

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

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**REPORT ON THE AUDIT OF  
FINANCIAL STATEMENTS IN ACCORDANCE  
WITH THE UNIFORM GUIDANCE**

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**YEAR ENDED SEPTEMBER 30, 2018**

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

YEAR ENDED SEPTEMBER 30, 2018

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**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

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

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**YEAR ENDED SEPTEMBER 30, 2018**

## **INDEPENDENT AUDITORS' REPORT**

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

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

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Pohnpei (the State), as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as set forth in Section III of the foregoing table of contents.

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

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

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

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Pohnpei Transportation Authority and the Small Business Guarantee and Finance Corporation, which represent 7%, 6%, and 7%, respectively, of the assets, net position, and operating revenues of the State's discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Pohnpei Transportation Authority and the Small Business Guarantee and Finance Corporation, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

***Summary of Opinions***

Opinion Unit	Type of Opinion
Governmental Activities	Qualified
Aggregate Discretely Presented Component Units	Unmodified
General Fund	Unmodified
Grants Assistance Fund	Unmodified
Compact Trust Fund	Unmodified
Other Governmental Funds	Unmodified

***Basis for Qualified Opinion on Governmental Activities***

As more fully described in Note 13 to the financial statements, the State has not recorded a liability for a nonexchange financial guarantee for discretely presented component unit debt. In our opinion, accounting principles generally accepted in the United States of America require that a liability be recognized when the State will be required to make a payment on the guarantee. The effects of this departure on the governmental activities of the State are not reasonably determinable.

***Qualified Opinion***

In our opinion, except for the matter described in the "Basis for Qualified Opinion on Governmental Activities" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the State of Pohnpei as of September 30, 2018, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Unmodified Opinion***

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the aggregate discretely presented component units, each major fund, and the remaining aggregate fund information of the State of Pohnpei as of September 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis-of-Matter******Receivables from the FSM National Government***

As discussed in Note 3 to the financial statements, the State is in discussions with the FSM National Government to determine the ultimate collectability of certain receivables due from the FSM National Government in consultation with federal grantor agencies arising from Compact sector grant transactions.

Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

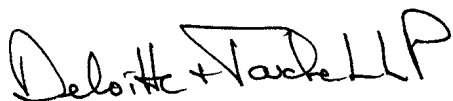
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 10 as well as the Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund and notes thereto, on pages 51 and 52, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The combining and individual fund financial statements, as set forth in Section V of the foregoing table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2019 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 solely describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance.



June 24, 2019



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis  
September 30, 2018

This section of the Pohnpei State's financial report presents our Management's Discussion and Analysis (MD&A) for the fiscal year ended September 30, 2018. This MD&A is prepared in compliance with the GASB 54 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 total governmental activities net position for the year is \$58,323,881.
- The net change in total governmental fund balance is an increase of \$5,427,395. Total revenues reported are \$41,654,222 against total expenditures of \$36,226,827.
- Actual revenues for the general fund were \$2,825,484 higher than budgeted revenues. The total expenditures-budgetary basis showed an unfavorable variance of \$1,333,006. The general fund reported an unassigned fund balance of \$3,395,342, with a decrease of \$253,289 from the prior year unassigned fund balance of \$3,648,631.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

Government-Wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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Management's Discussion and Analysis  
September 30, 2018

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

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

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

	<u>Government Activities</u>	
	<u>2018</u>	<u>2017</u>
Current and other assets	\$ 42,984,241	\$ 36,994,964
Capital assets	<u>25,015,418</u>	<u>26,327,591</u>
Total assets	\$ <u>67,999,659</u>	\$ <u>63,322,555</u>
Current liabilities	\$ 5,680,806	\$ 5,200,204
Long-term debt and other liabilities	<u>3,994,972</u>	<u>4,271,387</u>
Total liabilities	<u>9,675,778</u>	<u>9,471,591</u>
Net position:		
Net investment in capital assets	25,015,418	26,327,591
Restricted	28,568,999	25,249,658
Unrestricted fund balance	<u>4,739,464</u>	<u>2,273,715</u>
Total net position	<u>58,323,881</u>	<u>53,850,964</u>
	\$ <u>67,999,659</u>	\$ <u>63,322,555</u>

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

	<u>Government Activities</u>	
	<u>2018</u>	<u>2017</u>
Revenues:		
Program revenues:		
Charges for services	\$ 2,583,800	\$ 2,693,745
Operating grants and contributions	22,572,493	22,904,037
Capital grants and contributions	550,934	550,934
General revenues:		
Taxes	13,795,525	11,222,670
Investment earnings	980,375	814,772
Other	<u>11,016</u>	<u>2,758,963</u>
Total revenues	<u>40,494,143</u>	<u>40,945,121</u>

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FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis  
September 30, 2018

	<u>Government Activities</u>	
	<u>2018</u>	<u>2017</u>
Expenses:		
General Government	9,391,504	7,564,057
Education	11,956,812	11,739,170
Health services	7,441,875	7,876,030
Land and natural resources	367,599	568,513
Public works and transportation	183,635	81,013
Public safety	1,421,484	1,423,010
Boards, commission and other appropriations	<u>6,469,150</u>	<u>6,435,718</u>
Total expenses	<u>37,232,059</u>	<u>35,687,511</u>
Other items:		
SDR-foreign exchange gain (loss)	50,754	(39,753)
Contributions to permanent fund	<u>1,160,079</u>	<u>2,143,523</u>
Total other items	<u>1,210,833</u>	<u>2,103,770</u>
Change in net position	4,472,917	7,361,380
Net position - beginning	<u>53,850,964</u>	<u>46,489,584</u>
Net position - ending	<u>\$ 58,323,881</u>	<u>53,850,964</u>

Exhibit I, below, showed that 57% of the State's revenues were derived from Compact II while 40% came from taxes and licenses.

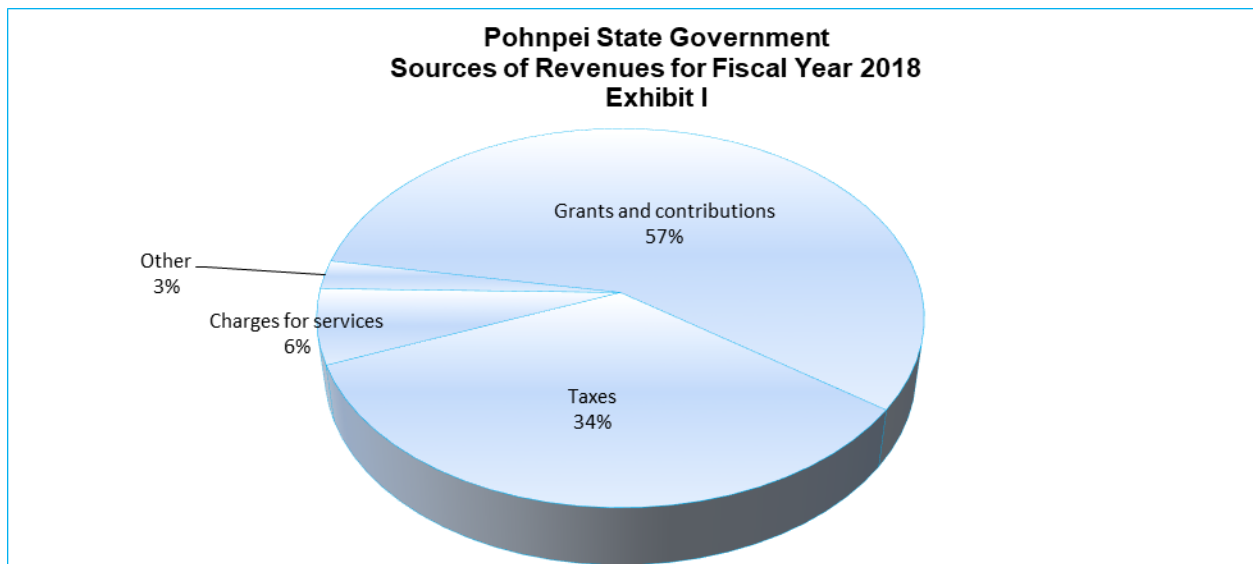
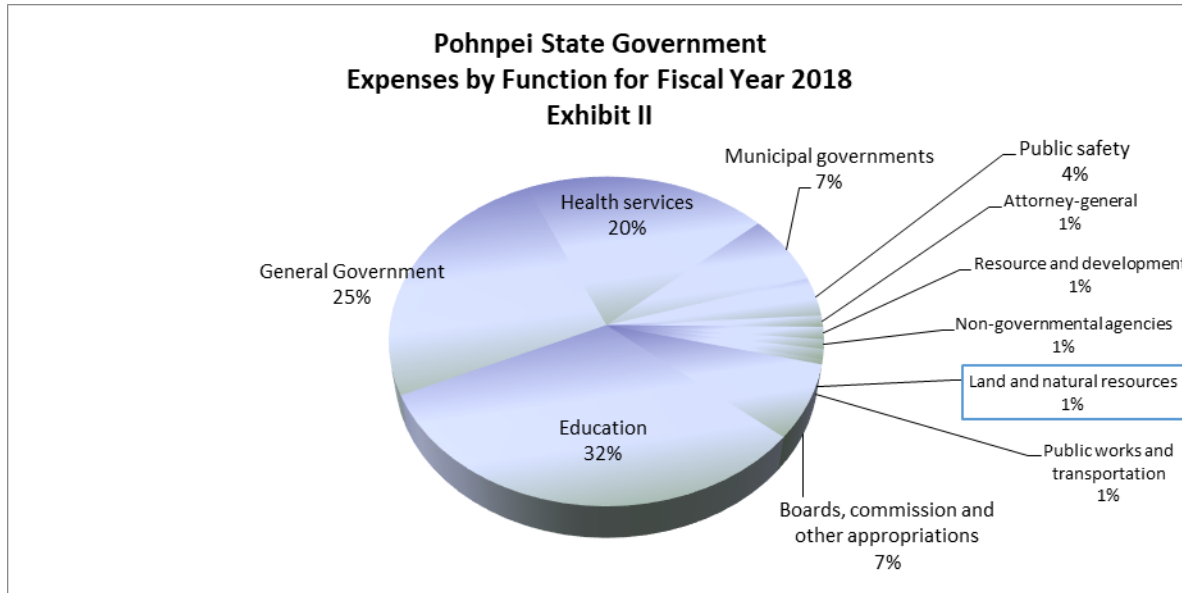


Exhibit II, illustrated that Education represented 32% of the State's total expenses followed by 25% for General Government and Health Services at 20%.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis  
September 30, 2018



## FINANCIAL ANALYSIS OF THE STATE GOVERNMENTAL FUNDS

The State's governmental fund changes in fund balances for the years ended September 30, 2018 and 2017 are shown below.

	General Fund		Grants Assistance Fund		Compact Trust Fund		Other Funds	
	2018	2017	2018	2017	2018	2017	2018	2017
Revenues:								
Taxes	\$ 12,946,172	\$ 10,854,701	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 367,969
Compact	-	-	21,677,817	21,281,707	-	-	849,353	239,889
Other/transfers in	<u>1,379,312</u>	<u>3,998,351</u>	<u>1,445,610</u>	<u>1,933,375</u>	<u>1,160,079</u>	<u>2,143,523</u>	<u>2,293,191</u>	<u>2,269,129</u>
Total revenues	14,325,484	14,853,052	23,123,427	23,215,082	1,160,079	2,143,523	3,142,544	2,876,987
Expenditures/transfers out	<u>11,915,423</u>	<u>10,094,878</u>	<u>23,267,005</u>	<u>23,108,908</u>	-	-	<u>1,141,711</u>	<u>1,477,733</u>
Net change in fund balances	\$ <u>2,410,061</u>	\$ <u>4,758,174</u>	\$ <u>(143,578)</u>	\$ <u>106,174</u>	\$ <u>1,160,079</u>	\$ <u>2,143,523</u>	\$ <u>2,000,833</u>	\$ <u>1,399,254</u>

### General Fund

Compared to FY 2017, tax revenue increased by \$2,091,471 or 20%, the net change in the fair value of investment decreased to \$668,336 from \$814,772, while fees and charges decreased to \$387,921 from \$424,616. Dividends and interest income received plunged to \$312,039 from \$1,291,691 that resulted in an overall revenue decrease of \$527,568. Expenditures increased by \$1,820,545 or 18% compared to fiscal year 2017; the States General Fund recorded no transfers out for this year.

### 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 2018. The total Compact II/Sector funding amounted to \$18,877,267 while total expenditures are in the amount of \$18,877,267, which is discussed below:

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis  
September 30, 2018

- The education sector grant that shall support and improve the educational system of the Federated States of Micronesia, including, without limitation, the systems for primary, secondary, and post-secondary education. The total revenues are \$8,629,306 against total expenditures of the same amount, an increase of \$519,014 or 7% compared to fiscal year 2017.
- 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 \$6,262,207, an increase of \$160,022 or 3% compared to fiscal year 2017.
- The sector grant for private sector development shall support the efforts of the Federated States of Micronesia to attract new foreign investment and increase indigenous business activity. Priorities will be in advancing the private development of fisheries, tourism and agriculture; employing new telecommunications technologies; and analyzing and developing new systems, laws, and policies to foster private sector development, to facilitate investment by potential private investors, and develop business and entrepreneurial skills. There was no funding for fiscal year 2018.
- The sector for capacity building shall support the efforts of the Federated States of Micronesia to build effective, accountable and transparent national and local government and other public sector institutions and systems. The total grant revenues and corresponding expenditures are \$360,322, an increase of \$14,301 or 5% compared to fiscal year 2017.
- 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 \$421,091 with the same total of expenditures, an increase of \$42,858 or 12% compared to fiscal year 2017.
- 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. Total funding of \$381,775 corresponds to total expenditures of the same amount, a decrease of \$169,159 or 31% compared to fiscal year 2017.
- The Supplemental Education Grant (SEG) is considered the seventh-sector grant. SEG has been offered in lieu of grants that were formerly available from various federal agencies. The federal programs that were incorporated into SEG are Territories & Freely Associated States Education Grant (T&FASEG), Adult Education & Family Literacy, Workforce Investment Act, Pacific Vocational Education Improvement Program and Early Childhood Program (formerly Head Start). For the year, the total expenditures incurred were \$2,382,136, a decrease of \$132,969 or 6% compared to fiscal year 2017.
- The Enhanced Reporting & Accountability is a new grant that supports the finance functions of the Department of Treasury and Administration. It is aimed at developing and implementing systems, financial management procedures, and internal controls that account for and ensure reporting on the use of amended compact funds. For the year, total expenditures incurred were \$328,108 compared to \$279,012 or an increase of \$49,096 or 18% from prior year.

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Management's Discussion and Analysis  
September 30, 2018

Other major source of funding under Grant Assistance Fund is the US Federal Grants, and US Direct Grants which respectively supported \$2,801,709 and \$1,211,441 of the expenditures of the State. Federal Grants decreased by \$128,284 or 5% compared to fiscal year 2017.

Total Grants Assistance Fund revenues decreased by \$91,655 or 1% compared to fiscal year 2017.

**General Fund Budgetary Highlights**

During the year, the State revised its budget several times in the aggregate amount of \$443,847 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 inflationary adjustments.

The State's general fund unassigned fund balance is \$3,395,342.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

Capital Assets

The State's capital assets at the end of fiscal year 2018 consist basically of equipment, buildings, roads and bridges. Decrease in capital assets was due to higher depreciation than replacement of machinery, equipment and others. The summary of gross capital assets at the end of September 30 is shown below:

	<u>Primary Government Government Activities</u>	
	<u>2018</u>	<u>2017</u>
Buildings	\$ 24,841,744	\$ 24,841,744
Infrastructure	53,690,078	53,690,078
Machinery	<u>26,059,369</u>	<u>25,175,590</u>
Total	\$ <u>104,591,191</u>	\$ <u>103,707,412</u>

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

Long-term Debt

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

	<u>Government Activities</u>	
	<u>2018</u>	<u>2017</u>
Asian Development Bank loans	\$ <u>4,021,344</u>	\$ <u>4,290,213</u>

Notes 7 and 8 to the financial statements present more information about the State's long-term debt.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis  
September 30, 2018

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

Funding for the operations of most of the government services in fiscal year 2019 will still come from the Compact II.

Fiscal year 2019 is the 16<sup>th</sup> year of the implementation of the economic assistance under the Compact II/Sector Grant. Sector funding replaces the funding sources from the old Compact I. Under the Compact II/Sector grant, the annual budget approved by JEMCO for fiscal year 2019 is as follows:

- For Education Sector Grant, which continues to be the funding priority, the annual budget is \$7,782,191.
- The Health Sector Grant's budget is \$6,185,868.
- The Private Sector Development Sector Grant's budget is nil.
- The Public Sector Capacity Building Sector Grant budget is \$212,868.
- The Environment Sector Grant is nil.
- The Enhanced Reporting and Accounting Sector Grant budget is \$420,541.
- In the case of the Supplemental Education Grant (SEG), the total funding for fiscal year 2019 is \$2,602,603. The programs covered in the funding are Early Childhood Education, Education Improvement Programs, Workforce Development/Skill Training, Vocational Education and Staff Development.

For fiscal year 2019, locally generated revenues, investment income and the revenue shares from the FSM National Government are projected at \$12,674,061: lower than recorded revenues of 14,325,484 in fiscal year 2018. The net decrease is due mainly to a projected decrease in investment income and dividends. However, we expect to maintain higher collection of local taxes and revenue share from the FSMNG with the implementation of the amendment of the Tax Code which became effective in January 2016. Thus, the Department is confident that the projected revenue could be reached.

**FINANCIAL CONTACT**

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

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Statement of Net Position  
September 30, 2018

	Primary Government	Component Units
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 3,256,682	\$ 7,322,552
Time certificate of deposit	-	228,788
Investments	5,922,157	242,088
Receivables, net	4,725,548	4,998,541
Advances	650,448	106,744
Inventories	-	405,725
Other current assets	-	60,347
Restricted assets:		
Cash and cash equivalents	5,240,817	1,228,083
Total current assets	<u>19,795,652</u>	<u>14,592,868</u>
Noncurrent assets:		
Capital assets:		
Nondepreciable capital assets	-	3,640,920
Capital assets, net of accumulated depreciation	25,015,418	35,859,396
Investments	-	-
Receivables	-	2,021,169
Other assets	1,300,000	-
Restricted assets:		
Cash and cash equivalents	-	517,473
Investments	21,888,589	-
Total noncurrent assets	<u>48,204,007</u>	<u>42,038,958</u>
Total assets	<u>\$ 67,999,659</u>	<u>\$ 56,631,826</u>
<b>LIABILITIES</b>		
Current liabilities:		
Short-term debt	\$ -	\$ 536,636
Current portion of long-term obligations	237,340	475,070
Compensated absences payable	292,941	-
Accounts payable	2,208,008	3,667,645
Other liabilities and accruals	962,219	804,784
Due to primary government	-	1,748,856
Unearned revenues	1,980,298	317,136
Total current liabilities	<u>5,680,806</u>	<u>7,550,127</u>
Noncurrent liabilities:		
Long-term obligations, net of current portion	3,784,004	7,927,544
Claims and judgments payable	210,968	-
Total noncurrent liabilities	<u>3,994,972</u>	<u>7,927,544</u>
Total liabilities	<u>9,675,778</u>	<u>15,477,671</u>
Contingencies and commitments		
<b>NET POSITION</b>		
Net investment in capital assets	25,015,418	31,118,030
Restricted for:		
Nonexpendable:		
Future operations	17,425,026	-
Expendable:		
Debt service	4,463,563	-
Compact related	121,862	-
Other purposes	6,558,548	5,837,326
Unrestricted	4,739,464	4,198,799
Total net position	<u>58,323,881</u>	<u>41,154,155</u>
Total liabilities and net position	<u>\$ 67,999,659</u>	<u>\$ 56,631,826</u>

See accompanying notes to financial statements.



**STATE OF POHNPEI**  
**FEDERATED STATES OF MICRONESIA**

Statement of Activities  
Year Ended September 30, 2018

		Program Revenues			Net (Expenses) Revenues and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
Functions/Programs						
Primary government:						
Governmental activities:						
General government	\$ 9,391,504	\$ 758,793	\$ 3,353,450	\$ -	\$ (5,279,261)	\$ -
Land and natural resources	367,599	30,977	90,176	-	(246,446)	-
Education	11,956,812	-	11,972,736	-	15,924	-
Health services	7,441,875	1,569,228	7,232,972	-	1,360,325	-
Public safety	1,421,484	110,554	-	-	(1,310,930)	-
Attorney-general	411,565	-	-	-	(411,565)	-
Public works and transportation	183,635	114,248	-	-	(69,387)	-
Resource and development	449,613	-	-	-	(449,613)	-
Non-governmental agencies	346,763	-	-	-	(346,763)	-
Boards, commissions and others	2,256,095	-	-	-	(2,256,095)	-
Municipal governments	2,531,021	-	-	-	(2,531,021)	-
Capital projects	474,093	-	(76,841)	550,934	-	-
Total primary government	\$ 37,232,059	\$ 2,583,800	\$ 22,572,493	\$ 550,934	(11,524,832)	-
Component units:						
Pohnpei Utilities Corporation	\$ 15,035,872	\$ 13,476,678	\$ -	\$ 1,028,865	-	(530,329)
Pohnpei Port Authority	3,354,241	4,628,600	-	-	-	1,274,359
Pohnpei Transportation Authority	1,742,051	1,463,301	-	892,576	-	613,826
Small Business Guarantee and Finance Corporation	130,299	63,753	-	-	-	(66,546)
Pohnpei State Housing Authority	183,433	162,935	-	-	-	(20,498)
Total component units	\$ 20,445,896	\$ 19,795,267	\$ -	\$ 1,921,441	-	1,270,812
General revenues:						
Taxes:						
FSM revenue sharing:						
Gross revenue taxes					3,370,695	-
Import taxes					3,762,217	-
Income taxes					2,462,250	-
Other taxes					290,276	-
State taxes					3,910,087	-
Unrestricted investment earnings					980,375	-
Other					11,016	(290,061)
Total general revenues					14,786,916	(290,061)
Special item - loss on SDR foreign exchange					50,754	-
Contributions to permanent fund					1,160,079	-
Total general revenues, special item and contributions					15,997,749	(290,061)
Change in net position					4,472,917	980,751
Net position at the beginning of the year					53,850,964	40,173,404
Net position at the end of the year					\$ 58,323,881	\$ 41,154,155

See accompanying notes to financial statements.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Balance Sheet  
Governmental Funds  
September 30, 2018

	General	Special Revenue Grants Assistance	Permanent Compact Trust	Other Governmental Funds	Total
<b>ASSETS</b>					
Cash and cash equivalents	\$ 3,256,682	\$ -	\$ -	\$ -	\$ 3,256,682
Investments	5,922,157	-	-	-	5,922,157
Receivables, net:					
General	259,849				259,849
Taxes	2,412,034	-	-	-	2,412,034
Due from FSM National Government	-	2,007,119	-	-	2,007,119
Other	35,000	11,546	-	-	46,546
Due from other funds	1,887,972	3,120,960	-	6,672,083	11,681,015
Advances	156,517	475,151	-	18,780	650,448
Other assets	1,300,000	-	-	-	1,300,000
Restricted assets:					
Cash and cash equivalents	5,233,117	7,700	-	-	5,240,817
Investments	4,463,563	-	17,425,026	-	21,888,589
Total assets	<u>\$ 24,926,891</u>	<u>\$ 5,622,476</u>	<u>\$ 17,425,026</u>	<u>\$ 6,690,863</u>	<u>\$ 54,665,256</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 877,782	\$ 1,255,557	\$ -	\$ 74,669	\$ 2,208,008
Other liabilities and accruals	442,876	513,647	-	5,696	962,219
Unearned revenues	-	1,980,298	-	-	1,980,298
Due to other funds	9,793,043	1,846,532	-	41,440	11,681,015
Total liabilities	<u>11,113,701</u>	<u>5,596,034</u>	<u>-</u>	<u>121,805</u>	<u>16,831,540</u>
Fund balances:					
Non-spendable	2,587,767	-	17,425,026	14,156	20,026,949
Restricted	7,352,518	26,442	-	-	7,378,960
Committed	148,716	-	-	6,600,523	6,749,239
Assigned	328,847	-	-	-	328,847
Unassigned:					
General fund	3,395,342	-	-	-	3,395,342
Special revenue funds	-	-	-	(45,621)	(45,621)
Total fund balances	<u>13,813,190</u>	<u>26,442</u>	<u>17,425,026</u>	<u>6,569,058</u>	<u>37,833,716</u>
Total liabilities and fund balances	<u>\$ 24,926,891</u>	<u>\$ 5,622,476</u>	<u>\$ 17,425,026</u>	<u>\$ 6,690,863</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	25,015,418
Long-term liabilities, including loans payable, are not due and payable in the current period and, therefore, are not reported in the funds. The liabilities include:	
Long-term debt payable	(4,021,344)
Compensated absences payable	(292,941)
Claims and judgments payable	(210,968)
	<u>(4,525,253)</u>
Net position of governmental activities	<u>\$ 58,323,881</u>

See accompanying notes to financial statements.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
Year Ended September 30, 2018**

		Special Revenue	Permanent	Other Governmental Funds	Total
	General	Grants Assistance	Compact Trust		
Revenues:					
Compact funding	\$ -	\$ 18,877,267	\$ -	\$ -	\$ 18,877,267
Net change in the fair value of investments	980,375	-	1,160,079	-	2,140,454
CFSM grants	-	1,211,441	-	-	1,211,441
Federal contributions and other grants	-	3,034,719	-	-	3,034,719
FSM revenue sharing	9,885,438	-	-	-	9,885,438
State taxes	3,060,734	-	-	849,353	3,910,087
Fees and charges	387,921	-	-	2,195,879	2,583,800
Other	11,016	-	-	-	11,016
Total revenues	<u>14,325,484</u>	<u>23,123,427</u>	<u>1,160,079</u>	<u>3,045,232</u>	<u>41,654,222</u>
Expenditures:					
Current:					
General government	4,907,363	3,399,716	-	904,980	9,212,059
Land and natural resources	375,172	90,176	-	-	465,348
Education	133,666	11,972,736	-	-	12,106,402
Health services	81,470	7,232,972	-	236,731	7,551,173
Public safety	1,194,724	-	-	-	1,194,724
Office of the Attorney-General	411,565	-	-	-	411,565
Public works	185,846	-	-	-	185,846
Department of Resources and development	449,613	-	-	-	449,613
Payments to non-governmental agencies	346,763	-	-	-	346,763
Boards, commissions and other	1,035,358	-	-	-	1,035,358
Grants to local governments	2,531,021	-	-	-	2,531,021
Capital projects	-	474,093	-	-	474,093
Debt service	262,862	-	-	-	262,862
Total expenditures	<u>11,915,423</u>	<u>23,169,693</u>	<u>-</u>	<u>1,141,711</u>	<u>36,226,827</u>
Excess (deficiency) of revenues over (under) expenditures	2,410,061	(46,266)	1,160,079	1,903,521	5,427,395
Other financing sources(uses):					
Operating transfers in(out)	-	(97,312)	-	97,312	-
Net change in fund balances	<u>2,410,061</u>	<u>(143,578)</u>	<u>1,160,079</u>	<u>2,000,833</u>	<u>5,427,395</u>
Fund balances at the beginning of the year	<u>11,403,129</u>	<u>170,020</u>	<u>16,264,947</u>	<u>4,568,225</u>	<u>32,406,321</u>
Fund balances at the end of the year	<u>\$ 13,813,190</u>	<u>\$ 26,442</u>	<u>\$ 17,425,026</u>	<u>\$ 6,569,058</u>	<u>\$ 37,833,716</u>

See accompanying notes to financial statements.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Reconciliation of the Statement of Revenues, Expenditure, and Changes in Fund  
Balances of Governmental Funds to the Statement of Activities  
Year Ended September 30, 2018

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	\$ 5,427,395
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 (\$2,195,952) exceeded capital outlays (\$883,779) in the current period.	(1,312,173)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. For the current year, these amounts consist of:	218,115
Repayment of ADB loans and special item associated with loss on SDR foreign exchange adjustment.	50,754
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:	
Net change in compensated absences payable	<u>88,826</u>
Change in net position of governmental activities	\$ <u>4,472,917</u>

See accompanying notes to financial statements.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Combining Statement of Net Position  
Component Units  
September 30, 2018

	Pohnpei Utilities Corporation	Pohnpei Port Authority	Pohnpei Transportation Authority	Small Business Guarantee and Finance Corporation	Pohnpei State Housing Authority	Total
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ 1,388,442	\$ 5,526,850	\$ -	\$ 800	\$ 406,460	\$ 7,322,552
Time certificate of deposit	228,788	-	-	-	-	228,788
Investments	-	242,088	-	-	-	242,088
Receivables, net	1,352,367	448,591	60,437	47,654	3,089,492	4,998,541
Inventories	180,958	31,682	193,085	-	-	405,725
Advances	-	32,471	58,377	15,896	-	106,744
Other current assets	58,974	-	-	345	1,028	60,347
Restricted assets:						
Cash and cash equivalents	-	-	-	1,228,083	-	1,228,083
Total current assets	3,209,529	6,281,682	311,899	1,292,778	3,496,980	14,592,868
Noncurrent assets:						
Receivables, net	1,256,912	229,868	-	534,389	-	2,021,169
Capital assets:						
Nondepreciable capital assets	850,066	2,790,854	-	-	-	3,640,920
Capital assets, net of accumulated depreciation	29,556,249	3,751,803	2,494,649	12,648	44,047	35,859,396
Restricted:						
Cash and cash equivalents	517,473	-	-	-	-	517,473
Total noncurrent assets	32,180,700	6,772,525	2,494,649	547,037	44,047	42,038,958
Total assets	<u>\$35,390,229</u>	<u>\$13,054,207</u>	<u>\$ 2,806,548</u>	<u>\$ 1,839,815</u>	<u>\$ 3,541,027</u>	<u>\$56,631,826</u>
<b>LIABILITIES</b>						
Current liabilities:						
Short-term debt	\$ 536,636	\$ -	\$ -	\$ -	\$ -	\$ 536,636
Current portion of long-term debt	475,070	-	-	-	-	475,070
Accounts payable	3,565,179	21,473	80,979	14	-	3,667,645
Other liabilities and accruals	364,855	359,254	32,607	7,083	40,985	804,784
Due to primary government	-	20,685	1,623,344	-	104,827	1,748,856
Unearned revenues	313,962	-	3,174	-	-	317,136
Total current liabilities	5,255,702	401,412	1,740,104	7,097	145,812	7,550,127
Noncurrent liabilities:						
Noncurrent portion of long-term debt	7,927,544	-	-	-	-	7,927,544
Total liabilities	<u>13,183,246</u>	<u>401,412</u>	<u>1,740,104</u>	<u>7,097</u>	<u>145,812</u>	<u>15,477,671</u>
<b>NET POSITION</b>						
Net investment in capital assets	22,024,029	6,542,657	2,494,649	12,648	44,047	31,118,030
Restricted	723,686	-	-	1,762,472	3,351,168	5,837,326
Unrestricted	(540,732)	6,110,138	(1,428,205)	57,598	-	4,198,799
Total net position	<u>22,206,983</u>	<u>12,652,795</u>	<u>1,066,444</u>	<u>1,832,718</u>	<u>3,395,215</u>	<u>41,154,155</u>
	<u>\$ 35,390,229</u>	<u>\$ 13,054,207</u>	<u>\$ 2,806,548</u>	<u>\$ 1,839,815</u>	<u>\$ 3,541,027</u>	<u>\$56,631,826</u>

See accompanying notes to financial statements.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Combining Statement of Revenues, Expenses, and Changes in Net Position  
Component Units  
Year Ended September 30, 2018

	Pohnpei Utilities Corporation	Pohnpei Port Authority	Pohnpei Transportation Authority	Small Business Guarantee and Finance Corporation	Pohnpei State Housing Authority	Total
Operating revenues:						
Charges for services	\$ 13,476,678	\$ 4,628,600	\$ 1,463,301	\$ 63,753	\$ 162,935	\$ 19,795,267
Total operating revenues	<u>13,476,678</u>	<u>4,628,600</u>	<u>1,463,301</u>	<u>63,753</u>	<u>162,935</u>	<u>19,795,267</u>
Operating expenses:						
Cost of services	11,157,181	-	-	-	-	11,157,181
Administration costs	1,769,343	2,936,646	1,474,073	126,468	165,790	6,472,320
Depreciation and amortization	<u>2,109,348</u>	<u>417,595</u>	<u>267,978</u>	<u>3,831</u>	<u>17,643</u>	<u>2,816,395</u>
Total operating expenses	<u>15,035,872</u>	<u>3,354,241</u>	<u>1,742,051</u>	<u>130,299</u>	<u>183,433</u>	<u>20,445,896</u>
Operating income (loss)	<u>(1,559,194)</u>	<u>1,274,359</u>	<u>(278,750)</u>	<u>(66,546)</u>	<u>(20,498)</u>	<u>(650,629)</u>
Nonoperating revenues (expenses):						
Contributions from the primary government	-	-	-	-	116,951	116,951
Interest income (expense)	(199,977)	26,674	-	2,942	-	(170,361)
Other	<u>(287,706)</u>	<u>3,193</u>	<u>1,475</u>	<u>46,387</u>	<u>-</u>	<u>(236,651)</u>
Total nonoperating revenues (expenses), net	<u>(487,683)</u>	<u>29,867</u>	<u>1,475</u>	<u>49,329</u>	<u>116,951</u>	<u>(290,061)</u>
Net income (loss) before capital contributions	<u>(2,046,877)</u>	<u>1,304,226</u>	<u>(277,275)</u>	<u>(17,217)</u>	<u>96,453</u>	<u>(940,690)</u>
Capital contributions	<u>1,028,865</u>	<u>-</u>	<u>892,576</u>	<u>-</u>	<u>-</u>	<u>1,921,441</u>
Change in net position	<u>(1,018,012)</u>	<u>1,304,226</u>	<u>615,301</u>	<u>(17,217)</u>	<u>96,453</u>	<u>980,751</u>
Net position at the beginning of the year	<u>23,224,995</u>	<u>11,348,569</u>	<u>451,143</u>	<u>1,849,935</u>	<u>3,298,762</u>	<u>40,173,404</u>
Net position at the end of the year	<u>\$ 22,206,983</u>	<u>\$ 12,652,795</u>	<u>\$ 1,066,444</u>	<u>\$ 1,832,718</u>	<u>\$ 3,395,215</u>	<u>\$ 41,154,155</u>

See accompanying notes to financial statements.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2018

**(1) Summary of Significant Accounting Policies**

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

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

**A. Reporting Entity**

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

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

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

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

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

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.

Discretely Presented Component Units:

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

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

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

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

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



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

Discretely Presented Component Units, Continued:

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

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

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

B. Government-Wide Financial Statements

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

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

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

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

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide Financial Statements, Continued

- Restricted net position - nonexpendable consists of permanent funds in which donors or other outside sources have stipulated that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to the principal.
- Restricted net position - expendable consists of resources in which the State is legally or contractually obligated to spend resources in accordance with restrictions either externally imposed by creditors, grantors, contributors, and the like, or imposed by law.
- Unrestricted net position consists of net position, which does not meet the definition of the two preceding categories. Unrestricted net position often is designated, (for example, internally restricted), to indicate that management does not consider such to be available for general operations.

The government-wide Statement of Net Position reports \$28,568,999 of restricted net position, of which \$6,558,548 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.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting

Government-Wide Financial Statements:

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

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

Governmental Fund Financial Statements:

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

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

Component Unit Financial Statements:

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

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

Fund Accounting:

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

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

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

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

E. Cash and Cash Equivalents and Time Certificates of Deposit

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

F. Investments

Investments and related investment earnings of the primary government and the discretely presented component units are recorded at fair value using quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability (ie., the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

F. Investments, Continued

The State categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In certain instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy is based on the lowest level of input that is significant to the fair measurement. Investments not categorized under the fair value hierarchy are shown at either Net Asset Value (NAV) or amortized cost.

G. Receivables

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

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

H. Prepaid Items

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

I. Interfund Receivables/Payables

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

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

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

J. Inventories

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

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

K. Restricted Assets

Certain assets of the primary government are classified as restricted assets because their use is completely restricted through enabling legislation and loan agreements. Specifically, the State has collateralized investments in the amount of \$4,463,563 for the Pohnpei State Early Retirement Scheme. Furthermore, investments recorded in the Compact Trust Fund of \$17,425,026 are restricted in that they are not available to be used in current operations.

As of September 30, 2018, cash and cash equivalents were restricted for the following uses:

Primary Government:

Deposits with a local bank restricted for the purchase of medical supplies for the State hospital.	\$ 2,526,499
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State Hospital's Honolulu imprest fund.	7,700
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Savings accounts established in accordance with Section 211(d)(2) of the Compact of Free Association, as amended, for the purpose of funding the State's infrastructure maintenance plan

Compact Sector Grants	2,344,162
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Loan Guarantee Escrow Account established for the sole purpose of loan collateralization made through the USDA Rural Development. The escrow account may be drawn down in the event of a borrower's default on the obligation under the terms of the promissory note and the deed of trust security instrument supporting such note and for which such note is guaranteed by PSHA, the trustee of the Loan Guarantee Escrow Account.

	<u>362,456</u>
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	\$ <u>5,240,817</u>
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**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

K. Restricted Assets, Continued

Discretely Presented Component Units:

Pohnpei Utilities Corporation:

Deposit accounts collateralizing loans payable to the FSM Development Bank and the Bank of the FSM	\$ 517,473
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Small Business Guarantee and Finance Corporation:

Deposit accounts restricted for various operations of the Small Business Guarantee and Finance Corporation	<u>1,228,083</u>
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\$ 1,745,556

L. Other Assets

The State holds approximately 13% of the outstanding shares of Pacific Islands Development Bank with a carrying value of \$1,300,000. This equity interest does not meet the definition of an investment as the asset is held primarily for economic development and is presented as other assets in the accompanying financial statements.

M. Capital Assets

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

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

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

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

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

N. Deferred Outflows of Resources

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

O. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Annual leave accumulates at 240 hours per calendar year. All unused annual leave is cancelled at the end of each calendar year.

P. Deferred Inflows of Resources

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

Q. Unearned Revenues

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

R. Fund Balance

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

- Non-spendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

R. Fund Balance, Continued

- Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed.
- Unassigned - includes negative fund balances in other governmental funds.

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

A formal minimum fund balance policy has not been adopted.

S. 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.

T. New Accounting Standards

During the year ended September 30, 2018, the State implemented the following pronouncements:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments.
- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards, Continued

- GASB Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).
- GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt.

The implementation of these statements did not have a material effect on State's financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The provisions in Statement No. 88 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards, Continued

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

U. 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.

V. Estimates

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

W. 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, 2017 from which summarized information was derived.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2018

(2) Deposits and Investments

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

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

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

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

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

The Secretary of Administration and Finance shall be responsible for investment of all public funds collected or appropriated for use by the State. Funds under this arrangement shall include all appropriations from the State, whether funds are appropriated from the State Treasury or funds from other sources. Any funds in excess of the amount necessary for the operation of the State shall be deposited or invested to earn the safest optimum interest. The Secretary shall determine the amount to be invested with the consideration that such amount should not cause disruption of any government service due to low or lack of funds in the operational budget. The Secretary shall cause all investments to be made into financially secure institutions in Pohnpei or abroad as determined by the financial institution paying the highest rate of interest on savings when the investment is made.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2018

(2) Deposits and Investments, Continued

The investment policy for the Compact Trust Fund (the Trust Fund), which was adopted by the Trust Fund Committee on September 15, 2010 and amended through December 17, 2013 requires the Trust Fund to allocate its managed investment portfolios among domestic and foreign equity and fixed income securities. All or a portion of the Trust Fund may be invested in exchange traded funds ("ETFs"), mutual funds, real estate investment trusts ("REITs"), separate accounts and common trust funds (commingled vehicles), hedge funds, private equity funds, and other pooled investment vehicles ("pooled vehicles"). A common trust fund is similar to an open-ended investment company or mutual fund, but participation is limited to investors with trust accounts. Commingled and pooled vehicles that invest exclusively in marketable fixed income securities are considered to be fixed income securities for the purpose of compliance with the Trust Fund's investment policy.

The fair values of ETFs, mutual funds, and common trust funds are generally determined by the fair value of the underlying marketable equity and debt securities owned, which are principally common stocks and bonds, respectively. Publicly traded ETFs, mutual funds, and similar vehicles may trade at prices above or below the fair values of the underlying investments held; therefore the fair value of such investments may differ from the sum of the fair values of the underlying investments owned. The core fixed income portfolios may be invested in debt securities issued by the U.S. government and government agencies, foreign governments, domestic and international corporate securities, including asset-backed and mortgage-backed obligations. The fixed income portfolio may invest in convertible and high yield debt securities; however the average quality of the fixed income portfolio must be rated "investment grade" by at least one nationally recognized rating agency at the time of purchase. The Trust Fund's fixed income investment objective is for each portfolio to achieve total return similar to a relevant index, such as Barclays Capital Aggregate Index and the Bank of America Merrill Lynch Global High Yield Index.

The Trust Fund's equity investment objective is for its various portfolios to achieve total returns similar to their benchmark equity indices. Benchmark indices include the Russell 3000, the S&P 500 and the MSCI EAFE.

Private equity funds are a form of pooled investment vehicle, typically limited partnerships controlled by a private equity firm that acts as general partner. The general partner seeks to obtain specific dollar commitments from qualified institutional and accredited investors to invest capital in the fund as limited partners. The passive limited partners fund pro rata portions of their commitments when the general partner has identified an appropriate opportunity, which may be venture capital in the form of equity securities, convertible debt securities, or real estate for which no active markets exist. Venture capital is often used to finance new products and technologies, expand working capital, make acquisitions, or finance leveraged buyouts. A typical private equity fund could make between 15 and 25 separate investments over a ten-year life, with no single investment exceeding 10% of the total capital commitment. The fair values of the underlying investments held by each private equity fund are generally determined by management of the equity investee or as determined by the general partner or manager of the private equity fund and is based upon the Trust Fund's percentage ownership of the underlying investments. Investments in private equity funds generally tend to be illiquid for significant periods of time.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2018

**(2) Deposits and Investments, Continued**

Hedge funds are a form of pooled investment vehicle, generally a limited partnership or a foreign (off-shore) investment corporation, that seeks to maximize absolute returns whose offering memorandum allows for the fund to take both long and short positions, use leverage and derivatives, and invest in many markets. Hedge funds often take large risks using a broad range of speculative strategies, including investing in unconventional and illiquid investments. The fair value of the Trust Fund's investment in a hedge fund is determined by the hedge fund manager and is based upon the Trust Fund's percentage ownership of the underlying investments.

Commingled separate accounts invested in real estate and related assets are carried at fair value of the underlying investments. The fair value of separate account investments in real property real estate partnerships are generally determined based on independent appraisals obtained no less frequently than annually. The fair value of separate account investments in real estate partnerships are generally determined based upon the equity method of accounting, and the fair value of underlying investments in real estate loans and mortgages are generally determined through the use of cash flow forecasting or other models by management of the insurance company that manages the separate account.

Derivatives, options and future contracts are permitted investments for the purpose of reducing risk and efficient portfolio management. Derivatives, options and futures may not be used for speculative purposes.

**A. Deposits**

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

As of September 30, 2018, the carrying amount of the primary government's total cash and cash equivalents was \$8,497,499 and the corresponding bank balances were \$10,629,558, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2018, bank deposits in the amount of \$500,000 were FDIC insured.

As of September 30, 2018, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$9,296,896 and the corresponding bank balances were \$9,516,896 which were maintained in financial institutions subject to FDIC insurance. As of September 30, 2018, bank deposits in the amount of \$1,624,681 were FDIC insured. The component units do not require collateralization of their cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Therefore, these deposits are exposed to custodial credit risk.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2018

(2) Deposits and Investments, Continued

B. Investments

Primary Government:

As of September 30, 2018, the State's investments are as follows:

General Fund:

Fixed income	\$ 3,132,736
Domestic equities	1,131,250
Common equities	5,945,217
Cash management account	<u>176,517</u>

10,385,720

Compact Trust Fund:

Common trust funds:

Domestic Equity	2,414,420
International Equity	5,144,627
Private Equity	818,922
Fixed Income	7,248,462
Hedge Fund	673,895
Real Estate	1,104,200
Money market funds	<u>20,500</u>

17,425,026

\$ 27,810,746

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2018

(2) Deposits and Investments, Continued

**B. Investments, Continued**

Primary Government, Continued:

As of September 30, 2018, the State's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

<u>Investment Type</u>	<u>Investment Maturities (In Years)</u>					<u>Credit Ratings</u>
	<u>Fair Value</u>	<u>Current</u>	<u>1-5</u>	<u>6-10</u>	<u>Over 10</u>	
U.S. Treasury Notes and Bonds	435,985	55,042	256,337	11,805	112,801	Aaa
U.S. Government Agencies Obligations:						
Federal Farm Credit Bank	24,959	-	24,959	-	-	Aaa
Federal Home Loan Bank Disc	33,781	-	8,607	25,174	-	Aaa
Federal Home Mortgage	11,923	46	257	-	11,620	Aaa
Federal National Mortgage	43,718	11,899	-	-	31,819	Aaa
Overseas Private Inv Corp	79,964	-	-	79,964	-	Aaa
Private Export Funding Secured	33,935	-	33,935	-	-	Aaa
Government National Mortgage	891	-	-	-	891	Aaa
Tennessee Valley Authority	56,325	-	18,102	-	38,223	Aaa
Freddie Mac Home Loan	32,158	-	32,158	-	-	Aaa
Municipal obligations	84,514	-	66,828	4,999	12,687	Aaa
Corporate Bonds	85,442	-	75,757	-	9,685	Aaa
Corporate Bonds	59,805	46,252	13,553	-	-	Aa1
Corporate Bonds	27,116	-	27,116	-	-	Aa2
Corporate Bonds	28,984	-	28,984	-	-	Aa3
Corporate Bonds	32,059	-	18,915	4,915	8,229	A1
Corporate Bonds	73,042	-	73,042	-	-	A2
Corporate Bonds	27,268	-	20,540	-	6,728	A3
Corporate Bonds	41,151	-	5,065	16,769	19,317	Baa1
Corporate Bonds	7,656	-	-	-	7,656	Baa2
Corporate Bonds	15,655	-	-	-	15,655	Baa3
Corporate Bonds	13,577	-	-	13,577	-	Ba1
Corporate Bonds	42,101	-	8,506	33,595	-	Unrated
	<u>\$1,292,009</u>	<u>\$113,239</u>	<u>\$712,661</u>	<u>\$190,798</u>	<u>\$275,311</u>	

<u>Investment Type (no aging schedule)</u>	<u>Fair Value</u>	<u>Credit Ratings</u>
U.S. Treasury Notes and Bonds	\$ 601,735	AAA
U.S. Government Agencies Obligations	31,392	Aa2
Mortgage Backed	268,663	Aaa
Asset-Backed	15,887	A2
Corporate Bonds - Industrial	405,158	A3
Corporate Bonds - Finance	295,075	Baa1
Corporate Bonds - Yankee Bond	97,991	Baa1
Corporate Bonds - Utilities	57,573	A3
Corporate Bonds - Others	67,253	Aa1
	<u>\$ 1,840,727</u>	



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2018

(2) Deposits and Investments, Continued

**B. Investments, Continued**

Primary Government, Continued:

The State has the following recurring fair value measurements as of September 30, 2018:

General Fund:	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level:				
Fixed income:				
U.S. Treasury obligations	\$ 1,037,721	\$ -	\$ 1,037,721	\$ -
U.S. Government Agencies	349,046	-	349,046	-
Municipal obligations	369,064	-	369,064	-
Corporate notes	<u>1,376,905</u>	<u>-</u>	<u>1,376,905</u>	<u>-</u>
	3,132,736	-	3,132,736	-
Equity securities:				
U.S. equities	<u>5,945,217</u>	<u>5,945,217</u>	<u>-</u>	<u>-</u>
Total investments at fair value	9,077,953	\$ <u>5,945,217</u>	\$ <u>3,132,736</u>	\$ <u>-</u>
Investments measured at NAV:				
Equity investment in Bank of the FSM	1,131,250			
Investments measured amortized cost:				
Cash management account	<u>176,517</u>			
	\$ <u>10,385,720</u>			
Compact Trust Fund:				
	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments at fair value level:				
Common trust funds:				
Domestic Equity	\$ 2,414,420	\$ 2,414,420	\$ -	\$ -
International Equity	5,144,627	5,144,627	-	-
Fixed Income	7,248,462	7,248,462	-	-
Private Equity	<u>818,922</u>	<u>-</u>	<u>-</u>	<u>818,922</u>
Total investments at fair value	15,626,431	\$ <u>14,807,509</u>	\$ <u>-</u>	\$ <u>818,922</u>
Investments measured at NAV:				
Hedge Fund	673,895			
Real Estate	1,104,200			
Investments measured at amortized cost:				
Money market funds	<u>20,500</u>			
	\$ <u>17,425,026</u>			

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

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2018

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued:

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, 2018.

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, 2018, 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.

The Trust Fund's fixed income allocation consists of a Mercer Investment Management Opportunistic Fixed Income mutual fund ("MIM OFI") and a Mercer Investment Management Core Fixed Income Fund ("MIM CFI"); the performance of these funds is expected to closely replicate the performance of 50% of the JP Morgan Government Bond Index Emerging Market Global Diversified Index and 50% Bank of America/Merrill Lynch Global High Yield and the Barclays Capital U.S. Aggregate Bond Index, respectively. The bonds held by MIM CFI vary in credit quality with an average overall rating of "Aa3" as rated by Moody's as of September 30, 2018. High yield debt receiving a credit rating below "A" comprises approximately 29.2% of the MIM CFI fixed income portfolio as rated by Moody's at September 30, 2018. At September 30, 2018, the weighted average maturity of the bonds comprising MIM CFI is 10.62 years.

The bonds held by MIM OFI vary in credit quality with an average overall rating of "Baa1" as rated by Moody's as of September 30, 2018. High yield debt receiving a credit rating below "A" comprises approximately 49.3% of the MIM OFI fixed income portfolio as rated by Moody's at September 30, 2018. At September 30, 2018, the weighted average maturity of the bonds comprising MIM OFI is 6.79 years.

The Trust Fund's investment policy does not require direct investment in fixed maturity securities ("Bonds") as a means of managing its exposure to loss of principal due to increasing interest rates. The Trust Fund's investment policy requires the performance of each investment class to be periodically compared with an associated benchmark. Bonds and bond funds generally decrease in value in response to rising interest rates. Bonds, however, have a fixed date of maturity and do not have exposure to loss of principal from rising interest rates, whereas shares of a common trust fund, ETF, or similar investment vehicle have no maturity date.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2018

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued:

The Trust Fund's exposure to foreign currency risk is derived from its investment in common trust funds, ETFs and REITs that hold investments in securities of foreign issuers and sovereigns. Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair values of an investment or deposit. At September 30, 2018, the Trust Fund held approximately \$208,518,000 in securities of foreign issuers held in common trust funds. Of this amount, approximately \$40,065,000 was held in securities whose functional currency is the Euro, \$18,462,000 whose functional currency is the British pound, \$28,017,000 whose functional currency is the Japanese yen, and \$121,974,000 in functional currencies of 35 other countries. Foreign currency exposure data is not available for the Trust Fund's investment in the Hedge Funds and its investments in Global Private Equity Funds, which comprise 12.8% of invested assets at September 30, 2018.

The Trust Fund's investment in hedge funds includes ownership of the Mercer Hedge Fund Series A ("Mercer Hedge Fund") and the Blackstone Partners Offshore Fund Ltd. Mercer Hedge Funds Investors SPC, who incorporated the Mercer Hedge Fund, and the Blackstone Partners Offshore Fund Ltd. are registered under the Mutual Funds Law of the Cayman Islands. The fair value of the Trust Fund's position in the hedge fund pools are equivalent to the value of the pool shares.

The State owns 50,000 shares of the outstanding common stock of the Bank of the Federated States of Micronesia, which engages in commercial banking services in the FSM. An equity investment in the common stock of the Bank of the Federated States of Micronesia (investee) is stated at the net asset value (NAV). The NAV is used as a practical expedient to estimate fair value. The NAV is determined based on the total shareholders' equities reported by the investee.

Discretely Presented Component Units:

Investments of the discretely presented component units are as follows:

Pohnpei Port Authority:	
Domestic equities	\$ <u>242,088</u>
Investments measured at NAV:	
Equity investment in Bank of the FSM	\$ <u>242,088</u>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2018

**(3) Receivables**

Primary Government:

Receivables as of September 30, 2018, 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:					
General	\$ 4,172,742	\$ -	\$ -	\$ -	\$ 4,172,742
Taxes	2,412,034	-	-	-	2,412,034
Due from FSM National Government	-	2,410,154	-	-	2,410,154
Other	<u>35,000</u>	<u>62,109</u>	<u>-</u>	<u>-</u>	<u>97,109</u>
	6,619,776	2,472,263	-	-	9,092,039
Allowance for uncollectible accounts	<u>(3,912,893)</u>	<u>(453,598)</u>	<u>-</u>	<u>-</u>	<u>(4,366,491)</u>
	<u>\$ 2,706,883</u>	<u>\$ 2,018,665</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,725,548</u>

The final settlement of receivables due from the FSM National Government arising from Compact sector grant transactions can be determined only by final action of the FSM National Government in consultation with the grantor agency. During the year ended September 30, 2018, a reconciliation through September 30, 2017 resulted in a repayment of approximately \$692,000. Management is of the opinion that 2018 reconciliation efforts will be favorable and thus no allowance for uncollectible accounts is considered necessary.

Discretely Presented Component Units:

Receivables as of September 30, 2018, for the discretely presented component units, including applicable allowances for uncollectible accounts, are as follows:

	<u>Pohnpei Utilities Corporation</u>	<u>Pohnpei Port Authority</u>	<u>Pohnpei Transportation Authority</u>	<u>Small Business Guarantee and Finance Corporation</u>	<u>Pohnpei State Housing Authority</u>	<u>Total</u>
General	\$ 8,201,095	\$ 937,423	\$ 60,437	\$ 50,695	\$ -	\$ 9,249,650
Loans	-	-	-	1,106,897	8,338,020	9,444,917
Other	<u>222,177</u>	<u>229,868</u>	<u>-</u>	<u>-</u>	<u>39,680</u>	<u>491,725</u>
	8,423,272	1,167,291	60,437	1,157,592	8,377,700	19,186,292
Less: allowance for uncollectibles	<u>(7,070,905)</u>	<u>(488,832)</u>	<u>(-)</u>	<u>(575,549)</u>	<u>(5,288,208)</u>	<u>(13,423,494)</u>
	<u>\$ 1,352,367</u>	<u>\$ 678,459</u>	<u>\$ 60,437</u>	<u>\$ 582,043</u>	<u>\$ 3,089,492</u>	<u>\$ 5,763,798</u>

Loans receivable consist of the following:

Small Business Guarantee and Finance Corporation

Loans to qualified businesses under Micro Loan and Loan Guarantee Programs with interest at 9% per annum. \$ 1,106,897

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2018

**(3) Receivables, Continued**

Discretely Presented Component Units, Continued:

Pohnpei State Housing Authority (PSHA)

PSHA's loan portfolio is derived from three sources: (1) capital contributions of Compact of Free Association Capital Account Funds - Capital Projects by Pohnpei State to fund the Housing Development Loan Fund; (2) Housing Preservation Grant (HPG) loans from a grant extended by the United States Department of Agriculture (USDA) Rural Development through the Housing and Community Facilities Program; and (3) Rural Development loans under the USDA funded Direct Single Family Housing Program. Loans are stated at face value, net of an allowance for loan losses. The allowance represents an amount which, in management's judgment, will be adequate to absorb possible losses on existing loans that may become uncollectible. Management's judgment in determining the adequacy of the allowance is based on evaluations of the collectability of loans. The allowance for loan losses are reported based on certain assumptions pertaining to PSHA's periodic review and evaluation of the loan portfolio, which is subject to change. A summary of loans receivable as of September 30, 2018 are presented below:

Pohnpei State Housing Authority loans	\$ 6,874,788
HPG loans	325,170
USDA Rural Development loans	<u>1,138,062</u>
	<u>\$ 8,338,020</u>

All loans, other than the USDA RD loans, bear interest rate fixed substantially at 4.5% per annum with terms ranging from 3 to 25 years. The USDA RD loans are non-interest bearing.

**(4) Interfund Receivables and Payables**

Receivables and payables between funds reflected as due to/from other funds in the combined balance sheet at September 30, 2018, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Grants Assistance	General	\$ 3,120,960
Nonmajor governmental funds	General	6,672,083
General	Grants Assistance	1,846,532
General	Nonmajor governmental funds	<u>41,440</u>
		<u>\$ 11,681,015</u>

The amount recorded as due from component units of the primary government does not equal the corresponding due to primary government of the discretely presented component units of \$1,748,856 due to an allowance for doubtful accounts recorded by the General Fund of \$1,748,856.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2018

**(5) Capital Assets**

Capital asset activities for the year ended September 30, 2018, are as follows:

**Primary Government:**

	Balance October <u>1, 2017</u>	<u>Additions</u>	<u>Retirements</u>	Balance September <u>30, 2018</u>
Governmental activities:				
Capital assets being depreciated:				
Buildings	\$ 24,841,744	\$ -	\$ -	\$ 24,841,744
Machinery, equipment, others	25,175,590	883,779	-	26,059,369
Infrastructure	<u>53,690,078</u>	<u>-</u>	<u>-</u>	<u>53,690,078</u>
	<u>103,707,412</u>	<u>883,779</u>	<u>-</u>	<u>104,591,191</u>
Less accumulated depreciation for:				
Buildings	(6,971,800)	(418,272)	-	(7,390,072)
Machinery, equipment, others	(23,885,100)	(666,360)	-	(24,551,460)
Infrastructure	<u>(46,522,921)</u>	<u>(1,111,320)</u>	<u>-</u>	<u>(47,634,241)</u>
	<u>(77,379,821)</u>	<u>(2,195,952)</u>	<u>-</u>	<u>(79,575,773)</u>
Governmental activities capital assets, net	\$ <u>26,327,591</u>	\$ <u>(1,312,173)</u>	\$ <u>-</u>	\$ <u>25,015,418</u>

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

General government	\$ 182,982
Land and natural resources	17,892
Education	298,425
Health services	189,532
Public safety	245,025
Boards and commissions	<u>1,262,096</u>
	<u>\$ 2,195,952</u>

**Discretely Presented Component Units:**

	Balance October <u>1, 2017</u>	<u>Additions</u>	<u>Retirements</u>	Balance September <u>30, 2018</u>
Depreciable assets:				
Buildings	\$ 17,582,761	\$ 373,737	\$ -	\$ 17,956,498
Utility plant	73,246,552	258,472	(6,890,836)	66,614,188
Machinery, equipment and others	<u>9,572,546</u>	<u>1,273,999</u>	<u>(3,914,876)</u>	<u>6,931,669</u>
Total capital assets, being depreciated	100,401,859	1,906,208	(10,805,712)	91,502,355
Less accumulated depreciation	<u>(63,027,479)</u>	<u>(2,816,395)</u>	<u>10,200,915</u>	<u>(55,642,959)</u>
	<u>37,374,380</u>	<u>(910,187)</u>	<u>(604,797)</u>	<u>35,859,396</u>
Nondepreciable assets:				
Land	2,776,034	-	-	2,776,034
Construction work-in-progress	<u>572,320</u>	<u>739,761</u>	<u>(447,195)</u>	<u>864,886</u>
	<u>3,348,354</u>	<u>739,761</u>	<u>(447,195)</u>	<u>3,640,920</u>
	<u>\$ 40,722,734</u>	<u>\$ (170,426)</u>	<u>\$ (1,051,992)</u>	<u>\$ 39,500,316</u>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2018

**(6) Short-term Debt**

Discretely Presented Component Units:

**Pohnpei Utilities Corporation (PUC)**

Line of credit with a bank in the original amount of \$190,000, interest at 5% over the TCD rate (5.25% per annum at September 30, 2018), collateralized by a time certificate of deposit (TCD) with the bank, and expires on September 2018.

Short-term activity for the year ended September 30, 2018, was as follows:

	Balance October 1, <u>2017</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2018
Note payable: PUC	\$ <u>549,131</u>	\$ <u>-</u>	\$ <u>(12,495)</u>	\$ <u>536,636</u>

**(7) Long-Term Obligations**

Primary Government:

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

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

Funds for the repayment of the ADB loan are expected to be derived from the annual appropriations for salaries and wages earmarked for the positions abolished under the Early Retirement Scheme. The Financing Agreement requires the State to continue to appropriate salaries for the abolished positions and deposit the appropriate funds into the ERS Trust Account. These funds had not been deposited to the Trust Account as of September 30, 2002. Of the required \$4,200,000 identified for future debt service payments, \$4,463,563 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, 2018, the balance payable on this loan amounted to \$3,212,520.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2018

**(7) Long-Term Obligations, Continued**

**Primary Government, Continued:**

The State also entered into an agreement with the FSM National Government to borrow a portion of the proceeds of the FSM National Government Program Loans with the ADB (Loan Number 1873 (SF) and Loan Number 1874 FSM (SF)) for the purpose of promoting private sector development in Pohnpei, with interest at 1% to 1.5% per annum. Principal payments shall be made in 32 equal semi-annual payments with the first payment due on May 15, 2010 and the last payment on November 15, 2025. As of September 30, 2018, the balances payable on these loans amounted to \$228,002 and \$580,822, 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>
2019	\$ 237,340	\$ 31,782	\$ 269,122
2020	237,340	29,837	267,177
2021	237,340	27,891	265,231
2022	237,340	25,945	263,285
2023	237,340	24,000	261,340
2024-2028	1,110,695	91,469	1,202,164
2029-2033	1,034,695	49,530	1,084,225
2034-2037	<u>689,254</u>	<u>12,317</u>	<u>701,571</u>
	<u>\$ 4,021,344</u>	<u>\$ 292,771</u>	<u>\$ 4,314,115</u>

**Discretely Presented Component Units:**

**Pohnpei Utilities Corporation (PUC)**

Loan payable to the State, facilitated by an ADB loan (Loan Number 1459-FSM) to the FSM National Government; original amount of \$2,413,487. Repayments as allocated by the FSM National Government indicates annual principal payment of \$95,315 through FY2017 and \$98,297 for FY2018 through FY2036, including interest at 1.0% per annum. \$ 1,747,110

Loan payable to United States Department of Agriculture, Rural Utilities Service (RUS), original amount of \$578,000, due in monthly installments of \$2,654 from October 2006 to July 2044. The loan is collateralized by a revenue pledge. The loan bears fixed interest of 4.5% per annum. 482,442

Loan payable to bank, original amount of \$773,122, 5 year term, interest at 9% per annum, collateralized by a diesel power comprehensive generator plant, two Daihatsu model 12D532 engines, building and materials, and existing and future receivables. Monthly principal and interest installments of \$9,794 from September 2008 with unpaid principal due in August 2013, upon which the loan was refinanced for another 5 years maturing on November 30, 2018, with essentially the same terms. 20,328



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2018

(7) Long-Term Obligations, Continued

Pohnpei Utilities Corporation (PUC), Continued

Discretely Presented Component Units, Continued:

Loan payable to the State, facilitated by an ADB loan (Loan Number 2099-FSM) to the FSM National Government, original amount of \$5,624,910. Repayments as allocated by the FSM National Government indicates annual principal payment of \$255,678 through FY2035, with interest payable at 1.0% per annum during the grace period and at 1.5% thereafter. Proceeds are used for infrastructure projects to overhaul sewage pumps, extend sewage lines, and for treatment plants. 4,013,835

Loan payable to the State, facilitated by an ADB loan (Loan Number 2100-FSM) to the FSM National Government, original amount of \$1,445,549, principal due in semi-annual installments of varying amounts as a percentage of total drawings through 2029. Interest is payable at LIBOR plus 0.6% (effective rate of 0.88% at September 30, 2016). Proceeds are used for infrastructure projects to overhaul sewage pumps, extend sewage lines, and for treatment plants. 1,453,577

Loan payable to bank, original amount of \$830,000, interest at 7% per annum and monthly installments of \$7,529 from December 15, 2014 to November 15, 2029. The loan is collateralized by a certain chattel mortgage on the three generators purchased in 2015. 685,322  
\$ 8,402,614

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 475,070	\$ 169,855	\$ 644,925
2019	1,062,432	127,711	1,190,143
2020	429,291	110,068	539,359
2021	439,476	103,491	542,967
2022	450,633	96,587	547,220
2023-2027	2,464,347	365,720	2,830,067
2028-2032	1,913,915	167,068	2,080,983
2033-2037	1,012,582	64,588	1,077,170
2038-2042	139,202	20,038	159,240
2043-2044	<u>15,666</u>	<u>206</u>	<u>15,872</u>
	\$ <u>8,402,614</u>	\$ <u>1,225,332</u>	\$ <u>9,627,946</u>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2018

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

Primary Government:

Long-term liabilities will be liquidated in the future from governmental funds. During the year ended September 30, 2018, the following changes occurred in liabilities reported as part of the primary government's long-term liabilities in the statement of net position:

	Balance October 1, 2017	Additions	Reductions	Balance September 30, 2018	Due Within One Year
Loans payable:					
ADB loans:					
Loan 1520	\$ 3,413,831	\$ -	\$ (201,311)	\$ 3,212,520	\$ 169,104
Loan 1873	264,018	-	(36,016)	228,002	30,401
Loan 1874	<u>612,364</u>	<u>-</u>	<u>(31,542)</u>	<u>580,822</u>	<u>37,835</u>
	4,290,213	-	(268,869)	4,021,344	237,340
Other:					
Compensated absences	381,767	376,986	(465,812)	292,941	292,941
Claims and judgments	<u>210,968</u>	<u>-</u>	<u>-</u>	<u>210,968</u>	<u>-</u>
	\$ <u>4,882,948</u>	\$ <u>376,986</u>	\$ <u>(734,681)</u>	\$ <u>4,525,253</u>	\$ <u>530,281</u>

When the ADB extends credit to a particular country, the loan is booked in Special Drawing Rights (SDRs) but the actual loan is delivered in the currency of the borrower, at the current exchange rate between the currency and the SDR. The value of the SDR is subject to periodic review by the International Monetary Fund, which may result in the recognition of a foreign exchange gain or loss. During the year ended September 30, 2018, the State recognized a foreign exchange gain of \$50,754 associated with valuation of the SDR, which is presented as a special item in the accompanying financial statements, and which results in a reduction in ADB loans payable.

Discretely Presented Component Units:

During the year ended September 30, 2018, the following changes occurred in long-term obligations of the discretely presented component units:

	Balance October 1, 2017	Additions	Reductions	Balance September 30, 2018	Due Within One Year
Loans payable:					
Pohnpei Utilities Corporation	\$ <u>9,061,401</u>	\$ <u>-</u>	\$ <u>(658,787)</u>	\$ <u>8,402,614</u>	\$ <u>475,070</u>

**(9) Contingencies and Commitments**

**Sick Leave**

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

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2018

**(9) Contingencies and Commitments, Continued**

**Encumbrances**

The State utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2018, the State has significant encumbrances summarized as follows:

	<u>General</u>	<u>Grants Assistance</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Encumbrances	\$ <u>328,847</u>	\$ <u>8,933,800</u>	\$ <u>477,769</u>	\$ <u>9,740,416</u>

**Federal Grants**

The State participates in a number of federally assisted grant programs and other various U.S. Department of the Interior grants. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs have been set forth in the State's Single Audit Report for the year ended September 30, 2018. In addition, the State is considered to have responsibility for any questioned costs that may result from Single Audits of subgrantees who have not satisfied the audit requirements of the Uniform Guidance. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

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

**Loan Guarantees**

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

PSHA's management is of the opinion that the primary government will become ultimately liable for such defaulted liabilities to USDA Rural Development. Therefore, such loans and related liability are not recorded by PSHA in the accompanying financial statements. The State is of the opinion that these loans have not been communicated timely in accordance with the underlying agreement and therefore, does not believe that it is liable for the balance.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2018

**(9) Contingencies and Commitments, Continued**

**Litigation**

The State is party to several legal proceedings arising from governmental operations. Claims are filed with the State's Attorney General. Approved claims are usually paid under general appropriations to the affected government agency. The State Attorney General is of the opinion that the probable outcome of suits existing at September 30, 2018, is not predictable but could have a material impact on the accompanying financial statements. Such impact has currently been estimated to approximate \$210,968.

**Insurance Coverage**

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

**Other**

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

**(10) Self-Insurance Fund - Component Units**

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

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

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

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2018

**(11) Fund Balance**

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

	General Fund	Grants Assistance Fund	Compact Trust Fund	Nonmajor Funds	Total Governmental Funds
Non-spendable:					
General government	\$ 156,517	\$ -	\$ -	\$ -	\$ 156,517
Economic development	-	-	-	14,156	14,156
Pacific Islands Development Bank	1,300,000	-	-	-	1,300,000
Bank of the FSM	1,131,250	-	-	-	1,131,250
Permanent fund principal	-	-	17,425,026	-	17,425,026
Restricted for:					
General government	-	7,046	-	-	7,046
Debt service	4,463,563	-	-	-	4,463,563
USDA development loans	362,456	-	-	-	362,456
Education	-	14,609	-	-	14,609
Health services	2,526,499	4,787	-	-	2,531,286
Committed:					
General government	148,716	-	-	1,661,443	1,810,159
Economic development	-	-	-	786,109	786,109
Health services	-	-	-	4,152,971	4,152,971
Assigned	328,847	-	-	-	328,847
Unassigned	<u>3,395,342</u>	<u>-</u>	<u>-</u>	<u>(45,621)</u>	<u>3,349,721</u>
	<u>\$ 13,813,190</u>	<u>\$ 26,442</u>	<u>\$ 17,425,026</u>	<u>\$ 6,569,058</u>	<u>\$ 37,833,716</u>

**(12) Budgetary Compliance**

For the year ended September 30, 2018, material over-expenditures exceeded appropriations within the General Fund for the following:

Department of Treasury and Administration	\$ 1,532,463
Debt service	\$ 218,115
Debt guarantee payments	\$ 44,747

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

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2018

(13) Asian Development Bank (ADB) Loan Guarantee

The State has guaranteed certain loan obligations of Pohnpei Utilities Corporation (PUC), which are subsidiary loans of the FSM National Government payable to the ADB. The loans require annual principal and interest payments through September 30, 2036. As a result of prior default by PUC in remitting loan payments to the FSM National Government, the FSM National Government has withheld certain revenue shares owed to the State. During the year ended September 30, 2018, the FSM National Government withheld revenue share in the amount of \$534,724 associated with this guarantee. The State has not made the determination whether it is more likely than not that the State would be required to pay the remaining portion of PUC's debt service payments based on this guarantee. Accordingly, the State has not recognized a liability for the discounted present value of future outflows expected to be incurred as a result. As at September 30, 2018, PUC has recorded long-term debt associated with ADB loans of \$7,214,522.

**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, 2018**

**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, 2018

	<u>Budgeted Amounts</u>		<u>Actual - Budgetary Basis (see Note 1)</u>	<u>Variance with Final Budget -</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
FSM revenue sharing	\$ 8,248,800	\$ 8,248,800	\$ 9,885,438	\$ 1,636,638
State taxes	2,613,450	2,613,450	3,060,734	447,284
Fees and charges	328,650	328,650	387,921	59,271
Net change in the fair value of investments	300,000	300,000	980,375	680,375
Other	9,100	9,100	11,016	1,916
Total revenues	<u>11,500,000</u>	<u>11,500,000</u>	<u>14,325,484</u>	<u>2,825,484</u>
Expenditures:				
Current:				
General government	3,633,370	3,722,047	5,050,035	(1,327,988)
Department of Land and Natural Resources	418,392	418,392	380,475	37,917
Department of Education	164,309	164,309	163,980	329
Department of Health Services	203,075	203,075	82,682	120,393
Department of Public Safety	1,304,510	1,314,596	1,222,667	91,929
Office of the Attorney-General	546,729	546,729	420,017	126,712
Department of Public Works	302,305	297,305	262,007	35,298
Department of Resource and Development	496,234	506,234	460,282	45,952
Boards, commissions and other	740,724	1,080,808	1,061,479	19,329
Payments to non-governmental agencies	235,468	235,468	346,763	(111,295)
Grants to local governments	2,422,301	2,422,301	2,531,021	(108,720)
Debt service	-	-	262,862	(262,862)
Total expenditures	<u>10,467,417</u>	<u>10,911,264</u>	<u>12,244,270</u>	<u>(1,333,006)</u>
Net change in fund balance	1,032,583	588,736	2,081,214	1,492,478
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes but in the year the supplies are received for financial reporting purposes	<u>231,817</u>	<u>231,817</u>	<u>328,847</u>	<u>97,030</u>
	1,264,400	820,553	2,410,061	1,589,508
Fund balance at the beginning of the year	<u>11,403,129</u>	<u>11,403,129</u>	<u>11,403,129</u>	<u>-</u>
Fund balance at the end of the year	<u>\$ 12,667,529</u>	<u>\$ 12,223,682</u>	<u>\$ 13,813,190</u>	<u>\$ 1,589,508</u>

See accompanying Independent Auditors' Report and notes to required supplementary information - budgetary reporting.



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Required Supplementary Information – Budgetary Reporting  
September 30, 2018

(1) Budgetary Information

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

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

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

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

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**OTHER SUPPLEMENTARY INFORMATION**

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**YEAR ENDED SEPTEMBER 30, 2018**

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Combining Schedule of Expenditures by Account  
Governmental Funds  
Year Ended September 30, 2018

		Special Revenue	Permanent		
	General	Grants Assistance	Compact Trust	Other Governmental Funds	Total
Expenditures:					
Salaries and wages:					
Regular	\$ 4,211,412	\$ 10,143,009	\$ -	\$ 63,930	\$ 14,418,351
Overtime	194,381	440,862	-	-	635,243
Fringe benefits	940,338	2,203,182	-	-	3,143,520
Travel and transportation	378,271	527,447	-	20,140	925,858
Books and instructional materials	-	862,257	-	-	862,257
Communications	96,552	176,229	-	14,041	286,822
Dues, membership, and subscriptions	26,415	4,617	-	-	31,032
Food stuffs	177,489	437,532	-	13,477	628,498
Freight and port charges	1,141	61,111	-	6,106	68,358
Non-capitalized equipment	56,678	455,251	-	5,606	517,535
Capital outlays	101,391	734,227	-	44,500	880,118
Office supplies and materials	249,467	1,369,117	-	72,150	1,690,734
POL	111,965	230,755	-	31,361	374,081
Printing and reproduction	26,441	87,672	-	11,602	125,715
Rental services	23,950	68,965	-	35	92,950
Repairs and maintenance	29,145	47,766	-	8,693	85,604
Utilities	213,351	782,890	-	76,648	1,072,889
Miscellaneous goods and services	189,127	33,797	-	479,746	702,670
Subsidies and contributions	160,888	-	-	-	160,888
Medical referrals	-	19,523	-	-	19,523
Medical supplies	-	1,439,108	-	109,654	1,548,762
Contractual services	230,201	2,431,497	-	177,666	2,839,364
Housing allowance	54,482	153,516	-	-	207,998
Non-payroll compensation	809	166,387	-	-	167,196
Court settlements	13,433	-	-	-	13,433
Scholarships and allowances	-	253,659	-	-	253,659
Insurance	27,977	-	-	-	27,977
Official allowance	118,750	-	-	-	118,750
Meeting allowance	6,325	39,117	-	6,356	51,798
Leased housing, buildings and land	2,618	-	-	-	2,618
Principal repayment	262,862	-	-	-	262,862
Payments to municipalities	2,531,021	-	-	-	2,531,021
Debt guarantee payments	1,469,757	-	-	-	1,469,757
Bank charges	8,135	200	-	-	8,335
Miscellaneous	651	-	-	-	651
	<u>\$ 11,915,423</u>	<u>\$ 23,169,693</u>	<u>\$ -</u>	<u>\$ 1,141,711</u>	<u>\$ 36,226,827</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, 2018  
(with comparative totals for the year ended September 30, 2017)

	2018	2017
Revenues:		
FSM revenue sharing:		
Gross revenue taxes	\$ 3,370,695	\$ 2,177,521
Import taxes	3,762,217	3,218,622
Income taxes	2,462,250	2,447,587
Other taxes	290,276	313,225
	<u>9,885,438</u>	<u>8,156,955</u>
State taxes:		
Sales tax	2,942,177	2,602,994
Hotel tax	118,557	94,752
	<u>3,060,734</u>	<u>2,697,746</u>
Fees and charges:		
Licenses and fees:	387,921	424,616
Net change in the fair value of investments	980,375	814,772
Other revenues	11,016	2,758,963
Total revenues	<u>14,325,484</u>	<u>14,853,052</u>
Expenditures:		
Current:		
General government:		
Governor and staff	359,675	446,330
Department of Treasury and Administration	2,173,661	418,768
Office of Pohnpei Public Auditor	18,823	17,267
Judiciary Branch	667,292	677,564
Legislative Branch	1,687,912	1,653,091
	<u>4,907,363</u>	<u>3,213,020</u>
Department of Land and Natural Resources:		
Office of the Director	49,130	83,871
Division of Public Land	6,065	13,915
Division of Surveying and Mapping	198,760	178,686
Division of Forestry and Marine Conservation	-	64,051
Division of Historic Preservation	51,094	42,969
Division of Parks and Recreation	70,123	45,608
	<u>375,172</u>	<u>429,100</u>
Department of Education:		
Division of Primary Education	133,666	83,161
Department of Health:		
Medical services	81,470	51,553
Department of Public Safety:		
Office of the Director	74,758	84,996
Search and Rescue	-	3,999
Fish and Wildlife	88,675	101,804
Police Commission	23,676	24,436
Division of Fire & Emergency	46,072	9,320
Division of Police and Security	729,697	783,628
Division of Correction and Rehabilitation	231,846	228,768
	<u>1,194,724</u>	<u>1,236,951</u>
Office of the Attorney-General	411,565	357,838
Public Works	185,846	181,439

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, 2018  
(with comparative totals for the year ended September 30, 2017)

	<u>2018</u>	<u>2017</u>
Expenditures, continued:		
Current:		
Department of Resource and Development		
Office of Director	130,620	301,665
Division of Agriculture	139,726	
Division of Natural Resources	95,501	
Division of Toursim	73,980	79,756
Division of Commerce and Industry	9,786	-
	<u>449,613</u>	<u>381,421</u>
Boards, commissions and other:		
Office of Social Affairs	66,531	59,250
Election Commissioner's Office	65,376	50,582
Ethics Commission	-	-
Pohnpei Public Broadcasting Corporation	160,896	115,759
Foreign Investment Board	-	-
Pohnpei Housing Authority	123,139	116,463
Sports and Recreation	116,887	126,129
Micronesian Games	234,829	-
Office of Fisheries and Aquaculture	206,424	301,134
Environmental Protection Agency	61,276	14,622
	<u>1,035,358</u>	<u>783,939</u>
Payments to non-governmental agencies:		
Small Business Guarantee and Finance Corporation	44,000	379,980
Pohnpei Public Library	60,108	60,108
Micronesian Legal Services Corporation	43,000	54,445
U.S.D.A. Rural Development	89,644	89,829
Sports facilities	-	102,444
Emergency No. 182	110,011	-
Other	-	3,582
	<u>346,763</u>	<u>690,388</u>
Grants to local governments	<u>2,531,021</u>	<u>2,428,311</u>
Debt service:		
Principal repayment	218,115	132,686
Debt guarantee payments	44,747	125,071
	<u>262,862</u>	<u>257,757</u>
Total expenditures	<u>11,915,423</u>	<u>10,094,878</u>
Net change in fund balance	2,410,061	4,758,174
Fund balance at the beginning of the year	<u>11,403,129</u>	<u>6,644,955</u>
Fund balance at the end of the year	<u>\$ 13,813,190</u>	<u>\$ 11,403,129</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures by Function and Changes in Fund Balance  
Budget and Actual - General Fund  
Year Ended September 30, 2018

	Budgeted Amounts		Actual -	Variance with
	Original	Final	Budgetary	Final Budget -
			Basis	Positive
				(Negative)
Revenues:				
FSM revenue sharing	\$ 8,248,800	\$ 8,248,800	\$ 9,885,438	\$1,636,638
State taxes:				
Sales tax	2,520,763	2,520,763	2,942,177	421,414
Hotel tax	92,687	92,687	118,557	25,870
	<u>2,613,450</u>	<u>2,613,450</u>	<u>3,060,734</u>	<u>447,284</u>
Fees and charges:				
Licenses and fees	328,650	328,650	387,921	59,271
Net change in the fair value of investments	300,000	300,000	980,375	680,375
Other	9,100	9,100	11,016	1,916
Total revenues	<u>11,500,000</u>	<u>11,500,000</u>	<u>14,325,484</u>	<u>2,825,484</u>
Expenditures:				
Current:				
General government:				
Governor and staff	388,075	416,332	409,213	7,119
Department of Treasury and Administration	657,411	657,411	2,189,874	(1,532,463)
Office of the Pohnpei Public Auditor	18,125	23,397	23,083	314
Judiciary Branch	716,299	771,447	685,137	86,310
Legislative Branch	1,853,460	1,853,460	1,742,728	110,732
	<u>3,633,370</u>	<u>3,722,047</u>	<u>5,050,035</u>	<u>(1,327,988)</u>
Department of Land and Natural Resources:				
Office of the Director	52,411	52,411	49,130	3,281
Division of Public Land	16,748	16,748	6,065	10,683
Division of Surveying and Mapping	212,358	212,358	198,907	13,451
Division of Forestry and Marine Conservation	6,237	6,237	-	6,237
Division of Historic Preservation	58,650	58,650	55,549	3,101
Division of Parks and Recreation	71,988	71,988	70,824	1,164
	<u>418,392</u>	<u>418,392</u>	<u>380,475</u>	<u>37,917</u>
Department of Education:				
Division of Primary Education	164,309	164,309	163,980	329
Department of Health Services:				
Division of Medical Services	203,075	203,075	82,682	120,393
Department of Public Safety:				
Office of the Director	133,259	133,259	77,128	56,131
Search and Rescue	291	291	-	291
Police Commission	24,434	24,434	23,807	627
Division of Police and Security	779,200	737,830	749,503	(11,673)
Division of Correction and Rehabilitation	232,822	232,822	232,217	605
Division of Fire & Emergency	89,306	140,762	46,072	94,690
Fish and Wildlife	45,198	45,198	93,940	(48,742)
	<u>1,304,510</u>	<u>1,314,596</u>	<u>1,222,667</u>	<u>91,929</u>
Office of the Attorney-General	546,729	546,729	420,017	126,712
Department of Public Works:				
Office of Transportation and Infrastructure	302,305	297,305	262,007	35,298

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, 2018

	Budgeted Amounts		Actual -	Variance with
	Original	Final	Budgetary	Final Budget -
		-	Basis	Positive
				(Negative)
Expenditures, continued:				
Department of Resources and Development:				
Office of Director	135,389	145,389	136,514	8,875
Division of Agriculture	171,880	171,880	139,842	32,038
Division of Natural Resources	99,007	99,007	96,493	2,514
Division of Tourism	81,418	81,418	77,647	3,771
Division of Commerce & Industry	8,540	8,540	9,786	(1,246)
	<u>496,234</u>	<u>506,234</u>	<u>460,282</u>	<u>45,952</u>
Boards, commissions and other:				
Office of Social Affairs	433	433	66,531	(66,098)
Election Commissioner's Office	66,729	66,729	66,645	84
Ethics Commission	-	1,000	-	1,000
Pohnpei Public Broadcasting Corporation	187,952	190,952	161,218	29,734
Foreign Investment Board	2,186	2,186	-	2,186
Pohnpei Housing Authority	115,229	117,029	124,383	(7,354)
Sports and Recreation	130,191	135,191	118,891	16,300
Office of Fisheries and Aquaculture	234,952	223,952	220,572	3,380
Micronesian Games	-	270,284	241,963	28,321
Environmental Protection Agency	3,052	73,052	61,276	11,776
	<u>740,724</u>	<u>1,080,808</u>	<u>1,061,479</u>	<u>19,329</u>
Payments to non-governmental agencies:				
Small Business Guarantee and				
Finance Corporation	44,000	44,000	44,000	-
Pohnpei Public Library	60,108	60,108	60,108	-
Micronesian Legal Services Corporation	43,000	43,000	43,000	-
U.S.D.A. Rural Development	88,360	88,360	89,644	(1,284)
Emergency No. 182	-	-	110,011	(110,011)
	<u>235,468</u>	<u>235,468</u>	<u>346,763</u>	<u>(111,295)</u>
Grants to local governments	<u>2,422,301</u>	<u>2,422,301</u>	<u>2,531,021</u>	<u>(108,720)</u>
Debt service:				
Principal repayment	-	-	218,115	(218,115)
Debt guarantee payments	-	-	44,747	(44,747)
	<u>-</u>	<u>-</u>	<u>262,862</u>	<u>(262,862)</u>
Total expenditures	<u>10,467,417</u>	<u>10,911,264</u>	<u>12,244,270</u>	<u>(1,333,006)</u>
Net change in fund balance	1,032,583	588,736	2,081,214	1,492,478
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	231,817	231,817	328,847	97,030
	<u>1,264,400</u>	<u>820,553</u>	<u>2,410,061</u>	<u>1,589,508</u>
Fund balance at the beginning of the year	<u>11,403,129</u>	<u>11,403,129</u>	<u>11,403,129</u>	<u>-</u>
Fund balance at the end of the year	<u>\$ 12,667,529</u>	<u>\$ 12,223,682</u>	<u>\$ 13,813,190</u>	<u>\$ 1,589,508</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS**

Combining Balance Sheet  
September 30, 2018

	26	27	29	32	33	34	35	36	37	38	18	87	
	Alien Registration Revolving	Pohnpei State Farmers' Revolving	Fisheries Enforcement and Development	Recycling Revolving	Paved Road Maintenance	Medical Supplies Revolving	Public Broadcasting Corporation	Health Care Premium	Department of Public Safety Fees	Environmental Quality	Infrastructure Maintenance	Public Lands Trust	Total
<b><u>ASSETS</u></b>													
Due from other funds	\$ 312,780	\$ 9,134	\$ 366,726	\$ 433,104	\$ 1,246,052	\$ 2,520,244	\$ 13,842	\$ 1,659,113	\$ 111,088	\$ -	\$ -	\$ -	\$ 6,672,083
Advances	-	4,624	14,156	-	-	-	-	-	-	-	-	-	18,780
Total assets	<u>\$ 312,780</u>	<u>\$ 13,758</u>	<u>\$ 380,882</u>	<u>\$ 433,104</u>	<u>\$ 1,246,052</u>	<u>\$ 2,520,244</u>	<u>\$ 13,842</u>	<u>\$ 1,659,113</u>	<u>\$ 111,088</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,690,863</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>													
Liabilities:													
Accounts payable	\$ -	\$ 3,503	\$ 14,105	\$ (384)	\$ 10,899	\$ 26,386	\$ 500	\$ -	\$ 18,312	\$ -	\$ -	\$ 1,348	\$ 74,669
Other liabilities and accruals	-	-	-	-	-	-	-	-	2,863	-	-	2,833	5,696
Due to other funds	-	-	-	-	-	-	-	-	-	2,347	-	39,093	41,440
Total liabilities	<u>-</u>	<u>3,503</u>	<u>14,105</u>	<u>(384)</u>	<u>10,899</u>	<u>26,386</u>	<u>500</u>	<u>-</u>	<u>21,175</u>	<u>2,347</u>	<u>-</u>	<u>43,274</u>	<u>121,805</u>
Fund balances (deficit):													
Non-spendable	-	-	14,156	-	-	-	-	-	-	-	-	-	14,156
Committed	312,780	10,255	352,621	433,488	1,235,153	2,493,858	13,342	1,659,113	89,913	-	-	-	6,600,523
Unassigned	-	-	-	-	-	-	-	-	-	(2,347)	-	(43,274)	(45,621)
Total fund balances (deficit)	<u>312,780</u>	<u>10,255</u>	<u>366,777</u>	<u>433,488</u>	<u>1,235,153</u>	<u>2,493,858</u>	<u>13,342</u>	<u>1,659,113</u>	<u>89,913</u>	<u>(2,347)</u>	<u>-</u>	<u>(43,274)</u>	<u>6,569,058</u>
Total liabilities and fund balances	<u>\$ 312,780</u>	<u>\$ 13,758</u>	<u>\$ 380,882</u>	<u>\$ 433,104</u>	<u>\$ 1,246,052</u>	<u>\$ 2,520,244</u>	<u>\$ 13,842</u>	<u>\$ 1,659,113</u>	<u>\$ 111,088</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,690,863</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 (Deficit)  
Year Ended September 30, 2018

	26	27	29	32	33	34	35	36	37	38	18	87	
	Alien Registration Revolving	Pohnpei State Farmers' Revolving	Fisheries Enforcement and Development	Recycling Revolving	Paved Road Maintenance	Medical Supplies Revolving	Public Broadcasting Corporation	Health Care Premium	Department of Public Safety Fees	Environmental Quality	Infrastructure Maintenance	Public Lands Trust	Total
Revenues:													
Excise tax	\$ -	\$ -	\$ -	\$ 455,635	\$ 393,718	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 849,353
Fees and charges	<u>58,076</u>	<u>30,977</u>	<u>166,520</u>	<u>69,580</u>	<u>114,248</u>	<u>1,403,330</u>	<u>22,193</u>	<u>165,898</u>	<u>110,554</u>	<u>-</u>	<u>-</u>	<u>54,503</u>	<u>2,195,879</u>
Total revenues	<u>58,076</u>	<u>30,977</u>	<u>166,520</u>	<u>525,215</u>	<u>507,966</u>	<u>1,403,330</u>	<u>22,193</u>	<u>165,898</u>	<u>110,554</u>	<u>-</u>	<u>-</u>	<u>54,503</u>	<u>3,045,232</u>
Expenditures by function:													
Current:													
General government	-	3,512	113,806	401,209	155,403	-	20,674	-	83,502	-	-	126,874	904,980
Health services	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>236,731</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>236,731</u>
Total expenditures	<u>-</u>	<u>3,512</u>	<u>113,806</u>	<u>401,209</u>	<u>155,403</u>	<u>236,731</u>	<u>20,674</u>	<u>-</u>	<u>83,502</u>	<u>-</u>	<u>-</u>	<u>126,874</u>	<u>1,141,711</u>
Excess (deficiency) of revenues over (under) expenditures	<u>58,076</u>	<u>27,465</u>	<u>52,714</u>	<u>124,006</u>	<u>352,563</u>	<u>1,166,599</u>	<u>1,519</u>	<u>165,898</u>	<u>27,052</u>	<u>-</u>	<u>-</u>	<u>(72,371)</u>	<u>1,903,521</u>
Other financing sources(uses):													
Operating transfers in(out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>97,312</u>	<u>-</u>	<u>97,312</u>
Net change in fund balances (deficit)	<u>58,076</u>	<u>27,465</u>	<u>52,714</u>	<u>124,006</u>	<u>352,563</u>	<u>1,166,599</u>	<u>1,519</u>	<u>165,898</u>	<u>27,052</u>	<u>-</u>	<u>97,312</u>	<u>(72,371)</u>	<u>2,000,833</u>
Fund balances (deficit) at the beginning of the year	<u>254,704</u>	<u>(17,210)</u>	<u>314,063</u>	<u>309,482</u>	<u>882,590</u>	<u>1,327,259</u>	<u>11,823</u>	<u>1,493,215</u>	<u>62,861</u>	<u>(2,347)</u>	<u>(97,312)</u>	<u>29,097</u>	<u>4,568,225</u>
Fund balances (deficit) at the end of the year	<u>\$ 312,780</u>	<u>\$ 10,255</u>	<u>\$ 366,777</u>	<u>\$ 433,488</u>	<u>\$ 1,235,153</u>	<u>\$ 2,493,858</u>	<u>\$ 13,342</u>	<u>\$ 1,659,113</u>	<u>\$ 89,913</u>	<u>\$ (2,347)</u>	<u>\$ -</u>	<u>\$ (43,274)</u>	<u>\$ 6,569,058</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 (Deficit)  
Year Ended September 30, 2018

	26	27	29	32	33	34	35	36	37	38	18	87	
	Alien Registration Revolving	Pohnpei State Farmers' Revolving	Fisheries Enforcement and Development	Recycling Revolving	Paved Road Maintenance	Medical Supplies Revolving	Public Broadcasting Corporation	Health Care Premium	Department of Public Safety Fees	Environmental Quality	Infrastructure Maintenance	Public Lands Trust	Total
Revenues:													
Excise tax	\$ -	\$ -	\$ -	\$ 455,635	\$ 393,718	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 849,353
Fees and charges	58,076	30,977	166,520	69,580	114,248	1,403,330	22,193	165,898	110,554	-	-	54,503	2,195,879
Total revenues	58,076	30,977	166,520	525,215	507,966	1,403,330	22,193	165,898	110,554	-	-	54,503	3,045,232
Expenditures by account:													
Salaries and wages:													
Regular	-	-	-	-	-	-	-	-	-	-	-	63,930	63,930
Travel	-	-	5,622	-	-	-	-	-	1,392	-	-	13,126	20,140
Communications	-	-	4,883	-	-	-	-	-	5,497	-	-	3,661	14,041
Food stuff	-	-	12,499	-	-	-	-	-	641	-	-	337	13,477
Freight and port charges	-	-	1,014	5,076	-	-	-	-	16	-	-	-	6,106
Non-capitalized equipment	-	-	795	618	-	-	2,994	-	790	-	-	409	5,606
Capital outlay	-	-	-	29,500	-	-	-	-	15,000	-	-	-	44,500
Office supplies and materials	-	2,897	17,905	12,670	-	90	-	-	32,684	-	-	5,904	72,150
POL	-	466	22,485	-	-	-	-	-	-	-	-	8,410	31,361
Printing and reproduction	-	-	2,852	555	-	-	-	-	7,406	-	-	789	11,602
Rental	-	-	20	-	-	-	-	-	-	-	-	15	35
Repairs and maintenance	-	-	4,714	180	-	-	-	-	1,976	-	-	1,823	8,693
Utilities	-	-	28,849	-	-	-	7,440	-	18,100	-	-	22,259	76,648
Miscellaneous goods and services	-	149	-	352,610	-	126,987	-	-	-	-	-	-	479,746
Medical supplies	-	-	-	-	-	109,654	-	-	-	-	-	-	109,654
Contractual services	-	-	12,063	-	155,403	-	10,200	-	-	-	-	-	177,666
Meeting allowance	-	-	105	-	-	-	40	-	-	-	-	6,211	6,356
Total expenditures	-	3,512	113,806	401,209	155,403	236,731	20,674	-	83,502	-	-	126,874	1,141,711
Excess (deficiency) of revenues over (under) expenditures	58,076	27,465	52,714	124,006	352,563	1,166,599	1,519	165,898	27,052	-	-	(72,371)	1,903,521
Other financing sources(uses):													
Operating transfers in(out)	-	-	-	-	-	-	-	-	-	-	97,312	-	97,312
Net change in fund balances (deficit)	58,076	27,465	52,714	124,006	352,563	1,166,599	1,519	165,898	27,052	-	97,312	(72,371)	2,000,833
Fund balances (deficit) at the beginning of the year	254,704	(17,210)	314,063	309,482	882,590	1,327,259	11,823	1,493,215	62,861	(2,347)	(97,312)	29,097	4,568,225
Fund balances (deficit) at the end of the year	\$ 312,780	\$ 10,255	\$ 366,777	\$ 433,488	\$ 1,235,153	\$ 2,493,858	\$ 13,342	\$ 1,659,113	\$ 89,913	\$ (2,347)	\$ -	\$ (43,274)	\$ 6,569,058

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**GRANTS ASSISTANCE FUNDS**

Combining Balance Sheet  
September 30, 2018

	10	11	12	13	14	15	16	18	19	6	7	20	23	25	
	Section 211(a)(1) Education Sector	Section 211(a)(2) Health Sector	Section 211(a)(5) Environment	Section 211(a)(3) Private Sector Development	Section 211(a)(4) Capacity Building	Section 211(a)(1) Supplemental Education	Enhanced Reporting Accountability	Infrastructure Maintenance	Infrastructure	Section 221(b) Special Block Grant	Compact I Other Grants	U.S. Federal Grants	Non-U.S. Grants	CFSM Grants	Total
<b>ASSETS</b>															
Receivables:															
Due from FSM National and grantor agencies	\$ -	\$ -	\$ -	\$ 24	\$ -	\$ -	\$ -	\$ 193,284	\$ -	\$ -	\$ -	\$ 1,071,709	\$ -	\$ 742,102	\$ 2,007,119
Other	-	-	-	-	-	-	-	-	-	-	-	-	11,546	-	11,546
Due from other funds	844,458	1,305,789	62,856	513	107,195	582,825	137,548	-	-	44,188	35,588	-	-	-	3,120,960
Advances	82,000	26,588	-	-	-	-	-	-	316,000	-	-	35,761	4,814	9,988	475,151
Restricted cash	-	7,700	-	-	-	-	-	-	-	-	-	-	-	-	7,700
	<u>\$ 926,458</u>	<u>\$ 1,340,077</u>	<u>\$ 62,856</u>	<u>\$ 537</u>	<u>\$ 107,195</u>	<u>\$ 582,825</u>	<u>\$ 137,548</u>	<u>\$ 193,284</u>	<u>\$ 316,000</u>	<u>\$ 44,188</u>	<u>\$ 35,588</u>	<u>\$ 1,107,470</u>	<u>\$ 16,360</u>	<u>\$ 752,090</u>	<u>\$ 5,622,476</u>
<b>LIABILITIES AND FUND BALANCES (DEFICIT)</b>															
Liabilities:															
Accounts payable	\$ 349,684	\$ 463,883	\$ 24,893	\$ -	\$ 8,967	\$ 193,880	\$ 3,094	\$ 10,699	\$ 3,353	\$ -	\$ -	\$ 163,937	\$ 12,222	\$ 20,945	\$ 1,255,557
Other liabilities and accruals	215,821	131,009	88	-	16,668	44,936	21,550	-	16,200	-	-	65,563	492	1,320	513,647
Unearned revenues	353,837	740,398	37,875	-	80,376	336,516	112,904	19,010	265,862	-	-	22,561	10,959	-	1,980,298
Due to other funds	-	-	-	-	-	-	-	240,908	11,616	-	-	855,409	8,774	729,825	1,846,532
Total liabilities	<u>919,342</u>	<u>1,335,290</u>	<u>62,856</u>	<u>-</u>	<u>106,011</u>	<u>575,332</u>	<u>137,548</u>	<u>270,617</u>	<u>297,031</u>	<u>-</u>	<u>-</u>	<u>1,107,470</u>	<u>32,447</u>	<u>752,090</u>	<u>5,596,034</u>
Fund balances:															
Restricted	<u>7,116</u>	<u>4,787</u>	<u>-</u>	<u>537</u>	<u>1,184</u>	<u>7,493</u>	<u>-</u>	<u>(77,333)</u>	<u>18,969</u>	<u>44,188</u>	<u>35,588</u>	<u>-</u>	<u>(16,087)</u>	<u>-</u>	<u>26,442</u>
Total fund balances	<u>7,116</u>	<u>4,787</u>	<u>-</u>	<u>537</u>	<u>1,184</u>	<u>7,493</u>	<u>-</u>	<u>(77,333)</u>	<u>18,969</u>	<u>44,188</u>	<u>35,588</u>	<u>-</u>	<u>(16,087)</u>	<u>-</u>	<u>26,442</u>
Total liabilities and fund balances	<u>\$ 926,458</u>	<u>\$ 1,340,077</u>	<u>\$ 62,856</u>	<u>\$ 537</u>	<u>\$ 107,195</u>	<u>\$ 582,825</u>	<u>\$ 137,548</u>	<u>\$ 193,284</u>	<u>\$ 316,000</u>	<u>\$ 44,188</u>	<u>\$ 35,588</u>	<u>\$ 1,107,470</u>	<u>\$ 16,360</u>	<u>\$ 752,090</u>	<u>\$ 5,622,476</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, 2018

	<b>10</b> Section 211(a)(1) Education Sector	<b>11</b> Section 211(a)(2) Health Sector	<b>12</b> Section 211(a)(5) Environment	<b>13</b> Section 211(a)(3) Private Sector Development	<b>14</b> Section 211(a)(4) Capacity Building	<b>15</b> Section 211(a)(1) Supplemental Education	<b>16</b> Enhanced Reporting Accountability	<b>18</b> Infrastructure Maintenance	<b>19</b> Infrastructure	<b>6</b> Section 221(b) Special Block Grant	<b>7</b> Compact I Other Grants	<b>20</b> U.S. Federal Grants	<b>23</b> Non-U.S. Grants	<b>25</b> CFSM Grants	Total
Revenues:															
Compact funding	\$ 8,629,306	\$ 6,262,207	\$ 421,091	\$ 25	\$ 360,322	\$ 2,382,136	\$ 328,108	\$ 112,297	\$ 381,775	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 18,877,267
CFSM grants	-	-	-	-	-	-	-	-	-	-	-	-	-	1,211,441	1,211,441
Federal contributions and other grants	-	-	-	-	-	-	-	-	-	-	-	2,801,709	233,010	-	3,034,719
	<u>8,629,306</u>	<u>6,262,207</u>	<u>421,091</u>	<u>25</u>	<u>360,322</u>	<u>2,382,136</u>	<u>328,108</u>	<u>112,297</u>	<u>381,775</u>	<u>-</u>	<u>-</u>	<u>2,801,709</u>	<u>233,010</u>	<u>1,211,441</u>	<u>23,123,427</u>
Expenditures by function:															
Current:															
General government	-	-	421,091	-	360,322	-	328,108	-	-	-	-	779,499	299,255	1,211,441	3,399,716
Land and natural resources	-	-	-	25	-	-	-	-	-	-	-	90,151	-	-	90,176
Education	8,629,306	-	-	-	-	2,382,136	-	-	-	-	-	961,294	-	-	11,972,736
Health services	-	6,262,207	-	-	-	-	-	-	-	-	-	970,765	-	-	7,232,972
Capital projects	-	-	-	-	-	-	-	92,318	381,775	-	-	-	-	-	474,093
Total expenditures	<u>8,629,306</u>	<u>6,262,207</u>	<u>421,091</u>	<u>25</u>	<u>360,322</u>	<u>2,382,136</u>	<u>328,108</u>	<u>92,318</u>	<u>381,775</u>	<u>-</u>	<u>-</u>	<u>2,801,709</u>	<u>299,255</u>	<u>1,211,441</u>	<u>23,169,693</u>
Excess (deficiency) of revenues over (under) expenditures		-	-	-	-	-	-	19,979	-	-	-	-	(66,245)	-	(46,266)
Other financing sources(uses):															
Operating transfers in(out)		-	-	-	-	-	-	(97,312)	-	-	-	-	-	-	(97,312)
Net change in fund balances	-	-	-	-	-	-	-	(77,333)	-	-	-	-	(66,245)	-	(143,578)
Fund balances (deficit) at the beginning of the year	<u>7,116</u>	<u>4,787</u>	<u>-</u>	<u>537</u>	<u>1,184</u>	<u>7,493</u>	<u>-</u>	<u>-</u>	<u>18,969</u>	<u>44,188</u>	<u>35,588</u>	<u>-</u>	<u>50,158</u>	<u>-</u>	<u>170,020</u>
Fund balances at the end of the year	<u>\$ 7,116</u>	<u>\$ 4,787</u>	<u>\$ -</u>	<u>\$ 537</u>	<u>\$ 1,184</u>	<u>\$ 7,493</u>	<u>\$ -</u>	<u>\$ (77,333)</u>	<u>\$ 18,969</u>	<u>\$ 44,188</u>	<u>\$ 35,588</u>	<u>\$ -</u>	<u>\$ (16,087)</u>	<u>\$ -</u>	<u>\$ 26,442</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, 2018

	<b>10</b> Section 211(a)(1) Education Sector	<b>11</b> Section 211(a)(2) Health Sector	<b>12</b> Section 211(a)(5) Environment	<b>13</b> Section 211(a)(3) Private Sector Development	<b>14</b> Section 211(a)(4) Capacity Building	<b>15</b> Section 211(a)(1) Supplemental Education	<b>16</b> Enhanced Reporting Accountability	<b>18</b> Infrastructure Maintenance	<b>19</b> Infrastructure	<b>6</b> Section 221(b) Special Block Grant	<b>7</b> Compact I Other Grants	<b>20</b> U.S. Federal Grants	<b>23</b> Non-U.S. Grants	<b>25</b> CFSM Grants	Total
Revenues:															
Compact funding	\$ 8,629,306	\$ 6,262,207	\$ 421,091	\$ 25	\$ 360,322	\$ 2,382,136	\$ 328,108	\$ 112,297	\$ 381,775	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 18,877,267
CFSM grants	-	-	-	-	-	-	-	-	-	-	-	-	-	1,211,441	1,211,441
Federal contributions and other grants	-	-	-	-	-	-	-	-	-	-	-	2,801,709	233,010	-	3,034,719
	<u>8,629,306</u>	<u>6,262,207</u>	<u>421,091</u>	<u>25</u>	<u>360,322</u>	<u>2,382,136</u>	<u>328,108</u>	<u>112,297</u>	<u>381,775</u>	<u>-</u>	<u>-</u>	<u>2,801,709</u>	<u>233,010</u>	<u>1,211,441</u>	<u>23,123,427</u>
Expenditures by account:															
Salaries and wages:															
Regular	4,668,244	2,305,885	131,008	-	215,382	887,219	231,612	-	254,310	-	-	1,418,766	7,014	23,569	10,143,009
Overtime	-	288,224	1,780	-	-	15	2,689	-	-	-	-	138,111	-	10,043	440,862
Fringe benefits	1,099,344	427,844	1,344	-	30,399	234,565	47,205	-	23,319	-	-	331,779	1,404	5,979	2,203,182
Travel and transportation	56,239	53,167	2,620	-	43,652	41,275	5,908	-	26,809	-	-	183,196	5,551	109,030	527,447
Communications	15,257	54,320	3,580	-	3,951	72,893	-	-	4,099	-	-	20,258	150	1,721	176,229
Dues, membership, and subscriptions	-	850	-	-	3,767	-	-	-	-	-	-	-	-	-	4,617
Food stuffs	143,250	94,205	200	-	71	130,770	-	-	-	-	-	2,301	4,566	62,169	437,532
Freight and port charges	35,803	22,134	-	-	-	2,611	-	-	563	-	-	-	-	-	61,111
Non-capitalized equipment and furniture:	313,910	30,284	3,458	-	5,993	90,353	-	-	-	-	-	11,253	-	-	455,251
Capital outlays	237,204	278,130	1,420	-	-	31,000	2,922	-	-	-	-	93,006	84,865	5,680	734,227
Office supplies and materials	537,967	197,232	82,394	-	15,380	208,254	37,390	-	11,735	-	-	182,648	61,313	34,804	1,369,117
Books and instructional supplies	606,931	-	-	-	-	255,326	-	-	-	-	-	-	-	-	862,257
POL	99,926	13,386	4,839	-	1,513	44,707	184	-	2,744	-	-	42,529	600	20,327	230,755
Printing and reproduction	400	25,461	1,044	25	1,801	1,374	-	-	2,000	-	-	42,677	12,890	-	87,672
Rental services	1,662	19,500	-	-	-	4,427	-	-	1,250	-	-	32,655	9,471	-	68,965
Repairs and maintenance	15,714	11,039	3,006	-	284	9,537	198	-	1,068	-	-	6,920	-	-	47,766
Utilities	159,634	535,000	3,230	-	10,500	37,052	-	-	10,000	-	-	24,474	-	3,000	782,890
Medical referrals	-	19,523	-	-	-	-	-	-	-	-	-	-	-	-	19,523
Medical supplies	-	1,366,030	-	-	-	-	-	-	-	-	-	73,078	-	-	1,439,108
Contractual services	371,786	388,057	180,188	-	27,120	163,022	-	92,318	20,664	-	-	156,673	96,550	935,119	2,431,497
Scholarships and allowances	253,659	-	-	-	-	-	-	-	-	-	-	-	-	-	253,659
Housing allowance	-	119,502	-	-	-	-	-	-	23,214	-	-	10,800	-	-	153,516
Meeting allowance	7,360	4,192	980	-	-	6,165	-	-	-	-	-	20,420	-	-	39,117
Non-payroll compensation	4,816	-	-	-	-	161,571	-	-	-	-	-	-	-	-	166,387
Miscellaneous goods and services	-	8,242	-	-	509	-	-	-	-	-	-	10,165	14,881	-	33,797
Bank charges	200	-	-	-	-	-	-	-	-	-	-	-	-	-	200
Total expenditures	<u>8,629,306</u>	<u>6,262,207</u>	<u>421,091</u>	<u>25</u>	<u>360,322</u>	<u>2,382,136</u>	<u>328,108</u>	<u>92,318</u>	<u>381,775</u>	<u>-</u>	<u>-</u>	<u>2,801,709</u>	<u>299,255</u>	<u>1,211,441</u>	<u>23,169,693</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,979</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(66,245)</u>	<u>-</u>	<u>(46,266)</u>
Other financing sources(uses):															
Operating transfers in(out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(97,312)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(97,312)</u>
Net change in fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(77,333)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(66,245)</u>	<u>-</u>	<u>(143,578)</u>
Fund balances (deficit) at the beginning of the year	<u>7,116</u>	<u>4,787</u>	<u>-</u>	<u>537</u>	<u>1,184</u>	<u>7,493</u>	<u>-</u>	<u>-</u>	<u>18,969</u>	<u>44,188</u>	<u>35,588</u>	<u>-</u>	<u>50,158</u>	<u>-</u>	<u>170,020</u>
Fund balances at the end of the year	<u>\$ 7,116</u>	<u>\$ 4,787</u>	<u>\$ -</u>	<u>\$ 537</u>	<u>\$ 1,184</u>	<u>\$ 7,493</u>	<u>\$ -</u>	<u>\$ (77,333)</u>	<u>\$ 18,969</u>	<u>\$ 44,188</u>	<u>\$ 35,588</u>	<u>\$ -</u>	<u>\$ (16,087)</u>	<u>\$ -</u>	<u>\$ 26,442</u>

See Accompanying Independent Auditors' Report.

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component units, and each major fund of State of Pohnpei as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise State of Pohnpei's basic financial statements, and have issued our report thereon dated June 24, 2019. Our report was qualified with respect to GASB 70 noncompliance related to lack of recognition of a liability associated with a guaranteed debt obligation, and includes a reference to other auditors. Other auditors audited the financial statements of the Pohnpei Transportation Authority and the Small Business Guarantee and Finance Corporation, as described in our report on State of Pohnpei's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors.

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

## **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered State of Pohnpei's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of State of Pohnpei's internal control. Accordingly, we do not express an opinion on the effectiveness of State of Pohnpei's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2018-002 that we consider to be a material weakness.

## **Compliance and Other Matters**

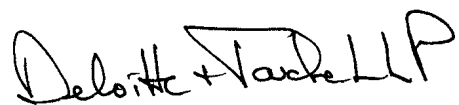
As part of obtaining reasonable assurance about whether State of Pohnpei's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material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

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

State of Pohnpei's response to the findings identified in our audit is described in the accompanying corrective action plan. State of Pohnpei's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

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



June 24, 2019

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

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

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

We have audited State of Pohnpei's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of State of Pohnpei's major federal programs for the year ended September 30, 2018. State of Pohnpei's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

As discussed in Note 3B to the Schedule of Expenditures of Federal Awards, State of Pohnpei's basic financial statements include the operations of certain entities whose federal awards are not included in the accompanying Schedule of Expenditures of Federal Awards for the year ended September 30, 2018. Our audit, described below, did not include the operations of the entities identified in Note 3B as these entities conducted separate audits in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), if required.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of State of Pohnpei's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of the Uniform Guidance. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about State of Pohnpei's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.



We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of State of Pohnpei's compliance.

## ***Opinion on Each Major Federal Program***

In our opinion, State of Pohnpei complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2018.

## ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2018-001. Our opinion on each major federal program is not modified with respect to these matters.

State of Pohnpei's response to the noncompliance findings identified in our audit is described in the accompanying corrective action plan. State of Pohnpei's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as item 2018-001 that we consider to be significant deficiencies.

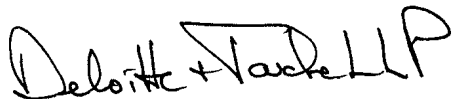
## **Report on Internal Control Over Compliance, Continued**

State of Pohnpei's response to the internal control over compliance findings identified in our audit is described in the accompanying Corrective Action Plan. State of Pohnpei's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

## **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, and each major fund of State of Pohnpei as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise State of Pohnpei's basic financial statements. We issued our report thereon dated June 24, 2019, which report was qualified with respect to noncompliance with GASB 70 related to lack of recognition of a liability associated with a guaranteed debt obligation, and included a reference to other auditors. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. We did not audit the financial statements of Pohnpei Transportation Authority and Small Business Guarantee and Finance Corporation which represent 8%, 7% and 8%, respectively, of the assets, net position, and revenues of State of Pohnpei's discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Pohnpei Transportation Authority and the Small Business Guarantee and Finance Corporation, is based solely on the reports of the other auditors. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



June 24, 2019

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Summary Schedule of Expenditures of Federal Awards, by Grantor  
Year Ended September 30, 2018

Agency/Program	Expenditures
U.S. Department of Agriculture	\$ 21,170
U.S. Department of the Interior	18,984,142
U.S. Department of Education	961,294
U.S. Department of Health and Human Services	1,692,391
 GRAND TOTAL	 \$ <u>21,658,997</u>
 Reconciliation to the basic financial statements:	
Grants Assistance Fund	\$ 23,169,693
Less:	
Non-U.S. Federal Grants Fund expenditures	(299,255)
CFSM Grants Fund expenditures	<u>(1,211,441)</u>
	\$ <u>21,658,997</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA#	Pass-Through Entity Identifying #	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Urban and Community Forestry Program	10.675		21,170
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>21,170</u>
U.S. DEPARTMENT OF THE INTERIOR			
Pass-Through From the FSM National Government:		A4	
Economic, Social and Political Development of the Territories:	15.875		
Compact of Free Association, As Amended, Sector Grants:			
Compact II Education Sector	15.875		\$ 8,629,306
Compact II Health Sector	15.875		6,262,207
Compact II Environment Sector	15.875		421,091
Compact II Private Sector Capacity	15.875		25
Compact II Capacity Building Sector	15.875		360,322
Compact II Supplemental Education	15.875		2,382,136
Compact II ERA	15.875		328,108
Compact II Infrastructure Maintenance	15.875		92,318
Compact II Infrastructure Fund	15.875		381,775
Technical Assistance			
Office of State Auditor	15.875		<u>36,703</u>
Total CFDA 15.875			18,893,991
Historic Preservation Fund Grants-In-Aid	15.904		<u>90,151</u>
TOTAL U.S. DEPARTMENT OF THE INTERIOR			<u>\$ 18,984,142</u>
U.S. DEPARTMENT OF EDUCATION			
Pass-Through From the FSM National Government:		A4	
Special Education Cluster (IDEA):			
Special Education - Grants to States	84.027		\$ <u>961,294</u>
Special Education Cluster (IDEA) Total and TOTAL U.S. DEPARTMENT OF EDUCATION			<u>\$ 961,294</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, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA#	Pass-Through Entity Identifying #	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Direct Program:			
Health Center Program Cluster:			
Health Center Program (Consolidated Health Centers)	93.224		\$ <u>705,999</u>
Health Center Program Cluster Total			<u>705,999</u>
Subtotal U.S. Department of Health and Human Services Direct Programs			<u>705,999</u>
Pass-Through From the FSM National Government:			
		A4	
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092		27,510
Project Grants and Cooperative Agreements for Tuberculosis			
Control Programs	93.116		105,987
State Systems Development Initiative Grant Program	93.110		9,804
Family Planning - Services	93.217		60,374
Substance Abuse and Mental Health Services - Projects of Regional and			
National Significance	93.243		323,286
Universal Newborn Hearing Screening UNHS	93.251		5,712
Immunization Cooperative Agreements	93.268		142,931
CDC & Prevention-Investigations and Technical Assistance	93.283		33,082
Prevention Health Services	93.758		9,999
OPIOID STR	93.788		2,746
Tobacco Prevention	93.945		26,442
Com. Cancer Control	93.898		2,630
HIV Care Formula- Ryan White	93.917		11,990
Block Grants for Community Mental Health Services	93.958		6,112
Block Grants for Prevention and Treatment of Substance Abuse	93.959		121,395
Maternal and Child Health Services Block Grant to the States	93.994		80,766
CCPI Cancer Pgm	93.UNKNOWN		<u>15,626</u>
Subtotal U.S. Department of Health and Human Services Pass-Through Programs			<u>986,392</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL			\$ <u><u>1,692,391</u></u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ <u><u>21,658,997</u></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, 2018

1. Scope

State of Pohnpei is one of the four States of the Federated States of Micronesia. All significant operations of State of Pohnpei are included in the scope of the Single Audit. The U.S. Department of the Interior has been designated as State of Pohnpei's cognizant agency for the Single Audit.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of State of Pohnpei under programs of the federal government for the year ended September 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of State of Pohnpei, it is not intended to and does not present the financial positions or changes in financial positions of State of Pohnpei.

3. Summary of Significant Accounting Policies

A. Basis of Accounting

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, consistent with the manner in which State of Pohnpei maintains its accounting records. All expenditures and capital outlays that represent the federal share are reported as expenditures. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented, where available.

B. Reporting Entity

For purposes of complying with the Single Audit Act of 1984, as amended in 1996, State of Pohnpei's reporting entity is defined in Note 1A to its September 30, 2018 basic financial statements; and all of the discretely presented component units are excluded. Accordingly, the accompanying Schedule presents the federal award programs administered by State of Pohnpei, as defined above, for the year ended September 30, 2018.

C. Indirect Cost Allocation

State of Pohnpei did not receive any indirect cost allocation and did not elect to use the de minimis indirect cost rate allowed under the Uniform Guidance. State of Pohnpei did not charge indirect costs against federal programs.

D. 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 for purposes of major program determinations.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2018

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

*Financial Statements*

- |  |                          |
|--|--------------------------|
| 1. Type of report the auditors issued on whether the financial statements audited were prepared in accordance with GAAP: | Unmodified and Qualified |
| Internal control over financial reporting:   |                          |
| 2. Material weakness(es) identified?   | Yes                      |
| 3. Significant deficiency(ies) identified?   | None Reported            |
| 4. Noncompliance material to financial statements noted?   | Yes                      |

*Federal Awards*

Internal control over major federal programs:

- |   |            |
|---|------------|
| 5. Material weakness(es) identified?  | No         |
| 6. Significant deficiency(ies) identified?  | Yes        |
| 7. Type of auditors' report issued on compliance for major federal programs:                          | Unmodified |
| 8. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | Yes        |
| 9. Identification of major federal programs:  |            |

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

- |  |           |
|--|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$750,000 |
| 11. Auditee qualified as low-risk auditee?                                   | No        |

**Section II – Financial Statements Findings**

<u>Finding #</u>	<u>Finding</u>
2018-002	Loan Guarantee Obligation

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

<u>Finding #</u>	<u>CFDA #</u>	<u>Finding</u>	<u>Questioned Costs</u>
2018-001	15.875	Equipment and Real Property Management	\$ -
2018-001	84.027	Equipment and Real Property Management	-
			\$ -

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2018

Finding No.: 2018-001  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories  
Federal Award No.:  
CFDA Program: 84.027 Special Education – Grants to States  
Federal Award No.:  
Area: Equipment and Real Property Management  
Questioned Costs: \$0

Criteria: A physical inventory of property acquired in whole or in part under a Federal award, must be taken and the results reconciled with the property records at least once every two years, until disposition takes place.

Condition:

1. State of Pohnpei did not perform the required physical inventory of property acquired in whole or in part under a Federal award within the past two years.
2. For 2 (or 15%) of 13 equipment items physically sighted, there were no State of Pohnpei asset tag numbers assigned or marked on the equipment.

Per General Ledger:							
No.	Sel'n #	Asset Description	Tag No.	Date	Amount	Location/Department:	Fund:
1	7	PUMP MOTOR		08/30/2018	\$10,200	Health	11
2	8	PUMP MOTOR		08/30/2018	8,250	Health	11

Cause: There appears to be a weakness in internal control requiring that capital assets be received, recorded, reviewed and tagged by the supply officer prior to releasing the capital asset/equipment to a department.

Effect: State of Pohnpei is in noncompliance with applicable equipment management requirements. No questioned cost is presented as we are unable to quantify the extent of noncompliance.

Recommendation: State of Pohnpei's program management should perform the required physical inventory at least once every two years and the results reconciled with the property records in accordance with the applicable Federal requirements.

Views of Auditee and Corrective Action Plan:

See the auditee-prepared corrective action plan.



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2018

Finding No: 2018-002  
Area: Loan Guarantee Obligation

Criteria: ADB loans payable guaranteed by State of Pohnpei should be recorded in the financial statements to comply with GASB 70.

Condition: ADB loans guaranteed by State of Pohnpei on behalf of a component unit which does not evidence the ability to repay the debt were not recorded in the accounting system to conform with GASB 70.

Cause: Management is of the opinion that such loans are not a State liability as drastic measures have been put in place or are being proposed at the component unit to allow it to return to profitable operations.

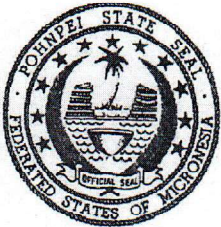
Effect: The departure from GASB 70 requirements resulted in a report modification.

Identification as a Repeat Finding: Finding No. 2017-002

Recommendation: State of Pohnpei should comply with GASB 70 requirements and record the debt until such time when the component unit evidences the ability to make required debt repayments.

Views of Auditee and Corrective Action Plan:

See the auditee-prepared corrective action plan.



# POHNPEI STATE GOVERNMENT

## Department of Treasury and Administration

P.O. Box 1567  
Kolonias, Pohnpei FM 96941  
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Email: pnidota@mail.fm

Office of the Director

### STATE OF POHNPEI FSM STATES OF MICRONESIA

#### CORRECTIVE ACTION PLAN 2 CFR § 200.511(c) Year Ended September 30, 2018

Finding Number	Corrective Action Plan	Anticipated Completion Date	Responsible Person (Contact details)
2013-002	The missing documents had been transmitted to the Grantor with regard to the resolution of these questioned costs on procurement. The new Chief of Finance shall follow up with the Grantor and request that these prior year findings are no longer applicable as the Department of Treasury was in compliance with procurement requirements for the past three consecutive audits.	September 30, 2019	Mr. Moses Hespak Jr. Chief of Finance mosonjr@yahoo.com
2014-002			
2015-003			
2015-004			
2014-001	The Department of Treasury recently hired an accountant to administer compliance with equipment and real property management as well as ensure appropriate documentation of inventory and asset maintenance activities.	September 30, 2019	Mr. Moses Hespak Jr. Chief of Finance mosonjr@yahoo.com
2016-001			
2017-001			
2018-001			
2016-002	The Department of Treasury continues to direct the management of Pohnpei Utilities Corp to ensure a cost effective financial operation to pay off its loan.	September 30, 2019	Feliciano Perman Director of the Department of Treasury Directordota.psg@gmail.com
2017-002			
2018-002			



# POHNPEI STATE GOVERNMENT

## Department of Treasury and Administration

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Office of the Director

### Summary Schedule of Prior Audit Findings and Questioned Costs Year Ended September 30, 2018

<u>Finding</u> <u>Number</u>	<u>CFDA</u> <u>Number</u>	<u>Questioned</u> <u>Cost</u>	<u>Status</u>
2013-002	15.875	\$ 54,889	Not Corrected or Resolved
2014-001	15.875	-	Not Corrected or Resolved. See Finding 2015-001
2014-002	15.875	162,378	Not Corrected or Resolved
2015-003	15.875	367,407	Not Corrected or Resolved
2015-004	84.027	129	Not Corrected or Resolved
2017-001	15.875	-	Not Corrected or Resolved. See corrective action plan - Finding no. 2018-001
2017-002		-	Not Corrected or Resolved. See corrective action plan - Finding no. 2018-002
		<u>\$ 584,803</u>	