

Financial Statements

**Federated States of Micronesia
National Government**

*Year Ended September 30, 2022
With Report of Independent Auditors*



Federated States of Micronesia
National Government

Financial Statements

Year Ended September 30, 2022

Contents

	<u>Page No.</u>
I. Report of Independent Auditors.....	1
II. Management’s Discussion and Analysis	6
III. Audited Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	15
Statement of Activities	17
Governmental Fund Financial Statements:	
Balance Sheet	18
Statement of Revenues, Expenditures, and Changes in Fund Balances	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	21
Fiduciary Fund Financial Statements:	
Combining Statement of Fiduciary Net Position	22
Combining Statement of Changes in Fiduciary Net Position	23
Discretely Presented Component Unit Financial Statements:	
Combining Statement of Net Position	24
Combining Statement of Revenues, Expenses and Changes in Net Position	25
Notes to Financial Statements.....	26
IV. Required Supplementary Information - Other than Management’s Discussion and Analysis	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual - General Fund.....	87
Notes to Required Supplementary Information - Budgetary Reporting.....	88
V. Supplementary Information and Other Information	
Combined Schedule of Expenditures by Account – Governmental Fund Types	90
General Fund - Statement of Revenues, Expenditures by Function and Department, and Changes in Fund Balance (Fund 1).....	91

Federated States of Micronesia
National Government

Financial Statements, continued

Contents

	<u>Page No.</u>
V. Supplementary Information and Other Information, continued	
Nonmajor Governmental Funds:	
Combining Balance Sheet.....	95
Combining Statement of Revenues, Expenditures by Function, and Changes in Fund Balances.....	96
Combining Statement of Revenues, Expenditures by Account, and Changes in Fund Balances.....	97
Grants Assistance Funds:	
Combining Balance Sheet.....	98
Combining Statement of Revenues and Expenditures by Function, and Changes in Fund Balances.....	99
Combining Statement of Revenues and Expenditures by Account, and Changes in Fund Balances.....	100
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual – General Fund (Fund 01 Only)	101
Schedule of World Bank Projects	105
VI. Independent Auditors' Reports on Internal Control and on Compliance	
Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	107
Report of Independent Auditors 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	110
Summary Schedule of Expenditures of Federal Awards, by Grantor	115
Schedule of Expenditures of Federal Awards.....	116
Notes to Schedule of Expenditures of Federal Awards.....	119
Schedule of Findings and Questioned Costs.....	121
Corrective Action Plan	137
Summary Schedule of Prior Audit Findings and Questioned Costs	139

Report of Independent Auditors

Honorable Wesley W. Simina
President
Federated States of Micronesia

Report on the Audit of the Financial Statements

Qualified, Unmodified and Disclaimer of Opinions

We have audited the governmental activities, the aggregate discretely presented component units, the general fund, compact trust fund and the aggregate remaining fund information; and we were engaged to audit the grants assistance fund of the Federated States of Micronesia (FSM) National Government as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the FSM National Government's basic financial statements as listed in the table of contents (collectively referred to as the "financial statements").

Summary of Opinions

Opinion Unit	Type of Opinion
Governmental Activities	Qualified
Aggregate Discretely Presented Component Units	Unmodified
General Fund	Qualified
Grants Assistance Fund	Disclaimer
Compact Trust Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified

Disclaimer Opinion on the Grants Assistance Fund

We do not express an opinion on the accompanying financial statements of the grants assistance fund of the FSM National Government. Because of the significance of the matter described in the Basis for Disclaimer of Opinion on the Grants Assistance Fund section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the grants assistance fund.

Qualified Opinions on Governmental Activities and General Fund

In our opinion, except for the effects of the matters described in the Basis for Qualified and Unmodified Opinions section of our report, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the FSM National Government as of September 30, 2022, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions on Aggregate Discretely Presented Component Units, Compact Trust Fund and Aggregate Remaining Fund Information

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the aggregate discretely presented component units, Compact Trust Fund and the aggregate remaining fund information of the FSM National Government as of September 30, 2022, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Disclaimer Opinion on the Grants Assistance Fund

The FSM National Government's Grants Assistance Fund includes \$7,359,000 receivable from and \$10,537,968 payable to FSM State Governments. In addition, the Grants Assistance Fund includes \$31,674,723 recorded as due to grantor agencies, intended to account for federal awards received in advance of eligible expenditures. We were unable to obtain sufficient appropriate audit evidence about the carrying amounts of \$7,359,000 receivable from and \$10,537,968 payable to FSM State Governments and the \$31,674,723 carrying amount of the FSM National Government's due to grantor agencies as of September 30, 2022. Consequently, we were unable to determine whether any adjustments to these amounts is necessary in the Grants Assistance Fund.

Basis for Qualified and Unmodified Opinions

We conducted our audit of the financial statements of the governmental activities, the aggregate discretely presented component units, the general fund, compact trust fund and the aggregate remaining fund information in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the FSM National Government, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified and unmodified opinions.

Matters Giving Rise to Qualified Opinions on Governmental Activities and General Fund

The FSM National Government did not complete its assessment of the potential impact to its financial statements resulting from the adoption of Government Accounting Standards Board (GASB) Statement No. 87, *Leases*. The effects of this departure to the general fund and the governmental activities of the FSM National Government is not reasonably determinable.

We were unable to obtain sufficient appropriate audit evidence on \$7,359,000 receivable from and \$10,537,968 payable to FSM State Governments and \$31,674,723 of amounts due to grantor agencies.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the FSM National Government's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Auditor's Responsibilities for the Audit of the Grants Assistance Fund

Our responsibility is to conduct an audit of the FSM National Government's financial statements in accordance with GAAS and to issue an auditor's report. However, because of the matter described in the Basis for Disclaimer of Opinion on the Grants Assistance Fund section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the grants assistance fund.

We are required to be independent of the FSM National Government and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit.

Auditor's Responsibilities for the Audit of the Governmental Activities, Aggregate Discretely Presented Component Units, the General Fund, Compact Trust Fund and the Aggregate Remaining Fund Information

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 FSM National Government's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the FSM National Government's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 6 through 14 as well as the Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund and notes thereto, on pages 87 through 89, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental 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 GAAS, 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. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit for the year ended September 30, 2022 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 for the year ended September 30, 2022 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. 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 basic financial statements for the year ended September 30, 2022 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, except for the effect on the supplementary information of the matters described in the *Matters Giving Rise to Qualified Opinions on Governmental Activities* paragraph, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The FSM National Government's basic financial statements for the year ended September 30, 2021 (not presented herein), were audited by other auditors whose report thereon dated April 28, 2023, expressed unmodified opinions on the respective financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information. The report of the other auditors dated April 28, 2023, stated that the combining and individual fund financial statements for the year ended September 30, 2021 was subjected to the auditing procedures applied in the audit of the 2021 basic financial statements and

certain additional auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those basic financial statements or the those basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and, in their opinion, was fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended September 30, 2021.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Statement of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual, Budgetary Analysis (General Fund 01 only) on page 101 for the year ended September 30, 2022 and the schedule of World Bank Projects Financial Summary on page 105 for the year ended September 30, 2022 but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2024, 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.

Ernst + Young LLP

October 10, 2024

Federated States of Micronesia
National Government

Management's Discussion and Analysis

Year Ended September 30, 2022

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, 2022. 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 \$734 million (reported as net position) at the close of fiscal year 2022
- The net position of the National Government decreased by \$22 million during the fiscal year.

Fund level

- Overall governmental funds reported a combined ending fund balance of \$580 million at the close of fiscal year 2022, a decrease of 2.85% percent compared with the prior year.
- General Fund reported an ending fund balance of \$543 million, a decrease of 2.7 percent compared with the prior year. Of the amount, \$46 million was reported as "unrestricted."

Capital assets

- Net investment in capital assets decreased by \$7 million from \$201 million in fiscal year 2021 to \$194 million in fiscal year 2022 as current year depreciation exceeded current year additions.

Long-term debt

- Debt obligations decreased by \$6 million from \$46 million in fiscal year 2021 to \$40 million in fiscal year 2022.

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
National Government

Management's Discussion and Analysis, continued

(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 nine (9) 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) Micare Health Insurance Plan, (8) FSM Telecommunications Cable Corporation and (9) 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 18. 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.

Federated States of Micronesia
National Government

Management's Discussion and Analysis, continued

- **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 18 and 21.
- **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 the 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 2022, the National Government's total assets exceeded total liabilities by \$733,905,334.

A large portion of the National Government's net position reflects its net investment in capital assets \$193,765,546 for fiscal year 2022 as compared to \$201,087,174 for fiscal year 2021. 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 \$32,700,764 for fiscal year 2022 as compared to \$35,590,115 for fiscal year 2021 represents resources reserved for Compact trust fund, Compact sector funds and revolving funds, and has restrictions on how such funds may be used.

Federated States of Micronesia
National Government

Management's Discussion and Analysis, continued

The remaining portion \$507,620,759 for fiscal year 2022 as compared to \$519,515,204 for fiscal year 2021 represents unrestricted net position.

In governmental activities, net position decreased from \$756,192,493 in fiscal year 2021 to \$734,087,069 in fiscal year 2022.

Table 1. Statement of Net Position

	Governmental Activities			
	2022	2021	Change	%
ASSETS				
Current and other assets	\$644,363,993	\$616,152,047	\$28,211,946	4.58
Capital assets	<u>226,175,856</u>	<u>236,933,759</u>	<u>(10,757,903)</u>	-4.54
Total assets	<u>\$870,539,849</u>	<u>\$853,085,806</u>	<u>\$17,454,043</u>	2.05
LIABILITIES				
Current and other liabilities	\$100,378,691	\$ 54,168,799	\$46,209,892	85.31
Long-term liabilities	<u>36,255,824</u>	<u>42,724,514</u>	<u>(6,468,690)</u>	-15.14
Total liabilities	<u>136,634,515</u>	<u>96,893,313</u>	<u>39,741,202</u>	41.02
NET POSITION				
Net investment in capital assets	193,765,546	201,087,174	(7,321,628)	-3.64
Restricted	32,700,764	35,590,115	(2,889,351)	-8.12
Unrestricted	<u>507,439,024</u>	<u>519,515,204</u>	<u>(12,076,180)</u>	-2.32
	<u>733,905,334</u>	<u>756,192,493</u>	<u>(22,287,159)</u>	-2.95
Total liabilities and net position	<u>\$870,539,849</u>	<u>\$853,085,806</u>	<u>\$17,454,043</u>	2.05

Table 2 below shows revenues, expenditures by function and changes in net position of the National Government for the years ended September 30, 2022 and 2021. Governmental activities resulted in a change in the National Government's net position of \$(22,105,424) for fiscal year 2022 as compared to \$69,030,628 for fiscal year 2021. A number of factors were in play:

Program revenues increased by \$60,551,441 from \$57,791,520 in fiscal year 2021 to \$118,342,961 in fiscal year 2022 due primarily to an audit adjustment to account for the requirements of GASB Statement No. 24.

Total revenues decreased by \$30,999,094 from \$216,528,227 in fiscal year 2021 to \$185,529,133 in fiscal year 2022 largely due to the loss in the fair value of investments and the decrease in operational grants and contributions. In FY2022, the COVID-19 pandemic contributed to the loss in the fair value of investments. However, all of the unrealized loss were recovered at the close of September 2023 with the market value of \$406 million. Likewise, total expenses decreased by \$12,964,591 from \$146,825,751 in fiscal year 2021 to \$133,861,167 in fiscal year 2022.

Federated States of Micronesia
National Government

Management's Discussion and Analysis, continued

Table 2. Statement of Activities

	Governmental Activities			
	2022	2021	Change	%
REVENUES				
Program revenues:				
Charges for services	\$ 6,336,485	\$ 4,836,522	\$ 1,499,963	31.01
Operating grants and contributions	110,935,664	52,730,306	58,205,358	110.38
Capital grants and contributions	1,070,812	224,692	846,120	376.75
General revenues:				
Fishing fees	73,021,600	68,997,647	4,023,953	5.83
Corporate tax	59,163,561	11,166,862	47,996,699	429.81
Local taxes	11,247,400	13,075,891	(1,828,491)	-13.98
Unrestricted investment earnings	(68,927,515)	63,647,242	(132,574,757)	-208.30
Other	(7,318,874)	1,849,065	(9,167,939)	-495.81
Total revenues	<u>185,529,133</u>	<u>216,528,227</u>	<u>(30,999,094)</u>	-14.32
EXPENDITURES				
Executive	87,426,151	105,878,697	(18,452,546)	-13.00
Judiciary	1,710,362	1,807,547	(97,185)	-5.00
Legislative	9,246,895	8,751,986	494,909	2.00
Office of Public Auditor	1,492,369	1,376,167	116,202	8.00
Other National Government programs	7,850,173	4,102,593	3,747,580	91.00
Agencies, boards and commissions	4,487,649	6,436,975	(1,949,326)	-30.00
Special Programs	458,436	562,125	(103,689)	-18.00
Payments to component units	6,273,491	6,222,143	51,348	1.00
Payments to state governments	74,162,860	---	74,162,860	---
Legislative projects	13,844,829	10,732,194	3,112,635	-14.00
Capital projects	<u>1,070,812</u>	<u>366,623</u>	<u>704,189</u>	221.00
Total expenditures	<u>208,024,028</u>	<u>146,825,758</u>	<u>61,198,269</u>	42.00
Excess of revenues over expenditures	<u>(22,494,894)</u>	<u>69,702,469</u>	<u>(92,197,363)</u>	-132.00
SPECIAL ITEMS	---	(5,806,246)	(5,806,246)	-100.00
CONTRIBUTIONS TO PERMANENT FUND	<u>207,735</u>	<u>5,134,405</u>	<u>(4,926,670)</u>	-96.00
Change in net position	(22,287,159)	69,030,628	(91,317,787)	-132.00
Net position at the beginning of the year	<u>756,192,493</u>	<u>687,161,865</u>	<u>69,030,628</u>	10.00
Net position at the end of the year	<u>\$733,905,334</u>	<u>\$756,192,493</u>	<u>\$ (22,287,159)</u>	-3.00

Federated States of Micronesia
National Government

Management's Discussion and Analysis, continued

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, 2022, the National Government's governmental funds reported combined ending fund balances of \$579,884,174. Of this amount, \$70,818,406 was non-spendable, either due to its form or legal constraints; \$8,945,423 was restricted for specific program by contractual obligations. An additional \$420,293,136 was committed to specific purposes. Committed amounts cannot be used for any other purpose unless approved by the FSM Congress. An additional \$34,235,626 was assigned to specific purposes by management. At the end of fiscal year 2022, the unassigned fund balance of the General Fund was \$45,591,583 as compared with the prior year unassigned fund balance of \$41,233,104.

The Grants Assistance Fund had a total restricted fund balance of \$6,898,087 compared to the prior year restricted fund balance of \$6,982,927.

The Compact Trust Fund had a total fund balance of \$23,982,868, all of which is reserved for the funding of future operations of the National Government, commencing in fiscal year 2024. The net loss in fund balance during the current year was \$(3,436,275).

The other governmental funds (revolving funds) had a total fund balance of \$5,927,359, all of which was reserved for future operations of the National Government.

Table 3. General Fund Changes in Fund Balance

	Governmental Activities			
	2022	2021	Change	%
REVENUES				
Fishing fees	\$ 73,021,600	\$ 68,997,647	\$ 4,023,953	5.83
Taxes	70,110,414	23,958,320	46,152,094	192.63
Fees and charges	345,102	307,361	37,741	12.28
Investment revenues	(68,927,515)	64,836,907	(133,764,422)	-206.31
Other	(3,099,002)	661,050	(3,760,052)	-568.80
Total revenues	<u>71,450,599</u>	<u>158,761,285</u>	<u>(87,310,686)</u>	-54.99

Federated States of Micronesia
National Government

Management's Discussion and Analysis, continued

	Governmental Activities			
	2022	2021	Change	%
EXPENDITURES				
Executive	50,493,634	50,091,252	402,382	0.80
Judiciary	1,710,362	1,800,744	(90,382)	-5.02
Legislative	9,246,895	8,997,810	249,085	2.77
Office of Public Auditor	992,369	1,039,585	(47,216)	-4.54
Agencies, boards and commissions	3,549,230	3,028,983	520,247	17.18
Special programs	458,436	562,125	(103,689)	-18.45
Payments to component units	6,273,491	6,222,143	51,348	0.83
Legislative projects	13,841,983	16,020,116	(2,178,133)	-13.60
Debt service	<u>3,049,435</u>	<u>3,892,089</u>	<u>(842,654)</u>	-21.65
Total expenditures	<u>89,615,835</u>	<u>91,654,847</u>	<u>(2,039,012)</u>	-2.22
Excess of revenues over expenditures	(18,165,236)	67,106,438	(85,271,674)	-127.07
OTHER FINANCING SOURCES				
Net transfers in	2,648,898	2,065,020	583,878	28.27
SPECIAL ITEMS	<u>---</u>	<u>(5,595,629)</u>	<u>5,595,629</u>	-100.00
Net change in fund balance	(15,516,338)	63,575,829	(79,092,167)	-124.41
Fund balance at the beginning of the year	<u>558,592,198</u>	<u>495,016,369</u>	<u>63,575,829</u>	12.84
Fund balance at the end of the year	<u>\$543,075,860</u>	<u>\$558,592,198</u>	<u>\$(15,516,338)</u>	-2.78

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2022, the National Government had invested \$193,765,546 in capital assets. The capital assets consist of (1) buildings and improvements, (2) boats, (3) infrastructure, (4) motor vehicles, (5) computer equipment, (6) aircraft, and (7) furniture, equipment and machinery. The summary of capital assets is shown below:

Federated States of Micronesia
National Government

Management's Discussion and Analysis, continued

Table 4. Capital Assets

	Governmental Activities			
	2022	2021	Change	%
Buildings and improvements	\$ 74,257,683	\$ 74,257,683	\$ ---	0.00
Boats	22,955,497	22,823,233	132,264	0.58
Infrastructure	206,437,007	206,437,007	---	0.00
Motor vehicles	8,492,599	7,127,920	1,364,679	19.15
Computer equipment	2,752,982	2,688,253	64,729	2.41
Aircraft	709,207	709,207	---	0.00
Furniture, fixture and equipment	<u>12,825,144</u>	<u>11,897,925</u>	<u>927,219</u>	7.79
	<u>328,430,119</u>	<u>325,941,228</u>	<u>2,488,891</u>	0.76
Less: accumulated depreciation	(147,794,266)	(134,644,561)	(13,149,705)	9.77
Land	9,121,371	7,460,797	1660574	22.26
Construction-in-progress	<u>4,008,321</u>	<u>2,329,710</u>	<u>1,678,611</u>	72.05
	<u>\$193,765,545</u>	<u>\$201,087,174</u>	<u>\$(- 7,321,629)</u>	-3.64

See note 5 to the financial statements for additional information on the National Government's capital asset activity in 2022.

Long-Term Liabilities

At the end of fiscal year 2022, the National Government had long term liabilities of \$38,037,932 relating to governmental activities as shown below:

Table 5. Long-Term Debt

	Governmental Activities			
	2022	2021	Change	%
ADB loans	\$38,037,932	\$44,475,808	\$(6,437,876)	-14.86
Compensated absences	<u>1,706,454</u>	<u>1,433,478</u>	<u>272,976</u>	19.04
	<u>\$39,744,386</u>	<u>\$45,909,286</u>	<u>\$(-6,164,900)</u>	-13.43

During the year, the National Government made principal payments of \$3,009,436. Employees earned \$611,414 of vacation hours and used \$338,438 of such, which resulted in a net increase of \$272,976 in the compensated absences balance as of September 30 2022.

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, continued

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Fiscal year 2022 represents the seventeenth 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 2022 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, 2022

	<u>Primary Government</u>	<u>Component Units</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 124,997,665	\$ 38,157,373
Cash and cash equivalents - restricted	37,850,299	-
Time certificates of deposit	2,997,192	3,662,340
Investments	349,596,336	29,141,950
Receivables, net of allowance for uncollectibles	128,165,297	50,660,151
Due from component units	500,000	-
Inventories	-	20,694,094
Other assets	<u>257,204</u>	<u>6,496,612</u>
Total current assets	<u>644,363,993</u>	<u>148,812,520</u>
Noncurrent assets:		
Investments	-	14,160,385
Investments - restricted	23,982,868	-
Capital assets:		
Nondepreciable capital assets	13,129,692	16,547,409
Capital assets, net of accumulated depreciation	180,635,854	71,142,260
Other assets	<u>8,427,442</u>	<u>12,089,148</u>
Total noncurrent assets	<u>226,175,856</u>	<u>113,939,202</u>
 Total assets	 <u><u>\$ 870,539,849</u></u>	 <u><u>\$ 262,751,722</u></u>

See accompanying notes.

**Federated States of Micronesia
National Government**

Statement of Net Position, continued

	Primary Government	Component Units
<u>LIABILITIES</u>		
Current liabilities:		
Current portion of long-term obligations	\$ 2,877,148	\$ 3,191,830
Current portion of lease liabilities	-	254,860
Accounts payable	5,503,642	12,020,605
Current portion of compensated absences payable	611,414	323,686
Other liabilities and accruals	45,757,517	9,468,516
Due to FSM State Governments	12,579,164	-
Due to grantor agencies	33,049,806	2,731,159
Total current liabilities	<u>100,378,691</u>	<u>27,990,656</u>
Noncurrent liabilities:		
Long-term obligations, net of current portion	35,160,784	15,634,670
Lease liabilities, net of current portion	-	3,367,100
Compensated absences payable, net of current portion	1,095,040	538,151
Due to primary government	-	2,247,383
Other noncurrent liability	-	165,097
Total noncurrent liabilities	<u>36,255,824</u>	<u>21,952,401</u>
Total liabilities	<u>136,634,515</u>	<u>49,943,057</u>
<u>NET POSITION</u>		
Net investment in capital assets	193,765,546	78,834,966
Restricted for:		
Nonexpendable:		
Future operations	23,982,868	-
Other purposes	-	915,000
Expendable:		
Compact related	5,603,211	-
Other purposes	3,114,685	-
Unrestricted	<u>507,439,024</u>	<u>133,058,699</u>
Total net position	<u>733,905,334</u>	<u>212,808,665</u>
Total liabilities and net position	<u><u>\$ 870,539,849</u></u>	<u><u>\$ 262,751,722</u></u>

See accompanying notes.

**Federated States of Micronesia
National Government**

Statement of Activities

Year Ended September 30, 2022

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
Primary government:						
Governmental activities:						
Office of the President	\$ 5,147,784	\$ -	\$ 167,161	\$ -	\$ (4,980,623)	\$ -
Foreign affairs	6,103,407	-	18,985	-	(6,084,422)	-
Office of Personnel	179,218	-	-	-	(179,218)	-
Finance and administration	16,877,901	-	6,654,953	-	(10,222,948)	-
Resources and development	5,263,199	-	2,968,049	-	(2,295,150)	-
Transportation, communication and infrastructure	23,719,401	301,034	9,433,119	-	(13,985,248)	-
Health and social affairs	14,664,259	1,310	12,110,960	-	(2,551,989)	-
Education	8,273,288	-	2,366,093	-	(5,907,195)	-
Justice	6,374,891	2,607,645	-	-	(3,767,246)	-
Office of the Public Defender	1,413,486	-	-	-	(1,413,486)	-
Environment and emergency management	2,181,899	-	1,476,782	-	(705,117)	-
National archives, cultural and historic preservation	450,530	-	473,745	-	23,215	-
Legislature	9,238,939	-	-	-	(9,238,939)	-
Judiciary	1,709,960	-	-	-	(1,709,960)	-
Office of the National Public Auditor	1,450,451	-	500,000	-	(950,451)	-
National government programs	4,205,223	-	-	-	(4,205,223)	-
Agencies, boards and commissions	4,431,219	3,426,496	596,263	-	(408,460)	-
Special programs	458,436	-	-	-	(458,436)	-
Payments to component units	6,273,491	-	-	-	(6,273,491)	-
Payments to state governments and others	74,162,860	-	74,162,860	-	-	-
Legislative public projects	13,844,829	-	-	1,070,812	(12,774,017)	-
Capital projects	1,599,357	-	-	-	(1,599,357)	-
Total primary government	<u>\$ 208,024,028</u>	<u>\$ 6,336,485</u>	<u>\$ 110,928,970</u>	<u>\$ 1,070,812</u>	<u>(89,687,761)</u>	<u>-</u>
Component units:						
FSM Telecommunications Corporation	\$ 16,950,099	\$ 16,137,246	\$ 100,000	\$ -	-	(712,853)
FSM Development Bank	2,093,599	2,117,469	-	-	-	23,870
National Fisheries Corporation	1,366,867	1,654,527	-	-	-	287,660
College of Micronesia - FSM	32,508,553	3,575,212	29,773,155	-	-	839,814
FSM Petroleum Corporation	89,684,309	88,618,965	-	-	-	(1,065,344)
Caroline Islands Air, Inc.	1,122,681	818,406	149,368	-	-	(154,907)
FSM National Government Employees Health Fund	5,138,590	6,937,477	-	-	-	1,798,887
FSM Telecommunications Cable Corporation	3,327,201	(596,779)	2,050,033	-	-	(1,873,947)
Telecommunication Regulation Authority	377,006	300,940	34,310	-	-	(41,756)
Total component units	<u>\$ 152,568,905</u>	<u>\$ 119,563,463</u>	<u>\$ 32,106,866</u>	<u>\$ -</u>	<u>-</u>	<u>(898,576)</u>
General revenues:						
Taxes:						
Income					3,011,942	-
Import					3,931,994	-
Gross receipts					3,286,564	-
Corporate tax					59,163,561	-
Fuel					155,993	-
Tobacco revenue share					860,907	-
Fishing rights					73,021,600	-
Unrestricted investment earnings					(68,927,515)	(4,004,984)
Other					(7,312,179)	(4,856,216)
Total general revenues					<u>67,192,867</u>	<u>(8,861,200)</u>
Contributions to permanent funds					<u>207,735</u>	<u>-</u>
Total general revenues and contributions					<u>67,400,602</u>	<u>(8,861,200)</u>
Change in net position					<u>(22,287,159)</u>	<u>(9,759,776)</u>
Net position at the beginning of the year					<u>756,192,493</u>	<u>222,568,441</u>
Net position at the end of the year					<u>\$ 733,905,334</u>	<u>\$ 212,808,665</u>

See accompanying notes.

**Federated States of Micronesia
National Government**

**Balance Sheet
Governmental Funds**

September 30, 2022

	General	Special Revenue Grants Assistance	Permanent Compact Trust	Other Governmental Funds	Total
ASSETS					
Cash and cash equivalents	\$ 124,997,665	\$ -	\$ -	\$ -	\$ 124,997,665
Time certificates of deposit	2,997,192	-	-	-	2,997,192
Investments	349,596,336	-	-	-	349,596,336
Receivables, net:					
General	236,113	-	-	372	236,485
Taxes	86,194,167	-	-	-	86,194,167
Federal agencies	-	2,264,108	-	-	2,264,108
FSM States Governments	-	7,359,000	-	-	7,359,000
Loans	30,455,520	-	-	-	30,455,520
Advances	1,438,340	205,613	-	-	1,643,953
Accrued interest	12,064	-	-	-	12,064
Prepayments	257,204	-	-	-	257,204
Due from component units	500,000	-	-	-	500,000
Due from other funds	2,593,825	38,582,101	-	5,959,419	47,135,345
Other assets	8,427,442	-	-	-	8,427,442
Restricted assets:					
Cash and cash equivalents	32,881,398	4,968,901	-	-	37,850,299
Investments	-	-	23,982,868	-	23,982,868
Total assets	<u>\$ 640,587,266</u>	<u>\$ 53,379,723</u>	<u>\$ 23,982,868</u>	<u>\$ 5,959,791</u>	<u>723,909,648</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 3,832,400	\$ 1,650,841	\$ -	\$ 20,401	\$ 5,503,642
Other liabilities and accruals	45,721,252	24,279	-	11,986	45,757,517
Due to FSM State Governments	2,041,196	10,537,968	-	-	12,579,164
Due to other funds	44,541,520	2,593,825	-	-	47,135,345
Due to grantor agencies	1,375,038	31,674,723	-	45	33,049,806
Total liabilities	<u>97,511,406</u>	<u>46,481,636</u>	<u>-</u>	<u>32,432</u>	<u>144,025,474</u>
Fund balances:					
Non-spendable	46,835,538	-	23,982,868	-	70,818,406
Restricted	2,047,336	6,898,087	-	-	8,945,423
Committed	414,365,777	-	-	5,927,359	420,293,136
Assigned	34,235,626	-	-	-	34,235,626
Unassigned:					
General fund	45,591,583	-	-	-	45,591,583
Total fund balances	<u>543,075,860</u>	<u>6,898,087</u>	<u>23,982,868</u>	<u>5,927,359</u>	<u>579,884,174</u>
Total liabilities and fund balances	<u>\$ 640,587,266</u>	<u>\$ 53,379,723</u>	<u>\$ 23,982,868</u>	<u>\$ 5,959,791</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 193,765,546

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	(38,037,932)	
Compensated absences payable	(1,706,454)	
		154,021,160
Net position of governmental activities		<u>\$ 733,905,334</u>

See accompanying notes.

Federated States of Micronesia
National Government

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds

Year Ended September 30, 2022

	General	Special Revenue Grants Assistance	Permanent Compact Trust	Other Governmental Funds	Total
Revenues:					
Compact funding	\$ -	\$ 65,603,203	\$ -	\$ -	\$ 65,603,203
Taxes	70,110,414	-	-	300,547	70,410,961
Federal grants	-	33,365,446	-	-	33,365,446
Other grants		13,031,133			13,031,133
Fishing rights	73,021,600	-	-	-	73,021,600
Interest and dividends	397,733	-	-	-	397,733
Fees and charges	345,102	-	-	5,991,383	6,336,485
Net change in the fair value of investments	(69,325,248)	-	(3,436,275)	-	(72,761,523)
MiCare reimbursible	(2,822)	-	-	-	(2,822)
Other	(3,096,180)	6,694	-	-	(3,089,486)
Total revenues	71,450,599	112,006,476	(3,436,275)	6,291,930	186,312,730
Expenditures:					
Current:					
General government:					
Office of the President	4,981,437	167,161	-	-	5,148,598
Foreign affairs	7,898,408	18,985	-	-	7,917,393
Office of Personnel	179,218	-	-	-	179,218
Finance and administration	10,106,992	6,654,953	-	80,518	16,842,463
Resources and development	2,197,939	2,968,049	-	75,399	5,241,387
Transportation, communication and infrastructure	8,896,545	9,433,119	-	517,741	18,847,405
Health and social affairs	2,743,638	12,110,960	-	527	14,855,125
Education	5,537,794	2,366,093	-	99,569	8,003,456
Justice	5,642,250	-	-	488,916	6,131,166
Office of the Public Defender	1,460,347	-	-	-	1,460,347
Environment and emergency management	693,404	1,476,782	-	-	2,170,186
National archives, cultural and historic preservation	155,662	473,745	-	-	629,407
Legislature	9,246,895	-	-	-	9,246,895
Judiciary	1,710,362	-	-	-	1,710,362
Office of the National Public Auditor	992,369	500,000	-	-	1,492,369
Agencies, boards and commissions	3,549,230	687,797	-	250,622	4,487,649
Special programs	458,436	-	-	-	458,436
Payments to component units and fiduciary fund	6,273,491	-	-	-	6,273,491
Payments to state governments and others	-	74,162,860	-	-	74,162,860
Legislative public projects	13,841,983	-	-	2,846	13,844,829
Capital projects	-	1,070,812	-	-	1,070,812
Debt service:					
Principal and interest payments	3,049,435	-	-	-	3,049,435
Total expenditures	89,615,835	112,091,316	-	1,516,138	203,223,289
Excess (deficiency) of revenues over (under) expenditures	(18,165,236)	(84,840)	(3,436,275)	4,775,792	(16,910,559)

See accompanying notes.

Federated States of Micronesia
National Government

Statement of Revenues, Expenditures, and Changes in Fund Balances, continued
Governmental Funds

	General	Special Revenue Grants Assistance	Permanent Compact Trust	Other Governmental Funds	Total
Other financing sources (uses):					
Operating transfers in	3,048,898	-	-	-	3,048,898
Operating transfers out	(400,000)	-	-	(2,648,898)	(3,048,898)
Total other financing sources (uses), net	2,648,898	-	-	(2,648,898)	-
Net change in fund balances	(15,516,338)	(84,840)	(3,436,275)	2,126,894	(16,910,559)
Fund balances at the beginning of the year	558,592,198	6,982,927	27,419,143	3,800,465	596,794,733
Fund balances at the end of the year	\$ 543,075,860	\$ 6,898,087	\$ 23,982,868	\$ 5,927,359	\$ 579,884,174

See accompanying notes.

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, 2022

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

Net change in fund balances - total governmental funds	\$(16,910,559)
--	----------------

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	\$ 5,828,076	
Depreciation expense, net	(13,149,705)	(7,321,629)

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.

Gain from SDR	\$ 3,428,440	
Repayment of ADB loans, net	<u>3,009,436</u>	6,437,876

Effect of uncollected SDR adjustment due from FSM State Governments	(4,219,872)
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in compensated absences payable, net	(<u>272,975</u>)
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Change in net position of governmental activities	\$(<u>22,287,159</u>)
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Federated States of Micronesia
National Government

Combining Statement of Fiduciary Net Position
Fiduciary Funds

September 30, 2022

		Private Purpose Trust		
		FSM	Yap State	
	Custodial	Social Security	Development	
	Funds	Administration	Loan Fund	Total
<u>ASSETS</u>				
Cash and cash equivalents	\$ -	\$ 2,054,810	\$ 127,412	\$ 2,182,222
Time certificates of deposit	-	-	151,221	151,221
Receivables:				
Contributions	-	3,161,133	-	3,161,133
Other	-	22,031	-	22,031
Investments	7,429,594	44,931,837	-	52,361,431
Capital assets, net of accumulated depreciation	-	117,788	-	117,788
Total assets	<u>\$ 7,429,594</u>	<u>\$ 50,287,599</u>	<u>\$ 278,633</u>	<u>\$ 57,995,826</u>
<u>LIABILITIES</u>				
Accounts payable	\$ -	\$ 58,598	\$ 20,107	\$ 78,705
Other liabilities and accruals	-	32,325	-	32,325
Total liabilities	<u>-</u>	<u>90,923</u>	<u>20,107</u>	<u>111,030</u>
<u>NET POSITION</u>				
Held in trust for:				
Social security benefits	-	50,196,676	258,526	50,455,202
Other purposes	7,429,594	-	-	7,429,594
Total net position	<u>7,429,594</u>	<u>50,196,676</u>	<u>258,526</u>	<u>57,884,796</u>
	<u>\$ 7,429,594</u>	<u>\$ 50,287,599</u>	<u>\$ 278,633</u>	<u>\$ 57,995,826</u>

See accompanying notes.

Federated States of Micronesia
National Government

Combining Statement of Changes in Fiduciary Net Position
Fiduciary Funds

Year Ended September 30, 2022

		Private Purpose Trust		
	Custodial Funds	FSM Social Security Administration	Yap State Development Loan Fund	Total
Additions:				
Contributions	\$ -	\$ 21,036,307	\$ -	\$ 21,036,307
Investment earnings:				
Net change in the fair value of investments	(98,886)	(10,318,682)	-	(10,417,568)
Interest and dividends	451,280	318	689	452,287
Total investment earnings	352,394	(10,318,364)	689	(9,965,281)
Less investment expense	(2,527)	(275,414)	-	(277,941)
Net investment earnings	349,867	(10,593,778)	689	(10,243,222)
Contributions from primary government	-	1,000,000	-	1,000,000
Other	34,399	162,222	-	196,621
Total additions	384,266	11,604,751	689	11,989,706
Deductions:				
Benefits	-	23,859,166	-	23,859,166
Refunds/distribution	2,597,969	8,553	-	2,606,522
Administrative expenses	-	1,168,783	-	1,168,783
Total deductions	2,597,969	25,036,502	-	27,634,471
Change in net position	(2,213,703)	(13,431,751)	689	(15,644,765)
Net position at the beginning of the year	9,643,297	63,628,427	257,837	73,529,561
Net position at the end of the year	<u>\$ 7,429,594</u>	<u>\$ 50,196,676</u>	<u>\$ 258,526</u>	<u>\$ 57,884,796</u>

See accompanying notes.

**Federated States of Micronesia
National Government**

Combining Statement of Net Position
Component Units

September 30, 2022

	FSM Tele- Communications Corporation	FSM Development Bank	National Fisheries Corporation	College of Micronesia- FSM	FSM Petroleum Corporation	Caroline Islands Air, Inc.	Micare Health Insurance Plan	FSM Communications Cable Corporation	Telecommunication Regulation Authority	Total
ASSETS										
Current assets:										
Cash and cash equivalents	\$ 5,354,028	\$ 5,810,211	\$ 1,928,772	\$ 3,885,598	\$ 16,333,579	\$ 29,621	\$ 4,547,386	\$ 99,413	\$ 168,765	\$ 38,157,373
Time certificates of deposit	279,494	2,981,450	-	-	401,396	-	-	-	-	3,662,340
Investments	1,578,195	13,703,962	1,054,677	2,764,015	7,628,741	-	2,412,360	-	-	29,141,950
Receivables, net:										
General	487,262	-	1,133,613	6,352,738	2,912,666	-	143,116	116,642	-	11,146,037
Loans	-	38,580,333	-	-	-	-	-	-	-	38,580,333
Interest	-	329,233	-	-	-	-	-	-	-	329,233
Other	194,899	-	2,035	100,996	306,618	-	-	-	-	604,548
Inventories	1,269,054	-	39,195	1,228,098	18,099,137	58,610	-	-	-	20,694,094
Prepaid expenses	920,496	2,580	-	2,424,682	3,001,253	129,968	-	4,778	12,855	6,496,612
Total current assets	10,083,428	61,407,769	4,158,292	16,756,127	48,683,390	218,199	7,102,862	220,833	181,620	148,812,520
Noncurrent assets:										
Indefeasible right of use	2,000,151	-	-	-	-	-	-	3,975,682	-	5,975,833
Capital assets:										
Nondepreciable capital assets	3,742,136	-	-	1,455,685	11,243,429	-	106,159	-	-	16,547,409
Capital assets, net of accumulated depreciation	23,157,855	1,318,800	210,127	4,465,249	19,576,144	17,694	83,874	22,279,949	32,568	71,142,260
Lease assets	-	-	538,752	-	3,495,488	-	156,883	-	16,757	4,207,880
Other assets	172,422	-	-	-	710,093	-	234,807	788,113	-	1,905,435
Investments	-	5,605,440	-	8,554,945	-	-	-	-	-	14,160,385
Total noncurrent assets	29,072,564	6,924,240	748,879	14,475,879	35,025,154	17,694	581,723	27,043,744	49,325	113,939,202
Total assets	<u>\$ 39,155,992</u>	<u>\$ 68,332,009</u>	<u>\$ 4,907,171</u>	<u>\$ 31,232,006</u>	<u>\$ 83,708,544</u>	<u>\$ 235,893</u>	<u>\$ 7,684,585</u>	<u>\$ 27,264,577</u>	<u>\$ 230,945</u>	<u>\$ 262,751,722</u>
LIABILITIES										
Current liabilities:										
Current portion of long-term debt	\$ 1,022,110	\$ 394,140	\$ -	\$ -	\$ 1,435,005	\$ -	\$ -	\$ 340,575	\$ -	\$ 3,191,830
Current portion of lease liabilities	-	-	108,501	-	81,033	-	27,391	21,160	16,775	254,860
Accounts payable	397,756	93,624	39,536	534,024	8,779,902	5,949	1,877,310	289,107	3,397	12,020,605
Other liabilities and accruals	3,074,412	68,198	-	1,553,969	4,589,654	175,506	-	-	6,777	9,468,516
Compensated absences payable	-	-	-	323,686	-	-	-	-	-	323,686
Due to grantor agencies	184,222	132,835	-	2,414,102	-	-	-	-	-	2,731,159
Total current liabilities	4,678,500	688,797	148,037	4,825,781	14,885,594	181,455	1,904,701	650,842	26,949	27,990,656
Noncurrent liabilities:										
Compensated absences, net of current portion	-	-	-	538,151	-	-	-	-	-	538,151
Lease Liabilities	-	-	430,251	-	2,801,161	-	129,492	6,196	-	3,367,100
Noncurrent portion of long-term debt	7,696,319	2,609,676	-	-	5,215,854	-	-	112,821	-	15,634,670
Due to primary government	-	-	-	-	1,747,383	-	-	500,000	-	2,247,383
Other noncurrent liability	-	-	-	-	165,097	-	-	-	-	165,097
Total noncurrent liabilities	7,696,319	2,609,676	430,251	538,151	9,929,495	-	129,492	619,017	-	21,952,401
Total liabilities	<u>12,374,819</u>	<u>3,298,473</u>	<u>578,288</u>	<u>5,363,932</u>	<u>24,815,089</u>	<u>181,455</u>	<u>2,034,193</u>	<u>1,269,859</u>	<u>26,949</u>	<u>49,943,057</u>
NET POSITION										
Net investment in capital assets	20,181,713	1,318,800	748,879	5,920,934	24,168,714	17,694	190,033	26,255,631	32,568	78,834,966
Restricted for:										
Nonexpendable	-	-	-	915,000	-	-	-	-	-	915,000
Unrestricted	6,599,460	63,714,736	3,580,004	19,032,140	34,724,741	36,744	5,460,359	(260,913)	171,428	133,058,699
Total net position	26,781,173	65,033,536	4,328,883	25,868,074	58,893,455	54,438	5,650,392	25,994,718	203,996	212,808,665
Total liabilities and net position	<u>\$ 39,155,992</u>	<u>\$ 68,332,009</u>	<u>\$ 4,907,171</u>	<u>\$ 31,232,006</u>	<u>\$ 83,708,544</u>	<u>\$ 235,893</u>	<u>\$ 7,684,585</u>	<u>\$ 27,264,577</u>	<u>\$ 230,945</u>	<u>\$ 262,751,722</u>

See accompanying notes.

**Federated States of Micronesia
National Government**

**Combining Statement of Revenues, Expenses, and Changes in Net Position
Component Units**

Year Ended September 30, 2022

	FSM Tele- Communications Corporation	FSM Development Bank	National Fisheries Corporation	College of Micronesia- FSM	FSM Petroleum Corporation	Caroline Islands Air, Inc.	Micare Health Insurance Plan	FSM Communications Cable Corporation	Telecommunication Regulation Authority	Total
Operating revenues:										
Charges for services	\$ 16,137,246	\$ -	\$ 780,000	\$ 3,142,371	\$ 88,469,094	\$ 818,406	\$ 6,909,106	\$ 782,736	\$ -	\$ 117,038,959
Other	-	2,117,469	874,527	432,841	149,871	-	28,371	(1,379,515)	300,940	2,524,504
Total operating revenues	16,137,246	2,117,469	1,654,527	3,575,212	88,618,965	818,406	6,937,477	(596,779)	300,940	119,563,463
Operating expenses:										
Cost of services	1,929,558	-	54,621	-	69,940,904	956,466	4,579,960	-	-	77,461,509
Depreciation and amortization	4,173,587	165,960	61,199	983,530	3,482,483	-	39,969	1,206,506	11,571	10,124,805
Administrative costs	10,846,954	1,927,639	1,251,047	31,525,023	16,260,922	166,215	518,661	2,120,695	365,435	64,982,591
Total operating expenses	16,950,099	2,093,599	1,366,867	32,508,553	89,684,309	1,122,681	5,138,590	3,327,201	377,006	152,568,905
Operating income (loss)	(812,853)	23,870	287,660	(28,933,341)	(1,065,344)	(304,275)	1,798,887	(3,923,980)	(76,066)	(33,005,442)
Nonoperating revenues (expenses):										
Federal grants and contracts	-	-	-	24,268,757	-	-	-	-	-	24,268,757
Government grants and contracts	-	-	-	5,004,398	-	-	-	-	-	5,004,398
Government contribution to Endowment Fund	-	-	-	500,000	-	-	-	-	-	500,000
Net change in the fair value of investments	(427,347)	-	(247,709)	(2,540,784)	(529,994)	-	(259,150)	-	-	(4,004,984)
Interest income (expense)	(185,612)	(3,566,350)	-	-	(598,388)	-	-	(38,522)	(60)	(4,388,932)
Contributions from primary government	100,000	-	-	-	-	149,368	-	2,050,033	34,310	2,333,711
Other income (expense)	206,470	-	456	-	(679,458)	-	5,248	-	-	(467,284)
Total nonoperating revenues (expenses), net	(306,489)	(3,566,350)	(247,253)	27,232,371	(1,807,840)	149,368	(253,902)	2,011,511	34,250	23,245,666
Change in net position	(1,119,342)	(3,542,480)	40,407	(1,700,970)	(2,873,184)	(154,907)	1,544,985	(1,912,469)	(41,816)	(9,759,776)
Net position at the beginning of the year	27,900,515	68,576,016	4,288,476	27,569,044	61,766,639	209,345	4,105,407	27,907,187	245,812	222,568,441
Net position at the end of the year	\$ 26,781,173	\$ 65,033,536	\$ 4,328,883	\$ 25,868,074	\$ 58,893,455	\$ 54,438	\$ 5,650,392	\$ 25,994,718	\$ 203,996	\$ 212,808,665

See accompanying notes.

Federated States of Micronesia
National Government

Notes to Financial Statements

Year Ended September 30, 2022

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.

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

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 and the FSM Petroleum Corporation, which each have a December 31 year-end.

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. 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.

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

- 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.
- 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. Financial statement balances of FSMPC include Vital Energy, Inc., a blended component unit.
- 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.

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

- 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.
- 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 Law 18-52 under the laws of the Federated States of Micronesia, the purpose of which is to be a 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.

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

- 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.

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.

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

B. Government-Wide Financial Statements, continued

- *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 \$32,700,764 of restricted net position, of which \$3,114,685 is restricted by enabling legislation.

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

C. Fund Financial Statements

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

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

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

D. Measurement Focus and Basis of Accounting

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

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

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

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

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

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

D. Measurement Focus and Basis of Accounting, continued

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.

The FSM National Government has elected to add an additional major fund that is of specific public interest, namely the Compact Trust Fund. Major individual governmental funds are reported as separate columns in the fund financial statements. The nonmajor funds are combined in a column in the fund financial statements and detailed in the combining statements. The FSM National Government reports the following major funds:

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

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

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

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.
- Custodial Fund – This fund accounts for resources held in trust by the FSM National Government for the “Federated States of Micronesia – Early Retirement Program Trust Fund” which is for the benefit of the State Governments of Chuuk, Kosrae, Pohnpei and 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.

The FSM National Government participates in an external investment pool known as the Trust Fund for the People of the Federated States of Micronesia. The FSM National Government cannot directly access individual investments in the external investment pool.

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

G. Receivables

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

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

H. Prepaid Items

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

I. Interfund Receivables/Payables

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

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

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.

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

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 \$23,982,868 are restricted in that they are not available to be used in current operations.

As of September 30, 2022, 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	\$ 13,656,806
Deposit accounts maintained for certain non-U.S. donor agencies (ADB, People's Republic of China, Japan, European Union)	23,000,966
Deposit account established for the Airport Improvement Program	296,706
Deposit account maintained for proceeds from dormant bank accounts established in accordance with Public Law 13-56	843,468
Deposit accounts established for imprest funds in accordance with ADB Loans 2099 and 2100	<u>52,353</u>
	<u>\$ 37,850,299</u>

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 right to use a specified amount of fiber capacity for a period of time, which is amortized over the length of the term of the capacity agreement on the straight line method.

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

N. Capital Assets

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

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

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

O. Deferred Outflows of Resources

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

P. Due to Grantor Agencies

In the government-wide financial statements, due to grantor agencies are recognized when cash, receivables or other assets are recorded prior to their being earned. In the governmental fund financial statements, due to grantor agencies 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 due to grantor agencies in the governmental fund types has primarily resulted from grants assistance funds received in advance of eligible expenditures.

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

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

S. Fund Balance

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

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

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

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

In 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective dates of GASB Statement No. 89 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

V. New Accounting Standards, continued

During the year ended September 30, 2022, Kosrae State Government implemented the following pronouncements:

- GASB Statement No. 87, *Leases*, which increases the usefulness of financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Limited exceptions to the single approach guidance are provided for short-term leases, financed purchases, leases of assets that are classified as investments, and certain regulated leases. The FSM National Government is unable to determine the impact of GASB Statement No. 87 on its financial statements.

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 92, *Omnibus 2020*, which enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB 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*, which increases consistency and comparability related to the reporting of fiduciary component units; mitigates costs associated with the reporting of certain pension plans and other postemployment benefit (OPEB) plans as fiduciary component units; and enhances 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. The implementation of this statement did not have a material effect on the accompanying financial statements.

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

V. New Accounting Standards, continued

GASB Statement No. 98, *The Annual Comprehensive Financial Report*, which establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. The implementation of this statement did not have a material effect on the accompanying financial statements.

GASB Statement No. 99, *Omnibus 2022*, which provides clarification guidance on several of its recent statements that addresses different accounting and financial reporting issues identified during implementation of the new standards and during the GASB's review of recent pronouncements. GASB Statement No. 99:

- 1) Amends guidance in GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, requiring that the accounting and financial reporting of Supplemental Nutrition Assistance Program (SNAP) transactions should follow the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, as amended. These provisions were effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
- 2) Requires disclosures related to nonmonetary transactions, in the notes to financial statements, of the measurement attribute(s) applied to the assets transferred rather than the basis of accounting for those assets. These provisions were effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
- 3) Provides guidance on accounting for pledges of future revenues when resources are not received by the pledging government. The guidance addresses the process of blending a component unit created to issue debt on behalf of a primary government when that component unit is required to be presented as a blended component unit. This guidance was effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
- 4) Provides clarification of provisions in GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended, related to the focus of the government-wide financial statements. This guidance was effective upon issuance and implementation did not have a material effect on the accompanying financial statements.

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

V. New Accounting Standards, continued

- 5) Provides terminology updates related to certain provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and terminology used in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. These updates were effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
- 6) GASB Statement No. 93, *Replacement of Interbank Offered Rates*, which amended GASB Statement No. 53 to address transition away from the London Interbank Offered Rate (LIBOR). GASB Statement No. 99 extends the period during which the LIBOR is considered an appropriate benchmark interest rate to when LIBOR ceases to be determined using methodology in place as of December 31, 2021. This guidance was effective upon issuance and implementation did not have a material effect on the accompanying financial statements.

Upcoming Accounting Standards

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 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.

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Upcoming Accounting Standards, continued

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 April 2022, GASB issued Statement No. 99, *Omnibus 2022*. This Statement contains guidance whose effective dates are in future periods. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 99:

- 1) Modifies guidance in GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, to bring all guarantees under the same financial reporting requirements and disclosures effective for fiscal year ending September 30, 2024.
- 2) Provides guidance on classification and reporting of derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for fiscal year ending September 30, 2024.
- 3) Provides clarification of provisions in GASB Statement No. 87 related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives effective for fiscal year ending September 30, 2023.
- 4) Provides clarification of provisions in GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset. Effective for fiscal year ending September 30, 2023.
- 5) Provides clarification of provisions in GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability. Effective for fiscal year ending September 30, 2023.

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Upcoming Accounting Standards, continued

- 6) Modifies accounting and reporting guidance in GASB Statement No. 53 related to termination of hedge. Guidance is effective for fiscal year ending September 30, 2023.

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections - An Amendment of GASB Statement No. 62*. This Statement enhances accounting and financial reporting requirements for accounting changes and error corrections and requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. Requirements applicable to changes in accounting principles apply to the implementation of a new pronouncement if there is no specific transition guidance in the new pronouncement. The Statement also requires that aggregate amounts of adjustments to, and restatements of, beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 100 will be effective for fiscal year ending September 30, 2024.

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The primary objective of the Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid, provided the services have occurred, the leave accumulates, and the leave is more likely than not to be used for time off or otherwise paid in cash or noncash means. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. Leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 101 will be effective for fiscal year ending September 30, 2025.

In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints.

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Upcoming Accounting Standards, continued

This Statement defines a *concentration* as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A *constraint* is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. Concentrations and constraints may limit a government's ability to acquire resources or control spending. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. If a government determines that those criteria for disclosure have been met for a concentration or constraint, it should disclose information in notes to financial statements in sufficient detail to enable users of financial statements to understand the nature of the circumstances disclosed and the government's vulnerability to the risk of a substantial impact.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. Earlier application is encouraged.

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.

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

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%.
- 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.

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

2. Deposits and Investments, continued

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, 2022, the carrying amount of the primary government's total cash and cash equivalents and time certificates of deposit was \$165,845,156 and the corresponding bank balances were \$170,760,614. Of the bank balances, \$156,941,911 is maintained in financial institutions subject to FDIC insurance or a credit union subject to National Credit Union Administration (NCUA) insurance; while \$68,558,751 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, 2022 while the remaining amount of \$13,818,703 is maintained in financial institutions not subject to FDIC or NCUA insurance.

As of September 30, 2022, the carrying amount of the fiduciary funds' total cash and cash equivalents and time certificates of deposit was \$3,198,618 and the corresponding bank balances were \$3,489,244. Of the bank balances, \$750,000 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, 2022, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$41,819,312 and the corresponding bank balances were \$43,508,037 which are maintained in financial institutions subject to FDIC insurance. As of September 30, 2022, bank deposits in the amount of \$6,196,336 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
National Government

Notes to Financial Statements, continued

2. Deposits and Investments, continued

B. Investments

Primary Government

As of September 30, 2022 the FSM National Government's investments are as follows:

General Fund:

Debt securities	\$ 612,524
Equity securities	1,435,963
Domestic equities	5,757,032
Private equity	43,466,297
Collective trust funds	298,240,770
Cash management account	<u>83,750</u>
	<u>349,596,336</u>

Compact Trust Fund:

Investment in an external investment pool	<u>23,982,868</u>
	<u>\$373,579,204</u>

The FSM National Government's Compact Trust Fund includes an investment in an external investment pool; Trust Fund for the People of the Federated States of Micronesia. The purpose of the Fund is to contribute to the economic advancement and long-term self-reliance of the FSM by providing an annual source of revenue after fiscal year 2023.

The credit quality rating for aforementioned external investment pool is unrated.

The fair value of the position in the external investment pool is the same as the value of the pool shares as provided by the pool sponsor. There is no regulatory oversight for the pool.

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

2. Deposits and Investments, continued

Primary Government, continued

As of September 30, 2022 the primary government's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

Investment Type	Rating Type	Fair Value	Maturity (in years)			
			Less than 1	1 – 5	6 – 10	Over 10
U.S. Treasury Obligations	Aaa	\$108,447	\$24,822	\$23,035	\$16,395	\$44,195
U.S. Government Agencies Obligations:						
Federal Farm Credit Bank	Aaa	10,213	-	5,964	4,249	-
Federal Home Loan Bank	Aaa	28,870	5,648	14,946	8,276	-
Federal Home Loan Mortgage Corporation	Aaa	1,046	-	-	-	1,046
Federal National Mortgage Association	Aaa	2,012	-	-	1,762	250
Overseas Private Investment Corporation	Aaa	11,548	-	11,548	-	-
Tennessee Valley Authority	Aaa	16,912	-	-	-	16,912
Municipal Obligations	Aa1	17,329	3,147	3,990	7,176	3,016
Municipal Obligations	Aa2	18,537	-	7,012	3,222	8,303
Municipal Obligations	Aa3	2,819	-	1,823	996	-
Corporate Bonds	Aaa	24,164	6,228	14,583	-	3,353
Corporate Bonds	Aa1	4,346	-	4,346	-	-
Corporate Bonds	Aa2	9,914	9,914	-	-	-
Corporate Bonds	Aa3	5,922	-	-	2,081	3,841
Corporate Bonds	A1	30,857	-	13,978	7,826	9,053
Corporate Bonds	A2	18,320	-	8,724	9,596	-
Corporate Bonds	A3	17,689	-	12,213	-	5,476
Corporate Bonds	Baa1	29,695	1,879	7,137	1,018	19,661
Corporate Bonds	Baa2	6,334	1,237	-	-	5,097
Corporate Bonds	Not Listed	748	-	748	-	-
Corporate Bonds	No Rating	4,014	-	4,014	-	-
U.S. Treasury Obligations	Aaa	108,236	-	108,236	-	-
U.S. Government Agencies Obligations:						
Federal Home Loan Mortgage Corporation	Aaa	4,859	4,859	-	-	-
Corporate Bonds	A1	14,381	-	14,381	-	-
Corporate Bonds	A2	4,634	-	4,634	-	-
Corporate Bonds	A3	19,059	-	19,059	-	-
Corporate Bonds	Aa1	4,811	4,811	-	-	-
Corporate Bonds	Baa1	29,062	4,975	24,087	-	-
Corporate Bonds	Baa2	38,193	9,909	28,284	-	-
Corporate Bonds	Baa3	9,637	4,979	4,658	-	-
		<u>\$612,524</u>	<u>\$92,324</u>	<u>\$337,400</u>	<u>\$62,597</u>	<u>\$120,203</u>

Investment Type (no aging schedule)	Rating Type	Fair Value
U.S. Treasury Notes and Bonds	Aa3	\$14,944,360
U.S. Agencies Obligations	A3	561,288
Mortgage Backed	Aa1	22,433,815
Asset Backed	B3	6,502,431
Corporate Bonds – Industrial	Baa1	13,508,835
Corporate Bonds – Finance	A3	9,952,165
Corporate Bonds - Yankee Bond	Aa1	10,271,207
Corporate Bonds – Utilities	A3	1,987,034
		<u>\$80,161,135</u> Included in collective trust funds

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

2. Deposits and Investments, continued

Primary Government, continued

The FSM National Government has the following recurring fair value measurements as of September 30, 2022:

General Fund:	<u>Total</u>	<u>Fair Value Measurements Using</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:				
Debt securities:				
U.S. Treasury obligations	\$ 216,682	\$ ---	\$ 216,682	\$ ---
U.S. Government agencies obligations	75,860	---	75,860	---
Municipal obligations	38,684	---	38,684	---
Corporate notes	<u>281,698</u>	<u>---</u>	<u>281,698</u>	<u>---</u>
	<u>612,524</u>	<u>---</u>	<u>612,524</u>	<u>---</u>
Equity securities:				
U.S. equities	567,042	---	567,042	---
International equities	212,375	---	212,375	---
Mutual funds	<u>656,546</u>	<u>---</u>	<u>656,546</u>	<u>---</u>
	<u>1,435,963</u>	<u>---</u>	<u>1,435,963</u>	<u>---</u>
Total investments at fair value	<u>2,048,487</u>	<u>\$ ---</u>	<u>\$2,048,487</u>	<u>\$ ---</u>
Investments measured at NAV:				
Equity in Bank of the FSM	5,757,032			
Private equities	43,466,297			
Collective trust funds	<u>298,240,770</u>			
Total investments in NAV	<u>347,464,099</u>			
Investments measured at amortized cost:				
Cash management account	<u>83,750</u>			
	<u>\$349,596,336</u>			
Compact Trust Fund:	<u>Total</u>	<u>Fair Value Measurements Using</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 in an external investment pool by fair value level	\$21,234,660	<u>\$18,896,823</u>	<u>\$ ---</u>	<u>\$2,337,837</u>
Investments in an external investment pool measured at NAV	2,749,880			
Investments in an external investment pool measured at amortized cost	(<u>1,672</u>)			
	<u>\$23,982,868</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, continued

2. Deposits and 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, 2022.

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, 2022, 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.

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, continued

2. Deposits and 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, 2022, investments are as follows:

Fixed income securities:	
Domestic fixed income	\$16,867,090
Other investments:	
Domestic equities	10,009,254
International equities	8,497,026
Exchange traded funds	6,054,523
Real estate investment trust and tangibles	<u>3,503,944</u>
	<u>\$44,931,837</u>

The Administration 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; and Level 3 inputs are significant unobservable inputs. As of December 31, 2022, all investments are quoted in active markets.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. The Administrator 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.

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

2. Deposits and Investments, continued

Primary Government, continued

Fiduciary Funds, continued

FSM Social Security Administration (FSMSSA), continued:

As of December 31, 2022, the Administration's investments in fixed income securities were as follows:

	<u>Investment Maturities (In Years)</u>			
	<u>1 to 5</u>	<u>6 to 10</u>	<u>Greater Than 10</u>	<u>Total</u>
U.S. Treasury and agencies obligations	\$1,503,840	\$2,027,442	\$ 1,780,522	\$ 5,311,804
Mortgage and asset-backed securities	---	50,359	8,556,307	8,606,666
Corporate notes and bonds	<u>336,509</u>	<u>2,612,111</u>	<u>---</u>	<u>2,948,620</u>
	<u>\$1,840,349</u>	<u>\$4,689,912</u>	<u>\$10,336,829</u>	<u>\$16,867,090</u>

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

FSMSSA's exposure to credit risk at December 31, 2022, was as follows:

Standard and Poors' Rating

AAA/AAA	\$ 5,311,803
A1/A-	663,847
A1/BBB+	451,166
A2/A-	704,772
A2/BBB+	219,223
A3/A-	351,007
A3/BBB+	558,604
Not rated	<u>8,606,668</u>
	<u>\$16,867,090</u>

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

2. Deposits and Investments, continued

Primary Government, continued

Fiduciary Funds, continued

Custodial Funds – Federated States of Micronesia Early Retirement Program Trust Fund

As of September 30, 2022, FSM Early Retirement Program Trust Fund investments are as follows:

Domestic fixed income	\$2,565,289
Mutual funds	<u>4,864,305</u>
	<u>\$7,429,594</u>

As of September 30, 2022, the fixed income investment of the FSM Early Retirement Program Trust Funds were as follows:

	Investment Maturities (In Years)				Total
	Less than 1	1 to 5	6 to 10	Greater Than 10	
U.S. Treasury, agencies, and municipal obligations	\$233,240	\$473,993	\$291,934	\$511,486	\$1,510,653
Corporate notes and bonds	<u>133,614</u>	<u>456,156</u>	<u>142,373</u>	<u>322,493</u>	<u>1,054,636</u>
	<u>\$366,854</u>	<u>\$930,149</u>	<u>\$434,307</u>	<u>\$833,979</u>	<u>\$2,565,289</u>

FSM Early Retirement Program Trust Fund's exposure to credit risk as of September 30, 2022 is as follows:

Moody's Credit Rating

AAA	\$1,409,904
AA1	150,377
AA2	197,397
AA3	60,651
A1	214,093
A2	127,105
A3	122,729
BAA1	206,025
BAA2	43,947
Not Rated	<u>33,061</u>
	<u>\$2,565,289</u>

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

Discretely Presented Component Units

FSM Telecommunication Corporation (FSMTC)

As of September 30, 2022, investments at fair value are as follows:

Fixed income:

U.S. Treasury obligations	\$ 212,105
Corporate notes	<u>166,823</u>
	378,928

Other investments:

Domestic and international equities	1,178,447
Real estate and tangibles	<u>20,821</u>
	<u>\$1,578,195</u>

As of September 30, 2022, the Corporation's investments in debt securities were as follows:

	Moody's Credit Rating	Investment maturities (in Years)				Fair Value
		Less Than 1	1 to 5	6 to 10	Greater Than 10	
U.S. Treasury obligations	Aaa	\$19,883	\$146,323	\$45,899	\$ ---	\$212,105
Corporate notes	A1	9,803	28,223	8,112	---	46,138
Corporate notes	A2	---	19,990	---	---	19,990
Corporate notes	A3	---	9,621	15,258	---	24,879
Corporate notes	AA2	---	---	6,725	---	6,725
Corporate notes	AA3	---	---	8,820	---	8,820
Corporate notes	BAA1	---	29,951	---	---	29,951
Corporate notes	BAA2	---	<u>30,320</u>	---	---	<u>30,320</u>
		<u>\$29,686</u>	<u>\$264,428</u>	<u>\$84,814</u>	<u>\$ ---</u>	<u>\$378,928</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:

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

2. Deposits and Investments, continued

Primary Government, continued

Discretely Presented Component Units

FSM Telecommunication Corporation (FSMTC), continued

	September 30, <u>2022</u>	Fair Value Measurements Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Fixed income:				
U.S. Treasury obligations	\$ 212,105	\$ ---	\$212,105	\$ ---
Corporate notes	<u>166,823</u>	<u>---</u>	<u>166,823</u>	<u>---</u>
Total fixed income	<u>378,928</u>	<u>---</u>	<u>378,928</u>	<u>---</u>
Equity securities:				
U.S. equities	919,828	919,828	---	---
Non U.S. equities	<u>258,618</u>	<u>258,618</u>	<u>---</u>	<u>---</u>
Total equity securities	<u>1,178,446</u>	<u>1,178,446</u>	<u>---</u>	<u>---</u>
Total investments by fair value level	1,557,374	<u>\$1,178,446</u>	<u>\$378,928</u>	<u>\$ ---</u>
Investments measured at amortized cost:				
Others	<u>20,821</u>			
	<u>\$1,578,195</u>			

College of Micronesia - FSM (COM-FSM):

As of September 30, 2022, COM-FSM's investments are as follows:

Fixed income securities:	
Domestic fixed income	\$ 3,639,035
Other investments:	
Equity securities	6,832,350
Exchange traded funds	<u>847,575</u>
	<u>7,679,925</u>
	<u>\$11,318,960</u>

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

2. Deposits and Investments, continued

Primary Government, continued

Discretely Presented Component Units, continued

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

As of September 30, 2022, COM-FSM's fixed income securities had the following maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>				
		<u>Less than 1</u>	<u>1- 3 Years</u>	<u>3 - 7 Years</u>	<u>7- 14 Years</u>	<u>more than 14</u>
Corporate bond	\$ 1,669,442	\$ -	\$ 303,259	\$ 639,339	\$ 633,229	\$ 93,615
Government bond	1,969,593	65,236	838,776	785,450	115,404	164,727
	<u>\$ 3,639,035</u>	<u>\$ 65,236</u>	<u>\$ 1,142,035</u>	<u>\$ 1,424,789</u>	<u>\$ 748,633</u>	<u>\$ 258,342</u>

COM-FSM's exposure to credit risk at September 30, 2022, was as follows:

<u>Moody's Rating</u>	<u>Domestic</u>	<u>Total</u>
AAA	\$2,017,287	\$2,017,287
AA	23,746	23,746
A	643,007	643,007
BAA	<u>954,995</u>	<u>954,995</u>
	<u>\$3,639,035</u>	<u>\$3,639,035</u>

COM-FSM has the following recurring fair value measurements as of September 30, 2022:

	<u>Fair Value Measurements Using</u>			
	<u>September 30, 2022</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	\$ 3,639,035	\$ ---	\$3,639,035	\$ ---
Equity securities	6,832,350	6,832,350	---	---
Exchange traded funds	<u>847,575</u>	<u>847,575</u>	<u>---</u>	<u>---</u>
Total investments by fair value level	<u>\$11,318,960</u>	<u>\$7,679,925</u>	<u>\$3,639,035</u>	<u>\$ ---</u>

FSM Development Bank (FSMDB):

As of December 31, 2022, investments at fair value are as follows:

Fixed income securities:	
Domestic fixed income	\$ 4,786,707
Equity securities:	
Domestic equities	7,463,082
Shares in a mutual fund	<u>1,454,173</u>
	<u>\$ 13,703,962</u>

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

2. Deposits and Investments, continued

Primary Government, continued

Discretely Presented Component Units, continued

FSM Development Bank (FSMDB), continued:

As of December 31, 2022, 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	\$ ---	\$852,263	\$ 550,155	\$ ---	\$1,402,418
U.S. Government agencies:						
Fannie Mae Pool	Not rated	---	---	---	1,619,909	1,619,909
Freddie Mac Group	Not rated	---	---	---	1,136,013	1,136,013
Corporate bonds	A1	---	91,725	166,193	---	257,918
Corporate bonds	A2	---	---	256,564	---	256,564
Corporate bonds	A3	---	---	113,885	---	113,885
		<u>\$ ---</u>	<u>\$943,988</u>	<u>\$1,086,797</u>	<u>\$2,755,922</u>	<u>\$4,786,707</u>

FSMDB has the following recurring fair value measurements as of December 31, 2022:

	December 31, 2022	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Fixed income:				
U.S. Treasury obligations	\$ 1,402,418	\$ ---	\$ 1,402,418	\$ ---
U.S. Government agencies	2,755,922	---	2,755,922	---
Corporate notes	<u>628,367</u>	<u>---</u>	<u>628,367</u>	<u>---</u>
Total fixed income	<u>4,786,707</u>	<u>---</u>	<u>4,786,707</u>	<u>---</u>
Equity securities:				
U.S. equities	7,463,082	7,463,082	---	---
Mutual fund shares	<u>1,454,173</u>	<u>1,454,173</u>	<u>---</u>	<u>---</u>
Total investments at fair value	<u>\$ 13,703,962</u>	<u>\$ 8,917,255</u>	<u>\$ 4,786,707</u>	<u>\$ ---</u>

At December 31, 2022, the \$5,605,400 equity investment in Bank of the FSM represents 225,001 common shares and approximately 24% ownership interest.

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

2. Deposits and Investments, continued

Primary Government, continued

Discretely Presented Component Units, continued

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, 2022, 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, 2022. Investments in securities are categorized as Level 1.

FSM Petroleum Corporation (FSMPC):

As of December 31, 2022, investments at fair value are as follows:

Fixed income securities:

Domestic fixed income	\$ <u>4,443,969</u>
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Other investments:

Common equities	2,204,566
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Exchange traded funds	789,187
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Money market funds	<u>191,019</u>
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3,184,772

\$7,628,741

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

2. Deposits and Investments, continued

B. Investments, continued

Discretely Presented Component Units, continued

FSM Petroleum Corporation (FSMPC), continued:

As of December 31, 2022, FSMPC's fixed income securities had the following maturities:

<u>Investment Type</u>	<u>Fair value</u>	<u>Less than 1 year</u>	<u>1 to 5 years</u>	<u>5 to 10 years</u>	<u>More than 10 years</u>
Corporate bonds	\$1,508,424	\$ ---	\$ 895,771	\$576,958	\$35,695
U.S. treasury securities	1,934,315	---	1,694,715	198,350	41,250
Certificate of deposits	<u>1,001,230</u>	<u>1,001,230</u>	<u>---</u>	<u>---</u>	<u>---</u>
	<u>\$4,443,969</u>	<u>\$1,001,230</u>	<u>\$2,590,486</u>	<u>\$775,308</u>	<u>\$76,945</u>

FSMPC's exposure to credit risk as of December 31, 2022, was as follows:

<u>Moody's Rating</u>	
AAA	\$1,944,849
A1	209,983
A2	210,699
A3	225,257
BAA2	719,922
BAA3	13,470
BAA1	118,559
Not rated	<u>1,001,230</u>
	<u>\$4,443,969</u>

FSMPC has the following recurring fair value measurements as of December 31, 2022:

	<u>Fair Value Measurements Using</u>			
	<u>December 31, 2022</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	\$4,443,969	\$ ---	\$4,443,969	\$---
Equity securities	2,204,566	2,204,566	---	---
Exchange-traded funds	<u>789,187</u>	<u>789,187</u>	<u>---</u>	<u>---</u>
Total investments by fair value level	<u>7,437,722</u>	<u>\$2,993,753</u>	<u>\$4,443,969</u>	<u>\$---</u>
Investments measured at amortized cost:				
Money market funds	<u>191,019</u>			
	<u>\$7,628,741</u>			

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

2. Deposits and Investments, continued

B. Investments, continued

Discretely Presented Component Units, continued

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

As of September 30, 2022 investments are as follows:

Fixed income securities:

Domestic fixed income \$2,412,360

As of September 30, 2022 the Plan's fixed income securities had the following maturities:

	Moody's Credit Rating	Less than 1 Year	1 to 5 Years	6 to 10 Years	More than 10 Years	Fair Value
U.S. Treasury obligations	AAA	\$118,003	\$1,497,556	\$213,725	\$ ---	\$1,829,284
U.S. Government	AA	---	213,952	---	36,989	250,941
Corporate bonds	Aaa	---	---	3,196	---	3,196
Corporate bonds	Aa	---	9,050	16,768	---	25,818
Corporate bonds	A	9,945	46,627	93,103	3,658	153,333
Corporate bonds	Baa	<u>7,978</u>	<u>103,743</u>	<u>38,067</u>	<u>---</u>	<u>149,788</u>
		<u>\$135,926</u>	<u>\$1,870,928</u>	<u>\$364,859</u>	<u>\$40,647</u>	<u>\$2,412,360</u>

The Plan has the following recurring fair value measurements as of September 30, 2022:

<u>Fair Value Measurements Using</u>				
	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Fixed income securities	<u>\$2,412,360</u>	<u>\$ ---</u>	<u>\$2,412,360</u>	<u>\$ ---</u>

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

3. Receivables

Primary Government

Receivables as of September 30, 2022 for the primary government's individual major governmental funds, and nonmajor governmental and fiduciary funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Grants Assistance</u>	<u>Compact Trust</u>	<u>Nonmajor and Fiduciary Funds</u>	<u>Totals</u>
Receivables:					
General	\$ 1,202,247	\$ ---	\$ ---	\$ 372	\$ 1,202,619
Taxes	86,194,167	---	---	---	86,194,167
Federal agencies	---	6,537,510	---	---	6,537,510
Due from state government	---	7,359,000	---	---	7,359,000
Loans	33,367,055	---	---	---	33,367,055
Advances	4,211,341	317,916	---	---	4,529,257
Accrued interest	<u>26,843</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>26,843</u>
	125,001,653	14,214,426	---	372	139,216,451
Less: allowance for uncollectible accounts	(<u>6,665,449</u>)	(<u>4,385,705</u>)	<u>---</u>	<u>---</u>	(<u>11,051,154</u>)
Net receivables	<u>\$118,336,204</u>	<u>\$ 9,828,721</u>	<u>\$ ---</u>	<u>\$ 372</u>	<u>\$128,165,297</u>

During the year ended September 30, 2022 certain loans receivable balances resulting from subsidiary loans of loan agreements between the FSM National Government and the Asian Development Bank (ADB) were increased as a result of foreign exchange loss recognized by these respective subsidiary borrowers. The non-cash increase in loans receivable of \$3,378,908 is presented in the accompanying statement of activities as a component of \$(3,092,307) other general revenues.

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.

\$ 2,196,842

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

3. Receivables, continued

Primary Government, continued

General Fund, continued

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

	<u>General Fund</u>	
State of Chuuk	\$2,020,307	
Pohnpei Utilities Corporation	1,243,147	
State of Yap	<u>1,326,718</u>	4,590,172

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>	
State of Chuuk	\$2,981,938	
State of Yap	1,095,941	
State of Kosrae	2,367,555	
State of Pohnpei	<u>1,919,140</u>	8,364,574

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

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

	<u>General Fund</u>	
State of Chuuk	\$ 593,939	
State of Yap	364,839	
State of Kosrae	286,780	
State of Pohnpei	<u>568,446</u>	1,814,004

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

	<u>General Fund</u>	
State of Pohnpei/PUC	\$3,834,071	
State of Chuuk/CPUC	3,228,299	
State of Yap	1,505,734	
State of Kosrae	<u>918,002</u>	9,486,106

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

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 relent under the same terms and conditions imposed by the ADB. The amounts outstanding from the States and the States' component units are as follows:

	<u>General Fund</u>	
State of Yap/YSPSC	\$7,097,092	<u>7,097,092</u>
Total		33,548,790
Less: Allowance		<u>(3,093,270)</u>
Net		<u>\$30,455,520</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

\$ 500,000

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

3. Receivables, continued

Primary Government, continued

Due from Component Units, continued

Discretely Presented Component Units

Receivables as of September 30 or December 31, 2022 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	Caroline Islands Air, Inc.	FSM National Government Employees Health Insurance Plan	FSM Telecomm Cable Corp.	Telecommunications Regulation Authority	Total
Receivables:										
General	\$ 1,359,685	\$ -	\$ 735,771	\$ 10,855,921	\$ 2,912,666	\$ -	\$ 965,249	\$ -	\$ -	\$ 16,829,292
Loans	-	45,568,131	-	-	-	-	-	-	-	45,568,131
Interest	138,062	329,233	-	-	-	-	-	-	-	467,295
Other	2,404,988	-	399,877	2,206,945	306,618	-	31,413	116,642	-	5,466,483
	3,902,735	45,897,364	1,135,648	13,062,866	3,219,284	-	996,662	116,642	-	68,331,201
Less: allowance for uncollectible accounts	(3,220,574)	(6,987,798)	-	(6,609,132)	-	-	(853,546)	-	-	(17,671,050)
Net	\$ 682,161	\$ 38,909,566	\$ 1,135,648	\$ 6,453,734	\$ 3,219,284	\$ -	\$ 143,116	\$ 116,642	\$ -	\$ 50,660,151

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, 2022, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Grants Assistance	General	\$38,582,101
General	Grants Assistance	2,593,825
Nonmajor government funds	General	<u>5,959,419</u>
		<u>\$47,135,345</u>

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

5. Capital Assets

Capital asset activities for the year ended September 30, 2022, are as follows:

Primary Government

	Balance October 1, 2021	Additions and Reclassifications	Retirements and Reclassifications	Balance September 30, 2022
Depreciable assets:				
Furniture, equipment and machinery	\$ 11,897,925	\$ 927,219	\$ ---	\$ 12,825,144
Vehicles	7,127,920	1,364,679	---	8,492,599
Boats	22,823,233	132,264	---	22,955,497
Computer	2,688,253	64,729	---	2,752,982
Buildings	74,257,683	---	---	74,257,683
Aircraft	709,207	---	---	709,207
Infrastructure	<u>206,437,007</u>	<u>---</u>	<u>---</u>	<u>206,437,007</u>
	<u>325,941,228</u>	<u>2,488,891</u>	<u>---</u>	<u>328,430,119</u>
Less: accumulated depreciation				
Furniture, equipment and machinery	(10,352,260)	(791,554)	---	(11,143,814)
Vehicles	(5,816,431)	(745,243)	---	(6,561,674)
Boats	(21,366,498)	(758,970)	---	(22,125,468)
Computer	(2,551,410)	(87,065)	---	(2,638,475)
Buildings	(18,411,987)	(1,485,154)	---	(19,897,141)
Aircraft	(709,207)	---	---	(709,207)
Infrastructure	<u>(75,436,768)</u>	<u>(10,321,850)</u>	<u>1,040,131</u>	<u>(84,718,487)</u>
	<u>(134,644,561)</u>	<u>(14,189,836)</u>	<u>1,040,131</u>	<u>(147,794,266)</u>
Net depreciable capital assets	191,296,667	(11,700,945)	1,040,131	180,635,853
Construction in- progress	2,329,710	1,678,611	---	4,008,321
Land	<u>7,460,797</u>	<u>1,660,574</u>	<u>---</u>	<u>9,121,371</u>
Net assets	<u>\$201,087,174</u>	<u>\$ (8,361,760)</u>	<u>\$1,040,131</u>	<u>\$193,765,545</u>

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

5. Capital Assets, continued

Primary Government, continued

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

Office of the President	\$ 84,327
Foreign Affairs	66,291
Health and Social Affairs	923,596
Education	302,978
Resources and Development	49,360
Office of National Archives, Cultural and Historic Preservation	14,839
Transportation, Communication and Infrastructure	7,691,027
Finance and Administration	64,009
Justice	409,770
Office of the Public Defender	25,844
Judiciary	21,642
Legislature	157,622
Office of the National Public Auditor	23,607
Environment and Emergency Management	67,057
National Government Programs	4,205,228
Agencies, Boards and Commissions	<u>82,639</u>
	<u>\$14,189,836</u>

Discretely Presented Component Units:

	Balance October 1, 2020 or January 1 <u>2021</u>	Additions and <u>Reclassifications</u>	Retirements and <u>Reclassifications</u>	Balance September 30, or December <u>31, 2022</u>
Depreciable assets:				
Buildings	\$ 37,991,827	\$ 503,385	\$ 146,416	\$ 38,348,796
Plant and Equipment	118,968,607	1,476,870	190,393	120,255,084
Machinery, equipment, and others	27,931,423	680,758	677,606	27,934,575
Other	<u>21,089,005</u>	<u>---</u>	<u>88,000</u>	<u>21,001,005</u>
Total capital assets, being depreciated	205,980,862	2,661,013	1,102,415	207,539,460
Less accumulated depreciation	<u>(128,230,604)</u>	<u>(9,213,875)</u>	<u>(1,047,279)</u>	<u>(136,397,200)</u>
	77,750,258	(6,552,862)	55,136	71,142,260
Non depreciable assets:				
Construction work-in-progress	11,876,048	3,544,410	328,734	15,091,724
Land	<u>1,455,685</u>	<u>---</u>	<u>---</u>	<u>1,455,685</u>
	<u>\$ 91,081,991</u>	<u>\$(3,008,452)</u>	<u>\$ 383,870</u>	<u>\$ 87,689,669</u>

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

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, 2022, accumulated amortization expense of \$1,896,150 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 \$684,318 has been recorded as of September 30, 2022. As of September 30, 2022 the IRU's carrying amount is \$3,975,682 respectively.

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.

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

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. \$ 2,196,841

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. 4,590,172

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. 9,568,221

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. 1,372,024

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. 670,859

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

7. Long-Term Obligations, continued

Primary Government, continued

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

2,743,450

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.

6,935,450

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.

2,863,823

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.

4,216,199

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.

2,880,893

\$38,037,932

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

7. Long-Term Obligations, continued

Primary Government, continued

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

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

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 2,877,148	\$ 541,131	\$ 3,418,279
2024	2,936,232	501,629	3,437,861
2025	2,969,994	460,290	3,430,284
2026	3,004,576	417,902	3,422,478
2027	2,950,457	372,643	3,323,100
2028 – 2032	13,590,962	1,206,089	14,797,051
2033 – 2037	9,247,451	404,045	9,651,496
2038 – 2039	<u>461,112</u>	<u>12,165</u>	<u>473,277</u>
	<u>\$38,037,932</u>	<u>\$3,915,894</u>	<u>\$41,953,826</u>

Other long-term liabilities will be liquidated in the future from governmental funds. During the year ended September 30, 2022, the following changes occurred in liabilities reported as part of the primary government's long-term liabilities in the statement of net position:

	<u>Balance October 1, 2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>SDR Exchange Loss (Gain)</u>	<u>Balance September 30, 2021</u>	<u>Due within One Year</u>
Loans payable:						
ADB loan 1257	\$2,654,945	\$ -	\$(214,514)	\$(243,590)	\$2,196,841	\$ 199,548
ADB loan 1459	5,448,705	-	(348,797)	(509,736)	4,590,172	327,901
ADB loan 1520	11,307,346	-	(679,860)	(1,059,265)	9,568,221	637,940
ADB loan 1816	1,672,064	-	(146,219)	(153,821)	1,372,024	137,203
ADB loan 1873	955,599	-	(207,075)	(77,665)	670,859	191,678
ADB loan 1874	3,303,753	-	(257,725)	(302,578)	2,743,450	238,561
ADB loan 2099	8,203,191	-	(502,426)	(765,315)	6,935,450	505,287
ADB loan 2100	3,135,410	-	(271,587)	-	2,863,823	271,586
ADB loan 3004	4,403,586	-	(187,387)	-	4,216,199	187,387
ADB loan 3005	<u>3,391,209</u>	<u>-</u>	<u>(193,846)</u>	<u>(316,470)</u>	<u>2,880,893</u>	<u>180,057</u>
	44,475,808	-	(3,009,436)	(3,428,440)	38,037,932	2,877,148
Other:						
Annual leave payable	<u>1,433,478</u>	<u>752,492</u>	<u>(479,516)</u>	<u>-</u>	<u>1,706,454</u>	<u>611,414</u>
	<u>\$45,909,286</u>	<u>\$752,492</u>	<u>\$(3,488,952)</u>	<u>\$(3,428,440)</u>	<u>\$39,744,386</u>	<u>\$3,488,562</u>

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

7. Long-Term Obligations, continued

Primary Government, continued

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, 2022, the FSM National Government recognized a foreign exchange gain of \$3,428,440 associated with valuation of the SDR, which results in a decrease in ADB loans payable.

Discretely Presented Component Units

As of September 30, 2022, 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 the Corporation's specific ground leases and essentially all other assets. Pursuant to loan agreements dated August 1, 1990 and March 12, 2009, the Corporation 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. The balance is net of a partial loan forgiveness of \$8,209,255 approved by the RUS and recorded during the year ended December 30, 2020. Remaining balance is payable in monthly installments of approximately \$99,000 with final payment due in April 2030.

\$8,718,429

Less current portion of long term debt

(1,022,110)

Long term debt, net of current portion

\$7,696,319

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.

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

7. Long-Term Obligations, continued

Discretely Presented Component Units, continued

FSM Telecommunications Corporation (FSMTC), continued:

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

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$1,022,110	\$162,772	\$1,184,882
2024	1,042,456	142,426	1,184,882
2025	1,063,206	121,676	1,184,882
2026	1,084,370	100,512	1,184,882
2027-2030	<u>4,506,287</u>	<u>181,863</u>	<u>4,688,150</u>
	<u>\$8,718,429</u>	<u>\$709,249</u>	<u>\$9,247,678</u>

These notes are subject to certain coverage ratio requirements. The Corporation is not in compliance with its ratio requirements as of September 30, 2022. Management is of the opinion that the lender is aware of this matter and will not call the debt. Therefore, the debt is classified in accordance with expected future payouts.

FSM Development Bank (FSMDB):

Long-term debt consists of the following at December 31, 2022:

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.

\$ 108,093

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.

257,502

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

7. Long-Term Obligations, continued

Discretely Presented Component Units, continued

FSM Development Bank (FSMDB), continued:

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. 2,638,221

\$3,003,816

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>
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
2027	277,708	40,444	318,152
Thereafter	<u>1,249,088</u>	<u>86,666</u>	<u>1,335,754</u>
	<u>\$3,003,816</u>	<u>\$395,464</u>	<u>\$3,399,280</u>

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.

\$3,138,730

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

7. Long-Term Obligations, continued

Discretely Presented Component Units, continued

FSM Petroleum Corporation (FSMPC), continued:

A \$3,000,000 bank note from the FSM Development Bank (FSMDB), dated August 2017, a component unit of the FSM National Government, for capital 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. Maturity date has been extended through December 2024. The loan is collateralized by the Company's inventories and related petroleum products.

1,297,799

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 7.5% as of December 31, 2022) 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.

2,214,330

Total

\$6,650,859

Future minimum loan repayments are as follows:

As of December 31, 2022, future minimum loan repayments are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$1,435,005	\$379,910	\$1,814,915
2024	1,527,594	154,066	1,681,660
2025	2,381,498	138,871	2,520,369
2026	685,344	57,032	742,376
2027	<u>621,418</u>	<u>16,281</u>	<u>637,699</u>
	<u>\$6,650,859</u>	<u>\$746,160</u>	<u>\$7,397,019</u>

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

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 for 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 fixture 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, 2022 and no event of default has been declared by the lenders.

Changes in long-term debt for the year ended December 31, 2022 are as follows:

	Balance at January 1 <u>2022</u>	<u>Additions</u>	<u>Repayments</u>	Balance at December 31 <u>2022</u>	Due Within <u>One Year</u>
Long-term debt	\$ <u>8,063,209</u>	\$ <u>---</u>	\$ <u>(1,412,350)</u>	\$ <u>6,650,859</u>	\$ <u>1,435,005</u>

College of Micronesia-FSM (COM-FSM)

COM-FSM's long-term obligation of \$538,151 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 2022.

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

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, 2022 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. Outstanding drawdowns total \$453,396.

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

2023	\$340,575
2024	<u>612,821</u>
	<u>\$953,396</u>

Management is of the opinion that FSMTCC is in compliance with financial debt covenants associated with the long-term debt for the year ended September 30, 2022.

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

7. Long-Term Obligations, continued

Discretely Presented Component Units, Continued

FSM Telecommunications Cable Corp (FSMTCC), continued

Changes in long-term liabilities of the discretely presented component units for the year ended September 30, 2022 or December 31, 2022, are as follows:

	Balance October 1, 2021	Additions	Reductions	Balance September 30, 2022	Due within One Year
Loan payable:					
FSMTC	\$ 9,724,440	\$ ---	\$(1,006,011)	\$ 8,718,429	\$1,022,110
FSMDB	3,337,830	---	(334,014)	3,003,816	394,140
FSMPC	8,063,209	---	(1,412,350)	6,650,859	1,435,005
FSMTCC	<u>650,000</u>	<u>---</u>	<u>(196,604)</u>	<u>453,396</u>	<u>340,575</u>
	21,775,479	---	(2,948,979)	18,826,500	3,191,830
Due to government and others:					
FSMPC	6,302,772	165,097	(4,555,389)	1,912,480	---
FSMTCC	<u>500,000</u>	<u>---</u>	<u>---</u>	<u>500,000</u>	<u>---</u>
	6,802,772	165,097	(4,555,389)	2,412,480	---
Lease liabilities:					
FSMPC	---	2,882,194	---	2,882,194	81,033
TRA	---	16,775	---	16,775	16,775
FSMTCC	---	27,356	---	27,356	21,160
MiCare Health	---	156,883	---	156,883	27,391
National Fisheries Corporation	<u>---</u>	<u>538,752</u>	<u>---</u>	<u>538,752</u>	<u>108,501</u>
	---	3,621,960	---	3,621,960	254,860
Compensated absences:					
COM-FSM	<u>886,418</u>	<u>---</u>	<u>(24,581)</u>	<u>861,837</u>	<u>323,686</u>
	<u>\$29,464,669</u>	<u>\$3,787,057</u>	<u>\$(7,528,949)</u>	<u>\$25,722,777</u>	<u>\$3,770,376</u>

8. Short-Term Obligations

Discretely Presented Component Units

FSM Petroleum Corporation (FSMPC):

As of December 31, 2022, FSMPC has a bank standby letter of credit (LC) of \$3,000,000, with maturity date on September 13, 2023, 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, with maturity date on December 30, 2023.

Additionally, as of December 31, 2022, FSMPC has bank line of credit (LOC) facility of \$11,000,000 for working capital and support LC's. 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.

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

8. Short-Term Obligations

Discretely Presented Component Units

FSM Petroleum Corporation (FSMPC), continued:

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, 2022.

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, 2022, are as follows:

<u>Source</u>	<u>Recipient</u>	<u>Transfers Out</u>	<u>Transfers In</u>
Other Governmental Fund	General Fund	<u>\$(3,048,898)</u>	<u>\$3,048,898</u>
		<u>\$(3,048,898)</u>	<u>\$3,048,898</u>

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

10. Contingencies and Commitments

Sick Leave

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

FSM Petroleum Corporation (FSMPC) Loan Guarantee

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

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

10. Contingencies and Commitments, continued

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, 2022. 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.

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.

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, 2022, is not predictable. A \$6 million 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.

On May 4, 2023, the FSM National Government remitted \$6 million to settle these claims.

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

10. Contingencies and Commitments, continued

Litigation, continued

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, 2022, the FSM National Government has significant encumbrances summarized as follows:

	<u>General</u>	<u>Grants</u> <u>Assistance</u>	<u>Other</u> <u>Governmental</u> <u>Funds</u>	<u>Total</u>
Encumbrances	<u>\$6,048,049</u>	<u>\$19,248,480</u>	<u>\$84,891</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.

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

11. Fund Balance

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

	General	Grants Assistance	Compact Trust	Other	Total
Non-spendable:					
Loans receivable from States	\$ 30,455,520	\$ -	\$ -	\$ -	\$ 30,455,520
Loans receivable from FSMTCC	500,000	-	-	-	500,000
United Micronesia Dev. Association	1,500,000	-	-	-	1,500,000
Bank of FSM	5,757,032	-	-	-	5,757,032
ADB contribution	6,927,442	-	-	-	6,927,442
Prepayments and advance	1,695,544	-	-	-	1,695,544
Permanent fund	-	-	23,982,868	-	23,982,868
Restricted For:					
Infrastructure	-	1,055,121	-	-	1,055,121
Disaster Assistance	-	4,548,090	-	-	4,548,090
Investment Development Fund	2,047,336	-	-	-	2,047,336
Foreign grant projects	-	1,294,876	-	-	1,294,876
Committed:					
CFSM Public projects	40,995,585	-	-	-	40,995,585
Future operations-FSM Trust fund	327,045,060	-	-	-	327,045,060
Other functions and programs	46,325,132	-	-	5,927,359	52,252,491
Assigned:					
Presidents (Executive branch)	9,151,309	-	-	-	9,151,309
Legislative branch	1,403,607	-	-	-	1,403,607
Judiciary branch	348,612	-	-	-	348,612
FSM projects (Fund 25)	13,036,636	-	-	-	13,036,636
Continuing appropriations (Fund 53)	10,295,461	-	-	-	10,295,461
Unassigned	45,591,583	-	-	-	45,591,583
	<u>\$ 543,075,860</u>	<u>\$ 6,898,087</u>	<u>\$ 23,982,868</u>	<u>\$ 5,927,359</u>	<u>\$ 579,884,174</u>

12. Leases

Discretely Presented Component Units

FSM Petroleum Corporation (FSMPC)

FSMPC leases land, warehouse, airport facilities and other such space through various leases expiring through 2038. Certain lease agreements contain options to renew with rent escalations. Three lease agreements require additional lease payments contingent on the level of gallons sold by the FSMPC from that leased facility. In 2019, an additional lease agreement was entered into by the FSMPC for land situated on Tonoas Island, Chuuk State, for the new CDU project site. The agreements have an initial term of twenty-years, with certain options to renew, and require an initial seven-year prepayment. As of December 31, 2022 lease assets are as follows:

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

12. Leases, continued

Discretely Presented Component Units, continued

FSM Petroleum Corporation (FSMPC), continued

<u>Lease Description</u>	<u>Classification</u>	<u>Gross Balance</u>	<u>Accumulated Amortization</u>	<u>Net Balance</u>
Land leases - project site	Land	\$1,942,362	\$ 115,473	\$1,826,889
Land leases - facilities	Land and Building	1,052,779	156,703	896,076
Land leases - bulk plant	Land and Building	<u>1,097,319</u>	<u>324,796</u>	<u>772,523</u>
		<u>\$4,092,460</u>	<u>\$ 596,972</u>	<u>\$3,495,488</u>

The future lease payments for this transaction are as follows:

<u>Year ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 81,033	\$ 223,336	\$ 304,369
2024	439,479	222,507	661,986
2025	205,961	179,885	385,846
2026	217,484	164,040	381,524
2027	259,162	144,762	403,924
2028 through 2032	873,656	492,294	1,365,950
2033 through 2037	801,001	145,539	946,540
2038	<u>4,418</u>	<u>59</u>	<u>4,477</u>
	<u>\$2,882,194</u>	<u>\$1,572,422</u>	<u>\$4,454,616</u>

National Fisheries Corporation (NFC)

NFC leases land, warehouse, office space, and vessels under operating leases. Generally accepted accounting principles requires the use of the rate implicit in the lease whenever this rate is readily determinable. As the implicit rate is not readily determinable, NFC elected to use the risk-free interest rate with a similar term as the incremental borrowing rate ranging from 0.06% to 1.33% per annum upon initial adoption for the leases.

The carrying amounts of NFC's Right-of-use (ROU) asset and operating lease liabilities are as follows:

	<u>September 30, 2022</u>
ROU, net	<u>\$538,752</u>
Lease liabilities	
Current	<u>\$108,501</u>
Non-Current	<u>\$430,251</u>

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

12. Leases, continued

Discretely Presented Component Units, continued

National Fisheries Corporation (NFC), continued

The following table provides the maturities of the operating lease liabilities at September 30, 2022:

<u>Year ending September 30,</u>	
2023	\$114,199
2024	100,947
2025	80,000
2026	66,000
2027	66,000
Thereafter	<u>132,000</u>
Total future lease payments	559,146
Amounts representing interest	(20,394)
Present value of operating lease liabilities	<u>\$538,752</u>

MiCare Health Insurance Plan (MHIP)

MHIP has a lease agreement for an office suite. The lease agreement contains an option to extend the term of the lease for an additional period of five years, on the same terms, covenants, and conditions of the original lease with rent escalations, expiring February 28, 2028. As of September 30, 2022 lease asset is as follows:

<u>Lease Description</u>	<u>Classification</u>	<u>Gross Balance</u>	<u>Accumulated Amortization</u>	<u>Net Balance</u>
Office lease	Building	<u>\$184,318</u>	<u>\$27,435</u>	<u>\$156,883</u>

The future lease payments for this transaction are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 27,391	\$ 4,680	\$ 32,071
2024	28,292	3,779	32,071
2025	29,222	2,849	32,071
2026	30,184	1,887	32,071
2027	31,176	895	32,071
2028	<u>10,618</u>	<u>72</u>	<u>10,690</u>
	<u>\$156,883</u>	<u>\$14,162</u>	<u>\$171,045</u>

Federated States of Micronesia
National Government

Notes to Financial Statements, continued

12. Leases, continued

Discretely Presented Component Units, continued

Telecommunications Regulatory Authority (TRA)

TRA leases office space under a lease which expires in September 2023 with a monthly fixed lease payment of \$1,400 effective September 1, 2021.

As of September 30, 2022, the Authority's right-of-use lease asset, net of accumulated depreciation and lease liability are as follows:

Right-of-use lease asset, net	<u>\$16,757</u>
Lease liability	<u>\$16,775</u>

The approximate future minimum annual lease payments payable by TRA for the year ending September 30, 2022 is:

<u>Year ending September 30,</u>	
2023	<u>\$16,775</u>

FSM Telecommunications Cable Corp (FSMTCC)

The carrying amounts of FSMTCC's Right-of-use (ROU) asset and operating lease liabilities are as follows:

	<u>September 30,</u> <u>2022</u>
ROU, net	<u>\$ 5,377</u>
Lease liabilities	
Current	<u>\$21,160</u>
Non-Current	<u>\$ 6,196</u>

Required Supplementary Information -
Other Than Management's Discussion and Analysis

Federated States of Micronesia
National Government

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund

Year Ended September 30, 2022

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts (note 1)	Final Budget - Positive (Negative)
Revenues:				
Taxes	\$ 20,654,724	\$ 21,800,000	\$ 70,110,414	\$ 48,310,414
Fishing rights	60,000,000	67,000,000	73,021,600	6,021,600
Investment earnings	1,000,000	1,000,000	(4,126,906)	(5,126,906)
Fees and charges	7,210,200	12,210,200	345,102	(11,865,098)
Other	5,186,968	5,186,968	101,512	(5,085,456)
Total revenues	94,051,892	107,197,168	139,451,722	32,254,554
Expenditures:				
Executive Branch - Core Operational	30,697,892	31,634,870	27,293,223	4,341,647
Executive Branch - Non-Core Operational	25,258,188	28,660,754	31,229,307	(2,568,553)
Judicial Branch-Core Operational	2,182,902	2,182,902	1,745,384	437,518
Judicial Branch-Non-core Operational	390,000	390,000	313,590	76,410
Legislative Branch-Core Operational	7,765,717	11,200,717	10,417,354	783,363
Legislative Branch-Non-core Operational	239,824	252,824	233,149	19,675
Office of the National Public Auditor-Core Operational	1,105,665	1,105,665	904,739	200,927
Office of the National Public Auditor-Non-Core Operational	502,220	502,220	502,220	-
Other National Programs	611,622	611,622	529,558	82,064
Boards and Commissions	21,606,517	21,606,517	4,179,931	17,426,586
Payments to Component Units	5,804,392	7,269,392	6,279,491	989,901
Other Noncore Programs	-	-	-	-
National projects - continuing projects	17,238,742	17,238,742	24,137,444	(6,898,702)
Total expenditures	113,403,679	122,656,223	107,765,389	14,890,834
Excess (deficiency) of revenues over (under) expenditures	(19,351,787)	(15,459,055)	31,686,333	47,145,388
Other financing sources (uses), net:				
Operating transfers in/(out), net	-	-	2,248,898	2,248,898
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	-	-	21,198,989	21,198,989
Net change in fund balance	(19,351,787)	(15,459,055)	55,134,220	70,593,275
Fund balance at the beginning of the year	144,381,114	144,381,114	144,381,114	-
Fund balance at the end of the year	\$ 125,029,327	\$ 128,922,059	\$ 199,515,334	\$ 70,593,275

Federated States of Micronesia
National Government

Notes to Required Supplementary Information - Budgetary Reporting

September 30, 2022

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 2022, supplemental appropriations were also made for both operating and capital purposes, to reflect the evolving priorities of the FSM National Government.

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

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

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

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

Federated States of Micronesia
National Government

Notes to Required Supplementary Information - Budgetary Reporting, continued

Reconciliation - GAAP and Budgetary Bases of Accounting

The Budget Act for fiscal year 2022, Public Law No. PL 22-42, was approved for the Executive branch and the Legislative branch. Budgets for Special Revenue Funds are generally not submitted. Accordingly, a budget to actual presentation for Special Revenue Funds is not required or presented. Project length financial plans are adopted for capital projects funds. The accompanying Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund presents solely the financial activities of the General Fund administered by the Department of Finance and Administration, and does not include other financial activities administered by that Department and the impact of implementation of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

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

Net change in fund balance - Budgetary basis	\$ 55,134,220
Add:	
Net change in fund balance - GAAP for GASB 54 Funds:	
ADB Loan Fund (Fund 91)	(5,752,992)
IDF Fund	1,074
ERP Fund	(993,738)
FSM Trust Fund	<u>(63,904,902)</u>
Net change in fund balance - GAAP	<u>\$(15,516,338)</u>

Supplementary Information

Federated States of Micronesia
National Government

Combined Schedule of Expenditures by Account - Governmental Fund Types

Year Ended September 30, 2022

		Special Revenue	Permanent		
	General	Grants Assistance	Compact Trust	Other Governmental Funds	Total
Expenditures:					
Personnel	\$ 20,790,480	\$ 5,067,234	\$ -	\$ 737,917	\$ 26,595,631
Travel and transportation	2,966,507	1,396,567	-	10,485	4,373,559
Books and library materials	6,285	16,173	-	-	22,458
Communications	747,370	243,758	-	9,972	1,001,100
Customs and taxes	4,848	12,224	-	-	17,072
Dues, membership and subscription	807,203	79,848	-	-	887,051
Food stuffs	1,346,189	554,341	-	67,178	1,967,708
Freight	170,461	239,790	-	13,385	423,636
Expendable equipment	843,579	1,198,301	-	7,144	2,049,024
Office supplies and materials	3,858,260	1,826,100	-	24,189	5,708,549
POL	3,373,042	200,058	-	322,809	3,895,909
Advertising, printing and reproduction	95,307	148,276	-	680	244,263
Rental services	1,030,348	818,831	-	8,787	1,857,966
Repair and maintenance	196,607	21,650	-	1,185	219,442
Utilities	1,501,110	331,184	-	17,568	1,849,862
Miscellaneous goods and services	706,351	236,482	-	2,739	945,572
Medical supplies	143,630	886,322	-	-	1,029,952
Medical services/claims	34,143	-	-	-	34,143
Contributions, subsidies and grants	12,626,661	2,706,340	-	-	15,333,001
General contractual services	11,701,051	13,474,770	-	126,043	25,301,864
Professional services	983,352	4,144,621	-	-	5,127,973
Employee housing and household storage	1,799,873	57,882	-	-	1,857,755
Recruit and repatriation	1,421,924	-	-	-	1,421,924
Compensation-nonpayroll	231,932	1,022,350	-	-	1,254,282
Educational allowance	39,577	-	-	-	39,577
Training and registration fees	13,875	5,676	-	2,500	22,051
Scholarships	3,318,870	-	-	99,569	3,418,439
Official and meeting allowances	266,661	38,047	-	-	304,708
Representation	7,178,956	-	-	-	7,178,956
Insurance and fees	1,383,120	1,050	-	30,403	1,414,573
Leased housing, offices, buildings and land	1,391,093	789,228	-	15,689	2,196,010
Bank charges and custodial fees	102,468	9,484	-	150	112,102
Fishing day vessels	-	-	-	-	-
Equipment	1,311,713	1,699,936	-	17,746	3,029,395
Furnitures and fixtures	268,483	-	-	-	268,483
Vehicle and vessels	2,026,974	701,933	-	-	2,728,907
Land	1,878,097	-	-	-	1,878,097
Building	-	-	-	-	-
Payment to the state governments and others		74,162,860			74,162,860
Principal and interest payments	3,049,435	-	-	-	3,049,435
Total expenditures	<u>\$ 89,615,835</u>	<u>\$ 112,091,316</u>	<u>\$ -</u>	<u>\$ 1,516,138</u>	<u>\$ 203,223,289</u>

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, 2022
(with comparative totals for the year ended September 30, 2021)

	2022	2021
Revenue:		
Taxes:		
Import	\$ 3,631,447	\$ 4,353,390
Fuel	155,993	146,410
Corporate tax	59,163,561	11,166,862
Income tax, individuals, net of tax refunds	3,011,942	3,630,195
Gross receipts tax, businesses	3,286,564	3,810,114
Tobacco revenue share	860,907	851,349
	<u>70,110,414</u>	<u>23,958,320</u>
Fishing rights	<u>73,021,600</u>	<u>68,997,647</u>
Fees and charges:		
Postal collections	240,584	200,325
Business license and various fees	104,518	107,036
	<u>345,102</u>	<u>307,361</u>
Investment earnings:		
Net change in the fair value of investments	(4,523,565)	2,312,082
Dividend and interest income	396,659	(1,389,595)
	<u>(4,126,906)</u>	<u>922,487</u>
MiCare reimbursible, net	<u>101,512</u>	<u>(339)</u>
Other	<u>-</u>	<u>1,100,476</u>
Total revenues	<u>139,451,722</u>	<u>95,285,952</u>
Expenditures:		
Executive Branch:		
Core operational:		
President's Office	2,113,469	1,639,009
Department of External Affairs and LNO's	7,475,102	10,818,785
Office of Personnel	179,218	261,799
Department of Health and Social Affairs	847,961	787,969
Department of Education	606,635	381,850
Office of Resources and development	1,218,250	1,251,966
National archives, cultural and historic prevention	150,005	200,669
Office of Environment and emergency management	630,112	749,495
Department of Transportation, Communication and Infrastructure	2,686,954	2,657,681
Department of Finance and Administration	2,601,223	2,533,828
Department of Justice	4,786,608	4,525,593
Office of the Public Defender	860,347	674,562
Sub-total	<u>24,155,884</u>	<u>26,483,206</u>

**Federated States of Micronesia
National Government**

GENERAL FUND (FUND 1)

Statement of Revenues, Expenditures by Function and Department,
and Changes in Fund Balance, continued

	2022	2021
Expenditures, continued:		
Executive Branch:		
Non-core operational:		
President's Office	2,867,968	4,694,607
Department of External Affairs and LNO's	423,306	470,512
Department of Health and Social Affairs	1,895,677	667,365
Department of Education	4,931,159	4,884,549
Office of Resources and development	979,602	690,985
National archives, cultural and historic prevention	5,657	5,600
Office of Environment and emergency management	63,379	589,208
Department of Transportation, Communication and Infrastructure	6,209,591	4,939,214
Department of Finance and Administration	7,505,769	5,754,250
Department of Justice	855,642	911,756
Office of the Public Defender	600,000	-
Sub-total	<u>26,337,750</u>	<u>23,608,046</u>
Total Executive Branch	<u>50,493,634</u>	<u>50,091,252</u>
Judicial Branch-core operational	1,466,772	1,525,969
Judicial Branch-non-core operational	<u>243,590</u>	<u>274,775</u>
Total Judicial Branch	<u>1,710,362</u>	<u>1,800,744</u>
Legislative Branch:		
Office of the Speaker and members	3,927,843	3,528,536
Congress staff	2,364,243	2,430,848
Delegation offices	2,873,984	2,754,003
Legislative Noncore	<u>80,825</u>	<u>284,423</u>
Total Legislative Branch	<u>9,246,895</u>	<u>8,997,810</u>
Office of the National Public Auditor-Core operational	843,299	621,803
Office of the National Public Auditor-Non-Core operational	<u>149,070</u>	<u>417,782</u>
Total Office of the Public Auditor	<u>992,369</u>	<u>1,039,585</u>
Agencies, Boards and Commissions:		
National Oceanic Resource Management Authority	781,806	842,088
FSM Banking Board	149,778	153,553
FSM Insurance Board	428,600	417,487
FSM Postal Services	936,085	798,053
Forum Fisheries Agency	67,657	57,657
Micronesia Legal Service Corporation	250,000	250,000
MLFC Loan Subsidy	238,952	-
Saint Cecilia Catholic School	-	69,999
2019 Constitutional Convention Election	310,739	77,923
Tuna Commission Membership Fee	318,397	318,397
Commemoration of World Tuna	50,818	35,101
T3 Monitoring	6,081	7,100
Other	<u>10,317</u>	<u>1,625</u>
	<u>3,549,230</u>	<u>3,028,983</u>

**Federated States of Micronesia
National Government**

GENERAL FUND (FUND 1)

Statement of Revenues, Expenditures by Function and Department,
and Changes in Fund Balance, continued

	2022	2021
Expenditures, continued:		
Agencies, Boards and Commissions, continued:		
Special Programs		
National Election Office	408,027	159,992
Special and General Elections	50,409	402,133
	<u>458,436</u>	<u>562,125</u>
Payments to Component Units:		
College of Micronesia-FSM (Board of Regents)	120,000	9,030
College of Micronesia-FSM	4,014,951	2,812,042
College of Micronesia-FSM FMI	-	590,043
College of Micronesia-FSM Endowment Fund	500,000	285,000
FSM Social Security Administration	1,000,000	1,000,000
FSMTCC	-	500,000
Caroline Air Inc.	638,540	446,028
FSM NGEIP (MiCare)	-	580,000
	<u>6,273,491</u>	<u>6,222,143</u>
Legislative public projects	13,841,983	16,020,116
Total expenditures	<u>86,566,400</u>	<u>87,762,758</u>
Excess of revenues over expenditures	<u>52,885,322</u>	<u>7,523,194</u>
Other financing sources (uses):		
Operating transfers in:		
Reimbursable Fund	-	-
Entry Fee Revolving Fund	86,677	-
Postal Services Revolving Fund	931,832	1,086,590
Insurance Board Revolving Fund	17,399	63,281
Fisheries Observation Revolving Fund	390,433	616,188
Maritime Surveillance Revolving Fund	351,767	-
Permit Revolving Fund	-	91,417
Passport Revolving Fund	870,790	207,544
	<u>2,648,898</u>	<u>2,065,020</u>
Operating transfers out:		
FSM Trust Fund	(400,000)	(1,180,705)
Reimbursable Fund	-	-
Non-U.S. Grant Fund	-	-
	<u>(400,000)</u>	<u>(1,180,705)</u>
Total other financing sources (uses), net	<u>2,248,898</u>	<u>884,315</u>
Special item:		
Write-off of receivable balances	-	(5,775,689)
Net change in fund balance	55,134,220	2,631,820
Fund balance at the beginning of the year	144,381,114	141,749,294
Fund balance at the end of the year	<u>\$ 199,515,334</u>	<u>\$ 144,381,114</u>

**Federated States of Micronesia
National Government**

GENERAL FUND (FUND 1)

Statement of Revenues, Expenditures by Function and Department,
and Changes in Fund Balance, continued

Reconciliation:

Fund balance, General Fund	\$ 199,515,334
Add:	
ADB Loan Fund	30,932,349
IDF with FSMDB	2,041,225
Early Retirement Fund	(1,762,919)
FSM Trust Fund	312,349,871
Fund balance, GAAP	<u>\$ 543,075,860</u>

**Federated States of Micronesia
National Government**

NONMAJOR GOVERNMENTAL FUNDS

Combining Balance Sheet

September 30, 2022

	27	28	29	31	32	33	34	35	36	39	41	42	43	45	
	Permit Revolving	Filling Office Revolving	Maritime Operations Revolving	Passport Revolving	Aquaculture Revolving	Fisheries Observer Revolving	Medical Revolving	Nurse Board Revolving	ICQ Overtime Revolving	Scholarship	Maritime Surveillance Revolving	Postal Services Revolving	Insurance Board Revolving	Vessel Day Acquisition	Total
<u>ASSETS</u>															
Receivables:	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
General	-	-	-	-	-	372	-	-	-	-	-	-	-	-	372
Advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Due from other funds	41,360	112,191	418,657	61,436	28,653	1,000,000	37,116	38,178	2,886	381,735	1,000,000	24,533	50,100	2,762,574	5,959,419
	<u>\$ 41,360</u>	<u>\$ 112,191</u>	<u>\$ 418,657</u>	<u>\$ 61,436</u>	<u>\$ 28,653</u>	<u>\$ 1,000,372</u>	<u>\$ 37,116</u>	<u>\$ 38,178</u>	<u>\$ 2,886</u>	<u>\$ 381,735</u>	<u>\$ 1,000,000</u>	<u>\$ 24,533</u>	<u>\$ 50,100</u>	<u>\$ 2,762,574</u>	<u>\$ 5,959,791</u>
<u>LIABILITIES AND FUND BALANCES</u>															
Liabilities:															
Accounts payable	\$ 866	\$ -	\$ 30	\$ 2,626	\$ -	\$ 6,137	\$ -	\$ -	\$ -	\$ -	\$ 6,644	\$ 4,098	\$ -	\$ -	\$ 20,401
Other liabilities and accruals	-	-	1,957	-	-	10,029	-	-	-	-	-	-	-	-	11,986
Due to other funds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Due to grantor agencies	45	-	-	-	-	-	-	-	-	-	-	-	-	-	45
	<u>911</u>	<u>-</u>	<u>1,987</u>	<u>2,626</u>	<u>-</u>	<u>16,166</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,644</u>	<u>4,098</u>	<u>-</u>	<u>-</u>	<u>32,432</u>
Fund balances:															
Committed	40,449	112,191	416,670	58,810	28,653	984,206	37,116	38,178	2,886	381,735	993,356	20,435	50,100	2,762,574	5,927,359
Total liabilities and fund balances	<u>\$ 41,360</u>	<u>\$ 112,191</u>	<u>\$ 418,657</u>	<u>\$ 61,436</u>	<u>\$ 28,653</u>	<u>\$ 1,000,372</u>	<u>\$ 37,116</u>	<u>\$ 38,178</u>	<u>\$ 2,886</u>	<u>\$ 381,735</u>	<u>\$ 1,000,000</u>	<u>\$ 24,533</u>	<u>\$ 50,100</u>	<u>\$ 2,762,574</u>	<u>\$ 5,959,791</u>

See accompanying Report of Independent Auditors.

**Federated States of Micronesia
National Government**

NONMAJOR GOVERNMENTAL FUNDS

Combining Statement of Revenues, Expenditures by Function, and Changes in Fund Balances

Year Ended September 30, 2022

	27	28	29	31	32	33	34	35	36	39	41	42	43	45	
	Permit Revolving	Filling Office Revolving	Maritime Operations Revolving	Passport Revolving	Aquaculture Revolving	Fisheries Observer Revolving	Medical Revolving	Nurse Board Revolving	ICQ Overtime Revolving	Scholarship	Maritime Surveillance Revolving	Postal Services Revolving	Insurance Board Revolving	Vessel Day Acquisition	Total
Revenues:															
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 300,547	\$ -	\$ -	\$ -	\$ -	\$ 300,547
Fees and charges	121,776	11,395	272,140	874,569	-	633,280	3,185	1,310	151,300	-	1,460,000	949,899	17,499	1,495,030	5,991,383
Total revenues	121,776	11,395	272,140	874,569	-	633,280	3,185	1,310	151,300	300,547	1,460,000	949,899	17,499	1,495,030	6,291,930
Expenditures by function:															
Current:															
Transportation, communication and infrastructure	-	-	517,741	-	-	-	-	-	-	-	-	-	-	-	517,741
Health	-	-	-	-	-	-	527	-	-	-	-	-	-	-	527
Education	-	-	-	-	-	-	-	-	-	99,569	-	-	-	-	99,569
Finance and administration	-	-	-	-	-	-	-	-	80,518	-	-	-	-	-	80,518
Resources and development	-	-	-	-	-	-	-	-	75,399	-	-	-	-	-	75,399
Justice	33,739	-	-	42,343	-	-	-	-	70,416	-	342,418	-	-	-	488,916
Agencies, boards and commissions	-	-	-	-	-	233,354	-	-	-	-	-	17,268	-	-	250,622
Legislative public projects	-	-	-	-	-	-	-	2,846	-	-	-	-	-	-	2,846
Total expenditures	33,739	-	517,741	42,343	-	233,354	527	2,846	226,333	99,569	342,418	17,268	-	-	1,516,138
Excess (deficiency) of revenue over (under) expenditure	88,037	11,395	(245,601)	832,226	-	399,926	2,658	(1,536)	(75,033)	200,978	1,117,582	932,631	17,499	1,495,030	4,775,792
Other financing uses:															
Operating transfers out	(86,677)	-	-	(870,790)	-	(390,433)	-	-	-	-	(351,767)	(931,832)	(17,399)	-	(2,648,898)
Net change in fund balances	1,360	11,395	(245,601)	(38,564)	-	9,493	2,658	(1,536)	(75,033)	200,978	765,815	799	100	1,495,030	2,126,894
Fund balances at the beginning 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
Fund balances at the end of the year	\$ 40,449	\$ 112,191	\$ 416,670	\$ 58,810	\$ 28,653	\$ 984,206	\$ 37,116	\$ 38,178	\$ 2,886	\$ 381,735	\$ 993,356	\$ 20,435	\$ 50,100	\$ 2,762,574	\$ 5,927,359

**Federated States of Micronesia
National Government**

NONMAJOR GOVERNMENTAL FUNDS

Combining Statement of Revenues, Expenditures by Account, and Changes in Fund Balances

Year Ended September 30, 2022

	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	
Revenues:															
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 300,547	\$ -	\$ -	\$ -	\$ -	\$ 300,547
Fees and charges	121,776	11,395	272,140	874,569	-	633,280	3,185	1,310	151,300	-	1,460,000	949,899	17,499	1,495,030	5,991,383
Total revenues	121,776	11,395	272,140	874,569	-	633,280	3,185	1,310	151,300	300,547	1,460,000	949,899	17,499	1,495,030	6,291,930
Expenditures by account:															
Personnel	-	-	481,681	-	-	27,057	-	2,846	226,333	-	-	-	-	-	737,917
Travel and transportation	-	-	(12,500)	-	-	22,430	-	-	-	-	555	-	-	-	10,485
Communications	1,462	-	-	-	-	8,510	-	-	-	-	-	-	-	-	9,972
Food stuffs	-	-	8,267	-	-	17,911	-	-	-	-	41,000	-	-	-	67,178
Freight	2,202	-	-	10,656	-	-	527	-	-	-	-	-	-	-	13,385
Expendable equipment	-	-	-	-	-	2,844	-	-	-	-	-	4,300	-	-	7,144
Office supplies and materials	-	-	-	13,791	-	3,497	-	-	-	-	4,423	2,478	-	-	24,189
Miscellaneous goods & services	-	-	-	-	-	2,739	-	-	-	-	-	-	-	-	2,739
POL	-	-	40,293	-	-	2,706	-	-	-	-	279,810	-	-	-	322,809
Advertising, printing and reproduction	-	-	-	-	-	680	-	-	-	-	-	-	-	-	680
Rental	-	-	-	-	-	8,682	-	-	-	-	-	105	-	-	8,787
Repair and maintenance	-	-	-	-	-	1,140	-	-	-	-	45	-	-	-	1,185
Utilities	-	-	-	-	-	7,000	-	-	-	-	10,568	-	-	-	17,568
General contractual services	30,075	-	-	-	-	85,583	-	-	-	-	-	10,385	-	-	126,043
Training and registration fee	-	-	-	-	-	2,500	-	-	-	-	-	-	-	-	2,500
Scholarships	-	-	-	-	-	-	-	-	-	99,569	-	-	-	-	99,569
Representation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Insurance and fees	-	-	-	-	-	30,403	-	-	-	-	-	-	-	-	30,403
Leased housing, offices, buildings and land	-	-	-	-	-	9,672	-	-	-	-	6,017	-	-	-	15,689
Bank charges	-	-	-	150	-	-	-	-	-	-	-	-	-	-	150
Fishing vessel days	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equipment	-	-	-	17,746	-	-	-	-	-	-	-	-	-	-	17,746
Total expenditures	33,739	-	517,741	42,343	-	233,354	527	2,846	226,333	99,569	342,418	17,268	-	-	1,516,138
Excess (deficiency) of revenue over (under) expenditure	88,037	11,395	(245,601)	832,226	-	399,926	2,658	(1,536)	(75,033)	200,978	1,117,582	932,631	17,499	1,495,030	4,775,792
Other financing uses:															
Operating transfers out	(86,677)	-	-	(870,790)	-	(390,433)	-	-	-	-	(351,767)	(931,832)	(17,399)	-	(2,648,898)
Net change in fund balances	1,360	11,395	(245,601)	(38,564)	-	9,493	2,658	(1,536)	(75,033)	200,978	765,815	799	100	1,495,030	2,126,894
Fund balances at the beginning 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
Fund balances at the end of the year	\$ 40,449	\$ 112,191	\$ 416,670	\$ 58,810	\$ 28,653	\$ 984,206	\$ 37,116	\$ 38,178	\$ 2,886	\$ 381,735	\$ 993,356	\$ 20,435	\$ 50,100	\$ 2,762,574	\$ 5,927,359

**Federated States of Micronesia
National Government**

GRANTS ASSISTANCE FUND

Combining Balance Sheet

September 30, 2022

	10	11	12	13	14	15	16	18	19	20	23	26	
	Section 211(a)(1) Education Sector	Section 211(a)(2) Health Sector	Section 211(a)(5) Environment	Section 211(a)(3) Private Sector Development	Section 211(a)(4) Capacity Building	Supplemental Education	Enhanced Reporting Accountability	Infrastructure Maintenance	Section 211(a)(6) Infrastructure	U.S. Federal Grants	Non-U.S. Grants	Disaster Assistance Emergency	Total
ASSETS													
Cash & equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 112,493	\$ -	\$ -	\$ -	\$ 4,856,408	\$ 4,968,901
Receivables:													
Federal agencies	-	-	-	-	460,500	672,528	-	-	-	1,131,080	-	-	2,264,108
FSM State Governments	1,179,059	498,021	121,478	433,902	566,136	1,711,588	167,010	-	1,327,082	1,354,724	-	-	7,359,000
Advance	-	-	-	-	-	23,776	-	-	-	153,515	22,702	5,620	205,613
Prepayments	-	-	-	-	-	-	-	-	-	-	-	-	-
Due from other funds	1,066,834	1,960,727	-	-	-	-	9,135	942,628	793,819	4,796,536	29,008,857	3,565	38,582,101
	<u>\$ 2,245,893</u>	<u>\$ 2,458,748</u>	<u>\$ 121,478</u>	<u>\$ 433,902</u>	<u>\$ 1,026,636</u>	<u>\$ 2,407,892</u>	<u>\$ 176,145</u>	<u>\$ 1,055,121</u>	<u>\$ 2,120,901</u>	<u>\$ 7,435,855</u>	<u>\$ 29,031,559</u>	<u>\$ 4,865,593</u>	<u>\$ 53,379,723</u>
LIABILITIES AND FUND BALANCES													
Liabilities:													
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 33,994	\$ -	\$ -	\$ 548,662	\$ 838,662	\$ 227,875	\$ 1,648	\$ 1,650,841
Due to FSM State Governments	2,211,786	2,544,156	25,461	-	202,769	692,559	176,145	-	1,085,243	3,599,849	-	-	10,537,968
Accrued liabilities and others	-	(85,408)	-	-	-	2,527	-	-	9,189	51,641	46,330	-	24,279
Due to other funds	-	-	96,017	433,902	385,092	1,678,814	-	-	-	-	-	-	2,593,825
Due to grantor agencies	34,107	-	-	-	438,775	(2)	-	-	477,807	2,945,703	27,462,478	315,855	31,674,723
Total liabilities	<u>2,245,893</u>	<u>2,458,748</u>	<u>121,478</u>	<u>433,902</u>	<u>1,026,636</u>	<u>2,407,892</u>	<u>176,145</u>	<u>-</u>	<u>2,120,901</u>	<u>7,435,855</u>	<u>27,736,683</u>	<u>317,503</u>	<u>46,481,636</u>
Fund balances:													
Restricted	-	-	-	-	-	-	-	1,055,121	-	-	1,294,876	4,548,090	6,898,087
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,055,121</u>	<u>-</u>	<u>-</u>	<u>1,294,876</u>	<u>4,548,090</u>	<u>6,898,087</u>
Total liabilities and fund balances	<u>\$ 2,245,893</u>	<u>\$ 2,458,748</u>	<u>\$ 121,478</u>	<u>\$ 433,902</u>	<u>\$ 1,026,636</u>	<u>\$ 2,407,892</u>	<u>\$ 176,145</u>	<u>\$ 1,055,121</u>	<u>\$ 2,120,901</u>	<u>\$ 7,435,855</u>	<u>\$ 29,031,559</u>	<u>\$ 4,865,593</u>	<u>\$ 53,379,723</u>

See accompanying Report of Independent Auditors.

**Federated States of Micronesia
National Government**

GRANTS ASSISTANCE FUND

Combining Statement of Revenues and Expenditures by Function, and Changes in Fund Balances

Year Ended September 30, 2022

	10	11	12	13	14	15	16	18	19	20	23	26	
	Section 211(a)(1) Education Sector	Section 211(a)(2) Health Sector	Section 211(a)(5) Environment	Section 211(a)(3) Private Sector Development	Section 211(a)(4) Capacity Building	Supplemental Education	Enhanced Reporting Accountability	Infrastructure Maintenance	Section 211(a)(6) Infrastructure	U.S. Federal Grants	Non-U.S. Grants	Disaster Assistance Emergency	Total
Revenues:													
Compact funding	\$ -	\$ -	\$ -	\$ -	\$ 500,000	\$ 672,528	\$ -	\$ (176,353)	\$ 1,070,812	\$ -	\$ -	\$ 251,980	\$ 2,318,967
Compact funding - state gov'ts and others	24,356,299	24,050,855	41,860	86,867	960,630	8,648,180	1,416,987	1,052,538	2,670,020	-	-	-	63,284,236
Federal grants	-	-	-	-	-	-	-	-	-	22,486,822	-	-	22,486,822
Federal grants - state gov'ts and others	-	-	-	-	-	-	-	-	-	10,878,624	-	-	10,878,624
Other grants	-	-	-	-	-	-	-	-	-	-	13,031,133	-	13,031,133
Others	-	-	-	-	-	-	-	-	-	-	-	6,694	6,694
	<u>24,356,299</u>	<u>24,050,855</u>	<u>41,860</u>	<u>86,867</u>	<u>1,460,630</u>	<u>9,320,708</u>	<u>1,416,987</u>	<u>876,185</u>	<u>3,740,832</u>	<u>33,365,446</u>	<u>13,031,133</u>	<u>258,674</u>	<u>112,006,476</u>
Expenditures by function:													
Current:													
General government:													
Office of the President	-	-	-	-	-	-	-	-	-	-	-	167,161	167,161
Foreign affairs	-	-	-	-	-	-	-	-	-	-	18,985	-	18,985
Finance and administration	-	-	-	-	-	-	-	-	-	4,747,458	1,907,495	-	6,654,953
Resources and development	-	-	-	-	-	-	-	-	-	-	2,968,049	-	2,968,049
Transportation, communication and infrastructure	-	-	-	-	-	-	-	-	-	6,443,562	2,989,557	-	9,433,119
Health and social affairs	-	-	-	-	-	-	-	-	-	10,056,915	2,054,045	-	12,110,960
National archives, cultural and historic preservation	-	-	-	-	-	-	-	-	-	459,401	14,344	-	473,745
Education	-	-	-	-	-	672,528	-	-	-	734,916	958,649	-	2,366,093
Justice	-	-	-	-	-	-	-	-	-	-	-	-	-
Legislative	-	-	-	-	-	-	-	-	-	-	-	-	-
Environment and emergency management	-	-	-	-	-	-	-	-	-	44,570	1,432,212	-	1,476,782
Office of the National Public Auditor	-	-	-	-	500,000	-	-	-	-	-	-	-	500,000
Boards and commissions	-	-	-	-	-	-	-	-	-	-	687,797	-	687,797
Payment to state governments and others	24,356,299	24,050,855	41,860	86,867	960,630	8,648,180	1,416,987	1,052,538	2,670,020	10,878,624	-	-	74,162,860
Capital Projects	-	-	-	-	-	-	-	-	1,070,812	-	-	-	1,070,812
Total expenditures	<u>24,356,299</u>	<u>24,050,855</u>	<u>41,860</u>	<u>86,867</u>	<u>1,460,630</u>	<u>9,320,708</u>	<u>1,416,987</u>	<u>1,052,538</u>	<u>3,740,832</u>	<u>33,365,446</u>	<u>13,031,133</u>	<u>167,161</u>	<u>112,091,316</u>
Net change in fund balances	-	-	-	-	-	-	-	(176,353)	-	-	-	91,513	(84,840)
Fund balances at the beginning of the year	-	-	-	-	-	-	-	1,231,474	-	-	1,294,876	4,456,577	6,982,927
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,055,121</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,294,876</u>	<u>\$ 4,548,090</u>	<u>\$ 6,898,087</u>

See accompanying Report of Independent Auditors.

**Federated States of Micronesia
National Government**

GRANTS ASSISTANCE FUND

Combining Statement of Revenues, Expenditures by Account, and Changes in Fund Balances

Year Ended September 30, 2022

	10	11	12	13	14	15	16	18	19	20	23	26	
	Section 211(a)(1) Education Sector	Section 211(a)(2) Health Sector	Section 211(a)(5) Environment	Section 211(a)(3) Private Sector Development	Section 211(a)(4) Capacity Building	Supplemental Education	Enhanced Reporting Accountability	Infrastructure Maintenance	Section 211(a)(6) Infrastructure	U.S. Federal Grants	Non-U.S. Grants	Disaster Assistance Emergency	Total
Revenues:													
Compact funding	\$ -	\$ -	\$ -	\$ -	\$ 500,000	\$ 672,528	\$ -	\$ (176,353)	\$ 1,070,812	\$ -	\$ -	\$ 251,980	\$ 2,318,967
Compact funding - state gov'ts and others	24,356,299	24,050,855	41,860	86,867	960,630	8,648,180	1,416,987	1,052,538	2,670,020	-	-	-	63,284,236
Federal grants	-	-	-	-	-	-	-	-	-	22,486,822	-	-	22,486,822
Federal grants - state gov'ts and others	-	-	-	-	-	-	-	-	-	10,878,624	-	-	10,878,624
Other grants	-	-	-	-	-	-	-	-	-	-	13,031,133	-	13,031,133
Others	-	-	-	-	-	-	-	-	-	-	-	6,694	6,694
	<u>24,356,299</u>	<u>24,050,855</u>	<u>41,860</u>	<u>86,867</u>	<u>1,460,630</u>	<u>9,320,708</u>	<u>1,416,987</u>	<u>876,185</u>	<u>3,740,832</u>	<u>33,365,446</u>	<u>13,031,133</u>	<u>258,674</u>	<u>112,006,476</u>
Expenditures by account:													
Personnel	-	-	-	-	-	134,435	-	-	-	3,672,842	1,259,957	-	5,067,234
Travel and transportation	-	-	-	-	-	83,090	-	-	-	741,605	548,043	23,829	1,396,567
Books and materials	-	-	-	-	-	-	-	-	-	16,173	-	-	16,173
Communications	-	-	-	-	-	9,086	-	-	-	196,079	38,593	-	243,758
Customs and taxes	-	-	-	-	-	-	-	-	-	12,224	-	-	12,224
Dues, membership and subscription	-	-	-	-	-	-	-	-	-	78,077	1,771	-	79,848
Food stuffs	-	-	-	-	-	-	-	-	-	99,449	316,098	138,794	554,341
Freight	-	-	-	-	-	3,449	-	-	-	165,426	66,678	4,237	239,790
Expendable equipment/furniture	-	-	-	-	-	197,021	-	-	-	521,197	480,083	-	1,198,301
Office supplies and materials	-	-	-	-	-	4,527	-	-	-	789,660	1,031,913	-	1,826,100
POL	-	-	-	-	-	-	-	-	-	134,479	65,579	-	200,058
Advertising, printing and reproduction	-	-	-	-	-	-	-	-	-	42,515	105,761	-	148,276
Rental services	-	-	-	-	-	800	-	-	-	764,489	53,542	-	818,831
Repair and maintenance	-	-	-	-	-	-	-	-	-	17,995	3,655	-	21,650
Utilities	-	-	-	-	-	-	-	-	-	247,723	83,461	-	331,184
Miscellaneous goods and services	-	-	-	-	-	-	-	-	-	37,153	199,329	-	236,482
Medical supplies	-	-	-	-	-	-	-	-	-	886,322	-	-	886,322
Contribution, subsidies	-	-	-	-	-	-	-	-	-	1,611,435	1,094,604	301	2,706,340
General Contractual services	-	-	-	-	500,000	229,140	-	-	1,052,022	9,305,056	2,388,552	-	13,474,770
Professional services	-	-	-	-	-	-	-	-	18,790	134,095	3,991,736	-	4,144,621
Employee housing and household storage	-	-	-	-	-	-	-	-	-	45,382	12,500	-	57,882
Compensation-nonpayroll	-	-	-	-	-	-	-	-	-	994,677	27,673	-	1,022,350
Training and registration fees	-	-	-	-	-	-	-	-	-	4,980	696	-	5,676
Official and meeting allowances	-	-	-	-	-	-	-	-	-	37,932	115	-	38,047
Insurance and fees	-	-	-	-	-	-	-	-	-	1,040	10	-	1,050
Leased housing, offices, buildings and land	-	-	-	-	-	-	-	-	-	643,809	145,419	-	789,228
Bank charges	-	-	-	-	-	400	-	-	-	875	8,209	-	9,484
Payment to state governments and others	24,356,299	24,050,855	41,860	86,867	960,630	8,648,180	1,416,987	1,052,538	2,670,020	10,878,624	-	-	74,162,860
Equipment	-	-	-	-	-	10,580	-	-	-	753,650	935,706	-	1,699,936
Vehicle	-	-	-	-	-	-	-	-	-	530,483	171,450	-	701,933
	<u>24,356,299</u>	<u>24,050,855</u>	<u>41,860</u>	<u>86,867</u>	<u>1,460,630</u>	<u>9,320,708</u>	<u>1,416,987</u>	<u>1,052,538</u>	<u>3,740,832</u>	<u>33,365,446</u>	<u>13,031,133</u>	<u>167,161</u>	<u>112,091,316</u>
Total expenditures													
	-	-	-	-	-	-	-	(176,353)	-	-	-	91,513	(84,840)
Net change in fund balances													
	-	-	-	-	-	-	-	1,231,474	-	-	1,294,876	4,456,577	6,982,927
Fund balances at the beginning of the year													
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,055,121</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,294,876</u>	<u>\$ 4,548,090</u>	<u>\$ 6,988,087</u>

See accompanying Report of Independent Auditors.

Other Information

**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, 2022

	Budgeted Amounts		Expenditures on Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget		
Revenues:				
Local taxes	\$ 9,654,724	10,800,000	10,946,853	\$ 146,853
Fishing right fees	60,000,000	67,000,000	73,021,600	6,021,600
Corporate Fees	11,000,000	11,000,000	59,163,561	48,163,561
Postal revenues	150,000	150,000	240,584	90,584
Investment earnings	1,000,000	1,000,000	(4,126,906)	(5,126,906)
Fees and charges	7,060,200	12,060,200	104,518	(11,955,682)
Other	5,186,968	5,186,968	(791,749)	(5,978,717)
Total revenues	94,051,892	107,197,168	138,558,461	31,361,293
Expenditures-budgetary basis by department:				
Executive Branch-Core Operational:				
Office of the President	1,684,681	2,184,681	2,261,792	(77,110)
President's Office - Public Information	159,607	174,607	134,382	40,224
President's Office - ODA & Compact Management	539,517	539,517	274,199	265,318
Total Office of the President	2,383,805	2,898,805	2,670,373	228,432
Department of Foreign Affairs				
Administration	391,518	391,518	562,984	(171,466)
Division of APA and Multilateral Affairs	120,567	120,567	120,433	134
Division of American and European Affairs	99,394	99,394	87,045	12,349
FSM Embassy - China	631,242	631,242	494,129	137,113
FSM Consulate - Guam	553,464	553,464	409,665	143,799
FSM Consulate - Honolulu	671,802	696,802	562,961	133,841
FSM Embassy - Tokyo	1,058,421	1,058,421	2,686,011	(1,627,590)
FSM Embassy - Washington D.C.	818,902	818,902	775,679	43,223
FSM Embassy - Fiji	453,272	453,272	270,707	182,565
FSM Permanent Mission - New York	909,887	909,887	792,571	117,316
FSM Consulate - Portland, Oregon	735,402	735,402	836,211	(100,809)
Total Department of Foreign Affairs	6,443,871	6,468,871	7,598,396	(1,129,525)
Department of Health and Social Affairs:				
Administration	195,627	195,627	170,145	25,482
Health System Support	269,155	269,155	218,851	50,304
Environmental Health	558,276	558,276	472,668	85,608
Gender Development Unit	117,980	117,980	65,707	52,273
Sports and Youth Unit	73,254	73,254	45,993	27,261
Total Department of Health and Social Affairs	1,214,291	1,214,291	973,363	240,928
Department of Education:				
Administration	268,636	268,636	499,522	(230,886)
Division of Formal & Non Formal Educaiton	206,772	206,772	154,804	51,969
Division of Quality & effectiveness(Domestic)	51,238	51,238	23,050	28,188
Division of Quality & effectiveness(SEG)	295,364	295,364	1,875	293,489
Total Department of Education	822,011	822,011	679,251	142,759
Department of Resources and Development:				
Administration	156,057	156,057	160,998	(4,941)
Division of Tourism	105,046	105,046	55,650	49,395
Division of Marine Resources	123,591	123,591	99,153	24,438
Division of Agriculture	453,117	453,117	412,042	41,075
Division of Trade and Investment	209,521	209,521	164,977	44,544
Division of Energy	47,217	47,217	29,289	17,928
Division of Statistics	445,322	445,322	394,093	51,229
Total Department of Resources and Development	1,539,870	1,539,870	1,316,202	223,668
Office of National Archives, Culture and Historic Preservation	266,274	266,274	155,818	110,456

See accompanying Report of Independent Auditors.

**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, continued**

	Budgeted Amounts		Actual	Variance with
		Final	Amounts	Final Budget -
				Positive
				(Negative)
Expenditures-budgetary basis by department, continued:				
Department of Environment, Climate Change and Emergency Management:				
Office of the Director	274,507	274,507	281,636	(7,129)
Division of Environment	191,839	191,839	158,209	33,630
Division of Climate Change	234,273	234,273	175,730	58,543
Division of Emergency Management	198,975	198,975	146,155	52,819
Total Department of Environment, Climate Change and Emergency Management	899,594	899,594	761,731	137,863
Office of Veteran's Affairs	158,641	158,641	-	158,641
Office of Personnel	206,006	206,006	179,867	26,139
Department of Transportation, Communication and Infrastructure:				
Administration	250,156	250,156	534,600	(284,444)
Division of Marine Transportation	1,585,029	1,879,429	1,434,409	445,020
Division of Infrastructure	840,358	840,358	590,035	250,324
Civil Aviation	239,566	239,566	147,519	92,047
Communication	166,760	166,760	133,325	33,435
Project Management Unit	479,669	479,669	370,521	109,149
Total Department of Transportation, Communication and Infrastructure	3,561,539	3,855,939	3,210,410	645,529
Department of Finance and Administration:				
Administration	351,389	372,389	341,900	30,489
Division of National Treasury	1,143,659	1,151,819	977,039	174,781
Division of Customs and Tax Administration	1,564,077	1,564,077	1,383,817	180,261
Division of Investment & International Finance	183,892	183,892	134,199	49,693
Division of Budget & Economic Management	421,493	421,493	262,783	158,710
Total Department of Finance and Administration	3,664,511	3,693,671	3,099,737	593,934
Department of Justice:				
Administration	619,589	619,589	793,938	(174,349)
Registrar of Corporation	128,655	128,655	93,908	34,748
Division of Law	452,710	452,710	330,515	122,195
Division of Litigation	550,006	550,006	436,553	113,453
Division of Anti-Human Trafficking Services	141,721	141,721	72,632	69,089
Division of Immigration and Passport Services	942,576	942,576	731,114	211,461
Division of Labor	340,631	364,049	330,647	33,402
FSM National Police	3,188,014	3,238,014	1,313,631	1,924,383
Division of Border Control & Maritime Surveillance	1,732,394	1,732,394	1,544,984	187,410
Total Department of Justice	8,096,296	8,169,714	5,647,922	2,521,793
Office of the Public Defender	1,441,183	1,441,183	1,000,153	441,030
Total Executive Branch-Core Operational	30,697,892	31,634,870	27,293,223	4,341,647
Executive Branch-Non-Core Operational:				
President's Office	5,494,909	6,100,571	5,537,031	563,540
Department of Foreign Affairs	568,351	599,258	467,152	132,106
Department of Health and Social Affairs	1,720,034	3,320,034	2,709,890	610,144
Department of Education	6,921,415	6,921,415	4,936,551	1,984,864
Department of Resources and Development	1,267,576	1,267,576	988,098	279,478
Office of National Archives, Culture, Historic Prevention	7,064	7,064	5,657	1,407
Department of Environment, Climate Change and Emergency Management	818,659	1,318,659	98,730	1,219,929
Department of Transportation, Communications and Infrastructure	6,134,271	6,254,271	6,699,286	(445,015)
Department of Finance and Administration	543,053	593,053	7,580,789	(6,987,737)
Department of Justice	1,782,857	2,278,854	1,606,123	672,731
Office of the Public Defender			600,000	(600,000)
Total Executive Branch-Non-Core Operational	25,258,188	28,660,754	31,229,307	(2,568,553)
Total Executive Branch	55,956,080	60,295,623	58,522,530	1,773,093

See accompanying Report of Independent Auditors.

**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, continued**

	Budgeted Amounts		Actual	Variance with
		Final	Amounts	Final Budget - Positive (Negative)
Judicial Branch-Core Operational	2,182,902	2,182,902	1,745,384	437,518
Judicial Branch-Non-core Operational	390,000	390,000	313,590	76,410
Total Judiciary Branch	2,572,902	2,572,902	2,058,974	513,928
Legislative Branch:				
Office of the Speaker and members	4,074,329	4,659,329	4,596,118	63,211
Members and staff	3,138,474	3,678,474	2,884,521	793,953
Delegation offices	552,914	2,862,914	2,936,714	(73,800)
Total Legislative Branch - Core	7,765,717	11,200,717	10,417,354	783,363
Legislative Branch - Noncore	239,824	252,824	233,149	19,675
Total Legislative Branch	8,005,540	11,453,540	10,650,502	803,038
Office of the National Public Auditor				
Public Auditor (Core)	1,105,665	1,105,665	904,739	200,927
Single Audit (Non-core)	502,220	502,220	502,220	-
Total Office of the National Public Auditor	1,607,885	1,607,885	1,406,959	200,927
Special Programs:				
National Election	589,160	589,160	456,912	132,248
General Election	22,462	22,462	72,646	(50,184)
Total Special Programs	611,622	611,622	529,558	82,064
Agencies, Board and Commissions:				
National Oceanic Resource Management Authority	1,626,702	1,626,702	983,754	642,948
Tuna Commission Membership	318,397	318,397	318,397	-
Forum Fisheries Agency	-	-	67,657	(67,657)
MLFC Loan Subsidy	260,000	260,000	238,952	21,048
Micronesia Legal Services Corporation	250,000	250,000	250,000	-
FSM Insurance	634,781	634,781	597,368	37,413
FSM Banking Board	258,373	258,373	202,474	55,899
Pacific Missionary Aviation Subsidy	300,000	300,000	100,000	200,000
2019 Constitutional Convention Election	-	-	310,739	(310,739)
Commemoration of World Tuna	-	-	50,818	(50,818)
Contri.Turism S. Mitigation Fund	14,273,895	14,273,895	-	14,273,895
DRF-Low Income Households	2,500,000	2,500,000	-	2,500,000
Postal Services	1,184,369	1,184,369	1,043,374	140,995
T3 Monitoring	-	-	6,081	(6,081)
Other	-	-	10,317	(10,317)
Total Agencies, Boards and Commissions	21,606,517	21,606,517	4,179,931	17,426,586
Payments to component units:				
CIA Subsidy	200,000	850,000	644,540	205,460
FSM Micare	-	-	-	-
FSM Social Security Administration	1,000,000	1,000,000	1,000,000	-
Board of Regents-COM	150,000	150,000	120,000	30,000
COM-FSM Operation	3,000,000	3,000,000	4,014,951	(1,014,951)
COM-FSM (FMI)	919,392	919,392	-	919,392
COM-FSM Endowment Fund	285,000	500,000	500,000	-
COM-FSM Public Health Initiative	250,000	250,000	-	250,000
FSM TCC	-	600,000	-	600,000
Total payments to component units	5,804,392	7,269,392	6,279,491	989,901
Other Non Core programs and appropriations	-	-	-	-
Other National government programs-continuing appropriations	17,238,742	17,238,742	24,137,444	(6,898,702)
Total expenditures	113,403,679	122,656,223	107,765,389	14,890,834
Excess (deficiency) of revenues over (under) expenditures	(19,351,787)	(15,459,055)	30,793,072	46,252,127

See accompanying Report of Independent Auditors.

**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, continued**

	Budgeted Amounts		Actual	Variance with
		Final	Amounts	Final Budget - Positive (Negative)
Other financing sources (uses):				
Operating Transfers in (out):				
Passport Fund	-	-	870,790	870,790
Entry Fee Fund	-	-	86,677	86,677
National Postal Services Fund	-	-	931,832	931,832
Insurance Board Revolving Fund	-	-	17,399	17,399
Maritime Sueveillance Revolving Fund			351,767	351,767
FSM Trust Fund - National fund			(400,000)	(400,000)
Total Operating Transfers in/out	-	-	2,248,898	2,248,898
Total other financing sources (uses), net	-	-	2,248,898	2,248,898
	(19,351,787)	(15,459,055)	33,041,970	48,501,025
Write-off of receivables	-	-	(2,607,193)	(2,607,193)
Recovery of loss from litigation			3,500,454	3,500,454
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		-	21,198,989	21,198,989
Net change in fund balance	(19,351,787)	(15,459,055)	55,134,220	70,593,275
Fund balance at beginning of year	144,381,114	144,381,114	144,381,114	-
Fund balance at end of year	\$ 125,029,327	\$ 128,922,059	\$ 199,515,334	\$ 70,593,275

Federated States of Micronesia
National Government
WORLD BANK PROJECT FINANCIAL SUMMARY

For the Year Ended September 30, 2022

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
FSM-PALAU CONNECTIVITY PROJECT (ICT):										
Component 1	56,893,649	40,393,468	1,389,470	41,782,938	804,909	42,587,848	14,305,800.93			
Component 2	1,860,000	639,302	(26,025)	613,277	6,486	619,763	1,240,237			
Component 3	2,145,000	1,453,743	30,311	1,484,054	369,850	1,853,904	291,097			
Component 4	2,801,351	877,241	222,988	1,100,229	107,386	1,207,615	1,593,736			
Subtotal	63,700,000	43,363,753	1,616,744	44,980,498	1,288,632	46,269,129	17,430,871	44,284,009	696,489	
NEW PROGRAMMATIC PREPARATION ADVANCE (PPA2):										
Component 1 - SEEP preparation	875,000	-	3,409	3,409	-	3,409	871,591			
Component 2 - PROPER preparation	990,000	-	127,849	127,849	-	127,849	862,151			
Component 3 - SCORE preparation	875,000	-	41,599	41,599	-	41,599	833,401			
unallocated	760,000	-	-	-	-	-	760,000			
Subtotal	3,500,000	-	172,857	172,857	-	172,857	3,327,143	-	172,857	A
PROJECT FOR STRENGTHENING PUBLIC FINANCIAL MANAGEMENT (PFM):										
COMPONENT 1	350,000	33,750	19,649	53,399	228,851	282,250	67,750			
COMPONENT 2	5,145,000	519,749	15,832	535,581	248,412	783,993	4,361,007			
COMPONENT 3	1,945,000	600,012	192,399	792,411	105,829	898,240	1,046,760			
COMPONENT 4	1,360,000	514,001	138,800	652,800	261,813	914,613	445,387			
COMPONENT 5	2,200,000	1,130,310	212,000	1,342,310	12,574	1,354,885	845,115			
ADDITIONAL FINANCING	5,000,000	-	-	-	-	-	-			
Subtotal	16,000,000	2,797,821	578,680	3,376,502	857,479	4,233,981	6,766,019	3,223,729	152,772	B
SUSTAINABLE ENERGY DEVELOPMENT AND ACCESS PROJECT (SEDAP)										
COMPONENT 1	11,800,000	483,362	335,214	818,576	269,795	1,088,371	10,711,629			
COMPONENT 2	3,450,000	13,263	39,711	52,974	1,584	54,558	3,395,442			
COMPONENT 3	9,900,000	57,350	91,419	148,769	578,781	727,550	9,172,450			
COMPONENT 4	1,900,000	-	-	-	-	-	1,900,000			
COMPONENT 5	2,950,000	659,380	424,781	1,084,161	186,063	1,270,225	1,679,775			
Subtotal	30,000,000	1,213,355	891,126	2,104,481	1,036,223	3,140,704	26,859,296	2,013,556	90,925	
FSM MARITIME INVESTMENT PROJECT (FMIP)										
Component 1	20,500,000	-	-	-	-	-	20,500,000			
Component 2	7,550,000	-	-	-	-	-	7,550,000			
Component 3A	6,940,000	994,989	657,347	1,652,336	163,740	1,816,076	5,123,924			
Component 3B	3,500,000	1,351,159	446,868	1,798,027	356,849	2,154,876	1,345,124			
Component 4/CERC	2,500,000	758,004	-	758,004	-	758,004	1,741,996			
Subtotal	40,990,000	3,104,152	1,104,215	4,208,367	520,589	4,728,956	36,261,044	4,019,725	188,643	
DIGITAL FSM (DFSM)										
COMPONENT 1	15,000,000	615,774	303,504	919,279	527,186	1,446,464	13,553,535.75			
COMPONENT 2	6,500,000	-	51,000	51,000	166,880	217,880	6,282,120.00			
COMPONENT 3A	750,000	-	34,335	34,335	109,865	144,200	605,800.00			
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	204,896	27,124	232,020	-	232,020	1,067,979.63			
COMPONENT 4B	5,000,000	345,234	349,742	694,975	296,415	991,390	4,008,609.99			
Subtotal	30,800,000	1,165,904	765,706	1,931,609	1,100,345	3,031,955	27,768,045	899,384	1,032,225	
PRIORITIZED ROAD INVESTMENT AND MANAGEMENT ENHANCEMENTS PROJECT (PRIME)										
COMPONENT 1	1,500,000	21,836	67,240	89,075	135,133	224,208	1,275,791.85			
COMPONENT 2	34,000,000	-	10	10	-	10	33,999,990.00			
COMPONENT 3	4,500,000	35,591	537,147	572,739	189,688	762,427	3,737,573.36			
Subtotal	40,000,000	57,427	604,397	661,824	324,821	986,645	39,013,355	607,346	54,478	
STRATEGIC CLIMATE-ORIENTED ROAD ENHANCEMENTS PROJECT (SCORE)										
COMPONENT 1	310,000	-	-	-	-	-	310,000.00			
COMPONENT 2	28,000,000	-	-	-	-	-	28,000,000.00			
COMPONENT 3 -	6,940,000	-	-	-	-	-	6,940,000.00			
Subtotal	35,250,000	0	0	0	0	0	35,250,000	0	0	C
TOTAL FOR ACTIVE GRANTS	260,240,000	51,702,413	5,733,725	57,436,138	5,128,089	62,564,227	192,675,773	55,047,749	2,388,389	

See Accompanying Independent Auditors' Report

NOTES TO 2022 FINANCIAL SUMMARY

- A In Sept. 2021, PPA2 was made effective to be used in the preparation for the projects in the pipeline.
B In June 2022, World Bank approved additional financing of Five Million for PFM project.
C FSM Strategic Climate Oriented Road Enhancements (SCORE) project was made effective on July 20, 2022.

**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
FSM-PALAU CONNECTIVITY PROJECT (ICT):										
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			
Subtotal	63,700,000	40,417,124	2,946,610	43,363,733	1,186,085	44,549,818	19,150,182	40,970,579	2,393,155	
PACIFIC ISLANDS REGIONAL OCEANSCAPE PROJECT (PROP):										
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			
Subtotal	5,500,000	2,656,510	1,222,891	3,879,401	269,810	4,149,211	1,350,789	3,877,190	2,211	A
PROGRAMMATIC PREPARATION ADVANCE (PPA):										
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			
Subtotal	5,500,000	1,287,960	(1,073,684)	214,276	2,970	217,246	5,282,754	1,447,714	0	B
PROJECT FOR STRENGTHENING PUBLIC FINANCIAL MANAGEMENT (PFM):										
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			
Subtotal	11,000,000	1,978,999	816,489	2,795,488	655,698	3,451,186	7,548,814	2,660,547	134,941	
SUSTAINABLE ENERGY DEVELOPMENT AND ACCESS PROJECT (SEDAP)										
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			
Subtotal	30,000,000	715,061	497,684	1,212,745	1,306,669	2,519,415	27,480,585	1,134,738	78,007	
FSM MARITIME INVESTMENT PROJECT (FMIP)										
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			
Subtotal	40,990,000	800,523	2,301,988	3,102,511	868,574	3,971,085	37,018,915	2,609,524	492,987	C
DIGITAL FSM (DFSM)										
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			
Subtotal	30,800,000	77,114	1,086,588	1,163,702	1,274,837	2,438,539	28,361,461	455,262	708,440	
PRIORITIZED ROAD INVESTMENT AND MANAGEMENT ENHANCEMENTS PROJECT (PRIME)										
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			
Subtotal	40,000,000	-	57,008	57,008	356,419	413,427	39,586,573	0	57,008	D
TOTAL FOR GRANTS	227,490,000	47,933,292	7,855,573	55,788,865	5,921,062	61,709,926	165,780,074	53,155,554	3,866,749	

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.

Independent Auditors' Reports on
Internal Control and on Compliance

Report of Independent Auditors 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 Wesley Simina
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 (*Government Auditing Standards*), the financial statements of the governmental activities, the aggregate discretely presented component units, the general fund, compact trust 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, 2022, and the related notes to the financial statements. We were also engaged to audit the financial statements of the grants assistance fund. These financial statements collectively comprise the FSM National Government's basic financial statements and we have issued our report thereon dated October 10, 2024. Our report stated that the scope of our work was not sufficient to enable us to express, and we did not express, an opinion of the financial statements of the grants assistance fund. The FSM National Government's grants assistance fund includes \$7,359,000 receivable from and \$10,537,968 payable to FSM State Governments and \$31,674,723 recorded as due to grantor agencies, intended to account for federal awards received in advance of eligible expenditures. We were unable to obtain sufficient appropriate audit evidence about the carrying amounts of \$7,359,000 receivable from and \$10,537,968 payable to FSM State Governments and the \$31,674,723 carrying amount of the FSM National Government's due to grantor agencies as of September 30, 2022. Consequently, we were unable to determine whether any adjustments to these amounts is necessary in the grants assistance fund.

The FSM National Government did not complete its assessment of the potential impact to its financial statements resulting from the adoption of Government Accounting Standards Board (GASB) Statement No. 87, *Leases*. The effects of this departure to the general fund and the governmental activities of the FSM National Government is not reasonably determinable.

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.

Report on 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 identified 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 deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2022-001, 2022-003, 2022-004, 2022-007 and 2022-008 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 2022-002 and 2022-005 through 2022-006 to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the FSM National Government's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The FSM National Government's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the FSM National Government's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The FSM National Government's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

Ernst & Young LLP

October 10, 2024

Report of Independent Auditors 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 Wesley Simina
President
Federated States of Micronesia

Report on Compliance for Each Major Federal Program

Qualified and Unmodified Opinions

We have audited the FSM National Government's compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (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, 2022. The FSM National Government's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Qualified Opinion on ALN 15.875 Economic, Social, and Political Development of the Territories

In our opinion, except for the noncompliance described in the Basis for Qualified and Unmodified Opinions section of our report, FSM National Government complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on ALN 15.875, Economic, Social, and Political Development of the Territories major program for the year ended September 30, 2022.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the FSM National Government complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its other major federal program identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs for the year ended September 30, 2022.

Basis for Qualified and Unmodified Opinions

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the FSM National Government and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on compliance for each major federal program. Our audit does not provide a legal determination of the FSM National Government's compliance with the compliance requirements referred to above.

Matter Giving Rise to Qualified Opinion on ALN 15.875 Economic, Social, and Political Development of the Territories

As described in the accompanying schedule of findings and questioned costs, FSM National Government did not comply with requirements regarding Assistance Listing 15.875 Economic, Social, and Political Development of the Territories as described in finding number 2022-012 for Equipment and Real Property Management.

Compliance with such requirements is necessary, in our opinion, for FSM National Government to comply with the requirements applicable to that program.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to FSM National Government's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the FSM National Government's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the FSM National Government's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the FSM National Government's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the FSM National Government's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the FSM National Government's internal control over compliance. Accordingly, no such opinion is expressed.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2022-009 through 2022-011, 2022-013, and 2022-014. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the FSM National Government's response to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The FSM National Government's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2022-012 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2022-009 through 2022-011, 2022-013, and 2022-014 to be significant deficiencies.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on FSM National Government's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. FSM National Government's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, the general fund, compact trust 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, 2022, and the related notes to the financial statements. We were also engaged to audit the financial statements of the grants assistance fund. These financial statements collectively comprise the FSM National Government's basic financial statements. We have issued our report thereon dated October 10, 2024 which states that the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the financial statements of the grants assistance fund, due to our inability to obtain sufficient appropriate audit evidence about the carrying amounts of \$7,359,000 receivable from and \$10,537,968 payable to FSM State Governments and the \$31,674,723 carrying amount of the FSM National Government's due to grantor agencies as of September 30, 2022. Consequently, we were unable to determine whether any adjustments to these amounts is necessary in the grants assistance fund. Our audit of the governmental activities, aggregate discretely presented component units, the general fund,

compact trust fund and the aggregate remaining fund information 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. Because of the significance of the matters discussed above, it is inappropriate to, and we do not, express an opinion on the Schedule of Expenditures of Federal Awards.

Ernst + Young LLP

October 10, 2024

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Summary Schedule of Expenditures of Federal Awards, by Grantor

Year Ended September 30, 2022

<u>Agency/Program</u>	<u>Expenditures</u>	Amounts Passed-Through to <u>Subrecipients</u>
U.S. Department of Commerce	\$ 1,769,464	\$ -
U.S. Department of the Interior	69,502,376	64,537,354
U.S. Department of Labor	2,977,994	-
U.S. Department of Transportation	6,443,561	-
Institute of Museum and Library Services	104,812	-
Small Business Administration	24,826	24,826
U.S. Department of Education	3,843,922	3,109,006
U.S. Department of Health and Human Services	14,348,658	6,491,674
U.S. Department of Homeland Security	44,570	-
 GRAND TOTAL	 \$ <u>99,060,183</u>	 \$ <u>74,162,860</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	\$ 112,091,316
Less:	
Expenditures of the Non U.S. Grants Fund	<u>(13,031,133)</u>
 Total expenditures of federal awards	 \$ <u>99,060,183</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2022

<u>Agency/Program</u>	<u>Federal AL Number</u>	<u>Expenditures</u>	<u>Amounts Passed-Through to Subrecipients</u>
U.S. DEPARTMENT OF COMMERCE			
Climate and Atmosphere Research	11.431	\$ 1,769,464	\$ -
U.S. DEPARTMENT OF COMMERCE TOTAL		<u>\$ 1,769,464</u>	<u>\$ -</u>
U.S. DEPARTMENT OF THE INTERIOR			
Economic, Social and Political Development of the Territories	15.875		
Compact Sector Funds:			
Infrastructure and Infrastructure maintenance		\$ 3,740,832	\$ 2,670,020
Education		24,356,299	24,356,299
Health		24,050,855	24,050,855
Capacity Building		1,460,630	960,630
Environment		41,860	41,860
Private Sector		86,867	86,867
Compact Supplemental Education		9,320,708	8,648,180
Disaster Emergency Fund		2,390,161	-
IMF		1,052,538	1,052,538
Compact ERA		1,416,987	1,416,987
Subtotal Compact Sector Funds		<u>67,917,737</u>	<u>63,284,236</u>
Technical Assistance:			
Single Audit			-
Single Audit		15,591	15,591
Technical Assistance OIA/DOI Other		965,612	965,612
		<u>981,203</u>	<u>981,203</u>
Total AL #15.875		<u>68,898,940</u>	<u>64,265,439</u>
Historic Preservation Fund Grants-In-Aid	15.904	<u>603,436</u>	<u>271,915</u>
U.S. DEPARTMENT OF THE INTERIOR TOTAL		<u>\$ 69,502,376</u>	<u>\$ 64,537,354</u>
U.S. DEPARTMENT OF LABOR			
Unemployment Insurance	17.225	\$ 2,977,994	\$ -
U.S. DEPARTMENT OF LABOR TOTAL		<u>\$ 2,977,994</u>	<u>\$ -</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Schedule of Expenditures of Federal Awards, continued

<u>Agency/Program</u>	<u>Federal AL Number</u>	<u>Expenditures</u>	<u>Amounts Passed-Through to Subrecipients</u>
U.S. DEPARTMENT OF TRANSPORTATION			
Airport Improvement Program	20.106	\$ 6,443,561	\$ -
U.S. DEPARTMENT OF TRANSPORTATION TOTAL		<u>\$ 6,443,561</u>	<u>\$ -</u>
INSTITUTE OF MUSEUM AND LIBRARY SERVICES			
Grants to States	45.310	\$ 104,812	\$ -
INSTITUTE OF MUSEUM AND LIBRARY SERVICES		<u>\$ 104,812</u>	<u>\$ -</u>
Direct Programs:			
U.S Small Business Administration Business Development Program	59.006	\$ 24,826	\$ 24,826
Small Business Administration		<u>\$ 24,826</u>	<u>\$ 24,826</u>
U.S. DEPARTMENT OF EDUCATION			
Special Education Cluster (IDEA):			
Special Education - Grants to States	84.027A	\$ 3,541,530	\$ 3,109,006
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	84.325L	\$ 302,392	\$ -
TOTAL SPECIAL EDUCATION CLUSTER (IDEA) AND U.S. DEPARTMENT OF EDUCATION TOTAL		<u>\$ 3,843,922</u>	<u>\$ 3,109,006</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Sexual Risk Avoidance Education	93.060	16,258	-
Public Health Emergency Preparedness Aligned Cooperative Agreement	93.074	561,399	-
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092	217,155	151,158
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	245,155	109,951
Maternal and Child Health Federal Consolidated Programs - SSDI Program	93.110	26,622	21,852
Project Grants and Cooperative Agreements for Tuberculosis Control Program	93.116	683,717	385,087
Emergency Medical Services for Children	93.127	99,643	-
Family Planning-Services	93.217	315,941	185,348
Health Center Program Cluster:			
Health Center Program (Community Health Centers)	93.224	2,855,914	2,855,914
Health Center Program Cluster Total		<u>2,855,914</u>	<u>2,855,914</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Schedule of Expenditures of Federal Awards, continued

<u>Agency/Program</u>	<u>Federal AL Number</u>	<u>Expenditures</u>	<u>Amounts Passed-Through to Subrecipients</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES, CONTINUED			
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	197,247	197,247
Early Hearing Detection and Intervention	93.251	163,907	17,521
Immunization Cooperative Agreements	93.268	2,441,628	1,057,021
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	17,512	-
Epidemiology and Laboratory Capacity for Infectious Disease Capacity Building in FSM	93.323	2,817,633	-
Public Health Emergency Response: Cooperative Agreement for Emergency Response:			
Public Health Crisis Response	93.354	799,739	51,465
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	326,044	123,707
Activities to Support State, Tribal, Local and Territorial Health Department Response to Public Health or Healthcare Crises	93.391	66,487	-
The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements; PPHF	93.521	149,674	-
PPHF Health Care Surveillance/Health Statistics - Surveillance Program Announcement: Behavioral Risk Factor Surveillance System Financed in Part by Prevention and Public Health Fund	93.745	30,052	-
Preventive Health and Health Services Block Grant	93.758	13,207	-
Opioid STR	93.788	222,775	167,637
National Bioterrorism Hospital Preparedness Program	93.889	33,036	17,576
Cancer Prevention and Control Program for State, Territorial, and Tribal Organizations	93.898	366,412	165,015
HIV Care Formula Grants	93.917	41,834	5,142
Block Grants for Community Mental Health Services	93.958	363,226	93,667
Block Grants for Prevention and Treatment of Substance Abuse	93.959	821,121	552,057
Maternal and Child Health Services Block Grant to the States	93.994	455,320	334,309
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL		\$ 14,348,658	\$ 6,491,674
U.S. DEPARTMENT OF HOMELAND SECURITY			
Emergency Management Performance Grants	97.042	44,570	-
U.S. DEPARTMENT OF HOMELAND SECURITY TOTAL		\$ 44,570	\$ -
TOTAL EXPENDITURES OF FEDERAL AWARDS		\$ 99,060,183	\$ 74,162,860

Federated States of Micronesia
National Government

Notes to the Schedule of Expenditures of Federal Awards

Year Ended September 30, 2022

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, 2022. 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

Basis of Accounting

Expenditures reported on the Schedule are reported on the 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.

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, 2022 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, 2022.

Federated States of Micronesia
National Government

Notes to the Schedule of Expenditures of Federal Awards, continued

3. Summary of Significant Accounting Policies, continued

Reporting Entity, continued

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 2022 reporting responsibilities under the Single Audit Act. Total federal awards for COM-FSM is \$1,834,448.

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.

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.

ALN 15.875 Economic, Social, and Political Development of the Territories

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, 2022

Section I - Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified, Qualified and Disclaimer

Internal control over financial reporting:

Material weakness(es) identified?

 X **Yes** **No**

Significant deficiency(ies) identified?

 X **Yes** **None reported**

Noncompliance material to financial statements noted?

 Yes X **No**

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

 X **Yes** **No**

Significant deficiency(ies) identified?

 X **Yes** **None reported**

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

ALN 15.875

Qualified

All other major programs

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

 X **Yes** **No**

Identification of major federal programs:

<u>AL</u> <u>Numbers</u>	<u>Name of Federal Program or Cluster</u>
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15.875	Economic, Social, and Political Development of the Territories – Compact of Free Association Compact Sector Grants
20.106	Airport Improvement Program
	Special Education Cluster (IDEA):
84.027	Special Education—Grants to States (IDEA, Part B)
93.959	Block Grants for Prevention and Treatment of Substance Abuse

Federated States of Micronesia
National Government

Schedule of Findings and Questioned Costs, continued

Section I - Summary of Auditor's Results, continued

Dollar threshold used to distinguish between Type A
and Type B Programs:

\$2,971,805

Auditee qualified as low-risk auditee?

_____ **Yes** **X** **No**

Section II - Financial Statement Findings

Reference Number	Findings
2022-001	Timely and Accurate Reconciliations
2022-002	Construction-in-Progress
2022-003	Adoption of GASB 87
2022-004	Accounts Receivable/Accounts Payable – Compact and Federal Funds Due to grantor agencies – Grants Assistance Funds
2022-005	CIB Embassy Tokyo Cash in Bank
2022-006	Asian Development Bank Investment
2022-007	Travel Advances
2022-008	Determining Fund Types for Reporting Pass-through Grants

Section III - Federal Award Findings and Questioned Costs

Reference Number	ALN	Findings	Questioned Costs
2022-009	N/A	Audit Findings Follow-up	\$ -
2022-010	15.875	Procurement, Suspension and Debarment	682,640
2022-011	15.875	Reporting	-
2022-012	15.875	Equipment and Real Property Management	-
2022-013	93.959	Reporting	-
2022-014	15.875	Subrecipient Monitoring	-

Federated States of Micronesia
National Government

Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-001
Area: Timely and Accurate Reconciliations

Criteria:

The general ledger should periodically be reconciled with subsidiary ledgers. The reconciliation process is critical in order to maintain accurate financial records and minimize the opportunity for misappropriation of funds or fraudulent activity.

Condition:

A final trial balance, supporting ledgers and account reconciliations for fiscal year ending September 30, 2022 were not received until March 6, 2024. Additional adjustments were proposed subsequent to the receipt of the final trial balance.

Cause:

The FSM National Government does not perform routine account reconciliations throughout the year and appears to perform such account reconciliations after the end of the fiscal year.

Effect:

Lack of timely reconciliation resulted in the submission of several trial balances throughout the course of the audit, with the final trial balance being provided on March 6, 2024. 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.

Identification as a Repeat Finding: 2021-001

Recommendation:

The FSM National 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

Finding No.: 2022-002
Area: Construction-in-Progress

Criteria:

GASB Codification 1400, *Reporting Capital Assets*, requires that capital assets should be reported as historical cost.

Condition:

FSM National Government was not able to provide documents to support \$756,651 of cost recorded as construction-in-progress.

Cause:

There appears to be inadequate file maintenance to support accounting transactions entered into the accounting system.

Effect:

Construction-in-progress is overstated by \$756,651

Recommendation:

Documents to support transactions entered into the accounting system should be maintained.

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

Finding No.: 2022-003
Area: Adoption of GASB-87

Criteria:

GASB Codification L20, *Leases* establishes standards of accounting and financial reporting for leases by lessees and lessors. A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction.

Condition:

The FSM National Government was unable to provide a schedule of lease contracts in a timely manner. Accordingly, we were unable to perform audit procedures to determine whether or not the FSM National Government adhered to the requirements of GASB Codification L20.

Cause:

The FSM National Government's accounting staff are not familiar with lease accounting standards.

Effect:

Generally accepted accounting principles have not been complied with.

Recommendation:

FSM National Government's accounting personnel should receive sufficient training regarding the lease accounting standards.

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

Finding No.: 2022-004
Area: Accounts Receivable/Accounts Payable – Compact and Federal Funds
Due to grantor agencies-Grants Assistance Fund

Criteria:

GASB Codification N50, *Non-Exchange Transactions*, provides guidance over the accounting of nonexchange transactions including time requirements and purpose restrictions.

Condition:

1. The FSM National Government did not reconcile \$7,359,000 accounts receivable from and \$10,537,968 accounts payable to FSM State Governments that are recorded in the grants assistance fund of the FSM National Government.
2. The FSM National Government did not provide sufficient audit evidence to support \$31,674,724 recorded as due to grantor agencies in the grants assistance fund.

Cause:

1. Periodic reconciliations of accounts receivable/accounts payable balances with FSM state governments were not conducted.
2. Periodic reconciliations of amounts recorded as due to grantor agencies were not performed by project administrators.

Effect:

Closing balances of amounts due to grantor agencies could be misstated. The effects of these conditions are potential misstatements of recorded financial statement amounts and notes thereto, resulting in a report modification.

Recommendation:

Documentation of periodic reconciliations should be performed. Differences resulting from the reconciliation should be immediately resolved.

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

Finding No.: 2022-005
Area: CIB Embassy Tokyo Cash in Bank

Criteria:

The FSM National Government's Fiscal Management Regulations require documentation of periodic reconciliation of bank accounts.

Condition:

There is a \$789,342 unreconciled difference between the book balance and confirmed bank balance for the FSM National Government's Mizuho Bank CIB Embassy Tokyo bank account.

Cause:

The FSM National Government did not perform a bank reconciliation.

Effect:

Cash was overstated by \$789,342.

Recommendation:

The FSM National Government should document the performance of periodic bank reconciliations. Any resulting differences should be immediately resolved.

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

Finding No.: 2022-006
Area: Asian Development Bank Investment

Criteria:

GASB Codification F70, *Foreign Currency Transactions*, requires that the effects of changes in exchange rates between the U.S. dollar and the currency in which a transaction is denominated should be recognized in the period in which the exchange rate changes.

Condition:

The FSM National Government recorded \$6,927,442 membership shares in the Asia Development Bank (ADB). The membership shares total 4,260,000 in Special Drawing Rights (SDR). However, as of September 30, 2022, the US dollar equivalent was overstated by \$1,475,153.

Cause:

The FSM National Government did not properly account for changes in the SDR rate in respects to its membership rights in the ADB.

Effect:

The recorded balance of ADB membership rights is overstated.

Recommendation:

The FSM National Government should properly account for changes in fair value measurement for assets and liabilities measured at fair value.

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

Finding No.: 2022-007
Area: Travel Advances

Criteria:

The FSM National Government's Fiscal Management Regulations allow for a traveler to receive, in advance, up to 80% of the approved travel cost. Such advances are to be recorded as a receivable until the traveler submits their expense report. Furthermore, a detailed record of all such advances made should be kept by the finance department.

Condition:

The FSM National Government was unable to provide a detailed listing of travel advances.

Cause:

The FSM National Government lacks proper file maintenance system and lacks controls over travel expenditures.

Effect:

We could not determine:

- the aging of \$1,483,340 travel advances
- whether the traveler submitted expense reports
- in what period the travel advance should have been recorded as an expenditure

Recommendation:

The FSM National Government should:

- improve internal controls over its travel policies
- prepare an aged listing of travel advances
- seek reimbursement from travelers who do not adhere to the travel policy

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

Finding No: 2022-008
Area: Determining Fund Types for Reporting Pass-through Grants

Criteria:

GASB Codification N50.128 requires pass-through grants received by a government entity to be recorded as revenues and expenditures or expenses in the funds of the primary government and in the government-wide financial statements.

Condition:

The FSM National Government received approximately \$74 million from the US government and passed it down to various FSM State Governments. The \$74 million was recorded in the FSM National Government's SEFA but was not recorded as revenues and expenditures/expenses in the funds of the primary government and in the government-wide financial statements.

Cause:

It appears the FSM National Government had a misunderstanding of the requirements called for under GASB Codification N50.128.

Effect:

Revenues and expenditures of the Grants Assistance Fund and program revenues and expenses in the governmental activities, are understated by approximately \$74 million. An audit adjusting journal entry was recorded to the Grants Assistance Fund to correct this error.

Recommendation:

FSM National Government's accounting personnel should have a better understanding of the requirements called for by GASB Codification N50.128.

Views of Responsible Official:

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

Finding No.: 2022-009
Requirement: Audit Findings Follow-up
Questioned Costs: \$0

Criteria:

In accordance with 2 CFR 200.511a, the auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee must prepare a summary schedule of prior audit findings.

Condition:

A summary schedule of prior audit findings identifying the status and corrective action of prior audit findings as of September 30, 2022 was not prepared.

Cause:

The FSM National Government did not monitor the status of prior audit findings and related corrective actions.

Effect:

The FSM National Government is in noncompliance with the requirement and there is a potential for recurrence of prior years' findings and for prior corrective actions not being implemented.

Recommendation:

The FSM National Government should ensure that a summary schedule of prior audit findings is maintained and updated throughout the year in line with prior years' corrective actions and the status updated at the end each fiscal year.

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

Finding No.: 2022-010
Federal Agency: U.S. Department of Interior
ALN Program: 15.875 Economic, Social, and Political Development of the Territories
Federal Award No.: Various Grants
Requirement: Procurement, Suspension and Debarment
Questioned Costs: \$682,640

Criteria:

In accordance with 2 CFR 200.318(i), the non-Federal entity must maintain records sufficient to detail the history of procurement. These records will include, but are not necessarily limited to: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for contract price.

Condition:

For 2 (or 20%) of 10 transactions tested, aggregating \$2,086,844 of \$3,747,937 in total transactions subject to procurement procedures, there were no documents to indicate that records, sufficient to detail the history of procurement, was maintained.

#	REF 1	Expended in FY22
1	C210509	\$500,000
2	C220200	182,640
	Total	\$682,640

Cause:

The FSM National Government lacks internal controls over maintaining adequate records documenting the history of procurement procedures performed.

Effect:

The FSM National Government is in noncompliance with the requirement and total questioned costs identified is \$682,640.

Recommendation:

The FSM National Government should ensure the divisions and responsible parties maintain records that document the history of procurement procedures performed for the purchase.

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

Finding No.: 2022-011
Federal Agency: U.S. Department of Interior
ALN Program: 15.875 Economic, Social, and Political Development of the Territories
Federal Award No.: Various Grants
Requirement: Reporting
Questioned Costs: \$0

Criteria:

In accordance with grant terms and conditions, a narrative project status report will be submitted quarterly and due within 30 days of the end of each period. Final reports are due 90 days after the expiration and termination of the award.

Condition:

The FSM National Government did not have the narrative project status reports for various sector grant awards aside from the Education Sector, under Fund 10 for the fiscal year ended September 30, 2022.

Cause:

The FSM National Government lacks internal controls over monitoring the preparation and submission of the required narrative project status reports.

Effect:

The FSM National Government is in noncompliance with the requirement. We are not able to quantify the impact of the noncompliance and therefore no questioned costs are raised.

Recommendation:

The FSM National Government should ensure responsible personnel timely monitor the preparation and submission of the required reports.

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

Finding No.: 2022-012
Federal Agency: U.S. Department of Interior
ALN Program: 15.875 Economic, Social, and Political Development of the Territories
Federal Award No.: Various Grants
Requirement: Equipment and Real Property Management
Questioned Costs: \$0

Criteria:

In accordance with applicable equipment and real property management requirements in 2 CFR 200.313, property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property (including the federal award identification number (FAIN)), who holds title, the acquisition date, cost of the property, percentage of federal participation in the project costs for the federal award under which the property is acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sales price of the property.

Condition:

The FSM National Government's capital asset records did not identify the federal award identification number (FAIN) and certain federally funded assets did not identify the source of funding for the equipment.

Cause:

The FSM National Government lacks internal controls over the preparation of the capital asset register to incorporate required elements for federally funded assets.

Effect:

The FSM National Government is in noncompliance with the requirement. We are not able to quantify the impact of the noncompliance and therefore no questioned costs are raised.

Recommendation:

The FSM National Government should ensure that responsible personnel incorporate the required elements of federally funded assets and maintain such information in the capital asset register.

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

Finding No.: 2022-013
Federal Agency: U.S. Department of Health and Human Services
ALN Program: 93.959 Block Grants for Prevention and Treatment of Substance Abuse
Federal Award No.: Various Grants
Requirement: Reporting
Questioned Costs: \$0

Criteria:

In accordance with grant terms and conditions, a grantee is exempt from Federal Financial Accountability and Transparency (FFATA) reporting requirements if in the previous year the grantee had gross income, from all sources, under \$300,000.

Condition:

The FSM National Government had income for the prior fiscal year ended September 30, 2021 in excess of the \$300,000 gross income exemption however, the FSM National Government did not file the required reports in accordance with FFATA requirements.

Cause:

The FSM National Government lacks internal controls over preparation and submission of the required FFATA reporting requirements as stipulated in the grant terms

Effect:

The FSM National Government is in noncompliance with the requirement. We are not able to quantify the impact of the noncompliance and therefore no questioned costs are raised.

Recommendation:

The FSM National Government should ensure responsible personnel timely monitor the preparation and submission of the required reports.

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

Finding No.: 2022-014
Federal Agency: U.S. Department of Interior
ALN Program: 15.875 Economic, Social, and Political Development of the Territories
Federal Award No.: Various Grants
Requirement: Subrecipient Monitoring
Questioned Costs: \$0

Criteria:

In accordance with 2 CFR 200.332, all pass-through entities must ensure that every subaward is clearly identified to the subrecipient as a subaward and include the necessary information to provide the best information available such as Federal award identification, all requirements imposed by the pass-through entity on the subrecipient, any additional requirements that the pass-through entity imposes on the subrecipient in order for the pass-through entity to meet its own responsibility to the Federal awarding agency including identification of any required financial and performance reports, a requirement that the subrecipient permit the pass-through entity and auditors to have access to the subrecipient's records and financial statements as necessary for the pass-through entity to meet the requirements of this part, and appropriate terms and conditions concerning closeout of the subaward.

Condition:

The FSM National Government did not have subawards or subrecipient agreements with the subrecipients of funding under the program in which all the requirements imposed by the FSM National Government on the subrecipient as well as the appropriate terms and conditions concerning closeout of the subaward were identified.

Cause:

The FSM National Government lacks internal controls over preparation of subrecipient agreements identifying the appropriate terms and conditions to subrecipients of funds under the program.

Effect:

The FSM National Government is in noncompliance with the requirement. We are not able to quantify the impact of the noncompliance and therefore no questioned costs are raised.

Recommendation:

The FSM National Government should ensure that subrecipient agreements are prepared and transmitted to its subrecipients identifying the required elements and appropriate terms and conditions to meet the objectives and requirements of the program.

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
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**CORRECTIVE ACTION PLAN
2 CFR § 200.511 (c)
Year Ended September 30, 2022**

Finding Number	Corrective Action Plan	Anticipated Completion Date	Responsible Person (Contact Details)
2022-001	Management has already begun monitoring reconciliation of the cash accounts monthly and assigning supervisors to do reconciliation of the GL and subsidiary ledgers quarterly.	12/31/24	Ms. Christina Elnei, Asst. Secretary of National Treasury Email: christina.elnei@dofa.gov.fm
2022-002	Management has already begun implementing the corrective action measures to ensure support documents for projects are maintained.	02/28/25	Ms. Christina Elnei, Asst. Secretary of National Treasury Email: christina.elnei@dofa.gov.fm
2022-003	Management will ensure the staff responsible is trained relating to the lease accounting standards.	12/31/24	Ms. Christina Elnei, Asst. Secretary of National Treasury Email: christina.elnei@dofa.gov.fm
2022-004	Management has already put in place a plan to reconcile the account receivable and payables with the States quarterly.	12/31/24	Ms. Christina Elnei, Asst. Secretary of National Treasury Email: christina.elnei@dofa.gov.fm
2022-005	Management has already assigned a compliance officer to monitor the reconciliation of all the Embassy bank accounts monthly.	12/31/24	Ms. Christina Elnei, Asst. Secretary of National Treasury Email: christina.elnei@dofa.gov.fm
2022-006	Management has already begun implementing the measures to properly monitor and account for the fair value of the government investments periodically.	12/31/24	Asst. Secretary of Investment & International Finance, Senny Phillip - Email: senny.phillip@gov.fm
2022-007	Management has already begun implementing the activities to improve the internal controls relating to the travel policies, and to monitor the receivables from travelers.	02/28/25	Ms. Christina Elnei, Asst. Secretary of National Treasury Email: christina.elnei@dofa.gov.fm

2022-008	Management will reassess and ensure the GASB Codification No. 50.128 standard is followed properly before the FY2023 audit is completed.	12/31/24	Ms. Christina Elnei, Asst. Secretary of National Treasury Email: Christina.elnei@dofa.gov.fm
2022-009	Management has already put in place a plan to update the summary schedule of prior audit findings quarterly.	12/31/24	Ms. Christina Elnei, Asst. Secretary of National Treasury Email: christina.elnei@dofa.gov.fm
2022-010	Management has already begun implementing the corrective measures to ensure proper and sufficient document is maintained at Finance.	12/31//24	Ms. Christina Elnei, Asst. Secretary of National Treasury Email: christina.elnei@dofa.gov.fm
2022-011	Management has already begun implementing the plan to monitor the submission of quarterly reports timely.	02/28/25	Mr. Kemsy Sighah Manager, Office of Compact Management -Email. Kemsks22@gmail.com
2022-012	Management has already put in place the plan to include the requirements for federal equipment and real property management with the current existing registers	12/31/24	Ms. Christina Elnei, Asst. Secretary of National Treasury Email: christina.elnei@dofa.gov.fm
2022-013	Management has already assigned the personnel to timely monitor the preparation and submission of the required FFATA report timely	02/28/25	Ms. Christina Elnei, Asst. Secretary of National Treasury Email: christina.elnei@dofa.gov.fm
2022-014	Management has already begun the plan for subrecipient monitoring of the objectives and requirements of the programs.	02/28/25	Ms Senny Phillip, Asst. Secretary of Investment & International Finance Email: senny.phillip@gov.fm



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**Summary Schedule of Prior Audit Findings and Questioned Costs
Year Ended September 30, 2022**

Finding Number	AL Number	Requirement	Questioned Cost	Status
2021-001	N/A	Reporting	0	Implementation of the corrective action plan is on-going.
2021-002	N/A	Reporting		Implementation of the corrective action plan is on-going
2021-003	93.323	Procurement & Suspension & Debarment	145,945.	Implementation of the corrective action plan is on-going. Will follow up with HHS to clear by 12/31/24
2021-004	N/A	Reporting	0	Implementation of the corrective action plan is on-going. Will follow up with the embassies to obtain appraisal for properties purchased.
2021-005	N/A	Reporting	0	Implementation of the corrective action plan is on-going.