

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

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

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**YEAR ENDED SEPTEMBER 30, 2014**

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

YEAR ENDED SEPTEMBER 30, 2014

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**STATE OF POHNPEI  
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**INDEPENDENT AUDITORS' REPORT,  
FINANCIAL STATEMENTS  
AND ADDITIONAL INFORMATION**

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**YEAR ENDED SEPTEMBER 30, 2014**

## **INDEPENDENT AUDITORS' REPORT**

Honorable Marcelo Peterson  
Acting Governor, the State of Pohnpei  
Federated States of Micronesia:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, 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, 2014, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as set forth in Section III of the foregoing table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Pohnpei Transportation Authority and the Small Business Guarantee and Finance Corporation, which represent 3%, 0.6%, and 6%, respectively, of the assets, net position, and operating revenues of the State's discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Pohnpei Transportation Authority and the Small Business Guarantee and Finance Corporation, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **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, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 10 as well as the Schedule of Revenues, Expenditures, and changes in Fund Balance - Budget and Actual - General Fund and notes thereto, on pages 47 and 48, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

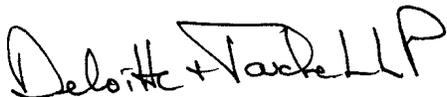
### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The combining and individual fund financial statements, as set forth in Section V of the foregoing table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2015, 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* in considering the State's internal control over financial reporting and compliance.



June 26, 2015

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis  
September 30, 2014

This section of the Pohnpei State's financial report presents our Management's Discussion and Analysis (MD&A) for the fiscal year ended September 30, 2014. 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 position for this year are \$49,115,168.
- The net change in government fund balance is a decrease of \$1,277,293. Total revenues reported are \$33,297,933 against total expenditures of \$34,575,226.
- Actual revenues for the general fund were \$58,741 higher than budgeted revenues. The total expenditures-budgetary basis showed an unfavorable variance of \$916,874. The general fund reported an unassigned fund balance drop by \$812,454 to \$772,571 for the fiscal year.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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

The government-wide financial statements of the State consist of its government activities, which include public works, health, education and general administration. Sales taxes, revenue sharing, federal grants and Compact II/Sector grants are the major sources of these activities. Compact II/Sector grants replace the Compact I funding in the 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, 2014

- 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 consist of the Grants Assistance Fund and the Compact Trust Fund.

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

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

	<u>Government Activities</u>	
	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 10,099,415	\$ 11,207,561
Capital assets	31,987,058	21,406,027
Other noncurrent assets	<u>19,052,630</u>	<u>17,671,452</u>
<b>Total assets</b>	<b><u>61,139,103</u></b>	<b><u>50,285,040</u></b>
Current and other liabilities	6,688,196	5,079,349
Long-term debt outstanding	<u>5,335,739</u>	<u>5,491,027</u>
<b>Total liabilities</b>	<b><u>12,023,935</u></b>	<b><u>10,570,376</u></b>
<b>Net position:</b>		
Net investment in capital assets	31,987,058	21,406,027
Restricted	20,155,143	20,387,368
Unrestricted	<u>(3,027,033)</u>	<u>(2,078,731)</u>
<b>Total net position</b>	<b><u>\$ 49,115,168</u></b>	<b><u>\$ 39,714,664</u></b>

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

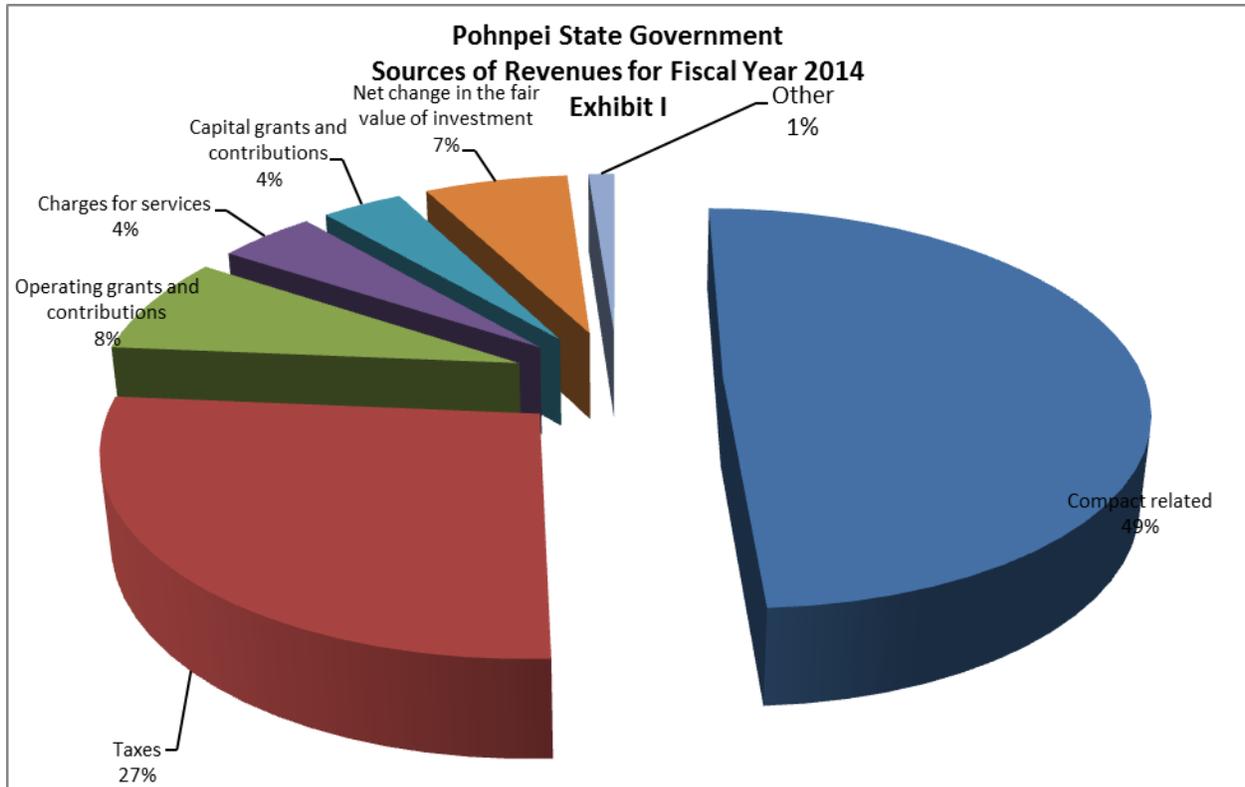
	<u>Government Activities</u>	
	<u>2014</u>	<u>2013</u>
<b>Revenues:</b>		
<b>Program revenues:</b>		
Charges for services	\$ 1,471,388	\$ 1,442,121
Operating grants and contributions	3,689,644	3,059,791
Compact related	16,535,086	16,707,285
Capital grants and contributions	11,237,462	-

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Management's Discussion and Analysis  
September 30, 2014

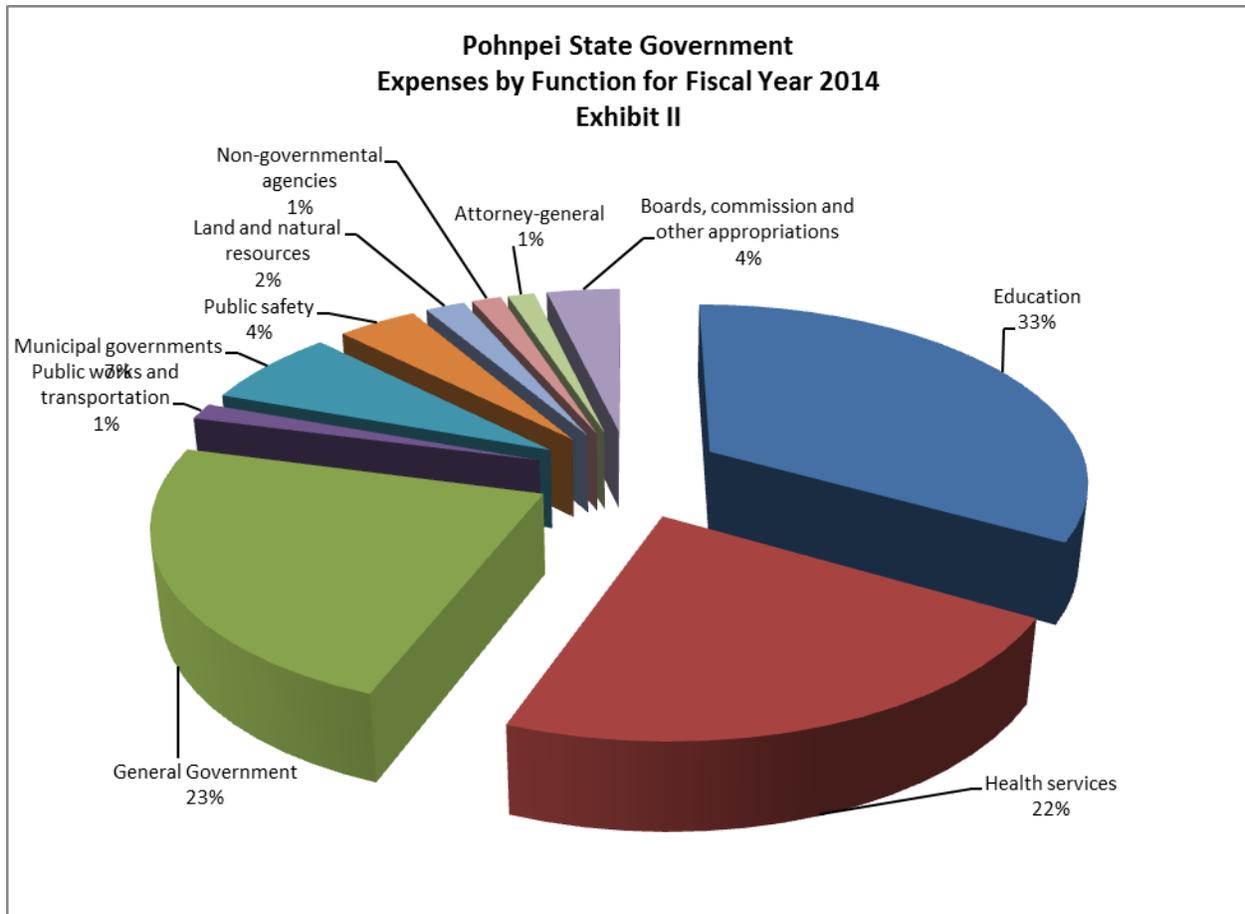
General revenues:		
Taxes	9,041,950	8,911,134
Investment earnings	2,168,521	2,971,642
Other	<u>391,344</u>	<u>772,591</u>
<b>Total revenues</b>	<b><u>44,535,395</u></b>	<b><u>33,864,564</u></b>
Expenses:		
General government	7,624,598	7,711,099
Education	11,067,965	11,181,365
Health services	7,795,913	7,187,579
Land and natural resources	690,997	676,733
Public works and transportation	502,844	2,367,442
Public safety	1,477,837	1,191,983
Boards, commission and other	<u>5,974,737</u>	<u>4,302,263</u>
<b>Total expenses</b>	<b><u>35,134,891</u></b>	<b><u>34,618,464</u></b>
<b>Change in net position</b>	<b>\$ <u>9,400,504</u></b>	<b>\$ <u>(753,900)</u></b>

Exhibit I, below, showed that 49% of the State's revenues were derived from Compact II while 27% came from taxes and licenses. Exhibit II, next page, illustrated that Education represented 33% of the State's total expenses followed by General Government at 23%.



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis  
September 30, 2014



**FINANCIAL ANALYSIS OF THE STATE GOVERNMENTAL FUNDS**

The State's governmental fund changes in fund balances for the years ended September 30, 2014 and 2013 are shown below.

	General Fund		Grants Assistance		Compact Trust		Other Funds	
	2014	2013	2014	2013	2014	2013	2014	2013
Revenues:								
Taxes	\$ 8,628,042	\$ 8,476,339	\$ -	\$ -	\$ -	\$ -	\$ 413,908	\$ 434,795
Compact	-	-	16,380,248	16,707,285	-	-	154,838	-
Other/transfers in	<u>1,726,610</u>	<u>2,652,494</u>	<u>4,169,450</u>	<u>3,131,754</u>	<u>1,027,744</u>	<u>1,652,157</u>	<u>1,077,468</u>	<u>1,097,185</u>
Total revenues	10,354,652	11,128,833	20,549,698	19,839,039	1,027,744	1,652,157	1,646,214	1,531,980
Expenditures/transfers out	<u>11,217,668</u>	<u>11,366,912</u>	<u>20,500,999</u>	<u>19,702,253</u>	-	-	<u>3,136,934</u>	<u>1,687,311</u>
Net change in fund balances	\$ <u>(863,016)</u>	\$ <u>(238,079)</u>	\$ <u>48,699</u>	\$ <u>136,786</u>	\$ <u>1,027,744</u>	\$ <u>1,652,157</u>	\$ <u>(1,490,720)</u>	\$ <u>(155,331)</u>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis  
September 30, 2014

**General Fund**

Revenues decreased by \$774,181 or 7% compared to fiscal year 2013. The decrease was caused mainly by a non-recurring adjustment of \$500,000 and a lower net change in the fair value of investments in prior year, while tax revenues increased by \$151,703 or 2% compared with prior year. Expenditures decreased by \$149,244 or 1% compared to fiscal year 2013; the State recorded transfers out of \$280,375 this year compared to transfers out of \$287,445 in prior year mainly to the local match under the Compact IMF program.

**Grants 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 2014. The total Compact II/Sector funding amounted to \$16,380,248 while total expenditures are in the amount of \$16,380,248, 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 \$7,459,356 against total expenditures of the same amount, an increase of \$104,339 or 1% compared to fiscal year 2013.
- 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 \$5,115,005, a decrease of \$334,171 or 6% compared to fiscal year 2013.
- The sector grant for private sector development shall support the efforts of the Federated States of Micronesia to attract new foreign investment and increase indigenous business activity. Priorities will be in advancing the private development of fisheries, tourism and agriculture; employing new telecommunications technologies; and analyzing and developing new systems, laws, and policies to foster private sector development, to facilitate investment by potential private investors, and develop business and entrepreneurial skills. There was no funding for fiscal year 2014, compared with \$3,013 in fiscal year 2013.
- 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 corresponding expenditures are \$318,736, a decrease of \$96,234 or 23% compared to fiscal year 2013.
- 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 \$306,577 with the same total of expenditures, a decrease of \$70,234 or 18% compared to fiscal year 2013.
- 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. There was no funding received in fiscal year 2014 while revenue and similar expenditures of \$96,188 were received in prior year.

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Management's Discussion and Analysis  
September 30, 2014

- 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 \$2,931,754, an increase of \$212,375 or 8% compared to fiscal year 2013.
- Enhanced Reporting and Accountability is a new grant that supports the finance functions of the Department of Treasury and Administration. It is aimed at developing and implementing systems, financial management procedures, and internal controls that account for and ensure reporting on the use of amended compact funds. For the year, total expenditures incurred were \$248,820 compared to \$292,731 or a decrease of \$43,911 or 15% in prior year.

Another major source of funding by the Grants Assistance Fund is U.S. Federal Grants which supported \$2,452,221 of State expenditures, an increase of \$91,332 or 4% compared to fiscal year 2013.

**General Fund Budgetary Highlights**

During the year, the State revised its budget several times in the aggregate amount of \$43,420 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 financial resources due to inflationary adjustments.

The net decrease in the State's general fund unassigned fund balance was \$812,454 compared with a net decrease of \$404,866 in fiscal year 2013.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

Capital Assets

The State's capital assets at the end of fiscal year 2014 consist basically of equipment, buildings, roads and bridges. Increase in capital assets was due to transfer of building ownership, purchases of machinery, equipment and others under the Infrastructure Account. Specifically, school buildings were completed, and ownership was transferred from the FSM National Government to the State during the year; total cost of the school buildings transferred was \$11.1 million. The summary of capital assets at the end of September 30 is shown below:

	<u>Primary Government Government Activities</u>	
	<u>2014</u>	<u>2013</u>
Buildings	\$ 24,841,744	\$ 13,728,473
Infrastructure	53,614,989	52,881,727
Machinery	<u>23,986,931</u>	<u>23,078,283</u>
Total	\$ <u>102,443,664</u>	\$ <u>89,688,483</u>

Note 5 of the Notes to Financial Statements presents more information about the State's capital assets.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis  
September 30, 2014

Long-term Debt

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

	<u>Government Activities</u>	
	<u>2014</u>	<u>2013</u>
Asian Development Bank loans	\$ <u>5,335,739</u>	\$ <u>5,491,027</u>

Note 7 and 8 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 2015 will still come from the Compact II.

Fiscal year 2015 is the 12<sup>th</sup> 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 2015 is as follows:

- For Education Sector Grant, which continues to be the funding priority, the annual budget is \$7,118,776.
- The Health Sector Grant's budget is \$6,665,832.
- The Private Sector Development Sector Grant's budget is nil.
- The Public Sector Capacity Building Sector Grant budget is \$410,504.
- The Environment Sector Grant is \$317,294.
- The Enhanced Reporting and Accounting Sector Grant budget is \$263,144.
- The cumulative grants for the Public Infrastructure from fiscal years 2005 through 2014 is more than \$40,000,000. Priority projects are education, health related and private sector development. It is 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 2014 is \$2,830,384. The programs covered in the funding are Early Childhood Education, Education Improvement Programs, Workforce Development/Skill Training, Vocational Education and Staff Development.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis  
September 30, 2014

For fiscal year 2015, the locally generated revenues, investment income and the revenue shares from the FSM National Government are projected at about \$10,110,000. These projected revenues were \$90,911 less compared with fiscal year 2014 revenues. The net decrease is due mainly to projected decrease in local revenues. In its effort to close possible shortage, the Department of Treasury and Administration will continue to intensify its collection effort to raise additional revenues, and by boosting its strategy in inspecting containers. In addition, an amendment to the Tax Code is being reviewed in order to improve tax collection. Finally, the revenue shall be monitored in order that the expenditures shall be adjusted accordingly.

**FINANCIAL CONTACT**

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

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Statement of Net Position  
September 30, 2014

	Primary Government	Component Units
<b><u>ASSETS</u></b>		
Current assets:		
Cash and cash equivalents	\$ -	\$ 3,635,269
Time certificate of deposit	-	45,379
Investments	5,802,113	1,877,286
Receivables, net	3,371,536	4,839,054
Advances	205,674	613,951
Inventories	29,947	1,257,422
Other current assets	-	25,042
Restricted assets:		
Cash and cash equivalents	690,145	1,042,310
Total current assets	10,099,415	13,335,713
Noncurrent assets:		
Capital assets:		
Nondepreciable capital assets	-	10,211,189
Capital assets, net of accumulated depreciation	31,987,058	27,084,595
Investments	1,500,000	-
Receivables	-	856,926
Other noncurrent assets	-	585,967
Restricted assets:		
Cash and cash equivalents	-	495,172
Investments	17,552,630	-
Total noncurrent assets	51,039,688	39,233,849
Total assets	\$ 61,139,103	\$ 52,569,562
<b><u>LIABILITIES</u></b>		
Current liabilities:		
Bank overdraft	\$ 408,618	\$ -
Short-term debt	-	189,131
Current portion of long-term obligations	171,243	581,804
Compensated absences payable	740,041	-
Accounts payable	2,082,113	2,247,617
Other liabilities and accruals	674,267	1,160,149
Due to primary government	-	1,705,701
Unearned revenues	2,572,189	195,252
Total current liabilities	6,648,471	6,079,654
Noncurrent liabilities:		
Long-term obligations, net of current portion	5,164,496	9,394,411
Claims and judgments payable	210,968	-
Total noncurrent liabilities	5,375,464	9,394,411
Total liabilities	12,023,935	15,474,065
Contingencies and commitments		
<b><u>NET POSITION</u></b>		
Net investment in capital assets	31,987,058	28,153,377
Restricted for:		
Nonexpendable:		
Future operations	13,518,169	-
Expendable:		
Debt service	4,034,461	-
Other purposes	2,602,513	4,773,675
Unrestricted	(3,027,033)	4,168,445
Total net position	49,115,168	37,095,497
Total liabilities and net position	\$ 61,139,103	\$ 52,569,562

See accompanying notes to financial statements.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Statement of Activities  
Year Ended September 30, 2014

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
<b>Primary government:</b>						
Governmental activities:						
General government	\$ 7,624,598	787,366	\$ 2,317,810	\$ 49,741	\$ (4,469,681)	\$ -
Land and natural resources	690,997	41,000	184,406	-	(465,591)	-
Education	11,067,965	-	11,438,583	11,149,850	11,520,468	-
Health services	7,795,913	595,054	6,283,931	-	(916,928)	-
Public safety	1,477,837	47,968	-	24,871	(1,404,998)	-
Attorney-general	467,272	-	-	-	(467,272)	-
Public works and transportation	502,844	-	-	-	(502,844)	-
Non-governmental agencies	515,363	-	-	-	(515,363)	-
Boards, commissions and others	2,589,687	-	-	13,000	(2,576,687)	-
Municipal governments	2,402,415	-	-	-	(2,402,415)	-
<b>Total primary government</b>	<b>\$ 35,134,891</b>	<b>\$ 1,471,388</b>	<b>\$ 20,224,730</b>	<b>\$ 11,237,462</b>	<b>(2,201,311)</b>	<b>-</b>
<b>Component units:</b>						
Pohnpei Utilities Corporation	\$ 17,530,542	\$ 15,793,306	\$ -	\$ 2,154,760	-	417,524
Pohnpei Port Authority	3,516,950	3,405,320	-	91,704	-	(19,926)
Pohnpei Transportation Authority	1,106,341	1,187,184	-	-	-	80,843
Small Business Guarantee and Finance Corporation	189,291	66,774	-	-	-	(122,517)
Pohnpei State Housing Authority	168,624	193,216	-	-	-	24,592
<b>Total component units</b>	<b>\$ 22,511,748</b>	<b>\$ 20,645,800</b>	<b>\$ -</b>	<b>\$ 2,246,464</b>	<b>-</b>	<b>380,516</b>
<b>General revenues:</b>						
Taxes:						
FSM revenue sharing:						
Gross revenue taxes						
Import taxes						
Income taxes						
Other taxes						
State taxes						
Unrestricted investment earnings						
Other						
<b>Total general revenues</b>					10,574,071	(660,834)
Contributions to permanent fund					1,027,744	-
<b>Total general revenues and contributions</b>					<b>11,601,815</b>	<b>(660,834)</b>
Change in net position					9,400,504	(280,318)
Net position at the beginning of the year					39,714,664	37,375,815
Net position at the end of the year					<b>\$ 49,115,168</b>	<b>\$ 37,095,497</b>

See accompanying notes to financial statements.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**Balance Sheet  
Governmental Funds  
September 30, 2014**

		Special Revenue	Permanent	Other Governmental Funds	
	General	Grants Assistance	Compact Trust		Total
<b>ASSETS</b>					
Investments	\$ 7,302,113	\$ -	\$ -	\$ -	\$ 7,302,113
Receivables, net:					
Taxes	1,884,030	-	-	-	1,884,030
Due from FSM National Government	-	1,483,578	-	-	1,483,578
Other	-	3,928	-	-	3,928
Due from other funds	1,254,667	2,833,240	-	3,111,168	7,199,075
Advances	96,542	101,364	-	7,768	205,674
Inventories	-	-	-	29,947	29,947
Restricted assets:					
Cash and cash equivalents	682,445	7,700	-	-	690,145
Investments	4,034,461	-	13,518,169	-	17,552,630
Total assets	<u>\$ 15,254,258</u>	<u>\$ 4,429,810</u>	<u>\$ 13,518,169</u>	<u>\$ 3,148,883</u>	<u>\$ 36,351,120</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Bank overdraft	\$ 408,618	\$ -	\$ -	\$ -	\$ 408,618
Accounts payable	1,463,104	504,848	-	114,161	2,082,113
Other liabilities and accruals	315,334	338,379	-	20,554	674,267
Unearned revenues	-	2,176,671	-	395,518	2,572,189
Due to other funds	5,944,408	1,241,351	-	13,316	7,199,075
Total liabilities	<u>8,131,464</u>	<u>4,261,249</u>	<u>-</u>	<u>543,549</u>	<u>12,936,262</u>
<b>Fund balances:</b>					
Non-spendable	1,596,542	-	13,518,169	35,368	15,150,079
Restricted	4,449,637	168,561	-	-	4,618,198
Committed	148,716	-	-	2,182,316	2,331,032
Assigned	155,328	-	-	387,650	542,978
Unassigned	772,571	-	-	-	772,571
Total fund balances	<u>7,122,794</u>	<u>168,561</u>	<u>13,518,169</u>	<u>2,605,334</u>	<u>23,414,858</u>
Total liabilities and fund balances	<u>\$ 15,254,258</u>	<u>\$ 4,429,810</u>	<u>\$ 13,518,169</u>	<u>\$ 3,148,883</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	31,987,058
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	(5,335,739)
Compensated absences payable	(740,041)
Claims and judgments payable	(210,968)
	(6,286,748)
Net position of governmental activities	<u>\$ 49,115,168</u>

See accompanying notes to financial statements.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
Year Ended September 30, 2014

	General	Special Revenue	Permanent	Other	Total
		Grants Assistance	Compact Trust	Governmental Funds	
<b>Revenues:</b>					
Compact funding	\$ -	\$ 16,380,248	\$ -	\$ 154,838	\$ 16,535,086
Net change in the fair value of investments	1,140,777	-	1,027,744	-	2,168,521
CFSM grants	162,778	1,062,203	-	-	1,224,981
Federal contributions and other grants	-	2,464,663	-	-	2,464,663
FSM revenue sharing	6,474,623	-	-	-	6,474,623
State taxes	2,153,419	-	-	413,908	2,567,327
Fees and charges	393,920	-	-	1,077,468	1,471,388
Other	29,135	362,209	-	-	391,344
<b>Total revenues</b>	<b>10,354,652</b>	<b>20,269,323</b>	<b>1,027,744</b>	<b>1,646,214</b>	<b>33,297,933</b>
<b>Expenditures:</b>					
<b>Current:</b>					
General government	3,794,451	2,594,079	-	1,717,455	8,105,985
Land and natural resources	500,349	184,406	-	-	684,755
Education	68,454	11,438,583	-	-	11,507,037
Health services	49,365	6,283,931	-	1,419,479	7,752,775
Public safety	1,363,914	-	-	-	1,363,914
Office of the Attorney-General	467,272	-	-	-	467,272
Public works	502,844	-	-	-	502,844
Payments to non-governmental agencies	515,363	-	-	-	515,363
Boards, commissions and other	1,117,578	-	-	-	1,117,578
Grants to local governments	2,402,415	-	-	-	2,402,415
Debt service	155,288	-	-	-	155,288
<b>Total expenditures</b>	<b>10,937,293</b>	<b>20,500,999</b>	<b>-</b>	<b>3,136,934</b>	<b>34,575,226</b>
Excess (deficiency) of revenues over (under) expenditures	(582,641)	(231,676)	1,027,744	(1,490,720)	(1,277,293)
<b>Other financing sources (uses):</b>					
Operating transfers in	-	280,375	-	-	280,375
Operating transfers out	(280,375)	-	-	-	(280,375)
<b>Total other financing sources (uses), net</b>	<b>(280,375)</b>	<b>280,375</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>(863,016)</b>	<b>48,699</b>	<b>1,027,744</b>	<b>(1,490,720)</b>	<b>(1,277,293)</b>
Fund balances at the beginning of the year	7,985,810	119,862	12,490,425	4,096,054	24,692,151
Fund balances at the end of the year	\$ 7,122,794	\$ 168,561	\$ 13,518,169	\$ 2,605,334	\$ 23,414,858

See accompanying notes to 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, 2014

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	\$ (1,277,293)
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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	10,581,031
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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 position. For the current year, these amounts consist of:

Repayment of ADB Loans	155,288
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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	<u>(58,522)</u>
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Change in net position of governmental activities	\$ <u>9,400,504</u>
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See accompanying notes to financial statements.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Combining Statement of Net Position  
Component Units  
September 30, 2014

	Pohnpei Utilities Corporation	Pohnpei Port Authority	Pohnpei Transportation Authority	Small Business Guarantee and Finance Corporation	Pohnpei State Housing Authority	Total
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ 763,949	\$ 2,319,476	\$ -	\$ 300	\$ 551,544	\$ 3,635,269
Time certificate of deposit	45,379	-	-	-	-	45,379
Investments	174,124	1,703,162	-	-	-	1,877,286
Receivables, net	1,627,574	723,855	2,924	62,466	2,422,235	4,839,054
Inventories	1,246,525	-	10,897	-	-	1,257,422
Advances	601,226	5,746	-	6,979	-	613,951
Other current assets	-	22,069	-	1,905	1,068	25,042
Restricted assets:						
Cash and cash equivalents	-	-	-	1,042,310	-	1,042,310
<b>Total current assets</b>	<b>4,458,777</b>	<b>4,774,308</b>	<b>13,821</b>	<b>1,113,960</b>	<b>2,974,847</b>	<b>13,335,713</b>
Noncurrent assets:						
Receivables, net	-	229,868	-	627,058	-	856,926
Capital assets:						
Nondepreciable capital assets	7,025,099	3,186,090	-	-	-	10,211,189
Capital assets, net of accumulated depreciation	23,607,720	3,325,678	33,881	39,588	77,728	27,084,595
Long-term deposits	576,213	-	-	-	-	576,213
Restricted:						
Cash and cash equivalents	495,172	-	-	-	-	495,172
Other noncurrent assets	-	9,754	-	-	-	9,754
<b>Total noncurrent assets</b>	<b>31,704,204</b>	<b>6,751,390</b>	<b>33,881</b>	<b>666,646</b>	<b>77,728</b>	<b>39,233,849</b>
<b>Total assets</b>	<b>\$36,162,981</b>	<b>\$11,525,698</b>	<b>\$ 47,702</b>	<b>\$ 1,780,606</b>	<b>\$ 3,052,575</b>	<b>\$ 52,569,562</b>
<b>LIABILITIES</b>						
Current liabilities:						
Short-term debt	\$ 189,131	\$ -	\$ -	\$ -	\$ -	\$ 189,131
Current portion of long-term debt	581,804	-	-	-	-	581,804
Accounts payable	2,134,519	1,037	88,256	5,817	17,988	2,247,617
Other liabilities and accruals	336,217	232,148	17,908	-	573,876	1,160,149
Due to primary government	200,000	-	1,505,701	-	-	1,705,701
Unearned revenues	192,078	-	3,174	-	-	195,252
<b>Total current liabilities</b>	<b>3,633,749</b>	<b>233,185</b>	<b>1,615,039</b>	<b>5,817</b>	<b>591,864</b>	<b>6,079,654</b>
Noncurrent liabilities:						
Noncurrent portion of long-term debt	9,394,411	-	-	-	-	9,394,411
<b>Total liabilities</b>	<b>13,028,160</b>	<b>233,185</b>	<b>1,615,039</b>	<b>5,817</b>	<b>591,864</b>	<b>15,474,065</b>
<b>NET POSITION</b>						
Net investment in capital assets	21,490,412	6,511,768	33,881	39,588	77,728	28,153,377
Restricted	721,325	-	-	1,669,367	2,382,983	4,773,675
Unrestricted	923,084	4,780,745	(1,601,218)	65,834	-	4,168,445
<b>Total net position</b>	<b>23,134,821</b>	<b>11,292,513</b>	<b>(1,567,337)</b>	<b>1,774,789</b>	<b>2,460,711</b>	<b>37,095,497</b>
	<b>\$36,162,981</b>	<b>\$11,525,698</b>	<b>\$ 47,702</b>	<b>\$ 1,780,606</b>	<b>\$ 3,052,575</b>	<b>\$ 52,569,562</b>

See accompanying notes to financial statements.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Combining Statement of Revenues, Expenses, and Changes in Net Position  
Component Units  
Year Ended September 30, 2014

	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	\$ 15,793,306	\$ 3,405,320	\$ 1,187,184	\$ 66,774	\$ 193,216	\$ 20,645,800
Total operating revenues	<u>15,793,306</u>	<u>3,405,320</u>	<u>1,187,184</u>	<u>66,774</u>	<u>193,216</u>	<u>20,645,800</u>
Operating expenses:						
Cost of services	9,615,127	-	-	-	-	9,615,127
Administration costs	5,591,411	2,999,888	1,102,033	165,501	152,619	10,011,452
Depreciation and amortization	2,324,004	517,062	4,308	23,790	16,005	2,885,169
Total operating expenses	<u>17,530,542</u>	<u>3,516,950</u>	<u>1,106,341</u>	<u>189,291</u>	<u>168,624</u>	<u>22,511,748</u>
Operating income (loss)	<u>(1,737,236)</u>	<u>(111,630)</u>	<u>80,843</u>	<u>(122,517)</u>	<u>24,592</u>	<u>(1,865,948)</u>
Nonoperating revenues (expenses):						
Contributions from the primary government	-	-	-	94,000	114,887	208,887
Interest income (expense)	(153,800)	129,325	-	102,700	-	78,225
Other	(950,306)	-	-	2,360	-	(947,946)
Total nonoperating revenues (expenses), net	<u>(1,104,106)</u>	<u>129,325</u>	<u>-</u>	<u>199,060</u>	<u>114,887</u>	<u>(660,834)</u>
Net income (loss) before capital contributions	<u>(2,841,342)</u>	<u>17,695</u>	<u>80,843</u>	<u>76,543</u>	<u>139,479</u>	<u>(2,526,782)</u>
Capital contributions	2,154,760	91,704	-	-	-	2,246,464
Change in net position	<u>(686,582)</u>	<u>109,399</u>	<u>80,843</u>	<u>76,543</u>	<u>139,479</u>	<u>(280,318)</u>
Net position at the beginning of the year	<u>23,821,403</u>	<u>11,183,114</u>	<u>(1,648,180)</u>	<u>1,698,246</u>	<u>2,321,232</u>	<u>37,375,815</u>
Net position at the end of the year	<u>\$ 23,134,821</u>	<u>\$ 11,292,513</u>	<u>\$ (1,567,337)</u>	<u>\$ 1,774,789</u>	<u>\$ 2,460,711</u>	<u>\$ 37,095,497</u>

See accompanying notes to financial statements.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2014

(1) Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

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

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

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

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, 2014

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

Discretely Presented Component Units:

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

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

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

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

Small Business Guarantee and Finance Corporation (SBGFC): SBGFC was created by PSPL No. 3L-86-95 to provide, promote, develop and widen in both scope and services 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. The State provides financial support to SBGFC through legislative appropriations and has the ability to impose its will on SBGFC.

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

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

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

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

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

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

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide Financial Statements, Continued

- Unrestricted net position consists of net position, which does not meet the definition of the two preceding categories. Unrestricted net position often is designated, (for example, internally restricted), to indicate that management does not consider such to be available for general operations.

The government-wide Statement of Net Position reports \$20,155,143 of restricted net position, of which \$2,602,513 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, 2014

(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.

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

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

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

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

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

E. Cash and Cash Equivalents and Time Certificates of Deposit

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

F. Investments

Investments and related investment earnings of the primary government and the discretely presented component units are recorded at fair value. 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.

G. Receivables

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

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

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

H. Prepaid Items

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

I. Interfund Receivables/Payables

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

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

J. Inventories

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

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

K. Restricted Assets

Certain assets of the primary government are classified as restricted assets because their use is completely restricted through enabling legislation and loan agreements. Specifically, the State has collateralized investments in the amount of \$4,034,461 for the Pohnpei State Early Retirement Scheme. Furthermore, investments recorded in the Compact Trust Fund of \$13,518,169 are restricted in that they are not available to be used in current operations.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

K. Restricted Assets, Continued

As of September 30, 2014, cash and cash equivalents were restricted for the following uses:

Primary Government:

Deposits with a local bank restricted for the purchase of medical supplies for the State hospital.	\$ 105,510
State Hospital's Honolulu imprest fund.	7,700
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	267,269
Aluminum Recycling Project	60,985
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>248,681</u>
	<u>\$ 690,145</u>

Discretely Presented Component Units:

Pohnpei Utilities Corporation:

Deposit accounts collateralizing loans payable to the FSM Development Bank and the Bank of the FSM	\$ 495,172
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Small Business Guarantee and Finance Corporation:

Deposit accounts restricted for various operations of the Small Business Guarantee and Finance Corporation	<u>1,042,310</u>
	<u>\$ 1,537,482</u>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

L. Capital Assets

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

The State currently holds no title to land. Machinery and equipment, other than vehicles and boats, are capitalized when the cost of individual items exceed \$50,000. Vehicles and boats, along with significant repair and maintenance qualifying as a betterment of such, are capitalized regardless of cost and depreciated. Building and infrastructure projects, along with significant improvements or reconstruction qualifying as a betterment of such, are capitalized when the cost of individual items or projects exceed \$100,000. The costs of normal maintenance and repairs that do not add to the value of the capital asset or materially extend capital asset lives are not capitalized. Additionally, 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. Deferred Outflows of Resources

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

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 240 hours per calendar year. All unused annual leave is cancelled at the end of each calendar year.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

O. Deferred Inflows of Resources

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

P. Unearned Revenues

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

Q. Fund Balance

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

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

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

Q. Fund Balance, Continued

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

A formal minimum fund balance policy has not been adopted.

R. 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.

S. 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.

T. New Accounting Standards

During fiscal year 2014, the State implemented the following pronouncements:

- GASB Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans. The implementation of this statement did not have a material effect on the accompanying financial statements.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards, Continued

- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The implementation of this statement did not have a material effect on the accompanying financial statements.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the State.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of the State.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the State.

U. 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, 2014

(1) Summary of Significant Accounting Policies, Continued

V. 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, 2013 from which summarized information was derived.

(2) Deposits and Investments

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

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

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

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.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2014

(2) Deposits and Investments, Continued

A. Deposits

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

As of September 30, 2014, the carrying amount of the primary government's total cash and cash equivalents was \$690,145 and the corresponding bank balances were \$1,242,979, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2014, bank deposits in the amount of \$500,000 were FDIC insured.

As of September 30, 2014, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$5,218,130 and the corresponding bank balances were \$5,307,795, which were maintained in financial institutions subject to FDIC insurance. As of September 30, 2014, bank deposits in the amount of \$1,867,721 were FDIC insured. The component units do not require collateralization of their cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Therefore, these deposits are exposed to custodial credit risk.

B. Investments

Primary Government:

As of September 30, 2014, the State's investments at fair value are as follows:

Fixed income securities:	
Domestic fixed income	\$ 3,213,811
Other investments:	
Domestic equities	20,128,771
Cash management account	<u>12,161</u>
	\$ <u>23,354,743</u>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2014

(2) Deposits and Investments, Continued

**B. Investments, Continued**

Primary Government, Continued:

As of September 30, 2014, the State's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

<u>Investment Type</u>	<u>Investment Maturities (In Years)</u>					<u>Credit Ratings</u>
	<u>Fair Value</u>	<u>Current</u>	<u>1-5</u>	<u>6-10</u>	<u>Over 10</u>	
U.S. Treasury Notes and Bonds	\$ 634,285	\$ 4,382	\$ 451,718	\$ 98,450	\$ 79,735	AAA
U.S. Government Agencies Obligations:						
Federal Home Loan Mortgage Corporation	209,845	-	139,628	27,987	42,230	AAA
Government National Mortgage Association	248,795	-	16,325	8,657	223,813	AAA
Federal National Mortgage Association	505,770	8,068	314,663	-	183,039	AAA
Tennessee Valley Authority	55,847	-	-	42,977	12,870	AAA
Small Business Administration	8,699	-	-	-	8,699	No rating
National Credit Union	39,874	-	5,032	34,842	-	AAA
Housing Urban Development	7,050	-	-	7,050	-	No rating
FISCO Debentures	9,349	-	9,349	-	-	No rating
AID-Tunisia	42,658	-	42,658	-	-	AAA/No rating
Financing Corporation	14,708	-	14,708	-	-	No rating
Municipal Obligations	42,522	-	6,084	-	36,438	A1
Municipal Obligations	7,618	-	-	-	7,618	A2
Municipal Obligations	53,076	-	15,772	9,867	27,437	Aa1
Municipal Obligations	10,597	-	-	10,597	-	Aa2
Municipal Obligations	12,065	3,059	9,006	-	-	Aa3
Municipal Obligations	15,796	3,769	12,027	-	-	No rating
Corporate Bonds	139,978	16,946	11,647	58,218	53,167	A1
Corporate Bonds	180,247	15,567	94,710	69,970	-	A2
Corporate Bonds	135,672	-	50,141	49,487	36,044	A3
Corporate Bonds	32,938	-	26,144	6,794	-	Aa1
Corporate Bonds	79,630	-	40,215	14,758	24,657	Aa2
Corporate Bonds	65,300	5,325	21,584	38,391	-	Aa3
Corporate Bonds	79,862	28,243	36,716	14,825	78	Aaa
Corporate Bonds	12,532	-	-	12,532	-	Ba1
Corporate Bonds	23,106	-	11,237	11,869	-	Ba2/Ba3
Corporate Bonds	211,202	8,786	140,191	31,332	30,893	Baa1
Corporate Bonds	207,915	16,166	93,841	19,685	78,223	Baa2
Corporate Bonds	44,568	-	16,372	25,908	2,288	Baa3
Corporate Bonds	<u>82,307</u>	<u>-</u>	<u>31,673</u>	<u>34,247</u>	<u>15,877</u>	No rating
	<u>\$ 3,213,811</u>	<u>\$ 110,311</u>	<u>\$ 1,611,441</u>	<u>\$ 628,443</u>	<u>\$ 863,616</u>	

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2014

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued:

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, 2014.

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, 2014, 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, 2014, the General Fund holds 5.4% of the outstanding shares of the Bank of the Federated States of Micronesia in the amount of \$500,000 and 13% 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>174,124</u>
Pohnpei Port Authority:	
Fixed income securities	
Domestic fixed income	\$ <u>572,052</u>
Other:	
Cash and cash equivalents	15,404
Domestic equivalents	656,679
International equities	<u>359,027</u>
	<u>1,031,110</u>
	\$ <u>1,603,162</u>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2014

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued:

Pohnpei Port Authority, Continued

Investments for fixed income securities are as follows:

		<u>Fair Value</u>
U.S. Treasury obligations	AAAA/AAA	\$ 217,285
Mortgage and asset-backed securities	AAA/AA+	130,578
Corporate Notes and Bonds	A1/AA+	18,104
Corporate Notes and Bonds	A2/A+	17,740
Corporate Notes and Bonds	A2/A	33,968
Corporate Notes and Bonds	A3/A-	51,789
Corporate Notes and Bonds	A3/BBB+	17,093
Corporate Notes and Bonds	BAA1/A-	17,494
Corporate Notes and Bonds	BAA2/BBB+	16,777
Corporate Notes and Bonds	BAA2/BBB+	17,779
Corporate Notes and Bonds	BAA3/BBB-	16,606
Corporate Notes and Bonds	BAA3/BBB	<u>16,839</u>
		\$ <u>572,052</u>

As of September 30, 2014, the fixed income securities had the following maturities:

Investment Type	<u>1 to 5 Years</u>	<u>5 to 10 Years</u>	<u>Fair Value</u>
U.S. Treasury obligations	\$ 82,312	\$ 134,973	\$ 217,285
Mortgage and asset-backed securities	130,548	-	130,548
Corporate Notes and Bonds	<u>87,255</u>	<u>136,964</u>	<u>224,219</u>
	\$ <u>300,115</u>	\$ <u>271,937</u>	\$ <u>572,052</u>

As of September 30, 2014, the Pohnpei Port Authority holds 1% of the outstanding shares of the Bank of the Federated States of Micronesia in the amount of \$100,000. As the fair market of this investment is not readily available, such has been recorded at cost.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2014

**(3) Receivables**

Primary Government:

Receivables as of September 30, 2014, 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	\$ 2,036,346	\$ -	\$ -	\$ -	\$ 2,036,346
Due from FSM National Government	-	1,937,176	-	-	1,937,176
Other	<u>4,651,179</u>	<u>3,928</u>	<u>-</u>	<u>-</u>	<u>4,655,107</u>
	6,687,525	1,941,104	-	-	8,628,629
Allowance for uncollectible accounts	<u>(4,803,495)</u>	<u>(453,598)</u>	<u>-</u>	<u>-</u>	<u>(5,257,093)</u>
	<u>\$1,884,030</u>	<u>\$1,487,506</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,371,536</u>

Discretely Presented Component Units:

Receivables as of September 30, 2014, for the discretely presented component units, including applicable allowances for uncollectible accounts, are as follows:

	<u>Pohnpei Utilities Corporation</u>	<u>Pohnpei Port Authority</u>	<u>Pohnpei Transportation Authority</u>	<u>Small Business Guarantee and Finance Corporation</u>	<u>Pohnpei State Housing Authority</u>	<u>Total</u>
General	\$ 6,719,689	\$ 2,336,116	\$ 853,313	\$ -	\$ -	\$ 9,909,118
Loans	-	-	-	739,957	7,770,032	8,509,989
Other	<u>-</u>	<u>229,868</u>	<u>-</u>	<u>62,466</u>	<u>25,984</u>	<u>318,318</u>
	6,719,689	2,565,984	853,313	802,423	7,796,016	18,737,425
Less: allowance for uncollectibles	<u>(5,092,115)</u>	<u>(1,612,261)</u>	<u>(850,389)</u>	<u>(112,899)</u>	<u>(5,373,781)</u>	<u>(13,041,445)</u>
	<u>\$ 1,627,574</u>	<u>\$ 953,723</u>	<u>\$ 2,924</u>	<u>\$ 689,524</u>	<u>\$ 2,422,235</u>	<u>\$ 5,695,980</u>

Loans receivable consist of the following:

**Small Business Guarantee and Finance Corporation**

Loans to qualified businesses under Micro Loan and Loan Guarantee Programs with interest at 9% per annum.

**\$ 739,957**

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Notes to Financial Statements  
September 30, 2014

(3) Receivables, Continued

Discretely Presented Component Units, Continued:

Pohnpei State Housing Authority (PSHA)

PSHA's loan portfolio is derived from three sources: (1) capital contributions of Compact of Free Association Capital Account Funds - Capital Projects by Pohnpei State to fund the Housing Development Loan Fund; (2) Housing Preservation Grant (HPG) loans from a grant extended by the United States Department of Agriculture (USDA) Rural Development through the Housing and Community Facilities Program; and (3) Rural Development loans under the USDA funded Direct Single Family Housing Program. Loans are stated at face value, net of an allowance for loan losses. The allowance represents an amount which, in management's judgment, will be adequate to absorb possible losses on existing loans that may become uncollectible. Management's judgment in determining the adequacy of the allowance is based on evaluations of the collectability of loans. The allowance for loan losses are reported based on certain assumptions pertaining to PSHA's periodic review and evaluation of the loan portfolio, which is subject to change. A summary of loans receivable as of September 30, 2014 are presented below:

Pohnpei State Housing Authority loans	\$ 6,359,875
HPG loans	305,147
USDA Rural Development loans	<u>1,105,010</u>
	7,770,032
Less allowance for loan losses	<u>(5,373,781)</u>
Loans receivable, net	\$ <u>2,396,251</u>

All loans, other than USDA Rural Development loans, are at fixed rates (substantially 4.5%) and the loan terms range from 3 to 25 years. The USDA Rural Development loans are non-interest bearing.

(4) Interfund Receivables and Payables

Receivables and payables between funds reflected as due to/from other funds in the combined balance sheet at September 30, 2014, are summarized as follows:

Receivable Fund	Payable Fund	Amount
Grants Assistance	General	\$ 2,833,240
Nonmajor governmental funds	General	3,111,168
General	Grants Assistance	1,241,351
General	Nonmajor governmental funds	<u>13,316</u>
		\$ <u>7,199,075</u>

The amount recorded as due from component units of the primary government does not equal the corresponding due to primary government of the discretely presented component units of \$1,705,701 due to an allowance for doubtful accounts recorded by the General Fund of \$1,705,701.

**STATE OF POHNPEI  
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Notes to Financial Statements  
September 30, 2014

**(5) Capital Assets**

Capital asset activities for the year ended September 30, 2014, are as follows:

Primary Government:

	Balance October <u>1, 2013</u>	<u>Additions</u>	<u>Retirements</u>	Balance September <u>30, 2014</u>
Governmental activities:				
Capital assets, being depreciated:				
Buildings	\$ 13,728,473	\$ 11,149,850	\$ (36,579)	\$ 24,841,744
Machinery, equipment and others	23,078,283	1,035,213	(126,565)	23,986,931
Infrastructure	<u>52,881,727</u>	<u>733,262</u>	<u>-</u>	<u>53,614,989</u>
Total capital assets, being depreciated	<u>89,688,483</u>	<u>12,918,325</u>	<u>(163,144)</u>	<u>102,443,664</u>
Less accumulated depreciation for:				
Buildings	(5,452,721)	(358,535)	29,690	(5,781,566)
Machinery, equipment and others	(21,813,095)	(514,802)	110,863	(22,217,034)
Infrastructure	<u>(41,016,640)</u>	<u>(1,441,366)</u>	<u>-</u>	<u>(42,458,006)</u>
	<u>(68,282,456)</u>	<u>(2,314,703)</u>	<u>140,553</u>	<u>(70,456,606)</u>
Governmental activities capital assets, net	\$ <u>21,406,027</u>	\$ <u>10,603,622</u>	\$ <u>(22,591)</u>	\$ <u>31,987,058</u>

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

General government	\$ 161,759
Land and natural resources	20,352
Education	265,107
Health services	151,467
Public safety	174,013
Public works and transportation	<u>1,542,005</u>
	<u>\$ 2,314,703</u>

Discretely Presented Component Units:

	Balance October <u>1, 2013</u>	<u>Additions</u>	<u>Retirements</u>	Balance September <u>30, 2014</u>
Depreciable assets:				
Buildings	\$ 15,295,494	\$ 338,704	\$ -	\$ 15,634,198
Utility plant	60,660,930	2,739,096	(4,439,247)	58,960,779
Machinery, equipment and others	<u>7,257,705</u>	<u>259,691</u>	<u>-</u>	<u>7,517,396</u>
Total capital assets, being depreciated	83,214,129	3,337,491	(4,439,247)	82,112,373
Less accumulated depreciation	<u>(55,557,566)</u>	<u>(2,872,953)</u>	<u>3,402,741</u>	<u>(55,027,778)</u>
	<u>27,656,563</u>	<u>464,538</u>	<u>(1,036,506)</u>	<u>27,084,595</u>
Nondepreciable assets:				
Land	2,776,034	-	-	2,776,034
Construction work-in-progress	<u>8,036,007</u>	<u>418,006</u>	<u>(1,018,858)</u>	<u>7,435,155</u>
	<u>10,812,041</u>	<u>418,006</u>	<u>(1,018,858)</u>	<u>10,211,189</u>
	\$ <u>38,468,604</u>	\$ <u>882,544</u>	\$ <u>(2,055,364)</u>	\$ <u>37,295,784</u>

**STATE OF POHNPEI  
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Notes to Financial Statements  
September 30, 2014

**(6) Short-term Debt**

Discretely Presented Component Units:

Pohnpei Utilities Corporation (PUC)

Line of credit with a bank in the original amount of \$190,000, interest at 2.5% over the TCD rate (3% per annum at September 30, 2014), collateralized by a time certificate of deposit (TCD) with the bank, and expires on June 22, 2015.

Short-term activity for the year ended September 30, 2014, was as follows:

	Balance October 1, <u>2013</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2014</u>
Note payable:				
PUC	\$ <u>190,000</u>	\$ <u>      -</u>	\$ <u>(869)</u>	\$ <u>189,131</u>

**(7) Long-Term Obligations**

Primary Government:

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

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

Funds for the repayment of the ADB loan are expected to be derived from the annual appropriations for salaries and wages earmarked for the positions abolished under the Early Retirement Scheme. The Financing Agreement requires the State to continue to appropriate salaries for the abolished positions and deposit the appropriate funds into the ERS Trust Account. These funds had not been deposited to the Trust Account as of September 30, 2002. Of the required \$4,200,000 identified for future debt service payments, \$4,034,461 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, 2014, the balance payable on this loan amounted to \$4,184,695.

**STATE OF POHNPEI  
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Notes to Financial Statements  
September 30, 2014

(7) Long-Term Obligations, Continued

The State also entered into an agreement with the FSM National Government to borrow a portion of the proceeds of the FSM National Government Program Loans with 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, 2014, the balances payable on these loans amounted to \$417,703 and \$733,341, 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>
2015	\$ 171,243	\$ 59,110	\$ 230,353
2016	171,243	57,028	228,271
2017	171,243	54,946	226,189
2018	268,567	50,917	319,484
2019	268,567	49,808	318,375
2020-2022	1,342,835	203,212	1,546,047
2023-2027	1,215,746	129,282	1,345,028
2028-2034	1,142,606	65,431	1,208,037
2035-2037	<u>583,689</u>	<u>11,671</u>	<u>595,360</u>
	<u>\$ 5,335,739</u>	<u>\$ 681,405</u>	<u>\$ 6,017,144</u>

Discretely Presented Component Units:

Pohnpei Utilities Corporation (PUC)

Loan payable to the State, facilitated by an ADB loan (Loan Number 1459-FSM) to the FSM National Government; original amount of \$2,413,487. Repayments as allocated by the FSM National Government indicates annual principal payment of \$56,498 through FY2016 and \$113,083 for FY2017 through FY2036, including interest at 1.0% per annum. \$ 2,377,669

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. 521,890

Loan payable to bank, original amount of \$773,122, 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, upon which the loan was refinanced for another 5 years maturing on November 30, 2018, with essentially the same terms. 390,186

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Notes to Financial Statements  
September 30, 2014

(7) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued:

Pohnpei Utilities Corporation (PUC), Continued

Loan payable to FSM Development Bank (FSMDB), original amount of \$481,701, interest at 9% per annum and monthly installment of \$10,379. In August 2011, the loan was refinanced to increase borrowing by \$310,950, which was used in operations. Interest remains fixed at 9% per annum, with monthly principal and interest installments of \$9,807 beginning on December 25, 2011 and matures on November 25, 2016. The loan is also secured by PUC's TCD for \$150,000. 236,833

Loan payable to the State, facilitated by an ADB loan (Loan Number 2099-FSM) to the FSM National Government, original amount of \$5,624,910. Repayments as allocated by FSMNG indicates annual principal payment of \$255,678 through FY2035, with interest payable at 1.0% per annum during the grace period and at 1.5% thereafter. Proceeds are used for infrastructure projects to overhaul sewage pumps, extend sewage lines, and for treatment plants. 5,114,941

Loan payable to the State, facilitated by an ADB loan (Loan Number 2100-FSM) to the FSM National Government, original amount of \$1,445,549, principal due in semi-annual installments of varying amounts as a percentage of total drawings through 2029. Interest is payable at LIBOR plus 0.6% (effective of 0.88% at September 30, 2014). Proceeds are used for infrastructure projects to overhaul sewage pumps, extend sewage lines, and for treatment plants. 1,277,906

Loan payable to bank in the original amount of \$140,000, interest at 2% per annum, with principal and interest payable commencing May 30, 2012 in monthly installments of \$3,039 through April 30, 2016, collateralized by a savings account of \$140,000. 56,790

\$ 9,976,215

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 581,804	\$ 97,602	\$ 679,406
2016	597,306	159,008	756,314
2017	548,612	138,441	687,053
2018	549,130	123,220	672,350
2019	457,819	111,156	568,975
2020-2024	2,347,983	473,317	2,821,300
2025-2029	2,475,222	334,393	2,809,615
2030-2034	1,935,365	191,820	2,127,185
2035-2039	345,193	48,002	393,195
2040-2044	<u>137,781</u>	<u>15,752</u>	<u>153,533</u>
	<u>\$ 9,976,215</u>	<u>\$ 1,692,711</u>	<u>\$ 11,668,926</u>

**STATE OF POHNPEI  
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Notes to Financial Statements  
September 30, 2014

**(8) Change in Long-Term Obligations**

Primary Government:

Long-term liabilities will be liquidated in the future from governmental funds. During the year ended September 30, 2014, the following changes occurred in liabilities reported as part of the primary government's long-term liabilities in the statement of net position:

	Balance October 1, 2013	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2014	Due Within One Year
Loans payable:					
ADB loans:					
Loan 1520	\$ 4,277,765	\$ -	\$ (93,070)	\$ 4,184,695	\$ 97,325
Loan 1873	455,407	-	(37,704)	417,703	36,319
Loan 1874	<u>757,855</u>	<u>-</u>	<u>(24,514)</u>	<u>733,341</u>	<u>37,599</u>
	5,491,027	-	(155,288)	5,335,739	171,243
Other:					
Compensated absences	681,519	58,522	-	740,041	740,041
Claims	<u>210,968</u>	<u>-</u>	<u>-</u>	<u>210,968</u>	<u>-</u>
	<u>\$ 6,383,514</u>	<u>\$ 58,522</u>	<u>\$ (155,288)</u>	<u>\$ 6,286,748</u>	<u>\$ 911,284</u>

Discretely Presented Component Units:

During the year ended September 30, 2014, the following changes occurred in long-term obligations of the discretely presented component units:

	Balance October 1, 2013	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2014	Due Within One Year
Loans payable:					
Pohnpei Utilities Corporation	\$ <u>10,377,678</u>	\$ <u>251,861</u>	\$ <u>(653,324)</u>	\$ <u>9,976,215</u>	\$ <u>581,804</u>

**(9) Contingencies and Commitments**

**Sick Leave**

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

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2014

(9) Contingencies and Commitments, Continued

Encumbrances

The State utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2014, the State has significant encumbrances summarized as follows:

	<u>General</u>	<u>Grants Assistance</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Encumbrances	\$ <u>155,238</u>	\$ <u>1,369,047</u>	\$ <u>436,461</u>	\$ <u>1,960,746</u>

Federal Grants

The State participates in a number of federally assisted grant programs and other various U.S. Department of the Interior grants. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs have been set forth in the State's Single Audit Report for the year ended September 30, 2014. In addition, the State is considered to have responsibility for any questioned costs that may result from Single Audits of subgrantees who have not satisfied the audit requirements of OMB Circular A-133. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

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

Loan Guarantees

As discussed in Note 1K, if after exhaustive efforts between Pohnpei State Housing Authority (the 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.

The Authority's management is of the opinion that the primary government will become ultimately liable for such defaulted liabilities to USDA Rural Development. Therefore, such loans and related liability are not recorded by 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.

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Notes to Financial Statements  
September 30, 2014

(9) Contingencies and Commitments, Continued

Litigation

The State is party to several legal proceedings arising from governmental operations. Claims are filed with the State's Attorney General. Approved claims are usually paid under general appropriations to the affected government agency. The State Attorney General is of the opinion that the probable outcome of suits existing at September 30, 2014, is not predictable but could have a material impact on the accompanying financial statements. Such impact has currently been estimated to approximate \$210,968.

Insurance Coverage

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

Other

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

(10) Self-Insurance Fund - Component Units

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

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

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

**STATE OF POHNPEI  
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Notes to Financial Statements  
September 30, 2014

**(11) Fund Balance**

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

	<u>General Fund</u>	<u>Grants Assistance Fund</u>	<u>Compact Trust Fund</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
Non-spendable:					
General government	\$ 96,542	\$ -	-	-	\$ 96,542
Economic development	-	-	-	35,368	35,368
Pacific Islands Development Bank	1,000,000	-	-	-	1,000,000
Bank of the FSM	500,000	-	-	-	500,000
Permanent fund principal	-	-	13,518,169	-	13,518,169
Restricted for:					
General government	-	130,196	-	-	130,196
Economic development	60,985	-	-	-	60,985
Debt service	4,034,461	-	-	-	4,034,461
USDA development loans	248,681	-	-	-	248,681
Education	-	14,609	-	-	14,609
Health services	105,510	4,787	-	-	110,297
Infrastructure maintenance	-	18,969	-	-	18,969
Committed:					
General government	148,716	-	-	943,293	1,092,009
Economic development	-	-	-	99,945	99,945
Health services	-	-	-	1,139,078	1,139,078
Assigned	155,328	-	-	386,650	542,978
Unassigned	<u>772,571</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>772,571</u>
	<u>\$ 7,122,794</u>	<u>\$ 168,561</u>	<u>\$ 13,518,169</u>	<u>\$ 2,605,334</u>	<u>\$ 23,414,858</u>

**(12) Budgetary Compliance**

For the year ended September 30, 2014, over-expenditures exceeded appropriations within the General Fund for the following:

Department of Treasury and Administration	\$ 310,631
Division of Police and Security	\$ 185,161
Division of Correction and Rehabilitation	\$ 21,268
Office of Attorney General	\$ 50,990
Pohnpei Housing Authority	\$ 22,818
Sports facilities	\$ 162,296
Nanpalap Road	\$ 24,284
Debt service	\$ 155,288
CFSM Grants Fund	\$ 280,375

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

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2014

**(13) 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, 2014 (FSMDB fiscal year end), the outstanding fund balance aggregated \$0.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

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

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**YEAR ENDED SEPTEMBER 30, 2014**

**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, 2014

	Budgeted Amounts		Actual - Budgetary	Variance with Final Budget -
	Original	Final	Basis (see Note 1)	
Revenues:				
Grants	\$ 95,000	\$ 95,000	\$ 162,778	\$ 67,778
FSM revenue sharing	7,024,558	7,024,558	6,474,623	(549,935)
State taxes	2,502,251	2,502,251	2,153,419	(348,832)
Fees and charges	251,672	251,672	393,920	142,248
Net change in the fair value of investments	300,000	300,000	1,140,777	840,777
Other	122,430	122,430	29,135	(93,295)
Total revenues	10,200,911	10,200,911	10,354,652	58,741
Expenditures:				
Current:				
General government	3,634,877	3,632,882	3,893,412	(260,530)
Department of Land and Natural Resources	502,149	507,524	502,932	4,592
Department of Education	71,281	71,281	69,417	1,864
Department of Health Services	49,600	49,600	49,365	235
Department of Public Safety	1,237,530	1,237,530	1,387,084	(149,554)
Office of the Attorney-General	412,520	426,116	477,106	(50,990)
Department of Public Works	584,367	584,367	513,012	71,355
Boards, Commissions and Other	1,122,542	1,127,986	1,126,018	1,968
Payments to Non-governmental Agencies	323,774	344,774	516,482	(171,708)
Grants to local governments	2,422,301	2,422,301	2,402,415	19,886
Debt service	-	-	155,288	(155,288)
Total expenditures	10,360,941	10,404,361	11,092,531	(688,170)
Deficiency of revenues over expenditures	(160,030)	(203,450)	(737,879)	(629,429)
Other financing uses:				
Operating transfers out	-	-	(280,375)	(287,445)
Net change in fund balance	(160,030)	(203,450)	(1,018,254)	(916,874)
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	-	-	155,238	155,238
	(160,030)	(203,450)	(863,016)	(761,636)
Fund balance at the beginning of the year	7,985,810	7,985,810	7,985,810	-
Fund balance at the end of the year	\$ 7,825,780	\$ 7,782,360	\$ 7,122,794	\$ (761,636)

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, 2014

(1) Budgetary Information

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

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

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

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

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**OTHER SUPPLEMENTARY INFORMATION**

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**YEAR ENDED SEPTEMBER 30, 2014**

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Combining Schedule of Expenditures by Account  
Governmental Funds  
Year Ended September 30, 2014

	General	Special Revenue	Permanent	Other	Total
		Grants Assistance	Compact Trust	Governmental Funds	
Expenditures:					
Salaries and wages					
Regular	\$ 4,598,711	\$ 9,865,701	\$ -	\$ 63,428	\$ 14,527,840
Overtime	185,374	191,780	-	85	377,239
Fringe benefits	964,056	2,249,864	-	5,591	3,219,511
Travel and transportation	239,304	381,726	-	14,468	635,498
Books and instructional materials	-	621,312	-	-	621,312
Communications	107,632	147,534	-	4,722	259,888
Dues, membership, and subscriptions	16,235	4,682	-	-	20,917
Food stuffs	136,580	544,950	-	70,962	752,492
Freight and port charges	673	16,380	-	80,711	97,764
Non-capitalized equipment	29,278	51,636	-	4,491	85,405
Capital outlays	62,312	815,418	-	157,617	1,035,347
Office supplies and materials	283,955	758,897	-	335,159	1,378,011
POL	159,615	230,553	-	12,797	402,965
Printing and reproduction	16,008	72,085	-	2,968	91,061
Rental services	5,190	58,499	-	268	63,957
Repairs and maintenance	35,013	83,065	-	4,376	122,454
Utilities	365,355	1,018,935	-	59,560	1,443,850
Miscellaneous goods and services	125,308	86,529	-	138,201	350,038
Subsidies and contributions	230,216	-	-	-	230,216
Medical referrals	-	6,895	-	-	6,895
Medical supplies	-	1,175,062	-	505,723	1,680,785
Contractual services	299,997	1,246,061	-	1,671,667	3,217,725
Housing allowance	46,290	115,163	-	-	161,453
Non-payroll compensation	120	179,242	-	-	179,362
Court settlements	94,084	-	-	-	94,084
Scholarships and allowances	-	226,361	-	1,000	227,361
Insurance	32,105	-	-	-	32,105
Official allowance	115,630	-	-	-	115,630
Meeting allowance	5,999	15,050	-	3,140	24,189
Leased housing, buildings and land	2,618	-	-	-	2,618
Principal repayment	155,288	-	-	-	155,288
Payments to municipalities	2,402,415	317,882	-	-	2,720,297
Bad debts	203,481	-	-	-	203,481
Bank charges	75	19,737	-	-	19,812
Miscellaneous	18,376	-	-	-	18,376
	<u>\$ 10,937,293</u>	<u>\$ 20,500,999</u>	<u>\$ -</u>	<u>\$ 3,136,934</u>	<u>\$ 34,575,226</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, 2014  
(with comparative totals for the year ended September 30, 2013)

	<u>2014</u>	<u>2013</u>
Revenues:		
CFSM grants	\$ 162,778	\$ 137,222
FSM revenue sharing:		
Gross revenue taxes	2,402,711	2,265,569
Import taxes	1,567,732	1,668,273
Income taxes	2,194,761	2,069,793
Other taxes	309,419	288,571
	<u>6,474,623</u>	<u>6,292,206</u>
State taxes:		
Sales tax	2,072,223	2,093,832
Hotel tax	81,196	90,301
	<u>2,153,419</u>	<u>2,184,133</u>
Fees and charges:		
Licenses and fees:	393,920	417,031
Net change in the fair value of investments	1,140,777	1,319,485
Other revenues	29,135	778,756
Total revenues	<u>10,354,652</u>	<u>11,128,833</u>
Expenditures:		
Current:		
General government:		
Governor and Staff	463,306	487,954
Department of Treasury and Administration	884,802	1,161,833
Office of Pohnpei Public Auditor	11,313	1,699
Judiciary Branch	661,130	728,008
Legislative Branch	1,773,900	1,798,523
	<u>3,794,451</u>	<u>4,178,017</u>
Department of Land and Natural Resources:		
Office of the Director	90,020	85,153
Divison of Public Land	17,950	14,638
Land Use Planning and Zoning Commission	-	920
Division of Surveying and Mapping	193,552	184,270
Division of Forestry and Marine Conservation	78,678	73,827
Division of Historic Preservation	48,945	50,880
Division of Parks and Recreation	71,204	67,479
	<u>500,349</u>	<u>477,167</u>
Department of Education:		
Division of Primary Education	68,454	2,318
Department of Health:		
Medical services	49,365	40,580
Department of Public Safety:		
Office of the Director	87,594	81,274
Search and Rescue	3,423	1,383
Fish & Wildlife	132,375	105,039
Police Commission	24,757	25,720
Division of Police and Security	859,066	744,547
Division of Correction and Rehabilitation	256,699	220,102
	<u>1,363,914</u>	<u>1,178,065</u>
Office of the Attorney-General	467,272	435,492
Public Works	502,844	653,000

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, 2014  
(with comparative totals for the year ended September 30, 2013)

	<u>2014</u>	<u>2013</u>
Expenditures, continued:		
Current:		
Boards, Commissions and Other:		
Office of Economic Affairs	263,763	309,326
Office of Social Affairs	100,842	99,739
Election Commissioner's Office	51,010	51,671
Pohnpei Public Broadcasting Corporation	132,296	123,747
Foreign Investment Board	36,679	41,780
Pohnpei Housing Authority	137,636	117,105
Sports and Recreation	130,566	139,881
Office of Fisheries and Aquaculture	260,976	206,304
Environmental Protection Agency	3,810	6,160
	<u>1,117,578</u>	<u>1,095,713</u>
Payments to Non-governmental Agencies:		
Small Business Guarantee and Finance Corporation	94,000	90,000
Pohnpei Public Library	54,523	58,000
Micronesia Legal Services Corporation	54,445	57,920
U.S.D.A. Rural Development	93,766	92,341
Pohnpei Visitors' Bureau	31,427	65,082
Pahap Power Extension	22,050	-
Small Business Development	-	25,000
Sport Facilities	162,296	-
Other	2,856	463
	<u>515,363</u>	<u>388,806</u>
Grants to local governments	<u>2,402,415</u>	<u>2,409,942</u>
Debt Service:		
Principal payments	155,288	152,510
Interest charges	-	67,857
	<u>155,288</u>	<u>220,367</u>
Total expenditures	<u>10,937,293</u>	<u>11,079,467</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(582,641)</u>	<u>49,366</u>
Other financing uses:		
Operating transfers out	<u>(280,375)</u>	<u>(287,445)</u>
Net change in fund balance	(863,016)	(238,079)
Fund balance at the beginning of the year	<u>7,985,810</u>	<u>8,223,889</u>
Fund balance at the end of the year	<u>\$ 7,122,794</u>	<u>\$ 7,985,810</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, 2014

	Budgeted Amounts		Actual - Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
CFSM grants	\$ 95,000	\$ 95,000	\$ 162,778	\$ 67,778
FSM revenue sharing	7,024,558	7,024,558	6,474,623	(549,935)
State taxes:				
Sales tax	2,417,083	2,417,083	2,072,223	(344,860)
Hotel tax	85,168	85,168	81,196	(3,972)
	<u>2,502,251</u>	<u>2,502,251</u>	<u>2,153,419</u>	<u>(348,832)</u>
Fees and charges:				
Licenses and fees	251,672	251,672	393,920	142,248
Net change in the fair value of investments	300,000	300,000	1,140,777	840,777
Other	122,430	122,430	29,135	(93,295)
Total revenues	<u>10,295,911</u>	<u>10,295,911</u>	<u>10,354,652</u>	<u>58,741</u>
Expenditures:				
Current:				
General government:				
Governor and Staff	501,473	518,678	516,735	1,943
Department of Treasury and Administration	587,642	587,642	898,273	(310,631)
Office of the Pohnpei Public Auditor	12,988	12,988	11,313	1,675
Judiciary Branch	697,381	678,181	676,965	1,216
Legislative Branch	1,835,393	1,835,393	1,790,126	45,267
	<u>3,634,877</u>	<u>3,632,882</u>	<u>3,893,412</u>	<u>(260,530)</u>
Department of Land and Natural Resources:				
Office of the Director	90,229	90,229	90,390	(161)
Division of Public Land	21,335	21,335	17,950	3,385
Division of Surveying and Mapping	191,957	191,957	192,994	(1,037)
Division of Forestry and Marine Conservation	76,800	82,175	80,847	1,328
Division of Historic Preservation	49,861	49,861	49,189	672
Division of Parks and Recreation	71,967	71,967	71,562	405
	<u>502,149</u>	<u>507,524</u>	<u>502,932</u>	<u>4,592</u>
Department of Education:				
Division of Primary Education	71,281	71,281	69,417	1,864
Department of Health Services:				
Division of Medical Services	49,600	49,600	49,365	235
Department of Public Safety:				
Office of the Director	157,051	157,051	99,958	57,093
Search and Rescue	4,000	4,000	3,423	577
Police Commission	24,794	24,794	27,788	(2,994)
Division of Police and Security	675,209	675,209	860,370	(185,161)
Division of Correction and Rehabilitation	236,110	236,110	257,378	(21,268)
Fish and Wildlife	139,776	139,776	138,167	1,609
Hazard Mitigation Project	590	590	-	590
	<u>1,237,530</u>	<u>1,237,530</u>	<u>1,387,084</u>	<u>(149,554)</u>
Office of the Attorney-General	412,520	426,116	477,106	(50,990)
Department of Public Works:				
Office of Transportation and Infrastructure	584,367	584,367	513,012	71,355

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures by Function and Changes in Fund Balance, Continuation  
Budget and Actual - General Fund  
Year Ended September 30, 2014

	Budgeted Amounts		Actual - Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final Budget		
Expenditures, continued:				
Boards, Commissions and Other:				
Office of Economic Affairs	301,438	301,438	267,511	33,927
Office of Social Affairs	100,245	100,245	100,844	(599)
Election Commissioner's Office	50,509	50,509	51,738	(1,229)
Pohnpei Public Broadcasting Corporation	126,860	126,860	132,521	(5,661)
Foreign Investment Board	57,584	6,881	38,865	(31,984)
Pohnpei Housing Authority	116,018	116,018	138,836	(22,818)
Sports & Recreation	144,224	144,224	130,837	13,387
Office of Fisheries and Aquaculture	225,664	281,811	261,056	20,755
Environmental Protection Agency	-	-	3,810	(3,810)
	<u>1,122,542</u>	<u>1,127,986</u>	<u>1,126,018</u>	<u>1,968</u>
Payments to Non-Governmental Agencies:				
Small Business Guarantee and Finance Corporation				
Pohnpei Public Library	94,000	94,000	94,000	-
Micronesian Legal Services Corporation	54,523	54,523	54,523	-
U.S.D.A. Rural Development	54,445	54,445	54,445	-
Pohnpei Visitors Bureau	92,415	92,415	93,766	(1,351)
Traditional Leaders Conference	3,269	24,269	32,546	(8,277)
Sports Facilities	24,500	24,500	-	24,500
Other	-	-	162,296	(162,296)
	<u>622</u>	<u>622</u>	<u>24,906</u>	<u>(24,284)</u>
	<u>323,774</u>	<u>344,774</u>	<u>516,482</u>	<u>(171,708)</u>
Grants to local governments	<u>2,422,301</u>	<u>2,422,301</u>	<u>2,402,415</u>	<u>19,886</u>
Debt service:				
Principal repayment	-	-	155,288	(155,288)
Total expenditures	<u>10,360,941</u>	<u>10,404,361</u>	<u>11,092,531</u>	<u>(688,170)</u>
Deficiency of revenues under expenditures	(65,030)	(108,450)	(737,879)	(629,429)
Other financing uses:				
Operating transfers out	-	-	(280,375)	(287,445)
Net change in fund balance	(65,030)	(108,450)	(1,018,254)	(916,874)
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				
	-	-	155,238	155,238
	(65,030)	(108,450)	(863,016)	(761,636)
Fund balance at the beginning of the year	<u>7,985,810</u>	<u>7,985,810</u>	<u>7,985,810</u>	<u>-</u>
Fund balance at the end of the year	<u>\$ 7,920,780</u>	<u>\$ 7,877,360</u>	<u>\$ 7,122,794</u>	<u>\$ (761,636)</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS**

Combining Balance Sheet  
September 30, 2014

	26	27	29	32	33	34	35	36	37	38	18	87	Total
	Alien Registration Revolving	Pohnpei State Farmers' Revolving	Fisheries Enforcement and Development	Recycling Revolving	Paved Road Maintenance	Medical Supplies Revolving	Public Broadcasting Corporation	Health Care Premium	Department of Public Safety Fees	Environmental Quality	Infrastructure Maintenance	Public Lands Trust	
<b><u>ASSETS</u></b>													
Due from other funds	\$ 91,735	\$ -	\$ 118,886	\$ 26,001	\$ 1,055,862	\$ 162,775	\$ 5,543	\$ 1,132,891	\$ 3,230	\$ -	\$ 394,518	\$ 119,727	\$ 3,111,168
Advances	-	-	4,421	-	-	-	-	-	-	2,347	1,000	-	7,768
Inventories	-	29,947	-	-	-	-	-	-	-	-	-	-	29,947
Total assets	<u>\$ 91,735</u>	<u>\$ 29,947</u>	<u>\$ 123,307</u>	<u>\$ 26,001</u>	<u>\$ 1,055,862</u>	<u>\$ 162,775</u>	<u>\$ 5,543</u>	<u>\$ 1,132,891</u>	<u>\$ 3,230</u>	<u>\$ 2,347</u>	<u>\$ 395,518</u>	<u>\$ 119,727</u>	<u>\$ 3,148,883</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>													
Liabilities:													
Accounts payable	\$ -	\$ 14,009	\$ 9,559	\$ 6,932	\$ 200	\$ 76,140	\$ -	\$ 2,385	\$ 3,230	\$ -	\$ -	\$ 1,706	\$ 114,161
Other liabilities and accruals	-	-	-	18,376	-	-	-	-	-	-	-	2,178	20,554
Unearned revenues	-	-	-	-	-	-	-	-	-	-	395,518	-	395,518
Due to other funds	-	10,969	-	-	-	-	-	-	-	2,347	-	-	13,316
Total liabilities	<u>-</u>	<u>24,978</u>	<u>9,559</u>	<u>25,308</u>	<u>200</u>	<u>76,140</u>	<u>-</u>	<u>2,385</u>	<u>3,230</u>	<u>2,347</u>	<u>395,518</u>	<u>3,884</u>	<u>543,549</u>
Fund balances:													
Non-spendable	-	29,947	4,421	-	-	-	-	-	-	-	1,000	-	35,368
Committed	91,735	-	99,945	655	734,277	54,867	5,303	1,084,211	21,094	-	-	90,229	2,182,316
Assigned	-	(24,978)	9,382	38	321,385	31,768	240	46,295	(21,094)	-	(1,000)	25,614	387,650
Total fund balances	<u>91,735</u>	<u>4,969</u>	<u>113,748</u>	<u>693</u>	<u>1,055,662</u>	<u>86,635</u>	<u>5,543</u>	<u>1,130,506</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>115,843</u>	<u>2,605,334</u>
Total liabilities and fund balances	<u>\$ 91,735</u>	<u>\$ 29,947</u>	<u>\$ 123,307</u>	<u>\$ 26,001</u>	<u>\$ 1,055,862</u>	<u>\$ 162,775</u>	<u>\$ 5,543</u>	<u>\$ 1,132,891</u>	<u>\$ 3,230</u>	<u>\$ 2,347</u>	<u>\$ 395,518</u>	<u>\$ 119,727</u>	<u>\$ 3,148,883</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, 2014

	26	27	29	32	33	34	35	36	37	38	18	87	Total
	Alien Registration Revolving	Pohnpei State Farmers' Revolving	Fisheries Enforcement and Development	Recycling Revolving	Paved Road Maintenance	Medical Supplies Revolving	Public Broadcasting Corporation	Health Care Premium	Department of Public Safety Fees	Environmental Quality	Infrastructure Maintenance	Public Lands Trust	Total
Revenues:													
Compact funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 154,838	\$ -	\$ 154,838
Excise tax	-	-	-	-	413,908	-	-	-	-	-	-	-	413,908
Fees and charges	55,450	41,000	-	262,739	-	535,985	19,600	59,069	47,968	-	-	55,657	1,077,468
Total revenues	<u>55,450</u>	<u>41,000</u>	<u>-</u>	<u>262,739</u>	<u>413,908</u>	<u>535,985</u>	<u>19,600</u>	<u>59,069</u>	<u>47,968</u>	<u>-</u>	<u>154,838</u>	<u>55,657</u>	<u>1,646,214</u>
Expenditures by function:													
Current:													
General government	1,000	72,847	88,579	262,046	1,013,996	-	19,740	-	47,968	-	154,838	56,441	1,717,455
Health services	-	-	-	-	-	581,421	-	838,058	-	-	-	-	1,419,479
Total expenditures	<u>1,000</u>	<u>72,847</u>	<u>88,579</u>	<u>262,046</u>	<u>1,013,996</u>	<u>581,421</u>	<u>19,740</u>	<u>838,058</u>	<u>47,968</u>	<u>-</u>	<u>154,838</u>	<u>56,441</u>	<u>3,136,934</u>
Net change in fund balances	54,450	(31,847)	(88,579)	693	(600,088)	(45,436)	(140)	(778,989)	-	-	-	(784)	(1,490,720)
Fund balances at the beginning of the year	<u>37,285</u>	<u>36,816</u>	<u>202,327</u>	<u>-</u>	<u>1,655,750</u>	<u>132,071</u>	<u>5,683</u>	<u>1,909,495</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>116,627</u>	<u>4,096,054</u>
Fund balances at the end of the year	<u>\$ 91,735</u>	<u>\$ 4,969</u>	<u>\$ 113,748</u>	<u>\$ 693</u>	<u>\$ 1,055,662</u>	<u>\$ 86,635</u>	<u>\$ 5,543</u>	<u>\$ 1,130,506</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 115,843</u>	<u>\$ 2,605,334</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, 2014

	26	27	29	32	33	34	35	36	37	38	18	87	Total
	Alien Registration Revolving	Pohnpei State Farmers' Revolving	Fisheries Enforcement and Development	Recycling Revolving	Paved Road Maintenance	Medical Supplies Revolving	Public Broadcasting Corporation	Health Care Premium	Department of Public Safety Fees	Environmental Quality	Infrastructure Maintenance	Public Lands Trust	Total
Revenues:													
Compact funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 154,838	\$ -	\$ 154,838
Excise tax	-	-	-	-	413,908	-	-	-	-	-	-	-	413,908
Fees and charges	55,450	41,000	-	262,739	-	535,985	19,600	59,069	47,968	-	-	55,657	1,077,468
<b>Total revenues</b>	<b>55,450</b>	<b>41,000</b>	<b>-</b>	<b>262,739</b>	<b>413,908</b>	<b>535,985</b>	<b>19,600</b>	<b>59,069</b>	<b>47,968</b>	<b>-</b>	<b>154,838</b>	<b>55,657</b>	<b>1,646,214</b>
Expenditures by account:													
Salaries and wages:													
Regular	-	-	-	-	-	-	-	-	22,039	-	-	41,389	63,428
Overtime	-	-	-	-	-	-	-	-	-	-	-	85	85
Fringe benefits	-	-	-	-	-	-	-	-	-	-	-	5,591	5,591
Travel	-	-	10,052	3,347	-	-	350	719	-	-	-	-	14,468
Communications	-	1,208	3,514	-	-	-	-	-	-	-	-	-	4,722
Food stuff	-	-	1,345	-	-	-	-	69,617	-	-	-	-	70,962
Freight and port charges	-	839	1,590	2,522	5,762	69,998	-	-	-	-	-	-	80,711
Non-capitalized equipment	-	-	1,500	-	-	-	-	-	2,540	-	-	451	4,491
Capital outlay	-	5,180	-	5,996	144,131	-	-	2,310	-	-	-	-	157,617
Office supplies and materials	-	48,680	13,443	114,056	-	5,700	-	144,190	3,995	-	-	5,095	335,159
POL	-	7,458	5,239	100	-	-	-	-	-	-	-	-	12,797
Printing and reproduction	-	184	2,579	-	-	-	-	-	-	-	-	205	2,968
Rental	-	203	65	-	-	-	-	-	-	-	-	-	268
Repairs and maintenance	-	1,666	1,070	-	-	-	-	-	1,095	-	-	545	4,376
Utilities	-	1,179	25,155	-	-	-	15,156	1,847	16,223	-	-	-	59,560
Miscellaneous goods and services	-	100	-	136,025	-	-	-	-	2,076	-	-	-	138,201
Medical supplies	-	-	-	-	-	505,723	-	-	-	-	-	-	505,723
Contractual services	-	6,150	23,027	-	864,103	-	4,174	619,375	-	-	154,838	-	1,671,667
Scholarships and allowances	1,000	-	-	-	-	-	-	-	-	-	-	-	1,000
Meeting allowance	-	-	-	-	-	-	60	-	-	-	-	3,080	3,140
<b>Total expenditures</b>	<b>1,000</b>	<b>72,847</b>	<b>88,579</b>	<b>262,046</b>	<b>1,013,996</b>	<b>581,421</b>	<b>19,740</b>	<b>838,058</b>	<b>47,968</b>	<b>-</b>	<b>154,838</b>	<b>56,441</b>	<b>3,136,934</b>
<b>Net change in fund balances</b>	<b>54,450</b>	<b>(31,847)</b>	<b>(88,579)</b>	<b>693</b>	<b>(600,088)</b>	<b>(45,436)</b>	<b>(140)</b>	<b>(778,989)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(784)</b>	<b>(1,490,720)</b>
Fund balances at the beginning of the year	37,285	36,816	202,327	-	1,655,750	132,071	5,683	1,909,495	-	-	-	116,627	4,096,054
Fund balances at the end of the year	\$ 91,735	\$ 4,969	\$ 113,748	\$ 693	\$ 1,055,662	\$ 86,635	\$ 5,543	\$ 1,130,506	\$ -	\$ -	\$ -	\$ 115,843	\$ 2,605,334

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**GRANTS ASSISTANCE FUNDS**

**Combining Balance Sheet  
September 30, 2014**

	<b>10</b>	<b>11</b>	<b>12</b>	<b>13</b>	<b>14</b>	<b>15</b>	<b>16</b>	<b>19</b>	<b>6</b>	<b>7</b>	<b>20</b>	<b>23</b>	<b>25</b>	
	Section 211(a)(1) Education Sector	Section 211(a)(2) Health Sector	Section 211(a)(5) Environment	Section 211(a)(3) Private Sector Development	Section 211(a)(4) Capacity Building	Section 211(a)(1) Supplemental Education	Enhanced Reporting Accountability	Infrastructure Maintenance	Section 221(b) Special Block Grant	Compact I Other Grants	U.S. Federal Grants	Non-U.S. Grants	CFSM Grants	Total
<b>ASSETS</b>														
Receivables:														
Due from FSM National Government	\$ -	\$ -	\$ 79,631	\$ -	\$ -	\$ 336,117	\$ 4,085	\$ 306,577	\$ -	\$ -	\$ 245,299	\$ 8,750	503,119	\$ 1,483,578
Other	-	-	-	-	-	-	-	-	-	-	-	-	3,928	3,928
Due from other funds	1,240,540	1,107,820	-	87,897	170,176	-	23,517	-	44,188	35,588	-	123,514	-	2,833,240
Advances	11,130	4,325	288	1,760	40,826	10,253	-	-	-	-	22,529	3,958	6,295	101,364
Restricted cash	-	7,700	-	-	-	-	-	-	-	-	-	-	-	7,700
	<u>\$ 1,251,670</u>	<u>\$ 1,119,845</u>	<u>\$ 79,919</u>	<u>\$ 89,657</u>	<u>\$ 211,002</u>	<u>\$ 346,370</u>	<u>\$ 27,602</u>	<u>\$ 306,577</u>	<u>\$ 44,188</u>	<u>\$ 35,588</u>	<u>\$ 267,828</u>	<u>\$ 136,222</u>	<u>\$ 513,342</u>	<u>\$ 4,429,810</u>
<b>LIABILITIES AND FUND BALANCES</b>														
Liabilities:														
Accounts payable	\$ 86,268	\$ 213,877	\$ 669	\$ -	\$ 5,363	\$ 110,864	\$ 14,983	\$ -	\$ -	\$ -	\$ 31,009	\$ 27,865	\$ 13,950	\$ 504,848
Other liabilities and accruals	165,304	76,851	5,712	-	6,369	34,298	124	-	-	-	49,118	-	603	338,379
Unearned revenues	992,982	824,330	-	89,120	198,086	-	12,495	-	-	-	-	59,658	-	2,176,671
Due to other funds	-	-	73,538	-	-	193,715	-	287,608	-	-	187,701	-	498,789	1,241,351
Total liabilities	<u>1,244,554</u>	<u>1,115,058</u>	<u>79,919</u>	<u>89,120</u>	<u>209,818</u>	<u>338,877</u>	<u>27,602</u>	<u>287,608</u>	<u>-</u>	<u>-</u>	<u>267,828</u>	<u>87,523</u>	<u>513,342</u>	<u>4,261,249</u>
Fund balances:														
Restricted	7,116	4,787	-	537	1,184	7,493	-	18,969	44,188	35,588	-	48,699	-	168,561
Total fund balances	<u>7,116</u>	<u>4,787</u>	<u>-</u>	<u>537</u>	<u>1,184</u>	<u>7,493</u>	<u>-</u>	<u>18,969</u>	<u>44,188</u>	<u>35,588</u>	<u>-</u>	<u>48,699</u>	<u>-</u>	<u>168,561</u>
Total liabilities and fund balances	<u>\$ 1,251,670</u>	<u>\$ 1,119,845</u>	<u>\$ 79,919</u>	<u>\$ 89,657</u>	<u>\$ 211,002</u>	<u>\$ 346,370</u>	<u>\$ 27,602</u>	<u>\$ 306,577</u>	<u>\$ 44,188</u>	<u>\$ 35,588</u>	<u>\$ 267,828</u>	<u>\$ 136,222</u>	<u>\$ 513,342</u>	<u>\$ 4,429,810</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  
Year Ended September 30, 2014**

	<b>10</b>	<b>11</b>	<b>12</b>	<b>13</b>	<b>14</b>	<b>15</b>	<b>16</b>	<b>19</b>	<b>6</b>	<b>7</b>	<b>20</b>	<b>23</b>	<b>25</b>	
	Section 211(a)(1) Education Sector	Section 211(a)(2) Health Sector	Section 211(a)(5) Environment	Section 211(a)(3) Private Sector Development	Section 211(a)(4) Capacity Building	Section 211(a)(1) Supplemental Education	Enhanced Reporting Accountability	Infrastructure Maintenance	Section 221(b) Special Block Grant	Compact I Other Grants	U.S. Federal Grants	Non-U.S. Grants	CFSM Grants	Total
<b>Revenues:</b>														
Compact funding	\$ 7,459,356	\$ 5,115,005	\$ 306,577	\$ -	\$ 318,736	\$ 2,931,754	\$ 248,820	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16,380,248
CFSM grants	-	-	-	-	-	-	-	-	-	-	-	-	1,062,203	1,062,203
Federal contributions and other grants	-	-	-	-	-	-	-	-	-	-	2,452,221	12,442	-	2,464,663
Other	-	-	-	-	-	-	-	-	-	-	-	362,209	-	362,209
	<u>7,459,356</u>	<u>5,115,005</u>	<u>306,577</u>	<u>-</u>	<u>318,736</u>	<u>2,931,754</u>	<u>248,820</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,452,221</u>	<u>374,651</u>	<u>1,062,203</u>	<u>20,269,323</u>
<b>Expenditures by function:</b>														
<b>Current:</b>														
General government	-	-	306,577	-	318,736	-	248,820	-	-	-	51,416	325,952	1,342,578	2,594,079
Land and natural resources	-	-	-	-	-	-	-	-	-	-	184,406	-	-	184,406
Education	7,459,356	-	-	-	-	2,931,754	-	-	-	-	1,047,473	-	-	11,438,583
Health services	-	5,115,005	-	-	-	-	-	-	-	-	1,168,926	-	-	6,283,931
Total expenditures	<u>7,459,356</u>	<u>5,115,005</u>	<u>306,577</u>	<u>-</u>	<u>318,736</u>	<u>2,931,754</u>	<u>248,820</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,452,221</u>	<u>325,952</u>	<u>1,342,578</u>	<u>20,500,999</u>
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-	-	-	-	-	-	-	-	48,699	(280,375)	(231,676)
<b>Other financing sources:</b>														
Operating transfers in	-	-	-	-	-	-	-	-	-	-	-	-	280,375	280,375
Net change in fund balances	-	-	-	-	-	-	-	-	-	-	-	48,699	-	48,699
Fund balances at the beginning of the year	7,116	4,787	-	537	1,184	7,493	-	18,969	44,188	35,588	-	-	-	119,862
Fund balances at the end of the year	<u>\$ 7,116</u>	<u>\$ 4,787</u>	<u>\$ -</u>	<u>\$ 537</u>	<u>\$ 1,184</u>	<u>\$ 7,493</u>	<u>\$ -</u>	<u>\$ 18,969</u>	<u>\$ 44,188</u>	<u>\$ 35,588</u>	<u>\$ -</u>	<u>\$ 48,699</u>	<u>\$ -</u>	<u>\$ 168,561</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  
Year Ended September 30, 2014**

	<b>10</b>	<b>11</b>	<b>12</b>	<b>13</b>	<b>14</b>	<b>15</b>	<b>16</b>	<b>19</b>	<b>6</b>	<b>7</b>	<b>20</b>	<b>23</b>	<b>25</b>	
	Section 211(a)(1)	Section 211(a)(2)	Section 211(a)(5)	Section 211(a)(3)	Section 211(a)(4)	Section 211(a)(1)	Enhanced Reporting Accountability	Infrastructure Maintenance	Section 221(b)	Compact I Other Grants	U.S. Federal Grants	Non-U.S. Grants	CFSM Grants	Total
	Education Sector	Health Sector	Environment	Private Sector Development	Capacity Building	Supplemental Education			Special Block Grant					
<b>Revenues:</b>														
Compact funding	\$ 7,459,356	\$ 5,115,005	\$ 306,577	\$ -	\$ 318,736	\$ 2,931,754	\$ 248,820	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16,380,248
CFSM grants	-	-	-	-	-	-	-	-	-	-	-	-	1,062,203	1,062,203
Federal contributions and other grants	-	-	-	-	-	-	-	-	-	-	2,452,221	12,442	-	2,464,663
Other	-	-	-	-	-	-	-	-	-	-	-	362,209	-	362,209
	<u>7,459,356</u>	<u>5,115,005</u>	<u>306,577</u>	<u>-</u>	<u>318,736</u>	<u>2,931,754</u>	<u>248,820</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,452,221</u>	<u>374,651</u>	<u>1,062,203</u>	<u>20,269,323</u>
<b>Expenditures by account:</b>														
Salaries and wages:														
Regular	4,915,454	2,037,403	116,036	-	192,961	983,503	169,943	-	-	-	1,354,757	2,567	93,077	9,865,701
Overtime	-	76,060	873	-	-	133	169	-	-	-	55,561	16,205	42,779	191,780
Fringe benefits	1,147,604	401,991	28,465	-	31,423	257,963	37,127	-	-	-	322,467	2,238	20,586	2,249,864
Travel and transportation	10,079	74,573	-	-	23,986	68,314	-	-	-	-	152,782	17,241	34,751	381,726
Communications	22,244	14,491	4,682	-	4,934	87,641	1,549	-	-	-	10,603	366	1,024	147,534
Dues, membership, and subscriptions	-	650	-	-	2,472	1,560	-	-	-	-	-	-	-	4,682
Food stuffs	123,489	54,716	50	-	1,607	178,471	-	-	-	-	1,927	1,075	183,615	544,950
Freight and port charges	3,566	12,296	138	-	-	105	186	-	-	-	89	-	-	16,380
Non-capitalized equipment and furnitures	7,245	12,359	758	-	3,850	6,557	450	-	-	-	9,972	-	10,445	51,636
Capital outlays	437,317	19,414	-	-	-	217,785	11,667	-	-	-	19,442	109,793	-	815,418
Office supplies and materials	82,996	145,013	7,286	-	13,665	116,289	26,923	-	-	-	184,944	49,516	132,265	758,897
Books and instructional supplies	294,758	-	-	-	-	317,144	-	-	-	-	1,915	7,495	-	621,312
POL	68,548	24,410	5,695	-	1,419	59,777	-	-	-	-	67,315	2,816	573	230,553
Printing and reproduction	3,496	15,532	220	-	7,000	26,805	273	-	-	-	14,069	4,690	-	72,085
Rental services	1,735	8,649	-	-	74	2,126	-	-	-	-	42,291	2,404	1,220	58,499
Repairs and maintenance	30,798	1,376	554	-	2,836	26,290	696	-	-	-	5,726	793	13,996	83,065
Utilities	170,067	764,712	9,300	-	12,000	25,699	-	-	-	-	31,157	-	6,000	1,018,935
Medical referrals	-	6,895	-	-	-	-	-	-	-	-	-	-	-	6,895
Medical supplies	-	1,154,184	-	-	-	-	-	-	-	-	9,922	-	10,956	1,175,062
Contractual services	11,550	202,018	132,400	-	12,425	263,515	-	-	-	-	141,161	106,929	376,063	1,246,061
Scholarships and allowances	127,230	-	-	-	-	99,131	-	-	-	-	-	-	-	226,361
Housing allowance	600	81,600	-	-	7,900	19,063	-	-	-	-	6,000	-	-	115,163
Meeting allowance	580	1,480	120	-	-	-	-	-	-	-	12,360	510	-	15,050
Non-payroll compensation	-	5,183	-	-	-	172,679	-	-	-	-	1,380	-	-	179,242
Miscellaneous goods and services	-	-	-	-	184	1,204	-	-	-	-	6,381	1,314	77,446	86,529
Payment to municipalities	-	-	-	-	-	-	-	-	-	-	-	-	317,882	317,882
Bank charges	-	-	-	-	-	-	(163)	-	-	-	-	-	19,900	19,737
<b>Total expenditures</b>	<u>7,459,356</u>	<u>5,115,005</u>	<u>306,577</u>	<u>-</u>	<u>318,736</u>	<u>2,931,754</u>	<u>248,820</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,452,221</u>	<u>325,952</u>	<u>1,342,578</u>	<u>20,500,999</u>
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-	-	-	-	-	-	-	-	48,699	(280,375)	(231,676)
<b>Other financing sources:</b>														
Operating transfers in	-	-	-	-	-	-	-	-	-	-	-	-	280,375	280,375
Net change in fund balances	-	-	-	-	-	-	-	-	-	-	-	48,699	-	48,699
Fund balances at the beginning of the year	<u>7,116</u>	<u>4,787</u>	<u>-</u>	<u>537</u>	<u>1,184</u>	<u>7,493</u>	<u>-</u>	<u>18,969</u>	<u>44,188</u>	<u>35,588</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>119,862</u>
Fund balances at the end of the year	<u>\$ 7,116</u>	<u>\$ 4,787</u>	<u>\$ -</u>	<u>\$ 537</u>	<u>\$ 1,184</u>	<u>\$ 7,493</u>	<u>\$ -</u>	<u>\$ 18,969</u>	<u>\$ 44,188</u>	<u>\$ 35,588</u>	<u>\$ -</u>	<u>\$ 48,699</u>	<u>\$ -</u>	<u>\$ 168,561</u>

See Accompanying Independent Auditors' Report.

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

Honorable Marcelo Peterson  
Acting Governor, the State of Pohnpei  
Federated States of Micronesia:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Pohnpei as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the State of Pohnpei's basic financial statements, and have issued our report thereon dated June 26, 2015. Our report includes a reference to other auditors. 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 of the financial statements, we considered the State of Pohnpei's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Pohnpei's internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Pohnpei's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be significant deficiencies. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2014-001, 2014-002 and 2014-005, which we consider to be material weaknesses.

### **Compliance and Other Matters**

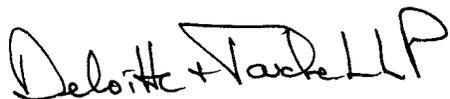
As part of obtaining reasonable assurance about whether the State of Pohnpei's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

### **The State of Pohnpei's Response to Findings**

The State of Pohnpei's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The State of Pohnpei's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

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



June 26, 2015

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

Honorable Marcelo Peterson  
Acting Governor, the State of Pohnpei  
Federated States of Micronesia:

### **Report on Compliance for Each Major Federal Program**

We have audited the State of Pohnpei's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the State of Pohnpei's major federal programs for the year ended September 30, 2014. 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.

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 accompanying Schedule of Expenditures of Federal Awards for the year ended September 30, 2014. 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.

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the State of Pohnpei's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the State of Pohnpei's compliance.

### ***Basis for Qualified Opinion on CFDA 15.875 Compact Sector Grants***

As described in items 2014-002, 2014-003 and 2014-004 in the accompanying Schedule of Findings and Questioned Costs, the State of Pohnpei did not comply with requirements regarding the following:

<b><i>Finding #</i></b>	<b><i>CFDA #</i></b>	<b><i>Program (or Cluster) Name</i></b>	<b><i>Compliance Requirement</i></b>
2014-002	15.875	Economic, Social and Political Development of the Territories	Allowable Costs/Cost Principles
2014-003	15.875	Economic, Social and Political Development of the Territories	Procurement and Suspension and Debarment
2014-004	15.875	Economic, Social and Political Development of the Territories	Procurement and Suspension and Debarment

Compliance with such requirements is necessary, in our opinion, for the State of Pohnpei to comply with the requirements applicable to that program.

### ***Qualified Opinion on CFDA 15.875 Compact Sector Grants***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the State of Pohnpei complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 15.875 Economic, Social and Political Development of the Territories – Compact Sector Grants for the year ended September 30, 2014.

### ***Unmodified Opinion on CFDA 84.027 Special Education - Grants to States***

In our opinion, the State of Pohnpei complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 84.027 Special Education - Grants to States for the year ended September 30, 2014.

### ***Other Matters***

The results of our auditing procedures disclosed other instances of noncompliance, 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 2014-001 regarding the following:

<b><i>Finding #</i></b>	<b><i>CFDA #</i></b>	<b><i>Program (or Cluster) Name</i></b>	<b><i>Compliance Requirement</i></b>
2014-001	15.875	Economic, Social and Political Development of the Territories	Equipment and Real Property Management

Our opinion on each major federal program is not modified with respect to this matter.

The State of Pohnpei's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The State of Pohnpei's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

### ***Report on Internal Control Over Compliance***

Management of the State of Pohnpei is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the State of Pohnpei's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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.

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2014-002, 2014-003 and 2014-004 to be material weaknesses.

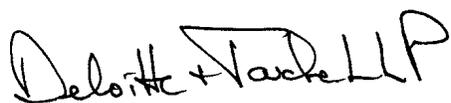
A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned costs as item 2014-001 to be significant deficiencies.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

## Report on Schedule of Expenditures of Federal Awards Required by OMB A-133

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, 2014, and the related notes to the financial statements, which collectively comprise the State of Pohnpei's basic financial statements. We issued our report thereon dated June 26, 2015, which contained unmodified opinions on those financial statements and which report included a reference to other auditors. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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 3%, 0.6% and 6%, respectively, of the assets, net position, and revenues of the State of Pohnpei's discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Pohnpei Transportation Authority and the Small Business Guarantee and Finance Corporation, is based solely on the reports of the other auditors. The accompanying Schedule of Expenditures of Federal Awards 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

June 26, 2015

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Summary Schedule of Expenditures of Federal Awards, by Grantor  
Year Ended September 30, 2014

Agency/Program	Expenditures
U.S. Department of Agriculture	\$ 572
U.S. Department of the Interior	16,673,293
U.S. Department of Education	1,048,087
U.S. Department of Health and Human Services	1,185,390
GRAND TOTAL	\$ 18,907,342

Note: All awards are received in a subgrantee capacity through the FSM National Government, except for the following, which are received directly from the grantor 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	\$ <u>263,236</u>

Reconciliation to the basic financial statements:

Other Governmental Funds	\$ 3,136,934
Grants Assistance Fund	20,500,999
Less:	
Non-U.S. Federal Grants Fund expenditures	(325,952)
CFSM Grants Fund expenditures	(1,342,578)
Non-federal expenditures within other governmental funds	(3,062,061)
	\$ 18,907,342

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, 2014

Agency/Program	CFDA#	Expenditures
U.S. DEPARTMENT OF AGRICULTURE		
Cooperative Forestry Assistance	10.664	\$ <u>572</u>
U.S. DEPARTMENT OF AGRICULTURE TOTAL		\$ <u><u>572</u></u>
U.S. DEPARTMENT OF THE INTERIOR		
Economic, Social and Political Development of the Territories:	15.875	
Compact of Free Association Sector Grants:		
Compact II Education Sector		\$ 7,459,356
Compact II Health Sector		5,115,005
Compact II Capacity Building Sector		318,736
Compact II Environment Sector		306,577
Compact II Supplemental Education		2,931,754
Compact II ERA		248,820
Compact II Infrastructure Maintenance		77,419
Technical Assistance:		
Office of State Auditor		<u>37,318</u>
Total CFDA 15.875		16,494,985
Historic Preservation Fund Grants-In-Aid	15.904	<u>178,308</u>
U.S. DEPARTMENT OF THE INTERIOR TOTAL		\$ <u><u>16,673,293</u></u>
U.S. DEPARTMENT OF EDUCATION		
Special Education - Grants to States	84.027	\$ <u>1,048,087</u>
U.S. DEPARTMENT OF EDUCATION TOTAL		\$ <u><u>1,048,087</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, 2014

Agency/Program	CFDA#	Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092	\$ 38,618
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	79,569
State Systems Development Initiative Grant Program	93.110	8,537
Family Planning - Services	93.217	78,387
Consolidated Health Centers	93.224	263,236
Affordable Care Act (ACA) Abstinence Education Program	93.235	16,000
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	230,473
Immunization Cooperative Agreements	93.268	111,025
CDC & Prevention-Investigations and Technical Assistance	93.283	81,265
ACA Coordinated Chronic Disease prevention and Health Promotion Program	93.544	6,552
HIV Care Formula Grants	93.917	764
HIV Prevention Activities-Health Department Based	93.940	57,926
Block Grants for Community Mental Health Services	93.958	1,673
Block Grants for Prevention and Treatment of Substance Abuse	93.959	102,003
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988	12,660
Preventive Health and Health Services Block Grant	93.991	2,368
Maternal and Child Health Services Block Grant to the States	93.994	77,735
CCPI Cancer Program	93.UNKNOWN	<u>16,599</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL		<u>\$ 1,185,390</u>
TOTAL FEDERAL AWARDS		<u>\$ 18,907,342</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, 2014

1. Scope

The State of Pohnpei is one of the four States of the Federated States of Micronesia. All significant operations of the State of Pohnpei 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 of Pohnpei's cognizant agency for Single Audit.

• Programs Subject to Single Audit

The Schedule of Expenditures of Federal Awards presents federal programs related to the following agencies:

- U.S. Department of Agriculture
- U.S. Department of Education
- U.S. Department of Health and Human Services
- U.S. Department of the Interior

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 of Pohnpei's reporting entity is defined in Note 1A to its September 30, 2014 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 of Pohnpei, as defined above, for the year ended September 30, 2014.

C. Subgrantees

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

D. Indirect Cost Allocation

The State of Pohnpei did not receive any indirect cost allocation and did 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 Findings and Questioned Costs  
Year Ended September 30, 2014

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

*Financial Statements*

- |  |               |
|--|---------------|
| 1. Type of auditors' report issued:                      | Unmodified    |
| Internal control over financial reporting:               |               |
| 2. Material weakness(es) identified?                     | Yes           |
| 3. Significant deficiency(ies) identified?               | None Reported |
| 4. Noncompliance material to financial statements noted? | No            |

*Federal Awards*

Internal control over major federal programs:

- |   |            |
|---|------------|
| 5. Material weakness(es) identified?  | Yes        |
| 6. Significant deficiency(ies) identified?  | Yes        |
| 7. Type of auditors' report issued on compliance for major federal programs:  |            |
| CFDA Program 15.875   | Qualified  |
| CFDA Program 84.027   | Unmodified |
| 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 federal programs:

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

- |  |           |
|--|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$575,117 |
| 11. Auditee qualified as low-risk auditee?                                   | No        |

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

**Section II – Financial Statements Findings**

<u>Finding #</u>	<u>Finding</u>
2014-001	Equipment and Real Property Management
2014-002	Allowable Costs/Cost Principles
2014-005	Cash and Equivalent

**Section III - Federal Award Findings and Questioned Costs**

<u>Finding #</u>	<u>CFDA #</u>	<u>Finding</u>	<u>Questioned Costs</u>
2014-001	15.875	Equipment and Real Property Management	\$ -
2014-002	15.875	Allowable Costs/Cost Principles	162,378
2014-003	15.875	Procurement and Suspension and Debarment	29,215
2014-004	15.875	Procurement and Suspension and Debarment	<u>350,000</u>
			<u>\$ 541,593</u>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-001  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories – Compact of Free Association, Compact Sector Grants  
Requirement: Equipment and Real Property Management  
Questioned Cost: \$0

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

Condition: While it appears that substantial improvements have been made in this area, formal documented procedures are not currently promulgated with respect to requiring that fixed assets undergo required maintenance.

Cause: The cause of the above condition appears to be a potential weakness in internal control requiring that fixed assets be periodically maintained.

Effect: The effect of the above condition is 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 2014 of unnecessary expenditures that occurred due to this condition.

Prior Year Status: Noncompliance with maintenance of fixed assets was reported as a finding in prior Single Audits as items 2007-4, 2008-2, 2009-1, 2010-1, 2011-1, 2012-1 and 2013-001.

Recommendation: We recommend that the State promulgate formal directives requiring that periodic reviews be performed and that asset maintenance activities be documented and monitored.

Auditee Response and Corrective Action Plan: We do not concur fully to the finding.

We were able to provide the auditors the requested documents (per their sample) to support that the Government has fixed asset preventive and maintenance schedule. The documents provided were acceptable but later on we were told that the auditors could not clear it. The auditors opined that only the grantor can resolve the finding. However, we believe it is an auditor finding per the criteria mentioned.

As a corrective action plan, we shall continue our fixed assets maintenance plans and obtain clearance from Office of the Interior.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-002  
 Federal Agency: U.S. Department of the Interior  
 CFDA Program: 15.875 Economic, Social and Political Development of the Territories - Compact of Free Association, Compact Sector Grants  
 Requirement: Allowable Costs/Cost Principles  
 Questioned Costs: \$162,378

**Criteria:** In accordance with applicable allowable costs/cost principles, expenditures should be necessary and reasonable for program needs and should be in accordance with program requirements. Furthermore, financial and programmatic records should be maintained on file for at least three years.

**Condition:** For 4 (or 23%) of 17 transactions tested, there was either partial or no financial and/or programmatic records (i.e., vendor invoices, contracts, receiving reports etc.) on file to substantiate the following transactions.

<u>FUND</u>	<u>FND_NAME</u>	<u>PROG</u>	<u>YR</u>	<u>REF1</u>	<u>AMT</u>
11	Cmpt II Hlth Fund	11300	13	126515	\$ 70,546
11	Cmpt II Hlth Fund	11300	13	118183	67,852
15	Cmpt II SEG Fund	15100	13	134273	17,985
15	Cmpt II SEG Fund	15233	13	134220	<u>5,995</u>
					\$ <u>162,378</u>

**Cause:** The cause of the above condition appears to be due to the process of maintaining documentation in many disparate locales and the lack of documentation supporting resolution of these matters with the affected federal agency.

**Effect:** The effect of the above condition is questioned costs and potential noncompliance with the criteria.

**Recommendation:** We recommend that necessary communications and documentation in support of the above be retained in file.

**Auditee Response and Corrective Action Plan:** We concur to the finding. As a corrective action plan, the Department shall ensure that all documents are complete and properly filed. The Finance Division and corresponding departments are tasked to locate the missing bid proposal and the proper documents to resolve the findings.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-003  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories - Compact of Free Association, Compact Sector Grants  
Requirement: Procurement and Suspension and Debarment  
Questioned Costs: \$ 29,215

Criteria: In accordance with applicable procurement requirements, procurements shall provide full and open competition among vendors, and allowable exceptions should be approved and documented in procurement files.

Condition: For 2 (or 17%) of 12 procurement transactions tested, there was either insufficient documentation such as written evaluation/analysis of procurement specifications or none was provided to support competitive procurement requirements.

<u>FUND</u>	<u>FND_NAME</u>	<u>PROG</u>	<u>YR</u>	<u>REF1</u>	<u>AMT</u>
10	Cmpt II Ed Fund	10101	14	140121	\$ 19,000
10	Cmpt II Ed Fund	10301	13	125764	<u>10,215</u>
					<u>\$ 29,215</u>

Cause: The cause of the above condition appears to be due to inadequate processes of maintaining necessary documentation in procurement files.

Effect: The effect of the above condition is questioned costs and potential noncompliance with the criteria.

Recommendation: We recommend that necessary communications and documentation in support of the above be retained in file.

Auditee Response and Corrective Action Plan: We concur partially to the finding. Our explanation follows:

1. The \$19,000 pertains to a purchase of water equipment with three competitive quotes: one proforma invoice, two solicitations having each vendor's office stamps without the price quotation.
2. The \$10,215 was the result of a transaction with three competitive quotes in the form of a phone-in quote. The solicitation document contains the following: the description of the needed item, the name of the vendor, contact person, and the contact number. This practice of phone solicitation was allowed by the auditors in prior years.

As a corrective action plan, the Department of Treasury and Administration will revisit the regulations to determine the best practice to use to ensure that quotation requirements are not too cumbersome for the vendors as well.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-004  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories - Compact of Free Association, Compact Sector Grants  
Requirement: Procurement and Suspension and Debarment  
Questioned Costs: \$ 350,000

Criteria: In accordance with applicable procurement requirements, procurements shall provide full and open competition among vendors, and allowable exceptions should be approved and documented in procurement files.

Condition: For 1 (or 8%) of 12 procurement transactions tested, the Pohnpei State Public Auditor issued a report on the procurement of school buses attendant to the following transaction and opined that the procurement did not comply with requirements per the Amended Compact Fiscal Procedures Agreement (FPA). Management's response to the finding indicated concurrence that procurement requirements were not followed.

<u>FUND</u>	<u>FND_NAME</u>	<u>PROG</u>	<u>YR</u>	<u>REF1</u>	<u>AMT</u>
10	Cmpt II Ed Fund	10101	14	142697	\$350,000

Cause: The cause of the above condition appears to be lack of compliance with requirements of the FPA.

Effect: The effect of the above condition is questioned costs of \$350,000.

Recommendation: We recommend that Pohnpei State resolve this matter with the grantor agency.

Auditee Response and Corrective Action Plan: We do not concur fully to the finding. As a clarification, the \$350,000 pertains to the remaining payment of the procurement of buses for the Department of Education. Accordingly, this was de-allotted by Office of the Interior (OIA) as a result of the preliminary inquiry of the Pohnpei State Public Auditor's Office. The decision of the OIA to discontinue the procurement was communicated after the bid was awarded to the winning bidder and the remaining payment had occurred.

As a corrective action plan, the Department of Treasury & Administration is appealing this de-allotment memo and will work with the PSG Office of the Public Auditor to resolve this issue.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No: 2014-005  
Area: Cash and Equivalents

Criteria: Reconciling bank accounts to the general ledger on a regular basis is fundamental and critical for maintaining accurate financial records and helping to avoid misappropriation of funds or fraudulent activities.

Condition: Bank reconciliations contained material variances that were not consistently and timely reconciled.

1. Pohnpei State has not reconciled the following general ledger cash accounts to the adjusted bank balances as of September 30, 2014. This condition results in a misstatement of the financial statements.

<u>Bank Account:</u>	<u>Amount</u>
CIB Sector Grants	\$ 12,796
CIB Payroll	8,020
Honolulu Medical Imprest	<u>7,700</u>
	<u>\$ 28,516</u>

2. Evidence of review of stale dated checks was not documented for all checking accounts.
3. A bank reconciliation for the Honolulu Medical Imprest Account could not be provided.

Cause: The cause of this condition appears due to the need to heighten training for new personnel assigned to reconcile bank accounts.

Effect: The effect of this condition is potential misstatements of the financial statements. In addition, failure to timely clear reconciling items results in misstatements of cash and creates an opportunity to manipulate cash.

Recommendation: We recommend that the Division of Finance ensure that bank reconciliations are performed timely and all misstatements corrected.

Auditee Response and Corrective Action Plan: We concur to the finding. As a corrective action plan, the Department of Treasury will ensure that all stale dated checks are cancelled and processed as appropriate and will write off from our record the Honolulu Medical Imprest account after determination of that the probability of salvaging the fund is done.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Unresolved Prior Audit Findings and Questioned Costs  
Year Ended September 30, 2014

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs and comments that were unresolved at September 30, 2014:

Questioned costs as previously reported:	
Fiscal year 2013 Single Audit	\$ 121,682
Questioned costs of fiscal year 2014 Single Audit	<u>541,593</u>
Unresolved questioned costs at September 30, 2014	\$ <u>663,275</u>

Summary Schedule of Prior Audit Findings and Questioned Costs

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Questioned Costs</u>	<u>Status</u>
2013-001	15.875	\$ -	Not corrected or resolved. See finding 2014-001.
2013-002	15.875	54,889	Not corrected or resolved.
2013-003	15.875	25,701	Not corrected or resolved.
2013-004	15.875	<u>41,094</u>	Not corrected or resolved.
		\$ <u>121,682</u>	