FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

REPORT ON THE AUDIT OF FINANCIAL STATEMENTS IN ACCORDANCE WITH OMB CIRCULAR A-133

YEAR ENDED SEPTEMBER 30, 2010

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

YEAR ENDED SEPTEMBER 30, 2010

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NATIONAL GOVERNMENT

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FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

INDEPENDENT AUDITORS' REPORT, FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION

YEAR ENDED SEPTEMBER 30, 2010

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INDEPENDENT AUDITORS' REPORT

His Excellency Emmanuel Mori
President
Federated States of Micronesia:

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Federated States of Micronesia (FSM) National Government as of and for the year ended September 30, 2010, which collectively comprise the FSM National Government's basic financial statements as set forth in Section II of the foregoing table of contents. These financial statements are the responsibility of the management of the FSM National Government. Our responsibility is to express an opinion on the respective financial statements based on our audit. We did not audit the financial statements of Caroline Islands Air, Inc., which represents 0.1%, 0.1% and 0.3%, respectively, of the assets, net assets and operating revenues of the FSM National Government's discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Caroline Islands Air, Inc., is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

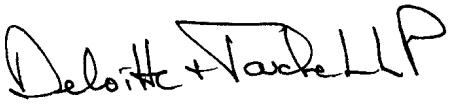
In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material aspects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the FSM National Government as of September 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Member of
Deloitte Touche Tohmatsu Limited

The Management's Discussion and Analysis, on pages 3 through 11, as well as the Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund and notes thereto, as set forth in Section III of the foregoing table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the management of the FSM National Government. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the FSM National Government's respective financial statements that collectively comprise the FSM National Government's basic financial statements. The combining and individual fund financial statements, as set forth in Section IV of the foregoing table of contents, which are also the responsibility of the management of the FSM National Government, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the FSM National Government. Such additional information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2011, 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



June 30, 2011

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

Management's Discussion and Analysis
September 30, 2010

This discussion and analysis of the FSM National Government's financial performance provides an overview of the financial activities of the FSM National Government for the year ended September 30, 2010 and of the financial position of the FSM National Government at September 30, 2010. This report is to be read in conjunction with the financial statements of the FSM National Government which begin on page 12. Fiscal Year 2009 comparative information has been included, where appropriate. This MD&A is prepared in compliance with GASB-34 requirement.

FINANCIAL HIGHLIGHTS

- For the fiscal year ended September 30, 2010, the FSM National Government has total net assets of $159,475,601 (FY09 $120,269,076). The increase is primarily due to the receipt of Compact Infrastructure Sector grants pertaining to infrastructure and construction in progress for airport improvement and infrastructure projects.
- During the year, the FSM National Government expenses for governmental activities were $68,085,714 (FY09 $55,058,718) and were funded by program revenues of $72,921,120 (FY09 $59,269,557) and were further funded with taxes and other general revenues (excluding special items) that totaled $33,691,734 (FY09 $33,400,452).
- During the year, the FSM National Government wrote-off old receivable balances of $1,254,633 (FY09 $2,232,428).
- The net change in governmental funds increased by $5,588,231 (FY09 increased by $4,071,803). Total revenues reported are $106,612,854 with total expenditures of $102,480,018. Total loan proceeds from Asian Development Bank (ADB) Loans are $777,702.
- At September 30, 2010, the General Fund reported an unreserved surplus of $3,231,708 (FY09 $5,189,420). Of the total unreserved surplus, $1,615,898 came from the excess of revenue against the projected/budgeted amounts and the remaining $1,615,810 came from the unexpended appropriation in the budgetary expenditures, net of operating transfers in and out, write-off of old receivable balances and other changes in the unreserved fund balance. The summary and details of these amounts can be found on page 58 and pages 71-73, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Financial Statements for the Year Ended September 30, 2010 consists of four parts - management's discussion and analysis (this section), the basic financial statements, required supplementary information, and notes to financial statements.

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

Government-Wide Financial Statements

The government -wide financial statements report information about the FSM National Government as a whole using accounting method similar to those used by the private-sector companies. It provides both long-term and short-term information about the government's financial status.

The Statement of Net Assets includes all of the FSM National Government's assets and liabilities. The difference between the two is called net assets. Overtime, increases or decreases in the FSM National Government's net assets serve as an indicator to measure the FSM National Government's financial position.

The Statement of Activities, on the other hand, accounts for the FSM National Government's current year revenues and expenses regardless of when cash is received or paid.

The Statement of Net Assets and the Statement of Activities are divided into two reporting units:

- Governmental Activities - Most of the FSM National Government's basic services are reported here. These include the services provided by the Executive Branch such as health, education, foreign affairs, transportation, resources and development, finance, the Attorney General's office, and general administration; the Judicial Branch; the Legislative Branch; other National Government programs; Boards and Commissions; and other legislative appropriations. These services are funded by Compact of Association funds, US Federal grants, FSM tax revenues, licenses, fees and investment earnings.

- Components Units – The FSM National Government has nine (9) component units namely, College of Micronesia - FSM, National Fisheries Corporation, FSM Telecommunications Corporation, FSM Development Bank, FSM Social Security Administration, the FSM Coconut Development Authority, FSM Petroleum Corporation, Mi Care Plan and the Caroline Islands Air, Inc. These components units are entities which are legally separate from the FSM National Government, but are financially accountable to the FSM National Government, or whose relationships with the FSM National Government is such that exclusion would cause the FSM National Government's basic financial statements to be misleading or incomplete.

Governmental Fund Financial Statements

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

- Governmental funds - Most of the FSM 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 FSM 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 FSM National Government's program. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliations at the bottom of the page 14 and 16.

- Fiduciary funds - These funds are used to account for assets held by a primary government unit in a trustee capacity for individuals, private organizations, and other governmental resources. This fund is 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 though user charges.

THE FSM NATIONAL GOVERNMENT AS A WHOLE

Net Assets may serve overtime as a useful indicator of government's financial position. At the end of Fiscal Year 2010, the FSM National Government assets exceeded liabilities by $159,475,601. Of the total net assets, $141,032,869 is restricted as to purposes for which they may be used. The FSM National Government uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the FSM National Government investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Table 1 shows the schedule of the FSM National Government's net assets as of September 30, 2010.

Table 1 - Net Assets

	Governmental Activities	
	2010	2009
Assets:		
Current assets	$ 68,223,997	$ 66,269,420
Other assets	46,063,195	42,760,445
Capital assets	118,754,448	85,303,419
Total assets	233,041,640	194,333,284
Liabilities:		
Current liabilities	23,230,954	23,295,457
Other liabilities	50,335,085	50,768,751
Total liabilities	73,566,039	74,064,208
Net Assets:		
Invested in capital assets	118,754,448	85,303,419
Restricted	22,278,421	17,757,620
Unrestricted	18,442,732	17,208,037
Net assets	$159,475,601	$120,269,076

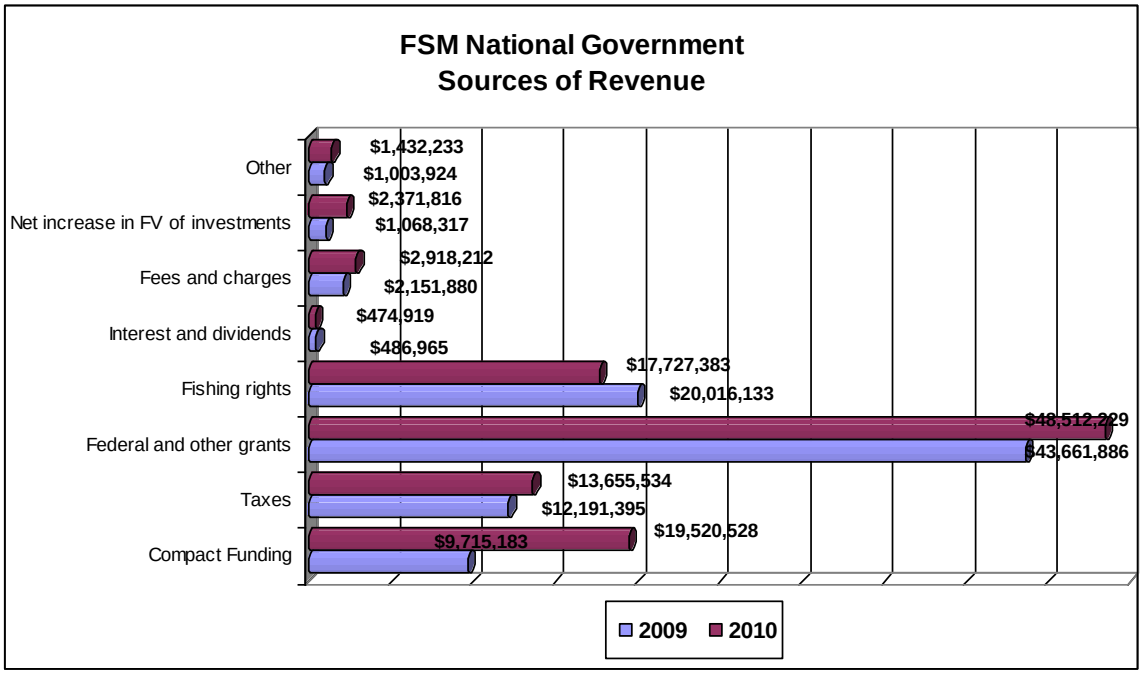
At the end of FY10, the FSM National Government unrestricted assets show a surplus of $18,442,732 compared to $17,208,037 at the end of FY09.

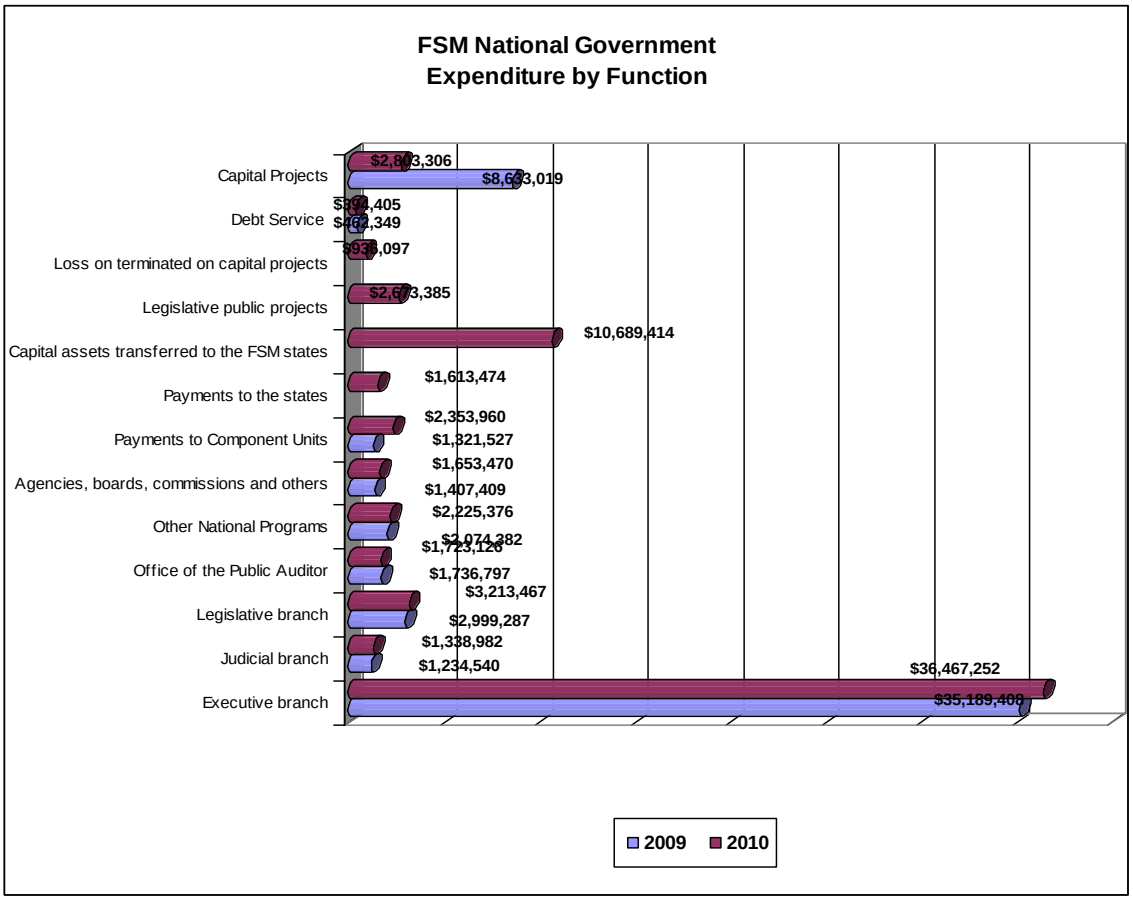
Table 2 shows the changes in Net Assets of the FSM National Government for the years ended September 30, 2010 and 2009.

Table 2
Changes in Net Assets

	Governmental Activities	
	2010	2009
Revenues:		
Program Revenues:		
Charges for services	$ 3,672,829	$ 2,629,918
Operating grants and contributions	19,903,976	16,783,683
Capital grants and contributions	49,344,315	39,855,956
General Revenues:		
Income tax	3,491,365	3,452,260
Fishing rights fees	17,727,383	20,016,133
Fuel	140,466	156,511
Import	5,091,747	4,652,636
Gross receipt	4,116,556	3,872,080
Corporate tax	815,400	57,908
Unrestricted investment earnings	1,537,051	667,038
Other	771,766	525,886
Total revenue	106,612,854	92,670,009
Expenditures:		
Executive	36,467,252	35,189,408
Judicial	1,338,982	1,234,540
Legislative	3,213,467	2,999,287
Office of the National Public Auditor	1,723,126	1,736,797
Other National Government programs	2,225,376	2,192,707
Agencies, boards and commissions	1,653,470	1,407,409
Payments to components units	2,353,960	1,203,202
Payments to the FSM State Governments	1,613,474	-
Capital assets transferred to FSM State Governments	10,689,414	-
Legislative Public projects	2,673,385	-
Loss on terminated capital projects	936,097	-
Capital projects	2,803,306	8,633,019
Interest-unallocated/debt service	394,405	462,349
Total expenditures	68,085,714	55,058,718
Excess before special items	38,527,140	37,611,291
Special items		
Receivable written off	(1,254,633)	(2,232,428)
Loan allocations to the FSM State Governments	1,934,018	-
Total special items	679,385	(2,232,428)
Change in Net Assets	39,206,525	35,378,863
Net assets, beginning of year	120,269,076	84,890,213
Net assets , end of year	$ 159,475,601	$ 120,269,076

The FSM National Government revenues from governmental activities, including local revenues, gain on investments, Compact and other grants funding totaled $106,612,854 (FY09 $92,670,009). In FY10, the cost of governmental activities totaled $68,085,714 (FY09 $55,058,718). In FY10, the special items consist of receivables written off that amount to $1,254,633 (FY09 $2,232,428) and loan allocations to the FSM State Governments and related component units that amount to $1,934,018. The difference between the two, including special items, represents an increase in net assets of $39,206,525 (FY09 $35,378,863). To assist in appreciating the details of governmental activities, the above governmental activities information is shown in pictorial form in the following graph.


FSM National Government
Sources of Revenue
Other
Net increase in FV of investments
Fees and charges
Interest and dividends
Fishing rights
Federal and other grants
Taxes
Compact Funding
$1,432,233
$1,003,924
$2,371,816
$1,068,317
$2,918,212
$2,151,880
$474,919
$486,965
$17,727,383
$20,016,133
$48,512,229
$43,661,886
$13,655,534
$12,191,395
$19,520,528
$9,715,183
2009
2010


FSM National Government
Expenditure by Function
Capital Projects
Debt Service
Loss on terminated on capital projects
Legislative public projects
Capital assets transferred to the FSM states
Payments to the states
Payments to Component Units
Agencies, boards, commissions and others
Other National Programs
Office of the Public Auditor
Legislative branch
Judicial branch
Executive branch
$10,689,414
$1,613,474
$2,353,960
$1,321,527
$1,653,470
$1,407,409
$2,225,376
$2,074,382
$1,723,126
$1,736,797
$3,213,467
$2,999,287
$1,338,982
$1,234,540
$36,467,252
$35,189,408
2009
2010

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

Governmental Funds

The focus of the FSM National Government governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the FSM National Government financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the FSM National Government governmental funds reported combined ending fund balances of $88.7 million, which represents a slight increase of $5.6 million (or 7%) in comparison with the prior year. This increase is primarily attributable to an increase in fund balance of the Grants Assistance Fund, the Early Retirement Program Fund, the Compact Trust Fund, ADB Loan Fund, Other Governmental Funds and the General Fund. Of this total combined fund balance, $202 million is reserved to indicate that it is not available for new spending because it has already been committed: 1) to generate income for future operations ($60 million); 2) to continuing appropriations through grant awards or enabling legislation ($87 million); and 3) to liquidate contracts and purchase orders of the prior period ($54 million). The combined unreserved deficit of the FSM National Government governmental funds is $113 million, a decrease of $26 million (or 18%) from the prior year. This deficit is primarily attributable to US grants assistance that has been obligated but has not been reimbursed to the FSM National Government. This deficit is being funded by the US federal grants.

The General Fund is the chief operating fund of the FSM National Government. At the end of the current fiscal year, the unreserved fund surplus of the General Fund was $3.2 million as compared with the prior year ending unreserved fund surplus $5.2 million, a decrease of $2 million (or 38%), while total fund balance was $23.4 million compared with a total fund balance of $22.7 million at the end of the prior fiscal year, an increase of $700,000. The increase in the overall fund balance of the General Fund was primarily the result of the increase in collection in local taxes and increase in the fair market value of investments.

The Grants Assistance Fund has a total unreserved fund deficit of $131 million as compared with prior year ending unreserved fund deficit of $157 million, a decrease in deficit of $26 million or 17%. The deficit is primarily due to obligations and expenditures in the infrastructure funds, US Federal Grants and from Compact Sector grants that were not reimbursed at year end. The net increase in fund balance during the current year in the Grants Assistance Fund was $553 thousand (or 91%), which primarily was the result of reimbursements from prior year expenditures in sector grants of $103 thousand and $450 thousand in disaster assistance emergency grants.

The Compact Trust Fund has a total fund balance of $10.5 million, all of which is reserved for the funding of future operations of the primary government commencing in fiscal year 2023. The net increase in fund balance during the current year in the Compact Trust Fund was $1.2 million or 13%, which shows strong indication in global financial markets.

The Asian Development Bank Loan Fund has a total fund balance of $34 million, of which $32 million is reserved for the re-lending of loans to the FSM State Governments and $0.2 million is reserved to fund the Private Sector Development Fund Project while $0.1 million is reserved for encumbrances. The net increase in fund balance during the current year in the Asian Development Bank Loan Fund approximated $1.6 million or (5%) primarily due to loan allocations to the FSM State Governments and related component units in the amount of $1.9 million and additional loan proceeds of $0.7 million.

The Early Retirement Program Fund has a zero fund balance. The total fund deficit balance of $0.1 million from prior year was transfers out to General Fund resulting in a zero fund balance in the Early Retirement Fund in the current year.

The Section 111 Investment Development Fund has a total fund balance of $9 million of which $7 million is reserved for loans receivable from the Private Sector while $2 represents the unreserved fund balance. The net decrease in fund balance as compared from last year balance was $1.6 million or 16% primarily due to payments to the FSM State Governments and payments of commission to the FSM Development Bank for administering IDF Fund.

Table 3 shows the Governmental Fund changes in fund balances for the years ended September 30, 2010 and 2009.

Table 3
Changes in Fund Balances

	General Fund		Other Funds		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Compact funding	$ -	$ -	$ 19,520,528	$ 9,715,183	$ 19,520,528	$ 9,715,183
Federal and other grants	505,843	9,278	48,006,386	43,652,608	48,512,229	43,661,886
Taxes	13,374,527	11,984,202	281,007	207,193	13,655,534	12,191,395
Fishing rights fees	17,727,383	20,016,133	-	-	17,727,383	20,016,133
Net change in fair value of investments	927,645	479,183	1,444,171	589,134	2,371,816	1,068,317
Other	2,987,440	2,223,766	1,837,924	1,419,003	4,825,364	3,642,769
Total revenues	35,522,838	34,712,562	71,090,016	55,583,121	106,612,854	90,295,683
Expenditures	30,816,549	28,139,046	71,663,469	57,102,607	102,480,018	85,241,653
Excess (deficiency)	4,706,289	6,573,516	(573,453)	(1,519,486)	4,132,836	5,054,030
Net transfers	(2,695,541)	(2,676,200)	3,473,243	3,926,401	777,702	1,250,201
Special items	(1,254,633)	(2,024,148)	1,932,326	(208,280)	677,693	(2,232,428)
Net change in fund balances	$ 756,115	$ 1,873,168	$ 4,832,116	$ 2,198,635	$ 5,588,231	$ 4,071,803

ANALYSIS OF BUDGETARY VARIATIONS - GENERAL FUND

During the year, the FSM National Government revised its budget several times to accommodate supplemental funding for departments and offices requiring increases in appropriations. As can be seen in the following table, actual revenue collections exceeded budgets by $1,615,898 (or 5%) while expenditures were less than budgets by $2,896,972 or 8%. There were no material budget overruns at any level.

	Budget Original	Budget Final	Actual Amounts	Variance Positive (Negative)
Revenues	$30,898,831	$33,906,940	$35,522,838	$1,615,898
Expenditures	30,929,699	37,415,987	34,519,015	2,896,972
Excess of Revenues	(30,868)	(3,509,047)	1,003,823	4,512,870
Other financing sources (uses) and special items	(2,695,944)	(2,821,044)	(3,950,174)	(1,129,130)
Net change in unreserved fund balance	(2,726,812)	(6,330,091)	(2,946,351)	3,383,740
Other changes in unreserved fund balance	-	-	988,639	988,639
Unreserved-beginning	5,189,420	5,189,420	5,189,420	-
Unreserved-ending	$ 2,462,608	$ (1,140,671)	$ 3,231,708	$4,372,379

During the year, the FSM National Government revised its revenue projection to increase the local taxes, investment earnings and corporate tax that resulted in increase in the projection of $3,008,109. During the year, the FSM National government additional supplemental appropriations under Public laws Nos. 16-13,16-18,16-20,16-23,16-25,16-30,16-34,16-35,16-40,16-42 totaled $7,331,401. The increase in revenue projection, the additional supplemental appropriations and some other activities in the budget resulted in a budget change between original and final of $ $1,232,490.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2010, the FSM National Government had invested $118,754,448 (FY09 $85,303,419) in capital assets. These assets consist basically of infrastructure, office equipment and machinery, buildings, ship, and motor vehicles and construction in progress. The summary of capital assets of the year is shown below:

	Primary Government Governmental Activities	
	2010	2009
Buildings	$ 23,335,215	$16,761,302
Boats and ships	22,223,777	22,178,099
Infrastructure	17,738,637	4,879,599
Motor vehicles	5,612,509	8,497,256
Computer equipment	4,775,133	4,477,874
Aircraft	709,207	709,207
Furniture, fixture, equipment	8,477,072	8,457,781
	82,871,550	65,961,118
Less: Accumulated depreciation	(31,462,068)	(30,053,108)
Construction in progress	67,344,966	49,395,409
Total assets	$118,754,448	$85,303,419

During the year, the FSM National Government recorded additional construction in progress for AIP improvement and infrastructure projects of $47,030,005.

Further information on the FSM National Government's capital assets can be obtained from note 5 to the accompanying financial statements on pages 48 and 49.

Long-Term Debt

At September 30, 2010, the FSM National Government had long-term debt of $52,174,633 (FY09 $52,340,206) relating to Governmental Activities as shown below:

	2010	2009
ADB Loan - Early Retirement	$ 19,122,004	$ 19,528,878
-Fisheries and water project	15,152,634	15,425,188
-Private Sector Development	10,805,378	11,076,687
-Basic Social Services	3,826,376	4,013,568
-Omnibus Infrastructure Development	1,728,720	953,520
Compensated Absences (Annual Leave)	1,539,521	1,342,365
Total	$ 52,174,633	$ 52,340,206

During the year ended September 30, 2010, the FSM National Government received loan proceeds of $777,702 under ADB Loan Numbers 2100 FSM (SF) and 2099 FSM (SF) Omnibus Infrastructure Development Project. In addition, the FSM National Government total loan payments amounted to $1,140,431.

Further information on the FSM National Government's long-term obligations can be obtained from note 6 to the accompanying financial statements on page 49-52.

Economic Factors and Next year's Budget:

Fiscal year 2010 represented the seventh full year the FSM is implementing the economic assistance provisions available under the amended Compact. The total funds appropriated for the FSM National Government operations and programs during the fiscal year amounted to $53 million. Funding under the amended Compact represents 29% of the FSM National Government FY10 annual budget. The remaining 71% came from locally generated tax revenues, fishing access fees, investment earnings and related government services fees.

The FSM National Government ended fiscal year 2010 with a positive unreserved general fund surplus.

For FY2011, the total domestic revenue projection is approximately $48,240,560, of which $39,000,000 or 81% is from domestic sources, $8,061,840 or 17% from FSM National share of the Compact Sector Grants, and $1,178,720 or 2% from the Supplemental Education Grant (SEG), respectively. The revenue projection does not include potential funds from US Federal grantor agencies, foreign governments, and other international and regional organizations.

In the beginning of FY2011, the first annual appropriation amounted to $39,041,803 of which $32,336,662 or 83% will come from locally generated revenues of the FSM National Government while $5,526,421 or 14% will come from amended sector grant and the remaining amount of $1,178,720 or 3% will come from Supplemental Education Grant (SEG). It is anticipated that the FY2011 budget will reflect an increase from FY10 budgetary level due to the increase in the collection of corporate taxes and other local taxes.

In addition to receiving Compact grant assistance, the FSM receives substantial programs assistance from agencies of the United States Federal Government, Peoples Republic of China, Japan and other foreign governments. Grants and other technical assistance programs are also made available to the FSM from the international and regional organizations. In FY10, assistance received from these sources was estimated at approximately $48 million.

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 Assets
September 30, 2010

	Primary Government	Component Units
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,071,283	$ 22,274,910
Cash and cash equivalents - restricted	3,113,497	-
Time certificates of deposit	1,420,551	2,390,628
Investments	29,847,323	6,485,552
Receivables, net of allowance for uncollectibles	29,745,064	11,887,158
Due from primary government	-	808,546
Due from component units	500,000	-
Advances	1,526,279	-
Inventories	-	7,395,428
Other current assets	-	2,724,416
Total current assets	68,223,997	53,966,638
Noncurrent assets:		
Investments	10,506,163	13,460,691
Receivables, net of current portion	31,937,154	16,083,099
Capital assets, net of accumulated depreciation	118,754,448	74,321,426
Deposits and other assets	3,619,878	-
Total noncurrent assets	164,817,643	103,865,216
Total assets	$ 233,041,640	$ 157,831,854
LIABILITIES		
Current liabilities:		
Current portion of long-term obligations	$ 1,526,392	$ 5,682,777
Short-term notes payable	-	2,252,356
Accounts payable	5,623,985	3,018,783
Due to component units	808,546	-
Current portion of compensated absences payable	313,156	-
Other liabilities and accruals	1,270,408	5,418,406
Tax refunds payable	490,510	-
Retention payable	3,584,976	-
Due to federal agencies	1,649,760	-
Due to FSM State Governments	5,354,530	-
Due to primary government	-	500,000
Deferred revenue	2,608,691	2,745,464
Total current liabilities	23,230,954	19,617,786
Noncurrent liabilities:		
Long-term obligations, net of current portion	49,108,720	35,995,540
Compensated absences payable, net of current portion	1,226,365	-
Total noncurrent liabilities	50,335,085	35,995,540
Total liabilities	73,566,039	55,613,326
Invested in capital assets, net of related debt	118,754,448	37,549,420
Restricted for:		
Nonexpendable:		
Future operations	10,506,163	-
Other purposes	-	3,100,271
Expendable:		
Compact related	1,299,321	-
Other purposes	10,472,937	-
Unrestricted	18,442,732	61,568,837
Total net assets	159,475,601	102,218,528
Total liabilities and net assets	$ 233,041,640	$ 157,831,854

See accompanying notes to basic financial statements.

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

Statement of Activities
Year Ended September 30, 2010

		Program Revenues			Net (Expenses) Revenues and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
Functions/Programs						
Primary government:						
Governmental activities:						
Office of the President	$ 1,229,262	$ -	$ 1,000,000	$ -	$ (229,262)	$ -
Foreign affairs	3,607,760	-	295,316	-	(3,312,444)	-
Finance and administration	4,293,403	580,437	1,412,533	-	(2,300,433)	-
Resources and development	1,468,240	56,359	589,433	-	(822,448)	-
Transportation, communication and infrastructure	6,208,327	259,307	798,901	-	(5,150,119)	-
Health and social affairs	7,387,067	26,925	7,317,305	-	(42,837)	-
Education	4,702,062	2,071	3,214,674	-	(1,485,317)	-
Justice	4,011,169	1,778,719	-	-	(2,232,450)	-
Office of the Public Defender	653,111	-	-	-	(653,111)	-
SBOC Office	1,951,396	-	493,582	-	(1,457,814)	-
Environment and emergency management	640,069	-	862,029	-	221,960	-
National archives, cultural and historic preservation	315,385	-	174,466	-	(140,919)	-
Legislature	3,213,467	-	-	-	(3,213,467)	-
Judiciary	1,338,982	-	-	-	(1,338,982)	-
Office of the National Public Auditor	1,723,126	120,500	612,232	-	(990,394)	-
National government programs	2,225,376	103	1,360,272	-	(865,001)	-
Agencies, boards and commissions	1,653,470	848,408	30,963	-	(774,099)	-
Payments to component units	2,353,960	-	524,665	-	(1,829,295)	-
Payments to the FSM State Governments	1,613,474	-	-	-	(1,613,474)	-
Capital assets transferred to FSM State Governments	10,689,414	-	-	-	(10,689,414)	-
Legislative public projects	2,673,385	-	-	-	(2,673,385)	-
Loss on terminated capital projects	936,097	-	-	-	(936,097)	-
Future operations	-	-	1,217,605	-	1,217,605	-
Capital projects	2,803,306	-	-	49,344,315	46,541,009	-
Unallocated interest	394,405	-	-	-	(394,405)	-
Total primary government	$68,085,714	$ 3,672,829	$ 19,903,976	$ 49,344,315	4,835,406	-
Component units:						
FSM Telecommunications Corporation	$16,081,298	$ 13,527,512	$ -	$ -	-	(2,553,786)
FSM Development Bank	1,698,595	2,548,136	-	-	-	849,541
National Fisheries Corporation	342,701	218,912	-	-	-	(123,789)
College of Micronesia - FSM	23,635,628	25,137,123	-	-	-	1,501,495
FSM Coconut Development Authority	213,483	90,011	165,266	-	-	41,794
FSM Petroleum Corporation	45,844,974	51,540,037	-	-	-	5,695,063
Caroline Islands Air, Inc.	465,519	487,414	-	-	-	21,895
MiCare Plan, Inc.	4,969,487	5,392,262	100,000	-	-	522,775
Total component units	$93,251,685	$ 98,941,407	$ 265,266	$ -	-	5,954,988
General revenues:						
Taxes:						
Income					3,491,365	-
Import					5,091,747	-
Gross receipts					4,116,556	-
Corporate tax					815,400	-
Fuel					140,466	-
Fishing rights					17,727,383	-
Unrestricted investment earnings					1,537,051	1,844,885
Other					771,766	-
Special items:						
Loan allocations to the FSM State Governments					1,934,018	-
Receivables writen-off					(1,254,633)	-
Total general revenues and special items					34,371,119	1,844,885
Change in net assets					39,206,525	7,799,873
Net assets at the beginning of the year					120,269,076	94,418,655
Net assets at the end of the year					$ 159,475,601	$ 102,218,528

See accompanying notes to basic financial statements.

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

Balance Sheet
Governmental Funds
September 30, 2010

		Special Revenue				Permanent		
	General	Grants Assistance	Section 111 Investment Development	Early Retirement Program	Asian Development Bank Loan	Compact Trust	Other Governmental Funds	Total
ASSETS								
Cash and cash equivalents	$ 1,777,039	$ -	$ -	$ -	$ 294,244	$ -	$ -	$ 2,071,283
Time certificates of deposit	-	-	1,420,551	-	-	-	-	1,420,551
Equity in internal investment pool	10,947,759	1,493,097	-	2,985,053	-	-	8,328,558	23,754,467
Investments	5,225,018	-	867,838	-	-	-	-	6,092,856
Receivables, net:								
General	24,350	-	-	-	3,905	-	-	28,255
Taxes	4,215,902	-	-	-	-	-	-	4,215,902
Federal agencies	563,414	12,945,868	-	-	-	-	-	13,509,282
Loans	1,425,000	-	6,675,233	-	31,605,256	-	-	39,705,489
Accrued interest	-	-	3,418	-	-	-	-	3,418
Due from component units	500,000	-	-	-	-	-	-	500,000
Due from other funds	6,456,409	2,684,384	-	-	2,067,158	-	2,227,933	13,435,884
Advances	251,387	1,274,892	-	-	-	-	-	1,526,279
Deposits and other assets	3,458,770	-	161,108	-	-	-	-	3,619,878
Restricted assets:								
Cash and cash equivalents	2,883,235	-	-	-	230,262	-	-	3,113,497
Investments	-	-	-	-	-	10,506,163	-	10,506,163
Total assets	$ 37,728,283	$ 18,398,241	$ 9,128,148	$ 2,985,053	$ 34,200,825	$ 10,506,163	$ 10,556,491	$ 123,503,204
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable	$ 2,425,604	$ 2,837,495	$ 291,887	$ -	$ 5,318	$ -	$ 63,681	$ 5,623,985
Retention payable	-	3,584,976	-	-	-	-	-	3,584,976
Other liabilities and accruals	1,270,408	-	-	-	-	-	-	1,270,408
Tax refunds payable	490,510	-	-	-	-	-	-	490,510
Due to component units	483,773	324,773	-	-	-	-	-	808,546
Due to federal agencies	239,518	1,410,242	-	-	-	-	-	1,649,760
Due to FSM State Governments	2,355,175	2,999,355	-	-	-	-	-	5,354,530
Due to other funds	6,979,475	3,470,944	-	2,985,053	-	-	412	13,435,884
Deferred revenue	-	2,608,691	-	-	-	-	-	2,608,691
Total liabilities	14,244,463	17,236,476	291,887	2,985,053	5,318	-	64,093	34,827,290
Fund balances:								
Reserved for:								
Related assets	11,056,311	-	6,675,233	-	32,129,762	10,506,163	-	60,367,469
Encumbrances	3,702,466	50,054,592	-	-	158,733	-	452,836	54,368,627
Continuing appropriations	5,493,335	81,704,132	-	-	116,689	-	-	87,314,156
Unreserved:								
General fund	3,231,708	-	-	-	-	-	-	3,231,708
Special revenue funds	-	(130,596,959)	2,161,028	-	1,790,323	-	10,039,562	(116,606,046)
Total fund balances	23,483,820	1,161,765	8,836,261	-	34,195,507	10,506,163	10,492,398	88,675,914
Total liabilities and fund balances	$ 37,728,283	$ 18,398,241	$ 9,128,148	$ 2,985,053	$ 34,200,825	$ 10,506,163	$ 10,556,491	

Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	118,754,448	
Loans receivable from FSM State Governments	4,219,872	
Long-term liabilities, including loans payable, are not due and payable in the current period and, therefore, are not reported in the funds. These liabilities include:		
Loans payable	(50,635,112)	
Compensated absences payable	(1,539,521)	
		70,799,687
Net assets of governmental activities		$ 159,475,601

See accompanying notes to basic financial statements.

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficits)
Governmental Funds
Year Ended September 30, 2010

		Special Revenue				Permanent		
	General	Grants Assistance	Section 111 Investment Development	Early Retirement Program	Asian Development Bank Loan	Compact Trust	Other Governmental Funds	Total
Revenues:								
Compact funding	$ -	$ 19,520,528	$ -	$ -	$ -	$ -	$ -	$ 19,520,528
Taxes	13,374,527	-	-	-	-	-	281,007	13,655,534
Federal and other grants	505,843	48,006,386	-	-	-	-	-	48,512,229
Fishing rights	17,727,383	-	-	-	-	-	-	17,727,383
Interest and dividends	386,224	-	79,429	-	-	5,157	4,109	474,919
Fees and charges	1,591,755	-	-	-	-	-	1,326,457	2,918,212
Net change in the fair value of investments	927,645	(2,071)	14,721	-	-	1,212,448	219,073	2,371,816
MiCare reimbursible	254,844	-	-	-	-	-	-	254,844
Other	754,617	-	120,752	-	302,020	-	-	1,177,389
				-	-	-		
Total revenues	35,522,838	67,524,843	214,902	-	302,020	1,217,605	1,830,646	106,612,854
Expenditures:								
Current:								
General government:								
Office of the President	1,169,380	-	-	-	-	-	-	1,169,380
Foreign affairs	3,662,086	-	-	-	-	-	-	3,662,086
Finance and administration	2,929,725	1,284,694	-	-	52,050	-	-	4,266,469
Resources and development	734,263	589,433	-	-	115,685	-	-	1,439,381
Transportation, communication and infrastructure	2,410,880	575,187	-	-	-	-	1,346,520	4,332,587
Health and social affairs	492,336	7,317,305	-	-	-	-	8,246	7,817,887
Education	1,103,020	3,252,091	-	-	-	-	331,118	4,686,229
Justice	3,545,469	-	-	-	-	-	55,038	3,600,507
Office of the Public Defender	638,572	-	-	-	-	-	-	638,572
SBOC Office	1,505,585	493,582	-	-	9,516	-	-	2,008,683
Environment and emergency management	236,553	412,313	-	-	-	-	-	648,866
National archives, cultural and historic preservation	139,989	174,466	-	-	-	-	-	314,455
Legislature	3,211,911	-	-	-	-	-	-	3,211,911
Judiciary	1,345,646	-	-	-	-	-	-	1,345,646
Office of the National Public Auditor	1,095,941	612,232	-	-	-		-	1,708,173
National government programs	762,770	1,360,272	-	-	-	-	-	2,123,042
Agencies, boards and commissions	1,290,221	30,963	-	-	-	-	374,368	1,695,552
Payments to component units	1,577,253	524,665	251,100	-	-	-	-	2,353,018
Payments to the FSM State Governments	-	-	1,613,474	-	-	-	-	1,613,474
Legislative public projects	2,964,949	-	-	-	-	-	-	2,964,949
Capital projects	-	49,344,315	-	-	-	-	-	49,344,315
Debt service:								
Principal and interest payments	-	-	-	226,868	1,307,968	-	-	1,534,836
Total expenditures	30,816,549	65,971,518	1,864,574	226,868	1,485,219	-	2,115,290	102,480,018
Excess (deficiency) of revenues over (under) expenditures	4,706,289	1,553,325	(1,649,672)	(226,868)	(1,183,199)	1,217,605	(284,644)	4,132,836
Other financing sources (uses):								
Proceeds from issuance of long-term debt	-	-	-	-	777,702	-	-	777,702
Operating transfers in	353,063	-	-	366,413	104,191	-	3,578,000	4,401,667
Operating transfers out	(3,048,604)	(1,000,000)	-	-	-	-	(353,063)	(4,401,667)
Total other financing sources (uses), net	(2,695,541)	(1,000,000)	-	366,413	881,893	-	3,224,937	777,702
Special items:								
Loan allocations to the FSM State Governments	-	-	-	-	(1,932,326)	-	-	(1,932,326)
Write-off of receivable balances	1,254,633	-	-	-	-	-	-	1,254,633
Total special items	1,254,633	-	-	-	(1,932,326)	-	-	(677,693)
Net change in fund balances (deficit)	756,115	553,325	(1,649,672)	139,545	1,631,020	1,217,605	2,940,293	5,588,231
Fund balances (deficit) at the beginning of the year	22,727,705	608,440	10,485,933	(139,545)	32,564,487	9,288,558	7,552,105	83,087,683
Fund balances at the end of the year	$ 23,483,820	$ 1,161,765	$ 8,836,261	$ -	$ 34,195,507	$ 10,506,163	$ 10,492,398	$ 88,675,914

See accompanying notes to basic financial statements.

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

Reconciliation of the Statement of Revenues, Expenditure, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended September 30, 2010

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

Net change in fund balances - total governmental funds		$ 5,588,231
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	$ 37,111,854	
Depreciation expense, net	(3,660,825)	33,451,029
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 assets.		
This is the amount that represents the Special Drawing Rights (SDR) adjustment to long-term loans allocated to the FSM State Governments.		1,692
This is the additional loan proceeds received from ADB loans, excluding the SDR adjustment.		(777,702)
This is the repayment of ADB loans (see Note 6).		1,140,431
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. These expenses include accrued annual leave and claims and judgments payable that are reported in the statement of activities, but not in funds		(197,156)
Change in net assets of governmental activities		$ 39,206,525

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

Combining Statement of Fiduciary Net Assets
Fiduciary Funds - Private Purpose Trusts
September 30, 2010

	FSM Social Security Administration	Pohnpei State Development Loan Fund	Yap State Development Loan Fund	Total
ASSETS				
Cash and cash equivalents	$ 2,866,397	$ 208,852	$ 52,439	$ 3,127,688
Time certificates of deposit	-	569,812	144,330	714,142
Receivables, net:				
Contributions	2,642,239	-	-	2,642,239
Accrued interest	112,357	1,326	71	113,754
Loans	-	37,770	38,779	76,549
Other	16,298	-	27,266	43,564
Investments	36,910,189	-	-	36,910,189
Capital assets, net of accumulated depreciation	77,190	-	-	77,190
Total assets	$ 42,624,670	$ 817,760	$ 262,885	$ 43,705,315
LIABILITIES				
Accounts payable	$ 187,536	$ 93,114	$ 15,623	$ 296,273
Other liabilities and accruals	33,029	-	-	33,029
Total liabilities	220,565	93,114	15,623	329,302
NET ASSETS				
Held in trust for:				
Social security benefits	42,404,105	-	-	42,404,105
Restricted	-	37,770	38,779	76,549
Other purposes	-	686,876	208,483	895,359
Total net assets	42,404,105	724,646	247,262	43,376,013
	$ 42,624,670	$ 817,760	$ 262,885	$ 43,705,315

See accompanying notes to basic financial statements.

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

Combining Statement of Changes in Fiduciary Net Assets
Fiduciary Funds - Private Purpose Trusts
Year Ended September 30, 2010

	FSM Social Security Administration	Pohnpei State Development Loan Fund	Yap State Development Loan Fund	Total
Additions:				
Contributions	$ 14,525,608	$ -	$ -	$ 14,525,608
	14,525,608	-	-	14,525,608
Investment earnings:				
Net change in the fair value of investments	2,314,631	-	-	2,314,631
Interest and dividends	866,970	1,321	7,227	875,518
Total investment earnings	3,181,601	1,321	7,227	3,190,149
Less investment expense	199,085	-	-	199,085
Net investment earnings	2,982,516	1,321	7,227	2,991,064
Other	1,653,539	3,410	149	1,657,098
Total additions	19,161,663	4,731	7,376	19,173,770
Deductions:				
Benefits	16,760,145	-	-	16,760,145
Refunds	20,064	-	-	20,064
Administrative expenses	980,794	6,247	3,126	990,167
Total deductions	17,761,003	6,247	3,126	17,770,376
Change in net assets	1,400,660	(1,516)	4,250	1,403,394
Net assets at the beginning of the year	41,003,445	726,162	243,012	41,972,619
Net assets at the end of the year	$ 42,404,105	$ 724,646	$ 247,262	$ 43,376,013

See accompanying notes to basic financial statements.

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

Combining Statement of Net Assets
Component Units
September 30, 2010

	FSM Tele-Communication Corporation	FSM Development Bank	National Fisheries Corporation	College of Micronesia-FSM	FSM Coconut Development Authority	FSM Petroleum Corporation	Caroline Islands Air, Inc.	MiCare Plan, Inc.	Total
ASSETS									
Current assets:									
Cash and cash equivalents	$ 519,268	$ 6,129,695	$ 59,755	$ 7,648,568	$ 23,896	$ 7,626,408	$ 110,221	$ 157,099	$ 22,274,910
Time certificates of deposit	174,963	1,701,042	-	-	-	514,623	-	-	2,390,628
Investments	5,465,811	-	-	-	-	-	-	1,019,741	6,485,552
Receivables, net:									
General	814,646	19,704	14,578	2,321,790	12,941	593,833	-	239,033	4,016,525
Loans	-	4,870,572	-	-	-	-	-	-	4,870,572
Interest	117,105	237,596	-	-	-	-	-	-	354,701
Other	27,656	400,624	-	2,171,435	-	29,377	16,268	-	2,645,360
Due from primary government	-	-	-	808,546	-	-	-	-	808,546
Inventories	821,936	-	-	656,662	155,651	5,730,415	30,764	-	7,395,428
Prepaid expenses	753,403	2,500	-	331,917	991	1,410,649	-	224,956	2,724,416
Total current assets	8,694,788	13,361,733	74,333	13,938,918	193,479	15,905,305	157,253	1,640,829	53,966,638
Noncurrent assets:									
Capital assets, net of accumulated depreciation	56,360,754	229,453	10,253	10,462,881	159,548	7,042,956	-	55,581	74,321,426
Investments	-	10,360,420	-	3,100,271	-	-	-	-	13,460,691
Loans receivable, net	-	16,083,099	-	-	-	-	-	-	16,083,099
Total noncurrent assets	56,360,754	26,672,972	10,253	13,563,152	159,548	7,042,956	-	55,581	103,865,216
Total assets	$65,055,542	$ 40,034,705	$ 84,586	$ 27,502,070	$ 353,027	$22,948,261	$157,253	$1,696,410	$157,831,854
LIABILITIES									
Current liabilities:									
Current portion of long-term debt	$ 1,226,430	$ 400,000	$3,600,000	$ -	$ -	$ 456,347	$ -	$ -	$ 5,682,777
Short term notes payable	2,252,356	-	-	-	-	-	-	-	2,252,356
Accounts payable	821,846	372,504	232,782	241,841	4,008	481,326	7,208	857,268	3,018,783
Other liabilities and accruals	700,501	68,783	19,742	1,768,768	1,048	2,823,516	3,104	32,944	5,418,406
Due to primary government	-	-	-	-	-	500,000	-	-	500,000
Deferred revenue	72,228	-	-	2,672,736	500	-	-	-	2,745,464
Total current liabilities	5,073,361	841,287	3,852,524	4,683,345	5,556	4,261,189	10,312	890,212	19,617,786
Noncurrent liabilities:									
Noncurrent portion of long-term debt	31,912,503	916,564	-	-	-	3,166,473	-	-	35,995,540
Total noncurrent liabilities	31,912,503	916,564	-	-	-	3,166,473	-	-	35,995,540
Total liabilities	36,985,864	1,757,851	3,852,524	4,683,345	5,556	7,427,662	10,312	890,212	55,613,326
NET ASSETS									
Invested in capital assets, net of related debt	23,221,821	229,453	-	10,462,881	159,548	3,420,136	-	55,581	37,549,420
Restricted for:									
Nonexpendable	-	-	-	3,100,271	-	-	-	-	3,100,271
Unrestricted	4,847,857	38,047,401	(3,767,938)	9,255,573	187,923	12,100,463	146,941	750,617	61,568,837
Total net assets	28,069,678	38,276,854	(3,767,938)	22,818,725	347,471	15,520,599	146,941	806,198	102,218,528
Total liabilities and net assets	$65,055,542	$ 40,034,705	$ 84,586	$ 27,502,070	$ 353,027	$22,948,261	$157,253	$1,696,410	$157,831,854

See accompanying notes to basic financial statements.

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

Combining Statement of Revenues, Expenses, and Changes in Net Assets
Component Units
Year Ended September 30, 2010

	FSM Tele-Communications Corporation	FSM Development Bank	National Fisheries Corporation	College of Micronesia-FSM	FSM Coconut Development Authority	FSM Petroleum Corporation	Caroline Islands Air, Inc.	MiCare Plan, Inc.	Total
Operating revenues:									
Charges for services	$ 13,403,691	$ 2,340,578	$ 218,912	$ 23,005,614	$ 90,011	$ 51,366,135	$ 487,414	$ 5,382,767	$ 96,295,122
Other	123,821	207,558	-	2,131,509	-	173,902	-	9,495	2,646,285
Total operating revenues	13,527,512	2,548,136	218,912	25,137,123	90,011	51,540,037	487,414	5,392,262	98,941,407
Operating expenses:									
Cost of services	10,918,815	1,002,303	368	20,102,353	42,745	39,776,511	466,279	4,534,937	76,844,311
Depreciation and amortization	3,860,296	94,925	11,542	959,521	42,555	604,562	240	12,161	5,585,802
Administrative costs	-	746,536	254,480	2,573,754	204,038	5,197,946	-	496,261	9,473,015
Total operating expenses	14,779,111	1,843,764	266,390	23,635,628	289,338	45,579,019	466,519	5,043,359	91,903,128
Operating income (loss)	(1,251,599)	704,372	(47,478)	1,501,495	(199,327)	5,961,018	20,895	348,903	7,038,279
Nonoperating revenues (expenses):									
Net change in the fair value of investments	787,533	803,451	-	225,883	-	-	-	28,018	1,844,885
Interest expense	(1,302,187)	(104,831)	-	-	-	(265,955)	-	-	(1,672,973)
Contributions from primary government	-	-	-	-	165,266	-		100,000	265,266
Other income (expense)	-	250,000	(76,311)	-	75,855	-	1,000	73,872	324,416
Total nonoperating revenues (expenses), net	(514,654)	948,620	(76,311)	225,883	241,121	(265,955)	1,000	201,890	761,594
Net income (loss)	(1,766,253)	1,652,992	(123,789)	1,727,378	41,794	5,695,063	21,895	550,793	7,799,873
Net assets at the beginning of the year	29,835,931	36,623,862	(3,644,149)	21,091,347	305,677	9,825,536	125,046	255,405	94,418,655
Net assets at the end of the year	$ 28,069,678	$38,276,854	$(3,767,938)	$ 22,818,725	$ 347,471	$ 15,520,599	$ 146,941	$ 806,198	$102,218,528

See accompanying notes to basic financial statements.

(1) Summary of Significant Accounting Policies

The accompanying financial statements of the Federated States of Micronesia (FSM) National Government have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the FSM National Government's accounting policies are described below.

A. Reporting Entity

The FSM is an independent sovereign nation made up of the four states of Chuuk, Kosrae, Pohnpei, and Yap (the States). The FSM National Government is a constitutional government comprised of three branches: the Legislative Branch (the Congress), consisting of 14 members (one from each State who are elected for a term of four years, and ten who are elected for a term of two years, whose seats are apportioned by population); the Executive Branch, headed by the President and Vice President who are primarily responsible for executing the laws and administering national government services; and the Judiciary Branch made up of the FSM Supreme Court, which consists of a Chief Justice and up to five Associate Justices. The Congress elects two of its four-year members at its first session following an election to serve as President and Vice President.

For financial reporting purposes, the FSM National Government has included all funds, organizations, agencies, boards, commissions and institutions. The FSM National Government has also considered all potential component units for which it is financially accountable as well as other entities for which the nature and significance of their relationship with the FSM National Government are such that exclusion would cause the FSM National Government's financial statements to be misleading or incomplete. The criteria to be considered in determining financial accountability include whether the FSM National Government, as the primary government, has appointed a voting majority of an organization's governing body and either has the ability to impose its will on that organization or there is potential for the organization to provide specific financial benefits to or impose specific financial burdens on the FSM National Government. Financial accountability also exists if an organization is determined to be fiscally dependent on the primary government, although the primary government does not appoint a voting majority of the organization's governing board.

Each blended and discretely presented component unit of the FSM National Government has a September 30 year-end except for the FSM Development Bank, FSM Petroleum Corporation and the FSM Social Security Administration, which each have a December 31 year-end.

Once financial accountability has been determined for a potential component unit, that component unit is either blended into the primary government or discretely presented from the primary government. Potential component units that do not meet the financial accountability criteria, but where a voting majority of the governing board is appointed by the FSM National Government, are deemed to be related organizations. The nature and relationship of the FSM National Government's component units and related organizations are disclosed in the following section.

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

Blended component units are entities that are legally separate from the FSM National Government, but are so related to the FSM National Government that they are, in substance, the same as the FSM National Government or entities providing services entirely or almost entirely to the FSM National Government. The net assets and results of operations of the following legally separate entities are presented as part of the FSM National Government's operations:

Blended Component Units

The following component unit is blended within the primary government:

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.

Discretely Presented Component Units

Discretely presented component units are entities which are legally separate from the FSM National Government, but are financially accountable to the FSM National Government, or whose relationships 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 component units' column of the basic financial statements includes the financial data of the following major 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 Governors of each State (with the advice and consent of the respective State legislatures).

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, 2010, FSMDB has issued 2,997,883 shares to the FSM National Government (98.7%), the State of Chuuk (1%), and the State of Kosrae (0.3%).

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 Governors of each State (with the advice and consent of the respective State legislatures), the Executive Director of the Micronesian Maritime Authority, and the Secretary of the Department of Economic Affairs.

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

Discretely Presented Component Units, Continued

College of Micronesia-FSM (COM-FSM): COM-FSM was established under FSM Public Law No. 7-79 to serve the varied post-secondary and adult educational needs of the FSM. COM-FSM is governed by a five-member Board of Regents appointed by the President with the advice and consent of the Congress.

FSM Coconut Development Authority (CDA): CDA was established under FSM Public Law No. 1-156 to engage in the manufacture and processing of all products derived from the coconut tree; to buy, collect, market, sell, export, inspect, improve the quality, and deal with, in general, all products derived from the coconut tree; to establish prices to producers or sellers of coconut products in the FSM; to collect and receive all monies derived from the sales of coconut products; and to stabilize the price of these products. CDA 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 Governors of each State (with the advice and consent of the respective State legislatures).

FSM Petroleum Corporation (FSMPC): FSMPC was established under FSM Public Law 15-08, which was signed into law on September 11, 2007, for the purpose of providing the 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 Governors 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).

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 Governors of each State (with the advice and consent of the respective State Legislatures).

MiCare Plan, Inc. (the Plan): The Plan was established under FSM Public Law No. 12-77 to provide, arrange, pay, 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. The Plan is governed by a seven-member Board of Directors appointed by the President with the advice and consent of the Congress.

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

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

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities report financial information on all of the 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 Assets presents all of the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- Invested in capital assets, net of related debt 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 assets - nonexpendable consists of permanent funds in which donors or other outside sources have stipulated that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to the principal.

- Restricted net assets - 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 assets consist of net assets, which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, (for example, internally restricted), to indicate that management does not consider them to be available for general operations.

The government-wide Statement of Net Assets reports $22,278,421 of restricted net assets, of which $10,472,937 is restricted by enabling legislation.

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide Financial Statements, Continued

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.

C. Fund Financial Statements

Separate financial statements are provided for governmental funds and fiduciary funds even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements pursuant to GASB reporting standards, with nonmajor governmental funds being combined into a single column.

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

D. Measurement Focus and Basis of Accounting

Government-Wide Financial Statements:

The government-wide financial statements are reported using the economic resources management focus and the accrual basis of accounting, as are the fiduciary fund 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 revenue 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.

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

Government Fund Financial Statements:

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 revenues to be available if they are collected within 90 days 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. Investments and related investment earnings are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. 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 Funds and Component Unit Financial Statements:

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 revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The FSM National Government reports the following fund types:

1. Governmental Fund Types

i. 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.

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

ii. Special Revenue Funds

These funds account for specific revenue sources that have been aggregated according to enabling legislation to support specific governmental activities.

iii. Permanent Funds

This fund accounts for resources that are legally restricted to the extent that only earnings, and not principal, may be used to support programs for the benefit of the government.

2. Fiduciary Fund Types

i. Private Purpose Trust Funds

These funds are used to account for resources held in trust under which principal and income benefit certain individuals.

These include funds held in trust by the FSM Social Security Administration (FSMSSA) for the beneficiaries of the FSMSSA Retirement Fund, and funds held in trust by the FSM Development Bank for the State of Pohnpei and the State of Yap.

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments,* as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis – For State and Local Governments: Omnibus,* sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses for either fund category or the governmental and enterprise combined) for the determination of major funds. FSM National Government elected to add certain other major funds that had specific public interest. 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:

Grants Assistance Fund, a Governmental Fund Type - Special Revenue Fund, which was established to account for all financial transactions that are subgranted to the FSM National Government, including federal assistance funds received from the United States government by the FSM National Government.

Section 111 Investment Development Fund, a Governmental Fund Type - Special Revenue Fund, which was established to account for United States Congress appropriations under United States Public Law 99-239, Compact of Free Association, Section 111, and approved by the FSM Congress. These funds are administered by the FSM Development Bank.

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

Early Retirement Program Fund, a Governmental Fund Type - Special Revenue Fund, which was established to account for the Early Retirement Program activities.

Asian Development Bank Loan Fund, a Governmental Fund Type - Special Revenue Fund, which was established by FSM Public Law No. 7-101 mainly to carry out the purpose of the Fisheries Development Project Loan Agreement of 1992 and the Technical Assistance Agreement of 1992 for Institutional Strengthening for Marine Resource Management and Conservation between the FSM National Government and the Asian Development Bank (ADB).

Compact Trust Fund, a Governmental Fund Type - Permanent Fund, which 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.

E. Reporting Standards

As allowed by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the FSM National Government's discretely presented component units follow all GASB pronouncements and those Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

F. Cash and Cash Equivalents and Time Certificates of Deposit

Cash and cash equivalents 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 assets/balance sheet.

G. Investments

Investments and related investment earnings are carried at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

An investment of 20% or more of the voting stock of an investee is presumed to give the investor significant influence. Under the equity method, the investor records, as earnings or loss, its proportionate share of the investee's earnings or loss.

(1) Summary of Significant Accounting Policies, Continued

H 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 fund 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.

I. Inventories and Prepaid Items

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

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

J. 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 fund 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.

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. Specifically, the FSM National Government has cash and cash equivalents recorded in the General Fund of $2,848,693 and investments recorded in the Compact Trust Fund of $10,506,163, which are restricted in that they are not available to be used in current operations. The Asian Development Bank Loan Fund has $230,262 of loan proceeds maintained in an imprest revolving fund that are not available to be used in current operations.

(1) Summary of Significant Accounting Policies, Continued

L. 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

M. 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.

N. Deferred Revenue

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

(1) Summary of Significant Accounting Policies, Continued

O. 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.

P. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. The unreserved fund balances for the governmental funds represent the amount available for budgeting future operations. The reserve for related assets as of September 30, 2010, is represented by the following assets:

	General	Grants Assistance	Section 111 Investment Development	Early Retirement Program	Asian Developmen Bank Loan	Compact Trust	Other Governmental Funds	Total
Cash and cash equivalents	$ 648,173	$ -	$ -	$ -	$ 294,244	$ -	$ -	$ 942,417
Investments	5,225,018	-	-	-	-	-	-	5,225,018
Receivables:								
General	24,350	-	-	-	-	-	-	24,350
Loans	1,200,000	-	6,675,233	-	31,605,256	-	-	39,480,489
Due from component units	500,000	-	-	-	-	-	-	500,000
Deposits and other assets	3,458,770	-	-	-	-	-	-	3,458,770
Restricted assets:								
Cash and cash equivalents	-	-	-	-	230,262	-	-	230,262
Investments	-	-	-	-	-	10,506,163	-	10,506,163
	$11,056,311	$ -	$6,675,233	$ -	$ 32,129,762	$10,506,163	$ -	$60,367,469

Deposits and other assets of the General Fund represent the FSM National Government's shareholding in the Asian Development Bank of $2,308,920 (SDR 1,420,000) and the International Monetary Fund of $1,149,850.

Q. New Accounting Standards

During fiscal year 2010, the FSM National Government implemented the following pronouncements:

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes.

(1) Summary of Significant Accounting Policies, Continued

Q. New Accounting Standards, Continued

- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements.

- GASB Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* for calculating the annual required contribution (ARC) adjustment.

- GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code, and establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs.

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

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of the FSM National Government.

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the FSM National Government.

(1) Summary of Significant Accounting Policies, Continued

Q. New Accounting Standards, Continued

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of the FSM National Government.

R. 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.

S. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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.

T. Total Columns

Total columns are presented primarily to facilitate financial analysis. The Management's Discussion and Analysis includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with the FSM National Government's financial statements for the year ended September 30, 2009 from which summarized information was derived.

(2) Deposits and Investments

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, disclosure is required of investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 40 also requires disclosure of formal policies related to deposit and investment risks.

(2) Deposits and Investments, Continued

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.

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

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

ii. Stocks - A "B" rating by a national rating service. Non-rated stocks, such as banks or insurance companies, must be equal in quality or higher.

iii. Bonds - Confined to issues rated "A" or higher by a national rating service, except in the case of U.S. Treasury or government agency obligations which are not rated.

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

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

A. Deposits

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

(2) Deposits and Investments, Continued

A. Deposits, Continued

Category 1: Deposits that are federally insured or collateralized with securities held by the FSM National Government or its agent in the FSM National Government's name;

Category 2: Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in the FSM National Government's name; or

Category 3: Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in the FSM National Government's name and non-collateralized deposits.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. 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, 2010, the carrying amount of the primary government's total cash and cash equivalents and time certificates of deposit was $6,605,331 and the corresponding bank balances were $7,594,474. Of the bank balances, $4,945,190 is maintained in financial institutions subject to FDIC insurance while $2,320,787 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, 2010 while the remaining amount of $610,750 is maintained in financial institution not subject to FDIC insurance. As of September 30, 2010, bank deposits in the amount of $1,015,063 were FDIC insured. The FSM National Government does not require collateralization of its 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, 2010, the carrying amount of the fiduciary funds' total cash and cash equivalents and time certificates of deposit was $3,841,830 and the corresponding bank balances were $4,001,326. Of the bank balances, $3,051,687 is maintained in financial institutions subject to FDIC insurance. As of September 30, 2010, bank deposits in the amount of $1,027,093 were FDIC insured. 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.

(2) Deposits and Investments, Continued

A. Deposits, Continued

As of September 30, 2010, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was $24,665,538 and the corresponding bank balances were $26,170,663. Of this amount, $22,539,108 is maintained in financial institutions subject to FDIC insurance and $3,631,555 is maintained in financial institution subject to coverage by Securities Investor Protection Corporation (SIPC). As of September 30, 2010, bank deposits in the amount of $2,698,014 were FDIC insured and $250,000 is subject to coverage by SIPC. The component units do not require collateralization of their cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

B. Investments

GASB Statement No. 3 previously required government entities to present investment risks in terms of whether the investments fell into the following categories:

Category 1: Investments that are insured or registered, or securities held by the FSM National Government or its agent in the FSM National Government's name;

Category 2: Investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the FSM National Government's name; or

Category 3: Investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the FSM National Government's name.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for investments falling into categories 1 and 2, and provided for disclosure requirements addressing other common risks of investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the element of custodial credit risk in GASB Statement No. 3.

Primary Government

As of September 30, 2010, investments at fair value are as follows:

Fixed income securities:	
Domestic fixed income	$ 7,953,583
Other investments:	
Equities	23,458,989
Money market funds	882,158
Cash management accounts	2,833,738
	27,174,885
	$ 35,128,468

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

Additionally, the primary government owns 50,000 shares of the outstanding common stock of a commercial enterprise located in the Commonwealth of the Northern Marianas. The investment of $1,500,000 is accounted for at cost since the investment constitutes less than a 20% ownership share. Furthermore, the primary government owns 288,092 shares of the outstanding common stock of the Bank of the Federated States of Micronesia, which engages in commercial banking services in the FSM. The investment of $3,725,018 is accounted for at cost since management is of the opinion that the FSM National Government does not exert significant influence over the investee.

As of September 30, 2010, the primary government's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

		Maturity (in years)				
Investment Type	Rating Type	Less than 1	1-5	6-10	Over	Total
U.S. Treasury Notes and Bonds	Aaa/AAA	$124,061	$ 883,976	$ 294,796	$ 403,425	$1,706,258
U.S. Government Agencies Obligations:						
Federal Home Loan Mortgage Corporation	AAA	-	73,391	24,560	829,834	927,785
Government National Mortgage Association	AAA	-	-	-	1,104,909	1,104,909
Federal National Mortgage Association	AAA	-	197,377	12,240	242,550	452,167
Private Export Funding Corporation	AAA	-	174,037	-	-	174,037
Tennessee Valley Authority	AAA	-	-	-	9,731	9,731
Federal Home Loan Banks	AAA	-	26,906	-	-	26,906
Small Business Administration	No rating	-	-	-	107,745	107,745
Housing Urban Development	No rating	-	17,020	-	-	17,020
Financing Corporation	No rating	-		93,932	-	93,932
Municipal Obligations	Aa1	-	34,272	-	5,876	40,148
Municipal Obligations	Aa2	-	63,625	-	3,489	67,114
Municipal Obligations	A1/A+	-	-	-	97,379	97,379
Municipal Obligations	A	-	-	-	64,710	64,710
Municipal Obligations	Baa1/BBB+	-	-	32,358	61,840	94,198
Corporate Bonds	Aaa/AAA	-	163,981	-	215,843	379,824
Corporate Bonds	Aa1/AA+	-	72,371	12,468	-	84,839
Corporate Bonds	Aa2/AA	16,852	5,201	20,123	13,828	56,004
Corporate Bonds	Aa3/AA-	5,238	21,321	216,383	-	242,942
Corporate Bonds	A1/A+	-	138,723	-	213,978	352,701
Corporate Bonds	A2/A	10,100	486,377	73,384	39,495	609,356
Corporate Bonds	A3/A-	-	416,231	187,407	17,462	621,100
Corporate Bonds	Baa1/BBB+	-	203,923	22,088	44,203	270,214
Corporate Bonds	Baa2/BBB	-	150,279	35,687	-	185,966
Corporate Bonds	No rating	-	33,571	8,415	124,612	166,598
		$156,251	$3,162,582	$1,033,841	$3,600,909	$7,953,583

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.

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the FSM National Government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The FSM National Government's investments are held and administered by trustees. Based on negotiated trust and custody contracts, all of these investments were held in the FSM National Government's name by the FSM National Government's custodial financial institutions at September 30, 2010.

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, 2010, 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

The deposit and investment policies of the FSM Social Security Administration (FSMSSA) are governed by 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.

(2) Deposits and Investments, Continued

B. Investments, 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, 2010, investments at fair value are as follows:

Fixed income securities:	
Domestic fixed income	$ 13,676,610
Other investments:	
Domestic equities	19,354,905
International equities	3,878,674
	23,233,579
	$ 36,910,189

As of December 31, 2010, FSMSSA's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

	Investment Maturities (In Years)				
	Less Than 1	1 to 5	6 to 10	Greater Than 10	Fair Value
U.S. Treasury obligations	$ 1,328,904	$ 284,792	$ 1,112,006	$ 726,160	$ 3,451,862
Mortgage and asset-backed securities	-	407,856	-	-	407,856
U.S. Government agencies	-	-	524,031	3,230,033	3,754,064
Corporate notes and bonds	205,320	2,264,456	2,843,668	749,384	6,062,828
	$ 1,534,224	$ 2,957,104	$ 4,479,705	$ 4,705,577	$ 13,676,610

FSMSSA's investments are held and administered by trustees. Based on negotiated trust and custody contracts, all of these investments were held in FSMSSA's name by FSMSSA's custodial financial institutions at December 31, 2010.

As of December 31, 2010, FSMSSA did not hold an investment in any one issuer that represented more than 5% of FSMSSA's total investments.

(2) Deposits and Investments, Continued

B. Investments, Continued

Fiduciary Funds, Continued

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. FSMSSA does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Discretely Presented Component Units

The deposit and investment policies of the discretely presented component units' generally follow those of the primary government.

As of September 30, 2010, investments at fair value are as follows:

FSM Telecommunications Corporation (FSMTC):	
Fixed income securities:	
U.S. Treasury obligations	$ 624,892
U.S. Government agencies	304,767
Corporate notes	1,112,033
International bonds	43,698
	2,085,390
Other investments:	
Domestic and international equities	3,225,212
Money market funds	155,209
	$ 5,465,811

As of September 30, 2010, FSMTC's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

	Moody's Credit Rating	Investment Maturities (In Years) Less Than 1	1 to 5	6 to 10	Greater Than 10	Fair Value
U.S. Treasury obligations	Aaa/P-1	$ -	$ 520,228	$ 104,664	$ -	$ 624,892
U.S. Government agencies	Aaa/P-1	-	304,767	-	-	304,767
International bonds	Aa1/P-1	-	43,698	-	-	43,698
Corporate notes	A1/P-1	50,913	196,840	146,531	-	394,284
Corporate notes	A2/P-1	83,246	256,330	-	-	339,576
Corporate notes	Aa2/P-1	-	174,484	-	-	174,484
Corporate notes	Aa3/P-1	-	87,188	116,501	-	203,689
		$ 134,159	$ 1,583,535	$ 367,696	$ -	$ 2,085,390

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

College of Micronesia - FSM (COM-FSM):

Fixed income securities:	
Domestic fixed income	$ 704,028
International fixed income	36,767
	740,795
Other investments:	
Common equities	2,285,412
Money market funds	74,064
	2,359,476
	$ 3,100,271

As of September 30, 2010, COM-FSM's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

		Investment Maturities (in years)			
Investment Type	Fair Value	Less than 1	1-5	5-10	more than 10
International bond	$ 36,767	$ 8,397	$ 28,370	$ -	$ -
Corporate bond	284,764	-	111,957	95,989	76,818
Government bond	419,264	116,762	122,728	138,746	41,028
	$ 740,795	$ 125,159	$ 263,055	$ 234,735	$ 117,846

Moody's Rating	Total	Domestic	International
AAA/AAA	$ 419,264	$ 419,264	$ -
AA2/A-	9,972	9,972	-
AA2/AA	45,435	45,435	-
AA3/A+	18,512	18,512	-
AA3/A-	8,996	8,996	-
AA3/AA-	9,067	9,067	-
A1/A+	19,023	19,023	-
A2/A	48,061	48,061	-
A3/A-	46,205	28,282	17,923
BAA1/A-	18,844	-	18,844
BAA1/BBB+	30,161	30,161	-
BAA2/BBB	19,013	19,013	-
BAA2/BBB-	19,714	19,714	-
BAA3/BBB	9,527	9,527	-
BAA3/BBB-	19,001	19,001	-
Total credit risk debt securities	$ 740,795	$ 704,028	$ 36,767

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

As of December 31, 2010, investments at fair value are as follows:

FSM Development Bank (FSMDB):	
Fixed income securities:	
Domestic fixed income	$ 2,907,993
Other investments:	
Domestic equities	5,229,535
Money market funds	1,560,704
	6,790,239
	$ 9,698,232

FSMDB owns 100,000 shares of the outstanding common stock of the Bank of the Federated States of Micronesia. The investment of $662,188 is accounted for at cost since the investment constitutes an 11% ownership share.

As of December 31, 2010, FSMDB's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

	Less Than 1 Year	1 to 5 Years	6 to 10 Years	Greater Than 10 Years	Fair Value
U.S. Treasury obligations	$ 316,611	$ 972,193	$ 388,883	$ -	$ 1,677,687
U.S. Government agency obligations	244,824	616,767	368,715	-	1,230,306
	$ 561,435	$ 1,588,960	$ 757,598	$ -	$ 2,907,993

	Domestic
Moody's Rating – AAA	$ 2,907,993

The National Fisheries Corporation (NFC) owns 50,493 shares of the outstanding common stock of the Micronesia Longline Fishing Company, Inc., an unconsolidated entity, representing a 97% ownership share. Additionally, NFC owns 50% of the shares of the outstanding common stock of the following unconsolidated entities: Yap Fishing Corporation, Yap Fresh Tuna, Inc., Chuuk Fresh Tuna, Inc., and Kosrae Sea Venture, Inc. These investments have been written down to a nil value.

As of September 30, 2010, investments at fair value are as follows:

MiCare Plan, Inc. (the Plan):	
Fixed income securities:	
Domestic fixed income	$ 1,006,235
Other investments:	
Money market funds	13,506
	$ 1,019,741

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

As of September 30, 2010, the Plan's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

	Moody's Credit Rating	Less Than 1 Year	1 to 5 Years	6 to 10 Years	Greater Than 10 Years	Fair Value
U.S. Treasury obligations	AAA	$ 99,993	$ 182,947	$ -	$ -	$ 282,940
U.S. Government agencies obligations	AAA	5,020	422,488	-	-	427,508
Corporate bonds	AAA	-	11,895	-	-	11,895
Corporate bonds	AA1	10,383	5,468	-	-	15,851
Corporate bonds	AA2	5,070	31,941	-	-	37,011
Corporate bonds	AA3	2,023	37,746	-	-	39,769
Corporate bonds	A1	-	33,161	-	-	33,161
Corporate bonds	A2	-	86,698	3,000	-	89,698
Corporate bonds	A3	-	32,302	-	-	32,302
Corporate bonds	BAA1	-	11,158	-	-	11,158
Corporate bonds	BAA2	-	24,942	-	-	24,942
		$ 122,489	$ 880,746	$ 3,000	$ -	$1,006,235

(3) Receivables

Receivables as of September 30, 2010, for the primary government's individual major governmental funds, and nonmajor governmental and fiduciary funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	General	Grants Assistance	Section 111 Investment Development	Early Retirement Program	Asian Development Bank Loan	Compact Trust	Nonmajor and Fiduciary Funds	Totals
Receivables:								
General	$ 1,390,383	$ -	$ -	$ -	$ 3,905	$ -	$ -	$ 1,394,288
Taxes	4,215,902	-	-	-	-	-	-	4,215,902
Federal agencies	1,370,113	12,945,868	-	-	-	-	-	14,315,981
Contributions	-	-	-	-	-	-	2,642,239	2,642,239
Loans	5,762,563	-	6,675,233	-	36,498,784	-	1,683,502	50,620,082
Accrued interest	-	-	3,418	-	-	-	113,754	117,172
Other	-	-	-	-	-	-	43,564	43,564
	12,738,961	12,945,868	6,678,651	-	36,502,689	-	4,483,059	73,349,228
Less: allowance for uncollectable accounts	(6,510,295)	-	-	-	(4,893,528)	-	(1,606,953)	(13,010,776)
Net receivables	$ 6,228,666	$ 12,945,868	$ 6,678,651	$ -	$ 31,609,161	$ -	$ 2,876,106	$ 60,338,452

Loans receivable of the primary government are as follows:

General Fund:

Notes receivable from the National Fisheries Corporation (NFC), payable in various annual installments of $1,962 to $86,639, non-interest bearing, and due on various dates ranging from July 2007 through April 2014. These notes have been fully provided for in the allowance for uncollectable accounts. $ 3,600,000

(3) Receivables, Continued

General Fund, Continued:

Loan receivable from the State of Chuuk, payable in quarterly installments of $416,667, non-interest bearing with a service charge of 1% per annum, due on September 30, 2001. This loan has been fully provided for in the allowance for uncollectable accounts.	737,563
Loan receivable from the State of Kosrae, payable in quarterly installments of $37,500, non-interest bearing, on each of the first day of the month of October, January, April and July starting on October 1, 2009 and ending on July 1, 2019.	1,425,000
	$ 5,762,563

Section 111 Investment Development Fund:

Loans receivable from businesses and individuals at varying terms and conditions administered by the FSM Development Bank.	$ 6,675,233

Asian Development Bank (ADB) Loan 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. This loan has been fully provided for in the allowance for uncollectible accounts.	$ 4,893,528

Loans receivable from the Chuuk Public Utility Corporation (CPUC), 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 in turn relent the loan proceeds to CPUC, PUC, and YSPSC, respectively, as follows:

	Original	SDR Adjustment	
Chuuk Public Utility Corporation	$ 3,666,557	$ 348,768	
Pohnpei Utilities Corporation	2,251,674	569,737	
Yap State Public Service Corporation	2,408,166	373,708	
	$ 8,326,397	$ 1,292,213	9,618,610

(3) Receivables, Continued

Asian Development Bank (ADB) Loan Fund, Continued

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

	Original	SDR Adjustment	
State of Chuuk	$ 4,955,554	$ 779,681	
State of Kosrae	1,869,773	294,185	
State of Pohnpei	3,926,960	617,849	
State of Yap	3,273,194	514,977	
	$ 14,025,481	$ 2,206,692	16,232,173

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

	Original	SDR Adjustment	
State of Chuuk	$ 1,079,709	$ 66,726	
State of Kosrae	266,623	15,993	
State of Yap	404,166	22,357	
	$ 1,750,498	$ 105,076	1,855,574

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:

(3) Receivables, Continued

Asian Development Bank (ADB) Loan Fund, Continued

	Original	SDR Adjustment	
State of Chuuk	$ 1,850,997	$ 174,195	
State of Kosrae	1,584,896	195,530	
State of Pohnpei	1,317,722	102,320	
State of Yap	1,261,738	143,846	
	$ 6,015,353	$ 615,891	6,631,244

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:

Chuuk Public Utility Corporation	$ 73,109	
Pohnpei Utilities Corporation	50,598	
State of Chuuk	157,760	
State of Kosrae	143,080	
State of Pohnpei	314,590	
State of Yap	748,390	1,487,527
		$ 40,718,656

During the year end September 30, 2010, the FSM National Government determined prior loan drawdowns of $1,934,018, originally allocated to the FSM National Government are to be allocated to the States, which also resulted in an increase in loans receivable from the States of the same amount.

Nonmajor Governmental and Fiduciary Funds

Student Loan Fund:

Loans receivable from students under a student financial assistance loan program, interest at 4% per annum, with repayment commencing ten years and nine months after completion of study. These loans have been fully provided for in the allowance for uncollectible accounts. $ 1,606,953

(3) Receivables, Continued

Nonmajor Governmental and Fiduciary Funds, Continued

Pohnpei Development Loan Fund:

Loans receivable from businesses and individuals at varying terms and conditions administered by the FSM Development Bank.	37,770

Yap Development Loan Fund:

Loans receivable from businesses and individuals at varying terms and conditions administered by the FSM Development Bank.	38,779
	$ 1,683,502

Receivables as of September 30, 2010, 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 Coconut Development Authority	FSM Petroleum Corporation	Caroline Islands Air, Inc.	MiCare Plan, Inc.	Total
Receivables:									
General	$ 1,966,099	$ 19,704	$ 1,040,680	$ 6,537,037	$ 52,386	$ 593,833	$ -	$ 108,878	$ 10,318,617
Loans	-	27,152,788	-	-	-	-	-	-	27,152,788
Interest	117,105	237,596	-	-	-	-	-	-	354,701
Other	27,656	400,624	-	2,470,918	1,066	29,377	16,268	232,721	3,178,630
	2,110,860	27,810,712	1,040,680	9,007,955	53,452	623,210	16,268	341,599	41,004,736
Less: allowance for uncollectable accounts	(1,151,453)	(6,199,117)	(1,026,102)	(4,514,730)	(40,511)	-	-	(102,566)	(13,034,479)
	$ 959,407	$ 21,611,595	$ 14,578	$ 4,493,225	$ 12,941	$ 623,210	$ 16,268	$ 239,033	$ 27,970,257

(4) Interfund Receivables and Payables

Receivables and payables between funds reflected as due to/from other funds in the combined balance sheet at September 30, 2010, are summarized as follows:

Receivable Fund	Payable Fund	Amount
General	Grants Assistance	$ 3,470,944
General	Early Retirement Program	2,985,053
General	Nonmajor governmental funds	412
Asian Development Bank Loan	General	2,067,158
Grants Assistance	General	2,684,384
Nonmajor governmental funds	General	2,227,933
		$ 13,435,884

(4) Interfund Receivables and Payables, Continued

Receivables and payables between funds reflected as due to/due from component units in the statement of net assets at September 30, 2010, are summarized as follows:

	Due From	Due To
Primary Government		
General Fund:		
FSM Petroleum Corporation	$ 500,000	$ -
College of Micronesia-FSM	-	483,773
Grants Assistance Fund:		
College of Micronesia-FSM	-	324,773
	$ 500,000	$ 808,546

(5) Capital Assets

Capital asset activities of the primary government for the year ended September 30, 2010, are as follows:

	Balance October 1, 2009	Additions and Reclassifications	Retirements and Reclassifications	Balance September 30, 2010
Governmental Activities:				
Buildings and improvements	$ 16,761,302	$ 6,673,607	$ (99,694)	$ 23,335,215
Boats	22,178,099	45,678	-	22,223,777
Infrastructure	4,879,599	14,789,357	(1,930,319)	17,738,637
Motor vehicles	8,497,256	687,465	(3,572,212)	5,612,509
Computer equipment	4,477,874	402,476	(105,217)	4,775,133
Aircraft	709,207	-	-	709,207
Furniture, equipment and machinery	8,457,781	482,151	(462,860)	8,477,072
	65,961,118	23,080,734	(6,170,302)	82,871,550
Less accumulated depreciation:				
Buildings and improvements	(4,477,418)	(356,305)	4,154	(4,829,569)
Boats	(11,854,966)	(890,130)	-	(12,745,096)
Infrastructure	(462,535)	(400,857)	522,185	(341,207)
Motor vehicles	(5,093,165)	(696,614)	1,365,349	(4,424,430)
Computer equipment	(3,337,166)	(341,431)	100,090	(3,578,507)
Aircraft	(371,268)	(35,460)	-	(406,728)
Furniture, equipment and machinery	(4,456,590)	(940,028)	260,087	(5,136,531)
	(30,053,108)	(3,660,825)	2,251,865	(31,462,068)
Construction in progress	49,395,409	47,030,005	(29,080,448)	67,344,966
	$ 85,303,419	$ 66,449,914	$ (32,998,885)	$ 118,754,448

The primary government has assumed a construction management role for various infrastructure capital projects. These capital projects are accounted for at the government-wide level as construction in progress until completion of the project and resulting turnover to the applicable beneficiary. Until formal turnover occurs, the assets are capitalized and are depreciated by the primary government. During the year ended September 30, 2010, capital assets with a cost of $12,953,033 less accumulated depreciation of $2,263,619 were transferred to the FSM State Governments. Furthermore, construction in progress in the amount of $936,097 was written off due to termination of the project.

(5) Capital Assets, Continued

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

Office of the President	$ 62,019
Foreign affairs	26,025
Health and social affairs	286,138
Education	64,095
Resources and development	46,961
Transportation, communication and infrastructure	1,896,388
Finance and administration	51,343
Justice	400,169
Office of the Public Defender	3,837
SBOC Office	67,577
Judiciary	21,647
Legislature	65,664
Office of the National Public Auditor	20,850
Environment and emergency management	1,772
National government programs	125,533
Agencies, Boards and commissions	28,966
Capital projects	491,841
	$ 3,660,825

(6) 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.	$ 5,534,024
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.	9,618,610
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.	19,122,004

(6) Long-Term Obligations, Continued

Primary Government, Continued

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.	3,826,376
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.	3,770,607
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.	7,034,771
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, at which time the grace period ends, 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.	171,436
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.	1,557,284
	$ 50,635,112

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

(6) Long-Term Obligations, Continued

Primary Government, Continued

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

Year ending September 30,	Principal	Interest Service Charge	Total
2011	$ 1,526,392	$ 579,271	$ 2,105,663
2012	1,463,156	560,429	2,023,585
2013	1,528,390	550,006	2,078,396
2014	1,655,956	530,821	2,186,777
2015	1,656,426	510,360	2,166,786
2016-2020	10,348,393	2,211,837	12,560,230
2021-2025	11,391,877	1,567,932	12,959,809
2026-2030	10,310,146	929,699	11,239,845
2031-2035	8,645,416	365,551	9,010,967
2036-2037	2,108,960	29,541	2,138,501
	$ 50,635,112	$ 7,835,447	$ 58,470,559

Other long-term liabilities will be liquidated in the future from governmental funds. During the year ended September 30, 2010, the following changes occurred in liabilities reported as part of the primary government's long-term liabilities in the statement of net assets:

	Balance October 1, 2009	Additions	Reductions	Balance September 30, 2010	Due Within One Year
Loans payable:					
ADB Loan 1257 FSM (SF)	$ 5,597,607	$ -	$ (63,583)	$ 5,534,024	$ 190,749
ADB Loan 1459 FSM (SF)	9,827,581	-	(208,971)	9,618,610	208,971
ADB Loan 1520 FSM (SF)	19,528,878	-	(406,874)	19,122,004	406,875
ADB Loan 1816 FSM (SF)	4,013,568	-	(187,192)	3,826,376	173,927
ADB Loan 1873 FSM (SF)	3,892,241	-	(121,634)	3,770,607	243,265
ADB Loan 1874 FSM (SF)	7,184,446	-	(149,675)	7,034,771	299,352
ADB Loan 2100 FSM (SF)	137,752	36,186	(2,502)	171,436	3,253
ADB Loan 2099 FSM (SF)	815,768	741,516	-	1,557,284	-
	50,997,841	777,702	(1,140,431)	50,635,112	1,526,392
Other:					
Compensated absences payable	1,342,365	534,372	(337,216)	1,539,521	313,156
	$ 52,340,206	$ 1,312,074	$ (1,477,647)	$ 52,174,633	$ 1,839,548

Discretely Presented Component Units

As of September 30, 2010, the discretely presented component units had the following long-term debt outstanding:

FSM Telecommunications Corporation (FSMTC)

Loan with the Rural Utilities Service (RUS) (formerly the Rural Electrification Administration) from the Rural Electrification and Telephone Revolving Fund, dated August 1, 1990 of $39.6 million, with interest at 5% per annum. Mortgages over specific FSMTC ground leases and essentially all assets of FSMTC collateralize the loan.	$ 33,138,933

(6) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

National Fisheries Corporation (NFC)

Notes payable to the FSM National Government, due in various annual installments of $1,962 to $86,639, non-interest bearing, with final maturities due on various dates ranging from July 2007 through April 2014. These notes are all delinquent as payments should have commenced in 1994 and 1995. However, no repayments have been made. Therefore, these notes are classified as current.	3,600,000

FSM Development Bank (FSMDB)

Bank line of credit agreement with Export and Import Bank of China in the amount of $2,000,000, due July 21, 2013, for the purpose of funding loan programs. The loan is uncollateralized, bears interest at 7.38% per annum. Repayment of principal and interest commenced January 21, 2008 in semi-annual installments of $200,000.	1,316,564

FSM Petroleum Corporation (FSMPC)

Note payable to bank for purposes of acquiring capital assets, due in monthly installments of $57,949, with interest at 7.75% per annum, final payment due on March 2019, unconditionally guaranteed by the FSM National Government. The loan is essentially collateralized by all assets of FSMPC.	3,622,820
	$ 41,678,317

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

Year ending September 30,	Principal	Interest	Total
2011	$ 5,682,777	$ 1,954,318	$ 7,637,095
2012	2,356,492	1,823,881	4,180,373
2013	2,484,833	1,680,996	4,165,829
2014	2,201,960	1,541,879	3,743,839
2015	2,325,876	1,418,114	3,743,990
2016-2020	10,991,825	5,283,810	16,275,635
2021-2029	15,634,554	2,696,838	18,331,392
	$ 41,678,317	$ 16,399,836	$ 58,078,153

(6) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

FSM Petroleum Corporation (FSMPC), Continued

Changes in long-term liabilities of the discretely presented component units for the year ended September 30, 2010, are as follows:

	Balance October 1, 2009	Additions	Reductions	Balance September 30, 2010	Due Within One Year
Loans payable:					
FSMTC	$ 33,024,802	$ 1,063,640	$ (949,509)	$ 33,138,933	$ 1,226,430
NFC	3,600,000	-	-	3,600,000	3,600,000
FSMDB	1,600,000	116,564	(400,000)	1,316,564	400,000
FSMPC	4,628,583	-	(1,005,763)	3,622,820	456,347
	$ 42,853,385	$ 1,180,204	$ (2,355,272)	$ 41,678,317	$ 5,682,777

(7) Short-Term Obligations

Discretely Presented Component Units

FSMTC has one line of credit facility with a bank of $4,464,580 with interest at 5.25% per annum, collateralized by investment securities. The amount drawn against this facility and payable at September 30, 2010 is $2,252,356.

FSMPC have two line of credit facilities (LOC) with a bank of $4,300,000 and $2,000,000. The LOC is evidenced by promissory notes drawn on various dates for various amounts. This line of credit is utilized by FSMPC to fund fuel inventory purchases. The LOC and the related long-term obligation 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. No draw downs are payable by FSMPC on this facility at September 30, 2010.

Changes in short-term borrowings during the year were as follows:

	Beginning Balance	Increases	Reductions	Ending Balance
Line of credit:				
FSMPC	$ -	$ 2,000,000	$ (2,000,000)	$ -
FSMTC	308,150	2,253,832	(309,626)	2,252,356
	$ 308,150	$ 4,253,832	$ (2,309,626)	$ 2,252,356

(8) Operating Transfers In/Out

Operating transfers in/out for each major governmental fund and nonmajor governmental funds in the aggregate, for the year ended September 30, 2010, are as follows:

Source	Recipient	Transfers Out	Transfers In
General Fund			
General Fund	Nonmajor governmental funds	$ 2,578,000	$ -
General Fund	ADB Loan Fund	104,191	-
General Fund	Early Retirement Program Fund	366,413	-
Nonmajor governmental funds	General Fund	-	353,063
		3,048,604	353,063
Grants Assistance Fund			
Grants Assistance Fund	Nonmajor governmental Fund	1,000,000	-
Early Retirement Program Fund			
General Fund	Early Retirement Program Fund	-	366,413
Asian Development Bank (ADB) Loan Fund			
General Fund	ADB Loan Fund	-	104,191
Nonmajor Governmental Funds			
General Fund	Nonmajor governmental funds	-	2,578,000
Grants Assistance Fund	Nonmajor governmental funds	-	1,000,000
Nonmajor governmental funds	General Fund	353,063	-
		353,063	3,578,000
		$ 4,401,667	$ 4,401,667

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.

(9) 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.

(9) Contingencies and Commitments, Continued

FSMPC Loan Guarantee

The FSM National Government is a full faith and credit guarantor of FSMPC's loan to the Bank of Guam. 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 Due to States and Primary Government

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

Insurance Coverage

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

Federal Grants

The FSM National Government participates in a number of federally assisted grant programs. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs exist and have been set forth in the FSM National Government's Single Audit Report as of September 30, 2010. 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 exists 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.

The FSM National Government is pursuing long outstanding receivables from federal grant agencies.

Leases

The FSM National Government has entered into house lease agreements varying from one to five years. The aggregate amount of future lease payments has not been accumulated as renewal is subject to annual appropriation.

(9) Contingencies and Commitments, Continued

Litigation

The FSM National Government is party to various legal proceedings, many of which are normal recurrences in governmental operations. The Attorney General of the FSM National Government is of the opinion that the probable outcome of suits existing at September 30, 2010, is not predictable. No provision for any liability has been made in the accompanying financial statements because management believes that no unfavorable outcome is likely to occur.

Asian Development Bank (ADB) Loans

On November 5, 2004, the FSM National Government entered into two loan agreements (Loan Number 2099 FSM (SF) and Loan Number 2100 FSM (SF)) with the Asian Development Bank in the combined amount of $19,000,000 for the Omnibus Infrastructure Development Project. The proceeds are to be used 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, which will include on lending a portion of the loan proceeds to the States under separate Financing Agreements. As of September 30, 2010, the FSM National Government had drawn down $1,728,720 against these loans.

(10) Continuing Appropriations

As of September 30, 2010, the General Fund has a continuing appropriation representing amounts legally segregated for a specific future use from the general fund of $5,493,335. As of September 30, 2010, the remaining balance of the various infrastructure projects appropriated based on Compact infrastructure grants to be received from the U.S. Department of the Interior appropriations amounts to $81,704,132 and is reflected in the Grants Assistance Fund.

(11) Special Items

Special items consist of the write-off of certain receivables in the amount of $1,254,633 and the allocation of prior years loan drawdowns originally allocated to the FSM National Government that were determined to be allocable to the States during the year. The allocation amounted to $1,932,326 which also resulted in an increase in loans receivable from the States of the same amount.

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

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

YEAR ENDED SEPTEMBER 30, 2010

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
General Fund
Year Ended September 30, 2010

	Budgeted Amounts			Variance with Final Budget -
	Original	Final	Actual Amounts	Positive (Negative)
Revenues:				
Taxes	$ 11,285,139	$ 13,093,248	$ 13,374,527	$ 281,279
Fishing rights	17,000,000	17,500,000	17,727,383	227,383
Postal revenues	549,703	549,703	417,558	(132,145)
Investment earnings	200,000	900,000	1,313,869	413,869
Fees and charges	363,989	363,989	1,174,197	810,208
Grants	-	-	505,843	505,843
Other	1,500,000	1,500,000	1,009,461	(490,539)
Total revenues	30,898,831	33,906,940	35,522,838	1,615,898
Expenditures:				
Executive Branch	19,301,481	22,149,257	20,853,085	1,296,173
Judicial Branch	1,437,330	1,507,486	1,457,929	49,557
Legislative Branch	3,517,686	4,027,186	3,757,221	269,966
Office of the National Public Auditor	1,503,341	1,503,341	1,167,692	335,649
Other National Programs	941,383	1,112,895	931,947	180,948
Boards and Commissions	1,456,217	1,471,555	1,394,333	77,222
Payments to Component Units	1,553,211	1,583,211	1,588,394	(5,183)
Legislative Appropriations	1,219,050	4,061,056	3,368,415	692,641
Total expenditures	30,929,699	37,415,987	34,519,015	2,896,972
Excess (deficiency) of revenues over (under) expenditures	(30,868)	(3,509,047)	1,003,823	4,512,870
Other financing sources (uses):				
Operating transfers in	288,750	288,750	353,063	64,313
Operating transfers out	(2,984,694)	(3,109,794)	(3,048,604)	61,190
Total other financing sources (uses), net	(2,695,944)	(2,821,044)	(2,695,541)	125,503
Special item:				
Write-off of receivable balances	-	-	1,254,633	1,254,633
Net change in unreserved fund balance	(2,726,812)	(6,330,091)	(2,946,351)	3,383,740
Other changes in unreserved fund balance:				
Decrease in reserve for related assets	-	-	166,317	166,317
Increase in reserve for continuing appropriations	-	-	(2,317,567)	(2,317,567)
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	-	-	3,139,889	3,139,889
	(2,726,812)	(6,330,091)	(1,957,712)	4,372,379
Unreserved fund balance at beginning of year	5,189,420	5,189,420	5,189,420	-
Unreserved fund balance (deficit) at the end of the year	$ 2,462,608	$ (1,140,671)	$ 3,231,708	$ 4,372,379

See accompanying notes to required supplementary information - budgetary reporting.

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

Notes to Required Supplementary Information - Budgetary Reporting
September 30, 2010

(1) Budgetary Information

The Congress of the Federated States of Micronesia (CFSM) enacts the budget through passage of specific departmental appropriations. Before signing the Appropriations Act, the President may veto or reduce any specific appropriation, subject to Congressional override. Under the Compact of Free Association, which went into effect November 3, 1986, approval of all CFSM Laws is vested with the President of the Federated States of Micronesia.

During fiscal year 2010, 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 unreserved fund balance of the Governmental Fund Balance Sheet within the other changes in unreserved fund balance section of that schedule.

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.

For the year ended September 30, 2010, expenditures of the General Fund exceeded budget at the program area level (i.e., the legal level of budgetary control) as follows:

Program Area	Excess
Payment to Component Units	$ 5,183

(2) Reconciliation - GAAP and Budgetary Bases of Accounting

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.

Accounting principles used in developing data on a budgetary basis differ from those used in preparing the financial statements in conformity with GAAP. Amounts included on the Statement of Revenues, Expenditures, and Changes in Deficit - Budget and Actual - General Fund (which are presented on a non-GAAP budgetary basis) are reconciled to unreserved deficit of the Governmental Fund Balance Sheet within the other changes in unreserved deficit section of that statement. Furthermore, the net change in fund balance (deficit) to the net change in unreserved fund deficit for the General Fund is as follows:

Net change in fund balance	$ 756,115
Encumbrances	(3,702,466)
Net change in unreserved fund balance	$ (2,946,351)

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2010

NATIONAL GOVERNMENT
FEDERATED STATES OF MICRONESIA

Combined Schedule of Expenditures by Account - Governmental Fund Types
Year Ended September 30, 2010

		Special Revenue				Permanent		
	General	Grants Assistance	Section 111 Investment Development	Early Retirement Program	Asian Development Bank Loan	Compact Trust	Other Governmental Funds	Total
Expenditures:								
Personnel	$ 11,488,031	$ 5,324,063	$ -	$ -	$ 43,573	$ -	$ 305,267	$ 17,160,934
Travel and transportation	3,158,571	3,039,462	-	-	51,000	-	144,148	6,393,181
Books and library materials	13	-	-	-	-	-	-	13
Communications	544,943	206,256	-	-	-	-	9,548	760,747
Customs and taxes	19,637	29,992	-	-	-	-	488	50,117
Dues, membership and subscription	425,030	22,855	-	-	-	-	-	447,885
Food stuffs	286,322	50,568	-	-	705	-	60,759	398,354
Freight	67,486	65,925	-	-	-	-	4,892	138,303
Expendable equipment	167,536	452,532	-	-	-	-	6,956	627,024
Office supplies and materials	1,070,819	599,891	-	-	80	-	43,966	1,714,756
POL	845,083	709,169	-	-	-	-	714,694	2,268,946
Advertising, printing and reproduction	133,975	212,885	-	-	-	-	954	347,814
Rental services	143,894	237,764	-	-	50	-	360	382,068
Repair and maintenance	143,419	22,724	-	-	-	-	44,356	210,499
Utilities	849,259	245,783	-	-	-	-	-	1,095,042
Warehousing	1,643	31,500	-	-	-	-	-	33,143
Miscellaneous goods and services	62,959	26,837	-	-	-	-	-	89,796
Medical supplies	412	141,834	-	-	-	-	-	142,246
Medical claims and referrals	72,517	-	-	-	-	-	-	72,517
General contractual services	3,517,357	50,693,339	-	-	34,637	-	236,316	54,481,649
Professional services	176,825	617,400	-	-	39,879	-	89,109	923,213
Employee housing and household storage	766,851	84,900	-	-	-	-	8,850	860,601
Contributions, subsidies and grants	2,546,396	-	-	-	-	-	-	2,546,396
Training and registration fees	59,758	27,467	-	-	-	-	451	87,676
Leased housing, offices, buildings and land	1,451,907	248,200	-	-	7,200	-	5,700	1,713,007
Insurance and fees	69,394	2,740	-	-	-	-	89,643	161,777
Representation	1,399,127	-	-	-	-	-	515	1,399,642
Scholarships	442,869	74,148	-	-	-	-	331,118	848,135
Investment management fee	-	-	250,000	-	-	-	-	250,000
Bank charges	54,799	2,121	-	-	127	-	325	57,372
Architecture and design	-	1,559,944	-	-	-	-	-	1,559,944
Equipment	301,696	904,860	-	-	-	-	11,130	1,217,686
Vehicle and vessels	398,069	96,868	-	-	-	-	5,745	500,682
Furnitures and fixtures	13,607	-	-	-	-	-	-	13,607
Land	50,000	-	-	-	-	-	-	50,000
Payment to the FSM State Governments	-	-	1,613,474	-	-	-	-	1,613,474
Other	86,345	239,491	1,100	-	-	-	-	326,936
Principal and interest payments	-	-	-	226,868	1,307,968	-	-	1,534,836
Total expenditures	$ 30,816,549	$ 65,971,518	$ 1,864,574	$ 226,868	$ 1,485,219	$ -	$ 2,115,290	$102,480,018

See Accompanying Independent Auditors' Report.

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

GENERAL FUND
Statement of Revenues, Expenditures by Function and Department,
and Changes in Fund Balance
Year Ended September 30, 2010
(with comparatives for the year ended September 30, 2009)

	2010	2009
Revenue:		
Taxes:		
Import	$ 4,810,740	$ 4,445,443
Fuel	140,466	156,511
Coporate tax	815,400	57,908
Income tax, individuals, net of tax refunds	3,491,365	3,452,260
Gross receipts tax, businesses	4,116,556	3,872,080
	13,374,527	11,984,202
Federal and other grants:		
Other	505,843	9,278
	505,843	9,278
Fishing rights	17,727,383	20,016,133
Fees and charges:		
Postal collections	417,558	611,173
Business license and various fees	185,434	129,961
Other	988,763	292,922
	1,591,755	1,034,056
Investment earnings:		
Net change in the fair value of investments	927,645	479,183
Dividend and interest income	386,224	187,855
	1,313,869	667,038
MiCare reimbursible	254,844	265,347
Other	754,617	736,508
Total revenues	35,522,838	34,712,562
Expenditures:		
Executive Branch:		
President's Office	1,169,380	717,520
Department of External Affairs and LNO's	3,662,086	3,441,684
Department of Health and Social Affairs	492,336	261,649
Department of Education	1,103,020	1,130,767
Resources and development	734,263	832,198
National archives, cultural and historic prevention	139,989	167,227
SBOC Office	1,505,585	1,084,690
Environment and emergency management	236,553	1,112,883
Department of Transportation, Communication and Infrastructure	2,410,880	1,334,478
Department of Finance and Administration	2,929,725	2,692,964
Department of Justice	3,545,469	3,502,399
Office of the Public Defender	638,572	624,792
Total Executive Branch	18,567,858	16,903,251
Judicial Branch	1,345,646	1,257,485
Legislative Branch:		
Office of the Speaker and members	1,524,878	1,365,492
Congress staff	1,148,087	1,096,974
Delegation offices	538,946	474,522
Total Legislative Branch	3,211,911	2,936,988

See Accompanying Independent Auditors' Report.

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

Statement of Revenues, Expenditures by Function and Department,
and Changes in Fund Balance, Continued
Year Ended September 30, 2010
(with comparatives for the year ended September 30, 2009)

	2010	2009
Expenditures, continued:		
Office of the National Public Auditor	1,095,941	1,068,839
Other National Government Programs	762,770	1,424,599
Agencies, Boards and Commissions	1,290,221	1,176,952
Payments to Component Units:		
FSM Social Security Authority	1,195,000	500,000
Micare Plan, Inc.	100,000	100,000
College of Micronesia-FSM	57,990	45,000
FSM Coconut Development Authority	176,052	189,942
Caroline Island Air	48,211	118,325
	1,577,253	953,267
Legislative public projects	2,964,949	2,417,665
Total expenditures	30,816,549	28,139,046
Excess of revenues over expenditures	4,706,289	6,573,516
Other financing sources (uses):		
Operating transfers in:		
Disaster Assistance Emergency Fund	-	50,000
Fisheries Observer Revolving Fund	-	1,534
Passport Revolving Fund	353,063	344,939
	353,063	396,473
Operating transfers out:		
FSM Trust Fund	(1,500,000)	(1,500,000)
Infrastructure Maintenance Fund	-	(338,961)
Early Retirement Program Fund	(366,413)	(109,353)
Asian Development Bank Loan Fund	(104,191)	(150,000)
Compact Capital Projects Fund	-	(5,000)
Maritime Operations Revolving Fund	(1,078,000)	(848,822)
Scholarship Fund	-	(120,537)
	(3,048,604)	(3,072,673)
Total other financing uses, net	(2,695,541)	(2,676,200)
Special item:		
Write-off of receivable balances	1,254,633	2,024,148
Net change in fund balance	756,115	1,873,168
Fund balance at the beginning of the year	22,727,705	20,854,537
Fund balance at the end of the year	$ 23,483,820	$ 22,727,705

See Accompanying Independent Auditors' Report.

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

NONMAJOR GOVERNMENTAL FUNDS

Combining Balance Sheet
September 30, 2010

	27	28	29	31	32	33	34	35	38	39	89	
	Permit Revolving	Filling Office Revolving	Maritime Operations Revolving	Passport Revolving	Aquaculture Revolving	Fisheries Observer Revolving	Medical Revolving	Nurse Board Revolving	Student Loans	Scholarship	FSM Trust	Total
ASSETS												
Equity in internal investment pool	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 8,328,558	$ 8,328,558
Due from other funds	778,424	16,430	127,599	100,686	32,369	313,583	-	12,947	613,163	232,732	-	2,227,933
												-
Total assets	778,424	16,430	127,599	100,686	32,369	313,583	-	12,947	613,163	232,732	8,328,558	10,556,491
LIABILITIES AND FUND BALANCES												
Liabilities:												
Accounts payable	$ 25	$ -	$ 41,043	$ 686	$ -	$ 21,927	$ -	$ -	$ -	$ -	$ -	$ 63,681
Due to other funds	-	-	-	-	-	-	412	-	-	-	-	412
Total liabilities	25	-	41,043	686	-	21,927	412	-	-	-	-	64,093
Fund balances:												
Reserved for:												
Encumbrances	-	-	64,312	103,625		284,632	120	147	-	-	-	452,836
Unreserved:												
Special revenue funds	778,399	16,430	22,244	(3,625)	32,369	7,024	(532)	12,800	613,163	232,732	8,328,558	10,039,562
Total fund balances (deficit)	778,399	16,430	86,556	100,000	32,369	291,656	(412)	12,947	613,163	232,732	8,328,558	10,492,398
Total liabilities and fund balances	$ 778,424	$ 16,430	$ 127,599	$ 100,686	$ 32,369	$ 313,583	$ -	$ 12,947	$ 613,163	$ 232,732	$ 8,328,558	$10,556,491

See Accompanying Independent Auditors' Report

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

NONMAJOR GOVERNMENTAL FUNDS

Combining Statement of Revenues, Expenditures by Function, and Changes in Fund Balances (Deficit)
Year Ended September 30, 2010

	27	28	29	31	32	33	34	35	38	39	89	
	Permit Revolving	Filling Office Revolving	Maritime Operations Revolving	Passport Revolving	Aquacultur Revolving	Fisheries Observer Revolving	Medical Revolving	Nurse Board Revolving	Student Loans	Scholarship	FSM Trust	Total
Revenues:												
Taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 281,007	$ -	$ 281,007
Interest and dividends	-	-	-	-	-	-	-	-	-	-	4,109	4,109
Fees and charges	231,447	2,005	248,188	408,101	-	430,850	620	3,175	2,071	-	-	1,326,457
Net change in the fair value of investments	-	-	-	-	-	-	-	-	-	-	219,073	219,073
Total revenues	231,447	2,005	248,188	408,101	-	430,850	620	3,175	2,071	281,007	223,182	1,830,646
Expenditures by function:												
Current:												
General government:												
Transportation, communication and infrastructure	-	-	1,346,520	-	-	-	-	-	-	-	-	1,346,520
Health and social affairs	-	-	-	-	-	-	4,732	3,514	-	-	-	8,246
Education	-	-	-	-	-	-	-	-	-	331,118	-	331,118
Justice	-	-	-	55,038	-	-	-	-	-	-	-	55,038
Agencies, boards and commissions	-	-	-	-	-	374,368	-	-	-	-	-	374,368
Total expenditures	-	-	1,346,520	55,038	-	374,368	4,732	3,514	-	331,118	-	2,115,290
Excess (deficiency) of revenues over (under) expenditures	231,447	2,005	(1,098,332)	353,063	-	56,482	(4,112)	(339)	2,071	(50,111)	223,182	(284,644)
Other financing sources (uses):												
Operating transfers in	-	-	1,078,000	-	-	-	-	-	-	-	2,500,000	3,578,000
Operating transfers out	-	-	-	(353,063)	-	-	-	-	-	-	-	(353,063)
Total other financing sources (uses), net	-	-	1,078,000	(353,063)	-	-	-	-	-	-	2,500,000	3,224,937
Net change in fund balances	231,447	2,005	(20,332)	-	-	56,482		(339)	2,071	(50,111)	2,723,182	2,940,293
Fund balances at the beginning of the year	546,952	14,425	106,888	100,000	32,369	235,174	3,700	13,286	611,092	282,843	5,605,376	7,552,105
Fund balances (deficit) at the end of the year	$ 778,399	$ 16,430	$ 86,556	$ 100,000	$ 32,369	$ 291,656	$ 3,700	$ 12,947	$ 613,163	$ 232,732	$ 8,328,558	$ 10,492,398

See Accompanying Independent Auditors' Report.

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

NONMAJOR GOVERNMENTAL FUNDS

Combining Statement of Revenues, Expenditures by Account,
and Changes in Fund Balances (Deficit)
Year Ended September 30, 2010

	27	28	29	31	32	33	34	35	38	39	89	
	Permit Revolving	Filling Office Revolving	Maritime Operations Revolving	Passport Revolving	Aquacultur Revolving	Fisheries Observer Revolving	Medical Revolving	Nurse Board Revolving	Student Loans	Scholarship	FSM Trust	Total
Revenues:												
Taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 281,007	$ -	$ 281,007
Interest and dividends	-	-	-	-	-	-	-	-	-	-	4,109	4,109
Fees and charges	231,447	2,005	248,188	408,101	-	430,850	620	3,175	2,071	-	-	1,326,457
Net change in the fair value of investments	-	-	-	-	-	-	-	-	-	-	219,073	219,073
Total revenues	231,447	2,005	248,188	408,101	-	430,850	620	3,175	2,071	281,007	223,182	1,830,646
Expenditures by account:												
Personnel	-	-	276,529	-	-	28,738	-	-	-	-	-	305,267
Travel and transportation	-	-	960	-	-	137,011	2,663	3,514	-	-	-	144,148
Communications	-	-	8,848	-	-	-	700	-	-	-	-	9,548
Customs and taxes	-	-	402	-	-	86	-	-	-	-	-	488
Food stuffs	-	-	60,759	-	-	-	-	-	-	-	-	60,759
Freight	-	-	1,328	3,564	-	-	-	-	-	-	-	4,892
Expendable equipment	-	-	6,956	-	-	-	-	-	-	-	-	6,956
Office supplies and materials	-	-	41,168	1,924	-	-	874	-	-	-	-	43,966
POL	-	-	714,664	-	-	30	-	-	-	-	-	714,694
Advertising, printing and reproduction	-	-	819	-	-	-	135	-	-	-	-	954
Rental Services	-	-	-	-	-	-	360	-	-	-	-	360
Repair and maintenance	-	-	11,306	33,050	-	-	-	-	-	-	-	44,356
General Contractual Services	-	-	20,078	16,500	-	199,738	-	-	-	-	-	236,316
Professional Services	-	-	89,109	-	-	-	-	-	-	-	-	89,109
Employee housing and household storage	-	-	8,850	-	-	-	-	-	-	-	-	8,850
Training and registration fees	-	-	-	-	-	451	-	-	-	-	-	451
Leased housing and office	-	-	5,700	-	-		-	-	-	-	-	5,700
Insurance and fees	-	-	87,589	-	-	2,054	-	-	-	-	-	89,643
Representation	-	-	-	-	-	515	-	-	-	-	-	515
Scholarships	-	-	-	-	-	-	-	-	-	331,118	-	331,118
Bank charges	-	-	325	-	-	-	-	-	-	-	-	325
Equipment	-	-	11,130	-	-	-		-	-	-	-	11,130
Vehicles and vessels	-	-	-	-	-	5,745	-	-	-	-	-	5,745
Total expenditures	-	-	1,346,520	55,038	-	374,368	4,732	3,514	-	331,118	-	2,115,290
Excess (deficiency) of revenues over (under) expenditures	231,447	2,005	(1,098,332)	353,063	-	56,482	(4,112)	(339)	2,071	(50,111)	223,182	(284,644)
Other financing sources (uses):												
Operating transfers in	-	-	1,078,000	-	-	-	-	-	-	-	2,500,000	3,578,000
Operating transfers out	-	-	-	(353,063)	-	-	-	-	-	-	-	(353,063)
Total other financing sources (uses), net	-	-	1,078,000	(353,063)	-	-	-	-	-	-	2,500,000	3,224,937
Net change in fund balances	231,447	2,005	(20,332)	-	-	56,482	(4,112)	(339)	2,071	(50,111)	2,723,182	2,940,293
Fund balances at the beginning of the year	546,952	14,425	106,888	100,000	32,369	235,174	3,700	13,286	611,092	282,843	5,605,376	7,552,105
Fund balances (deficit) at the end of the year	$ 778,399	$ 16,430	$ 86,556	$ 100,000	$ 32,369	$ 291,656	$ (412)	$ 12,947	$ 613,163	$ 232,732	$ 8,328,558	$ 10,492,398

See Accompanying Independent Auditors' Report.

NATIONAL GOVERNMENT

GRANTS ASSISTANCE FUND

Combining Balance Sheet
September 30, 2010

	10	11	12	13	14	15	19	18	26	20	23	
	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	Section 211(a)(6) Infrastructure	Infrastructure Maintenance	Disaster Assistance Emergency	U.S. Federal Grants	Non-U.S. Grants	Total
ASSETS												
Receivables:												
Federal agencies	$ 386,061	$ 124,814	$ -	$ -	$ 918,915	$ 62,584	$ 3,262,453	$ -	$ -	$ 8,191,041	$ -	$ 12,945,868
Due from other funds	-	-	-	12,433	-	-	-	-	117,844	-	2,554,107	2,684,384
Advances	30,273	18,900	2,566	1,957	35,921	18,650	37,031	-	-	1,129,594	-	1,274,892
Investment	-	-	-	-	-	-	-	676,921	816,176	-	-	1,493,097
	$ 416,334	$ 143,714	$ 2,566	$ 14,390	$ 954,836	$ 81,234	$ 3,299,484	$ 676,921	$ 934,020	$ 9,320,635	$ 2,554,107	$ 18,398,241
LIABILITIES AND FUND BALANCES												
Liabilities:												
Accounts payable	$ 60,798	$ 38,776	$ -	$ 1,237	$ 40,628	$ 9,230	$ 695,437	$ -	$ -	$ 1,807,743	$ 183,646	$ 2,837,495
Due to component units	-	-	-	-	-	-	-	324,773		-		324,773
Retention payable	-	-	-	-	-	-	1,716,300	-	-	1,868,676	-	3,584,976
Due to FSM State Governments	-	-	-	-	-	-	-	-	-	2,998,875	480	2,999,355
Due to Federal Governments	-	-	-	-	-	-	-	-	-	1,410,242	-	1,410,242
Due to other funds	355,536	104,938	2,566	-	914,208	72,004	999,928	-	-	1,021,764	-	3,470,944
Deferred revenues	-	-	-	-	-	-	-	-	-	219,249	2,389,442	2,608,691
Total liabilities	416,334	143,714	2,566	1,237	954,836	81,234	3,411,665	324,773	-	9,326,549	2,573,568	17,236,476
Fund balances (deficits):												
Reserved for:												
Encumbrances	68,457	76,289	-	-	460,881	38,763	30,446,559	-	-	18,662,627	301,016	50,054,592
Continuing appropriations	-	-	-	-	-	-	81,636,712	-	67,420	-	-	81,704,132
Unreserved (deficits)	(68,457)	(76,289)	-	13,153	(460,881)	(38,763)	(112,195,452)	352,148	866,600	(18,668,541)	(320,477)	(130,596,959)
Total fund balances (deficits)	-	-	-	13,153	-	-	(112,181)	352,148	934,020	(5,914)	(19,461)	1,161,765
Total liabilities and fund balances	$ 416,334	$ 143,714	$ 2,566	$ 14,390	$ 954,836	$ 81,234	$ 3,299,484	$ 676,921	$ 934,020	$ 9,320,635	$ 2,554,107	$ 18,398,241

See Accompanying Independent Auditors' Report.

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

GRANTS ASSISTANCE FUND

Combining Statement of Revenues and Expenditures by Function,
and Changes in Fund Balances (Deficit)
Year Ended September 30, 2010

	10	11	12	13	14	15	19	18	26	20	23	
	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	Section 211(a)(6) Infrastructure	Infrastructure Maintenance	Disaster Assistance Emergency	U.S. Federal Grants	Non-U.S. Grants	Total
Revenues:												
Compact funding	$ 453,578	$ 605,488	$ -	$ -	$ 1,619,069	$ 579,799	15,472,847	$ 338,961	$ 450,786	$ -	$ -	$ 19,520,528
Federal and other grants	-	-	-	-	-	-	-	-	-	45,315,665	2,690,721	48,006,386
Net change in the fair value of investments	-	-	-	-	-	-	-	(1,001)	(1,070)	-	-	(2,071)
	453,578	605,488	-	-	1,619,069	579,799	15,472,847	337,960	449,716	45,315,665	2,690,721	67,524,843
Expenditures by function:												
Current:												
General government:												
Finance and administration	-	-	-	-	1,284,694	-	-	-	-		-	1,284,694
Resources and development	-	-		-	-	-	-	-	-	173,616	415,817	589,433
Transportation, communication and infrastructure	-	-	-	-	-	-	467,635	-	-	-	107,552	575,187
Health and social affairs	-	605,488	-	-	-	-	-	-	-	6,215,319	496,498	7,317,305
Education	553,578	-	-	-	-	517,216	-	-	-	2,181,297	-	3,252,091
SBOC Office	-	-	-	-		-	-	-	-	243,075	250,507	493,582
Environment and emergency management	-	-	-	-	80,469	-	-	-	-	35,248	296,596	412,313
National archives, cultural and historic preservation	-	-	-		-	-	-	-	-	174,466	-	174,466
Office of the National Public Auditor	-	-	-	-	126,067	-	-	-	-	486,165	-	612,232
National government programs	-	-	-	-	-	-	-	-	-	1,360,272	-	1,360,272
Agencies, boards and commissions	-	-	-	-	-	-	-	-	-	-	30,963	30,963
Payments to component units	-	-	-	-	-	-	-	324,773	-	107,104	92,788	524,665
Capital Projects	-	-	-	-	-	-	15,005,212	-	-	34,339,103	-	49,344,315
Total expenditures	553,578	605,488	-	-	1,491,230	517,216	15,472,847	324,773	-	45,315,665	1,690,721	65,971,518
Excess (deficiency) of revenues over (under) expenditures	(100,000)	-	-	-	127,839	62,583		13,187	449,716	-	1,000,000	1,553,325
Other financing sources (uses):												
Operating transfers out	-	-	-	-	-	-	-	-	-	-	(1,000,000)	(1,000,000)
Total other financing sources (uses), net	-	-	-	-	-	-	-	-	-	-	(1,000,000)	(1,000,000)
Net change in fund balances (deficit)	(100,000)	-	-	-	127,839	62,583	-	13,187	449,716	-	-	553,325
Fund balances (deficit) at the beginning of the year	100,000	-	-	13,153	(127,839)	(62,583)	(112,181)	338,961	484,304	(5,914)	(19,461)	608,440
Fund balances (deficit) at the end of the year	$ -	$ -	$ -	$ 13,153	$ -	$ -	$ (112,181)	$ 352,148	$ 934,020	$ (5,914)	$ (19,461)	$ 1,161,765

See Accompanying Independent Auditors' Report.

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

GRANTS ASSISTANCE FUND

Combining Statement of Revenues, Expenditures by Account,
and Changes in Fund Balances (Deficit)
Year Ended September 30, 2010

	10	11	12	13	14	15	19	18	26	20	23	
	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	Section 211(a)(6) Infrastructure	Infrastructure Maintenance	Disaster Assistance Emergency	U.S. Federal Grants	Non-U.S. Grants	Total
Revenues:												
Compact funding	$ 453,578	$ 605,488	$ -	$ -	$ 1,619,069	$ 579,799	$ 15,472,847	$ 338,961	$ -	$ -	$ -	$ 19,069,742
Federal and other grants	-	-	-	-	-	-	-	-	-	45,315,665	2,690,721	48,006,386
Net change in the fair value of investments	-	-	-	-	-	-	-	(1,001)	449,716	-	-	448,715
	453,578	605,488	-	-	1,619,069	579,799	15,472,847	337,960	449,716	45,315,665	2,690,721	67,524,843
Expenditures by account:												
Personnel	137,040	346,137	-	-	459,810	223,349	588,339	-	-	3,430,825	138,563	5,324,063
Travel and transportation	122,426	51,300			228,197	100,522	102,806	-	-	1,949,891	484,320	3,039,462
Communications	17,408	29,978	-	-	11,706	9,742	21,582	-	-	109,444	6,396	206,256
Customs and taxes	1,494	1,257	-	-	-	741	9,583	-	-	16,917	-	29,992
Dues, membership and subscription	-	-	-	-	18,357	-	-	-	-	4,498	-	22,855
Food stuffs	1,200	-	-	-	-	-	-	-	-	9,496	39,872	50,568
Freight	1,117	3,052	-	-	2,123	434	22,681	-	-	27,997	8,521	65,925
Expendable equipment	3,549	3,239	-	-	9,863	90	268,002	-	-	144,323	23,466	452,532
Office Supplies and materials	13,041	17,693	-	-	72,452	9,018	14,022	-	-	386,604	87,061	599,891
POL	1,775	8,518	-	-	9,477	446	9,456	-	-	593,349	86,148	709,169
Advertising, printing and reproduction	48,191	-	-	-	464	10,006	5,697	-	-	119,044	29,483	212,885
Rental services	7,667	10,480	-	-	20	2,160	17	-	-	160,337	57,083	237,764
Repair and maintenance	1,094	2,565	-	-	2,066	186	2,464	-	-	12,151	2,198	22,724
Utilities	4,000	600	-	-	68,899	3,000	1,000	-	-	168,284	-	245,783
Warehousing	-	-	-	-	-	-	-	-	-	31,500	-	31,500
Miscellaneous goods and services	-	-	-	-	-	-	-	-	-	26,837	-	26,837
Medical Supplies	-	14,444	-	-	-	-	-	-	-	122,437	4,953	141,834
General Contractual services	90,938	99,635	-	-	273,925	119,421	12,691,214	324,773	-	36,530,625	562,808	50,693,339
Professional services	19,246	-	-	-	188,250	-	67,991	-	-	312,418	29,495	617,400
Employee housing and household storage	-	-	-	-	6,000	-	55,700	-	-	22,600	600	84,900
Training and registration fees	600	325	-	-	4,320	-	625	-	-	19,534	2,063	27,467
Leased housing, offices, buildings and land	-	16,190	-	-	87,195	22,680	61,801	-	-	60,334	-	248,200
Insurance and fees	-	-	-	-	-	-	-	-	-	2,740	-	2,740
Scholarships	74,148	-	-	-	-	-	-	-	-	-	-	74,148
Bank charges		75	-	-	550	-	250	-	-	425	821	2,121
Architecture and design		-	-	-	-	-	1,546,772	-	-	13,172	-	1,559,944
Equipment	8,644	-	-	-	22,055	15,421	2,845	-	-	775,081	80,814	904,860
Vehicle	-	-	-	-	23,956	-	-	-	-	66,516	6,396	96,868
Other	-	-	-	-	1,545	-	-	-	-	198,286	39,660	239,491
Total expenditures	553,578	605,488	-	-	1,491,230	517,216	15,472,847	324,773	-	45,315,665	1,690,721	65,971,518
Excess (deficiency) of revenues over (under) expenditures	(100,000)	-	-	-	127,839	62,583	-	13,187	449,716	-	1,000,000	1,553,325
Other financing sources (uses):												
Operating transfers out	-	-	-	-	-	-	-	-	-	-	(1,000,000)	(1,000,000)
Total other financing sources (uses), net	-	-	-	-	-	-	-	-	-	-	(1,000,000)	(1,000,000)
Net change in fund balances (deficit)	(100,000)	-	-	-	127,839	62,583	-	13,187	449,716	-	-	553,325
Fund balances (deficit) at the beginning of the year	100,000	-	-	13,153	(127,839)	(62,583)	(112,181)	338,961	484,304	(5,914)	(19,461)	608,440
Fund balances (deficit) at the end of the year	$ -	$ -	$ -	$ 13,153	$ -	$ -	$ (112,181)	$ 352,148	$ 934,020	$ (5,914)	$ (19,461)	$ 1,161,765

See Accompanying Independent Auditors' Report.

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

GENERAL FUND
Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual, Budgetary Basis
Year Ended September 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	Amounts	(Negative)
Revenues:				
Local taxes	$ 11,285,139	$ 13,093,248	$ 13,374,527	$ 281,279
Fishing right fees	17,000,000	17,500,000	17,727,383	227,383
Postal revenues	549,703	549,703	417,558	(132,145)
Investment earnings	200,000	900,000	1,313,869	413,869
Fees and charges	363,989	363,989	1,174,197	810,208
Grants	-	-	505,843	505,843
MiCare reimbursible	-	-	254,844	254,844
Other	1,500,000	1,500,000	754,617	(745,383)
Total revenues	30,898,831	33,906,940	35,522,838	1,615,898
Expenditures-budgetary basis by department:				
Executive Branch:				
Office of the President	508,508	634,608	612,678	21,930
President's Office Non-operational Projects	147,007	686,040	575,689	110,351
Public Information	132,165	130,165	127,005	3,160
Total	787,680	1,450,813	1,315,372	135,441
Department of External Affairs:				
Administration	290,147	482,186	426,487	55,699
Division of APA & Multilateral Affairs	103,610	103,610	110,763	(7,153)
Division of American and European Affairs	81,101	81,101	80,426	675
FSM Consulate - China	440,072	460,491	397,487	63,004
FSM Consulate - Guam	255,785	285,785	240,691	45,094
FSM Consulate - Honolulu	318,813	338,813	298,750	40,063
FSM Embassy - Tokyo	848,489	865,489	869,779	(4,290)
FSM Embassy - Washington D.C.	441,780	441,780	470,968	(29,188)
FSM Embassy - Fiji	228,277	228,277	222,314	5,963
FSM Permanent Mission - New York	610,621	610,621	609,167	1,454
Total	3,618,695	3,898,153	3,726,832	171,321
Department of Health and Social Affairs:				
Administration	87,821	80,917	85,596	(4,679)
Women's Interests Unit	39,452	29,486	30,183	(697)
Sports & Youth Unit	76,607	76,307	101,077	(24,770)
Non Operational Programs	137,557	319,000	312,571	6,429
Total	341,437	505,710	529,427	(23,717)
Department of Education:				
Administration	28,340	57,384	47,446	9,938
Basic Education Support - Aid to Non-public schools	450,000	450,000	450,000	-
Basic Education Support - Others	207,784	493,000	539,868	(46,868)
Division of Carreer and Technical Education	48,665	43,753	78,066	(34,313)
Total	734,789	1,044,137	1,115,380	(71,243)
Department of Resources and Development:				
Administration	159,162	159,162	123,938	35,224
Division of Sectoral Development	465,689	463,689	457,985	5,704
Division of Trade and Investment	105,988	72,253	63,662	8,591
Division of Energy	61,719	61,719	60,846	873
Resource and Development Non Operational Projects	129,787	251,787	162,364	89,423
Total	922,345	1,008,610	868,795	139,815
Office of National archives, cultural and historic prevention:				
Office of the Director	142,738	142,738	143,540	(802)
Non operational projects	13,889	13,889	4,264	9,625
Total	156,627	156,627	147,804	8,823
SBOC Office:				
Division of Statistics	1,179,011	1,171,011	930,667	240,344
Division of Overseas Development	37,962	37,962	33,967	3,995
Division of Budget and Economic Management	259,379	260,486	251,642	8,844
Division of Compact Management	539,463	675,045	571,691	103,354
Total	2,015,815	2,144,504	1,787,967	356,537
Office of Environment and Emergency Management:				
Office of the Director	77,820	75,320	67,806	7,514
Division of Sustainable Development	84,217	80,217	85,007	(4,790)
Division of Emergency Management	308,185	308,185	320,639	(12,454)
Non operational projects	58,789	68,789	52,008	16,781
Total	529,011	532,511	525,461	7,050

See Accompanying Independent Auditors' Report.

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual, Budgetary Basis, Continued
Year Ended September 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	Amounts	(Negative)
Expenditures-budgetary basis by department, continued:				
Department of Transportation, Communication & Infrastructure:				
Administration	152,318	148,818	154,065	(5,247)
Division of Marine Transportation	138,021	138,021	105,849	32,172
Division of Infrastructure	453,572	451,572	456,472	(4,900)
Civil Aviation	90,036	90,036	67,031	23,005
Communication	164,241	157,241	135,042	22,199
Drydocking of Caroline Voyager	873,027	1,143,027	1,080,542	62,485
FSM Capital Energy Utilities	400,000	400,000	399,998	2
Capital Complex Rehabilitation	-	100,000	-	100,000
Other National Programs	117,250	117,250	98,807	18,443
Total	2,388,465	2,745,965	2,497,806	248,159
Department of Finance and Administration:				
Administration	247,056	243,506	176,813	66,693
Division of National Treasury	650,543	670,543	578,176	92,367
Division of Customs and Tax Administration	965,257	1,123,257	990,221	133,036
Division of Personnel	1,253,159	1,235,071	1,081,640	153,431
Investment & International Finance	144,056	144,056	131,411	12,645
Maitenance fee for FMIS	30,000	30,000	83,496	(53,496)
Reimbursible - MiCare	27,218	27,218	254,844	(227,626)
Finance Non operational Projects and Adjustments	4,000	4,000	39,484	(35,484)
Total	3,321,289	3,477,651	3,336,085	141,566
Department of Justice:				
Administration	173,198	191,198	184,899	6,299
Registry of Corporation	41,494	41,494	46,423	(4,929)
Division of Law	189,333	189,333	185,673	3,660
Division of Litigation	176,941	176,941	159,597	17,344
Division of Immigration & Labor	850,935	1,309,911	1,283,703	26,208
FSM National Police	1,988,045	2,210,817	2,231,112	(20,295)
Joint Law	174,978	174,978	109,572	65,406
Total	3,594,924	4,294,672	4,200,979	93,693
Office of the Public Defender	890,404	889,904	801,177	88,727
Total Executive Branch	19,301,481	22,149,257	20,853,085	1,296,173
Judicial Branch	1,437,330	1,507,486	1,457,929	49,557
Legislative Branch:				
Office of the Speaker and members	1,662,260	2,020,200	1,882,666	137,534
Congress staff	1,322,607	1,410,167	1,262,764	147,404
Delegation offices	532,819	596,819	611,791	(14,972)
Total Legislative Branch	3,517,686	4,027,186	3,757,221	269,966
Office of the National Public Auditor				-
Public Auditor	1,042,066	1,042,066	691,591	350,475
Single Audit	461,275	461,275	476,101	(14,826)
Total Office of the Public Auditor	1,503,341	1,503,341	1,167,692	335,649
Other National Government Programs:				
FEMA Matching	102	102	1,668	(1,566)
National Election Director	424,981	508,049	479,706	28,343
Micronesia Legal Services Corporation	166,300	166,300	150,000	16,300
Fisheries Marine Institute	100,000	100,000	-	100,000
Aquaculture Center	50,000	50,000	83,113	(33,113)
Other National Programs	200,000	288,444	217,460	70,984
Total Other National Government Programs	941,383	1,112,895	931,947	180,948

See Accompanying Independent Auditors' Report.

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual, Budgetary Basis, Continued
Year Ended September 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	Amounts	(Negative)
Expenditures-budgetary basis by department, continued:				
Board and Commissions:				
National Oceanic Resource Management Authority	408,056	408,056	387,466	20,590
FSM Banking Board	260,323	260,323	254,092	6,231
Board of Regents-COM	65,000	65,000	-	65,000
Postal Services	712,838	728,176	737,763	(9,587)
National Board of Nursing	10,000	10,000	15,012	(5,012)
Total Boards and Commissions	1,456,217	1,471,555	1,394,333	77,222
Payments to component units and fiduciary fund:				
FSM MiCare	100,000	100,000	100,000	-
FSM Social Security Authority	1,195,000	1,195,000	1,195,000	-
Copra Subsidy	62,000	92,000	178,352	(86,352)
Coconut Development Authority	147,214	147,214	8,841	138,373
Caroline Island Air	16,834	16,834	48,211	(31,377)
COM-FSM	32,163	32,163	57,990	(25,827)
Total payments to component units	1,553,211	1,583,211	1,588,394	(5,183)
Public Projects	1,219,050	4,061,056	3,368,415	692,641
Total expenditures	30,929,699	37,415,987	34,519,015	2,896,972
Excess (deficiency) of revenues over (under) expenditures	(30,868)	(3,509,047)	1,003,823	4,512,870
Other financing sources (uses):				
Operating Transfer in:				
Passport Revolving Fund	288,750	288,750	353,063	64,313
Total Operating Transfer in	288,750	288,750	353,063	64,313
Operating Transfer out:				
Disaster Assistance Fund	200,000	200,000	-	200,000
Early Retirement Program	-	-	366,413	(366,413)
Infrasture Maintenance Fund	206,694	231,794	-	231,794
ADB loan fund	-	100,000	104,191	(4,191)
FSM Trust Fund	1,500,000	1,500,000	1,500,000	-
Maritime Revolving Fund	1,078,000	1,078,000	1,078,000	-
Total Operating Transfer out	2,984,694	3,109,794	3,048,604	61,190
Total other financing sources (uses), net	(2,695,944)	(2,821,044)	(2,695,541)	125,503
Special item:				
Write-off of receivable balances	-	-	1,254,633	1,254,633
Net change in unreserved fund balance	(2,726,812)	(6,330,091)	(2,946,351)	3,383,740
Other changes in unreserved fund balance:				
Decrease in reserve for related assets	-	-	166,317	166,317
Increase in reserve for continuing appropriations	-	-	(2,317,567)	(2,317,567)
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		-	3,139,889	3,139,889
	(2,726,812)	(6,330,091)	(1,957,712)	4,372,379
Unreserved fund balance at beginning of year	5,189,420	5,189,420	5,189,420	-
Unreserved fund balance (deficit) at end of year	$ 2,462,608	$ (1,140,671)	$ 3,231,708	$ 4,372,379

See Accompanying Independent Auditors' Report.

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

His Excellency Emmanuel Mori
President
Federated States of Micronesia:

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Federated States of Micronesia (FSM) National Government as of and for the year ended September 30, 2010, which collectively comprise the FSM National Government's basic financial statements and have issued our report thereon dated June 30, 2011. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Caroline Islands Air, Inc., as described in our report of the FSM National Government's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that is reported on separately by those other auditors.

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 grants, and other matters did not include the FSM Social Security Administration, the FSM Telecommunications Corporation, the FSM Development Bank, the National Fisheries Corporation, the College of Micronesia-FSM, the FSM Coconut Development Authority, the FSM Petroleum Corporation, or the MiCare Plan, Inc., 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. Other auditors issued a separate report on their consideration of internal control over financial reporting and their tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for Caroline Islands Air, Inc. The findings, if any, included in those reports are not included herein.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the FSM National Government's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the FSM National Government's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the FSM National Government's internal control over financial reporting.

Member of
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Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed in the accompanying Schedule of Findings and Questioned Costs (pages 90 through 123), we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be 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 2010-4, 2010-8, 2010-9, 2010-10, 2010-12, 2010-15 and 2010-16 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 item 2010-14 to be significant deficiencies.

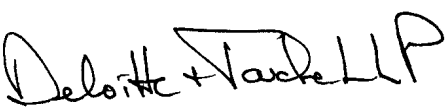
Compliance and Other Matters

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

We noted certain matters that we reported to management of the FSM National Government in a separate letter dated June 30, 2011.

The FSM National Government's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the FSM National Government's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Honorable Members of the FSM Congress, federal awarding agencies, the cognizant audit and other federal agencies, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.



June 30, 2011

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

His Excellency Emmanuel Mori
President
Federated States of Micronesia:

Compliance

We have audited the Federated States of Micronesia (FSM) National Government's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010. The FSM National Government's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (pages 90 through 123). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the FSM National Government's management. Our responsibility is to express an opinion on the FSM National Government's compliance based on our audit.

As discussed in Note 2b to the Schedule of Expenditures of Federal Awards, the FSM National Government's basic financial statements include the operations of certain entities whose federal awards are not included in the Schedule of Expenditures of Federal Awards for the year ended September 30, 2010. Our audit, described below, did not include the operations of the entities identified in Note 2b as these entities conducted separate audits in accordance with OMB Circular A-133, if required.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the FSM National Government's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the FSM National Government's compliance with those requirements.

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As described in items 2010-1 through 2010-12 in the accompanying Schedule of Findings and Questioned Costs, the FSM National Government did not comply with requirements regarding allowable costs/cost principles, cash management, equipment and real property management, procurement and suspension and debarment, period of availability of federal funds, reporting, and special tests and provisions that are applicable to its Compact of Free Association Compact Sector Grants (CFDA # 15.875) major program; allowable costs/cost principles, cash management, equipment and real property management, reporting, and special tests and provisions that are applicable to its Airport Improvement Program (CFDA # 20.106) major program; allowable costs/cost principles, cash management, equipment and real property management, procurement and suspension and debarment, and special tests and provisions that are applicable to its Public Health Emergency Preparedness (CFDA # 93.069) major program; and allowable costs/cost principles, cash management, equipment and real property management, procurement and suspension and debarment, period of availability of federal funds, and special tests and provisions that are applicable to its Special Education-Grants to States (CFDA # 84.027) major program. Compliance with such requirements is necessary, in our opinion, for the FSM National Government to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, 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 its Compact of Free Association Compact Sector Grants (CFDA # 15.875) major program, its Airport Improvement Program (CFDA # 20.106) major program, its Public Health Emergency Preparedness (CFDA # 93.069) major program, and its Special Education-Grants to States (CFDA # 84.027) major program for the year ended September 30, 2010. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2010-13.

Internal Control Over Compliance

Management of the FSM National Government is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the FSM National Government's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the FSM National Government's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be 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 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 items 2010-1, 2010-2 and 2010-4 through 2010-12 to be material weaknesses.

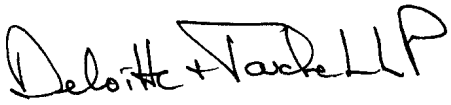
A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important 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 item 2010-3 to be significant deficiencies.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the FSM National Government as of and for the year ended September 30, 2010, and have issued our report thereon dated June 30, 2011. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the FSM National Government's basic financial statements. We did not audit the financial statements of the Caroline Islands Air, Inc., which represents 0.1%, 0.1% and 0.3%, respectively, of the assets, net assets and operating revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Caroline Islands Air, Inc., is based on the report of the other auditors. The accompanying Schedule of Expenditures of Federal Awards (pages 79 through 86) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of the FSM National Government. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The FSM National Government's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the FSM National Government's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Honorable Members of the FSM Congress, federal awarding agencies, the cognizant audit and other federal agencies, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.



June 30, 2011

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

Summary Schedule of Expenditures of Federal Awards, by Grantor
Year Ended September 30, 2010

Agency/Program	Expenditures	Amounts Passed-Through to Subrecipients
U.S. Department of Agriculture	$ 173,616	$ 143,940
U.S. Department of Commerce	1,360,272	-
U.S. Department of the Interior	19,832,578	69,146,658
U.S. Department of Transportation	34,339,103	(1,653)
U.S. Department of Homeland Security	35,248	966,503
U.S. Department of Education	2,181,297	1,735,522
U.S. Department of Health and Human Services	6,322,423	2,445,327
Institute of Museum and Library Services	36,260	-
GRAND TOTAL	$ 64,280,797	$ 74,436,297

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	$ 65,971,518
Less:	
Expenditures of the Non U.S. Grants Fund (page 69)	(1,690,721)
Total expenditures per financial statements	$ 64,280,797

See accompanying notes to Schedule of Expenditures of Federal Awards.

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2010

Agency/Program	Federal CFDA Number	Expenditures	Amounts Passed-Through to Subrecipients
U.S. DEPARTMENT OF AGRICULTURE			
Rural Self-Help Housing Technical Assistance	10.420	$ -	$ 17,803
Forestry Research	10.652	-	-
Cooperative Forestry Assistance	10.664	173,616	82,536
Urban and Community Forestry Program	10.675	-	3,176
Forest Stewardship Program	10.678	-	-
Community Facilities Loans and Grants	10.766	-	40,425
Rural Sanitation Project	10.999	-	-
U.S. DEPARTMENT OF AGRICULTURE TOTAL		$ 173,616	$ 143,940

See accompanying notes to Schedule of Expenditures of Federal Awards.

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2010

Agency/Program	Federal CFDA Number	Expenditures	Amounts Passed-Through to Subrecipients
U.S. DEPARTMENT OF COMMERCE			
Anadromous Fish Conservation Act Program	11.405	$ -	$ -
Financial Assistance for National Centers for Coastal Ocean Science	11.426	-	-
Special Oceanic and Atmospheric Projects -NOAA	11.460	1,360,272	-
U.S. DEPARTMENT OF COMMERCE		$ 1,360,272	$ -

See accompanying notes to Schedule of Expenditures of Federal Awards.

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2010

Agency/Program	Federal CFDA Number	Expenditures	Amounts Passed-Through to Subrecipients
U.S. DEPARTMENT OF THE INTERIOR			
Economic, Social and Political Development of the Territories	15.875		
Compact Sector Funds:			
Infrastructure and Infrastructure maintenance		$ 15,797,620	$ 1,300,784
Education		553,579	28,641,907
Health		605,488	21,282,530
Capacity		1,491,230	2,162,879
Environment		-	1,378,722
Private		-	2,298,031
Compact Supplemental Ed		517,215	11,701,244
Subtotal Compact Sector Funds		18,965,132	68,766,097
Technical Assistance:			
Single Audit		426,940	-
Technical Assistance OIA/DOI Other		302,300	114,895
		729,240	114,895
Total CFDA #15.875		19,694,372	68,880,992
Historic Preservation Fund Grants-In-Aid	15.904	138,206	265,666
U.S. DEPARTMENT OF THE INTERIOR TOTAL		$ 19,832,578	$ 69,146,658

See accompanying notes to Schedule of Expenditures of Federal Awards.

NATIONAL GOVERNMENT
FEDERATED STATES OF MICRONESIA

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2010

Agency/Program	Federal CFDA Number	Expenditures	Amounts Passed-Through to Subrecipients
U.S. DEPARTMENT OF TRANSPORTATION			
Airport Improvement Program	20.106	$ 34,339,103	$ (1,653)
U.S. DEPARTMENT OF TRANSPORTATION TOTAL		$ 34,339,103	$ (1,653)

See accompanying notes to Schedule of Expenditures of Federal Awards.

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2010

Agency/Program	Federal CFDA Number	Expenditures	Amounts Passed-Through to Subrecipients
U.S. DEPARTMENT OF HOMELAND SECURITY			
Public Assistance Grants - Tyhpoon Fern HMGP/Subgrantee	83.544	$ -	$ -
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (B)	97.036	25,908	958,892
Individual and Family Grants - FEMA 1427/IFG Admin. Cost	83.543	-	-
Hazard Mitigation Grant-State Management Cost	97.038	7,722	-
Hazard Mitigation Grant	97.039	-	7,611
Crisis Counseling	97.032	-	-
Emergency Management Performance Grants	97.042	1,618	-
U.S. DEPARTMENT OF HOMELAND SECURITY TOTAL		$ 35,248	$ 966,503

See accompanying notes to Schedule of Expenditures of Federal Awards.

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2010

Agency/Program	Federal CFDA Number	Expenditures	Amounts Passed-Through to Subrecipients
U.S. DEPARTMENT OF EDUCATION			
Special Education-Basic Grants to States	84.027A	$ 232,647	$ -
Special Education - Grants to States	84.027	1,948,650	1,735,522
U.S. DEPARTMENT OF EDUCATION TOTAL		$ 2,181,297	$ 1,735,522

See accompanying notes to Schedule of Expenditures of Federal Awards.

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2010

Agency/Program	Federal CFDA Number	Expenditures	Amounts Passed-Through to Subrecipients
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Public Health and Social Services Emergency Fund	93.003	$ -	$ -
Public Health Emergency Preparedness	93.069	2,047,537	-
Emergency System for ARFHP, BT	93.089	15,732	-
SSDI Program	93.110	78,453	-
Maternal and Child Health Federal Consolidated Programs	93.110	-	-
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	171,128	58,467
Sexual Violence Prevention Ed	93.136	13,340	
Health Activities Recommendation Panel Health Activities - Tobacco Use Prevention Programs	93.203	-	-
Family Planning-Services	93.217	243,177	113,403
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers)	93.224	-	1,087,135
Abstinence Education Program	93.235	-	-
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	401,772	2,372
Universal Newborn Hearing Screening	93.251	150,349	-
Immunization Grants	93.268	815,393	197,513
Centers for Disease Control and Prevention-Investigations and Technical Assistance	93.283	648,775	199,245
ARRA Health Center Integrated Services	93.703	-	298,762
Immunization & Vaccine for Children	93.712	168,320	
Tobacco & Diabetes Control & P	93.723	25,368	
National Bioterrorism Hospital Preparedness Program	93.889	315,035	-
HIV Care Formula Grants	93.917	37,899	3,999
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	-	-
HIV Prevention Activities-Health Department Based	93.940	-	61,549
Epidemiologic Research Studies of AIDS and HIV Infection in Selected Population Groups	93.943	157,213	4,846
HIV/AIDS Surveillance	93.944	17,184	-
Block Grants for Community Mental Health Services	93.958	125,660	-
Block Grants for Prevention and Treatment of Substance Abuse	93.959	626,537	187,426
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977	-	7,303
Cooperative Agreements for State-Based Diabetes Control Progams and Evaluation of Surveillance Systems	93.988	-	27,141
Preventive Health and Health Services Block Grant	93.991	9,400	6,990
Maternal and Child Health Services Block Grant to the States	93.994	254,151	153,578
Small Business Innovation Research (NIAAA, NIDA, NIMH)	93.126	-	-
Occupational Health and Safety Surveillance	93.957	-	-
CCPI Cancer Program	93.999	-	22,127
Others	93.Unknown	-	13,471
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL		$ 6,322,423	$ 2,445,327
INSTITUTE OF MUSEUM AND LIBRARY SERVICES			
Grants to States	45.310	$ 36,260	$ -
INSTITUTE OF MUSEUM AND LIBRARY SERVICES		$ 36,260	$ -
GRAND TOTAL		$ 64,280,797	$ 74,436,297

See accompanying notes to Schedule of Expenditures of Federal Awards.

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2010

1. Scope of Audit

The Federated States of Micronesia (FSM) National Government is a governmental entity governed by its own Constitution. All significant operations of the FSM are included in the scope of the OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior has been designated as the FSM's cognizant agency for Single Audit. All programs are received in a direct capacity from the specified grantor agency.

a. Programs Subject to Single Audit

- U.S. Department of Agriculture
- U.S. Department of Education
- U.S. Department of Health and Human Services
- U.S. Department of the Interior
- U.S. Department of Homeland Security
- U.S. Department of Commerce
- U.S. Department of Transportation
- Institute of Museum and Library Services

2. Summary of Significant Accounting Policies

A. Basis of Accounting

For purposes of this report, certain accounting procedures were followed which help illustrate the expenditures of the individual programs. All expenses and capital outlays are reported as expenditures. The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

B. Reporting Entity

For purposes of complying with The Single Audit Act of 1984, as amended in 1996, the FSM National Government's reporting entity is defined in Note 1A to its September 30, 2010 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, 2010.

C. Indirect Cost Allocation

The FSM National Government did not receive an indirect cost allocation and did not charge indirect costs against federal programs in fiscal year 2010.

D. CFDA #15.875

CFDA #15.875 represents the Office of Insular Affairs (OIA), U. S. Department of the Interior. Funding from this source is subject to varying rules and regulations since OIA administers the Compact of Free Association, which is a treaty, and is not a federal program. The Compact is comprised of various funded programs, each with separate compliance requirements. To maximize audit coverage of OIA funding, the OIG has recommended that programs administered under CFDA #15.875 be grouped by like compliance requirements, and such groupings be separately evaluated as major programs.

2. Summary of Significant Accounting Policies, Continued

E. Subgrantees

Certain program funds are passed through the FSM National Government to subrecipients. The Schedule of Expenditures of Federal Awards does not contain separate schedules disclosing how all subgrantees outside of the FSM National Government's control utilize these funds. However, the FSM National Government's primary subrecipients are its four component states and the College of Micronesia – FSM for the Compact Sector grants. Per the recommendation of the U.S. Department of the Interior, Office of Inspector General (OIG), the federal expenditures of these entities that were passed through from the FSM National Government are incorporated in the accompanying Schedule of Expenditures of Federal Awards. Direct U.S. federal awards received by the four States are not included in the accompanying Schedule.

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

Schedule of Programs
Selected for audit in accordance with
OMB Circular A-133
Year Ended September 30, 2010

Grantor	Description	CFDA No.	Amount of 2010 Expenditures
U.S. Department of the Interior			
	Economic, Social and Political Development of the Territories:		
	Compact of Free Association:		
	Compact Sector Grants	15.875	$ 18,965,132
U.S. Department of Transportation			
	Airport Improvement Program	20.106	34,339,103
U.S. Department of Education			
	Special Education – Grants to States	84.027	2,181,297
U.S. Department of Health and Human Services			
	Public Health Emergency Preparedness	93.069	2,047,537
	Total program expenditures selected		$ 57,533,069
	Total U.S. Federal Program expenditures		$ 64,280,797
	% of Total U.S. Federal expenditures covered by major programs		89 %

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

Schedule of Findings and Questioned Costs
Year Ended September 30, 2010

Part I - Summary of Auditors' Results

Financial Statements

1.	Type of auditors' report issued:	Unqualified
	Internal control over financial reporting:	
2.	Material weakness(es) identified?	Yes
3.	Significant deficiency(ies) identified?	Yes
4.	Noncompliance material to financial statements noted?	No

Federal Awards

	Internal control over major programs:	
5.	Material weakness(es) identified?	Yes
6.	Significant deficiency(ies) identified?	Yes
7.	Type of auditors' report issued on compliance for major programs:	Qualified
8.	Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	Yes
9.	Identification of major programs:	

CFDA Number	Federal Program
15.875	Compact of Free Association, Compact Sector Grants
20.106	Airport Improvement Program
84.027	Special Education – Grants to States
93.069	Public Health Emergency Preparedness

10.	Dollar threshold used to distinguish between Type A and Type B Programs:	$1,928,424
11.	Auditee qualified as a low-risk auditee?	No

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Part II - Financial Statement Findings Section

Finding #	Findings
2010-04	Allowable Costs/Cost Principles
2010-08	Allowable Costs/Cost Principles
2010-09	Allowable Costs/Cost Principles
2010-10	Allowable Costs/Cost Principles
2010-12	Fixed Asset Reconciliation
2010-14	Encumbrances
2010-15	Timely and Accurate Reconciliation of Accounts
2010-16	Travel Advances

Part III - Federal Award Findings and Questioned Cost Section

Finding #	CFDA #	Findings		Questioned Costs
2010-01	15.875/ 84.027/ 93.069	Contract Provisions	$	0
2010-02	15.875	Reporting	$	0
2010-03	15.875/ 20.106	Bonding Requirements	$	0
2010-04	20.106	Allowable Costs/Cost Principles	$	126,746
2010-05	15.875/ 20.106/ 84.027/ 93.069	Cash Management	$	0
2010-06	15.875	Period of Availability	$	91,365
2010-07	84.027	Period of Availability	$	497,750
2010-08	15.875	Allowable Costs/Cost Principles	$	81,256
		Procurement and Suspension and Debarment	$	684,254
2010-09	84.027	Allowable Costs/Cost Principles	$	149,132
		Procurement and Suspension and Debarment	$	136,794
2010-10	93.069	Allowable Costs/Cost Principles	$	76,581
		Procurement and Suspension and Debarment	$	46,235
2010-11	20.106	Reporting	$	0
2010-12	15.875/ 20.106/ 84.027/ 93.069	Equipment and Real Property Management	$	0
2010-13	93.889	Period of Availability	$	159,109
		Total Questioned Costs	$	2,049,222

Finding No.:	2010-01
CFDA Program:	U.S. DOI 15.875 Economic, Social and Political Development of the Territiories - Compact Sector
	U.S. ED 84.027 Special Education
	U.S. HHS 93.069 Public Health Emergency Preparedness
Requirement:	Contract Provisions
Questioned Cost:	$0

Criteria: For all contracts, the following provisions should be included as applicable:

(i) For contracts in excess of $100,000, administrative, contractual, or legal remedies in instances where contractors violate or breach contract terms, and the provision of such sanctions and penalties as appropriate;

(ii) For contracts in excess of $100,000, termination for cause and for convenience by the Grantee or Sub-Grantee including the manner by which it will be effected and the basis for settlement;

(iii) Compliance with local statutes regarding kickbacks and corrupt practices;

(iv) Access by the Government of the Federated States of Micronesia and its Sub-Grantees, the Government of the United States, or any of their duly authorized representatives to any books, documents, papers, and records of the contractor which are directly pertinent to the contract for the purpose of making audit, examination, excerpts, and transcriptions;

(v) Retention of all required records for three years after Grantees or Sub-Grantees make final payments and all other pending matters are closed; and

(vi) Compliance with all applicable standards, orders, or requirements issued under local environmental laws.

Condition: Certain contracts entered into by National Government do not include all required contract provisions.

Cause: There appears to be lack of controls over complying with the criteria.

Effect: The Government appears to be in noncompliance with the criteria.

The conditions cited relate to contract provisions and not to contractual expenditures and therefore, no questioned costs result from this finding.

Prior Year Status: This condition was cited in the 2009 Single Audit.

Recommendation: We recommend that the Government strengthen its controls over compliance with the criteria.

Finding No.:	2010-01, Continued
CFDA Program:	U.S. DOI 15.875 Economic, Social and Political Development of the Territiories - Compact Sector
	U.S. ED 84.027 Special Education
	U.S. HHS 93.069 Public Health Emergency Preparedness
Requirement:	Contract Provisions
Questioned Cost:	$0

Auditee Response and Corrective Action Plan:

We agree with this finding. During FY10, as part of the corrective action from previous years' audit findings, several contracts were amended to include the applicable contract provisions as required by the Fiscal Procedures Agreement (FPA), among the many contracts that were amended are contracts funded by the Airport Infrastructure Projects. Also, during FY10, the FSM Department of Finance and Administration has issued another reminder to the Department of Justice and to the Project Management Unit (PMU) who sign off on the contract as to the legal sufficiency of the contract to ensure applicable provisions are included in the contract. We will revisit again the previous contract signed by both the Department of Justice and the Project Management Unit to ensure compliance with the contract provision as required by FPA.

Responsible party: Noel Pascua- Accounting advisor
Jackson Jack-Operations manager
Jacobson Jacob- Certification manager

Finding No.: 2010-02
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Grant Number: Compact Sector
Requirement: Reporting
Questioned Costs: $0

Criteria: In accordance with the Compact Subsidiary Agreement: (a) A Standard Form SF 269 or a reasonable facsimile thereof approved by the Government of the United States, shall be prepared quarterly and be submitted within 30 days after the end of the quarter to which it applies. The report shall include accounting information and a status of progress for each project funded by the Grant; (b) A Federal Cash Transactions Report, or Standard Form SF 272 of the Government of the United States or a reasonable facsimile thereof approved by the Government of the United States, shall be submitted quarterly within 30 days of the end of the quarter to which it applies. Actual dates, project identification, and amounts of drawdowns for the quarter should be supplied in the ―Remarks"section of the form.

Additionally, submitted reports should reconcile with underlying records.

Condition: Compact Sector Grants' SF 269 and SF 272 or equivalent reports, as applicable, were not provided.

We could not determine that the data in the reports agrees with underlying financial or programmatic records.

Cause: The Government either could not locate the files or did not prepare the required reports.

Effect: Noncompliance with reporting requirements results from this condition. We are unable to quantify resulting questioned costs, if any.

Recommendation: The responsible personnel should prepare the required reports and maintain underlying records to substantiate reported amounts.

Auditee Response and Corrective Action Plan:

We disagree on the cause indicated that the Government either could not locate the files or did not prepare the required reports. FSM National Treasury prepares the SF 269 and SF 272 on a quarterly basis and subsequently submitted the financial reports to the Division of Investment and International Finance which in turn transmitted the approved SF269 and SF272 or its equivalents to the US Department of the Interior. The approved reports are maintained at the Division of Investment and International Finance. The Division is responsible for submitting the financial reports to the US Department of the Interior and all files relative to the compact grants financial reports could be requested to the Assistant Secretary of Investment and International Finance.

Responsible party: Rose Nakanaga- Assistant Secretary, Divison of I&I Finance
and currently the Acting Secretary of Finance and Administration.

Auditor Response: The reports were not provided, therefore, the finding remains.

Finding No:	2010-03
Federal Agency:	U.S. Department of the Interior, U.S. Department of Transportation
CFDA Program:	15.875 Economic, Social and Political Develoment of the Territories – Infrastructure Development Project
Federal Agency:	U.S. Department of Transportation
CFDA Program:	20.106 Airport Improvement Program
Requirement:	Bonding Requirements
Questioned Costs:	$0

Criteria: For construction or facility improvement Contracts or sub-Contracts exceeding $100,000, the Government of the United States may accept the bonding policy and requirements of the Grantee or Sub-Grantee provided the United States determines that its interests are adequately protected. If such a determination has not been made, the minimum requirements shall be as follows:

(i) Bid Guarantee. Each bidder shall guarantee an equivalent of five percent of the bid price pursuant to a bid guarantee that complies with the requirements of this clause (i). The bid guarantee shall consist of a firm commitment such as a bid bond, certified check, or other negotiable instrument accompanying the bid as assurance that the bidder will, upon acceptance of his bid, execute such contractual documents as may be required within the time specified.

(ii) Performance Bond. The contractor shall execute a Performance Bond for one hundred percent of the Contract price. A Performance Bond is one executed in connection with a Contract to secure fulfillment of all the contractor's obligations under such contract.

(iii) Payment Bond. The contractor shall execute a Payment Bond for one hundred percent of the Contract price. A Payment Bond is one executed in connection with a Contract to assure the lawful payment of all persons supplying labor and material in the execution of the contract.

Condition: For CFDA #15.875, the Government obtained a waiver from the U.S. Department of the Interior (DOI) for bonding requirements up to a certain amount through September 2009. Of all construction contracts tested for this program during fiscal year 2010, support for only one performance bond was provided.

For both CFDA #15.875 and CFDA #20.106, the Government was not able to provide documentation in support of the manner in which bonding requirements were met for AIP contracts CF0343, CG0127, and CG0128.

Cause: Either there is lack of monitoring to maintain updated files or the Government is not in compliance with bonding requirements.

Effect: Potential noncompliance has resulted with federal compliance requirements.

Recommendation: Compliance with the criteria should occur. Additionally, if there are alternative procedures implemented to satisfy the criteria, the basis should be documented on file and be readily available.

Finding No:	2010-03, Continued
Federal Agency:	U.S. Department of the Interior, U.S. Department of Transportation
CFDA Program:	15.875 Economic, Social and Political Develoment of the Territories – Infrastructure Development Project
Federal Agency:	U.S. Department of Transportation
CFDA Program:	20.106 Airport Improvement Program
Requirement:	Bonding Requirements
Questioned Costs:	$0

Auditee Response and Corrective Action Plan:

We agree with this finding. The questioned cost relates mostly to reimbursements of travel related expenditures under the contract nos. CD0179 from Lyons and Associates and CC0180 from Leo A. Daly as well as reimbursements of leased rental and other expenses. As of June 30, 2011, Lyons and Associates provided some documents to support the expenditures while the staff at accounts payable section will contact Leo A. Daly to provide the necessary documents to clear the questioned costs. We will submit the documents received from Lyons and Associates to the auditors findings next week and we will work with Leo A. Daly to provide the documents to clear the audit finding on or before December 31, 2011.

Responsible party: Noel Pascua-Accounting advisor
Jackson jack-Operations manager
Atilla Kinere-Accounts payable manager

Finding No.: 2010-04
Federal Agency: U.S. Department of Transportation
CFDA Program: 20.106 Airport Improvement Program
Grant Number: Various Airport Improvement Projects
Requirement: Allowable Costs/ Cost Principles
Question Costs: $126,746

Criteria: Expenditures should be necessary and reasonable for program needs and should be in accordance with program requirements. Furthermore, financial and programmatic records should be maintained on file for at least three years. Procurements shall provide full and open competition among vendors, and allowable exceptions should be approved and documented in procurement files.

Condition:

1. For 12 (or 12%) of 97 transactions tested, there was only partial financial and/or programmatic records (i.e., trip reports, invoices, boarding passes, etc.) on file to substantiate the allowability of the following transactions.

	Label	Date	FD	dp_dv_prg_yr	Posted_Amt	Ref1	Trx	Questioned Costs
1	AIP 22	10/30/2009	20	80-84-27511-08	$ 73,507	CC01801	33176T-0000005	$ 13,048
2	AIP 24	11/27/2009	20	80-84-27420-06	101,244	CD0179	34744T-0000003	12,658
3	AIP 27	12/09/2009	20	80-81-27000-09	111,552	CD0179	35740T-0000003	7,323
4	AIP 32	12/17/2009	20	80-84-27311-08	61,867	CC01801	36107T-0000009	5,040
5	AIP 47	02/15/2010	20	80-84-27211-08	41,457	CC01801	39972T-0000007	10,785
6	AIP 53	030/3/2010	20	80-81-27000-09	121,361	CD0179	41032T-0000003	1,369
7	AIP 55	03/18/2010	20	80-81-27000-09	49,547	D0179	42062T-0000003	6,139
8	AIP 62	04/12/2010	20	80-84-27511-08	74,447	CC01801	43498T-0000005	13,286
9	AIP 77	07/1/2010	20	80-81-27020-09	95,503	CD0179	48771T-0000003	713
10	AIP 80	07/16/2010	20	80-81-27000-09	188,100	CD0179	49841T-0000007	11,395
11	AIP 84	08/10/2010	20	80-84-27311-08	17,647	CC01801	51430T-0000005	14,713
12	AIP 85	08/24/2010	20	80-81-27000-09	148,082	CD0179	52545T-0000005	8,745
								$105,214

2. The Infrastructure Fund records the 5% matching for AIP awards. Travel and miscellaneous reimbursements of $22,665 for Contract CC0180, Invoice 10, dated 03/01/2010 and check number 101658 contained missing receipts and invoices. The program's share of the missing documentation is $21,532.

3. Travel for Government employees is included in the contract cost of CD0179. All billings to the CD0179 account are subject to fixed management costs; therefore, the Government incurs additional costs for government travel in addition to the costs that it would incur if it paid for the direct travel costs. This added cost could be eliminated if management of the travel budget was performed by the Government itself and not by the contractor.

4. The entity hired a PMU to oversee construction projects. A PMU contractual function included in the contract scope is a requirement to determine the appropriateness of contractor billings. PMU review and approval of contractor billings was not clearly indicated on payment documents. However, we noted that all payments were duly authorized by the implementing department.

Finding No.: 2010-04, Continued
Federal Agency: U.S. Department of Transportation
CFDA Program: 20.106 Airport Improvement Program
Grant Number: Various Airport Improvement Projects
Requirement: Allowable Costs/ Cost Principles
Question Costs: $126,746

Condition, Continued:

5. In certain instances, we noted inadequacies in recordkeeping. Certain contracts, lease agreements, Notices to Proceed (NTP) and Change Orders (CO) were not available for inspection. However, no questioned costs were raised as vendor invoices approved by the CM were available to indicate that the program benefitted from the expenditures.

6. In certain instances, we noted inaccuracies and inconsistencies of invoices against the detailed work invoice and double billings for certain months that were applied against subsequent period billings. However, these variances were not adequately documented. No questioned costs were raised as payments were based on the amount certified by the CM and after a tedious process, we were able to verify that the double billings were subsequently applied to future periods.

7. A budget proposal is submitted as a basis for contract addendums. For certain AIP contracts, the budget proposal was not available and hence, we were not able to verify if the billing rate utilized was in agreement with the approved proposal. Due to the lack of this information, we were not able to determine if questioned costs or the dollar amount of such should be raised.

Cause: There appears to be a lack of controls over compliance with the criteria. For condition 4, the current process does not incorporate documentation of the PMU review.

Effect: The Government appears to be in noncompliance with the criteria, and questioned costs result. For condition 4, no questioned cost results from this condition. However, evidence of PMU approval of billings is not evident.

Recommendation: The Government should review reports for agreement to applicable financial records prior to payment, and such review should be documented in writing. Additionally, budget proposals should be on file to support assessed billing rates. Furthermore, clear trails should exist to demonstrate that duplicate charges have been recovered.

Auditee Response and Corrective Action Plan:

We agree with this finding. The questioned cost relates mostly to reimbursements of travel related expenditures under the contract nos. CD0179 from [Vendor Number 1] and CC0180 from [Vendor Number 2] as well as reimbursements of leased rental and other expenses. As of June 30, 2011, [Vendor Number 1] provided some documents to support the expenditures while the staff at accounts payable section will contact [Vendor Number 2] to provide the necessary documents to clear the questioned costs. We will submit the documents received from [Vendor Number 1] to the auditors next week, and we will work with [Vendor Number 2] to provide the documents to clear the audit finding on or before December 31, 2011.

Responsible party: Noel Pascua-Accounting advisor
Jackson jack-Operations manager
Atilla Kinere-Accounts payable manager

Finding No.:	2010-05
CFDA Program:	U.S. HHS 93.069 Public Health Emergency Preparedness
	U.S. DOI 15.875 Economic, Social and Political Development of the Territories - Compact Sector Infrastructure Projects
	U.S. ED 84.027 Special Education – Grants to the States
	U.S. DOT 20.106 Airport Improvement Program
Grant Number:	5U90IP92821-07, 5U90TP921821-08, 1H75TP000323-01, 3U90TP921821-10
Requirement:	Cash Management
Questioned Costs:	$0

Criteria: In accordance with applicable cash management requirements, the time elapsed between the receipt of Federal funds and the clearing of the applicable check should be minimized, and any interest arising from the advances in excess of the minimum allowable for retention should be returned to the federal government.

In accordance with the Fiscal Procedures Agreement on the Amended Compact Sector, all infrastructure projects and projects that are not funded by Operational Grants will be paid on the basis of Accrued Expenditures, provided the Government of the Federated States of Micronesia maintains procedures to minimize the time elapsing between transfer of funds and their disbursement.

Condition:

1. For 73 (or 100%) of 73 items tested for CFDA #93.069; for 3 (or 5%) of 60 infrastructure fund items tested for CFDA# 15.875; for 48 (or 100%) of 48 items tested for CFDA# 84.027; and for 19 (or 20%) of 95 items tested for CFDA# 20.106, the FSM National Government was not able to provide necessary documentation for certain program drawdowns. As such, we were not able to determine if cash management requirements were met.

2. For CFDA#20.106, certain drawdown documents (i.e., ―Echo Web Reports", an online report confirming the drawdown, drawdown requests, and drawdown correspondence), were not available for our verification.

3. For CFDA#20.106, the National Government received cash in excess of immediate needs, and an interest liability of $1,184 results. For these items, the checks were dated three days after receipt of federal funds in the general fund checking account.

4. For CFDA#20.106, as of September 30, 2010, the Government has recorded deferred revenue of $141,840. The program appear to have overdrawn the cash equivalent for a particular program grant.

5. For CFDA#15.875, the Compact Sector accounts receivable were not timely reconciled.

Finding No.:	2010-05, Continued
CFDA Program:	U.S. HHS 93.069 Public Health Emergency Preparedness
	U.S. DOI 15.875 Economic, Social and Political Development of the Territories - Compact Sector Infrastructure Projects
	U.S. ED 84.027 Special Education – Grants to the States
	U.S. DOT 20.106 Airport Improvement Program
Grant Number:	5U90IP92821-07, 5U90TP921821-08, 1H75TP000323-01, 3U90TP921821-10
Requirement:	Cash Management
Questioned Costs:	$0

Cause: For conditions 1 and 2, either the entity did not locate the files, or there is gap in the systematic recordkeeping of cash management documents (i.e., receipts, drawdown confirmations, drawdown requests, expenditure report, etc.) to allow for verification.

For conditions, 3 and 4, the Government did not monitor drawdowns for compliance with applicable cash management requirements.

For condition 5, it does not appear to be a current procedure of the National Government to reconcile the receivable account against the compact sector holding account.

Effect: It is not possible to determine the amount of questioned costs, if any, and compliance with the cash management criteria due to the lack of available information.

For CFDA#20.106, the National Government appears to be noncompliant with applicable cash management requirements. However, no questioned costs result from this condition as the projected interest liability for the program tested is less than $10,000.

Recommendation: The Government should follow applicable federal cash management policies.

There is a need to reassess current procedures in place to provide practicable linkage of receipting documents filed at National Treasury to the drawdown documents filed at Investment Division. To allow for practicable verification of transactions, the entity may consistently file online drawdown confirmations (i.e. echo web report and/or equivalent report). The entity may opt to maintain these confirmations in an electronic print file in the server, with reference to the ―Drawdown Request Number" (DRN) used by the Investment Division and be accessible by several concerned parties. In receipting the drawdowns in Fundware, pertinent reference information should be keyed in Fundware, such as the DRN, the period covered by reimbursement and the grant reference.

For condition 5, regular reconciliations should occur between the Compact Sector Holding account and the accounts receivable balance to determine if drawdowns should occur to offset the accounts receivable. The timing of the reconciliation may occur upon completion of the final cash reconciliation of the compact sector grants.

We are aware that the Government does not have the ability to utilize ACH as banks in the FSM do not readily provide that service. Therefore, we again recommend that this matter be referred to the Joint Economic Management Committee (JEMCO) and an alternative to the three-day rule as per EDGAR be proposed. We will be happy to provide additional information for an alternative if such will be of assistance.

Finding No.:	2010-05, Continued
CFDA Program:	U.S. HHS 93.069 Public Health Emergency Preparedness
	U.S. DOI 15.875 Economic, Social and Political Development of the Territories - Compact Sector Infrastructure Projects
	U.S. ED 84.027 Special Education – Grants to the States
	U.S. DOT 20.106 Airport Improvement Program
Grant Number:	5U90IP92821-07, 5U90TP921821-08, 1H75TP000323-01, 3U90TP921821-10
Requirement:	Cash Management
Questioned Costs:	$0

Auditee Response and Corrective Action Plan:

We agree with this finding. During FY10. efforts have been made by the Operations manager in doing an extensive study of cash management clearance pattern of which the result will be reported to the JEMCO as an alternative federal cash management to the three-day rule. In that study, the procedures started by documenting the date when the check was pick-up by the contractor and trace this check to the bank statement to determine when the check was cleared by the bank. The number of days from the time the contractor pick up the check up to the clearing date from the bank will then determine. In the same manner the date of drawdown of cash from the grantor agency will also be identified up to the time the cash is deposited to the general fund of the national treasury. Comparing the date from the time the check was picked up to the time the check was cleared by the bank against the time the drawdown of cash was deposited to the general fund. This information will be provided to the JEMCO as an alternative to the federal cash management. Any assistance from the auditor to provide additional information is much welcome.

Responsible party: Jackson Jack-Operations manager

Finding No:	2010-06
Federal Agency:	U.S. Department of the Interior
CFDA Program:	15.875 Economic, Social and Political Development of the Territories
Grant Number:	2009 Sector Grants, 2007 SEG, 2008 SEG
Requirement:	Period of Availability (POA)
Questioned Costs:	$91,365

Criteria: The Government of the Federated States of Micronesia shall liquidate all obligations incurred under a grant not later than ninety days after the end of the funding period or as otherwise mutually agreed.

Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of a subsequent funding period.

Condition: Expenditures were charged to the program past the liquidation period. The Grantor's approval of the extension of funds availability was not available. The SEG 2007 Grant was granted a no-cost extension to September 30, 2009, while the SEG 2008 Grant was available for liquidation to June 30, 2010.

FD-YR	POA Exceptions
10-09 Total	$ 3,690
11-09 Total	7,508
14-09 Total	56,935
15-07 Total	5,182
15-08 Total	6,530
Total	$79,844

The FY09 Compact Sector Grants expired on 9/30/09 and was granted an additional 90 day-no-cost extension effectively allowing liquidation of obligations to March 31, 2010. As the applicable Grant expired on 9/30/09, there should be no further payroll postings against this grant after the expiration date as only liquidations of obligations should be further recorded, unless authorized by the Grantor. A total of $11,521 of payroll postings in program number 14020-09 were charged to the FY09 capacity grant program from October 2009 to December 2009. The Grantor's authorization allowing payroll expenditures to be charged in the liquidation period was not available.

Cause: Documentation does not appear to be on hand to authorize expenditures incurred outside the period of availability.

Effect: The Government appears to be in noncompliance with the criteria, and questioned costs result.

Prior Year Status: This condition was cited in the 2009 Single Audit.

Finding No:	2010-06, Continued
Federal Agency:	U.S. Department of the Interior
CFDA Program:	15.875 Economic, Social and Political Development of the Territories
Grant Number:	2009 Sector Grants, 2007 SEG, 2008 SEG
Requirement:	Period of Availability (POA)
Questioned Costs:	$91,365

Recommendation: The Government should comply with the criteria and monitor its controls over funds availability.

Auditee Response and Corrective Action Plan:

We agree with this finding. The Assistant Secretary for National Treasury will obtain the necessary documentation from the FSM Department of Education and FSM Department of Health to support compliance with the criteria and will provide the documentation to the auditors to clear this finding on or before December 31, 2011.

Responsible party: Juliet Jimmy- Assistant Secretary, National Treasury

Finding No: 2010-07
Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education – Grants to States
Grant Number H027B030002-05, H027A050005, H027A060005A, H027AO70005
Requirement: Period of Availability (POA)
Questioned Costs: $497,750

Criteria: The Government of the Federated States of Micronesia shall liquidate all obligations incurred under a grant not later than ninety days after the end of the funding period or as otherwise mutually agreed.

Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.

Condition: Expenditures were charged to the program past the liquidation period. Grantee approval of the extension of funds availability was not located.

PRG_YR	Amount
20010-06 Total	$104,113
20010-07 Total	721
20010-08 Total	99,107
20011-06 Total	218,678
Total	$422,619

The FY08 Special Education Formula Grant expired on 9/30/08 with an automatic extension of 12 months for unobligated funds which extended the expiration to 9/30/09. As the applicable Grant expired on 9/30/09, there should be no further payroll postings against this grant after the expiration date as only liquidations of obligations should be further recorded. A total of $75,131 of payroll postings were charged to the FY08 program from October 2009 to September 2010.

Cause: Documentation does not appear to be on hand to authorize expenditures incurred outside the period of availability

Effect: The Government appears to be in noncompliance with the criteria, and questioned costs result.

Prior Year Status: This condition was cited in the 2009 Single Audit.

Recommendation: The Government should comply with the criteria and monitor its control over period of availability requirements.

Auditee Response and Corrective Action Plan:

We agree with this finding. The Assistant Secretary for National Treasury will obtain the necessary documentation from the FSM Department of Education to support compliance with the criteria and will provide the documentation to the auditors to clear this finding on or before December 31, 2011.

Responsible party: Juliet Jimmy- Assistant Secretary, National Treasury

Finding No.: 2010-08
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories –
Grant Number: Compact Sector Grants
Requirement: Allowable Costs/Cost Principles
Questioned Costs: $81,256

Requirement: Procurement and Suspension and Debarment
Questioned Costs: $684,254

Criteria: Expenditures should be necessary and reasonable for program needs and should be in accordance with program requirements. Furthermore, financial and programmatic records should be maintained on file for at least three years. Procurements shall provide full and open competition among vendors, and allowable exceptions should be approved and documented in procurement file.

Per Terms and conditions of Infrastructure Assistance, prior to draw down of funds, the Government shall provide to the Government of the United States, evidence of title, leasehold agreement, or other legal authority for use of the land upon which the capital improvement project(s) are to be constructed, among others.

Condition:

1. For seven (or 8%) of 86 transactions tested, there was either only partial or no financial and/or programmatic records (i.e., contracts, receiving reports, invoices, boarding passes, trip reports, etc.) on file to substantiate the following transactions.

2. For four (or 5%) of 86 samples tested for the Compact Sector Programs, there was either insufficient documentation or none was provided to support competitive procurement requirements.

					Questioned Costs	
Item	Posted_Amt	FD	dp_dv_prg_yr	Ref1	Procurement	Allowable
1	25,767	14	10-20-14026-05	CB0423	$ -	$ 5,067
2	14,515	19	85-51-70205-09	CC01801	-	1,133
3	52,250	14	10-20-14026-05	JVG0153	-	8,003
4	52,250	14	10-20-14026-05	JVG0153	-	13,396
5	171,080	19	85-55-75215-09	CF0245	171,080	-
6	115,591	19	85-52-72241-06	CE0108	-	47,224
7	138,800	19	85-55-75215-09	CF0245	138,800	-
8	164,774	19	85-55-75215-09	CF0245	164,774	-
9	52,120	14	10-20-14026-08	CB0423	-	4,433
10	209,600	19	85-55-75215-09	CF0245	209,600	-
11	2,000	10	60-61-10110-10	1007260	-	2,000
					$684,254	$81,256

3. Included in the Compact sector expenditures is an accrual for the use of the Infrastructure Maintenance fund (IMF) of $324,773 for certain maintenance projects of COM-FSM. Per a resolution dated September 2, 2010, JEMCO suspended payments of these projects. No questioned cost will be raised as there was no actual cash outlay as of September 30, 2010.

Finding No.:	2010-08, Continued
Federal Agency:	U.S. Department of the Interior
CFDA Program:	15.875 Economic, Social and Political Development of the Territories –
Grant Number:	Compact Sector Grants
Requirement:	Allowable Costs/Cost Principles
Questioned Costs:	$81,256
Requirement:	Procurement and Suspension and Debarment
Questioned Costs:	$684,254

Condition, Continued:

4. For additional task orders on infrastructure projects, we noted no documentation to show that price negotiation occurred between the National Government and the contractor to document that an advantageous price proposal was negotiated.

5. The Infrastructure fund pays for the 5% matching cost of AIP projects. Travel for Government employees is included in the contract cost of CD0179. All billings to the CD0179 account are subject to fixed management costs; therefore the Government incurs additional costs on government travel in addition to the costs that it would incur if it paid for the direct costs of travel. This added cost could be eliminated if management of the travel budget was performed by the Government itself and not by the contractor.

6. We noted certain instances of payments for infrastructure projects where certification by the PMU's contracting officer or the construction management (CM) was not documented.

7. For infrastructure payments, we noted certain instances of either missing Description of Work (DOW) Invoice or inconsistencies between the Description of Work Invoice against the American Institute of Architect (AIA) Document. The AIA document indicates the completion and amount to be paid as certified by both the CM and the constructor, while the DOW details the work done by the contractor. No questioned costs were raised as payments were based on the AIA amount.

8. In certain instances, we noted inadequacies in recordkeeping. Certain contracts, lease agreements, Notices to Proceed (NTP) and Task Orders (TO) were not available for inspection. However, no questioned costs were raised as vendor invoices were available to indicate that the program benefitted from the expenditure.

9. In certain instance, we noted insufficiency of procurement documentation on certain leases, however, no questioned costs were raised as the expense approximates current lease rates.

10. Evidence of title, leasehold agreement, or other legal authority for use of the land upon which the capital improvement project(s) are to be constructed was not readily available.

Cause: There appears to be a lack of controls over compliance with the criteria, which can be attributed to inconsistencies in recordkeeping.

Effect: The Government appears to be in noncompliance with the criteria, and questioned costs result.

Finding No.:	2010-08, Continued
Federal Agency:	U.S. Department of the Interior
CFDA Program:	15.875 Economic, Social and Political Development of the Territories –
Grant Number:	Compact Sector Grants
Requirement:	Allowable Costs/Cost Principles
Questioned Costs:	$81,256
Requirement:	Procurement and Suspension and Debarment
Questioned Costs:	$684,254

Effect, Continued:

For condition 8, as to a missing TO, we cannot determine if additional questioned costs may arise with respect to the procurement for TO exceeding the maximum amount of the contract due to the unavailability of information.

For condition 8, we were not able to determine compliance with required federal contract provisions.

Prior Year Status: This condition was cited in the 2009 Single Audit.

Recommendation: The Government should comply with grant requirements and should retain sufficient documentation on file to support compliance with those requirements. Trip reports should be consistently submitted for travel related expenditures.

The Government should maintain consistent supporting documents (such as the DOW, AIA, and invoices) and should adequately document cost adjustments in the billings. Prior to payment processing, the Government should verify the consistency of these documents, including the adequacy of procurement documentation.

For accrued expenditures of the IMF, the Government should verify that JEMCO's suspension is recinded before making actual payments.

Price negotiations on additional task orders should be documented to show the manner in which the most advantageous contract cost was obtained.

Reviews and approvals of the PMU's contracting officer and the CM should be adequately documented in all payment requests.

Auditee Response and Corrective Action Plan:

Condition 1 and 3. We agree with this finding. The staff at accounts payable section are instructed to locate the check files to support the seven (7) transactions that were not provided during the audit, furthermore they are instructed to maintain a separate file for all reversals made directly at the FMIS with proper justification and approval from the Assistant Secretary for national treasury prior to the reversal. The documents will be provided to the auditor on or before December 31, 2011.

Responsible party: Atilla Kinere-Accounts payable manager

Finding No.:	2010-08, Continued
Federal Agency:	U.S. Department of the Interior
CFDA Program:	15.875 Economic, Social and Political Development of the Territories –
Grant Number:	Compact Sector Grants
Requirement:	Allowable Costs/Cost Principles
Questioned Costs:	$81,256

Requirement:	Procurement and Suspension and Debarment
Questioned Costs:	$684,254

Auditee Response and Corrective Action Plan, Continued:

Condition 2, We agree with this finding The certification manager has been directed to maintain files to support the competitive procurement requirement and that he will work with the Project Management Unit (PMU) to obtain the necessary documents to clear this finding on or before December 31, 2011.

Responsible party: Jacobson Jacob-Certification manager

Condition 4. We do not agree with this finding. COM-FSM submitted the compact sector expenditures report for the use of Infrastructure Maintenance Fund (IMF) of $324,773 on august 5, 2010, which is prior to the JEMCO resolution dated September 2, 2010. We believe that prior expenditures to the effective date of JEMCO resolutions does not apply. We will however, request from COM-FSM documentation to comply with the usage of the IMF as required by JEMCO resolution.

Responsible Party: Noel Pascua-Accounting Advisor

Condition 5, 7-11. We agree with this finding. We will discuss this matter with the Project Management Unit (PMU) to review carefully the billings and ensure that billings and invoices agree to the Description of Work (DOW) and against the American Institute of Architect (AIA).

Responsible Party: Jackson Jack-Operations Manager

Condition 6. We agree with this finding. We have noted several times in reviewing the billings submitted under CD0179 of insufficient documentation on travel related matter and brought this up to the contractor to let the national treasury handle the travel for government employee as it does not only incur fixed management cost it has always been an issue when it comes to documentation pertaining to the travel. The contractor billing does not have sufficient documentation to support the travel such as travel authorization, boarding pass, receipt for car rental agreement, and or trip report. We will discuss this matter to the Secretary of Transportation, Communication and Infrastructure on how to resolve this issue.

Responsible Party: Juliet Jimmy-Assistant Secretary, National Treasury

Finding No.: 2010-09
Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education – Grants to States
Grant Number: H027A070005, H027B030002-04
Requirement: Allowable Costs/Cost Principles
Questioned Costs: $149,132
Requirement: Procurement and Suspension and Debarment
Questioned Costs: $136,794

Criteria: Expenditures should be supported by purchase requisitions, purchase orders, vendor invoices, receiving reports, contracts, journal vouchers, employee personnel action forms (PAFs), timesheets, procurement documents and other underlying supporting documentation to substantiate compliance with applicable allowable costs/cost principles requirements and procurement requirements. Furthermore, such records should be kept on file and be available for audit.

Conditions:

1. For four (or 8%) of 48 transactions tested, there was insufficient documentation to evidence the Program's procurement of services for the transactions listed below.

   For certain contracts tested including item 11, the original contract for a disciplinary bachelor degree program for SPED teachers was executed in a prior year. In prior years, a finding was raised as the Government's understanding of procurement was not sufficient to maximize competition; however, no questioned cost was raised as services were procured and received. A change order was added to include payment of lower level online courses (American History and American Constitution) in another community college. There was no documentation provided supporting whether other vendors or colleges were considered for the services.

2. For 19 (or 40%) of 48 transactions tested, there was either partial or no financial and/or programmatic records (i.e., contracts, receiving reports, invoices, boarding passes, etc.) on file to substantiate the following transactions.

	Per transaction detail:						Questioned Cost	
	Label	Posted Amt	Date	dp_dv_prg_yr	FD	Ref1	Procurement	Allowable Cost
1		$60,317	12/31/2009	60-66-20010-06	20	C9C055	$ -	$ 60,317
2		814	09/30/2010	60-66-20010-10	20	T10C209	-	814
3		756	09/30/2010	60-66-20010-09	20	T10C238	-	756
4		2,363	07/30/2010	60-66-20010-10	20	TKF087	-	2,363
5		1,086	07/28/2010	60-66-20010-09	20	TG2186	-	1,086
6		892	06/25/2010	60-66-20010-10	20	T10C206	-	892
7		1,933	060/2/2010	60-66-20010-10	20	TG1333	-	1,933
8		2,321	05/26/2010	60-66-20010-09	20	TG0482	-	2,321
9		1,247	04/23/2010	60-66-20010-10	20	T10C127	-	1,247
10		1,708	03/31/2010	60-66-20010-10	20	TKF029	-	1,708

Finding No.: 2010-09, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education – Grants to States
Grant Number: H027A070005, H027B030002-04
Requirement: Allowable Costs/Cost Principles
Questioned Costs: $149,132
Requirement: Procurement and Suspension and Debarment
Questioned Costs: $136,794

Conditions, Continued:

	Per transaction detail:						Questioned Cost	
	Label	Posted Amt	Date	dp_dv_prg_yr	FD	Refl	Procurement	Allowable Cost
11		28,295	01/06/2010	60-66-20010-08	20	CC01031	28,295	-
12		2,066	12/31/2009	60-66-20010-09	20	T10C029	-	2,066
13		816	12/31/2009	60-66-20010-10	20	T10C36	-	816
14		3,232	11/20/2009	60-66-20010-09	20	T10C030	-	3,232
15		37,045	07/19/2010	60-66-20010-09	20	CG0303	37,045	-
16		39,604	070/2/2010	60-66-20010-09	20	CG0296	39,604	-
17		31,850	07/02/2010	60-66-20010-10	20	CG0293	31,850	-
18		6,500	11/30/2009	60-66-20010-08	20	L9C196	-	6,500
19		2,310	06/04/2010	60-66-20010-10	20	L10C024	-	2,310
20		125	08/06/2010	60-66-20010-10	20	KG1421	-	125
21		14,850	01/29/2010	60-66-20010-06	20	C9C054	-	14,850
22		36,650	01/06/2010	60-66-20010-08	20	CE0289	-	36,650
23		7,000	12/31/2009	60-66-20010-06	20	C9C035	-	7,000
							$136,794	$146,986

3. For 10 (or 26%) of 39 payroll samples tested, the employee personnel action form, which documents the authorization of employment and pay rate, was not available.

No.	Emp_ID	Chk_Dt	Pgm	Yr	Payroll register salary	Gross Pay
1	41035	10/13/2009	20010	09	$ 7,965	$ 266
2	605922	05/11/2010	20010	09	4,594	180
3	72291	12/08/2009	20010	10	7,415	324
4	802827	02/17/2010	20010	10	5,026	193
5	69788	02/02/2010	20010	09	2,162	180
6	71925	05/25/2010	20010	09	4,684	180
7	606787	02/17/2010	20010	09	4,108	180
8	37305	05/25/2010	20010	09	4,594	180
9	66703	02/17/2010	20010	09	6,699	288
10	616520	01/19/2010	20010	09	2,105	162
					$49,352	$2,146

Finding No.:	2010-09, Continued
Federal Agency:	U.S. Department of Education
CFDA Program:	84.027 Special Education – Grants to States
Grant Number:	H027A070005, H027B030002-04
Requirement:	Allowable Costs/Cost Principles
Questioned Costs:	$149,132
Requirement:	Procurement and Suspension and Debarment
Questioned Costs:	$136,794

Cause: There is a lack of controls over compliance with the criteria.

Effect: The Government is in noncompliance with the criteria, and questioned costs result.

Prior Year Status: This condition was cited in the 2009 Single Audit.

Recommendation: The Government should consistently retain sufficient documentation on file to substantiate compliance with the criteria.

Auditee Response and Corrective Action Plan:

Condition 1. We agree with this finding The certification manager has been directed to retain all files to support the competitive procurement requirement and that he will work with the FSM Department of Education to obtain the necessary documents to clear this finding on or before December 31, 2011.

Responsible party: Jacobson Jacob-Certification manager

Condition 2. We agree with this finding. The staff at accounts payable section are instructed to locate the check files to support the nineteen (19) transactions that were not provided during the audit and to clear this finding on or before December 31, 2011.

Responsible party: Atilla Kinere-Accounts payable manager

Condition 3-We agree with this finding. The payroll manager is gathering the personnel Action form to provide to the auditor to clear this finding on or before December 31, 2011.

Responsible party: Renee Hallens-Payroll manager

Finding No.: 2010-10
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.069 Public Health Emergency Preparedness
Grant Number: 5U90IP92821-07, 5U90TP921821-08, 1H75TP000323-01
Requirement: Allowable Costs/Cost Principles
Questioned Costs: $76,581
Requirement: Procurement and Suspension and Debarment
Questioned Costs: $46,235

Criteria: Expenditures should be supported by purchase requisitions, purchase orders, vendor invoices, receiving reports, contracts, journal vouchers, personnel action forms (PAFs), timesheets, procurement documents and other underlying supporting documentation to substantiate compliance with applicable allowable costs/cost principles requirements and procurement requirements. Furthermore, such records should be kept on file and be available for audit.

Conditions:

1. For four (or 5%) of 73 non-payroll transactions tested, there was insufficient documentation to evidence the Program's procurement of services.

2. For seven (or 10%) of 73 non-payroll transactions tested, there was either partial or no financial and/or programmatic records (i.e., contracts, receiving reports, invoices, boarding passes, etc.) on file.

	Per Transaction Details				Questioned Costs	
	ActName	Date	Ref	Ref2	Procurement	Allowable Cost
1	Contractual Services	11/23/2009	CD0328	73517	$24,428	$24,428
2	POL	02/09/2010	JVG0078	1006127	-	24,000
3	Advertising, Printing & Repro	04/09/2010		87367	13,465	13,465
4	Contractual Services	04/07/2010	CG0166	85699	5,187	-
5	Contractual Service	08/26/2010	1015267	101411	16,620	-
6	Compensation Non Payroll	08/03/2010	1018722	99164	-	330
7	Compensation Non Payroll	06/24/2010	1016310	94786	-	30
8	Compensation Non Payroll	06/16/2010	1015465	93350	-	180
9	POL	06/22/2010	JVG0267	1005133	-	14,148
					59,700	$76,581
	Less items already questioned in allowable cost (3)				13,465	
	Remaining Questioned Cost				$ 46,235	

Cause: There appears to be a lack of controls over compliance with the criteria.

Effect: The Government is in noncompliance with the criteria, and questioned costs result.

Recommendation: The Government should retain sufficient documentation on file to support compliance with the criteria.

We recommend that the entity establish an internal policy pertaining to the determination and the payout of non-payroll compensation.

Finding No.:	2010-10, Continued
Federal Agency:	U.S. Department of Health and Human Services
CFDA Program:	93.069 Public Health Emergency Preparedness
Grant Number:	5U90IP92821-07, 5U90TP921821-08, 1H75TP000323-01
Requirement:	Allowable Costs/Cost Principles
Questioned Costs:	$76,581
Requirement:	Procurement and Suspension and Debarment
Questioned Costs:	$46,235

Auditee Response and Corrective Action Plan:

Condition 1: We agree with this finding. The certification manager has been directed to retain all files to support the competitive procurement requirement and that he will work with the FSM Department of Health to obtain the necessary documents to clear this finding on or before December 31, 2011.

Responsible party: Jacobson Jacob-Certification manager

Condition 2: We agree with this finding. The staff at accounts payable section are instructed to locate the check files to support the seven (7) transactions that were not provided during the audit to clear this finding on or before December 31, 2011.

Responsible party: Atilla Kinere-Accounts payable manager

Finding No.: 2010-11
Federal Agency: U.S. Department of Transportation
CFDA Program: 20.106 Airport Improvement Program
Requirement: Reporting
Questioned Costs: $0

Criteria: Submitted reports should be correctly completed and submitted in accordance with grant terms and conditions. The report should also reconcile with underlying records.

Condition:

1. The Government submits a Federal Financial Report (the Report) which reflects the accumulated drawdown and the accumulated expenditures on an accrual basis per grant for a given period. In Table 1, the expenditures reported do not agree to the financial records underlying the general ledger. A reconciliation between the financial records and the amount reported was not readily available. In our attempt to determine the difference, we noted the difference in items 10, 7 and 4 were due either to retainage or to a JV to reclassify expenditures between program accounts.

	Per Financial Records			Per Federal Financial Report		
	ACCOUNT_NUMBER	Accumulated Exp	Retainage	Grant Number	Accumulated Exp	Difference in Expenditures Reported
1	2-20-80-81-27000-09	$ 3,400,688	$ -	3-64-0003-12	$ 3,436,368	$ 35,680
2	5-20-80-81-27020-09	4,635,255	181,476	3-64-0004-11	5,407,715	772,460
3	1-20-80-84-27221-07	767,534	-	3-64-0003-11	784,323	16,789
4	1-20-80-84-27222-07	4,393,519	386,070	3-64-0003-10	4,088,892	(304,627)
5	1-20-80-84-27321-07	5,999,996	-	3-64-0001-08	6,337,730	337,734
6	1-20-80-84-27422-08	12,835,419	1,034,968	3-64-0002-11	11,484,136	(1,351,283)
7	1-20-80-84-27422-07	4,114,120	172,376	3-64-0002-09	4,764,525	650,405
8	1-20-80-84-27521-07	5,696,667	-	3-64-0004-10	5,887,103	190,436
9	1-20-80-84-27522-07	9,997,911	-	3-64-0004-09	10,126,463	128,552
10	3-20-80-84-27321-07	-	-		-	-
	1-20-80-84-27321-08	1,184,208	-	3-64-0001-09	1,168,175	(16,033)
						$ 460,133

2. In comparing the accumulated cash receipts against the expenditures net of retainage, the amount drawn down exceeded the expenditures, or a portion of the retainage appears to have been drawn down. A reconciliation between financial records and the amount reported was not readily available, and as such, we cannot determine if the excess drawdowns could have resulted from unreconciled movements of expenditures between program accounts.

	Per Financial Records				Per Federal Financial Report as of 9/30/2010			Difference	
	Program Number	Expenditure	Retainage	Max Amt for Drawdown	Grant Number	Cash Receipts	Expenditure	Receipts Exceeded Expenditures	Retainage drawn down
1	5-20-80-81-27020-09	$ 4,635,255	$ 181,476	$ 4,453,779		$4,465,679	$ 5,407,715	$ -	$ 11,900
2	1-20-80-84-27221-07	767,534	-	767,534	3-64-0003-11	864,277	784,323	96,743	-
3	1-20-80-84-27222-07	4,393,519	386,070	4,007,449	3-64-0003-10	4,019,728	4,088,892	-	12,279
4	1-20-80-84-27422-08	12,835,419	1,034,968	11,800,451	3-64-0002-11	11,974,113	11,484,136	-	173,662
5	1-20-80-84-27420-06	2,344,867	-	2,344,867	3-64-0002-08	2,415,000	2,344,866	70,133	-
6	1-20-80-84-27515-05	993,188	-	993,188	3-64-0004-08	1,000,001	993,188	6,813	-
								$173,689	$197,841

Finding No.: 2010-11, Continued
Federal Agency: U.S. Department of Transportation
CFDA Program: 20.106 Airport Improvement Program
Requirement: Reporting
Questioned Costs: $0

Cause: It appears that reconciliations between the general ledger and drawdown documentation did not occur prior to preparation of submitted reports.

Effect: Noncompliance with reporting requirements results from this condition. Due to absence of a reconciliation, it cannot be determined it this condition arises from erroneous data or if draw downs occurred prior to the incurrence of expenditures.

Prior Year Status: This condition was cited in the 2009 Single Audit.

Recommendation: The Government should comply with the criteria. Reports submitted to the Grantor should be reconciled to underlying financial records.

Auditee Response and Corrective Action Plan:

We agree with this finding. The accountant at the Division of Investment and International Finance who does the drawdown and who prepares the federal financial report has been instructed to work together with the National Treasurer to perform the reconciliation against the general ledger. The federal financial report shall also be reviewed by the Assistant Secretary for Investment and International Finance.

Responsible Party: Melinda Irons- Accountant

Finding No.:	2010-12
CFDA Program:	U.S. HHS 93.069 Public Health Emergency Preparedness
	U.S. DOI 15.875 Economic, Social and Political Development of the Territories - Compact Sector Infrastructure Projects
	U.S. ED 84.027 Special Education – Grants to the States
	U.S. DOT 20.106 Airport Improvement Program
Requirement:	Fixed Asset Reconciliation/Equipment and Real Property Management
Questioned Costs:	$0

Criteria: Fixed asset records should be periodically reconciled and timely recorded. Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

Construction projects capitalized should be supported by Engineer's certification reports as to its completion and be regularly monitored as to its status.

Capital assets should be reported at historical cost. The cost of a capital asset should include ancillary charges necessary to place the asset into its intended location and condition for use. Ancillary charges include costs that are directly attributable to asset acquisition—such as freight and transportation charges, site preparation costs, and professional fees.

Assets that are deeded to other governments should be subject to formal agreements and adequate maintenance of fixed assets should occur.

Condition:

1. The National Government did not timely and accurately determine the value of assets transferred to the states. Assessments of the completion status of Construction-in-progress were also not timely performed. Adjustments were provided in May 2011 as a result of audit inquiries.

2. The National Government transferred assets to the states and related component units. As a result, the state and related component units now bear responsibility for compliance with applicable grant terms and conditions. The grant terms and conditions were not specifically communicated to the states and related component units in the related transfer of assets.

3. Included in the contract cost of the Construction Managers (CM) or Project Management Unit (PMU) are costs not directly related to construction such as travel other than for site inspection, office costs (i.e. office rent, utilities, vehicle maintenance, etc). These unrelated charges are currently included in construction in progress.

4. No formal equipment maintenance procedures are established and we could not determine the manner in which maintenance responsibilities are carried out.

5. Per the terms of Contract CD0179, all equipment purchased is the property of the National Government. Office equipment and vehicles purchased in the prior and current year through this Contract were not capitalized and tagged.

Finding No.:	2010-12, Continued
CFDA Program:	U.S. HHS 93.069 Public Health Emergency Preparedness
	U.S. DOI 15.875 Economic, Social and Political Development of the Territories - Compact Sector Infrastructure Projects
	U.S. ED 84.027 Special Education – Grants to the States
	U.S. DOT 20.106 Airport Improvement Program
Requirement:	Fixed Asset Reconciliation/Equipment and Real Property Management
Questioned Costs:	$0

Cause:

For Condition 1, it appears that communication and compilation of completed projects and construction-in-progress data, project engineer's estimates, project completion reports, and asset receiving reports were not sufficiently utilized to determine the appropriateness and accuracy of underlying financial reports.

For Condition 2, grant terms and conditions, including funding sources, were not specifically indicated in the Transfer of Property Document.

For Condition 3, it has been a practice of the National government to capitalize all payments made to the CM or to the PMU.

For Condition 4, the absence of adequate maintenance procedures has been a recurring audit concern.

For Condition 5, the Government decided not to record the assets in the fixed assets register and represented such was agreed to by the Grantor agency, however, Finance is to maintain a separate record of the assets.

Effect: The effect of this condition is that inadequate accounting for fixed assets may occur and that complications between the National Government and the States may result due to potential misunderstandings concerning compliance with grant terms related to capital assets. Noncompliance has resulted with federal compliance requirements applicable to equipment maintenance.

For assets not capitalized and tagged, this condition will detract from monitoring and verification of existence, usage, condition and income derived from equipment disposal.

Additionally, a possible immaterial misstatement of the capitalized cost could result from unrelated construction costs included in construction in progress.

Prior Year Status: These conditions were cited in the 2009 Single Audit

Recommendation: The Government should adhere to the federal compliance requirement on fixed assets. Quarterly reconciliations and assessments of the status of construction in progress should occur. A formal maintenance program should also be developed.

The funding source including the federal program identification number, the CFDA number, and the grant terms and conditions should also be incorporated in the Transfer of Property Document to formally delineate responsibilities associated with the assets. Fixed assets owned by the Government should be completely accounted for in the fixed asset register. For contract costs of the CM and PMU, the National Government may consider assigning a unique expenditure code for the portion of contract costs that are non-construction related.

Finding No.:	2010-12, Continued
CFDA Program:	U.S. HHS 93.069 Public Health Emergency Preparedness
	U.S. DOI 15.875 Economic, Social and Political Development of the Territories - Compact Sector Infrastructure Projects
	U.S. ED 84.027 Special Education – Grants to the States
	U.S. DOT 20.106 Airport Improvement Program
Requirement:	Fixed Asset Reconciliation/Equipment and Real Property Management
Questioned Costs:	$0

Auditee Response and Corrective Action Plan:

Condition 1-2. We agree with this finding. During 2010, National Treasury transferred assets to the states using the form that are currently in place. Prior to the transfer of assets, National treasury communicated to the Department of justice requesting for procedure in transferring the assets and to provide the appropriate form to use, however there was no response receive from the Department of Justice. Assets could not be transferred without the completion report issued by TC&I. On May 2011, certain assets were transferred due to the completion report provided by the Department of Transportation, Communication and Infrastructure.

Condition 3-4. We agree with this finding. National Treasury will seek the assistance of Lyons and Associates and the Project Management Unit to determine that only cost related to the construction will be transferred.

Condition 5. We agree with this finding. It was the decision of the FSMNG not to include in the fixed assets register all assets procured under the Contract no. CD0179 as agreed between the FSM Department of TC&I and US Federal Aviation Administration. However, as agreed, the assets are being inventoried and the records of the inventory are being kept at the National Treasury under the procurement section.

Finding No.: 2010-13
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.889 National Bioterrorism Hospital Preparedness Program
Grant Number U3REP080081-01-00
Requirement: Period of Availability
Questioned Costs: $159,109

Criteria: Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period. A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status Report (SF- 269). The Federal agency may extend this deadline at the request of the grantee.

Condition: The Grant's project and budget period expired on 08/09/2009; however, the expenditure was charged to the program past the liquidation period. Grantee approval of the extension of funds availability was not available.

_010_CSACCT.Prog_Name	Date	Prg #	YR	Ref	Ref2	Amt
Hospital Preparedness PRGM	03/09/10	21312	08	N90244	83104	$159,109

Cause: There appears to be lack of monitoring controls over POA and timely liquidation.

Effect: The Government appears to be in noncompliance with the criteria, and questioned costs result.

Recommendation: The FSM Government should regularly monitor the program period of availability and ensure timely liquidations.

Auditee Response and Corrective Action Plan: We agree with this finding. The Assistant Secretary for National Treasury has contacted the FSM Department of Health to provide the necessary documentation of the grantor approval of the extension to clear this finding with the auditor on or before December 31, 2011.

Responsible party: Juliet Jimmy-Assistant Secretary, National Treasury.

Finding No. 2010-14 – Encumbrances

Criteria: Encumbrances should reflect the remaining unliquidated balance of the contract, purchase order or travel authorization. The listing should be periodically reviewed as to its validity and as to compliance with applicable conditions, such as period of availability.

Condition:

1. For two (or 33%) of 6 ADB samples and for five (or 33%) of 15 general fund samples, no supporting documentation was provided.

2. In the course of testing encumbrances, certain encumbrances were found to be invalid and travel related encumbrances were not timely liquidated.

Cause: There appears to be a lack of controls over compliance with the criteria.

Effect: The aggregate invalid encumbrances were not material and were included in the list of unrecorded adjustments. The balance could be erroneous. However, based on the condition, additional encumbrance related errors could be contained in the financial statements.

Prior Year Status: This condition was cited in the 2009 Single Audit.

Recommendation: We recommend that encumbrances be periodically reviewed as to validity. Additionally, reconciliations should regularly occur to verify that encumbrances are adequately supported by underlying source documents.

Auditee Response and Corrective Action Plan:

We agree with this finding. During FY10, efforts were made by the operations manager to reconcile the encumbrance and to remove invalid travel and purchase order. We will continue to perform the reconciliation on a monthly basis to ensure that only valid encumbrance will remain in the FMIS.

Responsible party: Jackson Jack-Operations manager
Noel Pascua-Accounting advisor

Finding No. 2010-15 – Timely and Accurate Reconciliation of Accounts

Criteria: Reconciliations of accounts should be performed timely and accurately.

Documentation supporting the allocation of loan payments should be on file.

Condition:

1. Audit adjustments were proposed in addition to several adjusting entries provided by the National Government during March through June 2011 to correct and reconcile various accounts (including investments, accounts receivable, advances, expenditures, loans receivable, accounts payable, capital assets and investment earnings).

2. The prior year agreement between the FSM and ADB pertaining to the ADB Loan SDR adjustment is not available.

3. During the year, loan payments for ADB Loan Number 1816 FSM (SF) – Basic Social Services Program were made. The National Government has allocated these loans to the three states and to the National Government. Consequently, the National Government may have an equitable share in the loan amortization. However the principal amortization for the loan has been paid solely by the states. The Government was not able to provide documentation as to the basis of this allocation method. The project completion report provided by ADB did not specifically indicate the specific state beneficiary. Rather, the project appears to imply that the FSM as a whole is the beneficiary.

4. As of September 30, 2010, there exist unidentified federal funds of $279,122 that were drawn down from the Federal Holding Account that are included within General fund cash.

5. The Government was not able to locate certain expenditure reports and grantor confirmations to support drawdowns from the holding account, recordation of the collections, and revenues and deferred revenues.

6. As of September 30, 2010, the Government has recorded grant deferred revenue of $77,409. Certain federal programs appear to have overdrawn the cash equivalent or are in excess of this balance.

7. The Government was not able to provide certain underlying support (invoices, contracts, personnel action forms, travel authorizations, travel liquidation) for certain expenditures.

Cause: Reconciliations of the accounts was not accurately performed.

Relative to the ADB Loan 1816, it is the National Government understanding that related projects were for the benefit of the states and as such, the states bear responsibility for loan repayments. However, the report provided by ADB does not necessarily support this understanding.

For Condition 4, the unidentified cash resulted from a prior year unreconciled balance that was transferred in 2009 to the general fund. It does not appear that subsequent attempts to reconcile this balance have occurred.

Finding No. 2010-15 – Timely and Accurate Reconciliation of Accounts, Continued

Cause, Continued:

For Condition 5, filing online confirmations of draw downs and related expenditure reports does not consistently occur.

For Condition 6, untimely monitoring of drawdowns against expenditures appears to be occurring to that drawdowns and applications of revenue are accurate and that cash in not drawn down prior to the incurrence of expenditures.

Effect: Accounts payable and travel advances may be immaterially misstated.

For Conditions 2 and 3, there could be erroneous state loan repayments.

Conditions 4 to 6 – There is a potential liability of the National Government to return the money to the U. S. Federal Government. A liability has been duly recorded for this possibility. This condition also has the effect of not allowing for the verification of the accuracy of the application of drawdowns against appropriate grant numbers.

Prior Year Status: This condition was cited in the 2009 Single Audit.

Recommendation: We recommend that the FSM National Government perform monthly reconciliations of accounts to promptly identify reconciling items. Reconciliations should be reviewed by appropriate management to determine that such occurs timely and that necessary action is undertaken, if necessary.

For the ADB Loan 1816, the National Government may wish to consider obtaining a formal agreement with the States relative to repayment terms.

Auditee Response and Corrective Action Plan:

We agree with this finding. The investment accountant who handles the ADB loan will perform the account reconciliation on a monthly basis and will obtain a formal agreement with the states relative to the repayment terms.

Responsible party: Delihda Lebehn- Investment accountant
Noel Pasccua- Accounting advisor

Finding No. 2010-16 - Travel Advances

Criteria: In accordance with applicable Financial Management Regulations, the traveler must submit a travel claim voucher within 10 days of travel completion or of trip cancellation, and attach necessary receipts, trip reports and boarding passes or other evidence of the completion of travel. If the traveler does not liquidate the advance, alternative collection methods should be employed to recover the Government's funds. Furthermore, such records should be kept on file and be available for audit.

Condition: We noted untimely liquidation of travel advances and insufficient documentation on file to substantiate transactions.

There also appears to be lack of aggressive effort to collect travel advances.

	Amount	Allowance	Net Realizable Value
GF	$2,448,582	$2,197,195	$251,387
Sector	145,298	-	145,298
	$2,593,880	$2,197,195	$396,685

Cause: It appears that additional effort is necessary to monitor travel advances.

Effect: Expenditures per function as reported may be understated.

The National Government has provided a sufficient allowance to cover these uncollectible advances and therefore, this matter does not appear to have a material impact on the financial statements.

Prior Year Status: This condition was cited in the 2009 Single Audit.

Recommendation: We recommend that compliance with the Financial Management Regulations occur with respect to the collection of travel advances. The Government should monitor long outstanding travel advances to determine if such advances are government related travel and to minimize opportunity for misappropriation of assets.

Additionally the Government should retain sufficient documentation on file to support transactions.

Auditee Response and Corrective Action Plan: We agree with this finding. At the start of the FY11, the accountant at travel section has been submitting notices reminding the traveler to submit their travel voucher on time. The travel accountant is also vigilant in informing the traveler to pay off the their overdrawn travel. This action resulted to significant decrease in the travel advance in the second quarter of the fiscal year 2011 by less than three hundred thousand. We will continue to ask the traveler to clear their travel advance until such time that the amount is reduced to a more acceptable balance. Our objective in FY11 is to reduce travel advances by $1 million before the end of the fiscal year 2011.

Responsible party: Robel Basa -Accounting advisor
Sehra Ezekias- Travel Accountant

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

Schedule of Unresolved Prior Audit Findings and Questioned Costs
Year Ended September 30, 2010

The following is a summary of unresolved federal questioned costs for the FSM National Government:

	Questioned Costs Set Forth in Prior Audit Report 2009	Questioned Costs Resolved in Fiscal Year 2010	Questioned Costs at September 30, 2010
Unresolved Questioned Costs FY 07	$ 1,918,618	$ 1,918,618	$ -
Unresolved Questioned Costs FY 08	1,196,060	-	1,196,060
Unresolved Questioned Costs FY 09	2,964,400	102,800*	2,861,600
	$ 6,079,078	$ 2,021,418	4,057,660
Questioned Costs FY 10			2,049,222
			$ 6,106,882

Of the $2,021,418 resolved during fiscal year 2010, $1,918,618 was resolved per OMB Circular A-133, Section .315(b)(4). The remaining balance was resolved through communication from grantor agencies.

* Resolved due to correspondence with grantor agency.

The status of prior year findings is set forth in the accompanying Schedule of Findings and Questioned Costs (pages 90 through 123).