

# OFFICE OF THE NATIONAL PUBLIC AUDITOR

## FEDERATED STATES OF MICRONESIA



## FINANCIAL AUDIT

**ADB-CLEAN ENERGY PROJECT  
GRANT NUMBER 6050-FSM (SF)  
PROJECT READINESS FINANCING**

**Year Ended September 30, 2024  
Report No: 2026-07**



**CLEAN ENERGY PROJECT  
PROJECT READINESS FINANCING  
ASIAN DEVELOPMENT BANK  
GRANT NUMBER 6050-FSM (SF).**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT**

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**YEAR ENDED SEPTEMBER 30, 2024**

## **Table of Contents**

<b>INDEPENDENT AUDITORS' REPORT .....</b>	<b>1</b>
<b>GRANT NUMBER 6050-FSM (SF) .....</b>	<b>4</b>
<b>Statement of Financial Position for the year ended September 30, 2024 .....</b>	<b>4</b>
<b>Statement of Financial Performance for the Year Ended September 30, 2024 .....</b>	<b>5</b>
<b>Notes to Financial Statements .....</b>	<b>6</b>
<b>Independent Auditor's 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 .....</b>	<b>14</b>
<b>Report on Compliance with the Financial Covenants and Other Requirements of the Grant Agreement .....</b>	<b>16</b>



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## **INDEPENDENT AUDITORS' REPORT**

Honorable Rose N. Nakanaga  
Secretary  
Department of Finance & Administration  
FSM National Government

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the accompanying financial statements of the Clean Energy Project 6050-FSM(SF), which comprise the Statement of Financial Performance, Statement of Financial Position, and the related notes as of and for the year ended September 30, 2024. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial performance of the Project in accordance with the accounting principles generally accepted in the United States of America.

We draw attention to Note 2 of the financial statements, which describes the basis of accounting.

#### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally acceptable in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Project and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to our audit.

### ***Responsibility of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accrual basis of accounting and for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal controls relevant to the audit 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 Project's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate to those charged with governance, regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2026, on our consideration of the project's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Project's 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 Project's internal control over financial reporting and compliance.



Haser H. Hainrick  
National Public Auditor

Palikir, Pohnpei  
January 15, 2026

**PROJECT READINESS FINANCING  
CLEAN ENERGY PROJECT  
ASIAN DEVELOPMENT BANK –  
GRANT NUMBER 6050-FSM (SF)**

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**Statement of Financial Position for the year ended September 30, 2024**

	<b>September 30, 2024 (\$)</b>	<b>September 30, 2023 (\$)</b>
<b>Assets</b>		
Current Assets		
Receivables		
Consulting services	---	---
Pilot testing	---	---
Project Management	---	---
Contingencies	---	---
<b>Total Assets</b>	---	---
<b>Liabilities</b>		
Current Liabilities		
Payables		
Consulting services	---	---
Pilot testing	---	---
Project Management	---	---
Contingencies	---	---
<b>Total Liabilities</b>	---	---
<b>Net Position</b>	---	---

**PROJECT READINESS FINANCING  
CLEAN ENERGY PROJECT  
ASIAN DEVELOPMENT BANK  
GRANT NUMBER 6050-FSM (SF)**

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**Statement of Financial Performance for the Year Ended September 30, 2024**

	<b>September 30, 2024 (\$)</b>	<b>September 30, 2023 (\$)</b>
<b>Revenues</b>		
Grant Revenue from ADB	306,547	---
Contribution from FSM	24,349	---
<b>Total Revenues</b>	<b>330,896</b>	<b>---</b>
<b>Expenditures</b>		
Project Management and Other Expenses		
Consulting Service	306,547.40	---
Pilot Testing & Capacity Building Activities	-	---
Project Management	24,348.87	---
Contingencies	-	---
<b>Total Expenditures</b>	<b>330,896</b>	<b>----</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>-</b>	<b>-</b>

See accompanying notes to the financial statements.



**PROJECT READINESS FINANCING  
CLEAN ENERGY PROJECT  
ASIAN DEVELOPMENT BANK  
GRANT NUMBER 6050-FSM (SF)**

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**Notes to Financial Statements  
For the Year Ended September 30, 2024**

(1) General Information

(a) The Grant

The Federated States of Micronesia, on December 23, 2022, entered into a grant agreement (Grant Number 6050-FSM(SF)) not exceeding \$5.0 million from ADB's Special Funds resources (Asian Development Fund) to help finance project preparation and design activities.

ADB will finance the expenditures concerning consulting services, surveys, pilot testing, equipment, works, taxes, and audit fees. The Government will provide \$0.5 million to reflect in-kind support, including support from government and utility staff and import duties in the FSM.

The Grant closing date is December 31, 2026.

The allocation and withdrawal of grants proceeds will be as follows:

<b>Number</b>	<b>Item</b>	<b>Total Amount allocated for ADB Financing</b>	<b>Basis for withdrawal from Grant account</b>
1	Works, Consulting Services and Goods	5,000,000	100% of total expenditure claimed (inclusive of taxes but exclusive of duties imposed within the territory of the Recipient)

(b) The Project

The Project Readiness Financing (PRF) Clean Energy Project is estimated to cost \$5.5 million and will support the Federated States of Micronesia (FSM) to take significant steps moving towards its 2030 energy sector priorities and its Sustainable Development Goals (SDG). The Project activities comprises:

- (a) **Consulting Services.** Project preparatory activities in the form of feasibility studies, engineering designs and due diligence assessments for clean energy and drinking water supply, including (i) demand assessments, (ii) clean energy resource assessments, (iii) geotechnical mapping and investigations, (iv) climate projections, (v) safeguard assessments, (vi) preparation of bidding documents, and (vii) determination of recommended business structures, shareholding, financial management and operations plans for ensuing project(s).
- (b) **pilot testing** clean energy solutions.
- (c) **Project Management** in support for updating of sector policies, investment strategies, and plans for improved energy transition, including (i) updating the national and state electricity investment plans, and (ii) support modelling reviews, state and national roadmaps for accelerated energy efficiency, and clean energy and water supply adoption; and

**PROJECT READINESS FINANCING  
CLEAN ENERGY PROJECT  
ASIAN DEVELOPMENT BANK  
GRANT NUMBER 6050-FSM (SF)**

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**Notes to Financial Statement  
For the Year Ended September 30, 2024**

(b) The Project (*continued...*)

- (d) Contingencies in strengthening capacity of the PRF Executing agency and the PRF implementing agency in the form of support for project preparation, surveys, data collection and training.

The PRF activities are expected to support preparation of the ensuing projects in improving accessibility to clean energy and drinking water on the islands of the recipient's territory and other prospective projects in energy sector that meets the set criteria.

The PRF activities are expected to be completed by 30 June 2026.

(c) Grant Administration

The Secretary of Finance and Administration of the Federated States of Micronesia (FSM) National Government is designated as the representative of the FSM. The Department of Finance & Administration (DoFA) is the executing agency (EA) for the Project and is responsible for all disbursement approvals, accounting, and fiscal oversight. The Department of Resources & Development (DoRD) is the implementing agency (IA) for the Project and is responsible for the day-to-day implementation of the Project, manages the Project Management Unit (PMU), and maintains all documentation.

The Project is governed by a Project Steering Committee (PSC) who should meet at least twice per year, and quarterly (if possible) to receive project updates, make key decisions and provide overall guidance to the PMU. The membership of the PSC includes: Kosrae Utilities Authority (KUA), Yap State Public Service Corporation (YSPSC), Pohnpei Utilities Corporation (PUC), DoRD, DoFA, and PMU.

(2) Summary of Significant Accounting Policies

The accompanying financial statements of the Project 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 Project's accounting policies are described below.

For financial reporting purposes, this is a standalone and a separate donor-funded project from the FSM National Government funds and activities.

**PROJECT READINESS FINANCING  
CLEAN ENERGY PROJECT  
ASIAN DEVELOPMENT BANK  
GRANT NUMBER 6050-FSM (SF)**

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**Notes to Financial Statements  
For the Year Ended September 30, 2024**

*Basis of Accounting*

The Project's financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows. Grants are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

*Receivables*

The Project's receivable is recognized when the Project has received invoices from the consultants (external party) in accordance with agreed conditions/requirements and is entitled to receive the agreed funding. Where uncertainty exists in relation to the receipt of grant funding, a receivable (and associated revenue) would not be recognized unless it was more probable than not that payment would be made hence allowances for uncollectible amounts is not necessary.

*Payables*

Payables refers to consultants (external party) invoices received as of September 30, 2024, and yet to be paid.

*Reporting Period*

The accompanying financial statements cover the fiscal year from October 01, 2023, to September 30, 2024. The period for the comparative balances covers the period October 01, 2022, to September 30, 2023.

*Presentation of currency*

The FSM currency is the US Dollar. In the presentation of the financial statements, cost estimates and financing plan, the Project uses the US Dollar.

**(3) Direct Payments made by ADB**

Direct payment procedures are used for work and consulting services that exceed \$100,000 equivalent during PRF implementation. A signed withdrawal application submitted by DOFA to ADB, based on invoices approved by DORD, together with a summary sheet and the required supporting documents. The PMU is responsible for collecting and retaining supporting documents, as well as preparing and sending the withdrawal applications to DOFA for approval and submission to ADB.

From September 30, 2023, to September 30, 2024, direct payments by ADB to the consultants amounted to \$306,547

**PROJECT READINESS FINANCING  
CLEAN ENERGY PROJECT  
ASIAN DEVELOPMENT BANK  
GRANT NUMBER 6050-FSM (SF)**

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**Notes to Financial Statements-Grant 6050  
For the Year Ended September 30, 2024**

(4) Procurement of Goods and Consulting Services

The procurement of goods, works and consulting services were based on an ADB-approved Procurement Plan which requires International Competitive Bidding.

(5) Withdrawals from Grant Account

The proceeds of the grant were allocated to items of expenditure, and disbursement on the basis of withdrawal percentage for each item of expenditure.

(6) Procurement

All procurement of project goods and works were undertaken in accordance with ADB's Procurement guidelines (2015, as amended from time to time). An 18-month procurement plan indicating threshold and review procedures, goods, works, and consulting service contract packages and national competitive bidding guidelines includes the following:

Method	Threshold
International Competitive Bidding for Works	Above \$3,000,000
International Competitive Bidding for Goods	Above \$1,000,000
National Competitive Bidding for Works	Below or Equal to \$3,000,000
National Competitive Bidding for Goods	Below or Equal to \$1,000,000
Shopping for Works/Goods	Below or Equal to \$300,000

**PROJECT READINESS FINANCING  
CLEAN ENERGY PROJECT  
ASIAN DEVELOPMENT BANK  
GRANT NUMBER 6050-FSM (SF)**

**Notes to Financial Statements  
For the Year Ended September 30, 2024**

(8) Statement of Budgeted versus Actual Expenditures

The schedule below shows the estimated project cost and actual expenditures in FY 2024.

Particulars		Budget	Actual Expenditures (millions - USD)					Savings / (Deficit)
			FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	
<b>A. Consulting Services</b>								
1	PRF Consultant (Individuals)	0.85	---	---	0.31	---	---	0.54
2	PRF Consultant (Firm)	2.07	---	---	---	---	---	2.07
	<b>Subtotal A</b>	<b>2.92</b>	---	---	<b>0.31</b>	---	---	<b>2.61</b>
<b>B. Pilot Testing</b>								
1	Pilots	1.04	---	---	---	---	---	1.04
2	Capacity Building Workshops & Training	0.25	---	---	---	---	---	0.25
3	Provisional Sum (Surveys + Equipment)	0.30	---	---	---	---	---	0.30
	<b>Subtotal B</b>	<b>1.59</b>	---	---	---	---	---	<b>1.59</b>
<b>C. Project Management</b>								
1	National Consultants (PMU)	0.29	---	---	0.02	---	---	0.27
2	Counterpart in kind support	0.46	---	---	---	---	---	0.46
	<b>Subtotal C</b>	<b>0.75</b>	---	---	<b>0.02</b>	---	---	<b>0.73</b>
<b>D. Contingencies</b>								
1	Physical contingencies	0.09	---	---	---	---	---	0.09
2	Price contingencies	0.15	---	---	---	---	---	0.15
	<b>Subtotal D</b>	<b>0.24</b>	---	---	---	---	---	<b>0.24</b>
<b>Total Project Cost (A+B+C+D)</b>		<b>5.50</b>	---	---	<b>0.33</b>	---	---	<b>5.17</b>

**PROJECT READINESS FINANCING  
CLEAN ENERGY PROJECT  
ASIAN DEVELOPMENT BANK  
GRANT NUMBER 6050-FSM (SF)**

**Notes to Financial Statements  
For the Years Ended September 30, 2024**

**(9) Cost and Financing**

The Project is financed as follows: ADB will provide grant of \$5.0 million to finance the expenditures concerning consulting services, surveys, pilot testing, equipment, works, taxes, and audit fees. The Government will provide \$0.5 million to reflect in-kind support, including support from government and utility staff, and import duties in the FSM.

No import duties were recorded in FY 2024. Taxes will be financed by ADB, while customs duties (4%) will be financed through exemption. The government will finance counterpart costs in kind, including personnel support from the national government, state government, and utilities.

Particulars		ADB		Government		Total Costs
		Amount	% of cost category	Amount	% of cost category	Amount
<b>A. Consulting Services</b>						
1	PRF Consultant (Individuals)	0.85	100%	0	0	0.85
2	PRF Consultant (Firm)	2.06	100%	0	0	2.06
	<b>Subtotal A</b>	<b>2.91</b>	<b>100%</b>	<b>0</b>	<b>0</b>	<b>2.91</b>
<b>B. Pilot Testing</b>						
1	Pilots	1	96%	0.04	4%	1.04
2	Capacity Building Workshops & Training	0.25	100%			0.25
3	Provisional Sum (Surveys + Equipment)	0.3	100%			0.3
	<b>Subtotal B</b>	<b>1.55</b>	<b>97%</b>	<b>0.04</b>	<b>3%</b>	<b>1.59</b>
<b>C. Project Management</b>						
1	National Consultants (PMU)	0.29	100%	0	0	0.29
2	Counterpart in kind support	0	0%	0.46	100%	0.46
	<b>Subtotal C</b>	<b>0.29</b>	<b>39%</b>	<b>0.46</b>	<b>61%</b>	<b>0.75</b>
	<b>Total Base cost (A+B+C)</b>	<b>4.75</b>	<b>90%</b>	<b>0.5</b>	<b>10%</b>	<b>5.25</b>
<b>D. Contingencies</b>						
1	contingencies	0.25	100%	0	0	0.25
	<b>Subtotal D</b>	<b>0.25</b>	<b>100%</b>	<b>0</b>	<b>0</b>	<b>0.25</b>
	<b>Total Project Cost (A+B+C+D)</b>	<b>5</b>		<b>0.5</b>		<b>5.5</b>
	<b>% Total Project Cost</b>		91%		9%	

**PROJECT READINESS FINANCING  
CLEAN ENERGY PROJECT  
ASIAN DEVELOPMENT BANK  
GRANT NUMBER 6050-FSM (SF)**

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**Notes to Financial Statements  
For the Year Ended September 30, 2024**

(10) Subsequent Events

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect significantly the operations of the Project, the results of those operations or the state of affairs of the Project in the subsequent financial year.

**CLEAN ENERGY PROJECT  
GRANT NUMBER 6050-FSM (SF).**

**INDEPENDENT AUDITOR'S 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**

**Year Ended September 30, 2024**





## **FEDERATED STATES OF MICRONESIA**

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## **Independent Auditor's 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 Rose N. Nakanaga

Secretary

Department of Finance & Administration

FSM National Government

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 for the Clean Energy Project, Grant number 6050-FSM(SF), (the "Project"), which comprise the statement of financial position as of and for the year ended September 30, 2024 and the statement of financial performance for the year ended and the related notes to the financial statements, and have issued our report thereon dated January 15, 2026.

### **Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the project'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 opinion on the Profit and Loss Statement, but not for the purpose of expressing an opinion on the effectiveness of the project'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, 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 project's financial statement 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. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses.

#### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Project's Profit and Loss Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements; noncompliance with which provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### **The Project's Response to Findings**

No findings were identified during the course of our audit. Consequently, the project's related response is not required.

#### **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 results of that testing, and not to provide an opinion on the effectiveness of the project'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 project's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Haser H. Hainrick  
National Public Auditor

Palikir, Pohnpei  
January 15, 2026



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Honorable Rose N. Nakanaga  
Secretary  
Department of Finance & Administration  
FSM National Government

### **Report on Compliance with the Financial Covenants and Other Requirements of the Grant Agreement**

We have audited the Clean Energy Project, Grant number 6050-FSM(SF), (*the Project's*) compliance with the types of compliance requirements described in the Grant Agreements dated December 22, 2022, with the Asian Development Bank, which could have a direct and material effect on the Project as of and for the year ended September 30, 2024.

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

Management is responsible for compliance with financial covenants and other requirements of the grant agreement.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance with the financial covenants and other requirements of the grant agreements 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 the audit requirements of the Grant Agreement. Those standards and the Grant Agreement require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above could have a direct and material effect on the Project. An audit includes examining, on a test basis, evidence about the Project's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances.

## Opinion

In our opinion, the Project complies with the finance covenant, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Project as of and for the year ended September 30, 2024. In addition, funds were used for project purposes as set out in the Grant Agreements December 22, 2022.

## Report on Internal Control over Compliance

Management of the Project is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Project's internal control over compliance with the types of compliance requirements that could have a direct and material effect on the Project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the grant agreement, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the compliance requirements of a grant agreement on a timely basis. A *material weakness 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 the grant agreement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first 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 have not been identified.

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. Accordingly, this communication is not suitable for any other purpose.



Haser H. Hainrick  
National Public Auditor

Palikir, Pohnpei  
January 15, 2026