

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

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

YEAR ENDED SEPTEMBER 30, 2018

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

YEAR ENDED SEPTEMBER 30, 2018

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**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

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**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

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

YEAR ENDED SEPTEMBER 30, 2018

INDEPENDENT AUDITORS' REPORT

Honorable David W. Panuelo
President
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 Federated States of Micronesia (FSM) National Government, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the FSM National Government'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 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. The financial statements of Vital Energy, Inc. were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the FSM National Government 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

Social Security Obligations

As discussed in Note 10 to the financial statements, the FSM Social Security Administration may be unable to meet its future benefit obligations.

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 3 through 11 as well as the Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund and notes thereto, on pages 68 through 70, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board (GASB) 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. Although our opinion on the basic financial statements is not affected, the following material departure from the prescribed guidelines exists whereby the original budget column does not include the automatic carryover of encumbrances although such is included in the final budget. We do not express an opinion or provide any assurance on the information.

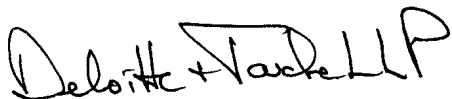
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the FSM National Government'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. The 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.

The information set forth in pages 84 and 85 of the foregoing table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2019 on our consideration of the FSM National Government'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the FSM National Government'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 FSM National Government's internal control over financial reporting and compliance.



June 28, 2019

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Management's Discussion and Analysis
September 30, 2018

This discussion and analysis of the FSM National Government's financial performance provides an overview of the financial activities of the FSM National Government for the year ended September 30, 2018 and of the financial position of the FSM National Government at September 30, 2018. This report is to be read in conjunction with the financial statements of the FSM National Government which begin on page 12. Fiscal Year 2017 comparative information has been included, where appropriate. This MD&A is prepared in compliance with GASB-34 requirement.

FINANCIAL HIGHLIGHTS

- For the fiscal year ended September 30, 2018, FSM National Government has total net position of \$610,167,330 (FY17 \$488,128,699). The increase is primarily due to the increase in general and grants assistance revenues.
- During the year, FSM National Government expenses for governmental activities were \$95,406,363 (FY17 \$112,706,943) and were funded by program revenues of \$30,899,453 (FY17 \$60,383,816) and were further funded with taxes and other general revenues that totaled \$185,881,296 (FY17 \$123,616,015).
- During the year, the FSM National Government wrote-off old receivables of \$1,256,680 (FY17 \$254,657).
- The net change in governmental funds increased by \$106,102,176 (FY17 \$66,624,795). Total revenues reported are \$217,506,857 with total expenditures of \$111,411,079. Total loan proceeds from an ADB Loan are \$669,305.
- At September 30, 2018, the General Fund reported an unassigned surplus of \$30,082,841 (FY17 \$23,640,795).

OVERVIEW OF THE FINANCIAL STATEMENTS

This Financial Statements for the Year Ended September 30, 2018 consists of four parts - management's discussion and analysis (this section), the basic financial statements, required supplementary information, and notes to financial statements.

The basic financial statements include two kinds of statements that present different views of the National Government.

The Government-Wide Financial Statements

The government -wide financial statements report information about the National Government as a whole using accounting method similar to those used by the private-sector companies. It provides both long-term and short-term information about the government'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. Overtime, increases or decreases in the Government's net position serve as an indicator to measure the Government's financial position.

The Statement of Activities, on the other hand, accounts for the National Government's current year revenues and expenses regardless of when cash is received or paid.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Management's Discussion and Analysis
September 30, 2018

The Statement of Net Position and the Statement of Activities are divided into two reporting units:

- **Governmental Activities** - Most of the FSM National Government's basic services are reported here. These include the services provided by the Executive Branch such as health, education, foreign affairs, transportation, resources and development, finance, the Attorney General's office, and general administration; the Judicial Branch; the Legislative Branch; other National Government programs; Boards and Commissions; and other legislative appropriations. These services are funded by Compact of Association funds, US Federal grants, FSM tax revenues, licenses, fees and investment earnings.
- **Components Units** - The FSM National Government has ten (10) component units namely, College of Micronesia - FSM, National Fisheries Corporation, FSM Telecommunications Corporation, FSM Development Bank, FSM Social Security Administration, FSM Petroleum Corporation, Vital Energy, Inc., FSM National Government Employee Health Insurance Plan, FSM Telecommunications Cable Corporation and the Caroline Islands Air, Inc. These components units are entities which are legally separate from the FSM National Government, but are financially accountable to the FSM National Government, or whose relationship with the FSM National Government is such that exclusion would cause the FSM National Government's basic financial statements to be misleading or incomplete.

Fund Financial Statements

The analysis of the FSM National Government's major funds begins on page 14. The Fund Financial Statements provide detailed information about the most significant funds - not the FSM National Government as a whole. Some funds are required to be established by FSM law. However, the FSM National Government establishes many other funds to help control and manage funds provided for particular purposes to see that expenditures meet the legal requirements for using certain taxes, grants, and other grant funds received from outsiders. The FSM National Government has two kinds of funds - government and fiduciary - each using different accounting approaches.

- **Government funds** - Most of the National Government's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the National Government general operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the National Government's program. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation at the bottom of the page 14 and 16.
- **Fiduciary funds** - These funds are used to account for assets held by a Government unit in a trustee capacity for individuals, private organizations, and other governmental resources. These are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs (expenses, including amortization and depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Management's Discussion and Analysis
September 30, 2018

THE NATIONAL GOVERNMENT AS A WHOLE

Net Position may serve overtime as a useful indicator of government's financial position. At the end of Fiscal Year 2018, FSM National Government assets exceeded liabilities by \$610,167,330. Of the total net position, \$282,416,379 is restricted as to purposes for which they may be used for or is invested in capital assets. National Government uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although National Government investments in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Table 1 shows the schedule of National Government's net position as of September 30, 2018.

**Table 1- Net Position
Governmental Activities**

	2018	2017	Change	%
Current assets	\$418,732,175	\$331,939,181	\$ 86,792,994	26.1%
Other assets	29,332,245	28,012,364	1,319,881	4.7%
Capital assets	<u>254,998,937</u>	<u>241,611,175</u>	<u>13,387,762</u>	5.5%
Total assets	<u>\$703,063,357</u>	<u>\$601,562,720</u>	<u>\$101,500,637</u>	16.9%
Current and other liabilities	\$ 42,557,304	60,064,894	(17,507,590)	-29.1%
Long- term debt	<u>50,338,723</u>	<u>53,369,127</u>	<u>(3,030,404)</u>	-5.7%
Total liabilities	<u>92,896,027</u>	<u>113,434,021</u>	<u>(20,537,994)</u>	-18.1%
Net position:				
Net investment in capital assets	254,998,937	241,611,175	13,387,762	5.5%
Restricted	27,417,442	26,446,080	971,362	3.7%
Unrestricted	<u>327,750,951</u>	<u>220,071,444</u>	<u>107,679,507</u>	48.9%
Total net position	<u>610,167,330</u>	<u>488,128,699</u>	<u>122,038,631</u>	25.0%
Total liabilities and net position	<u>\$703,063,357</u>	<u>\$601,562,720</u>	<u>\$101,500,637</u>	16.9%

At the end of FY18, the FSM National Government unrestricted net position shows a surplus of \$327,750,951 compared to \$220,071,444 at the end of FY17.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Management's Discussion and Analysis
September 30, 2018

Table 2 shows the changes in Net Position of the National Government for the years ended September 30, 2018 and 2017.

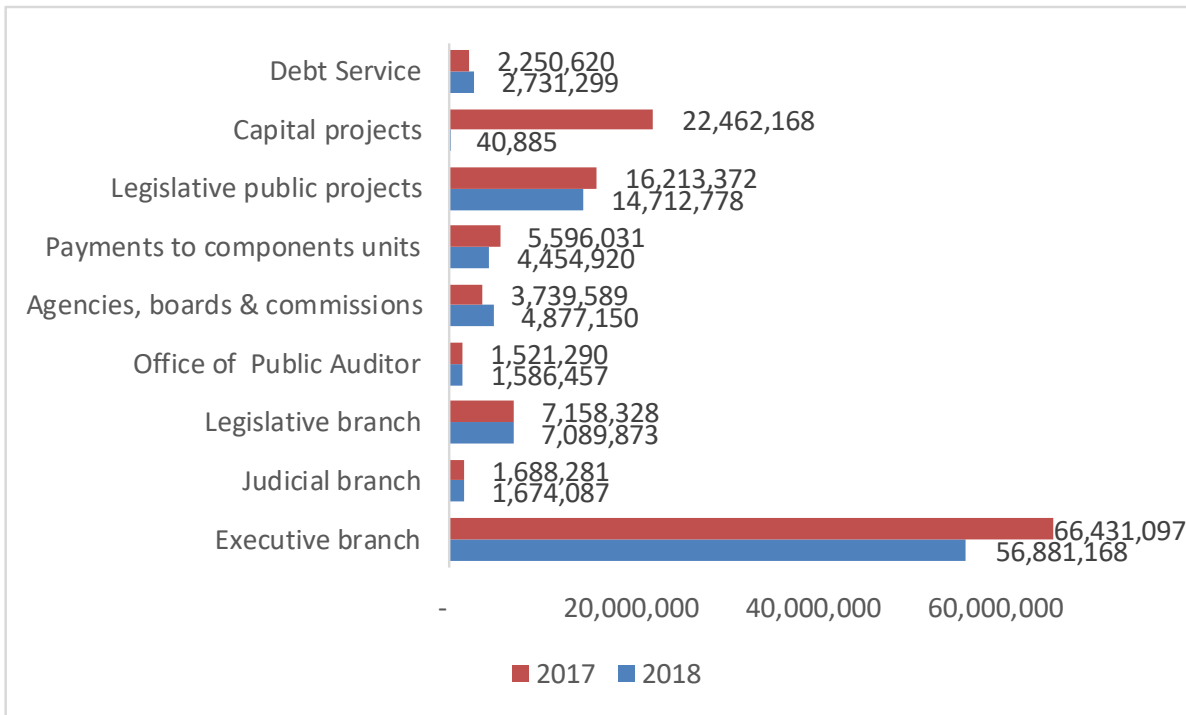
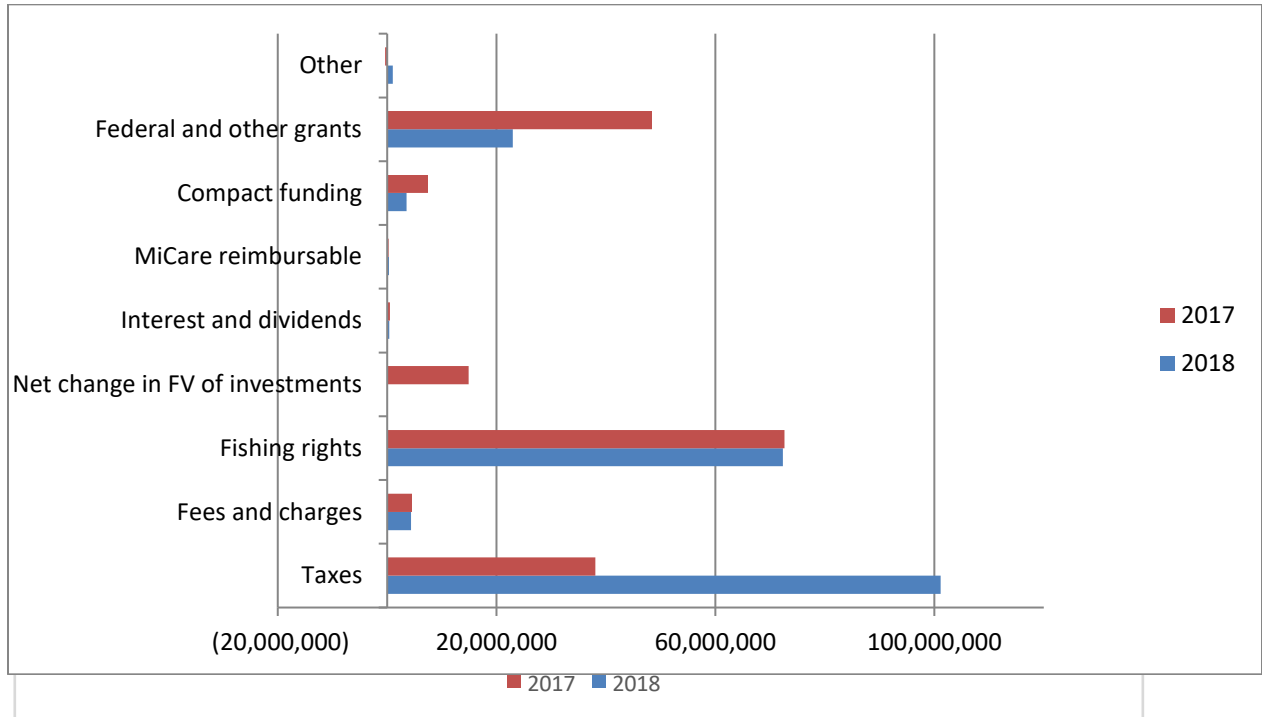
**Table 2
Governmental Activities**

	2018	2017	Change	%
Revenues:				
Program Revenues:				
Charges for services	\$ 4,388,298	\$ 4,532,050	\$ (143,752)	-3.2%
Operating grants and contributions	17,736,063	33,389,598	(15,653,535)	-46.9%
Capital grants and contributions	8,775,092	22,462,168	(13,687,076)	-60.9%
General Revenues:				
Income tax	4,554,310	4,452,226	102,084	2.3%
Fishing rights fees	72,329,651	72,591,642	(261,991)	-0.4%
Fuel	146,722	160,301	(13,579)	-8.5%
Import	5,109,685	4,949,550	160,135	3.2%
Tobacco revenue share	1,268,695	1,137,239	131,456	11.6%
Gross receipt	5,596,004	4,623,272	972,732	21.0%
Corporate tax	84,490,545	22,731,144	61,759,401	271.7%
Unrestricted investment earnings	10,422,041	13,101,663	(2,679,622)	20.5%
Other	1,963,643	(131,022)	2,094,665	-1598.7%
Total revenue	<u>216,780,749</u>	<u>183,999,831</u>	<u>32,780,918</u>	17.8%
Expenditures:				
Executive	57,602,028	69,331,593	(4,220,821)	-6.1%
Judicial	1,674,087	1,736,529	(62,442)	-3.6%
Legislative	7,089,873	7,222,617	(132,744)	-1.8%
Office of Public Auditor	1,586,457	1,566,089	20,368	1.3%
Other National government program	3,368,185	829,057	(4,969,616)	-599.4%
Agencies, boards and commissions	4,877,150	3,742,795	1,134,355	30.3%
Payments to components units	4,454,920	5,596,031	(1,141,111)	-20.4%
Legislative Public projects	14,712,778	16,213,372	(1,500,594)	-9.3%
Capital projects	40,885	6,468,860	(15,106,548)	-233.5%
Total expenditures	<u>95,406,363</u>	<u>112,706,943</u>	<u>(17,300,580)</u>	-15.4%
Excess before special items	<u>121,374,386</u>	<u>71,292,888</u>	<u>50,081,498</u>	70.2%
Special items:				
Loss on SDR foreign exchange	601,044	(204,740)	805,784	-393.6%
Receivable written off	(1,256,680)	(254,657)	(1,002,023)	393.5%
Contribution to permanent funds	1,319,881	2,298,300	(978,419)	-42.6%
Change in net position	<u>122,038,631</u>	<u>73,131,791</u>	<u>48,906,840</u>	66.8%
Net position at beginning of year	<u>488,128,699</u>	<u>414,996,908</u>	<u>73,131,791</u>	17.6%
Net position at end of year	<u>\$610,167,330</u>	<u>\$488,128,699</u>	<u>\$122,038,631</u>	25.0%

National Government revenues from governmental activities, including local revenues, gain on investments, Compact and other grants funding totaled \$216,780,749 (FY17 \$183,999,831). In FY18, the cost of governmental activities totaled \$95,406,363 (FY17 \$112,706,943). The difference between the two including special items represents an increase in net position of \$122,038,631 (FY17 \$73,131,791). To assist in appreciating the details of governmental activities, the above governmental activities information is shown in pictorial form in the following graph.

FEDERATED STATES OF MICRONESIA NATIONAL GOVERNMENT

Management's Discussion and Analysis
September 30, 2018



As noted earlier, the FSM National Government uses fund accounting to ensure and demonstrate compliance with finance related requirements.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Management's Discussion and Analysis
September 30, 2018

Governmental Funds

The focus of FSM National Government governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing FSM National Government financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the FSM National Government governmental funds reported combined ending fund balances of \$404.6 million, which represents an increase of \$106.1 million (or 35.5%) in comparison with the prior year. This increase is primarily attributable to an increase in fund balance of the Grants Assistance Fund, the Compact Trust Fund and the General Fund.

Of the total combined fund balance, **(1)** \$78.5 million is reserved for non-spendable. The non-spendable includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact such as loans receivable from States and component units of \$43 million, equity investments of \$7 million, equity shares for membership of \$8 million, and permanent fund \$19.8 million and reserved of cash of \$0.7 million **(2)** \$5.7 million is reserved for restricted as to its use of resources by laws through constitutional provisions or enabling legislation for the general government **(3)** \$278.7 million is restricted to be committed for specific purposes pursuant to constraints imposed by Congress (a) to indicate that it is not available for new spending because it has already been committed such as loan payments of \$32.9 million, \$213.8 million for future operations-FSM Trust Fund, and \$3.7 for revolving funds (b) to continuing appropriations through grant awards or enabling legislation and general governments of \$28.4 million **(4)** \$11.8 million is restricted as assigned to be used for specific purposes but are neither restricted nor committed to liquidate contracts and purchase orders of the prior period. The combined Unassigned Fund Balance of FSM National Government governmental funds is \$29.93 million, which is \$6.6 million more than the previous year.

The General Fund is the chief operating fund of FSM National Government. At the end of the current fiscal year, the unassigned fund surplus of the General Fund was \$30.08 million as compared with the prior year ending unreserved fund surplus of \$23.6 million, while total fund balance was \$377.5 million compared with a total fund balance of \$272.4 million at the end of the prior fiscal year, an increase of \$105.1 million. The increase in the overall fund balance in the General Fund was due to an increase in taxes.

The Grants Assistance Fund has a total restricted fund balance of \$3.7 compared to prior year ending restricted fund balance of \$3.4.

The Compact Trust Fund has a total fund balance of \$19.8 million, all of which is reserved for the funding of future operations of the primary government commencing in fiscal year 2023. The net increase in fund balance during the current year in the Compact Trust Fund was \$1.3 million.

The Other governmental funds have a total fund balance of \$3.7 million, all of which is reserved for future operations of the primary government.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Management's Discussion and Analysis
September 30, 2018

Table 3 shows The National Governmental Fund changes in fund balances for the years ended September 30, 2017 and 2018.

Table 3
Changes in Fund Balances

	General Fund		Other Funds		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Compact funding	\$ -	\$ -	\$ 3,563,127	\$7,445,125	\$ 3,563,127	7,445,125
Federal and other grants	-	-	22,948,028	48,406,641	22,948,028	48,406,641
Taxes	100,743,063	37,674,152	422,898	379,580	101,165,961	38,053,732
Fishing rights fees	72,329,651	72,591,642	-	-	72,329,651	72,591,642
Net increase in fair value of investments	10,050,197	12,575,970	1,319,881	2,298,300	11,370,078	14,874,270
Other	1,744,853	425,133	4,385,159	4,501,588	6,130,012	4,926,721
Total revenues	<u>184,867,764</u>	<u>123,266,897</u>	<u>32,639,093</u>	<u>63,031,234</u>	<u>217,506,857</u>	<u>186,298,131</u>
Expenditures	<u>80,740,973</u>	<u>69,563,563</u>	<u>30,670,106</u>	<u>57,497,213</u>	<u>111,411,079</u>	<u>127,060,776</u>
Excess of revenues over expenditures	<u>104,126,791</u>	<u>53,703,334</u>	<u>1,968,987</u>	<u>5,534,021</u>	<u>106,095,778</u>	<u>59,237,355</u>
Net financing sources	2,264,612	8,363,990	(1,001,534)	(721,893)	1,263,078	7,642,097
Net special items	<u>(1,256,680)</u>	<u>(254,657)</u>	-	-	<u>(1,256,680)</u>	<u>(254,657)</u>
Net change in fund balance	<u>\$105,134,723</u>	<u>\$ 61,812,667</u>	<u>\$ 967,453</u>	<u>\$4,812,128</u>	<u>\$106,102,176</u>	<u>\$66,624,795</u>

Analysis of budgetary Variations- General fund:

During the year, the FSM National Government revised its budget several times to accommodate supplemental funding for departments and offices. As can be seen in the following table, actual revenue collections exceeded budgets by \$13,796,246 or 9% and expenditures were less than budgets by \$6,962,366 or 8%. There were no material budget overruns at any level.

	Budget Original	Budget Final	Actual Amounts	Variance Positive (Negative)
Revenues	\$ 68,056,340	\$ 161,752,427	\$ 176,098,374	\$ 14,345,947
Expenditures	<u>67,903,100</u>	<u>93,070,247</u>	<u>81,089,055</u>	<u>11,981,192</u>
Excess of revenues	153,240	68,682,180	95,009,319	26,237,139
Other financing sources (uses)	-	<u>82,000,000</u>	<u>(88,598,353)</u>	<u>(170,598,535)</u>
Net change unassigned	<u>\$ 153,240</u>	<u>\$ 150,682,180</u>	<u>\$ 6,410,784</u>	<u>\$ (144,271,396)</u>

During the year, the FSM National government provided additional supplemental appropriations for operations and CFSM Projects under Public laws Nos. 20-54, 20-64, 20-67, 20-83, 20-94, 20-103 and 20-122.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of the September 30, 2018, FSM National Government had invested \$254,998,937 (FY17 \$241,611,175) in capital assets. These assets consist basically of infrastructure, office equipment and machinery, buildings, ship, and motor vehicles and construction in progress. The summary of capital assets of the year is shown below:

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Management's Discussion and Analysis
September 30, 2018

**Primary Government
Governmental Activities**

	2018	2017	Change	%
Buildings	\$ 72,976,118	\$ 72,820,542	\$ 155,576	0%
Boats and ships	22,418,348	22,274,957	143,391	1%
Infrastructure	214,068,059	126,662,280	87,405,779	69%
Motor vehicles	5,088,642	4,352,096	736,546	17%
Computer equipment	2,611,330	2,369,105	242,225	10%
Aircraft	709,207	709,207	-	0%
Furniture, fixture, equipment	<u>9,393,154</u>	<u>8,911,119</u>	<u>482,035</u>	5%
Total assets	<u>327,264,858</u>	<u>238,099,306</u>	<u>89,165,552</u>	37%
Less: Accumulated depreciation	(90,690,591)	(77,660,266)	(13,030,325)	17%
Land	1,674,383	1,674,383	-	100%
Construction in progress	<u>16,750,287</u>	<u>79,497,752</u>	<u>(62,747,465)</u>	-79%
Total Assets	<u>\$254,998,937</u>	<u>\$241,611,175</u>	<u>\$ 13,387,762</u>	6%

Further information on the FSM National Government's capital assets can be obtained from note 5 to the accompanying financial statements.

Long Term Debt

At the end of fiscal year 2018, National Government had long term debt of \$52,523,306 (FY17 \$ 55,145,459) relating to Governmental Activities as shown below:

Description	No.	2018	2017	Change	%
Fisheries	1257	\$ 3,275,244	\$ 3,538,655	\$ (263,411)	-7.44%
Water & Sanitation	1459	6,453,941	6,900,652	(446,711)	-6.47%
Early retirement	1520	13,253,914	14,132,026	(878,112)	-6.21%
Private Sector	1816	2,100,547	2,279,702	(179,155)	-7.86%
Private Sector	1873	1,572,068	1,804,729	(232,661)	-12.89%
Basic Social Services	1874	4,043,649	4,360,216	(316,567)	-7.26%
Omnibus (OIDP)	2099	9,966,161	10,668,366	(702,205)	-6.58%
Omnibus (OCR)	2100	3,808,206	4,032,506	(224,300)	-5.56%
Yap REDP	3004	4,283,993	3,808,646	475,347	0.00%
Yap REDP	3005	<u>3,765,583</u>	<u>3,619,961</u>	<u>145,622</u>	0.00%
Total		<u>\$52,523,306</u>	<u>\$55,145,459</u>	<u>\$ (2,622,153)</u>	-4.75%

During the year, FSM National Government received loan proceeds of \$649,305 for loans under 3004 FSM (SF) and 3005 FSM (SF) Yap Renewable Energy Development Project. During the year, the FSM National Government made principal payments of \$3,291,458.

Further information on the FSM National Government's long-term obligations can be obtained from note 7 to the accompanying financial statements.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Management's Discussion and Analysis
September 30, 2018

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Fiscal year 2018 represents the fourteenth full year the FSM is implementing the economic assistance provisions available under the Amended compact. The total funds appropriated for the National Government operations and programs during the fiscal year amounted to \$97.3 million. Funding under the amended Compact represents 7% of the National Government FY18 annual budget. The remaining 93% came from locally generated tax revenues, fishing access fees, investment earnings and related government services fees.

The FSM National Government ended fiscal year 2018 with a positive unassigned general fund surplus.

For FY2019, the total revenue projection is approximately \$149,656,879, of which \$147,044,256 or 98% will come from domestic sources, and \$2,612,623 or 2% will come from the amended compact sector grants.

In addition to receiving compact grant assistance, the FSM receives substantial program assistance from agencies of the United States Federal Government, Peoples Republic of China, Japan and other foreign governments. Grants and other technical assistance programs are also made available to the FSM from the international and regional organizations.

FINANCIAL MANAGEMENT CONTACT –NATIONAL GOVERNMENT

This financial report is designed to provide all interested users with a general overview of the National Government's finances. Inquiries concerning this report, if any, may be directed to the Secretary of the Department of Finance and Administration, P.O. Box PS 158, Palikir, Pohnpei, FM 96941.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Statement of Net Position
September 30, 2018

	Primary Government	Component Units
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 71,486,133	\$ 36,739,244
Cash and cash equivalents - restricted	9,249,018	-
Time certificates of deposit	5,495,440	3,741,645
Investments	270,966,629	6,632,906
Receivables, net of allowance for uncollectibles	61,534,955	42,984,978
Due from component units	-	1,911,088
Inventories	-	17,825,754
Other current assets	-	3,514,441
Total current assets	<u>418,732,175</u>	<u>113,350,056</u>
Noncurrent assets:		
Investments	-	31,487,831
Investments - restricted	19,754,927	-
Receivables, net of current portion	-	-
Due from component units	-	6,539,391
Capital assets:		
Nondepreciable capital assets	18,424,670	12,109,948
Capital assets, net of accumulated depreciation	236,574,267	52,540,295
Other assets	<u>9,577,318</u>	<u>4,905,321</u>
Total noncurrent assets	<u>284,331,182</u>	<u>107,582,786</u>
Total assets	<u>\$ 703,063,357</u>	<u>\$ 220,932,842</u>
LIABILITIES		
Current liabilities:		
Current portion of long-term obligations	\$ 2,955,792	\$ 5,086,930
Accounts payable	8,345,312	11,459,024
Current portion of compensated absences payable	417,662	499,751
Due to component units	-	1,911,088
Other liabilities and accruals	19,529,909	7,054,653
Tax refunds payable	157	-
Retention payable	650,193	-
Due to federal agencies	-	-
Due to FSM State Governments	6,367,217	-
Unearned revenues	<u>4,291,062</u>	<u>2,688,605</u>
Total current liabilities	<u>42,557,304</u>	<u>28,700,051</u>
Noncurrent liabilities:		
Long-term obligations, net of current portion	49,567,514	36,438,624
Compensated absences payable, net of current portion	<u>771,209</u>	<u>-</u>
Total noncurrent liabilities	<u>50,338,723</u>	<u>36,438,624</u>
Total liabilities	<u>92,896,027</u>	<u>65,138,675</u>
NET POSITION		
Net investment in capital assets	254,998,937	38,182,584
Restricted for:		
Nonexpendable:		
Future operations	19,754,927	-
Other purposes	-	6,761,490
Expendable:		
Compact related	3,997,254	-
Other purposes	3,665,261	-
Unrestricted	<u>327,750,951</u>	<u>110,850,093</u>
Total net position	<u>610,167,330</u>	<u>155,794,167</u>
Total liabilities and net position	<u>\$ 703,063,357</u>	<u>\$ 220,932,842</u>

See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Statement of Activities
Year Ended September 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
Primary government:						
Governmental activities:						
Office of the President	\$ 2,190,891	\$ -	\$ -	\$ -	\$ (2,190,891)	\$ -
Foreign affairs	5,592,598	-	-	-	(5,592,598)	-
Finance and administration	6,070,048	-	1,964,752	-	(4,105,296)	-
Resources and development	3,783,842	-	2,207,328	-	(1,576,514)	-
Transportation, communication and infrastructure	16,092,060	309,432	4,941,239	-	(10,841,389)	-
Health and social affairs	7,179,209	3,235	5,157,168	-	(2,018,806)	-
Education	6,038,127	-	1,405,465	-	(4,632,662)	-
Justice	7,688,009	2,384,412	-	-	(5,303,597)	-
Office of the Public Defender	885,760	-	-	-	(885,760)	-
Environment and emergency management	1,752,597	-	740,917	-	(1,011,680)	-
National archives, cultural and historic preservation	328,887	-	50,543	-	(278,344)	-
Legislature	7,089,873	-	-	-	(7,089,873)	-
Judiciary	1,674,087	-	-	-	(1,674,087)	-
Office of the National Public Auditor	1,586,457	-	460,000	-	(1,126,457)	-
National government programs	3,368,185	-	-	-	(3,368,185)	-
Agencies, boards and commissions	4,877,150	1,691,219	808,651	-	(2,377,280)	-
Payments to component units	4,454,920	-	-	-	(4,454,920)	-
Legislative public projects	14,712,778	-	-	8,775,092	(5,937,686)	-
Capital projects	40,885	-	-	-	(40,885)	-
Total primary government	\$ 95,406,363	\$ 4,388,298	\$ 17,736,063	\$ 8,775,092	(64,506,910)	-
Component units:						
FSM Telecommunications Corporation	\$ 14,959,436	\$ 14,232,283	\$ 795,228	\$ -	-	68,075
FSM Development Bank	1,926,602	2,820,480	-	-	-	893,878
National Fisheries Corporation	674,677	1,019,899	1,208,763	-	-	1,553,985
College of Micronesia - FSM	19,402,005	19,132,480	-	-	-	(269,525)
FSM Petroleum Corporation	51,616,219	52,845,891	-	-	-	1,229,672
Vital Energy Inc.	16,021,402	16,147,079	-	-	-	125,677
Caroline Islands Air, Inc.	1,234,011	813,435	187,007	-	-	(233,569)
FSM National Government Employees Health Fund	7,944,913	6,424,846	670,384	-	-	(849,683)
FSM Telecommunications Cable Corporation	535,243	2,400	1,409,498	-	-	876,655
Total component units	\$ 114,314,508	\$ 113,438,793	\$ 4,270,880	\$ -	-	3,395,165
General revenues:						
Taxes:						
Income					4,554,310	-
Import					5,109,685	-
Gross receipts					5,596,004	-
Corporate tax					84,490,545	-
Fuel					146,722	-
Tobacco revenue share					1,268,695	-
Fishing rights					72,329,651	-
Unrestricted investment earnings					10,422,041	318,949
Other					1,963,643	(1,042,696)
Total general revenues					185,881,296	(723,747)
Special item - loss on SDR foreign exchange					601,044	-
Special item - write-off of receivable balances					(1,256,680)	-
Contributions to permanent funds					1,319,881	-
Total general revenues and contributions					186,545,541	(723,747)
Change in net position						
					122,038,631	2,671,418
Net position at the beginning of the year					488,128,699	153,122,749
Net position at the end of the year					\$ 610,167,330	\$ 155,794,167

See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Balance Sheet
Governmental Funds
September 30, 2018

	General	Special Revenue Grants Assistance	Permanent Compact Trust	Other Governmental Funds	Total
ASSETS					
Cash and cash equivalents	\$ 71,486,133	\$ -	\$ -	\$ -	\$ 71,486,133
Time certificates of deposit	5,495,440	-	-	-	5,495,440
Equity in internal investment pool	260,906,011	3,951,868	-	-	264,857,879
Investments	6,108,750	-	-	-	6,108,750
Receivables, net:					
General	1,197,578	-	-	16,807	1,214,385
Taxes	7,432,191	-	-	-	7,432,191
Federal agencies	-	3,331,776	-	-	3,331,776
Loans	43,022,510	-	-	-	43,022,510
Advances	1,858,952	393,168	-	34,936	2,287,056
Accrued interest	27,165	-	-	-	27,165
Due from other funds	2,086,403	9,668,568	-	3,690,692	15,445,663
Other assets	9,577,318	-	-	-	9,577,318
Restricted assets:					
Cash and cash equivalents	9,249,018	-	-	-	9,249,018
Investments	-	-	19,754,927	-	19,754,927
Total assets	<u>\$ 418,447,469</u>	<u>\$ 17,345,380</u>	<u>\$ 19,754,927</u>	<u>\$ 3,742,435</u>	<u>459,290,211</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 4,061,463	\$ 4,216,785	\$ -	\$ 67,064	\$ 8,345,312
Retention payable	-	650,193	-	-	650,193
Other liabilities and accruals	19,529,909	-	-	-	19,529,909
Tax refunds payable	157	-	-	-	157
Due to federal agencies	-	-	-	-	-
Due to FSM State Governments	3,935,719	2,431,498	-	-	6,367,217
Due to other funds	13,359,260	2,086,403	-	-	15,445,663
Unearned revenues	-	4,291,062	-	-	4,291,062
Total liabilities	<u>40,886,508</u>	<u>13,675,941</u>	<u>-</u>	<u>67,064</u>	<u>54,629,513</u>
Fund balances:					
Non-spendable	58,708,578	-	19,754,927	-	78,463,505
Restricted	1,888,676	3,817,917	-	-	5,706,593
Committed	275,092,993	-	-	3,675,371	278,768,364
Assigned	11,787,873	-	-	-	11,787,873
Unassigned:					
General fund	30,082,841	-	-	-	30,082,841
Special revenue funds	-	(148,478)	-	-	(148,478)
Total fund balances	<u>377,560,961</u>	<u>3,669,439</u>	<u>19,754,927</u>	<u>3,675,371</u>	<u>404,660,698</u>
Total liabilities and fund balances	<u>\$ 418,447,469</u>	<u>\$ 17,345,380</u>	<u>\$ 19,754,927</u>	<u>\$ 3,742,435</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					
Loans receivable from FSM State Governments				254,998,937	
Long-term liabilities, including loans payable, are not due and payable in the current period and, therefore, are not reported in the funds.				4,219,872	
These liabilities include:					
Loans payable				(52,523,306)	
Compensated absences payable				(1,188,871)	
					205,506,632
Net position of governmental activities					<u>\$ 610,167,330</u>

See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

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

	General	Special Revenue Grants Assistance	Permanent Compact Trust	Other Governmental Funds	Total
Revenues:					
Compact funding	\$ -	\$ 3,563,127	\$ -	\$ -	\$ 3,563,127
Taxes	100,743,063	-	-	422,898	101,165,961
Federal and other grants	-	22,948,028	-	-	22,948,028
Fishing rights	72,329,651	-	-	-	72,329,651
Interest and dividends	371,844	-	-	-	371,844
Fees and charges	267,026	-	-	4,121,272	4,388,298
Net change in the fair value of investments	10,050,197	-	1,319,881	-	11,370,078
MiCare reimbursible	349,809	-	-	-	349,809
Other	756,174	-	-	263,887	1,020,061
Total revenues	184,867,764	26,511,155	1,319,881	4,808,057	217,506,857
Expenditures:					
Current:					
General government:					
Office of the President	2,211,159	-	-	-	2,211,159
Foreign affairs	5,604,962	-	-	-	5,604,962
Finance and administration	4,085,772	1,914,671	-	-	6,000,443
Resources and development	1,570,516	2,207,328	-	-	3,777,844
Transportation, communication and infrastructure	11,035,375	4,941,239	-	77,694	16,054,308
Health and social affairs	1,937,146	5,157,168	-	-	7,094,314
Education	3,879,227	1,405,465	-	465,449	5,750,141
Justice	4,302,273	-	-	3,207,599	7,509,872
Office of the Public Defender	894,540	-	-	-	894,540
Environment and emergency management	921,545	740,917	-	-	1,662,462
National archives, cultural and historic preservation	271,485	50,543	-	-	322,028
Legislature	7,084,583	-	-	-	7,084,583
Judiciary	1,649,377	-	-	-	1,649,377
Office of the National Public Auditor	1,117,912	460,000	-	-	1,577,912
Agencies, boards and commissions	3,597,531	808,651	-	458,290	4,864,472
Payments to component units and fiduciary fund	4,454,920	-	-	-	4,454,920
Legislative public projects	23,391,351	-	-	-	23,391,351
Capital projects	-	8,775,092	-	-	8,775,092
Debt service:					
Principal and interest payments	2,731,299	-	-	-	2,731,299
Total expenditures	80,740,973	26,461,074	-	4,209,032	111,411,079
Excess (deficiency) of revenues over (under) expenditures	104,126,791	50,081	1,319,881	599,025	106,095,778
Other financing sources (uses):					
Proceeds from issuance of long-term debt	1,263,078	-	-	-	1,263,078
Operating transfers in	1,201,534	200,000	-	-	1,401,534
Operating transfers out	(200,000)	-	-	(1,201,534)	(1,401,534)
Total other financing sources (uses), net	2,264,612	200,000	-	(1,201,534)	1,263,078
Special items:					
Noncash reduction in loans receivable	(1,256,680)	-	-	-	(1,256,680)
Net change in fund balances	105,134,723	250,081	1,319,881	(602,509)	106,102,176
Fund balances at the beginning of the year	272,426,238	3,419,358	18,435,046	4,277,880	298,558,522
Fund balances at the end of the year	\$ 377,560,961	\$ 3,669,439	\$ 19,754,927	\$ 3,675,371	\$ 404,660,698

See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Reconciliation of the Statement of Revenues, Expenditures, 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 because:

Net change in fund balances - total governmental funds	\$ 106,102,176
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Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives and reported as depreciation expense. For the current year, these amounts consist of:

Capital outlays, net of disposals	\$ 26,458,524	
Depreciation expense, net	<u>(13,070,762)</u>	13,387,762

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.

Loan proceeds received from ADB loans.	(669,305)
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Repayment of ADB loans and special items loss on SDR	3,291,458
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in compensated absences payable	<u>(73,460)</u>
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Change in net position of governmental activities	\$ <u>122,038,631</u>
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See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Combining Statement of Fiduciary Net Position
Fiduciary Funds - Private Purpose Trusts
September 30, 2018

	FSM Social Security Administration	Yap State Development Loan Fund	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 3,064,758	\$ 123,175	\$ 3,187,933
Time certificates of deposit	-	149,318	149,318
Receivables:			
Contributions	3,505,730	-	3,505,730
Other	22,999	633	23,632
Investments	43,334,631	-	43,334,631
Capital assets, net of accumulated depreciation	67,463	-	67,463
 Total assets	 <u>\$ 49,995,581</u>	 <u>\$ 273,126</u>	 <u>\$ 50,268,707</u>
<u>LIABILITIES</u>			
Accounts payable	\$ 143,804	\$ 17,402	\$ 161,206
Other liabilities and accruals	25,171	-	25,171
 Total liabilities	 <u>168,975</u>	 <u>17,402</u>	 <u>186,377</u>
<u>NET POSITION</u>			
Held in trust for:			
Social security benefits	49,826,606	-	49,826,606
Restricted	-	-	-
Other purposes	-	255,724	255,724
 Total net position	 <u>49,826,606</u>	 <u>255,724</u>	 <u>50,082,330</u>
	 <u>\$ 49,995,581</u>	 <u>\$ 273,126</u>	 <u>\$ 50,268,707</u>

See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Combining Statement of Changes in Fiduciary Net Position
Fiduciary Funds - Private Purpose Trusts
Year Ended September 30, 2018

	FSM Social Security Administration	Yap State Development Loan Fund	Total
Additions:			
Contributions	\$ 19,720,805	\$ -	\$ 19,720,805
Investment earnings:			
Net change in the fair value of investments	(4,033,152)	-	(4,033,152)
Interest and dividends	1,236,127	-	1,236,127
Total investment earnings	(2,797,025)	-	(2,797,025)
Less investment expense	(296,508)	-	(296,508)
Net investment earnings	(3,093,533)	-	(3,093,533)
Contributions from primary government	1,000,000	-	1,000,000
Other	232,183	-	232,183
Total additions	17,859,455	-	17,859,455
Deductions:			
Benefits	22,179,183	-	22,179,183
Refunds/distribution	22,706	-	22,706
Administrative expenses	1,337,404	-	1,337,404
Total deductions	23,539,293	-	23,539,293
Change in net position	(5,679,838)	-	(5,679,838)
Net position at the beginning of the year	55,506,444	255,724	55,762,168
Net position at the end of the year	\$ 49,826,606	\$ 255,724	\$ 50,082,330

See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Combining Statement of Net Position
Component Units
September 30, 2018

	FSM Tele- Communications Corporation	FSM Development Bank	National Fisheries Corporation	College of Micronesia- FSM	FSM Petroleum Corporation	Vital Energy Inc.	Caroline Islands Air, Inc.	FSM National Employees' Health Insurance Plan	FSM Communications Cable Corporation	Total
ASSETS										
Current assets:										
Cash and cash equivalents	\$ 969,672	\$ 2,634,528	\$ 1,219,843	\$ 4,631,662	\$ 20,018,916	\$ 6,116,731	\$ 229,432	\$ 415,313	\$ 503,147	\$ 36,739,244
Time certificates of deposit	278,479	3,063,148	-	18	-	400,000	-	-	-	3,741,645
Investments	1,990,465	-	553,638	2,990,905	-	-	-	1,097,898	-	6,632,906
Receivables, net:										
General	813,528	-	66,394	5,627,600	1,772,508	446,655	3,375	405,066	-	9,135,126
Loans	-	33,031,475	-	-	-	-	-	-	-	33,031,475
Interest	198,686	125,603	-	-	-	-	-	-	-	324,289
Other	-	-	-	312,174	108,859	-	-	73,055	-	494,088
Due from component units	-	-	-	-	1,911,088	-	-	-	-	1,911,088
Inventories	971,237	-	-	1,102,396	7,716,159	7,886,225	149,737	-	-	17,825,754
Prepaid expenses	611,370	69,523	-	790,776	1,631,661	334,529	35,182	-	41,400	3,514,441
Total current assets	5,833,437	38,924,277	1,839,875	15,455,531	33,159,191	15,184,140	417,726	1,991,332	544,547	113,350,056
Noncurrent assets:										
Indefeasible right of use	2,649,159	-	-	-	-	-	-	-	-	2,649,159
Capital assets:										
Nondepreciable capital assets	740,187	-	-	1,455,685	8,785,660	-	-	-	1,128,416	12,109,948
Capital assets, net of accumulated depreciation	31,139,080	1,455,943	113,051	6,265,274	13,266,257	213,101	32,499	2,636	52,454	52,540,295
Other assets	326,500	-	-	-	1,527,769	130,000	-	271,893	-	2,256,162
Due from component units, net of current investments	-	-	-	-	6,539,391	-	-	-	-	6,539,391
Loans receivable, net	-	19,626,486	2,968,236	6,761,490	2,131,619	-	-	-	-	31,487,831
Total noncurrent assets	34,854,926	21,082,429	3,081,287	14,482,449	32,250,696	343,101	32,499	274,529	1,180,870	107,582,786
Total assets	\$ 40,688,363	\$ 60,006,706	\$ 4,921,162	\$ 29,937,980	\$ 65,409,887	\$ 15,527,241	\$ 450,225	\$ 2,265,861	\$ 1,725,417	\$ 220,932,842
LIABILITIES										
Current liabilities:										
Current portion of long-term debt	\$ 2,038,170	\$ 145,709	\$ -	\$ -	\$ 816,575	\$ 480,000	\$ -	\$ -	\$ -	\$ 3,480,454
Current portion of long-term contract	1,606,476	-	-	-	-	-	-	-	-	1,606,476
Compensated absences payable	157,626	-	-	342,125	-	-	-	-	-	499,751
Accounts payable	266,974	54,213	10,673	286,772	4,643,598	2,406,999	22,960	3,665,567	101,268	11,459,024
Due to primary government	-	-	-	-	-	1,911,088	-	-	-	1,911,088
Other liabilities and accruals	1,194,832	408,314	17,839	1,160,513	3,406,213	797,438	19,630	-	49,874	7,054,653
Unearned revenues	89,499	151,051	-	2,448,055	-	-	-	-	-	2,688,605
Total current liabilities	5,353,577	759,287	28,512	4,237,465	8,866,386	5,595,525	42,590	3,665,567	151,142	28,700,051
Noncurrent liabilities:										
Noncurrent portion of long-term contract	-	-	-	-	-	-	-	-	-	-
Noncurrent portion of long-term debt	18,125,719	735,468	-	378,644	8,277,261	8,421,532	-	-	500,000	36,438,624
Total noncurrent liabilities	18,125,719	735,468	-	378,644	8,277,261	8,421,532	-	-	500,000	36,438,624
Total liabilities	23,479,296	1,494,755	28,512	4,616,109	17,143,647	14,017,057	42,590	3,665,567	651,142	65,138,675
NET POSITION										
Net investment in capital assets	12,758,061	1,455,943	113,051	7,720,959	14,705,464	213,101	32,499	2,636	1,180,870	38,182,584
Restricted for:										
Nonexpendable	-	-	-	6,761,490	-	-	-	-	-	6,761,490
Unrestricted	4,451,006	57,056,008	4,779,599	10,839,422	33,560,776	1,297,083	375,136	(1,402,342)	(106,595)	110,850,093
Total net position	17,209,067	58,511,951	4,892,650	25,321,871	48,266,240	1,510,184	407,635	(1,399,706)	1,074,275	155,794,167
Total liabilities and net position	\$ 40,688,363	\$ 60,006,706	\$ 4,921,162	\$ 29,937,980	\$ 65,409,887	\$ 15,527,241	\$ 450,225	\$ 2,265,861	\$ 1,725,417	\$ 220,932,842

See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

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

	FSM Tele- Communications Corporation	FSM Development Bank	National Fisheries Corporation	College of Micronesia- FSM	FSM Petroleum Corporation	Vital Energy Inc.	Caroline Islands Air, Inc.	FSM National Government Employees' Health Insurance Plan	FSM Communications Cable Corporation	Total
Operating revenues:										
Charges for services	\$ 14,188,092	\$ 2,691,165	\$ 1,019,899	\$ 18,390,191	\$ 52,444,478	\$ 16,147,079	\$ 813,435	\$ 6,423,581	\$ -	\$ 112,117,920
Other	44,191	129,315	-	742,289	401,413	-	-	1,265	2,400	1,320,873
Total operating revenues	14,232,283	2,820,480	1,019,899	19,132,480	52,845,891	16,147,079	813,435	6,424,846	2,400	113,438,793
Operating expenses:										
Cost of services	9,637,752	-	-	-	37,601,362	13,113,282	1,062,542	6,997,407	-	68,412,345
Depreciation and amortization	4,225,293	128,944	13,808	1,055,968	1,986,158	60,059	3,109	335,059	6,130	7,814,528
Administrative costs	1,096,391	1,797,658	660,869	18,346,037	12,028,699	2,848,061	168,360	612,447	529,113	38,087,635
Total operating expenses	14,959,436	1,926,602	674,677	19,402,005	51,616,219	16,021,402	1,234,011	7,944,913	535,243	114,314,508
Operating income (loss)	(727,153)	893,878	345,222	(269,525)	1,229,672	125,677	(420,576)	(1,520,067)	(532,843)	(875,715)
Nonoperating revenues (expenses):										
Net change in the fair value of investments	179,317	-	-	311,426	(168,719)	-	-	(3,075)	-	318,949
Interest income (expense)	(1,070,109)	(67,352)	-	-	(355,548)	66,767	-	-	675	(1,425,567)
Contributions from primary government	795,228	-	1,208,763	-	-	-	187,007	670,384	1,409,498	4,270,880
Other income (expense)	-	9,929	96,451	404,878	-	(952,820)	-	627,488	196,945	382,871
Total nonoperating revenues (expenses), net	(95,564)	(57,423)	1,305,214	716,304	(524,267)	(886,053)	187,007	1,294,797	1,607,118	3,547,133
Net income (loss)	(822,717)	836,455	1,650,436	446,779	705,405	(760,376)	(233,569)	(225,270)	1,074,275	2,671,418
Net position at the beginning of the year	18,031,784	57,675,496	3,242,214	24,875,092	47,560,835	2,270,560	641,204	(1,174,436)	-	153,122,749
Net position at the end of the year	\$ 17,209,067	\$ 58,511,951	\$ 4,892,650	\$ 25,321,871	\$ 48,266,240	\$ 1,510,184	\$ 407,635	\$ (1,399,706)	\$ 1,074,275	\$ 155,794,167

See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2018

(1) Summary of Significant Accounting Policies

The Federated States of Micronesia (FSM) was constituted on July 12, 1978 under the provisions of the FSM Constitution (the Constitution) as approved by the people of Chuuk, Kosrae, Pohnpei and Yap. The ratification of the Constitution by these four districts recognized their sovereign right to form the Federated States of Micronesia and make the FSM Constitution the supreme law of the land. The Constitution provides for the separation of powers of the executive, legislative, and judicial branches of the government.

The accompanying financial statements of the FSM National Government 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 FSM National Government's accounting policies are described below.

A. Reporting Entity

The FSM is an independent sovereign nation made up of the four states of Chuuk, Kosrae, Pohnpei, and Yap (the States). The FSM National Government is a constitutional government comprised of three branches: the Legislative Branch (the Congress), consisting of 14 members (one from each State who are elected for a term of four years, and ten who are elected for a term of two years, whose seats are apportioned by population); the Executive Branch, headed by the President and Vice President who are primarily responsible for executing the laws and administering national government services; and the Judiciary Branch made up of the FSM Supreme Court, which consists of a Chief Justice and up to five Associate Justices. The Congress elects two of its four-year members at its first session following an election to serve as President and Vice President.

For financial reporting purposes, the FSM National Government has included all funds, organizations, agencies, boards, commissions and institutions. The FSM National Government 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 FSM National Government are such that exclusion would cause the FSM National Government's financial statements to be misleading or incomplete. The criteria to be considered in determining financial accountability include whether the FSM National Government, 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 FSM National Government. 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 component unit of the FSM National Government has a September 30 year-end except for the FSM Social Security Administration, the FSM Development Bank, the FSM Petroleum Corporation, and Vital Energy, Inc., which each have a December 31 year-end.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

Component units are entities that are legally separate organizations for which the FSM National Government's elected officials are financially accountable or other organizations for which the nature and significance of their relationship with the FSM National Government are such that exclusion would cause the FSM National Government's basic financial statements to be misleading or incomplete. The FSM National Government is financially accountable because it appoints the members of the governing authorities of each of the component units and because it is able to impose its will on these organizations or because the organizations provide specific financial benefits or impose specific financial burdens on the FSM National Government.

The financial statements of the component units have been included in the financial reporting entity as discretely presented component units in accordance with GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The component units' column of the basic financial statements includes the financial data of the following discretely presented component units:

- **FSM Telecommunications Corporation (FSMTC):** FSMTC was incorporated under FSM Public Law No. 2-10 to engage in the business of providing telecommunications services, except radio and television broadcasting, throughout the FSM and to points outside the FSM. FSMTC is governed by a five-member Board of Directors, which includes one appointee by the President (with the advice and consent of the Congress) and four appointees by the Governor of each State (with the advice and consent of the respective State Legislatures). The FSM National Government provides financial support to FSMTC through legislative appropriations and has the ability to impose its will on FSMTC.
- **FSM Development Bank (FSMDB):** FSMDB was established under FSM Public Law No. 8-47 to advance the economic development of the FSM through the provision of economic development loans. FSMDB is governed by a seven-member Board of Directors appointed by election at the annual shareholders meeting by the plurality of votes thereof. As of December 31, 2017, FSMDB has issued 2,997,883 shares to the FSM National Government (98.7%), the State of Chuuk (1%), and the State of Kosrae (0.3%). The FSM National Government provides financial support to FSMDB through legislature appropriations and has the ability to impose its will on FSMDB.
- **National Fisheries Corporation (NFC):** NFC was established under FSM Public Law No. 3-14 to promote the development of pelagic fisheries and related industries within the extended fishery zone for the benefit of the people of the FSM. NFC is governed by a seven-member Board of Directors, which includes one appointee by the President (with the advice and consent of the Congress), four appointees by the Governor of each State (with the advice and consent of the respective State legislatures), the Executive Director of the National Oceanic Resource Management Authority (NORMA), and the Secretary of the Department of Economic Affairs. The FSM National Government has the ability to impose its will on NFC.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

- College of Micronesia-FSM (COM-FSM): COM-FSM was established under FSM Public Law No. 7-79 to serve the varied post-secondary and adult educational needs of the FSM. COM-FSM is governed by a five-member Board of Regents appointed by the President with the advice and consent of the Congress. The FSM National Government provides financial support to COM-FSM through legislature appropriations and has the ability to impose its will on COM-FSM.
- FSM Petroleum Corporation (FSMPC): FSMPC was established under FSM Public Law 15-08 for the purpose of providing oil and gas distribution for the entire FSM. FSMPC is governed by a seven-member Board of Directors, which includes one appointee by the President (with the advice and consent of the Congress) and four appointees by the Governor of each State (with the advice and consent of the respective State legislatures), and two appointees from the private sector by the President (with the advice and consent of the Congress). The FSM National Government has the ability to impose its will on FSMPC.
- Vital Energy, Inc. (Vital): Vital was incorporated on February 10, 2012 for the purpose of carrying on the operation of importation and sale of petroleum products, and operation, management and maintenance of petroleum storage terminals, international marine bunkering services, operation of road and aviation bridging tankers, and aviation refueling operations. The FSM National Government has the ability to impose its will on Vital.
- Caroline Islands Air, Inc. (CIA): CIA was established under FSM Public Law No. 10-72 to operate, maintain, and administer an inter-island air service based in Pohnpei State. CIA is governed by a five-member Board of Directors, which includes one appointee by the President (with the advice and consent of the Congress) and four appointees by the Governor of each State (with the advice and consent of the respective State Legislatures). The FSM National Government provides financial support to CIA through legislative appropriations and has the ability to impose its will on CIA.
- FSM National Government Employees' Health Insurance Plan also known as MiCare Plan, Inc. (the Plan) was initially created by Public Law 3-82 in 1984 and amended by Public Law 12-77 of the Twelfth Congress of the Federated States of Micronesia (FSM) National Government in 2003. The purpose of the Plan is to provide, arrange for, pay for, or reimburse the costs of medical, dental and vision treatment and care, hospitalization, surgery, prescription drugs, medicine, prosthetic appliances, out-patient care, and other medical care benefits, in cash or the equivalent in medicines and supplies. The Plan is under the governance of a seven-member Board of Directors, four of whom represents each of the four states of the FSM, one represents the FSM National Government, and one the private healthcare sector. These six members are appointed by the FSM President with the confirmation of the FSM Congress. The seventh member of the Board is the Plan Administrator who is selected by the Board and serves as an ex-officio member. The FSM National Government provides financial support to FSMNGEHP through legislative appropriations and has the ability to impose its will on FSMNGEHP.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

- FSM Telecommunications Cable Corporation (FSMTCC): FSMTCC was incorporated under FSM Public Law No. 18-52 to engage in the business of providing telecommunications services, except radio and television broadcasting, throughout the FSM and to points outside the FSM. FSMTCC is governed by a five-member Board of Directors, which includes one appointee by the President (with the advice and consent of the Congress) and four appointees by the Governor of each State (with the advice and consent of the respective State Legislatures). The FSM National Government provides financial support to FSMTCC through legislative appropriations and has the ability to impose its will on FSMTCC.

In addition, the fiduciary component units are subject to legislative and executive controls. These component units, while meeting the definition of a component unit and while legally separate, are presented in the fund financial statements of the FSM National Government. They have been omitted from the government-wide financial statements as their resources are not available to fund operations of the FSM National Government. The fiduciary component units are as follows:

- FSM Social Security Administration (FSMSSA), a Fiduciary Fund Type - Private Purpose Trust Fund. FSMSSA was established under FSM Public Law No. 2-74 to provide retirement, disability and survivor benefits for the citizens of the FSM. FSMSSA is governed by a five-member Board of Directors appointed by the President with the advice and consent of the Congress.
- Yap State Development Loan Fund (YDLF), a Fiduciary Fund Type - Private Purpose Trust Fund. YDLF is administered by the FSM Development Bank in a Trust capacity for the purpose of providing loans for the economic development of the State of Yap.

The FSM National Government'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 FSM National Public Auditor:

P.O. Box PS05
Palikir, Pohnpei State, FM, 96941

B. Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities report financial information on all 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.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide Financial Statements, Continued

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.
- *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 FSM National Government 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 \$27,417,442 of restricted net position, of which \$3,665,261 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 and offset or supplant the net operating deficit or surplus from governmental operations.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

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. Separate financial statements are provided for governmental funds and fiduciary funds even though the latter are excluded from the government-wide financial statements. 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 FSM National Government reports its financial position and results of operations in funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. Transactions between funds within a fund type, if any, have not been eliminated.

D. Measurement Focus and Basis of Accounting

Government-Wide Financial Statements - the government-wide financial statements are reported using the economic resources management focus and the full accrual basis of accounting, as are the fiduciary fund and component unit financial statements. 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 revenues 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 - the governmental fund financial statements account for the general governmental activities of the FSM National Government 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 FSM National Government considers most revenues to be available if they are collected within 90 days of the end of the current fiscal period. Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenues when available and entitlement occurs, which is generally within 12 months of the end of the current fiscal period.

Significant revenues susceptible to accrual include income and gross receipts 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.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

Fiduciary Fund and Component Unit Financial Statements - the fiduciary funds and discretely presented component units financial statements are reported using the economic measurement focus and the accrual basis of accounting, similar to government-wide financial statements, as described above.

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 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 expenses not meeting this definition are reported as nonoperating and expenses.

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments: Omnibus*, sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses for either fund category or the governmental and enterprise combined) for the determination of major funds. The FSM National Government has elected to add an additional major fund that is of specific public interest, namely the Compact Trust Fund. 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 FSM National Government reports the following major funds:

- General Fund - this fund is the primary operating fund of the FSM National Government. 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 FSM National Government, as well as other direct federal grants that the FSM National Government received from the United States government, and foreign assistance grants.
- Section 215 Compact Trust Fund - a Permanent Fund that accounts for the FSM National Government'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.

The nonmajor governmental funds are comprised of special revenue funds, which account for financial resources obtained from specific revenue sources and used for restricted purposes.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

In addition, the FSM National Government reports the following fund types:

- Private Purpose Trust Fund - this fund accounts for resources held in trust by the FSM National Government of the: (i) FSM Social Security Retirement Fund under which principal and income benefit certain individuals; and (ii) the Yap State Development Loan Fund, which is held in trust by the FSM Development Bank for the benefit of the State of Yap.

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 a maturity date within three months of the date acquired by the FSM National Government. Deposits maintained in time certificates of deposit with original maturity dates greater than ninety days are separately classified on the statement of net position.

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.

The FSM National Government 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. Reimbursements due to the FSM National Government for expenditures on federally funded reimbursement and grant programs are reported as "receivables from federal agencies" on the governmental funds balance sheet.

Receivables of the primary government and the discretely presented component units are primarily due from businesses and individuals residing in the FSM. The allowance for uncollectible amounts primarily represents estimated allowances for uncollectible amounts that are determined based upon past collection experience and aging of the accounts.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

H. Prepaid Items

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

I. Interfund Receivables/Payables

During the course of its operations, the FSM National Government 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 funds balance sheet.

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

J. Inventories

Inventories of materials and supplies recorded by the discretely presented component units are valued at the lower of cost (principally average cost) or market.

K. Restricted Assets

Certain assets of the primary government are classified as restricted assets because their use is completely restricted through loan agreements or enabling legislation. Investments recorded in the Compact Trust Fund of \$19,754,927 are restricted in that they are not available to be used in current operations.

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

Deposit accounts established for the purpose of receiving payments pursuant to the Compact of Free Association, as amended	\$ 6,286,900
Deposit accounts maintained for certain non-U.S. donor agencies (ADB, People's Republic of China, Japan, European Union)	1,967,946
Deposit account established for the Airport Improvement Program	192,427
Deposit account maintained for proceeds from dormant bank accounts established in accordance with Public Law 13-56	739,513
Deposit accounts established for imprest funds in accordance with ADB Loans 2099 and 2100	44,050
Other miscellaneous deposit accounts	<u>18,182</u>
	<u>\$ 9,249,018</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

L. Other Assets

The FSM Telecommunications Corporation owns 50,000 shares of the outstanding common stock of a commercial enterprise located in the Commonwealth of the Northern Marianas with a carrying value of \$1,500,000. In addition, the FSM National Government maintains equity membership shares in the International Monetary Fund of \$1,149,876 and the Asian Development Bank of \$6,927,442 (SDR 4,260,000). These equity interests do not meet the definition of investments as the assets are held primarily for economic development and are presented as other assets in the accompanying financial statements.

M. Indefeasible Right of Use

The FSM Telecommunications Corporation has capitalized the cost of acquisition of the executive right to use a specified amount of fiber capacity for a period of time, which is amortized over the length of the term of the capacity agreement on the straight line method.

N. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure (e.g. roads, bridges, ramps and other similar items), are reported in the governmental activity column of the government-wide financial statements. Singular pieces of equipment, vehicles, computer equipment and software that equal or exceed \$1,000 are capitalized. Buildings and infrastructure projects with a cost that equals or exceeds \$50,000 are capitalized. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at fair market value at the date of donation.

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

Buildings and improvements	20 - 50 years
Infrastructure	20 years
Computer equipment	5 years
Furniture, equipment and machinery	3 - 20 years
Boats	25 years
Aircraft	20 years
Motor vehicles	3 - 10 years

O. 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 FSM National Government has no items that qualify for reporting in this category.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

P. Unearned Revenues

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

Q. Compensated Absences

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

R. 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 FSM National Government has no items that qualify for reporting in this category.

S. Fund Balance

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

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

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

S. Fund Balance, Continued

The FSM National Government 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 FSM National Government 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.

T. 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.

U. Risk Financing

The FSM National Government 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 FSM National Government management believes it is more economical to manage its risks internally. In the event of claim settlements and judgments, the FSM National Government 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. New Accounting Standards

During fiscal year 2018, the FSM National Government 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.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

V. 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 entity'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.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

V. 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.

W. 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 disclosure 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.

X. 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 FSM National Government's financial statements for the year ended September 30, 2017 from which summarized information was derived.

(2) Deposits and Investments

The FSM National Government pools cash resources of its various funds in order to facilitate the management of cash. Unless otherwise required by law, interest income received on pooled cash accrues to the General Fund. Cash and cash equivalents applicable to a particular fund are readily identifiable. The FSM National Government has invested the majority of its excess funds in a pooled investment fund which is managed under the control of the Federated Development Authority (FDA), an entity comprised of the FSM National Government and its four component States. Investment income originating from the pool accrues to the various funds.

The deposit and investment policies of the FSM National Government are governed by legislation enacted by the Congress. The Secretary of Finance 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. Furthermore, the Secretary of Finance is responsible for the investment of any monies of the FSM National Government that are deemed not necessary for immediate use.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2018

(2) Deposits and Investments, Continued

FDA 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 & Poor 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 Poor 500 Index, unless prior approval is received from the Secretary of Finance.

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

A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the FSM National Government'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 FSM National Government 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 and time certificates of deposit was \$86,230,591 and the corresponding bank balances were \$88,640,720. Of the bank balances, \$68,785,219 is maintained in financial institutions subject to FDIC insurance or a credit union subject to National Credit Union Administration (NCUA) insurance; while \$5,495,440 represents short-term investments held and administered by FSM National Government's trustees in accordance with various trust agreements and bond indentures. Based on negotiated trust and custody contracts, all of these investments were held in FSM National Government's name by FSM National Government's custodial financial institutions at September 30, 2018 while the remaining amount of \$19,855,501 is maintained in financial institutions not subject to FDIC or NCUA insurance.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2018

(2) Deposits and Investments, Continued

A. Deposits, Continued

As of September 30, 2018, bank deposits in the amount of \$1,000,000 were FDIC insured and bank deposits in the amount of \$250,000 were NCUA insured. The FSM National Government does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC or NCUA insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

As of September 30, 2018, the carrying amount of the fiduciary funds' total cash and cash equivalents and time certificates of deposit was \$3,337,251 and the corresponding bank balances were \$3,677,382. Of the bank balances, \$2,250,705 is maintained in financial institutions subject to FDIC insurance. The fiduciary funds do not require collateralization of their cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

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 \$40,480,889 and the corresponding bank balances were \$41,208,696, which are maintained in financial institutions subject to FDIC insurance. As of September 30, 2018, bank deposits in the amount of \$5,284,915 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. Accordingly, these deposits are exposed to custodial credit risk.

B. Investments

Primary Government

As of September 30, 2018, the FSM National Government's investments are as follows:

General Fund - Grant Assistance Fund:	
Fixed income	\$ 47,498,115
Domestic equities	6,108,750
Common equities	215,796,527
Cash management account	<u>1,563,237</u>
	<u>270,966,629</u>
Compact Trust Fund:	
Common trust funds:	
Domestic Equity	2,737,252
International Equity	3,950,462
Global Equity	1,882,053
Fixed Income	8,217,654
Private Equity	928,420
Hedge Fund	764,002
Real Estate	1,251,843
Money market funds	<u>23,241</u>
	<u>19,754,927</u>
	\$ <u>290,721,556</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2018

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

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

Investment Type	Rating Type	Maturity (in years)				Total
		Less than 1	1-5	6-10	Over	
U.S. Treasury Notes and Bonds	AAA	\$ 36,900	\$ 171,845	\$ 7,913	\$ 75,620	\$ 292,278
U.S. Government Agencies Obligations:						
Federal Farm Credit Bank		-	16,732	-	-	16,732
Federal Home Loan Bank Disc	AAA	-	5,770	16,876	-	22,646
Federal Home Loan Mortgage Corporation	AAA	31	172	-	7,790	7,993
Government National Mortgage Assoc.	AAA	-	-	-	597	597
Federal National Mortgage Association	AAA	7,977	-	-	21,331	29,308
Overseas Private Inv. Corp	AAA	-	-	53,607	-	53,607
Private Export Funding	AAA	-	22,750	-	-	22,750
Tennessee Valley Authority	AAA	-	12,136	-	25,624	37,760
Freddie Mac	AAA	-	21,558	-	-	21,558
Municipal Obligations	Aa1	-	44,800	3,351	8,506	56,657
Corporate Bonds	Aaa	-	50,786	-	6,493	57,279
Corporate Bonds	Aa1	31,007	9,086	-	-	40,093
Corporate Bonds	Aa2	-	18,178	-	-	18,178
Corporate Bonds	Aa3	-	19,431	-	-	19,431
Corporate Bonds	A1	-	12,680	3,295	5,517	21,492
Corporate Bonds	A2	-	48,966	-	-	48,966
Corporate Bonds	A3	-	13,770	-	4,510	18,280
Corporate Bonds	Baa1	-	3,394	11,242	12,950	27,586
Corporate Bonds	Baa2	-	-	-	5,132	5,132
Corporate Bonds	Baa3	-	-	-	10,495	10,495
Corporate Bonds	Ba1	-	-	9,102	-	9,102
Corporate Bonds	Ba2	-	-	3,222	-	3,222
Corporate Bonds	No rating	-	5,702	19,300	-	25,002
		<u>\$ 75,915</u>	<u>\$ 477,756</u>	<u>\$ 127,908</u>	<u>\$ 184,565</u>	<u>\$ 866,144</u>

<u>Investment Type (no aging schedule)</u>	<u>Fair Value</u>	<u>Credit Ratings</u>
U.S. Treasury Notes and Bonds	\$ 15,244,023	AAA
U.S. Government Agencies Obligations	795,261	Aa2
Mortgage Backed	6,806,162	Aaa
Asset-Backed	402,480	A2
Corporate Bonds - Industrial	10,264,060	A3
Corporate Bonds - Finance	7,475,284	Baa1
Corporate Bonds - Yankee Bond	2,482,450	Baa1
Corporate Bonds - Utilities	1,458,507	A3
Corporate Bonds - Others	<u>1,703,744</u>	Aa1
	<u>\$ 46,631,971</u>	

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2018

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

The FSM National Government has the following recurring fair value measurements as of September 30, 2018:

General Fund - Grant Assistance:

	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level:				
Fixed income:				
U.S. Treasury obligations	\$ 15,536,301	\$ -	\$ 15,536,301	\$ -
U.S. Government Agencies	1,008,212	-	1,008,212	-
Municipal obligations	7,265,299	-	7,265,299	-
Corporate notes	<u>23,688,303</u>	<u>-</u>	<u>23,688,303</u>	<u>-</u>
	47,498,115	-	47,498,115	-
Equity securities:				
U.S. equities	<u>215,796,527</u>	<u>215,796,527</u>	<u>-</u>	<u>-</u>
Total investments at fair value	263,294,642	\$ <u>215,796,527</u>	\$ <u>47,498,115</u>	\$ <u>-</u>
Investments measured at NAV:				
Equity in Bank of FSM	6,108,750			
Investments measured amortized cost:				
Cash management account	<u>1,563,237</u>			
	\$ <u>270,966,629</u>			

Compact Trust Fund

	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments at fair value level:				
Common trust funds:				
Domestic Equity	\$ 2,737,252	\$ 2,737,252	\$ -	\$ -
International Equity	3,950,462	3,950,462	-	-
Global Equity	1,882,053	1,882,053	-	-
Fixed Income	8,217,654	8,217,654	-	-
Private Equity	<u>928,420</u>	<u>-</u>	<u>-</u>	<u>928,420</u>
Total investments at fair value	17,715,841	\$ <u>16,787,421</u>	\$ <u>-</u>	\$ <u>928,420</u>
Investments measured at NAV:				
Hedge Fund	764,002			
Real Estate	1,251,843			
Investments measured at amortized cost:				
Money market funds	<u>23,241</u>			
	\$ <u>19,754,927</u>			

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2018

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

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

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the FSM National Government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The FSM National Government's investments are held and administered by trustees. Based on negotiated trust and custody contracts, all of these investments were held in the FSM National Government's name by the FSM National Government'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 FSM National Government did not hold an investment in any one issuer that represented more than 5% of the FSM National Government's total investments.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. The FSM National Government 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 "BB" as rated by Moody's as of September 30, 2018. High yield debt receiving a credit rating below "A" comprises approximately 49.9% 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.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2018

(2) Deposits and Investments, Continued

B. Investments, Continued

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.

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, \$28,107,000 whose functional currency is the Japanese yen, and \$121,974,000 in functional currencies of 36 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 FSM National Government owns 251,134 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.

Fiduciary Funds

FSM Social Security Administration (FSMSSA):

The deposit and investment policies are governed by the FSMSSA enabling legislation. The FSMSSA Board is required to engage one or more fund custodians to assume responsibility for the physical possession of their investments. Legally authorized investments are as follows:

- i. Government obligations - Obligations issued or guaranteed as to principal and interest by the FSM National Government and/or State governments of the FSM or by the Government of the United States, provided that the principal and interest on each obligation are payable in the currency of the United States.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2018

(2) Deposits and Investments, Continued

B. Investments, Continued

Fiduciary Funds, Continued

FSM Social Security Administration (FSMSSA), Continued:

- ii. Corporate obligations and mortgage-backed securities - Obligations of any public or private entity or corporation created or existing under the laws of the FSM or of the United States or any state, territory or commonwealth thereof, or obligations of any other government or economic community which are payable in United States dollars, or pass through and other mortgage-backed securities provided that the obligation is issued by an agency of the United States Government, the FSM National Government, or is rated in one of the three highest categories by two nationally recognized rating agencies. No investment under this heading shall exceed ten percent of the market value of the FSMSSA Retirement Fund or ten percent of the outstanding value of the issue at the time of purchase.
- iii. Preferred and common stocks - Shares of preferred or common stocks of any corporation created or existing under the laws of the FSM or under the laws of the United States or any state, territory or commonwealth thereof provided that the purchase of such shares shall be considered reasonable and prudent by the respective investment advisors at the time of purchase, that not more than five percent of the market value of the FSMSSA Retirement Fund shall be invested in the stock of any one corporation, and that not more than ten percent of the market value of the FSMSSA Retirement Fund shall be invested in any one industry group.
- iv. Insurance company obligations - Contracts and agreements supplemental thereto providing for participation in one or more accounts of a life insurance company authorized to do business in the FSM or in any state, territory or commonwealth of the United States provided that the total market value of these investments at no time shall exceed ten percent of all investments of the FSMSSA Retirement Fund.

As of December 31, 2018, FSMSSA's investments are as follows:

Fixed income	\$ \$ 14,667,430
Domestic equities	11,138,025
International equities	8,620,899
Real estate	<u>8,908,277</u>
	<u>\$ 43,334,631</u>

As of December 31, 2018, the FSMSSA's investments in fixed income securities were as follows:

	<u>Investment Maturities (In Years)</u>					
	<u>Less Than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>Greater Than 10</u>	<u>Fair Value</u>	
U.S. Treasury and agencies obligations	\$ 1,694,855	\$ 1,739,414	\$ 2,159,117	\$ 1,729,542	\$ 7,322,928	
Mortgage and asset-backed securities	-	-	388,259	661,206	1,049,465	
Corporate notes and bonds	<u>425,314</u>	<u>5,270,460</u>	<u>599,263</u>	<u>-</u>	<u>6,295,037</u>	
	<u>\$ 2,120,169</u>	<u>\$ 7,009,874</u>	<u>\$ 3,146,639</u>	<u>\$ 2,390,748</u>	<u>\$ 14,667,430</u>	

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligation.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2018

(2) Deposits and Investments, Continued

B. Investments, Continued

Fiduciary Funds, Continued

FSM Social Security Administration (FSMSSA), Continued:

FSMSSA's exposure to credit risk at December 31, 2018, was as follows:

<u>Standard and Poors' Rating</u>	<u>Domestic</u>
AAA/AAA	\$ 7,322,927
AA1/AA+	519,935
AA+	-
AA2/AA	220,191
A1/A+	714,657
A1/A	491,394
A1/AA-	302,433
A2/A+	534,665
A2/A	-
A2/A-	1,633,539
A3/A-	1,237,403
A3/BBB+	640,821
Not rated	<u>1,049,465</u>
	<u>\$ 14,667,430</u>

FSMSSA has the following recurring fair value measurements as of December 31, 2018:

	December 31, 2018	Fair Value Measurements Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Fixed income securities	\$ 14,667,430	\$ -	\$ 14,667,430	\$ -
Equity securities	19,758,924	19,758,924	-	-
Exchange traded funds	4,937,190	4,937,190	-	-
Real estate investment trust and tangibles	<u>3,971,087</u>	<u>3,971,087</u>	-	-
	<u>\$ 43,334,631</u>	<u>\$ 28,667,201</u>	<u>\$ 14,667,430</u>	<u>\$ -</u>

FSMSSA's investments are held and administered by trustees. Based on negotiated trust and custody contracts, all of these investments were held in FSMSSA's name by FSMSSA's custodial financial institutions at December 31, 2018.

As of December 31, 2018, FSMSSA did not hold an investment in any one issuer that represented more than 5% of FSMSSA's total investments.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. FSMSSA 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 deposit and investment policies of the discretely presented component units' generally follow those of the primary government.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2018

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units

FSM Telecommunications Corporation (FSMTC):

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

Fixed income:		
U.S. Treasury obligations	\$	180,477
U.S. Government agencies		-
Corporate notes		<u>225,804</u>
		406,281
Other investments:		
Domestic and international equities		1,544,688
Money market funds		<u>39,496</u>
	\$	<u>1,990,465</u>

As of September 30, 2018, the Corporation's investments in debt securities were as follows:

	Moody's Credit Rating	Investment Maturities (In Years)				Fair Value
		Less Than 1	1 to 5	6 to 10	Greater Than 10	
U.S. Treasury obligations	Aaa/P-1	\$ 10,155	\$ 103,895	\$ 66,427	\$ -	\$ 180,477
U.S. Government agencies	Aaa/P-1	-	14,989	-	-	14,989
Corporate notes	Aa3/P-1	3,991	38,406	-	-	42,397
Corporate notes	A1/P-1	-	31,828	9,691	-	41,519
Corporate notes	A2/P-1	10,043	30,013	9,677	-	49,733
Corporate notes	A3-/P-1	-	-	-	-	-
Corporate notes	Baa1/P-2	8,052	9,730	20,185	-	37,967
Corporate notes	Baa1/P-2	-	-	-	-	-
Corporate notes	Baa1/P-2	-	<u>20,220</u>	<u>18,979</u>	-	<u>39,199</u>
		\$ <u>32,241</u>	\$ <u>249,081</u>	\$ <u>124,959</u>	\$ -	\$ <u>406,281</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2018

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

FSM Telecommunications Corporation (FSMTC), Continued:

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

		<u>Fair Value Measurements Using</u>		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	September 30, 2018			
Investments by fair value level:				
Fixed income:				
U.S. Treasury obligations	\$ 180,477	\$ -	\$180,477	\$ -
U.S. Government agencies	-	-	-	-
Corporate notes	<u>225,804</u>	<u>-</u>	<u>225,804</u>	<u>-</u>
Total fixed income	<u>406,281</u>	<u>-</u>	<u>406,281</u>	<u>-</u>
Equity securities:				
U.S. equities	1,129,972	1,129,972	-	-
Non U.S. equities	<u>414,716</u>	<u>414,716</u>	<u>-</u>	<u>-</u>
Total equity securities	<u>1,544,688</u>	<u>1,544,688</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	1,950,969	<u>\$1,544,688</u>	<u>\$406,281</u>	<u>\$ -</u>
Investments measured at amortized cost:				
Money market funds	<u>39,496</u>			
	<u>\$1,990,465</u>			

College of Micronesia - FSM (COM-FSM):

As of September 30, 2018, COM-FSM's investments are as follows:

Fixed income securities:	
Domestic fixed income	\$ \$ 2,912,317
International fixed income	<u>461,281</u>
	<u>3,373,598</u>
Common equities	5,512,911
Alternatives	42,045
Exchange traded funds	168,065
Money market funds	<u>655,776</u>
	<u>6,378,797</u>
	<u>\$ 9,752,395</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2018

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

College of Micronesia - FSM (COM-FSM), Continued, Continued

As of September 30, 2018, COM-FSM's fixed income securities had the following maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>5-10</u>	<u>more than 10</u>
Mortgage and asset-securities	\$ 97,933	\$ -	\$ -	\$ -	\$ 97,933
Corporate bond	1,267,107	-	592,851	616,312	57,944
International bond	461,281	461,281	-	-	-
Government bond	<u>1,547,277</u>	<u>-</u>	<u>1,054,692</u>	<u>414,441</u>	<u>78,144</u>
	\$ <u>3,373,598</u>	\$ <u>461,281</u>	\$ <u>1,647,543</u>	\$ <u>1,030,753</u>	\$ <u>234,021</u>

COM-FSM's exposure to credit risk at September 30, 2018, was as follows:

<u>Moody's Rating</u>	<u>Domestic</u>	<u>International</u>	<u>Total</u>
AAA/AAA	\$ 1,547,277	\$ -	\$ 1,547,277
AA2/AA	19,143	-	19,143
AA3/A	41,405	-	41,405
A1/AA-	24,538	-	24,538
A1/A+	44,514	-	44,514
A1/A-	23,475	-	23,475
A1/AA-	96,791	-	96,791
A2/A+	50,594	-	50,594
A2/A	1,943	-	1,943
A2/A-	89,474	-	89,474
A3/A	204,600	-	204,600
A3/A-	100,728	-	100,728
A3/BBB+	30,038	-	30,038
BAA1/A	44,075	-	44,075
BAA1/BBB+	152,419	-	152,419
BAA1/BBB	112,252	-	112,252
BAA2/A-	19,685	-	19,685
BAA2/BBB+	24,714	-	24,714
BAA2/BBB	147,986	-	147,986
BAA3/BBB	38,734	-	38,734
Not rated	<u>97,932</u>	<u>461,281</u>	<u>559,213</u>
Total credit risk debt securities	\$ <u>2,912,317</u>	\$ <u>461,281</u>	\$ <u>3,373,598</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2018

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

COM-FSM has the following recurring fair value measurements as of September 30, 2018:

	Total	Fair Value Measurements Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Fixed income securities	\$ 3,373,598	\$ -	\$ 3,373,598	\$ -
Equity securities	5,554,956	5,554,956	-	-
Exchange traded funds	<u>168,065</u>	<u>168,065</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	9,096,619	\$ <u>5,723,021</u>	\$ <u>3,373,598</u>	\$ <u>-</u>
Investments by fair value level:				
Money market funds	<u>655,776</u>			
	\$ <u>9,752,395</u>			

FSM Development Bank (FSMDB):

As of December 31, 2018, FSMDB's investments are as follows:

Fixed income securities:	
Domestic fixed income	\$ 4,962,709
Equity securities:	
Domestic equities	7,768,164
Shares in a mutual fund (Templeton Global BD FD ADV TGBAX)	<u>1,192,493</u>
	\$ <u>13,923,366</u>

As of December 31, 2018, investments in domestic fixed income are as follows:

	Moody's Credit Rating	Investment maturities (in Years)					Fair Value
		Less Than 1	1 to 5	6 to 10	Greater Than 10		
U.S. Government securities:							
U.S. Treasury Notes	Aaa	\$ -	\$ -	\$ 1,514,984	\$ -	\$ 1,514,984	
U.S. Government agencies:							
Federal Home Loan Bank Association	Aaa	715,082	474,753	-	-	1,189,835	
Corp.	Not rated	-	-	-	245,667	245,667	
Corporate bonds	Not rated	210,002	-	-	89,937	299,939	
Corporate bonds	A3	-	499,631	78,775	-	578,406	
Corporate bonds	A2	-	529,005	81,607	-	610,612	
Corporate bonds	Baa3	-	<u>523,266</u>	<u>-</u>	<u>-</u>	<u>523,266</u>	
		\$ <u>925,084</u>	\$ <u>2,026,655</u>	\$ <u>1,675,366</u>	\$ <u>335,604</u>	\$ <u>4,962,709</u>	

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2018

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

FSM Development Bank (FSMDB), Continued

FSMDB has the following recurring fair value measurements as of December 31, 2018:

	Total	Fair Value Measurements Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Fixed income:				
U.S. Treasury obligations	\$ 1,514,984	\$ -	\$ 1,514,984	\$ -
U.S. Government Agencies	1,735,441	-	1,735,441	-
Corporate notes	<u>1,712,284</u>	<u>-</u>	<u>1,712,284</u>	<u>-</u>
Total fixed income	<u>4,962,709</u>	<u>-</u>	<u>4,962,709</u>	<u>-</u>
Equity securities:				
U.S. equities	7,768,164	7,768,164	-	-
Mutual fund shares	<u>1,192,493</u>	<u>1,192,493</u>	<u>-</u>	<u>-</u>
Total investments at fair value	13,923,366	\$ <u>8,960,657</u>	\$ <u>4,962,709</u>	\$ <u>-</u>
Investments measured at NAV:				
Equity investment in the Bank of the FSM	<u>5,703,120</u>			
	<u>\$ 19,626,486</u>			

At December 31, 2018, the equity investment in Bank of the FSM represents 225,000 common shares and approximately 24.1% ownership interest.

National Fisheries Corporation (NFC):

NFC has previously been directly involved in the management of certain joint ventures through management and marketing agreements entered into with the respective parties. The investment in Micronesia Longline Fishing Company (MLFC), Yap Fishing Corporation (YFC), Yap Fresh Tuna, Inc. (YFTI), Chuuk Fresh Tuna, Inc. (CFTI), and Kosrae Sea Venture Inc. (KSVI) are accounted for using the equity method and, accordingly, the carrying values of these investments have been reduced to \$0. In 2018, financial statements for these joint ventures were not available. Management has asserted that it is unable to control these joint ventures and does not believe that it is liable for any additional losses, if any, of these entities that may occur. On March 3, 2012, NFC invested \$75,000 in Taiyo Micronesia Corporation (TMC). The equity investment of \$2,968,236 in TMC represents 750 shares of common stock and a 25% ownership interest.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2018

(2) Deposits and Investments, Continued

Discretely Presented Component Units, Continued

National Fisheries Corporation (NFC), Continued:

The investment in TMC is recorded using the equity method of accounting. Under this method, NFC recognizes its proportionate share of TMC's earnings or losses based on its ownership interest. Dividends received from TMC reduce NFC's investment.

FSM Petroleum Corporation (FSMPC):

As of December 31, 2018, FSMPC's investments are as follows:

Fixed income securities:	
Domestic fixed income	\$ 478,941
International fixed income	<u>207,799</u>
	686,740
Other investments:	
Common equities	887,663
Exchange traded funds	508,989
Money market funds	<u>48,227</u>
	<u>1,444,879</u>
	\$ <u>2,131,619</u>

As of December 31, 2018, FSMPC's fixed income securities had the following maturities:

<u>Investment Type</u>	<u>Less than Fair value</u>	<u>1 to 5 1 year</u>	<u>5 to 10 years</u>	<u>More than years</u>	<u>10 years</u>
International bonds	\$ 207,799	\$ 207,799	\$ -	\$ -	\$ -
Corporate bonds	200,506	14,664	14,726	145,761	25,355
U.S. Government Agency Bonds	<u>278,435</u>	-	<u>177,511</u>	<u>61,013</u>	<u>39,911</u>
	\$ <u>686,740</u>	\$ 222,463	\$ <u>192,237</u>	\$ <u>206,774</u>	\$ <u>65,266</u>

FSMPC's exposure to credit risk at December 31, 2018, was as follows:

Moody's Rating

AAA	\$ 278,436
A2	44,887
A3	72,862
BAA1	40,167
BAA2	28,570
BAA3	14,019
Not rated	<u>207,799</u>
	\$ <u>686,740</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2018

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

FSM Petroleum Corporation (FSMPC), Continued

FSMPC has the following recurring fair value measurements as of December 31, 2018:

	<u>Fair Value Measurements Using</u>			
	<u>Total</u>	<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investments by fair value level:				
Fixed income securities	\$ 686,740	\$ -	\$ 686,740	\$ -
Equity securities	887,663	887,663	-	-
Exchange-traded funds	<u>508,989</u>	<u>508,989</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	2,083,392	\$ <u>1,396,652</u>	\$ <u>686,740</u>	\$ <u>-</u>
Investments measured at amortized cost:				
Money market funds	<u>48,227</u>			
	\$ <u>2,131,619</u>			

FSM National Employees' Health Insurance Plan (the Plan):

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

Fixed income	\$ 1,081,780
Money market funds	<u>16,118</u>
	\$ <u>1,097,898</u>

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

	<u>Moody's Credit Rating</u>	<u>Less than 1 Year</u>	<u>1 to 5 Years</u>	<u>5-10 Years</u>	<u>Fair Value</u>
U.S. Treasury obligations	AAA	\$ 318,517	\$ 374,465	\$ 70,619	\$ 763,601
U.S. Government agencies obligations	AAA	-	19,564	-	19,564
Corporate bonds	Aaa	-	1,980	-	1,980
Corporate bonds	Aa	22,930	60,943	5,677	89,550
Corporate bonds	A	38,900	126,286	7,585	172,771
Corporate bonds	Baa	<u>3,995</u>	<u>25,461</u>	<u>4,858</u>	<u>34,314</u>
		\$ 384,342	\$ 608,699	\$ 88,739	\$ 1,081,780

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2018

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

FSM National Employees' Health Insurance Plan (the Plan), Continued:

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

		<u>Fair Value Measurements Using</u>		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Total			
Investments by fair value level:				
Fixed income securities	\$ 1,081,780	\$ -	\$ 1,081,780	\$ -
Investments measured at amortized cost:				
Money market funds	16,118			
	<u>\$ 1,097,898</u>			

(3) Receivables

Primary Government

Receivables as of September 30, 2018, for the primary government's individual major governmental funds, and nonmajor governmental and fiduciary 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>Nonmajor and Fiduciary Funds</u>	<u>Totals</u>
Receivables:					
General	\$ 1,527,739	\$ -	\$ -	\$ 16,807	\$ 1,544,546
Taxes	7,432,191	-	-	-	7,432,191
Government agencies	-	4,571,120	-	-	4,571,120
Loans	46,132,578	-	-	-	46,132,578
Advances	2,825,036	393,168	-	34,936	3,253,140
Accrued interest	27,165	-	-	-	27,165
Other	-	-	-	-	-
	<u>57,944,709</u>	<u>4,964,288</u>	<u>-</u>	<u>51,743</u>	<u>62,960,740</u>
Less: allowance for uncollectable accounts	<u>(4,406,313)</u>	<u>(1,239,344)</u>	<u>-</u>	<u>-</u>	<u>(5,645,657)</u>
Net receivables	<u>\$ 53,538,396</u>	<u>\$ 3,724,944</u>	<u>\$ -</u>	<u>\$ 51,743</u>	<u>\$ 57,315,083</u>

During the year ended September 30, 2018, certain loans receivable balances resulting from subsidiary loans of loan agreements between the FSM National Government and the Asian Development Bank (ADB) were reduced as a result of foreign exchange gains recognized by these respective subsidiary borrowers. The non-cash reduction in loans receivable of \$1,256,680 is presented as a special item in the accompanying financial statements and is offset against the governmental activities loss on SDR foreign exchange.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2018

(3) Receivables, Continued

Primary Government, Continued

Loans receivable of the primary government are as follows:

General Fund:

Loan receivable from Micronesia Longline Fishing Company, a majority-owned subsidiary of NFC, in the amount of SDR 3,514,000, interest at 6.64% per annum, repayments commencing January 15, 1998, with a maturity date of July 15, 2007. The loan is a subsidiary loan of a loan agreement (Loan Number 1257 FSM (SF)) between the FSM National Government and the ADB. As of September 30, 2018, \$3,093,267 has been provided for in the allowance for uncollectible accounts.

\$ 3,275,244

Loans receivable from the State of Chuuk (CSG), the Pohnpei Utilities Corporation (PUC), and the Yap State Public Service Corporation (YSPSC). These loans are subsidiary loans of a loan agreement (Loan Number 1459 FSM (SF)) between the FSM National Government and the ADB. The FSM National Government entered into Financing Agreements with the States of Chuuk, Pohnpei and Yap whereby a portion of the loan proceeds under this ADB loan were relent under the same terms and conditions imposed by the ADB. The States (with the exception of CSG) in turn relent the loan proceeds to PUC and YSPSC, respectively, as follows:

	General Fund	Governmental Activities	
State of Chuuk	\$ 2,841,111	\$ 569,738	
Pohnpei Utilities Corporation	1,747,110	348,769	
Yap State Public Service Corporation	<u>1,865,720</u>	<u>373,707</u>	
	<u>\$ 6,453,941</u>	<u>\$ 1,292,214</u>	7,746,155

Loans receivable from the States to assist in the implementation of an Early Retirement Scheme (ERS) in which employees holding certain nonessential positions as identified by the States were retired early with a payout of the equivalent of two-years wages. These loans are subsidiary loans of a loan agreement (Loan Number 1520 FSM (SF)) between the FSM National Government and the ADB. The FSM National Government entered into Financing Agreements with the States whereby a portion of the loan proceeds under this ADB loan were relent under the same terms and conditions imposed by the ADB. The amounts outstanding from the States are as follows:

	General Fund	Governmental Activities	
State of Chuuk	\$ 4,050,903	\$ 779,682	
State of Yap	2,648,689	514,978	
State of Kosrae	1,512,826	294,184	
State of Pohnpei	<u>3,212,519</u>	<u>617,848</u>	
	<u>\$ 11,424,937</u>	<u>\$ 2,206,692</u>	13,631,629

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2018

(3) Receivables, Continued

Primary Government, Continued

General Fund, Continued:

Loans receivable from the States to assist in the implementation of the Basic Social Services Program. These loans are subsidiary loans of a loan agreement (Loan Number 1816 FSM (SF)) between the FSM National Government and the ADB. The FSM National Government entered into Financing Agreements with the States whereby a portion of the loan proceeds under this ADB loan were relent under the same terms and conditions imposed by the ADB. The amounts outstanding from the States are as follows:

	General Fund	Governmental Activities	
State of Chuuk	\$ 24,605	\$ 66,725	
State of Yap	48,484	22,357	
State of Kosrae	<u>56,656</u>	<u>15,993</u>	
	<u>\$ 129,745</u>	<u>\$ 105,075</u>	234,820

Loans receivable from the States to assist in the implementation of the Private Sector Development Program. These loans are subsidiary loans of loan agreements (Loan Number 1873 FSM (SF) and Loan Number 1874 FSM (SF)) between the FSM National Government and the ADB. The FSM National Government entered into Financing Agreements with the States whereby a portion of the loan proceeds under these ADB loans were relent under the same terms and conditions imposed by the ADB. The amounts outstanding from the States are as follows:

	General Fund	Governmental Activities	
State of Chuuk	\$ 1,012,178	\$ 146,352	
State of Yap	670,707	126,710	
State of Kosrae	720,957	164,325	
State of Pohnpei	<u>814,440</u>	<u>178,504</u>	
	<u>\$ 3,218,282</u>	<u>\$ 615,891</u>	3,834,173

Loans receivable from the States and the states' component units to enhance public health and the environment through assistance to improve water supply infrastructure in Kosrae and Yap, and wastewater infrastructure in Pohnpei; and to support economic growth and poverty reduction in Chuuk through improvements to the electrical power sector. These loans are subsidiary loans of loan agreements Loan Number 2099 FSM (SF) and Loan Number 2100 FSM (SF)) between the FSM National Government and the ADB. The FSM National Government entered into Financing Agreements with the States whereby a portion of the loan proceeds under these ADB loans were relent under the same terms and conditions imposed by the ADB. The amounts outstanding from the States and the States' component units are as follows:

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September 30, 2018

(3) Receivables, Continued

Primary Government, Continued

General Fund, Continued

	<u>General Fund</u>	
State of Pohnpei/PUC	\$ 5,467,411	
State of Chuuk/CPUC	4,290,909	
State of Yap/GTWA	2,132,810	
State of Kosrae/KUA	<u>1,610,069</u>	
	<u>\$ 13,501,199</u>	13,501,199

Loans receivable from the States and the states' component units to enhance and to improve renewable energy infrastructure in Yap. These loans are subsidiary loans of loan agreements Loan Number 3004 FSM (SF) and Loan Number 3005 FSM (SF)) between the FSM National Government and the ADB. The FSM National Government entered into Financing Agreements with the States whereby a portion of the loan proceeds under these ADB loans were relent under the same terms and conditions imposed by the ADB. The amounts outstanding from the States and the States' component units are as follows:

	<u>General Fund</u>	
State of Yap/YSPSC	\$ 8,049,576	8,049,576

Investment Development Fund loans administered by the FSM Development Bank on behalf of the FSM National Government for the economic development of the FSM.

79,654
\$ 50,352,450

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:

	FSM Tele- Communications Corporation	FSM Development Bank	National Fisheries Corporation	College of Micronesia- FSM	FSM Petroleum Corporation	Vital Energy Inc.	Caroline Islands Air, Inc.	FSM National Government Employee's Health Insurance Plan	Total
Receivables:									
General	\$1,389,739	\$ -	\$65,961	\$10,600,491	\$1,778,330	\$463,886	\$3,375	\$ 928,022	\$ 15,226,429
Loans	-	37,396,815	-	-	-	-	-	-	37,396,815
Interest	198,686	125,603	-	-	-	-	-	-	324,289
Other	<u>321,729</u>	<u>-</u>	<u>433</u>	<u>312,174</u>	<u>108,859</u>	<u>-</u>	<u>-</u>	<u>73,055</u>	<u>816,250</u>
	1,910,154	37,522,418	66,394	10,912,665	1,887,189	463,886	3,375	1,001,077	53,767,158
Less: allowance for uncollectible accounts	<u>(897,940)</u>	<u>(4,365,340)</u>	<u>-</u>	<u>(4,972,891)</u>	<u>(5,822)</u>	<u>(17,231)</u>	<u>-</u>	<u>(522,956)</u>	<u>(10,782,180)</u>
	<u>\$1,012,214</u>	<u>\$33,157,078</u>	<u>\$66,394</u>	<u>\$ 5,939,774</u>	<u>\$1,881,367</u>	<u>\$446,655</u>	<u>\$3,375</u>	<u>\$ 478,121</u>	<u>\$42,984,978</u>

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(4) Interfund Receivables and Payables

Primary Government

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	\$ 9,668,568
General	Grants Assistance	2,086,403
Nonmajor government funds	General	<u>3,690,692</u>
		<u>\$ 15,445,663</u>

(5) Capital Assets

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

Primary Government

	<u>Balance October 1, 2017</u>	<u>Additions and Reclassifications</u>	<u>Retirements and Reclassifications</u>	<u>Balance September 30, 2018</u>
Depreciable assets:				
Buildings and improvements	\$ 72,820,542	\$ 155,576	\$ -	\$ 72,976,118
Boats	22,274,957	143,391	-	22,418,348
Infrastructure	126,662,280	87,405,779	-	214,068,059
Motor vehicles	4,352,096	806,523	(69,977)	5,088,642
Computer equipment	2,369,105	270,149	(27,924)	2,611,330
Aircraft	709,207	-	-	709,207
Furniture, equipment and machinery	8,911,119	482,035	-	9,393,154
	<u>238,099,306</u>	<u>89,263,453</u>	<u>(97,901)</u>	<u>327,264,858</u>
Less: accumulated depreciation				
Buildings and improvements	(12,207,584)	(1,561,410)	-	(13,768,994)
Boats	(17,734,876)	(1,102,522)	-	(18,837,398)
Infrastructure	(34,770,490)	(8,928,089)	-	(43,698,579)
Motor vehicles	(3,076,327)	(659,961)	12,513	(3,723,776)
Computer equipment	(1,869,321)	(199,607)	27,925	(2,041,003)
Aircraft	(628,625)	(35,460)	-	(664,085)
Furniture, equipment, and machinery	(7,373,043)	(583,713)	-	(7,956,756)
	<u>(77,660,266)</u>	<u>(13,070,762)</u>	<u>40,437</u>	<u>(90,690,591)</u>
	<u>160,439,040</u>	<u>(76,192,691)</u>	<u>(57,464)</u>	<u>236,574,267</u>
Land	1,674,383	-	-	1,674,383
Construction in progress	79,497,752	17,453,665	(80,201,130)	16,750,287
	<u>81,172,135</u>	<u>17,453,665</u>	<u>(80,201,130)</u>	<u>18,424,670</u>
Net Assets	<u>\$ 241,611,175</u>	<u>\$ 93,646,356</u>	<u>\$ (80,258,594)</u>	<u>\$ 254,998,937</u>

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(5) Capital Assets, Continued

Primary Government, Continued

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

Office of the President	\$ 58,409
Foreign affairs	185,692
Health and social affairs	321,895
Education	312,060
Resources and development	14,712
Office of National Archives, Cultural and Historic Preservation	7,976
Transportation, communication and infrastructure	7,634,388
Finance and administration	56,311
Justice	592,021
Office of the Public Defender	24,681
Judiciary	45,950
Legislature	89,354
Office of the National Public Auditor	37,822
Environment and emergency management	267,117
National government programs	3,368,185
Agencies, boards and commissions	<u>54,189</u>
	<u>\$ 13,070,762</u>

Discretely Presented Component Units

	Balance October 1, 2017	Additions and Reclassifications	Retirements and Reclassifications	Balance September 30, 2018
Depreciable assets:				
Building and Leasehold Improvements	\$ 36,091,234	\$ 360,842	\$ (560,465)	\$ 35,891,611
Plant and Equipment	80,434,932	1,883,569	(163,808)	82,154,693
Machinery and Equipment	17,177,526	3,566,914	(1,689,013)	19,055,427
Others	<u>21,001,005</u>	<u>-</u>	<u>-</u>	<u>21,001,005</u>
	154,704,697	5,811,325	(2,413,286)	158,102,736
Accumulated Depreciation	<u>(100,562,616)</u>	<u>(7,491,528)</u>	<u>2,491,703</u>	<u>(105,562,411)</u>
	<u>54,142,081</u>	<u>(1,680,203)</u>	<u>78,417</u>	<u>52,540,295</u>
Nondepreciable assets:				
Construction in Progress	7,759,960	6,474,096	(3,579,793)	10,654,263
Land	<u>1,455,685</u>	<u>-</u>	<u>-</u>	<u>1,455,685</u>
	<u>9,215,645</u>	<u>6,474,096</u>	<u>(3,579,793)</u>	<u>12,109,948</u>
	<u>\$ 63,357,726</u>	<u>\$ 4,793,893</u>	<u>\$ (3,501,376)</u>	<u>\$ 64,650,243</u>

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(6) Indefeasible Right of Use (IRU)

In 2009, FSMTC entered into an IRU Capital Lease agreement with a third party for the exclusive use of eight wave lengths of fiber capacity of the two fibers of the Kwajalein Cable System (KCS) which runs between Guam and Kwajalein and which is known as the "HANTRU1 System". Under the terms of the agreement, FSMTC made certain payments of \$3,656,301. The initial term of the agreement is for a period of ten years commencing on the date FSMTC is initially granted access, and which term is automatically renewable for a further 10-year period and an additional 5-year period thereafter. Prior to the tenth and twentieth anniversary dates, FSMTC has the option to terminate this agreement; however, such is subject to prior approval of the Rural Utilities Services (RUS) of the U.S. Department of Agriculture. FSMTC's policy is to amortize the right of use over the 25-year period. As of September 30, 2018, accumulated amortization expense of \$1,007,142 has been recorded.

(7) Long-Term Obligations

Primary Government

Asian Development Bank (ADB) Loan Number 1257 FSM (SF) - Fisheries Development Project Loan (SDR 3,792,000), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. The loan is payable semi-annually commencing January 15, 2004 in an amount of SDR 46,100 increasing to SDR 92,400 on January 15, 2014, with a maturity date of July 15, 2033. \$ 3,275,244

ADB Loan Number 1459 FSM (SF) - Water Supply and Sanitation Project Loan (SDR 7,233,000), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. The loan is payable semi-annually commencing February 1, 2007 in an amount of SDR 69,200, increasing to SDR 138,500 on February 1, 2017, with a maturity date of August 1, 2036. 6,453,941

ADB Loan Number 1520 FSM (SF) - Public Sector Reform Program Loan (SDR 12,979,000), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. The loan is payable semi-annually commencing February 1, 2008 in an amount of SDR 129,800, increasing to SDR 259,600 on February 1, 2018, with a maturity date of August 1, 2037. 13,253,914

ADB Loan Number 1816 FSM (SF) - Basic Social Services Project Loan (SDR 6,199,000), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. The loan is payable semi-annually commencing February 1, 2009 in an amount of SDR 129,145, at which time the service charge increases to 1.5% per annum, with a maturity date of August 1, 2032. 2,100,547

ADB Loan Number 1873 FSM (SF) - Private Sector Development Program Loan (SDR 3,912,000), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. The loan is payable semi-annually commencing May 15, 2010 in an amount of SDR 122,250, at which time the service charge increases to 1.5% per annum, with a maturity date of November 15, 2025. 1,572,068

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Notes to Financial Statements
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(7) Long-Term Obligations, Continued

Primary Government, Continued

ADB Loan Number 1874 FSM (SF) - Private Sector Development Project Loan (SDR 6,273,000), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. The loan is payable semi-annually commencing May 15, 2010 in an amount of SDR 130,687, at which time the service charge increases to 1.5% per annum, with a maturity date of November 15, 2033. 4,043,649

ADB Loan Number 2099 FSM (SF) - Omnibus Infrastructure Development Project (SDR 9,686,000), interest bearing at the rate of 1% per annum on the amount of the loan withdrawn from the Loan Account during the grace period. The loan is payable semi-annually commencing January 15, 2013 in an amount of SDR 201,791, at which time the interest rate increases to 1.5% per annum, with a maturity date of July 15, 2036. 9,966,161

ADB Loan Number 2100 FSM (SF) - Omnibus Infrastructure Development Project (SDR 9,686,000), interest bearing equivalent to the sum of LIBOR and .60% per annum on the amount of the loan withdrawn from the Loan account with a loan term of 25 years including a grace period of 5 years. The loan is payable semi-annually commencing January 15, 2010, in an amount of .83% of the outstanding loan balance and incrementing at certain years between .04% - .16% up to the maturity date of July 15, 2029. 3,808,206

ADB Loan Number 3004 FSM (SF) - Omnibus Infrastructure Development Project (UD 4,680,000), interest bearing equivalent to the sum of LIBOR and .60% per annum on the amount of the loan withdrawn from the Loan account with a loan term of 20 years including a grace period which was defined as period prior to the first principal payment due date. The loan is payable semi-annually commencing December 1, 2018, in an amount of .83% of the outstanding loan balance and incrementing at certain years between .04% - .16% up to the maturity date of June 1, 2038. 4,283,993

ADB Loan Number 3005 FSM (SF) - Omnibus Infrastructure Development Project (SDR 2,896,000), interest bearing equivalent to .2% per annum on the amount of the loan withdrawn from the Loan account with a loan term of 20 years including a grace period of 5 years. The loan is payable semi-annually commencing December 1, 2018, in an amount of .83% of the outstanding loan balance and incrementing at certain years between .04% - .16% up to the maturity date of June 1, 2038. 3,765,583

\$ 52,523,306

The abovementioned ADB loans payable are uncollateralized and are backed by the full faith and credit of the FSM National Government.

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Notes to Financial Statements
September 30, 2018

(7) Long-Term Obligations, Continued

Primary Government, Continued

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest/Service Charges</u>	<u>Total</u>
2019	\$ 2,955,792	\$ 679,084	\$ 3,634,876
2020	2,977,142	644,128	3,621,270
2021	2,999,485	608,509	3,607,994
2022	3,110,486	572,194	3,682,680
2023	3,138,291	532,482	3,670,773
2024-2028	15,954,222	2,029,676	17,983,898
2029-2033	13,962,499	968,609	14,931,108
2034-2028	<u>7,425,389</u>	<u>240,082</u>	<u>7,665,471</u>
	\$ <u>52,523,306</u>	\$ <u>6,274,764</u>	\$ <u>58,798,070</u>

Other 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:

	<u>Balance October 1, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2018</u>	<u>Due Within One Year</u>
Loans payable:					
ADB Loan 1257 FSM (SF)	\$ 3,538,655	\$ -	\$ (263,411)	\$ 3,275,244	\$ 218,217
ADB Loan 1459 FSM (SF)	6,900,652	-	(446,711)	6,453,941	358,579
ADB Loan 1520 FSM (SF)	14,132,026	-	(878,112)	13,253,914	697,625
ADB Loan 1816 FSM (SF)	2,279,702	-	(179,155)	2,100,547	150,040
ADB Loan 1873 FSM (SF)	1,804,729	-	(232,661)	1,572,068	209,611
ADB Loan 1874 FSM (SF)	4,360,216	-	(316,567)	4,043,649	260,881
ADB Loan 2099 FSM (SF)	10,668,366	-	(702,205)	9,966,161	563,385
ADB Loan 2100 FSM (SF)	4,032,506	-	(224,300)	3,808,206	202,575
ADB Loan 3004 FSM (SF)	3,808,646	475,347	-	4,283,993	85,680
ADB Loan 3005 FSM (SF)	<u>3,619,961</u>	<u>193,958</u>	<u>(48,336)</u>	<u>3,765,583</u>	<u>209,199</u>
	55,145,459	669,305	(3,291,458)	52,523,306	2,955,792
Other:					
Compensated absences payable	<u>1,115,411</u>	<u>410,952</u>	<u>(337,492)</u>	<u>1,188,871</u>	<u>417,662</u>
	<u>\$56,260,870</u>	<u>\$1,080,257</u>	<u>\$ (3,628,950)</u>	<u>\$53,712,177</u>	<u>\$3,373,454</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 FSM National Government recognized a foreign exchange loss of \$601,044 associated with valuation of the SDR, which is presented as a special item in the accompanying financial statements, and which results in an increase in ADB loans payable.

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(7) Long-Term Obligations, Continued

Discretely Presented Component Units

As of September 30, 2018, the discretely presented component units had the following long-term debt outstanding:

FSM Telecommunications Corporation (FSMTC):

Loans payable to RUS, with a 35 year term, interest at 5% per annum, collateralized by FSMTC's specific ground leases and essentially all other assets. Pursuant to loan agreements dated August 1, 1990 and March 12, 2009, FSMTC is required to make monthly payments of both principal and interest to RUS. The loans were originally in the amounts of \$32,000,000 and \$12,136,000 and the proceeds were used for capital related purposes. \$ 20,163,889

Future minimum principal and interest payments on notes payable for subsequent years ending September 30, are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 2,038,170	\$ 961,907	\$ 3,000,077
2020	2,142,446	857,631	3,000,077
2021	2,252,058	748,019	3,000,077
2022	2,367,278	632,799	3,000,077
2023	2,488,392	511,685	3,000,077
2024 - 2028	7,561,210	1,036,420	8,597,630
2029 - 2030	<u>1,314,335</u>	<u>48,445</u>	<u>1,362,780</u>
	<u>\$ 20,163,889</u>	<u>\$ 4,796,906</u>	<u>\$ 24,960,795</u>

These notes are subject to certain coverage ratio requirements. FSMTC is not in compliance with its ratio requirements as of September 30, 2018. Management is of the opinion that the lender is aware of this matter and will not call the debt. Therefore, the debt is classified in accordance with expected future payouts.

FSM Development Bank (FSMDB):

Loan payable to European Investment Bank under an August 2010 master finance contract of EUR 4 million, drawn on August 20, 2014, bearing fixed interest, and payable through semi-annual principal and interest installment.

Drawn on August 20, 2014; original amount of \$275,000 (equivalent EUR 205,500), bearing interest fixed at 3.705%, and payable through semi-annual principal and interest installments of \$24,778 on January 15, 2015 and equal installments of \$25,772 beginning on July 15, 2015 through maturity on July 15, 2020. \$ 98,473

Drawn on August 20, 2014; original amount of \$334,550 (equivalent EUR 250,000), bearing interest fixed at 4.520%, and payable through semi-annual principal and interest installments of \$17,997 on January 15, 2015 and equal installments of \$19,467 beginning on July 15, 2015 through maturity on July 15, 2025. 231,416

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(7) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

FSM Development Bank (FSMDB), Continued:

Drawn on August 20, 2014; original amount of \$796,976 (equivalent EUR 595,558), bearing interest fixed at 4.520%, and payable through semi-annual principal and interest installments of \$42,873 on January 15, 2015 and equal installments of \$46,375 beginning on July 15, 2015 through maturity on July 15, 2025.

551,288

\$ 881,177

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

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 145,709	\$ 37,519	\$ 183,228
2020	151,968	31,260	183,228
2021	106,476	25,207	131,683
2022	111,343	20,340	131,683
2023	116,432	15,251	131,683
2024-2025	<u>249,249</u>	<u>14,292</u>	<u>263,541</u>
	<u>\$ 881,177</u>	<u>\$ 143,869</u>	<u>\$ 1,025,046</u>

Changes in long-term liabilities of the discretely presented component units for the year ended September 30, 2018, are as follows:

	<u>Balance October 1, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2018</u>	<u>Due Within One Year</u>
Loans payable:					
FSMTC	\$ 22,100,595	\$ -	\$ (1,936,706)	\$ 20,163,889	\$ 2,038,170
FSMDB	1,020,904	-	(139,727)	881,177	145,709
FSMPC	4,614,422	5,000,000	(520,586)	9,093,836	816,575
Vital Energy	12,124,720	-	(1,312,100)	10,812,620	2,391,088
FSMTCC	-	<u>500,000</u>	-	<u>500,000</u>	-
	39,860,641	5,500,000	(3,909,119)	41,151,522	5,391,542
Contracts payable:					
FSMTC	<u>1,719,536</u>	-	<u>(113,060)</u>	<u>1,606,476</u>	<u>1,606,476</u>
Compensated absences:					
COM-FSM	<u>709,961</u>	<u>10,808</u>	-	<u>720,769</u>	<u>342,125</u>
	<u>\$ 42,290,138</u>	<u>\$ 5,510,808</u>	<u>\$ (4,022,179)</u>	<u>\$ 43,778,767</u>	<u>\$ 7,340,143</u>

FSM Petroleum Corporation (FSMPC):

A \$5,000,000 bank note from the Bank of Guam (BOG) dated December 2017, for capital assets projects. The loan bears interest fixed at 5.75% per annum and is payable in monthly installments of \$55,214 beginning January 20, 2018 to December 20, 2027. The loan is collateralized by an executed Pledge and Security Agreement for the assignment of the Reserve Bank Account and Revenue, an executed Notice of Security Interest and Chattel Mortgage and are guaranteed by the FSM National Government.

\$ 4,606,268

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(7) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

FSM Petroleum Corporation (FSMPC), Continued

A \$3,000,000 bank note from the FSM Development Bank (FSMDB) dated August 2017, a component unit of the FSM National Government, for capital assets projects. The loan bears interest fixed at 5% per annum and is payable in quarterly installments of \$170,461 beginning August 31, 2017 to September 25, 2022. On May 1, 2018 FSMDB, approved FSMPC's request for deferment of principal payment from June 2018 to June 2019. The loan is collateralized by the Company's inventories and related petroleum products.

2,740,185

Total long-term debt
Net of current portion

7,346,453
816,575

Future minimum loan repayments are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 816,575	\$ 391,159	\$ 1,207,734
2020	1,002,646	341,766	1,344,412
2021	1,058,565	285,847	1,344,412
2022	1,116,542	227,870	1,344,412
2023	1,017,900	166,566	1,184,466
2024-2027	<u>2,334,225</u>	<u>373,721</u>	<u>2,707,946</u>
	\$ <u>7,346,453</u>	\$ <u>1,786,929</u>	\$ <u>9,133,382</u>

In 2009, FSMPC signed a memorandum of agreement with the FSMNG that the Grant be utilized for the supply of petroleum fuels to FSMPC to assist in the implementation of a number of initiatives aimed at mitigating the social and economic difficulties caused by volatile and sustained high oil prices. The Grant was paid directly by the Government of Japan through an independent procurement agent, Crown Agents, to FSMPC's supplier of fuel instead of to the FSMNG. FSMPC received the equivalent gallons of fuel from the supplier and this is now maintained as strategic inventory in each State. As of December 31, 2018, FSMPC recognized a liability to the States and the FSMNG of \$1,247,383.

1,247,383

At December 31, 2018, the remaining \$500,000 represents a non-interest bearing advance payable to the FSMNG. There is no specific repayment terms and management has classified the advance as long-term since it has no expectation that such will have to be repaid before December 31, 2019.

500,000

\$ 9,093,836

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2018

(7) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

Vital Energy, Inc.

In 2017, Vital obtained a \$2,400,000 non-interest bearing, uncollateralized advance from its fuel vendor to fund capital project expenditures incurred on behalf of the Government of Nauru under the Petroleum Supply and Facility Management Agreement. The advance is payable in equal quarterly installments of \$120,000, beginning on September 5, 2017. Future repayments are \$480,000 for each of the years ending December 30, 2018 through 2021 and \$280,000 in the year ending December 31, 2022. As of December 31, 2018, Vital Energy, Inc. had total long-term debt of \$10,812,620, which comprises non-current liabilities of \$8,421,532 and due to primary government of \$1,911,088 and current portion of \$480,000.

College of Micronesia-FSM (COM-FSM)

COM-FSM's long-term obligation of \$720,769 represents the employee accrued annual leave. COM-FSM accumulates annual leave balance, wherein accumulated leave of not in excess of 240 hours shall be paid to the employee upon resignation/termination of employment. COM-FSM has no other long-term debt as of the end of fiscal year 2018.

FSM Telecommunications Cable Corp (FSMTCC)

On September 17, 2018, FSMT Cable Corporation entered into an interest-free loan with the FSM National Government for \$500,000, to support its initial operations and as emergency fund. The loan is uncollateralized and repayment shall commence once FSMT Cable Corporation has equity of \$1,000,000 and will be paid out of operational funds. Subject to this clause, repayment was initially set on October 1, 2023 after a five-year grace period and such grace period is subject to review of the parties. After repayment date is confirmed, the loan amount and frequency will be set and the loan is payable over a minimum period of seven years or due on October 1, 2030. The balance outstanding at December 31, 2018 is \$500,000.

Changes in long-term debt for the year ended December 31, 2018, are as follows:

	Balance January 1, 2018	Additions	Reductions	Balance December 31, 2018	Due Within One Year
Loans payable: FSMTCC	\$ _____	\$ <u>500,000</u>	\$ _____	\$ <u>500,000</u>	\$ _____

(8) Short-Term Obligations

Discretely Presented Component Units

FSM Petroleum Corporation (FSMPC):

As of December 31, 2018, the Company has a bank standby letter of credit (LC) of \$3,000,000, expiring on September 13, 2019, in favor of Mobile Oil Guam in relation to its fuel purchase agreement. Additionally, the Company also has a standby LC of \$6,034,500 for the coconut production facility contractor, currently expires on September 28, 2019.

Additionally, as of December 31, 2018, the Company has bank line of credit (LOC) facility of \$11,000,000 for working capital and support LC's. The line currently expires on December 27, 2019.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2018

(8) Short-Term Obligations, Continued

Discretely Presented Component Units, Continued

FSM Petroleum Corporation (FSMPC), Continued:

The LOCs and the related long-term obligations are secured and collateralized by an executed Pledge and Security Agreement for the assignment of the Reserve Bank Account and Revenue, an executed Notice of Security Interest and Chattel Mortgage and are guaranteed by the FSM National Government.

Borrowings against the LOCs bear interest at the bank's effective reference rate plus 0.75%, with minimum rate of 5.75% per annum, with interest payable monthly and principal due within 180 days. No borrowings are outstanding against the LOCs at December 31, 2018.

(9) Operating Transfers In/Out

Primary Government

Operating transfers in/out for each major governmental fund and nonmajor governmental funds in the aggregate, for the year ended September 30, 2018, are as follows:

<u>Source</u>	<u>Recipient</u>	<u>Transfers Out</u>	<u>Transfers In</u>
General Fund	Grant Assistance Fund	\$ (200,000)	\$ 200,000
Other Governmental Fund	General Fund	(1,201,534)	1,201,534
		\$ (1,401,534)	\$ 1,401,534

Transfers are used to 1) move revenues from the fund that enabling legislation or budget requires to collect them to the fund that enabling legislation or budget requires to expend them, 2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and 3) record reductions in interfund loans for amounts that are not expected to be repaid.

(10) Contingencies and Commitments

Sick Leave

It is the policy of the FSM National Government 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.

FSM Petroleum Corporation (FSMPC) Loan Guarantee

The FSM National Government is a full faith and credit guarantor of FSMPC's loan to a bank. The FSM National Government is jointly and severally liable for FSMPC's obligations under the loan and waives the sovereign immunity of the FSM National Government with regard to any legal action arising from the guaranty.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2018

(10) Contingencies and Commitments, Continued

FSMPC Due to States and Primary Government

FSMPC has received a grant from Japan to fund fuel acquisition. At an undetermined time, FSMPC will distribute the grant to the States; however, the amount and time at which the amount would be distributable is currently undeterminable and therefore the FSM National Government and the States have not recorded a corresponding receivable.

Insurance Coverage

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

Federal Grants

The FSM National Government participates in a number of federally assisted grant programs. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs exist and have been set forth in the FSM National Government's Single Audit Report as of September 30, 2018. 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. In addition, a material amount of questioned costs may exist from the four States, which receive federal funds in a subrecipient capacity. If these questioned costs are sustained, such will be funded by State resources.

Pursuant to Title I, Section 105 of United States Public Law 99-290, the FSM National Government 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. Accordingly, the States have made no adjustment to the above questioned costs for amounts which were incurred prior to the implementation of the Compact of Free Association.

The FSM National Government is pursuing long outstanding receivables from federal grant agencies. Uncollectible accounts, if any, that result from this exercise will be accounted for prospectively.

Leases

The FSM National Government has entered into house lease agreements varying from one to five years. The aggregate amount of future lease payments has not been accumulated as renewal is subject to annual appropriation.

Litigation

The FSM National Government is party to various legal proceedings, many of which are normal recurrences in governmental operations. The Attorney General of the FSM National Government is of the opinion that the probable outcome of suits existing at September 30, 2018, is not predictable. No provision for any liability has been made in the accompanying financial statements because management believes that no unfavorable outcome is likely to occur. However, if an unfavorable action in one case was to occur, a material impact on the accompanying financial statements could result.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2018

(10) Contingencies and Commitments, Continued

Encumbrances

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

	<u>General</u>	<u>Grants Assistance</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Encumbrances	<u>\$3,080,191</u>	<u>\$39,140,662</u>	<u>\$2,433,857</u>	<u>\$44,467,703</u>

Asian Development Bank (ADB) Loans

A substantial portion of the ADB loans are subject to currency exchange adjustments that can ultimately impact the carrying values of the debt.

FSM National Government Employees' Health Insurance Plan (the Plan) - Going Concern

The Plan's financial statements have been prepared in accordance with GAAP, which contemplates the continuation of the Plan as a going concern. However, the Plan has sustained operating losses in recent years and as of September 30, 2018, the Plan has a negative current ratio. Furthermore, at September 30, 2018, a deficit unrestricted net position of (\$1,402,342) exists.

The Plan's management believes actions presently being undertaken are sufficient to improve the Plan's operating requirements in the implementation of a "5-year Strategic Plan 2014-2018", which established specific objectives up to year 2018. The goal of the strategic plan is to strengthen the Plan's financial solvency and operational efficiency, and increase enrollment of the Plan.

FSM Social Security Administration (FSMSSA)

In January 2014, FSMSSA obtained an actuarial valuation as of January 1, 2017. The valuation reported actuarial accrued liabilities for FSMSSA of \$285,000,000 and a funded ratio of 15. As of December 31, 2018, FSMSSA recorded total fund equity of \$49,826,606 in the Fund, as funds available to fund future benefit obligations. These conditions indicate that the Administration should not increase future or current benefits until a long-term trend of decreasing the unfunded accrued liability is realized.

(11) Special Item

During the year ended September 30, 2018, management determined that certain receivables in the amount of \$1,256,680 were no longer considered collectible and were written off. This write-off of receivable balances is presented as a special item in the accompanying financial statements.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2018

(12) Fund Balance

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

	<u>General</u>	<u>Grants Assistance</u>	<u>Compact Trust</u>	<u>Other</u>	<u>Total</u>
Non-spendable:					
Loans receivable from States	\$ 43,022,510	\$ -	\$ -	\$ -	\$ 43,022,510
United Micronesia Dev. Association	1,500,000	-	-	-	1,500,000
Bank of FSM	6,108,750	-	-	-	6,108,750
ADB contribution	6,927,442	-	-	-	6,927,442
IMF contribution	1,149,876	-	-	-	1,149,876
Permanent fund	-	-	19,754,927	-	19,754,927
Restricted For:					
ADB Imprest Funds	44,050	-	-	-	44,050
Infrastructure	-	353,461	-	-	353,461
Disaster Assistance	-	3,451,303	-	-	3,451,303
Sector Development	-	13,153	-	-	13,153
Investment Development Fund	1,844,626	-	-	-	1,844,626
Committed:					
CFSM Public projects	37,733,664	-	-	-	37,733,664
Office of the President	584,261	-	-	-	584,261
Department of Foreign Affairs	71,323	-	-	-	71,323
Department of TC&I	7,220,119	-	-	-	7,220,119
Department of Finance & Adm.	5,409,884	-	-	-	5,409,884
Department of Justice	739,428	-	-	1,817,677	2,557,105
Department of R & D	4,932,649	-	-	28,653	4,961,302
Department of Education	691,087	-	-	42,617	733,704
Department of Health	933,000	-	-	51,497	984,497
Office of EEM	698,548	-	-	-	698,548
National Historic & Preservation	159,167	-	-	-	159,167
Legislative	9,778	-	-	-	9,778
Judiciary	224,600	-	-	-	224,600
Office of Public Auditor	123,064	-	-	-	123,064
Office of Public Defender	2,322	-	-	-	2,322
Future operations-FSM Trust fund	213,808,923	-	-	-	213,808,923
Other functions and programs	1,751,269	-	-	1,734,927	3,486,196
Assigned:					
Presidents (Executive branch)	2,190,138	-	-	-	2,190,138
Legislative branch	700,298	-	-	-	700,298
Judiciary branch	95,695	-	-	-	95,695
National program	240,688	-	-	-	240,688
Other functions and programs	8,560,961	-	-	-	8,560,961
Unassigned	<u>30,082,841</u>	<u>(148,478)</u>	<u>-</u>	<u>-</u>	<u>29,934,363</u>
	<u>\$ 377,560,961</u>	<u>\$ 3,669,439</u>	<u>\$ 19,754,927</u>	<u>\$ 3,675,371</u>	<u>\$ 404,660,698</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

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

YEAR ENDED SEPTEMBER 30, 2018

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts (note 1)	Final Budget - Positive (Negative)
Revenues:				
Taxes	\$ 7,950,354	\$ 8,985,123	\$ 100,743,063	\$ 91,757,940
Fishing rights	50,000,000	68,000,000	72,329,651	4,329,651
Postal revenues	200,000	200,000	161,024	(38,976)
Investment earnings	1,000,000	1,000,000	1,652,651	652,651
Fees and charges	7,762,000	82,423,318	106,002	(82,317,316)
Micare reimbursable	-	-	349,809	349,809
Other	1,143,986	1,143,986	756,174	(387,812)
Total revenues	68,056,340	161,752,427	176,098,374	14,345,947
Expenditures:				
Executive Branch - Core Operational	19,611,929	22,837,760	20,451,584	2,386,176
Executive Branch - Non-Core Operational	8,924,822	13,639,907	18,293,601	(4,653,694)
Judicial Branch-Core Operational	1,457,980	1,609,805	1,442,822	166,983
Judicial Branch-Non-core Operational	250,000	250,000	302,250	(52,250)
Legislative Branch-Core Operational	4,418,803	7,490,981	7,122,078	368,903
Legislative Branch-Non-core Operational	452,500	652,500	662,615	(10,115)
Office of the National Public Auditor-Core Operational	762,855	809,272	669,616	139,656
Office of the National Public Auditor-Non-Core Operational	460,000	460,000	460,000	-
Boards and Commissions	3,174,105	3,618,594	3,202,013	416,581
Payments to Component Units	6,443,863	6,443,863	5,091,125	1,352,738
National projects - continuing projects	21,946,243	35,257,565	23,391,351	11,866,214
Total expenditures	67,903,100	93,070,247	81,089,055	11,981,192
Excess (deficiency) of revenues over (under) expenditures	153,240	68,682,180	95,009,319	26,327,139
Other financing sources (uses), net:				
Operating transfers in/(out), net	-	82,000,000	(88,598,535)	(170,598,535)
	153,240	150,682,180	6,410,784	(144,271,396)
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	-	-	3,080,191	3,080,191
Net change in fund balance	153,240	150,682,180	9,490,975	(141,191,205)
Fund balance at the beginning of the year	108,701,486	108,701,486	108,701,486	-
Fund balance at the end of the year	\$ 108,854,726	\$ 259,383,666	\$ 118,192,461	\$ (141,191,205)

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

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

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

(1) Budgetary Information

The Congress of the Federated States of Micronesia (CFSM) enacts the budget through passage of specific departmental appropriations. Before signing the Appropriations Act, the President may veto or reduce any specific appropriation, subject to Congressional override. Under the Compact of Free Association, which went into effect November 3, 1986, approval of all CFSM Laws is vested with the President of the Federated States of Micronesia.

During fiscal year 2018, supplemental appropriations were also made for both operating and capital purposes, to reflect the evolving priorities of the FSM National Government.

Budgetary control is maintained at the departmental level. Budget revisions during the year, reflecting program changes, may be effected by CFSM approval.

Formal budget integration is employed as a management control device during the year for all funds. The Congress of the FSM has the authority to reprogram budgeted estimates in accordance with the Constitution. All annual appropriations lapse at fiscal year end unless otherwise specified by law. Supplemental appropriations may occur throughout the year. Unexpended encumbrances at each fiscal year end are carried forward until they are expended or canceled without further legislative action.

Accounting principles used in developing data on a budgetary basis differ from those used in preparing the basic financial statements in conformity with GAAP. Amounts included on the Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund (which is presented on a non-GAAP budgetary basis) are reconciled to fund balance of the Governmental Fund Balance Sheet at footnote 2.

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.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Required Supplementary Information - Budgetary Reporting, Continued
September 30, 2018

(2) Reconciliation - GAAP and Budgetary Bases of Accounting

The Budget Act for fiscal year 2017, Public Law No. 19-118, was approved for the Executive branch and the Legislative branch. Budgets for Special Revenue Funds are generally not submitted. Accordingly, a budget to actual presentation for Special Revenue Funds is not required or presented. Project length financial plans are adopted for capital projects funds. The accompanying Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund presents solely the financial activities of the General Fund administered by the Department of Finance and Administration, and does not include other financial activities administered by that Department and the impact of implementation of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

Accounting principles used in developing data on a budgetary basis differ from those used in preparing the financial statements in conformity with GAAP. The net change in fund balance on a budgetary basis reconciled to the net change in fund balance for the General Fund is as follows:

Net change in fund balance - Budgetary basis	\$ 9,490,975
Add:	
Net change in fund balance - GAAP for GASB 54 Funds:	
ADB Loan Fund (Fund 91)	(2,315,945)
IDF Fund	6,863
ERP Fund	252,551
FSM Trust Fund	<u>97,700,279</u>
Net change in fund balance - GAAP	\$ <u>105,134,723</u>

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2018

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Combined Schedule of Expenditures by Account -
Governmental Fund Types
Year Ended September 30, 2018

		Special Revenue	Permanent		
	General	Grants Assistance	Compact Trust	Other Governmental Funds	Total
Expenditures:					
Personnel	\$ 16,006,849	\$ 3,063,097	\$ -	\$ 432,399	\$ 19,502,345
Travel and transportation	5,917,564	3,184,171	-	178,423	9,280,158
Books and library materials	3,787	-	-	-	3,787
Communications	536,922	153,458	-	16,544	706,924
Customs and taxes	2,669	(123,448)	-	-	(120,779)
Dues, membership and subscription	450,365	16,335	-	-	466,700
Food stuffs	327,180	148,996	-	165,814	641,990
Freight	47,729	33,918	-	112,833	194,480
Expendable equipment	349,699	256,391	-	29,192	635,282
Office supplies and materials	1,203,213	353,285	-	104,032	1,660,530
POL	1,711,308	48,655	-	840,192	2,600,155
Advertising, printing and reproduction	102,868	126,495	-	50	229,413
Rental services	135,922	212,351	-	38,079	386,352
Repair and maintenance	71,773	6,477	-	5,694	83,944
Utilities	951,052	169,597	-	11,693	1,132,342
Miscellaneous goods and services	278,380	7,689	-	-	286,069
Medical supplies	531,910	257,802	-	-	789,712
Contributions, subsidies and grants	3,284,738	800,000	-	-	4,084,738
General contractual services	9,138,359	7,661,060	-	1,547,387	18,346,806
Professional services	692,262	3,980,797	-	-	4,673,059
Employee housing and household storage	1,103,808	49,500	-	-	1,153,308
Recruit and repatriation	146,156	-	-	-	146,156
Compensation-nonpayroll	70,839	14,809	-	-	85,648
Educational allowance	77,669	-	-	-	77,669
Training and registration fees	27,469	61,520	-	-	88,989
Scholarships	2,291,361	-	-	465,449	2,756,810
Official and meeting allowances	43,830	33,820	-	-	77,650
Representation	3,688,158	-	-	-	3,688,158
Insurance and fees	691,454	12,592	-	-	704,046
Leased housing, offices, buildings and land	1,400,496	86,513	-	-	1,487,009
Bank charges	42,753	6,213	-	23,629	72,595
Project management and administration	-	284,170	-	-	284,170
Construction management	-	3,497,385	-	-	3,497,385
Construction payments	-	1,019,379	-	-	1,019,379
Architecture and design	-	303,061	-	-	303,061
Equipment	500,850	553,179	-	237,622	1,291,651
Furnitures and fixtures	63,048	-	-	-	63,048
Vehicle and vessels	527,685	181,807	-	-	709,492
Court settlement	298,265	-	-	-	298,265
Principal and interest payments	2,731,299	-	-	-	2,731,299
Legislative projects	25,291,284	-	-	-	25,291,284
Total expenditures	<u>\$ 80,740,973</u>	<u>\$ 26,461,074</u>	<u>\$ -</u>	<u>\$ 4,209,032</u>	<u>\$ 111,411,079</u>

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

GENERAL FUND (FUND 1)
Schedule of Revenues, Expenditures by Function and Department,
and Changes in Fund Balance
Year Ended September 30, 2018
(with comparative totals for the year ended September 30, 2017)

	<u>2018</u>	<u>2017</u>
Revenue:		
Taxes:		
Import	\$ 4,686,787	\$ 4,569,970
Fuel	146,722	160,301
Corporate tax	84,490,545	22,731,144
Income tax, individuals, net of tax refunds	4,554,310	4,452,226
Gross receipts tax, businesses	5,596,004	4,623,272
Tobacco revenue share	1,268,695	1,137,239
	<u>100,743,063</u>	<u>37,674,152</u>
Fishing rights	<u>72,329,651</u>	<u>72,591,642</u>
Fees and charges:		
Postal collections	161,024	160,386
Business license and various fees	106,002	108,511
	<u>267,026</u>	<u>268,897</u>
Investment earnings:		
Net change in the fair value of investments	1,288,330	1,694,925
Dividend and interest income	364,321	446,228
	<u>1,652,651</u>	<u>2,141,153</u>
MiCare reimbursible	<u>349,809</u>	<u>274,296</u>
Other	<u>756,174</u>	<u>(1,044,641)</u>
Total revenues	<u>176,098,374</u>	<u>111,905,499</u>
Expenditures:		
Executive Branch:		
Core operational:		
President's Office	1,400,168	1,318,265
Department of External Affairs and LNO's	4,813,665	4,135,118
Department of Health and Social Affairs	700,458	709,786
Department of Education	397,045	365,011
Office of Resources and development	910,293	1,019,849
National archives, cultural and historic prevention	180,671	188,909
Office of Environment and emergency management	836,803	179,927
Department of Transportation, Communication and Infrastructure	2,539,903	3,030,264
Department of Finance and Administration	3,240,864	4,280,689
Department of Justice	3,724,659	3,066,456
Office of the Public Defender	894,540	810,776
Sub-total	<u>19,639,069</u>	<u>19,105,050</u>

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

GENERAL FUND (FUND 1)
Schedule of Revenues, Expenditures by Function and Department,
and Changes in Fund Balance, Continued
Year Ended September 30, 2018
(with comparative totals for the year ended September 30, 2017)

	2018	2017
Expenditures, continued:		
Executive Branch:		
Non-core operational:		
President's Office	810,991	902,546
Department of External Affairs and LNO's	791,297	274,460
Department of Health and Social Affairs	1,236,688	564,806
Department of Education	3,482,182	3,488,723
Office of Resources and development	660,223	589,618
National archives, cultural and historic prevention	90,814	3,280
Office of Environment and emergency management	84,742	(52,330)
Department of Transportation, Communication and Infrastructure	8,495,472	6,169,088
Department of Finance and Administration	844,098	307,632
Department of Justice	577,614	1,484,527
Sub-total	17,074,121	13,732,350
Total Executive Branch	36,713,190	32,837,400
Judicial Branch-core operational	1,347,127	1,266,934
Judicial Branch-non-core operational	302,250	421,347
Total Judicial Branch	1,649,377	1,688,281
Legislative Branch:		
Office of the Speaker and members	3,782,153	4,831,560
Congress staff	2,092,772	1,814,895
Delegation offices	1,209,658	511,873
Total Legislative Branch	7,084,583	7,158,328
Office of the National Public Auditor-Core operational	657,912	601,290
Office of the National Public Auditor-Non-Core operational	460,000	445,000
Total Office of the Public Auditor	1,117,912	1,046,290
Other National Government Programs	-	-
Agencies, Boards and Commissions	3,597,531	2,772,661
Payments to Component Units:		
College of Micronesia-FSM (Board of Regents)	115,000	105,000
College of Micronesia-FSM (SEG)	2,800,000	2,800,000
College of Micronesia-FSM FMI	539,920	1,191,031
FSM Social Security Administration	1,000,000	1,000,000
FSM NGEIP (MiCare)	-	500,000
	4,454,920	5,596,031
Legislative public projects	23,391,351	16,213,372
Total expenditures	78,008,864	67,312,363
Excess of revenues over expenditures	98,089,510	44,593,136

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

GENERAL FUND (FUND 1)
Schedule of Revenues, Expenditures by Function and Department,
and Changes in Fund Balance, Continued
Year Ended September 30, 2018
(with comparative totals for the year ended September 30, 2017)

	<u>2018</u>	<u>2017</u>
Other financing sources (uses):		
Operating transfers in:		
Permit Revolving Fund	-	156,296
Postal Services Revolving Fund	378,802	402,199
Marine Surveillance Revolving Fund	-	40,294
Fisheries Observation Revolving Fund	611,592	64,331
Passport Revolving Fund	<u>211,140</u>	<u>458,773</u>
	<u>1,201,534</u>	<u>1,121,893</u>
Operating transfers out:		
FSM Trust Fund	(89,600,069)	(22,603,932)
Disaster Emergency Fund	<u>(200,000)</u>	<u>(400,000)</u>
	<u>(89,800,069)</u>	<u>(23,003,932)</u>
Total other financing sources (uses), net	<u>(88,598,535)</u>	<u>(21,882,039)</u>
Net change in fund balance	9,490,975	22,711,097
Fund balance at the beginning of the year	<u>108,701,486</u>	<u>85,990,389</u>
Fund balance at the end of the year	<u>\$ 118,192,461</u>	<u>\$ 108,701,486</u>
Reconciliation:		
Fund balance, General Fund	\$ 118,192,461	
Add:		
ADB Loan Fund	43,546,185	
IDF with FSMDB	1,901,366	
Early Retirement Fund	112,026	
FSM Trust Fund	<u>213,808,923</u>	
Fund balance, GAAP	<u>\$ 377,560,961</u>	

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

NONMAJOR GOVERNMENTAL FUNDS

Combining Balance Sheet
September 30, 2018

	27	28	29	31	32	33	34	35	36	39	41	42	43	
	Permit Revolving	Filling Office Revolving	Maritime Operations Revolving	Passport Revolving	Aquaculture Revolving	Fisheries Observer Revolving	Medical Revolving	Nurse Board Revolving	ICQ Overtime Revolving	Scholarship	Maritime Surveillance Revolving	Postal Services Revolving	Insurance Board Revolving	Total
<u>ASSETS</u>														
Receivables	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,403	\$ -	\$ -	\$ 12,404	\$ -	\$ -	\$ -	\$ -	\$ 16,807
Advances	12,557	-	-	4,948	-	15,921	-	(92)	-	-	1,602	-	-	34,936
Due from other funds	101,937	83,656	28,437	747,968	28,653	1,326,207	23,423	28,166	105,226	59,681	1,055,473	70,988	30,877	3,690,692
	<u>\$ 114,494</u>	<u>\$ 83,656</u>	<u>\$ 28,437</u>	<u>\$ 752,916</u>	<u>\$ 28,653</u>	<u>\$ 1,346,531</u>	<u>\$ 23,423</u>	<u>\$ 28,074</u>	<u>\$ 117,630</u>	<u>\$ 59,681</u>	<u>\$ 1,057,075</u>	<u>\$ 70,988</u>	<u>\$ 30,877</u>	<u>\$ 3,742,435</u>
<u>LIABILITIES AND FUND BALANCES</u>														
Liabilities:														
Accounts payable	\$ 307	\$ -	\$ 1,998	\$ 3,303	\$ -	\$ 15,721	\$ -	\$ -	\$ -	\$ 17,064	\$ 15,450	\$ 13,221	\$ -	\$ 67,064
	<u>307</u>	<u>-</u>	<u>1,998</u>	<u>3,303</u>	<u>-</u>	<u>15,721</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,064</u>	<u>15,450</u>	<u>13,221</u>	<u>-</u>	<u>67,064</u>
Fund balances (deficit):														
Committed	<u>114,187</u>	<u>83,656</u>	<u>26,439</u>	<u>749,613</u>	<u>28,653</u>	<u>1,330,810</u>	<u>23,423</u>	<u>28,074</u>	<u>117,630</u>	<u>42,617</u>	<u>1,041,625</u>	<u>57,767</u>	<u>30,877</u>	<u>3,675,371</u>
Total liabilities and fund balances	<u>\$ 114,494</u>	<u>\$ 83,656</u>	<u>\$ 28,437</u>	<u>\$ 752,916</u>	<u>\$ 28,653</u>	<u>\$ 1,346,531</u>	<u>\$ 23,423</u>	<u>\$ 28,074</u>	<u>\$ 117,630</u>	<u>\$ 59,681</u>	<u>\$ 1,057,075</u>	<u>\$ 70,988</u>	<u>\$ 30,877</u>	<u>\$ 3,742,435</u>

See Accompanying Independent Auditors' Report

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

NONMAJOR GOVERNMENTAL FUNDS

Combining Statement of Revenues, Expenditures by Function,
and Changes in Fund Balances (Deficit)
Year Ended September 30, 2018

	27	28	29	31	32	33	34	35	36	39	41	42	43	
	Permit Revolving	Filling Office Revolving	Maritime Operations Revolving	Passport Revolving	Aquaculture Revolving	Fisheries Observer Revolving	Medical Revolving	Nurse Board Revolving	ICQ Overtime Revolving	Scholarship	Maritime Surveillance Revolving	Postal Services Revolving	Insurance Board Revolving	Total
Revenues:														
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 422,898	\$ -	\$ -	\$ -	\$ 422,898
Fees and charges	155,345	6,340	303,092	964,567	-	877,515	4,475	3,235	-	-	1,264,500	469,080	73,123	4,121,272
Other	-	-	-	-	-	-	-	-	263,887	-	-	-	-	263,887
Total revenues	<u>155,345</u>	<u>6,340</u>	<u>303,092</u>	<u>964,567</u>	<u>-</u>	<u>877,515</u>	<u>4,475</u>	<u>3,235</u>	<u>263,887</u>	<u>422,898</u>	<u>1,264,500</u>	<u>469,080</u>	<u>73,123</u>	<u>4,808,057</u>
Expenditures by function:														
Current:														
Transportation, communication and infrastructure	-	-	77,694	-	-	-	-	-	-	-	-	-	-	77,694
Education	-	-	-	-	-	-	-	-	-	465,449	-	-	-	465,449
Justice	87,476	-	-	904,655	-	-	-	-	246,466	-	1,969,002	-	-	3,207,599
Agencies, boards and commissions	-	-	-	-	-	281,961	-	200	-	-	-	121,129	55,000	458,290
Total expenditures	<u>87,476</u>	<u>-</u>	<u>77,694</u>	<u>904,655</u>	<u>-</u>	<u>281,961</u>	<u>-</u>	<u>200</u>	<u>246,466</u>	<u>465,449</u>	<u>1,969,002</u>	<u>121,129</u>	<u>55,000</u>	<u>4,209,032</u>
Excess (deficiency) of revenue over (under) expenditure	67,869	6,340	225,398	59,912	-	595,554	4,475	3,035	17,421	(42,551)	(704,502)	347,951	18,123	599,025
Other financing uses:														
Operating transfers out	-	-	-	(211,140)	-	(611,592)	-	-	-	-	-	(378,802)	-	(1,201,534)
Net change in fund balances (deficit)	67,869	6,340	225,398	(151,228)	-	(16,038)	4,475	3,035	17,421	(42,551)	(704,502)	(30,851)	18,123	(602,509)
Fund balances at the beginning of the year	<u>46,318</u>	<u>77,316</u>	<u>(198,959)</u>	<u>900,841</u>	<u>28,653</u>	<u>1,346,848</u>	<u>18,948</u>	<u>25,039</u>	<u>100,209</u>	<u>85,168</u>	<u>1,746,127</u>	<u>88,618</u>	<u>12,754</u>	<u>4,277,880</u>
Fund balances (deficit) at the end of the year	<u>\$ 114,187</u>	<u>\$ 83,656</u>	<u>\$ 26,439</u>	<u>\$ 749,613</u>	<u>\$ 28,653</u>	<u>\$ 1,330,810</u>	<u>\$ 23,423</u>	<u>\$ 28,074</u>	<u>\$ 117,630</u>	<u>\$ 42,617</u>	<u>\$ 1,041,625</u>	<u>\$ 57,767</u>	<u>\$ 30,877</u>	<u>\$ 3,675,371</u>

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

NONMAJOR GOVERNMENTAL FUNDS

Combining Statement of Revenues, Expenditures by Account,
and Changes in Fund Balances (Deficit)
Year Ended September 30, 2018

	27	28	29	31	32	33	34	35	36	39	41	42	43	
	Permit Revolving	Filling Office Revolving	Maritime Operations Revolving	Passport Revolving	Aquaculture Revolving	Fisheries Observer Revolving	Medical Revolving	Nurse Board Revolving	ICQ Overtime Revolving	Scholarship	Maritime Surveillance Revolving	Postal Services Revolving	Insurance Board Revolving	Total
Revenues:														
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 422,898	\$ -	\$ -	\$ -	\$ 422,898
Fees and charges	155,345	6,340	303,092	964,567	-	877,515	4,475	3,235	-	-	1,264,500	469,080	73,123	4,121,272
Other	-	-	-	-	-	-	-	-	263,887	-	-	-	-	263,887
Total revenues	<u>155,345</u>	<u>6,340</u>	<u>303,092</u>	<u>964,567</u>	<u>-</u>	<u>877,515</u>	<u>4,475</u>	<u>3,235</u>	<u>263,887</u>	<u>422,898</u>	<u>1,264,500</u>	<u>469,080</u>	<u>73,123</u>	<u>4,808,057</u>
Expenditures by account:														
Personnel	-	-	77,694	-	-	108,239	-	-	246,466	-	-	-	-	432,399
Travel and transportation	82,654	-	-	19,241	-	38,068	-	-	-	-	38,460	-	-	178,423
Communications	-	-	-	6,291	-	2,900	-	-	-	-	7,353	-	-	16,544
Food stuffs	-	-	-	-	-	2,656	-	-	-	-	163,158	-	-	165,814
Freight	-	-	-	39,644	-	-	-	-	-	-	73,189	-	-	112,833
Expendable equipment	1,703	-	-	-	-	-	-	-	-	-	23,873	3,616	-	29,192
Office supplies and materials	681	-	-	19,369	-	13,173	-	-	-	-	65,247	5,562	-	104,032
POL	-	-	-	-	-	870	-	-	-	-	839,322	-	-	840,192
Advertising, printing and reproduction	-	-	-	-	-	50	-	-	-	-	-	-	-	50
Rental	-	-	-	-	-	2,944	-	-	-	-	35,110	25	-	38,079
Repair and maintenance	-	-	-	-	-	289	-	-	-	-	5,199	206	-	5,694
Utilities	-	-	-	-	-	2,949	-	-	-	-	8,744	-	-	11,693
General contractual services	-	-	-	818,600	-	90,380	-	-	-	-	481,227	102,180	55,000	1,547,387
Scholarships	-	-	-	-	-	-	-	-	-	465,449	-	-	-	465,449
Equipment	2,438	-	-	1,060	-	-	-	-	-	-	224,584	9,540	-	237,622
Bank charges and others	-	-	-	450	-	19,443	-	200	-	-	3,536	-	-	23,629
Total expenditures	<u>87,476</u>	<u>-</u>	<u>77,694</u>	<u>904,655</u>	<u>-</u>	<u>281,961</u>	<u>-</u>	<u>200</u>	<u>246,466</u>	<u>465,449</u>	<u>1,969,002</u>	<u>121,129</u>	<u>55,000</u>	<u>4,209,032</u>
Excess (deficiency) of revenue over (under) expenditure	67,869	6,340	225,398	59,912	-	595,554	4,475	3,035	17,421	(42,551)	(704,502)	347,951	18,123	599,025
Other financing uses:														
Operating transfers out	-	-	-	(211,140)	-	(611,592)	-	-	-	-	-	(378,802)	-	(1,201,534)
Net change in fund balances (deficit)	<u>67,869</u>	<u>6,340</u>	<u>225,398</u>	<u>(151,228)</u>	<u>-</u>	<u>(16,038)</u>	<u>4,475</u>	<u>3,035</u>	<u>17,421</u>	<u>(42,551)</u>	<u>(704,502)</u>	<u>(30,851)</u>	<u>18,123</u>	<u>(602,509)</u>
Fund balances at the beginning of the year	<u>46,318</u>	<u>77,316</u>	<u>(198,959)</u>	<u>900,841</u>	<u>28,653</u>	<u>1,346,848</u>	<u>18,948</u>	<u>25,039</u>	<u>100,209</u>	<u>85,168</u>	<u>1,746,127</u>	<u>88,618</u>	<u>12,754</u>	<u>4,277,880</u>
Fund balances (deficit) at the end of the year	<u>\$ 114,187</u>	<u>\$ 83,656</u>	<u>\$ 26,439</u>	<u>\$ 749,613</u>	<u>\$ 28,653</u>	<u>\$ 1,330,810</u>	<u>\$ 23,423</u>	<u>\$ 28,074</u>	<u>\$ 117,630</u>	<u>\$ 42,617</u>	<u>\$ 1,041,625</u>	<u>\$ 57,767</u>	<u>\$ 30,877</u>	<u>\$ 3,675,371</u>

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

GRANTS ASSISTANCE FUND

Combining Balance Sheet
September 30, 2018

	10	11	12	13	14	15	16	18	19	20	23	26	
	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	Supplemental Education	Enhanced Reporting Accountability	Infrastructure Maintenance	Section 211(a)(6) Infrastructure	U.S. Federal Grants	Non-U.S. Grants	Disaster Assistance Emergency	Total
ASSETS													
Equity in internal investment pool	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 353,484	\$ -	\$ -	\$ -	\$ 3,598,384	\$ 3,951,868
Receivables:													
Federal agencies	131,071	(290,590)	-	-	15,480	1,046,787	(18,106)	-	1,720,649	734,585	(8,100)	-	3,331,776
Due from other funds	1,143,503	1,031,191	-	-	273,163	-	-	-	-	3,101,223	4,119,488	-	9,668,568
Advances	(5,919)	595	-	-	(343)	78,089	-	-	(198)	182,888	138,056	-	393,168
	<u>\$ 1,268,655</u>	<u>\$ 741,196</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 288,300</u>	<u>\$ 1,124,876</u>	<u>\$ (18,106)</u>	<u>\$ 353,484</u>	<u>\$ 1,720,451</u>	<u>\$ 4,018,696</u>	<u>\$ 4,249,444</u>	<u>\$ 3,598,384</u>	<u>\$ 17,345,380</u>
LIABILITIES AND FUND BALANCES (DEFICIT)													
Liabilities:													
Accounts payable	\$ 35,552	\$ (211,297)	\$ -	\$ -	\$ 439,275	\$ 395,238	\$ -	\$ -	\$ 1,773,501	\$ 1,611,274	\$ 173,242	\$ -	\$ 4,216,785
Retention payable	-	-	-	-	-	-	-	-	-	650,193	-	-	650,193
Due to FSM State Governments	1,233,103	952,493	(76,943)	(156,774)	(150,975)	(926,722)	(28,630)	-	(176,497)	1,762,443	-	-	2,431,498
Due to other funds	-	-	76,943	143,621	-	1,656,360	10,524	23	123,447	-	-	75,485	2,086,403
Unearned revenues	-	-	-	-	-	-	-	-	-	-	4,219,466	71,596	4,291,062
Total liabilities	<u>1,268,655</u>	<u>741,196</u>	<u>-</u>	<u>(13,153)</u>	<u>288,300</u>	<u>1,124,876</u>	<u>(18,106)</u>	<u>23</u>	<u>1,720,451</u>	<u>4,023,910</u>	<u>4,392,708</u>	<u>147,081</u>	<u>13,675,941</u>
Fund balances (deficit):													
Restricted	-	-	-	13,153	-	-	-	353,461	-	-	-	3,451,303	3,817,917
Unassigned	-	-	-	-	-	-	-	-	-	(5,214)	(143,264)	-	(148,478)
Total fund balances (deficits)	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,153</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>353,461</u>	<u>-</u>	<u>(5,214)</u>	<u>(143,264)</u>	<u>3,451,303</u>	<u>3,669,439</u>
Total liabilities and fund balances	<u>\$ 1,268,655</u>	<u>\$ 741,196</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 288,300</u>	<u>\$ 1,124,876</u>	<u>\$ (18,106)</u>	<u>\$ 353,484</u>	<u>\$ 1,720,451</u>	<u>\$ 4,018,696</u>	<u>\$ 4,249,444</u>	<u>\$ 3,598,384</u>	<u>\$ 17,345,380</u>

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

GRANTS ASSISTANCE FUND

Combining Statement of Revenues and Expenditures by Function,
and Changes in Fund Balances (Deficit)
Year Ended September 30, 2018

	10	11	12	13	14	15	16	18	19	20	23	26	
	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	Supplemental Education	Enhanced Reporting Accountability	Infrastructure Maintenance	Section 211(a)(6) Infrastructure	U.S. Federal Grants	Non-U.S. Grants	Disaster Assistance Emergency	Total
Revenues:													
Compact funding	\$ -	\$ -	\$ -	\$ -	\$ 460,000	\$ 732,407	\$ -	\$ -	\$ 2,370,720	\$ -	\$ -	\$ -	\$ 3,563,127
Federal and other grants	-	-	-	-	-	-	-	4,519	-	13,164,310	9,733,637	45,562	22,948,028
	-	-	-	-	460,000	732,407	-	4,519	2,370,720	13,164,310	9,733,637	45,562	26,511,155
Expenditures by function:													
Current:													
General government:													
Finance and administration	-	-	-	-	-	-	-	-	-	1,545,395	369,276	-	1,914,671
Resources and development	-	-	-	-	-	-	-	-	-	175	2,207,153	-	2,207,328
Transportation, communication and infrastructure	-	-	-	-	-	-	-	-	-	-	4,941,239	-	4,941,239
Health and social affairs	-	-	-	-	-	-	-	-	-	4,689,332	467,836	-	5,157,168
National archives, cultural and historic preservation	-	-	-	-	-	-	-	-	-	29,009	21,534	-	50,543
Education	-	-	-	-	-	732,407	-	-	-	673,058	-	-	1,405,465
Environment and emergency management	-	-	-	-	-	-	-	-	-	22,969	717,948	-	740,917
Office of the National Public Auditor	-	-	-	-	460,000	-	-	-	-	-	-	-	460,000
Boards and commissions	-	-	-	-	-	-	-	-	-	-	808,651	-	808,651
Capital Projects	-	-	-	-	-	-	-	-	2,370,720	6,204,372	200,000	-	8,775,092
Total expenditures	-	-	-	-	460,000	732,407	-	-	2,370,720	13,164,310	9,733,637	-	26,461,074
Excess (deficiency) of revenue over (under) expenditure	-	-	-	-	-	-	-	4,519	-	-	-	45,562	50,081
Other financing uses:													
Operating transfers in (out)	-	-	-	-	-	-	-	-	-	-	-	200,000	200,000
Net change in fund balances (deficit)	-	-	-	-	-	-	-	4,519	-	-	-	245,562	250,081
Fund balances (deficit) at the beginning of the year	-	-	-	13,153	-	-	-	348,942	-	(5,214)	(143,264)	3,205,741	3,419,358
Fund balances (deficit) at the end of the year	\$ -	\$ -	\$ -	\$ 13,153	\$ -	\$ -	\$ -	\$ 353,461	\$ -	\$ (5,214)	\$ (143,264)	\$ 3,451,303	\$ 3,669,439

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

GRANTS ASSISTANCE FUND

Combining Statement of Revenues, Expenditures by Account,
and Changes in Fund Balances (Deficit)
Year Ended September 30, 2018

	10	11	12	13	14	15	16	18	19	20	23	26	
	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	Supplemental Education	Enhanced Reporting Accountability	Infrastructure Maintenance	Section 211(a)(6) Infrastructure	U.S. Federal Grants	Non-U.S. Grants	Disaster Assistance Emergency	Total
Revenues:													
Compact funding	\$ -	\$ -	\$ -	\$ -	\$ 460,000	\$ 732,407	\$ -		\$ 2,370,720	\$ -	\$ -	\$ -	\$ 3,563,127
Federal and other grants	-	-	-	-	-	-	-	4,519	-	13,164,310	9,733,637	45,562	22,948,028
	-	-	-	-	460,000	732,407	-	4,519	2,370,720	13,164,310	9,733,637	45,562	26,511,155
Expenditures by account:													
Personnel	-	-	-	-	-	136,433	-	-	19,000	2,378,034	529,630	-	3,063,097
Travel and transportation	-	-	-	-	-	256,529	-	-	-	2,026,259	901,383	-	3,184,171
Communications	-	-	-	-	-	9,392	-	-	-	139,215	4,851	-	153,458
Customs and taxes	-	-	-	-	-	-	-	-	-	2,471	(125,919)	-	(123,448)
Dues, membership and subscription	-	-	-	-	-	-	-	-	-	15,564	771	-	16,335
Food stuffs	-	-	-	-	-	-	-	-	-	8,338	140,658	-	148,996
Freight	-	-	-	-	-	-	-	-	-	26,503	7,415	-	33,918
Expendable equipment/furniture	-	-	-	-	-	2,160	-	-	1,550	113,552	139,129	-	256,391
Office supplies and materials	-	-	-	-	-	14,358	-	-	-	206,117	132,810	-	353,285
POL	-	-	-	-	-	467	-	-	-	38,379	9,809	-	48,655
Advertising, printing and reproduction	-	-	-	-	-	-	-	-	-	55,982	70,513	-	126,495
Rental services	-	-	-	-	-	46,428	-	-	-	94,383	71,540	-	212,351
Repair and maintenance	-	-	-	-	-	250	-	-	-	4,957	1,270	-	6,477
Utilities	-	-	-	-	-	-	-	-	-	168,947	650	-	169,597
Miscellaneous goods and services	-	-	-	-	-	-	-	-	-	1,238	6,451	-	7,689
Medical supplies	-	-	-	-	-	-	-	-	-	257,802	-	-	257,802
Contribution, subsidies	-	-	-	-	-	-	-	-	-	-	800,000	-	800,000
General Contractual services	-	-	-	-	460,000	224,885	-	-	984,339	1,299,031	4,692,805	-	7,661,060
Professional services	-	-	-	-	-	30,000	-	-	-	2,234,590	1,716,207	-	3,980,797
Employee housing and household storage	-	-	-	-	-	-	-	-	-	37,500	12,000	-	49,500
Compensation-nonpayroll	-	-	-	-	-	-	-	-	-	3,994	10,815	-	14,809
Training and registration fees	-	-	-	-	-	-	-	-	-	14,048	47,472	-	61,520
Official and meeting allowances	-	-	-	-	-	-	-	-	-	33,820	-	-	33,820
Insurance and fees	-	-	-	-	-	-	-	-	-	12,592	-	-	12,592
Leased housing, offices, buildings and land	-	-	-	-	-	-	-	-	1,800	84,713	-	-	86,513
Bank charges	-	-	-	-	-	500	-	-	-	475	5,238	-	6,213
Project Management & Administration	-	-	-	-	-	-	-	-	41,591	3,455,794	-	-	3,497,385
Construction Management	-	-	-	-	-	-	-	-	-	284,170	-	-	284,170
Construction payments	-	-	-	-	-	-	-	-	1,019,379	-	-	-	1,019,379
Architecture and design	-	-	-	-	-	-	-	-	303,061	-	-	-	303,061
Equipment	-	-	-	-	-	11,005	-	-	-	165,842	376,332	-	553,179
Vehicle	-	-	-	-	-	-	-	-	-	-	181,807	-	181,807
Total expenditures	-	-	-	-	460,000	732,407	-	-	2,370,720	13,164,310	9,733,637	-	26,461,074
Excess (deficiency) of revenue over (under) expenditure	-	-	-	-	-	-	-	4,519	-	-	-	45,562	50,081
Other financing uses:													
Operating transfers in (out)	-	-	-	-	-	-	-	-	-	-	-	200,000	200,000
Net change in fund balances (deficit)	-	-	-	-	-	-	-	4,519	-	-	-	245,562	250,081
Fund balances (deficit) at the beginning of the year	-	-	-	13,153	-	-	-	348,942	-	(5,214)	(143,264)	3,205,741	3,419,358
Fund balances (deficit) at the end of the year	\$ -	\$ -	\$ -	\$ 13,153	\$ -	\$ -	\$ -	\$ 353,461	\$ -	\$ (5,214)	\$ (143,264)	\$ 3,451,303	\$ 3,669,439

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

GENERAL FUND
Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual, Budgetary Basis
Year Ended September 30, 2018

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
Revenues:				
Local taxes	\$ 7,950,354	\$ 8,985,123	\$ 100,743,063	\$ 91,757,940
Fishing right fees	50,000,000	68,000,000	72,329,651	4,329,651
Postal revenues	200,000	200,000	161,024	(38,976)
Investment earnings	1,000,000	1,000,000	1,652,651	652,651
Fees and charges	7,762,000	82,423,318	106,002	(82,317,316)
MiCare reimbursable	-	-	349,809	349,809
Other	1,143,986	1,143,986	756,174	(387,812)
Total revenues	68,056,340	161,752,427	176,098,374	14,345,947
Expenditures-budgetary basis by department:				
Executive Branch-Core Operational:				
Office of the President	598,005	1,129,292	1,296,516	(167,224)
President's Office - Public Information	106,670	134,833	78,433	56,400
President's Office - ODA & Compact Management	470,916	525,916		525,916
President's Office - Personnel	114,919	121,381	4,414	116,967
Total Office of the President	1,290,510	1,911,422	1,379,363	532,059
Department of External Affairs				
Administration	272,046	293,818	211,276	82,542
Division of APA and Multilateral Affairs	112,787	112,787	284,689	(171,902)
Division of American and European Affairs	92,038	92,038	94,587	(2,549)
FSM Consulate - China	685,661	721,661	662,733	58,928
FSM Consulate - Guam	268,853	268,853	247,551	21,302
FSM Consulate - Honolulu	384,875	384,875	346,328	38,547
FSM Embassy - Tokyo	913,801	931,248	865,472	65,776
FSM Embassy - Washington D.C.	696,968	696,968	706,339	(9,371)
FSM Embassy - Fiji	359,842	359,842	338,630	21,212
FSM Permanent Mission - New York	733,251	733,251	741,432	(8,181)
FSM Consulate - Portland, Oregon	-	433,000	354,359	78,641
Office of Veterans Affairs	239,465	248,349	50	248,299
Total Department of External Affairs	4,759,587	5,276,690	4,853,446	423,244
Department of Health and Social Affairs:				
Administration	159,977	179,649	153,451	26,198
Health System Support	207,099	207,558	199,700	7,858
Environmental Health	329,993	361,806	350,248	11,558
Gender Development Unit	34,024	34,582	34,515	67
Sports and Youth Unit	45,335	45,335	41,339	3,996
Total Department of Health and Social Affairs	776,428	828,930	779,253	49,677
Department of Education:				
Administration	213,739	223,967	227,353	(3,386)
Basic Education & Accreditation (Domestic)	32,671	36,740	17,797	18,943
Basic Education & Accreditation (SEG)	366,598	366,598	-	366,598
Career Technical Education	233,298	234,842	174,305	60,537
Total Department of Education	846,306	862,147	419,455	442,692
Department of Resources and Development:				
Administration	131,570	133,875	(132,094)	265,969
Division of Sectoral Development	596,324	639,855	603,446	36,409
Division of Trade and Investment	178,644	187,981	104,511	83,470
Division of Energy	65,506	65,870	47,958	17,912
Division of Statistics	415,048	442,893	388,483	54,410
Total Department of Resources and Development	1,387,092	1,470,474	1,012,304	458,170
Office of National Archives, Cultural and Historic Preservation	195,818	199,983	187,664	12,319
Office of Environment and Emergency Management:				
Office of the Director	105,753	135,928	589,718	(453,790)
Division of Sustainable Development	105,517	143,741	118,060	25,681
Division of Climate Change	-	56,381	6,606	49,775
Division of Emergency Management	201,351	246,286	175,533	70,753
Total Office of Environment and Emergency Management	412,621	582,336	889,917	(307,581)

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

GENERAL FUND
Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual, Budgetary Basis, Continued
Year Ended September 30, 2018

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
Expenditures-budgetary basis by department, continued:				
Department of Transportation, Communication and Infrastructure:				
Administration	160,289	239,452	231,206	8,246
Division of Marine Transportation	1,147,255	1,362,404	1,160,736	201,668
Division of Infrastructure	481,574	495,565	501,875	(6,310)
Civil Aviation	132,118	161,172	131,016	30,156
Communication	131,126	222,220	222,201	19
Project Management Unit	343,720	794,341	443,829	350,512
Total Department of Transportation, Communication and Infrastructure	2,396,082	3,275,154	2,690,863	584,291
Department of Finance and Administration:				
Administration	224,424	264,789	1,155,144	(890,355)
Division of National Treasury	801,657	979,802	797,162	182,640
Division of Customs and Tax Administration	1,101,266	1,255,186	1,095,508	159,678
Division of Investment & International Finance	127,539	146,615	138,765	7,850
Division of Budget & Economic Management	267,312	293,251	190,190	103,061
Total Department of Finance and Administration	2,522,198	2,939,643	3,376,769	(437,126)
Department of Justice:				
Administration	388,422	537,331	675,488	(138,157)
Registry of Corporation	142,446	147,583	97,945	49,638
Division of Law	243,331	245,217	216,132	29,085
Division of Litigation	376,060	378,428	301,272	77,156
Division of Immigration and Labor	756,868	879,367	810,863	68,504
FSM National Police	1,974,077	2,096,753	1,797,799	298,954
FSM National Police - Fuel	100,000	100,000	-	100,000
Total Department of Justice	3,981,204	4,384,679	3,899,499	485,180
Office of the Public Defender	1,044,083	1,106,302	963,051	143,251
Total Executive Branch-Core Operational	19,611,929	22,837,760	20,451,584	2,386,176
Executive Branch-Non-Core Operational:				
President's Office	1,064,118	2,964,583	1,396,239	1,568,344
Department of External Affairs and LNO's	316,034	772,578	809,307	(36,729)
Department of Health and Social Affairs	667,384	868,394	1,248,396	(380,002)
Department of Education	3,140,000	3,487,796	3,480,857	6,939
Office of Resources and Development	286,498	298,874	669,268	(370,394)
National archives, cultural and historic prevention	91,064	91,064	90,814	250
Office of Environment and Emergency Management	500,987	558,202	124,253	433,949
Department of Transportation, Communication and Infrastructure	2,030,747	3,011,402	8,758,021	(5,746,619)
Department of Finance and Administration	384,024	430,676	898,804	(468,128)
Department of Justice	443,966	1,156,338	817,642	338,696
Total Executive Branch-Non-Core Operational	8,924,822	13,639,907	18,293,601	(4,653,694)
Total Executive Branch	28,536,751	36,477,667	38,745,185	(2,267,518)
Judicial Branch-Core Operational	1,457,980	1,609,805	1,442,822	166,983
Judicial Branch-Non-core Operational	250,000	250,000	302,250	(52,250)
Total Judiciary Branch	1,707,980	1,859,805	1,745,072	114,733
Legislative Branch:				
Office of the Speaker and members	1,968,498	3,589,333	3,594,456	(5,123)
Members and staff	1,960,305	2,615,485	2,292,553	322,932
Delegation offices	490,000	1,286,163	1,235,069	51,094
Total Legislative Branch - Core	4,418,803	7,490,981	7,122,078	368,903
Legislative Branch - Noncore	452,500	652,500	662,615	(10,115)
Total Legislative Branch	4,871,303	8,143,481	7,784,693	358,788
Office of the National Public Auditor				
Public Auditor (Core)	762,855	809,272	669,616	139,656
Single Audit (Non-core)	460,000	460,000	460,000	-
Total Office of the National Public Auditor	1,222,855	1,269,272	1,129,616	139,656
Agencies, Board and Commissions:				
National Election	389,544	473,532	433,283	40,249
General Election	-	-	36,480	(36,480)
Micronesia Legal Services Corporation	250,000	250,000	250,000	-

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

GENERAL FUND
Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual, Budgetary Basis, Continued
Year Ended September 30, 2018

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
Expenditures-budgetary basis by department, continued:				
Agencies, Board and Commissions continued:				
National Oceanic Resource Management Authority	796,594	821,329	591,964	229,365
Tuna Commission Membership	108,505	108,505	108,505	-
MLFC Loan Subsidy	260,000	271,695	262,347	9,348
CIA Subsidy	-	210,000	187,007	22,993
FSM Insurance	302,299	349,738	253,904	95,834
FSM Banking Board	210,298	212,899	152,699	60,200
Postal Services	856,865	920,896	925,824	(4,928)
Total Agencies, Boards and Commissions	3,174,105	3,618,594	3,202,013	416,581
Payments to component units:				
FSM Social Security Administration	1,000,000	1,000,000	1,000,000	-
COM-FSM (Domestic)	3,800,000	3,800,000	2,800,000	1,000,000
Board of Regents-COM	120,000	120,000	115,000	5,000
COM-FSM (FMI)	833,915	833,915	539,920	293,995
COM-FSM (SEG)	689,948	689,948	636,205	53,743
Total payments to component units	6,443,863	6,443,863	5,091,125	1,352,738
Other National government programs-continuing approp	21,946,243	35,257,565	23,391,351	11,866,214
Total expenditures	67,903,100	93,070,247	81,089,055	11,981,192
Excess (deficiency) of revenues over (under) expenditures	153,240	68,682,180	95,009,319	26,327,139
Other financing sources (uses):				
Operating Transfers in (out):				
Passport Fund	-	-	211,140	211,140
Fisheries Observation Fund	-	-	611,592	611,592
National Postal Services Fund	-	-	378,802	378,802
Disaster Relief Fund	-	-	(200,000)	(200,000)
FSM Trust Fund - States	-	82,000,000	(89,600,069)	(171,600,069)
Total Operating Transfers in/out	-	82,000,000	(88,598,535)	(170,598,535)
Total other financing sources (uses), net	-	82,000,000	(88,598,535)	(170,598,535)
	153,240	150,682,180	6,410,784	(144,271,396)
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	-	-	3,080,191	3,080,191
Net change in fund balance	153,240	150,682,180	9,490,975	(141,191,205)
Fund balance at beginning of year	108,701,486	108,701,486	108,701,486	-
Fund balance at end of year	<u>\$ 108,854,726</u>	<u>\$ 259,383,666</u>	<u>\$ 118,192,461</u>	<u>\$ (141,191,205)</u>

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

WORLD BANK PROJECT FINANCIAL SUMMARY
FOR THE YEAR ENDED SEPTEMBER 30, 2018

GRANT NAMES	GRANT AMOUNT	PRIOR YEAR EXPENDITURE	CURRENT YEAR EXPENDITURE	TOTAL EXPENDITURE	CURRENT YEAR ENCUMBRANCES	TOTAL EXPENSES & ENCUMBRANCES	GRANT BALANCE	TOTAL REPLENISHED FROM WORLD BANK	OUTSTANDING REPLENISHMENTS
ENERGY SECTOR DEVELOPMENT PROJECT (ESDP):									
Component 1	9,270,000	(3,648,623)	(435,026)	(4,083,649)	(1,181,655)	(5,265,304)	4,004,696		
Component 2	3,400,000	-	(1,216,187)	(1,216,187)	(299,576)	(1,515,763)	1,884,237		
Component 3	1,730,000	(938,327)	(489,429)	(1,427,756)	(128,853)	(1,556,609)	173,391		
Contingencies	-	-	-	-	-	-	-		
Subtotal	14,400,000	(4,586,950)	(2,140,642)	(6,727,592)	(1,610,084)	(8,337,676)	6,062,324	6,392,314	(335,278)
FSM-PALAU CONNECTIVITY PROJECT (ICT):									
Component 1	44,500,000	(8,622,789)	(19,167,755)	(27,790,544)	(7,041,248)	(34,831,792)	9,668,208		
Component 2 & 3	2,250,000	(197,550)	(348,464)	(546,014)	(265,631)	(811,645)	1,438,355		
Component 4	750,000	(523,724)	(176,185)	(699,909)	(2,712)	(702,621)	47,379		
Subtotal	47,500,000	(9,344,063)	(19,692,404)	(29,036,467)	(7,309,591)	(36,346,058)	11,153,942	28,833,949	(202,518)
PACIFIC ISLANDS REGIONAL OCEANSCAPE PROJECT (PROP):									
Component 1	4,740,000	(551,055)	(546,108)	(1,097,163)	(85,511)	(1,182,674)	3,557,326		
Component 2	300,000	(123,915)	(172,194)	(296,109)	(5,909)	(302,018)	(2,018)		
Component 3	460,000	(115,711)	(83,884)	(199,595)	-	(199,595)	260,405		
Subtotal	5,500,000	(790,681)	(802,186)	(1,592,867)	(91,420)	(1,684,287)	3,815,713	443,610	(1,149,257)
PROGRAMMATIC PREPARATION ADVANCE (PPA):									
OLD	217,496	-	(129,506)	(129,506)	(97,234)	(226,740)	(9,244)		
PFM	708,004	-	(71,161)	(71,161)	(103,426)	(174,587)	533,417		
FMIP	1,885,000	-	(76,527)	(76,527)	(165,150)	(241,677)	1,643,323		
SEDAP	1,159,500	-	(8,440)	(8,440)	(4,580)	(13,020)	1,146,480		
ICT2	1,530,000	-	-	-	-	-	1,530,000		
Subtotal	5,500,000	-	(285,634)	(285,634)	(370,390)	(656,024)	4,843,976	-	(285,634)
TOTAL FOR GRANTS	72,900,000	(14,721,694)	(22,920,866)	(37,642,560)	(9,381,485)	(47,024,045)	25,875,955	35,669,873	(1,972,687)

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

WORLD BANK PROJECT FINANCIAL SUMMARY
FOR THE YEAR ENDED 30 SEPTEMBER 2017 (RESTATED)

GRANT NAMES	GRANT AMOUNT	PRIOR YEAR EXPENDITURE	CURRENT YEAR EXPENDITURE	TOTAL EXPENDITURE	CURRENT YEAR ENCUMBRANCES	TOTAL EXPENSES & ENCUMBRANCES	GRANT BALANCE	TOTAL REPLENISHED FROM WORLD BANK	OUTSTANDING REPLENISHMENTS
PACIFIC REGIONAL INFRASTRUCTURE FACILITY (PRIF):									
Grant Amount**	475,000	(320,000)	(155,000)	(475,000)	-	(475,000)	-		
Subtotal	475,000	(320,000)	(155,000)	(475,000)	-	(475,000)	-	475,000	-
ENERGY SECTOR DEVELOPMENT PROJECT (ESDP):									
Component 1	9,270,000	(1,814,982)	(1,833,641)	(3,648,623)	(465,774)	(4,114,397)	5,155,603		
Component 2	3,400,000	-	-	-	-	-	3,400,000		
Component 3	1,500,000	(458,594)	(479,733)	(938,327)	(208,927)	(1,147,254)	352,746		
Contingencies	230,000	-	-	-	-	-	230,000		
Subtotal	14,400,000	(2,273,576)	(2,313,374)	(4,586,950)	(674,701)	(5,261,651)	9,138,349	3,409,505	(1,177,445)
FSM-PALAU CONNECTIVITY PROJECT (ICT):									
Component 1	44,500,000	(5,200,000)	(3,422,789)	(8,622,789)	(26,149,509)	(34,772,298)	9,727,702		
Component 2	2,250,000	(137,500)	(60,050)	(197,550)	(47,450)	(245,000)	2,005,000		
Component 3	750,000	(203,276)	(320,447)	(523,723)	(145,619)	(669,342)	80,658		
Subtotal	47,500,000	(5,540,776)	(3,803,286)	(9,344,062)	(26,342,578)	(35,686,640)	11,813,360	8,488,690	(855,372)
PACIFIC ISLANDS REGIONAL OCEANSCAPE PROJECT (PROP):									
Component 1	4,740,000	(222,379)	(328,676)	(551,055)	(108,045)	(659,100)	4,080,900		
Component 2	300,000	(10,344)	(113,570)	(123,914)	(127,486)	(251,400)	48,600		
Component 3	460,000	(49,311)	(66,401)	(115,712)	(13,100)	(128,812)	331,188		
Subtotal	5,500,000	(282,034)	(4,311,933)	(4,593,967)	(248,631)	(4,842,598)	657,402	66,619	(4,527,349)
TOTAL FOR GRANTS	67,875,000	(8,416,386)	(6,780,307)	(15,196,693)	(27,265,910)	(42,462,603)	25,412,397	12,439,814	(2,756,879)

** For year 2 of the PRIF contract it was agreed that the amount be adjusted to \$475,000.

See Accompanying Independent Auditors' Report

^ These accounts have been restated to be comparable to the 2018 financial summary. In addition the outstanding replenishments have been restated to deduct total

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 David W. Panuelo
President
Federated States of Micronesia:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information, and the aggregate remaining fund information of Federated States of Micronesia (FSM) National Government as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise FSM National Government's basic financial statements, and have issued our report thereon dated June 28, 2019.

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 FSM Social Security Administration or the discretely presented component units, which were all audited by us. We have issued separate reports on our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for these entities. The findings, if any, included in those reports are not included herein.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered FSM National Government'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 FSM National Government's internal control. Accordingly, we do not express an opinion on the effectiveness of FSM National Government'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.

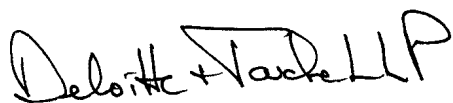
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether FSM National Government'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*.

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 28, 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 David W. Panuelo
President
Federated States of Micronesia:

Report on Compliance for Each Major Federal Program

We have audited FSM National Government'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 FSM National Government's major federal programs for the year ended September 30, 2018. FSM National Government'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, FSM National Government's basic financial statements include the operations of certain entities whose federal awards are not included in the Schedule of Expenditures of Federal Awards for the year ended September 30, 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 of Federal Awards* (the 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 FSM National Government'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 FSM National Government'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 qualified and unmodified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of FSM National Government's compliance.

Basis for Qualified Opinion on CFDA 15.875 and CFDA 20.106

As described in the accompanying Schedule of Findings and Questioned Costs, FSM National Government did not comply with requirements regarding CFDA 15.875 Economic, Social, and Political Development of the Territories as described in finding number 2018-001 for Equipment and Real Property Management and regarding CFDA 20.106 Airport Improvement Program as described in finding number 2018-001 for Equipment and Real Property Management. Compliance with such requirements is necessary, in our opinion, for FSM National Government to comply with the requirements applicable to those programs.

Qualified Opinion on CFDA 15.875 and CFDA 20.106

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, FSM National Government complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 15.875 Economic, Social, and Political Development of the Territories and CFDA 20.106 Airport Improvement Program for the year ended September 30, 2018.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, FSM National Government 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 other major federal programs identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs 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 2018-002. Our opinion on each major federal program is not modified with respect to these matters.

FSM National Government's response to the noncompliance findings identified in our audit is described in the accompanying Corrective Action Plan. FSM National Government'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 FSM National Government 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 FSM National Government'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 FSM National Government's internal control over compliance.

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2018-001 to be material weaknesses.

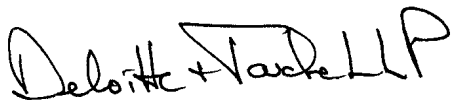
A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2018-002 to be significant deficiencies.

FSM National Government's response to the internal control over compliance findings identified in our audit is described in the accompanying Corrective Action Plan. FSM National Government'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, each major fund, and the aggregate remaining fund information of FSM National Government as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise FSM National Government's basic financial statements. We issued our report thereon dated June 28, 2019, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. 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 28, 2019

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

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

<u>Agency/Program</u>	<u>Expenditures</u>	<u>Amounts Passed-Through to Subrecipients</u>
U.S. Department of Agriculture	\$ 208,814	\$ 208,639
U.S. Department of Commerce	1,545,401	-
U.S. Department of the Interior	72,970,061	69,402,409
U.S. Department of Transportation	6,214,252	-
Institute of Museum and Library Services	24,489	-
U.S. Department of Education	3,732,580	3,059,522
U.S. Department of Health and Human Services	10,874,599	6,195,150
U.S. Small Business Administration	34,973	34,973
U.S. Department of Homeland Security	22,961	-
GRAND TOTAL	<u>\$ 95,628,130</u>	<u>\$ 78,900,693</u>

Note: All grant awards are received from the respective grantor agencies in a direct capacity.

Reconciliation to the basic financial statements:

Expenditures of the Grants Assistance Fund	\$ 26,461,074
Add:	
Amounts Passed-Through to subrecipients	78,900,693
Less:	
Expenditures of the Non U.S. Grants Fund	<u>(9,733,637)</u>
Total expenditures of federal awards	<u>\$ 95,628,130</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

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

<u>Agency/Program</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>	<u>Amounts Passed-Through to Subrecipients</u>
U.S. DEPARTMENT OF AGRICULTURE			
Cooperative Forestry Assistance	10.664	\$ 143,228	\$ 143,053
Urban and Community Forestry Program	10.675	31,090	31,090
Forest Legacy Program	10.676	27,900	27,900
Forest Stewardship Program	10.678	6,596	6,596
U.S. DEPARTMENT OF AGRICULTURE TOTAL		<u>\$ 208,814</u>	<u>\$ 208,639</u>
U.S. DEPARTMENT OF COMMERCE			
Climate and Atmosphere Research	11.431	\$ 1,545,401	\$ -
U.S. DEPARTMENT OF COMMERCE		<u>\$ 1,545,401</u>	<u>\$ -</u>
U.S. DEPARTMENT OF THE INTERIOR			
Economic, Social and Political Development of the Territories	15.875		
Compact Sector Funds:			
Infrastructure and Infrastructure maintenance		\$ 3,780,278	\$ 3,780,278
Education		26,268,946	26,268,946
Health		23,777,115	23,777,115
Capacity Building		2,130,000	1,670,000
Environment		1,737,104	1,737,104
Private Sector		1,198,889	1,198,889
Compact Supplemental Education		9,763,728	9,031,317
IMF		2,541,472	170,756
Compact ERA		1,377,482	1,377,482
Subtotal Compact Sector Funds		<u>72,575,014</u>	<u>69,011,887</u>
Technical Assistance:			
Technical Assistance OIA/DOI Other		183,275	183,275
		<u>183,275</u>	<u>183,275</u>
Total CFDA #15.875		72,758,289	69,195,162
Historic Preservation Fund Grants-In-Aid	15.904	211,772	207,247
U.S. DEPARTMENT OF THE INTERIOR TOTAL		<u>\$ 72,970,061</u>	<u>\$ 69,402,409</u>
U. S. Small Business Administration			
Direct Programs:			
8(a) Business Development Program	59.006	\$ 34,973	\$ 34,973
Total U. S. Small Business Administration		<u>\$ 34,973</u>	<u>\$ 34,973</u>
U.S. DEPARTMENT OF TRANSPORTATION			
Airport Improvement Program	20.106	\$ 6,214,252	\$ -
U.S. DEPARTMENT OF TRANSPORTATION TOTAL		<u>\$ 6,214,252</u>	<u>\$ -</u>
INSTITUTE OF MUSEUM AND LIBRARY SERVICES			
Grants to States	45.310	\$ 24,489	\$ -
INSTITUTE OF MUSEUM AND LIBRARY SERVICES		<u>\$ 24,489</u>	<u>\$ -</u>
U.S. DEPARTMENT OF EDUCATION			
Special Education Cluster (IDEA):			
Special Education - Grants to States	84.027A	\$ 3,732,580	\$ 3,059,522
TOTAL SPECIAL EDUCATION CLUSTER (IDEA) AND			
U.S. DEPARTMENT OF EDUCATION TOTAL		<u>\$ 3,732,580</u>	<u>\$ 3,059,522</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

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

<u>Agency/Program</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>	<u>Amounts Passed-Through to Subrecipients</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Birth Defects and Developmental Disabilities Prevention and Surveillance	93.073	\$ 85,209	\$ -
Public Health Emergency Preparedness	93.069	184,974	-
Public Health Emergency Preparedness Aligned Cooperative Agreement	93.074	716,500	-
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092	230,449	106,642
Maternal and Child Health Federal Consolidated Programs - SSDI Program	93.110	58,128	39,440
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	919,125	356,851
Emergency Medical Services for Children	93.127	150,602	-
Family Planning-Services	93.217	324,010	194,941
Health Center Program Cluster:			
Health Center Program	93.224	<u>2,864,859</u>	<u>2,864,859</u>
Health Center Program Cluster Total		2,864,859	2,864,859
Title V State Sexual Risk Avoidance Education (Title V State SRAE) Program	93.235	41,383	-
Grants to States to Support Oral Health Workforce Activities	93.236	4,184	-
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	1,509,341	995,941
Universal Newborn Hearing Screening	93.251	341,612	5,711
Immunization Cooperative Agreements	93.268	1,074,165	501,192
CDC and Prevention-Investigations and Technical Assistance	93.283	120,995	114,247
Epidemiology and Laboratory Capacity for Infectious Disease Capacity Building in FSM	93.323	96,790	5,747
Epidemiology and Laboratory Capacity for Infectious Disease Capacity Building in FSM	93.521	67,976	-
PPHF: Health Care Surveillance/Health Statistics - Surveillance Program Announcement:			
Behavioral Risk Factor Surveillance System Financed in Part by Prevention and Public Health Fund	93.745	24,730	-
Preventive Health and Health Services Block Grant	93.758	82,994	28,387
OPIOID State Target	93.788	122,538	18,987
Domestic Ebola Supplement to the Epidemiology and Laboratory Capacity for Infectious Diseases	93.815	80,274	-
Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	93.817	1,856	-
Comprehensive Cancer FY17	93.898	232,560	92,863
HIV Care Formula Grants	93.917	39,928	11,990
Assistance Programs for Chronic Disease Prevention and Control	93.945	288,320	109,182
Block Grants for Community Mental Health Services	93.958	141,962	29,623
Block Grants for Prevention and Treatment of Substance Abuse	93.959	617,952	423,121
Maternal and Child Health Services Block Grant to the States	93.994	432,501	276,744
PPHF: Racial and Ethnic Approaches to Community Health Program Financed			
Solely By Public Prevention and Health Funds	93.738	3,055	3,055
CCPI Cancer Program	93.999	15,627	15,627
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL		<u><u>\$ 10,874,599</u></u>	<u><u>\$ 6,195,150</u></u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (B)	97.036	\$ 10,417	\$ -
Emergency Management Performance Grants	97.042	12,544	-
U.S. DEPARTMENT OF HOMELAND SECURITY TOTAL		<u><u>\$ 22,961</u></u>	<u><u>\$ -</u></u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u><u>\$ 95,628,130</u></u>	<u><u>\$ 78,900,693</u></u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

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

1. Scope

Federated States of Micronesia (FSM) National Government is a governmental entity governed by its own Constitution. All significant operations of FSM National Government are included in the scope of the audit (the "Single Audit"). The U.S. Department of the Interior has been designated as FSM National Government's cognizant agency for the Single Audit.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of FSM National Government 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* (the Uniform Guidance). Because the Schedule presents only a selected portion of the operations of FSM National Government, it is not intended to and does not present the financial positions or changes in financial positions of FSM National Government.

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 FSM National Government and its subrecipients maintain their 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.

B. Reporting Entity

For purposes of complying with the Single Audit Act of 1984, as amended in 1996, FSM National Government'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 of Expenditures of Federal Awards presents the federal award programs administered by the FSM National Government, as defined above, for the year ended September 30, 2018.

The FSM National Government's component units are to separately satisfy the requirements of the Uniform Guidance, and information concerning component units is, as follows:

College of Micronesia-FSM

The College of Micronesia-FSM (COM-FSM), a discretely presented component unit, is the recipient of various pass-through funds from FSM National Government and direct grants from the U.S. Department of Agriculture, U.S. Department of the Interior, U.S. Department of Education, and the U.S. Department of Health and Human Services. COM-FSM is to separately satisfy its 2018 reporting responsibilities under the Single Audit Act. Total federal awards for COM-FSM is \$1,263,840.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

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

3. Summary of Significant Accounting Policies, Continued

C. Subrecipients

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

D. Indirect Cost Allocation

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

E. CFDA #15.875

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

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Schedule of Programs Selected for Audit in Accordance with the Uniform Guidance
Year Ended September 30, 2018

<u>Grantor</u>	<u>Description</u>	<u>CFDA No.</u>	<u>Amount of 2018 Expenditures</u>
<u>U.S. Department of Commerce</u>			
	Climate and Atmospheric Research	11.431	\$ 1,545,401
<u>U.S. Department of the Interior</u>			
	Economic, Social and Political Development of the Territories:		
	Compact of Free Association:		
	Compact Sector Grants – Tested at the National level	15.875	\$ 3,563,127
	Compact Sector Grants – Tested at Chuuk State level	15.875	29,610,230
	Compact Sector Grants – Tested at Kosrae State level	15.875	7,954,930
	Compact Sector Grants – Tested at Pohnpei State level	15.875	18,893,991
	Compact Sector Grants – Tested at Yap State level	15.875	<u>11,163,159</u>
			\$ <u>71,185,437</u>
<u>U.S. Department of Transportation</u>			
	Airport Improvement Program	20.106	\$ <u>6,214,252</u>
	Total program expenditures selected		\$ <u>78,945,090</u>
	Total U.S. Federal Program expenditures		\$ <u>95,628,130</u>
	% of Total U.S. Federal expenditures Covered		<u>83%</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

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 |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | No |
| 3. Significant deficiency(ies) identified? | None reported |
| 4. Noncompliance material to financial statements noted? | No |

Federal Awards

Internal control over major federal programs:

- | | |
|---|------------|
| 5. Material weakness(es) identified? | Yes |
| 6. Significant deficiency(ies) identified? | Yes |
| 7. Type of auditors' report issued on compliance for major federal programs: | |
| CFDA 11.431 | Unmodified |
| All other major federal programs | Qualified |
| 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</u>	
<u>Numbers</u>	<u>Name of Federal Program or Cluster</u>
11.431	Climate and Atmospheric Research
15.875	Economic, Social, and Political Development of the Territories – Compact of Free Association Compact Sector Grants
20.106	Airport Improvement Program

- | | |
|--|-------------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$2,868,844 |
| 11. Auditee qualified as low-risk auditee? | No |

Section II – Financial Statement Findings

No matters were reported.

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	20.106	Equipment and Real Property Management	\$	-
2018-002	20.106	Reporting	\$	-

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

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

Finding No.: 2018-001
CFDA Program: DOI 15.875 Economic, Social, and Political Development of the Territories
CFDA Program: DOT 20.106 Airport Improvement Program
Area: Equipment and Real Property Management
Questioned Costs: \$0

Criteria: In accordance with applicable equipment and real property management requirements, 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. In addition, a control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft must be investigated.

Condition:

1. The FSM National Government did not perform the required physical inventory of property acquired in whole or in part under a Federal award within the past two years and reconciliation of capital assets with property records does not periodically occur. We are unable to assess the overall aggregate value of the deficiency. However, the following is a summary of the purchases and capitalized infrastructure for each major program that has a material accumulated balance for the past four years.

CFDA #	2018	2017	2016	2015	Total
15.875	\$ 166,581	\$ 6,326,645	\$ 41,543	\$ -	\$ 6,534,769
20.106	\$32,829,144	\$ -	\$ -	\$ 1,633,666	\$34,462,810

2. Of eleven assets tested for physical existence, aggregating \$6,498,128, we noted the following:

CFDA 15.875:

- 2a. One (or 9%) was comprised of six individual units that did not have assigned tags in the capital asset register and that were identified as a single asset item, for which the related serial numbers were the only identifiers in the vendor's invoice, as follows:

DEPARTMENT	DESCRIPTION	ACQUISITION DATE	ACQUISITION COST
Dept. of Education	MICROSOFT SURFACE PRO LAPTOPS	09/20/2018	\$9,510

- 2b. One (or 9%) was indicated to be located in the FSM Department of Education; however, such could not be sighted, as follows:

DEPARTMENT	DESCRIPTION	ACQUISITION DATE	ACQUISITION COST
Dept. of Education	SURFACE PRO TABLET, MICROSOFT	10/06/2015	\$1,750

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

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

Finding No.: 2018-001, continued
CFDA Program: DOI 15.875 Economic, Social, and Political Development of the Territories
CFDA Program: DOT 20.106 Airport Improvement Program
Area: Equipment and Real Property Management
Questioned Costs: \$0

Cause: The FSM National Government does not appear to have adequate staff to perform the required count and reconciliation and did not enforce monitoring controls over the safeguarding of technology assets.

Effect: The FSM National Government is in noncompliance with applicable equipment management requirements. No questioned cost is presented, as we are unable to quantify the extent of noncompliance.

Recommendation: The FSM National Government's program management should perform the required physical inventory at least once every two years and the results should be reconciled with the property records in accordance with the applicable equipment and real property management requirements. Additional staff may be required to assist in performing the required inventory counts and reconciliations to property records. Purchases of capitalizable assets should be reconciled with equipment and property records. Adequate safeguarding and maintenance of federally funded equipment should be performed to comply with applicable equipment and property management requirements.

Views of Auditee and Corrective Action Plan: See the auditee-prepared corrective action plan.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

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

Finding No.: 2018-002
Federal Agency: U.S. Department of Transportation
CFDA Program: 20.106 Airport Improvement Program
Area: Reporting
Questioned Costs: \$0

Criteria: In accordance with the Federal Aviation Administration Grant Agreement, a Federal Financial Report or Standard Form SF 425 or a reasonable facsimile thereof approved by the Government of the United States, shall be prepared annually and submitted within 90 days after the end of each federal fiscal year. The report shall include transaction information such as federal cash receipts and encumbrances. Additionally, submitted reports should reconcile with underlying records.

Condition: Of 11 SF 425 reports tested, which covered the period from October 1, 2017 to September 30, 2018, we noted variances between the reports and underlying records. as follows:

1. For 6 or (55%), the reported cash receipts differed from the bank statements. Most cash requests for drawdown was received and deposited in FAA checking account as of September 30, 2018.

No.	Grant no.	Prog. No.
1	3-64-0001-014-2015	27313-16
2	3-64-0002-016-2015	27413-16
3	3-64-0003-018-2014	27011-14
4	3-64-0003-019-2015	27212-16
5	3-64-0003-020-2015	27011-15
6	3-64-0004-012-2015	27513-16

2. For 9 or (82%), the reported cash receipts differed from the general ledger. Actual cash receipts per bank statements were recorded in the general ledger.

No.	Grant Award #	Prog. No.
1	3-64-0001-014-2015	27313-16
2	3-64-0001-015-2016	27314-17
3	3-64-0002-016-2015	27413-16
4	3-64-0003-018-2014	27011-14
5	3-64-0003-019-2015	27212-16
6	3-64-0003-020-2015	27011-15
7	3-64-0004-012-2015	27513-16
8	3-64-0004-013-2016	27514-17
9	3-64-0004-015-2017	27515-18

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

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

Finding No.: 2018-002, Continued
Federal Agency: U.S. Department of Transportation
CFDA Program: 20.106 Airport Improvement Program
Grant Number: Various
Requirement: Reporting
Questioned Costs: \$0

Condition, Continued:

3. For 1 or (9%), the reported total encumbrance is less than the total recorded in the general ledger, as follows:

No.	Grant Award #	Program no.
1	3-64-0003-018-2014	27011-14

Cause: The FSM National Government did not effectively monitor and reconcile SF 425 reports to such underlying records as bank statements and the general ledger and such were not updated with the accounting system in a timely manner.

Effect: The FSM National Government is in noncompliance with applicable reporting requirements. No questioned costs are presented because the reporting variances did not impact the validity of actual draws.

Recommendation: The FSM National Government should comply with grant requirements, should retain grant sufficient documentation on file to support compliance with those requirements and should perform monthly reconciliation of all grants drawdown and material subsidiary ledger.

Views of Auditee and Corrective Action Plan: See the auditee-prepared corrective action plan.



Secretary of Finance
&
Administration

**GOVERNMENT OF THE
FEDERATED STATES OF MICRONESIA
Department of Finance and Administration**

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**FSM STATES OF MICRONESIA
NATIONAL GOVERNMENT**

**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)
2018-001	<ol style="list-style-type: none"> 1. Supply section will reconcile capital assets with the register on a regular basis. 2. Supply section and field offices are conducting physical inventory of capital assets and reconciling the identification and condition to the register. 3. Supply section will keep on monitoring capital assets. 	September 30, 2019	Mr. Erick Paul- Assistant Secretary, Division of National Treasury erickpaul691@gmail.com
2018-002	<ol style="list-style-type: none"> 1. The Division of Investment & International Finance and Division of National Treasury will frequently reconcile the cash drawdowns and cash receipts. 2. The Division of Investment & International Finance and Division of National Treasury will ensure that sufficient documentation is retained on file. 	September 30, 2019	Ms. Senny Phillip- Assistant Secretary, Division of Investment & International Finance, Assistant Secretary, Division of National Treasury senny.phillip@ymail.com



Secretary of Finance
&
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**Summary Schedule of Prior Audit Findings and Question Cost
Year Ended September 30, 2018**

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Questioned Cost</u>	<u>Status</u>
2011-008	15.875	\$ -	No further action is warranted per 2 CFR 200.511(b)(3)
2012-002	15.875	-	No further action is warranted per 2 CFR 200.511(b)(3)
2012-003	15.875	-	No further action is warranted per 2 CFR 200.511(b)(3)
2013-003	15.875	-	No further action is warranted per 2 CFR 200.511(b)(3)
2014-003	20.106	-	No further action is warranted per 2 CFR 200.511(b)(3)
2014-010	84.027	-	No further action is warranted per 2 CFR 200.511(b)(3)
2014-011	15.875	-	No further action is warranted per 2 CFR 200.511(b)(3)
2014-003		-	Resolved
2015-001	20.106	-	Applying the two years rule
2015-002	20.106	-	Applying the two years rule
2015-003	20.106	-	Applying the two years rule
2015-004	93.243	-	Applying the two years rule
2015-005	93.074	-	Applying the two years rule
2015-006	93.074	-	Applying the two years rule
2015-007			Resolved
2016-001	20.106	-	We are working with our grantor
2016-002	15.875	-	We are working with our grantor
2016-003		-	We are working with our grantor
2017-001	15.875		We are working with our grantor
		<u>\$ -</u>	