

**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, 2021**

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

YEAR ENDED SEPTEMBER 30, 2021

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

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**YEAR ENDED SEPTEMBER 30, 2021**

## **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, 2021, 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, 2021, 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.

### *Litigation*

As discussed in Note 10 to the financial statements, litigation with respect to a potential revenue sharing matter exists, which, if not resolved in the National Government's favor, could cause material impact on the attendant financial statements.

### *COVID-19*

As discussed in the Note 13 to the financial statements, the FSM National Government has determined that the COVID-19 pandemic may negatively impact its result of operations and net position. The FSM National Government 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.

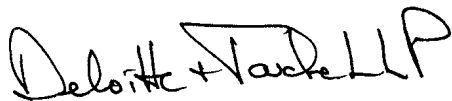
## *Other Information*

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 April 28, 2023 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 + Touche LLP". The signature is written in a cursive, stylized font.

April 28, 2023



**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Management's Discussion and Analysis  
September 30, 2021

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, 2021. 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. It is designed to assist the readers 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 of the National Government exceeded total liabilities by \$756 million (reported as net position) at the close of fiscal year 2021.
- The net position of the National Government increased by \$69 million during the fiscal year.

**Fund level**

- Overall governmental funds reported a combined ending fund balance of \$597 million at the close of fiscal year 2021, an increase of 13 percent compared with the prior year.
- General Fund reported an ending fund balance of \$559 million, an increase of 13 percent compared with the prior year. Of the amount, \$41 million was reported as "unrestricted."

**Capital assets**

- Net investment in capital assets decreased by \$3 million from \$204 million in fiscal year 2020 to \$201 million in fiscal year 2021 as current year depreciation exceeded current year additions.

**Long-term debt**

- Debt obligations decreased by \$3 million from \$49 million in fiscal year 2020 to \$46 million in fiscal year 2021.

**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.

**FEDERATED STATES OF MICRONESIA  
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Management's Discussion and Analysis  
September 30, 2021

(1) Government-Wide Financial Statements

The government-wide financial statements report information about the National Government as a whole using an 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 position. 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.

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.

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Management's Discussion and Analysis  
September 30, 2021

- 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 pages 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.

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 2021, the National Government's total assets exceeded total liabilities by \$756,192,493.

A large portion of the National Government's net position reflects its net investment in capital assets (\$201,087,174 for fiscal year 2021 as compared to \$204,536,972 for fiscal year 2020). 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 (\$35,590,115 for fiscal year 2021 as compared to \$29,014,822 for fiscal year 2020) represents resources reserved for Compact trust fund, Compact sector funds and revolving funds, and has restrictions on how such funds may be used.

The remaining portion (\$519,515,204 for fiscal year 2021 as compared to \$453,610,071 for fiscal year 2020) represents unrestricted net position.

In governmental activities, net position increased from \$687,161,865 in fiscal year 2020 to \$756,192,493 in fiscal year 2021.

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September 30, 2021

**Table 1. Statement of Net Position**

	Governmental Activities			
	2021	2020	Change	%
<b>ASSETS</b>				
Current and other assets	\$651,998,632	\$586,275,306	\$65,723,326	11.21
Capital assets	201,087,174	204,536,972	(3,449,798)	-1.69
Total assets	<u>\$853,085,806</u>	<u>\$790,812,278</u>	<u>\$62,273,528</u>	7.87
<b>LIABILITIES</b>				
Current and other liabilities	\$54,168,799	\$58,191,977	\$ (4,023,178)	-6.91
Long-term liabilities	42,724,514	45,458,436	(2,733,922)	-6.01
Total liabilities	<u>96,893,313</u>	<u>103,650,413</u>	<u>(6,757,100)</u>	-6.52
<b>NET POSITION</b>				
Net investment in capital assets	201,087,174	204,536,972	(3,449,798)	-1.69
Restricted	35,590,115	29,014,822	6,575,293	22.66
Unrestricted	519,515,204	453,610,071	65,905,133	14.53
	<u>756,192,493</u>	<u>687,161,865</u>	<u>69,030,628</u>	10.05
Total liabilities and net position	<u>\$853,085,806</u>	<u>\$790,812,278</u>	<u>\$62,273,528</u>	7.87

Table 2 below shows revenues, expenditures by function and changes in net position of the National Government for the years ended September 30, 2021 and 2020. Governmental activities resulted in an increase in the National Government's net position of \$69,030,628 for fiscal year 2021 as compared to \$38,703,361 for fiscal year 2020. A number of factors were in play:

Program revenues increased by \$19,674,572 from \$38,116,948 in fiscal year 2020 to \$57,791,520 in fiscal year 2021.

Total revenues increased by \$50,262,715 from \$166,262,715 in fiscal year 2020 to \$216,528,227 in fiscal year 2021 largely due to the increase in the fair value of investments and the increase in operational grants and contributions.

Likewise, total expenses increased by \$20,689,868 from \$126,135,890 in fiscal year 2020 to \$146,825,758 in fiscal year 2021.

**Table 2. Statement of Activities**

	Governmental Activities			
	2021	2020	Change	%
<b>REVENUES</b>				
Program revenues:				
Charges for services	\$ 4,836,522	\$ 11,088,533	\$ (6,252,011)	-56.38
Operating grants and contributions	52,730,306	26,418,945	26,311,361	99.59
Capital grants and contributions	224,692	609,470	(384,778)	-63.13
General revenues:				
Fishing fees	68,997,647	70,150,833	(1,153,186)	-1.64
Corporate tax	11,166,862	9,898,892	1,267,970	12.81
Local taxes	13,075,891	16,184,740	(3,108,849)	-19.21
Unrestricted investment earnings	63,647,242	26,982,458	36,664,784	135.88
Other	1,849,065	4,928,844	(3,079,779)	-62.48
Total revenues	<u>216,528,227</u>	<u>166,262,715</u>	<u>50,265,512</u>	30.23

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	Governmental Activities			
	2021	2020	Change	%
<b>EXPENDITURES</b>				
Executive	105,878,697	66,601,957	39,952,994	59.99
Judiciary	1,807,547	1,897,728	(90,181)	-4.75
Legislative	8,751,986	8,204,796	547,190	6.67
Office of Public Auditor	1,376,167	1,492,812	(116,645)	-7.81
Other National Government programs	4,697,301	4,770,064	(72,763)	-1.53
Agencies, boards and commissions	6,436,975	8,939,925	(2,502,950)	-28.00
Special Programs	562,125	363,837	198,288	54.50
Payments to component units	6,222,143	3,508,852	2,713,291	77.33
Legislative projects	10,732,194	28,037,925	(17,305,728)	-61.72
Capital projects	366,623	2,317,994	(1,984,768)	-85.62
Total expenditures	<u>146,825,758</u>	<u>126,135,890</u>	<u>21,338,728</u>	16.40
Excess of revenues over expenditures	<u>69,702,469</u>	<u>40,126,825</u>	<u>30,222,068</u>	73.71
SPECIAL ITEMS	(5,806,246)	(1,183,544)	(5,269,126)	-445.20
CONTRIBUTIONS TO PERMANENT FUND	<u>5,134,405</u>	<u>1,800,400</u>	<u>3,334,005</u>	185.18
Change in net position	69,030,628	40,743,681	28,286,947	69.43
Net position at the beginning of the year	<u>687,161,865</u>	<u>646,418,184</u>	<u>40,743,681</u>	6.30
Net position at the end of the year	<u><u>\$756,192,493</u></u>	<u><u>\$687,161,865</u></u>	<u><u>\$69,030,628</u></u>	10.05

**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, 2021, the National Government's governmental funds reported combined ending fund balances of \$596,794,733. Of this amount, \$80,960,313 was non-spendable, either due to its form or legal constraints; \$9,023,078 was restricted for specific program by contractual obligations. An additional \$459,530,190 was committed to specific purposes. Committed amounts cannot be used for any other purpose unless approved by the FSM Congress. An additional \$6,048,048 was assigned to specific purposes by management. At the end of fiscal year 2021, the unassigned fund balance of the General Fund was \$41,233,104 as compared with the prior year unassigned fund balance of \$64,695,610.

The Grants Assistance Fund had a total restricted fund balance of \$6,982,927 compared to the prior year restricted fund balance of \$5,557,207.

The Compact Trust Fund had a total fund balance of \$27,419,143, 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 \$5,134,405.

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The other governmental funds (revolving funds) had a total fund balance of \$3,800,465, all of which was reserved for future operations of the National Government.

**Table 3. General Fund Changes in Fund Balance**

	2021	2020	Change	%
<b>REVENUES</b>				
Fishing fees	\$68,997,647	\$70,150,833	\$ (1,153,186)	-1.64
Taxes	23,958,320	25,815,913	(1,857,593)	-7.20
Fees and charges	307,361	352,174	(44,813)	-12.72
Investment revenues	64,836,907	26,114,199	38,722,708	148.28
Other	661,050	5,312,549	(4,651,499)	-87.56
Total revenues	<u>158,761,285</u>	<u>127,745,668</u>	<u>31,015,617</u>	24.28
<b>EXPENDITURES</b>				
Executive	50,091,252	35,166,349	14,924,903	42.44
Judiciary	1,800,744	1,871,312	(70,568)	-3.77
Legislative	8,997,810	8,205,096	792,714	9.66
Office of Public Auditor	1,039,585	1,219,279	(179,694)	-14.74
Agencies, boards and commissions	3,028,983	2,681,930	347,053	12.94
Special programs	562,125	363,837	198,288	54.50
Payments to component units	6,222,143	3,508,852	2,713,291	77.33
Legislative projects	16,020,116	28,800,549	(12,780,433)	-44.38
Debt service	3,892,089	3,678,677	213,412	5.80
Total expenditures	<u>91,654,847</u>	<u>85,495,881</u>	<u>6,158,966</u>	7.20
Excess of revenues over expenditures	<u>67,106,438</u>	<u>42,249,787</u>	<u>24,856,651</u>	58.83
<b>OTHER FINANCING SOURCES</b>				
Net transfers in	2,065,020	6,147,265	(4,082,245)	-66.41
<b>SPECIAL ITEMS</b>	<u>(5,595,629)</u>	<u>(1,183,544)</u>	<u>(4,412,085)</u>	372.79
Net change in fund balance	63,575,829	47,213,508	16,362,321	34.66
Fund balance at the beginning of the year	<u>495,016,369</u>	<u>447,802,861</u>	<u>47,213,508</u>	10.54
Fund balance at the end of the year	<u>\$558,592,198</u>	<u>\$495,016,369</u>	<u>\$63,575,829</u>	12.84

**FEDERATED STATES OF MICRONESIA  
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Management's Discussion and Analysis  
September 30, 2021

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

Capital Assets

At the end of fiscal year 2021, the National Government had invested \$201,087,174 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:

**Table 4. Capital Assets**

	2021	2020	Change	%
Buildings and improvements	\$ 74,257,684	\$ 74,257,684	\$ -	0
Boats	22,823,233	22,859,873	(36,640)	-0.16
Infrastructure	206,437,007	204,707,642	1,729,365	0.84
Motor vehicles	7,127,920	6,360,273	767,647	12.07
Computer equipment	2,688,252	2,685,208	3,044	0.11
Aircraft	709,207	709,207	-	0
Furniture, fixture and equipment	11,897,925	10,595,131	1,302,794	12.30
	<u>325,941,228</u>	<u>322,175,018</u>	<u>3,766,210</u>	<u>1.17</u>
Less: accumulated depreciation	(134,644,561)	(119,963,528)	(14,681,033)	12.24
Land	7,460,797	1,674,383	5,786,414	345.58
Construction-in-progress	2,329,710	651,099	1,678,611	257.81
	<u>\$201,087,174</u>	<u>\$204,536,972</u>	<u>\$ (3,449,798)</u>	<u>-1.69</u>

See note 5 to the financial statements for additional information on the National Government's capital asset activity in 2021.

Long-Term Liabilities

At the end of fiscal year 2021, the National Government had long term liabilities of \$44,475,808 relating to governmental activities as shown below:

**Table 5. Long-Term Debt**

	2021	2020	Change	%
ADB loans	\$44,475,808	\$ 47,510,856	\$ (3,035,048)	-6.39
Compensated absences	1,433,478	1,427,107	6,371	0.45
	<u>\$ 45,909,286</u>	<u>\$ 48,937,963</u>	<u>\$ (3,028,677)</u>	<u>-6.19</u>

During the year, the National Government made principal payments of \$3,245,663. Employees earned \$510,695 of vacation hours and used \$504,324 of such, which resulted in a net increase of \$6,371 in the compensated absences balance as of September 30 2021.

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

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Management's Discussion and Analysis  
September 30, 2021

**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 \$84 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 2022, the total revenue projection was approximately \$122 million, of which 94% will come from domestic sources, and 6% will come from the amended compact sector grants and foreign 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.

COVID-19 cases were identified in the FSM in fiscal year 2022. However, due to grants received from a federal agency and Asian Development Bank, the COVID-19 cases did not significantly impact our financial operations.

**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, 2021

	Primary Government	Component Units
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 64,767,614	\$ 54,764,020
Cash and cash equivalents - restricted	30,710,047	-
Time certificates of deposit	2,995,435	680,874
Investments	466,553,925	28,345,400
Receivables, net of allowance for uncollectibles	50,553,091	47,634,100
Due from component units	571,935	2,273,950
Inventories	-	15,499,882
Other assets	-	4,289,282
Total current assets	616,152,047	153,487,508
Noncurrent assets:		
Investments	-	16,574,682
Investments - restricted	27,419,143	-
Due from component units	-	2,214,651
Capital assets:		
Nondepreciable capital assets	9,790,507	13,339,622
Capital assets, net of accumulated depreciation	191,296,667	77,742,369
Other assets	8,427,442	8,793,618
Total noncurrent assets	236,933,759	118,664,942
Total assets	\$ 853,085,806	\$ 272,152,450
<b>LIABILITIES</b>		
Current liabilities:		
Current portion of long-term obligations	\$ 2,790,644	\$ 3,022,211
Accounts payable	4,869,191	7,740,590
Current portion of compensated absences payable	394,128	365,364
Due to primary government	-	2,273,950
Other liabilities and accruals	16,880,361	9,725,654
Tax refunds payable	232	-
Due to FSM State Governments	7,473,276	-
Unearned revenues	21,760,967	2,653,097
Total current liabilities	54,168,799	25,780,866
Noncurrent liabilities:		
Long-term obligations, net of current portion	41,685,164	23,282,090
Compensated absences payable, net of current portion	1,039,350	521,054
Total noncurrent liabilities	42,724,514	23,803,144
Total liabilities	96,893,313	49,584,010
<b>NET POSITION</b>		
Net investment in capital assets	201,087,174	79,618,827
Restricted for:		
Nonexpendable:		
Future operations	27,419,143	-
Other purposes	-	165,000
Expendable:		
Compact related	5,688,051	
Other purposes	2,482,921	
Unrestricted	519,515,204	142,784,613
Total net position	756,192,493	222,568,440
Total liabilities and net position	\$ 853,085,806	\$ 272,152,450

See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Statement of Activities  
Year Ended September 30, 2021

	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
<b>Functions/Programs</b>						
<b>Primary government:</b>						
<b>Governmental activities:</b>						
Office of the President	\$ 6,377,756	\$ -	\$ -	\$ -	\$ (6,377,756)	\$ -
Foreign affairs	11,951,637	-	800,853	-	(11,150,784)	-
Office of Personnel	263,038	-	-	-	(263,038)	-
Finance and administration	37,719,902	-	29,553,597	-	(8,166,305)	-
Resources and development	2,542,204	-	549,323	-	(1,992,881)	-
Transportation, communication and infrastructure	18,591,236	494,986	6,846,855	-	(11,249,395)	-
Health and social affairs	8,938,351	4,810	7,939,021	-	(994,520)	-
Education	7,407,910	-	1,553,967	-	(5,853,943)	-
Justice	6,925,775	1,129,411	-	-	(5,796,364)	-
Office of the Public Defender	666,262	-	-	-	(666,262)	-
Environment and emergency management	3,517,559	-	2,030,356	-	(1,487,203)	-
National archives, cultural and historic preservation	358,040	-	146,502	-	(211,538)	-
Legislature	8,751,986	-	-	-	(8,751,986)	-
Judiciary	1,807,547	-	-	-	(1,807,547)	-
Office of the National Public Auditor	1,376,167	-	339,494	-	(1,036,673)	-
National government programs	4,697,301	-	-	-	(4,697,301)	-
Agencies, boards and commissions	6,436,975	3,207,315	1,480,304	-	(1,749,356)	-
Special programs	562,125	-	-	-	(562,125)	-
Payments to component units	6,222,143	-	-	-	(6,222,143)	-
Legislative public projects	10,732,194	-	1,490,034	224,692	(9,017,468)	-
Capital projects	360,623	-	-	-	(360,623)	-
Unallocated interest on long-term debt	619,027	-	-	-	(619,027)	-
<b>Total primary government</b>	<b>\$ 146,825,758</b>	<b>\$ 4,836,522</b>	<b>\$ 52,730,306</b>	<b>\$ 224,692</b>	<b>(89,034,238)</b>	<b>-</b>
<b>Component units:</b>						
FSM Telecommunications Corporation	\$ 16,572,983	\$ 17,244,475	\$ 31,000	\$ -	-	702,492
FSM Development Bank	1,806,242	110,990	3,000,000	-	-	1,304,748
National Fisheries Corporation	884,696	1,699,231	-	-	-	814,535
College of Micronesia - FSM	22,832,374	23,510,214	285,000	-	-	962,840
FSM Petroleum Corporation	47,997,633	51,383,861	-	-	-	3,386,228
Vital Energy Inc.	15,842,605	16,596,637	-	-	-	754,032
Caroline Islands Air, Inc.	927,177	647,024	93,607	-	-	(186,546)
FSM National Government Employees Health Fund	4,221,023	6,985,827	1,080,336	-	-	3,845,140
FSM Telecommunications Cable Corporation	3,275,808	782,736	500,000	-	-	(1,993,072)
Telecommunication Regulation Authority	631,808	288,483	424,836	-	-	81,511
<b>Total component units</b>	<b>\$ 114,992,349</b>	<b>\$ 119,249,478</b>	<b>\$ 5,414,779</b>	<b>\$ -</b>	<b>-</b>	<b>9,671,908</b>
<b>General revenues:</b>						
<b>Taxes:</b>						
Income					3,630,195	-
Import					4,637,823	-
Gross receipts					3,810,114	-
Corporate tax					11,166,862	-
Fuel					146,410	-
Tobacco revenue share					851,349	-
Fishing rights					68,997,647	-
Unrestricted investment earnings					63,647,242	2,700,045
Other					1,849,065	10,077,720
<b>Total general revenues</b>					<b>158,736,707</b>	<b>12,777,765</b>
Special item - write-off of advance receivable balances					(5,775,689)	-
Special item - loss on SDR foreign exchange					(210,617)	-
Special item - increase in loan receivable from sub-borrowers					180,060	-
Contributions to permanent funds					5,134,405	-
<b>Total general revenues and contributions</b>					<b>158,064,866</b>	<b>12,777,765</b>
Change in net position					69,030,628	22,449,673
Net position at the beginning of the year					687,161,865	200,118,767
<b>Net position at the end of the year</b>					<b>\$ 756,192,493</b>	<b>\$ 222,568,440</b>

See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Balance Sheet  
Governmental Funds  
September 30, 2021

	General	Special Revenue Grants Assistance	Permanent Compact Trust	Other Governmental Funds	Total
<b>ASSETS</b>					
Cash and cash equivalents	\$ 64,767,614	\$ -	\$ -	\$ -	\$ 64,767,614
Time certificates of deposit	2,995,435	-	-	-	2,995,435
Equity in internal investment pool	459,535,817	-	-	-	459,535,817
Investments	7,018,108	-	-	-	7,018,108
Receivables, net:					
General	10,879	1,879,088	-	763	1,890,730
Taxes	6,402,691	-	-	-	6,402,691
Federal agencies	-	565,511	-	-	565,511
Loans	36,209,203	-	-	-	36,209,203
Advances	1,252,087	-	-	-	1,252,087
Accrued interest	12,997	-	-	-	12,997
Due from component units	571,935	-	-	-	571,935
Due from other funds	1,543,099	28,646,864	-	3,843,634	34,033,597
Other assets	8,427,442	-	-	-	8,427,442
Restricted assets:					
Cash and cash equivalents	25,773,467	4,936,580	-	-	30,710,047
Investments	-	-	27,419,143	-	27,419,143
Total assets	<u>\$ 614,520,774</u>	<u>\$ 36,028,043</u>	<u>\$ 27,419,143</u>	<u>\$ 3,844,397</u>	<u>681,812,357</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 3,344,283	\$ 1,492,962	\$ -	\$ 31,946	\$ 4,869,191
Other liabilities and accruals	16,754,286	114,089	-	11,986	16,880,361
Tax refunds payable	232	-	-	-	232
Due to FSM State Governments	3,339,277	4,133,999	-	-	7,473,276
Due to other funds	32,490,498	1,543,099	-	-	34,033,597
Unearned revenues	-	21,760,967	-	-	21,760,967
Total liabilities	<u>55,928,576</u>	<u>29,045,116</u>	<u>-</u>	<u>43,932</u>	<u>85,017,624</u>
Fund balances:					
Non-spendable	53,541,170	-	27,419,143	-	80,960,313
Restricted	2,040,151	6,982,927	-	-	9,023,078
Committed	455,729,725	-	-	3,800,465	459,530,190
Assigned	6,048,048	-	-	-	6,048,048
Unassigned:					
General fund	41,233,104	-	-	-	41,233,104
Total fund balances	<u>558,592,198</u>	<u>6,982,927</u>	<u>27,419,143</u>	<u>3,800,465</u>	<u>596,794,733</u>
Total liabilities and fund balances	<u>\$ 614,520,774</u>	<u>\$ 36,028,043</u>	<u>\$ 27,419,143</u>	<u>\$ 3,844,397</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				201,087,174	
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				(44,475,808)	
Compensated absences payable				(1,433,478)	
					159,397,760
Net position of governmental activities					<u>\$ 756,192,493</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, 2021

	General	Special Revenue Grants Assistance	Permanent Compact Trust	Other Governmental Funds	Total
<b>Revenues:</b>					
Compact funding	\$ -	\$ 2,776,241	\$ -	\$ -	\$ 2,776,241
Taxes	23,958,320	-	-	284,433	24,242,753
Federal and other grants	-	50,178,757	-	-	50,178,757
Fishing rights	68,997,647	-	-	-	68,997,647
Interest and dividends	(1,189,665)	-	-	-	(1,189,665)
Fees and charges	307,361	-	-	4,529,161	4,836,522
Net change in the fair value of investments	64,836,907	-	5,134,405	-	69,971,312
MiCare reimbursible	(339)	-	-	-	(339)
Other	1,851,054	(1,650)	-	-	1,849,404
<b>Total revenues</b>	<b>158,761,285</b>	<b>52,953,348</b>	<b>5,134,405</b>	<b>4,813,594</b>	<b>221,662,632</b>
<b>Expenditures:</b>					
<b>Current:</b>					
<b>General government:</b>					
Office of the President	6,333,616	-	-	-	6,333,616
Foreign affairs	11,289,297	800,853	-	-	12,090,150
Office of Personnel	261,799	-	-	-	261,799
Finance and administration	8,288,078	29,553,597	-	-	37,841,675
Resources and development	1,942,951	549,323	-	-	2,492,274
Transportation, communication and infrastructure	7,596,895	6,738,321	-	119,206	14,454,422
Health and social affairs	1,455,334	7,939,021	-	315	9,394,670
Education	5,266,399	1,553,967	-	281,526	7,101,892
Justice	5,437,349	22,664	-	1,105,528	6,565,541
Office of the Public Defender	674,562	-	-	-	674,562
Environment and emergency management	1,338,703	2,030,356	-	-	3,369,059
National archives, cultural and historic preservation	206,269	146,502	-	-	352,771
Legislature	8,997,810	40,000	-	-	9,037,810
Judiciary	1,800,744	-	-	-	1,800,744
Office of the National Public Auditor	1,039,585	339,494	-	-	1,379,079
Agencies, boards and commissions	3,028,983	1,480,304	-	1,926,204	6,435,491
Special programs	562,125	-	-	-	562,125
Payments to component units and fiduciary fund	6,222,143	-	-	-	6,222,143
Legislative public projects	16,020,116	-	-	-	16,020,116
Capital projects	-	333,226	-	-	333,226
<b>Debt service:</b>					
Principal and interest payments	3,892,089	-	-	-	3,892,089
<b>Total expenditures</b>	<b>91,654,847</b>	<b>51,527,628</b>	<b>-</b>	<b>3,432,779</b>	<b>146,615,254</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>67,106,438</b>	<b>1,425,720</b>	<b>5,134,405</b>	<b>1,380,815</b>	<b>75,047,378</b>
<b>Other financing sources (uses):</b>					
Operating transfers in	2,065,020	-	-	-	2,065,020
Operating transfers out	-	-	-	(2,065,020)	(2,065,020)
<b>Total other financing sources (uses), net</b>	<b>2,065,020</b>	<b>-</b>	<b>-</b>	<b>(2,065,020)</b>	<b>-</b>
<b>Special items:</b>					
Write-off of receivables balance	(5,775,689)	-	-	-	(5,775,689)
Increase in loan receivable from sub-borrowers	180,060	-	-	-	180,060
<b>Total special items</b>	<b>(5,595,629)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(5,595,629)</b>
<b>Net change in fund balances</b>	<b>63,575,829</b>	<b>1,425,720</b>	<b>5,134,405</b>	<b>(684,205)</b>	<b>69,451,749</b>
<b>Fund balances at the beginning of the year</b>	<b>495,016,369</b>	<b>5,557,207</b>	<b>22,284,738</b>	<b>4,484,670</b>	<b>527,342,984</b>
<b>Fund balances at the end of the year</b>	<b>\$ 558,592,198</b>	<b>\$ 6,982,927</b>	<b>\$ 27,419,143</b>	<b>\$ 3,800,465</b>	<b>\$ 596,794,733</b>

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, 2021

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

Net change in fund balances - total governmental funds	\$69,451,749
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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	\$ 11,231,235	
Depreciation expense, net	<u>(14,618,033)</u>	(3,449,798)

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position.

Special items loss from SDR	\$ (210,615)	
Repayment of ADB loans, net	<u>3,245,663</u>	3,035,048

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, net	<u>(6,371)</u>
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Change in net position of governmental activities	\$ <u>69,030,628</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, 2021

	<u>FSM Social Security Administration</u>	<u>Yap State Development Loan Fund</u>	<u>Total</u>
<b><u>ASSETS</u></b>			
Cash and cash equivalents	\$ 2,333,928	\$ 125,814	\$ 2,459,742
Time certificates of deposit	-	150,629	150,629
Receivables:			
Contributions	3,430,666	-	3,430,666
Other	514,132	2,629	516,761
Investments	57,391,365	-	57,391,365
Capital assets, net of accumulated depreciation	<u>47,420</u>	<u>-</u>	<u>47,420</u>
Total assets	<u>\$ 63,717,511</u>	<u>\$ 279,072</u>	<u>\$ 63,996,583</u>
<b><u>LIABILITIES</u></b>			
Accounts payable	\$ 60,183	\$ 21,235	\$ 81,418
Other liabilities and accruals	<u>28,901</u>	<u>-</u>	<u>28,901</u>
Total liabilities	<u>89,084</u>	<u>21,235</u>	<u>110,319</u>
<b><u>NET POSITION</u></b>			
Held in trust for:			
Social security benefits	63,628,427	-	63,628,427
Other purposes	<u>-</u>	<u>257,837</u>	<u>257,837</u>
Total net position	<u>63,628,427</u>	<u>257,837</u>	<u>63,886,264</u>
	<u>\$ 63,717,511</u>	<u>\$ 279,072</u>	<u>\$ 63,996,583</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, 2021

	<u>FSM Social Security Administration</u>	<u>Yap State Development Loan Fund</u>	<u>Total</u>
Additions:			
Contributions	\$ 20,677,055	\$ -	\$ 20,677,055
Investment earnings:			
Net change in the fair value of investments	6,617,052	-	6,617,052
Interest and dividends	<u>1,058,151</u>	<u>765</u>	<u>1,058,916</u>
Total investment earnings	7,675,203	765	7,675,968
Less investment expense	<u>(320,187)</u>	<u>-</u>	<u>(320,187)</u>
Net investment earnings	<u>7,355,016</u>	<u>765</u>	<u>7,355,781</u>
Contributions from primary government	<u>1,000,000</u>	<u>-</u>	<u>1,000,000</u>
Other	<u>372,468</u>	<u>-</u>	<u>372,468</u>
Total additions	<u>29,404,539</u>	<u>765</u>	<u>29,405,304</u>
Deductions:			
Benefits	23,063,232	-	23,063,232
Refunds/distribution	20,894	-	20,894
Administrative expenses	<u>1,100,498</u>	<u>-</u>	<u>1,100,498</u>
Total deductions	<u>24,184,624</u>	<u>-</u>	<u>24,184,624</u>
Change in net position	5,219,915	765	5,220,680
Net position at the beginning of the year	<u>58,408,512</u>	<u>257,072</u>	<u>58,665,584</u>
Net position at the end of the year	<u>\$ 63,628,427</u>	<u>\$ 257,837</u>	<u>\$ 63,886,264</u>

See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Combining Statement of Net Position  
Component Units  
September 30, 2021

	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>											
<b>Current assets:</b>											
Cash and cash equivalents	\$ 4,226,100	\$ 13,178,567	\$ 1,538,864	\$ 4,085,434	\$ 25,344,940	\$ 3,185,031	\$ 81,354	\$ 2,581,648	\$ 315,681	\$ 226,401	\$ 54,764,020
Time certificates of deposit	279,460	-	-	18	-	401,396	-	-	-	-	680,874
Investments	2,047,541	16,394,599	1,323,270	3,595,468	3,158,734	-	-	1,825,788	-	-	28,345,400
Receivables, net:											
General	514,323	-	1,222,396	6,647,155	2,313,432	63,776	-	110,860	1,602,633	65,177	12,539,752
Loans	-	34,285,850	-	-	-	-	-	-	-	-	34,285,850
Interest	-	318,740	-	-	-	-	-	-	-	-	318,740
Other	197,034	-	4,622	172,782	115,320	-	-	-	-	-	489,758
Due from component units	-	-	-	-	2,273,950	-	-	-	-	-	2,273,950
Inventories	1,219,811	-	39,195	1,230,074	8,183,414	4,768,778	58,610	-	-	-	15,499,882
Prepaid expenses	1,891,134	-	-	402,101	1,699,107	69,078	129,968	-	97,894	-	4,289,282
<b>Total current assets</b>	<b>10,375,403</b>	<b>64,177,756</b>	<b>4,128,347</b>	<b>16,133,032</b>	<b>43,088,897</b>	<b>8,488,059</b>	<b>269,932</b>	<b>4,518,296</b>	<b>2,016,208</b>	<b>291,578</b>	<b>153,487,508</b>
<b>Noncurrent assets:</b>											
Indefeasible right of use	2,162,403	-	-	-	-	-	-	-	4,162,082	-	6,324,485
Capital assets:											
Nondepreciable capital assets	2,291,121	7,889	-	1,455,685	9,522,342	-	-	62,585	-	-	13,339,622
Capital assets, net of accumulated depreciation	25,822,573	1,420,916	227,570	4,919,906	21,797,018	164,362	17,694	47,946	23,300,054	24,330	77,742,369
Other assets	1,486,555	-	-	-	861,578	121,000	-	-	-	-	2,469,133
Due from component units, net of current investments	-	6,554,880	-	10,019,802	1,988,128	-	-	226,523	-	-	16,574,682
<b>Total noncurrent assets</b>	<b>31,762,652</b>	<b>7,983,685</b>	<b>227,570</b>	<b>16,395,393</b>	<b>34,169,066</b>	<b>285,362</b>	<b>17,694</b>	<b>337,054</b>	<b>27,462,136</b>	<b>24,330</b>	<b>118,664,942</b>
<b>Total assets</b>	<b>\$ 42,138,055</b>	<b>\$ 72,161,441</b>	<b>\$ 4,355,917</b>	<b>\$ 32,528,425</b>	<b>\$ 77,257,963</b>	<b>\$ 8,773,421</b>	<b>\$ 287,626</b>	<b>\$ 4,855,350</b>	<b>\$ 29,478,344</b>	<b>\$ 315,908</b>	<b>\$ 272,152,450</b>
<b>LIABILITIES</b>											
<b>Current liabilities:</b>											
Current portion of long-term debt	\$ 1,002,085	\$ 334,001	\$ -	\$ -	\$ 1,415,010	\$ -	\$ -	\$ -	\$ 271,115	\$ -	\$ 3,022,211
Compensated absences payable	-	-	-	365,364	-	-	-	-	-	-	365,364
Accounts payable	228,716	41,984	58,342	296,079	5,798,247	76,867	5,949	749,943	421,157	63,306	7,740,590
Due to component units, current portion	-	-	-	-	2,273,950	-	-	-	-	-	2,273,950
Other liabilities and accruals	3,989,699	83,951	9,100	1,540,132	3,109,624	914,026	72,332	-	-	6,790	9,725,654
Unearned revenues	294,685	121,660	-	2,236,752	-	-	-	-	-	-	2,653,097
<b>Total current liabilities</b>	<b>5,515,185</b>	<b>581,596</b>	<b>67,442</b>	<b>4,438,327</b>	<b>10,322,881</b>	<b>3,264,843</b>	<b>78,281</b>	<b>749,943</b>	<b>692,272</b>	<b>70,096</b>	<b>25,780,866</b>
<b>Noncurrent liabilities:</b>											
Noncurrent portion of long-term debt	8,722,355	3,003,829	-	-	6,648,199	-	-	-	378,885	-	18,753,268
Due to primary government, net of current portion	-	-	-	-	1,747,383	1,988,128	-	-	500,000	-	4,235,511
Compensated absences, net of current portion	-	-	-	521,054	-	-	-	-	-	-	521,054
Other noncurrent liability	-	-	-	-	-	293,311	-	-	-	-	293,311
<b>Total noncurrent liabilities</b>	<b>8,722,355</b>	<b>3,003,829</b>	<b>-</b>	<b>521,054</b>	<b>8,395,582</b>	<b>2,281,439</b>	<b>-</b>	<b>-</b>	<b>878,885</b>	<b>-</b>	<b>23,803,144</b>
<b>Total liabilities</b>	<b>14,237,540</b>	<b>3,585,425</b>	<b>67,442</b>	<b>4,959,381</b>	<b>18,718,463</b>	<b>5,546,282</b>	<b>78,281</b>	<b>749,943</b>	<b>1,571,157</b>	<b>70,096</b>	<b>49,584,010</b>
<b>NET POSITION</b>											
Net investment in capital assets	20,551,657	1,428,805	227,570	6,375,591	23,256,151	164,362	17,694	110,531	27,462,136	24,330	79,618,827
Restricted for:											
Nonexpendable	-	-	-	165,000	-	-	-	-	-	-	165,000
Unrestricted	7,348,858	67,147,211	4,060,905	21,028,453	35,283,349	3,062,777	191,651	3,994,876	445,051	221,482	142,784,613
<b>Total net position</b>	<b>27,900,515</b>	<b>68,576,016</b>	<b>4,288,475</b>	<b>27,569,044</b>	<b>58,539,500</b>	<b>3,227,139</b>	<b>209,345</b>	<b>4,105,407</b>	<b>27,907,187</b>	<b>245,812</b>	<b>222,568,440</b>
<b>Total liabilities and net position</b>	<b>\$ 42,138,055</b>	<b>\$ 72,161,441</b>	<b>\$ 4,355,917</b>	<b>\$ 32,528,425</b>	<b>\$ 77,257,963</b>	<b>\$ 8,773,421</b>	<b>\$ 287,626</b>	<b>\$ 4,855,350</b>	<b>\$ 29,478,344</b>	<b>\$ 315,908</b>	<b>\$ 272,152,450</b>

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, 2021

	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>Operating revenues:</b>											
Charges for services	\$ 17,244,475	\$ -	\$ 888,100	\$ 23,219,748	\$ 50,949,168	\$ 16,596,637	\$ 647,024	\$ 6,983,846	\$ 782,736	\$ -	\$ 117,311,734
Other	-	110,990	811,131	290,466	434,693	-	-	1,981	-	288,483	1,937,744
<b>Total operating revenues</b>	<b>17,244,475</b>	<b>110,990</b>	<b>1,699,231</b>	<b>23,510,214</b>	<b>51,383,861</b>	<b>16,596,637</b>	<b>647,024</b>	<b>6,985,827</b>	<b>782,736</b>	<b>288,483</b>	<b>119,249,478</b>
<b>Operating expenses:</b>											
Cost of services	2,116,600	-	-	-	32,402,245	13,121,316	804,873	3,736,651	-	-	52,181,685
Depreciation and amortization	4,111,250	153,399	29,242	956,338	3,226,431	82,162	-	18,811	1,278,327	10,982	9,866,942
Administrative costs	10,345,133	1,652,843	855,454	21,876,036	12,368,957	2,639,127	122,304	465,561	1,997,481	620,826	52,943,722
<b>Total operating expenses</b>	<b>16,572,983</b>	<b>1,806,242</b>	<b>884,696</b>	<b>22,832,374</b>	<b>47,997,633</b>	<b>15,842,605</b>	<b>927,177</b>	<b>4,221,023</b>	<b>3,275,808</b>	<b>631,808</b>	<b>114,992,349</b>
<b>Operating income (loss)</b>	<b>671,492</b>	<b>(1,695,252)</b>	<b>814,535</b>	<b>677,840</b>	<b>3,386,228</b>	<b>754,032</b>	<b>(280,153)</b>	<b>2,764,804</b>	<b>(2,493,072)</b>	<b>(343,325)</b>	<b>4,257,129</b>
<b>Nonoperating revenues (expenses):</b>											
Net change in the fair value of investments	304,344	-	206,799	1,809,983	383,699	-	-	(4,780)	-	-	2,700,045
Interest income (expense)	(384,427)	1,858,623	-	-	(373,432)	(684,410)	-	-	125	-	416,479
Contributions from primary government	31,000	3,000,000	-	285,000	-	-	93,607	1,080,336	500,000	424,836	5,414,779
Other income (expense)	8,209,255	855	(191,287)	-	653,384	425	175,000	931	812,678	-	9,661,241
<b>Total nonoperating revenues (expenses), net</b>	<b>8,160,172</b>	<b>4,859,478</b>	<b>15,512</b>	<b>2,094,983</b>	<b>663,651</b>	<b>(683,985)</b>	<b>268,607</b>	<b>1,076,487</b>	<b>1,312,803</b>	<b>424,836</b>	<b>18,192,544</b>
<b>Net income (loss)</b>	<b>8,831,664</b>	<b>3,164,226</b>	<b>830,047</b>	<b>2,772,823</b>	<b>4,049,879</b>	<b>70,047</b>	<b>(11,546)</b>	<b>3,841,291</b>	<b>(1,180,269)</b>	<b>81,511</b>	<b>22,449,673</b>
<b>Net position at the beginning of the year</b>	<b>19,068,851</b>	<b>65,411,790</b>	<b>3,458,428</b>	<b>24,796,221</b>	<b>54,489,621</b>	<b>3,157,092</b>	<b>220,891</b>	<b>264,116</b>	<b>29,087,456</b>	<b>164,301</b>	<b>200,118,767</b>
<b>Net position at the end of the year</b>	<b>\$ 27,900,515</b>	<b>\$ 68,576,016</b>	<b>\$ 4,288,475</b>	<b>\$ 27,569,044</b>	<b>\$ 58,539,500</b>	<b>\$ 3,227,139</b>	<b>\$ 209,345</b>	<b>\$ 4,105,407</b>	<b>\$ 27,907,187</b>	<b>\$ 245,812</b>	<b>\$ 222,568,440</b>

See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2021

(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, 2021

(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*, GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and 34*, and GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*. 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, 2021

(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 the Plan through legislative appropriations and has the ability to impose its will on the Plan.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2021

(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, 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 by 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, 2021

(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 \$35,590,115 of restricted net position, of which \$2,482,921 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, 2021

(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, 2021

(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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September 30, 2021

(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  
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(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 \$27,419,143 are restricted in that they are not available to be used in current operations.

As of September 30, 2021, 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	\$ 9,892,891
Deposit accounts maintained for certain non-U.S. donor agencies (ADB, People's Republic of China, Japan, European Union)	19,633,882
Deposit account established for the Airport Improvement Program	288,846
Deposit account maintained for proceeds from dormant bank accounts established in accordance with Public Law 13-56	842,075
Deposit accounts established for imprest funds in accordance with ADB Loans 2099 and 2100	<u>52,353</u>
	\$ <u>30,710,047</u>

**FEDERATED STATES OF MICRONESIA  
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(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 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, 2021

(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.

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Notes to Financial Statements  
September 30, 2021

(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 the year ended September 30, 2021, FSM National Government implemented the following pronouncements:

- GASB Statement No. 84, *Fiduciary Activities*, which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.
- GASB Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*, which improves 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.
- GASB Statement No. 93, *Replacement of Interbank Offered Rates*, which establishes accounting and reporting requirements related to the replacement of Interbank Offered Rates such as the London Interbank Offered Rate (LIBOR) for hedging derivative instruments. The provision removing LIBOR as an appropriate benchmark interest rate for the evaluation of the effectiveness of derivative instruments is effective for the year ended September 30, 2022.

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Notes to Financial Statements  
September 30, 2021

(1) Summary of Significant Accounting Policies, Continued

V. New Accounting Standards, Continued

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

In June 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 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.

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. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. 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. In accordance with GASB Statement No. 95, the remaining requirements of GASB Statement No. 92 are effective for the fiscal year ending September 30, 2022.

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Notes to Financial Statements  
September 30, 2021

(1) Summary of Significant Accounting Policies, Continued

V. New Accounting Standards, Continued

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.

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.

**FEDERATED STATES OF MICRONESIA  
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Notes to Financial Statements  
September 30, 2021

(1) Summary of Significant Accounting Policies, Continued

W. Estimates

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

X. Total Columns

Total columns are presented primarily to facilitate financial analysis. The Management's Discussion and Analysis includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with the FSM National Government's financial statements for the year ended September 30, 2020 from which such summarized information was derived.

(2) Deposits and Investments

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

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

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

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



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Notes to Financial Statements  
September 30, 2021

(2) Deposits and Investments, Continued

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

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

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

A. Deposits

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

As of September 30, 2021, the carrying amount of the primary government's total cash and cash equivalents and time certificates of deposit was \$98,473,096 and the corresponding bank balances were \$100,403,913. Of the bank balances, \$88,511,122 is maintained in financial institutions subject to FDIC insurance or a credit union subject to National Credit Union Administration (NCUA) insurance; while \$4,193,809 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, 2021 while the remaining amount of \$6,956,212 is maintained in financial institutions not subject to FDIC or NCUA insurance.

As of September 30, 2021, the carrying amount of the fiduciary funds' total cash and cash equivalents and time certificates of deposit was \$2,610,371 and the corresponding bank balances were \$2,620,190. Of the bank balances, \$1,239,870 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, 2021, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$55,444,894 and the corresponding bank balances were \$56,815,227 which are maintained in financial institutions subject to FDIC insurance. As of September 30, 2021, bank deposits in the amount of \$4,237,812 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.

**FEDERATED STATES OF MICRONESIA  
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Notes to Financial Statements  
September 30, 2021

(2) Deposits and Investments, Continued

B. Investments

Primary Government

As of September 30, 2021, the FSM National Government's investments are as follows:

General Fund:

Fixed income	\$ 389,626,453
Domestic equities	7,018,108
Common equities	2,396,054
Cash management account	<u>67,513,310</u>
	\$ <u>466,553,925</u>

Grant Assistance Fund:

Cash management account	\$ <u>4,936,580</u>
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Compact Trust Fund:

Common trust funds:

Domestic Equity	\$ 7,461,957
International Equity	6,671,733
Global Equity	2,516,668
Fixed Income	4,082,684
Private Equity	2,959,713
Hedge Fund	1,466,175
Real Estate	2,192,245
Money market funds	<u>67,968</u>

\$ 27,419,143

\$ 498,909,648

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Notes to Financial Statements  
September 30, 2021

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

As of September 30, 2021, the primary government's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

<u>Investment Type</u>	<u>Rating Type</u>	<u>Maturity (in years)</u>				
		<u>Fair Value</u>	<u>Less than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>Over 10</u>
U.S. Treasury Obligations	Aaa	\$275,116	\$16,132	\$179,246	\$29,752	\$49,986
U.S. Government Agencies Obligations:						
Federal Farm Credit Bank	Aaa	38,803	17,919	2,659	7,184	11,041
Federal Home Loan Bank	Aaa	51,866	4,601	33,211	14,054	-
Federal Home Loan Mortgage Corporation	Aaa	2,129	-	-	-	2,129
Federal National Mortgage Association	Aaa	4,456	-	-	3,897	559
Overseas Private Investment Corporation	Aaa	21,873	-	21,873	-	-
Tennessee Valley Authority	Aaa	43,287	9,995	-	-	33,292
Municipal Obligations	Aa1	31,712	-	11,213	12,535	7,964
Municipal Obligations	Aa2	32,726	-	11,373	5,452	15,901
Municipal Obligations	Aa3	4,658	-	2,839	-	1,819
Corporate Bonds	Aaa	70,345	31,812	31,787	-	6,746
Corporate Bonds	Aa1	7,102	-	7,102	-	-
Corporate Bonds	Aa2	19,168	4,560	14,608	-	-
Corporate Bonds	Aa3	11,534	-	-	3,689	7,845
Corporate Bonds	A1	63,956	-	35,671	9,148	19,137
Corporate Bonds	A2	48,791	-	24,869	16,652	1,971
Corporate Bonds	A3	41,127	642	25,397	5,546	14,841
Corporate Bonds	Baa1	78,643	-	42,134	8,964	27,545
Corporate Bonds	Baa2	52,631	3,644	33,145	7,008	8,834
Corporate Bonds	Baa3	21,196	-	21,196	-	-
Corporate Bonds	Not Listed	6,737	-	6,737	-	-
Corporate Bonds	No Rating	<u>32,651</u>	<u>-</u>	<u>32,651</u>	<u>-</u>	<u>-</u>
		<u>\$960,507</u>	<u>\$89,305</u>	<u>\$537,711</u>	<u>\$123,881</u>	<u>\$209,610</u>

<u>Investment Type (no aging schedule)</u>	<u>Rating Type</u>	<u>Fair Value</u>
U.S. Treasury Notes and Bonds	Aaa	\$108,464,805
U.S. Agencies Obligations	A3	3,615,494
Mortgage Backed	Aa1	90,426,214
Asset Backed	B3	23,053,631
Corporate Bonds - Industrial	Baa1	60,258,225
Corporate Bonds - Finance	A3	43,502,551
Corporate Bonds - Yankee Bond	Baa1	8,669,409
Corporate Bonds - Utilities	A3	10,418,842
Corporate Bonds - Others	Aa2	<u>40,256,775</u>
		<u>\$388,665,946</u>
Total fixed income		<u>\$389,626,453</u>

**FEDERATED STATES OF MICRONESIA  
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Notes to Financial Statements  
September 30, 2021

(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, 2021:

General Fund - Grant Assistance Fund:	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		Quoted Prices in Active Markets for Identical Assets <u>Level 1</u>	Significant Other Observable Inputs <u>Level 2</u>	Significant Unobservable Inputs <u>Level 3</u>
Investments by fair value level:				
Fixed income:				
U.S. Treasury obligations	\$108,739,921	\$ -	\$108,739,921	\$ -
U.S. Government agencies obligations	3,777,908	-	3,777,908	-
Municipal obligations	113,548,941	-	113,548,941	-
Corporate notes	<u>163,559,683</u>	-	<u>163,559,683</u>	-
	389,626,453	-	<u>389,626,453</u>	-
Equity securities:				
U.S. equities	<u>2,396,054</u>	<u>2,396,054</u>	-	-
Total investments at fair value	392,022,507	<u>\$2,396,054</u>	<u>\$389,626,453</u>	<u>\$ -</u>
Investments measured at NAV:				
Equity in Bank of the FSM	7,018,108			
Investments measured at amortized cost				
Cash management account	<u>67,513,310</u>			
	466,553,925			
Grant Assistance Fund:				
Cash management account	<u>4,936,580</u>			
	<u>\$471,490,505</u>			

Compact Trust Fund:	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		Quoted Prices in Active Markets for Identical Assets <u>Level 1</u>	Significant Other Observable Inputs <u>Level 2</u>	Significant Unobservable Inputs <u>Level 3</u>
Investments at fair value level:				
Common trust funds:				
Domestic equity	\$ 7,461,957	7,461,957	\$ -	\$ -
International equity	6,671,733	6,671,733	-	-
Global Equity	2,516,668	2,516,668	-	-
Fixed income	4,082,684	4,082,684	-	-
Private equity	<u>2,959,713</u>	-	-	<u>2,959,713</u>
Total investments at fair value	23,692,755	<u>\$20,733,042</u>	<u>\$ -</u>	<u>\$2,959,713</u>
Investments measured at NAV:				
Hedge Fund	1,466,175			
Real Estate	2,192,245			
Investments measured at amortized cost:				
Money market funds	<u>67,968</u>			
	<u>\$27,419,143</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.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2021

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the 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, 2021.

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, 2021, 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 OFI vary in credit quality with an average overall rating of "Ba1" as rated by Moody's as of September 30, 2021. High yield debt receiving a credit rating below "A" comprises approximately 62.8% of the MIM OFI fixed income portfolio as rated by Moody's at September 30, 2021. At September 30, 2021, the weighted average maturity of the bonds comprising MIM OFI is 7.3 years.

The bonds held by MIM CFI vary in credit quality with an average overall rating of "Aa3" as rated by Moody's as of September 30, 2021. High yield debt receiving a credit rating below "A" comprises approximately 29.9% of the MIM CFI fixed income portfolio as rated by Moody's at September 30, 2021. At September 30, 2021, the weighted average maturity of the bonds comprising MIM CFI is 9.46 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.

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(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

The Trust Fund's exposure to foreign currency risk is derived from its investment in common trust funds, ETFs and REITs that hold investments in securities of foreign issuers and sovereigns. Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair values of an investment or deposit. At September 30, 2021, the Trust Fund held approximately \$277,000,000 in securities of foreign issuers held in common trust funds. Of this amount, approximately \$59,000,000 was held in securities whose functional currency is the Euro, \$20,000,000 whose functional currency is the British pound, \$49,000,000 whose functional currency is the Japanese yen, and \$149,000,000 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 16.2% of invested assets at September 30, 2021.

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 242,237 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' equity 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.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2021

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

Fiduciary Funds, Continued

FSM Social Security Administration (FSMSSA), Continued:

- iii. Preferred and common stocks - Shares of preferred or common stocks of any corporation created or existing under the laws of the FSM or under the laws of the United States or any state, territory or commonwealth thereof provided that the purchase of such shares shall be considered reasonable and prudent by the respective investment advisors at the time of purchase, that not more than five percent of the market value of the FSMSSA Retirement Fund shall be invested in the stock of any one corporation, and that not more than ten percent of the market value of the FSMSSA Retirement Fund shall be invested in any one industry group.
- iv. Insurance company obligations - Contracts and agreements supplemental thereto providing for participation in one or more accounts of a life insurance company authorized to do business in the FSM or in any state, territory or commonwealth of the United States provided that the total market value of these investments at no time shall exceed ten percent of all investments of the FSMSSA Retirement Fund.

As of December 31, 2021 , investments are as follows:

Fixed income securities:	
Domestic fixed income	\$ 18,193,017
Other investments:	
Domestic equities	14,123,384
International equities	12,377,429
Exchange traded funds	7,754,177
Real estate investment trust and tangibles	<u>4,943,358</u>
	<u>\$ 57,391,365</u>

As of December 31, 2021, the Administration's investments in fixed income securities were as follows:

	<u>Investment Maturities (In Years)</u>			<u>Greater Than 10</u>	<u>Fair Value</u>
	<u>Less Than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>		
U.S. Treasury and agencies obligations	\$ 5,056,788	\$ -	\$ 1,840,664	\$ 1,671,132	\$ 8,568,584
Mortgage and asset-backed securities	-	-	70,899	4,665,884	4,736,783
Corporate notes and bonds	<u>856,094</u>	<u>1,214,981</u>	<u>2,816,575</u>	-	<u>4,887,650</u>
	<u>\$ 5,912,882</u>	<u>\$ 1,214,981</u>	<u>\$ 4,728,138</u>	<u>\$ 6,337,016</u>	<u>\$ 18,193,017</u>

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

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2021

(2) Deposits and Investments, Continued

B. Investments, Continued

Fiduciary Funds, Continued

FSM Social Security Administration (FSMSSA), Continued:

FSMSSA's exposure to credit risk at December 31, 2021, was as follows:

Standard and Poors' Rating

AAA/AAA	\$ 6,858,766
A1/A	171,254
A1/AA-	310,326
A1/BBB+	1,040,135
A2/A	281,680
A2/A-	1,018,139
A2/BBB+	358,681
A3/A	-
A3/A-	686,110
A3/BBB+	1,021,325
Not rated	<u>6,446,601</u>
	<u>\$ 18,193,017</u>

The Administration has the following recurring fair value measurements as of December 31, 2021:

	<u>Fair Value Measurements Using</u>			
	December 31, 2021	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobserva ble Inputs (Level 3)
Investments by fair value level:				
Fixed income securities	\$ 18,193,017	\$ -	\$ 18,193,017	\$ -
Equity securities	26,500,813	26,500,813	-	-
Exchange traded funds	7,754,177	7,754,177	-	-
Real estate investment trust and tangibles	<u>4,943,358</u>	<u>4,943,358</u>	<u>-</u>	<u>-</u>
	<u>\$ 57,391,365</u>	<u>\$ 39,198,348</u>	<u>\$ 18,193,017</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, 2021.

As of December 31, 2021, FSMSSA did not hold an investment in any one issuer that represented more than 5% of FSMSSA's total investments.



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Notes to Financial Statements  
September 30, 2021

(2) Deposits and Investments, Continued

B. Investments, Continued

Fiduciary Funds, Continued

FSM Social Security Administration (FSMSSA), Continued:

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 Telecommunication Corporation (FSMTC)

As of September 30, 2021, investments at fair value are as follows:

Fixed income:		
U.S. Treasury obligations	\$	190,939
Corporate notes		<u>246,872</u>
		437,811
Other investments:		
Domestic and international equities		1,548,226
Money market funds		31,377
Others		<u>30,127</u>
	\$	<u>2,047,541</u>

As of September 30, 2021, the Corporation's investments in debt securities were as follows:

	Moody's Credit Rating	Less Than 1	Investment Maturities (In Years)		Greater Than 10	Fair Value
			1 to 5	6 to 10		
U.S. Treasury obligations	Aaa	\$ 28,971	\$ 106,455	\$ 55,513	\$ -	\$ 190,939
Corporate notes	A1	9,000	31,185	10,002	-	50,187
Corporate notes	A2	27,191	8,066	20,903	-	56,160
Corporate notes	A3	-	44,148	20,279	-	64,427
Corporate notes	Baa1	-	33,871	-	-	33,871
Corporate notes	Baa2	-	<u>28,640</u>	<u>13,587</u>	-	<u>42,227</u>
		\$ <u>65,162</u>	\$ <u>252,365</u>	\$ <u>120,284</u>	\$ -	\$ <u>437,811</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, 2021:

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NATIONAL GOVERNMENT**

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September 30, 2021

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

FSM Telecommunications Corporation (FSMTC), Continued:

	September 30, <u>2021</u>	<u>Fair Value Measurements Using</u>		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Fixed income:				
U.S. Treasury obligations	\$ 190,939	\$ -	\$190,939	\$-
Corporate notes	<u>246,872</u>	<u>-</u>	<u>246,872</u>	<u>-</u>
Total fixed income	<u>437,811</u>	<u>-</u>	<u>437,811</u>	<u>-</u>
Equity securities:				
U.S. equities	1,135,821	1,135,821	-	-
Non U.S. equities	<u>412,405</u>	<u>412,405</u>	<u>-</u>	<u>-</u>
Total equity securities	<u>1,548,226</u>	<u>1,548,226</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	1,986,037	<u>\$1,548,226</u>	<u>\$437,811</u>	<u>\$-</u>
Investments measured at amortized cost:				
Money market funds	31,377			
Others	<u>30,127</u>			
	<u>\$2,047,541</u>			

College of Micronesia - FSM (COM-FSM):

As of September 30, 2021, COM-FSM's investments are as follows:

Fixed income securities:	
Domestic fixed income	\$ 3,964,338
International fixed income	<u>-</u>
	<u>3,964,338</u>
Other investments:	
Common equities	8,070,764
Alternatives	840,314
Exchange traded funds	434,659
Money market funds	<u>305,195</u>
	<u>9,650,932</u>
	<u>\$ 13,615,270</u>

As of September 30, 2021, COM-FSM's fixed income securities had the following maturities:

Investment Type	Fair Value	<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 bonds	\$ 1,850,192	\$ 26,382	\$ 579,692	\$ 1,077,609	\$ 166,509
Government bonds	<u>2,114,146</u>	<u>-</u>	<u>1,474,854</u>	<u>490,948</u>	<u>148,344</u>
	<u>\$ 3,964,338</u>	<u>\$ 26,382</u>	<u>\$ 2,054,546</u>	<u>\$ 1,568,557</u>	<u>\$ 314,853</u>

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2021

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

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

COM-FSM's exposure to credit risk at September 30, 2021, was as follows:

<u>Moody's Rating</u>	<u>Domestic</u>	<u>Total</u>
AAA/AAA	\$ 2,053,220	\$ 2,053,220
AAA/AA+	63,753	63,753
AA2/AA-	28,212	28,212
A1/A+	105,053	105,053
A1/AA	49,453	49,453
A1/BBB+	97,323	97,323
A2/A+	26,382	26,382
A2/A-	211,310	211,310
A2/BBB+	97,204	97,204
A3/A+	52,056	52,056
A3/A-	219,571	219,571
A3/BBB+	54,983	54,983
BAA1/BBB+	239,775	239,775
BAA1/BBB	55,335	55,335
BAA2/BBB+	151,544	151,544
BAA2/BBB	349,413	349,413
BAA3/BBB	55,810	55,810
Not rated	<u>53,941</u>	<u>53,941</u>
Total	<u>\$ 3,964,338</u>	<u>\$ 3,964,338</u>

COM-FSM has the following recurring fair value measurements as of September 30, 2021:

	<u>Fair Value Measurements Using</u>			
	<u>September 30, 2021</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investments by fair value level:				
Fixed income securities	\$ 3,964,338	\$ -	\$ 3,964,338	\$ -
Equity securities	8,911,078	8,911,078	-	-
Exchange traded funds	<u>434,659</u>	<u>434,659</u>	-	-
Total investments by fair value level	13,310,075	<u>\$ 9,345,737</u>	<u>\$ 3,964,338</u>	<u>\$ -</u>
Investments measured at amortized cost:				
Money market funds	<u>305,195</u>			
	<u>\$ 13,615,270</u>			

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2021

2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

FSM Development Bank (FSMDB):

As of December 31, 2021, investments at fair value are as follows:

Fixed income securities:

Domestic fixed income \$ 4,979,132

Equity securities:

Domestic equities 9,761,092

Shares in a mutual fund 1,654,375

\$ 16,394,599

As of December 31, 2021, 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	\$ 623,495	\$ -	\$ 1,117,076	\$ -	\$ 1,740,571
U.S. Treasury Notes	Not rated	599,938	-	-	-	599,938
U.S. Government agencies:						
Federal Agricultural						
Mortgage Corp.	Not rated	279,983	-	-	-	279,983
Fannie Mae Pool	Not rated	-	-	-	1,040,554	1,040,554
Freddie Mac Group	Not rated	-	-	-	358,617	358,617
Corporate bonds	A1	-	125,923	303,623	-	429,546
Corporate bonds	A2	-	-	93,711	-	93,711
Corporate bonds	A3	-	160,446	60,766	-	221,212
Corporate bonds	Not rated	<u>215,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>215,000</u>
		\$ <u>1,718,416</u>	\$ <u>286,369</u>	\$ <u>1,575,176</u>	\$ <u>1,399,171</u>	\$ <u>4,979,132</u>

Fair Value Measurements Using

	December 31, <u>2021</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fixed income:				
U.S. Treasury obligations	\$ 2,340,509	\$ -	\$ 2,340,509	\$ -
U.S. Government agencies	1,679,154	-	1,679,154	-
Corporate notes	<u>959,469</u>	<u>-</u>	<u>959,469</u>	<u>-</u>
Total fixed income	<u>4,979,132</u>	<u>-</u>	<u>4,979,132</u>	<u>-</u>
Equity securities:				
U.S. equities	9,761,092	9,761,092	-	-
Mutual fund shares	<u>1,654,375</u>	<u>1,654,375</u>	<u>-</u>	<u>-</u>
Total investments at fair value	\$ <u>16,394,599</u>	\$ <u>11,415,467</u>	\$ <u>4,979,132</u>	\$ <u>-</u>

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2021

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

FSM Development Bank (FSMDB), Continued

At December 31, 2021, the equity investment in Bank of the FSM carried at \$6,554,880, represents 225,001 common shares and approximately a 24% ownership interest.

National Fisheries Corporation (NFC):

NFC, in prior years, has invested in various joint ventures with respective agencies in the four states of the FSM which are directly involved in the exploitation and development of the FSM's fisheries industry. The NFC's involvement in these joint ventures varies in nature. In 2012, NFC invested \$75,000 in Taiyo Micronesia Corporation (TMC). The equity investment in TMC represents 750 shares of common stock and a 25% ownership interest. In 2018, NFC invested \$75,000 in Kasar Fishing Corporation (KFC). The equity investment in TMC represents 150 shares of common stock and a 25% ownership interest. The investments in TMC and KFC are recorded using the equity method of accounting. Under this method, NFC recognizes its proportionate share of earnings or losses of TMC and KFC based on its ownership interest. Dividends received reduce NFC's investment.

As of September 30, 2021, 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, users may cease or suspend creating new shares, which 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 \$1,323,270 as of September 30, 2021. Investments in securities are categorized as Level 1.

FSM Petroleum Corporation (FSMPC):

As of December 31, 2021, investments at fair value are as follows:

Fixed income securities:

Domestic fixed income \$ 557,533

Other investments:

Common equities 2,349,965

Exchange traded funds 189,638

Money market funds 61,598

2,601,201

\$ 3,158,734

As of December 31, 2021, the Company'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	\$ 295,467	\$ -	\$ 38,974	\$ 189,246	\$ 67,247
U.S. Government Agency Bonds	<u>262,066</u>	<u>-</u>	<u>99,449</u>	<u>110,658</u>	<u>51,959</u>
	\$ <u>557,533</u>	\$ <u>-</u>	\$ <u>138,423</u>	\$ <u>299,904</u>	\$ <u>119,206</u>

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2021

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

FSM Petroleum Corporation (FSMPC), Continued:

The Company's exposure to credit risk as of December 31, 2021, was as follows:

<u>Moody's Rating</u>	<u>2021</u>
Aaa	\$ 277,707
A	85,804
Baa	<u>194,022</u>
	<u>\$ 557,533</u>

FSM Petroleum Corporation (FSMPC) has the following recurring fair value measurements as of December 31, 2021:

	<u>Fair Value Measurements Using</u>			
	December 31, 2021	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobserva ble Inputs (Level 3)
Investments by fair value level:				
Fixed income securities	\$ 557,533	\$ -	\$ 557,533	\$ -
Equity securities	2,349,965	2,349,965	-	-
Exchange-traded funds	<u>189,638</u>	<u>189,638</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	3,097,136	\$ 2,539,603	\$ 557,533	\$ -
Investments measured at amortized cost:				
Money market funds	<u>61,598</u>			
	<u>\$ 3,158,734</u>			

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

As of September 30, 2021 investments are as follows:

Fixed income securities:	
Domestic fixed income	\$ 1,825,788
Other investments:	
Money market funds	<u>-</u>
	<u>\$ 1,825,788</u>

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2021

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

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

As of September 30, 2021 the Plan's fixed income securities had the following credit ratings and maturities:

	Moody's Credit Rating	Less Than 1 Year	1 to 5 Years	6 to 10 Years	Fair Value
U.S. Treasury obligations	Aaa	\$257,120	\$ 869,645	\$230,168	\$1,356,933
U.S. Government agencies obligations	Aaa	-	113,706	74,580	188,286
Corporate bonds	Aaa	-	1,927	-	1,927
Corporate bonds	Aa	2,012	2,115	24,507	28,634
Corporate bonds	A	27,215	43,508	95,114	165,837
Corporate bonds	Baa	-	29,601	54,570	84,171
		<u>\$286,347</u>	<u>\$1,060,502</u>	<u>\$478,939</u>	<u>\$1,825,788</u>

The Plan has the following recurring fair value measurements as of September 30, 2021:

	Fair Value Measurements Using			
	Total	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	\$ <u>1,825,788</u>	\$ _____	\$ <u>1,825,788</u>	\$ _____

(3) Receivables

Primary Government

Receivables as of September 30, 2021, 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:

	General Fund	Grant Assistance	Compact Trust	Nonmajor and Fiduciary Funds	Totals
Receivables:					
General	\$ 837,683	\$ -	\$ -	\$ 408	\$ 838,091
Taxes	6,402,691	-	-	-	6,402,691
Federal agencies	-	3,539,246	-	-	3,539,246
Due from state government	-	1,918,588	-	-	1,918,588
Loans	39,302,473	-	-	-	39,302,473
Advances	5,287,142	146,051	-	355	5,433,548
Due from Component Units	571,935	-	-	-	571,935
Accrued interest	12,996	-	-	-	12,996
	<u>52,414,920</u>	<u>5,603,885</u>	<u>-</u>	<u>763</u>	<u>58,019,568</u>
Less: allowance for uncollectible accounts	<u>(7,955,128)</u>	<u>(3,159,286)</u>	<u>-</u>	<u>-</u>	<u>(11,114,414)</u>
Net receivables	<u>\$ 44,459,792</u>	<u>\$ 2,444,599</u>	<u>\$ -</u>	<u>\$ 763</u>	<u>\$ 46,905,154</u>

**FEDERATED STATES OF MICRONESIA  
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September 30, 2021

(3) Receivables, Continued

Primary Government, Continued

During the year ended September 30, 2021, 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.

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, 2021, \$ 2,654,945 has been provided for in the allowance for uncollectible accounts. \$ 2,654,945

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 relented under the same terms and conditions imposed by the ADB. The States (with the exception of CSG) in turn relented the loan proceeds to PUC and YSPSC, respectively, as follows:

	<u>General Fund</u>	<u>Governmental Activities</u>	
State of Chuuk	\$ 2,398,404	\$ 569,738	
Pohnpei Utilities Corporation	1,475,294	348,769	
Yap State Public Service Corporation	<u>1,575,006</u>	<u>373,707</u>	
	<u>\$ 5,448,704</u>	<u>\$ 1,292,214</u>	6,740,918



**FEDERATED STATES OF MICRONESIA  
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Notes to Financial Statements  
September 30, 2021

(3) Receivables, Continued

Primary Government, Continued

General Fund, Continued:

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:

	<u>General Fund</u>	<u>Governmental Activities</u>	
State of Chuuk	\$ 3,486,338	\$ 779,682	
State of Yap	2,263,384	514,978	
State of Kosrae	1,292,652	294,184	
State of Pohnpei	<u>2,766,258</u>	<u>617,848</u>	
	<u>\$ 9,808,632</u>	<u>\$ 2,206,692</u>	12,015,324

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

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

**FEDERATED STATES OF MICRONESIA  
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Notes to Financial Statements  
September 30, 2021

(3) Receivables, Continued

Primary Government, Continued

General Fund, Continued

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 relented under the same terms and conditions imposed by the ADB. The amounts outstanding from the States are as follows:

	<u>General Fund</u>	<u>Governmental Activities</u>	
State of Chuuk	\$ 755,221	\$ 146,352	
State of Yap	484,981	126,710	
State of Kosrae	449,614	164,325	
State of Pohnpei	<u>658,413</u>	<u>178,504</u>	
	<u>\$ 2,348,229</u>	<u>\$ 615,891</u>	2,964,120

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 relented 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 Pohnpei/PUC	\$ 4,540,119	
State of Chuuk/CPUC	3,645,833	
State of Yap/GTWA	1,810,754	
State of Kosrae/KUA	<u>1,250,462</u>	
	<u>\$ 11,247,168</u>	11,247,168

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Notes to Financial Statements  
September 30, 2021

(3) Receivables, Continued

Primary Government, Continued

General Fund, Continued

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 relented 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	\$ 7,794,795	<u>7,794,795</u>
Total		43,522,345
Less: Allowance		(3,093,270)
Less: Governmental Activities		<u>(4,219,872)</u>
Net		\$ <u>36,209,203</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.

71,935  
\$ 571,935

**FEDERATED STATES OF MICRONESIA  
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Notes to Financial Statements  
September 30, 2021

(3) Receivables, Continued

Primary Government, Continued

General Fund, Continued

Discretely Presented Component Units

Receivables as of September 30 or December 31, 2021, 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	\$ 1,465,030	\$ -	\$ 1,226,556	12,086,081	\$ 2,313,432	\$ 63,776	\$ -	\$ 1,035,080	\$ 1,379,516	\$ 65,177	\$ 19,634,648
Loans	-	41,807,569	-	-	-	-	-	-	-	-	41,807,569
Interest	196,025	318,740	-	-	-	-	-	-	-	-	514,765
Other	-	-	462	172,782	115,320	-	-	-	223,117	-	511,681
	<u>1,661,055</u>	<u>42,126,309</u>	<u>1,227,018</u>	<u>12,258,863</u>	<u>2,428,752</u>	<u>63,776</u>	<u>-</u>	<u>1,035,080</u>	<u>1,602,633</u>	<u>65,177</u>	<u>62,468,663</u>
Less: allowance for uncollectible accounts	<u>(949,698)</u>	<u>(7,521,719)</u>	<u>-</u>	<u>(5,438,926)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(924,220)</u>	<u>-</u>	<u>-</u>	<u>(14,834,563)</u>
Net	<u>\$ 711,357</u>	<u>\$34,604,590</u>	<u>\$ 1,227,018</u>	<u>\$ 6,819,937</u>	<u>\$ 2,428,752</u>	<u>\$ 63,776</u>	<u>\$ -</u>	<u>\$ 110,860</u>	<u>\$ 1,602,633</u>	<u>\$ 65,177</u>	<u>\$ 47,634,100</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, 2021, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Grants Assistance	General	\$ 28,646,864
General	Grants Assistance	1,543,099
Nonmajor government funds	General	<u>3,843,634</u>
		<u>\$ 34,033,597</u>

**FEDERATED STATES OF MICRONESIA  
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Notes to Financial Statements  
September 30, 2021

**(5) Capital Assets**

Capital asset activities for the year ended September 30, 2021, are as follows:

**Primary Government**

	Balance October 01, 2020	Additions and Reclassification	Retirements and Reclassification	Balance September 30, 2021
Depreciable assets:				
Buildings and improvements	\$74,257,684	\$ -	\$ -	\$ 74,257,684
Boats	22,859,873	24,660	(61,300)	22,823,233
Infrastructure	204,707,642	1,729,366	(1)	206,437,007
Motor vehicles	6,360,273	996,027	(228,380)	7,127,920
Computer equipment	2,685,208	3,044	-	2,688,252
Aircraft	709,207	-	-	709,207
Furniture, equipment and machinery	10,595,131	1,227,872	74,922	11,897,925
	<u>322,175,018</u>	<u>3,980,969</u>	<u>(214,759)</u>	<u>325,941,228</u>
Less: accumulated depreciation				
Buildings and improvements	(16,926,833)	(1,485,154)	-	(18,411,987)
Boats	(20,614,479)	(765,453)	13,434	(21,366,498)
Infrastructure	(64,736,688)	(10,700,080)	-	(75,436,768)
Motor vehicles	(5,121,698)	(756,320)	61,587	(5,816,431)
Computer equipment	(2,433,377)	(117,424)	(609)	(2,551,410)
Aircraft	(709,205)	-	(2)	(709,207)
Furniture, equipment and machinery	(9,421,248)	(945,989)	14,977	(10,352,260)
	<u>(119,963,528)</u>	<u>(14,770,420)</u>	<u>89,387</u>	<u>(134,644,561)</u>
	202,211,490	(10,789,451)	(125,372)	191,296,667
Land	1,674,383	5,786,414	-	7,460,797
Construction in progress	651,099	1,678,611	-	2,329,710
	<u>2,325,482</u>	<u>7,465,025</u>	<u>-</u>	<u>9,790,507</u>
Net assets	<u>\$204,536,972</u>	<u>\$ (3,324,426)</u>	<u>\$ (125,372)</u>	<u>\$ 201,087,174</u>

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

Office of the President	\$ 85,871
Foreign Affairs	73,273
Health and Social Affairs	804,908
Education	326,890
Resources and Development	49,947
Office of National Archives, Cultural and Historic Preservation	4,925
Transportation, Communication and Infrastructure	7,706,677
Finance and Administration	75,222
Justice	431,724
Office of the Public Defender	18,612
Judiciary	24,489
Legislature	169,989
Office of the National Public Auditor	23,209
Environment and Emergency Management	160,901
National Government Programs	4,727,653
Agencies, Boards and Commissions	86,130
	<u>\$14,770,420</u>

**FEDERATED STATES OF MICRONESIA  
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Notes to Financial Statements  
September 30, 2021

(5) Capital Assets, Continued

Discretely Presented Component Units

	Balance October 1, 2020 or January 1 <u>2021</u>	Additions and Reclassifications	Retirements and Reclassifications	Balance September 30, or December <u>31, 2021</u>
Depreciable assets:				
Buildings	\$ 37,606,180	\$ 571,658	\$ (186,011)	\$ 37,991,827
Plant and Equipment	115,967,336	3,009,371	(8,100)	118,968,607
Machinery, equipment, and others	26,610,762	1,006,238	306,534	27,923,534
Other	<u>21,001,005</u>	<u>88,000</u>	<u>-</u>	<u>21,089,005</u>
Total capital assets, being depreciated	201,185,283	4,675,267	112,423	205,972,973
Less accumulated depreciation	<u>(118,544,649)</u>	<u>(9,596,702)</u>	<u>(89,253)</u>	<u>(128,230,604)</u>
	82,640,634	(4,921,435)	23,170	77,742,369
Non-depreciable assets:				
Construction work-in-progress	11,434,965	3,699,876	(3,258,793)	11,876,048
Land	<u>1,455,685</u>	<u>7,889</u>	<u>-</u>	<u>1,463,574</u>
	<u>\$ 95,531,284</u>	<u>\$(1,213,670)</u>	<u>\$(3,235,623)</u>	<u>\$ 91,081,991</u>

(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, 2021, accumulated amortization expense of \$1,733,898 has been recorded.

*FSMTCC*

On February 2, 2018, FSM Telecommunication Corporation ("FSMTC") and FSMTCC entered into a deed granting FSMTCC 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 FSMTCC 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 FSMTCC's right of use. In December 9, 2019, FSMNG assigns to FSMTCC all of its rights, titles and interests, and obligations, under the IRU Agreement, and transferred the IRU in the amount of \$4,660,000 with accumulated depreciation of \$113,883. 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). Accumulated amortization of \$384,035 has been recorded as of September 30, 2021. As of September 30, 2021 the IRU's carrying amount is \$4,162,082 respectively.

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Notes to Financial Statements  
September 30, 2021

(6) Indefeasible Right of Use (IRU)

*FSMTCC, Continued*

The deed further provides that costs incurred by FSMTCC 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 FSMTCC and FSMTCC will not pay FSMTC any further consideration 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 FSMTCC satisfying FSMTC's requirements for international and interstate connectivity services within FSM on the routes traversed by the submarine cable system in which FSMTCC has interest, it will charge FSMTC, and FSMTC will pay FSMTCC on a monthly basis, all of the amounts chargeable to FSMTCC. 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, FSMTCC will pay the costs of any designated capacity upgrade or provisioning on the cable system.

(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. \$ 2,654,945

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. 5,448,705

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. 11,307,346

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. 1,672,064

**FEDERATED STATES OF MICRONESIA  
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Notes to Financial Statements  
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(7) Long-Term Obligations, Continued

Primary Government, Continued

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. 955,599

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. 3,303,753

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. 8,203,191

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. 3,135,410

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. 4,403,586

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. 3,391,209

\$ 44,475,808

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



**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2021

(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
2022	\$ 2,790,644	\$ 586,809	\$ 3,377,453
2023	3,176,826	550,606	3,727,432
2024	3,208,105	509,735	3,717,840
2025	3,241,868	467,891	3,709,759
2026	3,266,107	424,997	3,691,104
2027 - 2031	15,262,005	1,440,529	16,702,534
2032 - 2036	11,863,355	562,163	12,425,518
2037 - 2038	1,666,898	38,664	1,705,562
	<u>\$44,475,808</u>	<u>\$4,581,394</u>	<u>\$49,057,202</u>

Other long-term liabilities will be liquidated in the future from governmental funds. During the year ended September 30, 2021, 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, 2020	Additions	Reductions	SDR Exchange Loss (Gain)	Balance September 30, 2021	Due within One Year
Loans payable:						
ADB loan 1257	\$ 2,863,286	\$ -	\$ (225,003)	\$ 16,662	\$ 2,654,945	\$ 221,078
ADB loan 1459	5,786,245	-	(368,082)	30,542	5,448,705	363,280
ADB loan 1520	11,960,911	-	(713,680)	60,115	11,307,346	706,770
ADB loan 1816	1,815,992	-	(153,634)	9,706	1,672,064	152,006
ADB loan 1873	1,162,786	-	(213,975)	6,788	955,599	212,359
ADB loan 1874	3,552,253	-	(266,312)	17,812	3,303,753	264,301
ADB loan 2099	8,915,605	-	(762,422)	50,000	8,203,191	212,392
ADB loan 2100	3,381,707	-	(246,266)	(31)	3,135,410	271,587
ADB loan 3004	4,497,279	-	(93,693)	-	4,403,586	187,387
ADB loan 3005	3,574,792	-	(202,596)	19,013	3,391,209	199,484
	47,510,856	-	(3,245,663)	210,615	44,475,808	2,790,644
Other:						
Annual leave payable	1,427,107	510,695	(504,324)	-	1,433,478	394,128
	<u>\$48,937,963</u>	<u>\$510,695</u>	<u>\$(3,566,769)</u>	<u>\$ 27,397</u>	<u>\$45,909,286</u>	<u>\$3,184,772</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, 2021, the FSM National Government recognized a foreign exchange loss of \$210,615 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, 2021

(7) Long-Term Obligations, Continued

Discretely Presented Component Units

As of September 30, 2021, 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. \$ 9,724,440

Less current portion of long term debt (1,002,085)

Long term debt, net of current portion \$ 8,722,355

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>
2022	\$ 1,002,085	\$ 182,797	\$ 1,184,882
2023	1,022,032	162,850	1,184,882
2024	1,042,376	142,506	1,184,882
2025	1,063,125	121,757	1,184,882
2026	1,084,287	100,595	1,184,882
2031 - 2032	<u>4,510,535</u>	<u>182,211</u>	<u>4,692,746</u>
	\$ <u>9,724,440</u>	\$ <u>892,716</u>	\$ <u>10,617,156</u>

These notes are subject to certain coverage ratio requirements. The Corporation is not in compliance with its ratio requirements as of September 30, 2021. 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.

**FEDERATED STATES OF MICRONESIA  
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Notes to Financial Statements  
September 30, 2021

(7) Long-Term Obligations, Continued

FSM Development Bank (FSMDB), Continued:

FSM Development Bank (FSMDB):

Long-term debt consists of the following at December 31, 2021:

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. \$ 124,740

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. 297,161

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. 2,915,929

\$ 3,337,830

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>
2022	\$ 334,001	\$ 88,510	\$ 422,511
2023	394,140	86,509	480,649
2024	399,463	73,483	472,946
2025	405,709	60,214	465,923
2026	277,708	48,148	325,856
Thereafter	<u>1,526,809</u>	<u>127,110</u>	<u>1,653,919</u>
	\$ <u>3,337,830</u>	\$ <u>483,974</u>	\$ <u>3,821,804</u>

**FEDERATED STATES OF MICRONESIA  
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Notes to Financial Statements  
September 30, 2021

(7) Long-Term Obligations, Continued

Discretely Presented Component Units

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. \$3,659,221

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. 1,872,444

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. 2,531,543

Total \$8,063,209

Future minimum loan repayments are as follows:

As of December 31, 2021, future minimum loan repayments are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 1,415,010	\$ 399,906	\$ 1,814,916
2023	1,491,295	219,985	1,711,280
2024	1,556,428	154,066	1,710,494
2025	2,316,343	122,440	2,438,783
2026	685,344	57,032	742,376
2027	<u>598,789</u>	<u>57,032</u>	<u>655,821</u>
	<u>\$ 8,063,209</u>	<u>\$ 1,010,461</u>	<u>\$ 9,073,670</u>

**FEDERATED STATES OF MICRONESIA  
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Notes to Financial Statements  
September 30, 2021

(7) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

FSM Petroleum Corporation (FSMPC), Continued:

A bank loan includes covenants relating to timely submission of audited financial and other information as the lender may reasonably request. The Company is also covenanted to, at all times, permit lender through its agents and representatives to visit and inspect properties; maintain and keep in full force and effect its existence, rights and franchise and comply with all laws applicable to the Company; pay or cause to be paid all taxes, assessments and other governmental charges levied upon any of the Company's properties, obtain hazard and liability insurance and other covenants.

The FSMDB loan requires the Company to purchase credit life insurance for its Chief Executive Officer for the coverage of the entire loan, assigning the lender as first beneficiary. The Company is also required to maintain insurance on security for the loan and to maintain aggregate loan value of at least 120% of loan amount.

The BFSM loan requires the loan to be secured by the highest security interest possible over all existing and future accounts receivables, inventory, equipment, furniture and fixtures and buildings comprising the entire interest of the Company.

Events of default - the debt agreements specify a number of events of default and related remedies. Generally, in the event of default, the lenders reserve the right to accelerate the loan maturities in order to protect their interest or demand immediate settlement. The lenders collateral position must be a first lien on the Company's assets.

Management believes that the Company is in compliance with all covenants as of and for the year ended December 31, 2021 and no event of default has been declared by the lenders.

Changes in long-term debt for the year ended December 31, 2021 are as follows:

	Balance at January 1, <u>2021</u>	<u>Additions</u>	<u>Repayments</u>	Balance at December 31 <u>2021</u>	Due Within <u>One Year</u>
Long-term debt	\$ <u>9,921,364</u>	\$ _____ -	\$ <u>(1,858,155)</u>	\$ <u>8,063,209</u>	\$ <u>1,415,010</u>

Vital Energy, Inc. (VEI):

In 2017, the Company obtained a \$2,400,000 non-interest bearing, uncollateralized advance from its business partner to fund capital project expenditures incurred on behalf of the GON under the Agreement. The advance is payable in equal quarterly installments of \$120,000, beginning on September 5, 2017. The amount due under this Agreement as of December 31, 2020 of \$480,000 was paid in full in 2021.

College of Micronesia-FSM (COM-FSM)

COM-FSM's long-term obligation of \$886,418 represents 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 2021.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2021

(7) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

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 an 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 September 30, 2021 is \$500,000.

On May 28, 2018, FSMTCC secured two lines of credit at \$1,000,000 each from FSM Development Bank (FSMDB), a component unit of FSMNG, which can be reapplied for extensions. The two lines of credit were extended and mature on January 1, 2023. On October 1, 2021, the Company has drawn down \$650,000 from one of its lines of credit from FSMDB, with an interest rate of 5%. On August 5, 2022, FSMDB restructured the repayment terms with required monthly payments of \$29,399 starting March 25, 2022 to February 25, 2024.

Future minimum debt payments as of September 30, 2021, are as follows:

2022	\$ 271,115
2023	340,575
2024	38,310
Thereafter	<u>500,000</u>
	<u>\$ 1,150,000</u>

Management is of the opinion that the Company is in compliance with financial debt covenants associated with the long-term debt for the year ended September 30, 2021.

Changes in long-term liabilities of the discretely presented component units for the year ended September 30, 2021 or December 31, 2021, are as follows:

	Balance October 1, 2020	Additions	Reductions	Balance September 30, 2021	Due within One Year
Loan payable:					
FSMTC	\$18,696,961	\$ -	\$ (8,972,521)	\$9,724,440	\$1,002,085
FSMDB	3,777,102	-	(439,272)	3,337,830	334,001
Vital	480,000	-	(480,000)	-	-
FSMPC	9,441,364	-	(1,378,155)	8,063,209	1,415,010
FSMTCC	-	<u>650,000</u>	-	<u>650,000</u>	<u>271,115</u>
	<u>32,395,427</u>	<u>650,000</u>	<u>(11,269,948)</u>	<u>21,775,479</u>	<u>3,022,211</u>
Due to government and others:					
Vital	3,766,999	788,390	-	4,555,389	2,273,950
FSMPC	1,747,177	206	-	1,747,383	-
FSMTCC	500,000	-	-	500,000	-
	<u>6,014,176</u>	<u>788,596</u>	<u>-</u>	<u>6,802,772</u>	<u>2,273,950</u>
Compensated absences COM-FSM	889,471	-	(3,053)	886,418	365,364
	<u>\$39,299,074</u>	<u>\$1,438,596</u>	<u>\$(11,273,001)</u>	<u>\$29,464,669</u>	<u>\$5,661,525</u>

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2021

(8) Short-Term Obligations

Discretely Presented Component Units

FSM Petroleum Corporation (FSMPC):

As of December 31, 2021, FSMPC has a bank standby letter of credit (LC) of \$3,000,000, expiring on September 13, 2022, in favor of Mobil Oil Guam in relation to its fuel purchase agreement. Additionally, FSMPC has a standby LC of \$4,396,900 for the coconut production facility contractor, expiring on December 30, 2022.

Additionally, as of December 31, 2021, FSMPC has a bank line of credit (LOC) facility of \$11,000,000 for working capital and support LC's, expiring on March 31, 2022. The facility was subsequently renewed to mature on April 20, 2024.

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 as of December 31, 2021.

(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, 2021, are as follows:

<u>Source</u>	<u>Recipient</u>	<u>Transfers Out</u>	<u>Transfers In</u>
Other Governmental Fund	General Fund	\$ (2,065,020)	\$ 2,065,020
		\$ (2,065,020)	\$ 2,065,020

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

(10) Contingencies and Commitments

Sick Leave

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

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2021

(10) Contingencies and Commitments, Continued

FSM Petroleum Corporation (FSMPC) Loan Guarantee

The FSM National Government is a full faith and credit guarantor of FSMPC's loan from 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, 2021. 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.

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.



**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2021

(10) Contingencies and Commitments, Continued

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, 2021, 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.

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.

Additionally, the FSM National Government is involved in litigation with certain States who are contesting ownership of certain corporate tax revenues. If the States prevail, the impact on the accompanying financial statements is uncertain but could represent a material impact.

Encumbrances

The FSM National Government utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods and services. At September 30, 2021, 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>6,048,049</u>	\$ <u>19,248,480</u>	\$ <u>84,892</u>	\$ <u>25,381,420</u>

Asian Development Bank (ADB) Loans

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

FSM Social Security Administration (FSMSSA or the Administration)

In April 2021, 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, 2020, representing a funded ratio of 15.4%. As of December 31, 2021, the Administration recorded total Fund fiduciary net position of \$63,423,153 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.

**FEDERATED STATES OF MICRONESIA  
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Notes to Financial Statements  
September 30, 2021

**(11) Special Items**

During the year ended September 30, 2021, management determined that the increase of certain receivables from sub-borrowers in the amount of \$180,060 should be presented as a special item in the accompanying financial statements.

During the year ended September 30, 2021, management determined that certain advances receivable in the amount of \$5,775,869 were no longer considered collectible and were written off. This write-off of receivables is presented as a special item in the accompanying financial statements.

During the year ended September 30, 2021, The FSM National Government recognizes a foreign exchange loss of \$210,615 associated with the valuation of SDR, which is presented as special item in the accompanying financial statements, and which results in an increase in ADB loan payable.

**(12) Fund Balance**

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

	<u>General</u>	<u>Grants Assistance</u>	<u>Compact Trust</u>	<u>Other</u>	<u>Total</u>
<b>Non-spendable:</b>					
Loans receivable from States	\$ 36,209,203	\$ -	\$ -	\$ -	\$ 36,209,203
Loans receivable from FSMTC	500,000	-	-	-	500,000
United Micronesia Dev. Association	1,500,000	-	-	-	1,500,000
Bank of FSM	7,018,108	-	-	-	7,018,108
ADB contribution	6,927,442	-	-	-	6,927,442
IMF contribution	-	-	-	-	-
Prepayments and advance	1,386,417	-	-	-	1,386,417
Permanent fund	-	-	27,419,143	-	27,419,143
<b>Restricted For:</b>					
Infrastructure	-	1,231,474	-	-	1,231,474
Disaster Assistance	-	4,456,577	-	-	4,456,577
Investment Development Fund	2,040,151	-	-	-	2,040,151
Foreign grant projects	-	1,294,876	-	-	1,294,876
<b>Committed:</b>					
CFSM Public projects	40,995,586	-	-	-	40,995,586
Future operations-FSM Trust fund	370,967,141	-	-	-	370,967,141
Other functions and programs	43,766,998	-	-	3,800,465	47,567,463
<b>Assigned:</b>					
Presidents (Executive branch)	2,682,181	-	-	-	2,682,181
Legislative branch	266,502	-	-	-	266,502
Judiciary branch	27,776	-	-	-	27,776
FSM projects (Fund 25)	500,503	-	-	-	500,503
Continuing appropriations (Fund 53)	2,571,086	-	-	-	2,571,086
<b>Unassigned</b>					
	<u>41,233,104</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>41,233,104</u>
	<u>\$558,592,198</u>	<u>\$6,982,927</u>	<u>\$27,419,143</u>	<u>\$ 3,800,465</u>	<u>\$596,794,733</u>

**FEDERATED STATES OF MICRONESIA  
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Notes to Financial Statements  
September 30, 2021

(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. The FSM National Government has determined that the pandemic 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, 2021**

**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, 2021

	Budgeted Amounts		Actual Amounts (note 1)	Variance with Final Budget -
	Original	Final		Positive (Negative)
<b>Revenues:</b>				
Taxes	\$ 15,654,724	\$ 16,800,000	\$ 23,958,320	\$ 7,158,320
Fishing rights	60,000,000	69,000,000	68,997,647	(2,353)
Investment earnings	1,000,000	1,000,000	922,487	(77,513)
Fees and charges	2,397,168	2,397,168	307,361	(2,089,807)
Other	4,000,000	23,100,000	1,100,137	(21,999,863)
<b>Total revenues</b>	<b>83,051,892</b>	<b>112,297,168</b>	<b>95,285,952</b>	<b>(17,011,216)</b>
<b>Expenditures:</b>				
Executive Branch - Core Operational	24,239,516	26,676,024	27,670,768	(994,744)
Executive Branch - Non-Core Operational	14,431,048	16,049,548	24,854,589	(8,805,041)
Judicial Branch-Core Operational	1,601,897	1,650,942	1,553,745	97,197
Judicial Branch-Non-core Operational	272,725	272,725	274,775	(2,050)
Legislative Branch-Core Operational	6,236,387	10,196,967	8,979,889	1,217,078
Legislative Branch-Non-core Operational	361,159	189,159	284,423	(95,264)
Office of the National Public Auditor-Core Operational	889,428	889,428	662,679	226,749
Office of the National Public Auditor-Non-Core Operational	460,002	460,002	460,002	-
Other National Programs	958,613	972,413	576,603	395,810
Boards and Commissions	3,710,096	3,860,216	3,207,203	653,013
Payments to Component Units	7,105,611	7,490,611	6,222,143	1,268,468
Other Noncore Programs	619,843	619,843	-	619,843
National projects - continuing projects	14,794,880	14,794,880	19,063,987	(4,269,107)
<b>Total expenditures</b>	<b>75,681,205</b>	<b>84,122,758</b>	<b>93,810,806</b>	<b>(9,688,048)</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>7,370,687</b>	<b>28,174,410</b>	<b>1,475,146</b>	<b>(26,699,264)</b>
<b>Other financing sources (uses), net:</b>				
Operating transfers in/(out), net	-	-	884,315	884,315
<b>Special item:</b>				
Write-off of receivable balances	-	-	(5,775,689)	(5,775,689)
<b>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</b>				
	-	-	6,048,048	6,048,048
<b>Net change in fund balance</b>	<b>7,370,687</b>	<b>28,174,410</b>	<b>2,631,820</b>	<b>(25,542,590)</b>
Fund balance at the beginning of the year	141,749,294	141,749,294	141,749,294	-
Fund balance at the end of the year	\$ 149,119,981	\$ 169,923,704	\$ 144,381,114	\$ (25,542,590)

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, 2021

(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 2021, 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, 2021

(2) Reconciliation - GAAP and Budgetary Bases of Accounting

The Budget Act for fiscal year 2021, Public Law No. PL 21-185, 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	\$ 2,631,820
Add:	
Net change in fund balance - GAAP for GASB 54 Funds:	
ADB Loan Fund (Fund 91)	(2,435,123)
IDF Fund	5,418
ERP Fund	(331,816)
FSM Trust Fund	<u>63,705,530</u>
Net change in fund balance - GAAP	\$ <u>63,575,829</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, 2021**



**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Combined Schedule of Expenditures by Account -  
Governmental Fund Types  
Year Ended September 30, 2021

	Special Revenue		Permanent		Other Governmental Funds	Total
	General	Grants Assistance	Compact Trust	-		
Expenditures:						
Personnel	\$ 19,754,078	\$ 4,548,804	\$ -	\$ 253,380	\$ 24,556,262	
Travel and transportation	1,006,406	1,158,730	-	53,761	2,218,897	
Books and library materials	1,148	-	-	-	1,148	
Communications	758,698	300,387	-	9,042	1,068,127	
Customs and taxes	7,787	512	-	-	8,299	
Dues, membership and subscription	525,947	88,785	-	-	614,732	
Food stuffs	521,641	225,904	-	74,569	822,114	
Freight	107,282	405,586	-	60,155	573,023	
Expendable equipment	979,353	1,249,195	-	13,336	2,241,884	
Office supplies and materials	1,726,126	961,428	-	67,451	2,755,005	
POL	1,469,813	365,963	-	120,378	1,956,154	
Advertising, printing and reproduction	99,679	294,290	-	195	394,164	
Rental services	269,618	692,017	-	105	961,740	
Repair and maintenance	99,714	9,338	-	505	109,557	
Utilities	1,064,994	296,056	-	39,264	1,400,314	
Miscellaneous goods and services	127,637	104,364	-	3,051	235,052	
Medical supplies	47,371	689,869	-	-	737,240	
Medical services/claims	7,335	-	-	-	7,335	
Contributions, subsidies and grants	11,196,212	19,347,279	-	-	30,543,491	
General contractual services	11,913,909	6,018,977	-	732,767	18,665,653	
Professional services	686,894	5,460,723	-	-	6,147,617	
Employee housing and household storage	1,997,511	62,250	-	-	2,059,761	
Recruit and repatriation	45,571	-	-	-	45,571	
Compensation-nonpayroll	383,921	5,368,631	-	-	5,752,552	
Educational allowance	41,161	-	-	-	41,161	
Training and registration fees	5,125	4,228	-	720	10,073	
Scholarships	3,013,597	-	-	281,476	3,295,073	
Official and meeting allowances	85,155	60,120	-	-	145,275	
Representation	6,510,662	-	-	4,400	6,515,062	
Insurance and fees	1,285,185	806	-	28,857	1,314,848	
Leased housing, offices, buildings and land	1,366,368	365,074	-	16,605	1,748,047	
Bank charges and custodial fees	653,279	11,595	-	125	664,999	
Fishing day vessels	-	-	-	1,660,000	1,660,000	
Equipment	181,550	3,077,590	-	12,637	3,271,777	
Furnitures and fixtures	14,484	-	-	-	14,484	
Vehicle and vessels	1,278,996	359,127	-	-	1,638,123	
Land	3,225,367	-	-	-	3,225,367	
Building	614,665	-	-	-	614,665	
Principal and interest payments	3,681,472	-	-	-	3,681,472	
Legislative projects	14,688,519	-	-	-	14,688,519	
<b>Total expenditures</b>	<b>\$ 91,444,230</b>	<b>\$ 51,527,628</b>	<b>\$ -</b>	<b>\$ 3,432,779</b>	<b>\$ 146,404,637</b>	

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, 2021  
(with comparative totals for the year ended September 30, 2020)

	2021	2020
Revenue:		
Taxes:		
Import	\$ 4,353,390	\$ 5,239,066
Fuel	146,410	130,676
Corporate tax	11,166,862	9,898,892
Income tax, individuals, net of tax refunds	3,630,195	5,169,112
Gross receipts tax, businesses	3,810,114	4,551,933
Tobacco revenue share	851,349	826,234
	23,958,320	25,815,913
Fishing rights	68,997,647	70,150,833
Fees and charges:		
Postal collections	200,325	216,441
Business license and various fees	107,036	135,733
	307,361	352,174
Investment earnings:		
Net change in the fair value of investments	2,312,082	2,953,391
Dividend and interest income	(1,389,595)	868,053
	922,487	3,821,444
MiCare reimbursible, net	(339)	-
Other	1,100,476	2,536,066
Total revenues	95,285,952	102,676,430
Expenditures:		
Executive Branch:		
Core operational:		
President's Office	1,639,009	1,552,941
Department of External Affairs and LNO's	10,818,785	5,009,426
Office of Personnel	261,799	22,077
Department of Health and Social Affairs	787,969	760,361
Department of Education	381,850	323,649
Office of Resources and development	1,251,966	1,179,519
National archives, cultural and historic prevention	200,669	220,679
Office of Environment and emergency management	749,495	547,001
Department of Transportation, Communication and Infrastructure	2,657,681	2,277,993
Department of Finance and Administration	2,533,828	2,885,346
Department of Justice	4,525,593	4,446,928
Office of the Public Defender	674,562	742,389
Sub-total	26,483,206	19,968,309
Expenditures, continued:		
Executive Branch:		
Non-core operational:		
President's Office	4,694,607	3,028,710
Department of External Affairs and LNO's	470,512	557,411
Department of Health and Social Affairs	667,365	1,707,218
Department of Education	4,884,549	4,020,656
Office of Resources and development	690,985	172,584
National archives, cultural and historic prevention	5,600	5,559
Office of Environment and emergency management	589,208	350
Department of Transportation, Communication and Infrastructure	4,939,214	1,873,341
Department of Finance and Administration	5,754,250	2,923,291
Department of Justice	911,756	896,625
Sub-total	23,608,046	15,185,745
Total Executive Branch	50,091,252	35,154,054

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, 2021  
(with comparative totals for the year ended September 30, 2020)

	2021	2020
Judicial Branch-core operational	1,525,969	1,573,264
Judicial Branch-non-core operational	274,775	298,048
Total Judicial Branch	1,800,744	1,871,312
Legislative Branch:		
Office of the Speaker and members	3,528,536	3,976,226
Congress staff	2,430,848	2,159,904
Delegation offices	2,754,003	2,068,966
Legislative Noncore	284,423	-
Total Legislative Branch	8,997,810	8,205,096
Office of the National Public Auditor-Core operational	621,803	743,700
Office of the National Public Auditor-Non-Core operational	417,782	475,579
Total Office of the Public Auditor	1,039,585	1,219,279
Agencies, Boards and Commissions:		
National Oceanic Resource Management Authority	842,088	703,915
FSM Banking Board	153,553	184,665
FSM Insurance Board	417,487	315,595
FSM Postal Services	798,053	862,381
Forum Fisheries Agency	57,657	319,830
Micronesia Legal Service Corporation	250,000	250,544
National Olympic Committee	-	45,000
Saint Cecilia Catholic School	69,999	-
2019 Constitutional Convention Election	77,923	-
Tuna Commission Membership Fee	318,397	-
Commemoration of World Tuna	35,101	-
T3 Monitoring	7,100	-
Other	1,625	-
	3,028,983	2,681,930
Special Programs		
National Election Office	159,992	363,837
Special and General Elections	402,133	-
	562,125	363,837
Payments to Component Units:		
College of Micronesia-FSM (Board of Regents)	9,030	115,000
College of Micronesia-FSM	2,812,042	1,876,350
College of Micronesia-FSM FMI	590,043	517,502
College of Micronesia-FSM Endowment Fund	285,000	-
FSM Social Security Administration	1,000,000	1,000,000
FSMTCC	500,000	-
Caroline Air Inc.	446,028	-
FSM NGEIP (MiCare)	580,000	-
	6,222,143	3,508,852
Legislative public projects	16,020,116	28,800,549
Total expenditures	87,762,758	81,804,909
Excess of revenues over expenditures	7,523,194	20,871,521

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, 2021  
(with comparative totals for the year ended September 30, 2020)

	2021	2020
Other financing sources (uses):		
Operating transfers in:		
Reimbursable Fund	-	122,237
Private Sector Development Fund	-	13,153
Postal Services Revolving Fund	1,086,590	699,666
Insurance Board Revolving Fund	63,281	13,688
Fisheries Observation Revolving Fund	616,188	696,366
Maritime Sueveillance Revolving Fund	-	439,087
Permit Revolving Fund	91,417	300,386
Passport Revolving Fund	207,544	990,133
	2,065,020	3,274,716
Operating transfers out:		
FSM Trust Fund	(1,180,705)	(14,282,086)
Reimbursable Fund	-	(122,237)
Non-U.S. Grant Fund	-	(5,214)
	(1,180,705)	(14,409,537)
Total other financing sources (uses), net	884,315	(11,134,821)
Special item:		
Write-off of receivable balances	(5,775,689)	(1,005,297)
Total special item	(5,775,689)	(1,005,297)
Net change in fund balance	2,631,820	8,731,403
Fund balance at the beginning of the year	141,749,294	133,017,891
Fund balance at the end of the year	\$ 144,381,114	\$ 141,749,294
Reconciliation:		
Fund balance, General Fund	\$ 144,381,114	
Add:		
ADB Loan Fund	36,685,342	
IDF with FSMDB	2,040,151	
Early Retirement Fund	(769,205)	
FSM Trust Fund	376,254,796	
Fund balance, GAAP	\$ 558,592,198	

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT  
NONMAJOR GOVERNMENTAL FUNDS**

Combining Balance Sheet  
September 30, 2021

	27	28	29	31	32	33	34	35	36	39	41	42	43	45	Total
	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>ASSETS</b>															
Receivables	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 408	\$ -	\$ -	\$ -	\$ -	\$ 355	\$ -	\$ -	\$ -	\$ 763
Due from other funds	40,000	100,796	676,078	100,000	28,653	989,782	34,458	39,714	77,919	180,757	237,933	20,000	50,000	1,267,544	3,843,634
	<u>\$ 40,000</u>	<u>\$ 100,796</u>	<u>\$ 676,078</u>	<u>\$ 100,000</u>	<u>\$ 28,653</u>	<u>\$ 990,190</u>	<u>\$ 34,458</u>	<u>\$ 39,714</u>	<u>\$ 77,919</u>	<u>\$ 180,757</u>	<u>\$ 238,288</u>	<u>\$ 20,000</u>	<u>\$ 50,000</u>	<u>\$ 1,267,544</u>	<u>\$ 3,844,397</u>
<b>LIABILITIES AND FUND BALANCES</b>															
Liabilities:															
Accounts payable	\$ 911	\$ -	\$ 11,850	\$ 2,626	\$ -	\$ 5,448	\$ -	\$ -	\$ -	\$ -	\$ 10,747	\$ 364	\$ -	\$ -	\$ 31,946
Other liabilities and accruals	-	-	1,957	-	-	10,029	-	-	-	-	-	-	-	-	11,986
	<u>911</u>	<u>-</u>	<u>13,807</u>	<u>2,626</u>	<u>-</u>	<u>15,477</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,747</u>	<u>364</u>	<u>-</u>	<u>-</u>	<u>43,932</u>
Fund balances:															
Committed	39,089	100,796	662,271	97,374	28,653	974,713	34,458	39,714	77,919	180,757	227,541	19,636	50,000	1,267,544	3,800,465
Total liabilities and fund balances	<u>\$ 40,000</u>	<u>\$ 100,796</u>	<u>\$ 676,078</u>	<u>\$ 100,000</u>	<u>\$ 28,653</u>	<u>\$ 990,190</u>	<u>\$ 34,458</u>	<u>\$ 39,714</u>	<u>\$ 77,919</u>	<u>\$ 180,757</u>	<u>\$ 238,288</u>	<u>\$ 20,000</u>	<u>\$ 50,000</u>	<u>\$ 1,267,544</u>	<u>\$ 3,844,397</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, 2021

	27	28	29	31	32	33	34	35	36	39	41	42	43	45	Total
	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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 284,433	\$ -	\$ -	\$ -	\$ -	\$ 284,433
Fees and charges	126,605	5,175	421,530	851,174	-	846,862	3,265	4,810	104,559	-	47,073	1,106,891	68,281	942,936	4,529,161
Total revenues	126,605	5,175	421,530	851,174	-	846,862	3,265	4,810	104,559	284,433	47,073	1,106,891	68,281	942,936	4,813,594
Expenditures by function:															
Current:															
Transportation, communication and infrastructure	-	-	119,206	-	-	-	-	-	-	-	-	-	-	-	119,206
Health	-	-	-	-	-	-	315	-	-	-	-	-	-	-	315
Education	-	-	-	-	-	-	-	-	-	281,526	-	-	-	-	281,526
Justice	35,188	-	-	625,296	-	-	-	-	163,335	-	281,709	-	-	-	1,105,528
Agencies, boards and commissions	-	-	-	-	-	241,651	-	-	-	-	-	19,553	5,000	1,660,000	1,926,204
Total expenditures	35,188	-	119,206	625,296	-	241,651	315	-	163,335	281,526	281,709	19,553	5,000	1,660,000	3,432,779
Excess (deficiency) of revenue over (under) expenditure	91,417	5,175	302,324	225,878	-	605,211	2,950	4,810	(58,776)	2,907	(234,636)	1,087,338	63,281	(717,064)	1,380,815
Other financing uses:															
Operating transfers out	(91,417)	-	-	(207,544)	-	(616,188)	-	-	-	-	-	(1,086,590)	(63,281)	-	(2,065,020)
Net change in fund balances	-	5,175	302,324	18,334	-	(10,977)	2,950	4,810	(58,776)	2,907	(234,636)	748	-	(717,064)	(684,205)
Fund balances at the beginning 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
Fund balances at the end of the year	\$ 39,089	\$ 100,796	\$ 662,271	\$ 97,374	\$ 28,653	\$ 974,713	\$ 34,458	\$ 39,714	\$ 77,919	\$ 180,757	\$ 227,541	\$ 19,636	\$ 50,000	\$ 1,267,544	\$ 3,800,465

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, 2021

	27	28	29	31	32	33	34	35	36	39	41	42	43	45	Total
	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>Revenues:</b>															
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 284,433	\$ -	\$ -	\$ -	\$ -	\$ 284,433
Fees and charges	126,605	5,175	421,530	851,174	-	846,862	3,265	4,810	104,559	-	47,073	1,106,891	68,281	942,936	4,529,161
Total revenues	126,605	5,175	421,530	851,174	-	846,862	3,265	4,810	104,559	284,433	47,073	1,106,891	68,281	942,936	4,813,594
<b>Expenditures by account:</b>															
Personnel	-	-	67,387	-	-	22,658	-	-	163,335	-	-	-	-	-	253,380
Travel and transportation	-	-	-	-	-	36,802	-	-	-	-	16,959	-	-	-	53,761
Communications	-	-	-	3,097	-	4,338	-	-	-	-	1,607	-	-	-	9,042
Food stuffs	-	-	-	-	-	202	-	-	-	-	74,367	-	-	-	74,569
Freight	-	-	-	60,155	-	-	-	-	-	-	-	-	-	-	60,155
Expendable equipment	1,295	-	-	795	-	7,050	300	-	-	-	1,850	2,046	-	-	13,336
Office supplies and materials	2,400	-	-	(44)	-	3,247	15	-	-	-	54,367	7,466	-	-	67,451
Miscellaneous goods & services	1,493	-	-	-	-	309	-	-	-	-	1,249	-	-	-	3,051
POL	-	-	39,999	-	-	1,512	-	-	-	-	78,867	-	-	-	120,378
Advertising, printing and reproduction	-	-	-	-	-	195	-	-	-	-	-	-	-	-	195
Rental	-	-	-	-	-	-	-	-	-	-	-	105	-	-	105
Repair and maintenance	-	-	-	-	-	285	-	-	-	-	-	220	-	-	505
Utilities	-	-	-	-	-	7,000	-	-	-	-	32,264	-	-	-	39,264
General contractual services	30,000	-	11,820	561,293	-	114,938	-	-	-	-	-	9,716	5,000	-	732,767
Training and registration fee	-	-	-	-	-	720	-	-	-	-	-	-	-	-	720
Scholarships	-	-	-	-	-	-	-	-	-	281,476	-	-	-	-	281,476
Representation	-	-	-	-	-	4,400	-	-	-	-	-	-	-	-	4,400
Insurance and fees	-	-	-	-	-	28,857	-	-	-	-	-	-	-	-	28,857
Leased housing, offices, buildings and land	-	-	-	-	-	9,138	-	-	-	-	7,467	-	-	-	16,605
Bank charges	-	-	-	-	-	-	-	-	-	50	75	-	-	-	125
Fishing vessel days	-	-	-	-	-	-	-	-	-	-	-	-	-	1,660,000	1,660,000
Equipment	-	-	-	-	-	-	-	-	-	-	12,637	-	-	-	12,637
Total expenditures	35,188	-	119,206	625,296	-	241,651	315	-	163,335	281,526	281,709	19,553	5,000	1,660,000	3,432,779
Excess (deficiency) of revenue over (under) expenditure	91,417	5,175	302,324	225,878	-	605,211	2,950	4,810	(58,776)	2,907	(234,636)	1,087,338	63,281	(717,064)	1,380,815
<b>Other financing uses:</b>															
Operating transfers out	(91,417)	-	-	(207,544)	-	(616,188)	-	-	-	-	-	(1,086,590)	(63,281)	-	(2,065,020)
Net change in fund balances	-	5,175	302,324	18,334	-	(10,977)	2,950	4,810	(58,776)	2,907	(234,636)	748	-	(717,064)	(684,205)
Fund balances at the beginning 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
Fund balances at the end of the year	\$ 39,089	\$ 100,796	\$ 662,271	\$ 97,374	\$ 28,653	\$ 974,713	\$ 34,458	\$ 39,714	\$ 77,919	\$ 180,757	\$ 227,541	\$ 19,636	\$ 50,000	\$ 1,267,544	\$ 3,800,465

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

**GRANTS ASSISTANCE FUND**

Combining Balance Sheet  
September 30, 2021

	10	11	12	13	14	15	16	18	19	20	23	26	Total
	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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 288,846	\$ -	\$ -	\$ -	\$ 4,647,734	\$ 4,936,580
Receivables:													
Federal agencies	-	-	-	-	-	-	-	-	-	565,511	-	-	565,511
FSM State Governments	-	85,408	96,017	436,795	-	1,019,029	-	-	241,839	-	-	-	1,879,088
Due from other funds	<u>1,066,834</u>	<u>1,960,727</u>	<u>-</u>	<u>-</u>	<u>517,958</u>	<u>-</u>	<u>9,135</u>	<u>942,628</u>	<u>793,894</u>	<u>2,514,715</u>	<u>20,716,275</u>	<u>124,698</u>	<u>28,646,864</u>
	<u>\$ 1,066,834</u>	<u>\$ 2,046,135</u>	<u>\$ 96,017</u>	<u>\$ 436,795</u>	<u>\$ 517,958</u>	<u>\$ 1,019,029</u>	<u>\$ 9,135</u>	<u>\$ 1,231,474</u>	<u>\$ 1,035,733</u>	<u>\$ 3,080,226</u>	<u>\$ 20,716,275</u>	<u>\$ 4,772,432</u>	<u>\$ 36,028,043</u>
<b>LIABILITIES AND FUND BALANCES</b>													
Liabilities:													
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,650	\$ -	\$ -	\$ 548,662	\$ 328,894	\$ 610,756	\$ -	\$ 1,492,962
Due to FSM State Governments	1,032,727	2,046,135	-	-	39,683	-	9,135	-	-	1,006,319	-	-	4,133,999
Accrued liabilities and others	-	-	-	-	-	4,092	-	-	9,189	54,478	46,330	-	114,089
Due to other funds	-	-	96,017	436,795	-	1,010,287	-	-	-	-	-	-	1,543,099
Unearned revenues	<u>34,107</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>478,275</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>477,882</u>	<u>1,690,535</u>	<u>18,764,313</u>	<u>315,855</u>	<u>21,760,967</u>
Total liabilities	<u>1,066,834</u>	<u>2,046,135</u>	<u>96,017</u>	<u>436,795</u>	<u>517,958</u>	<u>1,019,029</u>	<u>9,135</u>	<u>-</u>	<u>1,035,733</u>	<u>3,080,226</u>	<u>19,421,399</u>	<u>315,855</u>	<u>29,045,116</u>
Fund balances:													
Restricted	-	-	-	-	-	-	-	1,231,474	-	-	1,294,876	4,456,577	6,982,927
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,231,474</u>	<u>-</u>	<u>-</u>	<u>1,294,876</u>	<u>4,456,577</u>	<u>6,982,927</u>
Total liabilities and fund balances	<u>\$ 1,066,834</u>	<u>\$ 2,046,135</u>	<u>\$ 96,017</u>	<u>\$ 436,795</u>	<u>\$ 517,958</u>	<u>\$ 1,019,029</u>	<u>\$ 9,135</u>	<u>\$ 1,231,474</u>	<u>\$ 1,035,733</u>	<u>\$ 3,080,226</u>	<u>\$ 20,716,275</u>	<u>\$ 4,772,432</u>	<u>\$ 36,028,043</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, 2021

	10	11	12	13	14	15	16	18	19	20	23	26	Total
	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	\$ -	\$ -	\$ -	\$ -	\$ 339,494	\$ 656,436	\$ -	\$ 1,155,619	\$ 224,692	\$ -	\$ -	\$ 400,000	\$ 2,776,241
Federal and other grants	-	-	-	-	-	-	-	-	-	22,734,768	27,443,989	-	50,178,757
Others	-	-	-	-	-	-	-	(153)	-	-	6	(1,503)	(1,650)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>339,494</u>	<u>656,436</u>	<u>-</u>	<u>1,155,466</u>	<u>224,692</u>	<u>22,734,768</u>	<u>27,443,995</u>	<u>398,497</u>	<u>52,953,348</u>
Expenditures by function:													
Current:													
General government:													
Foreign affairs	-	-	-	-	-	-	-	-	-	-	800,853	-	800,853
Finance and administration	-	-	-	-	-	-	-	-	-	15,983,700	13,569,897	-	29,553,597
Resources and development	-	-	-	-	-	-	-	-	-	-	549,323	-	549,323
Transportation, communication and infrastructure	-	-	-	-	-	-	-	-	-	134,313	6,604,008	-	6,738,321
Health and social affairs	-	-	-	-	-	-	-	-	-	5,744,476	2,194,545	-	7,939,021
National archives, cultural and historic preservation	-	-	-	-	-	-	-	-	-	145,069	1,433	-	146,502
Education	-	-	-	-	-	656,436	-	-	-	695,348	202,183	-	1,553,967
Justice	-	-	-	-	-	-	-	-	-	-	22,664	-	22,664
Legislative	-	-	-	-	-	-	-	-	-	-	40,000	-	40,000
Environment and emergency management	-	-	-	-	-	-	-	-	-	31,862	1,961,094	37,400	2,030,356
Office of the National Public Auditor	-	-	-	-	339,494	-	-	-	-	-	-	-	339,494
Boards and commissions	-	-	-	-	-	-	-	-	-	-	1,480,304	-	1,480,304
Capital Projects	-	-	-	-	-	-	-	108,534	224,692	-	-	-	333,226
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>339,494</u>	<u>656,436</u>	<u>-</u>	<u>108,534</u>	<u>224,692</u>	<u>22,734,768</u>	<u>27,426,304</u>	<u>37,400</u>	<u>51,527,628</u>
Net change in fund balances	-	-	-	-	-	-	-	1,046,932	-	-	17,691	361,097	1,425,720
Fund balances at the beginning of the year	-	-	-	-	-	-	-	184,542	-	-	1,277,185	4,095,480	5,557,207
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,231,474</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,294,876</u>	<u>\$ 4,456,577</u>	<u>\$ 6,982,927</u>

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

**GRANTS ASSISTANCE FUND**

Combining Statement of Revenues, Expenditures by Account,  
and Changes in Fund Balances (Deficit)  
Year Ended September 30, 2021

	10	11	12	13	14	15	16	18	19	20	23	26	Total
	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	\$ -	\$ -	\$ -	\$ -	\$ 339,494	\$ 656,436	\$ -	\$ 1,155,619	\$ 224,692	\$ -	\$ -	\$ 400,000	\$ 2,776,241
Federal and other grants	-	-	-	-	-	-	-	-	-	22,734,768	27,443,989	-	50,178,757
Others	-	-	-	-	-	-	-	(153)	-	-	6	(1,503)	(1,650)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>339,494</u>	<u>656,436</u>	<u>-</u>	<u>1,155,466</u>	<u>224,692</u>	<u>22,734,768</u>	<u>27,443,995</u>	<u>398,497</u>	<u>52,953,348</u>
Expenditures by account:													
Personnel	-	-	-	-	-	141,162	-	-	-	2,911,662	1,495,980	-	4,548,804
Travel and transportation	-	-	-	-	-	98,450	-	-	-	257,604	802,676	-	1,158,730
Books and materials	-	-	-	-	-	-	-	-	-	-	-	-	-
Communications	-	-	-	-	-	6,363	-	-	-	266,272	27,752	-	300,387
Customs and taxes	-	-	-	-	-	-	-	-	-	357	155	-	512
Dues, membership and subscription	-	-	-	-	-	3,630	-	-	-	73,417	11,738	-	88,785
Food stuffs	-	-	-	-	-	-	-	-	-	19,949	205,955	-	225,904
Freight	-	-	-	-	-	115	-	-	-	132,637	272,834	-	405,586
Expendable equipment/furniture	-	-	-	-	-	101,845	-	-	-	456,934	685,719	4,697	1,249,195
Office supplies and materials	-	-	-	-	-	22,514	-	-	-	533,902	402,925	2,087	961,428
POL	-	-	-	-	-	-	-	-	-	335,337	30,626	-	365,963
Advertising, printing and reproduction	-	-	-	-	-	-	-	-	-	175,801	118,489	-	294,290
Rental services	-	-	-	-	-	-	-	-	-	443,469	248,548	-	692,017
Repair and maintenance	-	-	-	-	-	-	-	-	-	7,803	1,535	-	9,338
Utilities	-	-	-	-	-	-	-	-	-	291,319	4,737	-	296,056
Miscellaneous goods and services	-	-	-	-	-	-	-	-	-	6,511	97,853	-	104,364
Medical supplies	-	-	-	-	-	-	-	-	-	292,841	397,028	-	689,869
Contribution, subsidies	-	-	-	-	-	-	-	-	-	8,224,322	11,122,957	-	19,347,279
General Contractual services	-	-	-	-	339,494	281,982	-	108,534	186,204	1,501,257	3,601,506	-	6,018,977
Professional services	-	-	-	-	-	-	-	-	38,488	363,046	5,059,189	-	5,460,723
Employee housing and household storage	-	-	-	-	-	-	-	-	-	42,150	20,100	-	62,250
Compensation-nonpayroll	-	-	-	-	-	-	-	-	-	5,348,871	19,760	-	5,368,631
Training and registration fees	-	-	-	-	-	-	-	-	-	1,717	2,511	-	4,228
Official and meeting allowances	-	-	-	-	-	-	-	-	-	28,250	31,870	-	60,120
Insurance and fees	-	-	-	-	-	-	-	-	-	806	-	-	806
Leased housing, offices, buildings and land	-	-	-	-	-	-	-	-	-	295,178	69,896	-	365,074
Bank charges	-	-	-	-	-	375	-	-	-	850	10,370	-	11,595
Equipment	-	-	-	-	-	-	-	-	-	502,268	2,544,706	30,616	3,077,590
Vehicle	-	-	-	-	-	-	-	-	-	220,238	138,889	-	359,127
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>339,494</u>	<u>656,436</u>	<u>-</u>	<u>108,534</u>	<u>224,692</u>	<u>22,734,768</u>	<u>27,426,304</u>	<u>37,400</u>	<u>51,527,628</u>
Net change in fund balances	-	-	-	-	-	-	-	1,046,932	-	-	17,691	361,097	1,425,720
Fund balances at the beginning of the year	-	-	-	-	-	-	-	184,542	-	-	1,277,185	4,095,480	5,557,207
Fund balances at the end of the year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,231,474	\$ -	\$ -	\$ 1,294,876	\$ 4,456,577	\$ 6,982,927

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

**GENERAL FUND (FUND 01 ONLY)  
Statement of Revenues, Expenditures and Changes in Fund Balance -  
Budget and Actual, Budgetary Basis  
Year Ended September 30, 2021**

	Budgeted Amounts		Expenditures on Budgetary Basis	Variance with Final Budget - Positive
	Original Budget	Final Budget		(Negative)
Revenues:				
Local taxes	\$ 9,654,724	9,500,000	12,791,458	\$ 3,291,458
Fishing right fees	60,000,000	69,000,000	68,997,647	(2,353)
Corporate Fees	6,000,000	7,300,000	11,166,862	3,866,862
Postal revenues	196,796	196,796	200,325	3,529
Investment earnings	1,000,000	1,000,000	922,487	(77,513)
Fees and charges	2,200,372	2,200,372	107,036	(2,093,336)
Other	4,000,000	23,100,000	1,100,137	(21,999,863)
Total revenues	<u>83,051,892</u>	<u>112,297,168</u>	<u>95,285,952</u>	<u>(17,011,216)</u>
Expenditures-budgetary basis by department:				
Executive Branch-Core Operational:				
Office of the President	1,283,208	1,830,540	1,604,630	225,910
President's Office - Public Information	80,318	104,112	76,852	27,260
President's Office - ODA & Compact Management	462,743	484,632	138,532	346,100
Total Office of the President	<u>1,826,269</u>	<u>2,419,284</u>	<u>1,820,014</u>	<u>599,270</u>
Department of Foreign Affairs				
Administration	266,713	351,432	376,593	(25,161)
Division of APA and Multilateral Affairs	114,670	116,464	120,973	(4,509)
Division of American and European Affairs	95,097	96,359	93,321	3,038
FSM Embassy - China	712,519	716,851	563,484	153,367
FSM Consulate - Guam	410,976	412,900	370,310	42,590
FSM Consulate - Honolulu	512,925	609,966	465,985	143,981
FSM Embassy - Tokyo	1,011,827	1,042,331	3,285,688	(2,243,357)
FSM Embassy - Washington D.C.	746,701	748,248	729,248	19,000
FSM Embassy - Fiji	405,510	405,942	246,042	159,900
FSM Permanent Mission - New York	899,844	900,276	813,693	86,583
FSM Consulate - Portland, Oregon	704,860	820,306	3,800,595	(2,980,289)
Total Department of Foreign Affairs	<u>5,881,642</u>	<u>6,221,075</u>	<u>10,865,932</u>	<u>(4,644,857)</u>
Department of Health and Social Affairs:				
Administration	123,012	179,216	168,438	10,778
Health System Support	225,571	227,050	165,049	62,001
Environmental Health	473,440	477,758	381,762	95,996
Gender Development Unit	91,082	117,856	49,699	68,157
Sports and Youth Unit	78,120	78,668	48,868	29,800
Total Department of Health and Social Affairs	<u>991,225</u>	<u>1,080,548</u>	<u>813,816</u>	<u>266,732</u>
Department of Education:				
Administration	183,045	201,785	143,635	58,150
Division of Formal & Non Formal Educaiton	186,974	188,181	20,232	167,949
Division of Quality & effectiveness(Domestic)	30,154	30,154	74,915	(44,761)
Division of Quality & effectiveness(SEG)	326,762	366,598	150,512	216,086
Total Department of Education	<u>726,935</u>	<u>786,718</u>	<u>389,294</u>	<u>397,424</u>
Department of Resources and Development:				
Administration	128,573	151,295	81,025	70,270
Division of Tourism	99,515	100,097	60,528	39,569
Division of Marine Resources	105,108	105,912	87,970	17,942
Division of Agriculture	527,960	533,482	544,670	(11,188)
Division of Trade and Investment	125,438	126,518	116,172	10,346
Division of Energy	47,608	47,930	9,024	38,906
Division of Statistics	439,974	444,448	384,503	59,945
Total Department of Resources and Development	<u>1,474,176</u>	<u>1,509,682</u>	<u>1,283,892</u>	<u>225,790</u>
Office of National Archives, Culture and Historic Preservation	<u>206,418</u>	<u>249,182</u>	<u>202,537</u>	<u>46,645</u>
Department of Environment, Climate Change and Emergency Management:				
Office of the Director	206,848	230,078	189,373	40,705
Division of Environment	165,284	167,106	131,238	35,868
Division of Climate Change	222,903	224,850	159,483	65,367
Division of Emergency Management	187,519	189,392	318,001	(128,609)
Total Department of Environment, Climate Change and Emergency Management	<u>782,554</u>	<u>811,426</u>	<u>798,095</u>	<u>13,331</u>
Office of Veteran's Affairs	<u>159,908</u>	<u>159,908</u>	<u>-</u>	<u>159,908</u>
Office of Personnel	<u>149,017</u>	<u>287,510</u>	<u>262,053</u>	<u>25,457</u>

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

**GENERAL FUND**

**Statement of Revenues, Expenditures and Changes in Fund Balance -  
Budget and Actual, Budgetary Basis, Continued  
Year Ended September 30, 2021**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
		Final		
Expenditures-budgetary basis by department, continued:				
Department of Transportation, Communication and Infrastructure:				
Administration	199,194	289,887	260,230	29,657
Division of Marine Transportation	1,320,320	1,514,720	1,577,596	(62,876)
Division of Infrastructure	621,000	621,000	492,354	128,646
Civil Aviation	148,121	148,121	104,544	43,577
Communication	123,171	123,171	98,966	24,205
Project Management Unit	503,110	503,110	353,636	149,474
Total Department of Transportation, Communication and Infrastructure	2,914,916	3,200,009	2,887,326	312,683
Department of Finance and Administration:				
Administration	275,197	317,504	159,332	158,172
Division of National Treasury	934,932	1,117,188	913,897	203,291
Division of Customs and Tax Administration	1,355,040	1,424,394	1,287,613	136,781
Division of Investment & International Finance	128,933	169,790	95,132	74,658
Division of Budget & Economic Management	288,908	331,412	181,005	150,407
Total Department of Finance and Administration	2,983,010	3,360,288	2,636,979	723,309
Department of Justice:				
Administration	551,836	632,855	517,716	115,139
Registrar of Corporation	116,050	116,599	80,553	36,046
Division of Law	395,358	443,885	277,030	166,855
Division of Litigation	516,815	540,777	497,132	43,645
Division of Anti-Human Trafficking Services	56,556	108,403	38,796	69,607
Division of Immigration and Passport Services	783,589	791,974	705,016	86,958
Division of Labor	249,362	252,832	73,069	179,763
FSM National Police	1,552,704	1,565,663	1,040,704	524,959
Division of Border Control & Maritime Surveillance	826,258	1,033,266	1,743,828	(710,562)
Total Department of Justice	5,048,528	5,486,254	4,973,844	512,410
Office of the Public Defender				
	1,094,918	1,104,140	736,986	367,154
Total Executive Branch-Core Operational	24,239,516	26,676,024	27,670,768	(994,744)
Executive Branch-Non-Core Operational:				
President's Office	3,425,538	3,425,538	5,094,704	(1,669,166)
Department of Foreign Affairs	259,270	272,770	480,659	(207,889)
Department of Health and Social Affairs	1,004,623	1,004,623	731,009	273,614
Department of Education	5,160,000	5,160,000	4,885,380	274,620
Department of Resources and Development	336,580	336,580	690,985	(354,405)
Office of National Archives, Culture, Historic Preservation	7,064	7,064	5,600	1,464
Department of Environment, Climate Change and Emergency Management	65,758	365,758	589,208	(223,450)
Department of Transportation, Communications and Infrastructure	2,380,406	3,155,406	5,672,828	(2,517,422)
Department of Finance and Administration	402,540	402,540	5,754,250	(5,351,710)
Department of Justice	1,389,269	1,919,269	949,966	969,303
Total Executive Branch-Non-Core Operational	14,431,048	16,049,548	24,854,589	(8,805,041)
Total Executive Branch	38,670,564	42,725,572	52,525,357	(9,799,785)
Judicial Branch-Core Operational				
	1,601,897	1,650,942	1,553,745	97,197
Judicial Branch-Non-core Operational				
	272,725	272,725	274,775	(2,050)
Total Judiciary Branch	1,874,622	1,923,667	1,828,520	95,147
Legislative Branch:				
Office of the Speaker and members	3,200,900	3,825,900	3,589,052	236,848
Members and staff	2,521,677	3,147,257	2,625,974	521,283
Delegation offices	513,810	3,223,810	2,764,863	458,947
Total Legislative Branch - Core	6,236,387	10,196,967	8,979,889	1,217,078
Legislative Branch - Noncore				
	361,159	189,159	284,423	(95,264)
Total Legislative Branch	6,597,546	10,386,126	9,264,312	1,121,814
Office of the National Public Auditor				
Public Auditor (Core)	889,428	889,428	662,679	226,749
Single Audit (Non-core)	460,002	460,002	460,002	-
Total Office of the National Public Auditor	1,349,430	1,349,430	1,122,681	226,749

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, 2021**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
		Final		
Special Programs:				
National Election	460,963	474,763	160,964	313,799
General Election	497,650	497,650	415,639	82,011
Total Special Programs	958,613	972,413	576,603	395,810
Agencies, Board and Commissions :				
National Oceanic Resource Management Authority	1,083,526	1,163,026	894,828	268,198
Tuna Commission Membership	318,397	318,397	318,397	-
MLFC Loan Subsidy	260,000	260,000	-	260,000
Micronesia Legal Services Corporation	250,000	250,000	250,000	-
FSM Insurance	581,150	582,250	428,572	153,678
FSM Banking Board	188,858	209,938	159,064	50,874
FSM National Olympic Committee	-	-	-	-
Postal Services	1,028,165	1,076,605	906,937	169,668
Other	-	-	249,405	(249,405)
Total Agencies, Boards and Commissions	3,710,096	3,860,216	3,207,203	653,013
Payments to component units:				
CIA Subsidy	310,000	410,000	446,028	(36,028)
FSM Micare	500,000	500,000	580,000	(80,000)
FSM Social Security Administration	1,000,000	1,000,000	1,000,000	-
Board of Regents-COM	120,000	120,000	9,030	110,970
COM-FSM Operation	3,800,000	3,800,000	2,812,042	987,958
COM-FSM (FMI)	875,611	875,611	590,043	285,568
COM-FSM Endowment Fund	-	285,000	285,000	-
FSM TCC	500,000	500,000	500,000	-
Total payments to component units	7,105,611	7,490,611	6,222,143	1,268,468
Other Non Core programs and appropriations	619,843	619,843	-	619,843
Other National government programs-continuing appropriations	14,794,880	14,794,880	19,063,987	(4,269,107)
Total expenditures	75,681,205	84,122,758	93,810,806	(9,688,048)
Excess (deficiency) of revenues over (under) expenditures	7,370,687	28,174,410	1,475,146	(26,699,264)
Other financing sources (uses):				
Operating Transfers in (out):				
Passport Fund	-	-	207,544	207,544
Fisheries Observation Fund	-	-	616,188	616,188
National Postal Services Fund	-	-	1,086,590	1,086,590
Insurance Board Revolving Fund	-	-	63,281	63,281
FSM Trust Fund - National fund	-	-	(1,180,705)	(1,180,705)
Permit Revolving Fund	-	-	91,417	91,417
Total Operating Transfers in/out	-	-	884,315	884,315
Total other financing sources (uses), net	-	-	884,315	884,315
	7,370,687	28,174,410	2,359,461	(25,814,949)
Write-off of receivables	-	-	(5,775,689)	(5,775,689)
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes but in the year the supplies are received for financial reporting purposes		-	6,048,048	6,048,048
Net change in fund balance	7,370,687	28,174,410	2,631,820	(25,542,590)
Fund balance at beginning of year	141,749,294	141,749,294	141,749,294	-
Fund balance at end of year	\$ 149,119,981	\$ 169,923,704	\$ 144,381,114	\$ (25,542,590)

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

**WORLD BANK PROJECT FINANCIAL SUMMARY**  
For the Year Ended September 30, 2021

GRANT NAMES	GRANT AMOUNT	PRIOR YEAR EXPENDITURE	CURRENT YEAR EXPENDITURE	TOTAL EXPENDITURE	CURRENT YEAR ENCUMBRANCES	TOTAL EXPENSES & ENCUMBRANCES	GRANT BALANCE	REPLENISHED FROM WORLD BANK	OUTSTANDING REPLENISHMENTS	NOTES
<b>FSM-PALAU CONNECTIVITY PROJECT (ICT):</b>										
Component 1	56,893,649	37,892,295	2,501,173	40,393,468	469,886	40,863,354	16,030,295			
Component 2	1,860,000	642,015	-	642,015	6,486	648,501	1,211,499			
Component 3	2,145,000	1,056,096	397,647	1,453,743	454,234	1,907,976	237,024			
Component 4	2,801,351	826,717	47,790	874,507	255,480	1,129,987	1,671,364			
<b>Subtotal</b>	<b>63,700,000</b>	<b>40,417,124</b>	<b>2,946,610</b>	<b>43,363,733</b>	<b>1,186,085</b>	<b>44,549,818</b>	<b>19,150,182</b>	<b>40,970,579</b>	<b>2,393,155</b>	
<b>PACIFIC ISLANDS REGIONAL OCEANSCAPE PROJECT (PROP):</b>										
Component 1.1	2,238,427	987,705	761,011	1,748,716	245,013	1,993,728	244,699			
Component 1.2	2,435,043	986,154	364,846	1,351,000	20,883	1,371,883	1,063,159			
Component 2	300,022	296,108	-	296,108	3,914	300,022	-			
Component 3	526,508	386,543	97,034	483,577	-	483,577	42,931			
<b>Subtotal</b>	<b>5,500,000</b>	<b>2,656,510</b>	<b>1,222,891</b>	<b>3,879,401</b>	<b>269,810</b>	<b>4,149,211</b>	<b>1,350,789</b>	<b>3,877,190</b>	<b>2,211</b>	A
<b>PROGRAMMATIC PREPARATION ADVANCE (PPA):</b>										
PFM	199,369	197,933	(197,932.72)	-	-	-	199,368.62			
FMIP	746,254	701,994	(701,993.86)	-	800	800	745,454.11			
SEDAP	44,210	44,209	(44,209.18)	-	-	-	44,210.00			
DIGITAL	1,530,000	291,773	(291,772.87)	-	2,170	2,170	1,527,830.00			
PRIME	2,980,167	52,052	162,224	214,276	-	214,276	2,765,891.26			
<b>Subtotal</b>	<b>5,500,000</b>	<b>1,287,960</b>	<b>(1,073,684)</b>	<b>214,276</b>	<b>2,970</b>	<b>217,246</b>	<b>5,282,754</b>	<b>1,447,714</b>	<b>0</b>	B
<b>PROJECT FOR STRENGTHENING PUBLIC FINANCIAL MANAGEMENT (PFM):</b>										
COMPONENT 1	350,000	13,150	20,600	33,750	248,100	281,850	68,150			
COMPONENT 2	5,145,000	396,715	123,183	519,899	306,262	826,161	4,318,839			
COMPONENT 3	1,945,000	372,354	227,658	600,012	101,724	701,736	1,243,264			
COMPONENT 4	1,360,000	368,088	143,459	511,548	(1,468)	510,080	849,920			
COMPONENT 5	2,200,000	828,691	301,589	1,130,280	1,080	1,131,360	1,068,640			
<b>Subtotal</b>	<b>11,000,000</b>	<b>1,978,999</b>	<b>816,489</b>	<b>2,795,488</b>	<b>655,698</b>	<b>3,451,186</b>	<b>7,548,814</b>	<b>2,660,547</b>	<b>134,941</b>	
<b>SUSTAINABLE ENERGY DEVELOPMENT AND ACCESS PROJECT (SEDAP)</b>										
COMPONENT 1	11,800,000	428,842	54,525	483,367	503,262	986,629	10,813,371			
COMPONENT 2	3,450,000	-	13,263	13,263	41,145	54,408	3,395,592			
COMPONENT 3	9,900,000	-	57,350	57,350	562,420	619,770	9,280,230			
COMPONENT 4	1,900,000	-	-	-	-	-	1,900,000			
COMPONENT 5	2,950,000	286,219	372,546	658,765	199,843	858,608	2,091,392			
<b>Subtotal</b>	<b>30,000,000</b>	<b>715,061</b>	<b>497,684</b>	<b>1,212,745</b>	<b>1,306,669</b>	<b>2,519,415</b>	<b>27,480,585</b>	<b>1,134,738</b>	<b>78,007</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 3A	6,940,000	800,523	193,173	993,697	568,795	1,562,492	5,377,508			
Component 3B	3,500,000	-	1,350,810	1,350,810	299,778	1,650,588	1,849,412			
Component 4/CERC	2,500,000	-	758,004	758,004	-	758,004	1,741,996			
<b>Subtotal</b>	<b>40,990,000</b>	<b>800,523</b>	<b>2,301,988</b>	<b>3,102,511</b>	<b>868,574</b>	<b>3,971,085</b>	<b>37,018,915</b>	<b>2,609,524</b>	<b>492,987</b>	C
<b>DIGITAL FSM (DFSM)</b>										
COMPONENT 1	15,000,000	55,000	560,774	615,774	772,968	1,388,742	13,611,257.91			
COMPONENT 2	6,500,000	-	-	-	-	-	6,500,000.00			
COMPONENT 3A	750,000	-	-	-	-	-	750,000.00			
COMPONENT 3B	500,000	-	-	-	-	-	500,000.00			
COMPONENT 3C	750,000	-	-	-	-	-	750,000.00			
COMPONENT 3D	1,000,000	-	-	-	-	-	1,000,000.00			
COMPONENT 4A	1,300,000	1,642	202,892	204,534	-	204,534	1,095,465.98			
COMPONENT 4B	5,000,000	20,472	322,922	343,394	501,869	845,263	4,154,737.10			
<b>Subtotal</b>	<b>30,800,000</b>	<b>77,114</b>	<b>1,086,588</b>	<b>1,163,702</b>	<b>1,274,837</b>	<b>2,438,539</b>	<b>28,361,461</b>	<b>455,262</b>	<b>1,275,791.85</b>	
<b>PRIORITIZED ROAD INVESTMENT AND MANAGEMENT ENHANCEMENTS PROJECT (PRIME)</b>										
COMPONENT 1	1,500,000	-	21,836	21,836	202,373	224,208	1,275,791.85			
COMPONENT 2	34,000,000	-	-	-	-	0	34,000,000.00			
COMPONENT 3	4,500,000	-	35,172	35,172	154,046	189,219	4,310,781.36			
<b>Subtotal</b>	<b>40,000,000</b>	<b>-</b>	<b>57,008</b>	<b>57,008</b>	<b>356,419</b>	<b>413,427</b>	<b>39,586,573</b>	<b>0</b>	<b>57,008</b>	D
<b>TOTAL FOR GRANTS</b>	<b>227,490,000</b>	<b>47,933,292</b>	<b>7,855,573</b>	<b>55,788,865</b>	<b>5,921,062</b>	<b>61,709,926</b>	<b>165,780,074</b>	<b>53,155,554</b>	<b>3,866,749</b>	

See Accompanying Independent Auditors' Report

NOTES TO 2021 FINANCIAL SUMMARY

- A In 2021, the PROP Project was closed on September 30, 2021 and has four months liquidation period to pay all incurred invoices as of the closing date.
- B In 2021, the PPA was closed at September 30, 2021 and all expenditures except for PRIME project that jud made effective on August 9 were charged to the main projects.
- C During 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 which out of this \$758,004 has been documented to WB Client Connection.
- D The Prioritized Road Investments & Management Enhancements (PRIME) project was made effective on August 9, 2021.

# 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>FSM-PALAU CONNECTIVITY PROJECT (ICT):</b>										
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			
<b>Subtotal</b>	<b>63,700,000</b>	<b>38,969,010</b>	<b>1,448,113</b>	<b>40,417,123</b>	<b>2,333,256</b>	<b>42,750,379</b>	<b>20,949,621</b>	<b>40,124,898</b>	<b>292,225</b>	
<b>PACIFIC ISLANDS REGIONAL OCEANSCAPE PROJECT (PROP):</b>										
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			
<b>Subtotal</b>	<b>5,500,000</b>	<b>2,152,993</b>	<b>503,518</b>	<b>2,656,511</b>	<b>236,854</b>	<b>2,893,365</b>	<b>2,606,635</b>	<b>2,532,963</b>	<b>123,548</b>	A
<b>PROGRAMMATIC PREPARATION ADVANCE (PPA):</b>										
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	149,151	201,203	2,778,964			
<b>Subtotal</b>	<b>5,500,000</b>	<b>930,925</b>	<b>357,036</b>	<b>1,287,961</b>	<b>154,054</b>	<b>1,442,014</b>	<b>4,057,986</b>	<b>1,285,490</b>	<b>2,471</b>	B
<b>PROJECT FOR STRENGTHENING PUBLIC FINANCIAL MANAGEMENT (PFM):</b>										
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			
<b>Subtotal</b>	<b>11,000,000</b>	<b>793,697</b>	<b>1,185,302</b>	<b>1,978,999</b>	<b>907,894</b>	<b>2,886,893</b>	<b>8,113,107</b>	<b>1,475,968</b>	<b>503,031</b>	
<b>SUSTAINABLE ENERGY DEVELOPMENT AND ACCESS PROJECT (SEDAP)</b>										
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			
<b>Subtotal</b>	<b>30,000,000</b>	<b>408,863</b>	<b>306,199</b>	<b>715,062</b>	<b>353,049</b>	<b>1,068,111</b>	<b>28,931,889</b>	<b>655,812</b>	<b>59,250</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	760,540	800,523	369,560	1,170,083	9,269,917			
Component 4/CERC	2,500,000	-	-	-	2,500,000	2,500,000	-			
<b>Subtotal</b>	<b>40,990,000</b>	<b>39,983</b>	<b>760,540</b>	<b>800,523</b>	<b>2,869,560</b>	<b>3,670,083</b>	<b>37,319,917</b>	<b>561,194</b>	<b>239,329</b>	C
<b>DIGITAL FSM (DFSM)</b>										
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			
<b>Subtotal</b>	<b>30,800,000</b>	<b>-</b>	<b>77,114</b>	<b>77,114</b>	<b>250,013</b>	<b>327,127</b>	<b>30,472,873</b>	<b>-</b>	<b>77,114</b>	D
<b>TOTAL FOR GRANTS</b>	<b>187,490,000</b>	<b>43,295,471</b>	<b>4,637,822</b>	<b>47,933,293</b>	<b>7,104,679</b>	<b>55,037,973</b>	<b>132,452,027</b>	<b>46,636,325</b>	<b>1,296,968</b>	

See Accompanying Independent Auditors' Report

**NOTES TO 2020 FINANCIAL SUMMARY**

- A In 2020, the PROP project had a restructuring of funds and a no-cost extension to September 30, 2021.
- B The Prioritized Road Investments & Management Enhancements (PRIME) project is expected to be approved by the World Bank Board in May 2021.
- C During 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 FSM Digital project was made effective on May 20, 2020.

## **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, 2021, 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 April 28, 2023. Our report includes explanatory paragraphs concerning social security obligations, litigations, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Findings and Questioned Costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

*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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as items 2021-001 and 2021-004 to be material weaknesses.



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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2021-002 and 2021-005 to be significant deficiencies.

## Compliance and Other Matters

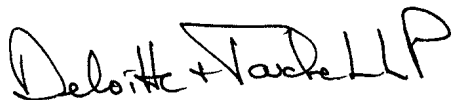
As part of obtaining reasonable assurance about whether the FSM National Government's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as items 2021-002 and 2021-005.

## 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.



April 28, 2023

## **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, 2021. 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, 2021. 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.

## ***Basis for Qualified Opinion on ALN 93.323 Major Federal Program***

As described in Finding 2021-003 in the accompanying Schedule of Findings and Questioned Costs, the Government did not comply with requirements regarding the following

<b>Finding #</b>	<b>ALN</b>	<b>Program (or Cluster) Name</b>	<b>Compliance Requirement</b>
2021-003	93.323	Epidemiology and Laboratory Capacity for Infectious Disease	Procurement, Suspension and Debarment

Compliance with such requirements is necessary, in our opinion, for the Government to comply with the requirements applicable to those programs.

## ***Qualified Opinion on ALN 93.323 Major Federal Program***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Government compliance, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its ALN 93.323 major federal program for the year ended September 30, 2021.

## ***Unmodified Opinion on Each of the Other 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 other major federal programs identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs for the year ended September 30, 2021.

## **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.

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2021-003 to be a material weakness.

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 significant deficiencies.

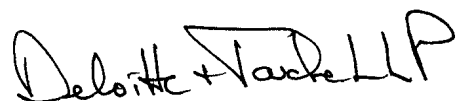
The FSM National Government's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The FSM National Government's response was not subjected to the auditing procedures applied in the audit of compliance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

The FSM National Government is responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. 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, 2021, 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 April 28, 2023, which contained unmodified opinions on those financial statements and included explanatory paragraphs concerning social security obligations, litigations, 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.



April 28, 2023

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Summary Schedule of Expenditures of Federal Awards, by Grantor  
Year Ended September 30, 2021

<u>Agency/Program</u>	<u>Expenditures</u>	<u>Amounts Passed-Through to Subrecipients</u>
U.S. Department of Agriculture	\$ 50,091	\$ 50,091
U.S. Department of Commerce	1,740,828	-
U.S. Department of the Interior	73,141,173	70,752,833
U.S. Department of Labor	14,261,597	
U.S. Department of Transportation	134,313	-
Institute of Museum and Library Services	18,575	-
U.S. Department of Education	3,720,629	3,023,506
U.S. Department of Health and Human Services	9,595,220	4,640,116
U.S. Department of Homeland Security	31,861	-
GRAND TOTAL	<u>\$ 102,694,286</u>	<u>\$ 78,466,545</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	\$ 51,527,628	-
Add:		
Amounts Passed-Through to subrecipients	78,466,545	
Less:		
Expenditures of the Non U.S. Grants Fund	<u>(27,426,304)</u>	-
Total expenditures of federal awards	<u>\$ 102,567,869</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, 2021

<u>Agency/Program</u>	<u>ALN</u>	<u>Expenditures</u>	<u>Amounts Passed-Through to Subrecipients</u>
U.S. DEPARTMENT OF AGRICULTURE			
Cooperative Forestry Assistance	10.664	\$ 19,459	\$ 19,459
Urban and Community Forestry Program	10.675	8,350	8,350
Forest Legacy Program	10.676	316	316
Forest Stewardship Program	10.678	<u>21,966</u>	<u>21,966</u>
U.S. DEPARTMENT OF AGRICULTURE TOTAL		\$ <u>50,091</u>	\$ <u>50,091</u>
U.S. DEPARTMENT OF COMMERCE			
Climate and Atmosphere Research	11.431	\$ <u>1,740,828</u>	\$ -
U.S. DEPARTMENT OF COMMERCE		\$ <u>1,740,828</u>	\$ -
U.S. DEPARTMENT OF THE INTERIOR			
Economic, Social and Political Development of the Territories	15.875		
Compact Sector Funds:			
Infrastructure and Infrastructure maintenance		\$ 6,946,662	\$ 6,721,970
Education		25,821,751	25,821,751
Health		22,900,445	22,900,445
COVID-19- Health		978,468	978,468
Capacity Building		53,569	53,569
Environment		167,344	167,344
Private Sector		8,737,548	8,079,545
Compact Supplemental Education		-	-
IMF		1,461,646	1,461,646
Emergency Management		2,699,338	2,699,338
Compact ERA		-	-
Subtotal Compact Sector Funds		<u>70,218,334</u>	<u>69,227,105</u>
Technical Assistance:			
Single Audit		342,035	2,541
Technical Assistance OIA/DOI Other		28,393	28,393
CARES Act		<u>2,168,557</u>	<u>1,237,434</u>
Total CFDA #15.875		<u>72,757,319</u>	<u>70,495,473</u>
Historic Preservation Fund Grants-In-Aid	15.904	<u>383,853</u>	<u>257,359</u>
U.S. DEPARTMENT OF THE INTERIOR TOTAL		\$ <u>73,141,173</u>	\$ <u>70,752,833</u>
U.S. DEPARTMENT OF LABOR			
COVID 19 - Pandemic Unemployment Insurance	17.225	\$ <u>14,261,597</u>	\$ -
U.S. DEPARTMENT OF LABOR TOTAL		\$ <u>14,261,597</u>	\$ -
U.S. DEPARTMENT OF TRANSPORTATION			
Airport Improvement Program	20.106	\$ <u>134,313</u>	\$ -
U.S. DEPARTMENT OF TRANSPORTATION TOTAL		\$ <u>134,313</u>	\$ -
INSTITUTE OF MUSEUM AND LIBRARY SERVICES			
Grants to States	45.310	\$ <u>18,575</u>	\$ -
INSTITUTE OF MUSEUM AND LIBRARY SERVICES		\$ <u>18,575</u>	\$ -
U.S. DEPARTMENT OF EDUCATION			
Special Education Cluster (IDEA):			
Special Education - Grants to States	84.027A	\$ 3,619,097	\$ 3,023,506
Special Education - Grants to States	84.325	<u>101,532</u>	-
TOTAL SPECIAL EDUCATION CLUSTER (IDEA) AND			
U.S. DEPARTMENT OF EDUCATION TOTAL		\$ <u>3,720,629</u>	\$ <u>3,023,506</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Expenditures of Federal Awards, Continued  
Year Ended September 30, 2021

Agency/Program	ALN	Expenditures	Amounts Passed-Through to Subrecipients
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Public Health and Social Services Emergency Fund	93.003	\$ -	\$ -
Public Health Emergency Preparedness	93.069	228,175	51,455
Birth Defects and Developmental Disabilities Prevention and Surveillance	93.073	\$ -	\$ -
Public Health Emergency Preparedness Aligned Cooperative Agreement	93.074	-	-
Emergency System for Advance Registration of Volunteer Health Professionals	93.089	-	-
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092	189,549	135,433
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	93.104	125,665	53,749
Area Health Education Centers Point of Service Maintenance and Enhancement Awards	93.107	-	-
Maternal and Child Health Federal Consolidated Programs - SSDI Program	93.110	38,209	38,209
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	756,228	386,132
Emergency Medical Services for Children	93.127	12,300	-
Family Planning-Services	93.217	444,703	180,225
Health Center Program Cluster:			
Health Center Program (Community Health Centers)	93.224	1,664,225	1,664,225
Health Center Program Cluster Total		1,664,225	1,664,225
Title V State Sexual Risk Avoidance Education (Title V State SRAE) Program	93.235	-	-
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	254,587	195,550
Early Hearing Detection and Intervention	93.251	225,874	15,787
Immunization Cooperative Agreements	93.268	1,879,755	875,900
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	1,566	1,566
Epidemiology and Laboratory Capacity for Infectious Disease Capacity Building in FSM	93.323	1,116,251	-
Behavioral Risk Factor Surveillance System	93.336	60,862	-
Leading Edge Acceleration Projects (LEAP) in Health Information Technology	93.345	-	-
Public Health Emergency Response: Cooperative Agreement for Emergency Response:			
Public Health Crisis Response	93.354	314,540	32,006
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	325,387	83,031
CDC Undergraduate Public Health Scholars Program (CUPS): A Public Health Experience to Expose Undergraduates Interested in Minority Health to Public Health and the Public Health Professions	93.456	-	-
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	-	-
Opioid STR	93.788	235,185	177,466
Domestic Ebola Supplement to the Epidemiology and Laboratory Capacity for Infectious Diseases	93.815	-	-
National Bioterrorism Hospital Preparedness Program	93.889	311,229	35,952
Cancer Prevention and Control Program for State, Territorial, and Tribal Organizations	93.898	324,741	199,428
HIV Care Formula Grants	93.917	26,787	11,658
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	-	-
Assistance Programs for Chronic Disease Prevention and Control	93.945	-	-
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, 2021

<u>Agency/Program</u>	<u>ALN</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	303,653	75,886
Block Grants for Prevention and Treatment of Substance Abuse	93.959	531,956	426,457
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	40,597	-
Maternal and Child Health Services Block Grant to the States	93.994	183,194	-
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		\$ 9,595,220	\$ 4,640,116
U.S. DEPARTMENT OF HOMELAND SECURITY			
Emergency Management Performance Grants	97.042	31,861	-
U.S. DEPARTMENT OF HOMELAND SECURITY TOTAL		\$ 31,861	-
TOTAL EXPENDITURES OF FEDERAL AWARDS		\$ 102,694,286	\$ 78,466,545

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, 2021

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, 2021. 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, 2021 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, 2021.

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 2021 reporting responsibilities under the Single Audit Act. Total federal awards for COM-FSM is \$1,908,441.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Notes to Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2021

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. ALN 15.875

ALN 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 ALN 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, 2021

**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?               | Yes |
| 4. Noncompliance material to financial statements noted? | No  |

*Federal Awards*

Internal control over major federal programs:

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

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

ALN 93.323	Qualified
All other major 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:  |     |

<u>AL Numbers</u>	<u>Name of Federal Program or Cluster</u>
15.875	Economic, Social, and Political Development of the Territories – Compact of Free Association Compact Sector Grants
17.225	Unemployment Insurance
93.323	Epidemiology and Laboratory Capacity for Infectious Disease

Dollar threshold used to distinguish between Type A and Type B Programs:	\$3,000,000
--	-------------

- |  |    |
|--|----|
| 11. Auditee qualified as low-risk auditee? | No |
|--|----|

**Section II – Financial Statement Findings**

2021-001	Timely and Accurate Reconciliations
2021-002	Accounts Receivable
2021-004	Independent Appraisal of Real Property
2021-005	Accounts Payable

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

<u>Finding #</u>	<u>ALN</u>	<u>Finding</u>	<u>Questioned Costs</u>
2021-003	93.323	Procurement, Suspension and Debarment	\$145,945

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2021

Finding No.: 2021-001  
Area: Timely and Accurate Reconciliations

Criteria: The general ledger should be regularly reconciled with detailed subsidiary ledgers for receivables, payables, and bank accounts as such is fundamental and critical to maintaining accurate financial records and also to minimize the opportunity for misappropriation of funds or fraudulent activities.

Condition: A final trial balance and supporting ledgers and account reconciliations for the fiscal year ending September 30, 2021 were not received until September 5, 2022, almost one year after the end of the fiscal year. Additional adjustments were proposed subsequent to the receipt of the final financial statements.

Cause: The government does not perform regular reconciliations of its records throughout the year and appears to perform such after the end of the fiscal year and in the subsequent months.

Effect: Lack of timely reconciliation resulted in the provision of several trial balances throughout the course of the audit, with the final trial balance being provided on September 5, 2022. Financial records may not have been accurate and potential misappropriation of funds or fraudulent activities may have occurred and not have been detected by management.

Recommendation: The government should periodically reconcile the general ledger with the subsidiary records to assist in maintaining accurate records and such reconciliations should be documented.

Views of Responsible Officials: We agree with the finding. Our corrective action plan is documented in the Corrective Action Plan.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2021

Finding No.: 2021-002  
Area: Accounts Receivable

Criteria: Accounts receivable comprised of general, employee payroll advances, travel advances, advances to suppliers, and due from grantor agencies should be collected within a reasonable timeframe and should be monitored and recorded when an expenditure is incurred. Collections should also be traceable to a receipt, identifying the type of collection and be traceable to a bank statement. Also, the detailed schedule of accounts receivable must be reconciled to the general ledger on a monthly basis to minimize the opportunity of misappropriation of funds or fraudulent activities.

Condition: Receivables include amounts that were outstanding over a year which were uncollected as of January 27, 2023. An approximate \$4.6 million audit adjustment was proposed and reflected in the Grants Assistance Fund and General Fund as a result of this condition. Detailed schedules of receivables were not available for inspection until 19 months after fiscal year end.

Cause: The government did not perform timely drawdown requests for expenditures incurred and advances were not cleared when incurred due to lack of monthly reconciliation of details to the general ledger.

Effect: Accounts receivable were materially overstated. However, such misstatement was corrected through the audit process. In spite of adjustments to state receivables at net realizable value, old receivables continue to be carried on the financial ledgers.

Recommendation: The government should review receivables at least quarterly for ongoing pertinence and monitor and clear receivables in a timely manner.

Views of Responsible Officials: We agree with the finding. Our corrective action plan is documented in the Corrective Action Plan.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2021

Finding No.: 2021-003  
 Federal Agency: U.S. Department of Health and Human Services  
 ALN Program: 93.323 Epidemiology and Laboratory Capacity for Infectious Disease  
 Federal Award No.: Various Grants  
 Compliance Requirement: Procurement and Suspension and Debarment  
 Questioned Costs: \$145,945

**Criteria:** In accordance with applicable procurement and suspension and debarment requirements under the FSM National Government’s Financial Management Regulations (FMR), which are used for procuring goods and services from both Federal and non-Federal funding sources, certain criteria are required to be met which includes, but not limited, to the following:

A non-Federal entity must maintain records sufficient to detail the history of procurement, which include, but are not limited to, rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

**Condition:** For 3 (or 38%) of 8 transactions tested, aggregating \$333,058 of \$1,112,651 in total program expenditures, sole source procurement was utilized wherein the vendor was the only authorized distributor of a specific brand of equipment, however documentation supporting solicitations or rationale to support the brand selected was not evident that appears to limit competition.

Reference	Trans Num	Amount Tested	FY21 Expenditures and Questioned Costs
L203188	362259	\$ 64,262	\$ 64,262
L203190	354834	64,262	64,262
L211144	359624	17,421	<u>17,421</u>
			\$ <u>145,945</u>

**Cause:** The FSM National Government lacks controls over compliance with applicable procurement and suspension and debarment requirements.

**Effect:** The FSM National Government is in noncompliance with applicable procurement and suspension and debarment requirements. The total questioned cost presented at this finding is \$145,945.

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

**Views of Responsible Officials:** We disagree with the finding. Our reason for disagreeing is documented in the Corrective Action Plan.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2021

Finding No.: 2021-004  
Area: Independent Appraisal of Real Property Purchased

Criteria: An independent appraisal of the Fair Market Value (FMV) of real property purchased should occur to support the value recorded in the financial statements in accordance with Generally Accepted Accounting Principles. Such process is fundamental and critical to determining the fair market value of an asset purchase to minimize errors in the financial statements and opportunities for fraud or kickback schemes.

Condition: An appraisal report for acquisition of real property in Portland, Oregon, USA was not available for inspection. We were additionally unable to determine whether the appraisal report for the acquisition of real property in Japan was independently contracted for by the FSM National Government and if the appraisal was evaluated for propriety.

Cause: A relevant policy requiring appraisals is not in place.

Effect: Financial records may not be accurate and a potential misappropriation of funds or fraudulent activities may not be discovered.

Recommendation: The Government should implement policies requiring adequate independent appraisals supporting the FMV of assets acquired for material property purchases.

Views of Responsible Officials: We agree with the finding. Our corrective action plan is documented in the Corrective Action Plan.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2021

Finding No.: 2021-005  
Area: Accounts Payable

Criteria: Accounts payable comprised of trade payables, due to other governments, and due to grantor agencies, should be paid within a reasonable timeframe and should be monitored and recorded when an expenditure is incurred. Payments should also be traceable to an invoice, request for payment, and cancelled check, identifying the type of payment and traceable to the bank statement. Also, the detailed schedule of accounts payable must be reconciled to the general ledger on a periodic basis to minimize the opportunity of misappropriation of funds or fraudulent activities.

Condition: General Fund and Nonmajor Fund payables include amounts that were outstanding over 7 years and Grants Fund payables included amounts due to the States and grantor agencies that have been outstanding over 3 years as of November 2022. We also found that the detailed schedules of payables was not available for inspection until 17 months after fiscal year end.

Cause: The government did not perform timely payments for expenditures incurred and payables in excess of the applicable statute of limitation, 7 years for locally-funded expenditures and 3 years for Federally-funded transactions, were not cleared timely due to lack of monthly reconciliation of details to the general ledger.

Effect: Accounts payable may be potentially misstated and old payables continue to be carried in the financial ledgers.

Recommendation: The government should review payables at least monthly for ongoing pertinence and monitor and clear payments in a timely manner.

Views of Responsible Officials: We agree with the finding. Our corrective action plan is documented in the Corrective Action Plan.





Secretary of Finance  
&  
Administration

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

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**Summary Schedule of Prior Audit Findings and Questioned Costs  
Year Ended September 30, 2021**

Finding No.	CFDA No.	Requirement	Questioned Cost	Status
2020-01	N/A	Reporting	\$ -	Complete. FY2021 bank reconciliations were timely performed by staff and reviewed by management on a timely basis.
2020-02	17.225	Reporting	\$ 95,798	Complete. We received the Final Determination letter dated April 25, 2022, from a U.S. DOL grant officer, indicating that the reported questioned costs were all allowable costs.



Secretary of Finance  
&  
Administration

**GOVERNMENT OF THE  
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**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

**CORRECTIVE ACTION PLAN  
2CFR §200.511(c)  
Year Ended September 30, 2021**

Finding #	ALN #	Corrective Action Plan	Anticipated Completion Date	Responsible Person (contact details)
2021-001	-	Management has already started implementing the corrective action measures to address the finding. Management will ensure that accounts are timely reconciled and reviewed.	September 30, 2023	Contact: Ms. Akiama George Acting Assistant Secretary for National Treasury  Email: akiarthurgeorge@gmail.com
2021-002	-	Management has already started implementing the corrective action measures to address the finding. Monthly reconciliation of major receivable accounts has been performed up to March 2023.	September 30, 2023	Contact: Ms. Akiama George Acting Assistant Secretary for National Treasury  Email: akiarthurgeorge@gmail.com
2021-003	93.323	Since auditors are questioning purchases of the pharmaceutical product that the grantor agency specialist recommended, we will communicate with the grantor agency specialist who recommended the product and approved the budget and resolve the issue directly with her.		Contact: Ms. Akiama George Acting Assistant Secretary for National Treasury  Email: akiarthurgeorge@gmail.com

2021-004	-	Management has already started implementing policies that require annual independent appraisals of real property. We will look for an independent appraiser for our real properties.	December 31, 2023	<b>Contact:</b> <b>Ms. Akiama George</b> <b>Acting Assistant Secretary for National Treasury</b>  <b>Email: akiarthurGeorge@gmail.com</b>
2021-005	-	Management has already started implementing the corrective action measures to address the finding. Monthly reconciliation of major payable accounts has been performed up to March 2023 and reviewed.	September 30, 2023	<b>Contact:</b> <b>Ms. Akiama George</b> <b>Acting Assistant Secretary for National Treasury</b>  <b>Email:</b> <b>akiarthurGeorge@gmail.com</b> <b>erickpaul691@gmail.com</b>