OFFICE OF THE NATIONAL PUBLIC AUDITOR

FEDERATED STATES OF MICRONESIA

FINANCIAL AUDIT

IFAD-SMALL ISLANDS FOOD AND WATER PROJECT GRANT NUMBER 2000004673

Year Ended September 30, 2025

Report No: 2026-11

SMALL ISLANDS FOOD AND WATER PROJECT
FEDERATED STATES OF MICRONESIA
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

GRANT NUMBER 2000004673

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

YEAR ENDED SEPTEMBER 30, 2025

REPORT NO. 2026-11

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FEDERATED STATES OF MICRONESIA
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INDEPENDENT AUDITORS' REPORT

Honorable Elina P. Akinaga
Secretary
Department of Resources and Development
National Government of the Federated States of Micronesia
Palikir, Pohnpei FM 96941

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Small Islands and Water Project Grant 2000004673, which comprise the Statement of Financial Position, Statement of Financial Activity, Statement of Cash Flow, Changes in Fund Balance and the related notes as of and for the year ended September 30, 2025. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial performance of the Project in accordance with the accounting principles generally accepted in the United States of America.

We draw attention to Note 2 of the financial statements, which describes the basis of accounting.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally acceptable 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 Project and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to our audit.

Responsibility of Management for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accrual basis of accounting and for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but 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 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 judgement 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 controls 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 Project'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.

We are required to communicate to 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated May 27, 2026, on our consideration of the project's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Project'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 Project's internal control over financial reporting and compliance.

Haser H. Hainrick
National Public Auditor

Palikir, Pohnpei
May 27, 2026

Federated States of Micronesia
Small Islands Food and Water Project (IFAD GRANT #2000004673)
Statement of Financial Position (Balance Sheet)
As of September 30, 2025

ASSETS	2025	2024
Current Assets		
Cash in Bank (FY2025 funding in Separate Acct) Note 3 & 9	$ 268,620.00	$ 268,620.00
Due from General Fund	$ -	$ -
Total Current Assets	$ 268,620.00	$ 268,620.00
Fixed (Long-Term Assets)		
Property, Plant and Equipment (Note 13 & 14)	$ -	$ -
less: accumulated depreciation	$ -	$ -
Total Fixed Assets	$ -	$ -
TOTAL ASSETS	**$ 268,620.00**	**$ 268,620.00**
LIABILITIES AND FUND BALANCE		
Current Liabilities		
Due to Gen Fund for unreimbursed exp Note 5	$ 44,809.90	$ -
Short-Term Loans	$ -	$ -
Income Taxes Payable	$ -	$ -
Accrued Salaries and Wages	$ -	$ -
Accrued Salaries and Wages	$ -	$ -
Current Portion of Long-Term Debt	$ -	$ -
Total Current Liabilities	$ 44,809.90	$ -
Long-Term Liabilities		
Long-Term debt	$ -	$ -
Deferred Income Tax	$ -	$ -
Other	$ -	$ -
Total Long-Term Liabilities	$ -	$ -
TOTAL LIABILITIES	**$ 44,809.90**	**$ -**
FUND BALANCE	**$ 223,810.10**	**$ 268,620.00**
TOTAL LIABILITIES AND FUND BALANCE	**$ 268,620.00**	**$ 268,620.00**

See notes to the financial statements

Federated States of Micronesia
Small Islands Food and Water Project (IFAD GRANT #2000004673)
Statement of Financial Activity (Income Statement)
For the fiscal year ending September 30, 2025

	2025	2024
REVENUES		
Grant Funds Received	$ -	$ 268,620.00
Others	$ -	$ -
Total Revenues	**$ -**	**$ 268,620.00**
EXPENDITURES		
General Operating and Administration Exp	$ 6,258.48	$ -
Insurance	$ -	$ -
Maintenance and Repairs	$ -	$ -
Equipment and Materials	$ 7,171.74	$ -
Salaries and Wages	$ 14,004.34	$ -
Travel	$ 17,375.34	$ -
Other	$ -	$ -
Total Expenditures	**$ 44,809.90**	**$ -**
Excess of Revenues Over Expenditures	**$ (44,809.90)**	**$ 268,620.00**
Statement of Changes in Fund Balance:		
Fund Balance beginning	$ 268,620.00	$ -
Add: FY2025 Excess of Revenues Over Expenditures	$ (44,809.90)	$ 268,620.00
FUND BALANCE SEPT. 30, 2025 & 2024	**$ 223,810.10**	**$ 268,620.00**

See notes to the financial statements

Federated States of Micronesia
Small Islands Food and Water Project (IFAD GRANT #2000004673)
Statement of Cash Flow
For the fiscal year ending September 30, 2025

	2025	2024
Cash Receipts for Grant Operations	$ -	**$ 268,620.00**
Cash Paid for Operations		
Gen Operating and Adm Expenses	$ 30,805.56	$ -
Salaries and Wages	$ 14,004.34	$ -
	$ 44,809.90	$ -
Net Cash from Operating activities	**$ (44,809.90)**	**$ 268,620.00**
Investing Activities	$ -	$ -
Cash paid for purchase of property and equipment	**$ -**	**$ -**
Cash from financing activities	$ -	$ -
Net Cash Increase (Decrease)	**$ (44,809.90)**	**$ 268,620.00**
Cash balance beginning	**$ 268,620.00**	**$ -**
Cash balance ending	**$ 223,810.10**	**$ 268,620.00**

See notes to the financial statements

Federated States of Micronesia
Small Islands Food and Water Project (IFAD GRANT # 2000004673)
Statement of Budget and Actual Expenditures
For the fiscal year ending September 30, 2025

Expenditure Category	**GAFSP Budget**	**Actual FY25**	**Variance (GAFSP)**	**Actual Budget %**
Equipment & Materials	$ 16,000.00	$ (7,171.74)	$ 8,828.26	45%
Grants & Subsidies	$ 274,100.00		$ 274,100.00	0%
Consultants	$ 137,600.00		$ 137,600.00	0%
Workshops	$ 163,800.00		$ 163,800.00	0%
Operating Costs	$ 47,202.00	$ (23,633.82)	$ 23,568.18	50%
Salaries & Allowances	$ 94,300.00	$ (14,004.34)	$ 80,295.66	15%
Totals	**$ 733,002.00**	**$(44,809.90)**	**$688,192.10**	6%

Federated States of Micronesia
Small Islands Food and Water Project (IFAD Grant # 2000004673)
Notes to the financial statements
For the Year Ended September 30, 2025

(1) Organization and Project Description

The Adaptation Fund Project, *Enhancing the Climate Change Resilience of Vulnerable Island Communities in the Federated States of Micronesia* (the "Project"), is funded by the Adaptation Fund Board through the Secretariat of the Pacific Regional Environment Program (SPREP).

The Project is implemented by the Department of Environment, Climate Change, and Emergency Management (DECEM) of the National Government of the Federated States of Micronesia (FSM), with financial administration support provided by the Department of Finance and Administration (DoFA).

The overall objective of the Project is to strengthen the social, ecological, and economic resilience of vulnerable island communities in FSM. This is achieved through activities focused on water and coastal resource management, development planning, and the promotion of climate-resilient livelihoods, with gender considerations integrated.
The accompanying Schedule of Receipts and Disbursements relates solely to the financial activities of the Project as maintained by DECEM and DoFA and does not include the full financial position of the FSM National Government.

(2) Summary of Significant Accounting Policies

1. Basis of Preparation

The accompanying financial statements and related notes have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) and the FSM Financial Management Regulations, 2021, as applicable to national government administered projects.

2. Basis of Accounting

The Project's financial statements are prepared using the accrual basis of accounting, consistent with FSM Government financial management practices. Under this basis, revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. Grant revenue is recognized when all conditions and eligibility requirements specified by the funding agreement have been satisfied.

3. Cash and Cash Equivalents

Funds received for the fiscal year 2025 of $268,620 (net of wire transfer charge of $10) were deposited and maintained in a separate bank account opened on Aug. 15, 2024, for the grant.

The FSM National Government maintains Cash and cash equivalents in demand accounts and short-term investments with original maturities of three (3) months or less from the date of acquisition by the FSM National Government. Time deposits and other investments with original maturities exceeding ninety (90) days are excluded from cash equivalents and are reported separately, in accordance with FSM Treasury classifications.

Cash and cash equivalents represent funds received in advance from IFAD and are recognized when the project receives funds into the Government General Account. Cash equivalents are not subject to significant risk of changes in value. The Project maintains its accounting records in United States Dollars (USD) which is the same as the denomination currency of the Designated Account (Government General Account) and the IFAD Grants (GAFSP & NZ Grant). Cash represents grant advance funds for the Small Islands Food and Water Project (SIFWaP), recognized as revenue and held in the Project's designated account.

4. Receivables

The Project's receivable is recognized when the Project has received invoices from the supplier in accordance with agreed conditions/requirements and is entitled to receive the agreed funding/payment.

5. Payables

Payables represent obligations for goods and services received by the Project as of September 30, 2025, that remain unpaid at the reporting date, consistent with accrual accounting and FSM government liability recognition practices.

6. Expenditure

Project expenditures represent the cost of goods and services acquired to implement approved project activities. In accordance with the accrual basis of accounting and FSM financial regulations, expenditures are recorded when incurred and properly authorized, regardless of when payment is made. Total expenditures incurred during FY 2025 amounted to USD 44,809.90, which were settled at the end of the fiscal year.

7. Reporting Period

The financial statements cover the fiscal year from October 1, 2024, to September 30, 2025. Comparative figures, where presented, relate to the period from October 1, 2023, to September 30, 2024.

8. Statement of Cash Flows

The statement of cash flow is prepared in accordance with GAAP and FSM reporting practices. Cash flows are classified as follows:

a. Operating Activities: Cash flows related to the normal project operations;
b. Investing Activities: Cash flows from buying/selling assets like property or investments.
c. Financing Activities: Cash flows from borrowing or repaying debt, issuing or repurchasing stock.

9. Designated Account and Bank Reconciliation

For the reporting period, the Project received grant advances totaling USD 268,620.00 from the NZ Grant. No interest income or foreign exchange gains or losses were recorded. Total expenditures charged to the NZ Grant during the year amounted to USD 44,809.90, resulting in a closing cash balance of USD 223,810.10 at period end.
The Project's designated account is maintained under the FSM National Government. The project specific account was established to receive advance funds from IFAD; expenditure is paid from the pooled account, and reimbursement transactions continue to be processed through the FSM National Government's General Designated Account.

10. Sources and Uses of Funds

Project funding comes from grant advances provided by project donors and is utilized solely for eligible project expenditures in accordance with approved budgets, financing agreements, and FSM financial regulations.

11. Government Cash and In-Kind Contributions

The FSM National Government shall provide counterpart financing for the Small Islands Food and Water Project in the amount of USD 42,800. Beneficiaries also contribute in-kind resources to support income-generating and public investment activities under Project Component 2.

12. Taxes and In-Kind Contributions

No taxes were paid or recognized as in-kind contributions during the reporting period.

13. Property, Plant and Equipment

PPE consists of fixed assets purchased during the current period. These assets increase the balance of fixed assets on the balance sheet but do not generate income. If funded by a grant, the grant remains a funding source and does not turn into revenue. The purchase of PPE is reflected in an increase in assets, but it does not impact income directly.

14. Capitalization Threshold

The capitalization threshold is the dollar amount that determines the proper financial reporting of the asset. Asset acquisition costs below the capitalization threshold will be expensed as incurred. The capitalization threshold is currently set at $3,000.

15. Revolving Funds and General Revenue Funds

Funds received represent fixed amounts authorized for specific operational purposes and are managed in accordance with FSM Financial Management Regulations. These funds do not fluctuate based on income and are replenished or adjusted only through approved government financial processes.

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Independent Auditor's Report on Internal Control Over Financial Reportin**g and on Compliance and Other Matters Based on Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

Honorable Elina P. Akinaga
Secretary
Department of Resources and Development
National Government of the Federated States of Micronesia
Palikir, Pohnpei FM 96941

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements for the Small Islands Food and Water Project, Grant number 2000004673, (the "Project"), which comprise the statement of financial position as of and for the year ended September 30, 2025 and have issued our report thereon dated May 27 , 2026 which contains an unqualified opinion.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Project's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the internal control.

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Project's financial statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements; noncompliance with which 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 Project's Response to Findings

No findings were identified during our audit. Consequently, the Project's related response is not required.

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 Project'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 Project's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Haser H. Hainrick
National Public Auditor

Palikir, Pohnpei
May 27, 2026

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Independent Auditors Report on Compliance with the Financial Covenants and Other Requirements of the Grant Agreement

Honorable Elina P. Akinaga
Secretary
Department of Resources and Development
National Government of the Federated States of Micronesia
Palikir, Pohnpei FM 96941

We have audited the Small Islands Food and Water Project,(Grant 2000004673) in the Federated States of Micronesia (the Project), for compliance with the types of compliance requirements described in the Financing Agreements dated November 4, 2022, with the International Fund for Agriculture Development (IFAD), which could have a direct and material effect on the Project for the year ended September 30, 2025.

Management's Responsibility

Management is responsible for compliance with financial covenants and other requirements of the Financing Agreement**.**

Auditor's Responsibility

Our responsibility is to express an opinion on compliance with the financial covenants and other requirements of the grant agreements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the audit requirements of the Grant Agreement. Those standards and the Financing Agreement require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above could have a direct and material effect on the Project. An audit includes examining, on a test basis, evidence about the Project's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances.

As part of our audit procedures, we examined and verified supporting documentation for selected expenditures to determine whether expenditures were incurred for project purposes and in accordance with the Financing Agreement. Payments were made for project purposes or project-related expenses, as evidenced by supporting documentation, including invoices, payment vouchers, and receipts.

We believe that our audit provides a reasonable basis for our audit opinion.

Opinion

In our opinion, the Project compiled, in all material respects, with the financial covenants and other requirements of the Financing Agreement referred to above that could have a direct and material effect on the Project for the year ended September 30, 2025.

Further, based on the procedures performed, nothing has come to our attention indicating that payments were not used for project purposes or related expenses.

Report on Internal Control over Compliance

Management of the Project is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Project's internal control over compliance with the types of compliance requirements that could have a direct and material effect on the Project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the grant agreement, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the compliance requirements of a grant agreement 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 with a type of compliance requirement of the grant agreement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified.

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. Accordingly, this communication is not suitable for any other purpose.

Haser H. Hainrick
National Public Auditor

Palikir, Pohnpei
May 27, 2026