

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

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

YEAR ENDED SEPTEMBER 30, 2015

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

YEAR ENDED SEPTEMBER 30, 2015

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**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

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

YEAR ENDED SEPTEMBER 30, 2015

INDEPENDENT AUDITORS' REPORT

Honorable Marcelo Peterson
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, 2015, 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%, 1%, 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, 2015, 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

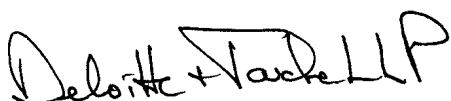
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 10 as well as the Schedule of Revenues, Expenditures, and changes in Fund Balance - Budget and Actual - General Fund and notes thereto, on pages 47 and 48, 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 28, 2016, 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 28, 2016

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2015

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, 2015. 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 \$47,626,607.
- The net change in total governmental fund balance is a decrease of \$795,899. Total revenues reported are \$31,843,012 against total expenditures of \$32,638,911.
- Actual revenues for the General Fund were \$145,724 lower than budgeted revenues. The total expenditures-budgetary basis showed an unfavorable variance of \$254,474. The General Fund reported an unassigned fund balance of \$172,674, which is a reduction of \$599,897 from the prior fiscal year balance of \$772,571.

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 serve as an indicator to measure the State's financial position.

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

The government-wide financial statements of the State consist of its government activities, which include public works, health, education and general administration. Sales taxes, revenue sharing, federal grants and Compact II/Sector grants are the major sources of these activities. Compact II/Sector grants 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, 2015

- 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 financial 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 financial statements, to explain the relationship between them. The State maintains individual governmental funds, which are categorized as major and non-major. The major fund includes the General Fund. The other major funds are consisting of the Grants Assistance Fund and the Compact Trust Fund.

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

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

	<u>Government Activities</u>	
	<u>2015</u>	<u>2014</u>
Current and other assets	\$ 28,479,883	\$ 29,152,045
Capital assets	<u>30,444,065</u>	<u>31,987,058</u>
Total assets	\$ <u>58,923,948</u>	\$ <u>61,139,103</u>
Current liabilities	6,761,199	6,688,196
Long-term debt	<u>4,536,142</u>	<u>5,335,739</u>
Total liabilities	<u>11,297,341</u>	<u>12,023,935</u>
Net position:		
Net investment in capital assets	30,444,065	31,987,058
Restricted	19,961,233	20,299,865
Unrestricted fund balance	<u>(2,778,691)</u>	<u>(3,171,755)</u>
Total net position	<u>47,626,607</u>	<u>49,115,168</u>
	\$ <u>58,923,948</u>	\$ <u>61,139,103</u>

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

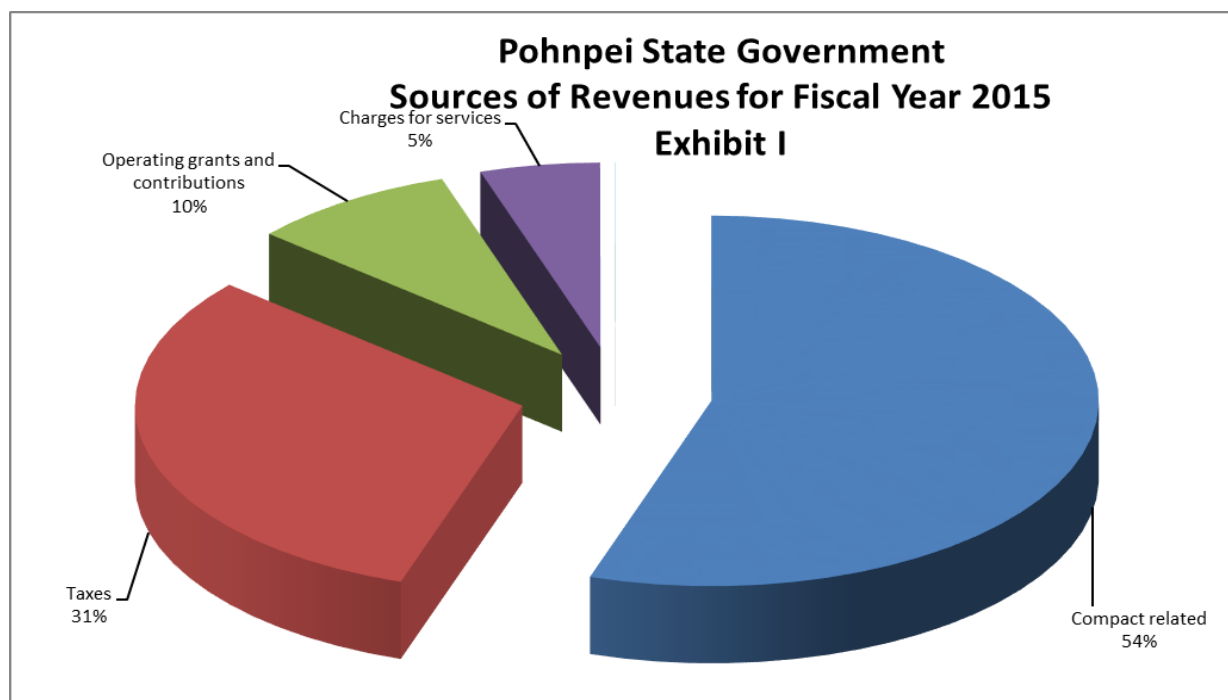
	<u>Government Activities</u>	
	<u>2015</u>	<u>2014</u>
Revenues:		
Program revenues:		
Charges for services	\$ 1,596,209	\$ 1,471,388
Operating grants and contributions	20,739,871	20,224,730
Capital grants and contributions	-	11,237,462

**STATE OF POHNPEI
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Management's Discussion and Analysis
September 30, 2015

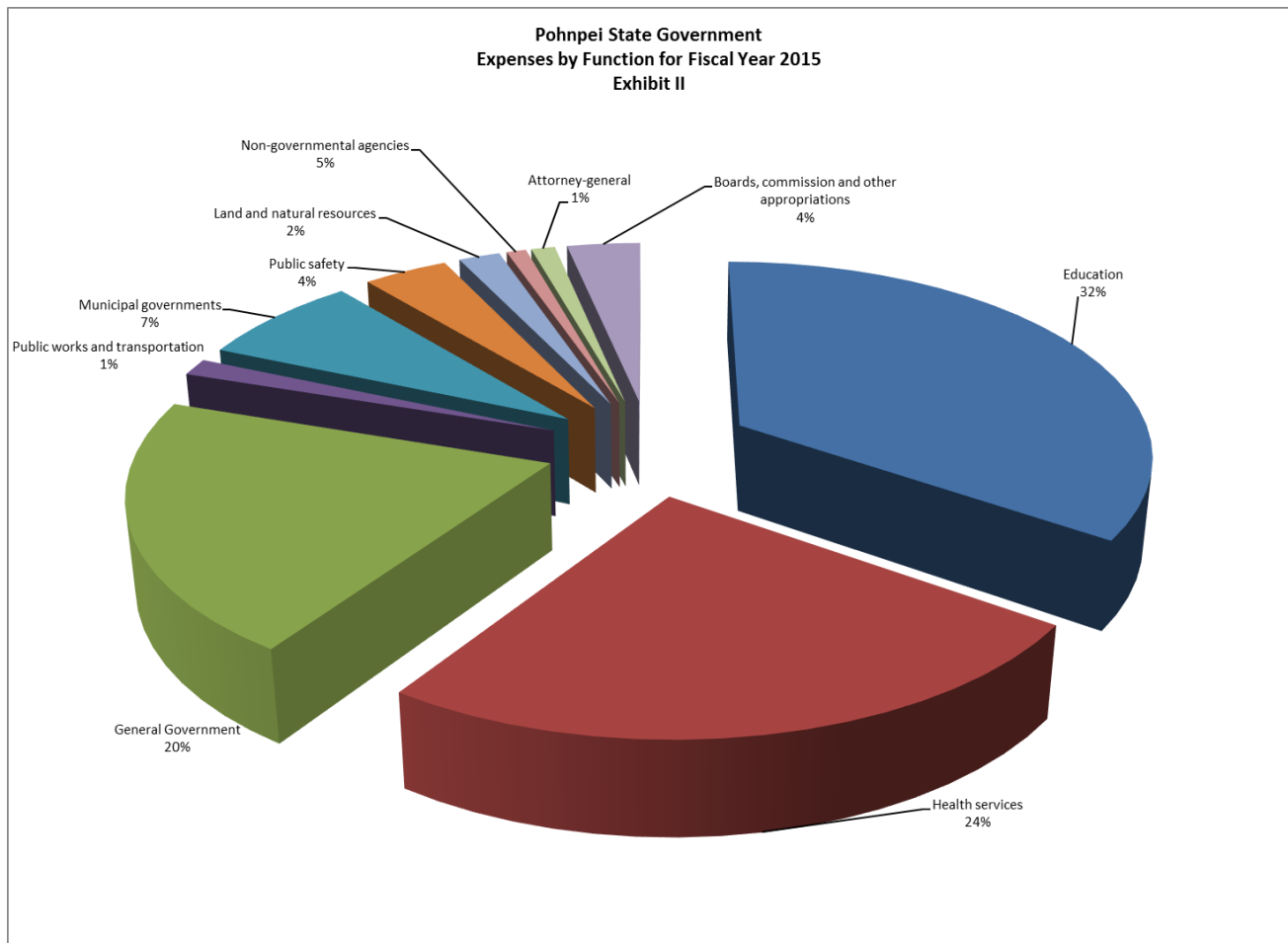
General revenues:		
Taxes	9,952,938	9,041,950
Investment earnings	164,990	1,140,777
Other	<u>56,342</u>	<u>391,344</u>
Total revenues	<u>32,510,350</u>	<u>43,507,651</u>
Expenses:		
General Government	6,842,911	7,624,598
Education	10,890,452	11,067,965
Health services	8,050,182	7,795,913
Land and natural resources	624,474	690,997
Public works and transportation	453,270	502,844
Public safety	1,494,969	1,477,837
Boards, commission and other appropriations	<u>5,639,128</u>	<u>5,974,737</u>
Total expenses	<u>33,995,386</u>	<u>35,134,891</u>
Other items:		
SDR-foreign exchange gain	663,813	-
Contributions to permanent fund	<u>(667,338)</u>	<u>1,027,744</u>
	<u>(3,525)</u>	<u>1,027,744</u>
Change in net position	\$ <u>(1,488,561)</u>	\$ <u>9,400,504</u>

Exhibit I, below, showed that 54% of the State's revenues were derived from Compact II while 36% came from taxes and licenses. Exhibit II, next page, illustrated that Education represented 32% of the State's total expenses followed by Health Services at 24%.



**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2015



FINANCIAL ANALYSIS OF THE STATE GOVERNMENTAL FUNDS

The State's governmental fund changes in fund balances for the years ended September 30, 2015 and 2014 are shown below.

	General Fund		Grants Assistance Fund		Compact Trust Fund		Other Funds	
	2015	2014	2015	2014	2015	2014	2015	2014
Revenues:								
Taxes	\$ 9,527,196	\$ 8,628,042	\$ -	\$ -	\$ -	\$ -	\$ 425,742	\$ 413,908
Compact	-	-	17,382,850	16,380,248	-	-	-	-
Other/transfers in	<u>592,080</u>	<u>1,726,610</u>	<u>3,202,748</u>	<u>4,169,450</u>	<u>(667,338)</u>	<u>1,027,744</u>	<u>1,379,734</u>	<u>1,232,306</u>
Total revenues	10,119,276	10,354,652	20,585,598	20,549,698	(667,338)	1,027,744	1,805,476	1,646,214
Expenditures/transfers out	<u>10,514,899</u>	<u>11,239,707</u>	<u>20,661,579</u>	<u>20,500,999</u>	-	-	<u>1,462,433</u>	<u>3,136,934</u>
Net change in fund balances	\$ <u>(395,623)</u>	\$ <u>(863,016)</u>	\$ <u>(75,981)</u>	\$ <u>48,699</u>	\$ <u>(667,338)</u>	\$ <u>1,027,744</u>	\$ <u>343,043</u>	\$ <u>(1,490,720)</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2015

General Fund

Revenues decreased by \$235,376 or 2% compared to fiscal year 2014. The decrease was caused mainly by lower net change in the fair value of investment of just \$164,990 compared with \$1,140,777 in FY2014, while the tax revenue went up by about \$910,988 or 10% compared in prior year. Expenditures decreased by \$422,394 or 4% compared to fiscal year 2014; the State recorded no transfers out this year compared to transfers out of \$280,375 in prior year mainly to the local match under the Compact IMF program.

Grant Assistance Fund

As mentioned in the preceding paragraph, Compact II/Sector Grants were the major sources of Pohnpei State's operating grants for fiscal year 2015. The total Compact II/Sector funding amounted to \$17,382,850 while total expenditures are in the amount of \$17,382,850, 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 \$7,462,668 against total expenditures of the same amount, an increase of \$3,312 compared to fiscal year 2014.
- 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 \$6,219,609, an increase of \$1,104,604 or 22% compared to fiscal year 2014.
- 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 years 2015 and 2014.
- 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 \$349,168, an increase of \$30,432 or 10% compared to fiscal year 2014.
- 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 \$311,166 with the same total of expenditures, an increase of \$4,589 or 1% compared to fiscal year 2014.
- 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 years 2015 and 2014.

**STATE OF POHNPEI
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Management's Discussion and Analysis
September 30, 2015

- 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 \$2,766,219, a decrease of \$165,535 or 6% compared to fiscal year 2014.
- The Enhanced Reporting & 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 \$274,020 compared to \$248,820 or an increase of \$25,200 or 10% in prior year.

Another major source of funding under the Grants Assistance Fund is the US Federal Grants, which supported \$2,634,912 of expenditures of the State, an increase of \$182,691 or 7% compared to fiscal year 2014.

General Fund Budgetary Highlights

During the year, the State revised its budget several times in the aggregate amount of \$206,827 to accommodate supplemental funding for departments and offices requiring increases in appropriations to avoid budget overruns. These matters are not believed to have a significant effect on future services. The State conforms to the most appropriate measures of utilizing its net position due to inflationary adjustments.

The net decrease in the State's General Fund unassigned fund balance was \$599,897 compared with net decrease of \$834,493 in fiscal year 2014.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The State's capital assets at the end of fiscal year 2015 consist basically of equipment, buildings, roads and bridges. Increase in capital assets was due to purchases of machinery, equipment and others under the Infrastructure Account. The summary of capital assets at the end of September 30 is shown below:

	<u>Primary Government Government Activities</u>	
	<u>2015</u>	<u>2014</u>
Buildings	\$ 24,841,744	\$ 24,841,744
Infrastructure	53,614,989	53,614,989
Machinery	<u>24,912,655</u>	<u>23,986,931</u>
Total	\$ <u>103,369,388</u>	\$ <u>102,443,664</u>

Refer to note 5 of the accompanying financial statements for more information about the State's capital assets.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2015

Long-term Debt

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

	<u>Government Activities</u>	
	<u>2015</u>	<u>2014</u>
Asian Development Bank loans	\$ <u>4,536,142</u>	\$ <u>5,335,739</u>

No additional debt was incurred during the year ended September 30, 2015. Reduction in long-term debt was the result of loan repayments together with the recognition of an SDR-foreign exchange gain of \$663,813.

Refer to note 7 of the accompanying financial statements for 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 2016 will still come from the Compact II.

Fiscal year 2016 is the 13th 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 2016 is as follows:

- For Education Sector Grant, which continues to be the funding priority, the annual budget is \$7,156,624.
- The Health Sector Grant's budget is \$6,263,605.
- The Private Sector Development Sector Grant's budget is nil.
- The Public Sector Capacity Building Sector Grant budget is \$421,849.
- The Environment Sector Grant is \$276,239.
- The Enhanced Reporting and Accounting Sector Grant budget is \$272,960.
- The cumulative grants for the Public Infrastructure from fiscal years 2005 through 2015 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 2016 is \$2,674,118. The programs covered in the funding are Early Childhood Education, Education Improvement Programs, Workforce Development/Skill Training, Vocational Education and Staff Development.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2015

For fiscal year 2016, the locally generated revenues, investment income and the revenue shares from the FSM National Government are projected at \$10,213,749. These projected revenues are \$94,473 higher compared with recorded revenues in fiscal year 2015. The net increase is due mainly to projected increase in local taxes specifically in tobacco and alcohol. In addition to the revenue budgeted amounts, the Department of Treasury and Administration received dividend income from a minority-owned company amounting to \$206,143 in June 2016. We also expect a higher collection as we implement the amendment of the Tax Code which became effective in January 2016. As a result, the Department is confident that the projected revenue could be reached. However, the Department is being challenged by the Pohnpei Utilities Corporation (PUC) guaranteed loans to Asian Development Bank (ADB) as they have all matured. Repayment of these loans could reach more than \$400,000 in FY2016. If these loans are not paid by PUC, the FSM National Government has to deduct from our tax revenue. As in prior years, the Pohnpei State Government has to pay these loans when they become due by deducting from our tax revenue, resulting in higher expenditures for the Government.

FINANCIAL CONTACT

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

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Statement of Net Position
September 30, 2015

	Primary Government	Component Units
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 795,904	\$ 2,555,378
Time certificate of deposit	-	54,731
Investments	4,169,538	1,795,944
Receivables, net	3,467,452	4,487,704
Advances	209,316	54,363
Inventories	29,947	226,315
Other current assets	-	56,652
Restricted assets:		
Cash and cash equivalents	1,294,870	1,016,540
Total current assets	<u>9,967,027</u>	<u>10,247,627</u>
Noncurrent assets:		
Capital assets:		
Nondepreciable capital assets	-	11,010,485
Capital assets, net of accumulated depreciation	30,444,065	28,349,695
Investments	1,500,000	-
Receivables	-	832,598
Other noncurrent assets	-	898,504
Restricted assets:		
Cash and cash equivalents	-	484,450
Investments	17,012,856	-
Total noncurrent assets	<u>48,956,921</u>	<u>41,575,732</u>
Total assets	<u>\$ 58,923,948</u>	<u>\$ 51,823,359</u>
<u>LIABILITIES</u>		
Current liabilities:		
Short-term debt	\$ -	\$ 189,131
Current portion of long-term obligations	150,878	666,723
Compensated absences payable	689,307	-
Accounts payable	3,020,267	2,417,096
Other liabilities and accruals	509,938	680,619
Due to primary government	-	1,596,030
Unearned revenues	2,330,719	299,786
Total current liabilities	<u>6,701,109</u>	<u>5,849,385</u>
Noncurrent liabilities:		
Long-term obligations, net of current portion	4,385,264	10,131,442
Claims and judgments payable	210,968	-
Total noncurrent liabilities	<u>4,596,232</u>	<u>10,131,442</u>
Total liabilities	<u>11,297,341</u>	<u>15,980,827</u>
Contingencies and commitments		
<u>NET POSITION</u>		
Net investment in capital assets	30,444,065	29,044,284
Restricted for:		
Nonexpendable:		
Future operations	12,850,831	-
Expendable:		
Debt service	4,162,025	-
Other purposes	2,948,377	5,001,254
Unrestricted	(2,778,691)	1,796,994
Total net position	<u>47,626,607</u>	<u>35,842,532</u>
Total liabilities and net position	<u>\$ 58,923,948</u>	<u>\$ 51,823,359</u>

See accompanying notes to financial statements.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Statement of Activities
Year Ended September 30, 2015

	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
Functions/Programs						
Primary government:						
Governmental activities:						
General government	\$ 6,842,911	\$ 809,843	\$ 1,693,452	\$ -	\$ (4,339,616)	\$ -
Land and natural resources	624,474	51,914	136,275	-	(436,285)	-
Education	10,890,452	-	11,251,118	-	360,666	-
Health services	8,050,182	662,409	7,659,026	-	271,253	-
Public safety	1,494,969	72,043	-	-	(1,422,926)	-
Attorney-general	353,203	-	-	-	(353,203)	-
Public works and transportation	453,270	-	-	-	(453,270)	-
Non-governmental agencies	1,788,356	-	-	-	(1,788,356)	-
Boards, commissions and others	1,072,562	-	-	-	(1,072,562)	-
Municipal governments	2,425,007	-	-	-	(2,425,007)	-
Total primary government	<u>\$ 33,995,386</u>	<u>\$ 1,596,209</u>	<u>\$ 20,739,871</u>	<u>\$ -</u>	<u>(11,659,306)</u>	<u>-</u>
Component units:						
Pohnpei Utilities Corporation	\$ 15,495,837	\$ 13,288,055	\$ -	\$ 1,416,500	-	(791,282)
Pohnpei Port Authority	3,503,141	2,711,684	-	53,941	-	(737,516)
Pohnpei Transportation Authority	817,486	973,796	-	-	-	156,310
Small Business Guarantee and Finance Corporation	210,579	35,249	-	-	-	(175,330)
Pohnpei State Housing Authority	179,698	185,084	-	-	-	5,386
Total component units	<u>\$ 20,206,741</u>	<u>\$ 17,193,868</u>	<u>\$ -</u>	<u>\$ 1,470,441</u>	<u>-</u>	<u>(1,542,432)</u>
General revenues:						
Taxes:						
FSM revenue sharing:						
Gross revenue taxes					2,528,888	-
Import taxes					2,192,846	-
Income taxes					2,036,878	-
Other taxes					301,953	-
State taxes					2,892,373	-
Unrestricted investment earnings					164,990	-
Other					56,342	289,467
Total general revenues					10,174,270	289,467
Special item - gain on SDR foreign exchange					663,813	-
Contributions to permanent fund					(667,338)	-
Total general revenues, special item and contributions					<u>10,170,745</u>	<u>289,467</u>
Change in net position					(1,488,561)	(1,252,965)
Net position at the beginning of the year					<u>49,115,168</u>	<u>37,095,497</u>
Net position at the end of the year					\$ 47,626,607	\$ 35,842,532

See accompanying notes to financial statements.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

**Balance Sheet
Governmental Funds
September 30, 2015**

		Special Revenue	Permanent	Other Governmental Funds	Total
	General	Grants Assistance	Compact Trust		
ASSETS					
Cash and cash equivalents	\$ 795,904	\$ -	\$ -	\$ -	\$ 795,904
Investments	5,669,538	-	-	-	5,669,538
Receivables, net:					
Taxes	2,155,736	-	-	-	2,155,736
Due from FSM National Government	-	1,272,788	-	-	1,272,788
Other	35,000	3,928	-	-	38,928
Due from other funds	919,275	2,871,641	-	3,638,788	7,429,704
Advances	81,350	121,218	-	6,748	209,316
Inventories	-	-	-	29,947	29,947
Restricted assets:					
Cash and cash equivalents	1,287,170	7,700	-	-	1,294,870
Investments	4,162,025	-	12,850,831	-	17,012,856
Total assets	<u>\$ 15,105,998</u>	<u>\$ 4,277,275</u>	<u>\$ 12,850,831</u>	<u>\$ 3,675,483</u>	<u>\$ 35,909,587</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 1,747,680	\$ 1,114,262	\$ -	\$ 158,325	\$ 3,020,267
Other liabilities and accruals	120,718	386,702	-	2,518	509,938
Unearned revenues	-	1,780,648	-	550,071	2,330,719
Due to other funds	6,510,429	903,083	-	16,192	7,429,704
Total liabilities	<u>8,378,827</u>	<u>4,184,695</u>	<u>-</u>	<u>727,106</u>	<u>13,290,628</u>
Fund balances:					
Non-spendable	1,581,350	-	12,850,831	15,962	14,448,143
Restricted	4,694,418	119,862	-	-	4,814,280
Committed	148,716	-	-	2,932,415	3,081,131
Assigned	130,013	-	-	-	130,013
Unassigned	172,674	(27,282)	-	-	145,392
Total fund balances	<u>6,727,171</u>	<u>92,580</u>	<u>12,850,831</u>	<u>2,948,377</u>	<u>22,618,959</u>
Total liabilities and fund balances	<u>\$ 15,105,998</u>	<u>\$ 4,277,275</u>	<u>\$ 12,850,831</u>	<u>\$ 3,675,483</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

30,444,065

Long-term liabilities, including loans payable, are not due and payable in the current period and, therefore, are not reported in the funds. The liabilities include:

Long-term debt payable	(4,536,142)
Compensated absences payable	(689,307)
Claims and judgments payable	(210,968)

(5,436,417)

Net position of governmental activities

\$ 47,626,607

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, 2015

		Special Revenue	Permanent	Other Governmental Funds	
	General	Grants Assistance	Compact Trust		Total
Revenues:					
Compact funding	\$ -	\$ 17,382,850	\$ -	\$ 154,273	\$ 17,537,123
Net change in the fair value of investments	164,990	-	(667,338)	-	(502,348)
CFSM grants	-	117,537	-	-	117,537
Federal contributions and other grants	-	3,085,211	-	-	3,085,211
FSM revenue sharing	7,060,565	-	-	-	7,060,565
State taxes	2,466,631	-	-	425,742	2,892,373
Fees and charges	370,748	-	-	1,225,461	1,596,209
Other	56,342	-	-	-	56,342
Total revenues	<u>10,119,276</u>	<u>20,585,598</u>	<u>(667,338)</u>	<u>1,805,476</u>	<u>31,843,012</u>
Expenditures:					
Current:					
General government	3,982,517	1,615,160	-	1,109,615	6,707,292
Land and natural resources	476,869	136,275	-	-	613,144
Education	5,312	11,251,118	-	-	11,256,430
Health services	51,496	7,659,026	-	352,818	8,063,340
Public safety	1,255,186	-	-	-	1,255,186
Office of the Attorney-General	353,863	-	-	-	353,863
Public works	454,299	-	-	-	454,299
Payments to non-governmental agencies	290,772	-	-	-	290,772
Boards, commissions and other	1,083,794	-	-	-	1,083,794
Grants to local governments	2,425,007	-	-	-	2,425,007
Debt service	135,784	-	-	-	135,784
Total expenditures	<u>10,514,899</u>	<u>20,661,579</u>	<u>-</u>	<u>1,462,433</u>	<u>32,638,911</u>
Net change in fund balances	(395,623)	(75,981)	(667,338)	343,043	(795,899)
Fund balances at the beginning of the year	<u>7,122,794</u>	<u>168,561</u>	<u>13,518,169</u>	<u>2,605,334</u>	<u>23,414,858</u>
Fund balances at the end of the year	<u>\$ 6,727,171</u>	<u>\$ 92,580</u>	<u>\$ 12,850,831</u>	<u>\$ 2,948,377</u>	<u>\$ 22,618,959</u>

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, 2015

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	\$ (795,899)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period	(1,542,993)
Special item associated with gain on SDR foreign exchange adjustment	663,813
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	135,784
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>50,734</u>
Change in net position of governmental activities	\$ <u>(1,488,561)</u>

See accompanying notes to financial statements.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Combining Statement of Net Position
Component Units
September 30, 2015

	Pohnpei Utilities Corporation	Pohnpei Port Authority	Pohnpei Transportation Authority	Small Business Guarantee and Finance Corporation	Pohnpei State Housing Authority	Total
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 395,370	\$ 1,657,383	\$ -	\$ 300	\$ 502,325	\$ 2,555,378
Time certificate of deposit	54,731	-	-	-	-	54,731
Investments	173,860	1,622,084	-	-	-	1,795,944
Receivables, net	1,595,754	639,681	2,924	63,646	2,185,699	4,487,704
Inventories	221,990	-	4,325	-	-	226,315
Advances	27,192	27,171	-	-	-	54,363
Other current assets	-	34,721	-	-	21,931	56,652
Restricted assets:						
Cash and cash equivalents	-	-	-	1,016,540	-	1,016,540
Total current assets	2,468,897	3,981,040	7,249	1,080,486	2,709,955	10,247,627
Noncurrent assets:						
Receivables, net	-	229,868	-	602,730	-	832,598
Capital assets:						
Nondepreciable capital assets	7,783,011	3,227,474	-	-	-	11,010,485
Capital assets, net of accumulated depreciation	24,704,514	3,482,876	68,532	16,402	77,371	28,349,695
Long-term deposits	888,750	-	-	-	-	888,750
Restricted:						
Cash and cash equivalents	484,450	-	-	-	-	484,450
Other noncurrent assets	-	9,754	-	-	-	9,754
Total noncurrent assets	33,860,725	6,949,972	68,532	619,132	77,371	41,575,732
Total assets	<u>\$36,329,622</u>	<u>\$10,931,012</u>	<u>\$ 75,781</u>	<u>\$ 1,699,618</u>	<u>\$ 2,787,326</u>	<u>\$ 51,823,359</u>
LIABILITIES						
Current liabilities:						
Short-term debt	\$ 189,131	\$ -	\$ -	\$ -	\$ -	\$ 189,131
Current portion of long-term debt	666,723	-	-	-	-	666,723
Accounts payable	2,298,792	34,869	65,615	-	17,820	2,417,096
Other liabilities and accruals	365,667	252,793	25,163	3,695	33,301	680,619
Due to primary government	200,000	-	1,396,030	-	-	1,596,030
Unearned revenues	284,385	15,401	-	-	-	299,786
Total current liabilities	4,004,698	303,063	1,486,808	3,695	51,121	5,849,385
Noncurrent liabilities:						
Noncurrent portion of long-term debt	10,131,442	-	-	-	-	10,131,442
Total liabilities	14,136,140	303,063	1,486,808	3,695	51,121	15,980,827
NET POSITION						
Net investment in capital assets	22,171,629	6,710,350	68,532	16,402	77,371	29,044,284
Restricted	723,150	-	-	1,619,270	2,658,834	5,001,254
Unrestricted	(701,297)	3,917,599	(1,479,559)	60,251	-	1,796,994
Total net position	22,193,482	10,627,949	(1,411,027)	1,695,923	2,736,205	35,842,532
	<u>\$36,329,622</u>	<u>\$10,931,012</u>	<u>\$ 75,781</u>	<u>\$ 1,699,618</u>	<u>\$ 2,787,326</u>	<u>\$ 51,823,359</u>

See accompanying notes to financial statements.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Combining Statement of Revenues, Expenses, and Changes in Net Position
Component Units
Year Ended September 30, 2015

	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	\$ 13,288,055	\$ 2,711,684	\$ 973,796	\$ 35,249	\$ 185,084	\$ 17,193,868
Total operating revenues	<u>13,288,055</u>	<u>2,711,684</u>	<u>973,796</u>	<u>35,249</u>	<u>185,084</u>	<u>17,193,868</u>
Operating expenses:						
Cost of services	6,903,490	-	-	-	-	6,903,490
Administration costs	6,563,965	2,910,730	808,236	187,394	162,126	10,632,451
Depreciation and amortization	<u>2,028,382</u>	<u>592,411</u>	<u>9,250</u>	<u>23,185</u>	<u>17,572</u>	<u>2,670,800</u>
Total operating expenses	<u>15,495,837</u>	<u>3,503,141</u>	<u>817,486</u>	<u>210,579</u>	<u>179,698</u>	<u>20,206,741</u>
Operating income (loss)	<u>(2,207,782)</u>	<u>(791,457)</u>	<u>156,310</u>	<u>(175,330)</u>	<u>5,386</u>	<u>(3,012,873)</u>
Nonoperating revenues (expenses):						
Contributions from the primary government	-	-	-	94,000	114,883	208,883
Interest income (expense)	(150,057)	72,952	-	-	-	(77,105)
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,464</u>	<u>155,225</u>	<u>157,689</u>
Total nonoperating revenues (expenses), net	<u>(150,057)</u>	<u>72,952</u>	<u>-</u>	<u>96,464</u>	<u>270,108</u>	<u>289,467</u>
Net income (loss) before capital contributions	(2,357,839)	(718,505)	156,310	(78,866)	275,494	(2,723,406)
Capital contributions	<u>1,416,500</u>	<u>53,941</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,470,441</u>
Change in net position	(941,339)	(664,564)	156,310	(78,866)	275,494	(1,252,965)
Net position at the beginning 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>
Net position at the end of the year	<u>\$ 22,193,482</u>	<u>\$ 10,627,949</u>	<u>\$ (1,411,027)</u>	<u>\$ 1,695,923</u>	<u>\$ 2,736,205</u>	<u>\$ 35,842,532</u>

See accompanying notes to financial statements.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2015

(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, 2015

(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, 2015

(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, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories:

- Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.
- 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, 2015

(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 \$19,961,233 of restricted net position, of which \$2,948,347 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, 2015

(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.

Fund Accounting:

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

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

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2015

(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, 2015

(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 \$4,162,025 for the Pohnpei State Early Retirement Scheme. Furthermore, investments recorded in the Compact Trust Fund of \$12,850,831 are restricted in that they are not available to be used in current operations.

As of September 30, 2015, 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.	\$ 283,712
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	652,050

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2015

(1) Summary of Significant Accounting Policies, Continued

K. Restricted Assets, Continued

Primary Government, Continued:

Compact Sector Grants	102,727
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Loan Guarantee Escrow Account established for the sole purpose of loan collateralization made through the USDA Rural Development. The escrow account may be drawn down in the event of a borrower's default on the obligation under the terms of the promissory note and the deed of trust security instrument supporting such note and for which such note is guaranteed by the Pohnpei State Housing Authority, the trustee of the Loan Guarantee Escrow Account.

248,681

\$ 1,294,870

Discretely Presented Component Units:

Pohnpei Utilities Corporation:

Deposit accounts collateralizing loans payable to the FSM Development Bank and the Bank of the FSM	\$ 484,450
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Small Business Guarantee and Finance Corporation:

Deposit accounts restricted for various operations of the Small Business Guarantee and Finance Corporation	1,016,540
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\$ 1,500,900

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.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2015

(1) Summary of Significant Accounting Policies, Continued

L. Capital Assets, Continued

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.

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.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2015

(1) Summary of Significant Accounting Policies, Continued

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.

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.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2015

(1) Summary of Significant Accounting Policies, Continued

S. New Accounting Standards

During fiscal year 2015, the State implemented the following pronouncements:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which revise and establish new financial reporting requirements for most governments that provide their employees with pension benefits. The implementation of these statements did not have a material effect on the accompanying financial statements.
- GASB 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 implementation of this statement did not have a material effect on the accompanying financial statements.

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The provisions in Statement 72 are effective for fiscal years beginning after June 15, 2015. Management believes that the implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and will not have a material effect on the financial statements of the State.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the State.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2015

(1) Summary of Significant Accounting Policies, Continued

S. New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the State.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the State.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The provisions in Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the State.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the State.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2015

(1) Summary of Significant Accounting Policies, Continued

T. 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.

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, deferred outflows of resources, liabilities, and deferred inflows of resources and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

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, 2014 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.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2015

(2) Deposits and Investments, Continued

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.

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, 2015, the carrying amount of the primary government's total cash and cash equivalents was \$2,090,774 and the corresponding bank balances were \$2,459,288, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2015, bank deposits in the amount of \$500,000 were FDIC insured.

As of September 30, 2015, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$4,111,099 and the corresponding bank balances were \$4,301,504 which were maintained in financial institutions subject to FDIC insurance. As of September 30, 2015, bank deposits in the amount of \$1,537,612 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.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2015

(2) Deposits and Investments, Continued

B. Investments

Primary Government:

As of September 30, 2015, the State's investments at fair value are as follows:

Fixed income securities:	
Domestic fixed income	\$ 3,180,149
Other investments:	
Domestic equities	17,797,182
Cash management account	<u>205,063</u>
	<u>\$ 21,182,394</u>

As of September 30, 2015, 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	\$ 608,012	\$ 283,498	\$ 155,320	\$ 118,492	\$ 50,702	AAA
U.S. Government Agencies						
Obligations:						
Federal Home Loan Mortgage Corporation	206,489	71,708	59,879	50,775	24,127	AAA
Government National Mortgage Association	1,128	-	-	-	1,128	AAA
Federal National Mortgage Association	336,962	87,037	213,554	-	36,371	AAA
Tennessee Valley Authority	29,101	-	-	15,763	13,338	AAA
Housing Urban Development	124,135	-	-	124,135	-	No rating
AID-Tunisia	44,423	-	44,423	-	-	No rating
Municipal Obligations	560,993	560,993	-	-	-	A2
Municipal Obligations	62,042	-	23,645	23,571	14,826	Aa1
Municipal Obligations	11,349	-	-	11,349	-	Aa2
Corporate Bonds	110,596	101,800	8,796	-	-	A1
Corporate Bonds	84,371	18,904	52,460	13,007	-	A2
Corporate Bonds	182,462	151,913	30,549	-	-	A3
Corporate Bonds	64,065	14,514	33,574	15,977	-	Aa1
Corporate Bonds	37,344	-	-	-	37,344	Aa2
Corporate Bonds	193,453	153,422	7,157	32,874	-	Aa3
Corporate Bonds	50,349	29,002	8,700	12,647	-	Aaa
Corporate Bonds	7,504	-	-	7,504	-	Baa2
Corporate Bonds	30,118	-	11,705	5,934	12,479	No rating
Corporate Bonds	<u>435,253</u>	<u>435,253</u>	<u>-</u>	<u>-</u>	<u>-</u>	Baa1
	<u>\$ 3,180,149</u>	<u>\$ 1,908,044</u>	<u>\$ 649,762</u>	<u>\$ 432,028</u>	<u>\$ 190,315</u>	

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2015

(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, 2015.

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, 2015, 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, 2015, 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.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2015

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units:

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

Pohnpei Utilities Corporation:	
Mutual funds	\$ <u>173,860</u>
Pohnpei Port Authority:	
Fixed income securities	
Domestic fixed income	\$ <u>585,052</u>
Other:	
Domestic equivalents	635,932
International equities	<u>301,100</u>
	<u>937,032</u>
	\$ <u>1,522,084</u>

As of September 30, 2015, investments in fixed income securities are as follows:

U.S. Treasury obligations	AAAA/AAA	\$ 238,431
Mortgage and asset-backed securities	AAA/AA+	145,769
Corporate notes and bonds	A1/AA+	19,877
Corporate notes and bonds	A2/A+	17,559
Corporate notes and bonds	A2/A	17,275
Corporate notes and bonds	A3/A-	34,220
Corporate notes and bonds	A3/BBB+	17,310
Corporate notes and bonds	BAA2/BBB+	35,223
Corporate notes and bonds	BAA3/BBB-	16,726
Corporate notes and bonds	BAA3/BBB-	<u>42,662</u>
		\$ <u>585,052</u>

As of September 30, 2015, the Authority's fixed income securities had the following maturities:

	<u>1 to 5 Years</u>	<u>5 to 10 Years</u>	<u>Fair Value</u>
U.S. Treasury obligations	\$ 188,832	\$ 49,599	\$ 238,431
Mortgage and asset-backed securities	145,769	-	145,769
Corporate notes and bonds	<u>64,789</u>	<u>136,063</u>	<u>200,852</u>
	\$ <u>399,390</u>	\$ <u>185,662</u>	\$ <u>585,052</u>

As of September 30, 2015, 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, 2015

(3) Receivables

Primary Government:

Receivables as of September 30, 2015, 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	\$ 2,194,890	\$ -	\$ -	\$ -	\$ 2,194,890
Due from FSM National Government	-	1,730,314	-	-	1,730,314
Other	<u>5,137,478</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,137,478</u>
	7,332,368	1,730,314	-	-	9,062,682
Allowance for uncollectable accounts	<u>(5,141,632)</u>	<u>(453,598)</u>	<u>-</u>	<u>-</u>	<u>(5,595,230)</u>
	<u>\$2,190,736</u>	<u>\$ 1,276,716</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,467,452</u>

Discretely Presented Component Units:

Receivables as of September 30, 2015, 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	\$ 7,273,908	\$ 2,243,222	\$ 853,313	\$ -	\$ -	\$10,370,443
Loans	-	-	-	715,629	8,022,731	8,738,360
Other	<u>-</u>	<u>229,868</u>	<u>-</u>	<u>66,687</u>	<u>-</u>	<u>296,555</u>
	7,273,908	2,473,090	853,313	782,316	8,022,731	19,405,358
Less: allowance for uncollectibles	<u>(5,678,154)</u>	<u>(1,603,541)</u>	<u>(850,389)</u>	<u>(115,940)</u>	<u>(5,837,032)</u>	<u>(14,085,056)</u>
	<u>\$ 1,595,754</u>	<u>\$ 869,549</u>	<u>\$ 2,924</u>	<u>\$ 666,376</u>	<u>\$ 2,185,699</u>	<u>\$ 5,320,302</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. \$ 715,629

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Notes to Financial Statements
September 30, 2015

(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, 2015 are presented below:

Pohnpei State Housing Authority loans	\$ 6,453,810
HPG loans	416,687
USDA Rural Development loans	<u>1,152,234</u>
	8,022,731
Less allowance for loan losses	<u>(5,837,032)</u>
Loans receivable, net	\$ <u>2,185,699</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, 2015, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Grants Assistance	General	\$ 2,871,641
Nonmajor governmental funds	General	3,638,788
General	Grants Assistance	903,083
General	Nonmajor governmental funds	<u>16,192</u>
		\$ <u>7,429,704</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 \$1,596,030 due to an allowance for doubtful accounts recorded by the General Fund of \$1,596,030.

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FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2015

(5) Capital Assets

Capital asset activities for the year ended September 30, 2015, are as follows:

Primary Government:

	Balance October 1, 2014	Additions	Retirements	Balance September 30, 2015
Governmental activities:				
Capital assets, being depreciated:				
Buildings	\$ 24,841,744	\$ -	\$ -	\$ 24,841,744
Machinery, equipment and others	23,986,931	925,724	-	24,912,655
Infrastructure	<u>53,614,989</u>	<u>-</u>	<u>-</u>	<u>53,614,989</u>
Total capital assets, being depreciated	<u>102,443,664</u>	<u>925,724</u>	<u>-</u>	<u>103,369,388</u>
Less accumulated depreciation for:				
Buildings	(5,781,566)	(427,455)	-	(6,209,021)
Machinery, equipment and others	(22,217,034)	(554,365)	-	(22,771,399)
Infrastructure	<u>(42,458,006)</u>	<u>(1,486,897)</u>	<u>-</u>	<u>(43,944,903)</u>
	<u>(70,456,606)</u>	<u>(2,468,717)</u>	<u>-</u>	<u>(72,925,323)</u>
Governmental activities capital assets, net	\$ <u>31,987,058</u>	\$ <u>(1,542,993)</u>	\$ <u>-</u>	\$ <u>30,444,065</u>

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

General government	\$ 180,171
Land and natural resources	14,055
Education	366,982
Health services	167,675
Public safety	242,250
Public works and transportation	<u>1,497,584</u>
	<u>\$ 2,468,717</u>

Discretely Presented Component Units:

	Balance October 1, 2014	Additions	Retirements	Balance September 30, 2015
Depreciable assets:				
Buildings	\$ 15,634,198	\$ 498,173	\$ -	\$ 16,132,371
Utility plant	58,960,779	3,111,176	-	62,071,955
Machinery, equipment and others	<u>7,517,396</u>	<u>317,048</u>	<u>(11,515)</u>	<u>7,822,929</u>
Total capital assets, being depreciated	82,112,373	3,926,397	-	86,027,255
Less accumulated depreciation	<u>(55,027,778)</u>	<u>(2,672,799)</u>	<u>23,017</u>	<u>(57,677,560)</u>
	<u>27,084,595</u>	<u>1,253,598</u>	<u>11,502</u>	<u>28,349,695</u>
Nondepreciable assets:				
Land	2,776,034	-	-	2,776,034
Construction work-in-progress	<u>7,435,155</u>	<u>4,911,234</u>	<u>(4,111,938)</u>	<u>8,234,451</u>
	<u>10,211,189</u>	<u>4,911,234</u>	<u>(4,111,938)</u>	<u>11,010,485</u>
	\$ <u>37,295,784</u>	\$ <u>6,164,832</u>	\$ <u>(4,100,436)</u>	\$ <u>39,360,180</u>

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Notes to Financial Statements
September 30, 2015

(6) Short-term Debt

Discretely Presented Component Units:

Pohnpei Utilities Corporation (PUC)

Line of credit with a bank in the original amount of \$190,000, interest at 5% over the TCD rate (5.25% per annum at September 30, 2015), collateralized by a time certificate of deposit (TCD) with the bank, and expires on August 22, 2016.

Short-term activity for the year ended September 30, 2015, was as follows:

	Balance October 1, <u>2014</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2015
Note payable:				
PUC	\$ <u>189,131</u>	\$ <u> </u> -	\$ <u> </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 Asian Development Bank (ADB) (Loan Number 1520 (SF)) through the FSM National Government, non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. The activities of the ERS Program are recorded in the General Fund.

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

Funds for the repayment of the ADB loan are expected to be derived from the annual appropriations for salaries and wages earmarked for the positions abolished under the Early Retirement Scheme. The Financing Agreement requires the State to continue to appropriate salaries for the abolished positions and deposit the appropriate funds into the ERS Trust Account. These funds had not been deposited to the Trust Account as of September 30, 2002. Of the required \$4,200,000 identified for future debt service payments, \$4,162,025 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, 2015, the balance payable on this loan amounted to \$3,555,254.

**STATE OF POHNPEI
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Notes to Financial Statements
September 30, 2015

(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, 2015, the balances payable on these loans amounted to \$327,663 and \$653,225, 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>
2016	\$ 150,878	\$ 50,231	\$ 201,109
2017	150,878	48,390	199,268
2018	235,409	44,859	280,268
2019	235,409	43,864	279,273
2020	235,409	41,178	276,587
2021-2025	1,177,043	165,604	1,342,647
2026-2030	1,037,072	102,178	1,139,250
2031-2035	969,150	46,742	1,015,892
2036-2037	<u>344,894</u>	<u>5,156</u>	<u>350,050</u>
	\$ <u>4,536,142</u>	\$ <u>548,202</u>	\$ <u>5,084,344</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. \$ 2,000,695

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. 513,351

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. 313,618

**STATE OF POHNPEI
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Notes to Financial Statements
September 30, 2015

(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.

147,513

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

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, 2015). Proceeds are used for infrastructure projects to overhaul sewage pumps, extend sewage lines, and for treatment plants.

2,042,089

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.

21,138

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

804,474

\$ 10,798,165

**STATE OF POHNPEI
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Notes to Financial Statements
September 30, 2015

(7) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued:

Pohnpei Utilities Corporation (PUC), Continued

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>
2016	\$ 666,723	\$ 223,883	\$ 890,606
2017	601,453	200,630	802,083
2018	607,254	182,131	789,385
2019	521,570	166,528	688,098
2020	522,048	157,331	679,379
2021-2025	2,860,023	634,640	3,494,663
2026-2030	3,087,151	343,319	3,430,470
2031-2035	1,600,614	120,505	1,721,119
2036-2040	219,719	40,385	260,104
2041-2044	<u>111,610</u>	<u>10,073</u>	<u>121,683</u>
	<u>\$ 10,798,165</u>	<u>\$ 2,079,425</u>	<u>\$ 12,877,590</u>

(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, 2015, the following changes occurred in liabilities reported as part of the primary government's long-term liabilities in the statement of net position:

	<u>Balance October 1, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2015</u>	<u>Due Within One Year</u>
Loans payable:					
ADB loans:					
Loan 1520	\$ 4,184,695	\$ -	\$ (629,441)	\$ 3,555,254	84,531
Loan 1873	417,703	-	(90,040)	327,663	31,195
Loan 1874	<u>733,341</u>	<u>-</u>	<u>(80,116)</u>	<u>653,225</u>	<u>35,152</u>
	5,335,739	-	(799,597)	4,536,142	150,878
Other:					
Compensated absences	740,041	703,435	(754,169)	689,307	689,307
Claims	<u>210,968</u>	<u>-</u>	<u>-</u>	<u>210,968</u>	<u>-</u>
	<u>\$ 6,286,748</u>	<u>\$ 703,435</u>	<u>\$ (1,553,766)</u>	<u>\$ 5,436,417</u>	<u>\$ 840,185</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2015

(8) Change in Long-Term Obligations, Continued

When the ADB extends credit to a particular country, the loan is booked in Special Drawing Rights (SDRs) but the actual loan is delivered in the currency of the borrower, at the current exchange rate between the currency and the SDR. The value of the SDR is subject to periodic review by the International Monetary Fund, which may result in the recognition of a foreign exchange gain or loss. During the year ended September 30, 2015, the State recognized a foreign exchange gain of \$663,813 associated with valuation of the SDR, which is presented as a special item in the accompanying financial statements, and which results in a reduction in ADB loans payable.

Discretely Presented Component Units:

During the year ended September 30, 2015, the following changes occurred in long-term obligations of the discretely presented component units:

	Balance October 1, 2014	Additions	Reductions	Balance September 30, 2015	Due Within One Year
Loans payable:					
Pohnpei Utilities Corporation	\$ <u>9,976,215</u>	\$ <u>2,025,974</u>	\$ <u>(1,204,024)</u>	\$ <u>10,798,165</u>	\$ <u>666,723</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.

Encumbrances

The State utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2015, the State has significant encumbrances summarized as follows:

	General	Grants Assistance	Other Governmental Funds	Total
Encumbrances	\$ <u>130,012</u>	\$ <u>1,042,683</u>	\$ <u>701,720</u>	\$ <u>1,874,415</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, 2015. 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.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2015

(9) Contingencies and Commitments, Continued

Federal Grants, Continued

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 the Pohnpei State Housing Authority (the Authority) and the United State of Department of Agriculture (USDA) Rural Development (parties to the MOU) have failed to collect from the defaulted borrowers, the State may be ultimately responsible for various USDA Rural Development loans. On March 28, 2007, the State was notified that various loans in the program may be in default. No provision for any liability that may result from this matter has been provided for within the accompanying financial statements.

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.

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, 2015, is not predictable but could have a material impact on the accompanying financial statements. Such impact has currently been estimated to approximate \$210,968.

Insurance Coverage

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

CFSM Projects

At September 30, 2015, approximately \$536,000 is due as reimbursements paid for related projects. Due to administrative differences, this amount has not been collected to date. If the administrative differences are not resolved, non-collection of this amount will have a material impact on the accompanying financial statements.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2015

(9) Contingencies and Commitments, Continued

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.

(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:

	General Fund	Grants Assistance Fund	Compact Trust Fund	Nonmajor Funds	Total Governmental Funds
Non-spendable:					
General government	\$ 81,350	\$ -	\$ -	\$ -	\$ 81,350
Economic development	-	-	-	15,962	15,962
Pacific Islands Development Bank	1,000,000	-	-	-	1,000,000
Bank of the FSM	500,000	-	-	-	500,000
Permanent fund principal	-	-	12,850,831	-	12,850,831
Restricted for:					
General government	-	81,497	-	-	81,497
Debt service	4,162,025	-	-	-	4,162,025
USDA development loans	248,681	-	-	-	248,681
Education	-	14,609	-	-	14,609
Health services	283,712	4,787	-	-	288,499
Infrastructure maintenance	-	18,969	-	-	18,969

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2015

(11) Fund Balance, Continued

	<u>General Fund</u>	<u>Grants Assistance Fund</u>	<u>Compact Trust Fund</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
Committed:					
General government	148,716	-	-	1,260,283	1,408,999
Economic development	-	-	-	145,400	145,400
Health services	-	-	-	1,526,732	1,526,732
Assigned	130,013	-	-	-	130,013
Unassigned	<u>172,674</u>	<u>(27,282)</u>	<u>-</u>	<u>-</u>	<u>145,392</u>
	<u>\$ 6,727,171</u>	<u>\$ 92,580</u>	<u>\$ 12,850,831</u>	<u>\$ 2,948,377</u>	<u>\$ 22,618,959</u>

(12) Budgetary Compliance

For the year ended September 30, 2015, over-expenditures exceeded appropriations within the General Fund for the following:

Department of Treasury and Administration	\$ 558,711
Debt service	\$ 135,784

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

(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, 2015 (FSMDB fiscal year end), the outstanding fund balance aggregated \$0.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

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

YEAR ENDED SEPTEMBER 30, 2015

**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, 2015

	<u>Budgeted Amounts</u>		<u>Actual - Budgetary Basis (see Note 1)</u>	<u>Variance with Final Budget -</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Grants	\$ 155,000	\$ 155,000	\$ -	\$ (155,000)
FSM revenue sharing	6,606,817	6,606,817	7,060,565	453,748
State taxes	2,293,339	2,293,339	2,466,631	173,292
Fees and charges	280,000	280,000	370,748	90,748
Net change in the fair value of investments	500,000	500,000	164,990	(335,010)
Other	429,844	429,844	56,342	(373,502)
Total revenues	<u>10,265,000</u>	<u>10,265,000</u>	<u>10,119,276</u>	<u>(145,724)</u>
Expenditures:				
Current:				
General government	3,587,730	3,625,808	4,067,093	(441,285)
Department of Land and Natural Resources	496,934	496,934	479,785	17,149
Department of Education	8,281	8,281	6,275	2,006
Department of Health Services	49,600	58,100	51,496	6,604
Department of Public Safety	1,218,045	1,356,294	1,272,592	83,702
Office of the Attorney-General	453,015	453,015	357,694	95,321
Department of Public Works	500,879	500,879	464,637	36,242
Boards, commissions and other	1,154,376	1,176,376	1,092,960	83,416
Payments to non-governmental agencies	292,449	292,449	291,588	861
Grants to local governments	2,422,301	2,422,301	2,425,007	(2,706)
Debt service	-	-	135,784	(135,784)
Total expenditures	<u>10,183,610</u>	<u>10,390,437</u>	<u>10,644,911</u>	<u>(254,474)</u>
Net change in fund balance	81,390	(125,437)	(525,635)	(400,198)
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	<u>155,238</u>	<u>155,238</u>	<u>130,012</u>	<u>(25,226)</u>
	236,628	29,801	(395,623)	(425,424)
Fund balance at the beginning of the year	<u>7,122,794</u>	<u>7,122,794</u>	<u>7,122,794</u>	<u>-</u>
Fund balance at the end of the year	<u>\$ 7,359,422</u>	<u>\$ 7,152,595</u>	<u>\$ 6,727,171</u>	<u>\$ (425,424)</u>

See accompanying notes to required supplementary information - budgetary reporting.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Required Supplementary Information – Budgetary Reporting
September 30, 2015

(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**

OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2015

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Combining Schedule of Expenditures by Account
Governmental Funds
Year Ended September 30, 2015

		Special Revenue	Permanent	Other Governmental Funds	Total
	General	Grants Assistance	Compact Trust		
Expenditures:					
Salaries and wages					
Regular	\$ 4,512,983	\$ 9,880,221	\$ -	\$ 91,312	\$ 14,484,516
Overtime	59,151	226,944	-	7,078	293,173
Fringe benefits	964,322	2,287,790	-	9,257	3,261,369
Travel and transportation	215,007	354,088	-	9,706	578,801
Books and instructional materials	-	552,855	-	-	552,855
Communications	101,519	105,992	-	7,815	215,326
Dues, membership, and subscriptions	15,190	5,435	-	-	20,625
Food stuffs	90,950	458,918	-	13,725	563,593
Freight and port charges	190	2,506	-	6,464	9,160
Non-capitalized equipment	31,618	50,861	-	3,521	86,000
Capital outlays	40,686	1,084,213	-	34,830	1,159,729
Office supplies and materials	272,516	793,558	-	51,480	1,117,554
POL	133,416	198,985	-	9,328	341,729
Printing and reproduction	19,399	97,026	-	3,633	120,058
Rental services	8,836	103,388	-	78	112,302
Repairs and maintenance	25,820	72,347	-	1,800	99,967
Utilities	278,439	910,788	-	68,341	1,257,568
Miscellaneous goods and services	27,310	28,602	-	193,440	249,352
Subsidies and contributions	208,090	-	-	-	208,090
Medical referrals	-	73,332	-	-	73,332
Medical supplies	-	1,479,763	-	311,905	1,791,668
Contractual services	155,971	1,279,629	-	635,973	2,071,573
Housing allowance	45,100	139,202	-	-	184,302
Non-payroll compensation	-	159,123	-	-	159,123
Court settlements	53,500	-	-	-	53,500
Scholarships and allowances	-	295,922	-	-	295,922
Insurance	31,466	-	-	-	31,466
Official allowance	113,440	-	-	-	113,440
Meeting allowance	4,686	19,971	-	2,747	27,404
Leased housing, buildings and land	5,612	-	-	-	5,612
Principal repayment	135,784	-	-	-	135,784
Payments to municipalities	2,406,891	-	-	-	2,406,891
Bad debts	551,300	-	-	-	551,300
Bank charges	4,881	120	-	-	5,001
Miscellaneous	826	-	-	-	826
	<u>\$ 10,514,899</u>	<u>\$ 20,661,579</u>	<u>\$ -</u>	<u>\$ 1,462,433</u>	<u>\$ 32,638,911</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, 2015
(with comparative totals for the year ended September 30, 2014)

	2015	2014
Revenues:		
CFSM grants	\$ -	\$ 162,778
FSM revenue sharing:		
Gross revenue taxes	2,528,888	2,402,711
Import taxes	2,192,846	1,567,732
Income taxes	2,036,878	2,194,761
Other taxes	301,953	309,419
	<u>7,060,565</u>	<u>6,474,623</u>
State taxes:		
Sales tax	2,371,723	2,072,223
Hotel tax	94,908	81,196
	<u>2,466,631</u>	<u>2,153,419</u>
Fees and charges:		
Licenses and fees:	370,748	393,920
Net change in the fair value of investments	164,990	1,140,777
Other revenues	56,342	29,135
Total revenues	<u>10,119,276</u>	<u>10,354,652</u>
Expenditures:		
Current:		
General government:		
Governor and staff	420,361	463,306
Department of Treasury and Administration	1,134,264	884,802
Office of Pohnpei Public Auditor	15,085	11,313
Judiciary Branch	658,605	661,130
Legislative Branch	1,754,202	1,773,900
	<u>3,982,517</u>	<u>3,794,451</u>
Department of Land and Natural Resources:		
Office of the Director	88,226	90,020
Division of Public Land	17,195	17,950
Division of Surveying and Mapping	189,322	193,552
Division of Forestry and Marine Conservation	67,471	78,678
Division of Historic Preservation	49,829	48,945
Division of Parks and Recreation	64,826	71,204
	<u>476,869</u>	<u>500,349</u>
Department of Education:		
Division of Primary Education	5,312	68,454
Department of Health:		
Medical services	51,496	49,365
Department of Public Safety:		
Office of the Director	76,966	87,594
Search and Rescue	-	3,423
Fish and Wildlife	109,485	132,375
Police Commission	20,339	24,757
Division of Police and Security	832,608	859,066
Division of Correction and Rehabilitation	215,788	256,699
	<u>1,255,186</u>	<u>1,363,914</u>
Office of the Attorney-General	353,863	467,272
Public Works	454,299	502,844

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, 2015
(with comparative totals for the year ended September 30, 2014)

	<u>2015</u>	<u>2014</u>
Expenditures, continued:		
Current:		
Boards, commissions and other:		
Office of Economic Affairs	300,101	263,763
Office of Social Affairs	112,743	100,842
Election Commissioner's Office	52,818	51,010
Pohnpei Public Broadcasting Corporation	124,456	132,296
Foreign Investment Board	6,572	36,679
Pohnpei Housing Authority	114,883	137,636
Sports and Recreation	120,850	130,566
Office of Fisheries and Aquaculture	209,587	260,976
Environmental Protection Agency	41,784	3,810
	<u>1,083,794</u>	<u>1,117,578</u>
Payments to non-governmental agencies:		
Small Business Guarantee and Finance Corporation	94,000	94,000
Pohnpei Public Library	54,523	54,523
Micronesian Legal Services Corporation	54,445	54,445
U.S.D.A. Rural Development	88,168	93,766
Pohnpei Visitors' Bureau	(364)	31,427
Pahap Power Extension	-	22,050
Sport Facilities	-	162,296
Other	-	2,856
	<u>290,772</u>	<u>515,363</u>
Grants to local governments	<u>2,425,007</u>	<u>2,402,415</u>
Debt service:		
Principal repayment	<u>135,784</u>	<u>155,288</u>
Total expenditures	<u>10,514,899</u>	<u>10,937,293</u>
Deficiency of revenues under expenditures	<u>(395,623)</u>	<u>(582,641)</u>
Other financing uses:		
Operating transfers out	<u>-</u>	<u>(280,375)</u>
Net change in fund balance	<u>(395,623)</u>	<u>(863,016)</u>
Fund balance at the beginning of the year	<u>7,122,794</u>	<u>7,985,810</u>
Fund balance at the end of the year	<u>\$ 6,727,171</u>	<u>\$ 7,122,794</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, 2015**

	Budgeted Amounts		Actual -	Variance with
	Original	Final	Budgetary	Final Budget -
			Basis	Positive
				(Negative)
Revenues:				
CFSM grants	\$ 155,000	\$ 155,000	\$ -	\$ (155,000)
FSM revenue sharing	6,606,817	6,606,817	7,060,565	453,748
State taxes:				
Sales tax	2,198,523	2,198,523	2,371,723	173,200
Hotel tax	94,816	94,816	94,908	92
	<u>2,293,339</u>	<u>2,293,339</u>	<u>2,466,631</u>	<u>173,292</u>
Fees and charges:				
Licenses and fees	280,000	280,000	370,748	90,748
Net change in the fair value of investments	500,000	500,000	164,990	(335,010)
Other	429,844	429,844	56,342	(373,502)
Total revenues	<u>10,265,000</u>	<u>10,265,000</u>	<u>10,119,276</u>	<u>(145,724)</u>
Expenditures:				
Current:				
General government:				
Governor and staff	497,378	497,378	458,727	38,651
Department of Treasury and Administration	585,403	585,403	1,144,114	(558,711)
Office of the Pohnpei Public Auditor	12,688	15,766	15,085	681
Judiciary Branch	694,480	694,480	670,589	23,891
Legislative Branch	1,797,781	1,832,781	1,778,578	54,203
	<u>3,587,730</u>	<u>3,625,808</u>	<u>4,067,093</u>	<u>(441,285)</u>
Department of Land and Natural Resources:				
Office of the Director	89,358	89,358	88,588	770
Division of Public Land	21,335	21,335	17,195	4,140
Division of Surveying and Mapping	190,958	190,958	189,855	1,103
Division of Forestry and Marine Conservation	75,764	75,764	69,065	6,699
Division of Historic Preservation	49,161	49,161	49,825	(664)
Division of Parks and Recreation	70,358	70,358	65,257	5,101
	<u>496,934</u>	<u>496,934</u>	<u>479,785</u>	<u>17,149</u>
Department of Education:				
Division of Primary Education	8,281	8,281	6,275	2,006
Department of Health Services:				
Division of Medical Services	49,600	58,100	51,496	6,604
Department of Public Safety:				
Office of the Director	157,338	157,338	83,486	73,852
Search and Rescue	4,000	4,000	-	4,000
Police Commission	24,365	24,365	20,678	3,687
Division of Police and Security	670,470	808,719	837,809	(29,090)
Division of Correction and Rehabilitation	233,941	233,941	216,124	17,817
Fish and Wildlife	127,931	127,931	114,495	13,436
	<u>1,218,045</u>	<u>1,356,294</u>	<u>1,272,592</u>	<u>83,702</u>
Office of the Attorney-General	453,015	453,015	357,694	95,321
Department of Public Works:				
Office of Transportation and Infrastructure	500,879	500,879	464,637	36,242

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures by Function and Changes in Fund Balance, Continued
Budget and Actual - General Fund
Year Ended September 30, 2015

	Budgeted Amounts		Actual - Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final Budget		
Expenditures, continued:				
Boards, commissions and other:				
Office of Economic Affairs	312,551	312,551	301,196	11,355
Office of Social Affairs	99,827	117,327	113,113	4,214
Election Commissioner's Office	50,722	55,222	56,066	(844)
Pohnpei Public Broadcasting Corporation	126,979	126,979	124,739	2,240
Foreign Investment Board	52,089	52,089	8,758	43,331
Pohnpei Housing Authority	116,087	116,087	116,087	-
Sports and Recreation	129,946	129,946	121,117	8,829
Office of Fisheries and Aquaculture	224,392	224,392	210,100	14,292
Environmental Protection Agency	41,783	41,783	41,784	(1)
	<u>1,154,376</u>	<u>1,176,376</u>	<u>1,092,960</u>	<u>83,416</u>
Payments to non-governmental agencies:				
Small Business Guarantee and Finance Corporation	94,000	94,000	94,000	-
Pohnpei Public Library	54,523	54,523	54,523	-
Micronesian Legal Services Corporation	54,447	54,447	54,445	2
U.S.D.A. Rural Development	88,360	88,360	88,168	192
Pohnpei Visitors Bureau	1,119	1,119	452	667
	<u>292,449</u>	<u>292,449</u>	<u>291,588</u>	<u>861</u>
Grants to local governments	<u>2,422,301</u>	<u>2,422,301</u>	<u>2,425,007</u>	<u>(2,706)</u>
Debt service:				
Principal repayment	-	-	135,784	(135,784)
Total expenditures	<u>10,183,610</u>	<u>10,390,437</u>	<u>10,644,911</u>	<u>(254,474)</u>
Net change in fund balance	81,390	(125,437)	(525,635)	(400,198)
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	<u>155,238</u>	<u>155,238</u>	<u>130,012</u>	<u>(25,226)</u>
	236,628	29,801	(395,623)	(425,424)
Fund balance at the beginning of the year	<u>7,122,794</u>	<u>7,122,794</u>	<u>7,122,794</u>	<u>-</u>
Fund balance at the end of the year	<u>\$ 7,359,422</u>	<u>\$ 7,152,595</u>	<u>\$ 6,727,171</u>	<u>\$ (425,424)</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

**NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS**

Combining Balance Sheet
September 30, 2015

	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	
<u>ASSETS</u>													
Due from other funds	\$ 145,091	\$ -	\$ 79,664	\$ 75,939	\$ 1,035,806	\$ 471,217	\$ 8,109	\$ 1,193,467	\$ 30,573	\$ -	\$ 549,071	\$ 49,851	\$ 3,638,788
Advances	-	-	3,401	-	-	-	-	-	-	2,347	1,000	-	6,748
Inventories	-	29,947	-	-	-	-	-	-	-	-	-	-	29,947
Total assets	<u>\$ 145,091</u>	<u>\$ 29,947</u>	<u>\$ 83,065</u>	<u>\$ 75,939</u>	<u>\$ 1,035,806</u>	<u>\$ 471,217</u>	<u>\$ 8,109</u>	<u>\$ 1,193,467</u>	<u>\$ 30,573</u>	<u>\$ 2,347</u>	<u>\$ 550,071</u>	<u>\$ 49,851</u>	<u>\$ 3,675,483</u>
<u>LIABILITIES AND FUND BALANCES</u>													
Liabilities:													
Accounts payable	\$ -	\$ 3,541	\$ 10,513	\$ (310)	\$ 200	\$ 137,952	\$ -	\$ -	\$ 2,862	\$ -	\$ -	\$ 3,567	\$ 158,325
Other liabilities and accruals	-	-	-	-	-	-	-	-	-	-	-	2,518	2,518
Unearned revenues	-	-	-	-	-	-	-	-	-	-	550,071	-	550,071
Due to other funds	-	13,845	-	-	-	-	-	-	-	2,347	-	-	16,192
Total liabilities	<u>-</u>	<u>17,386</u>	<u>10,513</u>	<u>(310)</u>	<u>200</u>	<u>137,952</u>	<u>-</u>	<u>-</u>	<u>2,862</u>	<u>2,347</u>	<u>550,071</u>	<u>6,085</u>	<u>727,106</u>
Fund balances:													
Non-spendable	-	12,561	3,401	-	-	-	-	-	-	-	-	-	15,962
Committed	145,091	-	69,151	76,249	1,035,606	333,265	8,109	1,193,467	27,711	-	-	43,766	2,932,415
Total fund balances	<u>145,091</u>	<u>12,561</u>	<u>72,552</u>	<u>76,249</u>	<u>1,035,606</u>	<u>333,265</u>	<u>8,109</u>	<u>1,193,467</u>	<u>27,711</u>	<u>-</u>	<u>-</u>	<u>43,766</u>	<u>2,948,377</u>
Total liabilities and fund balances	<u>\$ 145,091</u>	<u>\$ 29,947</u>	<u>\$ 83,065</u>	<u>\$ 75,939</u>	<u>\$ 1,035,806</u>	<u>\$ 471,217</u>	<u>\$ 8,109</u>	<u>\$ 1,193,467</u>	<u>\$ 30,573</u>	<u>\$ 2,347</u>	<u>\$ 550,071</u>	<u>\$ 49,851</u>	<u>\$ 3,675,483</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, 2015

	26	27	29	32	33	34	35	36	37	38	18	87	
	<u>Alien Registration Revolving</u>	<u>Pohnpei State Farmers' Revolving</u>	<u>Fisheries Enforcement and Development</u>	<u>Recycling Revolving</u>	<u>Paved Road Maintenance</u>	<u>Medical Supplies Revolving</u>	<u>Public Broadcasting Corporation</u>	<u>Health Care Premium</u>	<u>Department of Public Safety Fees</u>	<u>Environmental Quality</u>	<u>Infrastructure Maintenance</u>	<u>Public Lands Trust</u>	<u>Total</u>
Revenues:													
Compact funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 154,273	\$ -	\$ 154,273
Excise tax	-	-	-	-	425,742	-	-	-	-	-	-	-	425,742
Fees and charges	<u>53,356</u>	<u>51,914</u>	<u>69,991</u>	<u>275,918</u>	<u>-</u>	<u>559,369</u>	<u>21,924</u>	<u>103,040</u>	<u>72,043</u>	<u>-</u>	<u>-</u>	<u>17,906</u>	<u>1,225,461</u>
Total revenues	<u>53,356</u>	<u>51,914</u>	<u>69,991</u>	<u>275,918</u>	<u>425,742</u>	<u>559,369</u>	<u>21,924</u>	<u>103,040</u>	<u>72,043</u>	<u>-</u>	<u>154,273</u>	<u>17,906</u>	<u>1,805,476</u>
Expenditures by function:													
Current:													
General government	-	44,322	111,187	200,362	445,798	-	19,358	-	44,332	-	154,273	89,983	1,109,615
Health services	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>312,739</u>	<u>-</u>	<u>40,079</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>352,818</u>
Total expenditures	<u>-</u>	<u>44,322</u>	<u>111,187</u>	<u>200,362</u>	<u>445,798</u>	<u>312,739</u>	<u>19,358</u>	<u>40,079</u>	<u>44,332</u>	<u>-</u>	<u>154,273</u>	<u>89,983</u>	<u>1,462,433</u>
Net change in fund balances	53,356	7,592	(41,196)	75,556	(20,056)	246,630	2,566	62,961	27,711	-	-	(72,077)	343,043
Fund balances at the beginning 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>
Fund balances at the end of the year	<u>\$ 145,091</u>	<u>\$ 12,561</u>	<u>\$ 72,552</u>	<u>\$ 76,249</u>	<u>\$ 1,035,606</u>	<u>\$ 333,265</u>	<u>\$ 8,109</u>	<u>\$ 1,193,467</u>	<u>\$ 27,711</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 43,766</u>	<u>\$ 2,948,377</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, 2015

	26	27	29	32	33	34	35	36	37	38	18	87	
	Alien Registration Revolving	Pohnpei State Farmers' Revolving	Fisheries Enforcement and Development	Recycling Revolving	Paved Road Maintenance	Medical Supplies Revolving	Public Broadcasting Corporation	Health Care Premium	Department of Public Safety Fees	Environmental Quality	Infrastructure Maintenance	Public Lands Trust	Total
Revenues:													
Compact funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 154,273	\$ -	\$ 154,273
Excise tax	-	-	-	-	425,742	-	-	-	-	-	-	-	425,742
Fees and charges	<u>53,356</u>	<u>51,914</u>	<u>69,991</u>	<u>275,918</u>	<u>-</u>	<u>559,369</u>	<u>21,924</u>	<u>103,040</u>	<u>72,043</u>	<u>-</u>	<u>-</u>	<u>17,906</u>	<u>1,225,461</u>
Total revenues	<u>53,356</u>	<u>51,914</u>	<u>69,991</u>	<u>275,918</u>	<u>425,742</u>	<u>559,369</u>	<u>21,924</u>	<u>103,040</u>	<u>72,043</u>	<u>-</u>	<u>154,273</u>	<u>17,906</u>	<u>1,805,476</u>
Expenditures by account:													
Salaries and wages:													
Regular	-	-	-	-	-	-	-	-	18,049	-	-	73,263	91,312
Overtime	-	-	-	-	-	-	-	-	7,078	-	-	-	7,078
Fringe benefits	-	-	-	-	-	-	-	-	1,973	-	-	7,284	9,257
Travel	-	-	9,906	(200)	-	-	-	-	-	-	-	-	9,706
Communications	-	1,762	3,890	-	-	-	-	-	2,008	-	-	155	7,815
Food stuff	-	-	13,725	-	-	-	-	-	-	-	-	-	13,725
Freight and port charges	-	528	157	4,900	45	834	-	-	-	-	-	-	6,464
Non-capitalized equipment	-	420	-	1,401	-	-	-	-	-	-	-	1,700	3,521
Capital outlay	-	-	-	-	34,830	-	-	-	-	-	-	-	34,830
Office supplies and materials	-	33,032	8,097	2,275	-	-	-	1,250	4,669	-	-	2,157	51,480
POL	-	2,297	6,045	155	-	-	-	-	-	-	-	831	9,328
Printing and reproduction	-	154	2,674	60	-	-	-	-	565	-	-	180	3,633
Rental	-	58	20	-	-	-	-	-	-	-	-	-	78
Repairs and maintenance	-	425	1,375	-	-	-	-	-	-	-	-	-	1,800
Utilities	-	5,643	34,850	-	-	-	17,858	-	9,990	-	-	-	68,341
Miscellaneous goods and services	-	3	-	191,771	-	-	-	-	-	-	-	1,666	193,440
Medical supplies	-	-	-	-	-	311,905	-	-	-	-	-	-	311,905
Contractual services	-	-	30,448	-	410,923	-	1,500	38,829	-	-	154,273	-	635,973
Meeting allowance	-	-	-	-	-	-	-	-	-	-	-	2,747	2,747
Total expenditures	<u>-</u>	<u>44,322</u>	<u>111,187</u>	<u>200,362</u>	<u>445,798</u>	<u>312,739</u>	<u>19,358</u>	<u>40,079</u>	<u>44,332</u>	<u>-</u>	<u>154,273</u>	<u>89,983</u>	<u>1,462,433</u>
Net change in fund balances	53,356	7,592	(41,196)	75,556	(20,056)	246,630	2,566	62,961	27,711	-	-	(72,077)	343,043
Fund balances at the beginning 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>
Fund balances at the end of the year	<u>\$ 145,091</u>	<u>\$ 12,561</u>	<u>\$ 72,552</u>	<u>\$ 76,249</u>	<u>\$ 1,035,606</u>	<u>\$ 333,265</u>	<u>\$ 8,109</u>	<u>\$ 1,193,467</u>	<u>\$ 27,711</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 43,766</u>	<u>\$ 2,948,377</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

GRANTS ASSISTANCE FUNDS

**Combining Balance Sheet
September 30, 2015**

	10	11	12	13	14	15	16	19	6	7	20	23	25	
	Section 211(a)(1) Education Sector	Section 211(a)(2) Health Sector	Section 211(a)(5) Environment	Section 211(a)(3) Private Sector Development	Section 211(a)(4) Capacity Building	Section 211(a)(1) Supplemental Education	Enhanced Reporting Accountability	Infrastructure Maintenance	Section 221(b) Special Block Grant	Compact I Other Grants	U.S. Federal Grants	Non-U.S. Grants	CFSM Grants	Total
<u>ASSETS</u>														
Receivables:														
Due from FSM National Government	\$ -	\$ -	\$ 79,632	\$ -	\$ -	\$ 280,950	\$ 4,085	\$ 306,577	\$ -	\$ -	\$ 14,635	\$ 8,750	578,159	\$ 1,272,788
Other	-	-	-	-	-	-	-	-	-	-	-	-	3,928	3,928
Due from other funds	581,494	1,734,524	-	87,897	233,353	-	9,602	-	44,188	35,588	132,641	12,354	-	2,871,641
Advances	11,131	7,703	288	1,760	41,052	11,389	-	-	-	-	40,099	3,958	3,838	121,218
Restricted cash	-	7,700	-	-	-	-	-	-	-	-	-	-	-	7,700
	<u>\$ 592,625</u>	<u>\$ 1,749,927</u>	<u>\$ 79,920</u>	<u>\$ 89,657</u>	<u>\$ 274,405</u>	<u>\$ 292,339</u>	<u>\$ 13,687</u>	<u>\$ 306,577</u>	<u>\$ 44,188</u>	<u>\$ 35,588</u>	<u>\$ 187,375</u>	<u>\$ 25,062</u>	<u>\$ 585,925</u>	<u>\$ 4,277,275</u>
<u>LIABILITIES AND FUND BALANCES (DEFICIT)</u>														
Liabilities:														
Accounts payable	\$ 113,655	\$ 540,020	\$ 11,462	\$ -	\$ 7,344	\$ 231,415	\$ 4,955	\$ -	\$ -	\$ -	\$ 122,886	\$ 41,385	\$ 41,140	\$ 1,114,262
Other liabilities and accruals	186,406	76,797	6,237	-	6,453	39,090	7,112	-	-	-	64,489	-	118	386,702
Unearned revenues	285,448	1,128,323	5,754	89,120	259,424	-	1,620	-	-	-	-	10,959	-	1,780,648
Due to other funds	-	-	56,467	-	-	14,341	-	287,608	-	-	-	-	544,667	903,083
Total liabilities	<u>585,509</u>	<u>1,745,140</u>	<u>79,920</u>	<u>89,120</u>	<u>273,221</u>	<u>284,846</u>	<u>13,687</u>	<u>287,608</u>	<u>-</u>	<u>-</u>	<u>187,375</u>	<u>52,344</u>	<u>585,925</u>	<u>4,184,695</u>
Fund balances (deficit):														
Restricted	7,116	4,787	-	537	1,184	7,493	-	18,969	44,188	35,588	-	-	-	119,862
Unassigned	-	-	-	-	-	-	-	-	-	-	-	(27,282)	-	(27,282)
Total fund balances (deficit)	<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>(27,282)</u>	<u>-</u>	<u>92,580</u>
Total liabilities and fund balances	<u>\$ 592,625</u>	<u>\$ 1,749,927</u>	<u>\$ 79,920</u>	<u>\$ 89,657</u>	<u>\$ 274,405</u>	<u>\$ 292,339</u>	<u>\$ 13,687</u>	<u>\$ 306,577</u>	<u>\$ 44,188</u>	<u>\$ 35,588</u>	<u>\$ 187,375</u>	<u>\$ 25,062</u>	<u>\$ 585,925</u>	<u>\$ 4,277,275</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

GRANTS ASSISTANCE FUNDS

Combining Statement of Revenues, Expenditures by Function,
and Changes in Fund Balances (Deficit)
Year Ended September 30, 2015

	10	11	12	13	14	15	16	19	6	7	20	23	25	
	Section 211(a)(1) Education Sector	Section 211(a)(2) Health Sector	Section 211(a)(5) Environment	Section 211(a)(3) Private Sector Development	Section 211(a)(4) Capacity Building	Section 211(a)(1) Supplemental Education	Enhanced Reporting Accountability	Infrastructure Maintenance	Section 221(b) Special Block Grant	Compact I Other Grants	U.S. Federal Grants	Non-U.S. Grants	CFSM Grants	Total
Revenues:														
Compact funding	\$ 7,462,668	\$ 6,219,609	\$ 311,166	\$ -	\$ 349,168	\$ 2,766,219	\$ 274,020	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,382,850
CFSM grants	-	-	-	-	-	-	-	-	-	-	-	-	117,537	117,537
Federal contributions and other grants	-	-	-	-	-	-	-	-	-	-	2,634,912	450,299	-	3,085,211
	<u>7,462,668</u>	<u>6,219,609</u>	<u>311,166</u>	<u>-</u>	<u>349,168</u>	<u>2,766,219</u>	<u>274,020</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,634,912</u>	<u>450,299</u>	<u>117,537</u>	<u>20,585,598</u>
Expenditures by function:														
Current:														
General government	-	-	311,166	-	349,168	-	274,020	-	-	-	36,989	526,280	117,537	1,615,160
Land and natural resources	-	-	-	-	-	-	-	-	-	-	136,275	-	-	136,275
Education	7,462,668	-	-	-	-	2,766,219	-	-	-	-	1,022,231	-	-	11,251,118
Health services	-	6,219,609	-	-	-	-	-	-	-	-	1,439,417	-	-	7,659,026
Total expenditures	<u>7,462,668</u>	<u>6,219,609</u>	<u>311,166</u>	<u>-</u>	<u>349,168</u>	<u>2,766,219</u>	<u>274,020</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,634,912</u>	<u>526,280</u>	<u>117,537</u>	<u>20,661,579</u>
Net change in fund balances	-	-	-	-	-	-	-	-	-	-	-	(75,981)	-	(75,981)
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>48,699</u>	<u>-</u>	<u>168,561</u>
Fund balances (deficit) 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>\$ (27,282)</u>	<u>\$ -</u>	<u>\$ 92,580</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

GRANTS ASSISTANCE FUNDS

Combining Statement of Revenues, Expenditures by Account,
and Changes in Fund Balances (Deficit)
Year Ended September 30, 2015

	10	11	12	13	14	15	16	19	6	7	20	23	25	
	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	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	Accountability		Special Block Grant					
Revenues:														
Compact funding	\$ 7,462,668	\$ 6,219,609	\$ 311,166	\$ -	\$ 349,168	\$ 2,766,219	\$ 274,020	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,382,850
CFSM grants	-	-	-	-	-	-	-	-	-	-	-	-	117,537	117,537
Federal contributions and other grants	-	-	-	-	-	-	-	-	-	-	2,634,912	450,299	-	3,085,211
	<u>7,462,668</u>	<u>6,219,609</u>	<u>311,166</u>	<u>-</u>	<u>349,168</u>	<u>2,766,219</u>	<u>274,020</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,634,912</u>	<u>450,299</u>	<u>117,537</u>	<u>20,585,598</u>
Expenditures by account:														
Salaries and wages:														
Regular	4,921,059	2,062,232	109,999	-	193,876	987,707	192,955	-	-	-	1,398,655	-	13,738	9,880,221
Overtime	-	75,830	1,852	-	-	-	141	-	-	-	140,613	-	8,508	226,944
Fringe benefits	1,168,378	405,526	33,265	-	32,355	260,705	41,380	-	-	-	341,888	-	4,293	2,287,790
Travel and transportation	5,315	76,087	150	-	30,635	47,670	-	-	-	-	137,306	19,129	37,796	354,088
Communications	5,781	31,005	3,545	-	3,828	49,736	-	-	-	-	11,437	60	600	105,992
Dues, membership, and subscriptions	-	-	-	-	1,555	900	2,980	-	-	-	-	-	-	5,435
Food stuffs	155,848	67,873	154	-	62	205,640	-	-	-	-	549	11,713	17,079	458,918
Freight and port charges	899	-	-	-	-	1,179	277	-	-	-	85	66	-	2,506
Non-capitalized equipment and furnitures	5,202	4,213	835	-	2,327	15,902	2,040	-	-	-	20,342	-	-	50,861
Capital outlays	374,617	359,304	-	-	17,118	122,267	2,315	-	-	-	59,284	147,308	2,000	1,084,213
Office supplies and materials	52,665	270,541	6,302	-	8,235	100,885	29,852	-	-	-	210,417	102,894	11,767	793,558
Books and instructional supplies	313,252	-	-	-	1,704	237,899	-	-	-	-	-	-	-	552,855
POL	70,922	24,258	5,684	-	1,919	51,229	-	-	-	-	41,840	2,706	427	198,985
Printing and reproduction	3,438	70,481	189	-	1,499	3,207	571	-	-	-	16,926	715	-	97,026
Rental services	540	22,388	-	-	240	6,810	-	-	-	-	70,210	1,940	1,260	103,388
Repairs and maintenance	31,369	5,641	660	-	1,256	26,312	1,401	-	-	-	5,548	-	160	72,347
Utilities	176,063	665,039	10,000	-	10,859	18,951	-	-	-	-	25,906	-	3,970	910,788
Medical referrals	-	73,332	-	-	-	-	-	-	-	-	-	-	-	73,332
Medical supplies	-	1,458,845	-	-	-	-	-	-	-	-	20,918	-	-	1,479,763
Contractual services	17,917	423,408	138,070	-	41,543	289,435	-	-	-	-	115,739	238,704	14,813	1,279,629
Scholarships and allowances	140,329	-	-	-	-	155,593	-	-	-	-	-	-	-	295,922
Housing allowance	16,506	101,446	-	-	150	19,900	-	-	-	-	1,200	-	-	139,202
Meeting allowance	1,140	5,710	461	-	-	580	-	-	-	-	12,080	-	-	19,971
Non-payroll compensation	-	-	-	-	7	159,116	-	-	-	-	-	-	-	159,123
Miscellaneous goods and services	1,428	16,450	-	-	-	4,596	-	-	-	-	3,969	1,045	1,114	28,602
Bank charges	-	-	-	-	-	-	108	-	-	-	-	-	12	120
Total expenditures	<u>7,462,668</u>	<u>6,219,609</u>	<u>311,166</u>	<u>-</u>	<u>349,168</u>	<u>2,766,219</u>	<u>274,020</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,634,912</u>	<u>526,280</u>	<u>117,537</u>	<u>20,661,579</u>
Net change in fund balances	-	-	-	-	-	-	-	-	-	-	-	(75,981)	-	(75,981)
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>48,699</u>	<u>-</u>	<u>168,561</u>
Fund balances (deficit) 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>\$ (27,282)</u>	<u>\$ -</u>	<u>\$ 92,580</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
Governor, State of Pohnpei
Federated States of Micronesia:

We have audited, in accordance with the 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 State of Pohnpei as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise State of Pohnpei's basic financial statements, and have issued our report thereon dated June 28, 2016. 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 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 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 State of Pohnpei's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2015-001, 2015-002, 2015-004 and 2015-005 that we consider to be significant deficiencies.

Compliance and Other Matters

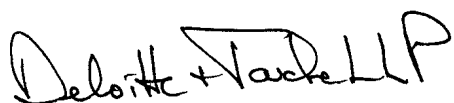
As part of obtaining reasonable assurance about whether State of Pohnpei's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2015-003.

State of Pohnpei's Responses to Findings

State of Pohnpei's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. 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.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is stylized, with the "D" being large and the "LLP" being written in a more compact, cursive-like font.

June 28, 2016

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
Governor, State of Pohnpei
Federated States of Micronesia:

Report on Compliance for Each Major Federal Program

We have audited State of Pohnpei's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of State of Pohnpei's major federal programs for the year ended September 30, 2015. 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, 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, 2015. 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 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 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 State of Pohnpei's compliance.

Basis for Qualified Opinion on CFDA 15.875 Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants

As described in the accompanying Schedule of Findings and Questioned Costs, State of Pohnpei did not comply with requirements regarding CFDA 15.875 Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants as described in item 2015-003 for Procurement and Suspension and Debarment. Compliance with such requirement is necessary, in our opinion, for State of Pohnpei to comply with the requirements applicable to that program.

Qualified Opinion on CFDA 15.875 Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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 of Free Association, As Amended, Sector Grants for the year ended September 30, 2015.

Unmodified Opinion on CFDA 84.027 Special Education - Grants to States

In our opinion, 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, 2015.

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 items 2015-001, 2015-002, and 2015-004 regarding the following:

<i>Finding #</i>	<i>CFDA #</i>	<i>Program (or Cluster) Name</i>	<i>Compliance Requirement</i>
2015-001	15.875	Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants	Equipment and Real Property Management
2015-002	15.875	Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants	Allowable Costs/Cost Principles
2015-004	84.027	Special Educations – Grants to States	Allowable Costs/Cost Principles

Our opinion on each major federal program is not modified with respect to these matters.

State of Pohnpei's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. 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 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 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 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 item 2015-003 to be material weaknesses.

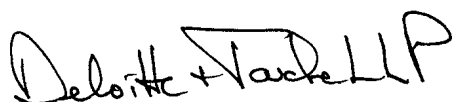
A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2015-001, 2015-002, and 2015-004 to be significant deficiencies.

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. 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 State of Pohnpei as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise State of Pohnpei's basic financial statements. We issued our report thereon dated June 28, 2016, 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%, 1% and 6%, respectively, of the assets, net position, and revenues of 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 stylized, with the "D" being large and the "LLP" being written in a more compact, cursive-like font.

June 28, 2016

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Summary Schedule of Expenditures of Federal Awards, by Grantor
Year Ended September 30, 2015

Agency/Program	Expenditures
U.S. Department of Agriculture	\$ 40,655
U.S. Department of the Interior	17,578,788
U.S. Department of Education	1,012,538
U.S. Department of Health and Human Services	<u>1,462,917</u>
 GRAND TOTAL	 \$ <u><u>20,094,898</u></u>

Note: All awards are received in a subgrantee capacity through the FSM National Government, except for the following, which are received directly from the grantor 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><u>466,489</u></u>
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Reconciliation to the basic financial statements:

Other Governmental Funds	\$ 1,462,433
Grants Assistance Fund	20,661,579
Less:	
Non-U.S. Federal Grants Fund expenditures	(526,280)
CFSM Grants Fund expenditures	(117,537)
Non-federal expenditures within other governmental funds	<u>(1,385,297)</u>
	\$ <u><u>20,094,898</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
Year Ended September 30, 2015

Agency/Program	CFDA#	Expenditures
U.S. DEPARTMENT OF AGRICULTURE		
Cooperative Forestry Assistance	10.664	\$ <u>40,655</u>
U.S. DEPARTMENT OF AGRICULTURE TOTAL		\$ <u><u>40,655</u></u>
U.S. DEPARTMENT OF THE INTERIOR		
Economic, Social and Political Development of the Territories:	15.875	
Compact of Free Association, As Amended, Sector Grants:		
Compact II Education Sector		\$ 7,462,668
Compact II Health Sector		6,219,609
Compact II Capacity Building Sector		349,168
Compact II Environment Sector		311,166
Compact II Supplemental Education		2,766,219
Compact II ERA		274,020
Compact II Infrastructure Maintenance		77,136
Technical Assistance:		
Office of State Auditor		<u>22,682</u>
Total CFDA 15.875		17,482,668
Historic Preservation Fund Grants-In-Aid	15.904	<u>96,120</u>
U.S. DEPARTMENT OF THE INTERIOR TOTAL		\$ <u><u>17,578,788</u></u>
U.S. DEPARTMENT OF EDUCATION		
Special Education - Grants to States	84.027	\$ <u>1,012,538</u>
U.S. DEPARTMENT OF EDUCATION TOTAL		\$ <u><u>1,012,538</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, 2015

Agency/Program	CFDA#	Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092	\$ 28,518
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	70,991
State Systems Development Initiative Grant Program	93.110	6,941
Family Planning - Services	93.217	74,860
Consolidated Health Centers	93.224	466,489
Affordable Care Act (ACA) Abstinence Education Program	93.235	24,000
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	243,449
Immunization Cooperative Agreements	93.268	126,189
CDC & Prevention-Investigations and Technical Assistance	93.283	94,967
ACA Coordinated Chronic Disease prevention and Health Promotion Program	93.544	-
HIV Care Formula Grants	93.917	-
HIV Prevention Activities-Health Department Based	93.940	52,805
Block Grants for Community Mental Health Services	93.958	3,013
Block Grants for Prevention and Treatment of Substance Abuse	93.959	146,442
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988	16,257
Preventive Health and Health Services Block Grant	93.991	17,761
Maternal and Child Health Services Block Grant to the States	93.994	78,289
CCPI Cancer Program	93.UNKNOWN	11,946
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL		\$ <u>1,462,917</u>
TOTAL FEDERAL AWARDS		\$ <u>20,094,898</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, 2015

1. Scope

State of Pohnpei is one of the four States of the Federated States of Micronesia. All significant operations of State of Pohnpei are included in the scope of the OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior has been designated as 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, State of Pohnpei's reporting entity is defined in Note 1A to its September 30, 2015 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 State of Pohnpei, as defined above, for the year ended September 30, 2015.

The excluded component units expend \$0 in federal awards during the year ended September 30, 2015.

C. Subgrantees

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

D. Indirect Cost Allocation

State of Pohnpei did not receive any indirect cost allocation and did not charge indirect costs against federal programs.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2015

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, 2015

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? | No |
| 3. Significant deficiency(ies) identified? | Yes |
| 4. Noncompliance material to financial statements noted? | Yes |

Federal Awards

Internal control over major federal programs:

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

CFDA Numbers

Name of Federal Program or Cluster

15.875

Economic, Social and Political Development of the Territories –
Compact of Free Association, As Amended, Sector Grants

84.027

Special Education – Grants to States

- | | |
|--|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$602,847 |
| 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, 2015

Section II – Financial Statements Findings

<u>Finding #</u>	<u>Finding</u>
2015-001	Equipment and Real Property Management
2015-002	Allowable Costs/Cost Principles
2015-003	Procurement
2015-004	Allowable Costs/Cost Principles
2015-005	Cash and Equivalents

Section III - Federal Award Findings and Questioned Costs

<u>Finding #</u>	<u>CFDA #</u>	<u>Finding</u>	<u>Questioned Costs</u>
2015-001	15.875	Equipment and Real Property Management	\$ -
2015-002	15.875	Allowable Costs/Cost Principles	1,003
2015-003	15.875	Procurement and Suspension and Debarment	367,407
2015-004	84.027	Allowable Costs/Cost Principles	<u>129</u>
			\$ <u><u>368,539</u></u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-001
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories – Compact of Free Association, As Amended, Sector Grants
Requirement: Equipment and Real Property Management
Questioned Costs: \$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 capital assets may be lessened. However, no questioned costs result from this finding as no specific instances came to our attention in fiscal year 2015 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, 2013-001 and 2014-001

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 fully understand the condition of this finding because we have already implemented formal documentations for preventive and maintenance of fixed assets specifically vehicles, and ensure that scheduled maintenance is being carried out. As for hospital equipments, the maintenance requirements are being handled by the suppliers of the equipments since maintenance was always made part of the purchase agreements.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-002
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories - Compact of Free Association, As Amended, Sector Grants
Requirement: Allowable Costs/Cost Principles
Questioned Costs: \$1,003

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 5 (or 12%) of 41 transactions tested, approved forms for annual leave, sick leave, overtime, etc. were not available for inspection to substantiate payroll charges.

Per GL Detail:												Summary of
Sel'n	DATE1	EMP NO.	FND	PROG	YR	AL	SK	ND	HOL	SB	OT	Questioned Costs
26	10/08/2014	908752	11	11200	14	23	23	182		31	281	\$ 540
30	08/14/2015	71471	11	11200	15		90	258				348
32	02/13/2015	46055	11	11500	15		11					11
34	09/25/2015	66013	11	11700	15		35		35			35
36	11/21/2014	52137	15	15100	14		69		208			69
												<u>\$ 1,003</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 this condition is questioned costs and potential noncompliance with the criteria that exceeds the threshold.

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 this finding. A memo will be sent out this week to all departments and agencies requiring them to submit to Payroll Division the approved vacation and sick leaves, and overtime forms with their corresponding timesheets. This will ensure centralized filing of these documents rather than requesting the supporting documents from the departments during the audit which could lead to delay or missing forms.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-003
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories - Compact of Free Association, As Amended, Sector Grants
Requirement: Procurement and Suspension and Debarment
Questioned Costs: \$367,407

Criteria: 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. Procurements shall provide full and open competition among vendors, and allowable exceptions should be approved and documented in procurement file.

Condition: For 3 (or 11%) of 28 transactions tested, supporting documentation was inadequate to evidence the procurement process:

Per Transaction Detail:						Summary of
DATE1	REF1	PROG	AMT	YR	FND	Questioned Costs
12/15/2014	149208	10101	320,000	14	10	\$ 320,000
08/12/2015	V150196	11200	28,907	15	11	28,907
03/17/2015	154011	11355	18,500	15	11	<u>18,500</u>
						\$ <u>367,407</u>

Additionally, the Pohnpei State Public Auditor issued a report on the procurement associated with the above \$320,000 transaction and concluded that the attendant procurement did not comply with the requirements of the Amended Compact Fiscal Procurement Agreement.

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 to this finding except for the \$320,000 which relates to the 2nd installment payment of the procurement of buses budgeted at \$700,000 in FY2014 expiring September 30, 2015. The de-allotment memo was dated and received after the issuance of the said payment. The 1st installment payment of \$350,000 was included in the questioned costs in FY2014, based on the report by the Pohnpei State Public Auditor's Office. This is a single (1) procurement transaction, not two (2).

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-004
Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education – Grants to States Grants
Grant Number: H027A110005, H027A130128
Requirement: Allowable Costs/Cost Principles
Questioned Costs: \$129

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. Expenditures should be supported by purchase requisitions, purchase orders, vendor invoices, receiving reports, contracts, journal vouchers, boarding passes, travel vouchers, trip reports, employee personnel action forms (PAFs), timesheets, and other underlying supporting documentation to substantiate compliance with applicable allowable costs/cost principles requirements. Furthermore, financial and programmatic records should be maintained on file for at least three years.

Condition: For 2 (or 14%) of 14 transactions tested, approved forms for annual leave, sick leave, overtime, etc. were not available for inspection to substantiate payroll charges.

Per GL Detail:									Summary of
Sel'n	DATE1	EMP No.	FND	PROG	YR	Reg	AL	SK	Questioned Costs
3	12/25/2014	909533	20	20010	14	267.19		102.77	\$ 103
5	12/04/2014	902620	20	20010	14	208.05	26.01	26.01	<u>26</u>
									\$ <u>129</u>

Cause: There appears to be a lack of controls over compliance with the criteria which can be attributed to recordkeeping inconsistencies.

Effect: The effect of this condition is questioned costs and potential noncompliance with the criteria that exceeds the threshold.

Recommendation: The State should comply with grant requirements and should retain grant sufficient documentation on file to support compliance with those requirements.

Auditee Response and Corrective Action Plan: We concur to this finding. The corrective action is the same with Finding 2.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No: 2015-005
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 minimize the opportunity for misappropriation of funds or fraudulent activities.

Condition: Bank reconciliations contained 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, 2015. This condition results in a misstatement of the financial statements.

<u>Bank Account:</u>	<u>Amount</u>
Honolulu Medical Imprest	\$ <u>7,700</u>

Cause: The cause of this condition appears to be 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 this finding. This imprest account with \$7,700 balance was dormant since 2009. This was not an issue until FY2014, when it was first brought out. Because of the finding, we requested for an investigation to determine the nature and where this account was deposited but the investigation did not progress due to lack of information. This may be written-off in FY2016 or be referred to the auditors or deputized investigators for further investigations.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Unresolved Prior Audit Findings and Questioned Costs
Year Ended September 30, 2015

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, 2015:

Questioned costs as previously reported:	
Fiscal year 2014 Single Audit	\$ 541,593
Questioned costs of fiscal year 2015 Single Audit	<u>368,539</u>
Unresolved questioned costs at September 30, 2015	\$ <u>910,132</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>
2014-001	15.875	\$ -	Not corrected or resolved. See finding 2015-001.
2014-002	15.875	163,378	Not corrected or resolved.
2014-003	15.875	29,215	Not corrected or resolved.
2014-004	15.875	<u>350,000</u>	Not corrected or resolved.
		\$ <u>541,593</u>	