

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

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

YEAR ENDED SEPTEMBER 30, 2019

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

YEAR ENDED SEPTEMBER 30, 2019

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NATIONAL GOVERNMENT**

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**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

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

YEAR ENDED SEPTEMBER 30, 2019

INDEPENDENT AUDITORS' REPORT

Honorable David W. Panuelo
President
Federated States of Micronesia:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Federated States of Micronesia (FSM) National Government, as of and for the year ended September 30, 2019, 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.

Auditor's 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, 2019, 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-Matters

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.

MiCare Health Insurance Plan Going Concern

The accompanying financial statements have been prepared assuming that the Plan will continue as a going concern. As discussed in Note 10 to the financial statements, the Plan has suffered recurring losses from operations and has a deficient unrestricted net position that raises substantial doubt about its ability to continue as a going concern. Management's plans in regards to these matters are also described in Note 10 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

COVID-19

As discussed in the Note 13 to the financial statements, the State has determined that the COVID-19 pandemic may negatively impact its result of operations and net position. The State is unable to reasonably estimate its ultimate financial impact.

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 4 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 71 through 73, 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 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.

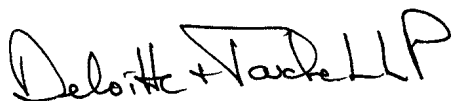
Other Information

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 88 and 89 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 December 31, 2020 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.

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is stylized, with the "D" and "T" being particularly prominent.

December 31, 2020

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Management's Discussion and Analysis
September 30, 2019

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, 2019 and of the financial position of the FSM National Government at September 30, 2019. This report is to be read in conjunction with the financial statements of the FSM National Government which begin on page 12. Fiscal Year 2018 comparative information has been included, where appropriate. This MD&A is prepared in compliance with GASB-34 requirement.

FINANCIAL HIGHLIGHTS

- During the year ended September 30, 2019, the FSM National Government's total revenues decreased by \$16,113,670 from \$216,780,749 in FY2018 to \$200,667,079 in FY2019.
- The FSM National Government's total expenses increased by \$58,690,727 from \$95,406,363 in FY2018 to \$154,097,090 in FY2019.
- Litigation expense of \$9,500,454 was recorded by the Department of Justice due to a loss in litigation.
- Bad debt expense of \$2,451,193 was recorded due to write-off of various uncollectible receivables.
- Overall, the FSM National Government's net position increased by \$36,250,854 from \$610,167,330 as of September 30, 2018 to \$646,418,184 as of September 30, 2019.
- General Fund's fund balance increased by \$70,241,900 from \$377,560,961 as of September 30, 2018 to \$447,802,861 as of September 30, 2019. However, the unassigned fund balance decreased by \$5,951,394 from \$30,082,841 as of September 30, 2018 to \$24,131,447 as of September 30, 2019.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements for the year ended September 30, 2019 consist of four parts - management's discussion and analysis (this section), the basic financial statements, required supplementary information, and other supplemental information.

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

The Statement of Net Position includes all of the FSM National Government's assets and liabilities (classified as current and noncurrent). 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 FSM National Government's current year revenues and expenses.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Management's Discussion and Analysis
September 30, 2019

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 Free Association funds, US Federal grants, FSM tax revenues, licenses, fees and investment earnings.
- **Components Units** - The FSM National Government has ten (10) component units namely, (1) College of Micronesia - FSM, (2) National Fisheries Corporation, (3) FSM Telecommunications Corporation, (4) FSM Development Bank, (5) Telecommunications Regulation Agency, (6) FSM Petroleum Corporation, (7) Vital Energy, Inc., (8) Micare Health Insurance Plan, (9) FSM Telecommunications Cable Corporation and (10) the Caroline Islands Air, Inc. These components units are entities which are legally separate from the FSM National Government, but are financially accountable to the FSM National Government, or whose relationship with the FSM National Government is such that exclusion would cause the FSM National Government's basic financial statements to be misleading or incomplete.

Fund Financial Statements

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

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

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Management's Discussion and Analysis
September 30, 2019

THE NATIONAL GOVERNMENT AS A WHOLE

Net Position serves overtime as a useful indicator of the FSM National Government's financial position. At the end of Fiscal Year 2019, the FSM National Government's total assets exceeded total liabilities by \$646,418,184. Of the total net position, \$245,162,668 is restricted as to purposes for which they may be used for or is invested in capital assets. The FSM National Government uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the FSM National Government's 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 the FSM National Government's net position as of September 30, 2019.

**Table 1- Net Position
Governmental Activities**

	2019	2018	Change	%
Current assets	\$494,904,079	\$418,732,175	\$ 76,171,904	18.2%
Other assets	30,061,656	29,332,245	729,411	2.5%
Capital assets	<u>216,609,139</u>	<u>254,998,937</u>	<u>(38,389,798)</u>	-15.1%
Total assets	<u>\$741,574,874</u>	<u>\$703,063,357</u>	<u>\$38,511,517</u>	5.5%
Current and other liabilities	\$ 48,169,828	42,557,304	5,612,524	13.2%
Long- term debt	<u>46,986,862</u>	<u>50,338,723</u>	<u>(3,351,861)</u>	-6.7%
Total liabilities	<u>95,156,690</u>	<u>92,896,027</u>	<u>2,260,663</u>	2.4%
Net position:				
Net investment in capital assets	216,609,139	254,998,937	(38,389,798)	-15.1%
Restricted	28,553,529	27,417,442	1,136,087	4.1%
Unrestricted	<u>401,255,516</u>	<u>327,750,951</u>	<u>73,504,565</u>	22.4%
Total net position	<u>646,418,184</u>	<u>610,167,330</u>	<u>36,250,854</u>	5.9%
Total liabilities and net position	<u>\$741,574,874</u>	<u>\$703,063,357</u>	<u>\$38,511,517</u>	5.5%

At the end of FY2019, the FSM National Government's unrestricted net position shows a surplus of \$401,255,516 compared to \$327,750,951 at the end of FY2018.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Management's Discussion and Analysis
September 30, 2019

Table 2 shows revenues, expenditures by function and changes in net position of the FSM National Government for the years ended September 30, 2019 and 2018.

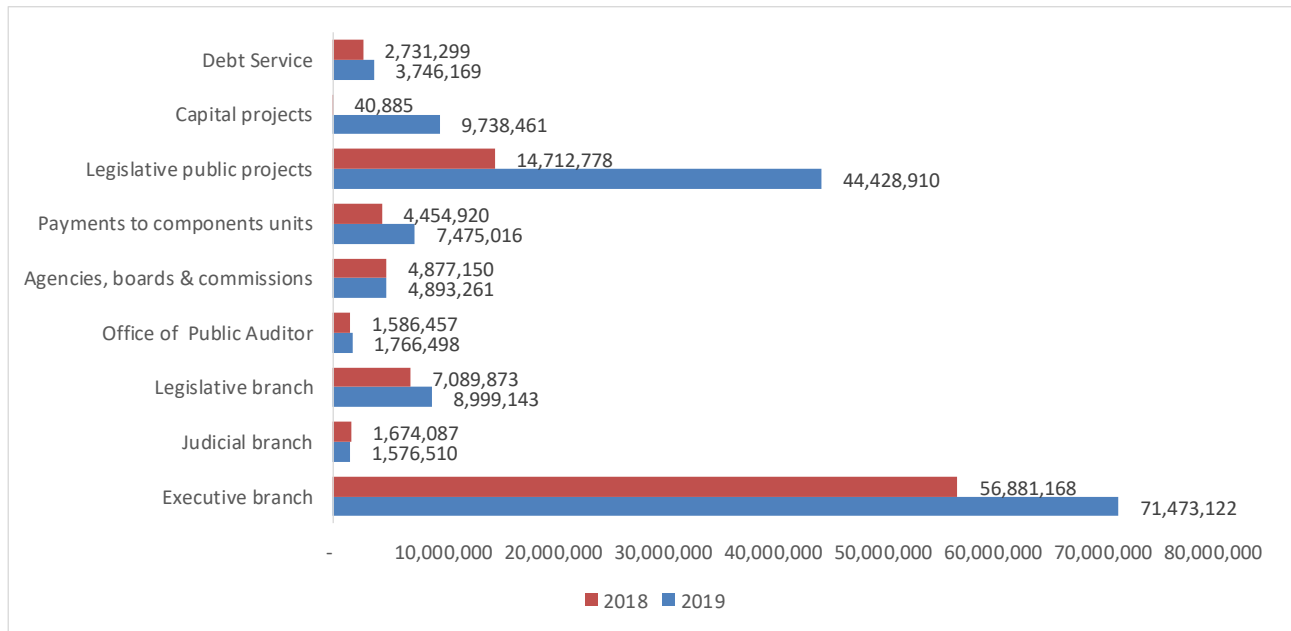
**Table 2
Governmental Activities**

	2019	2018	Change	%
Revenues:				
Program revenues:				
Charges for services	\$ 4,454,195	\$ 4,388,298	\$ 65,897	1.5%
Operating grants and contributions	29,012,869	17,736,063	11,276,806	63.6%
Capital grants and contributions	260,584	8,775,092	(8,514,508)	-97.0%
General revenues:				
Corporate tax	61,651,385	84,490,545	(22,839,160)	-27.0%
Fishing rights fees	72,658,309	72,329,651	328,658	0.5%
Income tax	4,957,060	4,554,310	402,750	8.8%
Fuel tax	152,014	146,722	5,292	3.6%
Import tax	5,248,731	5,109,685	139,046	2.7%
Tobacco tax	1,027,112	1,268,695	(241,583)	-19.0%
Gross receipt tax	5,297,196	5,596,004	(298,808)	-5.3%
Unrestricted investment earnings	13,779,736	10,422,041	3,357,695	32.2%
Other	2,167,888	1,963,643	204,245	10.4%
Total revenues	<u>200,667,079</u>	<u>216,780,749</u>	<u>(16,113,670)</u>	<u>-7.4%</u>
Expenditures:				
Executive	70,596,862	57,602,028	(12,994,834)	-22.6%
Judiciary	1,576,510	1,674,087	97,577	5.8%
Legislative	8,999,143	7,089,873	(1,909,270)	-26.9%
Office of Public Auditor	1,766,498	1,586,457	(180,041)	-11.3%
Other National Government programs	4,622,429	3,368,185	(1,254,244)	-37.2%
Agencies, boards and commissions	4,893,261	4,877,150	(16,111)	-0.3%
Payments to component units	7,475,016	4,454,920	(3,020,096)	-67.8%
Legislative public projects	44,428,910	14,712,778	(29,716,132)	-202.0%
Capital projects	9,738,461	40,885	(9,697,576)	-237.2%
Total expenditures	<u>154,097,090</u>	<u>95,406,363</u>	<u>(58,690,727)</u>	<u>-61.5%</u>
Excess of revenues over expenditures before special items	46,569,989	121,374,386	74,804,397	61.6%
Special items:				
Loss from litigation by department of justice	(9,500,454)	-	(9,500,454)	100.0%
Receivables written off	(2,451,193)	(1,256,680)	1,194,513	-95.1%
Gain on SDR foreign exchange	903,101	601,044	(302,057)	-50.3%
Contribution to permanent fund	729,411	1,319,881	590,470	44.7%
Change in net position	<u>36,250,854</u>	<u>122,038,631</u>	<u>85,787,777</u>	<u>70.3%</u>
Net position at beginning of the year	<u>610,167,330</u>	<u>488,128,699</u>	<u>(122,038,631)</u>	<u>-25%</u>
Net position at end of the year	<u>\$ 646,418,184</u>	<u>\$610,167,330</u>	<u>\$(36,250,854)</u>	<u>-5.9%</u>

The FSM National Government's revenues from governmental activities, including local revenues, gain on investments, Compact and other grants funding totaled \$200,667,079 (\$216,780,749 in FY2018). In FY2019, the cost of governmental activities totaled \$154,097,090 (\$95,406,363 in FY2018). The difference between total revenues and total expenditures (after special items) represents an increase in net position of \$36,250,854.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Management's Discussion and Analysis
September 30, 2019



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

Governmental Funds

The focus of the FSM National Government's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the 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's governmental funds reported combined ending fund balances of \$476,026,180, which represents an increase of \$71,365,482 in comparison with the prior year. This increase is primarily attributable to an increase in fund balance of the General Fund.

Of the total combined fund balance, (1) \$77,204,203 is reserved as non-spendable. The non-spendable fund balance 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 \$40,525,807, equity investments of \$6,616,740, equity shares for membership of \$9,577,318 and permanent fund \$20,484,338, (2) \$6,533,780 is reserved as restricted as to its use of resources by laws through constitutional provisions or enabling legislation for the general government, (3) \$354,394,851 is restricted as 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 \$272,261,432 for future operations-FSM Trust Fund, and \$3,440,264 for revolving funds and (b) to account for continuing appropriations through grant awards or enabling legislation and general governments of \$28.4 million, and (4) \$13,910,373 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 the FSM National Government governmental funds is \$23,982,973.

**FEDERATED STATES OF MICRONESIA
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Management's Discussion and Analysis
September 30, 2019

The General Fund is the primary operating fund of the FSM National Government. At the end of the current fiscal year, the unassigned fund balance of the General Fund was \$24,131,447 as compared with the prior year unreserved fund balance of \$30,082,841, while total fund balance of the General Fund was \$447,802,861 compared with a total fund balance of \$377,560,961 at the end of the prior fiscal year. The increase in the overall fund balance in the General Fund was mainly because total revenues of \$166,955,977 exceeded total operating expenses of \$87,696,059.

The Grants Assistance Fund has a total restricted fund balance of \$4,298,717 compared to the prior year restricted fund balance of \$3,669,439.

The Compact Trust Fund has a total fund balance of \$20,484,338, all of which is reserved for the funding of future operations of the FSM National Government, commencing in fiscal year 2023. The net increase in fund balance during the current year in the Compact Trust Fund was \$729,411.

The other governmental funds (revolving funds) have a total fund balance of \$3,440,264, all of which is reserved for future operations of the FSM National Government.

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 \$18,493,409 or 12% and expenditures were greater than budgets by \$6,562,290 or 7%. There were no material budget overruns at any level.

	Budget Original	Budget Final	Actual Amounts	Variance Positive (Negative)
Revenues	\$ 137,044,256	\$ 137,044,256	\$ 155,537,665	\$ 18,493,409
Expenditures	<u>64,819,927</u>	<u>91,451,399</u>	<u>98,013,689</u>	<u>(6,562,290)</u>
Excess of revenues	72,224,329	45,592,857	57,523,976	11,931,119
Other financing sources (uses)	<u>-</u>	<u>(47,558,838)</u>	<u>(42,698,546)</u>	<u>4,860,292</u>
Net change unassigned	\$ <u>72,224,329</u>	\$ <u>(1,965,981)</u>	\$ <u>14,825,430</u>	\$ <u>16,791,411</u>

During the year, the FSM National government provided additional supplemental appropriations for operations and CFSM Projects under various public laws.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of the September 30, 2019, the FSM National Government had invested \$216,609,139 in capital assets. The capital assets consist of (1) buildings and improvements, (2) boats, (3) infrastructure, (4) motor vehicles, (5) computer equipment, (6) aircraft, and (7) furniture, equipment and machinery. The summary of capital assets is shown below:

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Management's Discussion and Analysis
September 30, 2019

**Primary Government
Governmental Activities**

	2019	2018	Change	%
Buildings and improvements	\$ 73,549,202	\$ 72,976,118	\$ 573,084	0.8%
Boats	22,539,561	22,418,348	121,213	0.5%
Infrastructure	204,707,642	214,068,059	(9,360,417)	-4.4%
Motor vehicles	5,308,154	5,088,642	219,512	4.3%
Computer equipment	2,669,457	2,611,330	58,127	2.2%
Aircraft	709,207	709,207	-	0%
Furniture, fixture, & equipment	<u>10,092,718</u>	<u>9,393,154</u>	<u>699,564</u>	7.4%
Total assets	<u>319,575,941</u>	<u>327,264,858</u>	<u>(7,688,917)</u>	-2.3%
Less: Accumulated depreciation	(105,349,667)	(90,690,591)	(14,659,076)	16.2%
Land	1,674,383	1,674,383	-	0%
Construction in progress	<u>708,482</u>	<u>16,750,287</u>	<u>(16,041,805)</u>	-95.8%
Total Assets	<u>\$216,609,139</u>	<u>\$254,998,937</u>	<u>\$ (38,389,798)</u>	-15.1%

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

Long-Term Liabilities

At the end of fiscal year 2019, the FSM National Government had long term liabilities of \$50,437,007 relating to governmental activities as shown below:

Description	2019	2018	Change	%
ADB loans	\$ 49,212,909	\$ 52,523,306	\$ (3,881,897)	-7.4%
Compensated absences	1,224,098	1,224,098	35,227	2.9%
Total	<u>\$50,437,007</u>	<u>\$53,712,177</u>	<u>\$ (3,275,174)</u>	-0.1%

During the year, the FSM National Government received loan proceeds of \$571,500 and made principal payments of \$3,881,897. Employees earned \$442,504 of vacation hours and used \$407,277 of such, which resulted in an increase of \$35,227 in the compensated absences balance as of September 30 2019.

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

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Management's Discussion and Analysis
September 30, 2019

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Fiscal year 2020 represents the fifteenth full year the FSM implemented the economic assistance provisions available under the amended Compact. The total funds appropriated for the FSM National Government's operations during the fiscal year amounted to \$71.6 million. Funding under the amended Compact represents 7% of the National Government FY20 annual budget. The remaining 93% came from locally generated tax revenues, fishing access fees, investment earnings and related government services fees.

For FY2020, the total revenue projection is approximately \$103,231,199, of which \$96,969,261 or 98% will come from domestic sources, and \$2,612,623 or 2% will come from the amended compact sector grants.

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

No COVID-19 cases have been reported in the FSM. Should it reach FSM, it may negatively impact the States. However, its impact on the States operations and financial position cannot be reasonably determined.

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, 2019

	Primary Government	Component Units
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 66,997,150	\$ 39,568,041
Cash and cash equivalents - restricted	15,386,544	-
Time certificates of deposit	5,057,316	3,784,480
Investments	350,237,605	4,202,225
Receivables, net of allowance for uncollectibles	57,225,464	49,125,428
Due from component units	-	2,574,559
Inventories	-	14,121,106
Other current assets	-	2,805,428
Total current assets	<u>494,904,079</u>	<u>116,181,267</u>
Noncurrent assets:		
Investments	-	29,758,182
Investments - restricted	20,484,338	-
Due from component units	-	6,357,741
Capital assets:		
Nondepreciable capital assets	2,382,865	18,749,526
Capital assets, net of accumulated depreciation	214,226,274	76,637,069
Other assets	9,577,318	9,870,467
Total noncurrent assets	<u>246,670,795</u>	<u>141,372,985</u>
Total assets	<u>\$ 741,574,874</u>	<u>\$ 257,554,252</u>
LIABILITIES		
Current liabilities:		
Current portion of long-term obligations	\$ 2,983,280	\$ 2,337,535
Accounts payable	13,173,533	13,116,680
Current portion of compensated absences payable	466,865	482,676
Due to component units	-	2,574,559
Other liabilities and accruals	13,976,610	7,653,420
Tax refunds payable	157	-
Retention payable	1,449,357	-
Due to FSM State Governments	8,938,954	-
Unearned revenues	7,181,072	3,310,944
Total current liabilities	<u>48,169,828</u>	<u>29,475,814</u>
Noncurrent liabilities:		
Long-term obligations, net of current portion	46,229,629	36,378,025
Compensated absences payable, net of current portion	757,233	458,028
Total noncurrent liabilities	<u>46,986,862</u>	<u>36,836,053</u>
Total liabilities	<u>95,156,690</u>	<u>66,311,867</u>
NET POSITION		
Net investment in capital assets	216,609,139	73,863,376
Restricted for:		
Nonexpendable:		
Future operations	20,484,338	-
Other purposes	-	915,000
Expendable:		
Compact related	4,653,526	-
Other purposes	3,415,665	-
Unrestricted	<u>401,255,516</u>	<u>116,464,009</u>
Total net position	<u>646,418,184</u>	<u>191,242,385</u>
Total liabilities and net position	<u>\$ 741,574,874</u>	<u>\$ 257,554,252</u>

See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Statement of Activities
Year Ended September 30, 2019

		Program Revenues			Net (Expenses) Revenues and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
Functions/Programs						
Primary government:						
Governmental activities:						
Office of the President	\$ 4,687,204	\$ -	\$ -	\$ -	\$ (4,687,204)	\$ -
Foreign affairs	5,488,408	-	-	-	(5,488,408)	-
Finance and administration	7,038,581	-	3,707,378	-	(3,331,203)	-
Resources and development	5,727,997	-	4,349,156	-	(1,378,841)	-
Transportation, communication and infrastructure	22,793,661	235,537	10,540,669	-	(12,017,455)	-
Health and social affairs	6,773,821	4,860	5,808,416	-	(960,545)	-
Education	6,310,432	-	1,892,631	-	(4,417,801)	-
Justice	8,453,849	2,349,363	-	-	(6,104,486)	-
Office of the Public Defender	870,210	-	-	-	(870,210)	-
Environment and emergency management	2,148,112	-	1,337,494	-	(810,618)	-
National archives, cultural and historic preservation	304,587	-	99,077	-	(205,510)	-
Legislature	8,999,143	-	-	-	(8,999,143)	-
Judiciary	1,576,510	-	-	-	(1,576,510)	-
Office of the National Public Auditor	1,766,498	-	516,255	-	(1,250,243)	-
National government programs	4,622,429	-	-	-	(4,622,429)	-
Agencies, boards and commissions	4,893,261	1,864,435	761,793	-	(2,267,033)	-
Payments to component units	7,475,016	-	-	-	(7,475,016)	-
Legislative public projects	44,428,910	-	-	260,584	(44,168,326)	-
Capital projects	9,738,461	-	-	-	(9,738,461)	-
Total primary government	\$ 154,097,090	\$ 4,454,195	\$ 29,012,869	\$ 260,584	(120,369,442)	-
Component units:						
FSM Telecommunications Corporation	\$ 14,812,835	\$ 15,670,199	\$ 1,848,197	\$ -	-	2,705,561
FSM Development Bank	1,881,616	2,217,794	-	-	-	336,178
National Fisheries Corporation	692,538	1,030,283	(500,000)	-	-	(162,255)
College of Micronesia - FSM	21,087,852	20,283,529	295,482	-	-	(508,841)
FSM Petroleum Corporation	52,866,272	56,592,671	-	-	-	3,726,399
Vital Energy Inc.	17,719,717	18,120,563	-	-	-	400,846
Caroline Islands Air, Inc.	1,308,151	1,051,923	253,300	-	-	(2,928)
FSM National Government Employees Health F	7,916,295	6,275,025	1,150,000	-	-	(491,270)
FSM Telecommunications Cable Corporation	2,400,473	534,990	1,354,828	29,489,130	-	28,978,475
Telecommunication Regulation Authority	347,222	-	150,000	-	-	(197,222)
Total component units	\$ 121,032,971	\$ 121,776,977	\$ 4,551,807	\$ 29,489,130	-	34,784,943
General revenues:						
Taxes:						
Income					4,957,060	-
Import					5,248,731	-
Gross receipts					5,297,196	-
Corporate tax					61,651,385	-
Fuel					152,014	-
Tobacco revenue share					1,027,112	-
Fishing rights					72,658,309	-
Unrestricted investment earnings					13,779,736	(1,259,459)
Other					2,167,888	1,922,734
Total general revenues					166,939,431	663,275
Special item - loss from litigation by Justice Department					(9,500,454)	
Special item - write-off of advance receivable balances					(1,497,809)	
Special item - gain on SDR foreign exchange					903,101	-
Special item - write-off of receivable balances from sub-borrowers					(953,384)	-
Contributions to permanent funds					729,411	-
Total general revenues and contributions					156,620,296	663,275
Change in net position					36,250,854	35,448,218
Net position at the beginning of the year					610,167,330	155,794,167
Net position at the end of the year					\$ 646,418,184	\$ 191,242,385

See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Balance Sheet
Governmental Funds
September 30, 2019

	General	Special Revenue Grants Assistance	Permanent Compact Trust	Other Governmental Funds	Total
ASSETS					
Cash and cash equivalents	\$ 66,997,150		\$ -	\$ -	\$ 66,997,150
Time certificates of deposit	5,057,316	-	-	-	5,057,316
Equity in internal investment pool	338,996,427	4,624,438	-	-	343,620,865
Investments	6,616,740	-	-	-	6,616,740
Receivables, net:					
General	1,406,293	1,959,278	-	14,596	3,380,167
Taxes	5,489,400	-	-	-	5,489,400
Federal agencies	-	1,844,105	-	-	1,844,105
Loans	40,525,807	-	-	-	40,525,807
Advances	1,330,363	372,942	-	50,099	1,753,404
Accrued interest	12,709	-	-	-	12,709
Due from other funds	1,333,665	14,925,516	-	3,593,020	19,852,201
Other assets	9,577,318	-	-	-	9,577,318
Restricted assets:					
Cash and cash equivalents	15,386,544	-	-	-	15,386,544
Investments	-	-	20,484,338	-	20,484,338
Total assets	<u>\$ 492,729,732</u>	<u>\$ 23,726,279</u>	<u>\$ 20,484,338</u>	<u>\$ 3,657,715</u>	<u>540,598,064</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 8,568,646	\$ 4,387,436	\$ -	\$ 217,451	\$ 13,173,533
Retention payable	-	1,449,357	-	-	1,449,357
Other liabilities and accruals	13,976,610	-	-	-	13,976,610
Tax refunds payable	157	-	-	-	157
Due to federal agencies	-	-	-	-	-
Due to FSM State Governments	3,862,922	5,076,032	-	-	8,938,954
Due to other funds	18,518,536	1,333,665	-	-	19,852,201
Unearned revenues	-	7,181,072	-	-	7,181,072
Total liabilities	<u>44,926,871</u>	<u>19,427,562</u>	<u>-</u>	<u>217,451</u>	<u>64,571,884</u>
Fund balances:					
Non-spendable	56,719,865	-	20,484,338	-	77,204,203
Restricted	2,086,589	4,447,191	-	-	6,533,780
Committed	350,954,587	-	-	3,440,264	354,394,851
Assigned	14,063,799	-	-	-	14,063,799
Unassigned:					
General fund	23,978,021	-	-	-	23,978,021
Special revenue funds	-	(148,474)	-	-	(148,474)
Total fund balances	<u>447,802,861</u>	<u>4,298,717</u>	<u>20,484,338</u>	<u>3,440,264</u>	<u>476,026,180</u>
Total liabilities and fund balances	<u>\$ 492,729,732</u>	<u>\$ 23,726,279</u>	<u>\$ 20,484,338</u>	<u>\$ 3,657,715</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 216,609,139
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 (49,212,909)
Compensated absences payable (1,224,098)

170,392,004

Net position of governmental activities

\$ 646,418,184

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, 2019

	General	Special Revenue Grants Assistance	Permanent Compact Trust	Other Governmental Funds	Total
Revenues:					
Compact funding	\$ -	\$ 10,076,171	\$ -	\$ -	\$ 10,076,171
Taxes	77,991,129	-	-	342,369	78,333,498
Federal and other grants	-	19,197,282	-	-	19,197,282
Fishing rights	72,658,309	-	-	-	72,658,309
Interest and dividends	575,420	-	-	-	575,420
Fees and charges	358,915	-	-	4,095,280	4,454,195
Net change in the fair value of investments	13,204,316	-	729,411	-	13,933,727
MiCare reimbursible	294,039	-	-	-	294,039
Other	1,873,849	-	-	-	1,873,849
Total revenues	166,955,977	29,273,453	729,411	4,437,649	201,396,490
Expenditures:					
Current:					
General government:					
Office of the President	4,724,618	-	-	-	4,724,618
Foreign affairs	5,268,669	-	-	-	5,268,669
Finance and administration	3,753,352	3,278,100	-	-	7,031,452
Resources and development	1,367,300	4,349,156	-	-	5,716,456
Transportation, communication and infrastructure	4,897,033	10,540,669	-	85,409	15,523,111
Health and social affairs	1,228,526	5,808,416	-	-	7,036,942
Education	3,998,850	1,892,631	-	280,204	6,171,685
Justice	5,809,786	-	-	2,076,121	7,885,907
Office of the Public Defender	842,674	-	-	-	842,674
Environment and emergency management	595,161	1,337,494	-	-	1,932,655
National archives, cultural and historic preservation	200,970	99,077	-	-	300,047
Legislature	8,934,236	-	-	-	8,934,236
Judiciary	1,554,304	-	-	-	1,554,304
Office of the National Public Auditor	1,227,970	516,255	-	-	1,744,225
Agencies, boards and commissions	3,667,854	761,793	-	436,266	4,865,913
Payments to component units and fiduciary fund	7,475,016	-	-	-	7,475,016
Legislative public projects	28,403,571	-	-	-	28,403,571
Capital projects	-	260,584	-	-	260,584
Debt service:					
Principal and interest payments	3,746,169	-	-	-	3,746,169
Total expenditures	87,696,059	28,844,175	-	2,878,000	119,418,234
Excess (deficiency) of revenues over (under) expenditures	79,259,918	429,278	729,411	1,559,649	81,978,256
Other financing sources (uses):					
Proceeds from issuance of long-term debt	571,500	-	-	-	571,500
Operating transfers in	1,794,756	200,000	-	-	1,994,756
Operating transfers out	(200,000)	-	-	(1,794,756)	(1,994,756)
Total other financing sources (uses), net	2,166,256	200,000	-	(1,794,756)	571,500
Special items:					
Loss from litigation by Justice Department	(9,500,454)	-	-	-	(9,500,454)
Write-off of receivables balance	(1,497,809)	-	-	-	(1,497,809)
SDR exchange gain/(loss) from reduction in ADB loans payable	767,373	-	-	-	767,373
Noncash reduction in loans receivable from sub-borrowers	(953,384)	-	-	-	(953,384)
Net change in fund balances	70,241,900	629,278	729,411	(235,107)	71,365,482
Fund balances at the beginning of the year	377,560,961	3,669,439	19,754,927	3,675,371	404,660,698
Fund balances at the end of the year	\$ 447,802,861	\$ 4,298,717	\$ 20,484,338	\$ 3,440,264	\$ 476,026,180

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, 2019

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

Net change in fund balances - total governmental funds	\$ 71,365,482
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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	\$ (23,730,722)	
Depreciation expense, net	<u>(14,659,076)</u>	(38,389,798)

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.	(571,500)
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Repayment of ADB loans and special items loss on SDR	3,881,897
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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>(35,227)</u>
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Change in net position of governmental activities	\$ <u>36,250,854</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, 2019

	FSM Social Security Administration	Yap State Development Loan Fund	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 2,308,424	\$ 123,988	\$ 2,432,412
Time certificates of deposit	-	150,441	150,441
Receivables:			
Contributions	3,176,055	-	3,176,055
Other	14,236	655	14,891
Investments	50,020,855	-	50,020,855
Capital assets, net of accumulated depreciation	<u>61,973</u>	<u>-</u>	<u>61,973</u>
Total assets	<u>\$ 55,581,543</u>	<u>\$ 275,084</u>	<u>\$ 55,856,627</u>
<u>LIABILITIES</u>			
Accounts payable	\$ 127,162	\$ 18,216	\$ 145,378
Other liabilities and accruals	<u>27,248</u>	<u>-</u>	<u>27,248</u>
Total liabilities	<u>154,410</u>	<u>18,216</u>	<u>172,626</u>
<u>NET POSITION</u>			
Held in trust for:			
Social security benefits	55,427,133	-	55,427,133
Other purposes	<u>-</u>	<u>256,868</u>	<u>256,868</u>
Total net position	<u>55,427,133</u>	<u>256,868</u>	<u>55,684,001</u>
	<u>\$ 55,581,543</u>	<u>\$ 275,084</u>	<u>\$ 55,856,627</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, 2019

	FSM Social Security Administration	Yap State Development Loan Fund	Total
Additions:			
Contributions	\$ 1,989,329	\$ -	\$ 1,989,329
Investment earnings:			
Net change in the fair value of investments	25,203,758	-	25,203,758
Interest and dividends	1,264,865	1,144	1,266,009
Total investment earnings	26,468,623	1,144	26,469,767
Less investment expense	(286,685)	-	(286,685)
Net investment earnings	26,181,938	1,144	26,183,082
Contributions from primary government	1,000,000	-	1,000,000
Other	395,135	-	395,135
Total additions	29,566,402	1,144	29,567,546
Deductions:			
Benefits	22,564,615	-	22,564,615
Refunds/distribution	22,432	-	22,432
Administrative expenses	1,378,828	-	1,378,828
Total deductions	23,965,875	-	23,965,875
Change in net position	5,600,527	1,144	5,601,671
Net position at the beginning of the year	49,826,606	255,724	50,082,330
Net position at the end of the year	\$ 55,427,133	\$ 256,868	\$ 55,684,001

See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Combining Statement of Net Position
Component Units
September 30, 2019

	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 Health Insurance Plan	FSM Communications Cable Corporation	Telecommunication Regulation Authority	Total
ASSETS											
Current assets:											
Cash and cash equivalents	\$ 2,295,300	\$ 2,457,903	\$ 1,020,125	\$ 6,485,132	\$ 17,718,648	\$ 8,433,460	\$ 297,497	\$ 265,962	\$ 574,134	\$ 19,880	\$ 39,568,041
Time certificates of deposit	278,763	3,105,219	-	18	-	400,480	-	-	-	-	3,784,480
Investments	1,546,951	-	1,072,929	431,058	-	-	-	1,151,287	-	-	4,202,225
Receivables, net:											
General	916,977	-	236,103	6,646,051	2,236,702	622,920	-	115,835	65,873	13,166	10,853,627
Loans	-	37,246,920	-	-	-	-	-	-	-	-	37,246,920
Interest	253,879	120,854	-	-	-	-	-	-	-	-	374,733
Other	293,820	-	-	158,805	197,523	-	-	-	-	-	650,148
Due from component units	-	-	-	-	2,574,559	-	-	-	-	-	2,574,559
Inventories	895,302	-	9,207	1,124,254	7,823,665	4,199,734	68,944	-	-	-	14,121,106
Prepaid expenses	-	3,315	-	847,833	1,751,093	146,467	53,720	-	3,000	-	2,805,428
Total current assets	6,480,992	42,934,211	2,338,364	15,693,151	32,302,190	13,803,061	420,161	1,533,084	643,007	33,046	116,181,267
Noncurrent assets:											
Indefeasible right of use	2,486,907	-	-	-	-	-	-	-	4,534,882	-	7,021,789
Capital assets:											
Nondepreciable capital assets	1,496,368	-	-	1,455,685	15,235,168	-	-	-	562,305	-	18,749,526
Capital assets, net of accumulated depreciation	29,150,000	1,411,271	243,691	5,648,887	15,020,840	257,889	25,097	34,213	24,825,001	20,180	76,637,069
Other assets	1,077,758	-	-	-	1,422,144	121,000	-	227,776	-	-	2,848,678
Due from component units, net of current investments	-	19,846,014	132,000	7,256,159	6,357,741	-	-	-	-	-	6,357,741
Loans receivable, net	-	-	-	-	2,524,009	-	-	-	-	-	29,758,182
Total noncurrent assets	34,211,033	21,257,285	375,691	14,360,731	40,559,902	378,889	25,097	261,989	29,922,188	20,180	141,372,985
Total assets	\$ 40,692,025	\$ 64,191,496	\$ 2,714,055	\$ 30,053,882	\$ 72,862,092	\$ 14,181,950	\$ 445,258	\$ 1,795,073	\$ 30,565,195	\$ 53,226	\$ 257,554,252
LIABILITIES											
Current liabilities:											
Current portion of long-term debt	\$ -	\$ 151,968	\$ -	\$ -	\$ 507,694	\$ 480,000	\$ -	\$ -	\$ -	\$ -	\$ 1,139,662
Current portion of long-term contract	1,197,873	-	-	-	-	-	-	-	-	-	1,197,873
Compensated absences payable	147,602	-	-	335,074	-	-	-	-	-	-	482,676
Accounts payable	61,542	58,991	2,812	380,710	8,636,986	69,195	29,961	3,823,378	49,874	3,231	13,116,680
Due to primary government	-	-	-	-	-	2,574,559	-	-	-	-	2,574,559
Other liabilities and accruals	834,600	1,039,210	20,343	1,315,311	3,302,637	1,118,970	19,453	-	-	2,896	7,653,420
Unearned revenues	664,868	174,323	-	2,471,753	-	-	-	-	-	-	3,310,944
Total current liabilities	2,906,485	1,424,492	23,155	4,502,848	12,447,317	4,242,724	49,414	3,823,378	49,874	6,127	29,475,814
Noncurrent liabilities:											
Noncurrent portion of long-term contract	-	-	-	-	-	-	-	-	-	-	-
Noncurrent portion of long-term debt	18,776,805	583,482	-	-	6,651,365	720,000	-	-	500,000	-	27,231,652
Due to primary government, net of current compensated absences, net of current portion	-	-	-	-	1,747,383	6,357,741	-	-	-	-	8,105,124
Other noncurrent liability	-	-	-	458,028	-	-	-	-	-	-	458,028
Total noncurrent liabilities	18,776,805	583,482	-	458,028	8,398,748	8,118,990	-	-	500,000	-	36,836,053
Total liabilities	21,683,290	2,007,974	23,155	4,960,876	20,846,065	12,361,714	49,414	3,823,378	549,874	6,127	66,311,867
NET POSITION											
Net investment in capital assets	13,158,597	-	243,691	7,104,572	23,096,949	257,889	25,097	34,213	29,922,188	20,180	73,863,376
Restricted for:											
Nonexpendable	-	-	-	915,000	-	-	-	-	-	-	915,000
Unrestricted	5,850,138	62,183,522	2,447,209	17,073,434	28,919,078	1,562,347	370,747	(2,062,518)	93,133	26,919	116,464,009
Total net position	19,008,735	62,183,522	2,690,900	25,093,006	52,016,027	1,820,236	395,844	(2,028,305)	30,015,321	47,099	191,242,385
Total liabilities and net position	\$ 40,692,025	\$ 64,191,496	\$ 2,714,055	\$ 30,053,882	\$ 72,862,092	\$ 14,181,950	\$ 445,258	\$ 1,795,073	\$ 30,565,195	\$ 53,226	\$ 257,554,252

See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

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

	FSM Tele- Communications Corporation	FSM Development Bank	National Fisheries Corporation	College of Micronesia- FSM	FSM Petroleum Corporation	Vital Energy Inc.	Caroline Islands Air, Inc.	Micare Health Insurance Plan	FSM Communications Cable Corporation	Telecommunication Regulation Authority	Total
Operating revenues:											
Charges for services	\$ 15,670,199	\$ 2,101,127	\$ 1,030,283	\$ 19,945,478	\$ 56,137,885	\$ 18,120,563	\$ 1,051,923	\$ 6,272,043	\$ 534,990	\$ -	\$ 120,864,491
Other	-	116,667	-	338,051	454,786	-	-	2,982	-	-	912,486
Total operating revenues	15,670,199	2,217,794	1,030,283	20,283,529	56,592,671	18,120,563	1,051,923	6,275,025	534,990	-	121,776,977
Operating expenses:											
Cost of services	8,066,045	-	19,278	-	37,757,019	14,696,186	1,183,322	7,259,273	-	-	68,981,123
Depreciation and amortization	4,223,724	126,844	24,181	1,010,112	2,558,228	73,911	7,402	5,031	1,549,209	6,487	9,585,129
Administrative costs	2,523,066	1,754,772	649,079	20,077,740	12,551,025	2,949,620	117,427	651,991	851,264	340,735	42,466,719
Total operating expenses	14,812,835	1,881,616	692,538	21,087,852	52,866,272	17,719,717	1,308,151	7,916,295	2,400,473	347,222	121,032,971
Operating income (loss)	857,364	336,178	337,745	(804,323)	3,726,399	400,846	(256,228)	(1,641,270)	(1,865,483)	(347,222)	744,006
Nonoperating revenues (expenses):											
Net change in the fair value of investments	56,486	-	(2,041,700)	279,976	392,390	-	-	53,389	-	-	(1,259,459)
Interest income (expense)	(962,379)	3,309,637	-	-	(369,002)	43,005	-	-	-	-	2,021,261
Contributions from primary government	1,848,197	-	(500,000)	295,482	-	-	253,300	1,150,000	30,843,958	150,000	34,040,937
Other income (expense)	-	25,756	2,205	-	-	(133,799)	(8,863)	(190,718)	(37,429)	244,321	(98,527)
Total nonoperating revenues (expenses), net	942,304	3,335,393	(2,539,495)	575,458	23,388	(90,794)	244,437	1,012,671	30,806,529	394,321	34,704,212
Net income (loss)	1,799,668	3,671,571	(2,201,750)	(228,865)	3,749,787	310,052	(11,791)	(628,599)	28,941,046	47,099	35,448,218
Net position at the beginning of the year	17,209,067	58,511,951	4,892,650	25,321,871	48,266,240	1,510,184	407,635	(1,399,706)	1,074,275	-	155,794,167
Net position at the end of the year	\$ 19,008,735	\$ 62,183,522	\$ 2,690,900	\$ 25,093,006	\$ 52,016,027	\$ 1,820,236	\$ 395,844	\$ (2,028,305)	\$ 30,015,321	\$ 47,099	\$ 191,242,385

See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2019

(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, 2019

(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 3,236,883 shares to the FSM National Government (98.8%), the State of Chuuk (.92%), and the State of Kosrae (0.28%). 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, 2019

(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, 2019

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

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

The Telecommunications Regulatory Authority was established under No. 18-52 under the laws of the Federated States of Micronesia, the purpose of which is to be regulator charged with setting standards and guidelines in enhancing access to and affordability of telecommunications services in the Federated States of Micronesia. The Corporation is governed by a Chief Executive and two members, all appointed by the President of the FSM with the advice and consent of the FSM Congress.

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

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

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

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

B. Government-Wide Financial Statements

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

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2019

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide Financial Statements, Continued

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

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

- *Net investment in capital assets* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.
- *Restricted net position - nonexpendable* consists of permanent funds in which donors or other outside sources have stipulated that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to the principal.
- *Restricted net position - expendable* consists of resources in which the FSM National Government is legally or contractually obligated to spend resources in accordance with restrictions either externally imposed by creditors, grantors, contributors, and the like, or imposed by law.
- *Unrestricted net position* consists of net position, which does not meet the definition of the two preceding categories. Unrestricted net position often is designated, (for example, internally restricted), to indicate that management does not consider such to be available for general operations.

The government-wide Statement of Net Position reports \$28,553,529 of restricted net position, of which \$3,415,665 is restricted by enabling legislation.

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

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2019

(1) Summary of Significant Accounting Policies, Continued

C. Fund Financial Statements

The fund financial statements present a balance sheet and a statement of revenues, expenditures, and changes in fund balances for its major and aggregated non-major funds. Separate financial statements are provided for governmental funds and fiduciary funds even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements pursuant to GASB reporting standards, with nonmajor governmental funds being combined into a single column.

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

D. Measurement Focus and Basis of Accounting

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

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

Governmental Fund Financial Statements - the governmental fund financial statements account for the general governmental activities of the FSM National Government and are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the FSM National Government considers most revenues to be available if they are collected within 90 days of the end of the current fiscal period. Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenues when available and entitlement occurs, which is generally within 12 months of the end of the current fiscal period.

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

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2019

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

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

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

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

- General Fund - this fund is the primary operating fund of the FSM National Government. It is used to account for all governmental transactions, except those required to be accounted for in another fund.
- Grants Assistance Fund - a Special Revenue Fund that accounts for funds received under sector grants pursuant to the amended Compact of Free Association; all financial transactions of federally assisted funds, which are subgranted to the FSM National Government, as well as other direct federal grants that the FSM National Government received from the United States government, and foreign assistance grants.
- Section 215 Compact Trust Fund - a Permanent Fund that accounts for the FSM National Government's contributions to the Trust Fund established in accordance with Section 215 of the Compact of Free Association, as amended, to provide for an additional source of revenue for the government budget that will be needed to substitute for the absence of Compact of Free Association funding.

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

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2019

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

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

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

E. Cash and Cash Equivalents and Time Certificates of Deposit

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

F. Investments

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

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

G. Receivables

In general, tax revenue is recognized on the government-wide financial statements, when assessed or levied and on the governmental fund financial statements to the extent that it is both measurable and available. Receivables are stated net of estimated allowances for uncollectible accounts. Reimbursements due to the FSM National Government for expenditures on federally funded reimbursement and grant programs are reported as "receivables from federal agencies" on the governmental funds balance sheet.

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

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2019

(1) Summary of Significant Accounting Policies, Continued

H. Prepaid Items

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

I. Interfund Receivables/Payables

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

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

J. Inventories

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

K. Restricted Assets

Certain assets of the primary government are classified as restricted assets because their use is completely restricted through loan agreements or enabling legislation. Investments recorded in the Compact Trust Fund of \$20,484,338 are restricted in that they are not available to be used in current operations.

As of September 30, 2019, 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	\$ 8,479,908
Deposit accounts maintained for certain non-U.S. donor agencies (ADB, People's Republic of China, Japan, European Union)	5,814,757
Deposit account established for the Airport Improvement Program	187,359
Deposit account maintained for proceeds from dormant bank accounts established in accordance with Public Law 13-56	840,388
Deposit accounts established for imprest funds in accordance with ADB Loans 2099 and 2100	45,950
Other miscellaneous deposit accounts	<u>18,182</u>
	<u>\$ 15,386,544</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2019

(1) Summary of Significant Accounting Policies, Continued

L. Other Assets

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

M. Indefeasible Right of Use

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

N. Capital Assets

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

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

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

O. Deferred Outflows of Resources

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

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2019

(1) Summary of Significant Accounting Policies, Continued

P. Unearned Revenues

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

Q. Compensated Absences

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

R. Deferred Inflows of Resources

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

S. Fund Balance

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

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

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2019

(1) Summary of Significant Accounting Policies, Continued

S. Fund Balance, Continued

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

A formal minimum fund balance policy has not been adopted.

T. Interfund/Intrafund Transactions

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

U. Risk Financing

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

V. New Accounting Standards

During fiscal year 2019, the FSM National Government implemented the following pronouncements:

- GASB 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.
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2019

(1) Summary of Significant Accounting Policies, Continued

V. New Accounting Standards, Continued

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

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

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

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

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

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*, which clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The provisions in Statement No. 91 are effective for fiscal years beginning after December 15, 2020. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No. 84, 89, 90 and 91 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. Management has yet to ascertain whether implementation of these statements will be postponed as provided in GASB Statement No. 95.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2019

(1) Summary of Significant Accounting Policies, Continued

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, 2018 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.

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%.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2019

(2) Deposits and Investments, Continued

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

The equity portfolio shall be diversified among issues and industry classifications. No more than 25% of the equity portfolio may be invested in any single classification, as described by the Standard and 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, 2019, the carrying amount of the primary government's total cash and cash equivalents and time certificates of deposit was \$87,441,010 and the corresponding bank balances were \$89,160,691. Of the bank balances, \$79,541,696 is maintained in financial institutions subject to FDIC insurance or a credit union subject to National Credit Union Administration (NCUA) insurance; while \$5,057,316 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, 2019 while the remaining amount of \$9,618,995 is maintained in financial institutions not subject to FDIC or NCUA insurance.

As of September 30, 2019, 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, 2019, the carrying amount of the fiduciary funds' total cash and cash equivalents and time certificates of deposit was \$2,582,853 and the corresponding bank balances were \$2,846,495. Of the bank balances, \$774,429 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.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2019

(2) Deposits and Investments, Continued

A. Deposits, Continued

As of September 30, 2019, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$43,352,521 and the corresponding bank balances were \$44,412,505 which are maintained in financial institutions subject to FDIC insurance. As of September 30, 2019, bank deposits in the amount of \$7,106,277 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, 2019, the FSM National Government's investments are as follows:

General Fund - Grant Assistance Fund:	
Fixed income	\$ 96,652,727
Domestic equities	6,616,740
Common equities	188,517,730
Cash management account	<u>58,450,408</u>
	<u>350,237,605</u>
Compact Trust Fund:	
Common trust funds:	
Domestic Equity	5,229,193
International Equity	4,833,490
Global Equity	2,315,433
Fixed Income	3,566,499
Private Equity	1,667,989
Hedge Fund	952,776
Real Estate	1,916,099
Money market funds	<u>2,859</u>
	<u>20,484,338</u>
	\$ <u>370,721,943</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2019

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

As of September 30, 2019, 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>Fair Value</u>	<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>Over</u>
U.S. Treasury Notes and Bonds	Aaa	\$ 382,294	\$ 28,446	\$224,686	\$ 27,653	\$101,509
U.S. Government Agencies Obligations:						
Federal Farm Credit Bank		54,121	-	23,610	30,511	-
Federal Home Loan Bank Disc	Aaa	37,274	-	6,132	31,142	-
Federal Home Loan Mortgage Corporation	Aaa	7,214	-	68	-	7,146
Government National Mortgage Assoc.	Aaa	496	-	-	-	496
Federal National Mortgage Association	Aaa	18,374	-	-	-	18,374
Overseas Private Inv. Corp	Aaa	43,175	-	-	43,175	-
Private Export Funding	Aaa	-	-	-	-	-
Tennessee Valley Authority	Aaa	56,757	-	13,018	-	43,739
Freddie Mac	Aaa	10,609	-	10,609	-	-
Municipal Obligations	Aa1	66,892	18,906	21,972	15,423	10,591
Corporate Bonds	Aaa	103,924	17,647	60,280	8,266	17,731
Corporate Bonds	Aa1	25,767	5,891	13,943	5,933	-
Corporate Bonds	Aa2	24,071	4,710	19,361	-	-
Corporate Bonds	Aa3	25,684	7,063	18,621	-	-
Corporate Bonds	A1	41,328	-	16,380	9,796	15,152
Corporate Bonds	A2	67,773	2,370	40,378	25,025	-
Corporate Bonds	A3	56,964	-	45,059	-	11,905
Corporate Bonds	Baa1	81,266	10,032	30,029	20,197	21,008
Corporate Bonds	Baa2	26,290	10,233	10,223	-	5,834
Corporate Bonds	Baa3	16,369	-	5,051	-	11,318
Corporate Bonds	Ba1	9,566	-	-	9,566	-
Corporate Bonds	Ba2	5,012	5,012	-	-	-
Corporate Bonds	No rating	34,595	5,006	4,988	24,601	-
		<u>\$ 1,195,815</u>	<u>\$ 115,316</u>	<u>\$ 564,408</u>	<u>\$ 251,288</u>	<u>\$ 264,803</u>

<u>Investment Type (no aging schedule)</u>	<u>Fair Value</u>	<u>Credit Ratings</u>
U.S. Treasury Notes and Bonds	\$ 9,363,559	Aaa
U.S. Government Agencies Obligations	1,738,939	Aa3
Mortgage Backed	48,643,792	Aaa
Asset-Backed	3,923,375	Caa1
Corporate Bonds - Industrial	12,512,110	A3
Corporate Bonds - Finance	9,924,369	A3
Corporate Bonds - Yankee Bond	2,643,202	Baa1
Corporate Bonds - Utilities	2,190,354	A2
Corporate Bonds - Others	4,517,212	A2
	<u>\$ 95,456,912</u>	

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2019

(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, 2019:

General Fund - Grant Assistance:

	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level:				
Fixed income:				
U.S. Treasury obligations	\$ 9,745,880	\$ -	\$ 9,745,880	\$ -
U.S. Government Agencies	1,966,982	-	1,966,982	-
Municipal obligations	52,634,065	-	52,634,065	-
Corporate notes	<u>32,305,800</u>	<u>-</u>	<u>32,305,800</u>	<u>-</u>
	96,652,727	-	96,652,727	-
Equity securities:				
U.S. equities	<u>188,517,730</u>	<u>188,517,730</u>	<u>-</u>	<u>-</u>
Total investments at fair value	285,170,457	\$ <u>188,517,730</u>	\$ <u>96,652,727</u>	\$ <u>-</u>
Investments measured at NAV:				
Equity in Bank of FSM	6,616,740			
Investments measured amortized cost:				
Cash management account	<u>58,450,408</u>			
	\$ <u>350,237,605</u>			

Compact Trust Fund

	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments at fair value level:				
Common trust funds:				
Domestic Equity	\$ 5,229,193	\$ 5,229,193	\$ -	\$ -
International Equity	4,833,490	4,833,490	-	-
Fixed Income	3,566,499	3,566,499	-	-
Private Equity	<u>134,231</u>	<u>-</u>	<u>-</u>	<u>134,231</u>
Total investments at fair value	13,763,413	\$ <u>13,629,182</u>	\$ <u>-</u>	\$ <u>134,231</u>
Investments measured at NAV:				
Hedge Fund	952,776			
Real Estate	1,916,099			
Global Equity	2,315,433			
Private Equity – diversified	1,533,758			
Investments measured at amortized cost:				
Money market funds	<u>2,859</u>			
	\$ <u>20,484,338</u>			

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2019

(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, 2019.

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, 2019, 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, 2019. High yield debt receiving a credit rating below "A" comprises approximately 26.8% of the MIM CFI fixed income portfolio as rated by Moody's at September 30, 2019. At September 30, 2019, the weighted average maturity of the bonds comprising MIM CFI is 9.92 years.

The bonds held by MIM OFI vary in credit quality with an average overall rating of "Baa1" as rated by Moody's as of September 30, 2019. High yield debt receiving a credit rating below "A" comprises approximately 52.1% of the MIM OFI fixed income portfolio as rated by Moody's at September 30, 2019. At September 30, 2019, the weighted average maturity of the bonds comprising MIM OFI is 7.69 years.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2019

(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, 2019, the Trust Fund held approximately \$209,299,000 in securities of foreign issuers held in common trust funds. Of this amount, approximately \$42,676,000 was held in securities whose functional currency is the Euro, \$20,125,000 whose functional currency is the British pound, \$34,385,000 whose functional currency is the Japanese yen, and \$112,113,000 in functional currencies of 36 other countries. Foreign currency exposure data is not available for the Trust Fund's investment in the Hedge Funds and its investments in Global Private Equity Funds, which comprise 12.8% of invested assets at September 30, 2019.

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 245,536 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, 2019

(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, 2019 investments are as follows:

Fixed income securities:	
Domestic fixed income	\$ 16,066,078
Other investments:	
Domestic equities	13,596,788
International equities	10,555,240
Exchange traded funds	5,459,316
Real estate investment trust and tangibles	<u>4,343,433</u>
	<u>\$ 50,020,855</u>

As of December 31, 2019, the Administration's investments in fixed income securities were as follows:

	<u>Investment Maturities (In Years)</u>				<u>Fair Value</u>
	<u>Less Than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>Greater Than 10</u>	
U.S. Treasury and agencies obligations	\$ 334,980	\$ 1,513,983	\$ 2,486,706	\$ 1,460,354	\$ 5,796,023
Mortgage and asset-backed securities	-	-	127,251	419,367	546,618
Corporate notes and bonds	<u>190,990</u>	<u>7,025,221</u>	<u>1,930,787</u>	<u>576,439</u>	<u>9,723,437</u>
	<u>\$ 525,970</u>	<u>\$ 8,539,204</u>	<u>\$ 4,544,744</u>	<u>\$ 2,456,160</u>	<u>\$ 16,066,078</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2019

(2) Deposits and Investments, Continued

B. Investments, Continued

Fiduciary Funds, Continued

FSM Social Security Administration (FSMSSA), Continued:

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

FSMSSA's exposure to credit risk at December 31, 2019, was as follows:

<u>Standard and Poors' Rating</u>	<u>2019</u>
AAA/AAA	\$ 5,796,023
AA1/AA+	80,660
A1/A+	793,617
A1/A	633,576
A1/AA-	728,074
A2/A	1,948,996
A2/A-	2,044,789
A3/A-	639,734
A3/BBB+	2,446,551
Not rated/A-	407,438
Not rated	<u>546,620</u>
	\$ <u>16,066,078</u>

The Administration has the following recurring fair value measurements as of December 31, 2019:

	<u>Fair Value Measurements Using</u>			
	December 31, 2019	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	\$ 16,066,078	\$ -	\$ 16,066,078	\$ -
Equity securities	24,152,028	24,152,028	-	-
Exchange traded funds	5,459,316	5,459,316	-	-
Real estate investment trust and tangibles	<u>4,343,433</u>	<u>4,343,433</u>	<u>-</u>	<u>-</u>
	\$ <u>50,020,855</u>	\$ <u>33,954,777</u>	\$ <u>16,066,078</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, 2019.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2019

(2) Deposits and Investments, Continued

B. Investments, Continued

Fiduciary Funds, Continued

FSM Social Security Administration (FSMSSA), Continued:

As of December 31, 2019, 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.

Discretely Presented Component Units

FSM Telecommunications Corporation (FSMTC):

As of September 30, 2019, FSMTC's investments are as follows:

Fixed income:		
U.S. Treasury obligations	\$	206,236
U.S. Government agencies		-
Corporate notes		<u>229,717</u>
		435,953
Other investments:		
Domestic and international equities		1,092,604
Money market funds		<u>18,394</u>
	\$	<u>1,546,951</u>

As of September 30, 2019, the Corporation's investments in debt securities were as follows:

	Moody's Credit Rating	Investment Maturities (In Years)				Fair Value
		Less Than 1	1 to 5	6 to 10	Greater Than 10	
U.S. Treasury obligations	Aaa/P-1	\$ 48,288	\$ 75,302	\$ 82,646	\$ -	\$ 206,236
Corporate notes	A1/P-1	20,050	34,709	-	-	54,759
Corporate notes	A2/P-1	-	41,177	19,089	-	60,266
Corporate notes	A3/P-1	10,112	20,705	10,452	-	41,269
Corporate notes	Baa1/P-2	-	30,882	10,914	-	41,796
Corporate notes	Baa1/P-2-3	-	11,210	10,330	-	21,540
Corporate notes	Baa1/P-3	-	<u>10,087</u>	-	-	<u>10,087</u>
		\$ <u>78,450</u>	\$ <u>224,072</u>	\$ <u>133,431</u>	\$ -	\$ <u>435,953</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2019

(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, 2019:

		<u>Fair Value Measurements Using</u>		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	September 30, 2019			
Investments by fair value level:				
Fixed income:				
U.S. Treasury obligations	\$ 206,236	\$ -	\$206,236	\$ -
Corporate notes	<u>229,717</u>	<u>-</u>	<u>229,717</u>	<u>-</u>
Total fixed income	<u>435,953</u>	<u>-</u>	<u>435,953</u>	<u>-</u>
Equity securities:				
U.S. equities	744,145	744,145	-	-
Non U.S. equities	<u>348,459</u>	<u>348,459</u>	<u>-</u>	<u>-</u>
Total equity securities	<u>1,092,604</u>	<u>1,092,604</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	1,528,557	<u>\$1,092,604</u>	<u>\$435,953</u>	<u>\$-</u>
Investments measured at amortized cost:				
Money market funds	<u>18,394</u>			
	<u>\$1,546,951</u>			

College of Micronesia - FSM (COM-FSM):

As of September 30, 2019, COM-FSM's investments are as follows:

Fixed income securities:	
Domestic fixed income	\$ 1,866,211
International fixed income	<u>463,135</u>
	<u>2,329,346</u>
Common equities	4,902,000
Exchange traded funds	139,328
Money market funds	<u>316,543</u>
	<u>5,357,871</u>
	<u>\$7,687,217</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2019

(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, 2019, 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	\$ 22,243	\$ -	\$ -	\$ -	\$ 22,243
Corporate bond	1,405,990	-	408,788	709,377	287,825
International bond	463,135	463,135	-	-	-
Government bond	<u>437,978</u>	<u>13,961</u>	<u>358,610</u>	<u>65,407</u>	<u>-</u>
	<u>\$ 2,329,346</u>	<u>\$ 477,096</u>	<u>\$ 767,398</u>	<u>\$ 774,784</u>	<u>\$ 310,068</u>

COM-FSM's exposure to credit risk at September 30, 2019, was as follows:

<u>Moody's Rating</u>	<u>Domestic</u>	<u>International</u>	<u>Total</u>
Aaa/Aaa	\$ 848,308	\$ -	\$ 848,308
Aa2/Aa	217,839	-	217,839
Aa3/A	4,100	-	4,100
A1/Aa-	5,618	-	5,618
A1/A+	14,702	-	14,702
A1/A-	4,159	-	4,159
A1/Aa-	6,000	-	6,000
A2/A+	6,239	-	6,239
A2/A	67,471	-	67,471
A2/A-	141,093	-	141,093
A3/A	48,281	-	48,281
A3/A-	97,992	-	97,992
A3/Bbb+	104,473	-	104,473
Baa1/A	45,015	-	45,015
Baa1/Bbb+	51,825	-	51,825
Baa1/Bbb	4,092	-	4,092
Baa2/A-	5,102	-	5,102
Baa/Bbb+	110,339	-	110,339
Baa2/Bbb	61,320	-	61,320
Not rated	<u>22,243</u>	<u>463,135</u>	<u>485,378</u>
Total credit risk debt securities	<u>\$ 1,866,211</u>	<u>\$ 463,135</u>	<u>\$ 2,329,346</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2019

(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, 2019:

	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	\$ 2,329,346	\$ -	\$ 2,329,346	\$ -
Equity securities	4,902,010	4,902,010	-	-
Exchange traded funds	<u>139,318</u>	<u>139,318</u>	-	-
Total investments by fair value level	7,370,674	\$ <u>5,041,328</u>	\$ <u>2,329,346</u>	\$ <u>-</u>
Investments by fair value level:				
Money market funds	<u>316,543</u>			
	\$ <u>7,687,217</u>			

FSM Development Bank (FSMDB):

As of December 31, 2019, FSMDB's investments are as follows:

Fixed income securities:	
Domestic fixed income	\$ 4,522,373
Equity securities:	
Domestic equities	7,853,640
Shares in a mutual fund (Templeton Global BD FD ADV TGBAX)	<u>1,221,121</u>
	\$ <u>13,597,134</u>

As of December 31, 2019, investments in domestic fixed income are as follows:

	Moody's Credit Rating	Investment maturities (in Years)				
		Less Than 1	1 to 5	6 to 10	Greater Than 10	Fair Value
U.S. Government securities:						
U.S. Treasury Notes	Aaa	\$ -	\$ -	\$ 1,013,504	\$ -	\$ 1,013,504
U.S. Government agencies:						
Federal Home Loan Bank Association	Aaa	229,986	344,823	-	-	574,809
Corp.	Not rated	-	-	-	142,683	142,683
Corporate bonds	Not rated	-	-	-	77,359	77,359
Corporate bonds	A1	-	302,926	-	-	302,926
Corporate bonds	A2	150,849	674,010	315,068	170,026	1,309,953
Corporate bonds	A3	-	591,850	232,503	-	824,353
Corporate bonds	Aa1	-	60,495	-	-	60,495
Corporate bonds	Not rate	-	<u>216,291</u>	-	-	<u>216,291</u>
		\$ <u>380,835</u>	\$ <u>2,190,395</u>	\$ <u>1,561,075</u>	\$ <u>390,068</u>	\$ <u>4,522,373</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2019

(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, 2019:

	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	\$ 1,013,504	\$ -	\$ 1,013,504	\$ -
U.S. Government Agencies	794,851	-	794,851	-
Corporate notes	<u>2,714,018</u>	<u>-</u>	<u>2,714,018</u>	<u>-</u>
Total fixed income	4,522,373	<u>-</u>	<u>4,522,373</u>	<u>-</u>
Equity securities:				
U.S. equities	7,853,640	7,853,640	-	-
Mutual fund shares	<u>1,221,121</u>	<u>1,221,121</u>	<u>-</u>	<u>-</u>
Total investments at fair value	13,597,134	\$ <u>9,074,761</u>	\$ <u>4,522,373</u>	\$ <u>-</u>
Investments measured at NAV:				
Equity investment in the Bank of the FSM	<u>6,248,880</u>			
	\$ <u>19,846,014</u>			

At December 31, 2019, the equity investment in Bank of the FSM represents 225,001 common shares and approximately 24% 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 2019, 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 \$132,000 in TMC represents 750 shares of common stock and a 25% ownership interest.

As of September 30, 2019, investments comprise Exchange-Traded Funds which are listed on a national stock exchange and can be bought and sold in the equity trading markets. Under certain circumstances, issuers may cease or suspend creating new shares, which may cause Exchange-Traded Products to trade at a price that differs significantly from the value of its underlying holdings or index. The Company's investment balance in Exchange-Traded Funds is \$1,072,929 as of September 30, 2019. Investments in securities are categorized as Level 1.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2019

(2) Deposits and Investments, Continued

B. 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, 2019, FSMPC's investments are as follows:

Fixed income securities:	
Domestic fixed income	\$ 524,016
International fixed income	<u>208,123</u>
	<u>732,139</u>
Other investments:	
Common equities	1,075,347
Exchange traded funds	663,159
Money market funds	<u>53,364</u>
	<u>1,791,870</u>
	<u>\$ 2,524,009</u>

As of December 31, 2019, FSMPC's fixed income securities had the following maturities:

<u>Investment Type</u>	<u>Fair value</u>	Less than <u>1 year</u>	1 to 5 <u>years</u>	5 to 10 <u>years</u>	More than <u>10 years</u>
International bonds	\$ 208,123	\$ 208,123	\$ -	\$ -	\$ -
Corporate bonds	211,177	-	-	194,568	16,609
U.S. Government Agency Bonds	<u>312,839</u>	<u>-</u>	<u>89,141</u>	<u>165,404</u>	<u>58,294</u>
	<u>\$ 732,139</u>	<u>\$ 208,123</u>	<u>\$ 89,141</u>	<u>\$ 359,972</u>	<u>\$ 74,903</u>

FSMPC's exposure to credit risk at December 31, 2019, was as follows:

Moody's Rating

Aaa	\$ 312,839
A2	65,430
A3	64,401
Baa1	16,609
Baa2	48,795
Baa3	15,942
Not rated	<u>208,123</u>
	<u>\$ 732,139</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2019

(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, 2019:

	<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	\$ 732,139	\$ -	\$ 732,139	\$ -
Equity securities	1,075,347	1,075,347	-	-
Exchange-traded funds	<u>663,159</u>	<u>663,159</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	2,470,645	\$ <u>1,738,506</u>	\$ <u>732,139</u>	\$ <u>-</u>
Investments measured at amortized cost:				
Money market funds	<u>53,364</u>			
	\$ <u>2,524,009</u>			

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

As of September 30, 2019, the Plan's investments are as follows:

Fixed income	\$ 1,138,682
Money market funds	<u>12,605</u>
	\$ <u>1,151,287</u>

As of September 30, 2019, 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	\$ 80,147	\$ 666,165	\$ 92,469	838,781
U.S. Government agencies obligations	Aaa	19,941	-	-	19,941
Corporate bonds	Aaa	2,000	-	-	2,000
Corporate bonds	Aa	36,011	32,332	14,616	82,959
Corporate bonds	A	49,982	90,926	8,368	149,276
Corporate bonds	Baa	<u>2,009</u>	<u>30,312</u>	<u>13,404</u>	<u>45,725</u>
		\$ <u>190,090</u>	\$ <u>819,735</u>	\$ <u>128,857</u>	\$ <u>1,138,682</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2019

(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, 2019:

		<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	1,138,682	\$ -	\$ <u>1,138,682</u>	\$ -
Investments measured at amortized cost:				
Money market funds	<u>12,605</u>			
	\$ <u>1,151,287</u>			

(3) Receivables

Primary Government

Receivables as of September 30, 2019, for the primary government's individual major governmental funds, and nonmajor governmental and fiduciary funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Grants Assistance</u>	<u>Compact Trust</u>	<u>Nonmajor and Fiduciary Funds</u>	<u>Totals</u>
Receivables:					
General	\$ 1,786,117	\$ 1,959,278	\$ -	\$ 14,596	\$ 3,759,991
Taxes	5,489,400	-	-	-	5,489,400
Government agencies	-	3,629,610	-	-	3,629,610
Loans	43,619,942	-	-	-	43,619,942
Advances	3,775,459	372,942	-	50,099	4,198,500
Accrued interest	<u>12,709</u>	-	-	-	<u>12,709</u>
	54,683,627	5,961,830	-	64,695	60,710,152
Less: allowance for uncollectable accounts	<u>(5,919,055)</u>	<u>(1,785,505)</u>	-	-	<u>(7,704,560)</u>
Net receivables	\$ <u>48,764,572</u>	\$ <u>4,176,325</u>	\$ -	\$ <u>64,695</u>	\$ <u>53,005,592</u>

During the year ended September 30, 2019, 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 \$953,384 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, 2019

(3) Receivables, Continued

Primary Government, Continued

Loans receivable of the primary government are as follows:

General Fund:

Loan receivable from Micronesia Longline Fishing Company, a majority-owned subsidiary of NFC, in the amount of SDR 3,514,000, interest at 6.64% per annum, repayments commencing January 15, 1998, with a maturity date of July 15, 2007. The loan is a subsidiary loan of a loan agreement (Loan Number 1257 FSM (SF)) between the FSM National Government and the ADB. As of September 30, 2018, \$3,094,136 has been provided for in the allowance for uncollectible accounts.

\$ 2,989,105

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

	General Fund	Governmental Activities	
State of Chuuk	\$ 2,623,549	\$ 569,738	
Pohnpei Utilities Corporation	1,613,531	348,769	
Yap State Public Service Corporation	<u>1,722,853</u>	<u>373,707</u>	
	<u>\$ 5,959,933</u>	<u>\$ 1,292,214</u>	7,252,147

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

	General Fund	Governmental Activities	
State of Chuuk	\$ 3,767,658	\$ 779,682	
State of Yap	2,455,379	514,978	
State of Kosrae	1,402,363	294,184	
State of Pohnpei	<u>2,988,628</u>	<u>617,848</u>	
	<u>\$ 10,614,028</u>	<u>\$ 2,206,692</u>	12,820,720

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2019

(3) Receivables, Continued

Primary Government, Continued

General Fund, Continued:

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

	<u>General Fund</u>	<u>Governmental Activities</u>	
State of Chuuk	\$ (101,090)	\$ 66,725	
State of Yap	5,941	22,357	
State of Kosrae	<u>31,517</u>	<u>15,993</u>	
	\$ <u>(63,632)</u>	\$ <u>105,075</u>	41,443

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:

	<u>General Fund</u>	<u>Governmental Activities</u>	
State of Chuuk	\$ 901,077	\$ 146,352	
State of Yap	589,473	126,710	
State of Kosrae	605,587	164,325	
State of Pohnpei	<u>749,057</u>	<u>178,504</u>	
	\$ <u>2,845,194</u>	\$ <u>615,891</u>	3,461,085

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:

**FEDERATED STATES OF MICRONESIA
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Notes to Financial Statements
September 30, 2019

(3) Receivables, Continued

Primary Government, Continued

General Fund, Continued

	<u>General Fund</u>	
State of Pohnpei/PUC	\$ 5,073,041	
State of Chuuk/CPUC	4,042,177	
State of Yap/GTWA	1,975,098	
State of Kosrae/KUA	<u>1,436,010</u>	
	\$ <u>12,526,326</u>	12,526,326

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

	<u>General Fund</u>	
State of Yap/YSPSC	\$ 8,248,988	8,248,988

On September 17, 2018, FSMT Cable Corporation entered into an interest-free loan with the FSM National Government for \$500,000, to support its initial operations and as emergency fund. The loan is uncollateralized and repayment shall commence once FSMT Cable Corporation has equity of \$1,000,000 and will be paid out of operational funds. Subject to this clause, repayment was initially set on October 1, 2023 after a five-year grace period and such grace period is subject to review of the parties. After repayment date is confirmed, the loan amount and frequency will be set and the loan is payable over a minimum period of seven years or due on October 1, 2030. The balance outstanding at December 31, 2019 is \$500,000.

500,000

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

-
\$ 47,839,814

**FEDERATED STATES OF MICRONESIA
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Notes to Financial Statements
September 30, 2019

(3) Receivables, Continued

Primary Government, Continued

General Fund, Continued

Discretely Presented Component Units

Receivables as of September 30, 2019, for the discretely presented component units, including applicable allowances for uncollectible accounts, are as follows:

	FSM Tele- Communications Corporation	FSM Development Bank	National Fisheries Corporation	College of Micronesia- FSM	FSM Petroleum Corporation	Vital Energy Inc.	Caroline Islands Air, Inc.	FSM National Government Employee's Health Insurance Plan	FSM Telecomm Cable Corp.	Telecommunications Regulation Authority	Total
Receivables:											
General	\$1,485,022	\$ -	\$236,103	\$11,475,115	\$2,236,702	\$622,920	\$ -	\$737,763	\$ 65,873	\$ 13,166	\$16,872,664
Loans	-	42,646,939	-	-	-	-	-	-	-	-	42,646,939
Interest	253,879	120,854	-	-	-	-	-	-	-	-	374,733
Other	443,015	-	-	158,805	197,523	-	-	-	-	-	799,343
	2,181,916	42,767,793	236,103	11,633,920	2,434,225	622,920	-	737,763	65,873	13,166	60,693,679
Less: allowance for uncollectible accounts	(717,240)	(5,400,019)	-	(4,829,064)	-	-	-	(621,928)	-	-	(11,568,251)
	<u>\$1,464,676</u>	<u>\$37,367,774</u>	<u>\$236,103</u>	<u>\$6,804,856</u>	<u>\$2,434,225</u>	<u>\$622,920</u>	<u>\$-</u>	<u>\$115,835</u>	<u>\$65,873</u>	<u>\$13,166</u>	<u>\$49,125,428</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, 2019, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Grants Assistance	General	\$ 14,925,516
General	Grants Assistance	1,333,665
Nonmajor government funds	General	<u>3,593,020</u>
		<u>\$ 19,852,201</u>

**FEDERATED STATES OF MICRONESIA
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Notes to Financial Statements
September 30, 2019

(5) Capital Assets

Capital asset activities for the year ended September 30, 2019, are as follows:

Primary Government

	Balance October 1, 2018	Additions and Reclassifications	Retirements and Reclassifications	Balance September 30, 2019
Depreciable assets:				
Buildings and improvements	\$ 72,976,118	\$ 573,084	\$ -	\$ 73,549,202
Boats	22,418,348	121,213	-	22,539,561
Infrastructure	214,068,059	95,321	(9,455,738)	204,707,642
Motor vehicles	5,088,642	238,262	(18,750)	5,308,154
Computer equipment	2,611,330	59,040	(913)	2,669,457
Aircraft	709,207	-	-	709,207
Furniture, equipment and machinery	9,393,154	702,040	(2,476)	10,092,718
	<u>327,264,858</u>	<u>1,788,960</u>	<u>(9,477,877)</u>	<u>319,575,941</u>
Less: accumulated depreciation				
Buildings and improvements	(13,768,994)	(1,571,835)	-	(15,340,829)
Boats	(18,837,398)	(1,004,228)	-	(19,841,626)
Infrastructure	(43,698,579)	(10,419,731)	(4,766)	(54,123,076)
Motor vehicles	(3,723,776)	(713,132)	18,751	(4,418,157)
Computer equipment	(2,041,003)	(211,038)	2,089	(2,249,952)
Aircraft	(664,085)	(22,560)	-	(686,645)
Furniture, equipment, and machinery	(7,956,756)	(733,018)	392	(8,689,382)
	<u>(90,690,591)</u>	<u>(14,675,542)</u>	<u>16,466</u>	<u>(105,349,667)</u>
	<u>236,574,267</u>	<u>(12,886,582)</u>	<u>(9,461,411)</u>	<u>214,226,274</u>
Land	1,674,383	-	-	1,674,383
Construction in progress	16,750,287	-	(16,041,805)	708,482
	<u>18,424,670</u>	<u>-</u>	<u>(16,041,805)</u>	<u>2,382,865</u>
Net Assets	\$ <u>254,998,937</u>	\$ <u>(12,886,582)</u>	\$ <u>(25,503,216)</u>	\$ <u>216,609,139</u>

**FEDERATED STATES OF MICRONESIA
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Notes to Financial Statements
September 30, 2019

(5) Capital Assets, Continued

Primary Government, Continued

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

Office of the President	\$ 73,594
Foreign affairs	218,210
Health and social affairs	393,727
Education	308,528
Resources and development	15,488
Office of National Archives, Cultural and Historic Preservation	7,225
Transportation, communication and infrastructure	7,725,079
Finance and administration	43,303
Justice	642,065
Office of the Public Defender	25,133
Judiciary	33,751
Legislature	77,930
Office of the National Public Auditor	43,493
Environment and emergency management	257,676
National government programs	4,744,129
Agencies, boards and commissions	<u>66,211</u>
	<u>\$ 14,675,542</u>

Discretely Presented Component Units

	Balance October 1, 2018	Additions and Reclassifications	Retirements and Reclassifications	Balance September 30, 2019
Depreciable assets:				
Building and Leasehold Improvements	\$ 35,891,611	\$ 942,311	\$ -	\$ 36,833,922
Plant and Equipment	82,154,693	27,958,480	401,831	110,515,004
Machinery and Equipment	19,055,427	3,286,810	(123,761)	22,218,476
Others	<u>21,001,005</u>	<u>-</u>	<u>-</u>	<u>21,001,005</u>
	158,102,736	32,187,601	278,070	190,568,407
Accumulated Depreciation	<u>(105,562,411)</u>	<u>(9,089,939)</u>	<u>721,012</u>	<u>(113,931,338)</u>
	<u>52,540,325</u>	<u>23,097,662</u>	<u>999,082</u>	<u>76,637,069</u>
Nondepreciable assets:				
Construction in Progress	10,654,263	12,195,234	(5,555,656)	17,293,841
Land	<u>1,455,685</u>	<u>-</u>	<u>-</u>	<u>1,455,685</u>
	<u>12,109,948</u>	<u>12,195,234</u>	<u>(5,555,656)</u>	<u>18,749,526</u>
	<u>\$ 64,650,273</u>	<u>\$ 35,292,896</u>	<u>\$ (4,556,574)</u>	<u>\$ 95,386,595</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2019

(6) Indefeasible Right of Use (IRU)

FSMTC

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, 2019, accumulated amortization expense of \$1,247,142 has been recorded.

FSMTCC

On February 2, 2018, FSM Telecommunication Corporation ("FSMTC"), a related party, and the Company entered into a deed granting the Company a 25-year indefeasible exclusive right of use of fifty percent (50%) of the total available capacity on one fiber pair in the main HANTRU-1 submarine cable. FSMTC will not charge the Company for the conveyances of the IRU granted under the agreement to recover FSMTC's sunk costs in, or to earn a profit on, its investment in the properties and facilities in which it has granted the Company's right of use. In April 2019, FSMNG assigns to the Company all of its rights, titles and interests, and obligations, under the IRU Agreement, and transferred the IRU in the amount of \$4,660,000. The IRU shall continue in effect until the West Subsystem is decommissioned. In certain conditions, either party may initiate a termination of IRU, otherwise it is for the life of the Cable system (25 years). As of December 31, 2019, accumulated amortization expense of \$125,118 has been recorded.

The deed further provides that costs incurred by the Company to renovate and refurbish the existing building at the Yap Cable Landing Station will constitute full and complete consideration for the IRU and other rights and privileges in the site for the Yap cable landing station granted by FSMTC to the Company and the Company will not pay FSMTC any further considerations for such use.

The deed provides that for as long as FSMTC is the only authorized retail communications service provider in the FSM, in consideration of the Company satisfying FSMTC's requirements for international and interstate connectivity services within FSM on the routes traversed by the submarine cable system in which the Company has interest, it will charge FSMTC, and FSMTC will pay the Company on a monthly basis, all of the amounts chargeable to the Company. The payment will be treated as a recurring lump-sum payment and not a per-unit and/or per-route capacity usage charge.

As long as FSMNG owns both entities, the Company will pay the costs of any designated capacity upgrade or provisioning on the cable system. On March 15, 2019, FSM National Government transferred to the Company the custody and maintenance of the new submarine cable system constructed under the financing agreement namely Yap Spur and Chuuk-Pohnpei Cable in the amount of \$9,455,738 and \$15,373,400, respectively.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2019

(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. \$ 2,989,105

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. 5,959,934

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. 12,277,310

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. 1,907,171

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. 1,332,186

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2019

(7) Long-Term Obligations, Continued

Primary Government, Continued

ADB Loan Number 1874 FSM (SF) - Private Sector Development Project Loan (SDR 6,273,000), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. The loan is payable semi-annually commencing May 15, 2010 in an amount of SDR 130,687, at which time the service charge increases to 1.5% per annum, with a maturity date of November 15, 2033. 3,698,721

ADB Loan Number 2099 FSM (SF) - Omnibus Infrastructure Development Project (SDR 9,686,000), interest bearing at the rate of 1% per annum on the amount of the loan withdrawn from the Loan Account during the grace period. The loan is payable semi-annually commencing January 15, 2013 in an amount of SDR 201,791, at which time the interest rate increases to 1.5% per annum, with a maturity date of July 15, 2036. 9,193,863

ADB Loan Number 2100 FSM (SF) - Omnibus Infrastructure Development Project (SDR 9,686,000), interest bearing equivalent to the sum of LIBOR and .60% per annum on the amount of the loan withdrawn from the Loan account with a loan term of 25 years including a grace period of 5 years. The loan is payable semi-annually commencing January 15, 2010, in an amount of .83% of the outstanding loan balance and incrementing at certain years between .04% - .16% up to the maturity date of July 15, 2029. 3,605,631

ADB Loan Number 3004 FSM (SF) - Omnibus Infrastructure Development Project (UD 4,680,000), interest bearing equivalent to the sum of LIBOR and .60% per annum on the amount of the loan withdrawn from the Loan account with a loan term of 20 years including a grace period which was defined as period prior to the first principal payment due date. The loan is payable semi-annually commencing December 1, 2018, in an amount of .83% of the outstanding loan balance and incrementing at certain years between .04% - .16% up to the maturity date of June 1, 2038. 4,590,973

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. 3,658,015

\$ 49,212,909

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

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2019

(7) Long-Term Obligations, Continued

Primary Government, Continued

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest/Service Charges</u>	<u>Total</u>
2020	\$ 2,983,280	\$ 658,125	\$ 3,641,405
2021	3,097,444	622,318	3,719,762
2022	3,122,765	583,019	3,705,784
2023	3,150,570	542,932	3,693,502
2024	3,181,850	501,981	3,683,831
2025-2029	16,093,017	1,851,766	17,944,783
2030-2034	12,824,854	825,185	13,650,039
2035-2038	<u>4,759,129</u>	<u>154,673</u>	<u>4,913,802</u>
	<u>\$ 49,212,909</u>	<u>\$ 5,739,999</u>	<u>\$ 54,952,908</u>

Other long-term liabilities will be liquidated in the future from governmental funds. During the year ended September 30, 2019, the following changes occurred in liabilities reported as part of the primary government's long-term liabilities in the statement of net position:

	<u>Balance October 1, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2019</u>	<u>Due Within One Year</u>
Loans payable:					
ADB Loan 1257 FSM (SF)	\$ 3,275,244	\$ -	\$ (286,139)	\$ 2,989,105	\$ 218,217
ADB Loan 1459 FSM (SF)	6,453,941	-	(494,007)	5,959,934	358,579
ADB Loan 1520 FSM (SF)	13,253,914	-	(976,604)	12,277,310	697,625
ADB Loan 1816 FSM (SF)	2,100,547	-	(193,376)	1,907,171	150,040
ADB Loan 1873 FSM (SF)	1,572,068	-	(239,882)	1,332,186	209,611
ADB Loan 1874 FSM (SF)	4,043,649	-	(344,928)	3,698,721	260,881
ADB Loan 2099 FSM (SF)	9,966,161	-	(772,298)	9,193,863	563,385
ADB Loan 2100 FSM (SF)	3,808,206	-	(202,575)	3,605,631	223,924
ADB Loan 3004 FSM (SF)	4,283,993	396,007	(89,027)	4,590,973	91,819
ADB Loan 3005 FSM (SF)	<u>3,765,583</u>	<u>175,493</u>	<u>(283,061)</u>	<u>3,658,015</u>	<u>209,199</u>
	52,523,306	571,500	(3,881,897)	49,212,909	2,983,280
Other:					
Compensated absences payable	<u>1,188,871</u>	<u>442,504</u>	<u>(407,277)</u>	<u>1,224,098</u>	<u>466,865</u>
	<u>\$53,712,177</u>	<u>\$1,014,004</u>	<u>\$ (4,289,174)</u>	<u>\$50,437,007</u>	<u>\$3,450,145</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, 2019, the FSM National Government recognized a foreign exchange gain of \$903,101 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.

**FEDERATED STATES OF MICRONESIA
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Notes to Financial Statements
September 30, 2019

(7) Long-Term Obligations, Continued

Discretely Presented Component Units

As of September 30, 2019, 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. \$ 18,776,805

On May 29, 2019, the Corporation was granted a two-year principal deferral period from June 01, 2019 to May 31, 2021. The deferred principal on the loans will be re-amortized such that all outstanding RUS debt will be due and payable in full by the maturity dates. The Corporation must continue to make interest payments during the deferral period.

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>
2020	\$ -	\$ 989,744	\$ 989,744
2021	691,385	968,470	1,659,855
2022	2,144,508	855,569	3,000,077
2023	2,254,225	745,852	3,000,077
2024	2,369,555	630,521	3,000,076
2025 - 2029	9,154,255	1,450,615	10,604,870
2030 - 2032	<u>2,162,877</u>	<u>138,679</u>	<u>2,301,556</u>
	<u>\$ 18,776,805</u>	<u>\$ 5,779,450</u>	<u>\$ 24,556,255</u>

These notes are subject to certain coverage ratio requirements. FSMTC is not in compliance with its ratio requirements as of September 30, 2019. 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. \$ 50,140

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Notes to Financial Statements
September 30, 2019

7) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

FSM Development Bank (FSMDB), Continued:

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.

202,621

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.

482,689

\$ 735,450

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>
2020	\$ 151,968	\$ 31,259	\$ 183,227
2021	106,476	25,207	131,683
2022	111,343	20,340	131,683
2023	116,432	15,251	131,683
2024	121,755	9,928	131,683
2025-2026	<u>127,476</u>	<u>4,363</u>	<u>131,839</u>
	<u>\$ 735,450</u>	<u>\$ 106,348</u>	<u>\$ 841,798</u>

Changes in long-term liabilities of the discretely presented component units for the year ended September 30, 2019, are as follows:

	<u>Balance October 1, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2019</u>	<u>Due Within One Year</u>
Loans payable:					
FSMTC	\$ 20,163,889	\$ -	\$(1,387,084)	\$ 18,776,805	\$ -
FSMDB	881,177	-	(145,727)	735,450	151,968
FSMPC	9,093,836	-	(187,394)	8,906,442	507,694
Vital Energy	10,812,620	4,590,693	(4,229,764)	11,173,549	3,054,559
FSMTCC	<u>500,000</u>	<u>-</u>	<u>-</u>	<u>500,000</u>	<u>-</u>
	41,451,522	4,590,693	(5,949,969)	40,092,246	3,714,221
Contracts payable:					
FSMTC	<u>1,606,476</u>	<u>-</u>	<u>(408,603)</u>	<u>1,197,873</u>	<u>1,197,873</u>
Compensated absences:					
COM-FSM	<u>720,769</u>	<u>72,333</u>	<u>-</u>	<u>793,102</u>	<u>335,074</u>
	<u>\$ 43,778,767</u>	<u>\$ 4,663,026</u>	<u>\$ (6,358,572)</u>	<u>\$ 42,083,221</u>	<u>\$ 5,247,168</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2019

(7) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

FSM Petroleum Corporation (FSMPC):

A \$5,000,000 bank note from the Bank of Guam (BOG) dated December 2017, for capital assets projects. The loan bears interest fixed at 5.75% per annum and is payable in monthly installments of \$55,214 beginning January 20, 2018 to December 20, 2027. The loan is collateralized by an executed Pledge and Security Agreement for the assignment of the Reserve Bank Account and Revenue, an executed Notice of Security Interest and Chattel Mortgage and are guaranteed by the FSM National Government. \$ 4,418,874

A \$3,000,000 bank note from the FSM Development Bank (FSMDB) dated August 2017, a component unit of the FSM National Government, for capital assets projects. The loan bears interest fixed at 5% per annum and is payable in quarterly installments of \$170,461 beginning August 31, 2017 to September 25, 2022. On May 1, 2018 FSMDB, approved FSMPC's request for deferment of principal payment from June 2018 to June 2019. The loan is collateralized by the Company's inventories and related petroleum products. 2,740,185

Vital Energy, Inc. (VEI):

A \$2,400,000 non-interest bearing, uncollateralized advance from VEI's business partner to fund capital project expenditures incurred on behalf of the GON under the Agreement (see note -). The advance is payable in equal quarterly installment of \$120,000, beginning on September 5, 2017. 1,200,000

Total long-term debt	8,359,059
Net of current portion	<u>(987,694)</u>
	<u>\$ 7,371,365</u>

Future minimum loan repayments are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 987,694	\$ 276,179	\$ 1,263,873
2021	1,540,235	363,985	1,904,220
2022	1,361,270	302,951	1,664,221
2023	1,185,873	238,348	1,424,221
2024	1,263,595	170,593	1,434,188
2025-2027	<u>2,020,392</u>	<u>257,179</u>	<u>2,277,571</u>
	<u>\$ 8,359,059</u>	<u>\$ 1,609,235</u>	<u>\$ 9,968,294</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2019

(7) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

FSM Petroleum Corporation (FSMPC), Continued

In 2009, FSMPC signed a memorandum of agreement with the FSMNG that the Grant be utilized for the supply of petroleum fuels to FSMPC to assist in the implementation of a number of initiatives aimed at mitigating the social and economic difficulties caused by volatile and sustained high oil prices. The Grant was paid directly by the Government of Japan through an independent procurement agent, Crown Agents, to FSMPC's supplier of fuel instead of to the FSMNG. FSMPC received the equivalent gallons of fuel from the supplier and this is now maintained as strategic inventory in each State. As of December 31, 2019, FSMPC recognized a liability to the States and the FSMNG of \$1,247,383.

1,247,383

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

500,000

\$ 1,747,383

Vital Energy, Inc. (VEI):

At December 31, 2019, the Company has payable to FSMPC of \$8,932,300. The balance is non-interest bearing. The parties agreed that the balance is to be repaid over the remaining terms of the Company's Petroleum Supply and Facility Management Agreement with GON through 2025, and accordingly, \$2,574,559 is presented as current in the accompanying balance sheet.

\$ 8,932,300

College of Micronesia-FSM (COM-FSM)

COM-FSM's long-term obligation of \$793,102 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 2019.

FSM Telecommunications Cable Corp (FSMTCC)

On September 17, 2018, FSMT Cable Corporation entered into an interest-free loan with the FSM National Government for \$500,000, to support its initial operations and as emergency fund. The loan is uncollateralized and repayment shall commence once FSMT Cable Corporation has equity of \$1,000,000 and will be paid out of operational funds. Subject to this clause, repayment was initially set on October 1, 2023 after a five-year grace period and such grace period is subject to review of the parties. After repayment date is confirmed, the loan amount and frequency will be set and the loan is payable over a minimum period of seven years or due on October 1, 2030. The balance outstanding at December 31, 2019 is \$500,000.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2019

(7) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

FSM Telecommunications Cable Corp (FSMTCC), Continued

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

	Balance January 1, 2019	Additions	Reductions	Balance December 31, 2019	Due Within One Year
Loans payable: FSMTCC	\$ <u>500,000</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>500,000</u>	\$ <u>-</u>

(8) Short-Term Obligations

Discretely Presented Component Units

FSM Petroleum Corporation (FSMPC):

As of December 31, 2019, the Company has a bank standby letter of credit (LC) of \$3,000,000, expiring on September 13, 2019, in favor of Mobile Oil Guam in relation to its fuel purchase agreement. Additionally, the Company also has a standby LC of \$6,034,500 for the coconut production facility contractor, currently expires on September 28, 2020.

Additionally, as of December 31, 2019, the Company has bank line of credit (LOC) facility of \$11,000,000 for working capital and support LC's. The line currently expires on February 11, 2021.

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

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

(9) Operating Transfers In/Out

Primary Government

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

Source	Recipient	Transfers Out	Transfers In
General Fund	Grant Assistance Fund	\$ (200,000)	\$ 200,000
Other Governmental Fund	General Fund	(1,794,756)	1,794,756
		\$ (1,994,756)	\$ 1,994,756

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2019

(9) Operating Transfers In/Out, Continued

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

Insurance Coverage

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

Federal Grants

The FSM National Government participates in a number of federally assisted grant programs. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs exist and have been set forth in the FSM National Government's Single Audit Report as of September 30, 2019. 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.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2019

(10) Contingencies and Commitments, Continued

FSMPC Due to States and Primary Government

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, 2019, is not predictable. A provision for a potential claim liability has been made in the accompanying financial statements because management believes that an unfavorable outcome is likely to occur (see note 11).

Encumbrances

The FSM National Government utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2019, the FSM National Government has significant encumbrances summarized as follows:

	<u>General</u>	<u>Grants Assistance</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Encumbrances	\$ <u>14,063,799</u>	\$ <u>8,199,395</u>	\$ <u>985,261</u>	\$ <u>23,248,455</u>

Asian Development Bank (ADB) Loans

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

Micare Health Insurance 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, 2019, the Plan has a negative current ratio. Furthermore, at September 30, 2019, a deficit unrestricted net position of (\$2,062,518) 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.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2019

(10) Contingencies and Commitments, Continued

FSM Social Security Administration (FSMSSA)

In February 2019, the Administration obtained an actuarial valuation of the Fund as of January 1, 2017. The valuation reported actuarial accrued liabilities and market value of assets for the Fund of \$285 million and \$50.7 million, respectively, as of January 1, 2017, representing a funded ratio of 15%. As of December 31, 2019, the Administration recorded total fund equity of \$55,262,727, in the Fund, as funds available to fund future benefit obligations. These conditions indicate that the Administration may be unable to meet its future benefit obligations.

The Administration is of the opinion that there are outstanding contributions due to the Fund; however, a reasonable estimate of this amount cannot be made due primarily to noncompliance by employers.

(11) Special Item

During the year ended September 30, 2019, management determined that certain receivables from sub-borrowers in the amount of \$953,384 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.

During the year ended September 30, 2019, management determined that certain advance receivables balances in the amount of \$1,497,809 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.

During the year ended September 30, 2019, management determined that a loss from a filed claim in the amount of \$9,500,454 should be recorded and this provision for litigation is presented as a special item in the accompanying financial statements. Management understands that the full liability owed is subject to change but believes that it is more likely than not that an unfavorable outcome will result from ongoing related activity.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2019

(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	\$ 40,025,807	\$ -	\$ -	\$ -	\$ 40,025,807
Loans receivable from FSMTCC	500,000	-	-	-	500,000
United Micronesia Dev. Association	1,500,000	-	-	-	1,500,000
Bank of FSM	6,616,740	-	-	-	6,616,740
ADB contribution	6,927,442	-	-	-	6,927,442
IMF contribution	1,149,876	-	-	-	1,149,876
Permanent fund	-	-	20,484,338	-	20,484,338
Restricted For:					
ADB Imprest Funds	45,950	-	-	-	45,950
Infrastructure	-	361,042	-	-	361,042
Disaster Assistance	-	4,072,996	-	-	4,072,996
Sector Development	-	13,153	-	-	13,153
Investment Development Fund	2,040,639	-	-	-	2,040,639
Committed:					
CFSM Public projects	43,175,217	-	-	-	43,175,217
Office of the President	1,627,997	-	-	-	1,627,997
Department of Foreign Affairs	(123,747)	-	-	-	(123,747)
Department of TC&I	14,978,688	-	-	-	14,978,688
Department of Finance & Adm.	430,326	-	-	-	430,326
Department of Justice	566,643	-	-	1,650,946	2,217,589
Department of R & D	5,731,030	-	-	28,653	5,759,683
Department of Education	6,662,133	-	-	104,782	6,766,915
Department of Health	1,954,938	-	-	59,237	2,014,175
Office of EEM	787,565	-	-	-	787,565
National Historic & Preservation	159,167	-	-	-	159,167
Legislative	309,778	-	-	-	309,778
Judiciary	309,459	-	-	-	309,459
Office of Public Auditor	113,064	-	-	-	113,064
Office of Public Defender	2,322	-	-	-	2,322
Future operations-FSM Trust fund	272,261,432	-	-	-	272,261,432
Other functions and programs	2,008,575	-	-	1,596,646	3,605,221
Assigned:					
Presidents (Executive branch)	3,729,182	-	-	-	3,729,182
Legislative branch	1,047,649	-	-	-	1,047,649
Judiciary branch	78,606	-	-	-	78,606
National program	257,751	-	-	-	257,751
Other functions and programs	8,950,611	-	-	-	8,950,611
Unassigned	<u>23,978,021</u>	<u>(148,474)</u>	<u>-</u>	<u>-</u>	<u>23,829,547</u>
	<u>\$ 447,802,861</u>	<u>\$ 4,298,717</u>	<u>\$ 20,484,338</u>	<u>\$ 3,440,264</u>	<u>\$ 476,026,180</u>

(13) Subsequent Event

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. As of December 31, 2020, there have been no confirmed cases of COVID-19 in the Federated States of Micronesia. The FSM National has determined that should the pandemic reach the FSM, it may negatively impact the FSM National Government's results of operations and financial position and the FSM National Government may become dependent upon the financial support of the external donors and financial institutions. However, the effect of the pandemic on FSM National Government is also uncertain and future available funding may be limited. Therefore, while the FSM National Government expects this matter to potentially have a negative impact on its operations and financial position, the related financial impact cannot be reasonably estimated at this time.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

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

YEAR ENDED SEPTEMBER 30, 2019

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund
Year Ended September 30, 2019

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts (note 1)	Final Budget - Positive (Negative)
Revenues:				
Taxes	\$ 61,949,256	\$ 61,949,256	\$ 77,991,129	\$ 16,041,873
Fishing rights	72,000,000	72,000,000	72,658,309	658,309
Postal revenues	150,000	150,000	232,349	82,349
Investment earnings	1,420,000	1,420,000	2,361,420	941,420
Fees and charges	775,000	775,000	126,566	(648,434)
Micare reimbursable	-	-	294,039	294,039
Other	750,000	750,000	1,873,853	1,123,853
Total revenues	137,044,256	137,044,256	155,537,665	18,493,409
Expenditures:				
Executive Branch - Core Operational	22,720,704	24,658,998	21,968,096	2,690,902
Executive Branch - Non-Core Operational	8,004,829	11,629,683	14,441,390	(2,811,707)
Judicial Branch-Core Operational	1,548,267	1,643,962	1,444,467	199,495
Judicial Branch-Non-core Operational	250,000	250,000	188,443	61,557
Legislative Branch-Core Operational	5,956,360	9,677,360	9,413,014	264,346
Legislative Branch-Non-core Operational	622,500	832,500	568,871	263,629
Office of the National Public Auditor-Core Operational	876,771	888,475	774,603	113,872
Office of the National Public Auditor-Non-Core Operational	460,000	460,000	460,000	-
Boards and Commissions	4,154,014	4,769,701	3,925,606	844,095
Payments to Component Units	5,731,059	6,381,059	7,475,016	(1,093,957)
National projects - continuing projects	14,495,423	30,259,661	37,354,183	(7,094,522)
Total expenditures	64,819,927	91,451,399	98,013,689	(6,562,290)
Excess (deficiency) of revenues over (under) expenditures	72,224,329	45,592,857	57,523,976	11,931,119
Other financing sources (uses), net:				
Operating transfers in/(out), net	-	(47,558,838)	(45,764,082)	1,794,756
Special item:				
Loss from litigation by Justice Department	-	-	(9,500,454)	(9,500,454)
Write-off of receivable balances	-	-	(1,497,809)	(1,497,809)
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	-	-	14,063,799	14,063,799
Net change in fund balance	72,224,329	(1,965,981)	14,825,430	16,791,411
Fund balance at the beginning of the year	118,192,461	118,192,461	118,192,461	-
Fund balance at the end of the year	\$ 190,416,790	\$ 116,226,480	\$ 133,017,891	\$ 16,791,411

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

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Required Supplementary Information - Budgetary Reporting
September 30, 2019

(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 2019, supplemental appropriations were also made for both operating and capital purposes, to reflect the evolving priorities of the FSM National Government.

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

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

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

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

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Required Supplementary Information - Budgetary Reporting, Continued
September 30, 2019

(2) Reconciliation - GAAP and Budgetary Bases of Accounting

The Budget Act for fiscal year 2019, Public Law No. 20-131, 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	\$ 14,825,426
Add:	
Net change in fund balance - GAAP for GASB 54 Funds:	
ADB Loan Fund (Fund 91)	(2,930,427)
IDF Fund	133,161
ERP Fund	(238,770)
FSM Trust Fund	<u>58,452,510</u>
Net change in fund balance - GAAP	\$ <u>70,241,900</u>

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2019

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Combined Schedule of Expenditures by Account -
Governmental Fund Types
Year Ended September 30, 2019

		Special Revenue	Permanent		
	General	Grants Assistance	Compact Trust	Other Governmental Funds	Total
Expenditures:					
Personnel	\$ 17,507,563	\$ 3,580,599	\$ -	\$ 440,800	\$ 21,528,962
Travel and transportation	6,270,647	3,368,285	-	126,436	9,765,368
Books and library materials	109	-	-	-	109
Communications	604,765	179,690	-	25,678	810,133
Customs and taxes	2,218	34,737	-	-	36,955
Dues, membership and subscription	721,643	9,579	-	-	731,222
Food stuffs	619,414	343,454	-	91,005	1,053,873
Freight	83,852	86,633	-	49,659	220,144
Expendable equipment	565,435	189,310	-	77,598	832,343
Office supplies and materials	1,514,952	463,972	-	139,632	2,118,556
POL	1,553,721	117,521	-	716,282	2,387,524
Advertising, printing and reproduction	196,326	219,909	-	102	416,337
Rental services	208,815	386,931	-	2,687	598,433
Repair and maintenance	136,959	14,701	-	2,525	154,185
Utilities	1,051,171	197,493	-	37,818	1,286,482
Miscellaneous goods and services	526,852	7,809	-	-	534,661
Medical supplies	49,692	249,038	-	-	298,730
Contributions, subsidies and grants	3,603,324	-	-	-	3,603,324
General contractual services	7,177,328	9,251,855	-	605,161	17,034,344
Professional services	1,583,557	3,722,707	-	-	5,306,264
Employee housing and household storage	1,661,526	65,956	-	-	1,727,482
Recruit and repatriation	136,478	-	-	-	136,478
Compensation-nonpayroll	257,684	106,774	-	-	364,458
Educational allowance	74,938	-	-	-	74,938
Training and registration fees	58,296	21,209	-	-	79,505
Scholarships	2,690,210	-	-	280,454	2,970,664
Official and meeting allowances	30,125	18,726	-	-	48,851
Representation	5,581,461	-	-	-	5,581,461
Insurance and fees	1,041,029	509	-	-	1,041,538
Leased housing, offices, buildings and land	1,237,442	92,226	-	-	1,329,668
Bank charges	26,114	5,971	-	90,263	122,348
Architecture and design	-	73,598	-	-	73,598
Equipment	187,714	5,899,839	-	191,900	6,279,453
Furnitures and fixtures	9,707	-	-	-	9,707
Vehicle and vessels	816,223	135,144	-	-	951,367
Principal and interest payments	3,746,168	-	-	-	3,746,168
Legislative projects	26,162,601	-	-	-	26,162,601
Total expenditures	<u>\$ 87,696,059</u>	<u>\$ 28,844,175</u>	<u>\$ -</u>	<u>\$ 2,878,000</u>	<u>\$ 119,418,234</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, 2019
(with comparative totals for the year ended September 30, 2018)

	<u>2019</u>	<u>2018</u>
Revenue:		
Taxes:		
Import	\$ 4,906,362	\$ 4,686,787
Fuel	152,014	146,722
Corporate tax	61,651,385	84,490,545
Income tax, individuals, net of tax refunds	4,957,060	4,554,310
Gross receipts tax, businesses	5,297,196	5,596,004
Tobacco revenue share	1,027,112	1,268,695
	<u>77,991,129</u>	<u>100,743,063</u>
Fishing rights	<u>72,658,309</u>	<u>72,329,651</u>
Fees and charges:		
Postal collections	232,349	161,024
Business license and various fees	126,566	106,002
	<u>358,915</u>	<u>267,026</u>
Investment earnings:		
Net change in the fair value of investments	1,919,161	1,288,330
Dividend and interest income	442,259	364,321
	<u>2,361,420</u>	<u>1,652,651</u>
MiCare reimbursible	<u>294,039</u>	<u>349,809</u>
Other	<u>1,873,853</u>	<u>756,174</u>
Total revenues	<u>155,537,665</u>	<u>176,098,374</u>
Expenditures:		
Executive Branch:		
Core operational:		
President's Office	2,038,677	1,400,168
Department of External Affairs and LNO's	5,018,573	4,813,665
Department of Health and Social Affairs	835,900	700,458
Department of Education	343,451	397,045
Office of Resources and development	1,001,832	910,293
National archives, cultural and historic prevention	194,155	180,671
Office of Environment and emergency management	513,840	836,803
Department of Transportation, Communication and Infrastructure	2,438,733	2,539,903
Department of Finance and Administration	3,087,616	3,240,864
Department of Justice	4,131,599	3,724,659
Office of the Public Defender	842,674	894,540
Sub-total	<u>20,447,050</u>	<u>19,639,069</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, 2019
(with comparative totals for the year ended September 30, 2018)

	2019	2018
Expenditures, continued:		
Executive Branch:		
Non-core operational:		
President's Office	2,685,941	810,991
Department of External Affairs and LNO's	250,096	791,297
Department of Health and Social Affairs	392,626	1,236,688
Department of Education	3,655,399	3,482,182
Office of Resources and development	365,468	660,223
National archives, cultural and historic prevention	6,815	90,814
Office of Environment and emergency management	81,321	84,742
Department of Transportation, Communication and Infrastructure	2,458,300	8,495,472
Department of Finance and Administration	665,736	844,098
Department of Justice	1,678,187	577,614
Sub-total	12,239,889	17,074,121
Total Executive Branch	32,686,939	36,713,190
Judicial Branch-core operational	1,365,861	1,347,127
Judicial Branch-non-core operational	188,443	302,250
Total Judicial Branch	1,554,304	1,649,377
Legislative Branch:		
Office of the Speaker and members	4,515,633	3,782,153
Congress staff	2,213,520	2,092,772
Delegation offices	2,205,083	1,209,658
Total Legislative Branch	8,934,236	7,084,583
Office of the National Public Auditor-Core operational	767,970	657,912
Office of the National Public Auditor-Non-Core operational	460,000	460,000
Total Office of the Public Auditor	1,227,970	1,117,912
Agencies, Boards and Commissions	3,667,854	3,597,531
Payments to Component Units:		
College of Micronesia-FSM (Board of Regents)	115,000	115,000
College of Micronesia-FSM	3,425,497	2,800,000
College of Micronesia-FSM FMI	997,815	539,920
FSM Social Security Administration	1,000,000	1,000,000
FSMTCC	500,000	-
FSM NGEIP (MiCare)	1,436,704	-
	7,475,016	4,454,920
Legislative public projects	28,403,571	23,391,351
Total expenditures	83,949,890	78,008,864
Excess of revenues over expenditures	71,587,775	98,089,510

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, 2019
(with comparative totals for the year ended September 30, 2018)

	<u>2019</u>	<u>2018</u>
Other financing sources (uses):		
Operating transfers in:		
Postal Services Revolving Fund	459,379	378,802
Insurance Board Revolving Fund	38,299	-
Fisheries Observation Revolving Fund	859,541	611,592
Passport Revolving Fund	<u>437,537</u>	<u>211,140</u>
	<u>1,794,756</u>	<u>1,201,534</u>
Operating transfers out:		
FSM Trust Fund	(47,358,838)	(89,600,069)
Disaster Emergency Fund	<u>(200,000)</u>	<u>(200,000)</u>
	<u>(47,558,838)</u>	<u>(89,800,069)</u>
Total other financing sources (uses), net	<u>(45,764,082)</u>	<u>(88,598,535)</u>
Special item:		
Loss from litigation by Justice Department	<u>(9,500,454)</u>	-
Write-off of receivable balances	<u>(1,497,809)</u>	-
Net change in fund balance	14,825,430	9,490,975
Fund balance at the beginning of the year	<u>118,192,461</u>	<u>108,701,486</u>
Fund balance at the end of the year	\$ <u><u>133,017,891</u></u>	\$ <u><u>118,192,461</u></u>
Reconciliation:		
Fund balance, General Fund	\$ 133,017,891	
Add:		
ADB Loan Fund	40,615,755	
IDF with FSMDB	2,034,527	
Early Retirement Fund	(126,744)	
FSM Trust Fund	<u>272,261,432</u>	
Fund balance, GAAP	\$ <u><u>447,802,861</u></u>	

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

NONMAJOR GOVERNMENTAL FUNDS

Combining Balance Sheet
September 30, 2019

	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
ASSETS														
Receivables	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,193	\$ -	\$ -	\$ 12,403	\$ -	\$ -	\$ -	\$ -	\$ 14,596
Advances	13,101	-	-	4,948	-	27,512	-	(92)	-	-	4,630	-	-	50,099
Due from other funds	200,000	89,541	171,064	843,357	28,653	1,037,055	26,553	33,026	154,345	104,782	823,914	30,730	50,000	3,593,020
	<u>\$ 213,101</u>	<u>\$ 89,541</u>	<u>\$ 171,064</u>	<u>\$ 848,305</u>	<u>\$ 28,653</u>	<u>\$ 1,066,760</u>	<u>\$ 26,553</u>	<u>\$ 32,934</u>	<u>\$ 166,748</u>	<u>\$ 104,782</u>	<u>\$ 828,544</u>	<u>\$ 30,730</u>	<u>\$ 50,000</u>	<u>\$ 3,657,715</u>
LIABILITIES AND FUND BALANCES														
Liabilities:														
Accounts payable	\$ 1,353	\$ -	\$ 382	\$ 3,025	\$ -	\$ 17,158	\$ -	\$ 250	\$ -	\$ -	\$ 193,560	\$ 1,723	\$ -	\$ 217,451
	<u>1,353</u>	<u>-</u>	<u>382</u>	<u>3,025</u>	<u>-</u>	<u>17,158</u>	<u>-</u>	<u>250</u>	<u>-</u>	<u>-</u>	<u>193,560</u>	<u>1,723</u>	<u>-</u>	<u>217,451</u>
Fund balances (deficit):														
Committed	<u>211,748</u>	<u>89,541</u>	<u>170,682</u>	<u>845,280</u>	<u>28,653</u>	<u>1,049,602</u>	<u>26,553</u>	<u>32,684</u>	<u>166,748</u>	<u>104,782</u>	<u>634,984</u>	<u>29,007</u>	<u>50,000</u>	<u>3,440,264</u>
Total liabilities and fund balances	<u>\$ 213,101</u>	<u>\$ 89,541</u>	<u>\$ 171,064</u>	<u>\$ 848,305</u>	<u>\$ 28,653</u>	<u>\$ 1,066,760</u>	<u>\$ 26,553</u>	<u>\$ 32,934</u>	<u>\$ 166,748</u>	<u>\$ 104,782</u>	<u>\$ 828,544</u>	<u>\$ 30,730</u>	<u>\$ 50,000</u>	<u>\$ 3,657,715</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, 2019

	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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 342,369	\$ -	\$ -	\$ -	\$ 342,369
Fees and charges	129,637	5,885	229,652	1,023,308	-	954,541	3,130	4,860	331,414	-	865,004	490,427	57,422	4,095,280
Total revenues	129,637	5,885	229,652	1,023,308	-	954,541	3,130	4,860	331,414	342,369	865,004	490,427	57,422	4,437,649
Expenditures by function:														
Current:														
Transportation, communication and infrastructure	-	-	85,409	-	-	-	-	-	-	-	-	-	-	85,409
Education	-	-	-	-	-	-	-	-	-	280,204	-	-	-	280,204
Justice	32,076	-	-	490,104	-	-	-	-	282,296	-	1,271,645	-	-	2,076,121
Agencies, boards and commissions	-	-	-	-	-	376,208	-	250	-	-	-	59,808	-	436,266
Total expenditures	32,076	-	85,409	490,104	-	376,208	-	250	282,296	280,204	1,271,645	59,808	-	2,878,000
Excess (deficiency) of revenue over (under) expenditure	97,561	5,885	144,243	533,204	-	578,333	3,130	4,610	49,118	62,165	(406,641)	430,619	57,422	1,559,649
Other financing uses:														
Operating transfers out	-	-	-	(437,537)	-	(859,541)	-	-	-	-	-	(459,379)	(38,299)	(1,794,756)
Net change in fund balances (deficit)	97,561	5,885	144,243	95,667	-	(281,208)	3,130	4,610	49,118	62,165	(406,641)	(28,760)	19,123	(235,107)
Fund balances at the beginning of the year	114,187	83,656	26,439	749,613	28,653	1,330,810	23,423	28,074	117,630	42,617	1,041,625	57,767	30,877	3,675,371
Fund balances (deficit) at the end of the year	\$ 211,748	\$ 89,541	\$ 170,682	\$ 845,280	\$ 28,653	\$ 1,049,602	\$ 26,553	\$ 32,684	\$ 166,748	\$ 104,782	\$ 634,984	\$ 29,007	\$ 50,000	\$ 3,440,264

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, 2019

	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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 342,369	\$ -	\$ -	\$ -	\$ 342,369
Fees and charges	129,637	5,885	229,652	1,023,308	-	954,541	3,130	4,860	331,414	-	865,004	490,427	57,422	4,095,280
Total revenues	129,637	5,885	229,652	1,023,308	-	954,541	3,130	4,860	331,414	342,369	865,004	490,427	57,422	4,437,649
Expenditures by account:														
Personnel	-	-	85,409	-	-	73,095	-	-	282,296	-	-	-	-	440,800
Travel and transportation	24,445	-	-	-	-	86,828	-	-	-	-	15,163	-	-	126,436
Communications	-	-	-	15,984	-	3,480	-	-	-	-	6,214	-	-	25,678
Food stuffs	-	-	-	-	-	3,898	-	-	-	-	87,107	-	-	91,005
Freight	5,017	-	-	43,977	-	622	-	-	-	-	43	-	-	49,659
Expendable equipment	-	-	-	1,964	-	8,825	-	-	-	-	57,106	9,703	-	77,598
Office supplies and materials	97	-	-	20,005	-	15,942	-	-	-	-	100,383	3,205	-	139,632
POL	-	-	-	-	-	347	-	-	-	-	715,935	-	-	716,282
Advertising, printing and reproduction	-	-	-	-	-	102	-	-	-	-	-	-	-	102
Rental	-	-	-	-	-	2,447	-	-	-	-	240	-	-	2,687
Repair and maintenance	-	-	-	-	-	1,875	-	-	-	-	650	-	-	2,525
Utilities	-	-	-	14,887	-	2,000	-	-	-	-	20,931	-	-	37,818
General contractual services	-	-	-	391,972	-	142,056	-	-	-	-	32,808	38,325	-	605,161
Scholarships	-	-	-	-	-	-	-	250	-	280,204	-	-	-	280,454
Equipment	1,999	-	-	1,015	-	546	-	-	-	-	179,765	8,575	-	191,900
Bank charges and others	518	-	-	300	-	34,145	-	-	-	-	55,300	-	-	90,263
Total expenditures	32,076	-	85,409	490,104	-	376,208	-	250	282,296	280,204	1,271,645	59,808	-	2,878,000
Excess (deficiency) of revenue over (under) expenditure	97,561	5,885	144,243	533,204	-	578,333	3,130	4,610	49,118	62,165	(406,641)	430,619	57,422	1,559,649
Other financing uses:														
Operating transfers out	-	-	-	(437,537)	-	(859,541)	-	-	-	-	-	(459,379)	(38,299)	(1,794,756)
Net change in fund balances (deficit)	97,561	5,885	144,243	95,667	-	(281,208)	3,130	4,610	49,118	62,165	(406,641)	(28,760)	19,123	(235,107)
Fund balances at the beginning of the year	114,187	83,656	26,439	749,613	28,653	1,330,810	23,423	28,074	117,630	42,617	1,041,625	57,767	30,877	3,675,371
Fund balances (deficit) at the end of the year	\$ 211,748	\$ 89,541	\$ 170,682	\$ 845,280	\$ 28,653	\$ 1,049,602	\$ 26,553	\$ 32,684	\$ 166,748	\$ 104,782	\$ 634,984	\$ 29,007	\$ 50,000	\$ 3,440,264

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

GRANTS ASSISTANCE FUND

Combining Balance Sheet
September 30, 2019

	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													
Cash & equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 361,065	\$ -	\$ -	\$ -	\$ 4,263,373	\$ 4,624,438
Receivables:													
Federal agencies	-	-	-	-	-	627,955	-	-	1,216,150	-	-	-	1,844,105
FSM State Governments	-	-	96,016	436,795	271,573	1,149,029	5,865	-	-	-	-	-	1,959,278
Due from other funds	1,606,477	1,604,862	-	-	169,617	-	-	-	29,488	4,104,048	7,286,046	124,978	14,925,516
Advances	-	595	-	-	-	36,133	-	-	4	158,963	176,747	500	372,942
	<u>\$ 1,606,477</u>	<u>\$ 1,605,457</u>	<u>\$ 96,016</u>	<u>\$ 436,795</u>	<u>\$ 441,190</u>	<u>\$ 1,813,117</u>	<u>\$ 5,865</u>	<u>\$ 361,065</u>	<u>\$ 1,245,642</u>	<u>\$ 4,263,011</u>	<u>\$ 7,462,793</u>	<u>\$ 4,388,851</u>	<u>\$ 23,726,279</u>
LIABILITIES AND FUND BALANCES (DEFICIT)													
Liabilities:													
Accounts payable	\$ 43,750	\$ 184	\$ -	\$ -	\$ 441,190	\$ 1,004,998	\$ -	\$ -	\$ 1,200,433	\$ 956,045	\$ 496,576	\$ 244,260	\$ 4,387,436
Retention payable	-	-	-	-	-	-	-	-	-	1,449,357	-	-	1,449,357
Due to FSM State Governments	1,562,727	1,605,273	-	-	-	-	-	-	45,209	1,862,823	-	-	5,076,032
Due to other funds	-	-	96,016	423,642	-	808,119	5,865	23	-	-	-	-	1,333,665
Unearned revenues	-	-	-	-	-	-	-	-	-	-	7,109,477	71,595	7,181,072
Total liabilities	<u>1,606,477</u>	<u>1,605,457</u>	<u>96,016</u>	<u>423,642</u>	<u>441,190</u>	<u>1,813,117</u>	<u>5,865</u>	<u>23</u>	<u>1,245,642</u>	<u>4,268,225</u>	<u>7,606,053</u>	<u>315,855</u>	<u>19,427,562</u>
Fund balances (deficit):													
Restricted	-	-	-	13,153	-	-	-	361,042	-	-	-	4,072,996	4,447,191
Unassigned	-	-	-	-	-	-	-	-	-	(5,214)	(143,260)	-	(148,474)
Total fund balances (deficits)	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,153</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>361,042</u>	<u>-</u>	<u>(5,214)</u>	<u>(143,260)</u>	<u>4,072,996</u>	<u>4,298,717</u>
Total liabilities and fund balances	<u>\$ 1,606,477</u>	<u>\$ 1,605,457</u>	<u>\$ 96,016</u>	<u>\$ 436,795</u>	<u>\$ 441,190</u>	<u>\$ 1,813,117</u>	<u>\$ 5,865</u>	<u>\$ 361,065</u>	<u>\$ 1,245,642</u>	<u>\$ 4,263,011</u>	<u>\$ 7,462,793</u>	<u>\$ 4,388,851</u>	<u>\$ 23,726,279</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, 2019

	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	\$ -	\$ -	\$ -	\$ -	\$ 516,255	\$ 1,024,410	\$ -	\$ -	\$ 260,584	\$ 8,224,922	\$ -	\$ 50,000	\$ 10,076,171
Federal and other grants	-	-	-	-	-	-	-	7,581	-	-	18,724,712	464,989	19,197,282
	-	-	-	-	516,255	1,024,410	-	7,581	260,584	8,224,922	18,724,712	514,989	29,273,453
Expenditures by function:													
Current:													
General government:													
Finance and administration	-	-	-	-	-	-	-	-	-	1,839,112	1,438,988	-	3,278,100
Resources and development	-	-	-	-	-	-	-	-	-	-	4,349,156	-	4,349,156
Transportation, communication and infrastructure	-	-	-	-	-	-	-	-	-	568,142	9,972,527	-	10,540,669
Health and social affairs	-	-	-	-	-	-	-	-	-	5,085,496	722,920	-	5,808,416
National archives, cultural and historic preservation	-	-	-	-	-	-	-	-	-	45,435	53,642	-	99,077
Education	-	-	-	-	-	1,024,410	-	-	-	654,599	213,622	-	1,892,631
Environment and emergency management	-	-	-	-	-	-	-	-	-	32,138	1,212,060	93,296	1,337,494
Office of the National Public Auditor	-	-	-	-	516,255	-	-	-	-	-	-	-	516,255
Boards and commissions	-	-	-	-	-	-	-	-	-	-	761,793	-	761,793
Capital Projects	-	-	-	-	-	-	-	-	260,584	-	-	-	260,584
Total expenditures	-	-	-	-	516,255	1,024,410	-	-	260,584	8,224,922	18,724,708	93,296	28,844,175
Excess (deficiency) of revenue over (under) expenditure	-	-	-	-	-	-	-	7,581	-	-	4	421,693	429,278
Other financing uses:													
Operating transfers in (out)	-	-	-	-	-	-	-	-	-	-	-	200,000	200,000
Net change in fund balances (deficit)	-	-	-	-	-	-	-	7,581	-	-	4	621,693	629,278
Fund balances (deficit) at the beginning of the year	-	-	-	13,153	-	-	-	353,461	-	(5,214)	(143,264)	3,451,303	3,669,439
Fund balances (deficit) at the end of the year	\$ -	\$ -	\$ -	\$ 13,153	\$ -	\$ -	\$ -	\$ 361,042	\$ -	\$ (5,214)	\$ (143,260)	\$ 4,072,996	\$ 4,298,717

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, 2019

	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	\$ -	\$ -	\$ -	\$ -	\$ 516,255	\$ 1,024,410	\$ -		\$ 260,584	\$ 8,224,922	\$ -	\$ 50,000	\$ 10,076,171
Federal and other grants	-	-	-	-	-	-	-	7,581	-	-	18,724,712	464,989	19,197,282
	-	-	-	-	516,255	1,024,410	-	7,581	260,584	8,224,922	18,724,712	514,989	29,273,453
Expenditures by account:													
Personnel	-	-	-	-	-	141,268	-	-	-	2,569,450	869,881	-	3,580,599
Travel and transportation	-	-	-	-	16,255	202,272	-	-	-	2,068,009	1,081,429	320	3,368,285
Communications	-	-	-	-	-	19,796	-	-	-	140,050	19,844	-	179,690
Customs and taxes	-	-	-	-	-	-	-	-	-	576	34,161	-	34,737
Dues, membership and subscription	-	-	-	-	-	-	-	-	-	9,579	-	-	9,579
Food stuffs	-	-	-	-	-	-	-	-	-	23,221	244,544	75,689	343,454
Freight	-	-	-	-	-	-	-	-	-	44,234	39,379	3,020	86,633
Expendable equipment/furniture	-	-	-	-	-	43,729	-	-	-	111,241	28,436	5,904	189,310
Office supplies and materials	-	-	-	-	-	12,621	-	-	-	284,834	165,809	708	463,972
POL	-	-	-	-	-	486	-	-	-	36,375	80,660	-	117,521
Advertising, printing and reproduction	-	-	-	-	-	22,002	-	-	-	97,819	100,088	-	219,909
Rental services	-	-	-	-	-	10,180	-	-	-	263,087	113,564	100	386,931
Repair and maintenance	-	-	-	-	-	450	-	-	-	4,429	9,822	-	14,701
Utilities	-	-	-	-	-	-	-	-	-	194,032	3,461	-	197,493
Miscellaneous goods and services	-	-	-	-	-	-	-	-	-	520	7,289	-	7,809
Medical supplies	-	-	-	-	-	-	-	-	-	249,038	-	-	249,038
General Contractual services	-	-	-	-	500,000	511,655	-	-	171,986	1,040,303	7,027,911	-	9,251,855
Professional services	-	-	-	-	-	-	-	-	15,000	636,551	3,071,156	-	3,722,707
Employee housing and household storage	-	-	-	-	-	-	-	-	-	26,700	39,256	-	65,956
Compensation-nonpayroll	-	-	-	-	-	-	-	-	-	25,958	80,191	625	106,774
Training and registration fees	-	-	-	-	-	150	-	-	-	17,190	3,869	-	21,209
Offical and meeting allowances	-	-	-	-	-	-	-	-	-	900	17,826	-	18,726
Insurance and fees	-	-	-	-	-	-	-	-	-	509	-	-	509
Leased housing, offices, buildings and land	-	-	-	-	-	-	-	-	-	92,226	-	-	92,226
Bank charges	-	-	-	-	-	615	-	-	-	275	5,081	-	5,971
Architecture and design	-	-	-	-	-	-	-	-	73,598	-	-	-	73,598
Equipment	-	-	-	-	-	59,186	-	-	-	212,911	5,620,812	6,930	5,899,839
Vehicle	-	-	-	-	-	-	-	-	-	74,905	60,239	-	135,144
Total expenditures	-	-	-	-	516,255	1,024,410	-	-	260,584	8,224,922	18,724,708	93,296	28,844,175
Excess (deficiency) of revenue over (under) expenditure	-	-	-	-	-	-	-	7,581	-	-	4	421,693	429,278
Other financing uses:													
Operating transfers in (out)	-	-	-	-	-	-	-	-	-	-	-	200,000	200,000
Net change in fund balances (deficit)	-	-	-	-	-	-	-	7,581	-	-	4	621,693	629,278
Fund balances (deficit) at the beginning of the year	-	-	-	13,153	-	-	-	353,461	-	(5,214)	(143,264)	3,451,303	3,669,439
Fund balances (deficit) at the end of the year	\$ -	\$ -	\$ -	\$ 13,153	\$ -	\$ -	\$ -	\$ 361,042	\$ -	\$ (5,214)	\$ (143,260)	\$ 4,072,996	\$ 4,298,717

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, 2019

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
Revenues:				
Local taxes	\$ 61,949,256	\$ 61,949,256	\$ 77,991,129	\$ 16,041,873
Fishing right fees	72,000,000	72,000,000	72,658,309	658,309
Postal revenues	150,000	150,000	232,349	82,349
Investment earnings	1,420,000	1,420,000	2,361,420	941,420
Fees and charges	775,000	775,000	126,566	(648,434)
MiCare reimbursable	-	-	294,039	294,039
Other	750,000	750,000	1,873,853	1,123,853
Total revenues	137,044,256	137,044,256	155,537,665	18,493,409
Expenditures-budgetary basis by department:				
Executive Branch-Core Operational:				
Office of the President	704,230	1,595,948	1,884,050	(288,102)
President's Office - Public Information	90,984	106,437	136,834	(30,397)
President's Office - ODA & Compact Management	503,105	503,105	286,282	216,823
Total Office of the President	1,298,319	2,205,490	2,307,166	(101,676)
Department of External Affairs				
Administration	272,565	283,789	539,606	(255,817)
Division of APA and Multilateral Affairs	114,670	114,670	116,449	(1,779)
Division of American and European Affairs	93,373	93,373	83,449	9,924
FSM Consulate - China	268,020	304,020	613,682	(309,662)
FSM Consulate - Guam	424,226	424,226	318,439	105,787
FSM Consulate - Honolulu	735,631	735,631	368,751	366,880
FSM Embassy - Tokyo	332,936	332,936	842,402	(509,466)
FSM Embassy - Washington D.C.	964,611	964,611	726,162	238,449
FSM Embassy - Fiji	846,726	846,726	218,064	628,662
FSM Permanent Mission - New York	692,265	692,265	779,169	(86,904)
FSM Consulate - Portland, Oregon	454,207	457,508	442,552	14,956
Office of Veterans Affairs	239,465	228,721	6,426	222,295
Total Department of External Affairs	5,438,695	5,478,476	5,055,151	423,325
Department of Health and Social Affairs:				
Administration	159,977	172,486	173,277	(791)
Health System Support	207,099	216,189	554,347	(338,158)
Environmental Health	357,176	411,854	166,906	244,948
Gender Development Unit	94,724	96,362	10,082	86,280
Sports and Youth Unit	72,206	73,086	11,891	61,195
Total Department of Health and Social Affairs	891,182	969,977	916,503	53,474
Department of Education:				
Administration	218,914	232,677	220,571	12,106
Basic Education & Accreditation (Domestic)	199,135	202,512	140,386	62,126
Basic Education & Accreditation (SEG)	388,652	388,652	-	388,652
Career Technical Education	-	5,270	20,477	(15,207)
Total Department of Education	806,701	829,111	381,434	447,677
Department of Resources and Development:				
Administration	764,147	766,722	572,411	194,311
Division of Sectoral Development	107,497	157,635	98,956	58,679
Division of Trade and Investment	129,219	139,830	118,404	21,426
Division of Energy	62,438	62,802	47,190	15,612
Division of Statistics	418,693	457,016	221,972	235,044
Total Department of Resources and Development	1,481,994	1,584,005	1,058,933	525,072
Office of National Archives, Cultural and Historic Preservation	204,891	211,884	197,767	14,117
Office of Environment and Emergency Management:				
Office of the Director	191,165	196,611	280,834	(84,223)
Division of Sustainable Development	196,826	211,055	155,932	55,123
Division of Climate Change	256,363	256,363	37,948	218,415
Division of Emergency Management	196,800	230,239	144,556	85,683
Total Office of Environment and Emergency Management	841,154	894,268	619,270	274,998

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, 2019

	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	199,324	214,893	212,912	1,981
Division of Marine Transportation	1,147,255	1,169,747	1,176,818	(7,071)
Division of Infrastructure	153,655	179,026	971,156	(792,130)
Civil Aviation	137,261	145,268	104,875	40,393
Communication	601,574	672,334	198,460	473,874
Project Management Unit	332,791	534,941	14,083	520,858
Total Department of Transportation, Communication and Infrastructure	2,571,860	2,916,209	2,678,304	237,905
Department of Finance and Administration:				
Administration	221,954	236,664	784,432	(547,768)
Division of National Treasury	958,237	997,707	880,251	117,456
Division of Customs and Tax Administration	1,344,266	1,408,423	1,286,791	121,632
Division of Investment & International Finance	159,654	161,947	168,731	(6,784)
President's Office - Personnel	151,680	156,094	-	156,094
Division of Budget & Economic Management	311,543	326,818	215,151	111,667
Total Department of Finance and Administration	3,147,334	3,287,653	3,335,356	(47,703)
Department of Justice:				
Administration	415,903	448,806	630,030	(181,224)
Registry of Corporation	513,065	522,744	4,518	518,226
Division of Law	357,868	362,302	274,022	88,280
Division of Litigation	127,354	131,347	462,287	(330,940)
Division of Immigration and Labor	883,748	924,210	797,279	126,931
FSM National Police	2,628,485	2,711,854	2,338,505	373,349
Total Department of Justice	4,926,423	5,101,263	4,506,641	594,622
Office of the Public Defender	1,112,151	1,180,662	911,571	269,091
Total Executive Branch-Core Operational	22,720,704	24,658,998	21,968,096	2,690,902
Executive Branch-Non-Core Operational:				
President's Office	445,900	1,345,900	4,458,320	(3,112,420)
Department of External Affairs and LNO's	259,270	344,893	268,217	76,676
Department of Health and Social Affairs	176,650	463,416	430,380	33,036
Department of Education	3,590,000	3,840,000	3,668,258	171,742
Office of Resources and Development	354,218	385,218	365,468	19,750
National archives, cultural and historic prevention	7,064	7,064	6,815	249
Office of Environment and Emergency Management	65,758	265,758	82,454	183,304
Department of Transportation, Communication and Infrastructure	2,030,747	2,259,212	2,611,948	(352,736)
Department of Finance and Administration	384,024	425,024	714,014	(288,990)
Department of Justice	691,198	2,293,198	1,835,516	457,682
Total Executive Branch-Non-Core Operational	8,004,829	11,629,683	14,441,390	(2,811,707)
Total Executive Branch	30,725,533	36,288,681	36,409,486	(120,805)
Judicial Branch-Core Operational	1,548,267	1,643,962	1,444,467	199,495
Judicial Branch-Non-core Operational	250,000	250,000	188,443	61,557
Total Judiciary Branch	1,798,267	1,893,962	1,632,910	261,052
Legislative Branch:				
Office of the Speaker and members	2,915,650	4,570,650	4,685,266	(114,616)
Members and staff	2,200,710	2,666,710	2,476,885	189,825
Delegation offices	840,000	2,440,000	2,250,863	189,137
Total Legislative Branch - Core	5,956,360	9,677,360	9,413,014	264,346
Legislative Branch - Noncore	622,500	832,500	568,871	263,629
Total Legislative Branch	6,578,860	10,509,860	9,981,885	527,975
Office of the National Public Auditor				
Public Auditor (Core)	876,771	888,475	774,603	113,872
Single Audit (Non-core)	460,000	460,000	460,000	-
Total Office of the National Public Auditor	1,336,771	1,348,475	1,234,603	113,872
Agencies, Board and Commissions:				
National Election	410,017	461,652	406,567	55,085
General Election	350,000	381,923	430,324	(48,401)
Micronesia Legal Services Corporation	250,000	250,000	413,455	(163,455)

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, 2019

	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	788,712	813,992	1,020,353	(206,361)
Tuna Commission Membership	257,284	257,284	-	257,284
MLFC Loan Subsidy	260,000	260,000	-	260,000
CIA Subsidy	-	375,000	-	375,000
FSM Insurance	633,270	662,566	508,485	154,081
FSM Banking Board	220,552	229,305	248,372	(19,067)
Postal Services	984,179	1,077,979	898,050	179,929
Total Agencies, Boards and Commissions	4,154,014	4,769,701	3,925,606	844,095
Payments to component units:				
FSM Social Security Administration	1,000,000	1,000,000	1,000,000	-
Board of Regents-COM-FSM	115,000	115,000	115,000	-
COM-FSM (FMI)	875,611	875,611	997,815	(122,204)
COM-FSM Endowment Fund	316,000	316,000	316,000	-
FSMNGEHIP (MiCare)	-	650,000	1,436,704	(786,704)
FSMTCC	-	-	500,000	(500,000)
COM-FSM	3,424,448	3,424,448	3,109,497	314,951
Total payments to component units	5,731,059	6,381,059	7,475,016	(1,093,957)
Other National government programs-continuing approp	14,495,423	30,259,661	37,354,183	(7,094,522)
Total expenditures	64,819,927	91,451,399	98,013,689	(6,562,290)
Excess (deficiency) of revenues over (under) expenditures	72,224,329	45,592,857	57,523,976	11,931,119
Other financing sources (uses):				
Operating Transfers in:				
Passport Fund	-	-	437,537	437,537
Insurance Board Fund	-	-	38,299	38,299
Fisheries Observation Fund	-	-	859,541	859,541
National Postal Services Fund	-	-	459,379	459,379
	-	-	1,794,756	1,794,756
Operating Transfers (out):				
Disaster Relief Fund	-	(200,000)	(200,000)	-
FSM Trust Fund - States	-	(47,358,838)	(47,358,838)	-
Total Operating Transfers in/out	-	(47,558,838)	(47,558,838)	-
Total other financing sources (uses), net	-	(47,558,838)	(45,764,082)	1,794,756
Special item:				
Loss from litigation by Justice Department	-	-	(9,500,454)	(9,500,454)
Write-off of receivable balances	-	-	(1,497,809)	(1,497,809)
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	-	-	14,063,799	14,063,799
Net change in fund balance	72,224,329	(1,965,981)	14,825,430	16,791,411
Fund balance at beginning of year	118,192,461	118,192,461	118,192,461	-
Fund balance at end of year	\$ 190,416,790	\$ 116,226,480	\$ 133,017,891	\$ 16,791,411

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

WORLD BANK PROJECT FINANCIAL SUMMARY
FOR THE YEAR ENDED SEPTEMBER 30, 2019

GRANT NAMES	GRANT AMOUNT	PRIOR YEAR EXPENDITURE	CURRENT YEAR EXPENDITURE	TOTAL EXPENDITURE	CURRENT YEAR ENCUMBRANCE S	TOTAL EXPENSES & ENCUMBRANCE S	GRANT BALANCE	TOTAL REPLENISHED FROM WORLD BANK	OUTSTANDING REPLENISHMENTS	NOTES
ENERGY SECTOR DEVELOPMENT PROJECT (ESDP):										
Component 1	9,270,000	4,083,649	3,409,483	7,493,133	1,646,494	9,139,626	130,374			
Component 2	3,086,304	1,216,187	135,075	1,351,262	131,394	1,482,656	1,603,648			
Component 3	2,043,696	1,427,756	331,765	1,759,521	168,444	1,927,965	115,731			
Contingencies		-	-	-	-	-	-			
Subtotal	14,400,000	6,727,592	3,876,323	10,603,915	1,946,332	12,550,247	1,849,753	9,714,283	889,632	A
FSM-PALAU CONNECTIVITY PROJECT (ICT):										
Component 1	56,893,649	37,158,427	72,924	37,231,351	1,447,149	38,678,500	18,215,149			
Component 2	1,860,000	608,935	23,467	632,402	41,160	673,562	1,186,438			
Component 3	2,145,000	424,295	261,636	685,931	54,870	740,801	1,404,199			
Component 4	2,801,351	777,353	22,705	800,058	26,188	826,246	1,975,105			
Subtotal	63,700,000	38,969,010	380,732	39,349,742	1,569,367	40,919,109	22,780,891	38,594,240	755,502	B
PACIFIC ISLANDS REGIONAL OCEANSCAPE PROJECT (PROP):										
Component 1	4,740,000	1,097,163	466,401	1,563,564	66,030	1,629,594	3,110,406			
Component 2	300,000	296,108	-	296,108	3,914	300,022	(22)			
Component 3	460,000	199,595	89,409	289,004	-	289,004	170,996			
Subtotal	5,500,000	1,592,866	555,810	2,148,676	69,944	2,218,620	3,281,380	2,017,797	130,879	
PROGRAMMATIC PREPARATION ADVANCE (PPA):										
PFM	199,369	200,667	(2,734)	197,933	-	197,933	1,436			
FMIP	746,254	738,981	(36,987)	701,994	3,870	705,864	40,390			
SEDAP	44,210	(53,791)	98,000	44,209	-	44,209	1			
DIGITAL	1,530,000	-	46,363	46,363	68,283	114,646	1,415,354			
ROADS	2,980,167	-	-	-	-	-	2,980,167			
Subtotal	5,500,000	885,857	104,641	990,499	72,153	1,062,652	4,437,348	479,975	510,524	C
PROJECT FOR STRENGTHENING PUBLIC FINANCIAL MANAGEMENT (PFM):										
COMPONENT 1	350,000	-	706	706	-	706	349,294			
COMPONENT 2	5,145,000	-	137,894	137,894	332,812	470,706	4,674,294			
COMPONENT 3	1,945,000	-	112,094	112,094	105,367	217,461	1,727,539			
COMPONENT 4	1,360,000	-	202,323	202,323	656	202,979	1,157,021			
COMPONENT 5	2,200,000	-	339,929	339,929	192,899	532,828	1,667,172			
Subtotal	11,000,000	-	792,947	792,946	631,734	1,424,680	9,575,320	131,673	661,274	D
SUSTAINABLE ENERGY DEVELOPMENT AND ACCESS PROJECT (SEDAP)										
COMPONENT 1	11,800,000	-	343,935	343,935	108,050	451,985	11,348,015			
COMPONENT 2	3,450,000	-	-	-	-	-	3,450,000			
COMPONENT 3	9,900,000	-	-	-	-	-	9,900,000			
COMPONENT 4	1,900,000	-	-	-	-	-	1,900,000			
COMPONENT 5	2,950,000	-	64,863	64,863	148,798	213,661	2,736,339			
Subtotal	30,000,000	-	408,798	408,798	256,848	665,646	29,334,354	-	408,798	E
FSM MARITIME INVESTMENT PROJECT (FMIP)										
Component 1	20,500,000	-	-	-	-	-	20,500,000			
Component 2	7,550,000	-	-	-	-	-	7,550,000			
Component 3	10,440,000	-	39,983	39,983	452,365	492,348	9,947,652			
CERC	-	-	-	-	-	-	-			
Subtotal	38,490,000	-	39,983	39,983	452,365	492,348	37,997,652	-	39,983	F
TOTAL FOR GRANTS	168,590,000	48,175,327	6,159,234	54,334,559	4,998,743	59,333,302	109,256,698	50,937,968	3,396,591	

See Accompanying Independent Auditors' Report

NOTES TO 2019 FINANCIAL SUMMARY

A - ESDP project last effective date was September 30, 2019. FSM has until the end of January 2020 to clear all outstanding payments relating to this project. Also noted that there was a partial closure of funds amounting to SDI

B - During the year there was a restructuring of this project for additional funds (USD16.2 million) to cover the Kosrae cable and other activities.

C - The PPA is a separate fund signed with the WB to allow FSM to expend funds for preparatory activities before a project becomes effective. To date the PPA has been utilized for the PFM, SEDAP and FMIP projects which are now effective and the upcoming Digital FSM project which is still under preparation.

D - Strengthening Public Financial Management (PFM) became effective on October 1, 2018.

E - Sustainable Energy Development and Access Project (SEDAP) became effective on April 10, 2019.

F - FSM Maritime Investment Project (FMIP) became effective on August 14, 2019. A zero amount has been assigned to the Contingency Emergency Response Component (CERC) until such time an emergency is triggered in line the approved CERC manual.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

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

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

See Accompanying Independent Auditors' Report.

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

Honorable David W. Panuelo
President
Federated States of Micronesia:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the Federated States of Micronesia (FSM) National Government as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the FSM National Government's basic financial statements, and have issued our report thereon dated December 31, 2020. Our report includes explanatory paragraphs concerning social security obligations, going concern and the impact of COVID-19.

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 grant agreements, and other matters did not include the FSM Social Security Administration and 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 the 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 the FSM National Government's internal control.

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

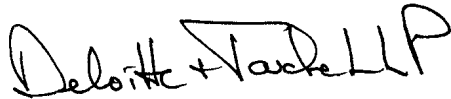
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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.

A handwritten signature in black ink that reads "Deloitte + Tardell LLP". The signature is stylized, with the "D" and "T" being particularly large and prominent.

December 31, 2020

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

Honorable David W. Panuelo
President
Federated States of Micronesia:

Report on Compliance for Each Major Federal Program

We have audited the Federated States of Micronesia (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 the FSM National Government's major federal programs for the year ended September 30, 2019. The 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, 2019. Our audit, described below, did not include the operations of the entities identified in Note 3B as these entities conducted separate audits in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (the Uniform Guidance), if required.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 the 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 programs. However, our audit does not provide a legal determination of the FSM National Government's compliance.

Opinion on Each Major Federal Programs

In our opinion, the 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, 2019.

Other Matters

The results of our auditing procedures disclosed one instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2019-001. Our opinion on each major federal program is not modified with respect to this matter.

The FSM National Government's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The 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 FSM National Government is responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. The FSM National Government's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

Management of the 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 the 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 the 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 did identify certain deficiencies in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as item 2019-001 that we consider to be significant deficiencies.

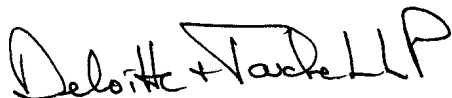
The FSM National Government's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The FSM National Government's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The FSM National Government is responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. FSM National Government's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

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 the FSM National Government as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the FSM National Government's basic financial statements. We issued our report thereon dated December 31, 2020, which contained unmodified opinions on those financial statements and included explanatory paragraphs concerning social security obligations, going concern and the impact of COVID-19. 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.



December 31, 2020

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Summary Schedule of Expenditures of Federal Awards, by Grantor
Year Ended September 30, 2019

<u>Agency/Program</u>	<u>Expenditures</u>	<u>Amounts Passed-Through to Subrecipients</u>
U.S. Department of Agriculture	\$ 247,833	\$ 247,833
U.S. Department of Commerce	1,839,116	-
U.S. Department of the Interior	67,068,457	65,260,428
U.S. Department of Transportation	568,142	-
Institute of Museum and Library Services	38,656	-
U.S. Department of Education	3,732,668	3,078,069
U.S. Department of Health and Human Services	10,810,681	5,631,894
U.S. Department of Homeland Security	32,138	-
GRAND TOTAL	<u>\$ 84,337,691</u>	<u>\$ 74,218,224</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	\$ 28,844,175	
Add:		
Amounts Passed-Through to subrecipients	74,218,224	
Less:		
Expenditures of the Non U.S. Grants Fund	<u>(18,724,708)</u>	
Total expenditures of federal awards	<u>\$ 84,337,691</u>	

See accompanying notes to Schedule of Expenditures of Federal Awards.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2019

<u>Agency/Program</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>	<u>Amounts Passed-Through to Subrecipients</u>
U.S. DEPARTMENT OF AGRICULTURE			
Cooperative Forestry Assistance	10.664	\$ 156,025	\$ 156,025
Urban and Community Forestry Program	10.675	50,787	50,787
Forest Legacy Program	10.676	3,335	3,335
Forest Stewardship Program	10.678	37,686	37,686
U.S. DEPARTMENT OF AGRICULTURE TOTAL		\$ <u>247,833</u>	\$ <u>247,833</u>
U.S. DEPARTMENT OF COMMERCE			
Climate and Atmosphere Research	11.431	\$ <u>1,839,116</u>	\$ -
U.S. DEPARTMENT OF COMMERCE		\$ <u>1,839,116</u>	\$ -
U.S. DEPARTMENT OF THE INTERIOR			
Economic, Social and Political Development of the Territories	15.875		
Compact Sector Funds:			
Infrastructure and Infrastructure maintenance		\$ 5,276,722	\$ 5,016,138
Education		25,007,715	25,007,715
Health		22,475,432	22,475,432
Capacity Building		853,279	853,279
Environment		385,944	385,944
Private Sector		333,168	333,168
Compact Supplemental Education		9,759,817	8,735,406
IMF		505,874	505,874
Compact ERA		1,463,714	1,463,714
Subtotal Compact Sector Funds		66,061,665	64,776,670
Technical Assistance:			
Single Audit		500,000	-
Technical Assistance OIA/DOI Other		143,091	126,836
		643,091	126,836
Total CFDA #15.875		66,704,756	64,903,506
Historic Preservation Fund Grants-In-Aid	15.904	363,701	356,922
U.S. DEPARTMENT OF THE INTERIOR TOTAL		\$ <u>67,068,457</u>	\$ <u>65,260,428</u>
U.S. DEPARTMENT OF TRANSPORTATION			
Airport Improvement Program	20.106	\$ <u>568,142</u>	\$ -
U.S. DEPARTMENT OF TRANSPORTATION TOTAL		\$ <u>568,142</u>	\$ -
INSTITUTE OF MUSEUM AND LIBRARY SERVICES			
Grants to States	45.310	\$ <u>38,656</u>	\$ -
INSTITUTE OF MUSEUM AND LIBRARY SERVICES		\$ <u>38,656</u>	\$ -
U.S. DEPARTMENT OF EDUCATION			
Special Education Cluster (IDEA):			
Special Education - Grants to States	84.027A	\$ <u>3,732,668</u>	\$ 3,078,069
TOTAL SPECIAL EDUCATION CLUSTER (IDEA) AND			
U.S. DEPARTMENT OF EDUCATION TOTAL		\$ <u>3,732,668</u>	\$ <u>3,078,069</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, 2019

Agency/Program	Federal CFDA Number	Expenditures	Amounts Passed-Through to Subrecipients
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Birth Defects and Developmental Disabilities Prevention and Surveillance	93.073	\$ 31,960	\$ -
Public Health Emergency Preparedness	93.069	5,802	-
Public Health Emergency Preparedness Aligned Cooperative Agreement	93.074	521,058	-
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092	159,534	81,475
Maternal and Child Health Federal Consolidated Programs - SSDI Program	93.110	58,115	44,064
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	667,103	356,217
Emergency Medical Services for Children	93.127	16,911	-
Family Planning-Services	93.217	320,326	206,263
Health Center Program Cluster:			
Health Center Program (Community Health Centers)	93.224	2,389,365	2,389,365
Health Center Program Cluster Total		2,389,365	2,389,365
Title V State Sexual Risk Avoidance Education (Title V State SRAE) Program	93.235	65,652	-
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	1,394,318	830,910
Early Hearing Detection and Intervention	93.251	351,181	11,974
Immunization Cooperative Agreements	93.268	1,213,803	507,684
National Public Health Improvement Initiative	93.292		
Laboratory Efficiency Initiative	93.292		
Early Hearing Detection and Intervention Information System (EHDI-IS) Surveillance Program	93.314		
Epidemiology and Laboratory Capacity for Infectious Disease Capacity Building in FSM	93.323	200,744	-
Behavioral Risk Factor Surveillance System	93.336		-
Public Health Emergency Response: Cooperative Agreement for Emergency Response:			
Public Health Crisis Response	93.354	634,066	2,685
PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure			
and Performance financed in part by Prevention and Public Health Funds	93.539		
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	13,651	13,062
Opioid STR	93.788	254,499	128,254
Domestic Ebola Supplement to the Epidemiology and Laboratory Capacity for Infectious Diseases	93.815	89,789	18,000
National Bioterrorism Hospital Preparedness Program	93.889		-
Cancer Prevention and Control Program for State, Territorial, and Tribal Organizations	93.898	301,529	183,791
HIV Care Formula Grants	93.917	31,943	11,990
Cooperative Agreements to Support Comprehensive School			-
Health Programs to Prevent the Spread of HIV and Other			-
Important Health Problems	93.938	31,076	-
HIV Prevention Activities-Health Department Based	93.940	117,300	-
Epidemiologic Research Studies of AIDS and HIV Infection in			-
Selected Population Groups	93.943		-
HIV/AIDS Surveillance	93.944		-
Assistance Programs for Chronic Disease Prevention and Control	93.945	449,202	108,510
Occupational Health and Safety Surveillance	93.957		
Block Grants for Community Mental Health Services	93.958	230,102	58,891
Block Grants for Prevention and Treatment of Substance Abuse	93.959	567,610	368,100
Sexually Transmitted Diseases (STD) Prevention and Control Grants	93.977		
Cooperative Agreements for State-Based Diabetes Control Programs			
and Evaluation of Surveillance Systems	93.988	113,551	
Preventive Health and Health Services Block Grant	93.991		
Preventive Health and Health Services Block Grant	93.991	82,121	20,000
Maternal and Child Health Services Block Grant to the States	93.994	498,006	290,295
PPHF: Racial and Ethnic Approaches to Community Health Program Financed			
Solely By Public Prevention and Health Funds	93.738	364	364
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL		\$ 10,810,681	\$ 5,631,894
U.S. DEPARTMENT OF HOMELAND SECURITY			
Emergency Management Performance Grants	97.042	32,138	-
U.S. DEPARTMENT OF HOMELAND SECURITY TOTAL		\$ 32,138	\$ -
TOTAL EXPENDITURES OF FEDERAL AWARDS		\$ 84,337,691	\$ 74,218,224

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, 2019

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, 2019. 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, 2019 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, 2019.

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 2019 reporting responsibilities under the Single Audit Act. Total federal awards for COM-FSM is \$1,725,569.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2019

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, 2019

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? | No |
| 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 |

Type of auditors' report issued on compliance for major federal programs: Unmodified

- | | |
|---|-----|
| 7. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | Yes |
| 8. Identification of major federal programs: | |

CFDA

<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
	Special Education Cluster (IDEA):
84.027A	Special Education – Grants to States (IDEA, Part B)
93.268	Immunization Cooperative Agreements
93.354	Public Health Emergency Response: Cooperative Agreement for Emergency Response: Public Health Crisis Response

- | | |
|---|-------------|
| 9. Dollar threshold used to distinguish between Type A and Type B Programs: | \$2,530,130 |
| 11. Auditee qualified as low-risk auditee? | No |

Section II – Financial Statement Findings

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

<u>Finding #</u>	<u>CFDA #</u>	<u>Finding</u>	<u>Questioned Costs</u>
2019-001	20.106	Reporting	\$ -

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Finding No.: 2019-001
Federal Agency: U.S. Department of Transportation
CFDA Program: 20.106 Airport Improvement Program
Compliance Requirement: Reporting
Questioned Costs: \$0

Criteria:

In accordance with the Federal Aviation Administration Grant Agreement: (a) A Federal Financial Report or Standard Form SF 425 or a reasonable facsimile thereof approved by the Government of the United States, shall be prepared annually and submitted within 90 days after the end of each federal fiscal year. The report shall include transaction information such as federal cash receipt, federal share of expenditures and recipient share. 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:

1. For 6 or (55%) of 11 FAA Grants reported, we noted that the SF-425 Federal Financial Report, which covered the period October 1, 2018 to September 30, 2019, reported inaccurate cash receipts. Most cash requests for drawdown were received and deposited into the FAA checking count as of 9/30/2019.

No.	Grant no.	Prog. No.	Per SF-425 reported cash receipt:	Cash Drawdown per Bank Statement PY up to FY 2018	Cash Drawdown per Bank Statement FY 2019	Total Actual Cash Drawdown as of 9/30/2019:	Variance: (SF-425 - per BFSM)
1	3-64-0001-014-2015	27313-16	70,353	25,830	42,217	68,047	2,306
2	3-64-0002-016-2015	27413-16	114,804	38,745	69,255	108,000	6,804
3	3-64-0003-019-2015	27212-16	74,835	31,367	44,469	75,836	(1,001)
4	3-64-0003-020-2015	27011-15	33,854,994	32,973,738	848,557	33,822,295	32,699
5	3-64-0004-012-2015	27513-16	74,835	31,367	59,623	90,990	(16,155)
6	3-64-0004-015-2017	27515-18	820,395	20,769	806,895	827,665	(7,270)

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Finding No.: 2019-001, continued
Federal Agency: U.S. Department of Transportation
CFDA Program: 20.106 Airport Improvement Program
Grant Number: Various
Compliance Requirement: Reporting
Questioned Costs: \$0

Condition, Continued:

2. For 7 (64%) of 11 FAA Grants reported, we noted that the SF-425 Federal Financial Report, which covered the period October 1, 2018 to September 30, 2019, reported inaccurate cash receipts between SF-425 and the General Ledger. Cash receipts recorded in the general ledger are supported by underlying bank statements.

No.	Grant Award #	Program no.	Per SF-425 reported cash receipt:	Per GL recorded cash drawdown:	Variance: (SF-425 - per GL)
1	3-64-0001-014-2015	27313-16	70,353	65,817	4,536
2	3-64-0002-016-2015	27413-16	114,804	108,000	6,804
3	3-64-0003-019-2015	27212-16	74,835	70,299	4,536
4	3-64-0003-020-2015	27011-15	33,854,994	27,831,043	6,023,951
5	3-64-0004-012-2015	27513-16	74,835	70,299	4,536
6	3-64-0004-013-2016	27514-17	287,881	277,677	10,204
7	3-64-0004-015-2017	27515-18	820,395	278,708	541,688

3. For 3 (27%) of 11 FAA Grants reported, we noted that the SF-425 Federal Financial Report, which covered the period October 1, 2018 to September 30, 2019, reported inaccurate expenditures between SF-425 and the General Ledger.

No.	Grant no.	Prog. No.	Per SF-425 reported expenditures	Per GL:	Variance: (SF-425 - GL) Exp: (under)/ over reported
1	3-64-0001-014-2015	27313-16	100,000	101,880	(1,880)
2	3-64-0031-019-2015	27212-15	100,000	101,880	(1,880)
3	3-64-0031-019-2015	27513-16	100,000	101,880	(1,880)

Cause: FSM National Government lacks controls over the timely reconciliation of SF425 and underlying accounting records.

Effect: FSM National Government is in noncompliance with reporting requirements. No questioned cost is presented because the variance represents non reconciliation between general ledger and SF-425.

Recommendation: FSM National Government should comply with grant requirements. It is recommended that procedures are implemented for management to reconcile accounting records on a monthly basis and to prepare accurate SF425 reports on a quarterly basis using these records.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Finding No.:	2019-001, continued
Federal Agency:	U.S. Department of Transportation
CFDA Program:	20.106 Airport Improvement Program
Grant Number:	Various
Compliance Requirement:	Reporting
Questioned Costs:	\$0

Identification as a Repeat Finding: Finding No. 2018-002.

Views of Responsible Officials: The FSM National Government describes its response to the finding and related corrective action in its corrective action plan.



Secretary of Finance
&
Administration

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

P.O. Box PS 158
Palikir, Pohnpei FM 96941
Tel: (691) 320-2640/5852 Fax: (691) 320-7728
E-mail: fsmsofa@mail.fm

**FSM STATES OF MICRONESIA
NATIONAL GOVERNMENT**

**CORRECTIVE ACTION PLAN
2CFR S200.511 (c)
Year Ended September**

Finding Number.	CFDA No.	Corrective Action Plan	Anticipated Completion Date	Responsible Person (contact details)
2019-001	20.106	1. The Division of Investment & International Finance and must frequently reconcile the cash draws downs to ensure revenues are recorded based on actual drawdown, (not based on draw down request). Also, Investment should work with Treasury to ensure revenues recorded in the SF425 matches with what's recorded in the General Ledger.	May 31, 2021	<p>Ms. Senny Phillip – Assistant Secretary, Division of Investment & International Finance</p> <p>Email: senny.phillip@ymail.com</p> <p>Erick Paul – Assistant Secretary, Division of National Treasury</p> <p>Email: erickpaul691@gmail.com</p>



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P.O. Box PS 158
Palikir, Pohnpei FM 96941
Tel: (691) 320-2640/5852 Fax: (691) 320-7728
E-mail: fsmsofa@mail.fm

**Summary Schedule of Prior Audit Findings and Questioned Cost
Year Ended September 30, 2019**

Finding No.	CFDA No.	Requirement	Questioned Cost	Status
2018-001	15.875 20.106	Equipment and Real Property Management	\$ -	We took the planned corrective action. We conducted a physical inventory of capital assets. The Supply Division periodically updates the fixed asset register based on reconciliation with underlying accounting data.
2018-002	20.106	Reporting	\$ -	Corrective action to implement internal controls over reporting is ongoing. We started monitoring and ensuring that control is occurring for timely reconciliation and recording of cash drawdown and cash receipts.
2017-001	15.875	Reporting	\$ -	We have not submitted the required quarterly SF-425 to the grantor.
2016-001	20.106	Reporting	\$ -	Applying the two-year rule.
2016-002	15.875	Subrecipient Monitoring	\$ -	Applying the two-year rule.
2016-003	-	F/S Finding	\$ -	Deferred revenue accounts were subsequently reconciled.