

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

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

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**YEAR ENDED SEPTEMBER 30, 2009**

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

YEAR ENDED SEPTEMBER 30, 2009

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FEDERATED STATES OF MICRONESIA**

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

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**YEAR ENDED SEPTEMBER 30, 2009**

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Pohnpei (the State) as of and for the year ended September 30, 2009, which collectively comprise the State's basic financial statements as set forth in Section II of the foregoing table of contents. These financial statements are the responsibility of the management of the State. Our responsibility is to express an opinion on the respective financial statements based on our audit. We did not audit the financial statements of the Pohnpei Transportation Authority and the Small Business Guarantee and Finance Corporation, which represent 5%, 1 and 4%, respectively, of the assets, net assets and revenues of the State's discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the Pohnpei Transportation Authority and the Small Business Guarantee and Finance Corporation, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

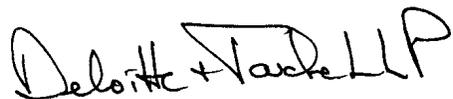
In our opinion, based on our audit and the reports of other auditors, such financial statements, as set forth in Section II of the foregoing table of contents, present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Pohnpei as of September 30, 2009, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 12 to the financial statements, the beginning net assets of the aggregate discretely presented component units has been restated for the dissolution of Pohnpei Fisheries Corporation and Pohnpei Economic Development Authority.

The Management's Discussion and Analysis, on pages 3 through 10, as well as the Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund and notes thereto, as set forth in Section III of the foregoing table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the management of the State. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2010, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

June 28, 2010

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis  
September 30, 2009

This section of Pohnpei State's financial report presents our Management's Discussion and Analysis (MD&A) for the fiscal year ended September 30, 2009. This MD&A is prepared in compliance with the GASB-34 requirement. Readers are requested to read this MD&A in conjunction with the State's financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

- The Pohnpei State's primary government's total net assets for this year are \$40,080,154.
- The net change in governmental fund balance is a decrease of \$1,236,821. The total revenues reported are \$30,570,643 against total expenditures of \$32,186,898.
- Actual revenues for the general fund were \$2,496,745 higher than budgeted revenues. The total expenditures-budgetary basis showed favorable variance of \$567,289. The general fund reported an unreserved fund balance of \$3,889,721 at the end of the fiscal year.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

The basic financial statements include two kinds of statements that present different views of the State:

Government-Wide Financial Statements

The government-wide financial statements report information about the State as a whole using accounting method similar to those used by the private-sector companies. It provides both long-term and short-term information about the State's financial status.

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

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

The government-wide financial statements of the State consist of its governmental activities, which include public works, health, education and general administration. Sales taxes, revenue sharing, federal grants and Compact II/Sector grants are the major sources of these activities. Compact II/Sector grants replace the Compact I funding in fiscal year 2004.

Fund Financial Statements

The fund financial statements provide more detailed information about the State's significant funds. The State uses fund accounting to comply with financial related legal requirements.

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

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

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

	Governmental Activities	
	2009	2008
Current and other assets	\$ 14,266,313	\$ 14,843,133
Capital assets	24,261,881	24,587,296
Other non current assets	11,664,947	11,439,348
Total assets	50,193,141	50,869,777
Current liabilities	3,992,811	3,117,562
Long-term debt and other liabilities	6,120,176	6,206,056
Total liabilities	10,112,987	9,323,618
Net Assets:		
Invested in capital assets	24,261,881	24,587,296
Restricted	17,884,113	18,263,750
Unrestricted fund balance	(2,065,840)	(1,304,887)
Total net assets	\$ 40,080,154	\$ 41,546,159

**STATE OF POHNPEI  
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Management's Discussion and Analysis  
September 30, 2009

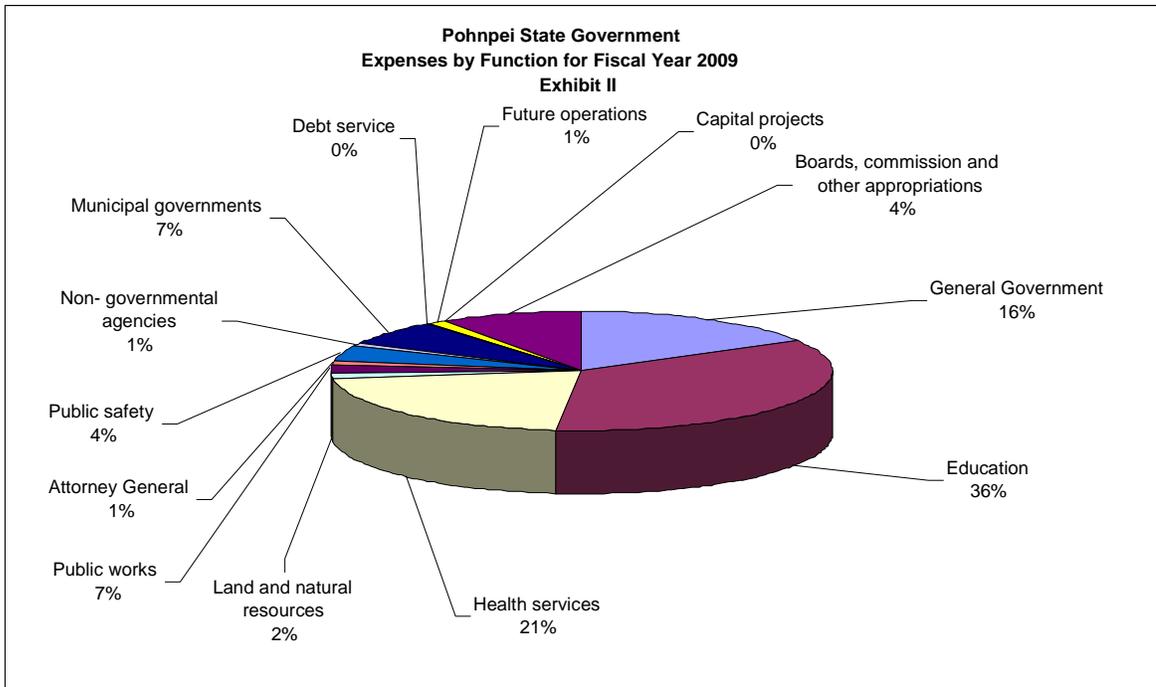
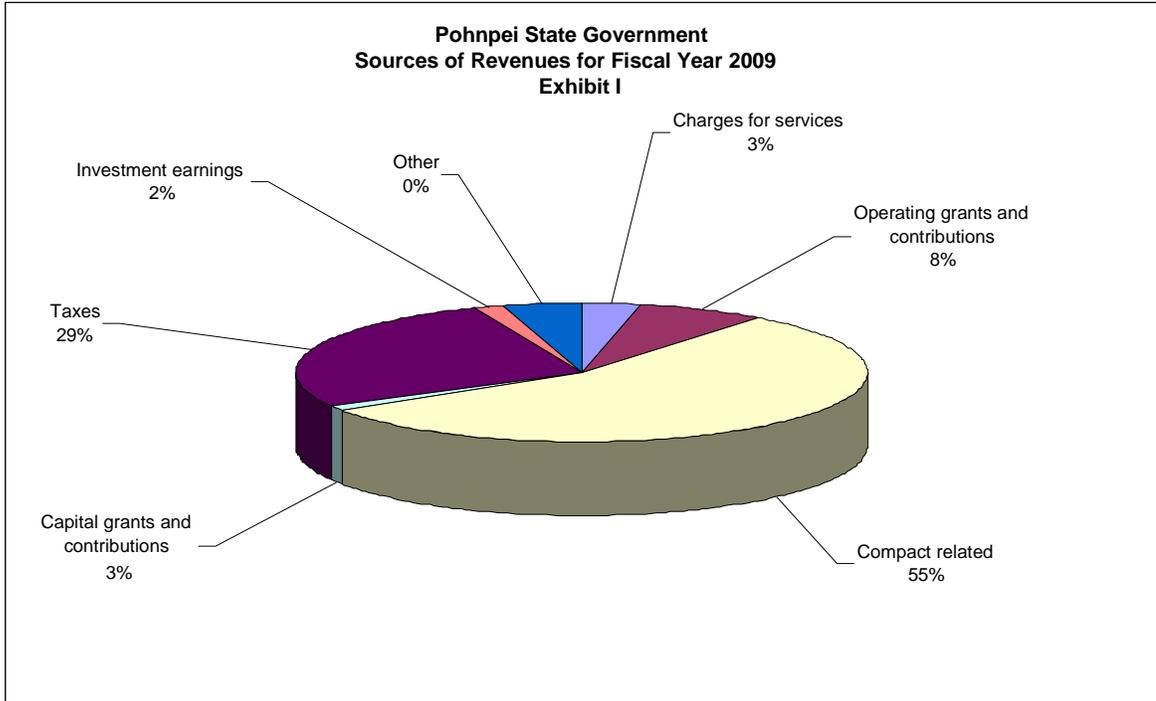
Changes in net assets. The State's Statement of Changes in Net Assets for the fiscal year ended September 30 follows:

	Governmental Activities	
	2009	2008
Revenues		
Program revenues:		
Charges for services	\$ 811,306	\$ 1,430,435
Operating grants and contributions	2,425,265	217,008
Compact related	17,467,672	17,117,576
Capital grants and contributions	1,094,793	858,571
General revenues:		
Taxes	9,155,312	7,668,422
Investment earnings (loss)	581,513	(1,172,700)
Other	129,575	34,951
	31,665,436	26,154,263
Expenses:		
General government	5,171,171	6,602,599
Education	11,785,146	12,129,132
Health services	7,014,037	7,173,315
Land and natural resources	626,021	451,151
Public works	2,503,307	2,680,105
Public safety	1,323,240	1,274,314
Boards, commission and other appropriations	4,708,519	5,853,468
	33,131,441	36,164,084
Special item:		
Reduction of estimated legal claims	-	825,000
Bad debts/write off of receivables	-	(158,933)
	\$ (1,466,005)	\$ (9,343,754)

Exhibit I below, showed that 55% of the State's revenues were derived from Compact II while 32% came from taxes and fees/charges. The least source of revenues is capital grants and contributions. For expenses, the State encompasses a range of services. Exhibit II illustrates that education represented 36% of the State's total expenses while health represented 21%.

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**FINANCIAL ANALYSIS OF THE STATE GOVERNMENTAL FUNDS**

The State's governmental fund changes in fund balances for the year ended September 30, 2009 are shown below.

Changes in Fund Balances

	<u>General Fund</u>	<u>Grants Assistance</u>	<u>Compact Trust</u>	<u>Other Funds</u>	<u>Total</u>
Revenues:					
Taxes	\$ 8,655,731	\$ -	\$ -	\$ 499,581	\$ 9,155,312
Compact	-	17,842,672	-	-	17,842,672
Other/transfers in	<u>1,110,014</u>	<u>2,521,512</u>	<u>(567,970)</u>	<u>1,747,112</u>	<u>4,810,668</u>
Total revenues	<u>9,765,745</u>	<u>20,364,184</u>	<u>(567,970)</u>	<u>2,246,693</u>	<u>31,808,652</u>
Expenditures/transfers out	<u>10,351,205</u>	<u>21,416,854</u>	<u>-</u>	<u>1,277,414</u>	<u>33,045,473</u>
Net change in fund balance	\$ <u><u>(585,460)</u></u>	\$ <u><u>(1,052,670)</u></u>	\$ <u><u>(567,970)</u></u>	\$ <u><u>969,279</u></u>	\$ <u><u>(1,236,821)</u></u>

General Fund

Revenues increased by \$4,954,722 or 18.5% compared with fiscal year 2008 which was caused by an increase in fair value of investments, revenue sharing, state taxes, fees and other charges. Total expenditures without write-offs, however, were \$1,202,323 or 3.5% less than last year. Minimal or absence of a subsidy to Pohnpei Transportation Authority, Department of Education and Department of Health Services and a decrease in expenditures of the Office of the Attorney-General for fiscal year 2009 explains the decrease in expenditures.

Grant Assistance Fund

As mentioned in the preceding paragraph, Compact II/Sector Grants were the major sources of Pohnpei State's operating grants for fiscal year 2009. Total revenues amounted to \$20,364,184 while total expenditures and transfers out are in the amount of \$21,416,854 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. Total revenues are \$7,497,638 against total expenditures of the same amount.
- The health sector grant that shall support and improve the delivery of preventive, curative and environmental care, and develop the human and material resources necessary for the Federated States of Micronesia to perform these services. The total funding equals the total expenditures in the amount of \$6,007,766.
- The sector grant for private sector development shall support the efforts of the Federated of Micronesia to attract new foreign investment and increase indigenous business activity. Priorities will be in advancing the private development of fisheries, tourism and agriculture; employing new telecommunications technologies; and analyzing and developing new systems, laws, and policies to foster private sector development, to facilitate investment by potential private investors, and develop business and entrepreneurial skills. For fiscal year 2009, Pohnpei State received funding from private sector development grant of \$8,387.

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Management's Discussion and Analysis  
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- The sector for capacity building shall support the efforts of the Federated States of Micronesia to build effective, accountable and transparent national and local government and other public sector institutions and systems. The total grant revenues and expenditures are \$411,597.
- 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 \$361,052 with the same total of expenditures.
- Public Infrastructure grant shall give priority to primary and secondary education capital projects and programs that directly affect health and safety including water and wastewater projects, solid waste disposal projects and health care facilities. The total funding is \$750,000 but the State received only \$375,000 in fiscal year 2009 and expended \$491,206.
- 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 and Freely Associated States Education Grant (T&FASEG), Adult Education and Family Literacy, Workforce Investment Act, Pacific Vocational Education Improvement Program and Early Childhood Program (formerly Head Start). For the year, the total funds received were \$3,181,232 with the same total of expenditures.

Another major source of funding under Grant Assistance Fund is US Federal Grants, which supported \$2,091,662 of expenditures of the State.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

During the year, the State revised its budget several times in the aggregate amount of \$762,123 to accommodate supplemental funding for departments and offices requiring increases in appropriations to avoid budget overruns. These matters are not believed to have a significant effect on future services. The State conforms to the most appropriate measures of utilizing its net assets due to the current global economic crisis.

The net decrease in the State's general fund unreserved fund balance of \$880,474 is 79% lower than the prior fiscal year's decrease.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

Capital Assets

The State's capital assets at the end of fiscal years 2009 and 2008 consist basically of equipment, buildings, roads and bridges. The summary of capital assets at the end of September 30 is shown below:

	<u>Primary Government Governmental Activities</u>	
	<u>2009</u>	<u>2008</u>
Buildings	\$ 9,928,473	\$ 6,250,479
Infrastructure	52,341,781	52,341,781
Machinery	<u>21,860,176</u>	<u>6,961,139</u>
Total	\$ <u>84,130,430</u>	\$ <u>65,553,399</u>

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Management's Discussion and Analysis  
September 30, 2009

The notes to the financial statements present more information about the State's capital assets. Please refer specifically to note 5.

Long-Term Debt

At September 30, 2009 and 2008, the State had long-term debt as shown below:

	<u>Governmental Activities</u>	
	<u>2009</u>	<u>2008</u>
ADB loans	\$ <u>5,335,005</u>	\$ <u>5,039,571</u>

The notes to the financial statements present more information about the State's debt. Please refer specifically to note 6.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

Funding for the operations of most of the government services in fiscal year 2010 will still come from the Compact II.

Fiscal year 2010 is the seventh 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 2010 is as follows:

- For education sector grant, which continues to be the funding priority, the annual budget is \$7,599,557.
- The health sector grant's budget is \$5,853,231.
- There is no sector grant funding for private sector development for fiscal year 2010.
- The capacity building sector grant budget for fiscal year 2010 is \$451,739.
- The environment sector grant is \$315,589.
- The cumulative grants for the Public Infrastructure from fiscal years 2005 through 2010 is more than \$35,000,000. Priority projects are education, health related and private sector development. It is also required that 5% of the total grant be allocated to the Infrastructure Maintenance fund for the maintenance of the existing and new projects. Local matching of the same amount is required.
- In the case of the Supplemental Education Grant (SEG), the total funding for fiscal year 2010 is \$2,984,265. The programs covered in the funding are Early Childhood Education, Education Improvement Programs, Workforce Development/Skill Training, Vocational Education and Staff Development. The grant award was signed on September 30, 2009.

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Management's Discussion and Analysis  
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For fiscal year 2010, the locally generated revenues and the revenue shares from the National Government are projected at a range of \$8,000,000 or less due to the implementation of FSM Public law No. 14-90. FSM Public law No. 14-90 allows taxpayers to deduct the wages and benefits paid to their employees from the taxable revenues; hence reducing the amount of gross revenue taxes. In fiscal year 2009, the increase in the FSM revenue sharing was more than \$700,000. For Pohnpei State, increase in collection of taxes was more than \$250,000. The Department of Treasury and Administration will, however, continue to intensify its collection effort to raise more revenues in the ensuing years. In addition, the final carry-over balances from the Compact II may be authorized to be used to fund other operations of the government.

**FINANCIAL CONTACT**

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

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Statement of Net Assets  
September 30, 2009

	Primary Government	Component Units
<b><u>ASSETS</u></b>		
Current assets:		
Cash and cash equivalents	\$ 1,342,149	\$ 2,754,399
Investments	8,420,040	174,186
Receivables, net of allowance for uncollectibles	3,039,026	3,888,044
Due from component units	1,292,035	-
Advances	82,541	-
Inventories	33,815	1,469,340
Other current assets	-	16,017
Restricted assets:		
Cash and cash equivalents	56,707	459,729
Total current assets	14,266,313	8,761,715
Noncurrent assets:		
Capital assets, net of accumulated depreciation	24,261,881	30,941,567
Investments	1,000,000	1,260,345
Other	-	586,412
Restricted assets:		
Investments	10,664,947	-
Total noncurrent assets	35,926,828	32,788,324
Total assets	\$ 50,193,141	\$ 41,550,039
<b><u>LIABILITIES</u></b>		
Current liabilities:		
Current portion of long-term obligations	\$ 129,649	\$ 210,385
Accounts payable	2,323,239	584,855
Current portion of compensated absences payable	237,438	-
Other liabilities and accruals	883,233	964,449
Due to primary government	-	1,292,035
Deferred revenues	419,252	139,522
Total current liabilities	3,992,811	3,191,246
Noncurrent liabilities:		
Long-term obligations, net of current portion	5,205,356	3,338,166
Compensated absences payable, net of current portion	703,852	-
Other noncurrent liabilities	210,968	-
Total noncurrent liabilities	6,120,176	3,338,166
Total liabilities	10,112,987	6,529,412
Contingencies and commitments		
<b><u>NET ASSETS</u></b>		
Invested in capital assets, net of related debt	24,261,881	27,543,016
Restricted for:		
Nonexpendable:		
Future operations	7,443,357	-
Expendable:		
Compact related	2,026,207	-
Capital projects	212,881	-
Debt service	3,343,400	-
Other purposes	4,858,268	3,366,444
Unrestricted	(2,065,840)	4,111,167
Total net assets	40,080,154	35,020,627
Total liabilities and net assets	\$ 50,193,141	\$ 41,550,039

See accompanying notes to basic financial statements.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Statement of Activities  
Year Ended September 30, 2009

Functions/Programs	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
<b>Primary government:</b>						
Governmental activities:						
General government	\$ 5,171,171	262,577	\$ 1,650,226	\$ -	\$ (3,258,368)	\$ -
Land and natural resources	626,021	100,000	25,467	-	(500,554)	-
Education	11,785,146	-	11,731,926	-	(53,220)	-
Health services	7,014,037	405,853	6,892,719	-	284,535	-
Public safety	1,323,240	42,876	62,350	-	(1,218,014)	-
Attorney-general	362,710	-	-	-	(362,710)	-
Public works and transportation	2,503,307	-	-	-	(2,503,307)	-
Non-governmental agencies	456,467	-	-	-	(456,467)	-
Boards, commissions and others	1,438,214	-	154,936	1,094,793	(188,485)	-
Municipal governments	2,202,515	-	-	-	(2,202,515)	-
Payments to PTA	119,255	-	-	-	(119,255)	-
Unallocated interest	113,787	-	(56,717)	-	(170,504)	-
Future operations	-	-	(567,970)	-	(567,970)	-
Capital projects	15,571	-	-	-	(15,571)	-
<b>Total primary government</b>	<b>\$ 33,131,441</b>	<b>\$ 811,306</b>	<b>\$ 19,892,937</b>	<b>\$ 1,094,793</b>	<b>(11,332,405)</b>	<b>-</b>
<b>Component units:</b>						
Pohnpei Utilities Corporation	\$ 13,441,698	\$ 11,537,213	\$ -	\$ -	-	(1,904,485)
Pohnpei Port Authority	2,378,020	2,683,247	-	-	-	305,227
Pohnpei Transportation Authority	635,242	379,751	-	-	-	(255,491)
Small Business Guarantee and Finance Corporation	157,001	22,206	-	-	-	(134,795)
Pohnpei State Housing Authority	124,599	1,227,490	-	-	-	1,102,891
<b>Total component units</b>	<b>\$ 16,736,560</b>	<b>\$ 15,849,907</b>	<b>\$ -</b>	<b>\$ -</b>	<b>-</b>	<b>(886,653)</b>
<b>General revenues:</b>						
Taxes:						
FSM revenue sharing					6,250,075	-
State taxes					2,905,237	-
Unrestricted investment earnings					581,513	-
Other					129,575	752,282
<b>Total general revenues</b>					<b>9,866,400</b>	<b>752,282</b>
Change in net assets					(1,466,005)	(134,371)
Net assets at the beginning of the year, as previously reported					41,546,159	32,537,933
Prior-period adjustment (Note 12)					-	2,617,065
Net assets at the beginning of the year, as restated					41,546,159	35,154,998
Net assets at the end of the year					<b>\$ 40,080,154</b>	<b>\$ 35,020,627</b>

See accompanying notes to basic financial statements.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**Balance Sheet  
Governmental Funds  
September 30, 2009**

	General	Special Revenue Grants Assistance	Permanent Compact Trust	Other Governmental Funds	Total
<b>ASSETS</b>					
Cash and cash equivalents	\$ 1,342,149	\$ -	\$ -	\$ -	\$ 1,342,149
Investments	5,311,057	4,108,983	-	-	9,420,040
Receivables, net:					
Taxes	1,592,813	864,294	-	-	2,457,107
Other	567,681	3,928	-	10,310	581,919
Due from component units	1,292,035	-	-	-	1,292,035
Due from other funds	2,963,008	1,044,689	-	5,276,336	9,284,033
Advances	51,270	31,271	-	-	82,541
Inventories	-	-	-	33,815	33,815
Restricted assets:					
Cash and cash equivalents	-	56,707	-	-	56,707
Investments	-	-	7,443,357	3,221,590	10,664,947
Total assets	\$ 13,120,013	\$ 6,109,872	\$ 7,443,357	\$ 8,542,051	\$ 35,215,293
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 1,631,465	\$ 665,366	\$ -	\$ 26,408	\$ 2,323,239
Other liabilities and accruals	746,099	137,035	-	99	883,233
Deferred revenues	-	419,252	-	-	419,252
Due to other funds	6,321,025	2,953,276	-	9,732	9,284,033
Total liabilities	8,698,589	4,174,929	-	36,239	12,909,757
<b>Fund balances:</b>					
<b>Reserved for:</b>					
Related assets	-	49,007	7,443,357	33,815	7,526,179
Encumbrances	292,208	1,206,231	-	42,575	1,541,014
Continuing appropriations	239,495	1,000,000	-	562,250	1,801,745
Debt service	-	-	-	3,221,590	3,221,590
<b>Unreserved:</b>					
General fund	3,889,721	-	-	-	3,889,721
Special revenue funds	-	(320,295)	-	4,499,796	4,179,501
Debt service funds	-	-	-	115,781	115,781
Capital projects funds	-	-	-	30,005	30,005
Total fund balances	4,421,424	1,934,943	7,443,357	8,505,812	22,305,536
Total liabilities and fund balances	\$ 13,120,013	\$ 6,109,872	\$ 7,443,357	\$ 8,542,051	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds

24,261,881

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

Long-term debt payable	(5,335,005)
Compensated absences payable	(941,290)
Claims and judgments payable	(210,968)

(6,487,263)

Net assets of governmental activities

\$ 40,080,154

See accompanying notes to basic financial statements.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
Year Ended September 30, 2009

	General	Special Revenue Grants Assistance	Permanent Compact Trust	Other Governmental Funds	Total
<b>Revenues:</b>					
Compact funding	\$ -	\$ 17,842,672	\$ -	\$ -	\$ 17,842,672
Net change in the fair value of investments	581,513	-	(567,970)	(56,717)	(43,174)
CFSM grants	-	93,808	-	-	93,808
Federal contributions and other grants	-	2,426,208	-	-	2,426,208
FSM revenue sharing	6,250,075	-	-	-	6,250,075
State taxes	2,405,656	-	-	499,581	2,905,237
Fees and charges	245,486	-	-	565,820	811,306
Contributions from component unit	154,936	-	-	-	154,936
Other	128,079	1,496	-	-	129,575
Total revenues	<u>9,765,745</u>	<u>20,364,184</u>	<u>(567,970)</u>	<u>1,008,684</u>	<u>30,570,643</u>
<b>Expenditures:</b>					
<b>Current:</b>					
General government	3,686,265	1,847,293	-	463,201	5,996,759
Land and natural resources	474,832	25,467	-	-	500,299
Education	2,318	11,731,926	-	-	11,734,244
Health services	-	6,891,243	-	184,400	7,075,643
Public safety	1,234,984	62,350	-	-	1,297,334
Office of the Attorney-General	356,023	-	-	-	356,023
Public works	752,082	-	-	-	752,082
Payments to non-governmental agencies	456,467	-	-	-	456,467
Boards, commissions and other	1,066,464	-	-	416,455	1,482,919
Grants to local governments	2,202,515	-	-	-	2,202,515
Pohnpei Transportation Authority	119,255	-	-	-	119,255
Debt service	-	-	-	197,787	197,787
Capital projects	-	-	-	15,571	15,571
Total expenditures	<u>10,351,205</u>	<u>20,558,279</u>	<u>-</u>	<u>1,277,414</u>	<u>32,186,898</u>
Deficiency of revenues under expenditures	<u>(585,460)</u>	<u>(194,095)</u>	<u>(567,970)</u>	<u>(268,730)</u>	<u>(1,616,255)</u>
<b>Other financing sources (uses):</b>					
Proceeds from issuance of long-term debt	-	-	-	379,434	379,434
Operating transfers in	-	-	-	858,575	858,575
Operating transfers out	-	(858,575)	-	-	(858,575)
Other financing sources (uses), net	<u>-</u>	<u>(858,575)</u>	<u>-</u>	<u>1,238,009</u>	<u>379,434</u>
Net change in fund balances	<u>(585,460)</u>	<u>(1,052,670)</u>	<u>(567,970)</u>	<u>969,279</u>	<u>(1,236,821)</u>
Fund balances at the beginning of the year	<u>5,006,884</u>	<u>2,987,613</u>	<u>8,011,327</u>	<u>7,536,533</u>	<u>23,542,357</u>
Fund balances at the end of the year	<u>\$ 4,421,424</u>	<u>\$ 1,934,943</u>	<u>\$ 7,443,357</u>	<u>\$ 8,505,812</u>	<u>\$ 22,305,536</u>

See accompanying notes to basic financial statements.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Reconciliation of the Statement of Revenues, Expenditure, and Changes in Fund  
Balances of Governmental Funds to the Statement of Activities  
Year Ended September 30, 2009

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

Net change in fund balances - total governmental funds	\$ (1,236,821)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period	(325,415)
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items	(295,434)
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. For the current year, these activities consist of:

Change in compensated absences payable	\$ (22,367)	
Change in claims payable	<u>414,032</u>	<u>391,665</u>
Change in net assets of governmental activities		\$ <u>(1,466,005)</u>

See accompanying notes to basic financial statements.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Combining Statement of Net Assets  
Component Units  
September 30, 2009

	Pohnpei Utilities Corporation	Pohnpei Port Authority	Pohnpei Transportation Authority	Small Business Guarantee and Finance Corporation	Pohnpei State Housing Authority	Total
<b><u>ASSETS</u></b>						
Current assets:						
Cash and cash equivalents	\$ 131,558	\$ 2,328,412	\$ -	\$ 39,428	\$ 255,001	\$ 2,754,399
Investments	174,186	-	-	-	-	174,186
Receivables, net	1,521,270	412,933	58,145	2,287	1,893,409	3,888,044
Inventories	1,447,240	-	22,100	-	-	1,469,340
Other current assets	12,309	3,665	-	-	43	16,017
Restricted assets:						
Cash and cash equivalents	231,041	-	-	228,688	-	459,729
Total current assets	<u>3,517,604</u>	<u>2,745,010</u>	<u>80,245</u>	<u>270,403</u>	<u>2,148,453</u>	<u>8,761,715</u>
Noncurrent assets:						
Capital assets, net of accumulated depreciation	24,380,722	6,514,676	32,661	4,305	9,203	30,941,567
Investments	295,082	-	-	965,263	-	1,260,345
Other	-	114,144	-	472,268	-	586,412
Total noncurrent assets	<u>24,675,804</u>	<u>6,628,820</u>	<u>32,661</u>	<u>1,441,836</u>	<u>9,203</u>	<u>32,788,324</u>
Total assets	<u>\$ 28,193,408</u>	<u>\$ 9,373,830</u>	<u>\$ 112,906</u>	<u>\$ 1,712,239</u>	<u>\$ 2,157,656</u>	<u>\$ 41,550,039</u>
<b><u>LIABILITIES</u></b>						
Current liabilities:						
Current portion of long-term debt	\$ 210,385	\$ -	\$ -	\$ -	\$ -	\$ 210,385
Accounts payable	386,262	144,663	53,930	-	-	584,855
Other liabilities and accruals	180,469	168,210	13,000	9,461	593,309	964,449
Due to primary government	-	-	1,292,035	-	-	1,292,035
Deferred revenue	136,528	-	2,994	-	-	139,522
Total current liabilities	<u>913,644</u>	<u>312,873</u>	<u>1,361,959</u>	<u>9,461</u>	<u>593,309</u>	<u>3,191,246</u>
Noncurrent liabilities:						
Noncurrent portion of long-term debt	3,338,166	-	-	-	-	3,338,166
Total liabilities	<u>4,251,810</u>	<u>312,873</u>	<u>1,361,959</u>	<u>9,461</u>	<u>593,309</u>	<u>6,529,412</u>
<b><u>NET ASSETS</u></b>						
Invested in capital assets, net of related debt	20,982,171	6,514,676	32,661	4,305	9,203	27,543,016
Restricted	145,082	-	-	1,666,218	1,555,144	3,366,444
Unrestricted	2,814,345	2,546,281	(1,281,714)	32,255	-	4,111,167
Total net assets	<u>23,941,598</u>	<u>9,060,957</u>	<u>(1,249,053)</u>	<u>1,702,778</u>	<u>1,564,347</u>	<u>35,020,627</u>
	<u>\$ 28,193,408</u>	<u>\$ 9,373,830</u>	<u>\$ 112,906</u>	<u>\$ 1,712,239</u>	<u>\$ 2,157,656</u>	<u>\$ 41,550,039</u>

See accompanying notes to basic financial statements.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Combining Statement of Revenues, Expenses, and Changes in Net Assets  
Component Units  
Year Ended September 30, 2009

	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	\$ 10,299,229	\$ 2,683,247	\$ 304,495	\$ 22,206	\$ 1,227,490	\$ 14,536,667
Sales	<u>1,237,984</u>	<u>-</u>	<u>75,256</u>	<u>-</u>	<u>-</u>	<u>1,313,240</u>
Total operating revenues	<u>11,537,213</u>	<u>2,683,247</u>	<u>379,751</u>	<u>22,206</u>	<u>1,227,490</u>	<u>15,849,907</u>
Operating expenses:						
Cost of services	10,453,098	-	612,314	-	-	11,065,412
Administration costs	934,799	1,816,047	-	154,305	120,214	3,025,365
Depreciation and amortization	<u>2,053,801</u>	<u>561,973</u>	<u>22,928</u>	<u>2,696</u>	<u>4,385</u>	<u>2,645,783</u>
Total operating expenses	<u>13,441,698</u>	<u>2,378,020</u>	<u>635,242</u>	<u>157,001</u>	<u>124,599</u>	<u>16,736,560</u>
Operating income (loss)	<u>(1,904,485)</u>	<u>305,227</u>	<u>(255,491)</u>	<u>(134,795)</u>	<u>1,102,891</u>	<u>(886,653)</u>
Nonoperating revenues (expenses):						
Contributions from the primary government	479,969	-	120,000	119,000	115,689	834,658
Interest income (expense)	(176,887)	15,718	-	35,067	-	(126,102)
Other	<u>38,103</u>	<u>-</u>	<u>-</u>	<u>5,623</u>	<u>-</u>	<u>43,726</u>
Total nonoperating revenues (expenses), net	<u>341,185</u>	<u>15,718</u>	<u>120,000</u>	<u>159,690</u>	<u>115,689</u>	<u>752,282</u>
Change in net assets	<u>(1,563,300)</u>	<u>320,945</u>	<u>(135,491)</u>	<u>24,895</u>	<u>1,218,580</u>	<u>(134,371)</u>
Net assets at the beginning of the year	<u>25,504,898</u>	<u>8,740,012</u>	<u>(1,113,562)</u>	<u>1,677,883</u>	<u>345,767</u>	<u>35,154,998</u>
Net assets at the end of the year	<u>\$ 23,941,598</u>	<u>\$ 9,060,957</u>	<u>\$ (1,249,053)</u>	<u>\$ 1,702,778</u>	<u>\$ 1,564,347</u>	<u>\$ 35,020,627</u>

See accompanying notes to basic financial statements.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2009

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

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

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

Blended component units are entities that are legally separate from the State, but are so related to the State that they are, in substance, the same as the State or entities providing services entirely or almost entirely to the State. The State has not identified any entities that should be so blended.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2009

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

i. Discretely Presented Component Units

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

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

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

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

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

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

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2009

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

i. Discretely Presented Component Units, Continued

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

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

B. Government-Wide Financial Statements

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

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

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

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

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2009

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide Financial Statements, Continued

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

The government-wide Statement of Net Assets reports \$17,884,113 of restricted net assets, of which \$4,858,268 is restricted by enabling legislation.

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

C. Fund Financial Statements

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

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

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

D. Measurement Focus and Basis of Accounting

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

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

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2009

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

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.

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.

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

The State reports the following Governmental Fund fund types:

i. General Fund

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

ii. Special Revenue Funds

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

iii. Debt Service Funds

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

iv. Capital Projects Funds

These funds account for the acquisition or construction of major State capital facilities financed primarily from loans and federal reimbursements.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2009

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

v. Permanent Funds

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

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

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

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

E. Reporting Standards

As allowed by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the State's discretely presented component units follow all GASB pronouncements and those Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

F. Cash and Cash Equivalents

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

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2009

(1) Summary of Significant Accounting Policies, Continued

G. Investments

Investments and related investment earnings are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Investments in the equity of companies are carried at cost if less than twenty percent of the companies' total equity, on the equity method if greater than twenty percent and less than fifty percent and on a consolidated basis if greater than fifty percent.

H. Receivables

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

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

I. Inventories and Prepaid Items

Inventories of materials and supplies are determined by physical count and are valued at the lower of cost (principally average cost) or market. Certain payments made to vendors or persons for services reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

J. Interfund Receivables/Payables

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

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

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2009

(1) Summary of Significant Accounting Policies, Continued

K. Restricted Assets

Certain assets of the primary government are classified as restricted assets because their use is completely restricted through enabling legislation and loan agreements. As of September 30, 2009, investments of \$7,443,357 recorded in the Compact Trust Fund are restricted in that they are not available to be used in current operations. In addition, investments of \$3,221,590 recorded in the other governmental funds are restricted for future repayment of the Early Retirement Program loan. Furthermore, cash and cash equivalents were restricted for the following uses:

Deposit with a local bank restricted for the purchase of medical supplies for the State hospital. \$ 7,700

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. 49,007

\$ 56,707

L. Capital Assets

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

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

Capital assets of the primary government and the 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:

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2009

(1) Summary of Significant Accounting Policies, Continued

L. Capital Assets, Continued

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

M. Interfund/Intrafund Transactions

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

N. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Annual leave accumulates at the rate of 4 hours biweekly, if less than 3 years of service, 6 hours biweekly, if between 3 and 10 years of service, and 8 hours biweekly if over 10 years of service, limited to 45 working days.

O. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. The unreserved fund balances for the governmental funds represent the amount available for budgeting future operations. The reserve for related assets as of September 30, 2009, is represented by the following assets:

	<u>General</u>	<u>Grant Assistance</u>	<u>Compact Trust</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Inventories	\$ -	\$ -	\$ -	\$ 33,815	\$ 33,815
Restricted assets:					
Cash and cash equivalents	-	49,007	-	-	49,007
Investments	-	-	7,443,357	-	7,443,357
	<u>\$ -</u>	<u>\$ 49,007</u>	<u>\$ 7,443,357</u>	<u>\$ 33,815</u>	<u>\$ 7,526,179</u>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2009

(1) Summary of Significant Accounting Policies, Continued

P. Risk Financing

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

Q. New Accounting Standards

During fiscal year 2009, the State implemented the following pronouncements:

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers.
- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation.
- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income.
- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source.
- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations, and subsequent events.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2009

(1) Summary of Significant Accounting Policies, Continued

Q. New Accounting Standards, Continued

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

In June 2007, GASB issued statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the State.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the State.

In December 2008, GASB issued Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment. The provisions of this statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the State.

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

R. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2009

(1) Summary of Significant Accounting Policies, Continued

S. Deferred Revenues

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

T. Total Columns

Total columns are presented primarily to facilitate financial analysis. The Management’s Discussion and Analysis includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with the State’s financial statements for the year ended September 30, 2008 from which summarized information was derived.

(2) Deposits and Investments

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, disclosure is required of investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 40 also requires disclosure of formal policies related to deposit and investment risks.

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

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

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

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2009

(2) Deposits and Investments, Continued

- ii. Stocks - A "B" rating by a national rating service. Non-rated stocks, such as banks or insurance companies, must be equal in quality or higher.
- iii. Bonds - Confined to issues rated "A" or higher by a national rating service, except in the case of U.S. Treasury or government agency obligations which are not rated.

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

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

A. Deposits

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

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

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

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

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

As of September 30, 2009, the carrying amount of the primary government's total cash and cash equivalents were \$1,398,856 and the corresponding bank balances were \$1,725,646, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2009, bank deposits in the amount of \$264,571 were FDIC insured. The State does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2009

(2) Deposits and Investments, Continued

A. Deposits, Continued

As of September 30, 2009, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$3,214,128, and the corresponding bank balance was \$3,229,491, which were maintained in financial institutions subject to FDIC insurance. As of September 30, 2009, bank deposits in the amount of \$1,355,001 were FDIC insured. The component units do not require collateralization of their cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Therefore, these deposits are exposed to custodial credit risk.

B. Investments

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

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

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

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

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

As of September 30, 2009, the State's investments at fair value are as follows:

Fixed income securities:	
Domestic fixed income	\$ <u>4,519,761</u>
Other investments:	
Domestic equities	13,690,159
Cash management account	<u>375,067</u>
	<u>14,065,226</u>
	\$ <u>18,584,987</u>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2009

(2) Deposits and Investments, Continued

**B. Investments, Continued**

As of September 30, 2009, the State's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

<u>Investment</u>	<u>Credit Rating</u>	<u>Investment Maturities (In Years)</u>				<u>Total</u>
		<u>Current</u>	<u>1-5</u>	<u>6-10</u>	<u>Over</u>	
U.S. Treasury Obligations	Aaa	\$ 39,583	\$ 212,582	\$ 264,753	\$ 149,732	\$ 666,650
U.S. Government Agency Obligations:						
California Water and Sewer	Aaa	-	-	-	76,345	76,345
Federal Farm Credit Bank	Aaa	-	23,771	-	-	23,771
Federal Home Loan Mortgage Corporation	Aaa	15,870	37,955	7,874	324,260	385,959
Federal National Mortgage Association	Aaa	-	112,693	11,878	176,666	301,237
Government National Mortgage Association	Aaa	-	-	-	1,142,397	1,142,397
Tennessee Valley Authority	Aaa	-	-	-	9,534	9,534
Municipal Obligations	Aa1	-	34,933	-	42,808	77,741
Corporate notes and bonds	A1	-	114,132	80,990	68,339	263,461
Corporate notes and bonds	A2	39,213	115,431	129,696	37,085	321,425
Corporate notes and bonds	A3	-	140,244	42,967	63,046	246,257
Corporate notes and bonds	Aa1	-	110,306	19,933	-	130,239
Corporate notes and bonds	Aa2	-	36,393	-	59,154	95,547
Corporate notes and bonds	Aa3	-	41,101	41,763	-	82,864
Corporate notes and bonds	Aaa	-	11,758	117,447	73,480	202,685
Corporate notes and bonds	Ba1	-	-	-	670	670
Corporate notes and bonds	Baa1	-	32,513	162,010	-	194,523
Corporate notes and bonds	Baa2	-	134,115	20,591	65,710	220,416
Corporate notes and bonds	N/R	-	-	51,742	26,298	78,040
		<u>\$ 94,666</u>	<u>\$ 1,157,927</u>	<u>\$ 951,644</u>	<u>\$ 2,315,524</u>	<u>\$ 4,519,761</u>

As of September 30, 2009, the Grants Assistance Fund holds 5.4% of the shares of the Bank of the Federated States of Micronesia in the amount of \$500,000 and 19% of the 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.

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, 2009.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2009

(2) Deposits and Investments, Continued

B. Investments, Continued

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the State. As of September 30, 2009, 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.

(3) Receivables

Receivables as of September 30, 2009, for the primary government's individual major governmental funds, and nonmajor governmental funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Grants Assistance</u>	<u>Compact Trust</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Receivables:					
Taxes	\$ 1,620,291	\$ -	\$ -	\$ -	\$ 1,620,291
Other	<u>4,469,863</u>	<u>1,321,820</u>	<u>-</u>	<u>584,188</u>	<u>6,375,871</u>
	6,090,154	1,321,820	-	584,188	7,996,162
Allowance for uncollectible accounts	<u>(3,929,660)</u>	<u>(453,598)</u>	<u>-</u>	<u>(573,878)</u>	<u>(4,957,136)</u>
	<u>\$ 2,160,494</u>	<u>\$ 868,222</u>	<u>\$ -</u>	<u>\$ 10,310</u>	<u>\$ 3,039,026</u>

Receivables as of September 30, 2009, for the discretely presented component units, including applicable allowances for uncollectible accounts, are as follows:

	<u>Pohnpei Utilities Corporation</u>	<u>Pohnpei Port Authority</u>	<u>Pohnpei Transportation Authority</u>	<u>Small Business Guarantee and Finance Corporation</u>	<u>Pohnpei State Housing Authority</u>	<u>Total</u>
Receivables:						
General	\$ 4,476,639	\$ 1,867,804	\$ 904,546	\$ 2,287	\$ 6,737,883	\$ 13,989,159
Other	<u>98,874</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>49,192</u>	<u>148,066</u>
	4,575,513	1,867,804	904,546	2,287	6,787,075	14,137,225
Less: allowance for uncollectibles	<u>(3,054,243)</u>	<u>(1,454,871)</u>	<u>(846,401)</u>	<u>-</u>	<u>(4,893,666)</u>	<u>(10,249,181)</u>
	<u>\$ 1,521,270</u>	<u>\$ 412,933</u>	<u>\$ 58,145</u>	<u>\$ 2,287</u>	<u>\$ 1,893,409</u>	<u>\$ 3,888,044</u>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2009

**(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, 2009, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Grants Assistance	\$ 2,953,276
General	Nonmajor governmental funds	9,732
Grants Assistance	General	1,044,689
Nonmajor governmental fund	General	<u>5,276,336</u>
		<u>\$ 9,284,033</u>

**(5) Fixed Assets**

Capital asset activities of the primary government for the year ended September 30, 2009, are as follows:

	<u>Balance October 1, 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance September 30, 2009</u>
Governmental activities:				
Capital assets, being depreciated:				
Buildings	\$ 6,250,479	\$ 3,677,994	\$ -	\$ 9,928,473
Machinery, equipment and others	6,961,139	14,899,037	-	21,860,176
Infrastructure	<u>52,341,781</u>	<u>-</u>	<u>-</u>	<u>52,341,781</u>
Total capital assets, being depreciated	<u>65,553,399</u>	<u>18,577,031</u>	<u>-</u>	<u>84,130,430</u>
Less accumulated depreciation for:				
Buildings	(1,941,806)	(2,345,691)	-	(4,287,497)
Machinery, equipment and others	(6,084,338)	(14,855,009)	-	(20,939,347)
Infrastructure	<u>(32,939,959)</u>	<u>(1,701,746)</u>	<u>-</u>	<u>(34,641,705)</u>
	<u>(40,966,103)</u>	<u>(18,902,446)</u>	<u>-</u>	<u>(59,868,549)</u>
Governmental activities capital assets, net	<u>\$ 24,587,296</u>	<u>\$ (325,415)</u>	<u>\$ -</u>	<u>\$ 24,261,881</u>

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

General government	\$ 62,176
Land and natural resources	125,722
Education	251,352
Health services	132,794
Public safety	35,906
Public works and transportation	1,751,225
Office of the attorney-general	<u>6,687</u>
	<u>\$ 2,365,862</u>

The difference between depreciation expense charged and per the above additions results from the effects of contributed assets.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2009

(6) Long-Term Obligations

Primary Government

Asian Development Bank (ADB) Loans:

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

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

Funds for the repayment of the ADB loan are expected to be derived from the annual appropriations for salaries and wages earmarked for the positions abolished under the Early Retirement Scheme. The Financing Agreement requires the State to continue to appropriate salaries for the abolished positions and deposit the appropriate funds into the ERS Trust Account. These funds had not been deposited to the Trust Account as of September 30, 2002. Of the required \$4,200,000 identified for future debt service payments, \$3,221,590 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, 2009, the balance payable on this loan amounted to \$4,022,123.

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. The 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, 2009, the balances payable on these loans amounted to \$472,453 and \$840,429, 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>
2010	\$ 129,649	\$ 60,006	\$ 189,655
2011	142,989	58,281	201,270
2012	142,989	56,556	199,545
2013	142,989	53,991	196,980
2014	159,787	52,098	211,885
2015 – 2019	939,874	229,214	1,169,088
2020 – 2024	1,208,642	163,595	1,372,237
2025 – 2029	1,120,117	95,272	1,215,389
2030 – 2034	839,896	41,995	881,891
2035 – 2037	<u>508,073</u>	<u>5,039</u>	<u>513,112</u>
	<u>\$5,335,005</u>	<u>\$816,047</u>	<u>\$6,151,052</u>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2009

(6) Long-Term Obligations, Continued

Discretely Presented Component Units

Pohnpei Utilities Corporation (PUC)

Loan payable to the FSM National Government through a subsidiary loan of a loan agreement (Loan Number 1459 FSM (SF)) between the FSM National Government and the Asian Development Bank (ADB), interest free with a 1% service charge, payable in semi-annual installments of \$33,500 commencing February 28, 2007. The FSM National Government entered into a Financing Agreement with the State whereby a portion of the loan proceeds under this ADB loan were relent under the same terms and conditions imposed by the ADB.	\$ 1,972,270
Loan payable to United States Department of Agriculture, Rural Utilities Service, interest at 4.5% per annum, payable in monthly installments of \$2,654 commencing October 28, 2006, collateralized by a revenue bond.	559,418
Loan payable to Bank of the Federated States of Micronesia, interest at 9% per annum, payable in monthly installments of \$9,794 commencing September 15, 2008, collateralized by one unit of diesel power comprehensive generator plant, two units of Daihatsu model 12D532 engines, building and materials, and existing and future receivables.	722,055
Loan payable to FSM Development Bank, interest at 9% per annum, payable in monthly installments of \$10,379 commencing July 2007, collateralized by a \$150,000 time certificate of deposit, receivables, inventory and property, plant and equipment.	<u>294,808</u>
	<u>\$ 3,548,551</u>

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>
2010	\$ 210,385	\$ 130,541	\$ 340,926
2011	225,884	115,042	340,926
2012	201,235	98,813	300,048
2013	601,201	85,146	686,347
2014	57,543	41,305	98,848
2015 – 2019	301,121	193,119	494,240
2020 – 2024	325,797	168,443	494,240
2025 – 2029	354,208	140,032	494,240
2030 – 2034	386,965	107,275	494,240
2035 – 2039	425,094	69,146	494,240
2040 – 2044	<u>459,118</u>	<u>24,452</u>	<u>494,240</u>
	<u>\$3,548,551</u>	<u>\$ 1,173,314</u>	<u>\$4,721,865</u>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2009

(7) Change in Long-Term Obligations

Primary Government

Long-term liabilities will be liquidated in the future from governmental funds. During the year ended September 30, 2009, the following changes occurred in liabilities reported as part of the primary government's long-term liabilities in the statement of net assets:

	<u>Balance October 1, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2009</u>	<u>Due Within One Year</u>
Loans payable:					
ADB loans:					
Loan 1520	\$ 4,106,123	\$ -	\$ (84,000)	\$ 4,022,123	\$ 84,874
Loan 1873	472,453	-	-	472,453	23,353
Loan 1874	<u>460,995</u>	<u>379,434</u>	<u>-</u>	<u>840,429</u>	<u>21,422</u>
	5,039,571	379,434	(84,000)	5,335,005	129,649
Other:					
Compensated absences	918,923	934,425	(912,058)	941,290	237,438
Claims	<u>625,000</u>	<u>-</u>	<u>(414,032)</u>	<u>210,968</u>	<u>-</u>
	<u>\$ 6,583,494</u>	<u>\$ 1,313,859</u>	<u>\$ (1,410,090)</u>	<u>\$ 6,487,263</u>	<u>\$ 367,087</u>

Discretely Presented Component Units

During the year ended September 30, 2009, the following changes occurred in liabilities reported as part of the component units' long-term liabilities in the statement of net assets:

	<u>Balance October 1, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2009</u>	<u>Due Within One Year</u>
Loans payable:					
Pohnpei Utilities Corporation	\$ <u>3,750,291</u>	\$ <u>-</u>	\$ <u>(201,740)</u>	\$ <u>3,548,551</u>	\$ <u>210,385</u>

(8) Contingencies and Commitments

Sick Leave

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

Insurance Coverage

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

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2009

(8) Contingencies and Commitments, Continued

Federal Grants

The State participates in a number of federally assisted grant programs. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed.

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

Loan Guarantees

As discussed in Note 1K, if after exhaustive efforts between Pohnpei State Housing Authority and Rural Development (parties to the MOU) have failed to collect from the defaulted borrowers, the State may be ultimately responsible for various USDA Rural Development loans. As of 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.

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, 2009, is not predictable but could have a material impact on the accompanying financial statements. Such impact has currently been estimated to approximate \$210,968.

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.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2009

(9) Continuing Appropriations

Continuing appropriations as of September 30, 2009, are summarized as follows:

Major Governmental Funds

General Fund:

Each fiscal year, the Pohnpei State Legislature appropriates funds for various programs, municipal projects and other projects which are available until fully expended or project completion. \$ 239,495

Grants Assistance Fund:

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

Nonmajor Governmental Funds

Each fiscal year, the Pohnpei State Legislature appropriates funds for various programs and other projects. \$ 562,250

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

(11) FSM Development Bank Loan Funds

Compact Capital Account funds in an aggregate amount of \$1.7 million were transferred to the control of the FSM Development Bank (FSMDB) (a component unit of the FSM National Government) to be loaned out to borrowers from Pohnpei State mainly for economic development projects. The loan fund is administered by FSMDB in a Trust capacity. All loan decisions are made by management of the State. These loans are not controlled by the State and are not currently recorded in the accompanying financial statements. As of December 31, 2009 (FSMDB fiscal year end), the outstanding fund balance aggregated \$793,002.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2009

(12) Prior Period Adjustment

Effective in fiscal year 2009, the Pohnpei Fisheries Corporation (PFC) and the Pohnpei Economic Development Authority (EDA), component units of the State in fiscal years 2008 and prior, were dissolved and their net assets were transferred into the State's general fund.

These events gave rise to a prior period adjustment of \$2,617,065 reflecting the net assets of PFC and EDA as of September 30, 2008.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

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

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**YEAR ENDED SEPTEMBER 30, 2009**

**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, 2009

	<u>Budgeted Amounts</u>		Actual - Budgetary	Variance with Final Budget -
	<u>Original</u>	<u>Final</u>	Basis (see Note 1)	
<b>Revenues:</b>				
FSM revenue sharing	\$ 4,600,000	\$ 4,600,000	\$ 6,250,075	\$ 1,650,075
State taxes	2,280,000	2,280,000	2,405,656	125,656
Fees and charges	137,000	137,000	245,486	108,486
Net change in the fair value of investments	250,000	250,000	581,513	331,513
Contributions from component unit	-	-	154,936	154,936
Other	2,000	2,000	128,079	126,079
Total revenues	<u>7,269,000</u>	<u>7,269,000</u>	<u>9,765,745</u>	<u>2,496,745</u>
<b>Expenditures:</b>				
<b>Current:</b>				
General government	3,921,546	3,845,916	3,740,154	105,762
Department of Land and Natural Resources	477,169	497,920	477,330	20,590
Department of Education	7,318	7,318	2,318	5,000
Department of Health Services	-	60,388	188	60,200
Department of Public Safety	1,221,536	1,287,382	1,243,455	43,927
Office of the Attorney-General	327,324	388,721	371,216	17,505
Boards, Commissions and Other	1,939,903	2,346,238	2,141,758	204,480
Payments to Non-governmental Agencies	303,743	528,829	459,375	69,454
Grants to local governments	2,250,040	2,247,990	2,207,619	40,371
Total expenditures	<u>10,448,579</u>	<u>11,210,702</u>	<u>10,643,413</u>	<u>567,289</u>
Deficiency of revenues under expenditures	<u>(3,179,579)</u>	<u>(3,941,702)</u>	<u>(877,668)</u>	<u>3,064,034</u>
<b>Other financing uses:</b>				
Operating transfers out	(308,981)	-	-	-
Net change in unreserved fund balance	<u>(3,488,560)</u>	<u>(3,941,702)</u>	<u>(877,668)</u>	<u>3,064,034</u>
<b>Other changes in unreserved fund balance:</b>				
Increase in reserve for continuing appropriations	-	-	(25,858)	(25,858)
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	23,052	23,052	23,052	-
	<u>(3,465,508)</u>	<u>(3,918,650)</u>	<u>(880,474)</u>	<u>3,038,176</u>
Unreserved fund balance at the beginning of the year	<u>4,770,195</u>	<u>4,770,195</u>	<u>4,770,195</u>	<u>-</u>
Unreserved fund balance at the end of the year	<u>\$ 1,304,687</u>	<u>\$ 851,545</u>	<u>\$ 3,889,721</u>	<u>\$ 3,038,176</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, 2009

(1) Budgetary Information

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

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

(2) Reconciliation – GAAP and Budgetary Bases of Accounting

Encumbrance accounting is employed in governmental funds. For budgetary purposes, the encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent fiscal year. Accounting principles used in developing data on a budgetary basis differ from those used in preparing the basic financial statements in conformity with GAAP. Amounts included on the Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund (which are presented on a non-GAAP budgetary basis) are reconciled to unreserved fund balance of the Governmental Fund Balance Sheet within the other changes in unreserved fund balance section of that statement. Furthermore, the net change in fund balance to the net change in unreserved fund balance for the General Fund is as follows:

Net change in fund balance	\$ (585,460)
Encumbrances	<u>(292,208)</u>
Net change in unreserved fund balance	\$ <u>(877,668)</u>

For the year ended September 30, 2009, expenditures of the General Fund exceeded budget at the program area level (i.e., the legal level of budgetary control) as follows:

<u>Program Area</u>	<u>Excess</u>
Governor and staff	\$ 20,647
Division of Surveying and Mapping	\$ 1,937
Division of Forestry and Marine Conservation	\$ 10,405
Division of Parks and Recreation	\$ 170
Division of Correction and Rehabilitation	\$ 3,086
Board of Residential Properties and Public Utilities	\$ 5,285

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

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**OTHER SUPPLEMENTARY INFORMATION**

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**YEAR ENDED SEPTEMBER 30, 2009**

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Combining Schedule of Expenditures by Account  
Governmental Funds  
Year Ended September 30, 2009

	General	Special Revenue	Permanent	Other	Total
		Grants Assistance	Compact Trust	Governmental Funds	
Expenditures:					
Salaries and wages					
Regular	\$ 4,898,848	\$ 9,881,257	\$ -	\$ 51,457	\$ 14,831,562
Overtime	79,249	76,316	-	992	156,557
Fringe benefits	559,865	1,200,598	-	6,996	1,767,459
Other personnel costs	328,800	779,307	-	3,747	1,111,854
Travel and transportation	165,078	578,604	-	4,651	748,333
Communications	105,901	118,222	-	5,819	229,942
Dues, membership, and subscriptions	22,865	6,925	-	-	29,790
Food stuffs	135,392	475,796	-	-	611,188
Port charges	1,752	152,151	-	2,581	156,484
Capital outlays	69,384	99,906	-	-	169,290
Office supplies and materials	203,165	1,107,566	-	108,409	1,419,140
POL	308,983	253,779	-	5,585	568,347
Printing and reproduction	45,625	55,739	-	11,891	113,255
Rental services	9,182	38,286	-	-	47,468
Repairs and maintenance	31,610	70,322	-	4,192	106,124
Utilities	336,150	769,720	-	2,300	1,108,170
Subsidies and contributions	2,415,838	68,249	-	-	2,484,087
Medical referrals	-	472,180	-	-	472,180
Medical supplies	-	1,006,634	-	181,922	1,188,556
Contractual services	126,507	1,216,575	-	260,083	1,603,165
Professional services	10,000	305,225	-	-	315,225
Retirement contributions	18,158	247,867	-	220	266,245
Scholarships and allowances	197,515	489,367	-	2,000	688,882
Insurance	82,421	2,393	-	-	84,814
Training	3,980	32,536	-	-	36,516
Leased housing, buildings and land	2,318	223	-	-	2,541
Equipment	77,144	945,871	-	10,477	1,033,492
Principal repayment	22,500	-	-	84,000	106,500
Interest payments	-	-	-	113,787	113,787
Miscellaneous	92,975	106,665	-	416,305	615,945
	<u>\$ 10,351,205</u>	<u>\$ 20,558,279</u>	<u>\$ -</u>	<u>\$ 1,277,414</u>	<u>\$ 32,186,898</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, 2009  
(with comparative totals for the year ended September 30, 2008)

	2009	2008
Revenues:		
FSM revenue sharing	\$ 6,250,075	\$ 5,514,736
State taxes:		
Sales tax	2,165,364	2,027,223
Hotel tax	70,668	67,788
Tax penalties	169,624	58,674
	2,405,656	2,153,685
Fees and charges:		
Licenses and fees:	245,486	120,601
Net change in the fair value of investments	581,513	(1,172,700)
Contributions from component unit	154,936	-
Other revenues	128,079	25,663
Total revenues	9,765,745	6,641,985
Expenditures:		
Current:		
General government:		
Governor and Staff	625,145	734,774
Department of Treasury and Administration	806,180	616,497
Office of Pohnpei Public Auditor	1,132	-
Judiciary Branch	631,873	609,420
Legislative Branch	1,621,935	1,693,013
	3,686,265	3,653,704
Department of Land and Natural Resources:		
Office of the Director	81,695	39,273
Land Use Planning and Zoning Commission	654	1,000
Division of Surveying and Mapping	184,882	179,315
Division of Forestry and Marine Conservation	85,660	151,682
Division of Historic Preservation	52,672	57,200
Division of Parks and Recreation	69,269	42,342
	474,832	470,812
Department of Education:		
Division of Primary Education	2,318	189,355
Post-secondary Education	-	111,777
	2,318	301,132
Department of Health:		
Division of Medical Services	-	229,242
Medical referrals	-	40,388
	-	269,630
Department of Public Safety:		
Office of the Director	101,591	127,071
Search and Rescue	4,388	4,771
Police Commission	25,878	11,105
Division of Police and Security	831,581	844,986
Division of Correction and Rehabilitation	271,546	251,196
	1,234,984	1,239,129
Office of the Attorney-General	356,023	657,501

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, 2009  
(with comparative totals for the year ended September 30, 2008)

	2009	2008
Expenditures, continued:		
Current:		
Boards, Commissions and Other:		
Office of Economic Affairs	287,928	354,831
Office of Social Affairs	211,981	212,071
Office of Transportation and Infrastructure	752,082	877,940
Election Commissioner's Office	53,939	195,280
Environmental Protection Agency	26,343	-
Pohnpei Public Broadcasting Corporation	133,830	132,256
Ethics Commission	-	23,714
Foreign Investment Board	55,837	74,145
Economic Development Authority	11,540	76,684
Pohnpei Housing Authority	97,384	125,424
Board of Residential Properties and Public Utilities	5,285	8,790
Pohnpei Transportation Authority	119,255	1,311,178
Office of Fisheries and Aquaculture	182,397	-
	1,937,801	3,392,313
Payments to Non-governmental Agencies:		
Small Business Guarantee and Finance Corporation	119,000	119,000
Pohnpei Public Library	52,463	52,463
Micronesian Legal Services Corporation	38,280	38,280
U.S.D.A. Rural Development	92,417	93,599
Pohnpei Visitors' Bureau	78,721	-
Constitutional Convention	75,586	-
	456,467	303,342
Grants to local governments	2,202,515	2,179,490
Total expenditures	10,351,205	12,467,053
Deficiency of revenues under expenditures	(585,460)	(5,825,068)
Other financing sources:		
Operating transfers in	-	605,750
Special item:		
Write-off of receivables	-	(158,933)
Net change in fund balance	(585,460)	(5,378,251)
Fund balance at the beginning of the year	5,006,884	10,385,135
Fund balance at the end of the year	\$ 4,421,424	\$ 5,006,884

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, 2009

	Budgeted Amounts		Actual - Budgetary Basis (see Note 1)	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
FSM revenue sharing	\$ 4,600,000	\$ 4,600,000	\$ 6,250,075	\$ 1,650,075
<b>State taxes:</b>				
Sales tax	2,195,000	2,195,000	2,165,364	(29,636)
Hotel tax	60,000	60,000	70,668	10,668
Tax penalties	25,000	25,000	169,624	144,624
	<u>2,280,000</u>	<u>2,280,000</u>	<u>2,405,656</u>	<u>125,656</u>
<b>Fees and charges:</b>				
Licenses and fees	137,000	137,000	245,486	108,486
Net change in the fair value of investments	250,000	250,000	581,513	331,513
Contributions from component unit	-	-	154,936	154,936
Other	2,000	2,000	128,079	126,079
<b>Total revenues</b>	<u>7,269,000</u>	<u>7,269,000</u>	<u>9,765,745</u>	<u>2,496,745</u>
<b>Expenditures:</b>				
<b>Current:</b>				
<b>General government:</b>				
Governor and Staff	658,514	604,498	625,145	(20,647)
Department of Treasury and Administration	786,168	808,238	806,180	2,058
Office of the Pohnpei Public Auditor	2,000	2,000	1,132	868
Judiciary Branch	681,636	689,880	666,331	23,549
Legislative Branch	1,793,228	1,741,300	1,641,366	99,934
	<u>3,921,546</u>	<u>3,845,916</u>	<u>3,740,154</u>	<u>105,762</u>
<b>Department of Land and Natural Resources:</b>				
Office of the Director	84,857	102,156	81,717	20,439
Land Use Planning and Zoning Commission	1,000	1,000	1,000	-
Soil and Water Conservation District	1,000	-	-	-
Division of Surveying and Mapping	181,761	182,945	184,882	(1,937)
Division of Forestry and Marine Conservation	140,922	75,316	85,721	(10,405)
Division of Historic Preservation	67,629	67,404	54,741	12,663
Division of Parks and Recreation	-	69,099	69,269	(170)
	<u>477,169</u>	<u>497,920</u>	<u>477,330</u>	<u>20,590</u>
<b>Department of Education:</b>				
Division of Primary Education	7,318	7,318	2,318	5,000
<b>Department of Health Services:</b>				
Division of Medical Services	-	60,388	188	60,200
<b>Department of Public Safety:</b>				
Office of the Director	103,380	108,870	106,101	2,769
Search and Rescue	5,000	4,945	4,388	557
Police Commission	27,920	27,986	26,083	1,903
Division of Police and Security	816,598	877,121	835,337	41,784
Division of Correction and Rehabilitation	268,638	268,460	271,546	(3,086)
	<u>1,221,536</u>	<u>1,287,382</u>	<u>1,243,455</u>	<u>43,927</u>
Office of the Attorney-General	327,324	388,721	371,216	17,505

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, 2009

	Budgeted Amounts		Actual - Budgetary Basis (see Note 1)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Expenditures, continued:				
Boards, Commissions and Other:				
Office of Economic Affairs	375,367	323,870	294,542	29,328
Office of Social Affairs	233,025	236,928	222,644	14,284
Office of Transportation and Infrastructure	865,273	983,546	932,147	51,399
Election Commissioner's Office	57,258	59,638	55,009	4,629
Environmental Protection Agency	34,723	34,723	26,343	8,380
Pohnpei Public Broadcasting Corporation	164,684	165,365	133,957	31,408
Ethics Commission	1,500	-	-	-
Foreign Investment Board	65,737	67,843	57,091	10,752
Economic Development Authority	26,515	11,547	11,540	7
Pohnpei Housing Authority	115,071	115,091	97,384	17,707
Board of Residential Properties and Public Utilities	750	-	5,285	(5,285)
Pohnpei Transportation Authority	-	120,000	119,255	745
Office of Fisheries and Aquaculture	-	227,687	186,561	41,126
	<u>1,939,903</u>	<u>2,346,238</u>	<u>2,141,758</u>	<u>204,480</u>
Payments to Non-Governmental Agencies:				
Small Business Guarantee and Finance Corporation	119,000	119,000	119,000	-
Pohnpei Public Library	52,463	52,463	52,463	-
Micronesian Legal Services Corporation	38,280	38,280	38,280	-
U.S.D.A. Rural Development	94,000	94,211	93,900	311
Pohnpei Visitors Bureau	-	119,465	78,857	40,608
Constitutional Convention	-	105,410	76,875	28,535
	<u>303,743</u>	<u>528,829</u>	<u>459,375</u>	<u>69,454</u>
Grants to local governments	<u>2,250,040</u>	<u>2,247,990</u>	<u>2,207,619</u>	<u>40,371</u>
Total expenditures	<u>10,448,579</u>	<u>11,210,702</u>	<u>10,643,413</u>	<u>567,289</u>
Deficiency of revenues under expenditures	<u>(3,179,579)</u>	<u>(3,941,702)</u>	<u>(877,668)</u>	<u>3,064,034</u>
Other financing uses:				
Operating transfers out	<u>(308,981)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in unreserved fund balance	<u>(3,488,560)</u>	<u>(3,941,702)</u>	<u>(877,668)</u>	<u>3,064,034</u>
Other changes in unreserved fund balance:				
Increase in reserve for continuing appropriations	-	-	(25,858)	(25,858)
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	23,052	23,052	23,052	-
	<u>(3,465,508)</u>	<u>(3,918,650)</u>	<u>(880,474)</u>	<u>3,038,176</u>
Unreserved fund balance at the beginning of the year	<u>4,770,195</u>	<u>4,770,195</u>	<u>4,770,195</u>	<u>-</u>
Unreserved fund balance at the end of the year	<u>\$ 1,304,687</u>	<u>\$ 851,545</u>	<u>\$ 3,889,721</u>	<u>\$ 3,038,176</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Combined Balance Sheet  
Nonmajor Governmental Funds  
September 30, 2009

	Other Special Revenue	Other Debt Service	Health and Education Projects	Total
<b><u>ASSETS</u></b>				
Receivables, net:				
Other	\$ 10,310	\$ -	\$ -	\$ 10,310
Due from other funds	4,939,890	122,835	213,611	5,276,336
Inventories	33,815	-	-	33,815
Restricted assets:				
Investments	-	3,221,590	-	3,221,590
Total assets	\$ 4,984,015	\$ 3,344,425	\$ 213,611	\$ 8,542,051
<b><u>LIABILITIES AND FUND BALANCES</u></b>				
Liabilities:				
Accounts payable	\$ 24,653	\$ 1,025	\$ 730	\$ 26,408
Other liabilities and accruals	99	-	-	99
Due to other funds	9,732	-	-	9,732
Total liabilities	34,484	1,025	730	36,239
Fund balances:				
Reserved for:				
Related assets	33,815	-	-	33,815
Encumbrances	30,969	6,029	5,577	42,575
Continuing appropriations	384,951	-	177,299	562,250
Debt service	-	3,221,590	-	3,221,590
Unreserved:				
Special revenue funds	4,499,796	-	-	4,499,796
Debt service fund	-	115,781	-	115,781
Capital projects funds	-	-	30,005	30,005
Total fund balances	4,949,531	3,343,400	212,881	8,505,812
Total liabilities and fund balances	\$ 4,984,015	\$ 3,344,425	\$ 213,611	\$ 8,542,051

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Combined Statement of Revenues, Expenditures by Function,  
and Changes in Fund Balances  
Nonmajor Governmental Funds  
Year Ended September 30, 2009

	Other Special Revenue	Other Debt Service	Health and Education Projects	Total
Revenues:				
Net decrease in fair value of investments	\$ -	\$ (56,717)	\$ -	\$ (56,717)
Excise tax	499,581	-	-	499,581
Fees and charges	565,820	-	-	565,820
Total revenues	1,065,401	(56,717)	-	1,008,684
Expenditures by function:				
Current:				
General government	463,201	-	-	463,201
Health services	184,400	-	-	184,400
Boards, commissions and other	-	37,021	379,434	416,455
Debt service	-	197,787	-	197,787
Capital projects	-	-	15,571	15,571
Total expenditures	647,601	234,808	395,005	1,277,414
Excess (deficiency) of revenues over (under) expenditures	417,800	(291,525)	(395,005)	(268,730)
Other financing sources:				
Proceeds from issuance of long-term debt	-	-	379,434	379,434
Operating transfers in	858,575	-	-	858,575
Total other financing sources	858,575	-	379,434	1,238,009
Net change in fund balances	1,276,375	(291,525)	(15,571)	969,279
Fund balances at the beginning of the year	3,673,156	3,634,925	228,452	7,536,533
Fund balances at the end of the year	\$ 4,949,531	\$ 3,343,400	\$ 212,881	\$ 8,505,812

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Combined Statement of Revenues, Expenditures by Account,  
and Changes in Fund Balances  
Nonmajor Governmental Funds  
Year Ended September 30, 2009

	Other Special Revenue	Other Debt Service	Health and Education Projects	Total
Revenues:				
Net decrease in fair value of investments	\$ -	\$ (56,717)	\$ -	\$ (56,717)
Excise tax	499,581	-	-	499,581
Fees and charges	565,820	-	-	565,820
Total revenues	<u>1,065,401</u>	<u>(56,717)</u>	<u>-</u>	<u>1,008,684</u>
Expenditures by account:				
Salaries and wages:				
Regular	51,457	-	-	51,457
Overtime	992	-	-	992
Fringe benefits	6,996	-	-	6,996
Other personnel costs	3,747	-	-	3,747
Travel and transportation	-	4,651	-	4,651
Communications	5,819	-	-	5,819
Port charges	2,581	-	-	2,581
Office supplies and materials	106,436	-	1,973	108,409
POL	5,585	-	-	5,585
Printing and reproduction	11,891	-	-	11,891
Repairs and maintenance	4,192	-	-	4,192
Utilities	2,300	-	-	2,300
Medical supplies	181,922	-	-	181,922
Contractual services	240,456	6,029	13,598	260,083
Retirement contributions	220	-	-	220
Scholarships and allowances	2,000	-	-	2,000
Equipment	8,080	2,397	-	10,477
Principal repayment	-	84,000	-	84,000
Interest payments	-	113,787	-	113,787
Miscellaneous	12,927	23,944	379,434	416,305
Total expenditures	<u>647,601</u>	<u>234,808</u>	<u>395,005</u>	<u>1,277,414</u>
Excess (deficiency) of revenues over (under) expenditures	<u>417,800</u>	<u>(291,525)</u>	<u>(395,005)</u>	<u>(268,730)</u>
Other financing sources:				
Proceeds from issuance of long-term debt	-	-	379,434	379,434
Operating transfers in	858,575	-	-	858,575
Total other financing sources	<u>858,575</u>	<u>-</u>	<u>379,434</u>	<u>1,238,009</u>
Net change in fund balances	1,276,375	(291,525)	(15,571)	969,279
Fund balances at the beginning of the year	<u>3,673,156</u>	<u>3,634,925</u>	<u>228,452</u>	<u>7,536,533</u>
Fund balances at the end of the year	<u>\$ 4,949,531</u>	<u>\$ 3,343,400</u>	<u>\$ 212,881</u>	<u>\$ 8,505,812</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS**

Combining Balance Sheet  
September 30, 2009

	Pohnpei State Farmers' Revolving	Student Vocational Arts Program Revolving	Fisheries Enforcement and Development	Airport Operations	Recycling Revolving	Paved Road Maintenance	Medical Supplies Revolving
<b><u>ASSETS</u></b>							
Receivables:							
Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due from other funds	-	67	885,110	22,273	22,899	1,652,166	188,597
Inventories	33,815	-	-	-	-	-	-
Total assets	<u>\$ 33,815</u>	<u>\$ 67</u>	<u>\$ 885,110</u>	<u>\$ 22,273</u>	<u>\$ 22,899</u>	<u>\$ 1,652,166</u>	<u>\$ 188,597</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>							
Liabilities:							
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,013
Other liabilities and accruals	-	-	-	-	-	-	-
Due to other funds	9,732	-	-	-	-	-	-
Total liabilities	<u>9,732</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,013</u>
Fund balances:							
Reserved for:							
Related assets	33,815	-	-	-	-	-	-
Encumbrances	1,633	-	-	-	-	2,701	26,009
Continuing appropriations	-	-	-	-	-	384,951	-
Unreserved (deficit)	(11,365)	67	885,110	22,273	22,899	1,264,514	145,575
Total fund balances	<u>24,083</u>	<u>67</u>	<u>885,110</u>	<u>22,273</u>	<u>22,899</u>	<u>1,652,166</u>	<u>171,584</u>
Total liabilities and fund balances	<u>\$ 33,815</u>	<u>\$ 67</u>	<u>\$ 885,110</u>	<u>\$ 22,273</u>	<u>\$ 22,899</u>	<u>\$ 1,652,166</u>	<u>\$ 188,597</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS**

Combining Balance Sheet, Continued  
September 30, 2009

	Public Broadcasting Corporation	Health Care Premium	Department of Public Safety Fees	Environmental Quality	Early Retirement	Infrastructure Maintenance	Public Lands Trust	Total
<b><u>ASSETS</u></b>								
Receivables:								
Other	\$ -	\$ 10,310	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,310
Due from other funds	24,497	1,486,605	75,743	24,649	-	412,936	144,348	4,939,890
Inventories	-	-	-	-	-	-	-	33,815
Total assets	<u>\$ 24,497</u>	<u>\$ 1,496,915</u>	<u>\$ 75,743</u>	<u>\$ 24,649</u>	<u>\$ -</u>	<u>\$ 412,936</u>	<u>\$ 144,348</u>	<u>\$ 4,984,015</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>								
Liabilities:								
Accounts payable	\$ -	\$ -	\$ 2,311	\$ -	\$ -	\$ -	\$ 5,329	\$ 24,653
Other liabilities and accruals	-	-	-	-	-	-	99	99
Due to other funds	-	-	-	-	-	-	-	9,732
Total liabilities	<u>-</u>	<u>-</u>	<u>2,311</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,428</u>	<u>34,484</u>
Fund balances:								
Reserved for:								
Related assets	-	-	-	-	-	-	-	33,815
Encumbrances	-	-	-	-	-	-	626	30,969
Continuing appropriations	-	-	-	-	-	-	-	384,951
Unreserved (deficit)	24,497	1,496,915	73,432	24,649	-	412,936	138,294	4,499,796
Total fund balances	<u>24,497</u>	<u>1,496,915</u>	<u>73,432</u>	<u>24,649</u>	<u>-</u>	<u>412,936</u>	<u>138,920</u>	<u>4,949,531</u>
Total liabilities and fund balances	<u>\$ 24,497</u>	<u>\$ 1,496,915</u>	<u>\$ 75,743</u>	<u>\$ 24,649</u>	<u>\$ -</u>	<u>\$ 412,936</u>	<u>\$ 144,348</u>	<u>\$ 4,984,015</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 (Deficits)  
Year Ended September 30, 2009

	Pohnpei State Farmers' Revolving	Student Vocational Arts Program Revolving	Fisheries Enforcement and Development	Airport Operations	Recycling Revolving	Paved Road Maintenance	Medical Supplies Revolving
Revenues:							
Excise tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 352,118	\$ -
Fees and charges	56,147	-	-	-	-	-	405,853
Total revenues	<u>56,147</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>352,118</u>	<u>405,853</u>
Expenditures by function:							
Current:							
General government	68,988	-	-	-	-	229,867	-
Health services	-	-	-	-	-	-	184,400
Total expenditures	<u>68,988</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>229,867</u>	<u>184,400</u>
Excess (deficiency) of revenue over (under) expenditures	(12,841)	-	-	-	-	122,251	221,453
Other financing sources:							
Operating transfers in	-	-	-	-	-	-	-
Net change in fund balances	<u>(12,841)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>122,251</u>	<u>221,453</u>
Fund balances (deficits) at the beginning of the year	<u>36,924</u>	<u>67</u>	<u>885,110</u>	<u>22,273</u>	<u>22,899</u>	<u>1,529,915</u>	<u>(49,869)</u>
Fund balances at the end of the year	<u>\$ 24,083</u>	<u>\$ 67</u>	<u>\$ 885,110</u>	<u>\$ 22,273</u>	<u>\$ 22,899</u>	<u>\$ 1,652,166</u>	<u>\$ 171,584</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS**

Combining Statement of Revenues, Expenditures By Function,  
and Changes in Fund Balances (Deficits), Continued  
Year Ended September 30, 2009

	Public Broadcasting Corporation	Health Care Premium	Department of Public Safety Fees	Environmental Quality	Early Retirement	Infrastructure Maintenance	Public Lands Trust	Total
Revenues:								
Excise tax	\$ -	\$ 147,463	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 499,581
Fees and charges	<u>23,767</u>	<u>-</u>	<u>42,876</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,177</u>	<u>565,820</u>
Total revenues	<u>23,767</u>	<u>147,463</u>	<u>42,876</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,177</u>	<u>1,065,401</u>
Expenditures by function:								
Current:								
General government	12,453	-	46,375	5,217	-	2,404	97,897	463,201
Health services	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>184,400</u>
Total expenditures	<u>12,453</u>	<u>-</u>	<u>46,375</u>	<u>5,217</u>	<u>-</u>	<u>2,404</u>	<u>97,897</u>	<u>647,601</u>
Excess (deficiency) of revenue over (under) expenditures	11,314	147,463	(3,499)	(5,217)	-	(2,404)	(60,720)	417,800
Other financing sources:								
Operating transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>858,575</u>	<u>-</u>	<u>858,575</u>
Net change in fund balances	11,314	147,463	(3,499)	(5,217)	-	856,171	(60,720)	1,276,375
Fund balances (deficits) at the beginning of the year	<u>13,183</u>	<u>1,349,452</u>	<u>76,931</u>	<u>29,866</u>	<u>-</u>	<u>(443,235)</u>	<u>199,640</u>	<u>3,673,156</u>
Fund balances at the end of the year	<u>\$ 24,497</u>	<u>\$ 1,496,915</u>	<u>\$ 73,432</u>	<u>\$ 24,649</u>	<u>\$ -</u>	<u>\$ 412,936</u>	<u>\$ 138,920</u>	<u>\$ 4,949,531</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 (Deficits)  
Year Ended September 30, 2009

	Pohnpei State Farmers' Revolving	Student Vocational Arts Program Revolving	Fisheries Enforcement and Development	Airport Operations	Recycling Revolving	Paved Road Maintenance	Medical Supplies Revolving
Revenues:							
Excise tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 352,118	\$ -
Fees and charges	56,147	-	-	-	-	-	405,853
Total revenues	<u>56,147</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>352,118</u>	<u>405,853</u>
Expenditures by account:							
Salaries and wages:							
Regular	-	-	-	-	-	-	-
Overtime	-	-	-	-	-	-	-
Fringe benefits	-	-	-	-	-	-	-
Other personnel costs	-	-	-	-	-	-	-
Communications	2,709	-	-	-	-	-	-
Port charges	-	-	-	-	-	-	2,478
Office supplies and materials	58,660	-	-	-	-	-	-
POL	1,500	-	-	-	-	-	-
Printing and reproduction	58	-	-	-	-	-	-
Repairs and maintenance	-	-	-	-	-	-	-
Utilities	300	-	-	-	-	-	-
Medical supplies	-	-	-	-	-	-	181,922
Contractual services	-	-	-	-	-	229,867	-
Retirement contributions	-	-	-	-	-	-	-
Scholarships and allowances	-	-	-	-	-	-	-
Equipment	-	-	-	-	-	-	-
Miscellaneous	5,761	-	-	-	-	-	-
Total expenditures	<u>68,988</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>229,867</u>	<u>184,400</u>
Excess (deficiency) of revenue over (under) expenditures	(12,841)	-	-	-	-	122,251	221,453
Other financing sources:							
Operating transfers in	-	-	-	-	-	-	-
Net change in fund balances	<u>(12,841)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>122,251</u>	<u>221,453</u>
Fund balances (deficits) at the beginning of the year	<u>36,924</u>	<u>67</u>	<u>885,110</u>	<u>22,273</u>	<u>22,899</u>	<u>1,529,915</u>	<u>(49,869)</u>
Fund balances at the end of the year	<u>\$ 24,083</u>	<u>\$ 67</u>	<u>\$ 885,110</u>	<u>\$ 22,273</u>	<u>\$ 22,899</u>	<u>\$ 1,652,166</u>	<u>\$ 171,584</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS**

Combining Statement of Revenues, Expenditures By Account,  
and Changes in Fund Balances (Deficits), Continued  
Year Ended September 30, 2009

	Public Broadcasting Corporation	Health Care Premium	Department of Public Safety Fees	Environmental Quality	Early Retirement	Infrastructure Maintenance	Public Lands Trust	Total
Revenues:								
Excise tax	\$ -	\$ 147,463	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 499,581
Fees and charges	23,767	-	42,876	-	-	-	37,177	565,820
Total revenues	<u>23,767</u>	<u>147,463</u>	<u>42,876</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,177</u>	<u>1,065,401</u>
Expenditures by function:								
Salaries and wages:								
Regular	-	-	-	-	-	-	51,457	51,457
Overtime	-	-	-	992	-	-	-	992
Fringe benefits	-	-	-	100	-	-	6,896	6,996
Other personnel costs	-	-	-	-	-	-	3,747	3,747
Communications	3,110	-	-	-	-	-	-	5,819
Port charges	103	-	-	-	-	-	-	2,581
Office supplies and materials	1,268	-	40,790	123	-	-	5,595	106,436
POL	-	-	-	4,002	-	-	83	5,585
Printing and reproduction	-	-	-	-	-	-	11,833	11,891
Repairs and maintenance	-	-	3,868	-	-	-	324	4,192
Utilities	2,000	-	-	-	-	-	-	2,300
Medical supplies	-	-	-	-	-	-	-	181,922
Contractual services	1,652	-	-	-	-	-	8,937	240,456
Retirement contributions	220	-	-	-	-	-	-	220
Scholarships and allowances	-	-	-	-	-	-	2,000	2,000
Equipment	2,980	-	-	-	-	-	5,100	8,080
Miscellaneous	1,120	-	1,717	-	-	2,404	1,925	12,927
Total expenditures	<u>12,453</u>	<u>-</u>	<u>46,375</u>	<u>5,217</u>	<u>-</u>	<u>2,404</u>	<u>97,897</u>	<u>647,601</u>
Excess (deficiency) of revenue over (under) expenditures	11,314	147,463	(3,499)	(5,217)	-	(2,404)	(60,720)	417,800
Other financing sources:								
Operating transfers in	-	-	-	-	-	858,575	-	858,575
Net change in fund balances	11,314	147,463	(3,499)	(5,217)	-	856,171	(60,720)	1,276,375
Fund balances (deficits) at the beginning of the year	<u>13,183</u>	<u>1,349,452</u>	<u>76,931</u>	<u>29,866</u>	<u>-</u>	<u>(443,235)</u>	<u>199,640</u>	<u>3,673,156</u>
Fund balances at the end of the year	<u>\$ 24,497</u>	<u>\$ 1,496,915</u>	<u>\$ 73,432</u>	<u>\$ 24,649</u>	<u>\$ -</u>	<u>\$ 412,936</u>	<u>\$ 138,920</u>	<u>\$ 4,949,531</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**GRANTS ASSISTANCE FUNDS**

Combining Balance Sheet  
September 30, 2009

	Section 211(a)(1) Education Sector	Section 211(a)(2) Health Sector	Section 211(a)(3) Private Sector Development	Section 211(a)(4) Capacity Building	Section 211(a)(5) Environment	Section 211(a)(1) Supplemental Education	Section Infrastructure Maintenance	Section 221(b) Special Block Grant	Compact I Other Grants	U.S. Federal Grants	Non-U.S. Grants	CFSM Grants	Compact I Capital Grant	Total
<b>ASSETS</b>														
Investment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 223,856	\$ 1,195,802	\$ -	\$ -	\$ -	\$ 2,689,325	\$ 4,108,983
Grants receivable from FSM, net	-	19,414	-	-	55,770	227,439	-	-	-	533,483	7,101	21,087	-	864,294
Other receivable	-	-	-	-	-	-	-	-	-	-	-	3,928	-	3,928
Due from other funds	382,005	339,999	66,032	160,343	-	-	-	-	-	-	96,310	-	-	1,044,689
Advances	96	1,502	1,760	11,051	-	15,032	-	-	-	675	-	1,155	-	31,271
Restricted cash	-	7,700	-	-	-	-	-	-	-	-	-	-	49,007	56,707
	<u>\$ 382,101</u>	<u>\$ 368,615</u>	<u>\$ 67,792</u>	<u>\$ 171,394</u>	<u>\$ 55,770</u>	<u>\$ 242,471</u>	<u>\$ -</u>	<u>\$ 223,856</u>	<u>\$ 1,195,802</u>	<u>\$ 534,158</u>	<u>\$ 103,411</u>	<u>\$ 26,170</u>	<u>\$ 2,738,332</u>	<u>\$ 6,109,872</u>
<b>LIABILITIES AND FUND BALANCES</b>														
<b>Liabilities:</b>														
Accounts payable	\$ 183,873	\$ 332,831	\$ -	\$ 3,682	\$ 9,504	\$ 102,530	\$ 905	\$ -	\$ -	\$ 16,570	\$ 14,072	\$ 1,399	\$ -	\$ 665,366
Other liabilities and accruals	67,272	30,997	-	2,767	2,615	14,540	-	-	-	18,214	-	630	-	137,035
Deferred revenue	123,840	-	67,255	163,761	-	-	-	-	-	-	64,396	-	-	419,252
Due to other funds	-	-	-	-	69,837	120,137	115,301	179,868	1,160,214	499,374	-	24,142	784,403	2,953,276
Total liabilities	<u>374,985</u>	<u>363,828</u>	<u>67,255</u>	<u>170,210</u>	<u>81,956</u>	<u>237,207</u>	<u>116,206</u>	<u>179,868</u>	<u>1,160,214</u>	<u>534,158</u>	<u>78,468</u>	<u>26,171</u>	<u>784,403</u>	<u>4,174,929</u>
<b>Fund balances:</b>														
<b>Reserved for:</b>														
Related assets	-	-	-	-	-	-	-	-	-	-	-	-	49,007	49,007
Encumbrances	521,826	337,011	322	11,735	27,436	127,172	53,682	-	1,487	121,789	1,204	2,567	-	1,206,231
Continuing appropriation	-	-	-	-	-	-	-	-	-	-	-	-	1,000,000	1,000,000
Unreserved	(514,710)	(332,224)	215	(10,551)	(53,622)	(121,908)	(169,888)	43,988	34,101	(121,789)	23,739	(2,568)	904,922	(320,295)
Total fund balances (deficit)	<u>7,116</u>	<u>4,787</u>	<u>537</u>	<u>1,184</u>	<u>(26,186)</u>	<u>5,264</u>	<u>(116,206)</u>	<u>43,988</u>	<u>35,588</u>	<u>-</u>	<u>24,943</u>	<u>(1)</u>	<u>1,953,929</u>	<u>1,934,943</u>
Total liabilities and fund balances	<u>\$ 382,101</u>	<u>\$ 368,615</u>	<u>\$ 67,792</u>	<u>\$ 171,394</u>	<u>\$ 55,770</u>	<u>\$ 242,471</u>	<u>\$ -</u>	<u>\$ 223,856</u>	<u>\$ 1,195,802</u>	<u>\$ 534,158</u>	<u>\$ 103,411</u>	<u>\$ 26,170</u>	<u>\$ 2,738,332</u>	<u>\$ 6,109,872</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, 2009**

	Section 211(a)(1) Education Sector	Section 211(a)(2) Health Sector	Section 211(a)(3) Private Sector Development	Section 211(a)(4) Capacity Building	Section 211(a)(5) Environment	Section 211(a)(1) Supplemental Education	Section Infrastructure Maintenance	Section 221(b) Special Block Grant	Compact I Other Grants	U.S. Federal Grants	Non-U.S. Grants	CFSM Grants	Compact I Capital Grant	Total
<b>Revenues:</b>														
Compact funding	\$ 7,497,638	\$ 6,007,766	\$ 8,387	\$ 411,597	\$ 361,052	\$ 3,181,232	\$ 375,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,842,672
CFSM grants	-	-	-	-	-	-	-	-	-	-	-	93,808	-	93,808
Federal contributions and other grants	-	-	-	-	-	-	-	-	-	2,091,662	334,546	-	-	2,426,208
Other	-	-	-	-	-	1,496	-	-	-	-	-	-	-	1,496
	<u>7,497,638</u>	<u>6,007,766</u>	<u>8,387</u>	<u>411,597</u>	<u>361,052</u>	<u>3,181,232</u>	<u>375,000</u>	<u>-</u>	<u>-</u>	<u>2,091,662</u>	<u>334,546</u>	<u>93,808</u>	<u>-</u>	<u>20,364,184</u>
<b>Expenditures by function:</b>														
<b>Current:</b>														
General government	-	-	8,387	411,597	361,052	-	491,206	-	48,513	248,262	232,673	39,946	5,657	1,847,293
Land and natural resources	-	-	-	-	-	-	-	-	-	-	25,467	-	-	25,467
Education	7,497,638	-	-	-	-	3,181,232	-	-	-	1,017,231	35,825	-	-	11,731,926
Health services	-	6,007,766	-	-	-	-	-	-	(1,476)	817,681	67,272	-	-	6,891,243
Public safety	-	-	-	-	-	-	-	-	-	8,488	-	53,862	-	62,350
Total expenditures	<u>7,497,638</u>	<u>6,007,766</u>	<u>8,387</u>	<u>411,597</u>	<u>361,052</u>	<u>3,181,232</u>	<u>491,206</u>	<u>-</u>	<u>47,037</u>	<u>2,091,662</u>	<u>361,237</u>	<u>93,808</u>	<u>5,657</u>	<u>20,558,279</u>
Excess (deficiency) of revenue over (under) expenditures	-	-	-	-	-	1,496	(116,206)	-	(47,037)	-	(26,691)	-	(5,657)	(194,095)
<b>Other financing uses:</b>														
Operating transfers out	-	-	-	-	-	-	(858,575)	-	-	-	-	-	-	(858,575)
Net change in fund balances	-	-	-	-	-	1,496	(974,781)	-	(47,037)	-	(26,691)	-	(5,657)	(1,052,670)
Fund balances (deficit) at the beginning of the year	<u>7,116</u>	<u>4,787</u>	<u>537</u>	<u>1,184</u>	<u>(26,186)</u>	<u>3,768</u>	<u>858,575</u>	<u>43,988</u>	<u>82,625</u>	<u>-</u>	<u>51,634</u>	<u>(1)</u>	<u>1,959,586</u>	<u>2,987,613</u>
Fund balances (deficit) at the end of the year	<u>\$ 7,116</u>	<u>\$ 4,787</u>	<u>\$ 537</u>	<u>\$ 1,184</u>	<u>\$ (26,186)</u>	<u>\$ 5,264</u>	<u>\$ (116,206)</u>	<u>\$ 43,988</u>	<u>\$ 35,588</u>	<u>\$ -</u>	<u>\$ 24,943</u>	<u>\$ (1)</u>	<u>\$ 1,953,929</u>	<u>\$ 1,934,943</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, 2009**

	Section 211(a)(1) Education Sector	Section 211(a)(2) Health Sector	Section 211(a)(3) Private Sector Development	Section 211(a)(4) Capacity Building	Section 211(a)(5) Environment	Section 211(a)(1) Supplemental Education	Section 221(b) Infrastructure Special Block Grant	Section Compact I Other Grants	U.S. Federal Grants	Non-U.S. Grants	CFSM Grants	Section Compact I Capital Grant	Total
<b>Revenues:</b>													
Compact funding	\$ 7,497,638	\$ 6,007,766	\$ 8,387	\$ 411,597	\$ 361,052	\$ 3,181,232	\$ 375,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,842,672
CFSM grants	-	-	-	-	-	-	-	-	-	-	93,808	-	93,808
Federal contributions and other grants	-	-	-	-	-	-	-	-	2,091,662	334,546	-	-	2,426,208
Other	-	-	-	-	-	1,496	-	-	-	-	-	-	1,496
	<u>7,497,638</u>	<u>6,007,766</u>	<u>8,387</u>	<u>411,597</u>	<u>361,052</u>	<u>3,182,728</u>	<u>375,000</u>	<u>-</u>	<u>2,091,662</u>	<u>334,546</u>	<u>93,808</u>	<u>-</u>	<u>20,364,184</u>
<b>Expenditures by account:</b>													
Salaries and wages:													
Regular	4,981,242	2,188,926	244	211,680	199,432	1,055,999	-	-	1,207,194	4,631	31,909	-	9,881,257
Overtime	-	60,390	-	-	9,751	-	-	-	6,004	-	171	-	76,316
Fringe benefits	627,155	236,237	16	19,589	25,665	136,074	-	-	150,789	1,500	3,573	-	1,200,598
Other personnel costs	393,525	135,501	30	8,559	18,462	105,939	-	-	112,989	654	3,648	-	779,307
Travel and transportation	1,935	168,051	8,017	93,317	2,595	118,950	-	(1,476)	172,510	948	13,757	-	578,604
Communications	15,566	14,176	-	4,292	6,083	70,542	-	-	7,277	286	-	-	118,222
Dues, membership, and subscriptions	685	400	-	440	-	5,400	-	-	-	-	-	-	6,925
Food stuffs	206,323	95,136	-	-	-	159,312	-	-	47	272	14,706	-	475,796
Port charges	14,883	2,812	-	-	-	134,428	-	-	28	-	-	-	152,151
Capital outlays	13,832	21,443	-	829	1,490	44,479	-	-	17,833	-	-	-	99,906
Office supplies and materials	544,326	105,003	80	8,106	25,456	300,155	-	-	106,099	16,611	1,730	-	1,107,566
POL	67,179	17,628	-	2,812	25,102	75,428	-	-	57,268	4,884	3,478	-	253,779
Printing and reproduction	20,533	12,124	-	1,699	899	11,316	-	-	4,380	4,788	-	-	55,739
Rental services	1,990	152	-	17	-	23,255	-	-	11,372	1,500	-	-	38,286
Repairs and maintenance	16,621	3,459	-	1,581	3,391	22,770	-	-	21,129	816	555	-	70,322
Utilities	85,664	610,158	-	10,000	11,000	32,523	-	-	18,750	1,625	-	-	769,720
Subsidies and contributions	68,249	-	-	-	-	-	-	-	-	-	-	-	68,249
Medical referrals	-	472,180	-	-	-	-	-	-	-	-	-	-	472,180
Medical supplies	-	998,654	-	-	-	865	-	-	7,115	-	-	-	1,006,634
Contractual services	15,792	348,317	-	33,998	30,590	19,207	491,206	-	48,513	102,643	112,949	8,950	1,216,575
Professional services	-	-	-	-	-	305,225	-	-	-	-	-	-	305,225
Retirement contributions	-	-	-	-	-	242,397	-	-	4,345	1,125	-	-	247,867
Scholarships and allowances	334,415	59,400	-	750	720	73,574	-	-	15,728	4,780	-	-	489,367
Insurance	-	2,393	-	-	-	-	-	-	-	-	-	-	2,393
Training	-	-	-	-	-	32,536	-	-	-	-	-	-	32,536
Leased housing, buildings and land	-	223	-	-	-	-	-	-	-	-	-	-	223
Equipment	78,512	424,716	-	13,815	-	193,428	-	-	67,865	156,336	11,199	-	945,871
Miscellaneous	9,211	30,287	-	113	416	17,430	-	-	297	47,532	132	1,247	106,665
Total expenditures	<u>7,497,638</u>	<u>6,007,766</u>	<u>8,387</u>	<u>411,597</u>	<u>361,052</u>	<u>3,181,232</u>	<u>491,206</u>	<u>-</u>	<u>47,037</u>	<u>2,091,662</u>	<u>361,237</u>	<u>93,808</u>	<u>20,558,279</u>
Excess (deficiency) of revenue over (under) expenditures	-	-	-	-	-	1,496	(116,206)	-	(47,037)	-	(26,691)	-	(194,095)
Other financing uses:													
Operating transfers out	-	-	-	-	-	-	(858,575)	-	-	-	-	-	(858,575)
Net change in fund balances	-	-	-	-	-	1,496	(974,781)	-	(47,037)	-	(26,691)	-	(1,052,670)
Fund balances (deficit) at the beginning of the year	<u>7,116</u>	<u>4,787</u>	<u>537</u>	<u>1,184</u>	<u>(26,186)</u>	<u>3,768</u>	<u>858,575</u>	<u>43,988</u>	<u>82,625</u>	<u>-</u>	<u>51,634</u>	<u>(1)</u>	<u>2,987,613</u>
Fund balances (deficit) at the end of the year	<u>\$ 7,116</u>	<u>\$ 4,787</u>	<u>\$ 537</u>	<u>\$ 1,184</u>	<u>\$ (26,186)</u>	<u>\$ 5,264</u>	<u>\$ (116,206)</u>	<u>\$ 43,988</u>	<u>\$ 35,588</u>	<u>\$ -</u>	<u>\$ 24,943</u>	<u>\$ (1)</u>	<u>\$ 1,934,943</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 John Ehsa  
Governor, State of Pohnpei  
Federated States of Micronesia:

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Pohnpei as of and for the year ended September 30, 2009, which collectively comprise the State of Pohnpei's basic financial statements and have issued our report thereon dated June 28, 2010. Our report was modified to include a reference to other auditors and an explanatory paragraph relating to a restatement. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Pohnpei Transportation Authority, the Small Business Guarantee and Finance Corporation, and the Pohnpei Economic Development Authority, as described in our report on the State of Pohnpei's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors.

For purposes of this report, our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants, and other matters did not include the Pohnpei Utilities Corporation, the Pohnpei Port Authority, the Pohnpei Fisheries Corporation 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. The findings, if any, included in those reports are not included herein.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs (pages 76 through 78) as item 2009-1 to be a significant deficiency in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

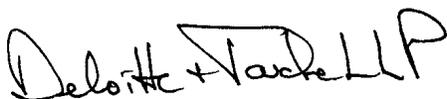
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

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

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Pohnpei's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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



June 28, 2010

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND ON  
THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

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

### Compliance

We have audited the compliance of the State of Pohnpei with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2009. The State of Pohnpei's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (pages 76 through 78). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State of Pohnpei's management. Our responsibility is to express an opinion on the State of Pohnpei's compliance based on our audit.

As discussed in Note 2b to the Schedule of Expenditures of Federal Awards, the State of Pohnpei's basic financial statements include the operations of certain entities whose federal awards are not included in the Schedule of Expenditures of Federal Awards for the year ended September 30, 2009. Our audit, described below, did not include the operations of the entities identified in Note 2b as these entities conducted separate audits in accordance with OMB Circular A-133, if required.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State of Pohnpei's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the State of Pohnpei's compliance with those requirements.

In our opinion, the State of Pohnpei complied, in all material respects, with the requirements referred to above that are applicable to its Compact of Free Association Sector Grants major program (CFDA # 15.875) and its Special Education - Grants to States major program (CFDA # 84.027) for the year ended September 30, 2009. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2009-1.

### Internal Control Over Compliance

The management of the State of Pohnpei is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State of Pohnpei's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State of Pohnpei's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2009-1 to be a significant deficiency.

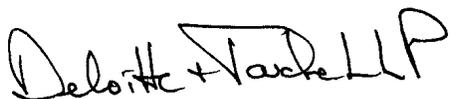
A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

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

## Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Pohnpei as of and for the year ended September 30, 2009, and have issued our report thereon dated June 28, 2010. Our report was modified to include a reference to other auditors and an explanatory paragraph relating to a restatement. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the State of Pohnpei's basic financial statements. We did not audit the financial statements of the Pohnpei Transportation Authority and the Small Business Guarantee and Finance Corporation which represent 5%, 1% and 4%, respectively, of the assets, net assets and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Pohnpei Transportation Authority and the Small Business Guarantee and Finance Corporation is based on the reports of the auditors. The accompanying schedule of expenditures of federal awards (pages 67 through 75) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of the State of Pohnpei. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

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

June 28, 2010

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Summary Schedule of Expenditures of Federal Awards, by Grantor  
Year Ended September 30, 2009

Agency/Program	Expenditures
U.S. Department of Agriculture	\$ 19,709
U.S. Department of the Interior	18,198,444
U.S. Department of Labor	-
U.S. Department of Homeland Security	41,680
U.S. Department of Education	1,016,402
U.S. Department of Health and Human Services	<u>826,999</u>
GRAND TOTAL	<u>\$ 20,103,234</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      \$ 9,870

Total Direct Grants      \$ 9,870

Reconciliation to the basic financial statements:

Grants Assistance Fund      \$ 20,558,279

Less:

Non-U.S. Grants      (361,237)

CFSM Grants      (93,808)

\$ 20,103,234

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, 2009

Agency/Program	CFDA#	Expenditures
U.S. DEPARTMENT OF AGRICULTURE		
Cooperative Forestry Assistance	10.664	\$ 19,709
Urban and Community Forestry Program	10.675	-
Forest Stewardship Program	10.678	-
U.S. DEPARTMENT OF AGRICULTURE TOTAL		\$ <u>19,709</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, 2009

Agency/Program	CFDA#	Expenditures
U.S. DEPARTMENT OF THE INTERIOR		
Economic, Social and Political Development of the Territories:	15.875	
Compact Capital Improvement Projects		\$ 5,657
Compact Health and Medical Grants		47,037
Compact Special Block Grants		-
Compact II Education Sector		7,497,638
Compact II Health Sector		6,007,766
Compact II Private Sector		8,387
Compact II Capacity Building Sector		411,597
Compact II Environment Sector		361,052
Compact II Supplemental Education		3,181,232
Compact II Infrastructure Maintenance		491,206
Technical Assistance:		
Survey and Mapping		60,006
Historic Preservation Fund Grants-In-Aid	15.904	<u>126,866</u>
U.S. DEPARTMENT OF THE INTERIOR TOTAL		<u>\$ 18,198,444</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, 2009

Agency/Program	CFDA#	Expenditures
U.S. DEPARTMENT OF LABOR		
WIA Adult Program	17.258	\$ -
WIA Dislocated Workers	17.260	-
U.S. DEPARTMENT OF LABOR TOTAL		\$ -

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, 2009

Agency/Program	CFDA#	Expenditures
U.S. DEPARTMENT OF HOMELAND SECURITY		
Disaster Assistance	83.516	\$ <u>41,680</u>
U.S. DEPARTMENT OF HOMELAND SECURITY		\$ <u><u>41,680</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, 2009

<u>Agency/Program</u>	<u>CFDA#</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF EDUCATION		
Special Education - Grants to States	84.027	\$ <u>1,016,402</u>
U.S. DEPARTMENT OF EDUCATION TOTAL		\$ <u><u>1,016,402</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, 2009

Agency/Program	CFDA#	Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Maternal and Child Health Federal Consolidated Programs	93.110	\$ -
Project Grants and Cooperative Agreements for Tuberculosis		
Control Programs	93.116	38,189
Sexual Violence/Rape Prevention	93.126	8,488
Family Planning - Services	93.217	87,359
Consolidated Health Centers	93.224	206,835
Immunization Grants	93.268	86,974
CDC & Prevention-Investigations & Technical Assistance	93.283	102,431
ARRA Health Center Integrated Services Development Initiative	93.703	5,970
HIV Care Formula Grants	93.917	1,967
HIV Prevention Activities-Health Department Based	93.940	39,979
Block Grants for Prevention and Treatment of Substance Abuse	93.959	116,567
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977	7,227
Cooperative Agreements for State-Based Diabetes Control		
Programs and Evaluation of Surveillance Systems	93.988	12,053
Maternal and Child Health Services Block Grant to the States	93.994	91,134
CCPI Cancer Program	93.999	21,826
		<u>826,999</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL		\$ <u>826,999</u>
GRAND TOTAL		\$ <u>20,103,234</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, 2009

1. Scope

The State of Pohnpei is one of the four States of the Federated States of Micronesia. All significant operations of the State are included in the scope of the OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior has been designated as the State's cognizant agency for Single Audit.

A. Programs Subject to Single Audit

Schedules of expenditures of federal awards are presented for each federal program related to the following agencies:

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

2. Summary of Significant Accounting Policies

A. Basis of Accounting

For purposes of this report, certain accounting procedures were followed which help illustrate the expenditures of the individual programs. All expenses and capital outlays are reported as expenditures on the accrual basis of accounting.

B. Reporting Entity

For purposes of complying with The Single Audit Act of 1984, as amended in 1996, the State's reporting entity is defined in Note 1A to its September 30, 2009 basic financial statements; and all of the discretely presented component units are excluded. Accordingly, the accompanying Schedule of Expenditures of Federal Awards presents the federal award programs administered by the State, as defined above, for the year ended September 30, 2009.

C. Subgrantees

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

D. Indirect Cost Allocation

The State does not receive any indirect cost allocation and does not charge indirect costs against federal programs.

E. CFDA #15.875

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

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Programs Selected For  
Audit in Accordance with OMB Circular A-133  
Year Ended September 30, 2009

<u>Grantor</u> <u>Program Title</u>	<u>CFDA No.</u>	2009 <u>Fiscal Year</u> <u>Expenditures</u>
<u>U.S. Department of the Interior</u>		
Compact of Free Association Compact II Sector Grants	15.875	
Compact II Education Sector		\$ 7,497,638
Compact II Health Sector		6,007,766
Compact II Private Sector		8,387
Compact II Capacity Building Sector		411,597
Compact II Environment Sector		361,052
Compact II Supplemental Education		3,181,232
Compact II Infrastructure Maintenance		<u>491,206</u>
Total Major Programs Under CFDA #15.875		<u>17,958,878</u>
 <u>U.S. Department of Education</u>		
Special Education – Grants to States	84.027	<u>1,016,402</u>
Total U.S. Federal program expenditures selected		\$ <u>18,975,280</u>
Total U.S. Federal program expenditures		\$ <u>20,103,234</u>
% of total U.S. Federal expenditures covered by major programs		<u>94%</u>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2009

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

*Financial Statements*

- |   |             |
|---|-------------|
| 1. Type of auditors' report issued:   | Unqualified |
| Internal control over financial reporting:  |             |
| 2. Material weakness(es) identified?  | No          |
| 3. Significant deficiency(ies) identified that is not considered to be a material weakness? | No          |
| 4. Noncompliance material to the financial statements noted?                                | No          |

*Federal Awards*

Internal control over major programs:

- |   |             |
|---|-------------|
| 5. Material weakness(es) identified?  | No          |
| 6. Significant deficiency(ies) identified that is not considered to be a material weakness?                               | Yes         |
| 7. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | Yes         |
| 8. Type of auditors' report issued on compliance for major programs   | Unqualified |
| 9. The State's major programs were as follows:  |             |

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

- |   |           |
|---|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133: | \$603,097 |
| 11. The State qualified as a low-risk auditee as that term is defined in OMB Circular A-133?                                  | No        |

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

**Part II – Financial Statements Findings Section**

<u>Finding #</u>	<u>Finding</u>
2009-1	Maintenance of Fixed Assets

**Part III - Federal Award Findings and Questioned Cost Section**

<u>Finding #</u>	<u>CFDA #</u>	<u>Finding</u>	<u>Questioned Costs</u>
2009-1	15.875/84.027	Maintenance of Fixed Assets	\$ 0

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-1  
Grantor Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories  
Grant Number: Compact Sector Grants  
Requirement: Compliance: Maintenance of Fixed Assets  
Questioned Cost: \$0

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

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

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

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

Effect: The expected life of fixed assets may be lessened. However, no questioned costs result from this finding as no specific instances came to our attention in fiscal year 2009 of unnecessary expenditures that occurred due to this condition.

Prior Year Status: Noncompliance with maintenance of fixed assets was reported as a finding in the fiscal years 2007-2008 single audits.

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

Auditee Response: We agree with the finding, however, corrective action was initiated in fiscal year 2009 and will continue in fiscal year 2010 and the formal plan will be fully implemented in fiscal year 2011.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Summary Schedule of Prior Audit Findings and Questioned Costs  
Year Ended September 30, 2009

The following is a summary of unresolved questioned costs of the State of Pohnpei as of September 30, 2009:

Questioned Costs as of September 30, 2008	\$ -
Fiscal year 2009 questioned costs	<u>-</u>
Total questioned costs at September 30, 2009	\$ <u><u>-</u></u>

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