

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

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

YEAR ENDED SEPTEMBER 30, 2014

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

YEAR ENDED SEPTEMBER 30, 2014

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**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

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**FEDERATED STATES OF MICRONESIA
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**INDEPENDENT AUDITORS' REPORT AND
ADDITIONAL INFORMATION
AND FINANCIAL STATEMENTS**

YEAR ENDED SEPTEMBER 30, 2014

INDEPENDENT AUDITORS' REPORT

Honorable Peter M. Christian
President
Federated States of Micronesia:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Federated States of Micronesia (FSM) National Government as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the FSM National Government's basic financial statements as set forth in Section III of the foregoing table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the FSM National Government as of September 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 11 as well as the Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund and notes thereto, on pages 60 through 62, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. Although our opinion on the basic financial statements is not affected, the following material departure from the prescribed guidelines exist whereby the original budget column does not include the automatic carryover of encumbrances. We do not express an opinion or provide any assurance on the information.

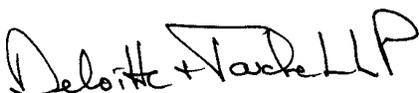
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the FSM National Government's basic financial statements. The combining and individual fund financial statements, as set forth in Section V of the foregoing table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2015 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* in considering the FSM National Government's internal control over financial reporting and compliance.



June 30, 2015

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Management's Discussion and Analysis
September 30, 2014

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, 2014 and of the financial position of the FSM National Government at September 30, 2014. This report is to be read in conjunction with the financial statements of the FSM National Government which begin on page 12. Fiscal Year 2013 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, 2014, FSM National Government has total net position of \$318,411,191 (FY13 \$292,447,253). 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 and increase in fishing access and corporate tax collections.
- During the year, FSM National Government expenses for governmental activities were \$95,359,867 (FY13 \$86,178,637) and were funded by program revenues of \$24,842,045 (FY13 \$46,765,128) and were further funded with taxes and other general revenues that totaled \$95,312,530 (FY13 \$54,583,549).
- During the year, the FSM National Government did not write-off old receivables (FY2013 \$4,427,120).
- The net change in governmental funds increased by \$49,804,289 (FY13 \$11,105,293). Total revenues reported are \$121,323,805 with total expenditures of \$73,574,164. Total loan proceeds from ADB Loan are \$2,054,648.
- At September 30, 2014, the General Fund reported an unassigned surplus of \$51,999,030 (FY13 \$13,158,762).

OVERVIEW OF THE FINANCIAL STATEMENTS

This Financial Statements for the Year Ended September 30, 2014 consist 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 National Government.

The Government-Wide Financial Statements

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

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

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

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Management's Discussion and Analysis
September 30, 2014

The Statement of Net Position 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 ten (10) 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, Vital Energy, Inc., Mi Care Plan and the Caroline Islands Air, Inc. These component units are entities which are legally separate from the FSM National Government, but are financially accountable to the FSM National Government, or whose relationship with the FSM National Government is such that exclusion would cause the FSM National Government's basic financial statements to be misleading or incomplete.

Fund Financial Statements

The analysis of the FSM National Government's major funds begins on page 14. The 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 - government and fiduciary – each using different accounting approaches.

- **Government funds** - Most of the National Government's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the National Government general operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the National Government's program. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation at the bottom of the pages 14 and 16.
- **Fiduciary funds** - These funds are used to account for assets held by a Government unit in a trustee capacity for individuals, private organizations, and other governmental resources. 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 through user charges.

THE NATIONAL GOVERNMENT AS A WHOLE

Net Position may serve over time as a useful indicator of government's financial position. At the end of Fiscal Year 2014, FSM National Government assets exceeded liabilities by \$318,411,191. Of the total net position, \$222,528,944 is restricted as to purposes for which they may be used for or is invested in capital assets. National Government uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although 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.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Management's Discussion and Analysis
September 30, 2014

Table 1 shows the schedule of National Government's net position as of September 30, 2014.

Table 1 - Net Position

	Governmental Activities			
	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>%</u>
Current assets	\$166,764,232	\$ 84,032,330	\$82,731,902	98.5
Other assets	23,457,525	64,815,770	(41,358,245)	(63.8)
Capital assets	<u>202,866,121</u>	<u>227,099,576</u>	<u>(24,233,455)</u>	(10.7)
Total assets	<u>\$393,087,878</u>	<u>\$375,947,676</u>	<u>\$17,140,202</u>	4.6
Current and other liabilities	\$ 17,683,916	\$ 26,243,183	\$ (8,559,267)	(32.6)
Long-term obligations	<u>56,992,771</u>	<u>57,257,240</u>	<u>(264,469)</u>	(0.5)
Total liabilities	<u>74,676,687</u>	<u>83,500,423</u>	<u>(8,823,736)</u>	(10.6)
Net position:				
Net investment in capital assets	202,866,121	227,099,576	(24,233,455)	(10.7)
Restricted	19,662,823	19,038,609	624,214	3.3
Unrestricted	<u>95,882,247</u>	<u>46,309,068</u>	<u>49,573,179</u>	107.0
Total net position	<u>318,411,191</u>	<u>292,447,253</u>	<u>25,963,938</u>	8.9
Total liabilities and net position	<u>\$393,087,878</u>	<u>\$375,947,676</u>	<u>\$17,140,202</u>	4.6

At the end of FY14, the FSM National Government unrestricted net position show a surplus of \$95,882,247 compared to \$46,309,068 at the end of FY13.

Table 2 shows the changes in Net Position of the National Government for the years ended September 30, 2014 and 2013.

Table 2

	Governmental Activities			
	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>%</u>
Revenues:				
Program Revenues:				
Charges for Services	\$ 2,377,046	\$ 2,937,563	\$ (560,517)	(19.1)
Operating grants and contributions	12,243,034	13,407,178	(1,164,144)	(8.7)
Capital grants and contributions	10,221,965	30,420,387	(20,198,422)	(66.4)
General Revenues:				
Income tax	4,070,210	3,879,977	190,233	4.9
Fishing rights fees	47,517,815	35,049,721	12,468,094	35.6
Fuel	127,328	141,279	(13,951)	(9.9)
Import	3,463,801	3,529,577	(65,776)	(1.9)
Tobacco revenue share	307,985	558,593	(250,608)	(44.9)
Gross receipts	4,380,072	4,542,630	(162,558)	(3.6)
Corporate tax	27,630,004	4,378,437	23,251,567	531.0
Unrestricted investment earnings	6,204,783	1,440,735	4,764,048	330.7
Other	<u>1,610,532</u>	<u>1,062,600</u>	<u>547,932</u>	51.6
Total revenue	<u>120,154,575</u>	<u>101,348,677</u>	<u>18,805,898</u>	18.6

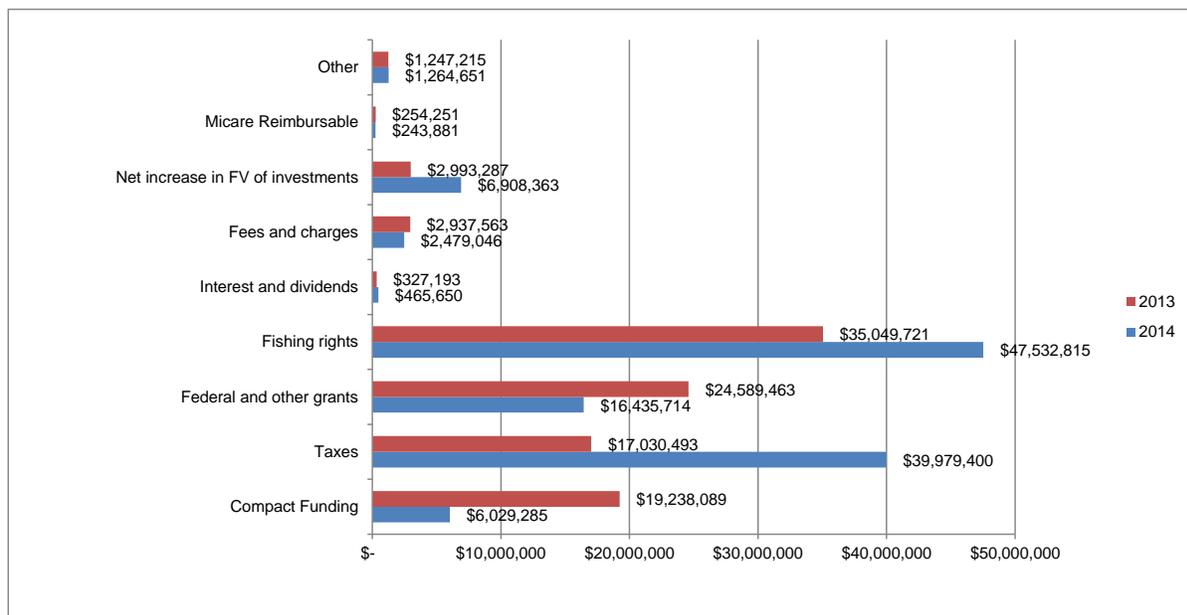
**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Management's Discussion and Analysis
September 30, 2014

Expenses:

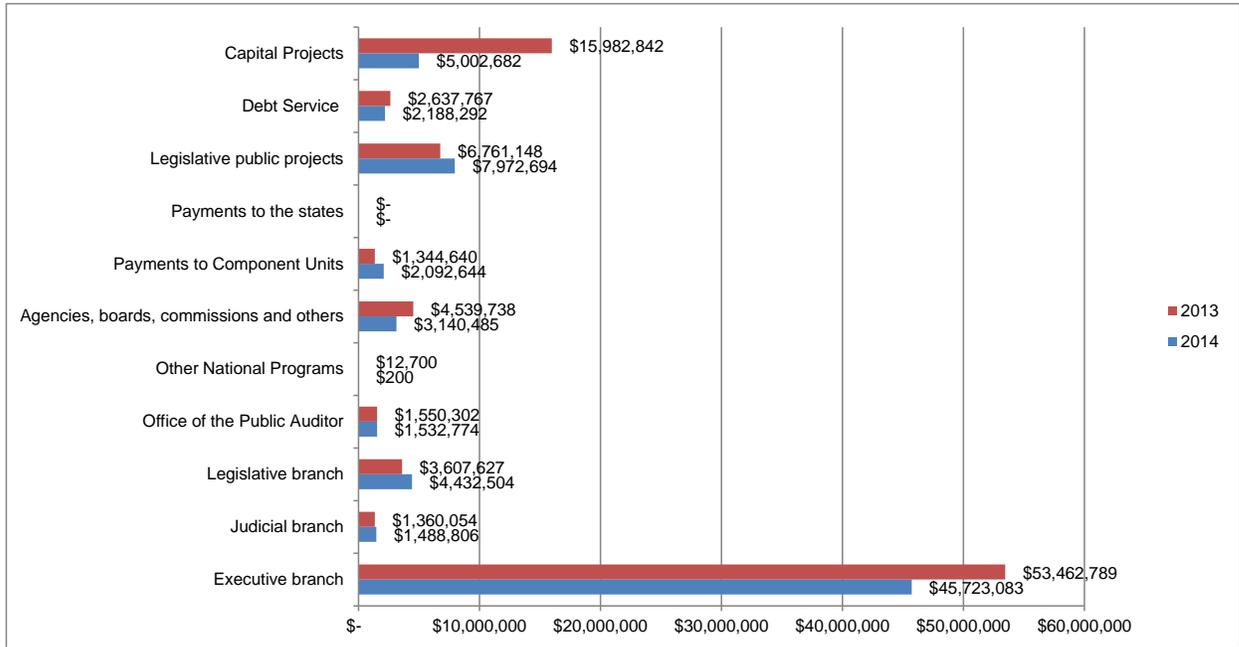
Executive	53,963,647	54,662,639	(698,992)	(1.3)
Judicial	1,363,394	1,381,953	(18,559)	(1.3)
Legislative	4,475,252	3,664,985	810,267	22.1
Office of Public Auditor	1,502,546	1,557,907	(55,361)	(3.6)
Other National government progr	153,930	362,319	(208,389)	(57.5)
Agencies, boards and commissions	2,674,309	3,940,020	(1,265,711)	(32.1)
Payments to components units	2,092,654	1,344,640	748,014	55.6
Legislative Public projects	7,972,694	6,761,148	1,211,546	17.9
Capital projects	21,161,441	12,063,139	9,098,302	75.4
Interest	<u>-</u>	<u>439,887</u>	<u>(439,887)</u>	(100.0)
Total expenses	<u>95,359,867</u>	<u>86,178,637</u>	<u>9,181,230</u>	10.7
Excess before special items and contribution	<u>24,794,708</u>	<u>15,170,040</u>	<u>9,624,668</u>	63.4
Special items:				
Receivable written off	-	(4,427,120)	4,427,120	(100.0)
Contribution to permanent funds	<u>1,169,230</u>	<u>1,879,745</u>	<u>(710,515)</u>	(37.8)
Change in net position	25,963,938	12,622,665	13,341,273	105.7
Net position at beginning of year	<u>292,447,253</u>	<u>279,824,588</u>	<u>12,622,665</u>	4.5
Net position at end of year	<u>\$318,411,191</u>	<u>\$292,447,253</u>	<u>\$25,963,938</u>	8.9

National Government revenues from governmental activities, including local revenues, gain on investments, Compact and other grants funding totaled \$120,154,575 (FY13 \$101,348,677). In FY14, the cost of governmental activities totaled \$95,359,867 (FY13 \$86,178,637). The difference between the two, including special items, represents an increase in net position of \$25,963,938 (FY13 \$12,622,665). To assist in appreciating the details of governmental activities, the above governmental activities information is shown in pictorial form in the following graph.



**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Management's Discussion and Analysis
September 30, 2014



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

Governmental Funds

The focus of 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 FSM National Government financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the FSM National Government governmental funds reported combined ending fund balances of \$169.4 million, which represents an increase of \$49.8 million (or 42%) in comparison with the prior year. This increase is primarily attributable to an increase in fund balance of the Grants Assistance Fund, the Compact Trust Fund, Other Governmental fund and the General Fund.

Of the total combined fund balance, **(1)** \$70.9 million is reserved for non-spendable. The non spendable includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact such as loans receivable from States and component units of \$40.4 million, equity investments of \$4.9 million, equity shares for membership of \$8.1 million, and permanent fund \$15.3 million and reserved cash of \$2.2 million **(2)** \$2.8 million is restricted as to its use of resources by laws through constitutional provisions or enabling legislation for the general government **(3)** \$41.0 million is committed for specific purposes pursuant to constraints imposed by Congress (a) to indicate that it is not available for new spending because it has already been committed loan payments of \$2.6 million, \$22.5 million for future operations-FSM Trust Fund, and \$3.1 for revolving funds (b) to continuing appropriations through grant awards or enabling legislation and general governments of \$12.8 million. The combined Unassigned Fund Balance of FSM National Government Governmental funds is \$51.9 million, an increase of \$7.7 million from the prior year. The increase in unassigned fund balance was due to the decrease in local domestic collection.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Management's Discussion and Analysis
September 30, 2014

The General Fund is the chief operating fund of FSM National Government. At the end of the current fiscal year, the unassigned fund surplus of the General Fund was \$52 million as compared with the prior year ending unreserved fund surplus \$13.2 million, while total fund balance was \$147.99 million compared with a total fund balance of \$100.2 million at the end of the prior fiscal year.

The Grants Assistance Fund has a total restricted fund balance of \$2.2 million compared to prior year ending unassigned fund deficit of \$0.25 million.

The Compact Trust Fund has a total fund balance of \$15.4 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 \$1.17 million.

The Other governmental funds has a total fund balance of \$2.4 million, all of which is primarily committed for future operations of the primary government.

Table 3 shows The National Governmental Fund changes in fund balances for the years ended September 30, 2014 and 2013.

**Table 3
Changes in Fund Balances**

	General Fund		Other Funds		Total	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Revenues						
Compact funding	\$ -	\$ -	\$ 6,029,285	\$ 19,238,102	\$ 6,029,285	\$ 19,238,102
Federal and other grants	-	-	16,435,714	24,589,463	16,435,714	24,589,463
Taxes	39,876,736	16,842,264	102,664	188,228	39,979,400	17,030,492
Fishing rights fees	47,517,815	35,049,721	-	-	47,517,815	35,049,721
Net inc in FV of inv.	5,739,133	1,113,541	1,169,230	1,879,745	6,908,363	2,993,286
Other	<u>2,276,084</u>	<u>2,312,630</u>	<u>2,177,139</u>	<u>2,453,604</u>	<u>4,453,228</u>	<u>4,766,234</u>
Total revenues	<u>95,409,773</u>	<u>55,318,156</u>	<u>25,914,032</u>	<u>48,349,142</u>	<u>121,323,805</u>	<u>103,667,298</u>
Expenditures	<u>49,319,806</u>	<u>44,370,972</u>	<u>24,254,358</u>	<u>46,888,635</u>	<u>73,574,164</u>	<u>91,259,607</u>
Excess of rev over exp.	<u>46,089,967</u>	<u>10,947,184</u>	<u>1,659,674</u>	<u>1,460,507</u>	<u>47,749,641</u>	<u>12,407,691</u>
Net transfers	<u>3,090,108</u>	<u>2,259,875</u>	<u>(1,035,460)</u>	<u>864,857</u>	<u>2,054,648</u>	<u>3,124,732</u>
Special Items	-	<u>(4,427,120)</u>	-	-	-	<u>(4,427,120)</u>
Net Change in F/B	<u>\$49,180,075</u>	<u>\$ 8,779,939</u>	<u>\$ 624,214</u>	<u>\$ 2,325,364</u>	<u>\$ 49,804,289</u>	<u>\$ 11,105,303</u>

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. As can be seen in the following table, actual revenue collections exceeded budget by \$3,538,832 or 4% while expenditures were less than budgets by \$5,866,717 or 11%. There were no material budget overruns at any level.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Management's Discussion and Analysis
September 30, 2014

	Budget <u>Original</u>	Budget <u>Final</u>	Actual <u>Amounts</u>	Variance <u>Positive(Negative)</u>
Revenues	\$ 87,229,025	\$ 87,229,025	\$ 90,767,857	\$ 3,538,832
Expenditures	<u>47,583,647</u>	<u>51,697,523</u>	<u>45,830,806</u>	<u>5,866,717</u>
Excess of revenues	39,645,378	35,531,502	44,937,051	9,405,549
Other financing sources (uses)	<u>(400,000)</u>	<u>(400,000)</u>	<u>(400,050)</u>	<u>(50)</u>
Net Change	<u>\$ 39,245,378</u>	<u>\$ 35,131,502</u>	<u>\$ 44,537,001</u>	<u>\$ 9,405,499</u>

During the year, the FSM National Government revised its budget by \$4.1 million for the increase in the fishing rights fees. During the year, the FSM National government additional supplemental appropriations for operations and CFSM Projects under Public laws Nos. 18-15, 18-24,18-26, 18-35, 18-41, 18-42, 18-55, 18-54, 18-62, 18-70, and 18-75 totaled to \$67,840,804.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of the September 30, 2014, FSM National Government had invested \$202,866,121 (FY13 \$227,099,576) 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:

	<u>Primary Government Governmental Activities</u>			
	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>%</u>
Buildings	\$ 55,545,429	\$ 55,605,067	\$ (59,638)	(0.001)
Boats and ships	22,569,231	22,356,273	212,958	0.010
Infrastructure	107,540,266	125,710,395	(18,170,129)	(0.145)
Motor vehicles	6,570,990	6,208,403	362,587	0.058
Computer equipment	5,103,886	4,892,900	210,986	0.043
Aircraft	709,207	709,207	-	-
Furniture, fixture, equipment	<u>9,868,082</u>	<u>9,619,536</u>	<u>248,546</u>	0.026
Total assets	207,907,091	225,101,781	(17,194,690)	(0.076)
Less: accumulated depreciation	(59,899,601)	(50,849,466)	(9,050,135)	0.178
Construction in progress	<u>54,858,631</u>	<u>52,847,261</u>	<u>2,021,370</u>	0.038
Total assets	<u>\$202,866,121</u>	<u>\$227,099,576</u>	<u>\$ (24,233,455)</u>	(0.107)

During the year, the FSM National Government recorded additional construction in progress of \$3,356,866 net of retirements, transfer to FSM states and reclassifications. Further information on the FSM National Government's capital assets can be obtained in note 5 to the accompanying financial statements.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Management's Discussion and Analysis
September 30, 2014

Long Term Debt

At the end of fiscal year 2014, National Government had long-term debt of \$56,992,771 (FY13 \$57,257,240) relating to Governmental Activities as shown below:

Description	No.	2014	2013	Change	%
Fisheries	1257	\$ 4,834,613	\$ 5,088,944	\$ (254,331)	(0.05)
Water & Sanitation	1459	8,782,726	8,991,697	(208,971)	(0.02)
Early retirement	1520	17,494,504	17,901,379	(406,875)	(0.02)
Private Sector	1816	3,130,667	3,304,594	(173,927)	(0.05)
Private Sector	1873	2,797,543	3,040,809	(243,266)	(0.08)
Basic Social Services	1874	5,837,362	6,136,714	(299,352)	(0.05)
Omnibus (OIDP)	2099	10,253,026	9,327,648	925,378	0.10
Omnibus (OCR)	2100	<u>3,862,330</u>	<u>3,465,455</u>	<u>396,875</u>	0.11
Total		<u>\$ 56,992,771</u>	<u>\$ 57,257,240</u>	<u>\$ (264,468)</u>	0.01

During the year, FSM National Government received loan proceeds of \$2,054,648 for loans under 2100 FSM (SF) and 2099 FSM (SF) Omnibus Infrastructure Development Project. During the year, the FSM National Government repaid loans of \$2,319,117. Included in the loan payment is a foreign exchange adjustment due to SDR of \$106,719. Of this amount, \$89,116 was allocated to the States, which also resulted in a decrease in loans receivable from the States of the same amount.

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

Economic Factors and Next year's Budget:

Fiscal year 2014 represents the tenth full year the FSM is implementing the economic assistance provisions available under the Amended compact. The total funds appropriated for the National Government operations and programs during the fiscal year amounted to \$59.1 million. Funding under the amended Compact represents 13% of the National Government FY14 annual budget. The remaining 87% came from locally generated tax revenues, fishing access fees, investment earnings and related government services fees.

The FSM National Government ended fiscal year 2014 with a positive unassigned general fund surplus.

For FY2015, the total revenue projection is approximately \$101,975,662, of which \$70,886,705 or 70% will come from domestic source and \$8,749,297 or 12% will come from the amended compact sector grants.

In the beginning of FY2015, the first annual appropriations were \$52,286,586 of which \$49,474,428 or 95% is to be funded by locally generated revenues of the FSM National Government and \$2,812,158 or 5% will come from amended sector grants. It is anticipated that the FY2015 budget will reflect an increase in the FY14 budgetary level due to the increase in the collection of corporate taxes and a substantial estimated increase in fishing access fees and other local taxes.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Management's Discussion and Analysis
September 30, 2014

In addition to receiving compact grant assistance, the FSM receives substantial program assistance from agencies of the United States Federal Government, Peoples Republic of China, Japan and other foreign governments. Grants and other technical assistance programs are also made available to the FSM from the international and regional organizations.

FINANCIAL MANAGEMENT CONTACT –NATIONAL GOVERNMENT

This financial report is designed to provide all interested users with a general overview of the National Government's finances. Inquiries concerning this report, if any, may be directed to the Secretary of the Department of Finance and Administration, P.O. Box PS 158, Palikir, Pohnpei, FM 96941.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Statement of Net Position
September 30, 2014

	Primary Government	Component Units
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 46,863,626	\$ 27,386,518
Cash and cash equivalents - restricted	5,030,840	-
Time certificates of deposit	4,007,685	2,770,110
Investments	46,549,128	3,938,696
Receivables, net of allowance for uncollectibles	64,312,953	17,113,918
Inventories	-	9,864,624
Other current assets	-	2,710,381
Total current assets	166,764,232	63,784,247
Noncurrent assets:		
Investments	-	22,066,639
Investments - restricted	15,380,233	-
Receivables, net of current portion	-	16,212,240
Capital assets:		
Nondepreciable capital assets	54,868,631	10,625,991
Capital assets, net of accumulated depreciation	147,997,490	61,385,916
Deposits and other assets	8,077,292	2,998,167
Total noncurrent assets	226,323,646	113,288,953
Total assets	\$ 393,087,878	\$ 177,073,200
LIABILITIES		
Current liabilities:		
Current portion of long-term obligations	\$ 2,172,185	\$ 6,055,946
Accounts payable	3,955,002	6,711,560
Current portion of compensated absences payable	128,693	298,614
Other liabilities and accruals	3,138,803	8,529,087
Tax refunds payable	154	-
Retention payable	742,980	-
Due to federal agencies	1,126,478	-
Due to FSM State Governments	4,014,477	-
Unearned revenues	3,588,134	3,666,412
Total current liabilities	18,866,906	25,261,619
Noncurrent liabilities:		
Long-term obligations, net of current portion	54,820,586	29,295,836
Compensated absences payable, net of current portion	989,195	-
Total noncurrent liabilities	55,809,781	29,295,836
Total liabilities	74,676,687	54,557,455
NET POSITION		
Net investment in capital assets	202,866,121	28,073,880
Restricted for:		
Nonexpendable:		
Future operations	15,380,233	-
Other purposes	-	4,375,829
Expendable:		
Compact related	1,899,834	-
Other purposes	2,382,756	-
Unrestricted	95,882,247	90,066,036
Total net position	318,411,191	122,515,745
Total liabilities and net position	\$ 393,087,878	\$ 177,073,200

See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Statement of Activities
Year Ended September 30, 2014

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
Primary government:						
Governmental activities:						
Office of the President	\$ 1,894,922	\$ -	\$ -	\$ -	\$ (1,894,922)	\$ -
Foreign affairs	4,444,849	-	-	-	(4,444,849)	-
Finance and administration	4,674,543	-	1,839,096	-	(2,835,447)	-
Resources and development	4,379,051	-	3,042,209	-	(1,336,842)	-
Transportation, communication and infrastructure	20,008,114	128,780	16,013	5,304,283	(14,559,038)	-
Health and social affairs	6,630,483	3,970	5,257,990	-	(1,368,523)	-
Education	3,825,627	-	1,079,741	-	(2,745,886)	-
Justice	5,033,220	1,055,633	-	-	(3,977,587)	-
Office of the Public Defender	766,131	-	-	-	(766,131)	-
SBOC Office	1,324,721	-	65,731	-	(1,258,990)	-
Environment and emergency management	741,207	-	181,365	-	(559,842)	-
National archives, cultural and historic preservation	240,779	-	73,771	-	(167,008)	-
Legislature	4,475,252	-	-	-	(4,475,252)	-
Judiciary	1,363,394	-	-	-	(1,363,394)	-
Office of the National Public Auditor	1,502,546	-	581,750	-	(920,796)	-
National government programs	153,930	-	-	-	(153,930)	-
Agencies, boards and commissions	2,674,309	1,188,663	105,368	-	(1,380,278)	-
Payments to component units	2,092,654	-	-	-	(2,092,654)	-
Legislative public projects	7,972,694	-	-	-	(7,972,694)	-
Capital projects	21,161,441	-	-	4,917,682	(16,243,759)	-
Total primary government	\$ 95,359,867	\$ 2,377,046	\$ 12,243,034	\$ 10,221,965	(70,517,822)	-
Component units:						
FSM Telecommunications Corporation	\$ 14,574,642	\$ 13,579,504	\$ 1,393,558	\$ -	-	398,420
FSM Development Bank	1,792,313	2,472,983	-	-	-	680,670
National Fisheries Corporation	366,675	501,992	-	-	-	135,317
College of Micronesia - FSM	20,544,356	20,021,732	-	-	-	(522,624)
FSM Coconut Development Authority	470,912	176,671	211,242	-	-	(82,999)
FSM Petroleum Corporation	52,296,984	56,114,912	-	-	-	3,817,928
Vital Energy Inc.	806,012	747,471	-	-	-	(58,541)
Caroline Islands Air, Inc.	390,736	430,312	75,276	-	-	114,852
MiCare Plan, Inc.	5,945,521	5,902,466	100,000	-	-	56,945
Total component units	\$ 97,188,151	\$ 99,948,043	\$ 1,780,076	\$ -	-	4,539,968
General revenues:						
Taxes:						
Income					4,070,210	-
Import					3,463,801	-
Gross receipts					4,380,072	-
Corporate tax					27,630,004	-
Fuel					127,328	-
Tobacco revenue share					307,985	-
Fishing rights					47,517,815	-
Unrestricted investment earnings					6,204,783	357,902
Other					1,610,532	(398,076)
Total general revenues					95,312,530	
Contributions to permanent funds					1,169,230	-
Total general revenues and contributions					96,481,760	(40,174)
Change in net position					25,963,938	4,499,794
Net position at the beginning of the year					292,447,253	118,015,951
Net position at the end of the year					\$ 318,411,191	\$ 122,515,745

See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Balance Sheet
Governmental Funds
September 30, 2014

	Special Revenue		Permanent		Other Governmental Funds	Total
	General	Grants Assistance	Compact Trust			
ASSETS						
Cash and cash equivalents	\$ 46,863,626	\$ -	\$ -	\$ -	\$ -	\$ 46,863,626
Time certificates of deposit	4,007,685	-	-	-	-	4,007,685
Equity in internal investment pool	40,036,855	1,589,605	-	-	-	41,626,460
Investments	4,922,668	-	-	-	-	4,922,668
Receivables, net:						
General	1,420,235	-	-	-	-	1,420,235
Taxes	4,292,900	-	-	-	-	4,292,900
Federal agencies	-	11,728,183	-	-	-	11,728,183
Loans	41,289,829	-	-	-	-	41,289,829
Advances	1,084,887	252,257	-	-	648	1,337,792
Accrued interest	24,142	-	-	-	-	24,142
Due from other funds	6,562,412	4,005,539	-	-	2,457,892	13,025,843
Deposits and other assets	8,077,292	-	-	-	-	8,077,292
Restricted assets:						
Cash and cash equivalents	5,030,840	-	-	-	-	5,030,840
Investments	-	-	15,380,233	-	-	15,380,233
Total assets	<u>\$ 163,613,371</u>	<u>\$ 17,575,584</u>	<u>\$ 15,380,233</u>	<u>\$ 2,458,540</u>	<u>\$ 199,027,728</u>	
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 2,608,920	\$ 1,340,096	\$ -	\$ 5,986	\$ -	\$ 3,955,002
Retention payable	-	742,980	-	-	-	742,980
Other liabilities and accruals	3,138,803	-	-	-	-	3,138,803
Tax refunds payable	154	-	-	-	-	154
Due to federal agencies	-	1,126,478	-	-	-	1,126,478
Due to FSM State Governments	1,854,344	2,160,133	-	-	-	4,014,477
Due to other funds	6,463,431	6,542,322	-	20,090	-	13,025,843
Unearned revenues	150,328	3,437,806	-	-	-	3,588,134
Total liabilities	<u>14,215,980</u>	<u>15,349,815</u>	<u>-</u>	<u>26,076</u>	<u>29,591,871</u>	
Fund balances:						
Non-spendable	55,472,842	-	15,380,233	-	-	70,853,075
Restricted	507,540	2,250,444	-	-	-	2,757,984
Committed	38,570,746	-	-	2,452,554	-	41,023,300
Assigned	2,847,233	-	-	-	-	2,847,233
Unassigned:						
General fund	51,999,030	-	-	-	-	51,999,030
Special revenue funds	-	(24,675)	-	(20,090)	-	(44,765)
Total fund balances	<u>149,397,391</u>	<u>2,225,769</u>	<u>15,380,233</u>	<u>2,432,464</u>	<u>169,435,857</u>	
Total liabilities and fund balances	<u>\$ 163,613,371</u>	<u>\$ 17,575,584</u>	<u>\$ 15,380,233</u>	<u>\$ 2,458,540</u>		

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds

202,866,121

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

(56,992,771)

Compensated absences payable

(1,117,888)

148,975,334

Net position of governmental activities

\$ 318,411,191

See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2014

	Special Revenue		Permanent	Other Governmental Funds	Total
	General	Grants Assistance	Compact Trust		
Revenues:					
Compact funding	\$ -	\$ 6,029,285	\$ -	\$ -	\$ 6,029,285
Taxes	39,876,736	-	-	102,664	39,979,400
Federal and other grants	-	16,435,714	-	-	16,435,714
Fishing rights	47,517,815	-	-	-	47,517,815
Interest and dividends	465,650	-	-	-	465,650
Fees and charges	475,739	-	-	2,003,307	2,479,046
Net change in the fair value of investments	5,739,133	-	1,169,230	-	6,908,363
MiCare reimbursible	243,881	-	-	-	243,881
Other	1,090,819	-	-	173,832	1,264,651
Total revenues	95,409,773	22,464,999	1,169,230	2,279,803	121,323,805
Expenditures:					
Current:					
General government:					
Office of the President	1,875,421	-	-	-	1,875,421
Foreign affairs	4,444,643	-	-	-	4,444,643
Finance and administration	2,870,089	1,839,096	-	-	4,709,185
Resources and development	1,351,190	3,042,209	-	-	4,393,399
Transportation, communication and infrastructure	6,618,333	5,318,387	-	39,220	11,975,940
Health and social affairs	1,293,621	5,257,990	-	-	6,551,611
Education	2,428,817	1,079,741	-	311,957	3,820,515
Justice	4,003,927	-	-	720,662	4,724,589
Office of the Public Defender	803,667	-	-	-	803,667
SBOC Office	1,237,951	65,731	-	-	1,303,682
Environment and emergency management	575,064	181,365	-	-	756,429
National archives, cultural and historic preservation	159,396	73,771	-	-	233,167
Legislature	4,432,504	-	-	-	4,432,504
Judiciary	1,488,806	-	-	-	1,488,806
Office of the National Public Auditor	951,024	581,750	-	-	1,532,774
National government programs	200	-	-	-	200
Agencies, boards and commissions	2,400,688	105,368	-	634,429	3,140,485
Payments to component units and fiduciary fund	2,092,654	-	-	-	2,092,654
Legislative public projects	7,972,694	-	-	-	7,972,694
Capital projects	-	5,002,682	-	-	5,002,682
Debt service:					
Principal and interest payments	2,319,117	-	-	-	2,319,117
Total expenditures	49,319,806	22,548,090	-	1,706,268	73,574,164
Excess (deficiency) of revenues over (under) expenditures	46,089,967	(83,091)	1,169,230	573,535	47,749,641
Other financing sources (uses):					
Proceeds from issuance of long-term debt	2,054,648	-	-	-	2,054,648
Operating transfers in	1,320,460	285,000	-	-	1,605,460
Operating transfers out	(285,000)	-	-	(1,320,460)	(1,605,460)
Total other financing sources (uses), net	3,090,108	285,000	-	(1,320,460)	2,054,648
Net change in fund balances	49,180,075	201,909	1,169,230	(746,925)	49,804,289
Fund balances at the beginning of the year	100,217,316	2,023,860	14,211,003	3,179,389	119,631,568
Fund balances at the end of the year	\$ 149,397,391	\$ 2,225,769	\$ 15,380,233	\$ 2,432,464	\$ 169,435,857

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, 2014

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

Net change in fund balances - total governmental funds	\$ 49,804,289
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Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives and reported as depreciation expense. For the current year, these amounts consist of:

Capital outlays, net of disposals	\$ (14,813,263)	
Depreciation expense, net	<u>(9,420,192)</u>	(24,233,455)

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

This is the additional loan proceeds received from ADB loans.	(2,054,648)
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This is the repayment of ADB loans (see Note 7).	2,319,117
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. These expenses include accrued annual leave payable that is reported in the statement of activities, but not in funds

128,635

Change in net position of governmental activities	\$ <u><u>25,963,938</u></u>
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See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Combining Statement of Fiduciary Net Position
Fiduciary Funds - Private Purpose Trusts
September 30, 2014

	FSM Social Security Administration	Pohnpei State Development Loan Fund	Yap State Development Loan Fund	Total
<u>ASSETS</u>				
Cash and cash equivalents	\$ 2,252,822	\$ -	\$ 116,378	\$ 2,369,200
Time certificates of deposit	-	-	147,833	147,833
Receivables, net:				
Contributions	2,773,881	-	-	2,773,881
Accrued interest	87,032	-	623	87,655
Loans	-	-	18,506	18,506
Other	6,808	-	-	6,808
Investments	45,329,658	-	-	45,329,658
Capital assets, net of accumulated depreciation	81,774	-	-	81,774
	<u>\$ 50,531,975</u>	<u>\$ -</u>	<u>\$ 283,340</u>	<u>\$ 50,815,315</u>
<u>LIABILITIES</u>				
Accounts payable	\$ 183,277	\$ -	\$ 29,287	\$ 212,564
Other liabilities and accruals	31,421	-	-	31,421
	<u>214,698</u>	<u>-</u>	<u>29,287</u>	<u>243,985</u>
<u>NET POSITION</u>				
Held in trust for:				
Social security benefits	50,317,277	-	-	50,317,277
Restricted	-	-	18,506	18,506
Other purposes	-	-	235,547	235,547
	<u>50,317,277</u>	<u>-</u>	<u>254,053</u>	<u>50,571,330</u>
	<u>\$ 50,531,975</u>	<u>\$ -</u>	<u>\$ 283,340</u>	<u>\$ 50,815,315</u>

See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Combining Statement of Changes in Fiduciary Net Position
Fiduciary Funds - Private Purpose Trusts
Year Ended September 30, 2014

	FSM Social Security Administration	Pohnpei State Development Loan Fund	Yap State Development Loan Fund	Total
Additions:				
Contributions	\$ 17,641,983	\$ -	\$ -	\$ 17,641,983
Investment earnings:				
Net change in the fair value of investments	2,025,184	-	-	2,025,184
Interest and dividends	869,992	1,951	1,591	873,534
Total investment earnings	2,895,176	1,951	1,591	2,898,718
Less investment expense	(235,249)	-	-	(235,249)
Net investment earnings	2,659,927	1,951	1,591	2,663,469
Contributions from primary government	1,000,000	-	-	1,000,000
Other	364,982	-	-	364,982
Total additions	21,666,892	1,951	1,591	21,670,434
Deductions:				
Benefits	19,293,925	-	-	19,293,925
Refunds/distribution	23,022	737,531	-	760,553
Administrative expenses	1,166,208	-	-	1,166,208
Total deductions	20,483,155	737,531	-	21,220,686
Change in net position	1,183,737	(735,580)	1,591	449,748
Net position at the beginning of the year	49,133,540	735,580	252,462	50,121,582
Net position at the end of the year	\$ 50,317,277	\$ -	\$ 254,053	\$ 50,571,330

See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

**Combining Statement of Net Position
Component Units
September 30, 2014**

	FSM Tele- Communications Corporation	FSM Development Bank	National Fisheries Corporation	College of Micronesia- FSM	FSM Coconut Development Authority	FSM Petroleum Corporation	Vital Energy Inc.	Caroline Islands Air, Inc.	MiCare Plan, Inc.	Total
ASSETS										
Current assets:										
Cash and cash equivalents	\$ 1,451,756	\$ 5,478,528	\$ 631,449	\$ 5,538,735	\$ 73,618	\$ 13,878,521	\$ 46,797	\$ 134,133	\$ 152,981	\$ 27,386,518
Time certificates of deposit	276,784	1,993,326	-	-	-	500,000	-	-	-	2,770,110
Investments	1,580,857	-	890,113	-	-	-	-	-	1,467,726	3,938,696
Receivables, net:										
General	813,423	37,091	70,944	5,915,333	3,321	2,316,386	219,426	-	256,763	9,632,687
Loans	-	6,083,000	-	-	-	-	-	-	-	6,083,000
Interest	146,903	206,163	-	-	-	-	-	-	-	353,066
Other	297,558	79,888	-	189,668	-	478,051	-	-	-	1,045,165
Inventories	763,722	-	-	1,436,842	89,361	7,568,958	-	5,741	-	9,864,624
Prepaid expenses	-	9,319	-	904,796	743	1,348,940	3,420	84,842	358,321	2,710,381
Total current assets	<u>5,331,003</u>	<u>13,887,315</u>	<u>1,592,506</u>	<u>13,985,374</u>	<u>167,043</u>	<u>26,090,856</u>	<u>269,643</u>	<u>224,716</u>	<u>2,235,791</u>	<u>63,784,247</u>
Noncurrent assets:										
Indefeasible right of use	2,998,167	-	-	-	-	-	-	-	-	2,998,167
Capital assets:										
Nondepreciable capital assets	4,724,503	-	-	1,455,685	-	4,445,803	-	-	-	10,625,991
Capital assets, net of accumulated depreciation	39,817,080	1,657,506	27,958	7,431,652	89,047	12,246,672	63,417	10,136	42,448	61,385,916
Inventories	-	17,690,810	-	4,375,829	-	-	-	-	-	22,066,639
Loans receivable, net	-	16,212,240	-	-	-	-	-	-	-	16,212,240
Total noncurrent assets	<u>47,539,750</u>	<u>35,560,556</u>	<u>27,958</u>	<u>13,263,166</u>	<u>89,047</u>	<u>16,692,475</u>	<u>63,417</u>	<u>10,136</u>	<u>42,448</u>	<u>113,288,953</u>
Total assets	<u>\$ 52,870,753</u>	<u>\$ 49,447,871</u>	<u>\$ 1,620,464</u>	<u>\$ 27,248,540</u>	<u>\$ 256,090</u>	<u>\$ 42,783,331</u>	<u>\$ 333,060</u>	<u>\$ 234,852</u>	<u>\$ 2,278,239</u>	<u>\$ 177,073,200</u>
LIABILITIES										
Current liabilities:										
Current portion of long-term debt	\$ 1,667,941	\$ 138,363	\$ 3,350,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,156,304
Current portion of long-term contract	899,642	-	-	-	-	-	-	-	-	899,642
Current portion of annual leave	-	-	-	298,614	-	-	-	-	-	298,614
Accounts payable	64,968	84,857	57,118	323,290	17,380	4,408,327	211,670	9,980	1,533,970	6,711,560
Other liabilities and accruals	825,256	75,222	11,219	1,460,166	9,114	6,084,675	11,960	4,788	46,687	8,529,087
Unearned revenues	777,537	-	7,726	2,881,149	-	-	-	-	-	3,666,412
Total current liabilities	<u>4,235,344</u>	<u>298,442</u>	<u>3,426,063</u>	<u>4,963,219</u>	<u>26,494</u>	<u>10,493,002</u>	<u>223,630</u>	<u>14,768</u>	<u>1,580,657</u>	<u>25,261,619</u>
Noncurrent liabilities:										
Noncurrent portion of long-term contract	1,900,358	-	-	-	-	-	-	-	-	1,900,358
Noncurrent portion of long-term debt	25,712,361	1,683,117	-	-	-	-	-	-	-	27,395,478
Total noncurrent liabilities	<u>27,612,719</u>	<u>1,683,117</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>29,295,836</u>
Total liabilities	<u>31,848,063</u>	<u>1,981,559</u>	<u>3,426,063</u>	<u>4,963,219</u>	<u>26,494</u>	<u>10,493,002</u>	<u>223,630</u>	<u>14,768</u>	<u>1,580,657</u>	<u>54,557,455</u>
NET POSITION										
Net investment in capital assets	17,359,448	1,657,506	27,958	8,887,337	89,047	-	-	10,136	42,448	28,073,880
Restricted for:										
Nonexpendable	-	-	-	4,375,829	-	-	-	-	-	4,375,829
Unrestricted	3,663,242	45,808,806	(1,833,557)	9,022,155	140,549	32,290,329	109,430	209,948	655,134	90,066,036
Total net position	<u>21,022,690</u>	<u>47,466,312</u>	<u>(1,805,599)</u>	<u>22,285,321</u>	<u>229,596</u>	<u>32,290,329</u>	<u>109,430</u>	<u>220,084</u>	<u>697,582</u>	<u>122,515,745</u>
Total liabilities and net position	<u>\$ 52,870,753</u>	<u>\$ 49,447,871</u>	<u>\$ 1,620,464</u>	<u>\$ 27,248,540</u>	<u>\$ 256,090</u>	<u>\$ 42,783,331</u>	<u>\$ 333,060</u>	<u>\$ 234,852</u>	<u>\$ 2,278,239</u>	<u>\$ 177,073,200</u>

See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Combining Statement of Revenues, Expenses, and Changes in Net Position
Component Units
Year Ended September 30, 2014

	FSM Tele- Communications Corporation	FSM Development Bank	National Fisheries Corporation	College of Micronesia- FSM	FSM Coconut Development Authority	FSM Petroleum Corporation	Vital Energy Inc.	Caroline Islands Air, Inc.	MiCare Plan, Inc.	Total
Operating revenues:										
Charges for services	\$ 13,293,514	\$ 2,472,983	\$ 501,992	\$ 19,797,830	\$ 176,671	\$ 56,110,709	\$ 675,273	\$ 430,312	\$ 5,897,306	\$ 99,356,590
Other	285,990	-	-	223,902	-	4,203	72,198	-	5,160	591,453
Total operating revenues	<u>13,579,504</u>	<u>2,472,983</u>	<u>501,992</u>	<u>20,021,732</u>	<u>176,671</u>	<u>56,114,912</u>	<u>747,471</u>	<u>430,312</u>	<u>5,902,466</u>	<u>99,948,043</u>
Operating expenses:										
Cost of services	465,117	34,350	-	-	188,360	43,184,791	71,558	365,184	5,359,221	49,668,581
Depreciation and amortization	4,515,968	131,210	6,280	866,792	47,415	1,445,221	18,094	-	19,646	7,050,626
Administrative costs	9,593,557	1,626,753	360,395	19,677,564	235,137	7,666,972	716,360	25,552	566,654	40,468,944
Total operating expenses	<u>14,574,642</u>	<u>1,792,313</u>	<u>366,675</u>	<u>20,544,356</u>	<u>470,912</u>	<u>52,296,984</u>	<u>806,012</u>	<u>390,736</u>	<u>5,945,521</u>	<u>97,188,151</u>
Operating income (loss)	<u>(995,138)</u>	<u>680,670</u>	<u>135,317</u>	<u>(522,624)</u>	<u>(294,241)</u>	<u>3,817,928</u>	<u>(58,541)</u>	<u>39,576</u>	<u>(43,055)</u>	<u>2,759,892</u>
Nonoperating revenues (expenses):										
Net change in the fair value of investments	125,610	740,127	474,750	351,100	-	-	-	-	6,076	1,697,663
Interest income (expense)	(1,326,136)	-	-	-	-	(13,625)	-	-	-	(1,339,761)
Contributions from primary government	1,393,558	-	-	-	211,242	-	-	75,276	100,000	1,780,076
Other income (expense)	(54,345)	258,656	21,578	(625,000)	-	-	-	-	1,035	(398,076)
Total nonoperating revenues (expenses), net	<u>138,687</u>	<u>998,783</u>	<u>496,328</u>	<u>(273,900)</u>	<u>211,242</u>	<u>(13,625)</u>	<u>-</u>	<u>75,276</u>	<u>107,111</u>	<u>1,739,902</u>
Net income (loss)	<u>(856,451)</u>	<u>1,679,453</u>	<u>631,645</u>	<u>(796,524)</u>	<u>(82,999)</u>	<u>3,804,303</u>	<u>(58,541)</u>	<u>114,852</u>	<u>64,056</u>	<u>4,499,794</u>
Net position at the beginning of the year	<u>21,879,141</u>	<u>45,786,859</u>	<u>(2,437,244)</u>	<u>23,081,845</u>	<u>312,595</u>	<u>28,486,026</u>	<u>167,971</u>	<u>105,232</u>	<u>633,526</u>	<u>118,015,951</u>
Net position at the end of the year	<u>\$ 21,022,690</u>	<u>\$ 47,466,312</u>	<u>\$ (1,805,599)</u>	<u>\$ 22,285,321</u>	<u>\$ 229,596</u>	<u>\$ 32,290,329</u>	<u>\$ 109,430</u>	<u>\$ 220,084</u>	<u>\$ 697,582</u>	<u>\$ 122,515,745</u>

See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2014

(1) Summary of Significant Accounting Policies

The Federated States of Micronesia (FSM) was constituted on July 12, 1978 under the provisions of the FSM Constitution (the Constitution) as approved by the people of Chuuk, Kosrae, Pohnpei and Yap. The ratification of the Constitution by these four districts recognized their sovereign right to form the Federated States of Micronesia and make the FSM Constitution the supreme law of the land. The Constitution provides for the separation of powers of the executive, legislative, and judicial branches of the government.

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

A. Reporting Entity

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

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

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

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

Component units are entities that are legally separate organizations for which the FSM National Government's elected officials are financially accountable or other organizations for which the nature and significance of their relationship with the FSM National Government are such that exclusion would cause the FSM National Government's basic financial statements to be misleading or incomplete. The FSM National Government is financially accountable because it appoints the members of the governing authorities of each of the component units and because it is able to impose its will on these organizations or because the organizations provide specific financial benefits or impose specific financial burdens on the FSM National Government.

The financial statements of the component units have been included in the financial reporting entity as discretely presented component units in accordance with GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The component units' column of the basic financial statements includes the financial data of the following discretely presented component units:

- FSM Telecommunications Corporation (FSMTC): FSMTC was incorporated under FSM Public Law No. 2-10 to engage in the business of providing telecommunications services, except radio and television broadcasting, throughout the FSM and to points outside the FSM. FSMTC is governed by a five-member Board of Directors, which includes one appointee by the President (with the advice and consent of the Congress) and four appointees by the Governor of each State (with the advice and consent of the respective State Legislatures). The FSM National Government provides financial support to FSMTC through legislative appropriations and has the ability to impose its will on FSMTC.
- FSM Development Bank (FSMDB): FSMDB was established under FSM Public Law No. 8-47 to advance the economic development of the FSM through the provision of economic development loans. FSMDB is governed by a seven-member Board of Directors appointed by election at the annual shareholders meeting by the plurality of votes thereof. As of December 31, 2014, 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%). The FSM National Government provides financial support to FSMDB through legislature appropriations and has the ability to impose its will on FSMDB.
- National Fisheries Corporation (NFC): NFC was established under FSM Public Law No. 3-14 to promote the development of pelagic fisheries and related industries within the extended fishery zone for the benefit of the people of the FSM. NFC is governed by a seven-member Board of Directors, which includes one appointee by the President (with the advice and consent of the Congress), four appointees by the Governor of each State (with the advice and consent of the respective State legislatures), the Executive Director of the Micronesian Maritime Authority, and the Secretary of the Department of Economic Affairs. The FSM National Government has the ability to impose its will on NFC.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

- College of Micronesia-FSM (COM-FSM): COM-FSM was established under FSM Public Law No. 7-79 to serve the varied post-secondary and adult educational needs of the FSM. COM-FSM is governed by a five-member Board of Regents appointed by the President with the advice and consent of the Congress. The FSM National Government provides financial support to COM-FSM through legislature appropriations and has the ability to impose its will on COM-FSM.
- FSM 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 Governor of each State (with the advice and consent of the respective State legislatures). The FSM National Government provides financial support to CDA through legislative appropriations.
- FSM Petroleum Corporation (FSMPC): FSMPC was established under FSM Public Law 15-08 for the purpose of providing oil and gas distribution for the entire FSM. FSMPC is governed by a seven-member Board of Directors, which includes one appointee by the President (with the advice and consent of the Congress) and four appointees by the Governor of each State (with the advice and consent of the respective State legislatures), and two appointees from the private sector by the President (with the advice and consent of the Congress). The FSM National Government has the ability to impose its will on FSMPC.
- Vital Energy, Inc. (Vital): Vital was incorporated on February 10, 2012 for the purpose of carrying on the operation of importation and sale of petroleum products, and operation, management and maintenance of petroleum storage terminals, international marine bunkering services, operation of road and aviation bridging tankers, and aviation refueling operations. The FSM National Government has the ability to impose its will on Vital.
- Caroline Islands Air, Inc. (CIA): CIA was established under FSM Public Law No. 10-72 to operate, maintain, and administer an inter-island air service based in Pohnpei State. CIA is governed by a five-member Board of Directors, which includes one appointee by the President (with the advice and consent of the Congress) and four appointees by the Governor of each State (with the advice and consent of the respective State Legislatures). The FSM National Government provides financial support to CIA through legislative appropriations and has the ability to impose its will on CIA.
- 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 provides financial support to the Plan through legislative appropriations and has the ability to impose its will on the Plan.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

In addition, the fiduciary component units are subject to legislative and executive controls. These component units, while meeting the definition of a component unit and while legally separate, are presented in the fund financial statements of the FSM National Government. They have been omitted from the government-wide financial statements as their resources are not available to fund operations of the FSM National Government. The fiduciary component units are as follows:

- FSM Social Security Administration (FSMSSA), a Fiduciary Fund Type - Private Purpose Trust Fund. FSMSSA was established under FSM Public Law No. 2-74 to provide retirement, disability and survivor benefits for the citizens of the FSM. FSMSSA is governed by a five-member Board of Directors appointed by the President with the advice and consent of the Congress.
- Pohnpei State Development Loan Fund (PDLF), a Fiduciary Fund Type - Private Purpose Trust Fund. PDLF is administered by the FSM Development Bank in a Trust capacity for the purpose of providing loans for the economic development of the State of Pohnpei.
- Yap State Development Loan Fund (YDLF), a Fiduciary Fund Type - Private Purpose Trust Fund. YDLF is administered by the FSM Development Bank in a Trust capacity for the purpose of providing loans for the economic development of the State of Yap.

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

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

B. Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities report financial information on all non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been eliminated from these statements except for other charges between the primary government and the discretely presented component units. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide Financial Statements, Continued

The Statement of Net Position presents all of the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net position. Net position is reported in the following categories:

- *Net investment in capital assets* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.
- *Restricted net position - nonexpendable* consists of permanent funds in which donors or other outside sources have stipulated that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to the principal.
- *Restricted net position - expendable* consists of resources in which the FSM National Government is legally or contractually obligated to spend resources in accordance with restrictions either externally imposed by creditors, grantors, contributors, and the like, or imposed by law.
- *Unrestricted net position* consists of net position, which does not meet the definition of the two preceding categories. Unrestricted net position often is designated, (for example, internally restricted), to indicate that management does not consider them to be available for general operations.

The government-wide Statement of Net Position reports \$19,662,823 of restricted net position, of which \$2,382,756 is restricted by enabling legislation.

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

C. Fund Financial Statements

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

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

C. Fund Financial Statements, Continued

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

D. Measurement Focus and Basis of Accounting

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

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

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

Significant revenues susceptible to accrual include income and gross receipts taxes, federal grants, federal reimbursements and other reimbursements for use of materials and services. Miscellaneous revenues from other financing sources are recognized when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. 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.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

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

Discretely presented component units distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a component unit's principal ongoing operations. All other revenues are reported as nonoperating. Operating expenses includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All expenses not meeting this definition are reported as nonoperating and expenses.

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments: Omnibus*, sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses for either fund category or the governmental and enterprise combined) for the determination of major funds. The FSM National Government has elected to add an additional major fund that is of specific public interest, namely the Compact Trust Fund. Major individual governmental funds are reported as separate columns in the fund financial statements. The nonmajor funds are combined in a column in the fund financial statements and detailed in the combining statements. The FSM National Government reports the following major funds:

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

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

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

In addition, the FSM National Government reports the following fund types:

- Private Purpose Trust Fund - this fund accounts for resources held in trust by the FSM National Government of the: (i) FSM Social Security Retirement Fund under which principal and income benefit certain individuals; and (ii) the Pohnpei State Development Loan Fund and the Yap State Development Loan Fund, which are held in trust by the FSM Development Bank for the benefit of the respective states of Pohnpei and Yap.

E. Cash and Cash Equivalents and Time Certificates of Deposit

Cash and cash equivalents of the primary government and the discretely presented component units include cash held in demand accounts as well as short-term investments with a maturity date within three months of the date acquired by the FSM National Government. Deposits maintained in time certificates of deposit with original maturity dates greater than ninety days are separately classified on the statement of net position.

F. Investments

Investments and related investment earnings of the primary government and the discretely presented component units are 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.

G. Receivables

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

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

H. Prepaid Items

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

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

I. Interfund Receivables/Payables

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

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

J. Inventories

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

K. Restricted Assets

Certain assets of the primary government are classified as restricted assets because their use is completely restricted through loan agreements or enabling legislation. Investments recorded in the Compact Trust Fund of \$15,380,233 are restricted in that they are not available to be used in current operations.

As of September 30, 2014, cash and cash equivalents of the primary government were restricted for the following uses:

Deposit accounts established for the purpose of receiving payments pursuant to the Compact of Free Association, as amended	\$ 2,752,092
Deposit accounts maintained for certain non-U.S. donor agencies (ADB, Peoples Republic of China, Japan, European Union)	1,563,953
Deposit account established for the Airport Improvement Program	65,397
Deposit account maintained for proceeds from dormant bank accounts established in accordance with Public Law 13-56	522,765
Deposit accounts established for imprest funds in accordance with ADB Loans 2099 and 2100	121,025
Other miscellaneous deposit accounts	<u>5,608</u>
	<u>\$ 5,030,840</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

L. Indefeasible Right of Use

The FSM National Government has capitalized the cost of acquisition of the executive right to use a specified amount of fiber capacity for a period of time, which is amortized over the length of the term of the capacity agreement on the straight line method.

M. 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

N. Deferred Outflows of Resources

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

O. Unearned Revenues

In the government-wide financial statements, unearned revenues are recognized when cash, receivables or other assets are recorded prior to their being earned. In the governmental fund financial statements, unearned revenues represent monies received or revenues accrued which have not been earned or do not meet the "available" criterion for revenue recognition under the modified accrual basis of accounting. The unearned revenue in the governmental fund types has primarily resulted from grants assistance funds received in advance of eligible expenditures.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

P. 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.

Q. Deferred Inflows of Resources

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

R. Fund Balance

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

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

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

R. Fund Balance, Continued

The FSM National Government has a general policy to first use restricted resources for expenditures incurred for which both restricted and unrestricted (committed, assigned, and unassigned) resources are available. When expenditures are incurred for which only unrestricted resources are available, the general policy of the FSM National Government is to use committed resources first, followed by assigned, and then unassigned. The use of restricted/committed resources may be deferred based on a review of the specific transaction.

A formal minimum fund balance policy has not been adopted.

S. 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.

T. 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.

U. New Accounting Standards

During fiscal year 2014, the FSM National Government implemented the following pronouncements:

- GASB Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans. The implementation of this statement did not have a material effect on the accompanying financial statements.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

U. New Accounting Standards, Continued

- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The implementation of this statement did not have a material effect on the accompanying financial statements.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the FSM National Government.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of the FSM National Government.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the FSM National Government.

V. 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.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

W. 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, 2013 from which summarized information was derived.

(2) Deposits and Investments

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

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

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

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

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2014

(2) Deposits and Investments, Continued

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

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

A. Deposits

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

As of September 30, 2014, the carrying amount of the primary government's total cash and cash equivalents and time certificates of deposit was \$55,902,151 and the corresponding bank balances were \$56,446,748. Of the bank balances, \$25,423,747 is maintained in financial institutions subject to FDIC insurance while \$5,452,309 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, 2014 while the remaining amount of \$25,570,693 is maintained in financial institutions not subject to FDIC insurance. As of September 30, 2014, bank deposits in the amount of \$1,101,743 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, 2014, the carrying amount of the fiduciary funds' total cash and cash equivalents and time certificates of deposit was \$2,517,033 and the corresponding bank balances were \$2,717,997. Of the bank balances, \$1,290,186 is maintained in financial institutions subject to FDIC insurance. The remaining amount of \$1,427,811 represents short-term investments held and administered by the fiduciary funds' trustees in accordance with various trust agreements. Based on negotiated trust and custody contracts, all of these investments were held in the fiduciary funds' name by the fiduciary funds' custodial financial institutions at September 30, 2014. As of September 30, 2014, bank deposits in the amount of \$500,000 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.

As of September 30, 2014, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$30,156,628 and the corresponding bank balances were \$31,326,369, which are maintained in financial institutions subject to FDIC insurance. As of September 30, 2014, bank deposits in the amount of \$1,788,099 were FDIC insured. The component units do not require collateralization of their cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2014

(2) Deposits and Investments, Continued

A. Deposits, Continued

The FSM National Government maintains equity membership shares in the International Monetary Fund of \$1,149,850 and the Asian Development Bank of \$6,927,442 (SDR 4,260,000), which are recorded as deposits and other assets.

B. Investments

Primary Government

As of September 30, 2014, the FSM National Government's investments at fair value are as follows:

Fixed income securities:	
Domestic fixed income	\$ <u>11,331,102</u>
Other investments:	
Equities	38,511,431
Money market funds	3,941
Cash management accounts	<u>7,160,219</u>
	<u>45,675,591</u>
	\$ <u>57,006,693</u>

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 257,658 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 \$3,422,668 is accounted for at cost since management is of the opinion that the FSM National Government does not exert significant influence over the investee.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2014

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

As of September 30, 2014, the primary government's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

Investment Type	Rating Type	Maturity (in years)				Total
		Less than 1	1-5	6-10	Over	
U.S. Treasury Notes and Bonds	AAA	\$ 8,969	\$ 1,567,761	\$ 190,167	\$ 125,293	\$ 1,892,190
U.S. Government Agencies Obligations:						
Federal Home Loan Mortgage Corporation	AAA	-	131,961	23,353	49,815	205,129
Government National Mortgage Association	AAA	-	136,819	72,549	1,654,829	1,864,197
Federal National Mortgage Association	AAA	18,816	282,215	-	573,334	874,365
Tennessee Valley Authority	AAA	-	35,860	-	10,738	46,598
Small Business Administration	No rating	-	-	-	72,899	72,899
National Credit Union Admin	AAA	-	11,737	81,259	-	92,996
Housing Urban Development	No rating	-	-	5,882	-	5,882
FISCO Debentures	No rating	-	78,354	-	-	78,354
AID-Tunisia	AAA/No rating	-	35,593	-	-	35,593
Financing Corporation	No rating	-	123,260	-	-	123,260
Municipal Obligations	A1	-	50,990	-	283,317	334,307
Municipal Obligations	A2	-	-	-	63,844	63,844
Municipal Obligations	Aa1	-	13,160	8,233	77,598	98,991
Municipal Obligations	Aa2	-	-	8,842	-	8,842
Municipal Obligations	Aa3	7,134	75,483	-	-	82,617
Municipal Obligations	No rating	8,790	100,798	-	-	109,588
Municipal Obligations	WR	-	-	-	-	-
Corporate Bonds	A1	14,110	163,255	487,908	208,771	874,044
Corporate Bonds	A2	18,461	573,480	238,810	-	830,751
Corporate Bonds	A3	-	207,884	218,796	84,083	510,763
Corporate Bonds	Aa1	-	21,769	5,657	-	27,426
Corporate Bonds	Aa2	-	269,556	123,683	32,265	425,504
Corporate Bonds	Aa3	44,623	97,252	233,835	-	375,710
Corporate Bonds	Aaa	23,518	30,573	63,844	650	118,585
Corporate Bonds	Ba1	-	-	29,235	-	29,235
Corporate Bonds	Ba2/Ba3	-	94,177	27,687	-	121,864
Corporate Bonds	Baa1	20,497	549,048	192,585	72,067	834,197
Corporate Bonds	Baa2	47,848	347,364	35,176	244,328	674,716
Corporate Bonds	Baa3	-	38,193	60,438	5,336	103,967
Corporate Bonds	No rating	-	156,885	241,295	16,508	414,688
		\$ 212,766	\$ 5,193,427	\$ 2,349,234	\$ 3,575,675	\$ 11,331,102

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

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the FSM National Government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The FSM National Government's investments are held and administered by trustees. Based on negotiated trust and custody contracts, all of these investments were held in the FSM National Government's name by the FSM National Government's custodial financial institutions at September 30, 2014.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2014

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the State. As of September 30, 2014, the FSM National Government did not hold an investment in any one issuer that represented more than 5% of the FSM National Government's total investments.

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

Fiduciary Funds

FSM Social Security Administration (FSMSSA):

The deposit and investment policies are governed by the FSMSSA enabling legislation. The FSMSSA Board is required to engage one or more fund custodians to assume responsibility for the physical possession of their investments. Legally authorized investments are as follows:

- i. Government obligations - Obligations issued or guaranteed as to principal and interest by the FSM National Government and/or State governments of the FSM or by the Government of the United States, provided that the principal and interest on each obligation are payable in the currency of the United States.
- ii. Corporate obligations and mortgage-backed securities - Obligations of any public or private entity or corporation created or existing under the laws of the FSM or of the United States or any state, territory or commonwealth thereof, or obligations of any other government or economic community which are payable in United States dollars, or pass through and other mortgage-backed securities provided that the obligation is issued by an agency of the United States Government, the FSM National Government, or is rated in one of the three highest categories by two nationally recognized rating agencies. No investment under this heading shall exceed ten percent of the market value of the FSMSSA Retirement Fund or ten percent of the outstanding value of the issue at the time of purchase.
- iii. Preferred and common stocks - Shares of preferred or common stocks of any corporation created or existing under the laws of the FSM or under the laws of the United States or any state, territory or commonwealth thereof provided that the purchase of such shares shall be considered reasonable and prudent by the respective investment advisors at the time of purchase, that not more than five percent of the market value of the FSMSSA Retirement Fund shall be invested in the stock of any one corporation, and that not more than ten percent of the market value of the FSMSSA Retirement Fund shall be invested in any one industry group.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2014

(2) Deposits and Investments, Continued

B. Investments, Continued

Fiduciary Funds, Continued

FSM Social Security Administration (FSMSSA), Continued:

- iv. Insurance company obligations - Contracts and agreements supplemental thereto providing for participation in one or more accounts of a life insurance company authorized to do business in the FSM or in any state, territory or commonwealth of the United States provided that the total market value of these investments at no time shall exceed ten percent of all investments of the FSMSSA Retirement Fund.

As of December 31, 2014, the FSMSSA's investments at fair value are as follows:

Fixed income securities:	
Domestic fixed income	\$ <u>14,691,607</u>
Other investments:	
Domestic equities	23,837,368
International equities	<u>6,800,683</u>
	<u>30,638,051</u>
	<u>\$ 45,329,658</u>

As of December 31, 2014, FSMSSA's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

	<u>Investment Maturities (In Years)</u>				Fair Value
	Less Than 1	1 to 5	6 to 10	Greater Than 10	
U.S. Treasury obligations	\$ 799,955	\$2,383,408	\$2,956,927	\$ 231,116	\$ 6,371,406
Mortgage and asset-backed	80,970	1,680,070	274,369	2 121 031	4,156,440
Municipal bonds	-	64,694	-	-	64,694
Corporate notes and bonds	<u>68,723</u>	<u>1,251,433</u>	<u>1,775,426</u>	<u>1,003 485</u>	<u>4,099,067</u>
	<u>\$ 949,648</u>	<u>\$5,379,605</u>	<u>\$5,006,722</u>	<u>\$3,355,632</u>	<u>\$14,691,607</u>

FSMSSA's investments are held and administered by trustees. Based on negotiated trust and custody contracts, all of these investments were held in FSMSSA's name by FSMSSA's custodial financial institutions at December 31, 2014.

As of December 31, 2014, FSMSSA did not hold an investment in any one issuer that represented more than 5% of FSMSSA's total investments.

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

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2014

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units

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

FSM Telecommunications Corporation (FSMTC):

As of September 30, 2014, the FSMTC's investments at fair value are as follows:

Fixed income securities:		
U.S. Treasury obligations	\$	198,173
U.S. Government agencies		53,112
Corporate notes		<u>140,495</u>
		391,780
Other investments:		
Domestic and international equities		1,112,380
Money market funds		<u>76,697</u>
		<u>\$ 1,580,857</u>

As of September 30, 2014, 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)				Fair Value
		Less Than 1	1 to 5	6 to 10	Greater Than 10	
U.S. Treasury obligations	Aaa/P-1	\$ 48,706	\$ 92,484	\$ 56,983	\$ -	\$ 198,173
U.S. Government agencies	Aaa/P-1	40,770	12,342	-	-	53,112
Corporate notes	A1/P-1	-	16,814	-	-	16,814
Corporate notes	A2/P-1	15,318	35,698	-	-	51,016
Corporate notes	A2/P-1	15,266	11,365	25,772	-	52,403
Corporate notes	Aa3/P-1	<u>15,256</u>	<u>5,006</u>	-	-	<u>20,262</u>
		<u>\$ 135,316</u>	<u>\$ 173,709</u>	<u>\$ 82,755</u>	<u>\$ -</u>	<u>\$ 391,780</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2014

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

College of Micronesia - FSM (COM-FSM):

As of September 30, 2014, the COM-FSM's investments at fair value are as follows:

Fixed income securities:		
Domestic fixed income		\$ <u>1,011,096</u>
Other investments:		
Common equities		3,014,326
Exchange traded funds		209,788
Money market funds		<u>140,619</u>
		<u>3,364,733</u>
		<u>\$ 4,375,829</u>

As of September 30, 2014, COM-FSM's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>5-10</u>	<u>more than 10</u>
Corporate bond	\$ 162,574	\$ 7,103	\$ 34,966	\$ 46,619	\$ 73,886
International bond	281,883	281,883	-	-	-
Government bond	<u>566,639</u>	<u>-</u>	<u>427,735</u>	<u>81,420</u>	<u>57,484</u>
	<u>\$ 1,011,096</u>	<u>\$ 288,986</u>	<u>\$ 462,701</u>	<u>\$ 128,039</u>	<u>\$ 131,370</u>

<u>Moody's Rating</u>	<u>Total</u>	<u>Domestic</u>	<u>International</u>
AAA/AAA	\$ 566,639	\$ 566,639	\$ -
AA2/AA	7,103	7,103	-
A1/AA+	7,111	7,111	-
A1/A-	7,170	7,170	-
A3/A	12,551	12,551	-
A3/A-	13,762	13,762	-
BA1/BBB	6,369	6,369	-
BAA1/A-	10,694	10,694	-
BAA1/BBB+	20,184	20,184	-
BAA2/A-	11,411	11,411	-
BAA2/BBB+	6,114	6,114	-
BAA2/BBB	19,902	19,902	-
BAA3/BBB	13,042	13,042	-
BAA3/BBB-	27,161	27,161	-
Not Rated	<u>281,883</u>	<u>-</u>	<u>281,883</u>
Total credit risk debt securities	<u>\$ 1,011,096</u>	<u>\$ 729,213</u>	<u>\$ 281,883</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2014

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

FSM Development Bank (FSMDB):

As of December 31, 2014, FSMDB's investments at fair value are as follows:

Fixed income securities:	
Domestic fixed income	\$ 4,987,915
Other investments:	
Domestic equities	8,387,491
Money market funds	<u>2,403,216</u>
	<u>\$ 15,778,622</u>

As of December 31, 2014, FSMDB's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

	Moody's <u>Credit Rating</u>	Less Than <u>1 Year</u>	1 to 5 <u>Years</u>	6 to 10 <u>Years</u>	Greater Than <u>10 Years</u>	Fair <u>Value</u>
U.S. Treasury obligations	AAA	\$ -	\$ -	\$ 1,866,165	\$ -	\$ 1,866,165
U.S. Government Agency Securities	AA2	214,818	-	-	-	214,818
U.S. Government Agency Securities	A2	-	257,302	-	-	257,302
U.S. Government Agency Securities	AAA	-	1,637,316	-	-	1,637,316
U.S. Government Agency Securities	Not rated	-	-	116,861	244,339	361,200
Corporate bonds	A1	-	-	50,721	-	50,721
Corporate bonds	A3	-	56,237	166,601	-	222,838
Corporate bonds	AA3	-	-	83,346	-	83,346
Corporate bonds	AAA	-	-	78,544	-	78,544
Corporate bond	BAA1	-	-	39,503	-	39,503
Corporate bonds	BAA2	-	-	57,398	-	57,398
Corporate bonds	BAA3	-	-	46,338	-	46,338
Corporate bonds	<u>BAA3</u>	<u>-</u>	<u>-</u>	<u>72,426</u>	<u>-</u>	<u>72,426</u>
		<u>\$ 214,818</u>	<u>\$ 1,950,855</u>	<u>\$ 2,577,903</u>	<u>\$ 244,339</u>	<u>\$ 4,987,915</u>

FSMDB owns 225,000 shares of the outstanding common stock of the Bank of the Federated States of Micronesia. The investment of \$1,912,188 is accounted for at cost since the investment constitutes a 16.1% ownership share.

National Fisheries Corporation (NFC):

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. In addition, NFC holds 25% of the outstanding shares of Taiyo Micronesia Corporation, totaling \$890,113, which is accounted for under the equity method.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2014

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

MiCare Plan, Inc. (the Plan):

As of September 30, 2014, the Plan's investments at fair value are as follows:

Fixed income securities:	
Domestic fixed income	\$ 1,407,056
Other investments:	
Money market funds	<u>60,670</u>
	<u>\$ 1,467,726</u>

As of September 30, 2014, the Plan's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

	Moody's <u>Credit Rating</u>	Less Than <u>1 Year</u>	1 to 5 <u>Years</u>	6 to 10 <u>Years</u>	Greater Than <u>10 Years</u>	Fair <u>Value</u>
U.S. Treasury obligations	AAA	\$ 135,261	\$ 467,569	\$ -	\$ -	\$ 603,830
U.S. Government agencies obligations	AAA	125,188	410,743	-	-	535,931
Corporate bonds	Aaa	-	15,934	-	-	15,934
Corporate bonds	Aa	4,068	49,412	-	-	53,480
Corporate bonds	A	13,185	144,855	-	-	158,040
Corporate bonds	Baa	<u>13,193</u>	<u>27,648</u>	-	-	<u>40,841</u>
		<u>\$ 290,895</u>	<u>\$ 1,116,161</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,407,056</u>

(3) Receivables

Primary Government

Receivables as of September 30, 2014, for the primary government's individual major governmental funds, and nonmajor governmental and fiduciary funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	Grants <u>Assistance</u>	Compact <u>Trust</u>	Nonmajor and Fiduciary <u>Funds</u>	<u>Totals</u>
Receivables:					
General	\$ 4,647,135	\$ -	\$ -	\$ -	\$ 4,647,135
Taxes	4,292,900	-	-	-	4,292,900
Government agencies	-	11,728,183	-	-	11,728,183
Contributions	-	-	-	2,773,881	2,773,881
Loans	54,626,243	-	-	1,625,459	56,251,702
Advances	2,867,903	252,257	-	648	3,120,808
Accrued interest	24,142	-	-	87,655	111,797
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,808</u>	<u>6,808</u>
	66,458,323	11,980,440	-	4,494,451	82,933,214
Less: allowance for uncollectable accounts	<u>(18,346,330)</u>	<u>-</u>	<u>-</u>	<u>(1,606,953)</u>	<u>(19,953,283)</u>
Net receivables	<u>\$ 48,111,993</u>	<u>\$ 11,980,440</u>	<u>\$ -</u>	<u>\$ 2,887,498</u>	<u>\$ 62,979,931</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2014

(3) Receivables, Continued

Primary Government, Continued

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. \$ 3,350,000

Loans receivable from MBC, no terms. 524,350

Loans receivable from businesses and individuals at varying terms and conditions administered by the FSM Development Bank. 5,639,330

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. 4,834,613

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

	<u>General Fund</u>	<u>Governmental Activities</u>	
State of Chuuk	\$ 3,298,365	\$ 569,738	
Pohnpei Utilities Corporation	2,025,735	348,769	
Yap State Public Service Corporation	<u>2,166,412</u>	<u>373,707</u>	
	<u>\$ 7,490,512</u>	<u>\$ 1,292,214</u>	8,782,726

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2014

(3) Receivables, Continued

Primary Government, Continued

General Fund, Continued:

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

	<u>General Fund</u>	<u>Governmental Activities</u>	
State of Chuuk	\$ 4,501,124	\$ 779,682	
State of Yap	2,973,099	514,978	
State of Kosrae	1,698,290	294,184	
State of Pohnpei	<u>3,566,846</u>	<u>617,848</u>	
	<u>\$ 12,739,359</u>	<u>\$ 2,206,692</u>	14,946,051

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

	<u>General Fund</u>	<u>Governmental Activities</u>	
State of Chuuk	\$ 627,456	\$ 66,725	
State of Yap	252,754	22,357	
State of Kosrae	<u>174,579</u>	<u>15,993</u>	
	<u>\$ 880,384</u>	<u>\$ 105,075</u>	985,459

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:

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2014

(3) Receivables, Continued

Primary Government, Continued

General Fund, Continued

	<u>General Fund</u>	<u>Governmental Activities</u>	
State of Chuuk	\$ 1,542,468	\$ 146,352	
State of Yap	1,038,421	126,710	
State of Kosrae	1,259,861	164,325	
State of Pohnpei	<u>1,034,757</u>	<u>178,504</u>	
	<u>\$ 4,875,507</u>	<u>\$ 615,891</u>	5,491,398

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

	<u>General Fund</u>	
State of Pohnpei/PUC	\$ 7,013,933	
State of Chuuk/CPUC	4,830,287	
State of Yap/GTWA	2,055,573	
State of Kosrae/KUA	<u>392,395</u>	
	<u>\$ 14,292,188</u>	<u>14,292,188</u>
		<u>\$ 58,846,115</u>

Other Governmental Funds:

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

Fiduciary Funds:

Loans receivable from businesses and individuals at varying terms and conditions administered by the FSM Development Bank. \$ 18,506

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2014

(3) Receivables, Continued

Discretely Presented Component Units

Receivables as of September 30, 2014, 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	Vital Energy Inc.	Caroline Islands Air, Inc.	MiCare Plan, Inc.	Total
Receivables:										
General	\$ 1,760,624	\$ 37,091	\$ 70,944	\$6,679,220	\$80,911	\$2,316,386	\$219,426	\$ -	\$ 292,609	\$11,457,211
Loans	-	26,124,133	-	-	-	-	-	-	-	26,124,133
Interest	146,903	206,163	-	-	-	-	-	-	-	353,066
Other	<u>297,558</u>	<u>79,888</u>	<u>-</u>	<u>2,023,330</u>	<u>-</u>	<u>478,051</u>	<u>-</u>	<u>-</u>	<u>211,505</u>	<u>3,090,332</u>
	2,205,085	26,447,275	70,944	8,702,550	80,911	2,794,437	219,426	-	504,114	41,024,742
Less: allowance for uncollectible accounts	<u>(947,201)</u>	<u>(3,828,893)</u>	<u>-</u>	<u>(2,597,549)</u>	<u>(77,590)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(247,351)</u>	<u>(7,698,584)</u>
	<u>\$1,257,884</u>	<u>\$22,618,382</u>	<u>\$ 70,944</u>	<u>\$6,105,001</u>	<u>\$ 3,321</u>	<u>\$2,794,437</u>	<u>\$219,426</u>	<u>\$ -</u>	<u>\$256,763</u>	<u>\$33,326,158</u>

(4) Interfund Receivables and Payables

Primary Government

Receivables and payables between funds reflected as due to/from other funds in the combined balance sheet at September 30, 2014, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Grants Assistance	\$ 6,542,322
Grants Assistance	General	4,005,539
General	Nonmajor governmental funds	20,090
Nonmajor governmental funds	General	<u>2,457,892</u>
		<u>\$ 13,025,843</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2014

(5) Capital Assets

Capital asset activities for the year ended September 30, 2014, are as follows:

Primary Government

	Balance October <u>1, 2013</u>	<u>Additions and Reclassifications</u>	<u>Retirements and Reclassifications</u>	Balance September <u>30, 2014</u>
Depreciable assets:				
Buildings and improvements	\$ 55,605,067	\$ -	\$ (59,638)	\$ 55,545,429
Boats	22,356,273	269,215	(56,257)	22,569,231
Infrastructure	125,710,395	-	(18,170,129)	107,540,266
Motor vehicles	6,208,403	549,937	(187,350)	6,570,990
Computer equipment	4,892,900	267,798	(56,812)	5,103,886
Aircraft	709,207	-	-	709,207
Furniture, equipment and machinery	<u>9,619,536</u>	<u>248,546</u>	<u>-</u>	<u>9,868,082</u>
	<u>225,101,781</u>	<u>1,335,496</u>	<u>(18,530,186)</u>	<u>207,907,091</u>
Less accumulated depreciation:				
Buildings and improvements	(7,179,788)	(748,577)	59,638	(7,868,727)
Boats	(15,430,423)	(870,816)	56,257	(16,244,982)
Infrastructure	(10,195,384)	(6,523,508)	-	(16,718,892)
Motor vehicles	(5,427,916)	(310,237)	187,350	(5,550,803)
Computer equipment	(4,301,055)	(235,120)	56,812	(4,479,363)
Aircraft	(513,110)	(35,460)	-	(548,570)
Furniture, equipment and machinery	<u>(7,801,790)</u>	<u>(696,474)</u>	<u>10,000</u>	<u>(8,488,264)</u>
	<u>(50,849,466)</u>	<u>(9,420,192)</u>	<u>370,057</u>	<u>(59,899,601)</u>
	174,252,315	(8,084,696)	(18,160,129)	148,007,490
Nondepreciable assets:				
Construction in progress	<u>52,847,261</u>	<u>7,801,013</u>	<u>(5,789,643)</u>	<u>54,858,631</u>
	<u>\$ 227,099,576</u>	<u>\$ (283,683)</u>	<u>\$ (23,949,772)</u>	<u>\$ 202,866,121</u>

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. The net retirement of \$18,173,129 represents the transfer of buildings and infrastructure assets to beneficiaries (primarily State Government and the component units) during the year ended September 30, 2014.

**FEDERATED STATES OF MICRONESIA
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Notes to Financial Statements
September 30, 2014

(5) Capital Assets, Continued

Primary Government, Continued

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

Office of the President	\$ 27,873
Foreign affairs	30,420
Health and social affairs	265,638
Education	59,866
Resources and development	15,276
Office of National Archives, Cultural and Historic	8,838
Transportation, communication and infrastructure	8,188,643
Finance and administration	35,843
Justice	375,915
Office of the Public Defender	12,853
SBOC Office	56,810
Judiciary	37,943
Legislature	72,982
Office of the National Public Auditor	4,088
Environment and emergency management	10,918
National government programs	166,143
Agencies, boards and commissions	<u>50,143</u>
	<u>\$ 9,420,192</u>

Discretely Presented Component Units

	Balance October 1, 2013	Additions	Deletions	Balance September 30, 2014
Depreciable assets:				
Building and Leasehold Improvements	\$ 34,987,445	\$ 304,236	\$ (164,847)	\$ 35,126,834
Plant and Equipment	65,629,406	5,479,518	(3,899,087)	67,209,837
Machinery and Equipment	19,670,196	1,249,960	(27,158)	20,892,998
Others	<u>19,549,699</u>	<u>216,287</u>	<u>-</u>	<u>19,765,986</u>
	139,836,746	7,250,001	(4,091,092)	142,995,655
Accumulated Depreciation	<u>(75,078,238)</u>	<u>(6,969,666)</u>	<u>438,165</u>	<u>(81,609,739)</u>
	<u>64,758,508</u>	<u>280,335</u>	<u>(3,652,927)</u>	<u>61,385,916</u>
Nondepreciable assets:				
Construction in Progress	4,985,403	4,776,535	(591,632)	9,170,306
Land	<u>1,455,685</u>	<u>-</u>	<u>-</u>	<u>1,455,685</u>
	<u>6,441,088</u>	<u>4,776,535</u>	<u>(539,600)</u>	<u>10,625,991</u>
	<u>\$ 71,199,596</u>	<u>\$ 5,056,870</u>	<u>\$ (4,244,559)</u>	<u>\$ 72,011,907</u>

**FEDERATED STATES OF MICRONESIA
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Notes to Financial Statements
September 30, 2014

(6) Indefeasible Right of Use (IRU)

On January 12, 2009, the FSM Telecommunications Corporation (FSMTC) entered into an IRU Capital Lease agreement with a third party for the exclusive use of 8 wave lengths of fiber capacity of the two fibers of the Kwajalein Cable System (KCS) which runs between Guam and Kwajalein and which is known as the "HANTRU1 System". Under the terms of the agreement, FSMTC made certain payments of \$3,656,301. The initial term of the agreement is for a period of 10 years commencing on the date FSMTC is initially granted access, and which term is automatically renewable for a further 10 year period and an additional 5 year period thereafter. Prior to the tenth and twentieth anniversary dates, FSMTC has the option to terminate this agreement; however, such is subject to prior approval of the Rural Utilities Services (RUS) of the U.S. Department of Agriculture. FSMTC's policy is to amortize the right of use over the 25 year period. As of September 30, 2014, accumulated amortization expense of \$658,134 has been recorded.

(7) Long-Term Obligations

Primary Government

Asian Development Bank (ADB) Loan Number 1257 FSM (SF) - Fisheries Development Project Loan (SDR 3,792,000), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. The loan is payable semi-annually commencing January 15, 2004 in an amount of SDR 46,100 increasing to SDR 92,400 on January 15, 2014, with a maturity date of July 15, 2033.	\$ 4,834,613
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.	8,782,726
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.	17,494,504
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.	3,130,667

**FEDERATED STATES OF MICRONESIA
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Notes to Financial Statements
September 30, 2014

(7) Long-Term Obligations, Continued

Primary Government, Continued

ADB Loan Number 1873 FSM (SF) - Private Sector Development Program Loan (SDR 3,912,000), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. The loan is payable semi-annually commencing May 15, 2010 in an amount of SDR 122,250, at which time the service charge increases to 1.5% per annum, with a maturity date of November 15, 2025. 2,797,543

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. 5,837,362

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. 10,253,026

ADB Loan Number 2100 FSM (SF) - Omnibus Infrastructure Development Project (SDR 9,686,000), interest bearing equivalent to the sum of LIBOR and .60% per annum on the amount of the loan withdrawn from the Loan account with a loan term of 25 years including a grace period of 5 years. The loan is payable semi-annually commencing January 15, 2010, in an amount of .83% of the outstanding loan balance and incrementing at certain years between .04% - .16% up to the maturity date of July 15, 2029. 3,862,330

\$ 56,992,771

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

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2014

(7) Long-Term Obligations, Continued

Primary Government, Continued

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest Service Charge</u>	<u>Total</u>
2015	\$ 2,172,185	\$ 487,602	\$ 2,659,787
2016	2,184,256	649,057	2,833,313
2017	2,406,917	621,562	3,028,489
2018	2,828,881	583,730	3,412,611
2019	2,844,832	557,987	3,402,819
2020-2024	14,535,856	2,276,617	16,812,473
2025-2029	14,432,833	1,419,458	15,852,291
2030-2034	11,378,810	624,805	12,003,615
2034-2037	<u>4,208,201</u>	<u>82,300</u>	<u>4,290,501</u>
	<u>\$ 56,992,771</u>	<u>\$ 7,303,118</u>	<u>\$ 64,295,889</u>

Other long-term liabilities will be liquidated in the future from governmental funds. During the year ended September 30, 2014, the following changes occurred in liabilities reported as part of the primary government's long-term liabilities in the statement of net position:

	<u>Balance October 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2014</u>	<u>Due Within One Year</u>
Loans payable:					
ADB Loan 1257 FSM (SF)	\$ 5,088,944	\$ -	(254,331)	\$ 4,834,613	254,331
ADB Loan 1459 FSM (SF)	8,991,697	-	(208,971)	8,782,726	208,971
ADB Loan 1520 FSM (SF)	17,901,379	-	(406,875)	17,494,504	406,875
ADB Loan 1816 FSM (SF)	3,304,594	-	(173,927)	3,130,667	173,926
ADB Loan 1873 FSM (SF)	3,040,809	-	(243,266)	2,797,543	243,265
ADB Loan 1874 FSM (SF)	6,136,714	-	(299,352)	5,837,362	299,352
ADB Loan 2099 FSM (SF)	9,327,648	1,560,634	(635,256)	10,253,026	466,046
ADB Loan 2100 FSM (SF)	<u>3,465,455</u>	<u>494,014</u>	<u>(97,139)</u>	<u>3,862,330</u>	<u>119,419</u>
	57,257,240	2,054,648	(2,319,117)	56,992,771	2,172,185
Other:					
Compensated absences payable	<u>1,246,523</u>	<u>292,170</u>	<u>(420,805)</u>	<u>1,117,888</u>	<u>128,693</u>
	<u>\$58,503,763</u>	<u>\$2,346,818</u>	<u>\$(2,739,922)</u>	<u>\$58,110,659</u>	<u>\$2,300,878</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2014

(7) Long-Term Obligations, Continued

Discretely Presented Component Units

As of September 30, 2014, 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. \$ 27,380,302

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. 414,954

Loan payable to European Investment Bank under an August 2010 master finance contract of EUR 4 million, drawn on August 20, 2014, bearing fixed interest, and payable through semi-annual principal and interest installment . 1,406,526

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. 3,350,000

\$ 32,551,782

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2014

(7) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 5,156,304	\$ 1,390,828	\$ 6,547,132
2016	1,896,554	1,306,543	3,203,097
2017	1,993,701	1,209,397	3,203,098
2018	2,093,085	1,110,012	3,203,097
2019	2,198,360	1,004,737	3,203,097
2020-2024	12,546,693	3,262,617	15,809,310
2025-2029	6,503,942	385,782	6,889,724
2030-2034	92,643	6,322	98,965
2035-2039	<u>70,500</u>	<u>1,667</u>	<u>72,167</u>
	<u>\$ 32,551,782</u>	<u>\$ 9,677,905</u>	<u>\$ 42,229,687</u>

FSMTC entered into a \$4 million contract with Acclinks Communications, Inc. for a Third Generation (3G) Mobile Network Partnership Agreement signed on September 12, 2013. As of September 30, 2014, FSMTC recognized \$2,800,000 as a contract liability that will be paid through revenue sharing as agreed per payment terms. No amount has yet been paid as the project has not been completed as of September 30, 2014. A total of \$149,940 has been billed to FSMTC for 3G network services as of September 30, 2014. Management is of the opinion that the billed amount is not payable as the service has yet to be implemented.

Future minimum payments payable under this contract are as follows:

<u>Year ending September 30;</u>	<u>Total</u>
2015	\$ 899,642
2016	701,283
2017	502,924
2018	502,924
2019	<u>193,227</u>
	<u>\$ 2,800,000</u>

Changes in long-term liabilities of the discretely presented component units for the year ended September 30, 2014, are as follows:

	Balance October 1, 2013	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2014	Due Within <u>One Year</u>
Loans payable:					
FSMTC	\$ 28,986,305	\$ -	\$ (1,606,003)	\$ 27,380,302	\$ 1,667,941
FSMDB	449,863	1,406,526	(34,909)	1,821,480	138,363
NFC	3,600,000	-	(250,000)	3,350,000	3,350,000
FSMPC	<u>703,962</u>	<u>-</u>	<u>(703,962)</u>	<u>-</u>	<u>-</u>
	33,740,130	1,406,526	(2,594,874)	32,551,782	5,156,304
Contracts payable:					
FSMTC	<u>-</u>	<u>4,000,000</u>	<u>(1,200,000)</u>	<u>2,800,000</u>	<u>899,642</u>
	<u>\$ 33,740,130</u>	<u>\$ 5,406,526</u>	<u>\$ (3,794,874)</u>	<u>\$ 35,351,782</u>	<u>\$ 6,055,946</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2014

(8) Short-Term Obligations

Discretely Presented Component Units

FSM Petroleum Corporation (FSMPC):

FSMPC has a line of credit facility with a bank of \$10,000,000 bear interest at the Bank's effective reference rate plus 0.75%, with minimum rate of 7% per annum and decrease to 5.75% per annum on January 31, 2013, 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 guaranteed by the FSM National Government. No drawdowns have been made against this facility.

(9) Operating Transfers In/Out

Primary Government

Operating transfers in/out for each major governmental fund and nonmajor governmental funds in the aggregate, for the year ended September 30, 2014, are as follows:

<u>Source</u>	<u>Recipient</u>	<u>Transfers Out</u>	<u>Transfers In</u>
<u>General Fund</u>			
General Fund	Grants Assistance Fund	\$ 285,000	\$ -
Nonmajor governmental funds	General Fund	<u>-</u>	<u>1,320,460</u>
		<u>285,000</u>	<u>1,320,460</u>
<u>Grants Assistance Funds</u>			
General Fund	Grants Assistance Fund	<u>-</u>	<u>285,000</u>
<u>Nonmajor Governmental Funds</u>			
Nonmajor governmental funds	General Fund	<u>1,320,460</u>	<u>-</u>
		<u>\$ 1,605,460</u>	<u>\$ 1,605,460</u>

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

(10) Contingencies and Commitments

Sick Leave

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

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2014

(10) Contingencies and Commitments, Continued

FSM Petroleum Corporation (FSMPC) Loan Guarantee

The FSM National Government is a full faith and credit guarantor of FSMPC's loan to a bank. The FSM National Government is jointly and severally liable for FSMPC's obligations under the loan and waives the sovereign immunity of the FSM National Government with regard to any legal action arising from the guaranty.

FSMPC 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, 2014. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements. In addition, a material amount of questioned costs may exist from the four States, which receive federal funds in a subrecipient capacity. If these questioned costs are sustained, such will be funded by State resources.

Pursuant to Title I, Section 105 of United States Public Law 99-290, the FSM National Government is no longer liable for debts to U.S. federal agencies arising prior to the date of the implementation of the Compact of Free Association. This matter has not yet been officially resolved with the U.S. Government. Accordingly, the States have made no adjustment to the above questioned costs for amounts which were incurred prior to the implementation of the Compact of Free Association.

The FSM National Government is pursuing long outstanding receivables from federal grant agencies. Uncollectible accounts, if any, that result from this exercise will be accounted for prospectively.

Leases

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

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2014

(10) Contingencies and Commitments, Continued

Litigation

The FSM National Government is party to various legal proceedings, many of which are normal recurrences in governmental operations. The Attorney General of the FSM National Government is of the opinion that the probable outcome of suits existing at September 30, 2014, 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.

Encumbrances

The FSM National Government utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2014, the FSM National Government has significant encumbrances summarized as follows:

	<u>General</u>	<u>Grants Assistance</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Encumbrances	<u>\$749,592</u>	<u>\$951,778</u>	<u>\$35,599</u>	<u>\$1,736,969</u>

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, 2014, the FSM National Government had drawn down \$14,115,355 against these loans. A substantial portion of the ADB loans are subject to currency exchange adjustments that can ultimately impact the carrying values of the debt.

Budgetary Noncompliance

For the year ended September 30, 2014, significant over-expenditures exceeding appropriations within the General Fund were as follows:

Department of Transportation, Communication and Infrastructure - Core	\$ 184,226
Department of Transportation, Communication and Infrastructure - Non-Core	\$5,688,180
Marine Surveillance Revolving Fund	\$ 231,308

These over-expenditures for the General Fund have not been funded by Legislative authorization.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2014

(12) Fund Balance

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

	General Fund	Grant Assistance Fund	Compact Trust Fund	Nonmajor Fund	Total Governmental Funds
Non-spendable:					
Loans receivable from States	\$ 40,378,968	\$ -	\$ -	\$ -	\$ 40,378,968
Loan receivable from FSMPC	524,350	-	-	-	524,350
United Micronesia Dev. Assn.	1,500,000	-	-	-	1,500,000
Bank of the FSM	3,422,668	-	-	-	3,422,668
Asian Development Bank contribution	6,927,442	-	-	-	6,927,442
Int. Monetary Fund contribution	1,149,850	-	-	-	1,149,850
Overseas Bank Accounts	1,569,564	-	-	-	1,569,564
Permanent Fund	-	-	15,380,233	-	15,380,233
Restricted for:					
ADB Imprest Funds	121,029	-	-	-	121,029
IDF operations loan	386,511	-	-	-	386,511
Disaster Assistance	-	1,885,143	-	-	1,885,143
Private Sector Development Infrastructure	-	13,153	-	-	13,153
	-	352,148	-	-	352,148
Committed:					
ADB	2,562,807	-	-	-	2,562,807
CFSM public projects	7,933,737	-	-	-	7,933,737
Office of the President	487,548	-	-	1,595,404	2,082,952
Department of TC&I	2,906,068	-	-	-	2,906,068
Department of Finance & Adm.	339,968	-	-	-	339,968
Department of Justice	495,164	-	-	555,429	1,050,593
Department of Resources & Dev.	420,466	-	-	-	420,466
Office of SBOC	338,674	-	-	-	338,674
Office of EEM	62,806	-	-	-	62,806
National Historic & Preservation	157,515	-	-	-	157,515
Judiciary	101,707	-	-	-	101,707
Office of the Public Auditor	81,211	-	-	-	81,211
Future operations-FSM Trust	22,532,201	-	-	-	22,532,201
Other functions and programs	150,874	-	-	301,721	452,595
Assigned:					
Presidents	487,548	-	-	-	487,548
Legislative branch	249,851	-	-	-	249,851
Judiciary	73,347	-	-	-	73,347
National program	290,085	-	-	-	290,085
Other functions and programs	1,746,402	-	-	-	1,746,402
Unassigned	51,999,030	(24,675)	-	(20,090)	51,954,265
	<u>\$ 149,397,391</u>	<u>\$ 2,225,769</u>	<u>\$ 15,380,233</u>	<u>\$ 2,432,464</u>	<u>\$ 169,435,857</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

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

YEAR ENDED SEPTEMBER 30, 2014

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund
General Fund
Year Ended September 30, 2014

	Budgeted Amounts		Actual Amounts (note 1)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 38,623,386	\$ 38,623,386	\$ 39,876,736	\$ 1,253,350
Fishing rights	46,958,192	46,958,192	47,517,815	559,623
Postal revenues	445,872	445,872	405,547	(40,325)
Investment earnings	-	-	1,880,716	1,880,716
Fees and charges	70,835	70,835	70,192	(643)
Micare reimbursable	-	-	243,881	243,881
Other	1,130,740	1,130,740	772,970	(357,770)
Total revenues	87,229,025	87,229,025	90,767,857	3,538,832
Expenditures:				
Executive Branch - Core Operational	16,948,524	17,486,447	16,929,805	556,642
Executive Branch - Non-Core Operational	13,288,457	16,631,610	16,974,476	(342,866)
Legislative Branch-Core Operational	4,005,528	4,692,604	2,800,467	1,892,137
Office of the National Public Auditor-Core Operational	701,849	701,849	622,123	79,726
Office of the National Public Auditor-Non-Core Operational	329,250	329,250	345,067	(15,817)
Other National Programs	3,790,255	4,713,051	2,976,871	1,736,180
Boards and Commissions	2,672,964	2,579,238	2,430,754	148,484
Payments to Component Units	5,846,820	4,563,474	2,751,243	1,812,232
Total expenditures	47,583,647	51,697,523	45,830,806	5,866,717
Excess (deficiency) of revenues over (under) expenditures	39,645,378	35,531,502	44,937,051	9,405,549
Other financing sources (uses):				
Operating transfers in	-	300,000	68,693	(231,308)
Operating transfers out	(400,000)	(700,000)	(468,743)	231,258
Total other financing sources (uses), net	(400,000)	(400,000)	(400,050)	(50)
Net change in fund balance	39,245,378	35,131,502	44,537,001	9,405,499
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				
	-	-	2,022,633	2,022,633
	39,245,378	35,131,502	46,559,634	11,428,132
Fund balance at the beginning of the year	102,837,757	102,837,757	102,837,757	-
Fund balance at the end of the year	\$ 142,083,135	\$ 137,969,259	\$ 149,397,391	\$ 11,428,132

See accompanying notes to required supplementary information - budgetary reporting.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Required Supplementary Information - Budgetary Reporting
September 30, 2014

(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 2014, 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.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Required Supplementary Information - Budgetary Reporting, Continued
September 30, 2014

(2) Reconciliation - GAAP and Budgetary Bases of Accounting

The Budget Act for fiscal year 2014, Public Law No. 18-15, was approved for the Executive branch and the Legislative branch. Budgets for Special Revenue Funds are generally not submitted. Accordingly, a budget to actual presentation for Special Revenue Funds is not required or presented. Project length financial plans are adopted for capital projects funds. The accompanying Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund presents solely the financial activities of the General Fund administered by the Department of Finance and Administration, and does not include other financial activities administered by that Department and the impact of implementation of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

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

Net change in fund balance - Budgetary basis	\$ 44,537,001
Add:	
Encumbrances and commitments	<u>(6,742,849)</u>
Net change in fund balances	37,794,152
Add:	
Net change in fund balance - GAAP for GASB 54 Funds:	
ADB Loan Fund (Fund 91)	594,300
IDF Fund	(175,922)
ER Fund	181,711
FSM Trust Fund	<u>10,785,834</u>
Net change in fund balance - GAAP	\$ <u>49,180,075</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2014

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Combined Schedule of Expenditures by Account -
Governmental Fund Types
Year Ended September 30, 2014

	General	Special Revenue Grants Assistance	Permanent Compact Trust	Other Governmental Funds	Total
Expenditures:					
Personnel	\$ 12,323,811	\$ 3,087,414	\$ -	\$ 285,904	\$ 15,697,129
Travel and transportation	4,881,125	2,409,524	-	21,037	7,311,686
Books and library materials	4,611	-	-	-	4,611
Communications	665,820	170,676	-	20,854	857,350
Customs and taxes	31,076	131,818	-	7,620	170,514
Dues, membership and subscription	489,277	13,959	-	-	503,236
Food stuffs	789,454	64,841	-	60,166	914,461
Freight	59,013	43,431	-	7,092	109,536
Expendable equipment	329,983	108,901	-	23,053	461,937
Office supplies and materials	2,145,566	413,773	-	28,354	2,587,693
POL	1,959,458	156,254	-	250,477	2,366,189
Advertising, printing and reproduction	158,968	82,986	-	5,000	246,954
Rental services	289,512	223,563	-	-	513,075
Repair and maintenance	150,141	17,203	-	283	167,627
Utilities	1,470,712	262,653	-	-	1,733,365
Miscellaneous goods and services	278,510	116,968	-	-	395,478
Medical supplies	18,996	149,236	-	-	168,232
Medical claims and referrals	27,818	-	-	-	27,818
Contributions, subsidies and grants	4,834,694	-	-	-	4,834,694
General contractual services	7,298,667	8,108,910	-	680,489	16,088,066
Professional services	662,292	5,607,525	-	330	6,270,147
Employee housing and household storage	952,860	87,500	-	1,500	1,041,860
Recruit and repatriation	82,884	-	-	-	82,884
Compensation-nonpayroll	297,143	32,625	-	-	329,768
Educational allowance	47,512	-	-	-	47,512
Training and registration fees	124,275	18,105	-	-	142,380
Scholarships	1,280,853	-	-	311,957	1,592,810
Official and meeting allowances	63,823	38,440	-	-	102,263
Representation	1,848,232	-	-	-	1,848,232
Insurance and fees	220,327	1,001	-	2,002	223,330
Leased housing, offices, buildings and land	1,220,891	156,991	-	-	1,377,882
Bank charges	31,419	590	-	150	32,159
Architecture and design	-	828,323	-	-	828,323
Equipment	1,182,754	206,277	-	-	1,389,031
Furnitures and fixtures	15,192	-	-	-	15,192
Vehicle and vessels	517,433	8,603	-	-	526,036
Court settlement	54,063	-	-	-	54,063
Principal and interest payments	2,319,117	-	-	-	2,319,117
Other	191,524	-	-	-	191,524
Total expenditures	<u>\$ 49,319,806</u>	<u>\$ 22,548,090</u>	<u>\$ -</u>	<u>\$ 1,706,268</u>	<u>\$ 73,574,164</u>

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

GENERAL FUND (FUND 1)
Schedule of Revenues, Expenditures by Function and Department,
and Changes in Fund Balance
Year Ended September 30, 2014
(with comparatives for the year ended September 30, 2013)

	2014	2013
Revenue:		
Taxes:		
Import	\$ 3,361,137	\$ 3,341,348
Fuel	127,328	141,279
Corporate tax	27,630,004	4,378,437
Income tax, individuals, net of tax refunds	4,070,210	3,879,977
Gross receipts tax, businesses	4,380,072	4,542,630
Tobacco revenue share	307,985	558,593
	39,876,736	16,842,264
Fishing rights	47,517,815	35,049,721
Fees and charges:		
Postal collections	405,547	470,298
Business license and various fees	70,192	310,164
	475,739	780,462
Investment earnings:		
Net change in the fair value of investments	1,452,059	568,228
Dividend and interest income	428,657	265,333
	1,880,716	833,561
MiCare reimbursible	243,881	254,251
Other	772,970	593,931
Total revenues	90,767,857	54,354,190
Expenditures:		
Executive Branch:		
Core operational:		
President's Office	958,989	856,042
Department of External Affairs and LNO's	4,250,643	3,960,584
Department of Health and Social Affairs	748,729	236,481
Department of Education	505,955	232,037
Office of Resources and development	930,033	707,619
National archives, cultural and historic prevention	155,604	93,137
Office of SBOC	1,096,145	832,294
Office of Environment and emergency management	336,510	313,044
Department of Transportation, Communication and Infrastructure	3,889,660	1,104,137
Department of Finance and Administration	2,013,138	1,894,405
Department of Justice	3,446,610	3,372,215
Office of the Public Defender	803,667	634,150
Sub-total	19,135,683	14,236,145

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

GENERAL FUND (FUND 1)
Schedule of Revenues, Expenditures by Function and Department,
and Changes in Fund Balance, Continued
Year Ended September 30, 2014
(with comparatives for the year ended September 30, 2013)

	<u>2014</u>	<u>2013</u>
Expenditures, continued:		
Executive Branch:		
Non-core operational:		
President's Office	916,432	1,259,614
Department of External Affairs and LNO's	194,000	241,000
Department of Health and Social Affairs	544,892	157,111
Department of Education	1,922,862	1,938,550
Office of Resources and development	421,157	955,326
National archives, cultural and historic prevention	3,792	4,314
Office of SBOC	141,806	111,395
Office of Environment and emergency management	238,554	15,385
Department of Transportation, Communication and Infrastructure	2,728,673	1,825,784
Department of Finance and Administration	665,427	1,724,535
Department of Justice	557,317	389,737
Sub-total	<u>8,334,912</u>	<u>8,622,751</u>
Total Executive Branch	<u>27,470,595</u>	<u>22,858,896</u>
Judicial Branch-core operational	1,296,745	1,215,956
Judicial Branch-non-core operational	192,061	144,098
Total Judicial Branch	<u>1,488,806</u>	<u>1,360,054</u>
Legislative Branch:		
Office of the Speaker and members	2,247,423	1,684,511
Congress staff	1,540,899	1,373,652
Delegation offices	644,182	549,464
Total Legislative Branch	<u>4,432,504</u>	<u>3,607,627</u>
Office of the National Public Auditor-Core operational	621,280	590,269
Office of the National Public Auditor-Non-Core operational	329,744	437,433
Total Office of the Public Auditor	<u>951,024</u>	<u>1,027,702</u>
Other National Government Programs	200	12,700
Agencies, Boards and Commissions	<u>2,400,688</u>	<u>3,963,566</u>
Payments to Component Units:		
College of Micronesia-FSM	731,105	25,000
FSM Social Security Administration	1,000,000	1,000,000
FSM Coconut Development Authority	211,642	205,355
Micare Plan, Inc.	100,000	100,000
Caroline Air, Inc.	35,407	-
Payment to Component Units-Non operational	14,500	14,285
	<u>2,092,654</u>	<u>1,344,640</u>
Legislative public projects	<u>7,972,694</u>	<u>6,760,274</u>
Total expenditures	<u>46,809,165</u>	<u>40,935,459</u>
Excess of revenues over expenditures	<u>43,958,692</u>	<u>13,418,731</u>

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

GENERAL FUND (FUND 1)
Schedule of Revenues, Expenditures by Function and Department,
and Changes in Fund Balance, Continued
Year Ended September 30, 2014
(with comparatives for the year ended September 30, 2013)

	<u>2014</u>	<u>2013</u>
Other financing sources (uses):		
Operating transfers in:		
Student Loan Fund	-	291
Postal Services Revolving Fund	73,382	
Fisheries Observer Revolving Fund	793,321	-
Passport Revolving Fund	453,757	606,582
Maritime Surveillance Revolving Fund	-	35,455
Other Transfers In	-	12,700
	<u>1,320,460</u>	<u>655,028</u>
Operating transfers out:		
FSM Trust Fund	(7,000,000)	-
Early Retirement Program Fund	-	(316,608)
Asian Development Bank Loan Fund	(200,000)	(200,000)
Maritime Operations Revolving Fund	-	(1,195,006)
ICQ Revolving Fund	-	-
Disaster Emergency Fund	(200,000)	(200,000)
Infrastructure Fund	(85,000)	(112,179)
Other CIP Fund	-	(12,700)
	<u>(7,485,000)</u>	<u>(2,036,493)</u>
Total other financing sources (uses), net	<u>(6,164,540)</u>	<u>(1,381,465)</u>
Special items:		
Write-off of receivable balances	-	(2,245,635)
	-	(2,245,635)
Net change in fund balance	37,794,152	9,791,631
Fund balance at the beginning of the year	<u>43,901,937</u>	<u>34,110,306</u>
Fund balance at the end of the year	<u>\$ 81,696,089</u>	<u>\$ 43,901,937</u>

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

NONMAJOR GOVERNMENTAL FUNDS

Combining Balance Sheet
September 30, 2014

	27	28	29	31	32	33	34	35	36	38	39	41	42	Total
	Permit Revolving	Filling Office Revolving	Maritime Operations Revolving	Passport Revolving	Aquaculture Revolving	Fisheries Observer Revolving	Medical Revolving	Nurse Board Revolving	ICQ Overtime Revolving	Student Loans	Scholarship	Maritime Surveillance Revolving	Postal Services Revolving	
ASSETS														
Advances	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 648	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 648
Due from other funds	1,595,404	51,191	92,468	215,280	28,603	109,950	7,578	15,746	89,918	-	-	229,754	22,000	2,457,892
Total assets	<u>\$ 1,595,404</u>	<u>\$ 51,191</u>	<u>\$ 92,468</u>	<u>\$ 215,280</u>	<u>\$ 28,603</u>	<u>\$ 110,598</u>	<u>\$ 7,578</u>	<u>\$ 15,746</u>	<u>\$ 89,918</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 229,754</u>	<u>\$ 22,000</u>	<u>\$ 2,458,540</u>
LIABILITIES AND FUND BALANCES														
Liabilities:														
Accounts payable	\$ -	\$ -	\$ -	\$ 362	\$ -	\$ 4,371	\$ -	\$ 92	\$ -	\$ -	\$ -	\$ 1,161	\$ -	\$ 5,986
Due to other funds	-	-	-	-	-	-	-	-	-	-	20,090	-	-	20,090
Total liabilities	-	-	-	362	-	4,371	-	92	-	-	20,090	1,161	-	26,076
Fund balances:														
Committed	1,595,404	51,191	92,468	214,918	28,603	106,227	7,578	15,654	89,918	-	-	228,593	22,000	2,452,554
Unassigned	-	-	-	-	-	-	-	-	-	-	(20,090)	-	-	(20,090)
Total fund balances (deficit)	<u>1,595,404</u>	<u>51,191</u>	<u>92,468</u>	<u>214,918</u>	<u>28,603</u>	<u>106,227</u>	<u>7,578</u>	<u>15,654</u>	<u>89,918</u>	<u>-</u>	<u>(20,090)</u>	<u>228,593</u>	<u>22,000</u>	<u>2,432,464</u>
Total liabilities and fund balances	<u>\$ 1,595,404</u>	<u>\$ 51,191</u>	<u>\$ 92,468</u>	<u>\$ 215,280</u>	<u>\$ 28,603</u>	<u>\$ 110,598</u>	<u>\$ 7,578</u>	<u>\$ 15,746</u>	<u>\$ 89,918</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 229,754</u>	<u>\$ 22,000</u>	<u>\$ 2,458,540</u>

See Accompanying Independent Auditors' Report

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

NONMAJOR GOVERNMENTAL FUNDS

Combining Statement of Revenues, Expenditures by Function,
and Changes in Fund Balances (Deficit)
Year Ended September 30, 2014

	27	28	29	31	32	33	34	35	36	38	39	41	42	Total
	Permit Revolving	Filling Office Revolving	Maritime Operations Revolving	Passport Revolving	Aquaculture Revolving	Fisheries Observer Revolving	Medical Revolving	Nurse Board Revolving	ICQ Overtime Revolving	Student Loans	Scholarship	Maritime Surveillance Revolving	Postal Services Revolving	
Revenues:														
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 102,664	\$ -	\$ -	\$ 102,664
Fees and charges	173,550	9,450	119,330	752,860	-	712,924	2,930	1,040	-	-	-	102,000	129,223	2,003,307
Other	-	-	-	-	-	-	-	-	173,832	-	-	-	-	173,832
Total revenues	<u>173,550</u>	<u>9,450</u>	<u>119,330</u>	<u>752,860</u>	<u>-</u>	<u>712,924</u>	<u>2,930</u>	<u>1,040</u>	<u>173,832</u>	<u>-</u>	<u>102,664</u>	<u>102,000</u>	<u>129,223</u>	<u>2,279,803</u>
Expenditures by function:														
Current:														
General government:														
Transportation, communication and infrastructure	-	-	39,220	-	-	-	-	-	-	-	-	-	-	39,220
Education	-	-	-	-	-	-	-	-	-	-	311,957	-	-	311,957
Justice	-	-	-	184,185	-	-	-	-	129,229	-	-	373,407	33,841	720,662
Agencies, boards and commissions	-	-	-	-	-	634,429	-	-	-	-	-	-	-	634,429
Total expenditures	<u>-</u>	<u>-</u>	<u>39,220</u>	<u>184,185</u>	<u>-</u>	<u>634,429</u>	<u>-</u>	<u>-</u>	<u>129,229</u>	<u>-</u>	<u>311,957</u>	<u>373,407</u>	<u>33,841</u>	<u>1,706,268</u>
Excess (deficiency) of revenues over (under) expenditures	<u>173,550</u>	<u>9,450</u>	<u>80,110</u>	<u>568,675</u>	<u>-</u>	<u>78,495</u>	<u>2,930</u>	<u>1,040</u>	<u>44,603</u>	<u>-</u>	<u>(209,293)</u>	<u>(271,407)</u>	<u>95,382</u>	<u>573,535</u>
Other financing uses:														
Operating transfers out	-	-	-	(453,757)	-	(793,321)	-	-	-	-	-	-	(73,382)	(1,320,460)
Net change in fund balances	173,550	9,450	80,110	114,918	-	(714,826)	2,930	1,040	44,603	-	(209,293)	(271,407)	22,000	(746,925)
Fund balances at the beginning of the year	1,421,854	41,741	12,358	100,000	28,603	821,053	4,648	14,614	45,315	-	189,203	500,000	-	3,179,389
Fund (deficit) balances at the end of the year	<u>\$ 1,595,404</u>	<u>\$ 51,191</u>	<u>\$ 92,468</u>	<u>\$ 214,918</u>	<u>\$ 28,603</u>	<u>\$ 106,227</u>	<u>\$ 7,578</u>	<u>\$ 15,654</u>	<u>\$ 89,918</u>	<u>\$ -</u>	<u>\$ (20,090)</u>	<u>\$ 228,593</u>	<u>\$ 22,000</u>	<u>\$ 2,432,464</u>

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

NONMAJOR GOVERNMENTAL FUNDS

Combining Statement of Revenues, Expenditures by Account,
and Changes in Fund Balances (Deficit)
Year Ended September 30, 2014

	27	28	29	31	32	33	34	35	36	38	39	41	42	Total
	Permit Revolving	Filling Office Revolving	Maritime Operations Revolving	Passport Revolving	Aquaculture Revolving	Fisheries Observer Revolving	Medical Revolving	Nurse Board Revolving	ICQ Overtime Revolving	Student Loans	Scholarship	Maritime Surveillance Revolving	Postal Services Revolving	
Revenues:														
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 102,664	\$ -	\$ -	\$ 102,664
Fees and charges	173,550	9,450	119,330	752,860	-	712,924	2,930	1,040	-	-	-	102,000	129,223	2,003,307
Other	-	-	-	-	-	-	-	-	173,832	-	-	-	-	173,832
Total revenues	173,550	9,450	119,330	752,860	-	712,924	2,930	1,040	173,832	-	102,664	102,000	129,223	2,279,803
Expenditures by account:														
Personnel	-	-	92,973	-	-	63,702	-	-	129,229	-	-	-	-	285,904
Travel and transportation	-	-	3,365	-	-	17,672	-	-	-	-	-	-	-	21,037
Communications	-	-	-	19,854	-	1,000	-	-	-	-	-	-	-	20,854
Customs and taxes	-	-	-	4,497	-	3,123	-	-	-	-	-	-	-	7,620
Food stuffs	-	-	-	-	-	3,704	-	-	-	-	-	56,462	-	60,166
Freight	-	-	-	5,773	-	362	-	-	-	-	-	115	842	7,092
Expendable equipment	-	-	626	8,700	-	9,912	-	-	-	-	-	-	3,815	23,053
Office supplies and materials	-	-	606	8,316	-	13,137	-	-	-	-	-	6,295	-	28,354
POL	-	-	(59,850)	-	-	-	-	-	-	-	-	310,327	-	250,477
Advertising, printing and reproduction	-	-	-	5,000	-	-	-	-	-	-	-	-	-	5,000
Repair and maintenance	-	-	-	-	-	75	-	-	-	-	-	208	-	283
General Contractual Services	-	-	-	131,970	-	519,335	-	-	-	-	-	-	29,184	680,489
Professional Services	-	-	-	-	-	330	-	-	-	-	-	-	-	330
Employee housing and household storage	-	-	1,500	-	-	-	-	-	-	-	-	-	-	1,500
Scholarships	-	-	-	-	-	-	-	-	-	-	311,957	-	-	311,957
Insurance and fees	-	-	-	-	-	2,002	-	-	-	-	-	-	-	2,002
Bank charges	-	-	-	75	-	75	-	-	-	-	-	-	-	150
Total expenditures	-	-	39,220	184,185	-	634,429	-	-	129,229	-	311,957	373,407	33,841	1,706,268
Excess (deficiency) of revenues over (under) expenditures	173,550	9,450	80,110	568,675	-	78,495	2,930	1,040	44,603	-	(209,293)	(271,407)	95,382	573,535
Other financing uses:														
Operating transfers out	-	-	-	(453,757)	-	(793,321)	-	-	-	-	-	-	(73,382)	(1,320,460)
Net change in fund balances	173,550	9,450	80,110	114,918	-	(714,826)	2,930	1,040	44,603	-	(209,293)	(271,407)	22,000	(746,925)
Fund balances at the beginning of the year	1,421,854	41,741	12,358	100,000	28,603	821,053	4,648	14,614	45,315	-	189,203	500,000	-	3,179,389
Fund balances (deficit) at the end of the year	\$ 1,595,404	\$ 51,191	\$ 92,468	\$ 214,918	\$ 28,603	\$ 106,227	\$ 7,578	\$ 15,654	\$ 89,918	\$ -	\$ (20,090)	\$ 228,593	\$ 22,000	\$ 2,432,464

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

GRANTS ASSISTANCE FUND

Combining Balance Sheet

September 30, 2014

	10	11	12	13	14	15	16	18	19	20	23	26	Total
	Section 211(a)(1) Education Sector	Section 211(a)(2) Health Sector	Section 211(a)(5) Environment	Section 211(a)(3) Private Sector Development	Section 211(a)(4) Capacity Building	Supplemental Education	Enhanced Reporting Accountability	Infrastructure Maintenance	Section 211(a)(6) Infrastructure	U.S. Federal Grants	Non-U.S. Grants	Disaster Assistance Emergency	Total
ASSETS													
Equity in internal investment pool	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 352,149	\$ -	\$ -	\$ -	\$ 1,237,456	\$ 1,589,605
Receivables:													
Federal agencies	539,446	933,387	20,538	-	1,732,785	638,015	64,883	22	1,869,323	5,865,173	64,611	-	11,728,183
Due from other funds	-	-	-	13,153	-	-	-	-	-	-	3,269,974	722,412	4,005,539
Advances	22,799	16,270	1,545	-	19,882	19,266	105	-	19,352	128,866	24,172	-	252,257
	<u>\$ 562,245</u>	<u>\$ 949,657</u>	<u>\$ 22,083</u>	<u>\$ 13,153</u>	<u>\$ 1,752,667</u>	<u>\$ 657,281</u>	<u>\$ 64,988</u>	<u>\$ 352,171</u>	<u>\$ 1,888,675</u>	<u>\$ 5,994,039</u>	<u>\$ 3,358,757</u>	<u>\$ 1,959,868</u>	<u>\$ 17,575,584</u>
LIABILITIES AND FUND BALANCES (DEFICIT)													
Liabilities:													
Accounts payable	\$ 4,632	\$ 2,926	\$ -	\$ -	\$ 5,807	\$ 5,854	\$ -	\$ -	\$ 853,771	\$ 451,969	\$ 15,137	\$ -	\$ 1,340,096
Retention payable	-	-	-	-	-	-	-	-	-	742,980	-	-	742,980
Due to FSM State Governments	-	-	-	-	-	-	-	-	-	2,160,133	-	-	2,160,133
Due to Federal Governments	-	-	-	-	-	-	-	-	-	1,126,478	-	-	1,126,478
Due to other funds	557,613	946,731	22,083	-	1,746,860	651,427	64,988	23	1,034,904	1,517,693	-	-	6,542,322
Deferred revenues	-	-	-	-	-	-	-	-	-	-	3,363,081	74,725	3,437,806
Total liabilities	<u>562,245</u>	<u>949,657</u>	<u>22,083</u>	<u>-</u>	<u>1,752,667</u>	<u>657,281</u>	<u>64,988</u>	<u>23</u>	<u>1,888,675</u>	<u>5,999,253</u>	<u>3,378,218</u>	<u>74,725</u>	<u>15,349,815</u>
Fund balances (deficit):													
Restricted	-	-	-	13,153	-	-	-	352,148	-	-	-	1,885,143	2,250,444
Unassigned	-	-	-	-	-	-	-	-	-	(5,214)	(19,461)	-	(24,675)
Total fund balances (deficits)	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,153</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>352,148</u>	<u>-</u>	<u>(5,214)</u>	<u>(19,461)</u>	<u>1,885,143</u>	<u>2,225,769</u>
Total liabilities and fund balances	<u>\$ 562,245</u>	<u>\$ 949,657</u>	<u>\$ 22,083</u>	<u>\$ 13,153</u>	<u>\$ 1,752,667</u>	<u>\$ 657,281</u>	<u>\$ 64,988</u>	<u>\$ 352,171</u>	<u>\$ 1,888,675</u>	<u>\$ 5,994,039</u>	<u>\$ 3,358,757</u>	<u>\$ 1,959,868</u>	<u>\$ 17,575,584</u>

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

GRANTS ASSISTANCE FUND

Combining Statement of Revenues and Expenditures by Function,
and Changes in Fund Balances (Deficit)
Year Ended September 30, 2014

	10	11	12	13	14	15	16	18	19	20	23	26	Total
	Section 211(a)(1) Education Sector	Section 211(a)(2) Health Sector	Section 211(a)(5) Environment	Section 211(a)(3) Private Sector Development	Section 211(a)(4) Capacity Building	Supplemental Education	Enhanced Reporting Accountability	Infrastructure Maintenance	Section 211(a)(6) Infrastructure	U.S. Federal Grants	Non-U.S. Grants	Disaster Assistance Emergency	Total
Compact funding	\$ 62,942	\$ 343,261	\$ -	\$ -	\$ 379,535	\$ 299,096	\$ 26,769	\$ -	\$ 4,917,682	\$ -	\$ -	\$ -	\$ 6,029,285
Federal and other grants	-	-	-	-	-	-	-	-	-	12,388,998	4,044,807	1,909	16,435,714
	<u>62,942</u>	<u>343,261</u>	<u>-</u>	<u>-</u>	<u>379,535</u>	<u>299,096</u>	<u>26,769</u>	<u>-</u>	<u>4,917,682</u>	<u>12,388,998</u>	<u>4,044,807</u>	<u>1,909</u>	<u>22,464,999</u>
Expenditures by function:													
Current:													
General government:													
Finance and administration	-	-	-	-	253,393	-	26,769	-	-	1,558,934	-	-	1,839,096
Resources and development	-	-	-	-	-	-	-	-	-	12,779	3,029,430	-	3,042,209
Transportation, communication and infrastructure	-	-	-	-	-	-	-	-	-	5,304,284	14,103	-	5,318,387
Health and social affairs	-	343,261	-	-	-	-	-	-	-	4,167,673	747,056	-	5,257,990
National archives, cultural and historic preservation	-	-	-	-	-	-	-	-	-	38,927	34,844	-	73,771
Education	62,942	-	-	-	-	299,096	-	-	-	717,703	-	-	1,079,741
SBOC Office	-	-	-	-	-	-	-	-	-	477	65,254	-	65,731
Environment and emergency management	-	-	-	-	-	-	-	-	-	44,590	136,775	-	181,365
Office of the National Public Auditor	-	-	-	-	126,142	-	-	-	-	455,608	-	-	581,750
Boards and commissions	-	-	-	-	-	-	-	-	-	88,023	17,345	-	105,368
Capital Projects	-	-	-	-	-	-	-	85,000	4,917,682	-	-	-	5,002,682
Total expenditures	<u>62,942</u>	<u>343,261</u>	<u>-</u>	<u>-</u>	<u>379,535</u>	<u>299,096</u>	<u>26,769</u>	<u>85,000</u>	<u>4,917,682</u>	<u>12,388,998</u>	<u>4,044,807</u>	<u>-</u>	<u>22,548,090</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(85,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,909</u>	<u>(83,091)</u>
Other financing sources:													
Operating transfers in	-	-	-	-	-	-	-	85,000	-	-	-	200,000	285,000
Net change in fund balances (deficit)	-	-	-	-	-	-	-	-	-	-	-	201,909	201,909
Fund balances (deficit) at the beginning of the year	-	-	-	13,153	-	-	-	352,148	-	(5,214)	(19,461)	1,683,234	2,023,860
Fund balances (deficit) at the end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,153</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 352,148</u>	<u>\$ -</u>	<u>\$ (5,214)</u>	<u>\$ (19,461)</u>	<u>\$ 1,885,143</u>	<u>\$ 2,225,769</u>

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

GRANTS ASSISTANCE FUND

Combining Statement of Revenues, Expenditures by Account,
and Changes in Fund Balances (Deficit)
Year Ended September 30, 2014

	10	11	12	13	14	15	16	18	19	20	23	26	Total
	Section 211(a)(1) Education Sector	Section 211(a)(2) Health Sector	Section 211(a)(5) Environment	Section 211(a)(3) Private Sector Development	Section 211(a)(4) Capacity Building	Supplemental Education	Enhanced Reporting Accountability	Infrastructure Maintenance	Section 211(a)(6) Infrastructure	U.S. Federal Grants	Non-U.S. Grants	Disaster Assistance Emergency	Total
Revenues:													
Compact funding	\$ 62,942	\$ 343,261	\$ -	\$ -	\$ 379,535	\$ 299,096	\$ 26,769	\$ -	\$ 4,917,682	\$ -	\$ -	\$ -	\$ 6,029,285
Federal and other grants	-	-	-	-	-	-	-	-	-	12,388,998	4,044,807	1,909	16,435,714
	<u>62,942</u>	<u>343,261</u>	<u>-</u>	<u>-</u>	<u>379,535</u>	<u>299,096</u>	<u>26,769</u>	<u>-</u>	<u>4,917,682</u>	<u>12,388,998</u>	<u>4,044,807</u>	<u>1,909</u>	<u>22,464,999</u>
Expenditures by account:													
Personnel	-	1,136	-	-	104,590	187,907	24,231	-	426,430	2,321,312	21,808	-	3,087,414
Travel and transportation	2,885	11,083	-	-	41,295	90,444	1,538	-	55,124	1,951,326	255,829	-	2,409,524
Communications	3,498	600	-	-	22,980	1,893	-	-	11,273	126,212	4,220	-	170,676
Customs and taxes	-	-	-	-	-	111	-	-	-	3,622	128,085	-	131,818
Dues, membership and subscription	-	-	-	-	140	-	-	-	-	13,719	100	-	13,959
Food stuffs	-	-	-	-	-	-	-	-	-	18,134	46,707	-	64,841
Freight	621	-	-	-	3,596	-	-	-	-	26,494	12,720	-	43,431
Expendable equipment/furniture	1,196	4,588	-	-	1,590	249	-	-	605	75,869	24,804	-	108,901
Office supplies and materials	7,460	8,232	-	-	12,312	5,618	-	-	3,667	305,342	71,142	-	413,773
POL	1,800	1,805	-	-	4,300	2,350	-	-	3,696	124,375	17,928	-	156,254
Advertising, printing and reproduction	32,240	1,535	-	-	-	364	-	-	467	32,362	16,018	-	82,986
Rental services	-	-	-	-	2,484	-	-	-	-	172,645	48,434	-	223,563
Repair and maintenance	-	-	-	-	5,784	135	-	-	1,932	6,879	2,473	-	17,203
Utilities	-	-	-	-	41,187	-	-	-	17,035	203,181	1,250	-	262,653
Miscellaneous goods and services	-	-	-	-	415	-	-	85,000	-	7,904	23,649	-	116,968
Medical supplies	-	-	-	-	-	-	-	-	-	143,068	6,168	-	149,236
General Contractual services	7,634	312,234	-	-	16,465	10,025	-	-	737,886	4,016,581	3,008,085	-	8,108,910
Professional services	-	-	-	-	58,385	-	-	-	2,737,110	2,548,795	263,235	-	5,607,525
Employee housing and household storage	-	-	-	-	25,700	-	1,000	-	31,800	29,000	-	-	87,500
Compensation-nonpayroll	-	-	-	-	-	-	-	-	-	27,078	5,547	-	32,625
Training and registration fees	-	-	-	-	380	-	-	-	675	1,110	15,940	-	18,105
Official and meeting allowances	-	-	-	-	-	-	-	-	-	28,030	10,410	-	38,440
Insurance and fees	-	-	-	-	-	-	-	-	-	916	85	-	1,001
Leased housing, offices, buildings and land	-	2,048	-	-	15,120	-	-	-	60,659	79,164	-	-	156,991
Bank charges	-	-	-	-	75	-	-	-	-	140	375	-	590
Architecture and design	-	-	-	-	-	-	-	-	828,323	-	-	-	828,323
Equipment	5,608	-	-	-	14,772	-	-	-	1,000	125,102	59,795	-	206,277
Vehicle	-	-	-	-	7,965	-	-	-	-	638	-	-	8,603
Total expenditures	<u>62,942</u>	<u>343,261</u>	<u>-</u>	<u>-</u>	<u>379,535</u>	<u>299,096</u>	<u>26,769</u>	<u>85,000</u>	<u>4,917,682</u>	<u>12,388,998</u>	<u>4,044,807</u>	<u>-</u>	<u>22,548,090</u>
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-	-	-	-	(85,000)	-	-	-	1,909	(83,091)
Other financing sources:													
Operating transfers in	-	-	-	-	-	-	-	85,000	-	-	-	200,000	285,000
Net change in fund balances (deficit)	-	-	-	-	-	-	-	-	-	-	-	201,909	201,909
Fund balances (deficit) at the beginning of the year	-	-	-	13,153	-	-	-	352,148	-	(5,214)	(19,461)	1,683,234	2,023,860
Fund balances (deficit) at the end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,153</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 352,148</u>	<u>\$ -</u>	<u>\$ (5,214)</u>	<u>\$ (19,461)</u>	<u>\$ 1,885,143</u>	<u>\$ 2,225,769</u>

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

**GENERAL FUND
Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual, Budgetary Basis
Year Ended September 30, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Local taxes	\$ 38,623,386	\$ 38,623,386	\$ 39,876,736	\$ 1,253,350
Fishing right fees	46,958,192	46,958,192	47,517,815	559,623
Postal revenues	445,872	445,872	405,547	(40,325)
Investment earnings	-	-	1,880,716	1,880,716
Fees and charges	70,835	70,835	70,192	(643)
MiCare reimbursable	-	-	243,881	243,881
Other	1,130,740	1,130,740	772,970	(357,770)
Total revenues	<u>87,229,025</u>	<u>87,229,025</u>	<u>90,767,857</u>	<u>3,538,832</u>
Expenditures-budgetary basis by department:				
Executive Branch-Core Operational:				
Office of the President	471,590	604,296	607,552	(3,256)
President's Office - Personnel	111,077	510,000	407,351	102,649
Public Information	113,397	116,218	110,386	5,832
Total Office of the President	<u>696,064</u>	<u>1,230,514</u>	<u>1,125,289</u>	<u>105,225</u>
Department of External Affairs				
Administration	279,605	339,080	338,464	616
Division of APA and Multilateral Affairs	105,426	104,656	93,526	11,130
Division of American and European Affairs	85,104	85,104	84,160	944
FSM Consulate - China	509,546	510,316	463,853	46,463
FSM Consulate - Guam	307,310	313,310	270,033	43,277
FSM Consulate - Honolulu	376,385	376,985	341,179	35,806
FSM Embassy - Tokyo	993,941	993,941	1,005,098	(11,157)
FSM Embassy - Washington D.C.	550,967	550,967	566,851	(15,884)
FSM Embassy - Fiji	239,547	239,547	190,196	49,351
FSM Permanent Mission - New York	779,403	778,803	685,789	93,014
Total Department of External Affairs	<u>4,227,234</u>	<u>4,292,709</u>	<u>4,039,147</u>	<u>253,562</u>
Department of Health and Social Affairs:				
Administration	158,515	158,515	157,938	577
Environmental Health	126,773	266,580	251,808	14,772
Gender Development Unit	34,322	34,322	29,868	4,454
Other	131,737	-	26,878	(26,878)
Sports and Youth Unit	72,415	72,415	64,259	8,156
Total Department of Health and Social Affairs	<u>523,762</u>	<u>531,832</u>	<u>530,749</u>	<u>1,083</u>
Department of Education:				
Administration	246,913	182,952	173,981	8,971
Total Department of Education	<u>246,913</u>	<u>182,952</u>	<u>173,981</u>	<u>8,971</u>
Department of Resources and Development:				
Administration	138,593	137,783	128,370	9,413
Division of Sectoral Development	70,755	160,066	137,361	22,705
Division of Trade and Investment	584,650	495,339	479,052	16,287
Division of Energy	62,181	62,181	46,431	15,750
Total Department of Resources and Development	<u>856,179</u>	<u>855,369</u>	<u>791,214</u>	<u>64,155</u>
Office of National Archives, Cultural and Historic Preservation	<u>123,679</u>	<u>133,679</u>	<u>159,775</u>	<u>(26,096)</u>
Office of Statistics, Budget, Overseas Development Assistance and Compact Management:				
Office of the Director	103,579	104,589	97,239	7,350
Division of Statistics	349,449	348,249	322,692	25,557
Division of Overseas Development	63,838	90,705	95,755	(5,050)
Division of Budget and Economic Management	256,063	253,043	207,867	45,176
Division of Compact Management	310,838	306,068	275,306	30,762
Total Statistics, Budget, Overseas Development Assistance and Compact Management	<u>1,083,767</u>	<u>1,102,654</u>	<u>998,859</u>	<u>103,795</u>
Office of Environment and Emergency Management:				
Office of the Director	127,076	133,553	132,780	773
Division of Sustainable Development	162,915	168,560	138,394	30,166
Division of Emergency Management	86,698	90,203	89,523	680
Total Office of Environment and Emergency Management	<u>376,689</u>	<u>392,316</u>	<u>360,697</u>	<u>31,619</u>

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, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Expenditures-budgetary basis by department, continued:				
Department of Transportation, Communication and Infrastructure:				
Administration	155,801	170,943	177,629	(6,686)
Division of Marine Transportation	1,380,207	1,380,436	1,336,110	44,326
Division of Infrastructure	804,452	789,604	986,707	(197,103)
Civil Aviation	148,455	148,455	160,003	(11,548)
Communication	206,870	206,870	220,085	(13,215)
Total Department of Transportation, Communication and Infrastructure	<u>2,695,785</u>	<u>2,696,308</u>	<u>2,880,534</u>	<u>(184,226)</u>
Department of Finance and Administration:				
Administration	219,612	161,703	166,395	(4,692)
Division of National Treasury	616,024	635,204	560,888	74,316
Division of Customs and Tax Administration	809,159	838,205	857,286	(19,081)
Investment and International Finance	128,555	128,555	123,631	4,924
Total Department of Finance and Administration	<u>1,773,350</u>	<u>1,763,667</u>	<u>1,708,200</u>	<u>55,467</u>
Department of Justice:				
Administration	221,285	207,248	225,106	(17,858)
Registry of Corporation	64,105	64,105	67,845	(3,740)
Division of Law	229,430	229,080	163,609	65,471
Division of Litigation	205,376	196,370	190,245	6,125
Division of Immigration and Labor	668,828	653,668	684,413	(30,745)
FSM National Police	1,564,984	1,563,882	1,535,282	28,600
FSM National Police - Fuel	500,000	500,000	499,909	91
Total Department of Justice	<u>3,454,008</u>	<u>3,414,353</u>	<u>3,366,409</u>	<u>47,944</u>
Office of the Public Defender				
	891,094	890,094	794,951	95,143
Total Executive Branch-Core Operational	<u>16,948,524</u>	<u>17,486,447</u>	<u>16,929,805</u>	<u>556,642</u>
Executive Branch-Non-Core Operational:				
President's Office	5,105,650	7,355,300	3,351,164	4,004,136
Department of External Affairs and LNO's	602,250	602,250	427,148	175,102
Department of Health and Social Affairs	294,000	475,000	265,174	209,826
Department of Education	2,742,248	2,553,774	2,197,369	356,405
Office of Resources and development	597,998	454,998	368,558	86,440
National archives, cultural and historic prevention	7,014	4,254	3,792	462
Office of Statistics, Budget, Overseas Development Assistance and Compact Management	32,500	32,750	9,519	23,231
Office of Environment and Emergency Management	-	215,000	220,123	(5,123)
Department of Transportation, Communication and Infrastructure	2,664,072	3,011,484	8,699,664	(5,688,180)
Department of Finance and Administration	142,725	826,800	594,458	232,342
Department of Justice	1,100,000	1,100,000	837,507	262,493
Total Executive Branch-Non-Core Operational	<u>13,288,457</u>	<u>16,631,610</u>	<u>16,974,476</u>	<u>(342,866)</u>
Total Executive Branch	<u>30,236,981</u>	<u>34,118,057</u>	<u>33,904,281</u>	<u>213,776</u>
Legislative Branch:				
Office of the Speaker and members	2,239,071	2,471,147	413,317	2,057,830
Members and staff	1,276,457	1,556,457	1,669,676	(113,219)
Delegation offices	490,000	665,000	717,474	(52,474)
Total Legislative Branch	<u>4,005,528</u>	<u>4,692,604</u>	<u>2,800,467</u>	<u>1,892,137</u>
Office of the National Public Auditor				
Public Auditor (Core)	701,849	701,849	622,123	79,726
Single Audit (Non-core)	329,250	329,250	345,067	(15,817)
Total Office of the National Public Auditor	<u>1,031,099</u>	<u>1,031,099</u>	<u>967,190</u>	<u>63,909</u>
Other National Government Programs:				
General Election	25,000	25,000	30,350	(5,350)
National Election Director	349,956	349,956	369,174	(19,218)
Other National Programs	3,415,299	4,338,095	2,577,347	1,760,748
Total Other National Government Programs	<u>3,790,255</u>	<u>4,713,051</u>	<u>2,976,871</u>	<u>1,736,180</u>

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, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Expenditures-budgetary basis by department, continued:				
Board and Commissions:				
National Oceanic Resource Management Authority	424,763	424,763	401,325	23,438
FSM Insurance	324,064	230,338	191,349	38,989
FSM Banking Board	192,413	192,413	156,673	35,740
FSM Fisheries and Maritime	755,110	755,110	755,110	-
Board of Regents-COM	105,000	105,000	105,000	-
Postal Services	871,614	871,614	821,297	50,317
Total Boards and Commissions	<u>2,672,964</u>	<u>2,579,238</u>	<u>2,430,754</u>	<u>148,484</u>
Payments to component units:				
FSM MiCare	100,000	100,000	100,000	-
FSM Social Security Administration	1,000,000	1,000,000	1,000,000	-
Copra Subsidy	100,000	100,000	100,000	-
Coconut Development Authority	163,474	163,474	157,685	5,790
COM-FSM	4,483,346	-	-	-
Non-operational	-	3,200,000	1,393,558	1,806,442
Total payments to component units	<u>5,846,820</u>	<u>4,563,474</u>	<u>2,751,243</u>	<u>1,812,232</u>
Total expenditures	<u>47,583,647</u>	<u>51,697,523</u>	<u>45,830,806</u>	<u>5,866,717</u>
Excess of revenues over expenditures	<u>39,645,378</u>	<u>35,531,502</u>	<u>44,937,051</u>	<u>9,405,549</u>
Other financing sources (uses):				
Operating Transfers in:				
Maritime Surveillance Revolving Fund	-	300,000	68,693	(231,308)
Total Operating Transfers in	<u>-</u>	<u>300,000</u>	<u>68,693</u>	<u>(231,308)</u>
Operating Transfers out:				
FSM Trust Fund	200,000	200,000	200,000	-
Disaster Assistance Emergency Fund	200,000	200,000	200,050	(50)
Early Retirement Program	-	-	68,693	(68,693)
Maritime Revolving Fund	-	300,000	-	300,000
Total Operating Transfers out	<u>400,000</u>	<u>700,000</u>	<u>468,743</u>	<u>231,258</u>
Total other financing sources (uses), net	<u>(400,000)</u>	<u>(400,000)</u>	<u>(400,050)</u>	<u>(50)</u>
Net change in fund balance	39,245,378	35,131,502	44,537,001	9,405,499
Continuing appropriations	-	-	-	-
Encumbrances	-	-	2,022,633	2,022,633
	39,245,378	35,131,502	46,559,634	11,428,132
Fund balance at beginning of year	<u>102,837,757</u>	<u>102,837,757</u>	<u>102,837,757</u>	<u>-</u>
Fund balance at end of year	<u>\$ 142,083,135</u>	<u>\$ 137,969,259</u>	<u>\$ 149,397,391</u>	<u>\$ 11,428,132</u>

See Accompanying Independent Auditors' Report.

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

Honorable Peter M. Christian
President
Federated States of Micronesia:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Federated States of Micronesia (FSM) National Government, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the FSM National Government's basic financial statements, and have issued our report thereon dated June 30, 2015.

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 or the discretely presented component units, which were all audited by us. We have issued separate reports on our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for these entities. The findings, if any, included in those reports are not included herein.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be significant deficiencies. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2014-001, 2014-004, 2014-006, 2014-008, 2014-012 and 2014-013, which we consider to be material weaknesses.

Compliance and Other Matters

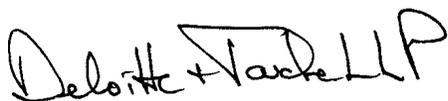
As part of obtaining reasonable assurance about whether the FSM National Government's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct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

FSM National Government's Response to Findings

The FSM National Government's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The FSM National Government's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

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June 30, 2015

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

Honorable Peter M. Christian
President
Federated States of Micronesia:

Report on Compliance for Each Major Federal Program

We have audited the 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 the FSM National Government's major federal programs for the year ended September 30, 2014. The FSM National Government's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

As discussed in Note 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, 2014. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the FSM National Government's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the FSM National Government's compliance.

Basis for Qualified Opinion on Each Major Federal Program

As described in items 2014-003, 2014-004, 2014-007, 2014-008, 2014-010, 2014-011, and 2014-012 in the accompanying Schedule of Findings and Questioned Costs, the FSM National Government did not comply with requirements regarding the following:

<u>Finding #</u>	<u>CFDA #</u>	<u>Program (or Cluster) Name</u>	<u>Compliance Requirement</u>
2014-012	11.460	Special Oceanic and Atmospheric Project – NOAA	Equipment and Real Property Management
2014-008	15.875	Economic, Social, and Political Development of the Territories	Procurement and Suspension and Debarment
2014-011	15.875	Economic, Social, and Political Development of the Territories	Cash Management
2014-012	15.875	Economic, Social, and Political Development of the Territories	Equipment and Real Property Management
2014-003	20.106	Airport Improvement Program	Reporting
2014-012	20.106	Airport Improvement Program	Equipment and Real Property Management
2014-007	84.027A	Special Education – Grants to States	Procurement and Suspension and Debarment
2014-010	84.027A	Special Education – Grants to States	Cash Management
2014-012	84.027A	Special Education – Grants to States	Equipment and Real Property Management
2014-004	93.243	Substance Abuse and Mental Health Services – Projects of Regional and National Significance	Allowable Costs/Cost Principles
2014-012	93.243	Substance Abuse and Mental Health Services – Projects of Regional and National Significance	Equipment and Real Property Management
2014-012	93.268	Immunization Grants	Equipment and Real Property Management

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

Qualified Opinion on Each Major Federal Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the FSM National Government complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2014.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, 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 items 2014-001, 2014-002, 2014-005, 2014-006, 2014-009, regarding the following:

<u>Finding #</u>	<u>CFDA #</u>	<u>Program (or Cluster) Name</u>	<u>Compliance Requirement</u>
2014-001	20.106	Airport Improvement Program	Allowable Costs/Cost Principles
2014-002	20.106	Airport Improvement Program	Cash Management
2014-005	93.243	Substance Abuse and Mental Health Services – Projects of Regional and National Significance	Procurement and Suspension and Debarment
2014-006	93.268	Immunization Grants	Allowable Costs/Cost Principles
2014-009	15.875	Economic, Social, and Political Development of the Territories	Period of Availability of Federal Funds

Our opinion on each major federal program is not modified with respect to these matters.

The FSM National Government's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The FSM National Government's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of the FSM National Government is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the FSM National Government's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2014-003, 2014-004, 2014-007, 2014-008, 2014-010, 2014-011, and 2014-012 to be material weaknesses.

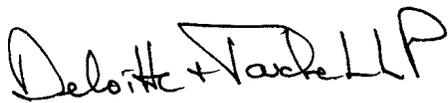
A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important 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 items 2014-001, 2014-002, 2014-005, 2014-006, and 2014-009 to be significant deficiencies.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB A-133

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, 2014, and the related notes to the financial statements, which collectively comprise the FSM National Government's basic financial statements. We issued our report thereon dated June 30, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

June 30, 2015

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Summary Schedule of Expenditures of Federal Awards, by Grantor
Year Ended September 30, 2014

<u>Agency/Program</u>	<u>Expenditures</u>	Amounts Passed-Through to <u>Subrecipients</u>
U.S. Department of Agriculture	\$ 35,811	\$ 113,322
U.S. Department of Commerce	1,558,924	-
U.S. Department of the Interior	6,581,158	-
U.S. Department of Transportation	5,304,283	9,636,757
Institute of Museum and Library Services	31,132	-
U.S. Department of Education	717,782	3,056,638
U.S. Department of Health and Human Services	4,232,665	2,874,014
U.S. Department of Homeland Security	44,590	-
GRAND TOTAL	<u>\$ 18,506,345</u>	<u>\$ 15,680,731</u>

Note: All grant awards are received from the respective grantor agencies in a direct capacity.

Reconciliation to the basic financial statements:

Expenditures of the Grants Assistance Fund	\$ 22,548,090
Less:	
Expenditures of the Non U.S. Grants Fund	<u>(4,041,745)</u>
Total expenditures per financial statements	<u>\$ 18,506,345</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2014

<u>Agency/Program</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>	<u>Amounts Passed-Through to Subrecipients</u>
U.S. DEPARTMENT OF AGRICULTURE			
Resident Instruction Grants for Insular Area Activities	10.308	\$ -	\$ -
Rural Self-Help Housing Technical Assistance	10.420	-	-
Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers	10.443	-	-
Cooperative Extension Service	10.500	-	-
Forestry Research	10.652	-	-
Cooperative Forestry Assistance	10.664	35,811	40,634
Urban and Community Forestry Program	10.675	-	43,376
Forest Legacy Program	10.676	-	-
Forest Stewardship Program	10.678	-	9,577
Community Facilities Loans and Grants	10.766	-	-
Water Quality	10.Unknown	-	18,608
USDA-OASDFR	10.Unknown	-	1,127
U.S. DEPARTMENT OF AGRICULTURE TOTAL		<u>\$ 35,811</u>	<u>\$ 113,322</u>
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	1,558,924	-
U.S. DEPARTMENT OF COMMERCE		<u>\$ 1,558,924</u>	<u>\$ -</u>
U.S. DEPARTMENT OF THE INTERIOR			
Economic, Social and Political Development of the Territories	15.875		
Compact Sector Funds:			
Infrastructure and Infrastructure maintenance		\$ 5,005,755	\$ 3,610,895
Education		62,942	24,187,277
Health		343,261	19,645,066
Capacity Building		379,535	2,766,069
Environment		-	1,470,957
Private Sector		-	1,799,210
Compact Supplemental Education		299,096	9,072,170
Compact ERA		26,768	1,530,534
Subtotal Compact Sector Funds		<u>6,117,357</u>	<u>64,082,178</u>
Technical Assistance:			
Single Audit		453,240	-
Technical Assistance OIA/DOI Other		2,845	-
		<u>456,085</u>	<u>-</u>
Total CFDA #15.875		6,573,442	64,082,178
Historic Preservation Fund Grants-In-Aid	15.904	7,716	256,646
U.S. DEPARTMENT OF THE INTERIOR TOTAL		<u>\$ 6,581,158</u>	<u>\$ 64,338,824</u>
U.S. DEPARTMENT OF TRANSPORTATION			
Airport Improvement Program	20.106	\$ 5,304,283	\$ 9,636,757
U.S. DEPARTMENT OF TRANSPORTATION TOTAL		<u>\$ 5,304,283</u>	<u>\$ 9,636,757</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2014

<u>Agency/Program</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>	<u>Amounts Passed-Through to Subrecipients</u>
INSTITUTE OF MUSEUM AND LIBRARY SERVICES			
Grants to States	45.310	\$ 31,132	\$ -
INSTITUTE OF MUSEUM AND LIBRARY SERVICES		<u>\$ 31,132</u>	<u>\$ -</u>
U.S. DEPARTMENT OF EDUCATION			
Special Education - Grants to States	84.027A	717,782	3,056,638
Special Education - Grants to States	84.027	-	-
Public Library Services (LSCA - Title I)	84.034	-	-
Career and Technical Education -- Basic Grants to States	84.048B	-	-
Federal Pell Grant Program	84.063	-	-
Byrd Honors Scholarship	84.185A	-	-
Bilingual Education-Professional Development	84.195	-	-
Territories and Freely Associated States Education Grant Program	84.256A	-	-
Goals 2000-State and Local Education Systemic Improvement Grants	84.276A	-	-
School To Work Opportunities	84.278	-	-
Bilingual Education-Program Development and Implementation Grants	84.288	-	-
Bilingual Education-Comprehensive School Grants	84.290	-	-
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	-	-
Teacher Quality Partnership Grants	84.336A	-	-
Vocational Education-Occupational and Employment Information State Grants	84.346A	-	-
Pacific Vocational Education Improvement Program	84.994	-	-
U.S. DEPARTMENT OF EDUCATION TOTAL		<u>\$ 717,782</u>	<u>\$ 3,056,638</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2014

<u>Agency/Program</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>	<u>Amounts Passed-Through to Subrecipients</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Public Health and Social Services Emergency Fund	93.003	\$ 139,267	\$ -
Public Health Emergency Preparedness	93.069	453,012	-
Emergency System for Advance Registration of Volunteer Health Professionals	93.092	-	116,788
Affordable Care Act (ACA) Personal Responsibility Education Program			
Area Health Education Centers Point of Service Maintenance and Enhancement Awards	93.107	-	-
Maternal and Child Health Federal Consolidated Programs - SSDI Program	93.110	81,767	24,152
Maternal and Child Health Federal Consolidated Programs	93.110	-	-
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	279,062	342,057
Small Business Innovation Research (NIAAA, NIDA, NIMH)	93.126	-	-
Technical and Non-Financial Assistance to Health Centers	93.129	-	-
Injury Prevention and Control Research and State and Community Based Programs	93.136	-	-
Health Activities Recommendation Panel Health Activities - Tobacco Use Prevention Program	93.203	-	-
Family Planning-Services	93.217	377,451	271,887
Affordable Care Act (ACA) Abstinence Education Program	93.235	7,929	-
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	605,275	696,257
Universal Newborn Hearing Screening	93.251	183,907	56,548
Immunization Cooperative Agreements	93.268	719,940	256,192
CDC and Prevention-Investigations and Technical Assistance	93.283	505,739	419,458
ACA Coordinated Chronic Disease Prevention and Health Promotion Program	93.544	-	56,328
ARRA Grants to Health Center Programs	93.703	-	-
ARRA - Immunization	93.712	-	-
ARRA - Prevention and Wellness-State, Territories and Pacific Islands	93.723	-	-
National Bioterrorism Hospital Preparedness Program	93.889	246,006	-
HIV Care Formula Grants	93.917	24,706	12,683
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	-	-
HIV Prevention Activities-Health Department Based	93.940	-	-
Epidemiologic Research Studies of AIDS and HIV Infection in Selected Population Groups	93.943	138,642	-
HIV/AIDS Surveillance	93.944	4,377	-
Tobacco Prevention	93.945	-	8,013
Occupational Health and Safety Surveillance	93.957	-	-
Block Grants for Community Mental Health Services	93.958	125,846	97
Block Grants for Prevention and Treatment of Substance Abuse	93.959	179,126	366,841
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977	557	-
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988	-	-
Preventive Health and Health Services Block Grant	93.991	8,621	-
Maternal and Child Health Services Block Grant to the States	93.994	151,435	246,713
CCPI Cancer Program	93.Unknown	-	-
Center for Excellence	93.Unknown	-	-
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL		<u>\$ 4,232,665</u>	<u>\$ 2,874,014</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2014

<u>Agency/Program</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>	<u>Amounts Passed-Through to Subrecipients</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
Public Assistance Grants - Typhoon Fern HMGP/Subgrantee	83.544	\$ -	\$ -
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (B)	97.036	4,485	-
Individual and Family Grants - FEMA 1427/IFG Admin. Cost	83.543	-	-
Crisis Counseling	97.032	-	-
Hazard Mitigation Grant	97.039	-	-
Emergency Management Performance Grants	97.042	40,105	-
U.S. DEPARTMENT OF HOMELAND SECURITY TOTAL		<u>\$ 44,590</u>	<u>\$ -</u>
 GRAND TOTAL		 <u>\$ 18,506,345</u>	 <u>\$ 80,019,555</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**FSM NATIONAL GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2014

1. Scope

The Federated States of Micronesia (FSM) National Government is a governmental entity governed by its own Constitution. All significant operations of the FSM National Government 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 National Government's cognizant agency for Single Audit.

• Programs Subject to Single Audit

The Schedule of Expenditures of Federal Awards presents federal programs related to the following agencies:

- U.S. Department of Agriculture
- U.S. Department of Commerce
- U.S. Department of Education
- U.S. Department of Health and Human Services
- U.S. Department of Homeland Security
- U.S. Department of the Interior
- 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 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, 2014 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, 2014.

C. Subgrantees

Certain program funds are passed through the FSM National Government to subgrantee organizations. The Schedule of Expenditures of Federal Awards does not contain separate schedules disclosing how the subgrantee outside of the FSM National Government's control utilizes these funds.

D. Indirect Cost Allocation

The FSM National Government did not receive any indirect cost allocation and did not charge indirect costs against federal programs.

**FSM NATIONAL GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2014

2. Summary of Significant Accounting Policies, Continued

E. CFDA #15.875

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

F. Component Units

The FSM National Government's component units are to separately satisfy the requirements of OMB Circular A-133. The following presents information concerning component units, which are to separately satisfy their A-133 requirements:

College of Micronesia-FSM

The College of Micronesia-FSM, (COM-FSM), a discretely presented component unit, is the recipient of various pass-through funds from the FSM National Government and direct grants from the U.S. Department of Agriculture, U.S. Department of the Interior, U.S. Department of Education, and the U.S. Department of Health and Human Services. COM-FSM is to separately satisfy its 2014 reporting responsibilities under the Single Audit Act. Total SEFA for COM-FSM is \$14,874,972.

**FSM NATIONAL GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2014

Section I - Summary of Auditors' Results

Financial Statements

- | | |
|--|---------------|
| 1. Type of auditors' report issued: | Unmodified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | Yes |
| 3. Significant deficiency(ies) identified? | None reported |
| 4. Noncompliance material to financial statements noted? | Yes |

Federal Awards

Internal control over major federal programs:

- | | |
|---|-----------|
| 5. Material weakness(es) identified? | Yes |
| 6. Significant deficiency(ies) identified? | Yes |
| 7. Type of auditors' report issued on compliance for major federal 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 federal programs: | |

CFDA Numbers

Name of Federal Program or Cluster

15.875	Economic, Social and Political Development of the Territories – Compact of Free Association Compact Sector Grants
20.106	Airport Improvement Program
84.027A	Special Education – Grants to States
11.460	Special Oceanic and Atmospheric Project – NOAA
93.243	Substance Abuse and Mental Health Services – Projects of Regional and National Significance
93.268	Immunization Grants

- | | |
|--|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$555,190 |
| 11. Auditee qualified as low-risk auditee? | No |

**FSM NATIONAL GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Section II – Financial Statements Findings

<u>Finding #</u>	<u>Finding</u>
2014-001	Allowable Cost/Cost Principles
2014-004	Allowable Cost/Cost Principles
2014-006	Allowable Cost/Cost Principles
2014-012	Fixed Asset Reconciliation
2014-013	Travel Advances

Section III - Federal Award Findings and Questioned Costs

<u>Finding #</u>	<u>CFDA #</u>	<u>Finding</u>	<u>Questioned Costs</u>
2014-001	20.106	Allowable Costs/Cost Principles	\$ 49,760
2014-002	20.106	Cash Management	-
2014-003	20.106	Reporting	-
2014-004	93.243	Allowable Costs/Cost Principles	81,727
2014-005	93.243	Procurement and Suspension and Debarment	8,848
2014-006	93.268	Allowable Costs/Cost Principles	6,436
2014-007	84.027A	Procurement and Suspension and Debarment	29,955
2014-008	15.875	Procurement and Suspension and Debarment	358,302
2014-009	15.875	Period of Availability of Federal Funds	45,779
2014-010	84.027A	Cash Management	-
2014-011	15.875	Cash Management	-
2014-012	15.875	Equipment and Real Property Management	-
2014-012	20.106	Equipment and Real Property Management	-
2014-012	84.027A	Equipment and Real Property Management	-
2014-012	11.460	Equipment and Real Property Management	-
2014-012	93.243	Equipment and Real Property Management	-
2014-012	93.268	Equipment and Real Property Management	-
			<u>\$ 580,807</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-001
 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: \$ 49,760

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.

Condition:

For 1 (or 2%) of 36 transactions tested, there was no financial and/or programmatic records (vendor's invoice) on file to substantiate the allowability of the following:

Per Transaction Detail:									Summary of QC
No.	Sel. No.	DATE1	REF1	REF2	AMT	FND	PROG	YR	Allowable Cost
1	AIP-Ex 13	11/26/2013	CI0465	216762	64,891	20	27011	13	\$49,760

Cause: There appears to be a lack of control over compliance with the criteria which is attributed to recordkeeping inconsistencies.

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

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

Auditee Response and Corrective Action Plan: We agree with this finding. We will work with the Division of Aviation with in the Department of Transportation, Communications and Infrastructure to ensure that program expenditures are in compliance with or in accordance with applicable requirements and that financial records are on file. Furthermore, we will resolve this citation by providing necessary documentation to Deloitte and Touche no later than August 31, 2015.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.:	2014-002
Federal Agency:	U.S. Department of Transportation
CFDA Program:	20.106 Airport Improvement Program
Grant Number:	Various Airport Improvement Projects
Requirement:	Cash Management
Question Costs:	\$0
Interest Liability:	\$1,577

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 advances in excess of the minimum allowable for retention should be returned to the Federal government

Condition: For CFDA# 20.106, the FSM National Government received cash in excess of immediate needs and an interest liability of \$1,577 results. For these items, the checks cleared on average six days after the receipt of federal funds.

Cause: Either cash was drawn down that was used for other purposes, applicable files were not located, or there is gap in the systematic recordkeeping of cash management documents (receipts, drawdown confirmation, drawdown requests, expenditure report, etc.) to allow practicable verification.

Effect: For CFDA# 20.106, the FSM National Government appears to be non-compliant with applicable cash management requirements. As a result of this condition, an assessed interest liability and noncompliance with the criteria resulted; however, since the projected interest liability does not exceed \$10,000, no questioned costs result.

Recommendation: The FSM National Government should comply with the criteria.

Auditee Response and Corrective Action Plan: We agree with this finding however there are already measures put in place by the Department of Transportation, Communications and Infrastructure wherein contractors are required to open bank account at our local banks so that there is no wide gap on the time elapsed between the check issuance and the check clearing.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-003
 Federal Agency: U.S. Department of Transportation
 CFDA Program: 20.106 Airport Improvement Program
 Grant Number: Various
 Requirement: Reporting
 Questioned Costs: \$0

Criteria:

In accordance with the Federal Aviation Administration Grant Agreement: (a) A Federal Financial Report or Standard Form SF 425 or a reasonable facsimile thereof approved by the Government of the United States, shall be prepared annually and submitted within 90 days after the end of each federal fiscal year. The report shall include transaction information such as federal cash receipt, federal share of expenditures and recipient share; (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 —Remarksll section of the form. Additionally, submitted reports should reconcile with underlying records.

Condition:

The SF-425 Federal Financial Report for FAA grants, which covered the period October 1, 2013 to September 30, 2014, was not prepared and submitted to FAA for the following:

Fundware Account Number	CY_Exp	CY Drawdown	GRANT AWARD NO.
1-20-80-81-27323-11-8301 Contractual Ser	-		
1-20-80-81-27323-11-8310 Gen Contractual	915,000	\$ 915,000	3-64-0001-11
1-20-80-84-27422-08-8301 Contractual Ser	-		
1-20-80-84-27422-08-8310 Contractual Ser	-		
1-20-80-84-27422-08-8401 Budget Authorize	-	\$ 2,247,635	3-64-0002-11
1-20-80-84-27421-10-8301 Contractual Ser	-		
1-20-80-84-27421-10-8310 Contractual Ser	-		
1-20-80-84-27421-10-8320 Professional Se	-	\$ 600,000	3-64-0002-12
1-20-80-84-27423-10-8301 Contractual Ser	-		
1-20-80-84-27423-10-8310 Gen Contractual	-		
1-20-80-84-27423-10-8320 Professional Se	-		
1-20-80-84-27423-10-8401 Budget Authorize	-	\$ 450,000	3-64-0002-13
A1-20-80-81-27312-12-8301			
A1-20-80-81-27312-12-8310			
A1-20-80-81-27312-12-8320	644,841	\$ 664,841	3-64-0001-12
1-20-80-84-27324-12-8301			
1-20-80-84-27324-12-8310	94,910	\$ 112,942	3-64-0001-13

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.:	2014-003, Continued
Federal Agency:	U.S. Department of Transportation
CFDA Program:	20.106 Airport Improvement Program
Grant Number:	Various
Requirement:	Reporting
Questioned Costs:	\$0

Cause: The cause of the condition appears to be due to the absence of timely reconciliations between the general ledger and related reports.

Effect: Noncompliance with reporting requirements results from this condition.

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

Auditee Response and Corrective Action Plan: We agree with this finding and a memo will be issued by the Acting Secretary of Finance to the Assistant Secretary of the Division of Investment and International Finance and Ms Melynda Irons, who is responsible for all reports on the AIP projects to ensure that the responsible staff comply with the requirements and if non-compliance occurs, disciplinary action will be undertaken. The aforementioned memo will be issued no later than July 15, 2015 and a copy of this memo will be provided to Deloitte and Touche.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-004
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.243 Substance Abuse – SPF SIG
 Grant Number: 5U79SP015588
 Requirement: Allowable Costs/ Cost Principles
 Question Costs: \$81,727

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.

Condition:

- For 2 (or 7%) of 30 expenditures tested, there were no approved TA, trip reports, invoices, or boarding passes provided to substantiate the allowability of the following:

Per Transaction Detail:									Summary of QC:
No.	Sel no.	DATE1	TR_NO	REF1	AMT	FUND	PROG	YR	Allowable Cost
1	5	5/12/2014	147613	TK1370	4,287	20	21216	13	\$ 4,287
2	9	8/21/2014	154885	TK2152	4,894	20	21216	13	<u>4,894</u>
									\$ <u>9,181</u>

- For 1 (or 3%) of 30 expenditures tested, the car rental invoices are for a Non-FSM National Government employee.

Per Transaction Detail:									Summary of QC:
No.	Sel no.	DATE1	TR_NO	REF1	AMT	FUND	PROG	YR	Allowable Cost
1	22	7/29/2014	153183	TK1600	130	20	21216	13	<u>\$130</u>

- For 8 (or 27%) of 30 expenditures tested, the following were not provided, (check file, vendor invoice, financial and/or programmatic records) to substantiate the allowability of the following:

Per Transaction Detail:									Summary of QC:
No.	Sel no.	DATE1	TR_NO	REF1	AMT	FUND	PROG	YR	Allowable Cost
1	2	12/20/2013	137156	TK0458	4,062	20	21216	13	\$ 4,062
2	3	12/20/2013	137156	TK0459	4,062	20	21216	13	4,062
3	6	5/29/2014	148691	JVK0239	4,200	20	21216	13	4,200
4	10	8/26/2014	155230	JVK0340	19,214	20	21216	13	19,214
5	11	9/22/2014	157002	TK2152	4,571	20	21216	13	4,571
6	12	12/9/2013	136209	L140078	3,816	20	21216	13	3,816
7	24	12/9/2013	136209	L140078	795	20	21216	13	795
8	28	1/2/2014	137786	L140129	2,131	20	21216	13	<u>2,131</u>
									\$ <u>42,850</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-004, Continued
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.243 Substance Abuse – SPF SIG
 Grant Number: 5U79SP015588
 Requirement: Allowable Costs/Cost Principles
 Question Costs: \$81,727

4. For 4 (or 13%) of 30 expenditures tested, the following expense types were not included in the approved budget. The related transactions and unapproved expense type are as follows:

Per Transaction Detail:									Summary of QC:
Sel no.	DATE1	REF1	AMT	FUND	PROG	YR	ACCT_NAME	Unapproved Expenses	Allowable Cost
16	3/12/2014	N140123	7,500	20	21216	13	Rental Services	Space Rental in Chuuk Contract for IT support services	\$ 7,500
18	4/9/2014	CK0099	5,005	20	21216	13	Gen Contractual Srvc	Cost of renovation, purchase of conference table, chairs and speaker system	5,005
20	7/8/2014	CK0329	9,946	20	21216	13	Gen Contractual Srvc		9,946
30	6/11/2014	L140266	1,125	20	21216	13	Office Supplies & Materials	Purchase of T-Shirts	<u>1,125</u>
									<u>\$ 23,576</u>

5. For 1 (or 20%) of 5 payroll transactions tested, employee number 36644 is listed as an in-kind contribution and was budgeted at a \$0 amount. However, this in-kind expenditure was charged to the program and attendant cash was draw down from the funding agency.

Per Transaction Detail:										Summary of QC:
No.	DATE1	DESC1	EMP_NO	FUND	DEPT	DIV	PROG	YR		Allowable Cost
1	12/3/2013	Regular	36644	20	70	71	21216	13		\$ <u>5,990</u>

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

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

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

Auditee Response and Corrective Action Plan: We agree with this finding. The Department of Finance & Administration will work closely with SPF SIG program thus providing complete documentations to Deloitte and Touche no later than August 31, 2015 to resolve this citation.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-005
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.243 Substance Abuse – SPF SIG
 Grant Number: 5U79SP015588
 Requirement: Procurement and Suspension and Debarment
 Question Cost: \$8,848

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.

Condition:

1. For 8 (or 27%) of 30 transactions tested, a price quotation was not provided to support competitive procurement requirements.

Per Transaction Detail:									Summary of QC:
No.	Sel no.	DATE1	TR_NO	REF1	AMT	FUND	PROG	YR	Procurement
1	14	10/15/2013	132102	L140008	\$ 4,200	20	21216	13	\$ 4,200
2	25	6/5/2014	149409	L140405	1,908	20	21216	13	1,908
3	29	6/23/2014	150650	1013932	2,740	20	21216	13	<u>2,740</u>
									\$ <u>8,848</u>

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

Effect: The Government appears to be in noncompliance with the criteria and questioned costs result as the projected questioned costs exceed the \$10,000 threshold.

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

Auditee Response and Corrective Action Plan: We agree with this finding and we will work closely with Substance Abuse – SPF SIG program thus providing complete documentations to Deloitte and Touche no later than August 31, 2015.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-006
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.268 Immunization Program
 Grant Number: 1H23IP000742-01, 5H23IP000742-02
 Requirement: Allowable Costs/ Cost Principles
 Question Costs: \$ 6,436

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.

Condition:

1. For 2 (or 10%) of 20 expenditures tested, there were no approved TA, trip reports, invoices, or boarding passes were provided to substantiate the allowability of the following:

Per Transaction Detail:									Summary of QC:
No.	Sel no.	DATE1	TR_NO	REF1	AMT	FUND	PROG	YR	Allowable Cost
1	17	9/26/2014	157334	TK2427	\$3,904	20	21040	14	\$ 3,904
2	18	9/30/2014	160263	TK2427	2,532	20	21040	14	<u>2,532</u>
									\$ <u>6,436</u>

Effect: The Government appears to be in noncompliance with the criteria and questioned costs result as the projected questioned costs exceed the \$10,000 threshold.

Recommendation: We recommend that the Government comply with grant requirements and retain sufficient documentation on file to support compliance with those requirements.

Auditee Response and Corrective Action Plan: We agree with this finding and we will work closely with Immunization Program thus providing complete documentations to Deloitte and Touche no later than August 31, 2015.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-007
 Federal Agency: U.S. Department of Education
 CFDA Program: 84.027A Special Education – Grants to States
 Grant Number: H07A120005-12A, H027A130128
 Requirement: Procurement and Suspension and Debarment
 Questioned Costs: \$ 29,955

Criteria: Procurement performed should evidence that full and open competition was available to potential bidders. Documents such as request for proposals, bidding minutes, and rationale for vendor selection are to be maintained to support procurement performed. Furthermore, such records should be kept on file and available for audit.

Condition:

For 2 (or 7%) of 28 expenditures tested, there was insufficient documentation to evidence the Program's procurement of services for the following:

Per Program GL Expenditure Details											Summary of QC Procurement	
Selection #		DATE1	TRAN_NO	JNL	REF1	AMT	FND	PROG	YR	ACCT		
SPED	Exp	17	12/30/2013	137623	APJ	CJ0092	\$ 29,175	20	20010	13	8320	\$ 29,175
SPED	Exp	38	7/24/2014	152932	APJ	1016589	780	20	20010	14	8220	<u>780</u>
											\$ <u>29,955</u>	

Cause: There appears to be a lack of control over compliance with the criteria which is attributed to recordkeeping inconsistencies.

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

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

Auditee Response and Corrective Action Plan: We agree with this finding. We will work with Special Education and provide complete documentations to Deloitte and Touche no later than August 31, 2015.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-008
 Federal Agency: U.S. Department of the Interior
 CFDA Program: 15.875 Economic, Social and Political Development of the Territories
 Grant Number: 2010-COFA-FSM-INFRASTRUCTURE-AED/PE;2012-COFA-FSM-INFRASTRUCTURE-WENO ROAD
 Requirement: Procurement and Suspension and Debarment
 Questioned Costs: \$ 358,302

Criteria: Procurement performed should evidence that full and open competition was available to potential bidders. Documents such as request for proposals, bidding minutes, and rationale for vendor selection are to be maintained to support procurement performed. Furthermore, such records should be kept on file and be available for audit.

Condition:

For 6 (or 20%) of 30 expenditures tested, there was insufficient documentation (RFP, bidding minutes, rationale for vendor selection and/or contract) to evidence the procurement rationale for the following:

PER GL DETAILS											Summary of Findings
SEL'N #	DATE1	TRAN_NO	JNL	REF1	AMT	FND	PROG	YR	ACCT	Procurement	
Sect Ex 19	7/2/2014	151377	APJ	CG0379	\$ 188,051	19	70020	10	8514	\$ 188,051	
Sect Ex 31	2/3/2014	140057	APJ	CK0161	11,858	19	72241	12	8354	11,858	
Sect Ex 32	2/3/2014	140063	APJ	CK0165	10,576	19	72241	12	8354	10,576	
Sect Ex 37	3/17/2014	143386	APJ	CG0342	78,392	19	70020	10	8514	78,392	
Sect Ex 38	4/3/2014	144936	APJ	CI0345	21,425	19	70020	10	8514	21,425	
Sect Ex 39	7/2/2014	151377	APJ	CG0375	48,000	19	70020	10	8514	<u>48,000</u>	
										\$ <u>358,302</u>	

Cause: There appears to be a lack of control over compliance with the criteria which may be attributed to recordkeeping inconsistencies.

Effect: Noncompliance with the criteria and questioned costs result.

Recommendation: The Government should comply with grant requirements and should retain evidentiary documentation on file to support compliance with those requirements.

Auditee Response and Corrective Action Plan: We agree with this finding and we will work closely with Project Management Unit (PMU) and provide complete documentations to resolve this citation no later than August 31, 2015.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No: 2014-009
 Federal Agency: U.S. Department of the Interior
 CFDA Program: 15.875 Economic, Social, and Political Development of the Territories
 Grant Number: Various Compact Sector Grants
 Requirement: Period of Availability of Federal Funds
 Questioned Costs: \$ 45,779

Criteria: The Government of the Federated States of Micronesia shall obligate and liquidate funds under a grant award by the end of the funding period, or as otherwise mutually agreed.

Condition: The following grant expenditures were recorded in FY2014 after the period of availability:

Fund and Program Number	Lapse Date	Total Expenditures Past POA
10120-13	12/31/2013	\$ 417
11110-13	12/31/2013	4,242
11600-13	12/31/2013	<u>3,274</u>
	Total Non Payroll	<u>7,933</u>
15150-12	12/31/2013	6,874
14023-13	12/31/2013	<u>2,854</u>
	Total Payroll	<u>9,728</u>
Total Sector POA Questioned Costs		<u>\$17,661</u>
Fund and Program Number	Lapse Date	Total Expenditures Past POA
73214-11	3/31/2014	<u>\$28,118</u>
Total Infra POA Questioned Costs		<u>\$28,118</u>
Total POA Questioned Costs		<u>\$45,779</u>

Cause: There appears to be a lack of monitoring of compliance with period of availability requirements.

Effect: Questioned costs result from the condition.

Prior Year Status: This condition was cited in the 2012 and 2013 Single Audit reports.

Recommendation: The Government should comply with program requirements and timely monitor compliance with period of availability requirements.

Auditee Response and Corrective Action Plan: We agree with this finding and a reminder will be issued to the staff of the Division of National Treasury as to strictly recording grant expenditures within the liquidation period or period of availability of the grant.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-010
Agency: U.S. Department of Education
CFDA Program: 84.027A Special Education – Grants to States
Grant #: H07A120005-12A, H027A110005, H027A130128
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 advances in excess of the minimum allowable for retention should be returned to the federal government.

Condition: For 28 (or 100%) of 28 samples tested, there was insufficient or incomplete supporting drawdown documentation available. As we were unable to examine the supporting drawdown documentation, an amount cannot be identified and no questioned costs are raised for this condition. The current system utilized does not indicate specific expenditures that are the basis of the drawdown. The current methodology is insufficient to link the drawdown basis to specific grant expenditures paid.

Cause: Either cash was drawn and was used for other purposes, files could not be located, or there is a gap in the systematic recordkeeping of cash management document (receipts, drawdown, confirmation, drawdown requests, expenditures report, etc.) to allow practicable verification.

Effect: The FSM National Government appears to be noncompliance with applicable cash management requirements.

Recommendation: The Government should comply with the criteria by documenting which expenditures are encompassed in a specific drawdown request.

Auditee Response and Corrective Action Plan: We agree with this finding. To resolve this finding, we shall run and save summary or detailed transactions showing individual vendors and corresponding amounts to be able to tie up with the Fund Status Report that is being requested for reimbursement starting month ending June 30, 2015.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-011
Agency: U.S. Department of the Interior
CFDA Program: 15.875 – Compact Sector Infrastructure Projects
Grant #: GR670036, D12AF00062
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 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 the transfer of funds and their disbursement. Furthermore, such records should be kept on file and be available for audit.

Condition: For 3 (or 10%) of 30 expenditures tested, there was insufficient or incomplete drawdown documentation. As we were unable to see evidence of the supporting drawdown, no drawdown date can be determined and the corresponding amount cannot be identified. Therefore, a questioned cost cannot be identified for this condition.

Cause: Either cash was drawdown that was used for other purposes, applicable files could not be located, or there is a gap in the systematic recordkeeping of cash management documentation (receipts, drawdown, confirmations, drawdown requests, expenditure reports, etc.) to allow practicable verification.

Effect: The FSM National Government appears to be in noncompliance with applicable cash management requirements.

Recommendation: The FSM National Government should comply with the applicable criteria.

Auditee Response and Corrective Action Plan: We do agree with this finding. The Department of Finance & Administration will formulate an appropriate process or workable procedure that is in place to ensure that draw-downs are properly identified and substantiated with sufficient documentations.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.:	2014-012	
CFDA Program:	DOI 15.875	Economic, Social and Political Development of the Territories
CFDA Program:	DOT 20.106	Airport Improvement Program
CFDA Program:	ED 84.027A	Special Education – Grants to States
CFDA Program:	DOC 11.460	Special Oceanic and Atmospheric Project – NOAA
CFDA Program:	DHHS 93.243	Substance Abuse and Mental Health Services_Projects of Regional and National Significance
CFDA Program:	DHHS 93.268	Immunization Grants
Grant Number:	Various Grants	
Requirement:	Fixed Asset Reconciliation	
Requirement:	Equipment and Real Property Management	
Questioned Costs:	\$ 0	

Criteria: Fixed asset records should be periodically reconciled and be 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, 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.

Capitalized construction costs should be supported by Engineer's certification reports as to completion and be regularly monitored as to 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 completely perform fixed asset reconciliations. The preliminary fixed asset inventory provided for the year ending September 30, 2014 reflected numerous unidentified assets.
2. No formal maintenance procedures for equipment are established, and we could not determine the manner in which maintenance responsibilities are carried out. Additionally, a physical count to survey the status of property and equipment was not completed in the last two years
3. The National Government did not timely update the FY2014 construction-in-progress schedule. Transfers to capital assets were not captured and reflected in the register. These assets were not captured until the audit process requested that these matters be corrected

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.:	2014-012, Continued		
CFDA Program:	DOI	15.875	Economic, Social and Political Development of the Territories
CFDA Program:	DOT	20.106	Airport Improvement Program
CFDA Program:	ED	84.027A	Special Education – Grants to States
CFDA Program:	DOC	11.460	Special Oceanic and Atmospheric Project – NOAA
CFDA Program:	DHHS	93.243	Substance Abuse and Mental Health Services_Projects of Regional and National Significance
CFDA Program:	DHHS	93.268	Immunization Grants
Grant Number:	Various Grants		
Requirement:	Fixed Asset Reconciliation		
Requirement:	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, the absence of adequate maintenance procedures has been a recurring audit concern. Although, the National Government made plans to conduct a physical count, such was not completed as of fiscal year-end.

For condition 3, it appears that the construction-in-progress schedule is not periodically reconciled and projects monitored to facilitate timely capitalization and appropriate valuation of construction-in-progress as of September 30, 2014.

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 the disposal of the equipment.

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

Prior Year Status: The conditions were cited in the 2012 and 2013 Single Audit reports.

Recommendation: The Government should adhere to federal capital asset compliance requirements. Quarterly reconciliations and assessments of the status of construction-in-progress should occur. The reconciliation should also be subject to review and the review should be documented. A formal maintenance program that complies with federal maintenance requirements should also be developed.

For construction-in-progress, the Government should periodically monitor ongoing construction projects throughout to determine when transfers to capital assets should occur. Furthermore, adequate documentation should be in file that identifies the current status of ongoing construction projects.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.:	2014-012, Continued		
CFDA Program:	DOI	15.875	Economic, Social and Political Development of the Territories
CFDA Program:	DOT	20.106	Airport Improvement Program
CFDA Program:	ED	84.027A	Special Education – Grants to States
CFDA Program:	DOC	11.460	Special Oceanic and Atmospheric Project – NOAA
CFDA Program:	DHHS	93.243	Substance Abuse and Mental Health Services_Projects of Regional and National Significance
CFDA Program:	DHHS	93.268	Immunization Grants
Grant Number:	Various Grants		
Requirement:	Fixed Asset Reconciliation		
Requirement:	Equipment and Real Property Management		
Questioned Costs:	\$ 0		

Auditee Response and Corrective Action Plan: We do agree with this finding. The Department of Finance and Administration will do the following tasks:

- a) To work with all the departments of the national government to assure that fixed asset register is properly updated and reconciled.
- b) To update and reconcile the Construction in Progress account prior to closing of the books.
- c) To work with the Department of Transportation, Communications and Infrastructure to come up with a Maintenance Procedures on Fixed Assets.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No. 2014-013 - 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 FSM National Government's funds. Furthermore, such records should be kept on file and be available for audit.

Condition: Untimely liquidation of travel advances and long outstanding balances are in the financial statement. There also appears to be lack of aggressive effort to collect travel advances.

Fiscal Year 2014

	<u>Amount</u>	<u>Allowance</u>	<u>Net</u>
General Fund	\$1,739,303	\$1,361,519	\$377,784
Grants Fund	153,038	54,890	98,148
Sector	<u>101,176</u>	<u>102,288</u>	<u>(1,112)</u>
	<u>\$1,993,517</u>	<u>\$1,518,697</u>	<u>\$474,820</u>

Fiscal Year 2013

	<u>Amount</u>	<u>Allowance</u>	<u>Net</u>
General Fund	\$1,499,585	\$1,282,004	\$217,581
Grants Fund	174,861	54,890	119,971
Sector	<u>121,611</u>	<u>102,288</u>	<u>19,323</u>
	<u>\$1,796,057</u>	<u>\$1,439,182</u>	<u>\$356,876</u>

Cause: It appears that additional effort is necessary to monitor travel advances and the completeness of documents required from travelers upon trip completion.

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 2012 and 2013 Single Audits.

Recommendation: We recommend that compliance with the Financial Management Regulations occur with respect to the collection of travel advances. Consideration of payroll deductions to collect outstanding receivables should be considered.

Auditee Response and Corrective Action Plan: We agree with this finding. There have been attempts in previous years in full compliance of the Federal Management Regulations (FMR) in the form of a memo issued by the former administration that a traveler should not be allowed to travel if he or she has outstanding or overdrawn travel advance. Lastly, we will work with the Department of Justice to strengthen this policy on travel advances.

**FSM NATIONAL GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Summary Schedule of Prior Audit Findings and Questioned Costs
Year Ended September 30, 2014

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

	Questioned Costs Set Forth in Prior Audit Report <u>2013</u>	Questioned Costs Resolved in Fiscal Year <u>2014</u>	Questioned Costs at <u>September 30, 2014</u>
Unresolved Questioned Costs FY11	\$ 267,434	\$ -	\$ 267,434
Unresolved Questioned Costs FY12	709,783	-	709,783
Unresolved Questioned Costs FY13	<u>2,665,578</u>	-	<u>2,665,578</u>
	<u>\$ 3,642,795</u>	<u>\$ -</u>	3,642,795
Questioned cost for the year ended September 30, 2014			<u>580,807</u>
Total questioned costs			<u>\$ 4,223,602</u>

The status of prior year findings is set forth in the accompanying Schedule of Findings and Questioned Costs (pages 90 through 108).