FEDERATED STATES OF MICRONESIA
DEVELOPMENT BANK

(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED DECEMBER 31, 2020 AND 2019

FEDERATED STATES OF MICRONESIA DEVELOPMENT BANK
(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)

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Years Ended December 31, 2020 and 2019

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Federated States of Micronesia Development Bank:

Report on the Financial Statements

We have audited the accompanying financial statements of the Federated States of Micronesia Development Bank (the Bank), which comprise the statements of net position as of December 31, 2020 and 2019, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 audits 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 opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Federated States of Micronesia Development Bank as of December 31, 2020 and 2019, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Financial Statement Presentation

As discussed in Note 1 to the financial statements, the Bank elected to present an unclassified statement of net position because current assets are not matched with current liabilities. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 to 6 as well as the Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position for Trust Funds administered by the Bank on pages 27 and 28 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Financial Information

Our audits were conducted for the purpose of forming an opinion on the Bank's financial statements. The Schedule of European Investment Bank December 2018 and August 2010 Finance Contract Ratios on page 26 is presented for purposes of additional analysis and is not a required part of the financial statements. The Schedule of European Investment Bank December 2018 and August 2010 Finance Contract Ratios is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such 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 financial statements or to the 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 European Investment Bank December 2018 and August 2010 Finance Contract Ratios is fairly stated, in all material respects, in relation to the financial statements as a whole.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2021, on our consideration of the Bank's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Bank's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Bank's internal control over financial reporting and compliance.

Deloitte & Touche LLP

June 21, 2021

The following is a discussion and analysis of the Federated States of Micronesia Development Bank's (the Bank) financial performance for the fiscal year ended December 31, 2020.

The year 2020 was a challenging year for the bank, and understandably so, as the whole global economy took on the detrimental effects of COVID19. In the FSM in particular, the public health declarations in each of the states and the closure of our travel borders affected the bank's annual goals to meet lending targets, especially since 35% of our loan portfolio comes from the travel/tourism industry. Our lending dropped significantly through the year compared to prior years, and finishing under 50% of proposed budget. We were only able to lend out $9.85 million of our $22 million target for 2020. From the $9.85 million approved in 2020, roughly $6 million was for commercial loans, $500K for residential loans, and $3 million for consumer loans. Under these dire circumstances, while driving our own efficiency and resiliency using new technology and incorporating health & safety measures with our employees, as well as with our valued customers, the bank was able to establish a working deferment program for borrowers affected by COVID19. In this regard, the bank asked for and the national government responded to this request by providing subsidy to the bank in the amount of about $653K, which was applied to interest payments for borrowers directly affected by the government-imposed border closures.

Summary Statements of Net Position

	2020	2019	2018
Assets	$ 69,496,756	$ 64,191,496	$ 60,006,706
Liabilities	4,084,966	2,007,974	1,494,755
Net position:			
Net investment in capital assets	1,381,429	1,411,271	1,455,943
Unrestricted	64,030,361	60,772,251	57,056,008
Total net position	65,411,790	62,183,522	58,511,951
Total liabilities and net position	$ 69,496,756	$ 64,191,496	$ 60,006,706

In March 2020, the bank was able to draw $3.2 million from its low interest $5 million loan from the European Investment Bank (EIB) which was approved in 2018, and this drawdown helped finance some of the bank's projects. Borrowed funds represents only 5% of total assets. For additional information concerning the Bank's debt, please refer to Note 7 in the financial statements.

At the end of December 2020, our outstanding loans stood at $43.3 million. Total assets grew to $69.5 million, an increase of about 8% from December 2019. The bank continues to prove its sustainability by ensuring that its core expenses are covered by its core operations. Financially, the bank ended the year with a net operating income of $0.74 million, which means all of our operating expenses in 2020 were covered by revenues generated through our core operations. However, this year was a difficult one and the bank acknowledges and is appreciative of the assistance from the FSM National Government in that it contributed to 2020's interest income. Cumulatively, the bank earned $3.23 million including investments earnings of $2.5 million and the dividends from our shares with the Bank of FSM. Rather than keeping the cash in accounts that pays almost no interest, the bank invested in the U.S. financial markets the funds that are pending loan commitment or disbursement and other cash that are restricted for specific purposes including the reserve for loan losses. The earnings all go back to net assets, which are lent out to our customers.

The total ratio of non-performing loans to total loans at the end of the 2020 was 47% and the ratio of allowance for loan losses to non-performing loans was 26%. Despite these ratios, the Bank endeavors to improve its loan portfolio in the near future.

Summary Statements of Revenues, Expenses and Changes in Net Position

	2020	2019	2018
Operating revenues	$ 3,289,006	$ 3,232,492	$ 3,120,480
Provision for loan losses	(805,044)	(1,014,698)	(300,000)
Operating expenses	(1,743,433)	(1,881,616)	(1,926,602)
Earnings from operations	740,529	336,178	893,878
Non-operating revenues (loss), net	2,487,739	3,335,393	(57,423)
Change in net position	3,228,268	3,671,571	836,455
Net position at beginning of year	62,183,522	58,511,951	57,675,496
Net position at end of year	$ 65,411,790	$ 62,183,522	$ 58,511,951

The Bank manages two trust funds, namely, the Investment Development Fund (IDF) and Yap Development Loan Fund (YDLF). The total assets for each of these funds at the end of 2020 were $2,040,845 and $275,288 respectively. As of December 31, 2020, there were no more active IDF or YDLF loans.

Economic Outlook

Looking ahead in the near future, the bank anticipates minimal to no growth in its loan portfolio, particularly in the business sector. The bank was able to secure additional funding from the national government, as part of FSM National Government's economic resiliency program to combat COVID19, to lend out to micro-businesses and small enterprises beginning in 2021. The bank continues to position itself to be able to handle the demand for financing once the economy returns to normal and the funding for infrastructure starts to flow into the country.

Moving forward, despite all of these challenges, the bank remains committed to working with our government leaderships and with the private sector community as in prior years, to continue to advocate for a better business environment that would encourage more investment which then leads to job creation for our people and revenue source for the governments.

With the end of the financial provisions in the Compact facing the FSM in 2023, the Bank intends to work with all of its stakeholders, including the government, to confront any future challenges, whatever they may be. As a partner, the Bank anticipates to be more proactive in developing ideas into viable business proposals and providing entrepreneurial training to help improve the management of successful businesses in the FSM.

Contacting Financial Management

The Management's Discussion and Analysis report is intended to provide information concerning known facts and conditions affecting the Bank's operations. This financial report is designed to provide a general overview of the Bank's finances and to demonstrate the Bank's accountability for the funds it receives and expends.

Management's Discussion and Analysis for the year ended December 31, 2019 is set forth in the Bank's report on the audit of financial statements, which is dated May 26, 2020. That Discussion and Analysis explains the major factors impacting the 2019 financial statements and can be viewed at the Bank's website at www.fsmdb.fm or Office of the Public Auditor's website at www.fsmopa.fm.

For additional information about this report, please contact Ms. Anna Mendiola, President/Chief Executive Officer, P.O. Box M, Kolonia, Pohnpei 96941 or visit the website at www.fsmdb.fm.

FEDERATED STATES OF MICRONESIA DEVELOPMENT BANK
(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)

Statements of Net Position
December 31, 2020 and 2019

		2020		2019
ASSETS				
Cash and cash equivalents	$	4,613,227	$	2,457,903
Time certificates of deposit		3,154,282		3,105,219
Investments		15,293,784		13,597,134
Interest and other receivables		545,224		120,854
Loans receivable, net of allowance for loan losses		37,907,565		37,246,920
Equity investment		6,599,280		6,248,880
Prepaid expenses		1,965		3,315
Depreciable capital assets, net		1,381,429		1,411,271
Total assets	$	69,496,756	$	64,191,496
LIABILITIES AND NET POSITION				
Liabilities:				
Accounts payable	$	68,398	$	58,991
Accrued interest payable		39,650		15,060
Long-term debt		3,777,102		735,450
Credit life payable		18,899		13,077
Payable to trust funds		42,607		1,011,073
Unearned grant revenues		138,310		174,323
Total liabilities		4,084,966		2,007,974
Commitments and contingencies				
Net position:				
Net investment in capital assets		1,381,429		1,411,271
Unrestricted		64,030,361		60,772,251
Total net position		65,411,790		62,183,522
Total liabilities and net position	$	69,496,756	$	64,191,496

See accompanying notes to financial statements.

FEDERATED STATES OF MICRONESIA DEVELOPMENT BANK
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Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2020 and 2019

	2020	2019
Operating revenues:		
Interest income on loans	$ 3,072,864	$ 2,789,318
Loan fees	95,113	295,908
Rental	31,482	27,744
Interest income on time certificates of deposit	8,539	2,855
Miscellaneous	81,008	116,667
Total operating revenues	3,289,006	3,232,492
Provision for loan losses	(805,044)	(1,014,698)
Net operating revenues	2,483,962	2,217,794
Operating expenses:		
Interest expense	122,795	27,576
General and administrative expenses:		
Personnel services	1,017,169	1,031,103
Depreciation	141,267	126,844
Contractual services	78,881	87,992
Rent	75,716	76,535
Retirement plan contributions	64,353	66,547
Communication	46,483	38,202
Utilities	43,793	48,069
Travel	36,344	142,546
Supplies	24,653	21,991
Branch automation	19,478	31,654
Community development	13,970	55,154
Equipment	8,267	13,550
Staff relations	7,260	13,933
Fuel, oil and petroleum	6,841	10,047
Insurance	6,237	7,105
Repair and maintenance	4,915	12,346
Training	1,670	27,096
Printing	1,441	4,099
Miscellaneous	21,900	39,227
Total general and administrative expenses	1,620,638	1,854,040
Earnings from operations	740,529	336,178
Nonoperating revenues, net:		
Investment earnings, net	2,487,739	3,309,637
Gain on sale of capital assets	-	25,756
Total nonoperating revenues, net	2,487,739	3,335,393
Change in net position	3,228,268	3,671,571
Net position at beginning of year	62,183,522	58,511,951
Net position at end of year	$ 65,411,790	$ 62,183,522

See accompanying notes to financial statements.

FEDERATED STATES OF MICRONESIA DEVELOPMENT BANK
(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)

Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Cash received from customers	$ 2,856,097	$ 3,234,386
Cash received from grantor	-	24,970
Cash paid to suppliers for goods and services	(481,636)	(627,010)
Cash paid to employees for services	(1,017,169)	(1,031,103)
Net cash provided by operating activities	1,357,292	1,601,243
Cash flows from noncapital financing activities:		
Proceeds from long-term debt	3,193,637	-
Principal repayment of long-term debt	(151,985)	(145,727)
Net transfers (out to) in from trust funds	(968,466)	644,094
Interest paid	(98,205)	(40,569)
Net cash provided by noncapital financing activities	1,974,981	457,798
Cash flows from capital and related financing activities:		
Proceeds from sale of capital assets	-	28,183
Acquisition of capital assets	(111,425)	(84,599)
Net cash used in capital and related financing activities	(111,425)	(56,416)
Cash flows from investing activities:		
Loan origination and principal disbursements, net	(1,465,689)	(5,230,143)
Increase in time certificates of deposit	(40,524)	(39,216)
Proceeds from sale of investments, net	118,938	2,781,868
Dividends received	321,751	308,241
Net cash used in investing activities	(1,065,524)	(2,179,250)
Net change in cash and cash equivalents	2,155,324	(176,625)
Cash and cash equivalents at beginning of year	2,457,903	2,634,528
Cash and cash equivalents at end of year	$ 4,613,227	$ 2,457,903

See accompanying notes to financial statements.

FEDERATED STATES OF MICRONESIA DEVELOPMENT BANK
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Statements of Cash Flows, Continued
Years Ended December 31, 2020 and 2019

	2020	2019
Reconciliation of earnings from operations to net cash provided by operating activities:		
Earnings from operations	$ 740,529	$ 336,178
Adjustments to reconcile earnings from operations to net cash provided by operating activities:		
Provision for loan losses	805,044	1,014,698
Depreciation	141,267	126,844
Others	114,256	24,721
(Increase) decrease in assets:		
Interest and other receivables	(424,370)	4,749
Prepaid expenses	1,350	66,208
Increase (decrease) in liabilities:		
Accounts payable	9,407	4,778
Credit life payable	5,822	(205)
Unearned grant revenues	(36,013)	23,272
Net cash provided by operating activities	$ 1,357,292	$ 1,601,243

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

Reporting Entities

The Federated States of Micronesia (FSM) Development Bank (the Bank or FSMDB) was created in 1979 by Public Law 1-37 of the First Congress of the Federated States of Micronesia. The Bank began its operations on October 1, 1980. The Bank was reorganized in January 1994 by Public Law 8-47 of the Eighth Congress of the FSM. The purpose of the Bank is to provide loans for economic development of the FSM. Such loans may otherwise be too risky for commercial banks to underwrite. Additionally, the Bank's repayment terms tend to be longer than those offered by commercial banks. As of December 31, 2020, the Bank has issued 3,236,883 shares to the FSM National Government (98.80%), Chuuk State (0.92%) and Kosrae State (0.28%). These shares do not convey ownership and have been made in accordance with the aforementioned law but these shares have no financial impact on the accompanying financial statements.

The Investment Development Fund (IDF) was established by Public Law 5-122 in January 1989. The purpose of the IDF is to finance projects which will (1) have their operations primarily located within the FSM; (2) improve the balance of payments position of the FSM; (3) increase the value of visible and invisible exports or result in import substitutions; (4) demonstrate positive economic returns; and (5) contribute to the furtherance of close economic relations with the United States.

The Yap Development Loan Fund (YDLF) is administered by the Bank in a Trust capacity. All loan decisions are made by executives of the respective state governments.

The Bank is a component unit (a discretely presented proprietary fund type) of the FSM National Government. The financial statements in this report do not represent the financial position, results of operations or cash flows of the FSM National Government as a whole. The financial statements of the Bank are not obligations of the FSM National Government unless specifically authorized by the FSM National Government. To date, no such authorizations have been made.

Fund Structure and Basis of Accounting

The accounts of the Bank are organized as a discretely presented component unit - proprietary fund of the FSM National Government. Proprietary funds are used by governmental units to account for operations that are financed and operated in a manner similar to a private business. This accounting is appropriate when costs of providing goods or services to the general public are to be financed primarily through user charges or where the periodic determination of net income is appropriate for accountability purposes.

The Bank follows the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard setting body for establishing generally accepted accounting principles (GAAP) for governmental entities.

GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments,* requires assets and liabilities of enterprise funds be presented in a classified format to distinguish between current and long-term assets and liabilities. FSMDB is a government-owned bank. Banks do not present a classified statement of net position because current assets are not matched with current liabilities. The statements of net position of the Bank present assets and liabilities in order of their relative liquidity, rather than in a classified format.

(1) Summary of Significant Accounting Policies, Continued

Fund Structure and Basis of Accounting, Continued

The accounts of the IDF and YDLF are accounted for as fiduciary fund types as the amounts are to be reported on the respective entities' financial statements (the FSM National Government and Yap State, respectively).

The Bank utilizes the flow of economic resources measurement focus.

The statement of net position presents all of the Bank's non-fiduciary assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is classified for accounting and reporting purposes into the following three net position categories:

- Net investment in capital assets - capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets as well as deferred outflows of resources and deferred inflows of resources that are attributable to those assets or related debt.

- Restricted - restricted assets reduced by liabilities and deferred inflows of resources related to those assets that are subject to externally imposed stipulations.

- Unrestricted - the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Proprietary funds 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 proprietary fund's principal ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash and Cash Equivalents

For the purposes of the statements of net position and the statements of cash flows, cash and cash equivalents are defined as cash in bank checking and savings accounts, money market funds, and commercial paper with original maturities of three months or less from the date of acquisition.

Time certificates of deposit with original maturities of greater than three months are separately classified.

Investments

Investments and related investment earnings are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.

An equity investment in the common stock of Bank of the FSM (investee) is stated at the net asset value (NAV). The NAV is used as a practical expedient to estimate fair value. The NAV is determined based on the total shareholders' equities reported by the investee.

(1) Summary of Significant Accounting Policies, Continued

Loans and Allowance for Loan Losses

Loans receivable are stated at unpaid principal balance less the allowance for loan losses.

Management maintains the allowance for loan losses at a level adequate to absorb probable losses. Management determines the adequacy of the allowance based upon reviews of individual loans, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors. Loans deemed uncollectible are charged to the allowance. Provisions for losses and recoveries on loans previously charged off are added to the allowance.

Interest on loans is accrued and credited to income based on the principal amount outstanding. The accrual of interest on loans is discontinued when, in the opinion of management, there is an indication that the borrower may be unable to meet payments as they become due. Upon such discontinuance, all unpaid accrued interest is reversed.

Capital Assets

Capital assets are stated at cost, less accumulated depreciation. Depreciation is based on the straight-line method over the estimated useful lives of the respective assets. All assets have estimated useful lives of three to five years.

The Bank's policy on capital assets requires that assets with a purchase value of $5,000 and over are capitalized and depreciated based on their useful lives. Assets with a purchase value less than $5,000 are expensed fully in the year of purchase.

Unearned Grant Revenues

Unearned grant revenues represent amounts received from grant and contract sponsors that have not yet been earned.

Compensated Absences

Earned but unused annual leave is paid to employees upon termination of their employment. Accordingly, vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. It is the policy of the Bank to record the cost of sick leave when leave is actually taken and an expense is actually incurred. Accordingly, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits, which approximated $207,000 and $191,000 at December 31, 2020 and 2019, respectively.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Bank enters into off-balance sheet financial instruments consisting of commitments to extend credit and loan guarantees. Such financial instruments are recorded in the financial statements when they become payable.

(1) Summary of Significant Accounting Policies, Continued

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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for loan losses.

New Accounting Standards

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No. 84, 89, 90, 91, 92 and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements except for GASB Statement No. 84 and 90, which were implemented during the year ended December 31, 2019.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal year ending December 31, 2022. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal year ending December 31, 2021. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*, which clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The provisions in Statement No. 91 are effective for fiscal year ending December 31, 2022. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2020, GASB issued statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, Fiduciary Activities, to postemployment benefits. The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance. The remaining requirements of GASB Statement No. 92 is effective for the fiscal year ending December 31, 2022.

(1) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The primary objective of this statement is to address those and other accounting and financial reporting implications of the replacement of an IBOR. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 93 will be effective for fiscal year ending December 31, 2022. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This statement also provides guidance for accounting and financial reporting for availability payment arrangements. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 94 will be effective for fiscal year ending December 31, 2023. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for fiscal year ending December 31, 2023. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 97 will be effective for fiscal year ending December 31, 2022. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(2) Deposits and Investments

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

(i) Government obligations - Obligations issued or guaranteed as to principal and interest by the National Government and/or State governments of the Federated States of Micronesia 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 Federated States of Micronesia 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 other mortgage-backed securities provided that the obligation is an agency of the United States Government, the National Government of the Federated States of Micronesia, 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 investment 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 Federated States of Micronesia 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 Bank's investment advisor at the time of purchase, that not more than five percent of the market value of its investments shall be invested in the stock of any one corporation, and that not more than ten percent of the market value of its investments shall be invested in any one industry group.

(iv) Insurance company obligations - Contracts and agreements supplemental thereto providing for participation in one or more accounts of a life insurance company authorized to do business in the Federated States of Micronesia 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.

A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Bank'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 Bank does not have a deposit policy for custodial credit risk.

As of December 31, 2020 and 2019, the carrying amount of the Bank's total cash and cash equivalents and time certificates of deposit was $7,767,509 and $5,563,122, respectively, and the corresponding bank balances were $7,798,298 and $6,010,081, respectively, which were all maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of December 31, 2020 and 2019, bank deposits in the amounts of $4,137,397 and $3,871,064, respectively, were FDIC insured. The Bank 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. Management's confidence in the financial strength of their banking institutions was the basis of the decision to not require collateralization. No losses as a result of this practice were incurred for the years ended December 31, 2020 and 2019.

(2) Deposits and Investments, Continued

B. Investments

As of December 31, 2020 and 2019, investments at fair value are as follows:

	2020	2019
Fixed income securities:		
Domestic fixed income	$ 4,735,176	$ 4,522,373
Equity securities:		
Domestic equities	9,396,728	7,853,640
Shares in a mutual fund		
(Templeton Global BD FD ADV TGBAX)	1,161,880	1,221,121
	$ 15,293,784	$ 13,597,134

As of December 31, 2020, investments in domestic fixed income securities are as follows:

	Moody's Credit Rating	Investment maturities (in Years) Less Than 1	1 to 5	6 to 10	Greater Than 10	Fair Value
U.S. Government securities:						
U.S. Treasury Notes	Aaa	$ -	$ -	$ 721,636	$ -	$ 721,636
U.S. Government agencies:						
Federal Home Loan Bank	Aaa	1,010,313	-	-	-	1,010,313
Federal Farm Credit Bank	Aaa	484,891	-	-	-	484,891
Federal Agricultural Mortgage Corp.	Not rated	254,924	279,882	-	-	534,806
Freddie Mac Group	Not rated	-	-	-	177,378	177,378
Corporate bonds	A1	-	127,118	-	-	127,118
Corporate bonds	A2	-	96,804	842,314	-	939,118
Corporate bonds	A3	-	147,088	237,089	139,456	523,633
Corporate bonds	A-	-	216,283	-	-	216,283
		$ 1,750,128	$ 867,175	$ 1,801,039	$ 316,834	$ 4,735,176

(3) Deposits and Investments, Continued

As of December 31, 2019, investments in domestic fixed income securities are as follows:

	Moody's Credit Rating	Investment maturities (in Years) Less Than 1	1 to 5	6 to 10	Greater Than 10	Fair Value
U.S. Government securities:						
U.S. Treasury Notes	Aaa	$ -	$ -	$ 1,013,504	$ -	$ 1,013,504
U.S. Government agencies:						
Federal Home Loan Bank	Aaa	229,986	344,823	-	-	574,809
Federal National Mortgage Association	Not rated	-	-	-	142,683	142,683
Federal Home Loan Mortgage Corp.	Not rated	-	-	-	77,359	77,359
Corporate bonds	A1	-	302,926	-	-	302,926
Corporate bonds	A2	150,849	674,010	315,068	170,026	1,309,953
Corporate bonds	A3	-	591,850	232,503	-	824,353
Corporate bonds	Aa1	-	60,495	-	-	60,495
Corporate bonds	Not rated	-	216,291	-	-	216,291
		$ 380,835	$ 2,190,395	$ 1,561,075	$ 390,068	$ 4,522,373

The Bank categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No. 72. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Bank has the following recurring fair value measurements as of December 31, 2020 and 2019:

	December 31, 2020	Fair Value Measurements Using Level 1	Level 2	Level 3
Fixed income:				
U.S. Treasury obligations	$ 721,636	$ -	$ 721,636	$ -
U.S. Government agencies	2,207,388	-	2,207,388	-
Corporate notes	1,806,152	-	1,806,152	-
Total fixed income	4,735,176	-	4,735,176	-
Equity securities:				
U.S. equities	9,396,728	9,396,728	-	-
Mutual fund shares	1,161,880	1,161,880	-	-
Total investments at fair value	$ 15,293,784	$ 10,558,608	$ 4,735,176	$ -

(2) Deposits and Investments, Continued

B. Investments, Continued

		Fair Value Measurements Using		
	December 31, 2019	Level 1	Level 2	Level 3
Fixed income:				
U.S. Treasury obligations	$ 1,013,504	$ -	$ 1,013,504	$ -
U.S. Government agencies	794,851	-	794,851	-
Corporate notes	2,714,018	-	2,714,018	-
Total fixed income	4,522,373	-	4,522,373	-
Equity securities:				
U.S. equities	7,853,640	7,853,640	-	-
Mutual fund shares	1,221,121	1,221,121	-	-
Total investments at fair value	$ 13,597,134	$ 9,074,761	$ 4,533,373	$ -

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

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Bank will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Bank's investments are held and administered by trustees. Accordingly, these investments are exposed to custodial credit risk. Based on negotiated trust and custody contracts, all of these investments were held in the Bank's name by the Bank's custodial financial institution at December 31, 2020 and 2019.

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 Bank. As of December 31, 2020, the Bank's investment in agency obligations of the Federal Home Loan Bank constituted 7% of its total investments. As of December 31, 2019, the Bank's investment in U.S. Treasury securities constituted 7% of its total investments.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. The Bank has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

(3) Equity Investment

At December 31, 2020 and 2019, the equity investment in Bank of the FSM represents 225,001 common shares and approximately 24% ownership interest. Total shareholders' equity reported by Bank of the FSM approximated $27,497,000 and $26,037,000 at December 31, 2020 and 2019, respectively.

(4) Loans Receivable

A summary of loans receivable at December 31, 2020 and 2019 follows:

	2020	2019
Unpaid principal balance	$ 43,290,779	$ 42,646,939
Allowance for loan losses	(5,383,214)	(5,400,019)
	$ 37,907,565	$ 37,246,920

At December 31, 2020, estimated total principal collections and loan maturities in 2021 approximated $10,138,000.

Movements in the allowance for loan losses during the years ended December 31, 2020 and 2019, are as follows:

	2020	2019
Balance at beginning of year	$ 5,400,019	$ 4,365,340
Provision for loan losses	805,044	1,014,698
Loans charged off	(1,303,325)	(767,658)
Loan recoveries from previously charged off loans	481,476	787,639
Balance at end of year	$ 5,383,214	$ 5,400,019

At December 31, 2020 and 2019, $2.65 million and $2.66 million, respectively of the allowance is related to a Yap loan, which was fully provided due to management's assessment of remote collectibility.

In an effort to constructively work with borrowers affected by the COVID-19 pandemic, the Bank initiated temporary programs beginning in February 2020 to allow for loan repayment deferrals for eligible borrowers. At December 31, 2020, forty loans with total outstanding balances of $13.3 million are under active deferral program started in February 2020. In December 2020, the FSM National Government enacted Public Law No. 21-211 (the Act) towards providing financial assistance to the private sector to mitigate the impact of the COVID-19 pandemic. In accordance with the Act, the Bank was appropriated $651,600 for interest payments from February to December 2020 for eligible loans, of which $415,327 is included as accrued interest receivable as of December 31, 2020 in the accompanying statement of net position and was collected in February 2021.

(5) Capital Assets

A summary of capital assets as of December 31, 2020 and 2019, is as follows:

	Beginning January 1, 2020	Additions/ Transfers	Deletions/ Transfers	Ending December 31, 2020
Building	$ 1,674,348	$ -	$ -	$ 1,674,348
Computers and software	571,455	111,425	-	682,880
Vehicles	161,478	-	-	161,478
Office furniture, fixtures and equipment	23,157	-	-	23,157
	2,430,438	111,425	-	2,541,863
Less accumulated depreciation	(1,019,167)	(141,267)	-	(1,160,434)
Capital assets, net	$ 1,411,271	$ (29,842)	$ -	$ 1,381,429

(5) Capital Assets, Continued

	Beginning January 1, 2019	Additions/ Transfers	Deletions/ Transfers	Ending December 31, 2019
Building	$ 1,674,348	$ -	$ -	$ 1,674,348
Computers and software	567,828	12,515	(8,888)	571,455
Vehicles	201,442	72,084	(112,048)	161,478
Office furniture, fixtures and equipment	23,157	-	-	23,157
	2,466,775	84,599	(120,936)	2,430,438
Less accumulated depreciation	(1,010,832)	(126,844)	118,509	(1,019,167)
Capital assets, net	$ 1,455,943	$ (42,245)	$ (2,427)	$ 1,411,271

(6) Related Party Transactions

As of December 31, 2020 and 2019, the Bank has direct loans with outstanding balances of $171,771 and $163,812, respectively, to employees of the Bank and project loans extended to businesses owned by or affiliated with employees and component units of FSM governments of $5,308,753 and $4,108,459, respectively. These loans were made under similar terms and conditions as exist with other borrowers. Officers and Board members are not eligible to borrow from the Bank.

During the year ended December 31, 2020, the Bank recognized interest income of $651,600 which was granted by the FSM National Government (see Note 4).

(7) Long-Term Debt

Direct Borrowings:

Long-term debt consists of the following at December 31, 2020 and 2019:

	2020	2019
Unsecured loans payable to European Investment Bank (EIB) under an August 2010 master finance contract of EUR 4 million:		
Drawn on August 20, 2014; original amount of $275,000 (equivalent EUR 205,500), bearing interest fixed at 3.705%, and payable through semi-annual principal and interest installments of $24,778 on January 15, 2015 and equal installments of $25,772 beginning on July 15, 2015 through maturity on July 15, 2020.	$ -	$ 50,140
Drawn on August 20, 2014; original amount of $334,550 (equivalent EUR 250,000), bearing interest fixed at 4.520%, and payable through semi-annual principal and interest installments of $17,997 on January 15, 2015 and equal installments of $19,467 beginning on July 15, 2015 through maturity on July 15, 2025.	172,509	202,621
Drawn on August 20, 2014; original amount of $796,976 (equivalent EUR 595,558), bearing interest fixed at 4.520%, and payable through semi-annual principal and interest installments of $42,873 on January 15, 2015 and equal installments of $46,375 beginning on July 15, 2015 through maturity on July 15, 2025.	410,956	482,689

(7) Long-Term Debt, Continued

Direct Borrowings, Continued:

	2020	2019
Unsecured loans payable to European Investment Bank (EIB) under a December 2018 master finance contract of USD 4 million:		
Drawn on March 9, 2020; original amount of $3,193,637, bearing interest fixed at 2,774%, and payable through semi-annual interest payment beginning on September 9, 2020 and principal installments of $138,854 beginning on March 9, 2021 through maturity on March 9, 2032.	3,193,637	-
	$ 3,777,102	$ 735,450

Under the 2010 and 2018 Agreements, including Amendments dated March 2021, the EIB (or the "Lender") loans contain (1) a provision that in an event of default, the timing of repayment of outstanding amounts may become immediately due if: the capital to total assets ratio is not above 20%; nonperforming loans to total loans ratio exceeds certain ratios (effective 55% at December 31, 2020) ; provision for loan losses to nonperforming loans ratio is less than certain ratios (effective 25% at December 31, 2020), and (2) a provision that the Bank shall repay the loan or any part thereof, together with accrued interest and other accrued sums immediately, forthwith upon demand by the Lender if:

a. the Bank fails on due date to repay any part of the loan, to pay interest thereon or to make any other payment to the Lender;
b. if any information or document given to the Lender by the Bank or on its behalf is or proves to be incorrect, incomplete or misleading in any material respect;
c. the Bank is unable to pay its debts, or makes or seeks to make a composition with its creditors;
d. an order is made or an effective resolution is passed for the winding up of the Bank, or the Bank takes steps towards a substantial reduction in its capital, is declared insolvent or ceases or resolves to cease to carry on the whole or any substantial part of its business or activities;
e. an incumbrancer takes possession of, or a receiver, liquidator, administrator, administrative receiver or similar officer is appointed, whether by a court of competent jurisdiction or by any competent administrative authority or by any person, any part of the business or assets; if any distress, execution, sequestration, or other process is levied or enforced upon the property of the Bank and is not discharged or stayed within 14 days; or if any event occurs which is likely to jeopardize the servicing of the loan or adversely affect any security therefore;
f. if any other financial indebtedness is either not paid when due, or following any default in relation thereto, is capable of being declared due and payable prior to its scheduled maturity;
g. If the Bank is liable, by reason of any default, to be required to effect immediate prepayment of any loan granted to it by the lender from the resources of the bank or of the European Community;
h. If a material adverse change occurs, as compared to the Bank's condition at the time of the loan agreement;
i. If it is or becomes unlawful for the Bank to perform any of its obligation under the loan agreement.

At December 31, 2020, the Bank is in compliance with the terms of the loan agreements, including the March 2021 amendments.

(7) Long-Term Debt, Continued

Direct Borrowings, Continued:

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

Year Ending December 31,	Principal	Interest	Total
2021	$ 384,184	$ 111,873	$ 496,057
2022	389,051	99,302	488,353
2023	394,140	86,509	480,649
2024	399,463	73,483	472,946
2025	405,709	60,214	465,923
Thereafter	1,804,555	175,257	1,979,812
	$ 3,777,102	$ 606,638	$ 4,383,740

Long-term debt changes during the years ended December 31, 2020 and 2019 are as follows:

	Balance January 1,	Additions	Reductions	Balance December 31,	Due Within One Year
2020:					
Loans payable	$ 735,450	$ 3,193,637	$ (151,985)	$ 3,777,102	$ 384,184
2019:					
Loans payable	$ 881,177	$ -	$ (145,727)	$ 735,450	$ 151,968

(8) Unearned Grant Revenues

During the year ended December 31, 2015, the Bank was awarded a $250,000 Home Energy Loan Program grant from the International Union for Conservation of Nature Resources (IUCN). $232,000 of the grant is to be awarded to the qualified borrowers for new loans to construct homes that demonstrate features and measures designed to conserve energy, reduce consumption of fossil fuels and enhance energy efficiency as principle reduction of loans, while the remaining $18,000 will be used by the Bank for renovations to improve energy efficiency. As of December 31, 2020 and 2019, unearned grant revenue was $138,310 and $174,343, respectively. A grant extension was received during the year ended December 31, 2018.

(9) Retirement Plan

The Bank's retirement plan (the Plan) is a self-administered program established to pay retirement, disability and survivor income to employees and their survivors to supplement similar benefits that employees receive from the FSM Social Security Administration. The Plan is a contributory plan in which the Bank matches 100% of the participants' contributions up to a maximum of 10% of the participant's annual salary, if the participant contributes 3% or more of his or her annual salary. Employee participation is optional. The Bank's Chief Financial Officer is the designated Plan Administrator. Matching contributions to the Plan during the years ended December 31, 2020 and 2019 were $64,353 and $66,547, respectively. Total Plan assets as of December 31, 2020 and 2019 were $1,504,688 and $1,353,674, respectively. Management is of the opinion that the Plan does not represent an asset or a liability of the Bank.

(10) Commitments and Contingencies

Guaranty

The Bank, from time-to-time, is contingently liable on loan guarantees ranging from 50% to 90% of the outstanding loan balances for commercial projects within the FSM. There were no outstanding guaranteed loan balances as of December 31, 2020 and 2019.

Loan Commitments

Undrawn balances on lines of credit and loan commitments for loans approved but undisbursed approximated $6,857,000 at December 31, 2020, of which $4,915,000 represent undisbursed funds on four loans.

Litigation

The Bank is a party to various legal proceedings, the ultimate impact of which is not currently predictable. Therefore, no liability has been recorded in the accompanying financial statements due to management's inability to predict the ultimate outcome of these proceedings.

Insurance

The Bank carries insurance to cover its potential risks from vehicle usage. The Bank is substantially self-insured for all other risks. Management is of the opinion that no material losses have been sustained as a result of this practice during the past three years.

Lease Commitments

The Bank has three operating leases for its State operating locations. These leases expire at varying dates through January 2023. Several of these leases provide options to renew upon expiration, based on renegotiated rates. Future minimum annual lease payments payable under the noncancellable leases are as follows:

Year ending December 31,	
2021	$ 42,000
2022	25,350
2023	1,250
	$ 68,600

The Bank leases portions of its headquarters building under three separate agreements expiring from September 2021 to September 2025. Future minimum annual lease income under the noncancellable leases are as follows:

Year ending December 31,	
2021	$ 27,500
2022	20,700
2023	20,700
2024	20,700
2025	15,500
	$ 105,100

(10) Commitments and Contingencies, Continued

Lease Commitments, Continued

Additionally, the Bank provides housing benefits for certain contract employees with payment included as part of rent expense. The leases are between the respective landlords and the employees.

Total recorded lease expense and income under the aforementioned agreements amounted to \$75,716 and \$31,482, respectively, for the year ended December 31, 2020 and \$76,535 and \$27,744, respectively, for the year ended December 31, 2019.

(11) Risks and Uncertainties

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. In response, governments all over the world implemented actions which impacted the macroeconomic environment, increased economic uncertainty and reduced economic activities. The Bank's business and earnings are closely tied to the economies of the FSM. The impacts of travel restrictions and limited business orders have resulted in immediate adverse impact to some of the Bank's customers. During the year ended December 2020, the Bank granted temporary principal and interest payment relief for certain loans and received funds from the FSM National Government for interest payments (see Note 4). The Bank has further extended the loan deferral program through June 2021. The length of time such conditions will continue to exist as well as the significance of the impact to the Bank's ultimate realization of these underlying loans in accordance with their contractual terms is presently not determinable.

(12) Subsequent Events

Management has evaluated subsequent events through June 21, 2021, which is the date that the financial statements are available to be issued. There were no material subsequent events that would require recognition or disclosure in the financial statements for the year ended December 31, 2020 except the following:

In March 2021, the Bank received a \$3,000,000 grant from FSM National Government for the FSM Health Expenditure and Livelihood Support Program which is supported by the Asian Development Bank Group. The grant is for the Bank to launch its micro and small business loans for the program.

FEDERATED STATES OF MICRONESIA DEVELOPMENT BANK
(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)

Schedule of European Investment Bank
December 2018 and August 2010 Finance Contract Ratios
December 31, 2020

1.) Ratio of Capital (paid in capital plus reserves) to total assets should be above 20%:

Total net position	$	65,411,790
Total assets	$	69,496,756
		94%

2.) Ratio of non-performing loans, as defined, to total loans do not exceed 55%:

Total non-performing loans	$	20,506,511
Total loans	$	43,290,779
		47%

3.) Ratio of allowance for loan losses to non-performing loans shall not be less than 25%:

Allowance for loan losses	$	5,383,214
Total non-performing loans	$	20,506,511
		26%

See accompanying independent auditors' report.

FEDERATED STATES OF MICRONESIA DEVELOPMENT BANK
(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)

Schedules of Required Supplementary Information
Trust Funds' Statement of Fiduciary Net Position
December 31, 2020

	IDF	YDLF	Total
ASSETS			
Cash and cash equivalents	$ -	$ 124,551	$ 124,551
Time certificates of deposit	1,968,465	150,629	2,119,094
Receivable from FSMDB	66,935	-	66,935
Interest and other receivables	5,445	108	5,553
Total assets	$ 2,040,845	$ 275,288	$ 2,316,133
LIABILITIES AND NET POSITION			
Liabilities:			
Payable to FSMDB	$ 6,112	$ 18,216	$ 24,328
Unrestricted net position	2,034,733	257,072	2,291,805
Total liabilities and net position	$ 2,040,845	$ 275,288	$ 2,316,133

See accompanying independent auditors' report.

FEDERATED STATES OF MICRONESIA DEVELOPMENT BANK
(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)

Schedules of Required Supplementary Information
Trust Funds' Statement of Changes in Fiduciary Net Position
Year Ended December 31, 2020

	IDF	YDLF	Total
Additions:			
Investment interest	$ 206	$ 204	$ 410
Change in net position	206	204	410
Net position at beginning of year	2,034,527	256,868	2,291,395
Net position at end of year	$ 2,034,733	$ 257,072	$ 2,291,805

See accompanying independent auditors' report.

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

The Board of Directors
Federated States of Micronesia Development Bank:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Federated States of Micronesia Development Bank (the Bank), which comprise the statement of net position as of December 31, 2020, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 21, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Bank's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bank’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Bank’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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bank'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*.

Purpose of this Report

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

Deloitte & Touche LLP

June 21, 2021