Receivables:						
Loans	\$ -	\$ -	\$ -	\$ 715,185	\$ 6,987,491	\$ 7,702,676
General	4,907,255	1,862,782	866,420	-	37,806	7,674,263
Other	<u>96,559</u>	<u>-</u>	<u>-</u>	<u>27,775</u>	<u>10,337</u>	<u>134,671</u>
	5,003,814	1,862,782	866,420	742,960	7,035,634	15,511,610
Less: allowance for uncollectibles	<u>(3,354,243)</u>	<u>(1,619,658)</u>	<u>(840,440)</u>	<u>(60,688)</u>	<u>(5,039,812)</u>	<u>(10,914,841)</u>
	<u>\$ 1,649,571</u>	<u>\$ 243,124</u>	<u>\$ 25,980</u>	<u>\$ 682,272</u>	<u>\$ 1,995,822</u>	<u>\$ 4,596,769</u>

(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, 2010, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Grants Assistance	\$ 6,668,398
General	Nonmajor governmental funds	813,161
Grants Assistance	General	4,730,794
Nonmajor governmental fund	General	<u>6,504,218</u>
		<u>\$ 18,716,571</u>

Receivables and payables between funds reflected as due to/due from components in the statement of net assets at September 30, 2010, are summarized as follows:

<u>Primary Government</u>	<u>Due From</u>	<u>Due To</u>
General Fund:		
Pohnpei Utilities Corporation	\$ <u>200,000</u>	\$ <u>-</u>

The amount recorded as due from component units of the primary government of \$200,000 does not equal the corresponding due to primary government of the discretely presented component units of \$1,483,734 due to an allowance for doubtful accounts recorded by the General Fund of \$1,283,734.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2010

(5) Fixed Assets

Capital asset activities of the primary government for the year ended September 30, 2010, are as follows:

	Balance October <u>1, 2009</u>	<u>Additions</u>	<u>Retirements</u>	Balance September <u>30, 2010</u>
Governmental activities:				
Capital assets, being depreciated:				
Buildings	\$ 9,928,473	\$ 3,800,000	\$ -	\$ 13,728,473
Machinery, equipment and others	21,860,176	635,268	(1,027,612)	21,467,832
Infrastructure	<u>52,341,781</u>	<u>104,946</u>	<u>-</u>	<u>52,446,727</u>
Total capital assets, being depreciated	<u>84,130,430</u>	<u>4,540,214</u>	<u>(1,027,162)</u>	<u>87,643,032</u>
Less accumulated depreciation for:				
Buildings	(4,287,497)	(292,198)	-	(4,579,695)
Machinery, equipment and others	20,939,347	(670,066)	1,027,612	(20,581,801)
Infrastructure	<u>34,641,705</u>	<u>(1,464,334)</u>	<u>-</u>	<u>(36,106,039)</u>
	<u>(59,868,549)</u>	<u>(2,426,598)</u>	<u>1,027,612</u>	<u>(61,267,535)</u>
Governmental activities capital assets, net	\$ <u>24,261,881</u>	\$ <u>2,113,616</u>	\$ <u>-</u>	\$ <u>26,375,497</u>

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

General government	\$ 140,029
Land and natural resources	104,033
Education	272,759
Health services	174,918
Public safety	35,711
Public works and transportation	<u>1,699,148</u>
	<u>\$ 2,426,598</u>

During the year ended September 30, 2010, the State received donated capital assets from the FSM National Government. These capital assets were transferred to the State upon completion of construction at a cost of \$3,800,000.

(6) Long-Term Obligations

Primary Government

Asian Development Bank (ADB) Loans:

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 (Loan Number 1520 (SF)) through the FSM National Government, non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. The activities of the ERS Program are recorded in the General Fund.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2010

(6) Long-Term Obligations, Continued

Primary Government, Continued

Asian Development Bank (ADB) Loans, Continued:

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

Funds for the repayment of the ADB loan are expected to be derived from the annual appropriations for salaries and wages earmarked for the positions abolished under the Early Retirement Scheme. The Financing Agreement requires the State to continue to appropriate salaries for the abolished positions and deposit the appropriate funds into the ERS Trust Account. These funds had not been deposited to the Trust Account as of September 30, 2002. Of the required \$4,200,000 identified for future debt service payments, \$3,303,532 is deposited in an investment account held jointly with the FSM National Government. That investment account is restricted for the repayment of this debt. As of September 30, 2010, the balance payable on this loan amounted to \$4,544,810.

The State also entered into an agreement with the FSM National Government to borrow a portion of the proceeds of the FSM National Government Program Loans with ADB (Loan Number 1873 (SF) and Loan Number 1874 FSM (SF)) for the purpose of promoting private sector development in Pohnpei, with interest at 1% to 1.5% per annum. Principal payments shall be made in 32 equal semi-annual payments with the first payment due on May 15, 2010 and the last payment on November 15, 2025. As of September 30, 2010, the balances payable on these loans amounted to \$588,643 and \$831,399, respectively.

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>
2011	\$ 170,031	\$ 66,735	\$ 236,766
2012	170,031	64,668	234,699
2013	170,031	62,601	232,632
2014	170,031	60,534	230,565
2015	170,031	58,467	228,498
2016-2020	1,140,173	256,495	1,396,668
2021-2025	1,333,520	185,483	1,519,003
2026-2030	1,162,639	114,194	1,276,833
2031-2035	1,090,577	52,569	1,143,146
2036-2039	<u>387,788</u>	<u>5,795</u>	<u>393,583</u>
	<u>\$ 5,964,852</u>	<u>\$ 927,541</u>	<u>\$ 6,892,393</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2010

(6) Long-Term Obligations, Continued

Discretely Presented Component Units

Pohnpei Utilities Corporation (PUC)

Loan payable to the State, facilitated by an Asian Development Bank (ADB) loan to the FSM National Government, original amount of \$2,118,767, due in semi-annual installments of \$33,500 from February 2007 to August 2044. The State has not imposed collateralization on PUC and has waived its rights to receive 6.82% in interest. The loan includes a 1% per annum service charge to be added to the principal until installment payments commence. This service charge was paid by the State during the year ended September 30, 2010. During 2010, an additional \$341,092 was allocated to PUC which extended the maturity date to August 2051. \$ 2,273,521

Loan payable to United States Department of Agriculture, Rural Utilities Service (RUS), original amount of \$578,000, due in monthly installments of \$2,654 from October 2006 to July 2044. The loan is collateralized by a revenue pledge. The loan bears fixed interest of 4.5% per annum. 549,206

Loan payable to bank, original amount of \$773,122, with a 5 year term, interest at 9% per annum, collateralized by a diesel power comprehensive generator plant, two Daihatsu model 12D532 engines, building and materials, and existing and future receivables. Monthly principal and interest installments of \$9,794 from September 2008 with unpaid principal due in August 2013. 668,414

Loan payable to FSM Development Bank (FSMDB), original amount of \$481,701, with a 5 year term, interest at 9% per annum, collateralized by a \$150,000 time certificate of deposit, receivables, inventory and property, plant and equipment. Monthly principal and interest installments of \$10,379 from July 2007 to June 2012. 192,771
\$ 3,683,912

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>
2011	\$ 222,478	\$ 118,448	\$ 340,926
2012	197,987	102,189	300,176
2013	598,096	88,554	686,650
2014	54,102	44,746	98,848
2015	54,937	43,911	98,848
2016-2020	287,869	206,371	494,240
2021-2025	312,454	181,786	494,240
2026-2030	340,700	153,540	494,240
2031-2035	373,481	120,759	494,240
2036-2040	411,791	82,449	494,240
2041-2045	415,054	38,230	453,284
2046-2050	322,535	12,465	335,000
2051	<u>92,428</u>	<u>540</u>	<u>92,968</u>
	\$ <u>3,683,912</u>	\$ <u>1,193,988</u>	\$ <u>4,877,900</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2010

(7) Change in Long-Term Obligations

Primary Government

Long-term liabilities will be liquidated in the future from governmental funds. During the year ended September 30, 2010, 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, 2009	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2010	Due Within One Year
Loans payable:					
ADB loans:					
Loan 1520	\$ 4,022,123	\$ 611,330	\$ (88,643)	\$ 4,544,810	\$ 96,673
Loan 1873	472,453	135,017	(18,827)	588,643	37,974
Loan 1874	<u>840,429</u>	<u>3,227</u>	<u>(12,257)</u>	<u>831,399</u>	<u>35,384</u>
	5,335,005	749,574	(119,727)	5,964,852	170,031
Other:					
Compensated absences	941,290	415,830	(417,738)	939,382	400,000
Claims	<u>210,968</u>	<u>-</u>	<u>-</u>	<u>210,968</u>	<u>-</u>
	\$ <u>6,487,263</u>	\$ <u>1,165,404</u>	\$ <u>(537,465)</u>	\$ <u>7,115,202</u>	\$ <u>570,031</u>

Included in the net additions is a foreign exchange adjustment due to a change in the SDR calculation of \$611,330 and \$3,227 for ADB Loan Numbers 1520 and 1874, respectively, which was passed through by the FSM National Government, and resulted in an increase in the outstanding loans payable to the FSM National Government.

Discretely Presented Component Units

During the year ended September 30, 2010, the following changes occurred in liabilities reported as part of the component units' long-term liabilities in the statement of net assets:

	Balance October 1, 2009	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2010	Due Within One Year
Loans payable:					
Pohnpei Utilities Corporation	\$ <u>3,548,551</u>	\$ <u>341,092</u>	\$ <u>(205,731)</u>	\$ <u>3,683,912</u>	\$ <u>222,478</u>

(8) Contingencies and Commitments

Sick Leave

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

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.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2010

(8) Contingencies and Commitments, Continued

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.

Pursuant to Title I, Section 105 of United States Public Law 99-239, the Government of the Federated States of Micronesia (FSM) (which includes the State) is no longer liable for debts to U.S. federal agencies arising prior to the date of the implementation of the Compact of Free Association. This matter has not yet been officially resolved with the U.S. Government.

Loan Guarantees

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

During the year ended September 30, 2010, additional defaulted loans in the aggregate amount of \$550,428 were turned over to the Authority. The Authority's management is of the opinion that the primary government will become ultimately liable for such liabilities to USDA Rural Development. Therefore, such loans and related liability are not recorded by the Authority in the accompanying financial statements. The State is of the opinion that these loans have not been communicated timely in accordance with the underlying agreement and therefore, does not believe that it is liable for the balance.

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, 2010, is not predictable but could have a material impact on the accompanying financial statements. Such impact has currently been estimated to approximate \$210,968.

Pohnpei Utilities Corporation

PUC has a \$190,000 credit line with the Bank of the Federated States of Micronesia, collateralized by a time certificate deposit, bearing variable interest at 2.5% over the TCD rate. No borrowings against the line were outstanding at September 30, 2010.

Other

The State Legislature has authorized various Compact Infrastructure and Infrastructure Maintenance projects. However, the State Legislature has required that additional approvals be provided by that body prior to these projects being expended. As a result, no continuing appropriation has been recorded or will be recorded for these authorizations until such time as the additional requirements have been satisfied.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2010

(8) Contingencies and Commitments, Continued

Other, Continued

State law mandates that 30% of fishing fines be shared with applicable municipalities. Given the lack of certain legal clarifications, no specific dollar amount can be determined to be recorded as either a continuing appropriation or as a liability due to the municipalities.

(9) Continuing Appropriations

Continuing appropriations as of September 30, 2010, 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. \$ 148,716

Grants Assistance Fund:

Each fiscal year, the Pohnpei State Legislature appropriates funds for capital projects and economic development projects. \$ 1,000,000

Nonmajor Governmental Funds

Each fiscal year, the Pohnpei State Legislature appropriates funds for various programs and other projects. \$ 682,908

(10) Self-Insurance Fund - Component Units

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

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

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

(11) 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 the 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, 2010 (FSMDB fiscal year end), the outstanding fund balance aggregated \$793,002.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

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

YEAR ENDED SEPTEMBER 30, 2010

**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, 2010

	<u>Budgeted Amounts</u>		Actual - Budgetary	Variance with <u>Final Budget -</u>
	<u>Original</u>	<u>Final</u>	Basis (see Note 1)	
Revenues:				
FSM revenue sharing	\$ 5,769,824	\$ 5,769,824	\$ 6,781,617	\$ 1,011,793
State taxes	2,369,055	2,369,055	2,503,417	134,362
Fees and charges	-	-	262,038	262,038
Net change in the fair value of investments	250,000	250,000	574,823	324,823
Other	165,000	165,000	521,029	356,029
Total revenues	<u>8,553,879</u>	<u>8,553,879</u>	<u>10,642,924</u>	<u>2,089,045</u>
Expenditures:				
Current:				
General government	3,867,173	3,970,773	3,967,509	3,264
Department of Land and Natural Resources	343,018	433,178	437,533	(4,355)
Department of Education	7,318	13,400	7,236	6,164
Department of Health Services	-	165,000	164,368	632
Department of Public Safety	1,301,827	1,369,980	1,278,722	91,258
Office of the Attorney-General	390,229	390,229	314,374	75,855
Boards, Commissions and Other	1,890,065	2,566,289	2,076,596	489,693
Payments to Non-governmental Agencies	301,743	523,455	491,357	32,098
Grants to local governments	2,179,500	2,179,500	2,190,973	(11,473)
Total expenditures	<u>10,280,873</u>	<u>11,611,804</u>	<u>10,928,668</u>	<u>683,136</u>
Deficiency of revenues under expenditures	<u>(1,726,994)</u>	<u>(3,057,925)</u>	<u>(285,744)</u>	<u>2,772,181</u>
Other changes in unreserved fund balance:				
Decrease in reserve for continuing appropriations	-	-	90,779	90,779
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes but in the year the supplies are received for financial reporting purposes	-	-	16,347	16,347
	<u>(1,726,994)</u>	<u>(3,057,925)</u>	<u>(178,618)</u>	<u>2,879,307</u>
Unreserved fund balance at the beginning of the year	<u>3,889,721</u>	<u>3,889,721</u>	<u>3,889,721</u>	<u>-</u>
Unreserved fund balance at the end of the year	<u>\$ 2,162,727</u>	<u>\$ 831,796</u>	<u>\$ 3,711,103</u>	<u>\$ 2,879,307</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, 2010

(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.

(2) Reconciliation – GAAP and Budgetary Bases of Accounting

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. 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. Furthermore, the net change in fund balance to the net change in unreserved fund balance for the General Fund is as follows:

Net change in fund balance	\$ (778,813)
Encumbrances	<u>(6,931)</u>
Net change in unreserved fund balance	\$ <u>(785,744)</u>

For the year ended September 30, 2010, expenditures of the General Fund exceeded budget at the program area level (i.e., the legal level of budgetary control) as follows:

<u>Program Area</u>	<u>Excess</u>
Governor and staff	\$ 92,959
Division of Surveying and Mapping	\$ 3,046
Division of Forestry and Marine Conservation	\$ 3,831
Division of Parks and Recreation	\$ 6,363
Division of Police and Security	\$ 22,861
Division of Correction and Rehabilitation	\$ 2,804
Hazard Mitigation	\$ 2,307
Office of Economic Affairs	\$ 37,078
Office of Social Affairs	\$ 128,563
Office of Transportation	\$ 6,385
Office of Fisheries	\$ 16,673
U.S.D.A. Rural Development	\$ 1,800
Constitution Convention	\$ 24,819

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2010

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Combining Schedule of Expenditures by Account
Governmental Funds
Year Ended September 30, 2010

	General	Special Revenue	Permanent	Other Governmental Funds	Total
		Grants Assistance	Compact Trust		
Expenditures:					
Salaries and wages					
Regular	\$ 4,692,101	\$ 9,725,170	\$ -	\$ 302,125	\$ 14,719,396
Overtime	108,630	125,644	-	1,089	235,363
Fringe benefits	873,911	1,972,556	-	49,917	2,896,384
Travel and transportation	395,361	605,470	-	17,155	1,017,986
Books and instructional materials	-	836,502	-	-	836,502
Communications	104,465	102,081	-	9,014	215,560
Customs and taxes	2,624	40,356	-	746	43,726
Dues, membership, and subscriptions	35,822	41,219	-	-	77,041
Food stuffs	123,776	573,680	-	2,571	700,027
Port charges	4,125	44,896	-	7,989	57,010
Non-capitalized equipment	80,475	205,413	-	4,010	289,898
Capital outlays	113,866	509,236	-	10,746	633,848
Office supplies and materials	256,523	735,457	-	77,820	1,069,800
POL	162,100	190,933	-	29,134	382,167
Printing and reproduction	97,404	50,403	-	4,168	151,975
Rental services	15,529	27,471	-	17	43,017
Repairs and maintenance	40,364	73,486	-	5,195	119,045
Utilities	275,410	769,983	-	48,708	1,094,101
Miscellaneous goods and services	68,712	5,052	-	140	73,904
Subsidies and contributions	243,831	68,251	-	-	312,082
Medical referrals	164,180	369,282	-	-	533,462
Medical supplies	-	1,339,884	-	334,381	1,674,265
Contractual services	412,186	639,112	-	297,788	1,349,086
Professional services	-	148,009	-	-	148,009
Housing allowance	49,015	103,620	-	-	152,635
Non-payroll compensation	36,124	385,080	-	10,913	432,117
Court settlements	36,181	-	-	-	36,181
Scholarships and allowances	-	413,112	-	-	413,112
Insurance	69,354	-	-	-	69,354
Training	3,174	9,794	-	-	12,968
Official allowance	115,000	-	-	-	115,000
Meeting allowance	24,155	16,180	-	2,320	42,655
Leased housing, buildings and land	2,318	11	-	-	2,329
Principal repayment	-	-	-	119,727	119,727
Interest payments	26,066	-	-	57,266	83,332
Payments to municipalities	2,180,765	-	-	-	2,180,765
Miscellaneous	7,876	221	-	-	8,097
Bank charges	100,314	-	-	-	100,314
	<u>\$ 10,921,737</u>	<u>\$ 20,127,564</u>	<u>\$ -</u>	<u>\$ 1,392,939</u>	<u>\$ 32,442,240</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures by Function,
and Changes in Fund Balance
General Fund
Year Ended September 30, 2010
(with comparative totals for the year ended September 30, 2009)

	2010	2009
Revenues:		
FSM revenue sharing	\$ 6,781,617	\$ 6,250,075
State taxes:		
Sales tax	2,425,260	2,165,364
Hotel tax	78,157	70,668
Tax penalties	-	169,624
	2,503,417	2,405,656
Fees and charges:		
Licenses and fees:	262,038	245,486
Net change in the fair value of investments	574,823	581,513
Contributions from component unit	-	154,936
Other revenues	521,029	128,079
Total revenues	10,642,924	9,765,745
Expenditures:		
Current:		
General government:		
Governor and Staff	566,950	625,145
Department of Treasury and Administration	891,761	806,180
Office of Pohnpei Public Auditor	388	1,132
Judiciary Branch	670,122	631,873
Legislative Branch	1,793,815	1,621,935
	3,923,036	3,686,265
Department of Land and Natural Resources:		
Office of the Director	16,173	81,695
Land Use Planning and Zoning Commission	346	654
Division of Surveying and Mapping	187,060	184,882
Division of Forestry and Marine Conservation	84,309	85,660
Division of Historic Preservation	71,923	52,672
Division of Parks and Recreation	75,224	69,269
	435,035	474,832
Department of Education:		
Division of Primary Education	2,318	2,318
Office of the Director	4,918	-
	7,236	2,318
Department of Health:		
Medical referrals	164,180	-
	164,180	-
Department of Public Safety:		
Office of the Director	114,552	101,591
Search and Rescue	19,481	4,388
Hazard Mitigation	15,650	-
Police Commission	26,107	25,878
Division of Police and Security	827,993	831,581
Division of Correction and Rehabilitation	266,468	271,546
	1,270,251	1,234,984
Office of the Attorney-General	299,181	356,023
Public Works	705,014	752,082

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, 2010
(with comparative totals for the year ended September 30, 2009)

	2010	2009
Expenditures, continued:		
Current:		
Boards, Commissions and Other:		
Office of Economic Affairs	304,092	287,928
Office of Social Affairs	237,842	211,981
Election Commissioner's Office	153,140	53,939
Environmental Protection Agency	-	26,343
Pohnpei Public Broadcasting Corporation	124,400	133,830
Ethics Commission	-	-
Foreign Investment Board	59,733	55,837
Economic Development Authority	-	11,540
Pohnpei Housing Authority	129,072	97,384
Board of Residential Properties and Public Utilities	-	5,285
Office of Fisheries and Aquaculture	42,509	182,397
	<u>1,050,788</u>	<u>1,066,464</u>
Payments to Non-governmental Agencies:		
Small Business Guarantee and Finance Corporation	117,000	119,000
Pohnpei Public Library	52,463	52,463
Micronesia Legal Services Corporation	38,280	38,280
U.S.D.A. Rural Development	94,317	92,417
Pohnpei Visitors' Bureau	123,899	78,721
Economic Planning Commission	15,431	-
Small Business Development	50,000	-
Micro Games	209,911	-
ALMS	56	-
Constitutional Convention	62,490	75,586
Others	463	-
	<u>764,310</u>	<u>456,467</u>
Grants to local governments	<u>2,185,869</u>	<u>2,202,515</u>
Pohnpei Transportation Authority	<u>116,837</u>	<u>119,255</u>
Total expenditures	<u>10,921,737</u>	<u>10,351,205</u>
Deficiency of revenues under expenditures	(278,813)	(585,460)
Fund balance at the beginning of the year	<u>4,421,424</u>	<u>5,006,884</u>
Fund balance at the end of the year	<u>\$ 4,142,611</u>	<u>\$ 4,421,424</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures by Function and Changes in Fund Balance
Budget and Actual - General Fund
Year Ended September 30, 2010

	Budgeted Amounts		Actual - Budgetary Basis (see Note 1)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
FSM revenue sharing	\$ 5,769,824	\$ 5,769,824	\$ 6,781,617	\$ 1,011,793
State taxes:				
Sales tax	2,369,055	2,369,055	2,425,260	56,205
Hotel tax	-	-	78,157	78,157
	<u>2,369,055</u>	<u>2,369,055</u>	<u>2,503,417</u>	<u>134,362</u>
Fees and charges:				
Licenses and fees	-	-	262,038	262,038
Net change in the fair value of investments	250,000	250,000	574,823	324,823
Other	165,000	165,000	521,029	356,029
Total revenues	<u>8,553,879</u>	<u>8,553,879</u>	<u>10,642,924</u>	<u>2,089,045</u>
Expenditures:				
Current:				
General government:				
Governor and Staff	564,747	569,247	566,950	2,297
Department of Treasury and Administration	760,302	798,802	891,761	(92,959)
Office of the Pohnpei Public Auditor	3,300	2,000	388	1,612
Judiciary Branch	707,296	726,796	704,580	22,216
Legislative Branch	1,831,528	1,873,928	1,803,830	70,098
	<u>3,867,173</u>	<u>3,970,773</u>	<u>3,967,509</u>	<u>3,264</u>
Department of Land and Natural Resources:				
Office of the Director	18,000	18,000	16,195	1,805
Land Use Planning and Zoning Commission	1,000	1,000	692	308
Soil and Water Conservation District	1,000	1,000	-	1,000
Division of Surveying and Mapping	181,261	184,014	187,060	(3,046)
Division of Forestry and Marine Conservation	74,128	80,539	84,370	(3,831)
Division of Historic Preservation	67,629	67,629	73,992	(6,363)
Division of Parks and Recreation	-	80,996	75,224	5,772
	<u>343,018</u>	<u>433,178</u>	<u>437,533</u>	<u>(4,355)</u>
Department of Education:				
Division of Primary Education	7,318	13,400	7,236	6,164
Department of Health Services:				
Division of Medical Services	-	165,000	164,368	632
Department of Public Safety:				
Office of the Director	182,293	182,293	119,062	63,231
Search and Rescue	20,387	20,387	19,481	906
Police Commission	26,595	26,595	26,312	283
Division of Police and Security	808,888	808,888	831,749	(22,861)
Division of Correction and Rehabilitation	263,664	263,664	266,468	(2,804)
Matching RUS Grant	-	54,810	-	54,810
Hazard Mitigation Project	-	13,343	15,650	(2,307)
	<u>1,301,827</u>	<u>1,369,980</u>	<u>1,278,722</u>	<u>91,258</u>
Office of the Attorney-General	390,229	390,229	314,374	75,855

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures by Function and Changes in Fund Balance, Continued
Budget and Actual - General Fund
Year Ended September 30, 2010

	Budgeted Amounts		Actual - Budgetary Basis (see Note 1)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Expenditures, continued:				
Boards, Commissions and Other:				
Office of Economic Affairs	318,254	273,628	310,706	(37,078)
Office of Social Affairs	233,675	119,942	248,505	(128,563)
Office of Transportation and Infrastructure	934,671	878,694	885,079	(6,385)
Election Commissioner's Office	52,258	157,619	154,210	3,409
Pohnpei Public Broadcasting Corporation	151,514	151,514	124,527	26,987
Ethics Commission	1,500	1,500	-	1,500
Foreign Investment Board	66,341	66,341	60,987	5,354
Pohnpei Housing Authority	131,102	131,102	129,072	2,030
Board of Residential Properties and Public Utilities	750	750	-	750
Pohnpei Transportation Authority	-	141,608	116,837	24,771
Matching for Traffic project	-	35,500	-	35,500
Pohnpei Sports Commission	-	128,091	-	128,091
PUC Parts & Equipment	-	200,000	-	200,000
Task Force 2011	-	10,000	-	10,000
Economic Planning Conference	-	30,000	-	30,000
Micro Games	-	210,000	-	210,000
Office of Fisheries and Aquaculture	-	30,000	46,673	(16,673)
	<u>1,890,065</u>	<u>2,566,289</u>	<u>2,076,596</u>	<u>489,693</u>
Payments to Non-Governmental Agencies:				
Small Business Guarantee and Finance Corporation	117,000	117,000	117,000	-
Small Business Development Center	-	50,000	-	50,000
Pohnpei Public Library	52,463	52,463	52,463	-
Micronesian Legal Services Corporation	38,280	38,280	38,280	-
U.S.D.A. Rural Development	94,000	94,000	95,800	(1,800)
Pohnpei Visitors Bureau	-	132,752	124,035	8,717
Constitutional Convention	-	38,960	63,779	(24,819)
	<u>301,743</u>	<u>523,455</u>	<u>491,357</u>	<u>32,098</u>
Grants to local governments	<u>2,179,500</u>	<u>2,179,500</u>	<u>2,190,973</u>	<u>(11,473)</u>
Total expenditures	<u>10,280,873</u>	<u>11,611,804</u>	<u>10,928,668</u>	<u>683,136</u>
Deficiency of revenues under expenditures	<u>(1,726,994)</u>	<u>(3,057,925)</u>	<u>(285,744)</u>	<u>2,772,181</u>
Other changes in unreserved fund balance:				
Decrease in reserve for continuing appropriations	-	-	90,779	90,779
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes but in the year the supplies are received for financial reporting purposes	-	-	16,347	16,347
	<u>(1,726,994)</u>	<u>(3,057,925)</u>	<u>(178,618)</u>	<u>2,879,307</u>
Unreserved fund balance at the beginning of the year	<u>3,889,721</u>	<u>3,889,721</u>	<u>3,889,721</u>	<u>-</u>
Unreserved fund balance at the end of the year	<u>\$ 2,162,727</u>	<u>\$ 831,796</u>	<u>\$ 3,711,103</u>	<u>\$ 2,879,307</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Combined Balance Sheet
Nonmajor Governmental Funds
September 30, 2010

	<u>Other Special Revenue</u>	<u>Other Debt Service</u>	<u>Health and Education Projects</u>	<u>Total</u>
<u>ASSETS</u>				
Receivables, net:				
Other	\$ 8,758	\$ -	\$ -	\$ 8,758
Due from other funds	5,364,349	265,590	874,279	6,504,218
Inventories	40,075	-	-	40,075
Advance	2,449	-	-	2,449
Restricted assets:				
Investments	-	3,303,532	-	3,303,532
Total assets	<u>\$ 5,415,631</u>	<u>\$ 3,569,122</u>	<u>\$ 874,279</u>	<u>\$ 9,859,032</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ 50,594	\$ 1,025	\$ 730	\$ 52,349
Other liabilities and accruals	4,462	-	-	4,462
Due to other funds	123,746	24,340	665,075	813,161
Total liabilities	<u>178,802</u>	<u>25,365</u>	<u>665,805</u>	<u>869,972</u>
Fund balances:				
Reserved for:				
Related assets	40,075	-	-	40,075
Encumbrances	485,189	86,000	1,170	572,359
Continuing appropriations	417,550	88,059	177,299	682,908
Debt service	-	3,303,532	-	3,303,532
Unreserved:				
Special revenue funds	4,294,015	-	-	4,294,015
Debt service fund	-	66,166	-	66,166
Capital projects funds	-	-	30,005	30,005
Total fund balances	<u>5,236,829</u>	<u>3,543,757</u>	<u>208,474</u>	<u>8,989,060</u>
Total liabilities and fund balances	<u>\$ 5,415,631</u>	<u>\$ 3,569,122</u>	<u>\$ 874,279</u>	<u>\$ 9,859,032</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, 2010

	<u>Other Special Revenue</u>	<u>Other Debt Service</u>	<u>Health and Education Projects</u>	<u>Total</u>
Revenues:				
Net change in fair value of investments	\$ -	\$ 246,435	\$ -	\$ 246,435
Excise tax	530,499	-	-	530,499
Fees and charges	964,236	-	-	964,236
Total revenues	<u>1,494,735</u>	<u>246,435</u>	<u>-</u>	<u>1,741,170</u>
Expenditures by function:				
Current:				
General government	867,489	16,602	-	884,091
Health services	339,948	-	-	339,948
Debt service	-	164,493	-	164,493
Capital projects	-	-	4,407	4,407
Total expenditures	<u>1,207,437</u>	<u>181,095</u>	<u>4,407</u>	<u>1,392,939</u>
Excess (deficiency) of revenues over (under) expenditures	<u>287,298</u>	<u>65,340</u>	<u>(4,407)</u>	<u>348,231</u>
Other financing sources:				
Proceeds from issuance of long-term debt	-	135,017	-	135,017
Net change in fund balances	287,298	200,357	(4,407)	483,248
Fund balances at the beginning of the year	<u>4,949,531</u>	<u>3,343,400</u>	<u>212,881</u>	<u>8,505,812</u>
Fund balances at the end of the year	<u>\$ 5,236,829</u>	<u>\$ 3,543,757</u>	<u>\$ 208,474</u>	<u>\$ 8,989,060</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, 2010

	Other Special Revenue	Other Debt Service	Health and Education Projects	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Revenues:				
Net change in fair value of investments	\$ -	\$ 246,435	\$ -	\$ 246,435
Excise tax	530,499	-	-	530,499
Fees and charges	964,236	-	-	964,236
	<u>1,494,735</u>	<u>246,435</u>	<u>-</u>	<u>1,741,170</u>
Total revenues				
Expenditures by account:				
Salaries and wages:				
Regular	302,125	-	-	302,125
Overtime	1,089	-	-	1,089
Fringe benefits	49,917	-	-	49,917
Travel and transportation	17,155	-	-	17,155
Communications	9,014	-	-	9,014
Import tax	746	-	-	746
Food stuff	2,571	-	-	2,571
Port charges	7,989	-	-	7,989
Non-capitalized equipment	4,010	-	-	4,010
Office supplies and materials	76,193	1,627	-	77,820
POL	29,134	-	-	29,134
Printing and reproduction	4,168	-	-	4,168
Rental	17	-	-	17
Repairs and maintenance	5,195	-	-	5,195
Utilities	48,708	-	-	48,708
Miscellaneous goods & services	140	-	-	140
Medical supplies	334,381	-	-	334,381
Contractual services	287,352	6,029	4,407	297,788
Meeting allowances	2,320	-	-	2,320
Non-payroll compensation	10,913	-	-	10,913
Equipment	1,800	8,946	-	10,746
Principal repayment	-	119,727	-	119,727
Interest payments	12,500	44,766	-	57,266
	<u>1,207,437</u>	<u>181,095</u>	<u>4,407</u>	<u>1,392,939</u>
Total expenditures				
Excess (deficiency) of revenues over (under) expenditures	<u>287,298</u>	<u>65,340</u>	<u>(4,407)</u>	<u>348,231</u>
Other financing sources:				
Proceeds from issuance of long-term debt	<u>-</u>	<u>135,017</u>	<u>-</u>	<u>135,017</u>
Net change in fund balances	287,298	200,357	(4,407)	483,248
Fund balances at the beginning of the year	<u>4,949,531</u>	<u>3,343,400</u>	<u>212,881</u>	<u>8,505,812</u>
Fund balances at the end of the year	<u>\$ 5,236,829</u>	<u>\$ 3,543,757</u>	<u>\$ 208,474</u>	<u>\$ 8,989,060</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

Combining Balance Sheet
September 30, 2010

	Alien Registration Revolving	Pohnpei State Farmers' Revolving	Student Vocational Arts Program Revolving	Fisheries Enforcement and Development	Airport Operations	Recycling Revolving	Paved Road Maintenance	Medical Supplies Revolving
<u>ASSETS</u>								
Receivables:								
Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due from other funds	70,525	15,762	4,909	566,340	22,273	22,899	1,555,212	559,283
Advances	-	-	-	1,449	-	-	-	-
Inventories	-	40,075	-	-	-	-	-	-
Total assets	<u>\$ 70,525</u>	<u>\$ 55,837</u>	<u>\$ 4,909</u>	<u>\$ 567,789</u>	<u>\$ 22,273</u>	<u>\$ 22,899</u>	<u>\$ 1,555,212</u>	<u>\$ 559,283</u>
<u>LIABILITIES AND FUND BALANCES</u>								
Liabilities:								
Accounts payable	\$ -	\$ 893	\$ -	\$ 11,648	\$ -	\$ -	\$ -	\$ 37,277
Other liabilities and accruals	-	-	-	2,830	-	-	-	-
Due to other funds	-	-	4,842	-	-	-	-	-
Total liabilities	<u>-</u>	<u>893</u>	<u>4,842</u>	<u>14,478</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,277</u>
Fund balances:								
Reserved for:								
Related assets		40,075	-	-	-	-	-	-
Encumbrances	-	4,145	-	8,502	-	-	36,736	-
Continuing appropriations	-	-	-	-	-	-	417,550	-
Unreserved	70,525	10,724	67	544,809	22,273	22,899	1,100,926	522,006
Total fund balances	<u>70,525</u>	<u>54,944</u>	<u>67</u>	<u>553,311</u>	<u>22,273</u>	<u>22,899</u>	<u>1,555,212</u>	<u>522,006</u>
Total liabilities and fund balances	<u>\$ 70,525</u>	<u>\$ 55,837</u>	<u>\$ 4,909</u>	<u>\$ 567,789</u>	<u>\$ 22,273</u>	<u>\$ 22,899</u>	<u>\$ 1,555,212</u>	<u>\$ 559,283</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

**NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS**

Combining Balance Sheet, Continued
September 30, 2010

	Public Broadcasting Corporation	Health Care Premium	Department of Public Safety Fees	Environmental Quality	Infrastructure Maintenance	Public Lands Trust	Total
<u>ASSETS</u>							
Receivables:							
Other	\$ -	\$ 8,758	\$ -	\$ -	\$ -	\$ -	\$ 8,758
Due from other funds	62,975	1,631,216	64,184	24,366	588,818	175,587	5,364,349
Advances	-	-	-	-	1,000	-	2,449
Inventories	-	-	-	-	-	-	40,075
Total assets	<u>\$ 62,975</u>	<u>\$ 1,639,974</u>	<u>\$ 64,184</u>	<u>\$ 24,366</u>	<u>\$ 589,818</u>	<u>\$ 175,587</u>	<u>\$ 5,415,631</u>
<u>LIABILITIES AND FUND BALANCES</u>							
Liabilities:							
Accounts payable	\$ 188	\$ -	\$ -	\$ -	\$ -	\$ 588	\$ 50,594
Other liabilities and accruals	-	-	-	-	-	1,632	4,462
Due to other funds	28,748	-	-	-	-	90,156	123,746
Total liabilities	<u>28,936</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>92,376</u>	<u>178,802</u>
Fund balances:							
Reserved for:							
Related assets	-	-	-	-	-	-	40,075
Encumbrances	1	602	-	-	434,331	872	485,189
Continuing appropriations	-	-	-	-	-	-	417,550
Unreserved	34,038	1,639,372	64,184	24,366	155,487	82,339	4,294,015
Total fund balances	<u>34,039</u>	<u>1,639,974</u>	<u>64,184</u>	<u>24,366</u>	<u>589,818</u>	<u>83,211</u>	<u>5,236,829</u>
Total liabilities and fund balances	<u>\$ 62,975</u>	<u>\$ 1,639,974</u>	<u>\$ 64,184</u>	<u>\$ 24,366</u>	<u>\$ 589,818</u>	<u>\$ 175,587</u>	<u>\$ 5,415,631</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

**NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS**

Combining Statement of Revenues, Expenditures By Function,
and Changes in Fund Balances
Year Ended September 30, 2010

	Alien Registration Revolving	Pohnpei State Farmers' Revolving	Student Vocational Arts Program Revolving	Fisheries Enforcement and Development	Airport Operations	Recycling Revolving	Paved Road Maintenance	Medical Supplies Revolving
Revenues:								
Excise tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 387,440	\$ -
Fees and charges	<u>70,525</u>	<u>54,399</u>	<u>-</u>	<u>2,002</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>690,370</u>
Total revenues	<u>70,525</u>	<u>54,399</u>	<u>-</u>	<u>2,002</u>	<u>-</u>	<u>-</u>	<u>387,440</u>	<u>690,370</u>
Expenditures by function:								
Current:								
General government	-	23,538	-	333,801	-	-	181,180	-
Health services	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>339,948</u>
Total expenditures	<u>-</u>	<u>23,538</u>	<u>-</u>	<u>333,801</u>	<u>-</u>	<u>-</u>	<u>181,180</u>	<u>339,948</u>
Excess (deficiency) of revenue over (under) expenditures	70,525	30,861	-	(331,799)	-	-	206,260	350,422
Other financing sources:								
Operating transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(303,214)</u>	<u>-</u>
Net change in fund balances	<u>70,525</u>	<u>30,861</u>	<u>-</u>	<u>(331,799)</u>	<u>-</u>	<u>-</u>	<u>(96,954)</u>	<u>350,422</u>
Fund balances at the beginning of the year	<u>-</u>	<u>24,083</u>	<u>67</u>	<u>885,110</u>	<u>22,273</u>	<u>22,899</u>	<u>1,652,166</u>	<u>171,584</u>
Fund balances at the end of the year	<u>\$ 70,525</u>	<u>\$ 54,944</u>	<u>\$ 67</u>	<u>\$ 553,311</u>	<u>\$ 22,273</u>	<u>\$ 22,899</u>	<u>\$ 1,555,212</u>	<u>\$ 522,006</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

**NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS**

Combining Statement of Revenues, Expenditures By Function,
and Changes in Fund Balances, Continued
Year Ended September 30, 2010

	Public Broadcasting Corporation	Health Care Premium	Department of Public Safety Fees	Environmental Quality	Infrastructure Maintenance	Public Lands Trust	Total
Revenues:							
Excise tax	\$ -	\$ 143,059	\$ -	\$ -	\$ -	\$ -	\$ 530,499
Fees and charges	18,229	-	46,177	-	-	82,534	964,236
Total revenues	<u>18,229</u>	<u>143,059</u>	<u>46,177</u>	<u>-</u>	<u>-</u>	<u>82,534</u>	<u>1,494,735</u>
Expenditures by function:							
Current:							
General government	8,687	-	55,425	283	126,332	138,243	867,489
Health services	-	-	-	-	-	-	339,948
Total expenditures	<u>8,687</u>	<u>-</u>	<u>55,425</u>	<u>283</u>	<u>126,332</u>	<u>138,243</u>	<u>1,207,437</u>
Excess (deficiency) of revenue over (under) expenditures	9,542	143,059	(9,248)	(283)	(126,332)	(55,709)	287,298
Other financing sources:							
Operating transfers in	-	-	-	-	303,214	-	-
Net change in fund balances	9,542	143,059	(9,248)	(283)	176,882	(55,709)	287,298
Fund balances at the beginning of the year	<u>24,497</u>	<u>1,496,915</u>	<u>73,432</u>	<u>24,649</u>	<u>412,936</u>	<u>138,920</u>	<u>4,949,531</u>
Fund balances at the end of the year	<u>\$ 34,039</u>	<u>\$ 1,639,974</u>	<u>\$ 64,184</u>	<u>\$ 24,366</u>	<u>\$ 589,818</u>	<u>\$ 83,211</u>	<u>\$ 5,236,829</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

Combining Statement of Revenues, Expenditures By Account,
and Changes in Fund Balances
Year Ended September 30, 2010

	Alien Registration Revolving	Pohnpei State Farmers' Revolving	Student Vocational Arts Program Revolving	Fisheries Enforcement and Development	Airport Operations	Recycling Revolving	Paved Road Maintenance	Medical Supplies Revolving
Revenues:								
Excise tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 387,440	\$ -
Fees and charges	70,525	54,399	-	2,002	-	-	-	690,370
Total revenues	<u>70,525</u>	<u>54,399</u>	<u>-</u>	<u>2,002</u>	<u>-</u>	<u>-</u>	<u>387,440</u>	<u>690,370</u>
Expenditures by account:								
Salaries and wages:								
Regular	-	-	-	160,728	-	-	-	-
Overtime	-	-	-	822	-	-	-	-
Fringe benefits	-	-	-	35,208	-	-	-	-
Travel	-	-	-	16,527	-	-	-	-
Communications	-	893	-	2,454	-	-	-	-
Custom & tax expenses	-	622	-	124	-	-	-	-
Food stuff	-	-	-	1,391	-	-	-	-
Port charges	-	5,262	-	1,077	-	-	-	1,609
Non-capital equipment and furnitures	-	-	-	2,220	-	-	-	-
Office supplies and materials	-	15,847	-	12,937	-	-	37,944	3,958
POL	-	-	-	28,635	-	-	-	-
Printing and reproduction	-	124	-	2,980	-	-	-	-
Rental	-	-	-	17	-	-	-	-
Repairs and maintenance	-	-	-	3,088	-	-	-	-
Utilities	-	650	-	25,308	-	-	-	-
Miscellaneous goods and services	-	140	-	-	-	-	-	-
Medical supplies	-	-	-	-	-	-	-	334,381
Contractual services	-	-	-	16,872	-	-	143,236	-
Non-payroll compensation	-	-	-	10,913	-	-	-	-
Meeting allowance	-	-	-	-	-	-	-	-
Equipment	-	-	-	-	-	-	-	-
Debt repayment	-	-	-	12,500	-	-	-	-
Total expenditures	<u>-</u>	<u>23,538</u>	<u>-</u>	<u>333,801</u>	<u>-</u>	<u>-</u>	<u>181,180</u>	<u>339,948</u>
Excess (deficiency) of revenue over (under) expenditures	70,525	30,861	-	(331,799)	-	-	206,260	350,422
Other financing sources:								
Operating transfers in	-	-	-	-	-	-	(303,214)	-
Net change in fund balances	<u>70,525</u>	<u>30,861</u>	<u>-</u>	<u>(331,799)</u>	<u>-</u>	<u>-</u>	<u>(96,954)</u>	<u>350,422</u>
Fund balances at the beginning of the year	<u>-</u>	<u>24,083</u>	<u>67</u>	<u>885,110</u>	<u>22,273</u>	<u>22,899</u>	<u>1,652,166</u>	<u>171,584</u>
Fund balances at the end of the year	<u>\$ 70,525</u>	<u>\$ 54,944</u>	<u>\$ 67</u>	<u>\$ 553,311</u>	<u>\$ 22,273</u>	<u>\$ 22,899</u>	<u>\$ 1,555,212</u>	<u>\$ 522,006</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

Combining Statement of Revenues, Expenditures By Account,
and Changes in Fund Balances, Continued
Year Ended September 30, 2010

	Public Broadcasting Corporation	Health Care Premium	Department of Public Safety Fees	Environmental Quality	Infrastructure Maintenance	Public Lands Trust	Total
Revenues:							
Excise tax	\$ -	\$ 143,059	\$ -	\$ -	\$ -	\$ -	\$ 530,499
Fees and charges	18,229	-	46,177	-	-	82,534	964,236
Total revenues	18,229	143,059	46,177	-	-	82,534	1,494,735
Expenditures by function:							
Salaries and wages:							
Regular	2,542	-	55,158	-	-	83,697	302,125
Overtime	-	-	-	267	-	-	1,089
Fringe benefits	573	-	-	16	-	14,120	49,917
Travel	-	-	-	-	628	-	17,155
Communications	270	-	-	-	-	5,397	9,014
Custom & tax expenses	-	-	-	-	-	-	746
Food stuff	-	-	-	-	-	1,180	2,571
Port charges	-	-	-	-	-	41	7,989
Non-capital equipment and furnitures	855	-	-	-	-	935	4,010
Office supplies and materials	943	-	267	-	-	4,297	76,193
POL	499	-	-	-	-	-	29,134
Printing and reproduction	300	-	-	-	-	764	4,168
Rental	-	-	-	-	-	-	17
Repairs and maintenance	1,165	-	-	-	-	942	5,195
Utilities	-	-	-	-	-	22,750	48,708
Miscellaneous goods and services	-	-	-	-	-	-	140
Medical supplies	-	-	-	-	-	-	334,381
Contractual services	1,540	-	-	-	125,704	-	287,352
Non-payroll compensation	-	-	-	-	-	-	10,913
Meeting allowance	-	-	-	-	-	2,320	2,320
Equipment	-	-	-	-	-	1,800	1,800
Debt repayment	-	-	-	-	-	-	12,500
Total expenditures	8,687	-	55,425	283	126,332	138,243	1,207,437
Excess (deficiency) of revenue over (under) expenditures	9,542	143,059	(9,248)	(283)	(126,332)	(55,709)	216,773
Other financing sources:							
Operating transfers in	-	-	-	-	303,214	-	-
Net change in fund balances	9,542	143,059	(9,248)	(283)	176,882	(55,709)	216,773
Fund balances at the beginning of the year	24,497	1,496,915	73,432	24,649	412,936	138,920	4,949,531
Fund balances at the end of the year	\$ 34,039	\$ 1,639,974	\$ 64,184	\$ 24,366	\$ 589,818	\$ 83,211	\$ 5,166,304

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

GRANTS ASSISTANCE FUNDS

Combining Balance Sheet
September 30, 2010

	Section 211(a)(1) Education Sector	Section 211(a)(2) Health Sector	Section 211(a)(5) Environment	Section 211(a)(3) Private Sector Development	Section 211(a)(4) Capacity Building	Section 211(a)(1) Supplemental Education	Section Infrastructure Maintenance	Section 221(b) Special Block Grant	Compact I Other Grants	U.S. Federal Grants	Non-U.S. Grants	CFSM Grants	Compact I Capital Grant	Total
ASSETS														
Investment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 223,856	\$ 1,195,802	\$ -	\$ -	\$ -	\$ 2,689,326	\$ 4,108,984
Grants receivable from FSM, net	-	-	23,693	-	-	1,403,103	-	-	-	535,045	8,750	55,899	-	2,026,490
Other receivable	-	-	-	-	-	-	-	-	-	-	-	3,928	-	3,928
Due from other funds	1,222,316	952,721	6,080	66,032	90,971	592,501	25,532	107,109	339,343	1,030,067	101,952	5,471	190,699	4,730,794
Advances	5,504	2,894	-	1,759	21,305	11,241	-	-	-	4,956	1,778	3,508	-	52,945
Restricted cash	-	7,700	-	-	-	-	-	-	-	-	-	-	101,880	109,580
	<u>\$ 1,227,820</u>	<u>\$ 963,315</u>	<u>\$ 29,773</u>	<u>\$ 67,791</u>	<u>\$ 112,276</u>	<u>\$ 2,006,845</u>	<u>\$ 25,532</u>	<u>\$ 330,965</u>	<u>\$ 1,535,145</u>	<u>\$ 1,570,068</u>	<u>\$ 112,480</u>	<u>\$ 68,806</u>	<u>\$ 2,981,905</u>	<u>\$ 11,032,721</u>
LIABILITIES AND FUND BALANCES														
Liabilities:														
Accounts payable	\$ 175,682	\$ 335,597	\$ 6,505	\$ -	\$ 7,202	\$ 274,392	\$ 6,563	\$ -	\$ -	\$ 15,382	\$ 3,351	\$ 3,819	\$ -	\$ 828,493
Other liabilities and accruals	90,200	32,675	3,441	-	3,545	22,499	-	-	-	23,606	113	107	-	176,186
Deferred revenue	660,673	374,761	-	67,254	100,345	-	-	-	-	-	59,655	-	-	1,262,688
Due to other funds	294,149	215,495	46,013	-	-	1,702,461	-	286,977	1,499,557	1,531,080	-	64,880	1,027,786	6,668,398
Total liabilities	<u>1,220,704</u>	<u>958,528</u>	<u>55,959</u>	<u>67,254</u>	<u>111,092</u>	<u>1,999,352</u>	<u>6,563</u>	<u>286,977</u>	<u>1,499,557</u>	<u>1,570,068</u>	<u>63,119</u>	<u>68,806</u>	<u>1,027,786</u>	<u>8,935,765</u>
Fund balances:														
Reserved for:														
Related assets	-	-	-	-	-	-	-	-	-	-	-	-	101,880	101,880
Encumbrances	410,389	628,646	32,218	2,082	52,180	419,662	22,292	-	1,487	241,680	17,874	5,900	-	1,834,410
Continuing appropriation	-	-	-	-	-	-	-	-	-	-	-	-	1,000,000	1,000,000
Unreserved	(403,273)	(623,859)	(58,404)	(1,545)	(50,996)	(412,169)	(3,323)	43,988	34,101	(241,680)	31,487	(5,900)	852,239	(839,334)
Total fund balances (deficit)	<u>7,116</u>	<u>4,787</u>	<u>(26,186)</u>	<u>537</u>	<u>1,184</u>	<u>7,493</u>	<u>18,969</u>	<u>43,988</u>	<u>35,588</u>	<u>-</u>	<u>49,361</u>	<u>-</u>	<u>1,954,119</u>	<u>2,096,956</u>
Total liabilities and fund balances	<u>\$ 1,227,820</u>	<u>\$ 963,315</u>	<u>\$ 29,773</u>	<u>\$ 67,791</u>	<u>\$ 112,276</u>	<u>\$ 2,006,845</u>	<u>\$ 25,532</u>	<u>\$ 330,965</u>	<u>\$ 1,535,145</u>	<u>\$ 1,570,068</u>	<u>\$ 112,480</u>	<u>\$ 68,806</u>	<u>\$ 2,981,905</u>	<u>\$ 11,032,721</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

GRANTS ASSISTANCE FUNDS

Combining Statement of Revenues, Expenditures by Function,
and Changes in Fund Balances (Deficit)
Year Ended September 30, 2010

	Section 211(a)(1) Education Sector	Section 211(a)(2) Health Sector	Section 211(a)(5) Environment	Section 211(a)(3) Private Sector Development	Section 211(a)(4) Capacity Building	Section 211(a)(1) Supplemental Education	Infrastructure Maintenance	Section 221(b) Special Block Grant	Compact I Other Grants	U.S. Federal Grants	Non-U.S. Grants	CFSM Grants	Compact I Capital Grant	Total
Revenues:														
Compact funding	\$ 7,407,262	\$ 5,811,106	\$ 325,929	\$ -	\$ 489,416	\$ 3,271,741	\$ 375,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,680,454
CFSM grants	-	-	-	-	-	-	-	-	-	-	-	83,495	-	83,495
Federal contributions and other grants	-	-	-	-	-	-	-	-	-	2,409,414	62,592	-	-	2,472,006
Other	-	-	-	-	-	2,229	-	-	-	-	51,203	-	190	53,622
	<u>7,407,262</u>	<u>5,811,106</u>	<u>325,929</u>	<u>-</u>	<u>489,416</u>	<u>3,273,970</u>	<u>375,000</u>	<u>-</u>	<u>-</u>	<u>2,409,414</u>	<u>113,795</u>	<u>83,495</u>	<u>190</u>	<u>20,289,577</u>
Expenditures by function:														
Current:														
General government	-	-	325,929	-	489,416	-	239,825	-	-	240,755	9,509	43,792	-	1,349,226
Land and natural resources	-	-	-	-	-	-	-	-	-	-	28,983	-	-	28,983
Education	7,407,262	-	-	-	-	3,271,741	-	-	-	1,143,849	38,612	-	-	11,861,464
Health services	-	5,811,106	-	-	-	-	-	-	-	955,539	8,750	-	-	6,775,395
Boards and commissions	-	-	-	-	-	-	-	-	-	-	3,523	-	-	3,523
Public safety	-	-	-	-	-	-	-	-	-	69,271	-	39,702	-	108,973
Total expenditures	<u>7,407,262</u>	<u>5,811,106</u>	<u>325,929</u>	<u>-</u>	<u>489,416</u>	<u>3,271,741</u>	<u>239,825</u>	<u>-</u>	<u>-</u>	<u>2,409,414</u>	<u>89,377</u>	<u>83,494</u>	<u>-</u>	<u>20,127,564</u>
Excess revenues over expenditures	-	-	-	-	-	2,229	135,175	-	-	-	24,418	1	190	162,013
Fund balances (deficit) at the beginning of the year	7,116	4,787	(26,186)	537	1,184	5,264	(116,206)	43,988	35,588	-	24,943	(1)	1,953,929	1,934,943
Fund balances (deficit) at the end of the year	<u>\$ 7,116</u>	<u>\$ 4,787</u>	<u>\$ (26,186)</u>	<u>\$ 537</u>	<u>\$ 1,184</u>	<u>\$ 7,493</u>	<u>\$ 18,969</u>	<u>\$ 43,988</u>	<u>\$ 35,588</u>	<u>\$ -</u>	<u>\$ 49,361</u>	<u>\$ -</u>	<u>\$ 1,954,119</u>	<u>\$ 2,096,956</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

GRANTS ASSISTANCE FUNDS

**Combining Statement of Revenues, Expenditures by Account,
and Changes in Fund Balances (Deficit)
Year Ended September 30, 2010**

	Section 211(a)(1) Education Sector	Section 211(a)(2) Health Sector	Section 211(a)(5) Environment	Section 211(a)(3) Private Sector Development	Section 211(a)(4) Capacity Building	Section 211(a)(1) Supplemental Education	Section 221(b) Special Block Infrastructure Grant	Compact I Other Grants	U.S. Federal Grants	Non-U.S. Grants	CFSM Grants	Compact I Capital Grant	Total
Revenues:													
Compact funding	\$ 7,407,262	\$ 5,811,106	\$ 325,929	\$ -	\$ 489,416	\$ 3,271,741	\$ 375,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,680,454
CFSM grants	-	-	-	-	-	-	-	-	-	-	83,495	-	83,495
Federal contributions and other grants	-	-	-	-	-	-	-	-	2,409,414	62,592	-	-	2,472,006
Other	-	-	-	-	-	2,229	-	-	-	51,203	-	190	53,622
	<u>7,407,262</u>	<u>5,811,106</u>	<u>325,929</u>	<u>-</u>	<u>489,416</u>	<u>3,273,970</u>	<u>375,000</u>	<u>-</u>	<u>2,409,414</u>	<u>113,795</u>	<u>83,495</u>	<u>190</u>	<u>20,289,577</u>
Expenditures by account:													
Salaries and wages:													
Regular	4,837,354	2,175,621	171,934	-	212,938	1,035,598	-	-	1,259,423	8,611	23,691	-	9,725,170
Overtime	-	72,543	9,341	-	-	-	-	-	36,251	-	7,509	-	125,644
Fringe benefits	1,002,380	378,216	32,728	-	27,938	243,845	-	-	280,036	2,458	4,955	-	1,972,556
Travel and transportation	12,325	122,265	328	-	152,575	89,877	-	-	198,704	14,050	15,346	-	605,470
Communications	22,000	18,824	2,556	-	5,129	41,552	-	-	11,719	301	-	-	102,081
Dues, membership, and subscriptions	312	4,443	-	-	14,031	21,833	-	-	600	-	-	-	41,219
Food stuffs	286,876	93,761	50	-	104	180,088	-	-	2,055	1,237	9,509	-	573,680
Port charges	31,674	9,337	1,188	-	1,381	1,100	-	-	216	-	-	-	44,896
Custom & tax expense	22,070	18,144	-	-	-	-	-	-	142	-	-	-	40,356
Capital outlays	17,360	133,761	19,783	-	-	85,785	-	-	244,488	-	8,059	-	509,236
Office supplies and materials	102,193	138,483	34,047	-	34,237	237,074	-	-	137,778	46,273	5,372	-	735,457
Books and instructional supplies	587,873	-	-	-	-	246,901	-	-	1,728	-	-	-	836,502
POL	61,117	19,358	6,619	-	3,645	55,902	-	-	38,473	2,878	2,941	-	190,933
Printing and reproduction	19,258	22,102	162	-	1,275	725	-	-	6,711	170	-	-	50,403
Rental services	44	993	-	-	2,292	13,164	-	-	10,053	925	-	-	27,471
Repairs and maintenance	26,040	2,285	4,249	-	1,094	16,558	-	-	22,287	-	973	-	73,486
Utilities	126,442	571,663	10,506	-	5,500	36,106	-	-	17,283	2,433	50	-	769,983
Subsidies and contributions	68,251	-	-	-	-	-	-	-	-	-	-	-	68,251
Medical referrals	-	369,282	-	-	-	-	-	-	-	-	-	-	369,282
Medical supplies	-	1,299,665	-	-	-	6,004	-	-	34,215	-	-	-	1,339,884
Contractual services	21,397	261,961	27,994	-	17,360	22,705	239,825	-	38,041	6,600	3,229	-	639,112
Professional services	-	-	-	-	2,500	145,509	-	-	-	-	-	-	148,009
Scholarships and allowances	84,585	-	-	-	-	328,527	-	-	-	-	-	-	413,112
Housing allowance	-	68,920	-	-	6,300	4,400	-	-	24,000	4,400	-	-	103,620
Meeting allowance	-	-	400	-	-	720	-	-	15,120	(60)	-	-	16,180
Training	-	-	-	-	-	9,794	-	-	-	-	-	-	9,794
Leased housing, buildings and land	-	11	-	-	-	-	-	-	-	-	-	-	11
Non-capital equipment and furnitures	77,690	27,027	3,044	-	1,057	69,444	-	-	24,541	750	1,860	-	205,413
Non-payroll compensation	-	1,000	-	-	-	378,530	-	-	5,550	-	-	-	385,080
Miscellaneous goods & services	21	1,341	1,000	-	60	-	-	-	-	2,630	-	-	5,052
Bank charges	-	100	-	-	-	-	-	-	-	-	-	-	100
Miscellaneous	-	-	-	-	-	-	-	-	-	121	-	-	121
Total expenditures	<u>7,407,262</u>	<u>5,811,106</u>	<u>325,929</u>	<u>-</u>	<u>489,416</u>	<u>3,271,741</u>	<u>239,825</u>	<u>-</u>	<u>2,409,414</u>	<u>89,377</u>	<u>83,494</u>	<u>-</u>	<u>20,127,564</u>
Excess revenues over expenditures	-	-	-	-	-	2,229	135,175	-	-	24,418	1	190	162,013
Fund balances (deficit) at the beginning of the year	7,116	4,787	(26,186)	537	1,184	5,264	(116,206)	43,988	35,588	-	24,943	(1)	1,934,943
Fund balances (deficit) at the end of the year	\$ 7,116	\$ 4,787	\$ (26,186)	\$ 537	\$ 1,184	\$ 7,493	\$ 18,969	\$ 43,988	\$ 35,588	\$ -	\$ 49,361	\$ -	\$ 2,096,956

See Accompanying Independent Auditors' Report.

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

Honorable John Ehsa
Governor, State of Pohnpei
Federated States of Micronesia:

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Pohnpei as of and for the year ended September 30, 2010, which collectively comprise the State of Pohnpei's basic financial statements and have issued our report thereon dated June 27, 2011. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Pohnpei Transportation Authority and the Small Business Guarantee and Finance Corporation, as described in our report on the State of Pohnpei's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors.

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Pohnpei's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Pohnpei's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State of Pohnpei's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs (pages 75 and 76) as item 2010-1 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weaknesses, yet important enough to merit attention by those charged with governance.

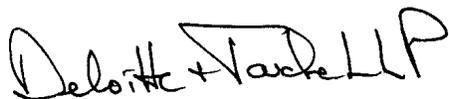
Compliance and Other Matters

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 grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain matters that we reported to management of the State of Pohnpei in a separate letter dated June 27, 2011.

The State of Pohnpei's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the State of Pohnpei's responses and, accordingly, we express no opinion on them.

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



June 27, 2011

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133 AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Honorable John Ehsa
Governor, State of Pohnpei
Federated States of Micronesia:

Compliance

We have audited the State of Pohnpei's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on the State of Pohnpei's major federal programs for the year ended September 30, 2010. 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 75 and 76). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State of Pohnpei's management. Our responsibility is to express an opinion on the State of Pohnpei's compliance based on our audit.

As discussed in Note 2b to the Schedule of Expenditures of Federal Awards, the State of Pohnpei's basic financial statements include the operations of certain entities whose federal awards are not included in the Schedule of Expenditures of Federal Awards for the year ended September 30, 2010. Our audit, described below, did not include the operations of the entities identified in Note 2b as these entities conducted separate audits in accordance with OMB Circular A-133, if required.

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.

In our opinion, the State of Pohnpei complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its Compact of Free Association Sector Grants (CFDA # 15.875) major program and its Special Education - Grants to States (CFDA # 84.027) major program for the year ended September 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2010-1.

Internal Control Over Compliance

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 the requirements that could have a direct and material effect on a major federal program to determine the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State of Pohnpei's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

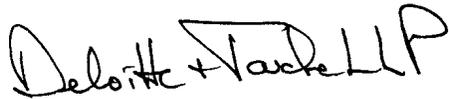
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Questioned Costs as item 2010-1. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Pohnpei as of and for the year ended September 30, 2010, and have issued our report thereon dated June 27, 2011. Our report includes a reference to other auditors. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the State of Pohnpei's basic financial statements. We did not audit the financial statements of the Pohnpei Transportation Authority and the Small Business Guarantee and Finance Corporation which represent 4%, 1% and 3%, respectively, of the assets, net assets and operating revenues of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Pohnpei Transportation Authority and the Small Business Guarantee and Finance Corporation is based on the reports of the auditors. The accompanying schedule of expenditures of federal awards (pages 67 through 72) 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.

The State of Pohnpei's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the State of Pohnpei's response and, accordingly, we express no opinion on it.

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

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

June 27, 2011

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Summary Schedule of Expenditures of Federal Awards, by Grantor
Year Ended September 30, 2010

Agency/Program	Expenditures
U.S. Department of Agriculture	\$ 75,499
U.S. Department of the Interior	17,750,469
U.S. Department of Homeland Security	492
U.S. Department of Education	1,142,973
U.S. Department of Health and Human Services	985,260
GRAND TOTAL	\$ 19,954,693
<u>Note:</u> All awards are received in a subgrantee capacity through the FSM National Government, except for the following, which are received directly from the grantor agency:	
Direct from the U.S. Department of Health and Human Services:	
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	\$ 268,468
Reconciliation to the basic financial statements:	
Grants Assistance Fund	\$ 20,127,564
Less:	
Non-U.S. Grants	(89,377)
CFSM Grants	(83,494)
	\$ 19,954,693

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, 2010

Agency/Program	CFDA#	Expenditures
U.S. DEPARTMENT OF AGRICULTURE		
US Grants Forest Invasive Species FY07	10.660	3,176
Cooperative Forestry Assistance	10.664	\$ 31,898
Community Facilities Loans and Grants	10.766	<u>40,425</u>
U.S. DEPARTMENT OF AGRICULTURE TOTAL		<u>\$ 75,499</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, 2010

Agency/Program	CFDA#	Expenditures
U.S. DEPARTMENT OF THE INTERIOR		
Economic, Social and Political Development of the Territories:	15.875	
Compact II Education Sector		\$ 7,407,262
Compact II Health Sector		5,811,106
Compact II Capacity Building Sector		489,416
Compact II Environment Sector		325,929
Compact II Supplemental Education		3,271,741
Compact II Infrastructure Maintenance		239,825
Technical Assistance:		
Survey and Mapping		-
Historic Preservation Fund Grants-In-Aid	15.904	<u>205,190</u>
U.S. DEPARTMENT OF THE INTERIOR TOTAL		<u>\$ 17,750,469</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, 2010

<u>Agency/Program</u>	<u>CFDA#</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HOMELAND SECURITY		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	\$ <u>492</u>
U.S. DEPARTMENT OF HOMELAND SECURITY		\$ <u><u>492</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, 2010

<u>Agency/Program</u>	<u>CFDA#</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF EDUCATION		
Special Education - Grants to States	84.027	\$ <u>1,142,973</u>
U.S. DEPARTMENT OF EDUCATION TOTAL		\$ <u><u>1,142,973</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, 2010

Agency/Program	CFDA#	Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Project Grants and Cooperative Agreements for Tuberculosis		
Control Programs	93.116	\$ 37,116
Family Planning - Services	93.217	86,295
Consolidated Health Centers	93.224	268,468
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	851
Immunization Grants	93.268	131,128
CDC & Prevention-Investigations & Technical Assistance	93.283	98,620
ARRA Health Center Integrated Services Development Initiative	93.703	59,483
HIV Care Formula Grants	93.917	2,999
HIV Prevention Activities-Health Department Based	93.940	44,855
Block Grants for Prevention and Treatment of Substance Abuse	93.959	122,210
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977	7,303
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988	11,738
Preventive Health and Health Services Block Grant	93.991	6,990
Maternal and Child Health Services Block Grant to the States	93.994	83,754
CCPI Cancer Program	93.UNKNOWN	9,979
Others	N/A	<u>13,471</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL		<u>\$ 985,260</u>
GRAND TOTAL		<u>\$ 19,954,693</u>

See accompanying notes to schedule of expenditures of federal awards.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2010

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

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

For purposes of complying with The Single Audit Act of 1984, as amended in 1996, the State's reporting entity is defined in Note 1A to its September 30, 2010 basic financial statements; and all of the discretely presented component units are excluded. Accordingly, the accompanying Schedule of Expenditures of Federal Awards presents the federal award programs administered by the State, as defined above, for the year ended September 30, 2010.

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.

E. CFDA #15.875

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

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Programs Selected For
Audit in Accordance with OMB Circular A-133
Year Ended September 30, 2010

<u>Grantor Program Title</u>	<u>CFDA No.</u>	<u>2010 Fiscal Year Expenditures</u>
<u>U.S. Department of the Interior</u>		
Economic, Social and Political Development of the Territories:		
Compact of Free Association Sector Grants	15.875	
Compact II Education Sector		\$ 7,407,262
Compact II Health Sector		5,811,106
Compact II Capacity Building Sector		489,416
Compact II Environment Sector		325,929
Compact II Supplemental Education		3,271,741
Compact II Infrastructure Maintenance		<u>239,825</u>
Total Major Programs Under CFDA #15.875		<u>17,545,279</u>
<u>U.S. Department of Education</u>		
Special Education – Grants to States	84.027	<u>1,142,973</u>
Total U.S. Federal program expenditures selected		\$ <u>18,688,252</u>
Total U.S. Federal program expenditures		\$ <u>19,954,693</u>
% of total U.S. Federal expenditures covered by major programs		<u>94%</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2010

Part I - Summary of Auditors' Results Section

Financial Statements

- | | |
|--|-------------|
| 1. Type of auditors' report issued: | Unqualified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | No |
| 3. Significant deficiency(ies) identified? | Yes |
| 4. Noncompliance material to financial statements noted? | No |

Federal Awards

 Internal control over major programs:

- | | |
|---|-------------|
| 5. Material weakness(es) identified? | No |
| 6. Significant deficiency(ies) identified? | Yes |
| 7. Type of auditors' report issued on compliance for major programs | Unqualified |
| 8. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | Yes |
| 9. Identification of major programs: | |

<u>Name of Federal Program or Cluster</u>	<u>CFDA Numbers</u>
Economic, Social and Political Development of the Territories – Compact of Free Association Compact II Sector Grants	15.875
Special Education – Grants to States	84.027

- | | |
|--|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$598,641 |
| 11. Auditee qualified as a low-risk auditee? | Yes |

Part II – Financial Statements Findings Section

<u>Finding #</u>	<u>Finding</u>
2010-1	Maintenance of Fixed Assets

Part III - Federal Award Findings and Questioned Cost Section

<u>Finding #</u>	<u>CFDA #</u>	<u>Finding</u>	<u>Questioned Costs</u>
2010-1	15.875/84.027	Maintenance of Fixed Assets	\$ -

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-1
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Grant Number: Compact Sector Grants
Requirement: Compliance: Maintenance of Fixed Assets
Questioned Cost: \$0

Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education – Grants to States
Grant Number: H0278030002
Requirement: Compliance: Maintenance of Fixed Assets
Questioned Cost: \$0

Criteria: Management should periodically review asset maintenance activities to ensure compliance with program objectives and requirements.

Condition: No documented procedures are currently in place to ensure that fixed assets undergo required maintenance.

Cause: This appears to be a weakness in internal controls over ensuring that fixed assets are periodically maintained.

Effect: The expected life of fixed assets may be lessened. However, no questioned costs result from this finding as no specific instances came to our attention in fiscal year 2010 of unnecessary expenditures that occurred due to this condition.

Prior Year Status: Noncompliance with maintenance of fixed assets was reported as a finding in the fiscal years 2007 to 2009 single audits.

Recommendation: We recommend that the State strengthen internal controls to ensure that periodic reviews are performed to ensure that asset maintenance activities are documented and monitored.

Auditee Response and Corrective Action Plan

DOT&A agrees with the finding however the primary government should make sure that there is sufficient funds for maintenance of its fixes assets.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Summary Schedule of Prior Audit Findings and Questioned Costs
Year Ended September 30, 2010

The following is a summary of unresolved questioned costs of the State of Pohnpei as of September 30, 2010:

Questioned Costs as of September 30, 2009	\$ -
Fiscal year 2010 questioned costs	<u>-</u>
Total questioned costs at September 30, 2010	\$ <u><u>-</u></u>

Unresolved prior year findings are set forth in the accompanying schedule of findings and questioned costs.