

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

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

YEAR ENDED SEPTEMBER 30, 2017

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

YEAR ENDED SEPTEMBER 30, 2017

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**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

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

YEAR ENDED SEPTEMBER 30, 2017

INDEPENDENT AUDITORS' REPORT

Honorable Peter M. Christian
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, 2017, 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, 2017, 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 these matters.

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 67 through 69, 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.

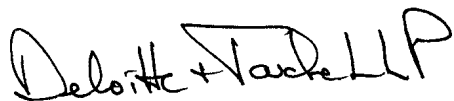
Other Information

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 26, 2018 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 26, 2018

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Management's Discussion and Analysis
September 30, 2017

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, 2017 and of the financial position of the FSM National Government at September 30, 2017. This report is to be read in conjunction with the financial statements of the FSM National Government which begin on page 12. Fiscal Year 2016 comparative information has been included, where appropriate. This MD&A is prepared in compliance with GASB34 requirement.

FINANCIAL HIGHLIGHTS

- For the fiscal year ended September 30, 2017, FSM National Government has total net position of \$488,128,699 (FY16 \$414,996,908). The increase is primarily due to the increase in value of the investments, increase in general and grants assistance revenues.
- During the year, FSM National Government expenses for governmental activities were \$112,706,943 (FY16 \$85,172,673) and were funded by program revenues of \$60,383,816 (FY16 \$41,208,168) and were further funded with taxes and other general revenues that totaled \$123,616,015 (FY16 \$97,425,831).
- During the year, the FSM National Government wrote-off old receivables of \$254,657 (FY16 \$703,250).
- The net change in governmental funds increased by \$66,624,795 (FY16 \$36,603,602). Total revenues reported are \$186,298,131 with total expenditures of \$127,060,776. Total loan proceeds from ADB Loan are \$7,642,098.
- At September 30, 2017, the General Fund reported an unassigned surplus of \$23,640,795 (FY16 \$18,242,441).

OVERVIEW OF THE FINANCIAL STATEMENTS

This Financial Statements for the Year Ended September 30, 2017 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, 2017

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 nine (9) 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 Employees' Health Insurance Plan, the Caroline Islands Air, Inc. and Yap State Development Fund. 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, 2017

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 2017, FSM National Government assets exceeded liabilities by \$488,128,699. Of the total net position, \$268,057,255 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, 2017.

**Table 1- Net Position
Governmental Activities**

	2017	2016	Change	%
Current assets	\$331,939,181	\$244,195,985	\$ 87,743,196	35.9%
Other assets	28,012,364	25,714,038	2,298,326	8.9%
Capital assets	<u>241,611,175</u>	<u>229,454,925</u>	<u>12,156,250</u>	5.3%
Total assets	<u>601,562,720</u>	<u>499,364,948</u>	<u>102,197,772</u>	20.5%
Current and other liabilities	60,064,894	36,356,411	23,708,483	65.2%
Long- term debt	<u>53,369,127</u>	<u>48,011,629</u>	<u>5,357,498</u>	11.2%
Total liabilities	<u>113,434,021</u>	<u>84,368,040</u>	<u>29,065,981</u>	34.5%
Net position:				
Net investment in capital assets	241,611,175	229,454,925	12,156,250	5.3%
Restricted	26,446,080	21,536,085	4,909,995	22.8%
Unrestricted	<u>220,071,444</u>	<u>164,005,898</u>	<u>56,065,546</u>	34.2%
Total net position	<u>488,128,699</u>	<u>414,996,908</u>	<u>73,131,791</u>	17.6%
Total liabilities and net position	<u>\$601,562,720</u>	<u>\$499,364,948</u>	<u>\$102,197,772</u>	20.5%

At the end of FY17, the FSM National Government unrestricted net position shows a surplus of \$220,071,444 compared to \$164,005,898 at the end of FY16.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Management's Discussion and Analysis
September 30, 2017

Table 2 shows the changes in Net Position of the National Government for the years ended September 30, 2017 and 2016.

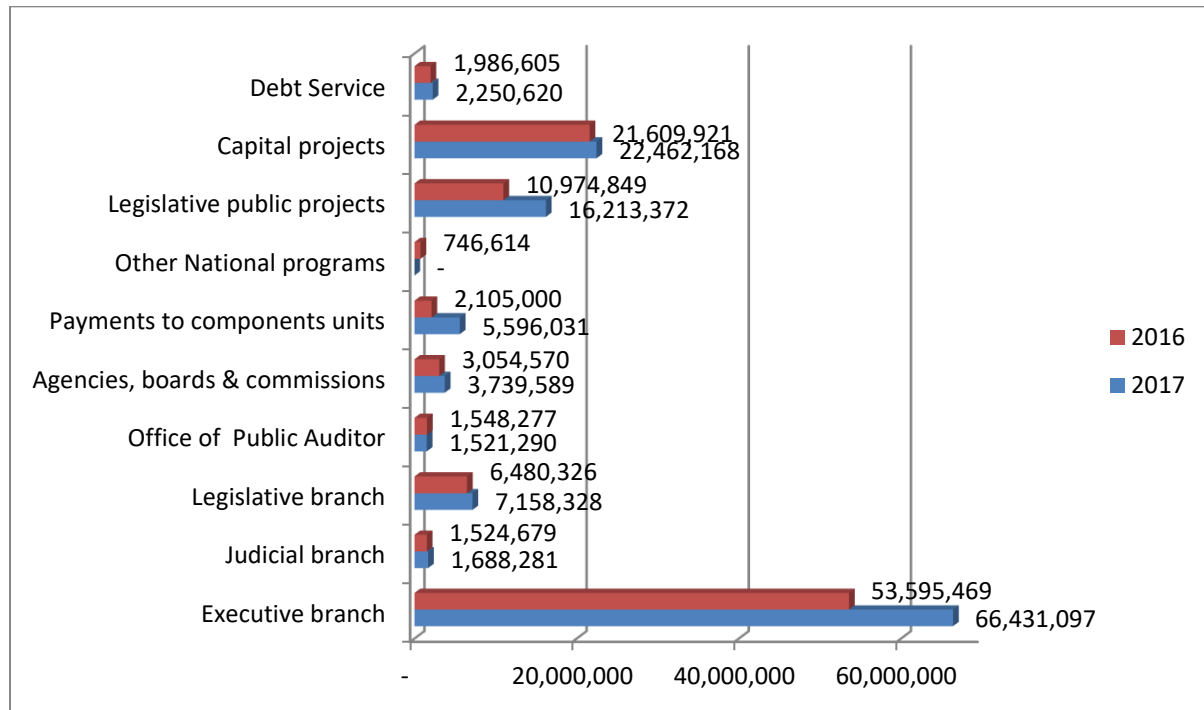
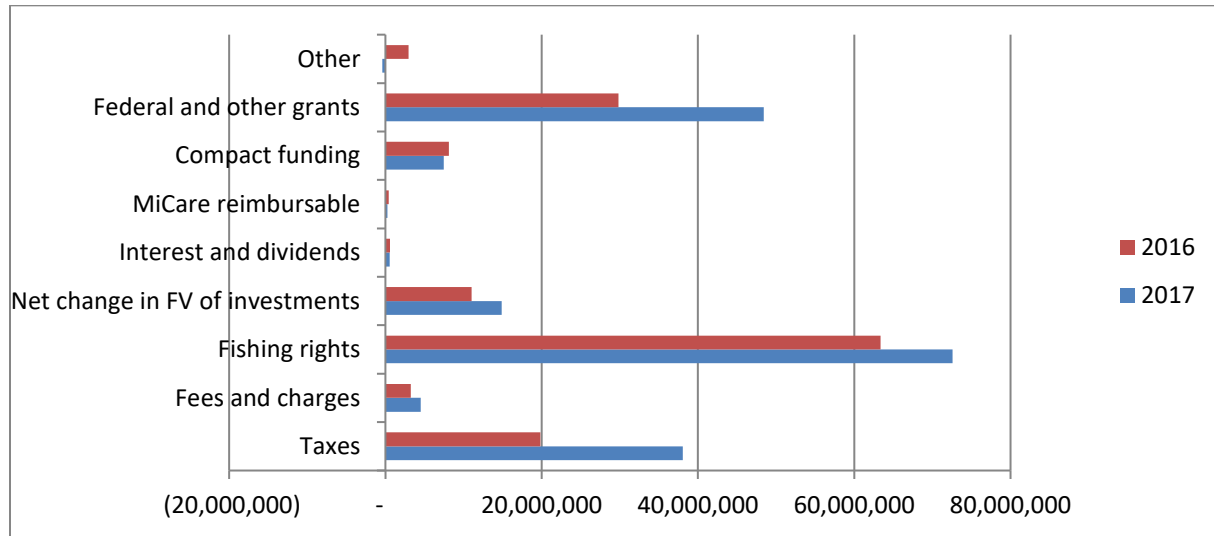
Table 2

	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>%</u>
Revenues:				
Program Revenues:				
Charges for services	\$ 4,532,050	\$ 3,243,386	\$ 1,288,664	39.7%
Operating grants and contributions	33,389,598	30,803,750	2,585,848	8.4%
Capital grants and contributions	22,462,168	7,161,032	15,301,136	213.7%
General Revenues:				
Income tax	4,452,226	4,275,577	176,649	4.1%
Fishing rights fees	72,591,642	63,356,795	9,234,847	14.6%
Fuel	160,301	137,474	22,827	16.6%
Import	4,949,550	4,461,962	487,588	10.9%
Tobacco revenue share	1,137,239	684,079	453,160	66.2%
Gross receipt	4,623,272	4,275,199	348,073	8.1%
Corporate tax	22,731,144	5,994,000	16,737,144	279.2%
Unrestricted investment earnings	13,101,663	10,129,214	2,972,449	29.3%
Other	(131,022)	4,111,531	(4,242,553)	-103.2%
Total revenue	<u>183,999,831</u>	<u>138,633,999</u>	<u>45,365,832</u>	32.7%
Expenditures:				
Executive	69,331,593	60,063,307	9,268,286	15.4%
Judicial	1,736,529	1,573,599	162,930	10.4%
Legislative	7,222,617	6,503,047	719,570	11.1%
Office of Public Auditor	1,566,089	1,590,453	(24,364)	-1.5%
Other National government program	829,057	1,388,263	(559,206)	-40.3%
Agencies, boards & commissions	3,742,795	3,105,311	637,484	20.5%
Payments to components units	5,596,031	2,105,000	3,491,031	165.8%
Legislative Public projects	16,213,372	8,360,762	7,852,610	93.9%
Capital projects	6,468,860	482,930	5,985,930	1239.5
Total expenditures	<u>112,706,943</u>	<u>85,172,672</u>	<u>27,534,271</u>	32.3%
Excess before special items	<u>71,292,888</u>	<u>53,461,327</u>	<u>17,831,561</u>	33.4%
Special items:				
Loss on SDR foreign exchange	(204,740)	(95,917)	(108,823)	113.5%
Receivable written off	(254,657)	(703,250)	448,593	-63.8%
Contribution to permanent funds	2,298,300	1,515,691	782,609	51.6%
Change in net position	<u>73,131,791</u>	<u>54,177,851</u>	<u>18,953,940</u>	35.0%
Net position at beginning of year	<u>414,996,908</u>	<u>360,819,057</u>	<u>54,177,851</u>	15.0%
Net position at end of year	<u>\$488,128,699</u>	<u>\$414,996,908</u>	<u>\$73,131,791</u>	17.6%

FEDERATED STATES OF MICRONESIA NATIONAL GOVERNMENT

Management's Discussion and Analysis
September 30, 2017

National Government revenues from governmental activities, including local revenues, gain on investments, Compact and other grants funding totaled \$183,999,831 (FY16 \$138,633,999). In FY17, the cost of governmental activities totaled \$112,706,943 (FY16 \$85,172,672). The difference between the two including special items represents an increase in net position of \$73,131,791 (FY16 \$54,177,851). To assist in appreciating the details of governmental activities, the above governmental activities information is shown in pictorial form in the following graph.



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, 2017

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 \$298.6 million, which represents an increase of \$66.7 million (or 29%) 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, Other Governmental funds and the General Fund.

Of the total combined fund balance, **(1)** \$80 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 \$45.2 million, equity investments of \$7.4 million, equity shares for membership of \$8.1 million, and permanent fund \$18.4 million and reserved of cash of \$1 million **(2)** \$5.5 million is reserved for restricted as to its use of resources by laws through constitutional provisions or enabling legislation for the general government **(3)** \$182.8 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 \$32.2 million, \$117 million for future operations-FSM Trust Fund, and \$3.1 for revolving funds (b) to continuing appropriations through grant awards or enabling legislation and general governments of \$31.5 million **(4)** \$6.4 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 \$23.7 million, which is \$5.5 million more than the previous year.

The General Fund is the chief operating fund of the FSM National Government. At the end of the current fiscal year, the unassigned fund surplus of the General Fund was \$23.6 million as compared with the prior year ending unreserved fund surplus of \$18.2 million, while total fund balance was \$272.4 million compared with a total fund balance of \$210.6 million at the end of the prior fiscal year, an increase of \$61.8 million. The increase in the overall fund balance in the General Fund was due to the increase in fair value of investments, increases in taxes and fishing rights fees and a decrease in bad debts expense.

The Grants Assistance Fund has a total restricted fund balance of \$3.4 compared to prior year ending restricted fund balance of \$2.4.

The Compact Trust Fund has a total fund balance of \$18.4 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 \$2.3 million.

The Other governmental funds has a total fund balance of \$4.3 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, 2017

Table 3 shows The National Governmental Fund changes in fund balances for the years ended September 30, 2016 and 2015.

**Table 3
Changes in Fund Balances**

	General Fund		Other Funds		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Compact funding	\$ -	\$ -	\$ 7,445,125	\$ 8,131,263	\$ 7,445,125	\$ 8,131,263
Federal and other grants	-	-	48,406,641	29,833,519	48,406,641	29,833,519
Taxes	37,674,152	19,600,126	379,580	228,165	38,053,732	19,828,291
Fishing rights fees	72,591,642	63,356,795	-	-	72,591,642	63,356,795
Net increase in fair value of investments	12,575,970	9,529,749	2,298,300	1,515,691	14,874,270	11,045,440
Other	425,133	4,039,931	4,501,588	3,179,617	4,926,721	7,219,548
Total revenues	123,266,897	96,526,601	63,031,234	42,888,255	186,298,131	139,414,856
Expenditures	69,563,563	63,333,875	57,497,213	40,292,435	127,060,776	103,626,310
Excess of revenues over expenditures	53,703,334	33,192,726	5,534,021	2,595,820	59,237,355	35,788,546
Net financing sources	8,363,990	3,737,546	(721,893)	(2,858,157)	7,642,097	879,389
Net special items	(254,657)	(64,333)	-	-	(254,657)	(64,333)
Net Change in fund balance	\$ 61,812,667	\$36,865,939	\$ 4,812,128	\$ (262,337)	\$ 66,624,795	\$ 36,603,602

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 \$18,925,610 or 20% while expenditures were more than budget by \$2,343,092 or 3%. There were material budget overruns at certain levels.

	Budget Original	Budget Final	Actual Amounts	Variance Positive (Negative)
Revenues	\$74,541,124	\$92,979,889	\$111,905,499	\$ 18,925,610
Expenditures	62,515,981	71,364,744	73,707,836	(2,343,092)
Excess of revenues	12,025,143	21,615,145	38,197,663	16,582,518
Other financing sources (uses)	(7,500,000)	(7,900,000)	(21,882,039)	(13,982,039)
Net change unassigned	\$ 4,525,143	\$13,715,145	\$ 16,315,624	\$ 2,600,479

During the year, the FSM National government provided additional supplemental appropriations for operations and CFMS Projects under Public laws Nos. 19-118, 19-125, 19-131, 19-135, 19-146, 19-160, 19-170, 20-01, 20-14, 20-23, 20-40, 20-46 and 20-74.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of the September 30, 2017, FSM National Government had invested \$241,611,175 (FY16 \$229,454,925) 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, 2017

**Primary Government
Governmental Activities**

	2017	2016	Change	%
Buildings	\$ 72,820,542	\$ 66,495,168	\$ 6,325,374	10%
Boats and ships	22,274,957	22,198,534	76,423	0%
Infrastructure	126,662,280	126,662,280	-	0%
Motor vehicles	4,352,096	4,425,985	(73,889)	-2%
Computer equipment	2,369,105	2,260,703	108,402	5%
Aircraft	709,207	709,207	-	0%
Furniture, fixture, equipment	8,911,119	8,805,372	105,747	1%
Total assets	238,099,306	231,557,249	6,542,057	3%
Less: Accumulated depreciation	(77,660,266)	(67,281,151)	(10,379,115)	15%
Land	1,674,383	1,674,383	-	100%
Construction in progress	79,497,752	63,504,444	15,993,308	25%
Total Assets	\$241,611,175	\$229,454,925	\$12,156,250	5%

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 2017, National Government had long term debt of \$55,145,459 (FY16 \$49,549,242) relating to Governmental Activities as shown below:

Description	No.	2017	2016	Change	%
Fisheries	1257	\$ 3,538,655	\$ 3,719,792	\$ (181,137)	-4.87%
Water and Sanitation	1459	6,900,652	7,183,609	(282,957)	-3.94%
Early retirement	1520	14,132,026	14,331,611	(199,585)	-1.39%
Private Sector	1816	2,279,702	2,405,875	(126,173)	-5.24%
Private Sector	1873	1,804,729	1,995,644	(190,915)	-9.57%
Basic Social Services	1874	4,360,216	4,575,391	(215,175)	-4.70%
Omnibus (OIDP)	2099	10,668,366	11,122,920	(454,554)	-4.09%
Omnibus (OCR)	2100	4,032,506	4,214,400	(181,894)	-4.32%
Yap REDP	3004	3,808,646	-	3,808,646	0.00%
Yap REDP	3005	3,619,961	-	3,619,961	0.00%
Total		\$55,145,459	\$49,549,242	\$5,596,217	11.35%

During the year, FSM National Government received loan proceeds of \$7,642,098 for loans under 2099 FSM (SF) Omnibus Infrastructure Development Project, 3004 FSM (SF) and 3005 FSM (SF) Yap Renewable Energy Development Project. During the year, the FSM National Government made principal payments of \$2,045,881 and recognized a loss on foreign exchange adjustment due to SDR.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Management's Discussion and Analysis
September 30, 2017

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

Economic Factors and Next year's Budget:

Fiscal year 2017 represents the thirteenth 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 \$108.3 million. Funding under the amended Compact represents 1% of the National Government FY17 annual budget. The remaining 99% came from locally generated tax revenues, fishing access fees, investment earnings and related government services fees.

The FSM National Government ended fiscal year 2017 with a positive unassigned general fund surplus.

For FY2018, the total revenue projection is approximately \$113,843,979, of which \$106,979,109 or 94% will come from domestic source, \$6,864,870 or 6% will come from the amended compact sector grants (\$4,252,250 will be used for COM infrastructure project).

In the beginning of FY2018, the first annual appropriation amounts to \$70,572,055 of which \$58,857,141 or 83% is to be funded by locally generated revenues of the FSM National Government and \$11,714,914 or 17% will come from amended 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, 2017

	Primary Government	Component Units
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 76,110,023	\$ 40,997,979
Cash and cash equivalents - restricted	7,791,008	-
Time certificates of deposit	4,038,577	4,797,931
Investments	151,132,010	6,427,130
Receivables, net of allowance for uncollectibles	92,867,563	15,620,376
Due from component units	-	1,504,747
Inventories	-	14,533,923
Other current assets	-	3,509,539
Total current assets	<u>331,939,181</u>	<u>87,391,625</u>
Noncurrent assets:		
Investments	-	30,710,272
Investments - restricted	18,435,046	-
Receivables, net of current portion	-	21,968,784
Due from component units	-	7,988,129
Capital assets:		
Nondepreciable capital assets	81,172,135	9,215,645
Capital assets, net of accumulated depreciation	160,439,040	54,142,081
Other assets	9,577,318	4,315,914
Total noncurrent assets	<u>269,623,539</u>	<u>128,340,825</u>
Total assets	<u>\$ 601,562,720</u>	<u>\$ 215,732,450</u>
LIABILITIES		
Current liabilities:		
Current portion of long-term obligations	\$ 2,614,082	\$ 4,770,736
Accounts payable	30,922,091	10,625,071
Current portion of compensated absences payable	277,661	299,933
Due to component units	-	1,504,747
Other liabilities and accruals	15,713,826	8,371,488
Tax refunds payable	157	-
Retention payable	879,571	-
Due to federal agencies	-	-
Due to FSM State Governments	6,468,959	-
Unearned revenues	3,188,547	3,070,387
Total current liabilities	<u>60,064,894</u>	<u>28,642,362</u>
Noncurrent liabilities:		
Long-term obligations, net of current portion	52,531,377	33,967,339
Compensated absences payable, net of current portion	837,750	-
Total noncurrent liabilities	<u>53,369,127</u>	<u>33,967,339</u>
Total liabilities	<u>113,434,021</u>	<u>62,609,701</u>
NET POSITION		
Net investment in capital assets	241,611,175	36,670,556
Restricted for:		
Nonexpendable:		
Future operations	18,435,046	-
Other purposes	-	6,161,678
Expendable:		
Compact related	3,716,756	-
Other purposes	4,294,278	-
Unrestricted	<u>220,071,444</u>	<u>110,290,515</u>
Total net position	<u>488,128,699</u>	<u>153,122,749</u>
Total liabilities and net position	<u>\$ 601,562,720</u>	<u>\$ 215,732,450</u>

See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Statement of Activities
Year Ended September 30, 2017

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
Primary government:						
Governmental activities:						
Office of the President	\$ 2,263,299	\$ -	\$ -	\$ -	\$ (2,263,299)	\$ -
Foreign affairs	4,844,230	-	-	-	(4,844,230)	-
Finance and administration	6,163,408	-	1,560,823	-	(4,602,585)	-
Resources and development	4,390,465	-	2,772,134	-	(1,618,331)	-
Transportation, communication and infrastructure	37,186,151	350,310	20,893,818	-	(15,942,023)	-
Health and social affairs	6,727,209	3,445	5,182,124	-	(1,541,640)	-
Education	2,067,934	-	1,779,740	-	(288,194)	-
Justice	4,173,339	2,278,384	-	-	(1,894,955)	-
Office of the Public Defender	817,524	-	-	-	(817,524)	-
Environment and emergency management	473,786	-	179,518	-	(294,268)	-
National archives, cultural and historic preservation	224,248	-	37,239	-	(187,009)	-
Legislature	7,222,617	-	-	-	(7,222,617)	-
Judiciary	1,736,529	-	-	-	(1,736,529)	-
Office of the National Public Auditor	1,566,089	-	475,000	-	(1,091,089)	-
National government programs	829,057	-	-	-	(829,057)	-
Agencies, boards and commissions	3,742,795	1,899,911	509,202	-	(1,333,682)	-
Payments to component units	5,596,031	-	-	-	(5,596,031)	-
Legislative public projects	16,213,372	-	-	22,462,168	6,248,796	-
Capital projects	6,468,860	-	-	-	(6,468,860)	-
Total primary government	<u>\$ 112,706,943</u>	<u>\$ 4,532,050</u>	<u>\$ 33,389,598</u>	<u>\$ 22,462,168</u>	<u>(52,323,127)</u>	<u>-</u>
Component units:						
FSM Telecommunications Corporation	\$ 14,144,129	\$ 14,159,193	\$ 559,979	\$ -	-	575,043
FSM Development Bank	1,851,240	2,808,000	-	-	-	956,760
National Fisheries Corporation	538,914	760,443	3,100,000	-	-	3,321,529
College of Micronesia - FSM	19,891,058	19,530,855	-	-	-	(360,203)
FSM Petroleum Corporation	42,248,578	47,017,995	-	-	-	4,769,417
Vital Energy Inc.	16,457,529	16,567,138	-	-	-	109,609
Caroline Islands Air, Inc.	621,557	692,068	46,693	-	-	117,204
FSM National Government Employees Health F	7,627,740	6,399,434	500,000	-	-	(728,306)
Total component units	<u>\$ 103,380,745</u>	<u>\$ 107,935,126</u>	<u>\$ 4,206,672</u>	<u>\$ -</u>	<u>-</u>	<u>8,761,053</u>
General revenues:						
Taxes:						
Income					4,452,226	-
Import					4,949,550	-
Gross receipts					4,623,272	-
Corporate tax					22,731,144	-
Fuel					160,301	-
Tobacco revenue share					1,137,239	-
Fishing rights					72,591,642	-
Unrestricted investment earnings					13,101,663	4,204,152
Other					(131,022)	(956,428)
Total general revenues					123,616,015	3,247,724
Special item - loss on SDR foreign exchange					(204,740)	-
Special item - write-off of receivable balances					(254,657)	-
Contributions to permanent funds					2,298,300	-
Total general revenues and contributions					<u>125,454,918</u>	<u>3,247,724</u>
Change in net position					73,131,791	12,008,777
Net position at the beginning of the year					414,996,908	141,113,972
Net position at the end of the year					<u>\$ 488,128,699</u>	<u>\$ 153,122,749</u>

See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Balance Sheet
Governmental Funds
September 30, 2017

	General	Special Revenue Grants Assistance	Permanent Compact Trust	Other Governmental Funds	Total
ASSETS					
Cash and cash equivalents	\$ 76,110,023	\$ -	\$ -	\$ -	\$ 76,110,023
Time certificates of deposit	4,038,577	-	-	-	4,038,577
Equity in internal investment pool	141,455,615	3,751,785	-	-	145,207,400
Investments	5,924,610	-	-	-	5,924,610
Receivables, net:					
General	7,596,563	15,561,165	-	9,403	23,167,131
Taxes	6,018,376	-	-	-	6,018,376
Federal agencies	-	11,368,991	-	-	11,368,991
Loans	46,528,021	-	-	-	46,528,021
Advances	1,407,931	109,528	-	18,029	1,535,488
Accrued interest	29,684	-	-	-	29,684
Due from other funds	2,024,600	9,239,882	-	4,666,301	15,930,783
Other assets	9,577,318	-	-	-	9,577,318
Restricted assets:					
Cash and cash equivalents	7,791,008	-	-	-	7,791,008
Investments	-	-	18,435,046	-	18,435,046
Total assets	<u>\$ 308,502,326</u>	<u>\$ 40,031,351</u>	<u>\$ 18,435,046</u>	<u>\$ 4,693,733</u>	<u>\$ 371,662,456</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 4,028,490	\$ 26,676,665	\$ -	\$ 216,936	\$ 30,922,091
Retention payable	-	879,571	-	-	879,571
Other liabilities and accruals	15,713,826	-	-	-	15,713,826
Tax refunds payable	157	-	-	-	157
Due to federal agencies	-	-	-	-	-
Due to FSM State Governments	2,427,432	4,041,527	-	-	6,468,959
Due to other funds	13,906,183	1,825,683	-	198,917	15,930,783
Unearned revenues	-	3,188,547	-	-	3,188,547
Total liabilities	<u>36,076,088</u>	<u>36,611,993</u>	<u>-</u>	<u>415,853</u>	<u>73,103,934</u>
Fund balances:					
Non-spendable	61,791,257	-	18,435,046	-	80,226,303
Restricted	1,979,497	3,567,836	-	-	5,547,333
Committed	178,619,216	-	-	4,277,880	182,897,096
Assigned	6,395,473	-	-	-	6,395,473
Unassigned:					
General fund	23,640,795	-	-	-	23,640,795
Special revenue funds	-	(148,478)	-	-	(148,478)
Total fund balances	<u>272,426,238</u>	<u>3,419,358</u>	<u>18,435,046</u>	<u>4,277,880</u>	<u>298,558,522</u>
Total liabilities and fund balances	<u>\$ 308,502,326</u>	<u>\$ 40,031,351</u>	<u>\$ 18,435,046</u>	<u>\$ 4,693,733</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				241,611,175	
Loans receivable from FSM State Governments				4,219,872	
Long-term liabilities, including loans payable, are not due and payable in the current period and, therefore, are not reported in the funds.					
These liabilities include:					
Loans payable				(55,145,459)	
Compensated absences payable				(1,115,411)	
					189,570,177
Net position of governmental activities					<u>\$ 488,128,699</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, 2017

	General	Special Revenue Grants Assistance	Permanent Compact Trust	Other Governmental Funds	Total
Revenues:					
Compact funding	\$ -	\$ 7,445,125	\$ -	\$ -	\$ 7,445,125
Taxes	37,674,152	-	-	379,580	38,053,732
Federal and other grants	-	48,406,641	-	-	48,406,641
Fishing rights	72,591,642	-	-	-	72,591,642
Interest and dividends	525,693	-	-	-	525,693
Fees and charges	268,897	-	-	4,263,153	4,532,050
Net change in the fair value of investments	12,575,970	-	2,298,300	-	14,874,270
MiCare reimbursible	274,296	-	-	-	274,296
Other	(643,753)	-	-	238,435	(405,318)
Total revenues	123,266,897	55,851,766	2,298,300	4,881,168	186,298,131
Expenditures:					
Current:					
General government:					
Office of the President	2,220,811	-	-	-	2,220,811
Foreign affairs	4,409,578	-	-	-	4,409,578
Finance and administration	4,588,901	1,560,823	-	-	6,149,724
Resources and development	1,609,467	2,772,134	-	-	4,381,601
Transportation, communication and infrastructure	9,199,352	20,299,452	-	157,454	29,656,258
Health and social affairs	1,274,592	5,182,124	-	-	6,456,716
Education	3,853,734	1,779,740	-	547,320	6,180,794
Justice	4,550,983	-	-	1,077,313	5,628,296
Office of the Public Defender	810,776	-	-	-	810,776
Environment and emergency management	127,597	179,518	-	-	307,115
National archives, cultural and historic preservation	192,189	37,239	-	-	229,428
Legislature	7,158,328	-	-	-	7,158,328
Judiciary	1,688,281	-	-	-	1,688,281
Office of the National Public Auditor	1,046,290	475,000	-	-	1,521,290
Agencies, boards and commissions	2,772,661	509,202	-	457,726	3,739,589
Payments to component units and fiduciary fund	5,596,031	-	-	-	5,596,031
Legislative public projects	16,213,372	-	-	-	16,213,372
Capital projects	-	22,462,168	-	-	22,462,168
Debt service:					
Principal and interest payments	2,250,620	-	-	-	2,250,620
Total expenditures	69,563,563	55,257,400	-	2,239,813	127,060,776
Excess (deficiency) of revenues over (under) expenditures	53,703,334	594,366	2,298,300	2,641,355	59,237,355
Other financing sources (uses):					
Proceeds from issuance of long-term debt	7,642,097	-	-	-	7,642,097
Operating transfers in	1,121,893	400,000	-	-	1,521,893
Operating transfers out	(400,000)	-	-	(1,121,893)	(1,521,893)
Total other financing sources (uses), net	8,363,990	400,000	-	(1,121,893)	7,642,097
Special items:					
Noncash reduction in loans receivable	(254,657)	-	-	-	(254,657)
Net change in fund balances	61,812,667	994,366	2,298,300	1,519,462	66,624,795
Fund balances at the beginning of the year	210,613,571	2,424,992	16,136,746	2,758,418	231,933,727
Fund balances at the end of the year	\$ 272,426,238	\$ 3,419,358	\$ 18,435,046	\$ 4,277,880	\$ 298,558,522

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, 2017

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

Net change in fund balances - total governmental funds	\$ 66,624,795
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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	\$ 22,565,209	
Depreciation expense, net	<u>(10,408,959)</u>	12,156,250

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.	(7,642,098)
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Repayment of ADB loans and special items loss on SDR	2,045,881
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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>(53,037)</u>
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Change in net position of governmental activities	\$ <u>73,131,791</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, 2017

	FSM Social Security Administration	Yap State Development Loan Fund	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 2,534,801	\$ 121,146	\$ 2,655,947
Time certificates of deposit	-	148,945	148,945
Receivables:			
Contributions	3,061,307	-	3,061,307
Other	30,957	633	31,590
Investments	50,043,606	-	50,043,606
Capital assets, net of accumulated depreciation	71,550	-	71,550
	<u>55,742,221</u>	<u>270,724</u>	<u>56,012,945</u>
Total assets	<u>\$ 55,742,221</u>	<u>\$ 270,724</u>	<u>\$ 56,012,945</u>
<u>LIABILITIES</u>			
Accounts payable	\$ 206,367	\$ 15,000	\$ 221,367
Other liabilities and accruals	29,410	-	29,410
	<u>235,777</u>	<u>15,000</u>	<u>250,777</u>
Total liabilities	<u>235,777</u>	<u>15,000</u>	<u>250,777</u>
<u>NET POSITION</u>			
Held in trust for:			
Social security benefits	55,506,444	-	55,506,444
Restricted	-	-	-
Other purposes	-	255,724	255,724
	<u>55,506,444</u>	<u>255,724</u>	<u>55,762,168</u>
Total net position	<u>55,506,444</u>	<u>255,724</u>	<u>55,762,168</u>
	<u>\$ 55,742,221</u>	<u>\$ 270,724</u>	<u>\$ 56,012,945</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, 2017

	FSM Social Security Administration	Yap State Development Loan Fund	Total
Additions:			
Contributions	\$ 18,891,261	\$ -	\$ 18,891,261
Investment earnings:			
Net change in the fair value of investments	5,835,390	-	5,835,390
Interest and dividends	1,041,733	372	1,042,105
Total investment earnings	6,877,123	372	6,877,495
Less investment expense	(279,124)	-	(279,124)
Net investment earnings	6,597,999	372	6,598,371
Contributions from primary government	1,000,000	-	1,000,000
Other	394,032	-	394,032
Total additions	26,883,292	372	26,883,664
Deductions:			
Benefits	20,778,049	-	20,778,049
Refunds/distribution	23,024	-	23,024
Administrative expenses	1,247,437	-	1,247,437
Total deductions	22,048,510	-	22,048,510
Change in net position	4,834,782	372	4,835,154
Net position at the beginning of the year	50,671,662	255,352	50,927,014
Net position at the end of the year	\$ 55,506,444	\$ 255,724	\$ 55,762,168

See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Combining Statement of Net Position
Component Units
September 30, 2017

	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	Total
ASSETS									
Current assets:									
Cash and cash equivalents	\$ 1,589,393	\$ 3,811,745	\$ 581,200	\$ 6,895,203	\$ 16,697,519	\$ 8,896,598	\$ 557,920	\$ 1,968,401	\$ 40,997,979
Time certificates of deposit	278,174	4,119,739	-	18	-	400,000	-	-	4,797,931
Investments	1,811,148	-	524,104	2,990,905	-	-	-	1,100,973	6,427,130
Receivables, net:									
General	866,950	-	169,638	3,318,613	1,545,563	276,060	-	363,034	6,539,858
Loans	-	7,638,000	-	-	-	-	-	-	7,638,000
Interest	122,560	116,340	-	-	-	-	-	-	238,900
Other	735,580	-	-	294,496	92,560	-	-	80,982	1,203,618
Due from component units	-	-	-	-	1,504,747	-	-	-	1,504,747
Inventories	734,893	-	-	1,170,005	6,956,412	5,616,378	56,235	-	14,533,923
Prepaid expenses	201,250	60,542	-	643,658	2,275,885	318,508	9,696	-	3,509,539
Total current assets	6,339,948	15,746,366	1,274,942	15,312,898	29,072,686	15,507,544	623,851	3,513,390	87,391,625
Noncurrent assets:									
Indefeasible right of use	2,559,411	-	-	-	-	-	-	-	2,559,411
Capital assets:									
Nondepreciable capital assets	349,547	-	-	1,455,685	7,087,413	-	-	323,000	9,215,645
Capital assets, net of accumulated depreciation	34,021,683	1,510,124	72,317	6,506,084	11,851,417	139,045	26,716	14,695	54,142,081
Other assets	-	-	-	-	1,487,344	-	-	269,159	1,756,503
Due from component units, net of current	-	-	-	-	7,988,129	-	-	-	7,988,129
Investments	-	20,334,255	1,914,000	6,161,678	2,300,339	-	-	-	30,710,272
Loans receivable, net	-	21,968,784	-	-	-	-	-	-	21,968,784
Total noncurrent assets	36,930,641	43,813,163	1,986,317	14,123,447	30,714,642	139,045	26,716	606,854	128,340,825
Total assets	\$ 43,270,589	\$ 59,559,529	\$ 3,261,259	\$ 29,436,345	\$ 59,787,328	\$ 15,646,589	\$ 650,567	\$ 4,120,244	\$ 215,732,450
LIABILITIES									
Current liabilities:									
Current portion of long-term debt	\$ 1,939,102	\$ 139,710	\$ -	\$ -	\$ 547,028	\$ 480,000	\$ -	\$ -	\$ 3,105,840
Current portion of long-term contract	1,664,896	-	-	-	-	-	-	-	1,664,896
Compensated absences payable	-	-	-	299,933	-	-	-	-	299,933
Accounts payable	149,491	84,630	1,154	343,790	4,662,421	79,542	9,363	5,294,680	10,625,071
Due to primary government	-	-	-	-	-	1,504,747	-	-	1,504,747
Other liabilities and accruals	637,345	778,499	17,891	1,068,953	4,697,033	1,171,767	-	-	8,371,488
Unearned revenues	631,838	-	-	2,438,549	-	-	-	-	3,070,387
Total current liabilities	5,022,672	1,002,839	19,045	4,151,225	9,906,482	3,236,056	9,363	5,294,680	28,642,362
Noncurrent liabilities:									
Noncurrent portion of long-term contract	54,640	-	-	-	-	-	-	-	54,640
Noncurrent portion of long-term debt	20,161,493	881,194	-	410,028	2,320,011	10,139,973	-	-	33,912,699
Total noncurrent liabilities	20,216,133	881,194	-	410,028	2,320,011	10,139,973	-	-	33,967,339
Total liabilities	25,238,805	1,884,033	19,045	4,561,253	12,226,493	13,376,029	9,363	5,294,680	62,609,701
NET POSITION									
Net investment in capital assets	10,551,099	1,510,124	72,317	7,961,769	16,071,791	139,045	26,716	337,695	36,670,556
Restricted for:									
Nonexpendable	-	-	-	6,161,678	-	-	-	-	6,161,678
Unrestricted	7,480,685	56,165,372	3,169,897	10,751,645	31,489,044	2,131,515	614,488	(1,512,131)	110,290,515
Total net position	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
Total liabilities and net position	\$ 43,270,589	\$ 59,559,529	\$ 3,261,259	\$ 29,436,345	\$ 59,787,328	\$ 15,646,589	\$ 650,567	\$ 4,120,244	\$ 215,732,450

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, 2017

	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	Total
Operating revenues:									
Charges for services	\$ 14,159,193	\$ 2,808,000	\$ 760,443	\$ 19,200,679	\$ 46,738,447	\$ 16,567,138	\$ 692,068	\$ 6,383,678	\$ 107,309,646
Other	-	-	-	330,176	279,548	-	-	15,756	625,480
Total operating revenues	14,159,193	2,808,000	760,443	19,530,855	47,017,995	16,567,138	692,068	6,399,434	107,935,126
Operating expenses:									
Cost of services	2,616,210	-	-	-	30,419,682	13,184,689	576,133	-	46,796,714
Depreciation and amortization	4,196,547	121,425	10,218	914,174	1,929,811	73,430	-	16,244	7,261,849
Administrative costs	7,331,372	1,729,815	528,696	18,976,884	9,899,085	3,199,410	45,424	7,611,496	49,322,182
Total operating expenses	14,144,129	1,851,240	538,914	19,891,058	42,248,578	16,457,529	621,557	7,627,740	103,380,745
Operating income (loss)	15,064	956,760	221,529	(360,203)	4,769,417	109,609	70,511	(1,228,306)	4,554,381
Nonoperating revenues (expenses):									
Net change in the fair value of investments	185,497	2,459,574	731,353	825,497	-	-	-	2,231	4,204,152
Interest income (expense)	(1,249,545)	(46,400)	-	-	292,575	200,288	-	1,434	(801,648)
Contributions from primary government	-	-	-	-	-	-	-	-	-
Other income (expense)	559,979	-	3,100,000	-	-	-	46,693	500,000	4,206,672
	93,549	-	(3,000)	(856,211)	60	733,765	11,067	(134,010)	(154,780)
Total nonoperating revenues (expenses), net	(410,520)	2,413,174	3,828,353	(30,714)	292,635	934,053	57,760	369,655	7,454,396
Net income (loss)	(395,456)	3,369,934	4,049,882	(390,917)	5,062,052	1,043,662	128,271	(858,651)	12,008,777
	-	-	-	-	-	-	-	-	-
Net position at the beginning of the year	18,427,240	54,305,562	(807,668)	25,266,009	42,498,783	1,226,898	512,933	(315,785)	141,113,972
Net position at the end 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

See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2017

(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, 2017

(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, 2017

(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, 2017

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

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.

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:

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide Financial Statements, Continued

- *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 \$26,446,030 of restricted net position, of which \$4,294,278 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.

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.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting

Government-Wide Financial Statements - the government-wide financial statements are reported using the economic resources management focus and the 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.

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.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

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.

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.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

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.

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.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

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 \$18,435,046 are restricted in that they are not available to be used in current operations.

As of September 30, 2017, 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	\$ 5,783,846
Deposit accounts maintained for certain non-U.S. donor agencies (ADB, People's Republic of China, Japan, European Union)	1,041,961
Deposit account established for the Airport Improvement Program	84,762
Deposit account maintained for proceeds from dormant bank accounts established in accordance with Public Law 13-56	777,263
Deposit accounts established for imprest funds in accordance with ADB Loans 2099 and 2100	84,994
Other miscellaneous deposit accounts	<u>18,182</u>
	<u>\$ 7,791,008</u>

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 Mariana Islands 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.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

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.

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.

**FEDERATED STATES OF MICRONESIA
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Notes to Financial Statements
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

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.

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.

**FEDERATED STATES OF MICRONESIA
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Notes to Financial Statements
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

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 2017, the FSM National Government implemented the following pronouncements:

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68.
- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB).
- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements.
- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*.
- GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units.
- GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

**FEDERATED STATES OF MICRONESIA
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Notes to Financial Statements
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

V. New Accounting Standards, Continued

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

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

In March 2016, GASB issued 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. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the 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 March 2017, GASB issued 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). The provisions in Statement No. 85 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

**FEDERATED STATES OF MICRONESIA
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Notes to Financial Statements
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

V. New Accounting Standards, Continued

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.

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, 2016 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, 2017

(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, 2017, the carrying amount of the primary government's total cash and cash equivalents and time certificates of deposit was \$87,939,608 and the corresponding bank balances were \$89,250,069. Of the bank balances, \$57,493,693 maintained in financial institutions subject to FDIC insurance or a credit union subject to National Credit Union Administration (NCUA) insurance; while \$4,038,577 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, 2017 while the remaining amount of \$27,717,794 is maintained in financial institutions not subject to FDIC or NCUA insurance.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2017

(2) Deposits and Investments, Continued

A. Deposits, Continued

As of September 30, 2017, 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, 2017, the carrying amount of the fiduciary funds' total cash and cash equivalents and time certificates of deposit was \$2,804,892 and the corresponding bank balances were \$2,969,556. Of the bank balances, \$1,032,437 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, 2017, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$45,795,910 and the corresponding bank balances were \$48,668,532, which are maintained in financial institutions subject to FDIC insurance. As of September 30, 2017, bank deposits in the amount of \$6,328,162 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, 2017, the FSM National Government's investments are as follows:

General Fund - Grant Assistance Fund:	
Fixed income	\$ 37,798,573
Domestic equities	5,924,610
Common equities	107,310,615
Cash management account	<u>98,212</u>
	<u>151,132,010</u>
Compact Trust Fund:	
Common trust funds:	
Domestic Equity	833,111
International Equity	5,585,647
Global Equity	1,729,395
Fixed Income	3,701,405
Private Equity	830,736
Hedge Fund	4,387,338
Real Estate	1,321,193
Money market funds	<u>46,221</u>
	<u>18,435,046</u>
	\$ <u>169,567,056</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2017

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

As of September 30, 2017, the primary government's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

<u>Investment Type</u>	<u>Rating Type</u>	<u>Maturity (in years)</u>				<u>Total</u>
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>Over</u>	
U.S. Treasury Notes and Bonds	AAA	\$ 29,737	\$ 175,008	\$ 163,574	\$ 20,372	\$ 388,691
U.S. Government Agencies Obligations:						
Federal Home Loan Bank Disc	AAA	-	-	17,496	-	17,496
Federal Home Loan Mortgage Corporation	AAA	431	15,265	-	10,204	25,900
Government National Mortgage Association	AAA	-	-	-	647	647
Federal National Mortgage Association	AAA	55,249	7,891	-	12,236	75,376
Overseas Private Inv. Corp	AAA	-	-	60,142	-	60,142
Private Export Funding	AAA	-	-	23,356	-	23,356
Tennessee Valley Authority	AAA	-	-	12,339	-	12,339
Freddie Mac	AAA	-	11,274	10,098	-	21,372
Municipal Obligations	Aa1	-	23,309	13,847	9,154	46,310
Corporate Bonds	Aaa	22,555	25,992	17,151	6,687	72,385
Corporate Bonds	Aa1	-	33,399	6,753	-	40,152
Corporate Bonds	Aa2	-	11,854	5,654	-	17,508
Corporate Bonds	Aa3	6,768	6,802	18,799	-	32,369
Corporate Bonds	A1	-	10,348	17,674	5,715	33,737
Corporate Bonds	A2	9,041	5,003	13,913	-	27,957
Corporate Bonds	A3	-	44,897	6,871	3,357	55,125
Corporate Bonds	Baa1	-	40,917	4,728	5,737	51,382
Corporate Bonds	Baa2	5,002	14,967	5,779	-	25,748
Corporate Bonds	Baa3	5,088	10,078	-	10,548	25,714
Corporate Bonds	Ba1	-	-	-	5,526	5,526
Corporate Bonds	Ba2	4,981	-	-	-	4,981
Corporate Bonds	No Rating	-	-	3,702	20,043	23,745
		<u>\$ 138,852</u>	<u>\$ 437,004</u>	<u>\$ 401,876</u>	<u>\$ 110,226</u>	<u>\$ 1,087,958</u>

<u>Investment Type (no aging schedule)</u>	<u>Fair Value</u>	<u>Credit Ratings</u>
U.S. Treasury Notes and Bonds	\$ 12,921,256	AAA
U.S. Government Agencies Obligations	885,570	Aa2
Mortgage Backed	8,626,370	Aa1
Asset-Backed	601,834	Aa3
Corporate Bonds - Industrial	6,485,848	Baa1
Corporate Bonds - Finance	4,260,781	Baa1
Corporate Bonds - Yankee Bond	1,839,055	A2
Corporate Bonds - Utilities	564,756	Baa1
Corporate Bonds - Others	525,145	A2
	<u>\$ 36,710,615</u>	

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2017

(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, 2017:

General Fund - Grant Assistance:		Fair Value Measurements Using			
	Total	Level 1	Level 2	Level 3	
Investments by fair value level:					
Fixed income:					
U.S. Treasury obligations	\$ 13,309,946	\$ -	\$ 13,309,946	\$ -	
U.S. Government Agencies	10,350,403	-	10,350,403	-	
Municipal obligations	46,310	-	46,310	-	
Corporate notes	<u>14,091,914</u>	-	<u>14,091,914</u>	-	
	37,798,573	-	37,798,573	-	
Equity securities:					
U.S. equities	<u>107,310,615</u>	<u>107,310,615</u>	-	-	
Total investments at fair value	145,109,188	\$ <u>107,310,615</u>	\$ <u>37,798,573</u>	\$ -	
Investments measured at NAV:					
Equity in Bank of FSM	5,924,610				
Investments measured amortized cost:					
Cash management account	<u>98,212</u>				
	<u>\$ 151,132,010</u>				
Compact Trust Fund		Fair Value Measurements Using			
	Total	Level 1	Level 2	Level 3	
Investments at fair value level:					
Common trust funds:					
Domestic Equity	\$ 833,111	\$ 833,111	\$ -	\$ -	
International Equity	5,585,647	5,585,647	-	-	
Global Equity	1,729,395	1,729,395	-	-	
Fixed Income	3,701,405	3,701,405	-	-	
Private Equity	<u>830,736</u>	-	-	<u>830,736</u>	
Total investments at fair value	12,680,294	\$ <u>11,849,558</u>	\$ -	\$ <u>830,736</u>	
Investments measured at NAV:					
Hedge Fund	4,387,338				
Real Estate	1,321,193				
Investments measured at amortized cost:					
Money market funds	<u>46,221</u>				
	<u>\$ 18,435,046</u>				

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2017

(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, 2017.

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, 2017, 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, 2017. High yield debt receiving a credit rating below "A" comprises approximately 32.7% of the MIM CFI fixed income portfolio as rated by Moody's at September 30, 2017. At September 30, 2017, the weighted average maturity of the bonds comprising MIM CFI is 9.96 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, 2017. High yield debt receiving a credit rating below "A" comprises approximately 79.9% of the MIM OFI fixed income portfolio as rated by Moody's at September 30, 2017. At September 30, 2017, the weighted average maturity of the bonds comprising MIM OFI is 8.56 years.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2017

(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, 2017, the Trust Fund held approximately \$198,312,000 in securities of foreign issuers held in common trust funds. Of this amount, approximately \$37,201,000 was held in securities whose functional currency is the Euro, \$16,282,000 whose functional currency is the British pound, \$24,087,000 whose functional currency is the Japanese yen, and \$120,742,000 in functional currencies of 35 other countries. Foreign currency exposure data is not available for the Trust Fund's investment in the Hedge Funds and its investments in Global Private Equity Funds, which comprise 12.8% of invested assets at September 30, 2017.

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, 2017

(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, 2017, FSMSSA's investments are as follows:

Fixed income	\$ 15,393,592
Domestic equities	20,041,408
International equities	9,854,224
Real estate	<u>4,754,382</u>
	<u>\$ 50,043,606</u>

As of December 31, 2017, 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 obligations	\$ 2,475,702	\$ 2,986,481	\$ 2,084,486	\$ 1,907,821	\$ 9,454,490
Mortgage and asset-backed securities	17,028	148,761	687,279	839,777	1,692,845
Corporate notes and bonds	-	2,439,874	1,806,383	-	4,246,257
	<u>\$ 2,492,730</u>	<u>\$ 5,575,116</u>	<u>\$ 4,578,178</u>	<u>\$ 2,747,598</u>	<u>\$ 15,393,592</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, 2017

(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, 2017, was as follows:

<u>Standard and Poors' Rating</u>	<u>Domestic</u>
AAA/AAA	\$ 9,139,423
AA1/AA+	441,703
AA+	315,066
AA2/AA	221,707
A1/A+	407,098
A1/A	455,861
A1/AA-	205,998
A2/A-	372,285
BAA3/BBB	488,563
A3/A-	754,788
A3/BBB+	898,255
Not rated	<u>1,692,845</u>
	<u>\$ 15,393,592</u>

FSMSSA has the following recurring fair value measurements as of December 31, 2017:

	<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	\$ 15,393,592	\$ -	\$ 15,393,592	\$ -
Equity securities	29,895,632	29,895,632	-	-
Real estate investment trust and tangibles	<u>4,754,382</u>	<u>4,754,382</u>	-	-
Total investments by fair value level	\$ <u>50,043,606</u>	\$ <u>34,650,014</u>	\$ <u>15,393,592</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, 2017.

As of December 31, 2017, 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, 2017

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units

FSM Telecommunications Corporation (FSMTC):

As of September 30, 2017, FSMTC's investments are as follows:

Fixed income:	
U.S. Treasury obligations	\$ 155,152
U.S. Government agencies	38,995
Corporate notes	<u>228,174</u>
	422,321
Other investments:	
Domestic and international equities	1,359,338
Money market funds	<u>29,489</u>
	<u>\$ 1,811,148</u>

As of September 30, 2017, the Corporation's investments in debt securities were as follows:

	Moody's Credit Rating	Less Than 1	Investment Maturities (In Years)			Fair Value
			1 to 5	6 to 10	Greater Than 10	
U.S. Treasury obligations	Aaa/P-1	\$ 15,072	\$ 85,251	\$ 54,829	\$ -	\$ 155,152
U.S. Government agencies	Aaa/P-1	38,995	-	-	-	38,995
Corporate notes	Aa3/P-1	-	15,378	-	-	15,378
Corporate notes	A1/P-1	10,054	33,663	9,812	-	53,529
Corporate notes	A2/P-1	20,332	43,674	-	-	64,006
Corporate notes	A3-/P-1	-	20,385	10,107	-	30,492
Corporate notes	Baa1/P-2	-	16,771	-	-	16,771
Corporate notes	Baa1/P-2	-	18,266	19,265	-	37,531
Corporate notes	Baa1/P-2	-	<u>10,467</u>	-	-	<u>10,467</u>
		<u>\$ 84,453</u>	<u>\$ 243,855</u>	<u>\$ 94,013</u>	<u>\$ -</u>	<u>\$ 422,321</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2017

(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, 2017:

	September 30, 2017	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	\$ 155,152	\$ -	\$ 155,152	\$ -
U.S. Government agencies	38,995	-	38,995	-
Corporate notes	<u>228,174</u>	<u>-</u>	<u>228,174</u>	<u>-</u>
Total fixed income	<u>422,321</u>	<u>-</u>	<u>422,321</u>	<u>-</u>
Equity securities:				
U.S. equities	1,039,862	1,039,862	-	-
Non U.S. equities	<u>319,476</u>	<u>319,476</u>	<u>-</u>	<u>-</u>
Total equity securities	<u>1,359,338</u>	<u>1,359,338</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	1,781,659	\$ <u>1,359,338</u>	\$ <u>422,321</u>	\$ <u>-</u>
Investments measured at amortized cost:				
Money market funds	<u>29,489</u>			
	<u>\$ 1,811,148</u>			

College of Micronesia - FSM (COM-FSM):

As of September 30, 2017, COM-FSM's investments are as follows:

Fixed income securities:	
Domestic fixed income	\$ 3,046,948
International fixed income	<u>471,055</u>
	<u>3,518,003</u>
Other investments:	
Common equities	5,140,148
Exchange traded funds	157,845
Money market funds	<u>336,587</u>
	<u>5,634,580</u>
	\$ <u>9,152,583</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2017

(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, 2016, 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	\$ 260,197	\$ -	\$ 159,263	\$ -	\$ 100,934
Corporate bond	1,391,363	94,533	508,288	724,187	64,355
International bond	471,055	471,055	-	-	-
Government bond	<u>1,395,388</u>	<u>110,278</u>	<u>739,229</u>	<u>463,489</u>	<u>82,392</u>
	<u>\$ 3,518,003</u>	<u>\$ 675,866</u>	<u>\$ 1,406,780</u>	<u>\$ 1,187,676</u>	<u>\$ 247,681</u>

COM-FSM's exposure to credit risk at September 30, 2017, was as follows:

<u>Moody's Rating</u>	<u>Domestic</u>	<u>International</u>	<u>Total</u>
AAA/AAA	\$ 1,554,650	\$ -	\$ 1,554,650
AA2/AA	19,938	-	19,938
AA3/A	43,397	-	43,397
A1/A+	71,314	-	71,314
A1/A-	24,607	-	24,607
A1/AA-	58,282	-	58,282
A2/A+	49,482	-	49,482
A2/A	103,663	-	103,663
A2/A-	20,166	-	20,166
A3/A	96,967	-	96,967
A3/A-	158,926	-	158,926
A3/BBB+	135,757	-	135,757
BAA1/A	31,640	-	31,640
BAA1/BBB+	356,777	-	356,777
BAA1/BBB	25,697	-	25,697
BAA2/A-	20,424	-	20,424
BAA2/BBB+	25,030	-	25,030
BAA2/BBB	77,021	-	77,021
BAA3/BBB	72,276	-	72,276
Not Rated	<u>100,934</u>	<u>471,055</u>	<u>571,989</u>
Total credit risk debt securities	<u>\$ 3,046,948</u>	<u>\$ 471,055</u>	<u>\$ 3,518,003</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2017

(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, 2017:

	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	\$ 3,518,003	\$ -	\$ 3,518,003	\$ -
Equity securities	5,140,148	5,140,148	-	-
Mutual funds	<u>157,845</u>	<u>157,845</u>	-	-
Total investments by fair value level	8,815,996	\$ <u>5,297,993</u>	\$ <u>3,518,003</u>	\$ <u>-</u>
Investments measured at amortized cost:				
Money market funds	<u>336,587</u>			
	\$ <u>9,152,583</u>			

FSM Development Bank (FSMDB):

As of December 31, 2017, FSMDB's investments are as follows:

Fixed income securities:	
Domestic fixed income	\$ 5,223,941
Equity securities:	
Domestic equities	14,033,835
Shares in a mutual fund (Templeton Global BD FD ADV TGBAX)	<u>1,076,479</u>
	\$ <u>20,334,255</u>

As of December 31, 2017, 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	\$ -	\$ -	\$ 1,557,939	\$ -	\$ 1,557,939
U.S. Government agencies:						
Federal Home Loan Bank	Aaa	199,826	714,875	-	-	914,701
Federal Farm Credit Bank	Aaa	580,322	100,034	-	-	680,356
Federal National Mortgage Association	Not rated	295,062	-	68,559	304,928	668,549
Federal Home Loan Mortgage Corp.	Not rated	-	274,736	-	187,658	462,394
Corporate bonds	A3	-	220,914	128,426	-	349,340
Corporate bonds	A2	-	198,479	-	-	198,479
Corporate bonds	Baa3	-	<u>87,646</u>	<u>304,537</u>	-	<u>392,183</u>
		\$ <u>1,075,210</u>	\$ <u>1,596,684</u>	\$ <u>2,059,461</u>	\$ <u>492,586</u>	\$ <u>5,223,941</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2017

(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, 2017:

	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	\$ 1,557,939	\$ -	\$ 1,557,939	\$ -
U.S. Government Agencies	2,726,000	-	2,726,000	-
Corporate notes	<u>940,002</u>	<u>-</u>	<u>940,002</u>	<u>-</u>
Total fixed income	<u>5,223,941</u>	<u>-</u>	<u>5,223,941</u>	<u>-</u>
Equity securities:				
U.S. equities	8,681,595	8,681,595	-	-
Mutual fund shares	<u>1,076,479</u>	<u>1,076,479</u>	<u>-</u>	<u>-</u>
Total investments at fair value	14,982,015	\$ <u>9,758,074</u>	\$ <u>5,223,941</u>	\$ <u>-</u>
Investments measured at NAV:				
Equity investment in the Bank of the FSM	<u>5,352,240</u>			
	<u>\$ 20,334,255</u>			

At December 31, 2017, 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 2017, 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 \$1,914,000 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, 2017

(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, 2017, FSMPC's investments are as follows:

Fixed income securities:	
Domestic fixed income	\$ 495,666
International fixed income	<u>205,829</u>
	701,495
Other investments:	
Common equities	1,020,710
Exchange traded funds	539,007
Money market funds	<u>39,127</u>
	<u>1,598,844</u>
	\$ <u>2,300,339</u>

As of December 31, 2017, FSMPC's fixed income securities had the following maturities:

<u>Investment Type</u>	<u>Fair value</u>	<u>Less than 1 year</u>	<u>1 to 5 years</u>	<u>5 to 10 years</u>	<u>More than 10 years</u>
International bonds	\$ 205,829	\$ 205,829	\$ -	\$ -	\$ -
Corporate bonds	213,784	-	14,456	168,731	30,597
U.S. Government Agency Bonds	<u>281,882</u>	-	<u>159,280</u>	<u>80,578</u>	<u>42,024</u>
	\$ <u>701,495</u>	\$ 205,829	\$ <u>173,736</u>	\$ <u>249,309</u>	\$ <u>72,621</u>

FSMPC's exposure to credit risk at December 31, 2017, was as follows:

Moody's Rating

AAA	\$ 281,882
A1	-
A2	43,943
A3	108,407
BAA1	30,740
BAA2	15,291
BAA3	15,403
Not rated	<u>205,829</u>
	\$ <u>701,495</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2017

(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, 2017:

	<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 Unobserva ble Inputs (Level 3)</u>
Investments by fair value level:				
Fixed income securities	\$ 701,495	\$ -	\$ 701,495	\$ -
Equity securities	1,020,710	1,020,710	-	-
Exchange-traded funds	<u>539,007</u>	<u>539,007</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	2,261,212	\$ <u>1,559,717</u>	\$ <u>701,495</u>	\$ <u>-</u>
Investments measured at amortized cost:				
Money market funds	<u>39,127</u>			
	\$ <u>2,300,339</u>			

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

As of September 30, 2017, the Plan's investments are as follows:

Fixed income	\$ 1,072,260
Money market funds	<u>28,713</u>
	\$ <u>1,100,973</u>

As of September 30, 2017, 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	\$ 154,880	\$ 476,799	\$ 49,211	\$ 680,890
U.S. Government agencies obligations	AAA	24,936	19,891	-	44,827
Corporate bonds	Aaa	5,987	10,056	-	16,043
Corporate bonds	Aa	8,003	52,983	1,992	62,978
Corporate bonds	A	11,991	175,205	3,927	191,123
Corporate bonds	Baa	<u>35,052</u>	<u>39,364</u>	<u>1,983</u>	<u>76,399</u>
		\$ <u>240,849</u>	\$ <u>774,298</u>	\$ <u>57,113</u>	\$ <u>1,072,260</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2017

(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, 2017:

	<u>Fair Value Measurements Using</u>			
	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobserva ble Inputs (Level 3)
Investments by fair value level:				
Fixed income securities	\$ 1,072,260	\$ -	\$ 1,072,260	\$ -
Investments measured at amortized cost:				
Money market funds	28,713			
	<u>\$ 1,100,973</u>			

(3) Receivables

Primary Government

Receivables as of September 30, 2017, 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	\$ 7,870,524	\$ -	\$ -	\$ 9,403	\$ 7,879,927
Taxes	6,018,376	-	-	-	6,018,376
Government agencies	-	26,923,383	-	-	26,923,383
State governments	-	1,598,762	-	-	1,598,762
Loans	52,738,089	-	-	-	52,738,089
Advances	2,355,222	109,528	-	18,029	2,482,779
Accrued interest	29,684	-	-	-	29,684
Other	-	-	-	-	-
	<u>69,011,895</u>	<u>28,631,673</u>	<u>-</u>	<u>27,432</u>	<u>97,671,000</u>
Less: allowance for uncollectable accounts	<u>(7,431,320)</u>	<u>(1,591,989)</u>	<u>-</u>	<u>-</u>	<u>(9,023,309)</u>
Net receivables	<u>\$ 61,580,575</u>	<u>\$ 27,039,684</u>	<u>\$ -</u>	<u>\$ 27,432</u>	<u>\$ 88,647,691</u>

During the year ended September 30, 2017, 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 \$204,740 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, 2017

(3) Receivables, Continued

Primary Government, Continued

Loans receivable of the primary government are as follows:

General Fund:

Notes receivable from the National Fisheries Corporation (NFC), payable in various annual installments of \$1,962 to \$86,639, non-interest bearing, and due on various dates ranging from July 2007 through April 2014. These notes have been fully provided for in the allowance for uncollectable accounts. \$ 3,100,000

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, 2017, \$3,110,068 has been provided for in the allowance for uncollectible accounts. 3,538,655

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	\$ 3,037,842	\$ 569,738	
Pohnpei Utilities Corporation	1,867,901	348,769	
Yap State Public Service Corporation	<u>1,994,909</u>	<u>373,707</u>	
	<u>\$ 6,900,652</u>	<u>\$ 1,292,214</u>	8,192,866

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:

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2017

(3) Receivables, Continued

Primary Government, Continued

General Fund, Continued:

	General Fund	Governmental Activities	
State of Chuuk	\$ 4,305,583	\$ 779,682	
State of Yap	2,822,504	514,978	
State of Kosrae	1,612,148	294,184	
State of Pohnpei	<u>3,413,830</u>	<u>617,848</u>	
	\$ <u>12,154,065</u>	\$ <u>2,206,692</u>	14,360,757

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	\$ 141,056	\$ 66,725	
State of Yap	87,898	22,357	
State of Kosrae	<u>79,946</u>	<u>15,993</u>	
	\$ <u>308,900</u>	\$ <u>105,075</u>	413,975

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	\$ 1,116,431	\$ 146,352	
State of Yap	746,668	126,710	
State of Kosrae	829,769	164,325	
State of Pohnpei	<u>876,384</u>	<u>178,504</u>	
	\$ <u>3,569,252</u>	\$ <u>615,891</u>	4,185,143

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2017

(3) Receivables, Continued

Primary Government, Continued

General Fund, Continued

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:

	General Fund	
State of Pohnpei/PUC	\$ 5,844,840	
State of Chuuk/CPUC	4,538,326	
State of Yap/GTWA	2,276,209	
State of Kosrae/KUA	<u>1,768,330</u>	
	<u>\$ 14,427,705</u>	14,427,705

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:

	General Fund	
State of Yap/YSPSC	\$ 7,428,606	7,428,606

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

1,310,254
\$ 56,957,961

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2017

(3) Receivables, Continued

Primary Government, Continued

Discretely Presented Component Units

Receivables as of September 30, 2017, 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.	MiCare Plan, Inc.	Total
Receivables:									
General	\$ 1,824,426	\$ -	\$ 255,815	\$ 7,075,699	\$ 1,545,563	\$ 276,060	\$ -	\$ 877,665	\$ 11,855,228
Loans	-	34,216,033	-	-	-	-	-	-	34,216,033
Interest	122,560	116,340	-	-	-	-	-	-	238,900
Other	<u>945,285</u>	<u>-</u>	<u>3,823</u>	<u>294,496</u>	<u>92,560</u>	<u>-</u>	<u>-</u>	<u>80,982</u>	<u>1,417,146</u>
	2,892,271	34,332,373	259,638	7,370,195	1,638,123	276,060	-	958,647	47,727,307
Less: allowance for uncollectible accounts	<u>(1,167,181)</u>	<u>(4,609,249)</u>	<u>(90,000)</u>	<u>(3,757,086)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(514,631)</u>	<u>(10,138,147)</u>
	<u>\$ 1,725,090</u>	<u>\$ 29,723,124</u>	<u>\$ 169,638</u>	<u>\$ 3,613,109</u>	<u>\$ 1,638,123</u>	<u>\$ 276,060</u>	<u>\$ -</u>	<u>\$ 444,016</u>	<u>\$ 37,589,160</u>

(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, 2017, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Grants Assistance	General	\$ 9,239,882
General	Grants Assistance	1,825,683
Nonmajor government funds	General	4,666,301
General	Nonmajor government funds	<u>198,917</u>
		\$ <u>15,930,783</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2017

(5) Capital Assets

Capital asset activities for the year ended September 30, 2017, are as follows:

Primary Government

	Balance October 1, 2016	Additions and Reclassifications	Retirements and Reclassifications	Balance September 30, 2017
Depreciable assets:				
Buildings and improvements	\$ 66,495,168	\$ 6,325,374	\$ -	\$ 72,820,542
Boats	22,198,534	76,423	-	22,274,957
Infrastructure	126,662,280	-	-	126,662,280
Motor vehicles	4,425,985	203,011	(276,900)	4,352,096
Computer equipment	2,260,703	115,252	(6,850)	2,369,105
Aircraft	709,207	-	-	709,207
Furniture, equipment and machinery	<u>8,805,372</u>	<u>108,360</u>	<u>(2,613)</u>	<u>8,911,119</u>
	<u>231,557,249</u>	<u>6,828,420</u>	<u>(286,363)</u>	<u>238,099,306</u>
Less: accumulated depreciation				
Buildings and improvements	(10,650,323)	(1,557,261)	-	(12,207,584)
Boats	(16,616,983)	(1,117,893)	-	(17,734,876)
Infrastructure	(28,437,386)	(6,333,104)	-	(34,770,490)
Motor vehicles	(2,488,804)	(607,904)	20,381	(3,076,327)
Computer equipment	(1,677,325)	(198,846)	6,850	(1,869,321)
Aircraft	(593,165)	(35,460)	-	(628,625)
Furniture, equipment, and machinery	<u>(6,817,165)</u>	<u>(558,491)</u>	<u>2,613</u>	<u>(7,373,043)</u>
	<u>(67,281,151)</u>	<u>(10,408,959)</u>	<u>29,844</u>	<u>(77,660,266)</u>
	<u>164,276,098</u>	<u>(3,580,539)</u>	<u>(256,519)</u>	<u>160,439,040</u>
Land	1,674,383	-	-	1,674,383
Construction in progress	<u>63,504,444</u>	<u>20,791,666</u>	<u>(4,798,358)</u>	<u>79,497,752</u>
	<u>65,178,827</u>	<u>20,791,666</u>	<u>(4,798,358)</u>	<u>81,172,135</u>
Net Assets	\$ <u>229,454,925</u>	\$ <u>17,211,127</u>	\$ <u>(5,054,877)</u>	\$ <u>241,611,175</u>

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

Office of the President	\$ 52,276
Foreign affairs	186,132
Health and social affairs	308,351
Education	321,505
Resources and development	16,606
Office of National Archives, Cultural and Historic Preservation	7,121
Transportation, communication and infrastructure	7,618,387
Finance and administration	59,235
Justice	523,988
Office of the Public Defender	22,630
Judiciary	49,001
Legislature	88,872
Office of the National Public Auditor	33,739
Environment and emergency management	229,121
National government programs	837,615
Agencies, boards and commissions	<u>54,380</u>
	\$ <u>10,408,959</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2017

(5) Capital Assets, Continued

Primary Government, Continued

Discretely Presented Component Units

	Balance October 1, 2016	Additions and Reclassifications	Retirements and Reclassifications	Balance September 30, 2017
Depreciable assets:				
Building and Leasehold Improvements	\$ 35,914,047	\$ 188,689	\$ (11,502)	\$ 36,091,234
Plant and Equipment	80,047,283	387,649	-	80,434,932
Machinery and Equipment	16,682,283	639,019	(143,776)	17,177,526
Others	<u>21,026,281</u>	<u>780,812</u>	<u>(806,088)</u>	<u>21,001,005</u>
	153,669,894	1,996,169	(961,366)	154,704,697
Accumulated Depreciation	<u>(94,407,409)</u>	<u>(7,121,059)</u>	<u>965,852</u>	<u>(100,562,616)</u>
	<u>59,262,485</u>	<u>(5,124,890)</u>	<u>4,486</u>	<u>54,142,081</u>
Nondepreciable assets:				
Construction in Progress	3,792,904	4,603,523	(636,467)	7,759,960
Land	<u>1,455,685</u>	<u>-</u>	<u>-</u>	<u>1,455,685</u>
	<u>5,248,589</u>	<u>4,603,523</u>	<u>(636,467)</u>	<u>9,215,645</u>
	<u>\$ 64,511,074</u>	<u>\$ (521,367)</u>	<u>\$ (631,981)</u>	<u>\$ 63,357,726</u>

(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, 2017, accumulated amortization expense of \$1,096,890 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.

\$ 3,538,655

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2017

(7) Long-Term Obligations, Continued

Primary Government, Continued

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.	6,900,652
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.	14,132,026
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.	2,279,702
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.	1,804,729
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.	4,360,216
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.	10,668,366

**FEDERATED STATES OF MICRONESIA
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Notes to Financial Statements
September 30, 2017

(7) Long-Term Obligations, Continued

Primary Government, Continued

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. 4,032,506

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. 3,808,646

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. 3,619,961

\$ 55,145,459

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

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>
2018	\$ 2,614,082	\$ 613,300	\$ 3,227,382
2019	2,947,211	676,064	3,623,275
2020	2,968,775	636,956	3,605,731
2021	2,991,342	597,415	3,588,757
2022	3,093,091	556,986	3,650,077
2023-2027	15,846,836	2,155,605	18,002,441
2028-2032	14,449,036	1,112,888	15,561,924
2033-2037	9,736,490	313,138	10,049,628
2038	<u>498,596</u>	<u>1,317</u>	<u>499,913</u>
	\$ <u>55,145,459</u>	\$ <u>6,663,669</u>	\$ <u>61,809,128</u>

**FEDERATED STATES OF MICRONESIA
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Notes to Financial Statements
September 30, 2017

(7) Long-Term Obligations, Continued

Primary Government, Continued

Other long-term liabilities will be liquidated in the future from governmental funds. During the year ended September 30, 2017, the following changes occurred in liabilities reported as part of the primary government's long-term liabilities in the statement of net position:

	Balance October 1, 2016	Additions	Reductions	Balance September 30, 2017	Due Within One Year
Loans payable:					
ADB Loan 1257 FSM (SF)	\$ 3,719,792	\$ -	\$ (181,137)	\$ 3,538,655	\$ 221,040
ADB Loan 1459 FSM (SF)	7,183,609	-	(282,957)	6,900,652	363,218
ADB Loan 1520 FSM (SF)	14,331,611	-	(199,585)	14,132,026	706,650
ADB Loan 1816 FSM (SF)	2,405,875	-	(126,173)	2,279,702	151,958
ADB Loan 1873 FSM (SF)	1,995,644	-	(190,915)	1,804,729	150,232
ADB Loan 1874 FSM (SF)	4,575,391	-	(215,175)	4,360,216	264,256
ADB Loan 2099 FSM (SF)	11,122,920	213,491	(668,045)	10,668,366	570,674
ADB Loan 2010 FSM (SF)	4,214,400	-	(181,894)	4,032,506	186,054
ADB Loan 3004 FSM (SF)	-	3,808,646	-	3,808,646	-
ADB Loan 3005 FSM (SF)	-	3,619,961	-	3,619,961	-
	49,549,242	7,642,098	(2,045,881)	55,145,459	2,614,082
Other:					
Compensated absences payable	1,062,374	364,446	(311,409)	1,115,411	277,661
	<u>\$50,611,616</u>	<u>\$8,006,544</u>	<u>\$ (2,357,290)</u>	<u>\$56,260,870</u>	<u>\$2,891,743</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, 2017, the FSM National Government recognized a foreign exchange loss of \$204,740 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.

Discretely Presented Component Units

As of September 30, 2017, 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. \$ 22,100,595

**FEDERATED STATES OF MICRONESIA
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Notes to Financial Statements
September 30, 2017

(7) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

FSM Telecommunications Corporation (FSMTC), Continued:

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>
2018	\$ 1,939,102	\$ 1,060,975	\$ 3,000,077
2019	2,038,310	961,767	3,000,077
2020	2,141,098	858,979	3,000,077
2021	2,252,439	747,638	3,000,077
2022	2,367,375	632,702	3,000,077
2023 - 2027	9,145,805	1,458,354	10,604,159
2028 - 2030	<u>2,216,466</u>	<u>138,921</u>	<u>2,355,387</u>
	<u>\$ 22,100,595</u>	<u>\$ 5,859,336</u>	<u>\$ 27,959,931</u>

These notes are subject to certain coverage ratio requirements. FSMTC is not in compliance with its ratio requirements as of September 30, 2017. 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. \$ 145,064

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. 258,953

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. 616,887

\$ 1,020,904

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2017

(7) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

FSM Development Bank (FSMDB), Continued:

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>
2018	\$ 139,710	\$ 43,518	\$ 183,228
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
2023-2025	<u>365,698</u>	<u>29,542</u>	<u>395,240</u>
	\$ <u>1,020,904</u>	\$ <u>187,386</u>	\$ <u>1,208,290</u>

Changes in long-term liabilities of the discretely presented component units for the year ended September 30, 2017, are as follows:

	<u>Balance October 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2017</u>	<u>Due Within One Year</u>
Loans payable:					
FSMTC	\$ 23,953,076	\$ -	\$ (1,852,481)	\$ 22,100,595	\$ 1,939,102
FSMDB	1,154,881	-	(133,977)	1,020,904	139,710
NFC	3,100,000	-	(3,100,000)	-	-
FSMPC	2,284,049	3,000,000	(669,627)	4,614,422	547,028
Vital Energy	<u>14,437,908</u>	<u>5,691,223</u>	<u>(8,004,411)</u>	<u>12,124,720</u>	<u>1,984,747</u>
	44,929,914	8,691,223	(13,760,496)	39,860,641	6,595,334
Contracts payable:					
FSMTC	<u>2,198,930</u>	<u>-</u>	<u>(479,394)</u>	<u>1,719,536</u>	<u>1,664,896</u>
Compensated absences:					
COM-FSM	<u>707,989</u>	<u>1,972</u>	<u>-</u>	<u>709,961</u>	<u>299,933</u>
	\$ <u>47,836,833</u>	\$ <u>8,693,195</u>	\$ <u>(14,239,890)</u>	\$ <u>42,290,138</u>	\$ <u>8,560,163</u>

National Fisheries Corporation (NFC):

A \$3,100,000 long-term debt was converted to a grant from the FSM National Government by FSM Public Law No. 20-66 and NFC wrote-off the balance and recorded related forgiveness of debt income during the year ended September 30, 2017.

FSM Petroleum Corporation (FSMPC):

In 2017, FSMPC obtained a \$3,000,000 bank note from the FSM Development Bank (FSMDB), a component unit of the FSM National Government, for capital assets acquisition. Long-term debt is due in quarterly installments of \$170,461 beginning August 31, 2017 to September 25, 2022, with interest fixed at 5% per annum. The loan is collateralized by the Company's inventories and related petroleum products. As of December 31, 2017, the balance of the loan is \$2,867,039 and that amount in the above schedule includes \$1,747,383 described in note 8.

**FEDERATED STATES OF MICRONESIA
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Notes to Financial Statements
September 30, 2017

(7) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

FSM Petroleum Corporation (FSMPC), Continued

Future minimum loan repayments are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 547,028	\$ 134,817	\$ 681,845
2019	576,123	105,722	681,845
2020	605,225	76,620	681,845
2021	636,307	45,538	681,845
2022	<u>502,356</u>	<u>12,960</u>	<u>515,316</u>
	\$ <u>2,867,039</u>	\$ <u>375,657</u>	\$ <u>3,242,696</u>

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 \$240,000 in the year ending December 31, 2022. As of December 31, 2017, Vital Energy, Inc. had total long-term debt of \$12,124,720, which comprises non-current liabilities of \$9,492,486 due to primary government and other noncurrent liabilities of \$463,844.

College of Micronesia-FSM (COM-FSM)

COM-FSM's long-term obligation of \$709,961 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 2017.

(8) Short-Term Obligations

Discretely Presented Component Units

FSM Petroleum Corporation (FSMPC):

As of December 31, 2017, FSMPC has a bank note payable of \$2,160,000 bank line of credit facility (LOC) to facilitate fuel inventory purchases of \$7,000,000 expiring on September 13, 2018. This LOC is utilized FSMPC to fund fuel inventory purchases.

Additionally, on September 15, 2017, FSMPC obtained LOC of \$11,000,000 for working capital requirements for 12 months and \$6,034,500 for the coconut production facility contractor for 12 months.

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.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2017

(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, 2017, are as follows:

<u>Source</u>	<u>Recipient</u>	<u>Transfers Out</u>	<u>Transfers In</u>
General Fund	Grant Assistance Fund	\$ (400,000)	\$ 400,000
Other Governmental Fund	General Fund	(1,121,893)	1,121,893
		\$ (1,521,893)	\$ 1,521,893

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.

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.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2017

(10) Contingencies and Commitments, Continued

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, 2017. 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, 2017, 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.

Encumbrances

The FSM National Government utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2017, 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	\$6,395,473	\$31,538,531	\$2,077,072	\$40,011,076

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2017

(10) Contingencies and Commitments, Continued

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, 2017, the Plan has a negative current ratio. Furthermore, at September 30, 2017, a deficit unrestricted net position of (\$1,512,131) 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, 2014. The valuation reported actuarial accrued liabilities for FSMSSA of \$307,613,000 and a funded ratio of 16%. As of December 31, 2017, FSMSSA recorded total fund equity of \$55,506,444 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, 2017, management determined that certain receivables in the amount of \$254,657 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, 2017

(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	\$ 45,234,568	\$ -	\$ -	\$ -	\$ 45,234,568
United Micronesia Dev. Association	1,500,000	-	-	-	1,500,000
Bank of FSM	5,924,610	-	-	-	5,924,610
ADB contribution	6,927,442	-	-	-	6,927,442
IMF contribution	1,149,876	-	-	-	1,149,876
General government	1,054,761	-	-	-	1,054,761
Permanent fund	-	-	18,435,046	-	18,435,046
Restricted For:					
ADB Imprest Funds	84,994	-	-	-	84,994
Infrastructure	-	348,942	-	-	348,942
Disaster Assistance	-	3,205,741	-	-	3,205,741
Sector Development	-	13,153	-	-	13,153
Investment Development Fund	1,894,503	-	-	-	1,894,503
Committed:					
CFSM Public projects	32,218,761	-	-	-	32,218,761
Office of the President	655,215	-	-	-	655,215
Department of Foreign Affairs	3,090	-	-	-	3,090
Department of TC&I	9,931,899	-	-	-	9,931,899
Department of Finance & Adm.	7,839,992	-	-	-	7,839,992
Department of Justice	936,236	-	-	2,695,366	3,631,602
Department of R & D	4,751,175	-	-	28,653	4,779,828
Department of Education	662,470	-	-	85,168	747,638
Department of Health	824,599	-	-	43,987	868,586
Office of EEM	661,149	-	-	-	661,149
National Historic & Preservation	158,125	-	-	-	158,125
Legislative	9,778	-	-	-	9,778
Judiciary	331,148	-	-	-	331,148
Office of Public Auditor	109,961	-	-	-	109,961
Office of Public Defender	2,322	-	-	-	2,322
Future operations-FSM Trust fund	117,046,352	-	-	-	117,046,352
Other functions and programs	2,476,944	-	-	1,424,706	3,901,650
Assigned:					
Presidents (Executive branch)	2,694,130	-	-	-	2,694,130
Legislative branch	585,950	-	-	-	585,950
Judiciary branch	151,825	-	-	-	151,825
National program	217,410	-	-	-	217,410
Other functions and programs	2,746,158	-	-	-	2,746,158
Unassigned	<u>23,640,795</u>	<u>(148,478)</u>	<u>-</u>	<u>-</u>	<u>23,492,317</u>
	<u>\$ 272,426,238</u>	<u>\$ 3,419,358</u>	<u>\$ 18,435,046</u>	<u>\$ 4,277,880</u>	<u>\$ 298,558,522</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

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

YEAR ENDED SEPTEMBER 30, 2017

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund
Year Ended September 30, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts (note 1)	Final Budget - Positive (Negative)
Revenues:				
Taxes	\$ 8,891,124	\$ 8,083,594	\$ 37,674,152	\$ 29,590,558
Fishing rights	55,000,000	62,000,000	72,591,642	10,591,642
Postal revenues	500,000	329,796	160,386	(169,410)
Investment earnings	1,000,000	1,000,000	2,141,153	1,141,153
Fees and charges	7,250,000	19,649,975	108,511	(19,541,464)
Micare reimbursable	-	-	274,296	274,296
Other	1,900,000	1,916,524	(1,044,641)	(2,961,165)
Total revenues	74,541,124	92,979,889	111,905,499	18,925,610
Expenditures:				
Executive Branch - Core Operational	18,186,716	19,721,706	20,130,353	(408,647)
Executive Branch - Non-Core Operational	11,440,819	14,758,718	15,346,680	(587,962)
Judicial Branch-Core Operational	1,404,871	1,571,344	1,418,759	152,585
Judicial Branch-Non-core Operational	205,000	205,000	421,347	(216,347)
Legislative Branch-Core Operational	5,025,755	8,089,615	7,594,024	495,591
Office of the National Public Auditor-Core Operational	743,355	834,655	644,255	190,400
Office of the National Public Auditor-Non-Core Operational	445,000	445,000	445,000	-
Boards and Commissions	3,275,011	3,449,253	3,001,767	447,486
Payments to Component Units	5,428,863	5,928,863	5,596,031	332,832
National projects - continuing projects	16,360,591	16,360,590	19,109,620	(2,749,030)
Total expenditures	62,515,981	71,364,744	73,707,836	(2,343,092)
Excess (deficiency) of revenues over (under) expenditures	12,025,143	21,615,145	38,197,663	16,582,518
Other financing sources (uses), net:				
Operating transfers in/(out), net	(7,500,000)	(7,900,000)	(21,882,039)	(13,982,039)
	4,525,143	13,715,145	16,315,624	2,600,479
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	-	-	6,395,473	6,395,473
Net change in fund balance	4,525,143	13,715,145	22,711,097	8,995,952
Fund balance at the beginning of the year	85,990,389	85,990,389	85,990,389	-
Fund balance at the end of the year	\$ 90,515,532	\$ 99,705,534	\$ 108,701,486	\$ 8,995,952

See accompanying notes to required supplementary information - budgetary reporting.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Required Supplementary Information - Budgetary Reporting
September 30, 2017

(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 2017, 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.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Required Supplementary Information - Budgetary Reporting, Continued
September 30, 2017

(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	\$ 22,711,097
Add:	
Net change in fund balance - GAAP for GASB 54 Funds:	
ADB Loan Fund (Fund 91)	5,775,179
IDF Fund	78,885
ERP Fund	(243,412)
FSM Trust Fund	<u>33,490,918</u>
Net change in fund balance - GAAP	\$ <u>61,812,667</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2017

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Combined Schedule of Expenditures by Account -
Governmental Fund Types
Year Ended September 30, 2017

		Special Revenue	Permanent	Other Governmental Funds	Total
	General	Grants Assistance	Compact Trust		
Expenditures:					
Personnel	\$ 15,796,134	\$ 2,635,943	\$ -	\$ 516,007	\$ 18,948,084
Travel and transportation	5,002,407	2,692,219	-	76,369	7,770,995
Books and library materials	13,394	-	-	-	13,394
Communications	585,821	144,660	-	37,039	767,520
Customs and taxes	8,207	10,658	-	-	18,865
Dues, membership and subscription	364,221	10,809	-	-	375,030
Food stuffs	414,486	100,088	-	74,924	589,498
Freight	55,791	35,527	-	5,927	97,245
Expendable equipment	290,176	136,749	-	15,313	442,238
Office supplies and materials	1,081,359	366,873	-	82,638	1,530,870
POL	1,541,666	46,037	-	262,046	1,849,749
Advertising, printing and reproduction	154,381	101,644	-	1,870	257,895
Rental services	206,590	201,478	-	7,098	415,166
Repair and maintenance	95,060	11,972	-	963	107,995
Utilities	1,001,336	195,346	-	16,054	1,212,736
Miscellaneous goods and services	517,905	14,276	-	-	532,181
Medical supplies	550,656	176,373	-	-	727,029
Contributions, subsidies and grants	2,447,888	800,000	-	-	3,247,888
General contractual services	12,967,112	3,575,348	-	467,294	17,009,754
Professional services	807,017	23,650,906	-	-	24,457,923
Employee housing and household storage	1,036,174	43,651	-	-	1,079,825
Recruit and repatriation	108,345	-	-	-	108,345
Compensation-nonpayroll	204,736	27,529	-	-	232,265
Educational allowance	72,196	-	-	-	72,196
Training and registration fees	69,021	71,823	-	-	140,844
Scholarships	2,069,093	-	-	547,570	2,616,663
Official and meeting allowances	36,659	32,720	-	-	69,379
Representation	4,089,539	-	-	-	4,089,539
Insurance and fees	660,515	599	-	-	661,114
Leased housing, offices, buildings and land	1,365,770	198,993	-	-	1,564,763
Bank charges	30,699	14,366	-	1,281	46,346
Project management and administration	-	100	-	-	100
Construction management	-	16,137,181	-	-	16,137,181
Construction payments	-	1,966,768	-	-	1,966,768
Architecture and design	113,829	485,566	-	-	599,395
Equipment	1,065,735	1,225,167	-	127,420	2,418,322
Furnitures and fixtures	39,973	-	-	-	39,973
Vehicle and vessels	188,824	146,031	-	-	334,855
Court settlement	286,312	-	-	-	286,312
Principal and interest payments	2,250,620	-	-	-	2,250,620
Legislative projects	11,026,625	-	-	-	11,026,625
Bad debt	947,291	-	-	-	947,291
Total expenditures	<u>\$ 69,563,563</u>	<u>\$ 55,257,400</u>	<u>\$ -</u>	<u>\$ 2,239,813</u>	<u>\$ 127,060,776</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, 2017
(with comparative totals for the year ended September 30, 2016)

	<u>2017</u>	<u>2016</u>
Revenue:		
Taxes:		
Import	\$ 4,569,970	\$ 4,233,797
Fuel	160,301	137,474
Corporate tax	22,731,144	5,994,000
Income tax, individuals, net of tax refunds	4,452,226	4,275,577
Gross receipts tax, businesses	4,623,272	4,275,199
Tobacco revenue share	1,137,239	684,079
	<u>37,674,152</u>	<u>19,600,126</u>
Fishing rights	<u>72,591,642</u>	<u>63,356,795</u>
Fees and charges:		
Postal collections	160,386	165,667
Business license and various fees	108,511	119,222
	<u>268,897</u>	<u>284,889</u>
Investment earnings:		
Net change in the fair value of investments	1,694,925	1,576,316
Dividend and interest income	446,228	384,090
	<u>2,141,153</u>	<u>1,960,406</u>
MiCare reimbursable	274,296	422,202
Other	<u>(1,044,641)</u>	<u>2,733,375</u>
Total revenues	<u>111,905,499</u>	<u>88,357,793</u>
Expenditures:		
Executive Branch:		
Core operational:		
President's Office	1,318,265	1,433,789
Department of External Affairs and LNO's	4,135,118	4,311,620
Department of Health and Social Affairs	709,786	688,900
Department of Education	365,011	3,788,268
Office of Resources and development	1,019,849	1,015,871
National archives, cultural and historic prevention	188,909	189,410
Office of SBOC	-	301,264
Office of Environment and emergency management	179,927	313,430
Department of Transportation, Communication and Infrastructure	3,030,264	2,819,299
Department of Finance and Administration	4,280,689	3,225,974
Department of Justice	3,066,456	2,963,310
Office of the Public Defender	810,776	709,461
Sub-total	<u>19,105,050</u>	<u>21,760,596</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, 2017
(with comparative totals for the year ended September 30, 2016)

	<u>2017</u>	<u>2016</u>
Expenditures, continued:		
Executive Branch:		
Non-core operational:		
President's Office	902,546	2,190,389
Department of External Affairs and LNO's	274,460	1,333,998
Department of Health and Social Affairs	564,806	470,477
Department of Education	3,488,723	3,052,394
Office of Resources and development	589,618	805,066
National archives, cultural and historic prevention	3,280	2,860
Office of SBOC	-	26,431
Office of Environment and emergency management	(52,330)	177,919
Department of Transportation, Communication and Infrastructure	6,169,088	5,727,304
Department of Finance and Administration	307,632	181,166
Department of Justice	1,484,527	214,408
Sub-total	<u>13,732,350</u>	<u>14,182,412</u>
Total Executive Branch	<u>32,837,400</u>	<u>35,943,008</u>
Judicial Branch-core operational	1,266,934	1,229,780
Judicial Branch-non-core operational	421,347	294,899
Total Judicial Branch	<u>1,688,281</u>	<u>1,524,679</u>
Legislative Branch:		
Office of the Speaker and members	4,831,560	4,028,799
Congress staff	1,814,895	1,841,171
Delegation offices	511,873	610,356
Total Legislative Branch	<u>7,158,328</u>	<u>6,480,326</u>
Office of the National Public Auditor-Core operational	601,290	639,995
Office of the National Public Auditor-Non-Core operational	445,000	445,000
Total Office of the Public Auditor	<u>1,046,290</u>	<u>1,084,995</u>
Other National Government Programs	-	746,614
Agencies, Boards and Commissions	<u>2,772,661</u>	<u>2,479,694</u>
Payments to Component Units:		
College of Micronesia-FSM (Board of Regents)	105,000	105,000
College of Micronesia-FSM (SEG)	2,800,000	-
College of Micronesia-FSM FMI	1,191,031	-
FSM Social Security Administration	1,000,000	2,000,000
FSM NGEIP (MiCare)	500,000	-
	<u>5,596,031</u>	<u>2,105,000</u>
Legislative public projects	<u>16,213,372</u>	<u>10,974,849</u>
Total expenditures	<u>67,312,363</u>	<u>61,339,165</u>
Excess of revenues over expenditures	<u>44,593,136</u>	<u>27,018,628</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, 2017
(with comparative totals for the year ended September 30, 2016)

	<u>2017</u>	<u>2016</u>
Other financing sources (uses):		
Operating transfers in:		
Permit Revolving Fund	156,296	1,917,396
Postal Services Revolving Fund	402,199	586,759
Marine Surveillance Revolving Fund	40,294	63,615
Fisheries Observation Revolving Fund	64,331	-
Passport Revolving Fund	<u>458,773</u>	<u>290,387</u>
	<u>1,121,893</u>	<u>2,858,157</u>
Operating transfers out:		
FSM Trust Fund	(22,603,932)	(16,308,999)
Disaster Emergency Fund	<u>(400,000)</u>	<u>-</u>
	<u>(23,003,932)</u>	<u>(16,308,999)</u>
Total other financing sources (uses), net	<u>(21,882,039)</u>	<u>(13,450,842)</u>
Net change in fund balance	22,711,097	13,567,786
Fund balance at the beginning of the year	<u>85,990,389</u>	<u>72,422,603</u>
Fund balance at the end of the year	<u>\$ 108,701,486</u>	<u>\$ 85,990,389</u>
Reconciliation:		
Fund balance, General Fund	\$ 108,701,486	
Add:		
ADB Loan Fund	45,862,130	
IDF with FSMDB	1,894,503	
Early Retirement Fund	(140,525)	
FSM Trust Fund	<u>116,108,644</u>	
Fund balance, GAAP	<u>\$ 272,426,238</u>	

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

NONMAJOR GOVERNMENTAL FUNDS

Combining Balance Sheet
September 30, 2017

	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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,403	\$ -	\$ -	\$ -	\$ -	\$ 9,403
Advances	1,878	-	-	4,948	-	11,295	-	(92)	-	-	-	-	-	18,029
Due from other funds	44,841	77,316	-	900,779	28,653	1,347,366	18,948	25,136	90,806	85,168	1,927,409	89,625	30,254	4,666,301
	<u>\$ 46,719</u>	<u>\$ 77,316</u>	<u>\$ -</u>	<u>\$ 905,727</u>	<u>\$ 28,653</u>	<u>\$ 1,358,661</u>	<u>\$ 18,948</u>	<u>\$ 25,044</u>	<u>\$ 100,209</u>	<u>\$ 85,168</u>	<u>\$ 1,927,409</u>	<u>\$ 89,625</u>	<u>\$ 30,254</u>	<u>\$ 4,693,733</u>
<u>LIABILITIES AND FUND BALANCES</u>														
Liabilities:														
Accounts payable	\$ 401		\$ 42	\$ 4,886		\$ 11,813		\$ 5			\$ 181,282	\$ 1,007	\$ 17,500	\$ 216,936
Due to other funds	-	-	198,917	-	-	-	-	-	-	-	-	-	-	198,917
	<u>401</u>	<u>-</u>	<u>198,959</u>	<u>4,886</u>	<u>-</u>	<u>11,813</u>	<u>-</u>	<u>5</u>	<u>-</u>	<u>-</u>	<u>181,282</u>	<u>1,007</u>	<u>17,500</u>	<u>415,853</u>
Fund balances (deficit):														
Committed	<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>
Total liabilities and fund balances	<u>\$ 46,719</u>	<u>\$ 77,316</u>	<u>\$ -</u>	<u>\$ 905,727</u>	<u>\$ 28,653</u>	<u>\$ 1,358,661</u>	<u>\$ 18,948</u>	<u>\$ 25,044</u>	<u>\$ 100,209</u>	<u>\$ 85,168</u>	<u>\$ 1,927,409</u>	<u>\$ 89,625</u>	<u>\$ 30,254</u>	<u>\$ 4,693,733</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, 2017

	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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 379,580	\$ -	\$ -	\$ -	\$ 379,580
Fees and charges	185,710	8,115	342,195	946,796	-	1,119,591	2,720	3,445	-	-	1,145,878	495,949	12,754	4,263,153
Other	-	-	-	-	-	-	-	-	238,435	-	-	-	-	238,435
Total revenues	185,710	8,115	342,195	946,796	-	1,119,591	2,720	3,445	238,435	379,580	1,145,878	495,949	12,754	4,881,168
Expenditures by function:														
Current:														
Transportation, communication and infrastructure	-	-	157,454	-	-	-	-	-	-	-	-	-	-	157,454
Education	-	-	-	-	-	-	-	-	-	547,320	-	-	-	547,320
Justice	23,826	-	-	291,399	-	-	-	-	237,830	-	524,258	-	-	1,077,313
Agencies, boards and commissions	-	-	-	-	-	418,523	-	250	-	-	-	38,953	-	457,726
Total expenditures	23,826	-	157,454	291,399	-	418,523	-	250	237,830	547,320	524,258	38,953	-	2,239,813
Excess (deficiency) of revenue over (under) expenditure	161,884	8,115	184,741	655,397	-	701,068	2,720	3,195	605	(167,740)	621,620	456,996	12,754	2,641,355
Other financing uses:														
Operating transfers out	(156,296)	-	-	(458,773)	-	(64,331)	-	-	-	-	(40,294)	(402,199)	-	(1,121,893)
Net change in fund balances (deficit)	5,588	8,115	184,741	196,624	-	636,737	2,720	3,195	605	(167,740)	581,326	54,797	12,754	1,519,462
Fund balances at the beginning of the year	40,730	69,201	(383,700)	704,217	28,653	710,111	16,228	21,844	99,604	252,908	1,164,801	33,821	-	2,758,418
Fund balances (deficit) at the end of the year	\$ 46,318	\$ 77,316	\$ (198,959)	\$ 900,841	\$ 28,653	\$ 1,346,848	\$ 18,948	\$ 25,039	\$ 100,209	\$ 85,168	\$ 1,746,127	\$ 88,618	\$ 12,754	\$ 4,277,880

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, 2017

	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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 379,580	\$ -	\$ -	\$ -	\$ 379,580
Fees and charges	185,710	8,115	342,195	946,796	-	1,119,591	2,720	3,445	-	-	1,145,878	495,949	12,754	4,263,153
Other	-	-	-	-	-	-	-	-	238,435	-	-	-	-	238,435
Total revenues	<u>185,710</u>	<u>8,115</u>	<u>342,195</u>	<u>946,796</u>	<u>-</u>	<u>1,119,591</u>	<u>2,720</u>	<u>3,445</u>	<u>238,435</u>	<u>379,580</u>	<u>1,145,878</u>	<u>495,949</u>	<u>12,754</u>	<u>4,881,168</u>
Expenditures by account:														
Personnel	-	-	157,334	-	-	120,843	-	-	237,830	-	-	-	-	516,007
Travel and transportation	13,320	-	-	21,999	-	41,050	-	-	-	-	-	-	-	76,369
Communications	-	-	-	23,251	-	814	-	-	-	-	12,974	-	-	37,039
Food stuffs	-	-	-	-	-	1,319	-	-	-	-	73,605	-	-	74,924
Freight	-	-	-	5,828	-	-	-	-	-	-	99	-	-	5,927
Expendable equipment	-	-	-	2,968	-	1,299	-	-	-	-	9,406	1,640	-	15,313
Office supplies and materials	8,636	-	120	20,470	-	1,689	-	-	-	-	45,819	5,904	-	82,638
POL	-	-	-	-	-	-	-	-	-	-	262,046	-	-	262,046
Advertising, printing and reproduction	1,870	-	-	-	-	-	-	-	-	-	-	-	-	1,870
Rental	-	-	-	-	-	-	-	-	-	-	7,098	-	-	7,098
Repair and maintenance	-	-	-	-	-	50	-	-	-	-	868	45	-	963
Utilities	-	-	-	3,469	-	822	-	-	-	-	11,763	-	-	16,054
General contractual services	-	-	-	196,884	-	249,931	-	-	-	-	1,975	18,504	-	467,294
Scholarships	-	-	-	-	-	-	-	250	-	547,320	-	-	-	547,570
Equipment	-	-	-	16,030	-	-	-	-	-	-	98,530	12,860	-	127,420
Bank charges and others	-	-	-	500	-	706	-	-	-	-	75	-	-	1,281
Total expenditures	<u>23,826</u>	<u>-</u>	<u>157,454</u>	<u>291,399</u>	<u>-</u>	<u>418,523</u>	<u>-</u>	<u>250</u>	<u>237,830</u>	<u>547,320</u>	<u>524,258</u>	<u>38,953</u>	<u>-</u>	<u>2,239,813</u>
Excess (deficiency) of revenue over (under) expenditure	161,884	8,115	184,741	655,397	-	701,068	2,720	3,195	605	(167,740)	621,620	456,996	12,754	2,641,355
Other financing uses:														
Operating transfers out	(156,296)	-	-	(458,773)	-	(64,331)	-	-	-	-	(40,294)	(402,199)	-	(1,121,893)
Net change in fund balances (deficit)	5,588	8,115	184,741	196,624	-	636,737	2,720	3,195	605	(167,740)	581,326	54,797	12,754	1,519,462
Fund balances at the beginning of the year	<u>40,730</u>	<u>69,201</u>	<u>(383,700)</u>	<u>704,217</u>	<u>28,653</u>	<u>710,111</u>	<u>16,228</u>	<u>21,844</u>	<u>99,604</u>	<u>252,908</u>	<u>1,164,801</u>	<u>33,821</u>	<u>-</u>	<u>2,758,418</u>
Fund balances (deficit) at the end 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>

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

GRANTS ASSISTANCE FUND

Combining Balance Sheet
September 30, 2017

	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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 348,964	\$ -	\$ -	\$ -	\$ 3,402,821	\$ 3,751,785
Receivables:													
Federal agencies	307,828	343,261	-	-	788,334	964,036	-	-	2,050,763	5,316,007	-	-	9,770,229
Non-US grantor	-	-	-	-	-	-	-	-	-	-	15,561,165	-	15,561,165
Due from FSM State Governments	-	-	101,943	183,774	223,976	1,001,722	87,347	-	-	-	-	-	1,598,762
Due from other funds	1,912,980	231,191	-	-	-	-	-	-	126,935	3,957,676	3,011,100	-	9,239,882
Advances	(5,919)	595	-	-	(344)	15,040	-	-	31	8,596	91,529	-	109,528
	<u>\$ 2,214,889</u>	<u>\$ 575,047</u>	<u>\$ 101,943</u>	<u>\$ 183,774</u>	<u>\$ 1,011,966</u>	<u>\$ 1,980,798</u>	<u>\$ 87,347</u>	<u>\$ 348,964</u>	<u>\$ 2,177,729</u>	<u>\$ 9,282,279</u>	<u>\$ 18,663,794</u>	<u>\$ 3,402,821</u>	<u>\$ 40,031,351</u>
LIABILITIES AND FUND BALANCES (DEFICIT)													
Liabilities:													
Accounts payable	\$ 212,309	\$ 422,554	\$ -	\$ -	\$ 948,740	\$ 626,936	\$ 76,823	\$ -	\$ 2,123,729	\$ 6,575,468	\$ 15,690,106	\$ -	\$ 26,676,665
Retention payable	-	-	-	-	-	-	-	-	-	879,571	-	-	879,571
Due to FSM State Governments	2,002,580	152,493	-	-	-	-	-	-	54,000	1,832,454	-	-	4,041,527
Due to Federal Government	-	-	-	-	-	-	-	-	-	-	-	-	-
Due to other funds	-	-	101,943	170,621	63,226	1,353,862	10,524	22	-	-	-	125,485	1,825,683
Unearned revenues	-	-	-	-	-	-	-	-	-	-	3,116,952	71,595	3,188,547
Total liabilities	<u>2,214,889</u>	<u>575,047</u>	<u>101,943</u>	<u>170,621</u>	<u>1,011,966</u>	<u>1,980,798</u>	<u>87,347</u>	<u>22</u>	<u>2,177,729</u>	<u>9,287,493</u>	<u>18,807,058</u>	<u>197,080</u>	<u>36,611,993</u>
Fund balances (deficit):													
Restricted	-	-	-	13,153	-	-	-	348,942	-	-	-	3,205,741	3,567,836
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>348,942</u>	<u>-</u>	<u>(5,214)</u>	<u>(143,264)</u>	<u>3,205,741</u>	<u>3,419,358</u>
Total liabilities and fund balances	<u>\$ 2,214,889</u>	<u>\$ 575,047</u>	<u>\$ 101,943</u>	<u>\$ 183,774</u>	<u>\$ 1,011,966</u>	<u>\$ 1,980,798</u>	<u>\$ 87,347</u>	<u>\$ 348,964</u>	<u>\$ 2,177,729</u>	<u>\$ 9,282,279</u>	<u>\$ 18,663,794</u>	<u>\$ 3,402,821</u>	<u>\$ 40,031,351</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, 2017

	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	\$ 2,825	\$ -	\$ -	\$ -	\$ 475,000	\$ 1,095,898	\$ -	\$ -	\$ 5,164,642	\$ -	\$ -	\$ 706,760	\$ 7,445,125
Federal and other grants	-	-	-	-	-	-	-	(1,483)	-	24,617,347	23,778,135	12,642	48,406,641
	<u>2,825</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>475,000</u>	<u>1,095,898</u>	<u>-</u>	<u>(1,483)</u>	<u>5,164,642</u>	<u>24,617,347</u>	<u>23,778,135</u>	<u>719,402</u>	<u>55,851,766</u>
Expenditures by function:													
Current:													
General government:													
Finance and administration	-	-	-	-	-	-	-	-	-	1,553,636	7,187	-	1,560,823
Resources and development	-	-	-	-	-	-	-	-	-	-	2,772,134	-	2,772,134
Transportation, communication and infrastructure	-	-	-	-	-	-	-	-	-	-	20,299,452	-	20,299,452
Health and social affairs	-	-	-	-	-	-	-	-	-	4,868,411	313,713	-	5,182,124
National archives, cultural and historic preservation	-	-	-	-	-	-	-	-	-	37,239	-	-	37,239
Education	2,825	-	-	-	-	1,095,898	-	-	-	681,017	-	-	1,779,740
Environment and emergency management	-	-	-	-	-	-	-	-	-	179,518	-	-	179,518
Office of the National Public Auditor	-	-	-	-	475,000	-	-	-	-	-	-	-	475,000
Boards and commissions	-	-	-	-	-	-	-	-	-	-	509,202	-	509,202
Capital Projects	-	-	-	-	-	-	-	-	5,164,642	17,297,526	-	-	22,462,168
Total expenditures	<u>2,825</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>475,000</u>	<u>1,095,898</u>	<u>-</u>	<u>-</u>	<u>5,164,642</u>	<u>24,617,347</u>	<u>23,901,688</u>	<u>-</u>	<u>55,257,400</u>
Excess (deficiency) of revenue over (under) expenditure	-	-	-	-	-	-	-	(1,483)	-	-	(123,553)	719,402	594,366
Other financing uses:													
Operating transfers in (out)	-	-	-	-	-	-	-	-	-	-	-	400,000	400,000
Net change in fund balances (deficit)	-	-	-	-	-	-	-	(1,483)	-	-	(123,553)	1,119,402	994,366
Fund balances (deficit) at the beginning of the year	-	-	-	13,153	-	-	-	350,425	-	(5,214)	(19,711)	2,086,339	2,424,992
Fund balances (deficit) at the end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,153</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 348,942</u>	<u>\$ -</u>	<u>\$ (5,214)</u>	<u>\$ (143,264)</u>	<u>\$ 3,205,741</u>	<u>\$ 3,419,358</u>

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, 2017

	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	\$ 2,825	\$ -	\$ -	\$ -	\$ 475,000	\$ 1,095,898	\$ -	-	\$ 5,164,642	\$ -	\$ -	\$ 706,760	\$ 7,445,125
Federal and other grants	-	-	-	-	-	-	-	(1,483)	-	24,617,347	23,778,135	12,642	48,406,641
	<u>2,825</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>475,000</u>	<u>1,095,898</u>	<u>-</u>	<u>(1,483)</u>	<u>5,164,642</u>	<u>24,617,347</u>	<u>23,778,135</u>	<u>719,402</u>	<u>55,851,766</u>
Expenditures by account:													
Personnel	-	-	-	-	-	149,273	-	-	20,678	2,225,772	240,220	-	2,635,943
Travel and transportation	-	-	-	-	-	275,649	-	-	12,125	1,846,137	558,308	-	2,692,219
Communications	-	-	-	-	-	16,339	-	-	750	125,428	2,143	-	144,660
Customs and taxes	-	-	-	-	-	-	-	-	-	10,526	132	-	10,658
Dues, membership and subscription	-	-	-	-	-	-	-	-	-	10,809	-	-	10,809
Food stuffs	-	-	-	-	-	-	-	-	-	22,184	77,904	-	100,088
Freight	-	-	-	-	-	1,103	-	-	-	33,067	1,357	-	35,527
Expendable equipment/furniture	2,385	-	-	-	-	9,503	-	-	-	98,762	26,099	-	136,749
Office supplies and materials	440	-	-	-	-	24,148	-	-	262	295,273	46,750	-	366,873
POL	-	-	-	-	-	1,919	-	-	2,953	30,606	10,559	-	46,037
Advertising, printing and reproduction	-	-	-	-	-	-	-	-	-	51,449	50,195	-	101,644
Rental services	-	-	-	-	-	34,128	-	-	-	131,918	35,432	-	201,478
Repair and maintenance	-	-	-	-	-	-	-	-	135	3,124	8,713	-	11,972
Utilities	-	-	-	-	-	-	-	-	-	194,726	620	-	195,346
Miscellaneous goods and services	-	-	-	-	-	-	-	-	-	3,320	10,956	-	14,276
Medical supplies	-	-	-	-	-	-	-	-	-	176,373	-	-	176,373
Contribution, subsidies	-	-	-	-	-	-	-	-	-	-	800,000	-	800,000
General Contractual services	-	-	-	-	251,611	512,445	-	-	918,129	1,209,270	683,893	-	3,575,348
Professional services	-	-	-	-	223,389	9,929	-	-	1,631,348	1,474,491	20,311,749	-	23,650,906
Employee housing and household storage	-	-	-	-	-	37,751	-	-	-	10,810	5,900	-	43,651
Compensation-nonpayroll	-	-	-	-	-	-	-	-	-	14,597	57,126	-	71,823
Training and registration fees	-	-	-	-	-	100	-	-	-	4,575	3,965	-	32,720
Official and meeting allowances	-	-	-	-	-	-	-	-	-	599	-	-	599
Insurance and fees	-	-	-	-	-	-	-	-	-	73,165	-	-	73,165
Leased housing, offices, buildings and land	-	-	-	-	-	-	-	-	125,828	400	13,966	-	198,993
Bank charges	-	-	-	-	-	-	-	-	-	-	-	-	14,366
Project Management & Administration	-	-	-	-	-	-	-	-	100	-	-	-	100
Construction Management	-	-	-	-	-	-	-	-	-	16,137,181	-	-	16,137,181
Survey & investigation	-	-	-	-	-	-	-	-	-	-	-	-	-
Construction payments	-	-	-	-	-	-	-	-	1,966,768	-	-	-	1,966,768
Architecture and design	-	-	-	-	-	-	-	-	485,566	-	-	-	485,566
Equipment	-	-	-	-	-	37,182	-	-	-	282,942	905,043	-	1,225,167
Vehicle	-	-	-	-	-	-	-	-	-	112,092	33,939	-	146,031
Total expenditures	<u>2,825</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>475,000</u>	<u>1,095,898</u>	<u>-</u>	<u>-</u>	<u>5,164,642</u>	<u>24,617,347</u>	<u>23,901,688</u>	<u>-</u>	<u>55,257,400</u>
Excess (deficiency) of revenue over (under) expenditure	-	-	-	-	-	-	-	(1,483)	-	-	(123,553)	719,402	594,366
Other financing uses:													
Operating transfers in (out)	-	-	-	-	-	-	-	-	-	-	-	400,000	400,000
Net change in fund balances (deficit)	-	-	-	-	-	-	-	(1,483)	-	-	(123,553)	1,119,402	994,366
Fund balances (deficit) at the beginning of the year	-	-	-	13,153	-	-	-	350,425	-	(5,214)	(19,711)	2,086,339	2,424,992
Fund balances (deficit) at the end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,153</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 348,942</u>	<u>\$ -</u>	<u>\$ (5,214)</u>	<u>\$ (143,264)</u>	<u>\$ 3,205,741</u>	<u>\$ 3,419,358</u>

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, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
Revenues:				
Local taxes	\$ 8,891,124	\$ 8,083,594	\$ 37,674,152	\$ 29,590,558
Fishing right fees	55,000,000	62,000,000	72,591,642	10,591,642
Postal revenues	500,000	329,796	160,386	(169,410)
Investment earnings	1,000,000	1,000,000	2,141,153	1,141,153
Fees and charges	7,250,000	19,649,975	108,511	(19,541,464)
MiCare reimbursable	-	-	274,296	274,296
Other	1,900,000	1,916,524	(1,044,641)	(2,961,165)
Total revenues	74,541,124	92,979,889	111,905,499	18,925,610
Expenditures-budgetary basis by department:				
Executive Branch-Core Operational:				
Office of the President	976,707	1,389,961	1,202,189	187,772
President's Office - Public Information	103,441	121,682	84,552	37,130
President's Office - Personnel	112,419	117,060	93,968	23,092
Total Office of the President	1,192,567	1,628,703	1,380,709	247,994
Department of External Affairs				
Administration	471,196	496,895	364,976	131,919
Division of APA and Multilateral Affairs	112,784	112,784	114,427	(1,643)
Division of American and European Affairs	91,839	91,839	94,611	(2,772)
FSM Consulate - China	641,249	644,902	529,487	115,415
FSM Consulate - Guam	283,793	289,588	300,576	(10,988)
FSM Consulate - Honolulu	345,094	345,094	342,436	2,658
FSM Embassy - Tokyo	919,802	919,802	890,182	29,620
FSM Embassy - Washington D.C.	581,378	605,816	606,117	(301)
FSM Embassy - Fiji	317,878	322,517	252,615	69,902
FSM Permanent Mission - New York	798,686	798,686	697,463	101,223
Total Department of External Affairs	4,563,699	4,627,923	4,192,890	435,033
Department of Health and Social Affairs:				
Administration	159,977	166,834	166,408	426
Health System Support	207,099	214,121	203,614	10,507
Environmental Health	305,524	322,567	315,504	7,063
Gender Development Unit	34,024	34,024	29,665	4,359
Sports and Youth Unit	72,655	74,352	40,851	33,501
Total Department of Health and Social Affairs	779,279	811,898	756,042	55,856
Department of Education:				
Administration	141,665	151,641	138,364	13,277
Basic Education & Accreditation (Domestic)	186,279	191,135	156,436	34,699
Basic Education & Accreditation (SEG)	366,598	366,598	-	366,598
Career Technical Education	109,705	120,239	86,052	34,187
Total Department of Education	804,247	829,613	380,852	448,761
Department of Resources and Development:				
Administration	113,832	117,551	93,114	24,437
Division of Sectoral Development	534,739	564,979	549,565	15,414
Division of Trade and Investment	166,653	173,902	136,308	37,594
Division of Energy	61,477	67,817	40,561	27,256
Division of Statistics	383,230	395,423	283,683	111,740
Total Department of Resources and Development	1,259,931	1,319,672	1,103,231	216,441
Office of National Archives, Cultural and Historic Preservation	195,818	204,718	193,074	11,644
Office of Environment and Emergency Management:				
Office of the Director	90,462	96,675	87,058	9,617
Division of Sustainable Development	128,410	132,267	94,321	37,946
Division of Emergency Management	91,324	103,283	34,338	68,945
Total Office of Environment and Emergency Management	310,196	332,225	215,717	116,508

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, 2017

	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	165,091	175,321	(10,230)
Division of Marine Transportation	1,147,255	1,530,480	1,382,313	148,167
Division of Infrastructure	481,574	499,497	589,661	(90,164)
Civil Aviation	132,118	142,338	129,224	13,114
Communication	131,126	151,731	157,808	(6,077)
Project Management Unit	423,894	565,246	885,370	(320,124)
Total Department of Transportation, Communication and Infrastructure	2,476,256	3,054,383	3,319,697	(265,314)
Department of Finance and Administration:				
Administration	224,424	280,263	262,997	17,266
Division of National Treasury	801,657	838,436	2,878,846	(2,040,410)
Division of Customs and Tax Administration	993,707	1,057,161	972,341	84,820
Division of Investment & International Finance	127,539	133,197	118,776	14,421
Division of Budget & Economic Management	272,312	305,980	209,512	96,468
Total Department of Finance and Administration	2,419,639	2,615,037	4,442,472	(1,827,435)
Department of Justice:				
Administration	214,082	267,703	236,096	31,607
Registry of Corporation	82,771	84,907	71,891	13,016
Division of Law	239,831	240,758	226,492	14,266
Division of Litigation	206,926	211,217	183,450	27,767
Division of Immigration and Labor	728,513	750,654	749,316	1,338
FSM National Police	1,669,229	1,765,991	1,832,929	(66,938)
FSM National Police - Fuel	100,000	-	-	-
Total Department of Justice	3,241,352	3,321,230	3,300,174	21,056
Office of the Public Defender	943,732	976,304	845,495	130,809
Total Executive Branch-Core Operational	18,186,716	19,721,706	20,130,353	(408,647)
Executive Branch-Non-Core Operational:				
President's Office	1,139,118	2,361,430	1,673,011	688,419
Department of External Affairs and LNO's	277,000	338,387	311,004	27,383
Department of Health and Social Affairs	932,000	980,070	570,816	409,254
Department of Education	4,540,866	4,619,346	3,491,519	1,127,827
Office of Resources and Development	676,061	676,061	601,994	74,067
National archives, cultural and historic prevention	7,064	7,064	3,280	3,784
Office of Environment and Emergency Management	249,769	555,799	4,130	551,669
Department of Transportation, Communication and Infrastructure	1,684,917	2,820,708	6,549,743	(3,729,035)
Department of Finance and Administration	544,024	595,541	354,284	241,257
Department of Justice	1,390,000	1,804,312	1,786,899	17,413
Total Executive Branch-Non-Core Operational	11,440,819	14,758,718	15,346,680	(587,962)
Total Executive Branch	29,627,535	34,480,424	35,477,033	(996,609)
Judicial Branch-Core Operational	1,404,871	1,571,344	1,418,759	152,585
Judicial Branch-Non-core Operational	205,000	205,000	421,347	(216,347)
Total Judiciary Branch	1,609,871	1,776,344	1,840,106	(63,762)
Legislative Branch:				
Office of the Speaker and members	2,642,698	5,239,720	5,036,395	203,325
Members and staff	1,893,057	2,299,990	2,019,593	280,397
Delegation offices	490,000	549,905	538,036	11,869
Total Legislative Branch - Core	5,025,755	8,089,615	7,594,024	495,591
Total Legislative Branch	5,025,755	8,089,615	7,594,024	495,591
Office of the National Public Auditor				
Public Auditor (Core)	743,355	834,655	644,255	190,400
Single Audit (Non-core)	445,000	445,000	445,000	-
Total Office of the National Public Auditor	1,188,355	1,279,655	1,089,255	190,400
Agencies, Board and Commissions:				
National Election	841,847	898,076	564,819	333,257
Micronesia Legal Services Corporation	250,000	250,000	250,000	-
Total Other National Government Programs	1,091,847	1,148,076	814,819	333,257

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, 2017

	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	529,934	551,464	527,664	23,800
Tuna Commission Membership	108,504	108,504	108,504	-
MLFC Loan Subsidy	200,000	235,000	260,000	(25,000)
FSM Insurance	297,929	327,760	286,555	41,205
FSM Banking Board	214,369	215,862	170,521	45,341
Postal Services	832,428	862,587	833,704	28,883
Total Boards and Commissions	3,275,011	3,449,253	3,001,767	447,486
Payments to component units:				
FSM MiCare	-	500,000	500,000	-
FSM Social Security Administration	1,000,000	1,000,000	1,000,000	-
COM-FSM (Domestic)	2,800,000	2,800,000	2,800,000	-
Board of Regents-COM	105,000	105,000	105,000	-
COM-FSM (FMI)	833,915	833,915	1,191,031	(357,116)
COM-FSM (SEG)	689,948	689,948	-	689,948
Total payments to component units	5,428,863	5,928,863	5,596,031	332,832
Other National government programs-continuing approp	16,360,591	16,360,590	19,109,620	(2,749,030)
Total expenditures	62,515,981	71,364,744	73,707,836	(2,343,092)
Excess (deficiency) of revenues over (under) expenditures	12,025,143	21,615,145	38,197,663	16,582,518
Other financing sources (uses):				
Operating Transfers in (out):				
Entry Fee fund	-	-	156,296	(156,296)
Passport Fund	-	-	458,773	(458,773)
Fisheries Observation Fund	-	-	64,331	(64,331)
Maritime Surveillance Fund	-	-	40,294	(40,294)
National Postal Services Fund	-	-	402,199	(402,199)
Disaster Relief Fund	-	(400,000)	(400,000)	-
FSM Trust Fund - States	(7,500,000)	(7,500,000)	(22,603,932)	15,103,932
Total Operating Transfers in/out	(7,500,000)	(7,900,000)	(21,882,039)	13,982,039
Total other financing sources (uses), net	(7,500,000)	(7,900,000)	(21,882,039)	13,982,039
	4,525,143	13,715,145	16,315,624	30,564,557
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	-	-	6,395,473	6,395,473
Net change in fund balance	4,525,143	13,715,145	22,711,097	8,995,952
Fund balance at beginning of year	85,990,389	85,990,389	85,990,389	-
Fund balance at end of year	\$ 90,515,532	\$ 99,705,534	\$ 108,701,486	\$ 8,995,952

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

**WORLD BANK PROJECT FINANCIAL SUMMARY
FOR THE YEAR ENDED 30 SEPTEMBER 2016**

GRANT NAMES	GRANT AMOUNT	PRIOR YEAR EXPENDITURE	CURRENT YEAR ENCUMBRANCES	CURRENT YEAR EXPENDITURE	TOTAL EXPENDITURE	GRANT BALANCE	TRANSFERRED TO DESIGNATED ACCOUNT	OUTSTANDING REPLENISHMENTS
PACIFIC REGIONAL INFRASTRUCTURE FACILITY (PRIF):								
Grant Amount	500,000	(200,000)	(155,000)	(120,000)	(475,000)	25,000		
Subtotal	500,000	(200,000)	(155,000)	(120,000)	(475,000)	25,000	(475,000)	-
ENERGY SECTOR DEVELOPMENT PROJECT (ESDP):								
Component 1	9,270,000	-	(386,801)	(1,814,982)	(2,201,783)	7,068,217		
Component 2	3,400,000	-	-	-	-	3,400,000		
Component 3	1,500,000	(93,400)	(136,173)	(365,194)	(594,766)	905,234		
Contingencies	230,000	-	-	-	-	230,000		
Subtotal	14,400,000	(93,400)	(522,974)	(2,180,176)	(2,796,550)	11,603,450	(1,786,233)	(1,010,317)
FSM-PALAU CONNECTIVITY PROJECT (ICT):								
Component 1	44,500,000	-	(8,347,297)	(5,200,000)	(13,547,297)	30,952,703		
Component 2	2,250,000	-	-	(137,500)	(137,500)	2,112,500		
Component 3	750,000	(32,598)	(100,361)	(170,678)	(303,637)	446,363		
Subtotal	47,500,000	(32,598)	(8,447,658)	(5,508,178)	(13,988,434)	33,511,566	(5,358,347)	(8,630,087)
PACIFIC ISLANDS REGIONAL OCEANSCAPE PROJECT (PROP):								
Component 1	4,740,000	-	(3,653)	(222,379)	(226,032)	4,513,968		
Component 2	300,000	-	-	(10,344)	(10,344)	289,656		
Component 3	460,000	(4,288)	-	(45,023)	(49,311)	410,689		
Subtotal	5,500,000	(4,288)	(3,653)	(277,746)	(285,687)	5,214,313	(19,165)	(266,522)
TOTAL FOR GR	67,900,000	(330,286)	(9,129,285)	(8,086,100)	(17,545,671)	50,354,329	(7,638,745)	(9,906,926)

See Accompanying Independent Auditors' Report

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT
WORLD BANK PROJECT FINANCIAL SUMMARY
FOR THE YEAR ENDED 30 SEPTEMBER 2017**

GRANT NAMES	GRANT AMOUNT	PRIOR YEAR EXPENDITURE	CURRENT YEAR ENCUMBRANCES	CURRENT YEAR EXPENDITURE	TOTAL EXPENDITURE	GRANT BALANCE	TRANSFERRED TO DESIGNATED ACCOUNT	OUTSTANDING REPLENISHMENTS
PACIFIC REGIONAL INFRASTRUCTURE FACILITY (PRIF):								
Grant Amount**	475,000	(320,000)	-	(155,000)	(475,000)	-		
Subtotal	475,000	(320,000)	-	(155,000)	(475,000)	-	(475,000)	-
ENERGY SECTOR DEVELOPMENT PROJECT (ESDP):								
Component 1	9,270,000	(1,814,982)	(465,774)	(1,833,641)	(4,114,397)	5,155,603		
Component 2	3,400,000	-	-	-	-	3,400,000		
Component 3	1,500,000	(458,594)	(208,927)	(479,733)	(1,147,253)	352,747		
Contingencies	230,000	-	-	-	-	230,000		
Subtotal	14,400,000	(2,273,576)	(674,700)	(2,313,374)	(5,261,650)	9,138,350	(3,409,505)	(1,852,145)
FSM-PALAU CONNECTIVITY PROJECT (ICT):								
Component 1	44,500,000	(5,200,000)	(26,149,509)	(3,422,789)	(34,772,298)	9,727,702		
Component 2	2,250,000	(137,500)	(47,450)	(60,050)	(245,000)	2,005,000		
Component 3	750,000	(203,276)	(145,619)	(320,447)	(669,343)	80,657		
Subtotal	47,500,000	(5,540,776)	(26,342,578)	(3,803,287)	(35,686,640)	11,813,360	(8,488,690)	(27,197,950)
PACIFIC ISLANDS REGIONAL OCEANSCAPE PROJECT (PROP):								
Component 1	4,740,000	(222,379)	(108,045)	(328,676)	(659,100)	4,080,900		
Component 2	300,000	(10,344)	(127,486)	(113,570)	(251,400)	48,600		
Component 3	460,000	(49,311)	(13,100)	(66,401)	(128,811)	331,189		
Subtotal	5,500,000	(282,034)	(248,631)	(508,647)	(1,039,312)	4,460,688	(66,619)	(972,693)
TOTAL FOR GRANTS	67,875,000	(8,416,386)	(27,265,909)	(6,780,308)	(42,462,602)	25,412,398	(12,439,814)	(30,022,788)

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

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 Peter M. Christian
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, 2017, 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 26, 2018.

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.

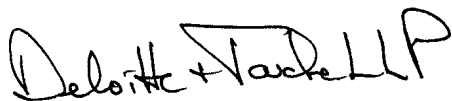
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not 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 26, 2018

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 Peter M. Christian
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, 2017. 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, 2017. 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 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 opinion on compliance for each major federal program. However, our audit does not provide a legal determination of FSM National Government's compliance.

Opinion on Each Major Federal Program

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 major federal programs for the year ended September 30, 2017.

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 items 2017-001. 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 are 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.

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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

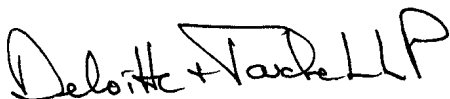
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2017-001 that we consider to be significant deficiencies.

FSM National Government's response to the internal control over compliance findings identified in our audit are 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, 2017, 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 26, 2018, 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 26, 2018

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Summary Schedule of Expenditures of Federal Awards, by Grantor
Year Ended September 30, 2017

<u>Agency/Program</u>	<u>Expenditures</u>	<u>Amounts Passed-Through to Subrecipients</u>
U.S. Department of Agriculture	\$ 165,314	\$ 165,314
U.S. Department of Commerce	1,555,799	-
U.S. Department of the Interior	74,080,307	67,334,586
U.S. Department of Transportation	17,297,526	-
Institute of Museum and Library Services	31,450	-
U.S. Department of Education	3,806,318	3,125,303
U.S. Department of Health and Human Services	11,257,147	6,392,463
U.S. Department of State	2,757	2,757
U.S. Small Business Administration	34,570	34,570
U.S. Department of Homeland Security	179,517	-
GRAND TOTAL	<u>\$ 108,410,704</u>	<u>\$ 77,054,992</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	\$ 55,257,400	-
Add:		-
Amounts Passed-Through to subrecipients	77,054,992	-
Less:		
Expenditures of the Non U.S. Grants Fund	<u>(23,901,688)</u>	<u>-</u>
Total expenditures of federal awards	<u>\$ 108,410,704</u>	

See accompanying notes to Schedule of Expenditures of Federal Awards.

FEDERATED STATES OF MICRONESIA

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2017

<u>Agency/Program</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>	<u>Amounts Passed-Through to Subrecipients</u>
U.S. DEPARTMENT OF AGRICULTURE			
Resident Instruction Grants for Insular Area Activities	10.308	\$ -	\$ -
Rural Self-Help Housing Technical Assistance	10.420	-	-
Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers	10.443	-	-
Cooperative Extension Service	10.500	-	-
Forestry Research	10.652	-	-
Cooperative Forestry Assistance	10.664	120,880	120,880
Urban and Community Forestry Program	10.675	23,758	23,758
Forest Legacy Program	10.676	11,118	11,118
Forest Stewardship Program	10.678	9,558	9,558
Water Quality	10.Unknown	-	-
USDA-OASDFR	10.Unknown	-	-
U.S. DEPARTMENT OF AGRICULTURE TOTAL		\$ 165,314	\$ 165,314
U.S. DEPARTMENT OF COMMERCE			
Anadromous Fish Conservation Act Program	11.405	\$ -	\$ -
Financial Assistance for National Centers for Coastal Ocean Science	11.426	-	-
Climate and Atmosphere Research	11.431	1,555,799	-
Special Oceanic and Atmospheric Projects	11.460	-	-
U.S. DEPARTMENT OF COMMERCE		\$ 1,555,799	\$ -
U.S. DEPARTMENT OF THE INTERIOR			
Direct Programs:			
General Technical Assistance: Early Childhood Education	15.875	1,738	1,738
Economic, Social and Political Development of the Territories	15.875	-	-
Compact Sector Funds:			
Infrastructure		\$ 6,541,334	\$ 1,376,695
Infrastructure maintenance		675,719	675,719
Education		28,771,183	28,768,353
Health		21,301,881	21,301,881
Capacity Building		1,624,456	1,624,456
Environment		1,726,279	1,726,279
Private Sector		1,299,637	1,299,637
Compact Supplemental Education		10,096,175	9,000,278
Disaster Emergency Fund		-	-
Compact ERA		1,385,512	1,385,512
Subtotal Compact Sector Funds		73,423,915	67,160,549
Technical Assistance:			
Single Audit		475,000	-
Technical Assistance OIA/DOI Other		-	-
		475,000	-
Total CFDA #15.875		73,898,915	67,160,549
Historic Preservation Fund Grants-In-Aid	15.904	181,392	174,037
U.S. DEPARTMENT OF THE INTERIOR TOTAL		\$ 74,080,307	\$ 67,334,586
U. S. Department of State:			
Direct Programs:			
U.S. Ambassadors' Fund for Cultural Preservation	19.025	2,757	-
		\$ 2,757	2,757
U. S. Small Business Administration			
Direct Programs:			
8(a) Business Development Program			
Total U. S. Small Business Administration	59.006	34,570	
		\$ 34,570	34,570
U.S. DEPARTMENT OF TRANSPORTATION			
Airport Improvement Program	20.106	\$ 17,297,526	\$ -
U.S. DEPARTMENT OF TRANSPORTATION TOTAL		\$ 17,297,526	\$ -

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, 2017

<u>Agency/Program</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>	<u>Amounts Passed-Through to Subrecipients</u>
INSTITUTE OF MUSEUM AND LIBRARY SERVICES			
Grants to States	45.310	\$ 31,450	\$ -
INSTITUTE OF MUSEUM AND LIBRARY SERVICES		<u>\$ 31,450</u>	<u>\$ -</u>
U.S. DEPARTMENT OF EDUCATION			
Special Education Cluster (IDEA):			
Special Education - Grants to States	84.027A	\$ 3,806,318	\$ 3,125,303
Special Education Cluster Total:	84.027	3,806,318	3,125,303
Public Library Services (LSCA - Title I)	84.034	-	-
Career and Technical Education -- Basic Grants to States	84.048B	-	-
Federal Pell Grant Program	84.063	-	-
Byrd Honors Scholarship	84.185A	-	-
Bilingual Education-Professional Development	84.195	-	-
Territories and Freely Associated States Education Grant Program	84.256A	-	-
Goals 2000-State and Local Education Systemic Improvement Grants	84.276A	-	-
School To Work Opportunities	84.278	-	-
Bilingual Education-Program Development and Implementation Grants	84.288	-	-
Bilingual Education-Comprehensive School Grants	84.290	-	-
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	-	-
Teacher Quality Partnership Grants	84.336A	-	-
Vocational Education-Occupational and Employment Information State Grants	84.346A	-	-
Pacific Vocational Education Improvement Program	84.994	-	-
U.S. DEPARTMENT OF EDUCATION TOTAL		<u>\$ 3,806,318</u>	<u>\$ 3,125,303</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, 2017

<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			
Public Health and Social Services Emergency Fund	93.003	\$ -	\$ -
Zika Related Birth Defects	93.073	2,021	-
Public Health Emergency Preparedness	93.069	196,987	-
Hospital Preparedness Program	93.074	-	-
Public Health Emergency Preparedness Supplemental for Ebola	93.074	66,750	-
Public Health Emergency Preparedness Supplement	93.074	252,164	-
Public Health Emergency Preparedness	93.074	287,554	-
Emergency System for Advance Registration of Volunteer Health Professionals	93.089	-	-
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092	127,400	86,586
Area Health Education Centers Point of Service Maintenance and Enhancement Awards	93.107	-	-
Maternal and Child Health Federal Consolidated Programs - SSDI Program	93.110	74,675	29,121
Maternal and Child Health Federal Consolidated Programs	93.110	-	-
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	717,453	326,179
Small Business Innovation Research (NIAAA, NIDA, NIMH)	93.126	-	-
Emergency Medical Services for Children	93.127	14,930	-
Technical and Non-Financial Assistance to Health Centers	93.129	-	-
Injury Prevention and Control Research and State and Community Based Programs	93.136	-	-
Health Activities Recommendation Panel Health Activities - Tobacco Use Prevention Programs	93.203	-	-
Family Planning-Services	93.217	384,689	289,217
Health Center Program Cluster:			
Health Center Program	93.224	2,943,768	2,943,768
Health Center Program Cluster Total:		2,943,768	2,943,768
Affordable Care Act (ACA) Abstinence Education Program	93.235	98,135	-
Oral Health Care	93.236	331,389	35,842
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	1,364,720	768,655
Universal Newborn Hearing Screening	93.251	160,637	73,145
Immunization Cooperative Agreements	93.268	872,814	457,932
CDC and Prevention-Investigations and Technical Assistance	93.283	490,076	324,551
Strengthening PH Infrastructure for Improved Health Outcomes	93.292	-	-
Laboratory Efficiency Initiative	93.292	-	-
Tracking Surveillance	93.314	57,032	5,210
Epidemiology and Laboratory Capacity for Infectious Disease Capacity Building in FSM	93.323	239,832	16,500
Behavioral Risk Factor	93.336	65,021	-
Epidemiology and Laboratory Capacity for Infectious Disease Capacity Building in FSM	93.521	161,336	-
Immunization PPHF	93.539	87,281	-
ACA Coordinated Chronic Disease Prevention and Health Promotion Program	93.544	-	-
ARRA Grants to Health Center Programs	93.703	-	-
ARRA - Immunization	93.712	-	-
ARRA - Prevention and Wellness-State, Territories and Pacific Islands	93.723	-	-
Preventive Health and Health Services Block Grant	93.758	86,832	18,532
ELC Supplement for Ebola	93.815	115,846	-
Healthcare Coalition Ebola	93.817	202,983	-
National Bioterrorism Hospital Preparedness Program	93.889	-	-
Comprehensive Cancer FY17	93.898	22,991	12,354
HIV Care Formula Grants	93.917	46,756	-
Cooperative Agreements to Support Comprehensive School		-	-
Health Programs to Prevent the Spread of HIV and Other		-	-
Important Health Problems	93.938	-	-
HIV Prevention Activities-Health Department Based	93.940	36,988	36,988
Epidemiologic Research Studies of AIDS and HIV Infection in		-	-
Selected Population Groups	93.943	-	-
HIV/AIDS Surveillance	93.944	-	-
Tobacco Prevention	93.945	346,108	93,009
Occupational Health and Safety Surveillance	93.957	-	-
Block Grants for Community Mental Health Services	93.958	158,409	15,539
Block Grants for Prevention and Treatment of Substance Abuse	93.959	655,824	449,558
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977	7,648	7,648
Cooperative Agreements for State-Based Diabetes Control Programs		-	-
and Evaluation of Surveillance Systems	93.988	15,068	15,068
Preventive Health and Health Services Block Grant	93.991	2,291	-
Maternal and Child Health Services Block Grant to the States	93.994	483,126	307,447
PPHF: Racial and Ethnic Approaches to Community Health Program Financed			
Solely By Public Prevention and Health Funds	93.738	4,316	4,316
CCPI Cancer Program	93.999	18,483	18,483
Direct US Grants Fund	93.Unknown	56,812	56,812
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL		\$ 11,257,147	\$ 6,392,463

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, 2017

<u>Agency/Program</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>	<u>Amounts Passed-Through to Subrecipients</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
Public Assistance Grants - Typhoon Fern HMGP/Subgrantee	83.544	\$ 50,000	\$ -
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (B)	97.038	38,224	-
Individual and Family Grants - FEMA 1427/IFG Admin. Cost	83.543	-	-
Crisis Counseling	97.032	-	-
Hazard Mitigation Grant	97.039	91,293	-
Emergency Management Performance Grants	97.042	-	-
U.S. DEPARTMENT OF HOMELAND SECURITY TOTAL		<u>\$ 179,517</u>	<u>\$ -</u>
GRAND TOTAL		<u>\$ 108,410,704</u>	<u>\$ 77,054,992</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, 2017

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, 2017. 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, 2017 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, 2017.

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 2017 reporting responsibilities under the Single Audit Act. Total federal awards for COM-FSM is \$1,812,921.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2017

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 Findings and Questioned Costs
Year Ended September 30, 2017

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

<u>CFDA</u>	
<u>Numbers</u>	<u>Name of Federal Program or Cluster</u>

- | | | |
|--------|--------------------------------------------------------------------------------------------------------------------|--|
| 15.875 | Economic, Social, and Political Development of the Territories – Compact of Free Association Compact Sector Grants | |
| 20.106 | Airport Improvement Program | |
| 93.116 | Project Grants and Cooperative Agreements for Tuberculosis Control Programs | |
-
- | | |
|------------------------------------------------------------------------------|-------------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$3,000,000 |
| 11. Auditee qualified as low-risk auditee? | No |

Section III - Federal Award Findings and Questioned Costs

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>
2017-001	15.875	Reporting	\$_____ -

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Finding No.:	2017-001
Federal Agency:	U.S. Department of Interior
CFDA Program:	15.875 Economic, Social, and Political Development of the Territories
Federal Award No.:	Public Sector Infrastructure Grant; Supplemental Education Grant
Area:	Reporting
Questioned Costs:	\$0

Criteria: In accordance with the U.S. Department of the Interior- Office of Insular Affairs Grant Agreement: (a) A Federal Financial Report or Standard Form SF 425 and a narrative project status report will be submitted quarterly for the periods beginning October 1, January 1, April 1, July 1 and ending September 30. Reports are due within 30 days of the end of the period. The report shall include transaction information such as federal cash receipt, federal share of expenditures and recipient share; (b) A Federal Cash Transactions Report, or Standard Form SF 272 of the Government of the United States or a reasonable facsimile thereof approved by the Government of the United States, shall be submitted quarterly within 30 days of the end of the quarter to which it applies. Actual dates, project identification, and amounts of drawdowns for the quarter should be supplied in the —Remarks section of the form. Additionally, submitted reports should reconcile with underlying records.

Condition: For the Public Sector Infrastructure Grant and Supplemental Education Grant, we noted that the SF-425 Federal Financial Reports covering the period from October 1, 2016 to December 31, 2016, and from January 1, 2017 to March 31, 2017, were not prepared and submitted to OIA grant manger.

Cause: The cause of the condition appears to be the absence of timely reconciliations between the general ledger and related reports.

Effect: Noncompliance with reporting requirements results from this condition. No questioned costs are presented as we are unable to quantify noncompliance resulting from the lack of report submission, and recorded amounts are supported by underlying accounting records.

Recommendation: The FSM National Government should comply with applicable reporting requirements and should retain sufficient documentation on file to support compliance with those requirements.

Views of Auditee and Planned Corrective Actions:

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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**CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)
Year Ended September 30, 2017**

Finding Number	Corrective Action Plan	Anticipated Completion Date	Responsible Person (Contact details)
2017-001	<p>1. Division of Investment & International Finance and Division of National Treasury will frequently reconcile the cash draw downs and cash receipts.</p> <p>2. Division of Investment & International Finance will advise and remind the grants' program managers to monitor their respective grants and perform the liquidations on a timely manner.</p> <p>3. Division of National Treasury will perform the timely reconciliations between the general ledger and related reports.</p> <p>4. Division of Investment & International Finance and Division of National Treasury will ensure that the required reports are submitted on or before the due date.</p>	September 30, 2018	<p>Ms. Senny Phillip - Assistant Secretary, Division of Investment & International Finance, Assistant Secretary, Division of National Treasury</p> <p>senny.phillip@ymail.com</p>



Secretary of Finance
&
Administration

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

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Summary Schedule of Prior Audit Findings and Questioned Costs

**2 CFR § 200.511(c)
Year Ended September 30, 2017**

The following is a summary of unresolved federal questioned costs for FSM National Government:

2015-004	CFDA: 93.423	Question Cost: \$6,202	Status – We are working with our grantor
2015-005	CFDA: 93.074	Question Cost: \$13,842	Status – We are working with our grantor
2015-006	CFDA: 93.074	Question Cost: \$7,347	Status – We are working with our grantor

	Questioned Costs Set Forth in Prior Audit Report <u>2015</u>	Questioned Costs Resolved in Fiscal Year <u>2016</u>	Questioned Costs at <u>September 30, 2017</u>
Unresolved Questioned Costs FY15	<u>28,936</u>	<u>1,545</u>	<u>27,391</u>
	<u>\$ 28,936</u>	<u>\$ 1,545</u>	27,391
Questioned costs for the year ended September 30, 2017			-
Total questioned costs			<u>\$ 27,391</u>

The status of prior year findings is set forth in the accompanying Status of Audit Findings and Questioned Costs.



Secretary of Finance
&
Administration

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

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<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-year rule
2015-002	20.106	-	Applying the two-year rule
2015-003	20.106	-	Applying the two-year rule
2015-004	93.243	6,202	We are working with our grantor
2015-005	93.074	13,842	We are working with our grantor
2015-006	93.074	7,347	We are working with our grantor
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		-	Resolved
		<u>\$ 27,391</u>	