

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

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

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**YEAR ENDED SEPTEMBER 30, 2020**

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

YEAR ENDED SEPTEMBER 30, 2020

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

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**YEAR ENDED SEPTEMBER 30, 2020**

## **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, 2020, 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, 2020, 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.

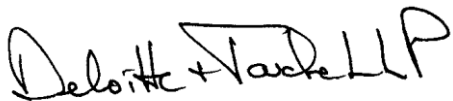
## *Other Information*

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, 2021 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 + Stach LLP". The signature is written in a cursive, stylized font.

December 31, 2021



**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Management's Discussion and Analysis  
September 30, 2020

The following Management's Discussion and Analysis (MD&A) is required supplementary information to the National Government of Federated States of Micronesia's (National Government's) financial statements. It provides a narrative overview and analysis of the financial activities for the year ended September 30, 2020. The MD&A is intended to serve as an introduction to the National Government's financial statements, which have the following components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements. The MD&A is designed to assist the reader in focusing on the significant financial matters, provide an overview of the National Government's financial activities, and highlight individual fund matters.

**FINANCIAL HIGHLIGHTS**

**Government-wide**

- Total assets exceeded total liabilities by \$685,121,545 (reported as net position) at the close of fiscal year 2020, an increase of 6 percent compared with the prior year. Of this amount, \$210,536,972 represents net investment in capital assets, \$30,938,630 is restricted for various purposes, and the remaining \$443,645,943 represents unrestricted net position.

**Fund level**

- Governmental funds reported a combined ending fund balance of \$518,054,514 at the close of fiscal year 2020, an increase of 9 percent compared with the prior year.
- General Fund reported an ending fund balance of \$485,838,699, an increase of 9 percent compared with the prior year. Of the amount, \$57,623,222 was reported as "unrestricted."

**Capital assets**

- Net investment in capital assets decreased by \$6,072,167 from \$216,609,139 in fiscal year 2019 to \$210,536,972 in fiscal year 2020 as the current year depreciation exceeded current year additions.

**Long-term debt**

- Debt obligations decreased by \$1,702,053 or 4 percent compared with the prior year.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the National Government's basic financial statements, which include three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The focus is on both the FSM National Government as a whole (government-wide) and the major individual governmental funds.

(1) 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 presents information on all of the National Government's assets and liabilities, with the difference reported as net. Overtime, increases or decreases in the National Government's net position serve as an indicator to measure the National Government's financial position.

The statement of activities presents information on how the National Government's net position changed during the year.

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Management's Discussion and Analysis  
September 30, 2020

The statement of net position and the statement of activities consist of two reporting units:

- **Governmental Activities** - Most of the 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 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 National Government, but are financially accountable to the National Government, or whose relationship with the National Government is such that exclusion would cause the National Government's basic financial statements to be misleading or incomplete.

(2) Fund Financial Statements

The analysis of the National Government's major funds begins on page 14. The fund financial statements provide detailed information about the most significant funds - not the National Government as a whole. Some funds are required to be established by FSM law. However, the 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 National Government has two kinds of funds - government and fiduciary - each using different accounting approaches.

- **Governmental 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.

(3) Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Management's Discussion and Analysis  
September 30, 2020

Other Information

This report also presents required supplementary information on budgetary comparisons and other supplementary information on individual governmental funds.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position serves overtime as a useful indicator of the National Government's financial position. At the end of fiscal year 2020, the National Government's total assets exceeded total liabilities by \$685,121,545.

A largest portion of the National Government's net position (\$210,536,972 or 31 percent for fiscal year 2020 as compared to \$216,609,139 or 34 percent for fiscal year 2019) reflects its net investment in capital assets. The National Government uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending.

A portion of the National Government's net position (\$30,938,630 or 5 percent for fiscal year 2020 as compared to \$28,553,529 or 7 percent for fiscal year 2019) represents resources reserved for Compact trust fund, Compact sector funds and revolving funds, and has restriction on how such funds may be used.

The remaining portion (\$443,645,943 or 64 percent for fiscal year 2020 as compared to \$401,255,516 or 59 percent for fiscal year 2019) represents unrestricted net position.

In governmental activities, net position increased from \$646,418,184 in fiscal year 2019 to \$685,121,545 in fiscal year 2020.

National Government  
**Table 1. Statement of Net Position**

	Governmental Activities			
	2020	2019	Change	%
<b>ASSETS</b>				
Current and other assets	573,091,402	524,965,735	48,125,667	9.2%
Capital assets	210,536,972	216,609,139	(6,072,167)	-2.8%
Total assets	<u>783,628,374</u>	<u>741,574,874</u>	<u>42,053,500</u>	<u>5.7%</u>
<b>LIABILITIES</b>				
Current and other liabilities	54,296,542	48,169,828	6,126,714	12.7%
Long-term liabilities	44,210,287	46,986,862	(2,776,575)	-5.9%
Total liabilities	<u>98,506,829</u>	<u>95,156,690</u>	<u>3,350,139</u>	<u>3.5%</u>
<b>NET POSITION</b>				
Net investment in capital assets	210,536,972	216,609,139	(6,072,167)	-2.8%
Restricted	30,938,630	28,553,529	2,385,101	8.4%
Unrestricted	443,645,943	401,255,516	42,390,427	10.6%
Total net position	<u>685,121,545</u>	<u>646,418,184</u>	<u>38,703,361</u>	<u>6.0%</u>
Total liabilities and net position	<u>783,628,374</u>	<u>741,574,874</u>	<u>42,053,500</u>	<u>5.7%</u>

**FEDERATED STATES OF MICRONESIA  
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Management's Discussion and Analysis  
September 30, 2020

Table 2 below shows revenues, expenditures by function and changes in net position of the National Government for the years ended September 30, 2020 and 2019. Governmental activities resulted in an increase in the National Government's net position of \$38,703,361 for fiscal year 2020 as compared to \$36,250,854 for fiscal year 2019. A number of factors were in play:

Program revenues increased by \$3,578,569 from \$33,727,648 in fiscal year 2019 to \$37,306,217 in fiscal year 2020.

Total revenues decreased by \$38,877,319 from \$200,667,079 in fiscal year 2019 to \$161,789,760 in fiscal year 2020 largely due to the huge decline in corporate tax of \$51,752,493 from \$72,658,309 in fiscal year 2019 to \$9,898,892 in fiscal year 2020.

Likewise, total expenses decreased by \$30,504,635 from \$154,097,090 in fiscal year 2019 to \$123,592,455 in fiscal year 2020 largely due to spending control on legislative and capital projects.

National Government				
Table 2. Changes in Net Position				
	Governmental Activities			
	2020	2019	Change	%
<b>REVENUES</b>				
Program revenues:				
Charges for services	11,088,533	4,454,195	6,634,338	148.9%
Operating grants and contributions	25,608,214	29,012,869	(3,404,655)	-11.7%
Capital grants and contributions	609,470	260,584	348,886	133.9%
General revenues:				
Fishing rights fees	70,150,833	72,658,309	(2,507,476)	-3.5%
Corporate tax	9,898,892	61,651,385	(51,752,493)	-83.9%
Import tax	15,112,352	16,682,113	(1,569,761)	-9.4%
Unrestricted investment earnings	24,877,176	13,779,736	11,097,440	80.5%
Other	4,444,290	2,167,888	2,276,402	105.0%
Total revenues	161,789,760	200,667,079	(38,877,319)	-19.4%
<b>EXPENDITURES</b>				
Executive	66,398,984	70,596,862	(4,197,878)	-5.9%
Judiciary	1,897,728	1,576,510	321,218	20.4%
Legislative	8,204,796	8,999,143	(794,347)	-8.8%
Office of Public Auditor	1,492,812	1,766,498	(273,686)	-15.5%
Other National Government programs	4,770,064	4,622,429	147,635	3.2%
Agencies, boards, and commissions	8,939,925	4,893,261	4,046,664	82.7%
Payments to component units	3,508,852	7,475,016	(3,966,164)	-53.1%
Legislative projects	28,037,925	44,428,910	(16,390,985)	-36.9%
Capital projects	341,369	9,738,461	(9,397,092)	-96.5%
Total expenditures	123,592,455	154,097,090	(30,504,635)	-19.8%
Excess of revenues over expenditures before special items	38,197,305	46,569,989	(8,372,684)	-18.0%
<b>SPECIAL ITEMS</b>	506,056	(10,319,135)	10,825,191	
Change in net position	38,703,361	36,250,854	2,452,507	6.8%
Net position at the beginning of the year	646,418,184	610,167,330	36,250,854	5.9%
Net position at the end of the year	685,121,545	646,418,184	38,703,361	6.0%

**FEDERATED STATES OF MICRONESIA  
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Management's Discussion and Analysis  
September 30, 2020

**FINANCIAL ANALYSIS OF THE NATIONAL GOVERNMENT'S FUNDS**

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

At September 30, 2020, the National Government's governmental funds reported combined ending fund balances of \$518,054,514. Of this amount, \$39,144,326 was nonspendable, either due to its form or legal constraints; \$2,034,527 was restricted for specific program by contractual obligations. An additional \$356,692,997 was committed to specific purposes. Committed amounts cannot be used for any other purpose unless approved by the FSM Congress. An additional \$11,915,638 was assigned to specific purposes by management. At the end of fiscal year 2020, the unassigned fund balance of the General Fund was \$57,623,222 as compared with the prior year unassigned fund balance of \$23,829,547

The Grants Assistance Fund had a total restricted fund balance of \$5,557,207 compared to the prior year restricted fund balance of \$4,298,717.

The Compact Trust Fund had a total fund balance of \$22,173,938, all of which is reserved for the funding of future operations of the National Government, commencing in fiscal year 2023. The net increase in fund balance during the current year was \$1,689,600.

The other governmental funds (revolving funds) had a total fund balance of \$4,484,670, all of which was reserved for future operations of the National Government.

**FEDERATED STATES OF MICRONESIA  
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National Government  
**Table 3. General Fund**

	Fiscal Year			
	2020	2019	Change	%
<b>REVENUES</b>				
Fishing rights	70,150,833	72,658,309	(2,507,476)	-3.5%
Taxes	24,743,525	77,991,129	(53,247,604)	-68.3%
Fees and charges	352,174	358,915	(6,741)	-1.9%
Investment revenues	24,877,176	13,779,736	11,097,440	80.5%
Other	4,444,290	2,167,888	2,276,402	105.0%
Total revenues	124,567,998	166,955,977	(42,387,979)	-25.4%
<b>EXPENDITURES</b>				
Executive	35,530,186	32,686,939	2,843,247	8.7%
Judiciary	1,871,312	1,554,304	317,008	20.4%
Legislative	8,205,096	8,934,236	(729,140)	-8.2%
Office of Public Auditor	1,219,279	1,227,970	(8,691)	-0.7%
Agencies, boards, and commissions	2,681,930	3,667,854	(985,924)	-26.9%
Payments to component units	3,508,852	7,475,016	(3,966,164)	-53.1%
Legislative projects	34,800,549	28,403,571	6,396,978	22.5%
Debt service	3,678,677	3,746,169	(67,492)	-1.8%
Total expenditures	91,495,881	87,696,059	3,799,822	4.3%
Excess of revenues over expenditures	33,072,117	79,259,918	(46,187,801)	-58.3%
<b>OTHER FINANCING SOURCES</b>				
Net transfers in	6,147,265	1,594,756	4,552,509	
Proceeds from issuance of debt	-	571,500	(571,500)	
Total other financing sources	6,147,265	2,166,256	3,981,009	
<b>SPECIAL ITEMS</b>	(1,183,544)	(11,184,274)	10,000,730	
Net change in fund balance	38,035,838	70,241,900	(32,206,062)	-45.9%
Fund balance at the beginning of the year	447,802,861	377,560,961	70,241,900	18.6%
Fund balance at the end of the year	485,838,699	447,802,861	38,035,838	8.5%

**FEDERATED STATES OF MICRONESIA  
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**BUDGETARY HIGHLIGHT OF GENERAL FUND**

During fiscal year 2020, the National Government revised its annual budget several times to accommodate supplemental funding for departments and offices. As a result, the final budget increased from \$62,063,148 to \$74,403,182.

Fiscal year 2020 total revenues of \$99,498,760 exceeded the revenue projection of \$88,988,600 by \$10,510,160, and budgetary excomplete penditures of \$99,735,647 exceeded the final budget of \$88,466,981 by \$25,038,191. There were no material budget overruns at any level.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

Capital Assets

At the end of fiscal year 2020, the National Government had invested \$210,536,972 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:

National Government				
Table 4. Capital assets				
	Fiscal Year			
	2020	2019	Change	%
Buildings and improvements	74,257,684	73,549,202	708,482	1.0%
Boats	22,859,873	22,539,561	320,312	1.4%
Infrastructure	204,707,642	204,707,642	-	0.0%
Motor vehicles	6,360,273	5,308,154	1,052,119	19.8%
Computer equipment	2,685,208	2,669,457	15,751	0.6%
Aircraft	709,207	709,207	-	0.0%
Furniture, fixture and equipment	10,595,131	10,092,718	502,413	5.0%
	322,175,018	319,575,941	2,599,077	0.8%
Less: accumulated depreciation	(119,963,528)	(105,349,667)	(14,613,861)	13.9%
Land	7,674,383	1,674,383	6,000,000	358.3%
Construction in progress	651,099	708,482	(57,383)	-8.1%
	210,536,972	216,609,139	(6,072,167)	-2.8%

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Management's Discussion and Analysis  
September 30, 2020

Long-Term Liabilities

At the end of fiscal year 2020, the National Government had long term liabilities of \$48,937,963 relating to governmental activities as shown below:

National Government				
Table 5. Long-term Debts				
	Fiscal Year			
	2020	2019	Change	%
ADB loans	47,510,856	49,212,909	(1,702,053)	-3.5%
Compensated absences	1,427,107	1,224,098	203,009	16.6%
Total	48,937,963	50,437,007	(1,499,044)	-3.0%

During the year, the National Government made principal payments of \$1,702,053. Employees earned \$543,640 of vacation hours and used \$340,631 of such, which resulted in an increase of \$203,009 in the compensated absences balance as of September 30 2020.

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

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

Fiscal year 2021 represents the sixteenth full year the Federated States of Micronesia (FSM) implemented the economic assistance provisions available under the amended Compact. The total funds appropriated for the National Government's operations during the fiscal year amounted to \$104 million. Funding under the amended Compact represents 2% of the National Government fiscal year 2021 annual budget. The remaining 98% came from locally generated tax revenues, fishing access fees, investment earnings and related government services fees.

For fiscal year 2021, the total revenue projection is approximately \$112 million, of which \$2 million or 2% will come from domestic sources, and \$100 million or 98% will come from the amended compact sector grants.

In addition to receiving compact grant assistance, the National Government 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 National Government 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, 2020

	Primary Government	Component Units
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 62,502,649	\$ 42,033,160
Cash and cash equivalents - restricted	31,393,670	-
Time certificates of deposit	2,992,618	3,834,740
Investments	397,581,474	10,181,291
Receivables, net of allowance for uncollectibles	59,375,904	48,425,521
Due from component units	566,935	2,904,773
Inventories	-	11,298,789
Other assets	-	3,204,368
Total current assets	<u>554,413,250</u>	<u>121,882,642</u>
Noncurrent assets:		
Investments	-	30,211,036
Investments - restricted	22,284,738	-
Due from component units	-	2,485,086
Capital assets:		
Nondepreciable capital assets	2,325,482	12,890,650
Capital assets, net of accumulated depreciation	202,211,490	82,640,634
Other assets	<u>9,577,318</u>	<u>9,098,832</u>
Total noncurrent assets	<u>236,399,028</u>	<u>137,326,238</u>
Total assets	<u><u>\$ 790,812,278</u></u>	<u><u>\$ 259,208,880</u></u>
<b>LIABILITIES</b>		
Current liabilities:		
Current portion of long-term obligations	\$ 3,120,443	\$ 2,706,817
Accounts payable	8,197,854	6,055,208
Current portion of compensated absences payable	359,084	371,624
Due to primary government	-	2,904,773
Other liabilities and accruals	15,625,719	8,323,737
Tax refunds payable	252	-
Due to FSM State Governments	13,806,256	-
Unearned revenues	<u>17,082,369</u>	<u>2,507,321</u>
Total current liabilities	<u>58,191,977</u>	<u>22,869,480</u>
Noncurrent liabilities:		
Long-term obligations, net of current portion	44,390,413	35,702,786
Compensated absences payable, net of current portion	<u>1,068,023</u>	<u>517,847</u>
Total noncurrent liabilities	<u>45,458,436</u>	<u>36,220,633</u>
Total liabilities	<u>103,650,413</u>	<u>59,090,113</u>
<b>NET POSITION</b>		
Net investment in capital assets	204,536,972	74,066,096
Restricted for:		
Nonexpendable:		
Future operations	22,284,738	-
Other purposes	-	915,000
Expendable:		
Compact related	4,280,022	
Other purposes	2,450,062	
Unrestricted	<u>453,610,071</u>	<u>125,137,671</u>
Total net position	<u>687,161,865</u>	<u>200,118,767</u>
Total liabilities and net position	<u><u>\$ 790,812,278</u></u>	<u><u>\$ 259,208,880</u></u>

See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Statement of Activities  
Year Ended September 30, 2020

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
<u>Functions/Programs</u>						
Primary government:						
Governmental activities:						
Office of the President	\$ 4,551,239	\$ -	\$ -	\$ -	\$ (4,551,239)	\$ -
Foreign affairs	5,693,778	-	3,574	-	(5,690,204)	-
Office of Personnel	24,537				(24,537)	
Finance and administration	15,118,770	-	13,285,395	268,100	(1,565,275)	-
Resources and development	3,439,010	-	2,187,794	-	(1,251,216)	-
Transportation, communication and infrastructure	14,083,353	272,976	2,379,420	-	(11,430,957)	-
Health and social affairs	8,075,555	2,220	5,335,803	-	(2,737,532)	-
Education	6,136,913	-	1,322,007	-	(4,814,906)	-
Justice	6,687,618	1,568,149	-	-	(5,119,469)	-
Office of the Public Defender	766,505	-	-	-	(766,505)	-
Environment and emergency management	1,720,530	-	956,436	-	(764,094)	-
National archives, cultural and historic preservation	304,149	-	68,122	-	(236,027)	-
Legislature	8,204,796	-	-	-	(8,204,796)	-
Judiciary	1,897,728	-	-	-	(1,897,728)	-
Office of the National Public Auditor	1,492,812	-	253,406	-	(1,239,406)	-
National government programs	4,770,064	-	-	-	(4,770,064)	-
Agencies, boards and commissions	8,939,925	9,245,188	626,988	-	932,251	-
Special programs	363,837				(363,837)	
Payments to component units	3,508,852	-	-	-	(3,508,852)	-
Legislative public projects	28,037,925	-	-	341,370	(27,696,555)	-
Capital projects	2,317,994	-	-	-	(2,317,994)	-
Unallocated interest on long-term debt	-	-	-	-	-	-
Total primary government	\$ 126,135,890	\$ 11,088,533	\$ 26,418,945	\$ 609,470	(88,018,942)	-
Component units:						
FSM Telecommunications Corporation	\$ 15,559,183	\$ 16,113,421	\$ 251,196	\$ -	-	805,434
FSM Development Bank	1,743,433	2,483,962	-	-	-	740,529
National Fisheries Corporation	824,705	1,545,257	-	-	-	720,552
College of Micronesia - FSM	22,342,306	21,344,500	-	-	-	(997,806)
FSM Petroleum Corporation	39,152,477	41,824,568	-	-	-	2,672,091
Vital Energy Inc.	14,237,339	14,897,454	-	-	-	660,115
Caroline Islands Air, Inc.	902,497	225,552	323,429	-	-	(353,516)
FSM National Government Employees Health Fund	5,532,739	6,625,130	1,145,935	-	-	2,238,326
FSM Telecommunications Cable Corporation	2,789,096	782,099	872,949	-	-	(1,134,048)
Telecommunication Regulation Authority	801,998	271,634	647,566	-	-	117,202
Total component units	\$ 103,885,773	\$ 106,113,577	\$ 3,241,075	\$ -	-	5,468,879
General revenues:						
Taxes:						
Income					5,169,112	-
Import					5,506,785	-
Gross receipts					4,551,933	-
Corporate tax					9,898,892	-
Fuel					130,676	-
Tobacco revenue share					826,234	-
Fishing rights					70,150,833	-
Unrestricted investment earnings					26,982,458	1,242,568
Other					4,928,844	2,164,935
Total general revenues					128,145,767	3,407,503
Special item - write-off of advance receivable balances					(1,005,297)	
Special item - gain on SDR foreign exchange					(1,248,151)	-
Special item - write-off of receivable balances from sub-borrowers					1,069,904	-
Contributions to permanent funds					1,800,400	-
Total general revenues and contributions					128,762,623	3,407,503
Change in net position					40,743,681	8,876,382
Net position at the beginning of the year					646,418,184	191,242,385
Net position at the end of the year					\$ 687,161,865	\$ 200,118,767

See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Balance Sheet  
Governmental Funds  
September 30, 2020

	General	Special Revenue Grants Assistance	Permanent Compact Trust	Other Governmental Funds	Total
<b>ASSETS</b>					
Cash and cash equivalents	\$ 62,502,649	\$ -	\$ -	\$ -	\$ 62,502,649
Time certificates of deposit	2,992,618	-	-	-	2,992,618
Equity in internal investment pool	388,872,034	-	-	-	388,872,034
Investments	8,709,440	-	-	-	8,709,440
Receivables, net:					
General	469,902	2,850,710	-	1,317	3,321,929
Taxes	6,984,389	-	-	-	6,984,389
Federal agencies	-	3,911,501	-	-	3,911,501
Loans	38,644,326	-	-	-	38,644,326
Advances	2,281,308	-	-	-	2,281,308
Accrued interest	12,579	-	-	-	12,579
Due from component units	566,935	-	-	-	566,935
Due from other funds	1,410,143	27,103,618	-	4,515,513	33,029,274
Other assets	9,577,318	-	-	-	9,577,318
Restricted assets:					
Cash and cash equivalents	26,957,977	4,435,693	-	-	31,393,670
Investments	-	-	22,284,738	-	22,284,738
Total assets	<u>\$ 549,981,618</u>	<u>\$ 38,301,522</u>	<u>\$ 22,284,738</u>	<u>\$ 4,516,830</u>	<u>615,084,708</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 4,541,341	\$ 3,626,310	\$ -	\$ 30,203	\$ 8,197,854
Other liabilities and accruals	15,623,762	-	-	1,957	15,625,719
Tax refunds payable	252	-	-	-	252
Due to FSM State Governments	3,180,763	10,625,493	-	-	13,806,256
Due to other funds	31,619,131	1,410,143	-	-	33,029,274
Unearned revenues	-	17,082,369	-	-	17,082,369
Total liabilities	<u>54,965,249</u>	<u>32,744,315</u>	<u>-</u>	<u>32,160</u>	<u>87,741,724</u>
Fund balances:					
Non-spendable	59,677,597	-	22,284,738	-	81,962,335
Restricted	2,034,527	5,557,207	-	-	7,591,734
Committed	356,692,997	-	-	4,484,670	361,177,667
Assigned	11,915,638	-	-	-	11,915,638
Unassigned:					
General fund	64,695,610	-	-	-	64,695,610
Total fund balances	<u>495,016,369</u>	<u>5,557,207</u>	<u>22,284,738</u>	<u>4,484,670</u>	<u>527,342,984</u>
Total liabilities and fund balances	<u>\$ 549,981,618</u>	<u>\$ 38,301,522</u>	<u>\$ 22,284,738</u>	<u>\$ 4,516,830</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				204,536,972	
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				(47,510,856)	
Compensated absences payable				(1,427,107)	
					<u>159,818,881</u>
Net position of governmental activities					<u>\$ 687,161,865</u>

See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
Year Ended September 30, 2020

	General	Special Revenue Grants Assistance	Permanent Compact Trust	Other Governmental Funds	Total
Revenues:					
Compact funding	\$ -	\$ 967,504	\$ -	\$ -	\$ 967,504
Taxes	25,815,913	-	-	267,719	26,083,632
Federal and other grants	-	26,060,911	-	-	26,060,911
Fishing rights	70,150,833	-	-	-	70,150,833
Interest and dividends	868,259	-	-	-	868,259
Fees and charges	352,174	-	-	10,736,359	11,088,533
Net change in the fair value of investments	26,114,199	-	1,800,400	-	27,914,599
Other	4,444,290	39,954	-	-	4,484,244
Total revenues	127,745,668	27,068,369	1,800,400	11,004,078	167,618,515
Expenditures:					
Current:					
General government:					
Office of the President	4,581,651	-	-	-	4,581,651
Foreign affairs	5,566,837	3,574	-	-	5,570,411
Office of Personnel	22,077	-	-	-	22,077
Finance and administration	5,820,932	9,327,020	-	-	15,147,952
Resources and development	1,352,103	2,187,794	-	-	3,539,897
Transportation, communication and infrastructure	4,151,334	2,379,420	-	63,943	6,594,697
Health and social affairs	2,467,579	5,335,803	-	-	7,803,382
Education	4,344,305	1,322,007	-	194,651	5,860,963
Justice	5,343,553	-	-	980,302	6,323,855
Office of the Public Defender	742,389	-	-	-	742,389
Environment and emergency management	547,351	956,436	-	-	1,503,787
National archives, cultural and historic preservation	226,238	68,122	-	-	294,360
Legislature	8,205,096	-	-	-	8,205,096
Judiciary	1,871,312	-	-	-	1,871,312
Office of the National Public Auditor	1,219,279	253,406	-	-	1,472,685
Agencies, boards and commissions	2,681,930	626,988	-	5,581,450	8,890,368
Special programs	363,837	-	-	-	363,837
Payments to component units and fiduciary fund	3,508,852	-	-	-	3,508,852
Legislative public projects	28,800,549	-	-	-	28,800,549
Capital projects	-	341,370	-	-	341,370
Debt service:					
Principal and interest payments	3,678,677	-	-	-	3,678,677
Total expenditures	85,495,881	22,801,940	-	6,820,346	115,118,167
Excess (deficiency) of revenues over (under) expenditures	42,249,787	4,266,429	1,800,400	4,183,732	52,500,348
Other financing sources (uses):					
Operating transfers in	6,152,479	5,214	-	-	6,157,693
Operating transfers out	(5,214)	(3,013,153)	-	(3,139,326)	(6,157,693)
Total other financing sources (uses), net	6,147,265	(3,007,939)	-	(3,139,326)	-
Special items:					
Write-off of receivables balance	(1,005,297)	-	-	-	(1,005,297)
SDR exchange gain/(loss) from reduction in ADB loans payable	(1,248,151)	-	-	-	(1,248,151)
Noncash reduction in loans receivable from sub-borrowers	1,069,904	-	-	-	1,069,904
Total special items	(1,183,544)	-	-	-	(1,183,544)
Net change in fund balances	47,213,508	1,258,490	1,800,400	1,044,406	51,316,804
Fund balances at the beginning of the year	447,802,861	4,298,717	20,484,338	3,440,264	476,026,180
Fund balances at the end of the year	\$ 495,016,369	\$ 5,557,207	\$ 22,284,738	\$ 4,484,670	\$ 527,342,984

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, 2020

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

Net change in fund balances - total governmental funds	\$51,316,804
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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	\$ 2,541,694	
Depreciation expense, net	<u>(14,613,861)</u>	(12,072,167)

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.

Special items gains from SDR	\$ (1,248,149)	
Repayment of ADB loans	<u>2,950,202</u>	1,702,053

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>(203,009)</u>
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Change in net position of governmental activities	<u>\$40,743,681</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, 2020

	FSM Social Security Administration	Yap State Development Loan Fund	Total
<b><u>ASSETS</u></b>			
Cash and cash equivalents	\$ 1,674,657	\$ 124,551	\$ 1,799,208
Time certificates of deposit	-	150,629	150,629
Receivables:			
Contributions	3,064,254	-	3,064,254
Other	508,682	108	508,790
Investments	53,256,577	-	53,256,577
Capital assets, net of accumulated depreciation	51,850	-	51,850
	<u>58,556,020</u>	<u>275,288</u>	<u>58,831,308</u>
Total assets	<u>\$ 58,556,020</u>	<u>\$ 275,288</u>	<u>\$ 58,831,308</u>
<b><u>LIABILITIES</u></b>			
Accounts payable	\$ 116,262	\$ 18,216	\$ 134,478
Other liabilities and accruals	31,246	-	31,246
	<u>147,508</u>	<u>18,216</u>	<u>165,724</u>
Total liabilities	<u>147,508</u>	<u>18,216</u>	<u>165,724</u>
<b><u>NET POSITION</u></b>			
Held in trust for:			
Social security benefits	58,408,512	-	58,408,512
Other purposes	-	257,072	257,072
	<u>58,408,512</u>	<u>257,072</u>	<u>58,665,584</u>
Total net position	<u>58,408,512</u>	<u>257,072</u>	<u>58,665,584</u>
	<u>\$ 58,556,020</u>	<u>\$ 275,288</u>	<u>\$ 58,831,308</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, 2020

	FSM Social Security Administration	Yap State Development Loan Fund	Total
Additions:			
Contributions	\$ 20,460,623	\$ -	\$ 20,460,623
Investment earnings:			
Net change in the fair value of investments	4,883,227	-	4,883,227
Interest and dividends	985,137	204	985,341
Total investment earnings	5,868,364	204	5,868,568
Less investment expense	(278,912)	-	(278,912)
Net investment earnings	5,589,452	204	5,589,656
Contributions from primary government	1,000,000	-	1,000,000
Other	295,604	-	295,604
Total additions	27,345,679	204	27,345,883
Deductions:			
Benefits	23,103,458	-	23,103,458
Refunds/distribution	20,004	-	20,004
Administrative expenses	1,240,838	-	1,240,838
Total deductions	24,364,300	-	24,364,300
Change in net position	2,981,379	204	2,981,583
Net position at the beginning of the year	55,427,133	256,868	55,684,001
Net position at the end of the year	\$ 58,408,512	\$ 257,072	\$ 58,665,584

See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Combining Statement of Net Position  
Component Units  
September 30, 2020

	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
<b>ASSETS</b>											
Current assets:											
Cash and cash equivalents	\$ 3,127,104	\$ 4,613,227	\$ 1,486,282	\$ 4,106,247	\$ 20,720,689	\$ 6,667,642	\$ 47,019	\$ 1,016,098	\$ 103,883	\$ 144,969	\$ 42,033,160
Time certificates of deposit	279,044	3,154,282	-	18	-	401,396	-	-	-	-	3,834,740
Investments	1,743,197	-	1,116,471	3,344,569	2,775,035	-	-	1,202,019	-	-	10,181,291
Receivables, net:											
General	650,509	-	471,091	5,857,529	1,508,907	179,875	-	102,706	617,366	-	9,387,983
Loans	-	37,907,565	-	-	-	-	-	-	-	-	37,907,565
Interest	-	545,224	-	-	-	-	-	-	-	-	545,224
Other	148,919	-	172	181,175	107,323	-	-	-	147,160	-	584,749
Due from component units	-	-	-	-	2,904,773	-	-	-	-	-	2,904,773
Inventories	1,066,362	-	77,247	1,022,915	5,280,294	3,793,361	58,610	-	-	-	11,298,789
Prepaid expenses	1,407,636	1,965	-	321,504	1,092,060	163,340	129,969	-	87,894	-	3,204,368
Total current assets	<u>8,422,771</u>	<u>46,222,263</u>	<u>3,151,263</u>	<u>14,833,957</u>	<u>34,389,081</u>	<u>11,205,614</u>	<u>235,598</u>	<u>2,320,823</u>	<u>956,303</u>	<u>144,969</u>	<u>121,882,642</u>
Noncurrent assets:											
Indefeasible right of use	2,324,655	-	-	-	-	-	-	-	4,348,482	-	6,673,137
Capital assets:											
Nondepreciable capital assets	2,719,322	-	-	1,455,685	8,715,643	-	-	-	-	-	12,890,650
Capital assets, net of accumulated depreciation	26,254,131	1,381,429	300,812	5,246,638	24,719,067	245,293	17,694	59,206	24,391,981	24,383	82,640,634
Other assets	955,238	-	-	-	1,111,514	121,000	-	237,943	-	-	2,425,695
Due from component units, net of current investments	-	-	-	-	2,485,086	-	-	-	-	-	2,485,086
Total noncurrent assets	<u>32,253,346</u>	<u>23,274,493</u>	<u>432,812</u>	<u>14,888,295</u>	<u>37,031,310</u>	<u>366,293</u>	<u>17,694</u>	<u>297,149</u>	<u>28,740,463</u>	<u>24,383</u>	<u>137,326,238</u>
Total assets	<u>\$ 40,676,117</u>	<u>\$ 69,496,756</u>	<u>\$ 3,584,075</u>	<u>\$ 29,722,252</u>	<u>\$ 71,420,391</u>	<u>\$ 11,571,907</u>	<u>\$ 253,292</u>	<u>\$ 2,617,972</u>	<u>\$ 29,696,766</u>	<u>\$ 169,352</u>	<u>\$ 259,208,880</u>
<b>LIABILITIES</b>											
Current liabilities:											
Current portion of long-term debt	\$ 696,960	\$ 384,184	\$ -	\$ -	\$ 1,385,673	\$ 240,000	\$ -	\$ -	\$ -	\$ -	\$ 2,706,817
Compensated absences payable	-	-	-	371,624	-	-	-	-	-	-	371,624
Accounts payable	79,594	68,398	105,054	501,876	2,813,484	115,998	5,949	2,250,494	109,310	5,051	6,055,208
Due to primary government	-	-	-	-	-	2,904,773	-	-	-	-	2,904,773
Other liabilities and accruals	2,624,181	101,156	20,593	1,372,203	2,928,745	1,147,045	26,452	103,362	-	-	8,323,737
Unearned revenues	206,530	138,310	-	2,162,481	-	-	-	-	-	-	2,507,321
Total current liabilities	<u>3,607,265</u>	<u>692,048</u>	<u>125,647</u>	<u>4,408,184</u>	<u>7,127,902</u>	<u>4,407,816</u>	<u>32,401</u>	<u>2,353,856</u>	<u>109,310</u>	<u>5,051</u>	<u>22,869,480</u>
Noncurrent liabilities:											
Noncurrent portion of long-term debt	18,000,001	3,392,918	-	-	8,055,691	240,000	-	-	-	-	29,688,610
Due to primary government, net of current portion	-	-	-	-	1,747,177	2,485,086	-	-	500,000	-	4,732,263
Compensated absences, net of current portion	-	-	-	517,847	-	-	-	-	-	-	517,847
Other noncurrent liability	-	-	-	-	-	1,281,913	-	-	-	-	1,281,913
Total noncurrent liabilities	<u>18,000,001</u>	<u>3,392,918</u>	<u>-</u>	<u>517,847</u>	<u>9,802,868</u>	<u>4,006,999</u>	<u>-</u>	<u>-</u>	<u>500,000</u>	<u>-</u>	<u>36,220,633</u>
Total liabilities	<u>21,607,266</u>	<u>4,084,966</u>	<u>125,647</u>	<u>4,926,031</u>	<u>16,930,770</u>	<u>8,414,815</u>	<u>32,401</u>	<u>2,353,856</u>	<u>609,310</u>	<u>5,051</u>	<u>59,090,113</u>
<b>NET POSITION</b>											
Net investment in capital assets	12,601,147	1,381,429	300,812	6,702,323	23,993,346	245,293	17,694	59,206	28,740,463	24,383	74,066,096
Restricted for:											
Nonexpendable	-	-	-	915,000	-	-	-	-	-	-	915,000
Unrestricted	<u>6,467,704</u>	<u>64,030,361</u>	<u>3,157,616</u>	<u>17,178,898</u>	<u>30,496,275</u>	<u>2,911,799</u>	<u>203,197</u>	<u>204,910</u>	<u>346,993</u>	<u>139,918</u>	<u>125,137,671</u>
Total net position	<u>19,068,851</u>	<u>65,411,790</u>	<u>3,458,428</u>	<u>24,796,221</u>	<u>54,489,621</u>	<u>3,157,092</u>	<u>220,891</u>	<u>264,116</u>	<u>29,087,456</u>	<u>164,301</u>	<u>200,118,767</u>
Total liabilities and net position	<u>\$ 40,676,117</u>	<u>\$ 69,496,756</u>	<u>\$ 3,584,075</u>	<u>\$ 29,722,252</u>	<u>\$ 71,420,391</u>	<u>\$ 11,571,907</u>	<u>\$ 253,292</u>	<u>\$ 2,617,972</u>	<u>\$ 29,696,766</u>	<u>\$ 169,352</u>	<u>\$ 259,208,880</u>

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, 2020

	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	\$ 16,113,421	\$ 2,402,954	\$ -	\$ 20,795,998	\$ 41,394,307	\$ 14,897,454	\$ 225,552	\$ 6,625,130	\$ 782,099	\$ 271,634	\$ 103,508,549
Other	<u>-</u>	<u>81,008</u>	<u>1,545,257</u>	<u>548,502</u>	<u>430,261</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,605,028</u>
Total operating revenues	<u>16,113,421</u>	<u>2,483,962</u>	<u>1,545,257</u>	<u>21,344,500</u>	<u>41,824,568</u>	<u>14,897,454</u>	<u>225,552</u>	<u>6,625,130</u>	<u>782,099</u>	<u>271,634</u>	<u>106,113,577</u>
Operating expenses:											
Cost of services	1,236,295	-	-	-	24,428,876	11,465,661	805,266	4,988,785	-	-	42,924,883
Depreciation and amortization	4,272,591	141,267	-	949,251	2,838,742	79,677	7,403	15,473	1,275,227	10,591	9,590,222
Administrative costs	<u>10,050,297</u>	<u>1,602,166</u>	<u>824,705</u>	<u>21,393,055</u>	<u>11,884,859</u>	<u>2,692,001</u>	<u>89,828</u>	<u>528,481</u>	<u>1,513,869</u>	<u>791,407</u>	<u>51,370,668</u>
Total operating expenses	<u>15,559,183</u>	<u>1,743,433</u>	<u>824,705</u>	<u>22,342,306</u>	<u>39,152,477</u>	<u>14,237,339</u>	<u>902,497</u>	<u>5,532,739</u>	<u>2,789,096</u>	<u>801,998</u>	<u>103,885,773</u>
Operating income (loss)	<u>554,238</u>	<u>740,529</u>	<u>720,552</u>	<u>(997,806)</u>	<u>2,672,091</u>	<u>660,115</u>	<u>(676,945)</u>	<u>1,092,391</u>	<u>(2,006,997)</u>	<u>(530,364)</u>	<u>2,227,804</u>
Nonoperating revenues (expenses):											
Net change in the fair value of investments	196,246	-	43,543	701,021	251,026	-	-	50,732	-	-	1,242,568
Interest income (expense)	(941,564)	2,487,739	3,433	-	(449,523)	8,312	-	-	220	-	1,108,617
Contributions from primary government	251,196	-	-	-	-	-	323,429	1,145,935	872,949	647,566	3,241,075
Other income (expense)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>668,429</u>	<u>178,563</u>	<u>3,363</u>	<u>205,963</u>	<u>-</u>	<u>1,056,318</u>
Total nonoperating revenues (expenses), net	<u>(494,122)</u>	<u>2,487,739</u>	<u>46,976</u>	<u>701,021</u>	<u>(198,497)</u>	<u>676,741</u>	<u>501,992</u>	<u>1,200,030</u>	<u>1,079,132</u>	<u>647,566</u>	<u>6,648,578</u>
Net income (loss)	<u>60,116</u>	<u>3,228,268</u>	<u>767,528</u>	<u>(296,785)</u>	<u>2,473,594</u>	<u>1,336,856</u>	<u>(174,953)</u>	<u>2,292,421</u>	<u>(927,865)</u>	<u>117,202</u>	<u>8,876,382</u>
Net position at the beginning of the year	<u>19,008,735</u>	<u>62,183,522</u>	<u>2,690,900</u>	<u>25,093,006</u>	<u>52,016,027</u>	<u>1,820,236</u>	<u>395,844</u>	<u>(2,028,305)</u>	<u>30,015,321</u>	<u>47,099</u>	<u>191,242,385</u>
Net position at the end of the year	<u>\$ 19,068,851</u>	<u>\$ 65,411,790</u>	<u>\$ 3,458,428</u>	<u>\$ 24,796,221</u>	<u>\$ 54,489,621</u>	<u>\$ 3,157,092</u>	<u>\$ 220,891</u>	<u>\$ 264,116</u>	<u>\$ 29,087,456</u>	<u>\$ 164,301</u>	<u>\$ 200,118,767</u>

See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2020

(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, 2020

(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, 2020

(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, 2020

(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, 2020

(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 \$29,014,822 of restricted net position, of which \$2,450,062 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, 2020

(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, 2020

(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  
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(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  
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Notes to Financial Statements  
September 30, 2020

(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 \$ 22,284,738 are restricted in that they are not available to be used in current operations.

As of September 30, 2020, 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	\$ 10,425,701
Deposit accounts maintained for certain non-U.S. donor agencies (ADB, People's Republic of China, Japan, European Union)	19,891,593
Deposit account established for the Airport Improvement Program	182,465
Deposit account maintained for proceeds from dormant bank accounts established in accordance with Public Law 13-56	841,558
Deposit accounts established for imprest funds in accordance with ADB Loans 2099 and 2100	52,353
Other miscellaneous deposit accounts	-
	<u>\$ 31,393,670</u>

**FEDERATED STATES OF MICRONESIA  
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Notes to Financial Statements  
September 30, 2020

(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  
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Notes to Financial Statements  
September 30, 2020

**(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  
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Notes to Financial Statements  
September 30, 2020

(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 2020, the FSM National Government implemented the following pronouncements:

During the year ended September 30, 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, 91, 92 and 93 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. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 84 will be effective for fiscal year ending September 30, 2021.

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Notes to Financial Statements  
September 30, 2020

(1) Summary of Significant Accounting Policies, Continued

V. New Accounting Standards, Continued

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. Management believes that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 will be effective for fiscal year ending September 30, 2022.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 89 will be effective for fiscal year ending September 30, 2022.

In March 2018, GASB issued Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 90 will be effective for fiscal year September 30, 2021.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying 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. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.

**FEDERATED STATES OF MICRONESIA  
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Notes to Financial Statements  
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(1) Summary of Significant Accounting Policies, Continued

V. New Accounting Standards, Continued

In January 2020, GASB issued statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefits. The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance. The remaining requirements of GASB Statement No. 92 is effective for the fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The primary objective of this statement is to address those and other accounting and financial reporting implications of the replacement of an IBOR. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 93 will be effective for fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This statement also provides guidance for accounting and financial reporting for availability payment arrangements. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

**FEDERATED STATES OF MICRONESIA  
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Notes to Financial Statements  
September 30, 2020

(1) Summary of Significant Accounting Policies, Continued

V. New Accounting Standards, Continued

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 97 will be effective for fiscal year ending (September 30, 2022).

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, 2020 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.



**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2020

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

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%.
- 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.

**FEDERATED STATES OF MICRONESIA  
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Notes to Financial Statements  
September 30, 2020

(2) Deposits and Investments, Continued

A. Deposits, Continued

As of September 30, 2020, the carrying amount of the primary government's total cash and cash equivalents and time certificates of deposit was \$96,888,937 and the corresponding bank balances were \$99,070,382. Of the bank balances, \$89,298,610 is maintained in financial institutions subject to FDIC insurance or a credit union subject to National Credit Union Administration (NCUA) insurance; while \$13,335,757 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, 2020 while the remaining amount of \$7,590,327 is maintained in financial institutions not subject to FDIC or NCUA insurance.

As of September 30, 2020, the carrying amount of the fiduciary funds' total cash and cash equivalents and time certificates of deposit was \$1,949,837 and the corresponding bank balances were \$2,231,561. Of the bank balances, \$1,185,878 is maintained in financial institutions subject to FDIC insurance. The fiduciary funds do not require collateralization of their cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

As of September 30, 2020, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$45,867,900 and the corresponding bank balances were \$46,839,317 which are maintained in financial institutions subject to FDIC insurance. As of September 30, 2020, bank deposits in the amount of \$7,062,539 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, 2020, the FSM National Government's investments are as follows:

General Fund - Grant Assistance Fund:	
Fixed income	\$ 101,541,661
Domestic equities	8,709,440
Common equities	220,528,563
Cash management account	<u>66,801,810</u>
	<u>397,581,474</u>

**FEDERATED STATES OF MICRONESIA  
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Notes to Financial Statements  
September 30, 2020

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

**B. Investments, Continued**

**Primary Government, Continued**

Compact Trust Fund:	
Common trust funds:	
Domestic Equity	3,497,974
International Equity	3,740,943
Global Equity	3,395,477
Fixed Income	8,696,303
Private Equity	1,090,557
Hedge Fund	699,347
Real Estate	1,134,562
Money market funds	<u>29,575</u>
	<u>22,284,738</u>
	<u>\$ 419,866,212</u>

As of September 30, 2020, the primary government's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

Investment Type	Rating Type	Fair Value	Maturity (in years)			
			Less than 1	1 - 5	6 - 10	Over 10
U.S. Treasury Obligations	Aaa	\$ 335,469	\$ -	\$251,081	\$ 3,455	\$ 80,933
U.S. Government Agencies Obligations:						
Federal Farm Credit Bank	Aaa	67,837	-	23,373	44,464	-
Federal Home Loan Bank	Aaa	66,712	-	6,084	60,628	-
Federal Home Loan Mortgage Corporation	Aaa	11,286	7	5,338	-	5,941
Federal National Mortgage Association	Aaa	14,417	-	-	-	14,417
Government National Mortgage Corporation	Aaa	476	-	-	-	476
Overseas Private Investment Corporation	Aaa	35,185	-	-	35,185	-
Tennessee Valley Authority	Aaa	60,395	-	13,054	-	47,341
Municipal Obligations	Aa2	64,182	11,585	9,764	19,059	23,774
Corporate Bonds	Aaa	71,387	-	50,550	9,193	11,644
Corporate Bonds	Aa1	3,637	-	3,637	-	-
Corporate Bonds	Aa2	31,085	10,370	10,611	10,104	-
Corporate Bonds	Aa3	8,536	-	-	8,536	-
Corporate Bonds	A1	63,977	-	26,198	18,943	18,836
Corporate Bonds	A2	75,223	4,611	37,589	24,857	8,166
Corporate Bonds	A3	51,240	-	31,856	3,924	15,460
Corporate Bonds	Baa1	92,037	-	53,320	29,875	8,842
Corporate Bonds	Baa2	45,263	-	45,263	-	-
Corporate Bonds	Baa3	21,459	5,076	5,231	-	11,152
Corporate Bonds	No Rating	<u>20,872</u>	<u>4,938</u>	<u>2,493</u>	<u>9,100</u>	<u>4,341</u>
		<u>\$1,140,675</u>	<u>\$36,587</u>	<u>\$575,442</u>	<u>\$277,323</u>	<u>\$251,323</u>

Investment Type (no aging schedule)	Rating Type	Fair Value
U.S. Treasury Notes and Bonds	Aaa	\$ 10,262,286
U.S. Agencies Obligations	A3	711,341
Mortgage Backed	Aa1	33,282,926
Asset Backed	B2	6,558,694
Corporate Bonds - Industrial	Baa1	15,875,805
Corporate Bonds - Finance	Baa1	12,368,398
Corporate Bonds - Yankee Bond	Baa1	2,927,191
Corporate Bonds - Utilities	A3	2,845,465
Corporate Bonds - Others	Aa2	<u>15,568,880</u>
		<u>\$100,400,986</u>
Total fixed income		<u>\$101,541,661</u>

**FEDERATED STATES OF MICRONESIA  
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Notes to Financial Statements  
September 30, 2020

**(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, 2020:

General Fund - Grant Assistance Fund:		Fair Value Measurements Using			
	Total	Level 1	Level 2	Level 3	
Investments by fair value level:					
Fixed income:					
U.S. Treasury obligations	\$ 10,597,755	\$ -	\$ 10,597,755	\$ -	
U.S. Government agencies obligations	967,649	-	967,649	-	
Municipal obligations	64,182	-	64,182	-	
Corporate notes	<u>89,912,075</u>	<u>-</u>	<u>89,912,075</u>	<u>-</u>	
	101,541,661	-	101,541,661	-	
Equity securities:					
U.S. equities	<u>220,528,563</u>	<u>220,528,563</u>	-	-	
Total investments at fair value	322,070,224	<u>\$220,528,563</u>	<u>\$101,541,661</u>	<u>\$ -</u>	
Investments measured at NAV:					
Equity in Bank of the FSM	8,709,440				
Investments measured at amortized cost:					
Cash management account	<u>66,801,810</u>				
	<u>\$397,581,474</u>				
Compact Trust Fund:		Fair Value Measurements Using			
	Total	Level 1	Level 2	Level 3	
Investments at fair value level:					
Common trust funds:					
Domestic equity	\$ 3,497,974	\$ 3,497,974	\$ -	\$ -	
International equity	3,740,943	3,740,943	-	-	
Global Equity	3,395,477	3,395,477	-	-	
Fixed income	8,696,303	8,696,303	-	-	
Private equity	<u>1,090,557</u>	<u>-</u>	<u>-</u>	<u>1,090,557</u>	
Total investments at fair value	20,421,254	<u>\$19,330,697</u>	<u>\$ -</u>	<u>\$1,090,557</u>	
Investments measured at NAV:					
Hedge Fund	699,347				
Real Estate	1,134,562				
Investments measured at amortized cost:					
Money market funds	<u>29,575</u>				
	<u>\$22,284,738</u>				

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. With the exception of investments in U.S. government securities, which are explicitly or implicitly guaranteed by the United States government, all other investments must be rated in accordance with the 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, 2020.

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(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the State. As of September 30, 2020, 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 "Ba1" as rated by Moody's as of September 30, 2020. High yield debt receiving a credit rating below "A" comprises approximately 65.5% of the MIM CFI fixed income portfolio as rated by Moody's at September 30, 2020. At September 30, 2020, the weighted average maturity of the bonds comprising MIM CFI is 7.7 years.

The bonds held by MIM OFI vary in credit quality with an average overall rating of "Aa3" as rated by Moody's as of September 30, 2020. High yield debt receiving a credit rating below "A" comprises approximately 29.9% of the MIM OFI fixed income portfolio as rated by Moody's at September 30, 2020. At September 30, 2020, the weighted average maturity of the bonds comprising MIM OFI is 10.23 years.

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

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, 2020, the Trust Fund held approximately \$221,315,000 in securities of foreign issuers held in common trust funds. Of this amount, approximately \$46,371,000 was held in securities whose functional currency is the Euro, \$18,758,000 whose functional currency is the British pound, \$40,904,000 whose functional currency is the Japanese yen, and \$115,282,000 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 4.3% of invested assets at September 30, 2020.

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NATIONAL GOVERNMENT**

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(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

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 xxx 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.
- 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.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Notes to Financial Statements  
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(2) Deposits and Investments, Continued

B. Investments, Continued

Fiduciary Funds, Continued

FSM Social Security Administration (FSMSSA), Continued:

- 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, 2020 investments are as follows:

Fixed income securities:	
Domestic fixed income	\$ 17,473,795
Other investments:	
Domestic equities	12,255,929
International equities	13,318,220
Exchange traded funds	6,446,797
Real estate investment trust and tangibles	<u>3,761,836</u>
	<u>\$ 53,256,577</u>

As of December 31, 2020, 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	\$ 5,099,998	\$ 749,685	\$ 3,442,359	\$ -	\$ 9,292,042
Mortgage and asset-backed securities	-	66,484	-	330,097	396,581
Corporate notes and bonds	<u>-</u>	<u>2,040,472</u>	<u>5,156,560</u>	<u>588,140</u>	<u>7,785,172</u>
	<u>\$ 5,099,998</u>	<u>\$ 2,856,641</u>	<u>\$ 8,598,919</u>	<u>\$ 918,237</u>	<u>\$ 17,473,795</u>

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, 2020, was as follows:

<u>Standard and Poors' Rating</u>	<u>2020</u>
AAA/AAA	\$ 7,352,713
A1/A	752,535
A1/AA-	311,476
A2/A	559,304
A2/A-	1,633,427
A2/BBB+	1,743,471
A3/A	106,223
A3/A-	847,597
A3/BBB+	1,831,138
Not rated/A-	-
Not rated	<u>2,335,911</u>
	<u>\$17,473,795</u>

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Notes to Financial Statements  
September 30, 2020

(2) Deposits and Investments, Continued

B. Investments, Continued

Fiduciary Funds, Continued

FSM Social Security Administration (FSMSSA), Continued:

The Administration has the following recurring fair value measurements as of December 31, 2020:

	December 31, 2020	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	\$ 17,473,795	\$ -	\$ 17,473,795	\$ -
Equity securities	25,574,149	25,574,149	-	-
Exchange traded funds	6,446,797	6,446,797	-	-
Real estate investment trust and tangibles	<u>3,761,836</u>	<u>3,761,836</u>	<u>-</u>	<u>-</u>
	\$ <u>53,256,577</u>	\$ <u>35,782,782</u>	\$ <u>17,473,795</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, 2020.

As of December 31, 2020, 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, 2020, investment at fair value are as follows:

Fixed income:	
U.S. Treasury obligations	\$ 167,913
Corporate notes	<u>256,163</u>
	424,076
Other investments:	
Domestic and international equities	1,261,404
Money market funds	<u>57,717</u>
	\$ <u>1,743,197</u>



**FEDERATED STATES OF MICRONESIA  
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Notes to Financial Statements  
September 30, 2020

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

**B. Investments, Continued**

**Discretely Presented Component Units, Continued**

FSM Telecommunications Corporation (FSMTC), Continued:

As of September 30, 2020, 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	\$38,399	\$ 85,625	\$ 43,889	\$ -	\$167,913
Corporate notes	A1/P-1	15,025	19,755	21,138	-	55,918
Corporate notes	A2/P-1	-	36,126	21,860	-	57,986
Corporate notes	A3/P-1	-	44,986	19,160	-	64,146
Corporate notes	Baa1/P-2	-	35,053	-	-	35,053
Corporate notes	Baa1/P-2-3	-	29,128	13,932	-	43,060
		<u>\$53,424</u>	<u>\$250,673</u>	<u>\$119,979</u>	<u>\$ -</u>	<u>\$424,076</u>

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, 2020:

	September 30, 2020	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	\$ 167,913	\$ -	\$167,913	\$ -
Corporate notes	<u>256,163</u>	<u>-</u>	<u>256,163</u>	<u>-</u>
Total fixed income	<u>424,076</u>	<u>-</u>	<u>424,076</u>	<u>-</u>
Equity securities:				
U.S. equities	914,065	914,065	-	-
Non U.S. equities	<u>347,339</u>	<u>347,339</u>	<u>-</u>	<u>-</u>
Total equity securities	<u>1,261,404</u>	<u>1,261,404</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	1,685,480	<u>\$1,261,404</u>	<u>\$424,076</u>	-
Investments measured at amortized cost:				
Money market funds	<u>57,717</u>			
	<u>\$1,743,197</u>			

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NATIONAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2020

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

College of Micronesia - FSM (COM-FSM):

As of September 30, 2020, COM-FSM's investments are as follows:

Fixed income securities:	
Domestic fixed income	\$ 4,162,210
International fixed income	<u>443,463</u>
	<u>4,605,673</u>
Common equities	6,529,481
Alternative	42,619
Exchange traded funds	114,284
Money market funds	<u>238,484</u>
	<u>6,924,868</u>
	<u>\$11,530,541</u>

As of September 30, 2020, 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>
Corporate bond	\$ 1,824,573	\$ -	\$ 601,304	\$ 1,012,275	\$ 210,994
International bond	443,463	-	-	-	443,463
Government bond	<u>2,337,637</u>	<u>108,195</u>	<u>1,304,269</u>	<u>713,853</u>	<u>211,320</u>
	<u>\$ 4,605,673</u>	<u>\$ 108,195</u>	<u>\$ 1,905,573</u>	<u>\$ 1,726,128</u>	<u>\$ 865,777</u>

COM-FSM's exposure to credit risk at September 30, 2020, was as follows:

<u>Moody's Rating</u>	<u>Domestic</u>	<u>International</u>	<u>Total</u>
AAA/AAA	\$2,339,809	\$ -	\$2,339,809
AA3/A+	20,937	-	20,937
A1/A+	108,408	-	108,408
A2/A	53,640	-	53,640
A2/A-	231,077	-	231,077
A2/AA-	51,309	-	51,309
A3/A+	27,684	-	27,684
A2/BBB+	79,873	-	79,873
A3/A-	167,535	-	167,535
A3/BBB+	134,210	-	134,210
BAA1/BBB+	300,449	-	300,449
BAA1/BBB	62,978	-	62,978
BAA2/A	20,858	-	20,858
BAA2/BBB+	43,648	-	43,648
BAA2/BBB	350,150	-	350,150
BAA3/BBB	85,906	-	85,906
BAA3/BBB+	28,390	-	28,390
Not rated	<u>55,349</u>	<u>443,463</u>	<u>498,812</u>
	<u>\$4,162,210</u>	<u>\$443,463</u>	<u>\$4,605,673</u>

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2020

(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, 2020:

	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	\$ 4,605,673	\$ -	\$4,605,673	\$ -
Equity securities	6,572,100	6,572,100	-	-
Exchange traded funds	<u>114,284</u>	<u>114,284</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	11,292,057	<u>\$6,686,384</u>	<u>\$4,605,673</u>	<u>\$ -</u>
Investments by fair value level:				
Money market funds	<u>238,484</u>			
	<u>\$11,530,541</u>			

FSM Development Bank (FSMDB):

As of December 31, 2020, FSMDB's investments are as follows:

Fixed income securities:	
Domestic fixed income	\$ 4,735,176
Equity securities:	
Domestic equities	15,996,008
Shares in a mutual fund (Templeton Global BD FD ADV TGBAX)	<u>1,161,880</u>
	<u>\$ 21,893,064</u>

As of December 31, 2020, investments in domestic fixed income securities are as follows:

	Moody's Credit Rating	Investment maturities (in Years)				Fair Value
		Less Than 1	1 to 5	6 to 10	Greater Than 10	
U.S. Government securities:						
U.S. Treasury Notes	Aaa	\$ -	\$ -	\$ 721,636	\$ -	\$ 721,636
U.S. Government agencies:						
Federal Home Loan Bank	Aaa	1,010,313	-	-	-	1,010,313
Federal Farm Credit Bank	Aaa	484,891	-	-	-	484,891
Federal Agricultural Mortgage Corp.	Not rated	254,924	279,882	-	-	534,806
Freddie Mac Group	Not rated	-	-	-	177,378	177,378
Corporate bonds	A1	-	127,118	-	-	127,118
Corporate bonds	A2	-	96,804	842,314	-	939,118
Corporate bonds	A3	-	147,088	237,089	139,456	523,633
Corporate bonds	A-	-	<u>216,283</u>	<u>-</u>	<u>-</u>	<u>216,283</u>
		<u>\$1,750,128</u>	<u>\$867,175</u>	<u>\$1,801,039</u>	<u>\$316,834</u>	<u>\$4,735,176</u>

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Notes to Financial Statements  
September 30, 2020

(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, 2020:

	December 31, 2020	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fixed income:				
U.S. Treasury obligations	\$ 721,636	\$ -	\$ 721,636	\$ -
U.S. Government agencies	2,207,388	-	2,207,388	-
Corporate notes	<u>1,806,152</u>	<u>-</u>	<u>1,806,152</u>	<u>-</u>
Total fixed income	<u>4,735,176</u>	<u>-</u>	<u>4,735,176</u>	<u>-</u>
Equity securities:				
U.S. equities	9,396,728	9,396,728	-	-
Mutual fund shares	<u>1,161,880</u>	<u>1,161,880</u>	<u>-</u>	<u>-</u>
Total investments at fair value	15,293,784	\$ <u>10,558,608</u>	\$ <u>4,735,176</u>	\$ <u>-</u>
Equity in Bank of FSM	<u>6,599,280</u>			
Total	\$ <u>21,893,064</u>			

At December 31, 2020, 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 2020, 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, 2020, 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 \$1,116,471 as of September 30, 2020. Investments in securities are categorized as Level 1.

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Notes to Financial Statements  
September 30, 2020

(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, 2020, FSMPC's investments are as follows:

Fixed income securities:	
Domestic fixed income	\$ 582,604
International fixed income	<u>-</u>
	<u>582,604</u>
Other investments:	
Common equities	1,160,106
Exchange traded funds	991,301
Money market funds	<u>41,024</u>
	<u>2,192,431</u>
	<u>\$ 2,775,035</u>

As of December 31, 2020, FSMPC's fixed income securities had the following maturities:

<u>Investment Type</u>	<u>Fair value</u>	<u>Less than 1 year</u>	<u>1 to 5 years</u>	<u>5 to 10 years</u>	<u>More than 10 years</u>
Corporate bonds	\$ 314,145	\$ -	\$ -	\$ 259,907	\$ 54,238
U.S. Government Agency Bonds	<u>268,459</u>	<u>-</u>	<u>113,588</u>	<u>104,136</u>	<u>50,735</u>
	<u>\$ 582,604</u>	<u>\$ -</u>	<u>\$ 113,588</u>	<u>\$ 364,043</u>	<u>\$ 104,973</u>

FSMPC's exposure to credit risk at December 31, 2020, was as follows:

<u>Moody's Rating</u>	<u>2020</u>
AAA	\$ 285,332
A2	57,117
A3	73,473
BAA1	37,263
BAA2	91,191
BAA3	38,228
Not rated	<u>-</u>
	<u>\$ 582,604</u>

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Notes to Financial Statements  
September 30, 2020

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

FSM Petroleum Corporation (FSMPC), Continued

FSM Petroleum Corporation (FSMPC) has the following recurring fair value measurements as of December 31, 2020:

	December 31, 2020	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	\$ 582,604	\$ -	\$ 582,604	\$ -
Equity securities	1,160,106	1,160,106	-	-
Exchange-traded funds	<u>991,301</u>	<u>991,301</u>	-	-
Total investments by fair value level	2,734,011	\$ <u>2,151,407</u>	\$ <u>582,604</u>	\$ -
Investments measured at amortized cost:				
Money market funds	<u>41,024</u>			
	<u>\$ 2,775,035</u>			

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

As of September 30, 2020, the Plan's investments are as follows:

Fixed income	\$ 1,172,726
Money market funds	<u>29,293</u>
	\$ <u>1,202,019</u>

As of September 30, 2020, the Plan's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

	Moody's Credit Rating	Less than 1 Year	1 to 5 Years	5-10 Years	Fair Value
U.S. Treasury obligations	Aaa	\$ 292,624	\$ 412,803	\$ 99,238	\$ 804,665
U.S. Government agencies obligations	Aaa	-	59,947	-	59,947
Corporate bonds	Aaa	-	-	2,016	2,016
Corporate bonds	Aa	18,181	4,216	21,474	43,871
Corporate bonds	A	37,264	67,785	73,814	178,863
Corporate bonds	Baa	<u>8,038</u>	<u>33,664</u>	<u>41,662</u>	<u>83,364</u>
		\$ <u>356,107</u>	\$ <u>578,415</u>	\$ <u>238,204</u>	\$ <u>1,172,726</u>

**FEDERATED STATES OF MICRONESIA  
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Notes to Financial Statements  
September 30, 2020

(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, 2020:

	Total	Fair Value Measurements Using		
		Quoted Prices In Active Markets for Identical Assets	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Fixed income securities	\$ 1,172,726	\$ -	\$ 1,172,726	\$ -
Investments measured at amortized cost:				
Money market funds	29,293			
	<u>\$ 1,202,019</u>			

(3) Receivables

Primary Government

Receivables as of September 30, 2020, 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 Fund</u>	<u>Grant Assistance</u>	<u>Compact Trust</u>	<u>Nonmajor and Fiduciary Funds</u>	<u>Totals</u>
Receivables:					
General	\$ 856,173	\$2,850,710	\$ -	\$1,317	\$ 3,708,200
Taxes	6,984,389	-	-	-	6,984,389
Federal agencies	-	3,911,501	-	-	3,911,501
Loans	41,737,596	-	-	-	41,737,596
Advances	5,338,993	-	-	-	5,338,993
Accrued interest	27,358	-	-	-	27,358
	54,944,509	6,762,211	-	1,317	61,708,037
Less: allowance for uncollectible accounts	(6,552,005)	-	-	-	(6,552,005)
Net receivables	<u>\$48,392,504</u>	<u>\$6,762,211</u>	<u>\$ -</u>	<u>\$1,317</u>	<u>\$55,156,032</u>

During the year ended September 30, 2020, certain loans receivable balances resulting from subsidiary loans of loan agreements between the FSM National Government and the Asian Development Bank (ADB) were reduced as a result of foreign exchange gains recognized by these respective subsidiary borrowers. The non-cash reduction in loans receivable of \$1,069,904 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, 2020

(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, 2020, \$ 2,863,286 has been provided for in the allowance for uncollectible accounts.

\$ 2,863,286

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	\$ 2,547,057	\$ 569,738	
Pohnpei Utilities Corporation	1,566,566	348,769	
Yap State Public Service Corporation	<u>1,672,623</u>	<u>373,707</u>	
	<u>\$ 5,786,246</u>	<u>\$ 1,292,214</u>	7,078,460

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	\$ 3,675,892	\$ 779,682	
State of Yap	2,392,751	514,978	
State of Kosrae	1,366,576	294,184	
State of Pohnpei	<u>2,916,091</u>	<u>617,848</u>	
	<u>\$ 10,351,310</u>	<u>\$ 2,206,692</u>	12,558,002



**FEDERATED STATES OF MICRONESIA  
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Notes to Financial Statements  
September 30, 2020

(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:

	Governmental Activities	
State of Chuuk	\$ 66,725	
State of Yap	22,357	
State of Kosrae	<u>15,993</u>	
	\$ <u>105,075</u>	105,075

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

	General Fund	Governmental Activities	
State of Chuuk	\$ 841,547	\$ 146,352	
State of Yap	547,374	126,710	
State of Kosrae	540,780	164,325	
State of Pohnpei	<u>710,838</u>	<u>178,504</u>	
	\$ <u>2,640,539</u>	\$ <u>615,891</u>	3,256,430

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, 2020

(3) Receivables, Continued

Primary Government, Continued

General Fund, Continued

	<u>General Fund</u>	
State of Pohnpei/PUC	\$ 3,606,888	
State of Chuuk/CPUC	3,872,562	
State of Yap/GTWA	1,918,274	
State of Kosrae/KUA	<u>2,626,419</u>	
	<u>\$ 12,024,143</u>	12,024,143

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	\$ 8,072,072	<u>8,072,072</u>
Total		45,957,468
Less: Allowance		(3,093,270)
Less: Governmental Activities		<u>(4,219,872)</u>
Net		\$ <u>38,644,326</u>

Due from Component Units:

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, 2020 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.

66,935  
\$ 566,935

**FEDERATED STATES OF MICRONESIA  
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Notes to Financial Statements  
September 30, 2020

**(3) Receivables, Continued**

**Primary Government, Continued**

**General Fund, Continued**

**Discretely Presented Component Units**

Receivables as of September 30, 2020, 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 Employees Health Insurance Plan	FSM Telecomm Cable Corp.	Telecommunications Regulation Authority	Total
Receivables:											
General	\$1,529,836	\$ -	\$471,091	\$11,184,299	\$1,616,230	\$179,875	\$ -	\$204,518	\$617,366	\$ -	\$15,803,215
Loans	-	43,290,779	-	-	-	-	-	-	-	-	43,290,779
Interest	-	-	-	-	-	-	-	-	-	-	-
Other	<u>303,321</u>	<u>545,224</u>	<u>172</u>	<u>181,175</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>147,160</u>	<u>-</u>	<u>1,177,052</u>
	1,833,157	43,836,003	471,263	11,365,474	1,616,230	179,875	-	204,518	764,526	-	60,271,046
Less: allowance for uncollectible accounts	<u>(1,033,729)</u>	<u>(5,383,214)</u>	<u>-</u>	<u>(5,326,770)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(101,812)</u>	<u>-</u>	<u>-</u>	<u>(11,845,525)</u>
Net	\$ <u>799,428</u>	\$ <u>38,452,789</u>	\$ <u>471,263</u>	\$ <u>6,038,704</u>	\$ <u>1,616,230</u>	\$ <u>179,875</u>	\$ <u>-</u>	\$ <u>102,706</u>	\$ <u>764,526</u>	\$ <u>-</u>	\$ <u>48,425,521</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, 2020, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Grants Assistance	General	\$ 27,103,618
General	Grants Assistance	4,515,513
Nonmajor government funds	General	<u>1,410,143</u>
		\$ <u>33,029,274</u>

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2020

**(5) Capital Assets**

Capital asset activities for the year ended September 30, 2020, are as follows:

**Primary Government**

	Balance October 01, 2019	Additions and Reclassifications	Retirements and Reclassifications	Balance September 30, 2020
Depreciable assets:				
Buildings and improvements	\$ 73,549,202	\$ 708,482	\$ -	\$ 74,257,684
Boats	22,539,561	320,312	-	22,859,873
Infrastructure	204,707,642	-	-	204,707,642
Motor vehicles	5,308,154	1,052,119	-	6,360,273
Computer equipment	2,669,457	15,751	-	2,685,208
Aircraft	709,207	-	-	709,207
Furniture, equipment and machinery	10,092,718	502,413	-	10,595,131
	<u>319,575,941</u>	<u>2,599,077</u>	<u>-</u>	<u>322,175,018</u>
Less: accumulated depreciation				
Buildings and improvements	(15,340,829)	(1,586,004)	-	(16,926,833)
Boats	(19,841,626)	(772,853)	-	(20,614,479)
Infrastructure	(54,123,076)	(10,613,612)	-	(64,736,688)
Motor vehicles	(4,418,157)	(703,541)	-	(5,121,698)
Computer equipment	(2,249,952)	(183,425)	-	(2,433,377)
Aircraft	(686,645)	(22,560)	-	(709,205)
Furniture, equipment and machinery	(8,689,382)	(731,866)	-	(9,421,248)
	<u>(105,349,667)</u>	<u>(14,613,861)</u>	<u>-</u>	<u>(119,963,528)</u>
	<u>214,226,274</u>	<u>(12,014,784)</u>	<u>-</u>	<u>202,211,490</u>
Land	1,674,383	-	-	1,674,383
Construction in progress	708,482	651,099	(708,482)	651,099
	<u>2,382,865</u>	<u>651,099</u>	<u>(708,482)</u>	<u>2,325,482</u>
Net assets	<u>\$216,609,139</u>	<u>\$ (11,363,685)</u>	<u>\$(708,482)</u>	<u>\$204,536,972</u>

**FEDERATED STATES OF MICRONESIA  
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Notes to Financial Statements  
September 30, 2020

(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	\$ 83,794
Foreign Affairs	157,732
Health and Social Affairs	456,020
Education	310,404
Resources and Development	52,019
Office of National Archives, Cultural and Historic Preservation	6,742
Transportation, Communication and Infrastructure	7,757,725
Finance and Administration	63,139
Justice	475,283
Office of the Public Defender	15,701
Judiciary	29,171
Legislature	97,045
Office of the National Public Auditor	20,671
Environment and Emergency Management	241,612
National Government Programs	4,770,064
Agencies, Boards and Commissions	76,739
	<u>\$14,613,861</u>

Discretely Presented Component Units

	Balance 01-Oct-19	Additions and Reclassifications	Retirements and Reclassifications	Balance September 30, 2020
Depreciable assets:				
Buildings	\$ 36,833,922	\$ 969,564	\$ (197,306)	\$ 37,606,180
Plant and Equipment	110,515,004	9,793,696	(4,341,364)	115,967,336
Machinery, equipment, and others	22,218,476	4,516,122	(123,836)	26,610,762
Other	21,001,005	-	-	21,001,005
Total capital assets, being depreciated	190,568,407	15,279,382	(4,662,506)	201,185,283
Less accumulated depreciation	(113,931,338)	(9,241,571)	4,628,260	(118,544,649)
	<u>76,637,069</u>	<u>6,037,811</u>	<u>(34,246)</u>	<u>82,640,634</u>
Non depreciable assets:				
Construction work-in-progress	17,293,841	7,615,635	(13,474,511)	11,434,965
Land	1,455,685	-	-	1,455,685
	<u>\$ 95,386,595</u>	<u>\$13,653,446</u>	<u>\$ (13,508,757)</u>	<u>\$ 95,531,284</u>

**FEDERATED STATES OF MICRONESIA  
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Notes to Financial Statements  
September 30, 2020

(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, 2020, accumulated amortization expense of \$1,571,646 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, 2020, accumulated amortization expense of \$186,400 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  
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Notes to Financial Statements  
September 30, 2020

(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.	2,863,286
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.	5,786,245
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.	11,960,911
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.	1,815,992
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.	1,162,786

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Notes to Financial Statements  
September 30, 2020

(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. 3,552,253

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. 8,915,605

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. 3,381,707

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. 4,497,279

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. 3,574,792

\$ 47,510,856

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  
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Notes to Financial Statements  
September 30, 2020

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

**Primary Government, Continued**

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

Year Ending September 30	Principal	Interest	Total
2021	\$ 3,120,443	\$ 624,781	\$ 3,745,224
2022	3,145,765	585,445	3,731,210
2023	3,173,570	545,322	3,718,892
2024	3,204,849	504,336	3,709,185
2025	3,238,612	462,375	3,700,987
2026 - 2030	15,747,927	1,631,843	17,379,770
2031 - 2035	12,485,983	680,584	13,166,567
2036 - 2038	3,393,707	84,086	3,477,793
	<u>\$47,510,856</u>	<u>\$5,118,772</u>	<u>\$52,629,628</u>

Other long-term liabilities will be liquidated in the future from governmental funds. During the year ended September 30, 2020, the following changes occurred in liabilities reported as part of the primary government's long-term liabilities in the statement of net position:

	Balance October 1, 2019	Additions	Reductions	SDR Exchange Loss (Gain)	Balance September 30, 2020	Due within One Year
Loans payable:						
ADB loan 1257	\$ 2,989,105	\$ -	\$ (215,530)	\$ 89,711	\$ 2,863,286	\$ 220,098
ADB loan 1459	5,959,934	-	(354,986)	181,297	5,786,245	361,671
ADB loan 1520	12,277,310	-	(697,085)	380,686	11,960,911	703,640
ADB loan 1816	1,907,171	-	(149,924)	58,745	1,815,992	151,333
ADB loan 1873	1,332,186	-	(206,017)	36,617	1,162,786	211,419
ADB loan 1874	3,698,721	-	(256,408)	109,940	3,552,253	263,130
ADB loan 2099	9,193,863	-	(558,602)	280,344	8,915,605	568,243
ADB loan 2100	3,605,631	-	(223,924)	-	3,381,707	246,267
ADB loan 3004	4,590,973	-	(93,694)	-	4,497,279	183,639
ADB loan 3005	<u>3,658,015</u>	<u>-</u>	<u>(194,032)</u>	<u>110,809</u>	<u>3,574,792</u>	<u>211,003</u>
	49,212,909	-	(2,950,202)	1,248,149	47,510,856	3,120,443
Other:						
Annual leave payable	<u>1,224,098</u>	<u>543,640</u>	<u>(340,631)</u>	<u>-</u>	<u>1,427,107</u>	<u>359,084</u>
	<u>\$50,437,007</u>	<u>\$543,640</u>	<u>\$(3,290,833)</u>	<u>\$1,248,149</u>	<u>\$48,937,963</u>	<u>\$3,479,527</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, 2020, the FSM National Government recognized a foreign exchange gain of \$1,248,149 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  
NATIONAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2020

(7) Long-Term Obligations, Continued

Discretely Presented Component Units

As of September 30, 2020, 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. \$ 18,696,961

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>
2021	\$ 696,960	\$ 917,130	\$ 1,614,090
2022	2,160,812	839,265	3,000,077
2023	2,269,814	730,263	3,000,077
2023	2,385,568	614,509	3,000,077
2025	2,505,041	495,036	3,000,077
2026 - 2030	7,409,821	996,911	8,406,732
2031 - 2032	<u>1,268,945</u>	<u>44,509</u>	<u>1,313,454</u>
	<u>\$ 18,696,961</u>	<u>\$ 4,637,623</u>	<u>\$ 23,334,584</u>

These notes are subject to certain coverage ratio requirements. FSMTC is not in compliance with its ratio requirements as of September 30, 2020. 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):

Long-term debt consists of the following at December 31, 2020:

Unsecured loans payable to European Investment Bank (EIB) under an August 2010 master finance contract of EUR 4 million:

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. \$ 172,509

**FEDERATED STATES OF MICRONESIA  
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Notes to Financial Statements  
September 30, 2020

(7) Long-Term Obligations, Continued

Discretely Presented Component Units

FSM Development Bank (FSMDB), Continued:

Drawn on August 20, 2014; original amount of \$796,976 (equivalent EUR 595,558), bearing interest fixed at 4.520%, and payable through semi-annual principal and interest installments of \$42,873 on January 15, 2015 and equal installments of \$46,375 beginning on July 15, 2015 through maturity on July 15, 2025. 410,956

Unsecured loans payable to European Investment Bank (EIB) under a December 2018 master finance contract of USD 4 million:

Drawn on March 9, 2020; original amount of \$3,193,637, bearing interest fixed at 2,774%, and payable through semi-annual interest payment beginning on September 9, 2020 and principal installments of \$138,854 beginning on March 9, 2021 through maturity on March 9, 2032. 3,193,637

\$ 3,777,102

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>
2021	\$ 384,184	\$ 111,873	\$ 496,057
2022	389,051	99,302	488,353
2023	394,140	86,509	480,649
2024	399,463	73,483	472,946
2025	405,709	60,214	465,923
Thereafter	<u>1,804,555</u>	<u>175,257</u>	<u>1,979,812</u>
	<u>\$ 3,777,102</u>	<u>\$ 606,638</u>	<u>\$ 4,383,740</u>

Changes in long-term liabilities of the discretely presented component units for the year ended September 30, 2020, are as follows:

	<u>Balance October 1, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2020</u>	<u>Due within One Year</u>
Loan payable:					
FSMTC	\$18,776,805	\$ -	\$ (79,844)	\$18,696,961	\$ 696,960
FSMDB	735,450	3,041,652	-	3,777,102	384,184
Vital	-	480,000	-	480,000	240,000
FSMPC	<u>9,426,372</u>	<u>3,000,000</u>	<u>(2,985,008)</u>	<u>9,441,364</u>	<u>1,385,673</u>
	<u>29,438,627</u>	<u>6,521,652</u>	<u>(3,064,852)</u>	<u>32,395,427</u>	<u>2,706,817</u>
Due to government and others:					
Vital	8,906,442	1,281,913	(6,421,356)	3,766,999	-
FSMPC	1,747,383	-	(206)	1,747,177	-
FSMTCC	<u>500,000</u>	<u>-</u>	<u>-</u>	<u>500,000</u>	<u>-</u>
	<u>10,653,825</u>	<u>1,281,913</u>	<u>(6,421,562)</u>	<u>6,014,176</u>	<u>-</u>
Contract payable:					
FSMTC	<u>1,197,873</u>	<u>-</u>	<u>(1,197,873)</u>	<u>-</u>	<u>-</u>
Compensated absences:					
COM-FSM	<u>793,102</u>	<u>96,369</u>	<u>-</u>	<u>889,471</u>	<u>371,624</u>
	<u>\$42,083,427</u>	<u>\$7,899,934</u>	<u>\$(10,684,287)</u>	<u>\$39,299,074</u>	<u>\$3,078,441</u>

**FEDERATED STATES OF MICRONESIA  
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Notes to Financial Statements  
September 30, 2020

(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 asset projects. The loan bore interest fixed at 5.75% per annum and was payable in monthly installments of \$55,214 beginning January 20, 2018. In June 27, 2019, an amendment included deferment of principal payments from June 2019 to June 2020, changes in interest rate to variable rate at bank reference rate plus 0.75%, with minimum rate of 5.75% (effective rate of 5.75% at December 31, 2020 and 2019) and monthly installments of \$61,865 through December 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. \$ 4,173,133

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 asset 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. On June 24, 2019, FSMDB approved another principal payment deferment up to June 2020. The loan is collateralized by the Company's inventories and related petroleum products. 2,465,547

A \$3,000,000 bank note from the Bank of FSM (BFSM) drawn in March 2020, to finance earthwork/civil site preparation portion for Integrated Coconut Processing Facility. The loan bears variable interest at bank reference rate (effective 3.25% at December 31, 2020) and is payable in monthly installments of \$32,558 beginning March 2020 to April 25, 2025. The loan is collateralized by future buildings, equipment, furniture and fixtures, inventory, vehicle and accounts receivables. 2,802,684

Total 9,441,364

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 9). The advance is payable in equal quarterly installments of \$120,000, beginning on September 5, 2017. 480,000

Total long-term debt 9,921,364

Net of current portion 1,625,673

\$ 8,295,691

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2020

(7) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

Vital Energy, Inc. (VEI), Continued:

Future minimum loan repayments are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 1,625,673	\$ 342,659	\$ 1,968,332
2022	1,695,385	282,980	1,978,365
2023	1,528,742	219,985	1,748,727
2024	1,614,620	154,066	1,768,686
2025	2,171,325	111,808	2,283,133
2026-2027	<u>1,285,619</u>	<u>73,313</u>	<u>1,358,932</u>
	\$ <u>9,921,364</u>	\$ <u>1,184,811</u>	\$ <u>11,106,175</u>

College of Micronesia-FSM (COM-FSM)

COM-FSM's long-term obligation of \$889,471 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 2020.

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, 2020 is \$500,000.

Changes in long-term debt for the year ended December 31, 2020, are as follows:

	<u>Balance January 1, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2020</u>	<u>Due Within One Year</u>
Loans payable: FSMTCC	\$ <u>500,000</u>	\$ <u>      -</u>	\$ <u>      -</u>	\$ <u>500,000</u>	\$ <u>      -</u>

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2020

**(8) Short-Term Obligations**

Discretely Presented Component Units

FSM Petroleum Corporation (FSMPC):

As of December 31, 2020, 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, 2020, 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, 2020, are as follows:

<u>Source</u>	<u>Recipient</u>	<u>Transfers Out</u>	<u>Transfers In</u>
Grant Assistance Fund	General Fund	\$ (3,013,153)	\$ 3,013,153
Other Governmental Fund	General Fund	(3,139,326)	3,139,326
General Fund	Grant Assistance Fund	<u>(5,214)</u>	<u>5,214</u>
		\$ <u>(6,157,693)</u>	\$ <u>6,157,693</u>

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.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2020

(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, 2020. 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.

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.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2020

(10) Contingencies and Commitments, Continued

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, 2020, 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).

Management recognizes the latest developments, where provisions include an approximate \$8.5 million award and attendant interest, which has been accrued in the accompanying financial statements. The entire amount, inclusive of additional potential costs approximating \$2.3 million are being appealed to the FSM Supreme Court and no provision for this additional \$2.3 million has been provided in the accompanying financial statements pending resolution of this matter with the Court, which judgement is not possible to predict at this time.

Encumbrances

The FSM National Government utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2020, 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>11,930,738</u>	\$ <u>13,473,859</u>	\$ <u>139,252</u>	\$ <u>25,543,849</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, 2020, the Plan has a negative current ratio. Furthermore, at September 30, 2020, a deficit unrestricted net position of (\$xxx) 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, 2020

(10) Contingencies and Commitments, Continued

FSM Social Security Administration (FSMSSA)

In April 2020, the Administration obtained an actuarial valuation of the Fund as of January 1, 2020. The valuation reported actuarial accrued liabilities and market value of assets for the Fund of \$304.4 million and \$55.4 million, respectively, as of January 1, 2017, representing a funded ratio of 15.4%. As of December 31, 2020, the Administration recorded total fund equity of \$58,273,483, 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, 2020, management determined that certain receivables from sub-borrowers in the amount of \$1,069,904 be presented as a special item in the accompanying financial statements.

During the year ended September 30, 2020, management determined that certain advance receivables balances in the amount of \$1,005,297 were no longer considered collectible and were written off. This write-off of receivable balances is presented as a special item in the accompanying financial statements.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2020

**(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:

	General	Grants Assistance	Compact Trust	Other	Total
<b>Non-spendable:</b>					
Loans receivable from States	\$ 38,644,326	\$ -	\$ -	\$ -	\$ 38,644,326
Loans receivable from FSMTCC	500,000	-	-	-	500,000
United Micronesia Dev. Association	1,500,000	-	-	-	1,500,000
Bank of FSM	8,709,440	-	-	-	8,709,440
ADB contribution	6,927,442	-	-	-	6,927,442
IMF contribution	1,149,876	-	-	-	1,149,876
Prepayments and advance	2,246,513	-	-	-	2,246,513
Permanent fund	-	-	22,284,738	-	22,284,738
<b>Restricted For:</b>					
Infrastructure	-	184,542	-	-	184,542
Disaster Assistance	-	4,095,480	-	-	4,095,480
Investment Development Fund	2,034,527	-	-	-	2,034,527
Foreign grant projects	-	1,277,185	-	-	1,277,185
<b>Committed:</b>					
CFSM Public projects	16,483,466	-	-	-	16,483,466
Department of TC&I	2,789,087	-	-	-	2,789,087
Department of Finance & Adm.	55,000	-	-	-	55,000
Department of Justice	350,000	-	-	822,124	1,172,124
Department of R & D	2,230,000	-	-	2,998,951	5,228,951
Department of Education	1,020,244	-	-	177,850	1,198,094
Department of Health	578,200	-	-	66,412	644,612
Office of EEM	46,000	-	-	-	46,000
NORMA	185,000	-	-	-	185,000
Future operations-FSM Trust fund	311,509,205	-	-	-	311,509,205
Other functions and programs	21,446,795	-	-	419,333	21,866,128
<b>Assigned:</b>					
Presidents (Executive branch)	5,275,901	-	-	-	5,275,901
Legislative branch	522,421	-	-	-	522,421
Judiciary branch	74,653	-	-	-	74,653
Other functions and programs	6,042,663	-	-	-	6,042,663
<b>Unassigned</b>	<u>64,695,610</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>64,695,610</u>
	<u>\$495,016,369</u>	<u>\$5,557,207</u>	<u>\$22,284,738</u>	<u>\$4,484,670</u>	<u>\$527,342,984</u>

**(13) Covid-19**

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

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**YEAR ENDED SEPTEMBER 30, 2020**

**FEDERATED STATES OF MICRONESIA  
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Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund  
Year Ended September 30, 2020

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts (note 1)	Final Budget - Positive (Negative)
Revenues:				
Taxes	\$ 16,148,241	\$ 16,100,000	\$ 25,815,913	\$ 9,715,913
Fishing rights	55,000,000	69,500,000	70,150,833	650,833
Investment earnings	-	-	3,821,444	3,821,444
Fees and charges	3,150,678	3,388,600	352,174	(3,036,426)
Other	2,612,620	2,612,620	2,536,066	(76,554)
Total revenues	76,911,539	91,601,220	102,676,430	11,075,210
Expenditures:				
Executive Branch - Core Operational	23,430,412	25,728,275	21,514,793	4,213,482
Executive Branch - Non-Core Operational	9,800,249	14,897,077	19,020,000	(4,122,923)
Executive Branch - Other Non-Core	2,083,218	4,818,913	-	4,818,913
Judicial Branch-Core Operational	1,724,023	1,802,629	1,625,192	177,437
Judicial Branch-Non-core Operational	300,000	300,000	320,773	(20,773)
Legislative Branch-Core Operational	6,295,860	8,618,151	8,406,244	211,907
Legislative Branch-Non-core Operational	637,500	648,464	321,273	327,191
Office of the National Public Auditor-Core Operational	895,420	909,619	756,357	153,262
Office of the National Public Auditor-Non-Core Operational	45,750	45,750	475,581	(429,831)
Other National Programs	442,173	462,947	398,782	64,165
Boards and Commissions	3,527,120	3,560,166	2,901,442	658,724
Payments to Component Units	6,340,611	6,340,611	3,508,852	2,831,759
National projects - continuing projects	6,540,812	20,334,379	34,486,358	(14,151,979)
Total expenditures	62,063,148	88,466,981	93,735,647	(5,268,666)
Excess (deficiency) of revenues over (under) expenditures	14,848,391	3,134,239	8,940,783	5,806,544
Other financing sources (uses), net:				
Operating transfers in/(out), net	-	-	(11,134,821)	(11,134,821)
Special item:				
Write-off of receivable balances	-	-	(1,005,297)	(1,005,297)
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	-	-	11,930,738	11,930,738
Net change in fund balance	14,848,391	3,134,239	8,731,403	5,597,164
Fund balance at the beginning of the year	133,017,891	133,017,891	133,017,891	-
Fund balance at the end of the year	\$ 147,866,282	\$ 136,152,130	\$ 141,749,294	\$ 5,597,164

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, 2020

(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 2020, 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, 2020

(2) Reconciliation - GAAP and Budgetary Bases of Accounting

The Budget Act for fiscal year 2020, Public Law No. PL 21-42, 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	\$ 8,731,403
Add:	
Net change in fund balance - GAAP for GASB 54 Funds:	
ADB Loan Fund (Fund 91)	(1,495,291)
IDF Fund	208
ERP Fund	(310,646)
FSM Trust Fund	<u>40,287,834</u>
Net change in fund balance - GAAP	\$ <u>47,213,508</u>

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

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**OTHER SUPPLEMENTARY INFORMATION**

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**YEAR ENDED SEPTEMBER 30, 2020**

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Combined Schedule of Expenditures by Account -  
Governmental Fund Types  
Year Ended September 30, 2020

		Special Revenue	Permanent		
	General	Grants Assistance	Compact Trust	Other Governmental Funds	Total
Expenditures:					
Personnel	\$ 16,025,342	\$ 4,236,654	\$ -	\$ 362,948	\$ 20,624,944
Travel and transportation	2,554,508	1,940,908	-	71,549	4,566,965
Books and library materials	1,600	2,848	-	-	4,448
Communications	715,312	200,682	-	7,195	923,189
Customs and taxes	1,457	7,100	-	-	8,557
Dues, membership and subscription	566,850	36,844	-	-	603,694
Food stuffs	316,070	171,871	-	61,267	549,208
Freight	46,619	35,486	-	8,005	90,110
Expendable equipment	708,444	357,819	-	10,769	1,077,032
Office supplies and materials	1,366,432	475,278	-	76,715	1,918,425
POL	1,915,494	79,580	-	158,814	2,153,888
Advertising, printing and reproduction	87,626	135,406	-	2,529	225,561
Rental services	75,868	416,141	-	250	492,259
Repair and maintenance	109,872	4,611	-	1,840	116,323
Utilities	1,037,347	190,118	-	16,989	1,244,454
Miscellaneous goods and services	173,760	135,175	-	-	308,935
Medical supplies	35,508	297,571	-	-	333,079
Medical services/claims	92,715	-	-	-	92,715
Contributions, subsidies and grants	6,411,007	4,126,088	-	-	10,537,095
General contractual services	3,403,169	2,324,645	-	552,279	6,280,093
Professional services	440,793	4,094,278	-	-	4,535,071
Employee housing and household storage	1,917,144	58,600	-	-	1,975,744
Recruit and repatriation	132,553	-	-	-	132,553
Compensation-nonpayroll	48,110	1,543,005	-	-	1,591,115
Educational allowance	71,249	-	-	-	71,249
Training and registration fees	12,348	28,185	-	1,373	41,906
Scholarships	3,051,365	-	-	194,651	3,246,016
Official and meeting allowances	57,475	8,420	-	-	65,895
Representation	5,290,935	-	-	5,780	5,296,715
Insurance and fees	926,706	920	-	32,155	959,781
Leased housing, offices, buildings and land	1,109,276	182,574	-	19,601	1,311,451
Bank charges and custodial fees	331,439	10,310	-	300	342,049
Fishing day vessels	-	-	-	5,216,000	5,216,000
Equipment	661,892	1,506,893	-	19,337	2,188,122
Furnitures and fixtures	19,981	-	-	-	19,981
Vehicle and vessels	906,537	193,930	-	-	1,100,467
Principal and interest payments	3,678,677	-	-	-	3,678,677
Capital improvement projects	16,987,818	-	-	-	16,987,818
Legislative projects	14,206,583	-	-	-	14,206,583
Total expenditures	<u>\$ 85,495,881</u>	<u>\$ 22,801,940</u>	<u>\$ -</u>	<u>\$ 6,820,346</u>	<u>\$ 115,118,167</u>

See Accompanying Independent Auditors' Report.



**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

GENERAL FUND (FUND 1)  
Statement of Revenues, Expenditures by Function and Department,  
and Changes in Fund Balance  
Year Ended September 30, 2020  
(with comparative totals for the year ended September 30, 2019)

	2020	2019
Revenue:		
Taxes:		
Import	\$ 5,239,066	\$ 4,906,362
Fuel	130,676	152,014
Corporate tax	9,898,892	61,651,385
Income tax, individuals, net of tax refunds	5,169,112	4,957,060
Gross receipts tax, businesses	4,551,933	5,297,196
Tobacco revenue share	826,234	1,027,112
	<u>25,815,913</u>	<u>77,991,129</u>
Fishing rights	<u>70,150,833</u>	<u>72,658,309</u>
Fees and charges:		
Postal collections	216,441	232,349
Business license and various fees	135,733	126,566
	<u>352,174</u>	<u>358,915</u>
Investment earnings:		
Net change in the fair value of investments	2,953,391	1,919,161
Dividend and interest income	868,053	442,259
	<u>3,821,444</u>	<u>2,361,420</u>
MiCare reimbursible	-	294,039
Other	<u>2,536,066</u>	<u>1,873,853</u>
Total revenues	<u>102,676,430</u>	<u>155,537,665</u>
Expenditures:		
Executive Branch:		
Core operational:		
President's Office	1,552,941	2,038,677
Department of External Affairs and LNO's	5,009,426	5,018,573
Office of Personnel	22,077	-
Department of Health and Social Affairs	760,361	835,900
Department of Education	323,649	343,451
Office of Resources and development	1,179,519	1,001,832
National archives, cultural and historic prevention	220,679	194,155
Office of Environment and emergency management	547,001	513,840
Department of Transportation, Communication and Infrastructure	2,277,993	2,438,733
Department of Finance and Administration	2,885,346	3,087,616
Department of Justice	4,446,928	4,131,599
Office of the Public Defender	742,389	842,674
Sub-total	<u>19,968,309</u>	<u>20,447,050</u>

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

GENERAL FUND (FUND 1)  
Statement of Revenues, Expenditures by Function and Department,  
and Changes in Fund Balance, Continued  
Year Ended September 30, 2020  
(with comparative totals for the year ended September 30, 2019)

	2020	2019
Expenditures, continued:		
Executive Branch:		
Non-core operational:		
President's Office	3,028,710	2,685,941
Department of External Affairs and LNO's	557,411	250,096
Department of Health and Social Affairs	1,707,218	392,626
Department of Education	4,020,656	3,655,399
Office of Resources and development	172,584	365,468
National archives, cultural and historic prevention	5,559	6,815
Office of Environment and emergency management	350	81,321
Department of Transportation, Communication and Infrastructure	1,873,341	2,458,300
Department of Finance and Administration	2,923,291	665,736
Department of Justice	896,625	1,678,187
Sub-total	15,185,745	12,239,889
Total Executive Branch	35,154,054	32,686,939
Judicial Branch-core operational	1,573,264	1,365,861
Judicial Branch-non-core operational	298,048	188,443
Total Judicial Branch	1,871,312	1,554,304
Legislative Branch:		
Office of the Speaker and members	3,976,226	4,515,633
Congress staff	2,159,904	2,213,520
Delegation offices	2,068,966	2,205,083
Total Legislative Branch	8,205,096	8,934,236
Office of the National Public Auditor-Core operational	743,700	767,970
Office of the National Public Auditor-Non-Core operational	475,579	460,000
Total Office of the Public Auditor	1,219,279	1,227,970
Agencies, Boards and Commissions:		
National Oceanic Resource Management Authority	703,915	672,445
FSM Banking Board	184,665	206,387
FSM Insurance Board	315,595	457,075
FSM Postal Services	862,381	855,952
Forum Fisheries Agency	319,830	-
Micronesia Legal Service Corporation	250,544	250,000
National Olympic Committee	45,000	-
Other	-	432,895
	2,681,930	2,874,754
Special Programs		
National Election Office	363,837	386,261
Special and General Elections	-	406,839
	363,837	793,100
Payments to Component Units:		
College of Micronesia-FSM (Board of Regents)	115,000	115,000
College of Micronesia-FSM	1,876,350	3,425,497
College of Micronesia-FSM FMI	517,502	997,815
FSM Social Security Administration	1,000,000	1,000,000
FSMTCC	-	500,000
FSM NGEIP (MiCare)	-	1,436,704
	3,508,852	7,475,016
Legislative public projects	28,800,549	28,403,571
Total expenditures	81,804,909	83,949,890
Excess of revenues over expenditures	20,871,521	71,587,775

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

**GENERAL FUND (FUND 1)**  
Statement of Revenues, Expenditures by Function and Department,  
and Changes in Fund Balance, Continued  
Year Ended September 30, 2020  
(with comparative totals for the year ended September 30, 2019)

	<u>2020</u>	<u>2019</u>
Other financing sources (uses):		
Operating transfers in:		
Reimbursable Fund	122,237	459,379
Private Sector Development Fund	13,153	-
Postal Services Revolving Fund	699,666	-
Insurance Board Revolving Fund	13,688	38,299
Fisheries Observation Revolving Fund	696,366	859,541
Maritime Sueveillance Revolving Fund	439,087	-
Permit Revolving Fund	300,386	-
Passport Revolving Fund	990,133	437,537
	<u>3,274,716</u>	<u>1,794,756</u>
Operating transfers out:		
FSM Trust Fund	(14,282,086)	(47,358,838)
Reimbursable Fund	(122,237)	-
Non-U.S. Grant Fund	(5,214)	-
Disaster Emergency Fund	-	(200,000)
	<u>(14,409,537)</u>	<u>(47,558,838)</u>
Total other financing sources (uses), net	<u>(11,134,821)</u>	<u>(45,764,082)</u>
Special item:		
Loss from litigation by Justice Department	-	(9,500,454)
Write-off of receivable balances	(1,005,297)	(1,497,809)
Total special item	<u>(1,005,297)</u>	<u>(10,998,263)</u>
Net change in fund balance	8,731,403	14,825,430
Fund balance at the beginning of the year	<u>133,017,891</u>	<u>118,192,461</u>
Fund balance at the end of the year	\$ <u><u>141,749,294</u></u>	\$ <u><u>133,017,891</u></u>
Reconciliation:		
Fund balance, General Fund	\$ 141,749,294	
Add:		
ADB Loan Fund	(437,389)	
IDF with FSMDB	2,034,733	
Early Retirement Fund	39,120,465	
FSM Trust Fund	312,549,266	
Fund balance, GAAP	\$ <u><u>495,016,369</u></u>	

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

**NONMAJOR GOVERNMENTAL FUNDS**

Combining Balance Sheet  
September 30, 2020

	27	28	29	31	32	33	34	35	36	39	41	42	43	45	
	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	Vessel Day Acquisition	Total
<b><u>ASSETS</u></b>															
Receivables	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,317	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,317
Due from other funds	40,000	95,621	361,934	88,178	28,653	1,000,000	31,508	34,904	136,695	177,850	465,720	19,842	50,000	1,984,608	4,515,513
	<u>\$ 40,000</u>	<u>\$ 95,621</u>	<u>\$ 361,934</u>	<u>\$ 88,178</u>	<u>\$ 28,653</u>	<u>\$ 1,001,317</u>	<u>\$ 31,508</u>	<u>\$ 34,904</u>	<u>\$ 136,695</u>	<u>\$ 177,850</u>	<u>\$ 465,720</u>	<u>\$ 19,842</u>	<u>\$ 50,000</u>	<u>\$ 1,984,608</u>	<u>\$ 4,516,830</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>															
Liabilities:															
Accounts payable	\$ 911	\$ -	\$ 30	\$ 9,138	\$ -	\$ 15,627	\$ -	\$ -	\$ -	\$ -	\$ 3,543	\$ 954	\$ -	\$ -	\$ 30,203
Other liabilities and accruals	-	-	1,957	-	-	-	-	-	-	-	-	-	-	-	1,957
	<u>911</u>	<u>-</u>	<u>1,987</u>	<u>9,138</u>	<u>-</u>	<u>15,627</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,543</u>	<u>954</u>	<u>-</u>	<u>-</u>	<u>32,160</u>
Fund balances (deficit):															
Committed	<u>39,089</u>	<u>95,621</u>	<u>359,947</u>	<u>79,040</u>	<u>28,653</u>	<u>985,690</u>	<u>31,508</u>	<u>34,904</u>	<u>136,695</u>	<u>177,850</u>	<u>462,177</u>	<u>18,888</u>	<u>50,000</u>	<u>1,984,608</u>	<u>4,484,670</u>
Total liabilities and fund balances	<u>\$ 40,000</u>	<u>\$ 95,621</u>	<u>\$ 361,934</u>	<u>\$ 88,178</u>	<u>\$ 28,653</u>	<u>\$ 1,001,317</u>	<u>\$ 31,508</u>	<u>\$ 34,904</u>	<u>\$ 136,695</u>	<u>\$ 177,850</u>	<u>\$ 465,720</u>	<u>\$ 19,842</u>	<u>\$ 50,000</u>	<u>\$ 1,984,608</u>	<u>\$ 4,516,830</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, 2020

	27	28	29	31	32	33	34	35	36	39	41	42	43	45	
	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	Vessel Day Acquisition	Total
Revenues:															
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 267,719	\$ -	\$ -	\$ -	\$ -	\$ 267,719
Fees and charges	<u>139,126</u>	<u>6,080</u>	<u>253,208</u>	<u>660,564</u>	<u>-</u>	<u>968,425</u>	<u>4,955</u>	<u>2,220</u>	<u>218,459</u>	<u>-</u>	<u>550,000</u>	<u>719,026</u>	<u>13,688</u>	<u>7,200,608</u>	<u>10,736,359</u>
Total revenues	<u>139,126</u>	<u>6,080</u>	<u>253,208</u>	<u>660,564</u>	<u>-</u>	<u>968,425</u>	<u>4,955</u>	<u>2,220</u>	<u>218,459</u>	<u>267,719</u>	<u>550,000</u>	<u>719,026</u>	<u>13,688</u>	<u>7,200,608</u>	<u>11,004,078</u>
Expenditures by function:															
Current:															
Transportation, communication and infrastructure	-	-	63,943	-	-	-	-	-	-	-	-	-	-	-	63,943
Education	-	-	-	-	-	-	-	-	-	194,651	-	-	-	-	194,651
Justice	11,399	-	-	436,671	-	-	-	-	248,512	-	283,720	-	-	-	980,302
Agencies, boards and commissions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>335,971</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>29,479</u>	<u>-</u>	<u>5,216,000</u>	<u>5,581,450</u>
Total expenditures	<u>11,399</u>	<u>-</u>	<u>63,943</u>	<u>436,671</u>	<u>-</u>	<u>335,971</u>	<u>-</u>	<u>-</u>	<u>248,512</u>	<u>194,651</u>	<u>283,720</u>	<u>29,479</u>	<u>-</u>	<u>5,216,000</u>	<u>6,820,346</u>
Excess (deficiency) of revenue over (under) expenditure	127,727	6,080	189,265	223,893	-	632,454	4,955	2,220	(30,053)	73,068	266,280	689,547	13,688	1,984,608	4,183,732
Other financing uses:															
Operating transfers out	<u>(300,386)</u>	<u>-</u>	<u>-</u>	<u>(990,133)</u>	<u>-</u>	<u>(696,366)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(439,087)</u>	<u>(699,666)</u>	<u>(13,688)</u>	<u>-</u>	<u>(3,139,326)</u>
Net change in fund balances (deficit)	(172,659)	6,080	189,265	(766,240)	-	(63,912)	4,955	2,220	(30,053)	73,068	(172,807)	(10,119)	-	1,984,608	1,044,406
Fund balances at the beginning of the year	<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>-</u>	<u>3,440,264</u>
Fund balances (deficit) at the end of the year	<u>\$ 39,089</u>	<u>\$ 95,621</u>	<u>\$ 359,947</u>	<u>\$ 79,040</u>	<u>\$ 28,653</u>	<u>\$ 985,690</u>	<u>\$ 31,508</u>	<u>\$ 34,904</u>	<u>\$ 136,695</u>	<u>\$ 177,850</u>	<u>\$ 462,177</u>	<u>\$ 18,888</u>	<u>\$ 50,000</u>	<u>\$ 1,984,608</u>	<u>\$ 4,484,670</u>

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

**NONMAJOR GOVERNMENTAL FUNDS**

Combining Statement of Revenues, Expenditures by Account,  
and Changes in Fund Balances (Deficit)  
Year Ended September 30, 2020

	27	28	29	31	32	33	34	35	36	39	41	42	43	45	
	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	Vessel Day Acquisition	Total
Revenues:															
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 267,719	\$ -	\$ -	\$ -	\$ -	\$ 267,719
Fees and charges	139,126	6,080	253,208	660,564	-	968,425	4,955	2,220	218,459	-	550,000	719,026	13,688	7,200,608	10,736,359
Total revenues	139,126	6,080	253,208	660,564	-	968,425	4,955	2,220	218,459	267,719	550,000	719,026	13,688	7,200,608	11,004,078
Expenditures by account:															
Personnel	-	-	63,943	-	-	50,493	-	-	248,512	-	-	-	-	-	362,948
Travel and transportation	3,964	-	-	24,684	-	42,901	-	-	-	-	-	-	-	-	71,549
Communications	-	-	-	3,185	-	3,676	-	-	-	-	334	-	-	-	7,195
Food stuffs	-	-	-	-	-	1,015	-	-	-	-	60,252	-	-	-	61,267
Freight	-	-	-	8,005	-	-	-	-	-	-	-	-	-	-	8,005
Expendable equipment	2,175	-	-	-	-	3,810	-	-	-	-	1,594	3,190	-	-	10,769
Office supplies and materials	1,503	-	-	25,277	-	5,561	-	-	-	-	39,290	5,084	-	-	76,715
POL	-	-	-	-	-	162	-	-	-	-	158,652	-	-	-	158,814
Advertising, printing and reproduction	-	-	-	-	-	2,529	-	-	-	-	-	-	-	-	2,529
Rental	-	-	-	-	-	-	-	-	-	-	250	-	-	-	250
Repair and maintenance	-	-	-	-	-	780	-	-	-	-	1,060	-	-	-	1,840
Utilities	-	-	-	-	-	5,530	-	-	-	-	11,459	-	-	-	16,989
General contractual services	-	-	-	358,267	-	172,807	-	-	-	-	-	21,205	-	-	552,279
Training and registration fee	-	-	-	1,373	-	-	-	-	-	-	-	-	-	-	1,373
Scholarships	-	-	-	-	-	-	-	-	-	194,651	-	-	-	-	194,651
Representation	-	-	-	-	-	5,780	-	-	-	-	-	-	-	-	5,780
Insurance and fees	-	-	-	-	-	32,155	-	-	-	-	-	-	-	-	32,155
Leased housing, offices, buildings and land	-	-	-	-	-	8,772	-	-	-	-	10,829	-	-	-	19,601
Bank charges	-	-	-	300	-	-	-	-	-	-	-	-	-	-	300
Fishing vessel days	-	-	-	-	-	-	-	-	-	-	-	-	-	5,216,000	5,216,000
Equipment	3,757	-	-	15,580	-	-	-	-	-	-	-	-	-	-	19,337
Total expenditures	11,399	-	63,943	436,671	-	335,971	-	-	248,512	194,651	283,720	29,479	-	5,216,000	6,820,346
Excess (deficiency) of revenue over (under) expenditure	127,727	6,080	189,265	223,893	-	632,454	4,955	2,220	(30,053)	73,068	266,280	689,547	13,688	1,984,608	4,183,732
Other financing uses:															
Operating transfers out	(300,386)	-	-	(990,133)	-	(696,366)	-	-	-	-	(439,087)	(699,666)	(13,688)	-	(3,139,326)
Net change in fund balances (deficit)	(172,659)	6,080	189,265	(766,240)	-	(63,912)	4,955	2,220	(30,053)	73,068	(172,807)	(10,119)	-	1,984,608	1,044,406
Fund balances at the beginning 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
Fund balances (deficit) at the end of the year	\$ 39,089	\$ 95,621	\$ 359,947	\$ 79,040	\$ 28,653	\$ 985,690	\$ 31,508	\$ 34,904	\$ 136,695	\$ 177,850	\$ 462,177	\$ 18,888	\$ 50,000	\$ 1,984,608	\$ 4,484,670

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

**GRANTS ASSISTANCE FUND**

Combining Balance Sheet  
September 30, 2020

	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
<b>ASSETS</b>													
Cash & equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 186,455	\$ -	\$ -	\$ -	\$ 4,249,238	\$ 4,435,693
Receivables:													
Federal agencies	-	-	-	-	-	822,951	-	-	-	3,088,550	-	-	3,911,501
FSM State Governments	-	-	96,016	436,795	230,160	1,000,350	-	-	1,087,389	-	-	-	2,850,710
Due from other funds	<u>1,258,234</u>	<u>3,570,130</u>	<u>-</u>	<u>-</u>	<u>148,298</u>	<u>-</u>	<u>120,791</u>	<u>-</u>	<u>87,138</u>	<u>3,304,999</u>	<u>18,451,930</u>	<u>162,098</u>	<u>27,103,618</u>
	<u>\$ 1,258,234</u>	<u>\$ 3,570,130</u>	<u>\$ 96,016</u>	<u>\$ 436,795</u>	<u>\$ 378,458</u>	<u>\$ 1,823,301</u>	<u>\$ 120,791</u>	<u>\$ 186,455</u>	<u>\$ 1,174,527</u>	<u>\$ 6,393,549</u>	<u>\$ 18,451,930</u>	<u>\$ 4,411,336</u>	<u>\$ 38,301,522</u>
<b>LIABILITIES AND FUND BALANCES (DEFICIT)</b>													
Liabilities:													
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 947,882	\$ -	\$ -	\$ 557,851	\$ 1,712,345	\$ 163,972	\$ 244,260	\$ 3,626,310
Due to FSM State Governments	1,258,234	3,570,130	-	-	378,458	-	120,791	-	616,676	4,681,204	-	-	10,625,493
Due to other funds	-	-	96,016	436,795	-	875,419	-	1,913	-	-	-	-	1,410,143
Unearned revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,010,773</u>	<u>71,596</u>	<u>17,082,369</u>
Total liabilities	<u>1,258,234</u>	<u>3,570,130</u>	<u>96,016</u>	<u>436,795</u>	<u>378,458</u>	<u>1,823,301</u>	<u>120,791</u>	<u>1,913</u>	<u>1,174,527</u>	<u>6,393,549</u>	<u>17,174,745</u>	<u>315,856</u>	<u>32,744,315</u>
Fund balances (deficit):													
Restricted	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>184,542</u>	<u>-</u>	<u>-</u>	<u>1,277,185</u>	<u>4,095,480</u>	<u>5,557,207</u>
Total fund balances (deficits)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>184,542</u>	<u>-</u>	<u>-</u>	<u>1,277,185</u>	<u>4,095,480</u>	<u>5,557,207</u>
Total liabilities and fund balances	<u>\$ 1,258,234</u>	<u>\$ 3,570,130</u>	<u>\$ 96,016</u>	<u>\$ 436,795</u>	<u>\$ 378,458</u>	<u>\$ 1,823,301</u>	<u>\$ 120,791</u>	<u>\$ 186,455</u>	<u>\$ 1,174,527</u>	<u>\$ 6,393,549</u>	<u>\$ 18,451,930</u>	<u>\$ 4,411,336</u>	<u>\$ 38,301,522</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, 2020

	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	\$ -	\$ -	\$ -	\$ -	\$ 253,406	\$ 549,228	\$ -	\$ -	\$ 164,870	\$ -	\$ -	\$ -	\$ 967,504
Federal and other grants	-	-	-	-	-	-	-	-	-	12,137,034	13,923,877	-	26,060,911
Others	-	-	-	-	-	-	-	-	-	-	4,590	35,364	39,954
	-	-	-	-	253,406	549,228	-	-	164,870	12,137,034	13,928,467	35,364	27,068,369
Expenditures by function:													
Current:													
General government:													
Foreign affairs	-	-	-	-	-	-	-	-	-	-	3,574	-	3,574
Finance and administration	-	-	-	-	-	-	-	-	-	7,492,308	1,834,712	-	9,327,020
Resources and development	-	-	-	-	-	-	-	-	-	-	2,187,794	-	2,187,794
Transportation, communication and infrastructure	-	-	-	-	-	-	-	-	-	168,593	2,210,827	-	2,379,420
Health and social affairs	-	-	-	-	-	-	-	-	-	3,786,090	1,549,713	-	5,335,803
National archives, cultural and historic preservation	-	-	-	-	-	-	-	-	-	55,095	13,027	-	68,122
Education	-	-	-	-	-	549,228	-	-	-	593,488	179,291	-	1,322,007
Environment and emergency management	-	-	-	-	-	-	-	-	-	41,460	902,096	12,880	956,436
Office of the National Public Auditor	-	-	-	-	253,406	-	-	-	-	-	-	-	253,406
Boards and commissions	-	-	-	-	-	-	-	-	-	-	626,988	-	626,988
Capital Projects	-	-	-	-	-	-	-	176,500	164,870	-	-	-	341,370
Total expenditures	-	-	-	-	253,406	549,228	-	176,500	164,870	12,137,034	9,508,022	12,880	22,801,940
Excess (deficiency) of revenue over (under) expenditure	-	-	-	-	-	-	-	(176,500)	-	-	4,420,445	22,484	4,266,429
Other financing uses:													
Operating transfers in (out)	-	-	-	(13,153)	-	-	-	-	-	5,214	(3,000,000)	-	(3,007,939)
Net change in fund balances (deficit)	-	-	-	(13,153)	-	-	-	(176,500)	-	5,214	1,420,445	22,484	1,258,490
Fund balances (deficit) at the beginning of the year	-	-	-	13,153	-	-	-	361,042	-	(5,214)	(143,260)	4,072,996	4,298,717
Fund balances (deficit) at the end of the year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 184,542	\$ -	\$ -	\$ 1,277,185	\$ 4,095,480	\$ 5,557,207

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, 2020

	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	\$ -	\$ -	\$ -	\$ -	\$ 253,406	\$ 549,228	\$ -	\$ -	\$ 164,870	\$ -	\$ -	\$ -	\$ 967,504
Federal and other grants	-	-	-	-	-	-	-	-	-	12,137,034	13,923,877	-	26,060,911
Others	-	-	-	-	-	-	-	-	-	-	4,590	35,364	39,954
	-	-	-	-	253,406	549,228	-	-	164,870	12,137,034	13,928,467	35,364	27,068,369
Expenditures by account:													
Personnel	-	-	-	-	-	146,383	-	-	-	2,800,322	1,289,949	-	4,236,654
Travel and transportation	-	-	-	-	-	80,229	-	-	-	814,726	1,045,453	500	1,940,908
Books and materials	-	-	-	-	-	-	-	-	-	2,848	-	-	2,848
Communications	-	-	-	-	-	9,711	-	-	-	167,761	23,210	-	200,682
Customs and taxes	-	-	-	-	-	-	-	-	-	2,609	4,491	-	7,100
Dues, membership and subscription	-	-	-	-	-	-	-	-	-	24,159	12,685	-	36,844
Food stuffs	-	-	-	-	-	-	-	-	-	13,129	158,742	-	171,871
Freight	-	-	-	-	-	922	-	-	-	20,159	14,405	-	35,486
Expendable equipment/furniture	-	-	-	-	-	2,748	-	-	-	264,964	90,107	-	357,819
Office supplies and materials	-	-	-	-	-	7,444	-	-	-	245,749	222,085	-	475,278
POL	-	-	-	-	-	-	-	-	-	34,548	45,032	-	79,580
Advertising, printing and reproduction	-	-	-	-	-	4,400	-	-	-	32,004	86,622	12,380	135,406
Rental services	-	-	-	-	-	966	-	-	-	289,136	126,039	-	416,141
Repair and maintenance	-	-	-	-	-	-	-	-	-	3,181	1,430	-	4,611
Utilities	-	-	-	-	-	-	-	-	-	185,668	4,450	-	190,118
Miscellaneous goods and services	-	-	-	-	-	-	-	-	-	2,703	132,472	-	135,175
Medical supplies	-	-	-	-	-	-	-	-	-	226,475	71,096	-	297,571
Contribution, subsidies	-	-	-	-	-	-	-	-	-	3,874,906	251,182	-	4,126,088
General Contractual services	-	-	-	-	149,256	295,450	-	176,500	164,870	983,049	555,520	-	2,324,645
Professional services	-	-	-	-	104,150	-	-	-	-	348,375	3,641,753	-	4,094,278
Employee housing and household storage	-	-	-	-	-	-	-	-	-	35,300	23,300	-	58,600
Compensation-nonpayroll	-	-	-	-	-	-	-	-	-	1,531,071	11,934	-	1,543,005
Training and registration fees	-	-	-	-	-	-	-	-	-	23,053	5,132	-	28,185
Offical and meeting allowances	-	-	-	-	-	-	-	-	-	4,920	3,500	-	8,420
Insurance and fees	-	-	-	-	-	-	-	-	-	920	-	-	920
Leased housing, offices, buildings and land	-	-	-	-	-	-	-	-	-	72,324	110,250	-	182,574
Bank charges	-	-	-	-	-	975	-	-	-	848	8,487	-	10,310
Equipment	-	-	-	-	-	-	-	-	-	20,866	1,486,027	-	1,506,893
Vehicle	-	-	-	-	-	-	-	-	-	111,261	82,669	-	193,930
Total expenditures	-	-	-	-	253,406	549,228	-	176,500	164,870	12,137,034	9,508,022	12,880	22,801,940
Excess (deficiency) of revenue over (under) expenditure	-	-	-	-	-	-	-	(176,500)	-	-	4,420,445	22,484	4,266,429
Other financing uses:													
Operating transfers in (out)	-	-	-	(13,153)	-	-	-	-	-	5,214	(3,000,000)	-	(3,007,939)
Net change in fund balances (deficit)	-	-	-	(13,153)	-	-	-	(176,500)	-	5,214	1,420,445	22,484	1,258,490
Fund balances (deficit) at the beginning of the year	-	-	-	13,153	-	-	-	361,042	-	(5,214)	(143,260)	4,072,996	4,298,717
Fund balances (deficit) at the end of the year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 184,542	\$ -	\$ -	\$ 1,277,185	\$ 4,095,480	\$ 5,557,207

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, 2020**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
Revenues:				
Local taxes	\$ 16,148,241	\$ 16,100,000	\$ 25,815,913	\$ 9,715,913
Fishing right fees	55,000,000	69,500,000	70,150,833	650,833
Investment earnings	-	-	3,821,444	3,821,444
Fees and charges	3,150,678	3,388,600	352,174	(3,036,426)
Other	2,612,620	2,612,620	2,536,066	(76,554)
Total revenues	76,911,539	91,601,220	102,676,430	11,075,210
Expenditures-budgetary basis by department:				
Executive Branch-Core Operational:				
Office of the President	920,504	1,613,064	1,443,908	169,156
President's Office - Public Information	90,984	110,668	83,553	27,115
President's Office - ODA & Compact Management	483,105	488,293	263,056	225,237
Total Office of the President	1,494,593	2,212,025	1,790,517	421,508
Department of External Affairs				
Administration	288,198	399,746	423,023	(23,277)
Division of APA and Multilateral Affairs	114,670	114,670	103,190	11,480
Division of American and European Affairs	95,097	95,097	73,084	22,013
FSM Consulate - China	707,244	682,244	484,797	197,447
FSM Consulate - Guam	408,942	428,842	492,516	(63,674)
FSM Consulate - Honolulu	435,391	441,975	339,492	102,483
FSM Embassy - Tokyo	1,022,220	1,012,024	858,300	153,724
FSM Embassy - Washington D.C.	700,208	699,673	716,510	(16,837)
FSM Embassy - Fiji	395,213	376,228	193,466	182,762
FSM Permanent Mission - New York	845,017	834,158	823,341	10,817
FSM Consulate - Portland, Oregon	557,338	573,236	522,498	50,738
Total Department of External Affairs	5,569,538	5,657,893	5,030,217	627,676
Office of Veterans Affairs	189,465	168,353	-	168,353
Office of Personnel	168,479	164,717	22,278	142,439
Department of Health and Social Affairs:				
Administration	152,008	163,096	173,029	(9,933)
Health System Support	207,099	215,094	169,672	45,422
Environmental Health	357,176	349,467	344,880	4,587
Gender Development Unit	94,724	100,806	74,576	26,230
Sports and Youth Unit	72,206	84,097	48,928	35,169
Total Department of Health and Social Affairs	883,213	912,560	811,085	101,475
Department of Education:				
Administration	225,286	220,835	191,639	29,196
Basic Education & Accreditation (Domestic)	402,298	407,363	831	406,532
Basic Education & Accreditation (SEG)	223,837	213,837	150,576	63,261
Career Technical Education	-	40,954	-	40,954
Total Department of Education	851,421	882,989	343,046	539,943
Department of Resources and Development:				
Administration	141,986	110,955	99,320	11,635
Division of Sectoral Development	766,559	736,681	697,014	39,667
Division of Trade and Investment	157,439	150,393	112,690	37,703
Division of Energy	63,146	62,992	43,324	19,668
Division of Statistics	419,397	438,834	398,577	40,257
Total Department of Resources and Development	1,548,527	1,499,855	1,350,925	148,930
Office of National Archives, Cultural and Historic Preservation	234,306	229,871	242,693	(12,822)
Office of Environment and Emergency Management:				
Office of the Director	186,689	245,651	224,948	20,703
Division of Sustainable Development	194,921	210,740	166,597	44,143
Division of Climate Change	246,642	250,811	88,919	161,892
Division of Emergency Management	189,327	211,958	165,124	46,834
Total Office of Environment and Emergency Management	817,579	919,160	645,588	273,572

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, 2020**

	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	199,270	211,373	241,398	(30,025)
Division of Marine Transportation	1,196,290	1,280,955	1,210,853	70,102
Division of Infrastructure	592,173	625,850	546,098	79,752
Civil Aviation	158,655	159,613	90,563	69,050
Communication	141,615	207,480	119,050	88,430
Project Management Unit	403,139	457,222	336,548	120,674
Total Department of Transportation, Communication and Infrastructure	2,691,142	2,942,493	2,544,510	397,983
Department of Finance and Administration:				
Administration	251,954	672,168	332,437	339,731
Division of National Treasury	961,400	1,006,220	972,066	34,154
Division of Customs and Tax Administration	1,320,632	1,446,745	1,335,992	110,753
Division of Investment & International Finance	157,654	161,908	133,009	28,899
President's Office - Personnel	-	-	117,880	(117,880)
Division of Budget & Economic Management	303,543	361,656	254,867	106,789
Total Department of Finance and Administration	2,995,183	3,648,697	3,146,251	502,446
Department of Justice:				
Administration	445,903	496,232	444,128	52,104
Registry of Corporation	127,354	131,872	85,864	46,008
Division of Law	411,865	430,150	314,002	116,148
Division of Litigation	508,257	558,834	620,894	(62,060)
Division of Immigration and Labor	880,951	901,372	805,079	96,293
FSM National Police	2,525,485	2,850,247	2,470,496	379,751
Total Department of Justice	4,899,815	5,368,707	4,740,463	628,244
Office of the Public Defender	1,087,151	1,120,955	847,220	273,735
Total Executive Branch-Core Operational	23,430,412	25,728,275	21,514,793	4,213,482
Executive Branch-Non-Core Operational:				
President's Office	855,900	2,788,279	5,598,348	(2,810,069)
Department of External Affairs and LNO's	280,560	355,292	557,411	(202,119)
Department of Health and Social Affairs	412,650	1,238,174	2,461,061	(1,222,887)
Department of Education	4,610,000	4,622,859	4,020,656	602,203
Office of Resources and Development	169,580	184,580	172,584	11,996
National archives, cultural and historic prevention	7,064	7,064	5,559	1,505
Office of Environment and Emergency Management	65,758	266,891	350	266,541
Department of Transportation, Communication and Infrastructure	2,030,747	2,934,631	2,223,000	711,631
Department of Finance and Administration	384,024	485,012	2,941,807	(2,456,795)
Department of Justice	983,966	2,014,295	1,039,224	975,071
Total Executive Branch-Non-Core Operational	9,800,249	14,897,077	19,020,000	(4,122,923)
Others Non-Core	2,083,218	4,818,913	-	4,818,913
Total Executive Branch	35,313,879	45,444,265	40,534,793	4,909,472
Judicial Branch-Core Operational	1,724,023	1,802,629	1,625,192	177,437
Judicial Branch-Non-core Operational	300,000	300,000	320,773	(20,773)
Total Judiciary Branch	2,024,023	2,102,629	1,945,965	156,664
Legislative Branch:				
Office of the Speaker and members	3,513,150	4,331,435	3,899,362	432,073
Members and staff	2,292,710	2,703,132	2,414,106	289,026
Delegation offices	490,000	1,583,584	2,092,776	(509,192)
Total Legislative Branch - Core	6,295,860	8,618,151	8,406,244	211,907
Legislative Branch - Noncore	637,500	648,464	321,273	327,191
Total Legislative Branch	6,933,360	9,266,615	8,727,517	539,098
Office of the National Public Auditor				
Public Auditor (Core)	895,420	909,619	756,357	153,262
Single Audit (Non-core)	45,750	45,750	475,581	(429,831)
Total Office of the National Public Auditor	941,170	955,369	1,231,938	(276,569)
Special programs:				
National Election	442,173	439,567	398,782	40,785
General Election	-	23,380	-	23,380
Total Special programs	442,173	462,947	398,782	64,165

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, 2020**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
Expenditures-budgetary basis by department, continued:				
Agencies, Board and Commissions				
National Oceanic Resource Management Authority	1,107,630	1,079,520	782,082	297,438
FSM Banking Board	227,119	256,758	193,985	62,773
FSM Insurance	633,270	626,908	351,750	275,158
Postal Services	984,179	1,022,058	958,445	63,613
Forum Fisheries Agency	62,638	62,638	319,830	(257,192)
Micronesia Legal Services Corporation	250,000	250,000	250,544	(544)
National Olympic Committee	-	-	45,000	(45,000)
Other	262,284	262,284	(194)	262,478
Total Agencies, Boards and Commissions	3,527,120	3,560,166	2,901,442	658,724
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	517,502	358,109
COM-FSM Endowment Fund	300,000	300,000	-	300,000
COM-FSM	4,050,000	4,050,000	1,876,350	2,173,650
Total payments to component units	6,340,611	6,340,611	3,508,852	2,831,759
Other National government programs-continuing approp	6,540,812	20,334,379	34,486,358	(14,151,979)
Total expenditures	62,063,148	88,466,981	93,735,647	(5,268,666)
Excess (deficiency) of revenues over (under) expenditures	14,848,391	3,134,239	8,940,783	5,806,544
Other financing sources (uses):				
Operating Transfers in:				
Reimbursable fund	-	-	122,237	122,237
Private sector development fund			13,153	13,153
Permit revolving fund			300,386	300,386
Passport Fund			990,133	990,133
Insurance Board Fund			13,688	13,688
Fisheries Observation Fund			696,366	696,366
Maritime Surveillance Fund			439,087	439,087
National Postal Services Fund		-	699,666	699,666
	-	-	3,274,716	3,274,716
Operating Transfers (out):				
Reimbursable fund	-	-	(122,237)	(122,237)
Non-U.S. grant Fund			(5,214)	(5,214)
FSM Trust Fund - States			(450,000)	(450,000)
FSM Trust Fund - States	-	-	(13,832,086)	(13,832,086)
Total Operating Transfers in/out	-	-	(14,409,537)	(14,409,537)
Total other financing sources (uses), net	-	-	(11,134,821)	(11,134,821)
Special item:				
Write-off of receivable balances	-	-	(1,005,297)	(1,005,297)
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	-	-	11,930,738	11,930,738
Net change in fund balance	14,848,391	3,134,239	8,731,403	5,597,164
Fund balance at beginning of year	133,017,891	133,017,891	133,017,891	-
Fund balance at end of year	\$ 147,866,282	\$ 136,152,130	\$ 141,749,294	\$ 5,597,164

See Accompanying Independent Auditors' Report.

FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT

WORLD BANK PROJECT FINANCIAL SUMMARY  
For the Year Ended September 30, 2020

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	NOTES
FSM-PALAU CONNECTIVITY PROJECT (ICT):										
Component 1	56,893,649	37,158,427	733,868	37,892,295	1,474,890	39,367,185	17,526,464			
Component 2	1,860,000	608,935	33,080	642,015	6,486	648,501	1,211,499			
Component 3	2,145,000	424,295	631,801	1,056,096	851,880	1,907,976	237,024			
Component 4	2,801,351	777,353	49,364	826,717	-	826,717	1,974,634			
Subtotal	63,700,000	38,969,010	1,448,113	40,417,123	2,333,256	42,750,379	20,949,621	40,124,898	292,225	
PACIFIC ISLANDS REGIONAL OCEANSCAPE PROJECT (PROP):										
Component 1.1	2,165,000	1,567,323	(579,618)	987,705	232,132	1,219,837	945,163			
Component 1.2	2,575,000	-	986,154	986,154	808	986,962	1,588,038			
Component 2	300,000	296,108	-	296,108	3,914	300,022	(22)			
Component 3	460,000	289,562	96,982	386,544	-	386,544	73,456			
Subtotal	5,500,000	2,152,993	503,518	2,656,511	236,854	2,893,365	2,606,635	2,532,963	123,548	A
PROGRAMMATIC PREPARATION ADVANCE (PPA):										
PFM	199,369	199,372	(1,439)	197,933	-	197,933	1,436			
FMIP	746,254	738,981	(36,987)	701,994	2,505	704,499	41,755			
SEDAP	44,210	(53,791)	98,000	44,209	-	44,209	1			
DIGITAL	1,530,000	46,363	245,410	291,773	2,397	294,170	1,235,830			
PRIME	2,980,167	-	52,052	52,052	149,151	201,203	2,778,964			
Subtotal	5,500,000	930,925	357,036	1,287,961	154,054	1,442,014	4,057,986	1,285,490	2,471	B
PROJECT FOR STRENGTHENING PUBLIC FINANCIAL MANAGEMENT (PFM):										
COMPONENT 1	350,000	706	12,444	13,150	268,250	281,400	68,600			
COMPONENT 2	5,145,000	137,894	258,821	396,715	414,267	810,982	4,334,018			
COMPONENT 3	1,945,000	112,094	260,260	372,354	137,282	509,636	1,435,364			
COMPONENT 4	1,360,000	202,873	165,216	368,089	636	368,725	991,275			
COMPONENT 5	2,200,000	340,130	488,561	828,691	87,459	916,150	1,283,850			
Subtotal	11,000,000	793,697	1,185,302	1,978,999	907,894	2,886,893	8,113,107	1,475,968	503,031	
SUSTAINABLE ENERGY DEVELOPMENT AND ACCESS PROJECT (SEDAP)										
COMPONENT 1	11,800,000	343,935	84,907	428,842	17,309	446,151	11,353,849			
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	64,928	221,292	286,220	335,740	621,960	2,328,040			
Subtotal	30,000,000	408,863	306,199	715,062	353,049	1,068,111	28,931,889	655,812	59,250	
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	760,540	800,523	369,560	1,170,083	9,269,917			
Component 4/CERC	2,500,000	-	-	-	2,500,000	2,500,000	-			
Subtotal	40,990,000	39,983	760,540	800,523	2,869,560	3,670,083	37,319,917	561,194	239,329	C
DIGITAL FSM (DFSM)										
COMPONENT 1	15,000,000	-	55,000	55,000	108,012	163,012	14,836,988			
COMPONENT 2	6,500,000	-	-	-	-	-	6,500,000			
COMPONENT 3A	750,000	-	-	-	-	-	750,000			
COMPONENT 3B	500,000	-	-	-	-	-	500,000			
COMPONENT 3C	750,000	-	-	-	-	-	750,000			
COMPONENT 3D	1,000,000	-	-	-	-	-	1,000,000			
COMPONENT 4A	1,300,000	-	1,642	1,642	-	1,642	1,298,358			
COMPONENT 4B	5,000,000	-	20,472	20,472	142,001	162,473	4,837,527			
Subtotal	30,800,000	-	77,114	77,114	250,013	327,127	30,472,873	-	77,114	D
TOTAL FOR GRANTS	187,490,000	43,295,471	4,637,822	47,933,293	7,104,679	55,037,973	132,452,027	46,636,325	1,296,968	

See Accompanying Independent Auditors' Report

NOTES TO 2020 FINANCIAL SUMMARY

- AIn 2020, the PROP project had a restructuring of funds and a no-cost extension to September 30, 2021.
- BThe Prioritized Road Investments & Management Enhancements (PRIME) project is expected to be approved by the World Bank Board in May 2021.
- CDuring 2020 the Contingent Emergency Response Component (CERC) was activated due to COVID-19, FSM contracted UNOPs to provide PPE, medical requirement and pharmaceuticals for a total of \$2.5M.
- D

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

WORLD BANK PROJECT FINANCIAL SUMMARY  
FOR THE YEAR ENDED SEPTEMBER 30, 2020

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	NOTES
<b>ENERGY SECTOR DEVELOPMENT PROJECT (ESDP):</b>										
Component 1	9,270,000	4,083,649	3,409,483	7,493,132	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			
<b>Subtotal</b>	<b>14,400,000</b>	<b>6,727,592</b>	<b>3,876,323</b>	<b>10,603,915</b>	<b>1,946,332</b>	<b>12,550,247</b>	<b>1,849,753</b>	<b>9,714,283</b>	<b>889,632</b>	<b>A</b>
<b>FSM-PALAU CONNECTIVITY PROJECT (ICT):</b>										
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			
<b>Subtotal</b>	<b>63,700,000</b>	<b>38,969,010</b>	<b>380,732</b>	<b>39,349,742</b>	<b>1,569,367</b>	<b>40,919,109</b>	<b>22,780,891</b>	<b>38,594,240</b>	<b>755,502</b>	<b>B</b>
<b>PACIFIC ISLANDS REGIONAL OCEANSCAPE PROJECT (PROP):</b>										
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			
<b>Subtotal</b>	<b>5,500,000</b>	<b>1,592,866</b>	<b>555,810</b>	<b>2,148,676</b>	<b>69,944</b>	<b>2,218,620</b>	<b>3,281,380</b>	<b>2,017,797</b>	<b>130,879</b>	
<b>PROGRAMMATIC PREPARATION ADVANCE (PPA):</b>										
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			
<b>Subtotal</b>	<b>5,500,000</b>	<b>885,857</b>	<b>104,642</b>	<b>990,499</b>	<b>72,153</b>	<b>1,062,652</b>	<b>4,437,348</b>	<b>479,975</b>	<b>510,524</b>	<b>C</b>
<b>PROJECT FOR STRENGTHENING PUBLIC FINANCIAL MANAGEMENT (PFM):</b>										
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			
<b>Subtotal</b>	<b>11,000,000</b>	<b>-</b>	<b>792,946</b>	<b>792,946</b>	<b>631,734</b>	<b>1,424,680</b>	<b>9,575,320</b>	<b>131,673</b>	<b>661,273</b>	<b>D</b>
<b>SUSTAINABLE ENERGY DEVELOPMENT AND ACCESS PROJECT (SEDAP)</b>										
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			
<b>Subtotal</b>	<b>30,000,000</b>	<b>-</b>	<b>408,798</b>	<b>408,798</b>	<b>256,848</b>	<b>665,646</b>	<b>29,334,354</b>	<b>-</b>	<b>408,798</b>	<b>E</b>
<b>FSM MARITIME INVESTMENT PROJECT (FMIP)</b>										
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			
<b>Subtotal</b>	<b>38,490,000</b>	<b>-</b>	<b>39,983</b>	<b>39,983</b>	<b>452,365</b>	<b>492,348</b>	<b>37,997,652</b>	<b>-</b>	<b>39,983</b>	<b>F</b>
<b>TOTAL FOR GRANTS</b>	<b>168,590,000</b>	<b>48,175,325</b>	<b>6,159,234</b>	<b>54,334,559</b>	<b>4,998,743</b>	<b>59,333,302</b>	<b>109,256,698</b>	<b>50,937,968</b>	<b>3,396,591</b>	

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 SDR401,833.

**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 with the approved CERC manual.

**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, 2020, 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, 2021. 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) as a basis for designing 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.



## **Internal Control Over Financial Reporting, Continued**

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the Schedule of Findings and Questioned Costs as item 2020-001 that we consider to be a material weaknesses.

## **Compliance and Other Matters**

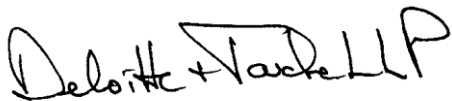
As part of obtaining reasonable assurance about whether the FSM National Government's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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*.

## **The FSM National Government's Response to Findings**

The FSM National Government's response to the 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 the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

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



December 31, 2021



**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, 2020. 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, the 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, 2020. 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 program. 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, 2020.

## **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 are described in the accompanying Schedule of Findings and Questioned Costs as item 2020-002. Our opinion on each major federal program is not modified with respect to these matters.

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 a certain deficiency in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as item 2020-002 that we consider to be a significant deficiency.

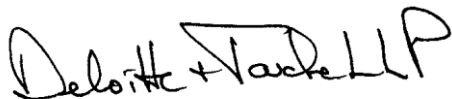
The FSM National Government's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The FSM National Government's response was not subjected to the auditing procedures applied in the audit of compliance 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. 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.

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, 2020, 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, 2021, 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, 2021

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Summary Schedule of Expenditures of Federal Awards, by Grantor  
Year Ended September 30, 2020

<u>Agency/Program</u>	<u>Expenditures</u>	<u>Amounts Passed-Through to Subrecipients</u>
U.S. Department of Agriculture	\$ 92,818	\$ 92,818
U.S. Department of Commerce	1,848,147	-
U.S. Department of the Interior	73,212,666	71,967,636
U.S. Department of Labor	5,644,161	
U.S. Department of Transportation	168,593	-
Institute of Museum and Library Services	8,049	-
U.S. Department of Education	3,413,394	2,819,906
U.S. Department of Health and Human Services	8,150,008	4,405,019
U.S. Department of Homeland Security	41,461	-
GRAND TOTAL	\$ <u>92,579,297</u>	\$ <u>79,285,379</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	\$ 22,801,940	63,747,384
Add:		
Amounts Passed-Through to subrecipients	79,285,379	
Less:		
Expenditures of the Non U.S. Grants Fund	<u>(9,508,022)</u>	<u>(938,416)</u>
Total expenditures of federal awards	\$ <u>92,579,297</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, 2020

<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	\$ 42,819	\$ 42,819
Urban and Community Forestry Program	10.675	32,049	32,049
Forest Legacy Program	10.676	17,950	17,950
Forest Stewardship Program	10.678	-	-
U.S. DEPARTMENT OF AGRICULTURE TOTAL		\$ 92,818	\$ 92,818
U.S. DEPARTMENT OF COMMERCE			
Climate and Atmosphere Research	11.431	\$ 1,848,147	\$ -
U.S. DEPARTMENT OF COMMERCE		\$ 1,848,147	\$ -
U.S. DEPARTMENT OF THE INTERIOR			
Economic, Social and Political Development of the Territories	15.875		
Compact Sector Funds:			
Infrastructure and Infrastructure maintenance		\$ 6,839,080	\$ 6,674,210
Education		26,218,692	26,218,692
Health		25,149,161	25,108,061
COVID 19 - Health		937,844	937,844
Capacity Building		954,027	954,027
Environment		105,461	105,461
Private Sector		447,111	447,111
Compact Supplemental Education		10,140,923	9,591,695
IMF		259,788	83,288
Emergency Management		12,880	-
Compact ERA		1,485,401	1,485,401
Subtotal Compact Sector Funds		72,550,368	71,605,790
Technical Assistance:			
Single Audit		149,256	-
Technical Assistance OIA/DOI Other		126,875	22,725
Total CFDA #15.875		72,826,499	71,628,515
Historic Preservation Fund Grants-In-Aid	15.904	386,167	339,121
U.S. DEPARTMENT OF THE INTERIOR TOTAL		\$ 73,212,666	\$ 71,967,636
U.S. DEPARTMENT OF LABOR			
COVID 19 - Pandemic Unemployment Insurance	17.225	\$ 5,644,161	\$ -
U.S. DEPARTMENT OF LABOR TOTAL		\$ 5,644,161	\$ -
U.S. DEPARTMENT OF TRANSPORTATION			
Airport Improvement Program	20.106	\$ 168,593	\$ -
U.S. DEPARTMENT OF TRANSPORTATION TOTAL		\$ 168,593	\$ -
INSTITUTE OF MUSEUM AND LIBRARY SERVICES			
Grants to States	45.310	\$ 8,049	\$ -
INSTITUTE OF MUSEUM AND LIBRARY SERVICES		\$ 8,049	\$ -
U.S. DEPARTMENT OF EDUCATION			
Special Education Cluster (IDEA):			
Special Education - Grants to States	84.027A	\$ 3,413,394	\$ 2,819,906
TOTAL SPECIAL EDUCATION CLUSTER (IDEA) AND U.S. DEPARTMENT OF EDUCATION TOTAL		\$ 3,413,394	\$ 2,819,906

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, 2020

<u>Agency/Program</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>	<u>Amounts Passed-Through to Subrecipients</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Public Health and Social Services Emergency Fund	93.003	\$ -	\$ -
Public Health Emergency Preparedness	93.069	217,544	33,895
Birth Defects and Developmental Disabilities Prevention and Surveillance	93.073	\$ -	\$ -
Public Health Emergency Preparedness Aligned Cooperative Agreement	93.074	180,587	27,484
Emergency System for Advance Registration of Volunteer Health Professionals	93.089	-	-
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092	193,047	132,062
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	93.104	34,366	34,366
Area Health Education Centers Point of Service Maintenance and Enhancement Awards	93.107	-	-
Maternal and Child Health Federal Consolidated Programs - SSDI Program	93.110	46,606	46,606
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	593,208	362,712
Emergency Medical Services for Children	93.127	95,398	-
Family Planning-Services	93.217	341,671	206,111
Health Center Program Cluster:			
Health Center Program (Community Health Centers)	93.224	931,253	931,253
Health Center Program Cluster Total		931,253	931,253
Title V State Sexual Risk Avoidance Education (Title V State SRAE) Program	93.235	255	-
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	474,811	352,937
Early Hearing Detection and Intervention	93.251	159,387	13,547
Immunization Cooperative Agreements	93.268	1,364,086	572,254
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	175,860	-
Behavioral Risk Factor Surveillance System	93.336	32,541	-
Leading Edge Acceleration Projects (LEAP) in Health Information Technology	93.345	248,274	248,274
Public Health Emergency Response: Cooperative Agreement for Emergency Response:			
Public Health Crisis Response	93.354	457,498	-
Prevention and Control of Chronic Disease and Associated Risk Factors			
in the U.S. Affiliated Pacific Islands, U.S. Virgin Islands, and P. R.	93.377	267,212	67,061
CDC Undergraduate Public Health Scholars Program (CUPS): A Public Health	93.456	21,456	21,456
Experience to Expose Undergraduates Interested in Minority Health to Public Health and the Public Health Professions			
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	3,453	3,453
Opioid STR	93.788	312,247	197,236
Domestic Ebola Supplement to the Epidemiology and Laboratory Capacity for Infectious Disease	93.815	12,258	-
National Bioterrorism Hospital Preparedness Program	93.889	129,562	22,420
Cancer Prevention and Control Program for State, Territorial, and Tribal Organizations	93.898	380,661	231,552
HIV Care Formula Grants	93.917	78,599	9,147
Cooperative Agreements to Support Comprehensive School			
Health Programs to Prevent the Spread of HIV and Other			
Important Health Problems	93.938	-	-
HIV Prevention Activities-Health Department Based	93.940	-	-
Epidemiologic Research Studies of AIDS and HIV Infection in			
Selected Population Groups	93.943	-	-
HIV/AIDS Surveillance	93.944	42,158	42,158
Assistance Programs for Chronic Disease Prevention and Control	93.945	52,813	52,813
Occupational Health and Safety Surveillance	93.957	-	-

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, 2020

<u>Agency/Program</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>	<u>Amounts Passed-Through to Subrecipients</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES, CONTINUED			
Block Grants for Community Mental Health Services	93.958	172,154	65,919
Block Grants for Prevention and Treatment of Substance Abuse	93.959	623,453	446,504
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	-	
Preventive Health and Health Services Block Grant	93.991	-	
Preventive Health and Health Services Block Grant	93.991	44,876	4,279
Maternal and Child Health Services Block Grant to the States	93.994	462,714	279,520
PPHF: Racial and Ethnic Approaches to Community Health Program Financed Solely By Public Prevention and Health Funds	93.738	-	-
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL		\$ <u>8,150,008</u>	\$ <u>4,405,019</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
Emergency Management Performance Grants	97.042	41,461	-
U.S. DEPARTMENT OF HOMELAND SECURITY TOTAL		\$ <u>41,461</u>	\$ <u>-</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		\$ <u>92,579,297</u>	\$ <u>79,285,379</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Notes to Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2020

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, 2020. 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, 2020 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, 2020.

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 2020 reporting responsibilities under the Single Audit Act. Total federal awards for COM-FSM is \$1,730,886.



**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Notes to Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2020

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, 2020

**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?   | Yes           |
| 3. Significant deficiency(ies) identified?   | None reported |
| 4. Noncompliance material to financial statements noted?   | No            |

*Federal Awards*

Internal control over major federal programs:

- |  |     |
|--|-----|
| 5. Material weakness(es) identified?       | No  |
| 6. Significant deficiency(ies) identified? | Yes |

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

Numbers

Name of Federal Program or Cluster

15.875	Economic, Social, and Political Development of the Territories – Compact of Free Association Compact Sector Grants
17.225	Unemployment Insurance
93.377	Prevention and Control of Chronic Disease and Associated Risk Factors in the U.S. Affiliated Pacific Islands, U.S. Virgin Islands, and P. R.

- |  |             |
|--|-------------|
| Dollar threshold used to distinguish between Type A and Type B Programs: | \$2,777,378 |
| 11. Auditee qualified as low-risk auditee?                               | No          |

**Section II – Financial Statement Findings**

2020-001 Timely and Accurate Reconciliations

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

<u>Finding #</u>	<u>CFDA #</u>	<u>Finding</u>	<u>Questioned Costs</u>
2020-002	17.225	Eligibility	\$95,798

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2020

Finding No.: 2020-001  
Area: Timely and Accurate Reconciliations

Criteria: The general ledger should be reconciled with subsidiary ledgers and bank accounts reconciled on a regular basis as such are fundamental and critical to maintaining accurate financial records and also to minimize the opportunity of misappropriation of funds or fraudulent activities.

Condition: Based on our examination of general fund nonpayroll expenditures, we found that a transfer of \$4.5 million dollars wired to the FSM Embassy -Japan was incorrectly recorded as expenditures and further capitalized as land acquisition. The material misstatement in the bank account for FSM Embassy – Japan and General Fund expenditures were not corrected until 15 months after fiscal year end.

Cause: The FSM National Government has yet to implement procedures where oversea Embassy bank accounts are reconciled on a monthly basis.

Effect: Lack of timely reconciliation resulted in misstatement of the financial statements. However, such misstatement was corrected through the audit process.

Recommendation: The FSM National Government should ensure that the general ledger is reconciled with subsidiary records and bank accounts reconciliations are performed in a timely manner.

Views of Responsible Officials: FSM National Government agrees with the finding and describes corrective actions in its corrective action plan.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2020

Finding No.:	2020-002
Pass-Through Entity:	Federated States of Micronesia National Government
Federal Agency:	U.S. Department of Labor Employment and Training Administration
CFDA Program:	17.225 Unemployment Insurance
Federal Award No.:	UI-34838-20-55-A-64
Compliance Requirement:	Eligibility
Questioned Costs:	\$95,798

Criteria: In general, PUA provides up to 39 weeks of benefits to qualifying individuals who are otherwise able to work and available for work within the meaning of applicable state UC law, except that they are unemployed, partially unemployed, or unable or unavailable to work due to one of the COVID-19 related reasons identified in Section 2102(a)(3)(A)(ii)(I) of the CARES Act and listed below:

- The individual has been diagnosed with COVID-19 or is experiencing symptoms of COVID-19 and is seeking a medical diagnosis;
- A member of the individual's household has been diagnosed with COVID-19;
- The individual is providing care for a family member or a member of the individual's household who has been diagnosed with COVID-19;
- A child or other person in the household for which the individual has primary caregiving responsibility is unable to attend school or another facility that is closed as a direct result of the COVID-19 public health emergency and such school or facility care is required for the individual to work;
- The individual is unable to reach the place of employment because of a quarantine imposed as a direct result of the COVID-19 public health emergency;
- The individual is unable to reach the place of employment because the individual has been advised by a health care provider to self-quarantine due to concerns related to COVID-19;
- The individual was scheduled to commence employment and does not have a job or is unable to reach the job as a direct result of the COVID-19 public health emergency;
- The individual has become the breadwinner or major support for a household because the head of the household has died as a direct result of COVID-19;
- The individual has to quit his or her job as a direct result of COVID-19; or The individual's place of employment is closed as a direct result of the COVID-19 public health emergency
- Other

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2020

Finding No.: 2020-002 - Continued  
 Pass-Through Entity: Federated States of Micronesia National Government  
 Federal Agency: U.S. Department of Labor Employment and Training Administration  
 CFDA Program: 17.225 Unemployment Insurance  
 Federal Award No.: UI-34838-20-55-A-64  
 Compliance Requirement: Eligibility  
 Questioned Costs: \$95,798

**Condition:**

- a) For 17 (or 68%) of 25 transactions tested, aggregating \$141,679 out of \$5,644,161 of program expenditures, the stated reason for eligibility in applying for Pandemic Unemployment Assistance is not one of the eligible reasons listed in UIPL 16-20. No COVID cases were present in the FSM National Government during this time period and we were not provided evidence that the basis of the award was approved by the grantor agency, which in many cases, was reduced hours caused by a lack of economic activity. The following depicts the specific samples tested, but other payments to the specified claimants may have been made and have not been aggregated hereunder.

Per Transaction Detail:					
No.	Date	Obligat'n	Description	Amount	GL Account
1	7/29/2020	727452	PANDEMIC UNEMPLOYMENT ASSISTANCE	\$ 8,536	1 20 10 92 80123 20 8270
2	9/30/2020	736651	PANDEMIC UNEMPLOYMENT ASSISTANCE	4,992	1 20 10 92 80124 20 8327
3	7/29/2020	727448	PANDEMIC UNEMPLOYMENT ASSISTANCE	7,826	1 20 10 92 80123 20 8270
4	7/29/2020	727374	PANDEMIC UNEMPLOYMENT ASSISTANCE	8,426	1 20 10 92 80124 20 8327
5	8/17/2020	730098	PANDEMIC UNEMPLOYMENT ASSISTANCE	9,192	1 20 10 92 80124 20 8327
6	8/5/2020	728246	PANDEMIC UNEMPLOYMENT ASSISTANCE	1,264	1 20 10 92 80123 20 8270
7	9/28/2020	736477	PANDEMIC UNEMPLOYMENT ASSISTANCE	6,626	1 20 10 92 80124 20 8327
8	7/29/2020	727454	PANDEMIC UNEMPLOYMENT ASSISTANCE	7,476	1 20 10 92 80124 20 8327
9	7/21/2020	726228	PANDEMIC UNEMPLOYMENT ASSISTANCE	5,694	1 20 10 92 80124 20 8327
10	9/28/2020	736481	PANDEMIC UNEMPLOYMENT ASSISTANCE	6,792	1 20 10 92 80124 20 8327
11	9/21/2020	735303	PANDEMIC UNEMPLOYMENT ASSISTANCE	166	1 20 10 92 80124 20 8327
12	8/31/2020	732258	PANDEMIC UNEMPLOYMENT ASSISTANCE	1,532	1 20 10 92 80124 20 8327
13	9/9/2020	335527	PANDEMIC UNEMPLOYMENT ASSISTANCE	2,298	1 20 10 92 80124 20 8327
14	7/24/2020	331869	PANDEMIC UNEMPLOYMENT ASSISTANCE	6,260	1 20 10 92 80124 20 8327
15	8/15/2020	333601	PANDEMIC UNEMPLOYMENT ASSISTANCE	3,396	1 20 10 92 80124 20 8327
16	8/28/2020	334591	PANDEMIC UNEMPLOYMENT ASSISTANCE	4,596	1 20 10 92 80124 20 8327
17	9/30/2020	337152	PANDEMIC UNEMPLOYMENT ASSISTANCE	7,100	1 20 10 92 80124 20 8327
				<u>\$ 92,172</u>	

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2020

Finding No.: 2020-002 - Continued  
Pass-Through Entity: Federated States of Micronesia National Government  
Federal Agency: U.S. Department of Labor Employment and Training Administration  
CFDA Program: 17.225 Unemployment Insurance  
Federal Award No.: UI-34838-20-55-A-64  
Compliance Requirement: Eligibility  
Questioned Costs: \$95,798

Condition, Continued:

- b) For 1 (or 4 %) of 25 transactions tested, aggregating \$141,679 out of \$5,644,161 of program expenditures, the claimant's full-time job was not impacted by COVID-19.

Per Transaction Detail:							
No.	Date	Tr No.	Description	Ref2	Amount	Fund	Year
1	8/8/2020	333017	PANDEMIC UNEMPLOYMENT ASSISTANCE	29301	\$ 3,626	20	20
					<u>\$ 3,626</u>		

Cause: The FSM National Government lacks controls over compliance with eligibility requirements.

Effect:

The FSM National Government is in noncompliance with applicable eligibility requirements. The total questioned costs presented at this finding are \$95,798

We are aware that additional payments that were not tested were also made to the above claimants and therefore, additional questioned costs can result from resolution of this matter.

Recommendation:

The FSM National Government should comply with grant requirements and should retain sufficient documentation on file to support compliance with those requirements.

The FSM National Government should determine the amounts paid to the above claimants and should notify the grantor agency of the full amount to be potentially reimbursable.

Views of Responsible Officials: FSM National Government agrees with the finding and describes corrective actions in its corrective action plan.



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

P.O. Box PS 158  
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**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

**CORRECTIVE ACTION PLAN  
2CFR §200.511 (c)  
Year Ended September 30, 2020**

Finding #	CFDA #	Corrective Action Plan	Anticipated Completion Date	Responsible Person (contact details)
2020-001	-	Management has already started implementing the corrective measures to address the finding. Management will ensure that bank reconciliations are timely performed and reviewed on a monthly basis.	March 31, 2022	<b>Contact:</b> Mr. Erick Paul Assistant Secretary for National Treasury  <b>Email:</b> Erickpaul691@gmail.com
2020-002	17.225	We will review the finding in detail and respond at a later time. We are aware that all ineligible recipients (Due to misinformation provided on their application forms) are undergoing recovery procedures through direct contact with recipients or through FSM judiciary process in line with guidance from the grantor. All referred cases to DOJ have been reported to the grantor on a monthly basis per integrity unit monthly reporting to the grantor.	March 31, 2022	<b>Contact:</b> Ms. Nahila Peterson Program Manager  <b>Email:</b> naihila.peterson@dofa.gov.fm



Secretary of Finance  
&  
Administration

**GOVERNMENT OF THE  
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**Summary Schedule of Prior Audit Findings and Questioned Costs  
Year Ended September 30, 2020**

Finding No.	CFDA No.	Requirement	Questioned Cost	Status
2019-001	20.106	Reporting	\$ -	Complete. We submitted the revised SF-425 to the grantor agency. We received a communication from the grantor agency indicating that the finding has been resolved.
2018-002	20.106	Reporting	\$ -	Complete. We submitted the revised SF-425 to the grantor agency. We received a communication from the grantor agency indicating that the finding has been resolved.
2017-001	15.875	Reporting	\$ -	Complete. We received a communication from the grantor agency indicating that the finding has been resolved.