

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

**REPORT ON THE AUDIT OF
FINANCIAL STATEMENTS IN ACCORDANCE
WITH THE UNIFORM GUIDANCE**

YEAR ENDED SEPTEMBER 30, 2016

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

YEAR ENDED SEPTEMBER 30, 2016

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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, 2016

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, 2016, 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. The financial statements of Vital Energy, Inc. were not audited in accordance with *Government Auditing Standards*. 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, 2016, 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.

Emphasis-of-Matter

New Accounting Pronouncements

As described in Note 1 to the financial statements, the FSM National Government adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, effective October 1, 2015. As a result, the FSM National Government has elected to restate the beginning net position of the governmental activities and the beginning fund balance of the General Fund for the effect of adopting this accounting pronouncement.

Social Security Obligations

As discussed in Note 10 to the financial statements, the FSM Social Security Administration may be unable to meet its future benefit obligations.

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

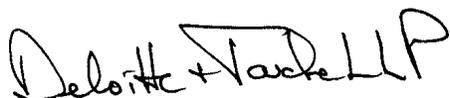
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 11 as well as the Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund and notes thereto, on pages 64 through 66, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB 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, 2017 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, 2017

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Management's Discussion and Analysis
September 30, 2016

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, 2016 and of the financial position of the FSM National Government at September 30, 2016. This report is to be read in conjunction with the financial statements of the FSM National Government which begin on page 12. Fiscal Year 2015 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, 2016, FSM National Government has total net position of \$414,996,908 (FY15 \$360,819,058, as restated). The increase is primarily due to the increase in value of investments, and an increase in general and grants assistance revenues.
- During the year, FSM National Government expenses for governmental activities were \$85,172,673 (FY15 \$65,205,177) which were funded by program revenues of \$41,208,168 (FY15 \$26,738,755) and taxes and other general revenues that totaled \$97,425,831 (FY15 \$84,625,654, as restated).
- During the year, the FSM National Government wrote-off old receivables of \$703,250 (FY15 \$6,966,019).
- The net change in governmental funds increased by \$36,603,602 (FY15 \$24,080,676, as restated). Total revenues reported are \$139,414,856 with total expenditures of \$103,722,228. Total loan proceeds from ADB Loans are \$879,389.
- At September 30, 2016, the General Fund reported an unassigned surplus of \$19,905,736 (FY15 \$19,857,370).

Restatement

The beginning net position of the governmental activities and the beginning fund balance of the General Fund have been restated as the FSM National Government adopted GASB Statement No. 72, *Fair Value Measurement and Application*, effective October 1, 2015 as described in Note 1 to the financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Financial Statements for the Year Ended September 30, 2016 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 serve 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, 2016

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 nine (9) component units namely, College of Micronesia - FSM, National Fisheries Corporation, FSM Telecommunications Corporation, FSM Development Bank, FSM Social Security Administration, FSM Petroleum Corporation, Vital Energy, Inc., MiCare Plan and the Caroline Islands Air, Inc. These components units are entities which are legally separate from the FSM National Government, but are financially accountable to the FSM National Government, or whose 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.

- **Governmental funds** - Most of the National Government's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the National Government general operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the National Government's program. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation at the bottom of the pages 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. These are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs (expenses, including amortization and depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Management's Discussion and Analysis
September 30, 2016

THE NATIONAL GOVERNMENT AS A WHOLE

Net Position may serve overtime as a useful indicator of government's financial position. At the end of Fiscal Year 2016, FSM National Government assets exceeded liabilities by \$414,996,908. Of the total net position, \$250,991,010 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 investments in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Table 1 shows the schedule of National Government's net position as of September 30, 2016.

**Table 1- Net Position
Governmental Activities**

	2016	2015 (As restated)	Change	%
Current assets	\$ 244,195,985	\$ 202,449,189	\$ 41,746,796	20.6%
Other assets	25,714,038	22,698,347	3,015,691	13.3%
Capital assets	<u>229,454,925</u>	<u>212,998,974</u>	<u>16,455,951</u>	7.7%
Total assets	<u>\$ 499,364,948</u>	<u>\$ 438,146,510</u>	<u>\$ 61,218,438</u>	14.0%
Current and other liabilities	\$ 34,818,798	\$ 26,670,994	\$ 8,147,804	30.5%
Long- term debt	<u>49,549,242</u>	<u>50,656,458</u>	<u>(1,107,216)</u>	-2.2%
Total liabilities	<u>84,368,040</u>	<u>77,327,452</u>	<u>7,040,588</u>	9.1%
Net position:				
Net investment in capital assets	229,454,925	212,998,974	16,455,951	7.7%
Restricted	21,536,085	21,946,393	(410,308)	-1.9%
Unrestricted	<u>164,005,898</u>	<u>125,873,691</u>	<u>38,132,207</u>	30.3%
Total net position	<u>414,996,908</u>	<u>360,819,058</u>	<u>54,177,850</u>	15.0%
Total liabilities and net position	<u>\$ 499,364,948</u>	<u>\$ 438,146,510</u>	<u>\$ 61,218,438</u>	14.0%

At the end of FY16, the FSM National Government unrestricted net position shows a surplus of \$164,005,898 compared to \$125,873,691 at the end of FY15.

Table 2 shows the changes in Net Position of the National Government for the years ended September 30, 2016 and 2015.

Table 2

	2016	(As Restated) 2015	Change	%
Revenues:				
Program revenues:				
Charges for services	\$ 3,243,386	\$ 6,135,219	\$ (2,891,833)	-47.1%
Operating grants and contributions	30,803,750	9,740,733	21,063,017	216.2%
Capital grants and contributions	7,161,032	10,862,803	(3,701,771)	-34.1%

**FEDERATED STATES OF MICRONESIA
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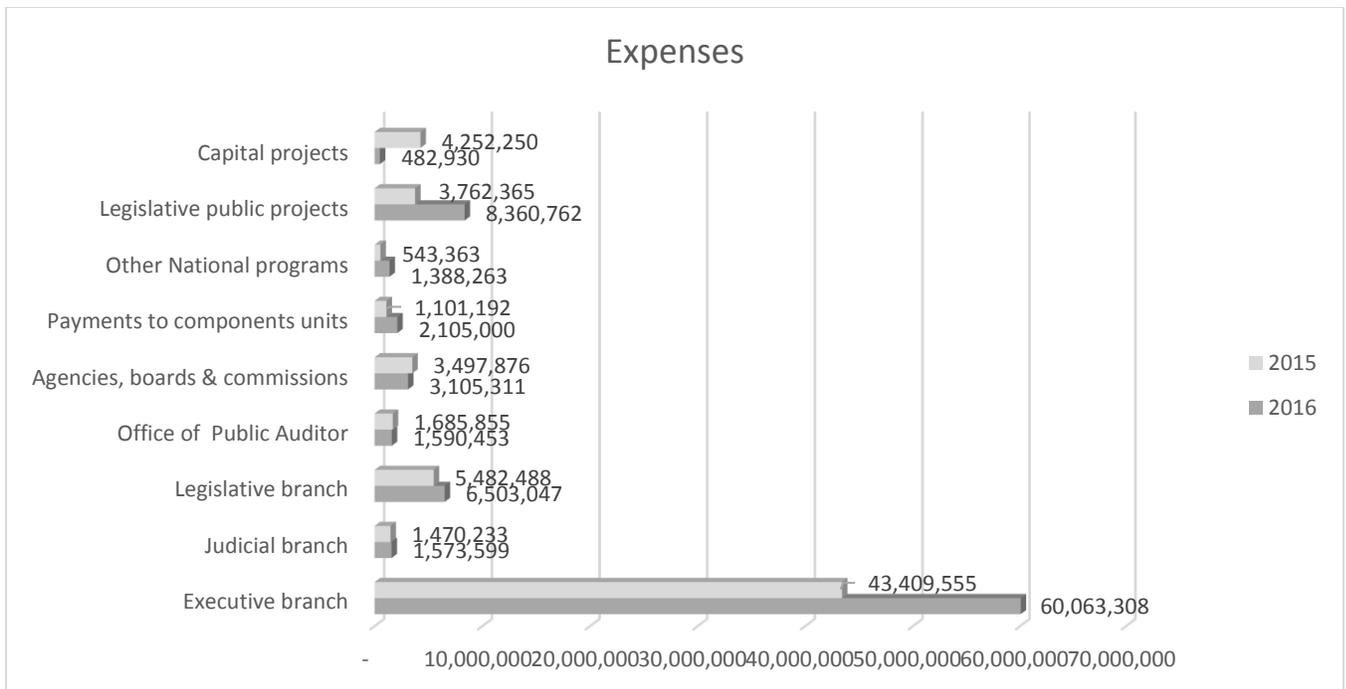
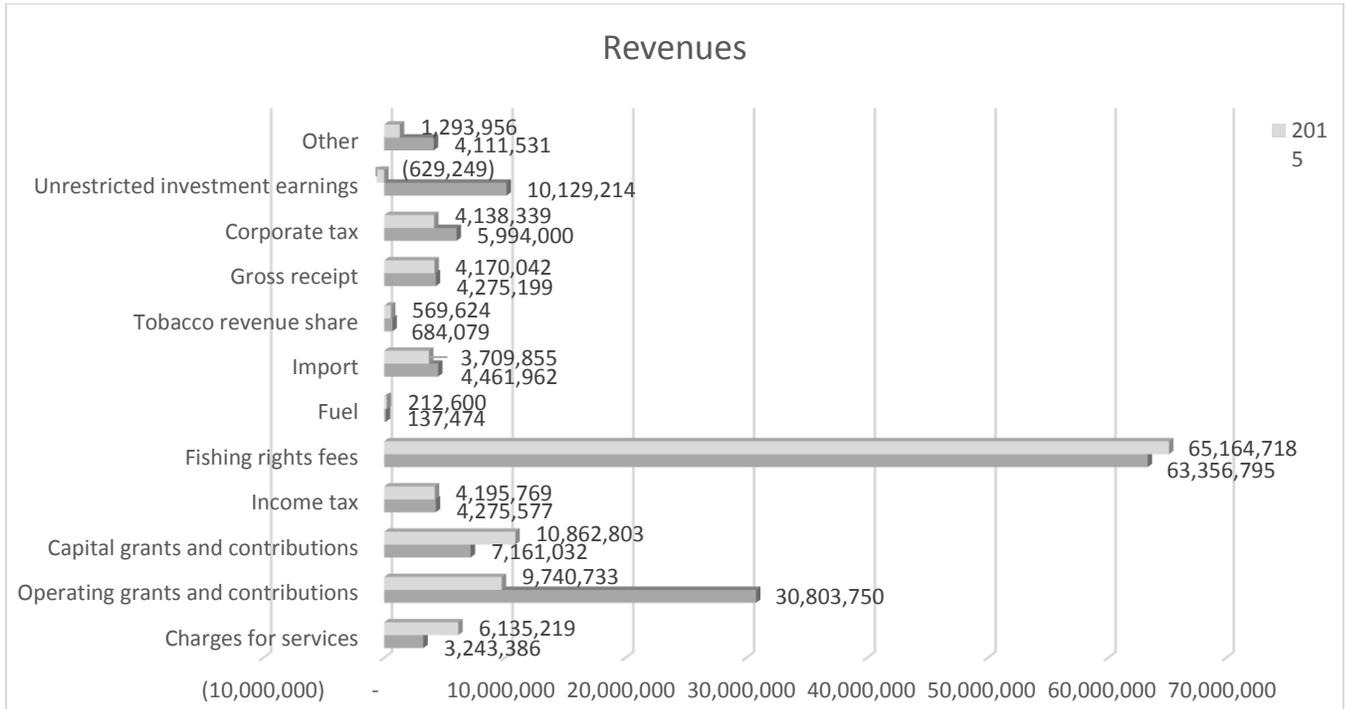
Management's Discussion and Analysis
September 30, 2016

	2016	(As Restated) 2015	Change	%
General revenues:				
Income tax	4,275,577	4,195,769	79,808	1.9%
Fishing rights fees	63,356,795	65,164,718	(1,807,923)	-2.8%
Fuel	137,474	212,600	(75,126)	-35.3%
Import	4,461,962	3,709,855	752,107	20.3%
Tobacco revenue share	684,079	569,624	114,455	20.1%
Gross receipt	4,275,199	4,170,042	105,157	2.5%
Corporate tax	5,994,000	4,138,339	1,855,661	44.8%
Unrestricted investment earnings	10,129,214	(629,249)	10,758,463	-1709.7%
Other	<u>4,111,531</u>	<u>1,293,956</u>	<u>2,817,575</u>	217.7%
Total revenues	<u>138,633,999</u>	<u>109,564,409</u>	<u>29,069,590</u>	26.5%
Expenses:				
Executive	60,063,308	43,409,555	16,653,753	38.4%
Judicial	1,573,599	1,470,233	103,366	7.0%
Legislative	6,503,047	5,482,488	1,020,559	18.6%
Office of Public Auditor	1,590,453	1,685,855	(95,402)	-5.7%
Other National government prog	1,388,263	543,363	844,900	155.5%
Agencies, boards and commissions	3,105,311	3,497,876	(392,565)	-11.2%
Payments to components units	2,105,000	1,101,192	1,003,808	91.2%
Legislative Public projects	8,360,762	3,762,365	4,598,397	122.2%
Capital projects	<u>482,930</u>	<u>4,252,250</u>	<u>(3,769,320)</u>	-88.6%
Total expenses	<u>85,172,673</u>	<u>65,205,177</u>	<u>19,967,496</u>	30.6%
Excess before special items	<u>53,461,326</u>	<u>44,359,232</u>	<u>9,102,094</u>	20.5%
Special items:				
Gain (loss) on SDR foreign exchange	(95,917)	3,960,240	(4,056,157)	-102.4%
Receivable written-off	(703,250)	(6,966,019)	6,262,769	-89.9%
Contribution to permanent funds	<u>1,515,691</u>	<u>(759,178)</u>	<u>2,274,869</u>	-299.6%
Change in net position	54,177,850	40,594,275	13,583,575	33.5%
Net position at beginning of year	<u>360,819,058</u>	<u>320,224,783</u>	<u>40,594,275</u>	12.7%
Net position at end of year	<u>\$ 414,996,908</u>	<u>\$ 360,819,058</u>	<u>54,177,850</u>	15.0%

National Government revenues from governmental activities, including local revenues, gain on investments, Compact and other grants funding totaled \$138,633,999 (FY15 \$109,564,409). In FY16, the cost of governmental activities totaled \$85,172,673 (FY15 \$65,205,177). The difference between the two including special items represents an increase in net position of \$54,177,850 (FY15 \$40,594,275). 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, 2016



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

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Management's Discussion and Analysis
September 30, 2016

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 \$231.9 million, which represents an increase of \$36.6 million (or 19%) 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)** \$72 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 \$39.5 million, equity investments of \$7.3 million, equity shares for membership of \$8.1 million, and permanent fund \$16.1 million and reserved of cash of \$1 million **(2)** \$4.2 million is reserved for restricted as to its use of resources by laws through constitutional provisions or enabling legislation for the general government **(3)** \$132.1 million is restricted to be 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 such as loan payments of \$13.3 million, \$82.6 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 \$33.1 million **(4)** \$5.5 million is restricted as assigned to be used for specific purposes but are neither restricted nor committed to liquidate contracts and purchase orders of the prior period. The combined Unassigned Fund Balance of FSM National Government governmental funds is \$19.9 million, which is the same as in previous year.

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 \$18.2 million as compared with the prior year ending unreserved fund surplus of \$19.9 million, while total fund balance was \$210.6 million compared with a total fund balance of \$173.7 million at the end of the prior fiscal year, an increase of \$36.9 million. The increase in the overall fund balance in the General Fund was due to the increase in fair value of investments, increase in taxes and other revenues and decrease in bad debts expense.

The Grants Assistance Fund has a total restricted fund balance of \$2.4 compared to prior year ending restricted fund balance of the same amount.

The Compact Trust Fund has a total fund balance of \$16.1 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 \$1.5 million.

The Other governmental funds has a total fund balance of \$2.8 million, all of which is reserved for future operations of the primary government.

**FEDERATED STATES OF MICRONESIA
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Management's Discussion and Analysis
September 30, 2016

Table 3 shows The National Governmental Fund changes in fund balances for the years ended September 30, 2016 and 2015.

**Table 3
Changes in Fund Balances**

	Changes in Fund Balances					
	General Fund		Other funds		Total	
	2016	2015 (As restated)	2016	2015 (As restated)	2016	2015 (As restated)
Revenues						
Compact funding	\$ -	\$ -	\$ 8,131,263	\$ 8,619,887	\$ 8,131,263	\$ 8,619,887
Federal and other grants	-	-	29,833,519	11,983,649	29,833,519	11,983,649
Taxes	19,600,126	16,806,209	228,165	190,020	19,828,291	16,996,229
Fishing rights fees	63,356,795	65,164,718	-	-	63,356,795	65,164,718
Net increase in fair value of investments	9,529,749	(904,347)	1,515,691	(759,178)	11,045,440	(1,663,525)
Other	4,039,931	1,755,247	3,179,617	5,949,026	7,219,548	7,704,273
Total revenues	<u>96,526,601</u>	<u>82,821,827</u>	<u>42,888,255</u>	<u>25,983,404</u>	<u>139,414,856</u>	<u>108,805,231</u>
Expenditures	63,429,793	52,823,202	40,292,435	24,639,377	103,722,228	77,462,579
Excess of revenues over expenditures	<u>33,096,808</u>	<u>29,998,625</u>	<u>2,595,820</u>	<u>1,344,027</u>	<u>35,692,628</u>	<u>31,342,652</u>
Net financing sources	4,472,381	1,842,680	(2,858,157)	200,000	1,614,224	2,042,680
Net special items	<u>(703,250)</u>	<u>(9,304,656)</u>	<u>-</u>	<u>-</u>	<u>(703,250)</u>	<u>(9,304,656)</u>
Net change in fund balance	<u>\$ 36,865,939</u>	<u>\$ 22,536,649</u>	<u>\$ (262,337)</u>	<u>\$ 1,544,027</u>	<u>\$ 36,603,602</u>	<u>\$ 24,080,676</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 budgets by \$13,646,389 or 18% while expenditures were less than budgets by \$23,373,917 or 33%. There were no material budget overruns at any level.

	Budget Original	Budget Final	Actual Amounts	Variance Positive(Negative)
Revenues	\$ 66,027,167	\$ 74,711,404	\$ 88,357,793	\$ 13,646,389
Expenditures	<u>68,142,758</u>	<u>73,697,226</u>	<u>64,245,741</u>	<u>9,451,485</u>
Excess (deficiency)	(2,115,591)	1,014,178	24,112,052	23,097,874
Other financing sources (uses)	<u>(10,000,000)</u>	<u>(13,450,842)</u>	<u>(13,450,842)</u>	<u>-</u>
Net change unassigned	<u>\$ (12,115,591)</u>	<u>\$(12,436,664)</u>	<u>\$ 10,661,210</u>	<u>\$ 23,097,874</u>

During the year, the FSM National government provided additional supplemental appropriations for operations and CFMS Projects under Public law 19-45, 19-61, 19-83, 19-95 and 19-122.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of the September 30, 2016, FSM National Government had invested \$229,454,925 (FY15 \$212,998,974) 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 for the year is shown below:

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Management's Discussion and Analysis
September 30, 2016

Primary Government
Governmental Activities

	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>%</u>
Buildings	\$ 66,495,168	\$ 66,495,168	\$ -	0%
Boats and ships	22,198,534	22,182,407	16,127	0%
Infrastructure	126,662,280	125,428,068	1,234,212	1%
Motor vehicles	4,425,985	3,084,055	1,341,930	44%
Computer equipment	2,260,703	1,941,689	319,015	16%
Aircraft	709,207	709,207	-	0%
Furniture, fixture, equipment	<u>8,805,372</u>	<u>7,363,616</u>	<u>1,441,756</u>	20%
Total assets	<u>231,557,249</u>	<u>227,204,210</u>	<u>4,353,039</u>	2%
Less: Accumulated depreciation	(67,281,151)	(59,747,890)	(7,533,261)	13%
Land	1,674,383	10,000	1,664,383	16644%
Construction in progress	<u>63,504,444</u>	<u>45,532,654</u>	<u>17,971,790</u>	39%
Total Assets	<u>\$ 229,454,925</u>	<u>\$ 212,998,974</u>	<u>\$ 16,455,951</u>	8%

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

Long Term Debt

At the end of fiscal year 2016, National Government had long-term debt of \$49,549,242 (FY15 \$50,656,458) relating to Governmental Activities as shown below:

Description	No.	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>%</u>
Fisheries	1257	\$ 3,719,792	\$ 3,956,653	\$ (236,861)	-5.99%
Water & Sanitation	1459	7,183,609	7,400,296	(216,687)	-2.93%
Early retirement	1520	14,331,611	14,748,908	(417,297)	-2.83%
Private Sector	1816	2,405,875	2,568,033	(162,158)	-6.31%
Private Sector Basic Social	1873	1,995,644	2,215,888	(220,244)	-9.94%
Services	1874	4,575,391	4,859,154	(283,763)	-5.84%
Omnibus (OIDP)	2099	11,122,920	10,693,306	429,614	4.02%
Omnibus (OCR)	2100	<u>4,214,400</u>	<u>4,214,220</u>	<u>180</u>	0.00%
Total		<u>\$ 49,549,242</u>	<u>\$ 50,656,458</u>	<u>\$ (1,107,216)</u>	-2.19%

During the year, FSM National Government received loan proceeds of \$879,389 for loans under 2100 FSM (SF) and 2099 FSM (SF) Omnibus Infrastructure Development Project. During the year, the FSM National Government made principal and interest payments of \$2,082,523 and recognized a loss on foreign exchange adjustment due SDR of \$95,917. The full amount of \$95,917 was allocated to the States, which also resulted in an increase 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.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Management's Discussion and Analysis
September 30, 2016

Economic Factors and Next year's Budget:

Fiscal year 2016 represents the twelfth 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 \$81.1 million. Funding under the amended Compact represents 3% of the National Government FY16 annual budget. The remaining 97% came from locally generated tax revenues, fishing access fees, investment earnings and related government services fees.

The FSM National Government ended fiscal year 2016 with a positive unassigned general fund surplus.

For FY2017, the total revenue projection is approximately \$88,199,244, of which \$77,041,124 or 87% will come from domestic source, \$11,158,120 or 13% will come from the amended compact sector grants (\$8,545,500 will be used for COM infrastructure project).

In the beginning of FY2016, the first annual appropriation amounts to \$75,429,823 of which \$73,379,277 or 97% is to be funded by locally generated revenues of the FSM National Government and \$2,050,546 or 3% will come from amended sector grants.

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

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, 2016

	Primary Government	Component Units
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 58,038,530	\$ 42,179,897
Cash and cash equivalents - restricted	5,318,821	-
Time certificates of deposit	4,030,617	1,645,629
Investments	112,553,950	2,734,393
Receivables, net of allowance for uncollectibles	64,254,067	16,480,518
Due from component units	-	12,412,524
Inventories	-	13,946,717
Other current assets	-	2,713,989
Total current assets	244,195,985	92,113,667
Noncurrent assets:		
Investments	-	28,470,385
Investments - restricted	16,136,746	-
Receivables, net of current portion	-	18,756,819
Capital assets:		
Nondepreciable capital assets	65,178,827	5,248,589
Capital assets, net of accumulated depreciation	164,276,098	59,262,485
Other assets	9,577,292	3,230,588
Total noncurrent assets	255,168,963	114,968,866
Total assets	\$ 499,364,948	\$ 207,082,533
LIABILITIES		
Current liabilities:		
Current portion of long-term obligations	\$ 2,290,251	\$ 6,204,394
Accounts payable	13,448,193	8,544,846
Current portion of compensated absences payable	309,736	456,704
Due to component units	-	12,412,524
Other liabilities and accruals	6,736,548	11,099,023
Tax refunds payable	154	-
Retention payable	2,123,190	-
Due to federal agencies	1,126,478	-
Due to FSM State Governments	4,708,288	-
Unearned revenues	5,613,573	3,048,577
Total current liabilities	36,356,411	41,766,068
Noncurrent liabilities:		
Long-term obligations, net of current portion	47,258,991	24,202,493
Compensated absences payable, net of current portion	752,638	-
Total noncurrent liabilities	48,011,629	24,202,493
Total liabilities	84,368,040	65,968,561
NET POSITION		
Net investment in capital assets	229,454,925	38,383,993
Restricted for:		
Nonexpendable:		
Future operations	16,136,746	-
Other purposes	-	4,575,892
Expendable:		
Compact related	2,581,838	-
Other purposes	2,817,501	-
Unrestricted	164,005,898	98,154,087
Total net position	414,996,908	141,113,972
Total liabilities and net position	\$ 499,364,948	\$ 207,082,533

See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Statement of Activities
Year Ended September 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
Primary government:						
Governmental activities:						
Office of the President	\$ 3,596,959	\$ -	\$ -	\$ -	\$ (3,596,959)	\$ -
Foreign affairs	4,859,965	-	-	-	(4,859,965)	-
Finance and administration	5,066,941	-	1,617,437	-	(3,449,504)	-
Resources and development	4,280,181	-	2,442,953	-	(1,837,228)	-
Transportation, communication and infrastructure	21,524,715	380,153	20,086,332	-	(1,058,230)	-
Health and social affairs	6,215,062	7,490	4,784,010	-	(1,423,562)	-
Education	8,229,240	-	1,032,608	-	(7,196,632)	-
Justice	4,304,992	1,512,143	-	-	(2,792,849)	-
Office of the Public Defender	727,368	-	-	-	(727,368)	-
SBOC Office	355,339	-	-	-	(355,339)	-
Environment and emergency management	668,452	-	61,887	-	(606,565)	-
National archives, cultural and historic preservation	234,094	-	37,495	-	(196,599)	-
Legislature	6,503,047	-	-	-	(6,503,047)	-
Judiciary	1,573,599	-	-	-	(1,573,599)	-
Office of the National Public Auditor	1,590,453	-	463,282	-	(1,127,171)	-
National government programs	1,388,263	-	-	-	(1,388,263)	-
Agencies, boards and commissions	3,105,311	1,343,600	277,746	-	(1,483,965)	-
Payments to component units	2,105,000	-	-	-	(2,105,000)	-
Legislative public projects	8,360,762	-	-	7,161,032	(1,199,730)	-
Capital projects	482,930	-	-	-	(482,930)	-
Total primary government	\$ 85,172,673	\$ 3,243,386	\$ 30,803,750	\$ 7,161,032	(43,964,505)	-
Component units:						
FSM Telecommunications Corporation	\$ 14,367,279	\$ 14,538,582	\$ 563,730	\$ -	-	735,033
FSM Development Bank	1,789,615	3,916,471	-	-	-	2,126,856
National Fisheries Corporation	480,046	717,686	-	-	-	237,640
College of Micronesia - FSM	20,733,072	21,503,549	-	-	-	770,477
FSM Petroleum Corporation	37,975,747	42,763,730	-	-	-	4,787,983
Vital Energy Inc.	17,042,344	17,296,781	-	-	-	254,437
Caroline Islands Air, Inc.	561,853	674,069	103,307	-	-	215,523
MiCare Plan, Inc.	7,086,091	6,305,982	80,000	-	-	(700,109)
Total component units	\$ 100,036,047	\$ 107,716,850	\$ 747,037	\$ -	-	8,427,840
General revenues:						
Taxes:						
Income					4,275,577	-
Import					4,461,962	-
Gross receipts					4,275,199	-
Corporate tax					5,994,000	-
Fuel					137,474	-
Tobacco revenue share					684,079	-
Fishing rights					63,356,795	-
Unrestricted investment earnings					10,129,214	1,218,133
Other					4,111,531	91,976
Total general revenues					97,425,831	1,310,109
Special item - loss on SDR foreign exchange					(95,917)	-
Special item - write-off of receivable balances					(703,250)	-
Contributions to permanent funds					1,515,691	-
Total general revenues and contributions					98,142,355	1,310,109
Change in net position					54,177,850	9,737,949
Net position at the beginning of year, as previously reported					358,754,525	128,463,011
Implementation of GASB 72 (Note 1)					2,064,533	2,913,012
Net position at the beginning of the year, as restated					360,819,058	131,376,023
Net position at the end of the year					\$ 414,996,908	\$ 141,113,972

See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Balance Sheet
Governmental Funds
September 30, 2016

	General	Special Revenue Grants Assistance	Permanent Compact Trust	Other Governmental Funds	Total
ASSETS					
Cash and cash equivalents	\$ 58,038,530	\$ -	\$ -	\$ -	\$ 58,038,530
Time certificates of deposit	4,030,617	-	-	-	4,030,617
Equity in internal investment pool	104,148,679	2,636,997	-	-	106,785,676
Investments	5,768,274	-	-	-	5,768,274
Receivables, net:					
General	2,162,176	-	-	9,403	2,171,579
Taxes	4,609,714	-	-	-	4,609,714
Federal agencies	-	10,172,473	-	-	10,172,473
Loans	41,122,685	-	-	-	41,122,685
Advances	1,795,666	120,558	-	10,812	1,927,036
Accrued interest	30,708	-	-	-	30,708
Due from other funds	2,009,482	10,368,294	-	3,151,212	15,528,988
Other assets	9,577,292	-	-	-	9,577,292
Restricted assets:					
Cash and cash equivalents	5,318,821	-	-	-	5,318,821
Investments	-	-	16,136,746	-	16,136,746
Total assets	<u>\$ 238,612,644</u>	<u>\$ 23,298,322</u>	<u>\$ 16,136,746</u>	<u>\$ 3,171,427</u>	<u>\$ 281,219,139</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 5,030,427	\$ 8,388,296	\$ -	\$ 29,470	\$ 13,448,193
Retention payable	-	2,123,190	-	-	2,123,190
Other liabilities and accruals	6,736,548	-	-	-	6,736,548
Tax refunds payable	154	-	-	-	154
Due to federal agencies	-	1,126,478	-	-	1,126,478
Due to FSM State Governments	2,712,438	1,995,850	-	-	4,708,288
Due to other funds	13,519,506	1,625,943	-	383,539	15,528,988
Unearned revenues	-	5,613,573	-	-	5,613,573
Total liabilities	<u>27,999,073</u>	<u>20,873,330</u>	<u>-</u>	<u>413,009</u>	<u>49,285,412</u>
Fund balances:					
Non-spendable	55,822,485	-	16,136,746	-	71,959,231
Restricted	1,713,366	2,449,917	-	-	4,163,283
Committed	129,364,388	-	-	2,758,418	132,122,806
Assigned	5,470,891	-	-	-	5,470,891
Unassigned:					
General fund	18,242,441	-	-	-	18,242,441
Special revenue funds	-	(24,925)	-	-	(24,925)
Total fund balances	<u>210,613,571</u>	<u>2,424,992</u>	<u>16,136,746</u>	<u>2,758,418</u>	<u>231,933,727</u>
Total liabilities and fund balances	<u>\$ 238,612,644</u>	<u>\$ 23,298,322</u>	<u>\$ 16,136,746</u>	<u>\$ 3,171,427</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

229,454,925

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

(49,549,242)

Compensated absences payable

(1,062,374)

183,063,181

Net position of governmental activities

\$ 414,996,908

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, 2016

	Special Revenue		Permanent	Other	Total
	General	Grants Assistance	Compact Trust	Governmental Funds	
Revenues:					
Compact funding	\$ -	\$ 8,131,263	\$ -	\$ -	\$ 8,131,263
Taxes	19,600,126	-	-	228,165	19,828,291
Federal and other grants	-	29,833,519	-	-	29,833,519
Fishing rights	63,356,795	-	-	-	63,356,795
Interest and dividends	599,465	-	-	-	599,465
Fees and charges	284,889	-	-	2,962,219	3,247,108
Net change in the fair value of investments	9,529,749	-	1,515,691	-	11,045,440
MiCare reimbursible	422,202	-	-	-	422,202
Other	2,733,375	-	-	217,398	2,950,773
Total revenues	96,526,601	37,964,782	1,515,691	3,407,782	139,414,856
Expenditures:					
Current:					
General government:					
Office of the President	3,624,178	-	-	-	3,624,178
Foreign affairs	5,645,618	-	-	-	5,645,618
Finance and administration	3,415,245	1,617,437	-	-	5,032,682
Resources and development	1,820,937	2,442,953	-	-	4,263,890
Transportation, communication and infrastructure	8,546,603	5,638,169	-	862,437	15,047,209
Health and social affairs	1,159,377	4,784,010	-	-	5,943,387
Education	6,840,662	1,032,608	-	97,267	7,970,537
Justice	3,177,718	-	-	1,070,093	4,247,811
Office of the Public Defender	709,461	-	-	-	709,461
SBOC Office	327,695	-	-	-	327,695
Environment and emergency management	491,349	61,887	-	-	553,236
National archives, cultural and historic preservation	192,270	37,495	-	-	229,765
Legislature	6,480,326	-	-	-	6,480,326
Judiciary	1,524,679	-	-	-	1,524,679
Office of the National Public Auditor	1,084,995	463,282	-	-	1,548,277
Others National Programs	746,614	-	-	-	746,614
Agencies, boards and commissions	2,479,694	277,746	-	297,130	3,054,570
Payments to component units and fiduciary fund	2,105,000	-	-	-	2,105,000
Legislative public projects	10,974,849	-	-	-	10,974,849
Capital projects	-	21,609,921	-	-	21,609,921
Debt service:					
Principal and interest payments	1,986,605	-	-	-	1,986,605
Total expenditures	63,333,875	37,965,508	-	2,326,927	103,626,310
Excess (deficiency) of revenues over (under) expenditures	33,192,726	(726)	1,515,691	1,080,855	35,788,546
Other financing sources (uses):					
Proceeds from issuance of long-term debt	879,389	-	-	-	879,389
Operating transfers in	2,858,157	-	-	-	2,858,157
Operating transfers out	-	-	-	(2,858,157)	(2,858,157)
Total other financing sources (uses), net	3,737,546	-	-	(2,858,157)	879,389
Special items:					
Noncash reduction in loans receivable	(64,333)	-	-	-	(64,333)
Net change in fund balances	36,865,939	(726)	1,515,691	(1,777,302)	36,603,602
Fund balance at the beginning of the year, as previously reported	171,683,099	2,425,718	14,621,055	4,535,720	193,265,592
Implementation of GASB 72 (Note 1)	2,064,533	-	-	-	2,064,533
Fund balances at the beginning of the year, as restated	173,747,632	2,425,718	14,621,055	4,535,720	195,330,125
Fund balances at the end of the year	\$ 210,613,571	\$ 2,424,992	\$ 16,136,746	\$ 2,758,418	\$ 231,933,727

See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund
Balances of Governmental Funds to the Statement of Activities
Year Ended September 30, 2016

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

Net change in fund balances - total governmental funds	\$ 36,603,602
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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	\$ 26,775,398	
Depreciation expense, net	<u>(10,319,447)</u>	16,455,951

Special item associated with loss on SDR foreign exchange adjustment.	(95,917)
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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.

Loan proceeds received from ADB loans.	(879,389)
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Repayment of ADB loans	2,082,522
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in compensated absences payable	<u>11,081</u>
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Change in net position of governmental activities	\$ <u>54,177,850</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, 2016

	<u>FSM Social Security Administration</u>	<u>Yap State Development Loan Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 4,152,302	\$ 119,479	\$ 4,271,781
Time certificates of deposit	-	148,574	148,574
Receivables:			
Contributions	2,948,089	-	2,948,089
Other	65,977	633	66,610
Investments	43,693,123	-	43,693,123
Capital assets, net of accumulated depreciation	<u>69,916</u>	<u>-</u>	<u>69,916</u>
Total assets	<u>\$ 50,929,407</u>	<u>\$ 268,686</u>	<u>\$ 51,198,093</u>
<u>LIABILITIES</u>			
Accounts payable	\$ 226,484	\$ 13,334	\$ 239,818
Other liabilities and accruals	<u>31,261</u>	<u>-</u>	<u>31,261</u>
Total liabilities	<u>257,745</u>	<u>13,334</u>	<u>271,079</u>
<u>NET POSITION</u>			
Held in trust for:			
Social security benefits	50,671,662	-	50,671,662
Restricted	-	633	633
Other purposes	<u>-</u>	<u>254,719</u>	<u>254,719</u>
Total net position	<u>50,671,662</u>	<u>255,352</u>	<u>50,927,014</u>
	<u>\$ 50,929,407</u>	<u>\$ 268,686</u>	<u>\$ 51,198,093</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, 2016

	<u>FSM Social Security Administration</u>	<u>Yap State Development Loan Fund</u>	<u>Total</u>
Additions:			
Contributions	\$ 18,563,485	\$ -	\$ 18,563,485
Investment earnings:			
Net change in the fair value of investments	1,261,672	371	1,262,043
Interest and dividends	<u>1,035,757</u>	<u>-</u>	<u>1,035,757</u>
Total investment earnings	2,297,429	371	2,297,800
Less investment expense	<u>(279,777)</u>	<u>-</u>	<u>(279,777)</u>
Net investment earnings	<u>2,017,652</u>	<u>371</u>	<u>2,018,023</u>
Contributions from primary government	1,000,000	-	1,000,000
Other	<u>553,052</u>	<u>-</u>	<u>553,052</u>
Total additions	<u>22,134,189</u>	<u>371</u>	<u>22,134,560</u>
Deductions:			
Benefits	20,220,775	-	20,220,775
Refunds/distribution	23,303	-	23,303
Administrative expenses	<u>1,236,652</u>	<u>-</u>	<u>1,236,652</u>
Total deductions	<u>21,480,730</u>	<u>-</u>	<u>21,480,730</u>
Change in net position	653,459	371	653,830
Net position at the beginning of the year	<u>50,018,203</u>	<u>254,981</u>	<u>50,273,184</u>
Net position at the end of the year	<u>\$ 50,671,662</u>	<u>\$ 255,352</u>	<u>\$ 50,927,014</u>

See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

**Combining Statement of Net Position
Component Units
September 30, 2016**

	FSM Tele- Communications Corporation	FSM Development Bank	National Fisheries Corporation	College of Micronesia- FSM	FSM Petroleum Corporation	Vital Energy Inc.	Caroline Islands Air, Inc.	FSM National Employees' Health Insurance Plan	Total
ASSETS									
Current assets:									
Cash and cash equivalents	\$ 1,390,344	\$ 7,903,776	\$ 827,579	\$ 9,639,424	\$ 8,998,024	\$ 12,529,991	\$ 395,159	\$ 495,600	\$ 42,179,897
Time certificates of deposit	277,536	937,542	-	30,551	-	400,000	-	-	1,645,629
Investments	1,635,651	-	-	-	-	-	-	1,098,742	2,734,393
Receivables, net:									
General	1,089,963	4,655	65,441	4,568,617	2,239,873	498,783	53,280	291,823	8,812,435
Loans	-	6,416,000	-	-	-	-	-	-	6,416,000
Interest	128,938	109,937	-	-	-	-	-	-	238,875
Other	830,230	-	1,364	181,614	-	-	-	-	1,013,208
Due from component units	-	-	-	-	12,412,524	-	-	-	12,412,524
Inventories	650,750	-	-	1,218,161	6,521,950	5,489,067	66,789	-	13,946,717
Prepaid expenses	201,250	1,317	-	1,028,822	1,412,578	60,587	9,435	-	2,713,989
Total current assets	6,204,662	15,373,227	894,384	16,667,189	31,584,949	18,978,428	524,663	1,886,165	92,113,667
Noncurrent assets:									
Indefeasible right of use	2,705,663	-	-	-	-	-	-	-	2,705,663
Capital assets:									
Nondepreciable capital assets	250,942	-	-	1,455,685	3,174,562	19,400	-	348,000	5,248,589
Capital assets, net of accumulated depreciation	37,292,096	1,624,211	82,535	6,880,183	13,175,528	203,877	4,055	-	59,262,485
Other assets	-	-	-	-	500,000	-	-	24,925	524,925
Investments	-	20,166,538	1,331,750	4,575,892	2,007,764	-	-	388,441	28,470,385
Loans receivable, net	-	18,756,819	-	-	-	-	-	-	18,756,819
Total noncurrent assets	40,248,701	40,547,568	1,414,285	12,911,760	18,857,854	223,277	4,055	761,366	114,968,866
Total assets	\$ 46,453,363	\$ 55,920,795	\$ 2,308,669	\$ 29,578,949	\$ 50,442,803	\$ 19,201,705	\$ 528,718	\$ 2,647,531	\$ 207,082,533
LIABILITIES									
Current liabilities:									
Current portion of long-term debt	\$ 1,843,782	\$ 133,961	\$ 3,100,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,077,743
Current portion of long-term contract	1,126,651	-	-	-	-	-	-	-	1,126,651
Compensated absences payable	139,556	-	-	317,148	-	-	-	-	456,704
Accounts payable	265,438	111,581	426	300,527	2,864,811	2,078,382	11,383	2,912,298	8,544,846
Due to component units	-	-	-	-	-	12,412,524	-	-	12,412,524
Other liabilities and accruals	885,548	242,955	15,911	1,336,079	5,079,209	3,483,901	4,402	51,018	11,099,023
Unearned revenues	583,575	105,816	-	2,359,186	-	-	-	-	3,048,577
Total current liabilities	4,844,550	594,313	3,116,337	4,312,940	7,944,020	17,974,807	15,785	2,963,316	41,766,068
Noncurrent liabilities:									
Noncurrent portion of long-term contract	1,072,279	-	-	-	-	-	-	-	1,072,279
Noncurrent portion of long-term debt	22,109,294	1,020,920	-	-	-	-	-	-	23,130,214
Total noncurrent liabilities	23,181,573	1,020,920	-	-	-	-	-	-	24,202,493
Total liabilities	28,026,123	1,615,233	3,116,337	4,312,940	7,944,020	17,974,807	15,785	2,963,316	65,968,561
NET POSITION									
Net investment in capital assets	11,391,032	1,624,211	82,535	8,335,868	16,350,090	223,277	4,055	372,925	38,383,993
Restricted for:									
Nonexpendable	-	-	-	4,575,892	-	-	-	-	4,575,892
Unrestricted	7,036,208	52,681,351	(890,203)	12,354,249	26,148,693	1,003,621	508,878	(688,710)	98,154,087
Total net position	18,427,240	54,305,562	(807,668)	25,266,009	42,498,783	1,226,898	512,933	(315,785)	141,113,972
Total liabilities and net position	\$ 46,453,363	\$ 55,920,795	\$ 2,308,669	\$ 29,578,949	\$ 50,442,803	\$ 19,201,705	\$ 528,718	\$ 2,647,531	\$ 207,082,533

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, 2016

	FSM Tele- Communications Corporation	FSM Development Bank	National Fisheries Corporation	College of Micronesia- FSM	FSM Petroleum Corporation	Vital Energy Inc.	Caroline Islands Air, Inc.	FSM National Government Employees' Health Insurance Plan	Total
Operating revenues:									
Charges for services	\$ 14,293,427	\$ 2,736,600	\$ 682,500	\$ 20,324,319	\$ 42,630,453	\$ 17,296,781	\$ 674,069	\$ 6,302,975	\$ 104,941,124
Other	245,155	1,179,871	35,186	1,179,230	133,277	-	-	3,007	2,775,726
Total operating revenues	14,538,582	3,916,471	717,686	21,503,549	42,763,730	17,296,781	674,069	6,305,982	107,716,850
Operating expenses:									
Cost of services	422,348	52,030	-	-	24,947,476	13,726,840	521,058	6,480,729	46,150,481
Depreciation and amortization	4,436,711	146,069	7,777	841,199	1,854,881	60,692	6,081	20,891	7,374,301
Administrative costs	9,508,220	1,591,516	472,269	19,506,953	10,270,094	3,024,578	34,714	584,471	44,992,815
Total operating expenses	14,367,279	1,789,615	480,046	20,348,152	37,072,451	16,812,110	561,853	7,086,091	98,517,597
Operating income (loss)	171,303	2,126,856	237,640	1,155,397	5,691,279	484,671	112,216	(780,109)	9,199,253
Nonoperating revenues (expenses):									
Net change in the fair value of investments	87,043	1,192,397	564,750	515,973	136,541	-	-	15,660	2,512,364
Interest income (expense)	(1,303,682)	-	-	-	(20,946)	30,397	-	-	(1,294,231)
Contributions from primary government	563,730	-	-	-	-	-	103,307	80,000	747,037
Other income (expense)	-	-	91,117	(384,920)	(903,296)	(230,234)	-	859	(1,426,474)
Total nonoperating revenues (expenses), net	(652,909)	1,192,397	655,867	131,053	(787,701)	(199,837)	103,307	96,519	538,696
Net income (loss)	(481,606)	3,319,253	893,507	1,286,450	4,903,578	284,834	215,523	(683,590)	9,737,949
Net position at the beginning of the year, as previously reported	18,908,846	48,073,297	(1,701,175)	23,979,559	37,595,205	942,064	297,410	367,805	128,463,011
Implementation of GASB 72 (Note 1)	-	2,913,012	-	-	-	-	-	-	2,913,012
Net position at the beginning of the year, as restated	18,908,846	50,986,309	(1,701,175)	23,979,559	37,595,205	942,064	297,410	367,805	131,376,023
Net position at the end of the year	\$ 18,427,240	\$ 54,305,562	\$ (807,668)	\$ 25,266,009	\$ 42,498,783	\$ 1,226,898	\$ 512,933	\$ (315,785)	\$ 141,113,972

See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2016

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

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2016

(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, 2016, 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, 2016

(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 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.
- FSM National Government Employees' Health Insurance Plan also known as MiCare Plan, Inc. (the Plan) was initially created by Public Law 3-82 in 1984 and amended by Public Law 12-77 of the Twelfth Congress of the Federated States of Micronesia (FSM) National Government in 2003. The purpose of the Plan is to provide, arrange for, pay for, or reimburse the costs of medical, dental and vision treatment and care, hospitalization, surgery, prescription drugs, medicine, prosthetic appliances, out-patient care, and other medical care benefits, in cash or the equivalent in medicines and supplies. The Plan is under the governance of a seven-member Board of Directors, four of whom represents each of the four states of the FSM, one represents the FSM National Government, and one the private healthcare sector. These six members are appointed by the FSM President with the confirmation of the FSM Congress. The seventh member of the Board is the Plan Administrator who is selected by the Board and serves as an ex-officio member.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2016

(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.
- 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.

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

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2016

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide Financial Statements, Continued

- *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 such to be available for general operations.

The government-wide Statement of Net Position reports \$21,536,085 of restricted net position, of which \$2,817,501 is restricted by enabling legislation.

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

C. Fund Financial Statements

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

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

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2016

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting

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

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

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

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

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

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.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2016

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

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.

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

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

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.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2016

(1) Summary of Significant Accounting Policies, Continued

F. Investments

Investments and related investment earnings of the primary government and the discretely presented component units are recorded at fair value using quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability (ie., the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.

The FSM National Government categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In certain instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy is based on the lowest level of input that is significant to the fair measurement. Investments not categorized under the fair value hierarchy are shown at either Net Asset Value (NAV) or amortized cost.

G. Receivables

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

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

H. Prepaid Items

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

I. Interfund Receivables/Payables

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

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

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2016

(1) Summary of Significant Accounting Policies, Continued

J. Inventories

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

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 \$16,136,746 are restricted in that they are not available to be used in current operations.

As of September 30, 2016, 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	\$ 3,616,931
Deposit accounts maintained for certain non-U.S. donor agencies (ADB, People's Republic of China, Japan, European Union)	1,012,504
Deposit account established for the Airport Improvement Program	10,180
Deposit account maintained for proceeds from dormant bank accounts established in accordance with Public Law 13-56	575,742
Deposit accounts established for imprest funds in accordance with ADB Loans 2099 and 2100	85,272
Other miscellaneous deposit accounts	<u>18,192</u>
	\$ <u>5,318,821</u>

L. Other Assets

The FSM National Government owns 50,000 shares of the outstanding common stock of a commercial enterprise located in the Commonwealth of the Northern Marianas with a carrying value of \$1,500,000. In addition, the FSM National Government maintains equity membership shares in the International Monetary Fund of \$1,149,850 and the Asian Development Bank of \$6,927,442 (SDR 4,260,000). These equity interests do not meet the definition of investments as the assets are held primarily for economic development and are presented as other assets in the accompanying financial statements.

M. Indefeasible Right of Use

The FSM 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.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2016

(1) Summary of Significant Accounting Policies, Continued

N. Capital Assets

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

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

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

O. Deferred Outflows of Resources

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

P. 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.

Q. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Annual leave accumulates at the rate of 4 hours bi-weekly, if less than 3 years of service, 6 hours bi-weekly, if between 3 and 10 years of service, and 8 hours bi-weekly if over 10 years of service, limited to 45 working days.

**FEDERATED STATES OF MICRONESIA
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Notes to Financial Statements
September 30, 2016

(1) Summary of Significant Accounting Policies, Continued

R. 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 represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. The FSM National Government has no items that qualify for reporting in this category.

S. Fund Balance

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

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

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

A formal minimum fund balance policy has not been adopted.

T. Interfund/Intrafund Transactions

As a general rule, the effect of interfund activity has been eliminated in the government-wide financial statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned.

**FEDERATED STATES OF MICRONESIA
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Notes to Financial Statements
September 30, 2016

(1) Summary of Significant Accounting Policies, Continued

U. Risk Financing

The FSM National Government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the primary government not to purchase commercial insurance for the risks of loss to which it is exposed. Instead, the FSM National Government management believes it is more economical to manage its risks internally. In the event of claim settlements and judgments, the FSM National Government reports all of its risk management activities in its General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. No losses have occurred as a result of these risks in any of the past three fiscal years.

V. New Accounting Standards

During fiscal year 2016, the FSM National Government implemented the following pronouncements:

- GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The implementation of this statement required additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Additionally, the implementation resulted in the re-measurement of equity investment from cost-basis to the net asset value (NAV), as cost-basis measurement is no longer an allowable measurable method for equity investment. Such implementation had a material effect on the accompanying financial statements resulting in the restatement of the FSM National Government's beginning net position/fund balance. Net position for governmental activities and fund balance for the General Fund as of October 1, 2015 increased by \$2,064,533 and net position for the discretely presented component units as of October 1, 2015 increased by \$2,913,012 as a result of the implementation of GASB Statement No. 72. Refer to Note 2B for more information regarding the State's investments.
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014. The implementation of this statement did not have a material effect on the accompanying financial statements.

**FEDERATED STATES OF MICRONESIA
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Notes to Financial Statements
September 30, 2016

(1) Summary of Significant Accounting Policies, Continued

V. New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. 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 June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. 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 June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. 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 August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. 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 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the FSM National Government.

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Notes to Financial Statements
September 30, 2016

(1) Summary of Significant Accounting Policies, Continued

V. New Accounting Standards, Continued

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. 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 March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the FSM National Government.

W. Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and deferred outflows of resources, liabilities and deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

X. 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, 2015 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.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2016

(2) Deposits and Investments, Continued

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

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

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

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

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.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2016

(2) Deposits and Investments, Continued

A. Deposits, Continued

As of September 30, 2016, the carrying amount of the primary government's total cash and cash equivalents and time certificates of deposit was \$67,387,968 and the corresponding bank balances were \$68,788,361. Of the bank balances, \$56,607,774 is maintained in financial institutions subject to FDIC insurance or a credit union subject to National Credit Union Administration (NCUA) insurance; while \$4,030,617 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, 2016 while the remaining amount of \$8,149,970 is maintained in financial institutions not subject to FDIC or NCUA insurance.

As of September 30, 2016, bank deposits in the amount of \$1,000,000 were FDIC insured and bank deposits in the amount of \$250,000 were NCUA insured. The FSM National Government does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC or NCUA insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

As of September 30, 2016, the carrying amount of the fiduciary funds' total cash and cash equivalents and time certificates of deposit was \$4,420,355 and the corresponding bank balances were \$4,647,113. Of the bank balances, \$1,680,184 is maintained in financial institutions subject to FDIC insurance. The remaining amount of \$1,277,723 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, 2016 while the remaining amount of \$1,689,206 is maintained in financial institutions not subject to FDIC or NCUA insurance. As of September 30, 2016, 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, 2016, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$34,698,099 and the corresponding bank balances were \$35,283,358, which are maintained in financial institutions subject to FDIC insurance. As of September 30, 2016, bank deposits in the amount of \$3,683,573 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, 2016

(2) Deposits and Investments, Continued

B. Investments

Primary Government

As of September 30, 2016, the FSM National Government's investments are as follows:

General Fund:	
Fixed income	\$ 36,315,026
Domestic equities	5,768,274
Common equities	63,364,402
Cash management account	<u>7,106,248</u>
	<u>112,553,950</u>
Compact Trust Fund:	
Common trust funds:	
Domestic Equity	4,387,176
International Equity	5,329,841
Fixed Income	3,063,656
Hedge Fund	1,402,941
Real Estate	1,821,323
Money market funds	<u>131,809</u>
	<u>16,136,746</u>
	\$ <u>128,690,696</u>

As of September 30, 2016, 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	\$ 182,607	\$ 140,966	\$ 91,426	\$ 8,544	\$ 423,543
U.S. Government Agencies Obligations:						
Federal Home Loan Bank Disc	AAA	51,639	-	-	-	51,639
Federal Home Loan Mortgage Corporation	AAA	52,626	2,023	-	14,374	69,023
Government National Mortgage Association	AAA	-	-	-	774	774
Federal National Mortgage Association	AAA	4,935	41,583	-	22,789	69,307
NCUA Guarantee Noes	AAA	11,635	-	-	-	11,635
Overseas Private Inv. Corp	AAA	-	-	69,000	-	69,000
Private Export Funding	AAA	-	-	24,443	-	24,443
Tennessee Valley Authority	AAA	-	-	12,905	-	12,905
AID-Tunisia	No rating	-	23,247	-	-	23,247
Municipal Obligations	Aaa/AAA	-	13,902	-	4,237	18,139
Municipal Obligations	Aa/AA	-	15,157	5,975	6,431	27,563
Corporate Bonds	Aaa/AAA	19,558	19,365	13,425	-	52,348
Corporate Bonds	As/AA	34,504	88,158	-	-	122,662
Corporate Bonds	A	140,221	21,959	12,904	48,929	224,013
Corporate Bonds	Baa/BBB	-	9,367	9,932	-	19,309
Corporate Bonds	No rating	-	-	-	<u>8,590</u>	<u>8,590</u>
		<u>\$ 497,725</u>	<u>\$ 375,737</u>	<u>\$ 240,010</u>	<u>\$ 114,668</u>	<u>\$ 1,228,140</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2016

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

<u>Investment Type (no aging schedule)</u>	<u>Fair Value</u>	<u>Credit Ratings</u>
U.S. Treasury Notes and Bonds	\$ 11,431,307	AAA
U.S. Government Agencies Obligations	1,203,480	Aa2
Mortgage Backed Asset-Backed	6,820,891	Aa1
	1,185,937	Aa3
Corporate Bonds - Industrial	7,175,268	Baa1
Corporate Bonds - Finance	4,641,995	Baa1
Corporate Bonds - Yankee Bond	1,221,024	A2
Corporate Bonds - Utilities	491,216	Baa1
Corporate Bonds - Others	<u>915,768</u>	A2
	<u>\$ 35,086,886</u>	

The FSM National Government has the following recurring fair value measurements as of September 30, 2016:

General Fund:	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level:				
Fixed income:				
U.S. Treasury obligations	\$ 11,854,851	\$ -	\$ 11,854,851	\$ -
U.S. Government Agencies	9,542,281	-	9,542,281	-
Municipal obligations	45,702	-	45,702	-
Corporate notes	<u>14,872,192</u>	<u>-</u>	<u>14,872,192</u>	<u>-</u>
	36,315,026	-	36,315,026	-
Equity securities:				
U.S. equities	<u>63,364,402</u>	<u>63,364,402</u>	<u>-</u>	<u>-</u>
Total investments at fair value	99,679,428	\$ <u>63,364,402</u>	\$ <u>36,315,026</u>	\$ <u>-</u>
Investments measured at NAV:				
Equity investment in Bank of the FSM	5,768,274			
Investments measured amortized cost:				
Cash management account	<u>7,106,248</u>			
	<u>\$ 112,553,950</u>			
 Compact Trust Fund				
	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments at fair value level:				
Common trust funds:				
Domestic Equity	\$ 4,387,176	\$ 4,387,176	\$ -	\$ -
International Equity	4,140,595	4,140,595	-	-
Fixed Income	3,063,656	3,063,656	-	-
Private Equity	<u>1,189,246</u>	<u>-</u>	<u>-</u>	<u>1,189,246</u>
Total investments at fair value	12,780,673	\$ <u>11,591,427</u>	\$ <u>-</u>	\$ <u>1,189,246</u>
Investments measured at NAV:				
Hedge Fund	1,402,941			
Real Estate	1,821,323			
Investments measured at amortized cost:				
Money market funds	<u>131,809</u>			
	<u>\$ 16,136,746</u>			

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2016

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

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, 2016.

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, 2016, 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.

The Trust Fund's fixed income allocation consists of a Mercer Investment Management Opportunistic Fixed Income mutual fund ("MIM OFI") and a Mercer Investment Management Core Fixed Income Fund ("MIM CFI"); the performance of these funds is expected to closely replicate the performance of 50% of the JP Morgan Government Bond Index Emerging Market Global Diversified Index and 50% Bank of America/Merrill Lynch Global High Yield and the Barclays Capital U.S. Aggregate Bond Index, respectively. The bonds held by MIM CFI vary in credit quality with an average overall rating of "Aa3" as rated by Moody's as of September 30, 2016. High yield debt receiving a credit rating below "A" comprises approximately 32.2% of the MIM CFI fixed income portfolio as rated by Moody's at September 30, 2016. At September 30, 2016, the weighted average maturity of the bonds comprising MIM CFI is 8.23 years.

The bonds held by MIM OFI vary in credit quality with an average overall rating of "BB" as rated by Moody's as of September 30, 2016. High yield debt receiving a credit rating below "A" comprises approximately 83.6% of the MIM OFI fixed income portfolio as rated by Moody's at September 30, 2016. At September 30, 2016, the weighted average maturity of the bonds comprising MIM OFI is 3.70 years.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2016

(2) Deposits and Investments, Continued

B. Investments, Continued

The Trust Fund's investment policy does not require direct investment in fixed maturity securities ("Bonds") as a means of managing its exposure to loss of principal due to increasing interest rates. The Trust Fund's investment policy requires the performance of each investment class to be periodically compared with an associated benchmark. Bonds and bond funds generally decrease in value in response to rising interest rates. Bonds, however, have a fixed date of maturity and do not have exposure to loss of principal from rising interest rates, whereas shares of a common trust fund, ETF, or similar investment vehicle have no maturity date.

The Trust Fund's exposure to foreign currency risk is derived from its investment in common trust funds, ETFs and REITs that hold investments in securities of foreign issuers and sovereigns. Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair values of an investment or deposit. At September 30, 2016, the Trust Fund held approximately \$1,407,000 in securities of foreign issuers held in common trust funds. Of this amount, approximately \$303,000 was held in securities whose functional currency is the Euro, \$168,000 whose functional currency is the British pound, \$155,000 whose functional currency is the Japanese yen, and \$781,000 in functional currencies of 35 other countries. Foreign currency exposure data is not available for the Trust Fund's investment in the Hedge Funds and its investments in Global Private Equity Funds, which comprise 16.4% of invested assets at September 30, 2016.

The Trust Fund's investment in hedge funds includes ownership of the Mercer Hedge Fund Series A ("Mercer Hedge Fund") and the Blackstone Partners Offshore Fund Ltd. Mercer Hedge Funds Investors SPC, who incorporated the Mercer Hedge Fund, and the Blackstone Partners Offshore Fund Ltd. are registered under the Mutual Funds Law of the Cayman Islands. The fair value of the Trust Fund's position in the hedge fund pools are equivalent to the value of the pool shares.

The FSM National 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. An equity investment in the common stock of the Bank of the Federated States of Micronesia (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.

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.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2016

(2) Deposits and Investments, Continued

B. Investments, Continued

Fiduciary Funds, Continued

FSM Social Security Administration (FSMSSA), Continued:

- 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.
- 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, 2016, FSMSSA's investments are as follows:

Fixed income	\$ 14,890,932
Domestic equities	16,420,415
International equities	7,743,952
Real estate	<u>4,637,824</u>
	<u>\$ 43,693,123</u>

As of December 31, 2016, FSMSSA's investments in fixed income securities were as follows:

	<u>Investment Maturities (In Years)</u>				
	<u>Less Than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>Greater Than 10</u>	<u>Fair Value</u>
U.S. Treasury obligations	\$ 515,659	\$ 2,567,549	\$ 2,422,084	\$ 3,027,461	\$ 8,532,753
Mortgage and asset-backed securities	-	508,160	1,079,644	836,276	2,424,080
Corporate notes and bonds	-	1,854,056	2,080,043	-	3,934,099
	<u>\$ 515,659</u>	<u>\$ 4,929,765</u>	<u>\$ 5,581,771</u>	<u>\$ 3,863,737</u>	<u>\$ 14,890,932</u>

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

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2016

(2) Deposits and Investments, Continued

B. Investments, Continued

Fiduciary Funds, Continued

FSM Social Security Administration (FSMSSA), Continued:

FSMSSA's exposure to credit risk at December 31, 2016, was as follows:

<u>Standard and Poors' Rating</u>	<u>Domestic</u>
AAA	\$ 8,532,753
AA+	339,721
AA	222,825
A	304,644
A2/A-	401,581
A3/A-	951,585
A3/BBB+	891,905
BAA1/BBB+	243,814
BAA3/BBB	578,023
Not rated	<u>2,424,081</u>
	<u>\$ 14,890,932</u>

FSMSSA has the following recurring fair value measurements as of December 31, 2016:

	<u>Fair Value Measurements Using</u>			
	<u>Total</u>	<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investments by fair value level:				
Fixed income securities	\$ 14,890,932	\$ -	\$ 14,890,932	\$ -
Equity securities	24,164,367	24,164,367	-	-
Real estate investment trust and tangibles	<u>4,637,824</u>	<u>4,637,824</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	<u>\$ 43,693,123</u>	<u>\$ 28,802,191</u>	<u>\$ 14,890,932</u>	<u>\$ -</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, 2016.

As of December 31, 2016, 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.

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

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2016

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units

FSM Telecommunications Corporation (FSMTC):

As of September 30, 2016, FSMTC's investments are as follows:

Fixed income securities:	
U.S. Treasury obligations	\$ 177,886
U.S. Government agencies	29,072
Corporate notes	199,584
Other investments:	
Domestic and international equities	1,156,239
Money market funds	<u>72,870</u>
	<u>\$ 1,635,651</u>

As of September 30, 2016, FSMTC's investments in debt securities were as follows:

	Moody's Credit Rating	Investment Maturities (In Years)				Fair Value
		Less Than 1	1 to 5	6 to 10	Greater Than 10	
U.S. Treasury obligations	Aaa/P-1	\$ 40,698	\$ 102,523	\$ 16,805	\$ 17,860	\$ 177,886
U.S. Government agencies	Aaa/P-1	10,047	19,025	-	-	29,072
Corporate notes	AA3/P-1	-	15,778	-	-	15,778
Corporate notes	A1/P-1	-	34,447	-	-	34,447
Corporate notes	A2/P-1	10,182	30,251	16,003	-	56,436
Corporate notes	A3-/P-1	-	20,694	-	-	20,694
Corporate notes	BAA1/P-2	8,030	8,202	11,671	-	27,903
Corporate notes	BAA2/P-2-3	-	24,713	8,877	-	33,590
Corporate notes	BAA3/P-3	-	-	10,736	-	10,736
		<u>\$ 68,957</u>	<u>\$ 255,633</u>	<u>\$ 64,092</u>	<u>\$ 17,860</u>	<u>\$ 406,542</u>

FSMTC has the following recurring fair value measurements as of September 30, 2016:

	Total	Fair Value Measurements Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Fixed income:				
U.S. Treasury obligations	\$ 177,886	\$ -	\$ 177,886	\$ -
U.S. Government agencies	29,072	-	29,072	-
Corporate notes	<u>199,584</u>	-	<u>199,584</u>	-
	406,542	-	406,542	-
Equity securities:				
U.S. equities	858,087	858,087	-	-
Non U.S. equities	<u>298,152</u>	<u>298,152</u>	-	-
Total investments by fair value level	1,562,781	<u>\$ 1,156,239</u>	<u>\$ 406,542</u>	\$ -
Investments measured at amortized cost:				
Money market funds	<u>72,870</u>			
	<u>\$ 1,635,651</u>			

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2016

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

College of Micronesia - FSM (COM-FSM):

As of September 30, 2016, COM-FSM's investments are as follows:

Fixed income securities:	
Domestic fixed income	\$ 766,384
International fixed income	<u>261,980</u>
	<u>1,028,364</u>
Other investments:	
Common equities	3,192,417
Exchange traded funds	161,548
Money market funds	<u>193,563</u>
	<u>3,547,528</u>
	\$ <u>4,575,892</u>

As of September 30, 2016, COM-FSM's fixed income securities had the following maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>5-10</u>	<u>more than 10</u>
Mortgage and asset- securities	\$ 126,674	\$ -	\$ 126,674	\$ -	\$ -
Corporate bond	340,020	-	22,579	268,510	48,931
International bond	261,980	261,980	-	-	-
Government bond	<u>299,690</u>	<u>-</u>	<u>99,390</u>	<u>121,484</u>	<u>78,816</u>
	\$ <u>1,028,364</u>	\$ <u>261,980</u>	\$ <u>248,643</u>	\$ <u>389,994</u>	\$ <u>127,747</u>

COM-FSM's exposure to credit risk at September 30, 2016, was as follows:

<u>Moody's Rating</u>	<u>Domestic</u>	<u>International</u>	<u>Total</u>
AAA/AAA	\$ 426,364	\$ -	\$ 426,364
AA1/AA+	24,107	-	24,107
A1/AA+	46,342	-	46,342
A1/A	48,514	-	48,514
A1/AA-	46,579	-	46,579
A3/A	46,413	-	46,413
A3/A-	46,382	-	46,382
A3/BBB+	23,949	-	23,949
BA1/BBB+	24,134	-	24,134
BAA1/A-	33,600	-	33,600
BAA1/BBB+	<u>-</u>	<u>261,980</u>	<u>261,980</u>
Total credit risk debt securities	\$ <u>766,384</u>	\$ <u>261,980</u>	\$ <u>1,028,364</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2016

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

College of Micronesia - FSM (COM-FSM), Continued, Continued

COM-FSM has the following recurring fair value measurements as of September 30, 2016:

	Total	Fair Value Measurements Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Fixed income securities	\$ 1,028,364	\$ -	\$ 1,028,364	\$ -
Equity securities	3,192,417	3,192,417	-	-
Mutual funds	<u>161,548</u>	<u>161,548</u>	-	-
Total investments by fair value level	4,382,329	\$ <u>3,353,965</u>	\$ <u>1,028,364</u>	\$ <u>-</u>
Investments measured at amortized cost:				
Money market funds	<u>193,563</u>			
	\$ <u>4,575,892</u>			

FSM Development Bank (FSMDB):

As of December 31, 2016, FSMDB's investments are as follows:

Fixed income	\$ 5,121,414
Common equities	8,895,921
Mutual funds	1,048,963
Domestic equities	<u>5,100,240</u>
	\$ <u>20,166,538</u>

As of December 31, 2016, FSMDB's investments in fixed income securities are as follows:

	Moody's Credit Rating	Investment maturities (in Years)				Fair Value
		Less Than 1	1 to 5	6 to 10	Greater Than 10	
U.S. Government securities:						
U.S. Treasury Notes	Aaa	\$ -	\$ -	\$ 1,827,784	\$ -	\$ 1,827,784
U.S. Government agencies:						
Federal Home Loan Bank	Aaa	210,199	-	-	-	210,199
Federal Farm Credit Bank	Aaa	320,176	580,003	-	-	900,179
Federal National Mortgage Association	Not rated	-	295,620	97,234	402,970	795,824
Federal Home Loan Mortgage Corp.	Not rated	-	-	-	243,677	243,677
Corporate bonds	A3	-	87,617	714,338	-	801,955
Corporate bonds	A2	-	147,416	-	-	147,416
Corporate bonds	Baa3	-	-	<u>194,380</u>	-	<u>194,380</u>
		\$ <u>530,375</u>	\$ <u>1,110,656</u>	\$ <u>2,833,736</u>	\$ <u>646,647</u>	\$ <u>5,121,414</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2016

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

FSM Development Bank (FSMDB), Continued

FSMDB has the following recurring fair value measurements as of December 31, 2016 and 2015:

	Total	Fair Value Measurements Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Fixed income:				
U.S. Treasury obligations	\$ 1,827,784	\$ -	\$ 1,827,784	\$ -
U.S. Government Agencies	2,149,879	-	2,149,879	-
Corporate notes	<u>1,143,751</u>	-	<u>1,143,751</u>	-
	5,121,414	-	5,121,414	-
Equity securities:				
U.S. equities	8,895,921	8,895,921	-	-
Mutual funds	<u>1,048,963</u>	<u>1,048,963</u>	-	-
Total investments by fair value level	15,066,298	\$ <u>9,944,884</u>	\$ <u>5,121,414</u>	\$ _____
Investments measured at NAV:				
Equity investment in Bank of the FSM	<u>5,100,240</u>			
	\$ <u>20,166,538</u>			

At December 31, 2016, the equity investment in Bank of the FSM represents 225,000 common shares and approximately 24.1% ownership interest.

National Fisheries Corporation (NFC):

NFC has previously been directly involved in the management of certain joint ventures through management and marketing agreements entered into with the respective parties. The investment in Micronesia Longline Fishing Company (MLFC), Yap Fishing Corporation (YFC), Yap Fresh Tuna, Inc. (YFTI), Chuuk Fresh Tuna, Inc. (CFTI), and Kosrae Sea Venture Inc. (KSVI) are accounted for using the equity method and, accordingly, the carrying values of these investments have been reduced to \$0. In 2016 and 2015, financial statements for these joint ventures were not available. Management has asserted that it is unable to control these joint ventures and does not believe that it is liable for any additional losses, if any, of these entities that may occur. On March 3, 2012, NFC invested \$75,000 in Taiyo Micronesia Corporation (TMC). The equity investment in TMC represents 750 shares of common stock and a 25% ownership interest.

The investment in TMC is recorded using the equity method of accounting. Under this method, NFC recognizes its proportionate share of TMC's earnings or losses based on its ownership interest. Dividends received from TMC reduce NFC's investment.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2016

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

FSM Petroleum Corporation (FSMPC):

As of December 31, 2016, FSMPC's investments are as follows:

Fixed income securities:	
Domestic fixed income	\$ 476,703
International fixed income	<u>200,567</u>
	677,270
Other investments:	
Common equities	828,406
Exchange traded funds	443,864
Money market funds	<u>58,224</u>
	<u>1,330,494</u>
	\$ <u>2,007,764</u>

As of December 31, 2016, FSMPC's fixed income securities had the following maturities:

<u>Investment Type</u>	<u>Fair value</u>	<u>Less than 1 year</u>	<u>1 to 5 years</u>	<u>5 to 10 years</u>	<u>More than 10 years</u>
Mortgage and asset-backed securities	\$ 81,868	\$ -	\$ 81,868	\$ -	\$ -
International bonds	200,567	200,567	-	-	-
Corporate bonds	208,238	-	14,248	164,819	29,171
U.S. Government Agency Bonds	<u>186,597</u>	-	<u>92,863</u>	<u>48,936</u>	<u>44,798</u>
	\$ <u>677,270</u>	\$ <u>200,567</u>	\$ <u>188,979</u>	\$ <u>213,755</u>	\$ <u>73,969</u>

FSMPC's exposure to credit risk at December 31, 2016, was as follows:

Moody's Rating

AAA	\$ 268,464
A1	13,844
A2	29,518
A3	90,642
BAA1	28,956
BAA2	30,088
BAA3	15,191
Not rated	<u>200,567</u>
	\$ <u>677,270</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2016

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

FSM Petroleum Corporation (FSMPC), Continued

FSMPC has the following recurring fair value measurements as of December 31, 2016:

	<u>Fair Value Measurements Using</u>			
	<u>Total</u>	<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobserva ble Inputs (Level 3)</u>
Investments by fair value level:				
Fixed income securities	\$ 677,270	\$ -	\$ 677,270	\$ -
Equity securities	828,406	828,406	-	-
Exchange-traded funds	<u>443,864</u>	<u>443,864</u>	-	-
Total investments by fair value level	1,949,540	\$ <u>1,272,270</u>	\$ <u>677,270</u>	\$ <u>-</u>
Investments measured at amortized cost:				
Money market funds	<u>58,224</u>			
	\$ <u>2,007,764</u>			

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

As of September 30, 2016, the Plan's investments are as follows:

Fixed income	\$ 1,075,361
Money market funds	<u>23,381</u>
	\$ <u>1,098,742</u>

As of September 30, 2016, the Plan's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

	<u>Moody's Credit Rating</u>	<u>Less than 1 Year</u>	<u>1 to 5 Years</u>	<u>5-10 Years</u>	<u>Fair Value</u>
U.S. Treasury obligations	AAA	\$ 85,016	\$ 326,900	\$ -	\$ 411,915
U.S. Government agencies obligations	AAA	285,364	25,022	-	310,387
Corporate bonds	Aaa	-	16,148	-	16,148
Corporate bonds	Aa	23,088	48,613	-	71,701
Corporate bonds	A	39,107	172,317	-	211,424
Corporate bonds	Baa	<u>3,004</u>	<u>50,782</u>	-	<u>53,786</u>
		\$ <u>435,579</u>	\$ <u>639,782</u>	\$ <u>-</u>	\$ <u>1,075,361</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2016

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

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

The Plan has the following recurring fair value measurements as of September 30, 2016:

	Total	<u>Fair Value Measurements Using</u>		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobserva ble Inputs (Level 3)
Investments by fair value level:				
Fixed income securities	\$ 1,075,361	\$ _____	\$ <u>1,075,361</u>	\$ _____
Investments measured at amortized cost:				
Money market funds	<u>23,381</u>			
	<u>\$ 1,098,742</u>			

(3) Receivables

Primary Government

Receivables as of September 30, 2016, 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>	<u>Grants Assistance</u>	<u>Compact Trust</u>	<u>Nonmajor and Fiduciary Funds</u>	<u>Totals</u>
Receivables:					
General	\$ 2,416,459	\$ -	\$ -	\$ 9,403	\$ 2,425,862
Taxes	4,609,714	-	-	-	4,609,714
Government agencies	-	11,763,462	-	-	11,763,462
Contributions	-	-	-	2,948,089	2,948,089
Loans	47,315,952	-	-	-	47,315,952
Advances	1,795,665	120,558	-	10,812	1,927,035
Accrued interest	30,708	-	-	-	30,708
Other	-	-	-	<u>66,610</u>	<u>66,610</u>
	<u>56,168,498</u>	<u>11,884,020</u>	<u>-</u>	<u>3,034,914</u>	<u>71,087,432</u>
Less: allowance for uncollectable accounts	<u>(6,447,549)</u>	<u>(1,590,989)</u>	<u>-</u>	<u>-</u>	<u>(8,038,538)</u>
Net receivables	<u>\$ 49,720,949</u>	<u>\$ 10,293,031</u>	<u>\$ -</u>	<u>\$ 3,034,914</u>	<u>\$ 63,048,894</u>

During the year ended September 30, 2016, certain loans receivable balances resulting from subsidiary loans of loan agreements between the FSM National Government and the Asian Development Bank (ADB) were reduced as a result of foreign exchange gains recognized by these respective subsidiary borrowers. The non-cash reduction in loans receivable of \$703,250 is presented as a special item in the accompanying financial statements and is offset against the governmental activities loss on SDR foreign exchange.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2016

(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. \$ 3,100,000

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. 3,719,792

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 relented 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	\$ 3,163,851	\$ 569,738	
Pohnpei Utilities Corporation	1,942,103	348,769	
Yap State Public Service Corporation	<u>2,115,853</u>	<u>373,707</u>	
	<u>\$ 7,221,807</u>	<u>\$ 1,292,214</u>	8,514,021

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

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NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2016

(3) Receivables, Continued

Primary Government, Continued

General Fund, Continued:

	General Fund	Governmental Activities	
State of Chuuk	\$ 4,363,469	\$ 779,682	
State of Yap	2,862,010	514,978	
State of Kosrae	1,634,723	294,184	
State of Pohnpei	<u>3,459,587</u>	<u>617,848</u>	
	\$ <u>12,319,789</u>	\$ <u>2,206,692</u>	14,526,481

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

	General Fund	Governmental Activities	
State of Chuuk	\$ 223,067	\$ 66,725	
State of Yap	115,656	22,357	
State of Kosrae	<u>96,348</u>	<u>15,993</u>	
	\$ <u>435,071</u>	\$ <u>105,075</u>	540,146

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

	General Fund	Governmental Activities	
State of Chuuk	\$ 1,193,286	\$ 146,352	
State of Yap	801,991	126,710	
State of Kosrae	911,405	164,325	
State of Pohnpei	<u>923,559</u>	<u>178,504</u>	
	\$ <u>3,830,241</u>	\$ <u>615,891</u>	4,446,132

**FEDERATED STATES OF MICRONESIA
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Notes to Financial Statements
September 30, 2016

(3) Receivables, Continued

Primary Government, Continued

General Fund, Continued

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:

	General Fund	
State of Pohnpei/PUC	\$ 6,191,047	
State of Chuuk/CPUC	4,756,435	
State of Yap/GTWA	2,373,787	
State of Kosrae/KUA	<u>1,704,688</u>	
	<u>\$ 15,025,957</u>	15,025,957

Investment Development Fund loans administered by the FSM Development Bank on behalf of the FSM National Government for the economic development of the FSM.

1,663,295
\$ 51,535,824

Discretely Presented Component Units

Receivables as of September 30, 2016, for the discretely presented component units, including applicable allowances for uncollectible accounts, are as follows:

	FSM Tele- Communications Corporation	FSM Development Bank	National Fisheries Corporation	College of Micronesia- FSM	FSM Petroleum Corporation	Vital Energy Inc.	Caroline Islands Air, Inc.	MiCare Plan, Inc.	Total
Receivables:									
General	\$ 2,021,890	\$ 4,655	\$ 65,441	\$ 8,528,917	\$ 2,239,873	\$ 498,783	\$ 53,280	\$ 758,565	\$ 14,171,404
Loans	-	28,392,819	-	-	-	-	-	-	28,392,819
Interest	128,938	109,937	-	-	-	-	-	-	238,875
Other	<u>830,230</u>	<u>-</u>	<u>1,364</u>	<u>181,614</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,013,208</u>
	2,981,058	28,507,411	66,805	8,710,531	2,239,873	498,783	53,280	758,565	43,816,306
Less: allowance for uncollectible accounts	<u>(931,927)</u>	<u>(3,220,000)</u>	<u>-</u>	<u>(3,960,300)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(466,742)</u>	<u>(8,578,969)</u>
	<u>\$ 2,049,131</u>	<u>\$ 25,287,411</u>	<u>\$ 66,805</u>	<u>\$ 4,750,231</u>	<u>\$ 2,239,873</u>	<u>\$ 498,783</u>	<u>\$ 53,280</u>	<u>\$ 291,823</u>	<u>\$ 35,237,337</u>

**FEDERATED STATES OF MICRONESIA
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Notes to Financial Statements
September 30, 2016

(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, 2016, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Grants Assistance	General	\$ 10,368,294
General	Grants Assistance	1,625,943
Nonmajor government funds	General	3,151,212
General	Nonmajor government funds	<u>383,539</u>
		<u>\$ 15,528,988</u>

(5) Capital Assets

Capital asset activities for the year ended September 30, 2016, are as follows:

Primary Government

	<u>Balance October 1, 2015</u>	<u>Additions and Reclassifications</u>	<u>Retirements and Reclassifications</u>	<u>Balance September 30, 2016</u>
Depreciable assets:				
Buildings and improvements	\$ 66,495,168	\$ -	\$ -	\$ 66,495,168
Boats	22,182,407	16,127	-	22,198,534
Infrastructure	125,428,068	1,234,212	-	126,662,280
Motor vehicles	3,084,055	1,341,930	-	4,425,985
Computer equipment	1,941,689	323,114	(4,100)	2,260,703
Aircraft	709,207	-	-	709,207
Furniture, equipment and machinery	<u>7,363,616</u>	<u>1,441,756</u>	<u>-</u>	<u>8,805,372</u>
	<u>227,204,210</u>	<u>4,357,139</u>	<u>(4,100)</u>	<u>231,557,249</u>
Less: accumulated depreciation				
Buildings and improvements	(9,207,144)	(1,443,179)	-	(10,650,323)
Boats	(15,495,862)	(1,121,121)	-	(16,616,983)
Infrastructure	(24,887,504)	(6,333,114)	2,783,232	(28,437,386)
Motor vehicles	(1,976,296)	(512,508)	-	(2,488,804)
Computer equipment	(1,478,670)	(201,609)	2,954	(1,677,325)
Aircraft	(557,705)	(35,460)	-	(593,165)
Furniture, equipment, and machinery	<u>(6,144,709)</u>	<u>(672,456)</u>	<u>-</u>	<u>(6,817,165)</u>
	<u>(59,747,890)</u>	<u>(10,319,447)</u>	<u>2,786,186</u>	<u>(67,281,151)</u>
	<u>167,456,320</u>	<u>(5,962,308)</u>	<u>2,782,086</u>	<u>164,276,098</u>
Land	10,000	1,664,383	-	1,674,383
Construction in progress	<u>45,532,654</u>	<u>21,236,807</u>	<u>(3,265,017)</u>	<u>63,504,444</u>
	<u>45,542,654</u>	<u>22,901,190</u>	<u>(3,265,017)</u>	<u>65,178,827</u>
Net Assets	<u>\$ 212,998,974</u>	<u>\$ 16,938,882</u>	<u>\$ (482,931)</u>	<u>\$ 229,454,925</u>

**FEDERATED STATES OF MICRONESIA
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Notes to Financial Statements
September 30, 2016

(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	\$	47,601
Foreign affairs		100,532
Health and social affairs		336,811
Education		259,201
Resources and development		16,986
Office of National Archives, Cultural and Historic Preservation		4,498
Transportation, communication and infrastructure		7,853,988
Finance and administration		64,458
Justice		429,030
Office of the Public Defender		18,832
Judiciary		49,308
Legislature		87,145
Office of the National Public Auditor		42,747
Environment and emergency management		115,377
National government programs		842,196
Agencies, boards and commissions		<u>50,737</u>
	\$	<u>10,319,447</u>

Discretely Presented Component Units

	Balance October 1, 2015	Additions and Reclassifications	Retirements and Reclassifications	Balance September 30, 2016
Depreciable assets:				
Building and Leasehold Improvements	\$ 35,239,871	\$ 333,527	\$ 340,649	\$ 35,914,047
Plant and Equipment	73,817,715	1,362,453	4,867,115	80,047,283
Machinery and Equipment	21,318,047	1,242,684	(5,878,448)	16,682,283
Others	<u>20,554,777</u>	<u>1,045,274</u>	<u>(573,770)</u>	<u>21,026,281</u>
	150,930,410	3,983,938	(1,244,454)	153,669,894
Accumulated Depreciation	<u>(88,541,604)</u>	<u>(7,207,158)</u>	<u>1,341,353</u>	<u>(94,407,409)</u>
	<u>62,388,806</u>	<u>(3,223,220)</u>	<u>96,899</u>	<u>59,262,485</u>
Nondepreciable assets:				
Construction in Progress	4,472,065	1,977,174	(2,656,335)	3,792,904
Land	<u>1,455,685</u>	-	-	<u>1,455,685</u>
	<u>5,927,750</u>	<u>1,977,174</u>	<u>(2,656,335)</u>	<u>5,248,589</u>
	\$ <u>68,316,556</u>	\$ <u>(1,246,046)</u>	\$ <u>(2,559,436)</u>	\$ <u>64,511,074</u>

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Notes to Financial Statements
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(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, 2016, accumulated amortization expense of \$950,638 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. \$ 3,719,792

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. 7,183,609

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. 14,331,611

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. 2,405,875

**FEDERATED STATES OF MICRONESIA
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Notes to Financial Statements
September 30, 2016

(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. 1,995,644

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. 4,575,391

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. 11,122,920

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. 4,214,400

\$ 49,549,242

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

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest/Service Charges</u>	<u>Total</u>
2017	\$ 2,290,251	\$ 591,039	\$ 2,881,290
2018	2,658,610	556,859	3,215,469
2019	2,677,224	531,710	3,208,934
2020	2,698,856	499,390	3,198,246
2021	2,721,494	466,906	3,188,400
2022-2026	13,937,054	1840,017	15,777,071
2027-2031	12,793,556	1025,425	13,818,981
2032-2036	9,119,654	327,906	9,447,560
2037	<u>652,543</u>	<u>6,523</u>	<u>659,066</u>
	<u>\$ 49,549,242</u>	<u>\$ 5,845,778</u>	<u>\$ 55,395,020</u>

**FEDERATED STATES OF MICRONESIA
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Notes to Financial Statements
September 30, 2016

(7) Long-Term Obligations, Continued

Primary Government, Continued

Other long-term liabilities will be liquidated in the future from governmental funds. During the year ended September 30, 2016, the following changes occurred in liabilities reported as part of the primary government's long-term liabilities in the statement of net position:

	Balance October 1, 2015	Additions	Reductions	Balance September 30, 2016	Due Within One Year
Loans payable:					
ADB Loan 1257 FSM (SF)	\$ 3,956,653	\$ -	\$ (236,861)	\$ 3,719,792	\$ 219,429
ADB Loan 1459 FSM (SF)	7,400,296	-	(216,687)	7,183,609	360,571
ADB Loan 1520 FSM (SF)	14,748,908	-	(417,297)	14,331,611	350,750
ADB Loan 1816 FSM (SF)	2,568,033	-	(162,158)	2,405,875	150,850
ADB Loan 1873 FSM (SF)	2,215,888	-	(220,244)	1,995,644	210,775
ADB Loan 1874 FSM (SF)	4,859,154	-	(283,763)	4,575,391	262,330
ADB Loan 2099 FSM (SF)	10,693,306	760,702	(331,088)	11,122,920	566,514
ADB Loan 2100 FSM (SF)	<u>4,214,220</u>	<u>118,687</u>	<u>(118,507)</u>	<u>4,214,400</u>	<u>169,032</u>
	50,656,458	879,389	(1,986,605)	49,549,242	2,290,251
Other:					
Compensated absences payable	<u>1,073,455</u>	<u>318,577</u>	<u>(329,658)</u>	<u>1,062,374</u>	<u>309,736</u>
	<u>\$51,729,913</u>	<u>\$1,197,966</u>	<u>\$ (2,316,263)</u>	<u>\$50,611,616</u>	<u>\$2,599,987</u>

When the ADB extends credit to a particular country, the loan is booked in Special Drawing Rights (SDRs) but the actual loan is delivered in the currency of the borrower, at the current exchange rate between the currency and the SDR. The value of the SDR is subject to periodic review by the International Monetary Fund, which may result in the recognition of a foreign exchange gain or loss. During the year ended September 30, 2016, the FSM National Government recognized a foreign exchange loss of \$95,917 associated with valuation of the SDR, which is presented as a special item in the accompanying financial statements, and which results in an increase in ADB loans payable.

Discretely Presented Component Units

As of September 30, 2016, the discretely presented component units had the following long-term debt outstanding:

FSM Telecommunications Corporation (FSMTC):

Loans payable to RUS, with a 35 year term, interest at 5% per annum, collateralized by the Corporation's specific ground leases and essentially all other assets. Pursuant to loan agreements dated August 1, 1990 and March 12, 2009, the Corporation is required to make monthly payments of both principal and interest to RUS. The loans were originally in the amounts of \$32,000,000 and \$12,136,000 and the proceeds were used for capital related purposes.

\$ 23,953,076

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Notes to Financial Statements
September 30, 2016

(7) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

FSM Development Bank (FSMDB):

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. 1,154,881

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. 3,100,000

\$ 28,207,957

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>
2017	\$ 5,077,743	\$ 1,205,562	\$ 6,283,305
2018	2,076,968	1,106,337	3,183,305
2019	2,182,081	1,001,224	3,183,305
2020	2,291,826	891,479	3,183,305
2021	2,357,080	774,680	3,131,760
2022-2026	13,576,363	1,950,960	15,527,323
2027	<u>645,896</u>	<u>5,365</u>	<u>651,261</u>
	\$ <u>28,207,957</u>	\$ <u>6,935,607</u>	\$ <u>35,143,564</u>

FSM Telecommunications Corporation (FSMTC):

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, 2016, FSMTC recognized \$2,198,930 as a contract liability that will be paid through revenue sharing as agreed per payment terms.

Future minimum payments payable under this contract are as follows:

<u>Year ending September 30;</u>	<u>Total</u>
2017	\$ 1,126,651
2018	370,953
2019	370,953
2020	<u>330,373</u>
	\$ <u>2,198,930</u>

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Notes to Financial Statements
September 30, 2016

(7) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

Changes in long-term liabilities of the discretely presented component units for the year ended September 30, 2016, are as follows:

	Balance October 1, <u>2015</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2016</u>	Due Within <u>One Year</u>
Loans payable:					
FSMTC	\$ 25,708,951	\$ -	\$ (1,755,875)	\$ 23,953,076	\$ 1,843,782
FSMDB	1,283,346	-	(128,465)	1,154,881	133,961
NFC	<u>3,225,000</u>	-	<u>(125,000)</u>	<u>3,100,000</u>	<u>3,100,000</u>
	30,217,297	-	(2,009,340)	28,207,957	5,077,743
Contracts payable:					
FSMTC	<u>2,580,248</u>	-	<u>(381,318)</u>	<u>2,198,930</u>	<u>1,126,651</u>
	<u>\$ 32,797,545</u>	<u>\$ -</u>	<u>\$ (2,390,658)</u>	<u>\$ 30,406,887</u>	<u>\$ 6,204,394</u>

(8) Short-Term Obligations

Discretely Presented Component Units

FSM Petroleum Corporation (FSMPC):

As of December 31, 2016, FSMPC has a bank line of credit facility (LOC) of \$10,000,000 currently expiring on July 30, 2017. This LOC is utilized by FSMPC to fund fuel inventory purchases. The LOC and the related long-term obligation are secured and collateralized by an executed Pledge and Security Agreement for the assignment of the Reserve Bank Account and Revenue, an executed Notice of Security Interest and Chattel Mortgage and are guaranteed by the FSM National Government.

Borrowings against the LOC bear interest at the bank's effective reference rate plus 0.75%, with minimum rate of 5.75% per annum, with interest payable monthly and principal due within 180 days. No drawdowns were made against the LOC during the year ended December 31, 2016. Furthermore, no borrowings are outstanding against the LOC at December 31, 2016.

(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, 2016, are as follows:

<u>Source</u>	<u>Recipient</u>	<u>Transfers Out</u>	<u>Transfers In</u>
<u>General Fund</u>			
Grant Assistance Fund	General Fund	\$ 2,858,157	\$ -
<u>Grants Assistance Funds</u>			
General Fund	Grants Assistance Fund	-	<u>2,858,157</u>
		<u>\$ 2,858,157</u>	<u>\$ 2,858,157</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.

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Notes to Financial Statements
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(10) Contingencies and Commitments

Sick Leave

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

FSM Petroleum Corporation (FSMPC) Loan Guarantee

The FSM National Government is a full faith and credit guarantor of FSMPC's loan 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, 2016. 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.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2016

(10) Contingencies and Commitments, Continued

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.

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, 2016, 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, 2016, 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>\$5,470,891</u>	<u>\$36,943,740</u>	<u>\$1,173,826</u>	<u>\$43,588,457</u>

Asian Development Bank (ADB) Loans

A substantial portion of the ADB loans are subject to currency exchange adjustments that can ultimately impact the carrying values of the debt.

FSM National Government Employees' Health Insurance Plan - Going Concern

The Plan's financial statements have been prepared in accordance with GAAP, which contemplates the continuation of the Plan as a going concern. However, the Plan has sustained operating losses in recent years and as of September 30, 2016, the Plan has a negative current ratio. Furthermore, at September 30, 2016, a deficit unrestricted net position of \$797,720 exists.

The Plan's management believes actions presently being undertaken are sufficient to improve the Plan's operating requirements in the implementation of a "5-year Strategic Plan 2014-2018", which established specific objectives up to year 2018. The goal of the strategic plan is to strengthen the Plan's financial solvency and operational efficiency, and increase enrollment of the Plan.

FSM Social Security Administration (FSMSSA)

In January 2014, FSMSSA obtained an actuarial valuation of the Fund as of January 1, 2014. The valuation reported actuarial accrued liabilities for the Fund of \$307,613,000 and a funded ratio of 16%. As of December 31, 2016, FSMSSA recorded total fund equity of \$50,391,125 in the Fund, as funds available to fund future benefit obligations. These conditions indicate that FSMSSA should not increase future or current benefits until a long-term trend of decreasing the unfunded accrued liability is realized.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Financial Statements
September 30, 2016

(11) Special Item

During the year ended September 30, 2016, management determined that certain receivables in the amount of \$703,250 were no longer considered collectible and were written off. This write-off of receivable balances is presented as a special item in the accompanying financial statements.

(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	Grants Assistance	Compact Trust	Other	Total
Non-spendable:					
Loans receivable from States	\$ 39,459,390	\$ -	\$ -	\$ -	\$ 39,459,390
United Micronesia Dev. Association	1,500,000	-	-	-	1,500,000
Bank of FSM	5,768,274	-	-	-	5,768,274
ADB contribution	6,927,442	-	-	-	6,927,442
IMF contribution	1,149,850	-	-	-	1,149,850
General government	1,017,529	-	-	-	1,017,529
Permanent fund	-	-	16,136,746	-	16,136,746
Restricted For:					
ADB Imprest Funds	50,071	-	-	-	50,071
Infrastructure	-	350,425	-	-	350,425
Disaster Assistance	-	2,086,339	-	-	2,086,339
Sector Development	-	13,153	-	-	13,153
Investment Development Fund	1,663,295	-	-	-	1,663,295
Committed:					
CFSM Public projects	13,291,628	-	-	-	13,291,628
Office of the President	650,445	-	-	-	650,445
Department of TC&I	25,335,463	-	-	-	25,335,463
Department of Finance & Adm.	278,827	-	-	-	278,827
Department of Justice	996,376	-	-	1,909,748	2,906,124
Department of R & D	2,629,162	-	-	28,653	2,657,815
Department of Education	338,248	-	-	252,908	591,156
Department of Health	468,347	-	-	38,072	506,419
Office of EEM	408,551	-	-	-	408,551
National Historic & Preservation	158,125	-	-	-	158,125
Legislative	5,794	-	-	-	5,794
Judiciary	317,820	-	-	-	317,820
Office of Public Auditor	109,961	-	-	-	109,961
Office of Public Defender	2,322	-	-	-	2,322
Future operations-FSM Trust fund	82,617,726	-	-	-	82,617,726
Other functions and programs	1,755,593	-	-	529,037	2,284,630
Assigned:					
Presidents (Executive branch)	2,134,621	-	-	-	2,134,621
Legislative branch	625,292	-	-	-	625,292
Judiciary branch	117,973	-	-	-	117,973
National program	215,542	-	-	-	215,542
Other functions and programs	2,377,463	-	-	-	2,377,463
Unassigned	<u>18,242,441</u>	<u>(24,925)</u>	<u>-</u>	<u>-</u>	<u>18,217,516</u>
	<u>\$ 210,613,571</u>	<u>\$ 2,424,992</u>	<u>\$ 16,136,746</u>	<u>\$ 2,758,418</u>	<u>\$ 231,933,727</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

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

YEAR ENDED SEPTEMBER 30, 2016

**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, 2016

	Budgeted Amounts		Actual Amounts (note 1)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 14,356,308	\$ 13,336,404	\$ 19,600,126	\$ 6,263,722
Fishing rights	50,000,000	59,000,000	63,356,795	4,356,795
Postal revenues	468,617	160,000	165,667	5,667
Investment earnings	428,657	350,000	1,960,406	1,610,406
Fees and charges	150,000	40,000	119,222	79,222
Micare reimbursable	-	-	422,202	422,202
Other	623,585	1,825,000	2,733,375	908,375
Total revenues	66,027,167	74,711,404	88,357,793	13,646,389
Expenditures:				
Executive Branch - Core Operational	19,221,582	19,769,886	18,951,371	818,515
Executive Branch - Non-Core Operational	17,223,118	21,965,722	14,182,918	7,782,804
Judicial Branch-Core Operational	1,399,415	1,399,415	1,244,377	155,038
Judicial Branch-Non-core Operational	180,000	180,000	294,899	(114,899)
Legislative Branch-Core Operational	5,376,520	5,590,080	6,538,625	(948,545)
Office of the National Public Auditor-Core Operational	743,355	743,355	654,550	88,805
Office of the National Public Auditor-Non-Core Operational	445,000	445,000	445,000	-
Other National Programs	740,054	740,054	746,614	(6,560)
Boards and Commissions	2,233,533	2,233,533	2,479,734	(246,201)
Payments to Component Units	7,597,863	7,647,863	5,340,159	2,307,704
National projects - continuing projects	12,982,318	12,982,318	13,367,494	(385,176)
Total expenditures	68,142,758	73,697,226	64,245,741	9,451,485
Excess (deficiency) of revenues over (under) expenditures	(2,115,591)	1,014,178	24,112,052	23,097,874
Other financing sources (uses), net:				
Operating transfers in/(out), net	(10,000,000)	(13,450,842)	(13,450,842)	-
	(12,115,591)	(12,436,664)	10,661,210	23,097,874
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	2,712,936	2,712,936	2,906,576	193,640
Net change in fund balance	(9,402,655)	(9,723,728)	13,567,786	23,291,514
Fund balance at the beginning of the year	72,422,603	72,422,603	72,422,603	-
Fund balance at the end of the year	\$ 63,019,948	\$ 62,698,875	\$ 85,990,389	\$ 23,291,514

See accompanying notes to required supplementary information - budgetary reporting.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Notes to Required Supplementary Information - Budgetary Reporting
September 30, 2016

(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 2016, 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, 2016

(2) Reconciliation - GAAP and Budgetary Bases of Accounting

The Budget Act for fiscal year 2016, Public Law No. 19-32, 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	\$ 13,567,786
Add:	
Net change in fund balance - GAAP for GASB 54 Funds:	
ADB Loan Fund (Fund 91)	89,836
IDF Fund	215,335
ERP Fund	(863,069)
FSM Trust Fund	<u>23,856,051</u>
Net change in fund balance - GAAP	\$ <u>36,865,939</u>

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2016

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Combined Schedule of Expenditures by Account -
Governmental Fund Types
Year Ended September 30, 2016

	General	Special	Permanent	Other	Total
		Revenue		Governmental	
		Grants	Compact	Funds	
		Assistance	Trust		
Expenditures:					
Personnel	\$ 15,678,047	\$ 2,509,384	\$ -	\$ 1,132,672	\$ 19,320,103
Travel and transportation	4,741,237	2,681,111	-	28,710	7,451,058
Books and library materials	17,201	181,914	-	-	199,115
Communications	702,846	8,391	-	10,150	721,387
Customs and taxes	28,388	14,720	-	-	43,108
Dues, membership and subscription	662,495	56,557	-	-	719,052
Food stuffs	530,255	36,164	-	90,444	656,863
Freight	70,903	87,821	-	38,734	197,458
Expendable equipment	379,031	296,638	-	58,669	734,338
Office supplies and materials	1,469,708	104,767	-	62,469	1,636,944
POL	1,380,289	109,786	-	-	1,490,075
Advertising, printing and reproduction	112,708	169,578	-	-	282,286
Rental services	172,027	6,338	-	2,532	180,897
Repair and maintenance	90,590	189,523	-	1,272	281,385
Utilities	1,005,528	13,129	-	136,663	1,155,320
Miscellaneous goods and services	253,010	-	-	-	253,010
Medical supplies	64,906	288,787	-	-	353,693
Contributions, subsidies and grants	3,451,574	-	-	-	3,451,574
General contractual services	7,610,424	3,521,817	-	587,939	11,720,180
Professional services	500,331	8,661,932	-	-	9,162,263
Employee housing and household storage	900,648	107,644	-	-	1,008,292
Recruit and repatriation	154,577	-	-	-	154,577
Compensation-nonpayroll	57,891	16,045	-	-	73,936
Educational allowance	72,282	-	-	-	72,282
Training and registration fees	118,126	22,760	-	-	140,886
Scholarships	2,080,675	-	-	97,267	2,177,942
Official and meeting allowances	122,763	15,530	-	-	138,293
Representation	3,150,439	-	-	-	3,150,439
Insurance and fees	619,799	12,753	-	-	632,552
Leased housing, offices, buildings and land	2,968,924	154,872	-	-	3,123,796
Bank charges	87,440	2,179	-	3,368	92,987
Architecture and design	201,402	18,445,072	-	-	18,646,474
Equipment	1,309,858	221,596	-	76,038	1,607,492
Furnitures and fixtures	35,553	-	-	-	35,553
Vehicle and vessels	530,127	28,700	-	-	558,827
Court settlement	306,804	-	-	-	306,804
Principal and interest payments	1,986,605	-	-	-	1,986,605
Legislative projects	9,549,033	-	-	-	9,549,033
Other	159,431	-	-	-	159,431
Total expenditures	\$ 63,333,875	\$ 37,965,508	\$ -	\$ 2,326,927	\$ 103,626,310

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, 2016
(with comparatives for the year ended September 30, 2015)

	2016	2015
Revenue:		
Taxes:		
Import	\$ 4,233,797	\$ 3,519,835
Fuel	137,474	212,600
Corporate tax	5,994,000	4,138,339
Income tax, individuals, net of tax refunds	4,275,577	4,195,769
Gross receipts tax, businesses	4,275,199	4,170,042
Tobacco revenue share	684,079	569,624
	19,600,126	16,806,209
Fishing rights	63,356,795	65,164,718
Fees and charges:		
Postal collections	165,667	181,316
Business license and various fees	119,222	151,965
	284,889	333,281
Investment earnings:		
Net change in the fair value of investments	1,576,316	193,967
Dividend and interest income	384,090	210,146
	1,960,406	404,113
MiCare reimbursible	422,202	243,451
Other	2,733,375	903,417
Total revenues	88,357,793	83,855,189
Expenditures:		
Executive Branch:		
Core operational:		
President's Office	1,433,789	1,110,264
Department of External Affairs and LNO's	4,311,620	4,217,720
Department of Health and Social Affairs	688,900	685,672
Department of Education	3,788,268	2,514,070
Office of Resources and development	1,015,871	814,654
National archives, cultural and historic prevention	189,410	121,983
Office of SBOC	301,264	832,966
Office of Environment and emergency management	313,430	613,347
Department of Transportation, Communication and Infrastructure	2,819,299	3,339,074
Department of Finance and Administration	3,225,974	2,707,690
Department of Justice	2,963,310	3,136,449
Office of the Public Defender	709,461	722,436
Sub-total	21,760,596	20,816,325

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, 2016
(with comparatives for the year ended September 30, 2015)

	2016	2015
Expenditures, continued:		
Executive Branch:		
Non-core operational:		
President's Office	2,190,389	2,105,437
Department of External Affairs and LNO's	1,333,998	247,933
Department of Health and Social Affairs	470,477	584,642
Department of Education	3,052,394	2,752,521
Office of Resources and development	805,066	506,069
National archives, cultural and historic prevention	2,860	6,110
Office of SBOC	26,431	47,632
Office of Environment and emergency management	177,919	886,002
Department of Transportation, Communication and Infrastructure	5,727,304	1,608,159
Department of Finance and Administration	181,166	304,198
Department of Justice	214,408	133,356
Sub-total	14,182,412	9,182,059
Total Executive Branch	35,943,008	29,998,384
Judicial Branch-core operational	1,229,780	1,112,000
Judicial Branch-non-core operational	294,899	303,718
Total Judicial Branch	1,524,679	1,415,718
Legislative Branch:		
Office of the Speaker and members	4,028,799	2,711,864
Congress staff	1,841,171	1,565,040
Delegation offices	610,356	1,221,375
Total Legislative Branch	6,480,326	5,498,279
Office of the National Public Auditor-Core operational	639,995	647,219
Office of the National Public Auditor-Non-Core operational	445,000	403,250
Total Office of the Public Auditor	1,084,995	1,050,469
Other National Government Programs	746,614	-
Agencies, Boards and Commissions	2,479,694	3,118,632
Payments to Component Units:		
College of Micronesia-FSM	105,000	101,344
FSM Social Security Administration	2,000,000	1,000,000
FSM Coconut Development Authority	-	(152)
	2,105,000	1,101,192
Legislative public projects	10,974,849	7,593,574
Total expenditures	61,339,165	49,776,248
Excess of revenues over expenditures	27,018,628	34,078,941

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, 2016
(with comparatives for the year ended September 30, 2015)

	2016	2015
Other financing sources (uses):		
Operating transfers in:		
Permit Revolving Fund	1,917,396	-
Postal Services Revolving Fund	586,759	-
Marine Surveillance Revolving Fund	63,615	-
Passport Revolving Fund	290,387	-
	2,858,157	-
Operating transfers out:		
FSM Trust Fund	(16,308,999)	(38,000,000)
Disaster Emergency Fund	-	(200,000)
	(16,308,999)	(38,200,000)
Total other financing sources (uses), net	(13,450,842)	(38,200,000)
Special item:		
Write-off of receivable balances	-	(6,966,019)
Net change in fund balance	13,567,786	(11,087,078)
Fund balance at the beginning of the year	72,422,603	83,509,681
Fund balance at the end of the year	\$ 85,990,389	\$ 72,422,603
Reconciliation:		
Fund balance, General Fund	\$ 85,990,389	
Add:		
ADB Loan Fund	40,086,951	
IDF with FSMDB	1,815,618	
Early Retirement Fund	102,887	
FSM Trust Fund	82,617,726	
Fund balance, GAAP	\$ 210,613,571	

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

NONMAJOR GOVERNMENTAL FUNDS

Combining Balance Sheet
September 30, 2016

	27	28	29	31	32	33	34	35	36	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	Scholarship	Maritime Surveillance Revolving	Postal Services Revolving	Total
ASSETS													
Receivables	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,403	\$ -	\$ -	\$ -	\$ 9,403
Advances	-	-	-	10,904	-	-	-	(92)	-	-	-	-	10,812
Due from other funds	40,800	69,201	-	704,085	28,653	713,193	16,228	21,936	90,201	252,908	1,180,098	33,909	3,151,212
	<u>\$ 40,800</u>	<u>\$ 69,201</u>	<u>\$ -</u>	<u>\$ 714,989</u>	<u>\$ 28,653</u>	<u>\$ 713,193</u>	<u>\$ 16,228</u>	<u>\$ 21,844</u>	<u>\$ 99,604</u>	<u>\$ 252,908</u>	<u>\$ 1,180,098</u>	<u>\$ 33,909</u>	<u>\$ 3,171,427</u>
LIABILITIES AND FUND BALANCES													
Liabilities:													
Accounts payable	\$ 70	-	\$ 161	\$ 10,772	-	\$ 3,082	-	-	-	-	\$ 15,297	\$ 88	\$ 29,470
Due to other funds	-	-	383,539	-	-	-	-	-	-	-	-	-	383,539
	<u>70</u>	<u>-</u>	<u>383,700</u>	<u>10,772</u>	<u>-</u>	<u>3,082</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,297</u>	<u>88</u>	<u>413,009</u>
Fund balances (deficit):													
Committed	40,730	69,201	(383,700)	704,217	28,653	710,111	16,228	21,844	99,604	252,908	1,164,801	33,821	2,758,418
Total liabilities and fund balances	<u>\$ 40,800</u>	<u>\$ 69,201</u>	<u>\$ -</u>	<u>\$ 714,989</u>	<u>\$ 28,653</u>	<u>\$ 713,193</u>	<u>\$ 16,228</u>	<u>\$ 21,844</u>	<u>\$ 99,604</u>	<u>\$ 252,908</u>	<u>\$ 1,180,098</u>	<u>\$ 33,909</u>	<u>\$ 3,171,427</u>

**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, 2016

	27	28	29	31	32	33	34	35	36	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	Scholarship	Maritime Surveillance Revolving	Postal Services Revolving	Total
Revenues:													
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 228,165	\$ -	\$ -	\$ 228,165
Fees and charges	217,127	9,935	370,218	883,016	50	605,428	5,665	1,825	-	-	412,000	456,955	2,962,219
Other	-	-	-	-	-	-	-	-	217,398	-	-	-	217,398
Total revenues	217,127	9,935	370,218	883,016	50	605,428	5,665	1,825	217,398	228,165	412,000	456,955	3,407,782
Expenditures by function:													
Current:													
Transportation, communication and infrastructure	-	-	862,437	-	-	-	-	-	-	-	-	-	862,437
Education	-	-	-	-	-	-	-	-	-	97,267	-	-	97,267
Justice	36,436	-	-	566,127	-	-	-	-	208,083	-	259,447	-	1,070,093
Agencies, boards and commissions	-	-	-	-	-	237,210	-	-	-	-	-	59,920	297,130
Total expenditures	36,436	-	862,437	566,127	-	237,210	-	-	208,083	97,267	259,447	59,920	2,326,927
Excess (deficiency) of revenue over (under) expenditure	180,691	9,935	(492,219)	316,889	50	368,218	5,665	1,825	9,315	130,898	152,553	397,035	1,080,855
Other financing uses:													
Operating transfers out	(1,917,396)	-	-	(290,387)	-	-	-	-	-	-	(63,615)	(586,759)	(2,858,157)
Net change in fund balances (deficit)	(1,736,705)	9,935	(492,219)	26,502	50	368,218	5,665	1,825	9,315	130,898	88,938	(189,724)	(1,777,302)
Fund balances at the beginning of the year	1,777,435	59,266	108,519	677,715	28,603	341,893	10,563	20,019	90,289	122,010	1,075,863	223,545	4,535,720
Fund balances (deficit) at the end of the year	\$ 40,730	\$ 69,201	\$ (383,700)	\$ 704,217	\$ 28,653	\$ 710,111	\$ 16,228	\$ 21,844	\$ 99,604	\$ 252,908	\$ 1,164,801	\$ 33,821	\$ 2,758,418

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, 2016

	27	28	29	31	32	33	34	35	36	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	Scholarship	Maritime Surveillance Revolving	Postal Services Revolving	
Revenues:													
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 228,165	\$ -	\$ -	\$ 228,165
Fees and charges	217,127	9,935	370,218	883,016	50	605,428	5,665	1,825	-	-	412,000	456,955	2,962,219
Other	-	-	-	-	-	-	-	-	217,398	-	-	-	217,398
Total revenues	217,127	9,935	370,218	883,016	50	605,428	5,665	1,825	217,398	228,165	412,000	456,955	3,407,782
Expenditures by account:													
Personnel	-	-	842,849	-	-	81,740	-	-	208,083	-	-	-	1,132,672
Travel and transportation	-	-	-	18,646	-	10,064	-	-	-	-	-	-	28,710
Communications	-	-	-	10,150	-	-	-	-	-	-	-	-	10,150
Food stuffs	-	-	17,686	-	-	2,073	-	-	-	-	70,685	-	90,444
Freight	-	-	37	38,697	-	-	-	-	-	-	-	-	38,734
Expendable equipment	34,836	-	-	1,125	-	-	-	-	-	-	21,596	1,112	58,669
Office supplies and materials	1,600	-	1,865	18,827	-	4,360	-	-	-	-	33,368	2,449	62,469
Rental	-	-	-	-	-	-	-	-	-	-	2,532	-	2,532
Repair and maintenance	-	-	-	-	-	-	-	-	-	-	625	647	1,272
Utilities	-	-	-	-	-	136,663	-	-	-	-	-	-	136,663
General contractual services	-	-	-	478,607	-	-	-	-	-	-	57,090	52,242	587,939
Scholarships	-	-	-	-	-	-	-	-	-	97,267	-	-	97,267
Equipment	-	-	-	-	-	-	-	-	-	-	72,568	3,470	76,038
Bank charges and others	-	-	-	75	-	2,310	-	-	-	-	983	-	3,368
Total expenditures	36,436	-	862,437	566,127	-	237,210	-	-	208,083	97,267	259,447	59,920	2,326,927
Excess (deficiency) of revenue over (under) expenditure	180,691	9,935	(492,219)	316,889	50	368,218	5,665	1,825	9,315	130,898	152,553	397,035	1,080,855
Other financing uses:													
Operating transfers out	(1,917,396)	-	-	(290,387)	-	-	-	-	-	-	(63,615)	(586,759)	(2,858,157)
Net change in fund balances (deficit)	(1,736,705)	9,935	(492,219)	26,502	50	368,218	5,665	1,825	9,315	130,898	88,938	(189,724)	(1,777,302)
Fund balances at the beginning of the year	1,777,435	59,266	108,519	677,715	28,603	341,893	10,563	20,019	90,289	122,010	1,075,863	223,545	4,535,720
Fund balances (deficit) at the end of the year	\$ 40,730	\$ 69,201	\$ (383,700)	\$ 704,217	\$ 28,653	\$ 710,111	\$ 16,228	\$ 21,844	\$ 99,604	\$ 252,908	\$ 1,164,801	\$ 33,821	\$ 2,758,418

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

GRANTS ASSISTANCE FUND

Combining Balance Sheet
September 30, 2016

	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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 350,448	\$ -	\$ -	\$ -	\$ 2,286,549	\$ 2,636,997
Receivables:													
Federal agencies	305,003	568,769	48,943	145,774	1,162,921	802,452	87,347	-	2,574,583	4,476,681	-	-	10,172,473
Due from other funds	-	-	-	-	-	-	-	-	926,504	3,612,407	5,829,383	-	10,368,294
Advances	(5,919)	595	-	-	(343)	14,452	-	-	(479)	31,266	80,986	-	120,558
	<u>\$ 299,084</u>	<u>\$ 569,364</u>	<u>\$ 48,943</u>	<u>\$ 145,774</u>	<u>\$ 1,162,578</u>	<u>\$ 816,904</u>	<u>\$ 87,347</u>	<u>\$ 350,448</u>	<u>\$ 3,500,608</u>	<u>\$ 8,120,354</u>	<u>\$ 5,910,369</u>	<u>\$ 2,286,549</u>	<u>\$ 23,298,322</u>
LIABILITIES AND FUND BALANCES (DEFICIT)													
Liabilities:													
Accounts payable	\$ 214,774	\$ 422,555	\$ -	\$ -	\$ 948,741	\$ (88,652)	\$ 76,823	\$ -	\$ 3,500,608	\$ 2,922,215	\$ 391,232	\$ -	\$ 8,388,296
Retention payable	-	-	-	-	-	-	-	-	-	2,123,190	-	-	2,123,190
Due to FSM State Governments	42,165	-	-	-	-	-	-	-	-	1,953,685	-	-	1,995,850
Due to Federal Government	-	-	-	-	-	-	-	-	-	1,126,478	-	-	1,126,478
Due to other funds	42,145	146,809	48,943	132,621	213,837	905,556	10,524	23	-	-	-	125,485	1,625,943
Unearned revenues	-	-	-	-	-	-	-	-	-	-	5,538,848	74,725	5,613,573
Total liabilities	<u>299,084</u>	<u>569,364</u>	<u>48,943</u>	<u>132,621</u>	<u>1,162,578</u>	<u>816,904</u>	<u>87,347</u>	<u>23</u>	<u>3,500,608</u>	<u>8,125,568</u>	<u>5,930,080</u>	<u>200,210</u>	<u>20,873,330</u>
Fund balances (deficit):													
Restricted	-	-	-	13,153	-	-	-	350,425	-	-	-	2,086,339	2,449,917
Unassigned	-	-	-	-	-	-	-	-	-	(5,214)	(19,711)	-	(24,925)
Total fund balances (deficits)	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,153</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>350,425</u>	<u>-</u>	<u>(5,214)</u>	<u>(19,711)</u>	<u>2,086,339</u>	<u>2,424,992</u>
Total liabilities and fund balances	<u>\$ 299,084</u>	<u>\$ 569,364</u>	<u>\$ 48,943</u>	<u>\$ 145,774</u>	<u>\$ 1,162,578</u>	<u>\$ 816,904</u>	<u>\$ 87,347</u>	<u>\$ 350,448</u>	<u>\$ 3,500,608</u>	<u>\$ 8,120,354</u>	<u>\$ 5,910,369</u>	<u>\$ 2,286,549</u>	<u>\$ 23,298,322</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, 2016

	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	\$ 159,361	\$ -	\$ -	\$ -	\$ 459,891	\$ 350,979	\$ -	\$ -	\$ 7,161,032	\$ -	\$ -	\$ -	\$ 8,131,263
Federal and other grants	-	-	-	-	-	-	-	(476)	-	21,051,655	8,782,340	-	29,833,519
	<u>159,361</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>459,891</u>	<u>350,979</u>	<u>-</u>	<u>(476)</u>	<u>7,161,032</u>	<u>21,051,655</u>	<u>8,782,340</u>	<u>-</u>	<u>37,964,782</u>
Expenditures by function:													
Current:													
General government:													
Finance and administration	-	-	-	-	-	-	-	-	-	1,616,423	1,014	-	1,617,437
Resources and development	-	-	-	-	-	-	-	-	-	186	2,442,767	-	2,442,953
Transportation, communication and infrastructure	-	-	-	-	-	-	-	-	-	-	-	5,638,169	5,638,169
Health and social affairs	-	-	-	-	-	-	-	-	-	4,423,441	360,569	-	4,784,010
National archives, cultural and historic preservation	-	-	-	-	-	-	-	-	-	37,057	438	-	37,495
Education	159,361	-	-	-	-	350,979	-	-	-	522,268	-	-	1,032,608
Environment and emergency management	-	-	-	-	-	-	-	-	-	-	61,887	-	61,887
Office of the National Public Auditor	-	-	-	-	459,891	-	-	-	-	3,391	-	-	463,282
Boards and commissions	-	-	-	-	-	-	-	-	-	-	277,746	-	277,746
Capital Projects	-	-	-	-	-	-	-	-	7,161,032	14,448,889	-	-	21,609,921
Total expenditures	<u>159,361</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>459,891</u>	<u>350,979</u>	<u>-</u>	<u>-</u>	<u>7,161,032</u>	<u>21,051,655</u>	<u>8,782,590</u>	<u>-</u>	<u>37,965,508</u>
Net change in fund balances (deficit)	-	-	-	-	-	-	-	(476)	-	-	(250)	-	(726)
Fund balances (deficit) at the beginning of the year	-	-	-	13,153	-	-	-	350,901	-	(5,214)	(19,461)	2,086,339	2,425,718
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>\$ 350,425</u>	<u>\$ -</u>	<u>\$ (5,214)</u>	<u>\$ (19,711)</u>	<u>\$ 2,086,339</u>	<u>\$ 2,424,992</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, 2016

	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	
Revenues:													
Compact funding	\$ 159,361	\$ -	\$ -	\$ -	\$ 459,891	\$ 350,979	\$ -		\$ 7,161,032	\$ -	\$ -	\$ -	\$ 8,131,263
Federal and other grants	-	-	-	-	-	-	-	(476)	-	21,051,655	8,782,340	-	29,833,519
	<u>159,361</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>459,891</u>	<u>350,979</u>	<u>-</u>	<u>(476)</u>	<u>7,161,032</u>	<u>21,051,655</u>	<u>8,782,340</u>	<u>-</u>	<u>37,964,782</u>
Expenditures by account:													
Personnel	-	-	-	-	5,891	148,904	-	-	30,198	2,246,990	77,401	-	2,509,384
Travel and transportation	41,118	-	-	-	-	136,739	-	-	-	1,898,770	604,484	-	2,681,111
Communications	2,079	-	-	-	-	12,652	-	-	1,956	159,751	5,476	-	181,914
Customs and taxes	-	-	-	-	-	-	-	-	-	3,282	5,109	-	8,391
Dues, membership and subscription	-	-	-	-	-	-	-	-	-	14,720	-	-	14,720
Food stuffs	-	-	-	-	-	-	-	-	-	24,070	32,487	-	56,557
Freight	1,029	-	-	-	-	59	-	-	-	28,207	6,869	-	36,164
Expendable equipment/furniture	28,803	-	-	-	-	1,449	-	-	-	43,058	14,511	-	87,821
Office supplies and materials	2,057	-	-	-	-	14,695	-	-	2,637	229,194	48,055	-	296,638
POL	-	-	-	-	-	3,332	-	-	2,504	86,507	12,424	-	104,767
Advertising, printing and reproduction	1,540	-	-	-	-	13,208	-	-	-	48,757	46,281	-	109,786
Rental services	3,818	-	-	-	-	3,656	-	-	-	85,940	76,164	-	169,578
Repair and maintenance	-	-	-	-	-	-	-	-	587	4,471	1,280	-	6,338
Utilities	-	-	-	-	-	-	-	-	-	189,473	50	-	189,523
Miscellaneous goods and services	-	-	-	-	-	-	-	-	-	2,153	10,976	-	13,129
Medical supplies	-	-	-	-	-	-	-	-	-	288,787	-	-	288,787
General Contractual services	46,667	-	-	-	454,000	-	-	-	1,935,009	633,816	452,325	-	3,521,817
Professional services	-	-	-	-	-	6,632	-	-	1,031,077	333,958	7,290,265	-	8,661,932
Employee housing and household storage	-	-	-	-	-	-	-	-	81,744	25,900	-	-	107,644
Compensation-nonpayroll	-	-	-	-	-	-	-	-	-	14,515	1,530	-	16,045
Training and registration fees	-	-	-	-	-	-	-	-	-	6,020	16,740	-	22,760
Offical and meeting allowances	-	-	-	-	-	360	-	-	-	9,710	5,460	-	15,530
Insurance and fees	-	-	-	-	-	-	-	-	-	12,753	-	-	12,753
Leased housing, offices, buildings and land	-	-	-	-	-	-	-	-	79,137	75,735	-	-	154,872
Bank charges	-	-	-	-	-	-	-	-	-	375	1,804	-	2,179
Project Management & Administration	-	-	-	-	-	-	-	-	32,682	923,710	-	-	956,392
Construction Management	-	-	-	-	-	-	-	-	511,224	693,165	-	-	1,204,389
Survey & investigation	-	-	-	-	-	-	-	-	3,480	-	-	-	3,480
Construction payments	-	-	-	-	-	-	-	-	2,854,848	12,832,014	-	-	15,686,862
Architecture and design	-	-	-	-	-	-	-	-	593,949	-	-	-	593,949
Equipment	32,250	-	-	-	-	9,293	-	-	-	107,154	72,899	-	221,596
Vehicle	-	-	-	-	-	-	-	-	-	28,700	-	-	28,700
Total expenditures	<u>159,361</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>459,891</u>	<u>350,979</u>	<u>-</u>	<u>-</u>	<u>7,161,032</u>	<u>21,051,655</u>	<u>8,782,590</u>	<u>-</u>	<u>37,965,508</u>
Net change in fund balances (deficit)	-	-	-	-	-	-	-	(476)	-	-	(250)	-	(726)
Fund balances (deficit) at the beginning of the year	-	-	-	13,153	-	-	-	350,901	-	(5,214)	(19,461)	2,086,339	2,425,718
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>\$ 350,425</u>	<u>\$ -</u>	<u>\$ (5,214)</u>	<u>\$ (19,711)</u>	<u>\$ 2,086,339</u>	<u>\$ 2,424,992</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, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Local taxes	\$ 14,356,308	\$ 13,336,404	\$ 19,600,126	\$ 6,263,722
Fishing right fees	50,000,000	59,000,000	63,356,795	4,356,795
Postal revenues	468,617	160,000	165,667	5,667
Investment earnings	428,657	350,000	1,960,406	1,610,406
Fees and charges	150,000	40,000	119,222	79,222
MiCare reimbursable	-	-	422,202	422,202
Other	623,585	1,825,000	2,733,375	908,375
Total revenues	<u>66,027,167</u>	<u>74,711,404</u>	<u>88,357,793</u>	<u>13,646,389</u>
Expenditures-budgetary basis by department:				
Executive Branch-Core Operational:				
Office of the President	530,367	850,949	774,404	76,545
President's Office - Public Information	101,808	101,808	66,813	34,995
President's Office - Personnel	549,737	549,737	602,353	(52,616)
Total Office of the President	<u>1,181,912</u>	<u>1,502,494</u>	<u>1,443,570</u>	<u>58,924</u>
Department of External Affairs				
Administration	289,799	289,799	378,833	(89,034)
Division of APA and Multilateral Affairs	112,785	112,785	98,408	14,377
Division of American and European Affairs	91,987	91,987	78,083	13,904
FSM Consulate - China	714,160	714,160	639,400	74,760
FSM Consulate - Guam	352,257	352,257	261,208	91,049
FSM Consulate - Honolulu	392,744	392,744	364,282	28,462
FSM Embassy - Tokyo	989,029	989,029	990,135	(1,106)
FSM Embassy - Washington D.C.	564,235	564,235	458,295	105,940
FSM Embassy - Fiji	264,767	264,767	257,703	7,064
FSM Permanent Mission - New York	822,404	822,404	786,405	35,999
Total Department of External Affairs	<u>4,594,167</u>	<u>4,594,167</u>	<u>4,312,752</u>	<u>281,415</u>
Department of Health and Social Affairs:				
Administration	169,020	169,020	146,079	22,941
Health System Support	202,843	202,843	213,633	(10,790)
Environmental Health	299,957	299,957	273,656	26,301
Gender Development Unit	34,724	34,724	24,826	9,898
Sports and Youth Unit	73,405	73,405	36,253	37,152
Total Department of Health and Social Affairs	<u>779,949</u>	<u>779,949</u>	<u>694,447</u>	<u>85,502</u>
Department of Education:				
Administration	176,758	176,758	569,953	(393,195)
Basic Education & Accreditation (Domestic)	195,382	195,382	126,756	68,626
Basic Education & Accreditation (SEG)	366,598	366,598	-	366,598
Career Technical Education	110,985	110,985	95,565	15,420
Total Department of Education	<u>849,723</u>	<u>849,723</u>	<u>792,274</u>	<u>57,449</u>
Department of Resources and Development:				
Administration	160,258	160,258	129,894	30,364
Division of Sectoral Development	549,393	549,393	348,373	201,020
Division of Trade and Investment	149,536	149,536	128,506	21,030
Division of Energy	61,952	61,952	53,739	8,213
Division of Statistics	378,275	378,275	361,253	17,022
Total Department of Resources and Development	<u>1,299,414</u>	<u>1,299,414</u>	<u>1,021,765</u>	<u>277,649</u>
Office of National Archives, Cultural and Historic Preservation	<u>197,006</u>	<u>197,006</u>	<u>189,409</u>	<u>7,597</u>
Office of Environment and Emergency Management:				
Office of the Director	91,783	91,783	157,101	(65,318)
Division of Sustainable Development	128,974	128,974	96,270	32,704
Division of Emergency Management	91,684	91,684	60,674	31,010
Total Office of Environment and Emergency Management	<u>312,441</u>	<u>312,441</u>	<u>314,045</u>	<u>(1,604)</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, 2016

	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	164,290	164,290	168,046	(3,756)
Division of Marine Transportation	1,568,812	1,568,812	1,571,347	(2,535)
Division of Infrastructure	482,974	482,974	427,018	55,956
Civil Aviation	158,535	158,535	86,691	71,844
Communication	131,126	131,126	115,900	15,226
Project Management Unit	627,142	627,142	579,225	47,917
Total Department of Transportation, Communication and Infrastructure	<u>3,132,879</u>	<u>3,132,879</u>	<u>2,948,227</u>	<u>184,652</u>
Department of Finance and Administration:				
Administration	241,977	263,082	1,612,062	(1,348,980)
Division of National Treasury	827,256	827,256	653,932	173,324
Division of Customs and Tax Administration	937,207	937,207	839,628	97,579
Division of Investment & International Finance	147,463	147,463	116,567	30,896
Division of Personnel	112,867	112,867	88,076	24,791
Division of Budget & Economic Management	344,946	344,946	236,382	108,564
Total Department of Finance and Administration	<u>2,611,716</u>	<u>2,632,821</u>	<u>3,546,647</u>	<u>(913,826)</u>
Department of Justice:				
Administration	227,342	227,342	272,147	(44,805)
Registry of Corporation	108,722	108,722	105,072	3,650
Division of Law	232,830	232,830	218,987	13,843
Division of Litigation	207,926	207,926	170,180	37,746
Division of Immigration and Labor	799,502	799,502	762,050	37,452
FSM National Police	1,767,632	1,774,249	1,435,727	338,522
FSM National Police - Fuel	-	200,000	-	200,000
Total Department of Justice	<u>3,343,954</u>	<u>3,550,571</u>	<u>2,964,163</u>	<u>586,408</u>
Office of the Public Defender				
	918,421	918,421	724,072	194,349
Total Executive Branch-Core Operational	<u>19,221,582</u>	<u>19,769,886</u>	<u>18,951,371</u>	<u>818,515</u>
Executive Branch-Non-Core Operational:				
President's Office	2,330,900	2,330,900	2,190,895	140,005
Department of External Affairs and LNO's	1,277,000	1,277,000	1,333,998	(56,998)
Department of Health and Social Affairs	518,000	618,514	470,477	148,037
Department of Education	3,515,000	3,831,000	3,052,394	778,606
Office of Resources and Development	2,668,699	2,686,977	805,066	1,881,911
National archives, cultural and historic prevention	7,014	7,014	2,860	4,154
Office of Environment and Emergency Management	394,268	394,268	177,919	216,349
Department of Transportation, Communication and Infrastructure	5,818,213	9,920,248	5,727,304	4,192,944
Department of Finance and Administration	209,024	209,024	207,597	1,427
Department of Justice	485,000	690,777	214,408	476,369
Total Executive Branch-Non-Core Operational	<u>17,223,118</u>	<u>21,965,722</u>	<u>14,182,918</u>	<u>7,782,804</u>
Total Executive Branch	<u>36,444,700</u>	<u>41,735,608</u>	<u>33,134,289</u>	<u>8,601,319</u>
Judicial Branch-Core Operational				
	1,399,415	1,399,415	1,244,377	155,038
Judicial Branch-Non-core Operational				
	180,000	180,000	294,899	(114,899)
Total Judiciary Branch	<u>1,579,415</u>	<u>1,579,415</u>	<u>1,539,276</u>	<u>40,139</u>
Legislative Branch:				
Office of the Speaker and members	2,959,023	2,959,023	4,070,131	(1,111,108)
Members and staff	1,904,045	2,013,057	1,881,594	131,463
Delegation offices	513,452	618,000	586,900	31,100
Total Legislative Branch - Core	<u>5,376,520</u>	<u>5,590,080</u>	<u>6,538,625</u>	<u>(948,545)</u>
Total Legislative Branch	<u>5,376,520</u>	<u>5,590,080</u>	<u>6,538,625</u>	<u>(948,545)</u>
Office of the National Public Auditor				
Public Auditor (Core)	743,355	743,355	654,550	88,805
Single Audit (Non-core)	445,000	445,000	445,000	-
Total Office of the National Public Auditor	<u>1,188,355</u>	<u>1,188,355</u>	<u>1,099,550</u>	<u>88,805</u>
Other National Government Programs:				
National Election Director	490,054	490,054	496,614	(6,560)
Micronesia Legal Services Corporation	250,000	250,000	250,000	-
Total Other National Government Programs	<u>740,054</u>	<u>740,054</u>	<u>746,614</u>	<u>(6,560)</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, 2016

	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	516,094	516,094	1,126,680	(610,586)
FSM Insurance	433,844	433,844	175,856	257,988
FSM Banking Board	201,763	201,763	159,089	42,674
FSM Fisheries and Maritime	108,504	108,504	108,504	-
Board of Regents-COM	105,000	105,000	105,000	-
Postal Services	<u>868,328</u>	<u>868,328</u>	<u>804,605</u>	<u>63,723</u>
Total Boards and Commissions	<u>2,233,533</u>	<u>2,233,533</u>	<u>2,479,734</u>	<u>(246,201)</u>
Payments to component units:				
FSM MiCare	80,000	80,000	80,000	-
FSM Social Security Administration	2,000,000	2,000,000	2,000,000	-
MLFC Loan Subsidy	200,000	250,000	260,159	(10,159)
COM-FSM (Domestic)	3,633,915	3,633,915	3,000,000	633,915
COM-FSM (Education Sector)	1,000,000	1,000,000	-	1,000,000
COM-FSM (SEG)	<u>683,948</u>	<u>683,948</u>	<u>-</u>	<u>683,948</u>
Total payments to component units	<u>7,597,863</u>	<u>7,647,863</u>	<u>5,340,159</u>	<u>2,307,704</u>
Other National government programs-continuing approp	<u>12,982,318</u>	<u>12,982,318</u>	<u>13,367,494</u>	<u>(385,176)</u>
Total expenditures	<u>68,142,758</u>	<u>73,697,226</u>	<u>64,245,741</u>	<u>9,451,485</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,115,591)</u>	<u>1,014,178</u>	<u>24,112,052</u>	<u>23,097,874</u>
Other financing sources (uses):				
Operating Transfers in (out):				
Entry Fee fund	-	1,917,396	1,917,396	-
Passport Fund	-	290,387	290,387	-
Maritime Surveillance Fund	-	63,615	63,615	-
National Postal Services Fund	-	586,759	586,759	-
FSM Trust Fund - National	(10,000,000)	(10,000,000)	(10,000,000)	-
FSM Trust Fund - States	<u>-</u>	<u>(6,308,999)</u>	<u>(6,308,999)</u>	<u>-</u>
Total Operating Transfers in/out	<u>(10,000,000)</u>	<u>(13,450,842)</u>	<u>(13,450,842)</u>	<u>-</u>
Total other financing sources (uses), net	<u>(10,000,000)</u>	<u>(13,450,842)</u>	<u>(13,450,842)</u>	<u>-</u>
	(12,115,591)	(12,436,664)	10,661,210	23,097,874
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	<u>2,712,936</u>	<u>2,712,936</u>	<u>2,906,576</u>	<u>193,640</u>
Net change in fund balance	(9,402,655)	(9,723,728)	13,567,786	23,291,514
Fund balance at beginning of year	<u>72,422,603</u>	<u>72,422,603</u>	<u>72,422,603</u>	<u>-</u>
Fund balance at end of year	<u>\$ 63,019,948</u>	<u>\$ 62,698,875</u>	<u>\$ 85,990,389</u>	<u>\$ 23,291,514</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 Federated States of Micronesia (FSM) National Government as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise FSM National Government's basic financial statements, and have issued our report thereon dated June 30, 2017.

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 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 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 FSM National Government's internal control. Accordingly, we do not express an opinion on the effectiveness of 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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2016-003, which we consider to be material weaknesses.

Compliance and Other Matters

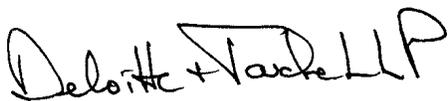
As part of obtaining reasonable assurance about whether FSM National Government's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct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

FSM National Government's response to the findings identified in our audit are described in the accompanying Corrective Action Plan. FSM National Government's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.



June 30, 2017

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 THE UNIFORM GUIDANCE

Honorable Peter M. Christian
President
Federated States of Micronesia:

Report on Compliance for Each Major Federal Program

We have audited FSM National Government's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of FSM National Government's major federal programs for the year ended September 30, 2016. 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 3B to the Schedule of Expenditures of Federal Awards, 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, 2016. Our audit, described below, did not include the operations of the entities identified in Note 3B as these entities conducted separate audits in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (the Uniform Guidance), if required.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of 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 the audit requirements of the Uniform Guidance. Those standards and the Uniform Guidance 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 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 FSM National Government's compliance.

Opinion on Each Major Federal Program

In our opinion, 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, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2016-001 and 2016-002. Our opinion on each major federal program is not modified with respect to these matters.

FSM National Government's response to the noncompliance findings identified in our audit are described in the accompanying Corrective Action Plan. FSM National Government's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of 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 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 the Uniform Guidance, 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 FSM National Government's internal control over compliance.

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

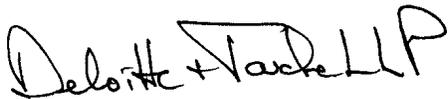
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2016-001 and 2016-002 that we consider to be significant deficiencies.

FSM National Government's response to the internal control over compliance findings identified in our audit are described in the accompanying Corrective Action Plan. FSM National Government's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

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

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of FSM National Government as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise FSM National Government's basic financial statements. We issued our report thereon dated June 30, 2017, 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 the Uniform Guidance 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.



June 30, 2017

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Summary Schedule of Expenditures of Federal Awards, by Grantor
Year Ended September 30, 2016

<u>Agency/Program</u>	<u>Expenditures</u>	Amounts Passed-Through to <u>Subrecipients</u>
U.S. Department of Agriculture	\$ 33,830	\$ 33,643
U.S. Department of Commerce	1,617,364	-
U.S. Department of the Interior	36,754,196	28,607,202
U.S. Department of Transportation	14,448,889	-
Institute of Museum and Library Services	25,017	-
U.S. Department of Education	3,506,301	2,984,032
U.S. Department of Health and Human Services	7,786,139	3,363,941
GRAND TOTAL	<u>\$ 64,171,736</u>	<u>\$ 34,988,818</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	\$ 37,965,508
Add:	
Amounts Passed-Through to subrecipients	34,988,818
Less:	
Expenditures of the Non U.S. Grants Fund	<u>(8,782,590)</u>
Total expenditures of federal awards	<u>\$ 64,171,736</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, 2016

<u>Agency/Program</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>	<u>Amounts Passed-Through to Subrecipients</u>
U.S. DEPARTMENT OF AGRICULTURE			
Cooperative Forestry Assistance	10.664	\$ 15,157	\$ 14,971
Urban and Community Forestry Program	10.675	<u>18,673</u>	<u>18,673</u>
U.S. DEPARTMENT OF AGRICULTURE TOTAL		<u>\$ 33,830</u>	<u>\$ 33,643</u>
U.S. DEPARTMENT OF COMMERCE			
Special Oceanic and Atmospheric Projects	11.460	<u>\$ 1,617,364</u>	<u>\$ -</u>
U.S. DEPARTMENT OF COMMERCE		<u>\$ 1,617,364</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		\$ 7,164,006	\$ 2,974
Education		12,702,069	12,542,708
Health		9,526,281	9,526,281
Capacity Building		1,225,600	765,709
Environment		634,517	634,517
Private Sector		365,961	365,961
Compact Supplemental Education		4,165,789	3,814,810
Compact ERA		<u>680,493</u>	<u>680,493</u>
Subtotal Compact Sector Funds		<u>36,464,716</u>	<u>28,333,453</u>
Technical Assistance:			
Technical Assistance OIA/DOI Other		<u>3,391</u>	<u>-</u>
		<u>3,391</u>	<u>-</u>
Total CFDA #15.875		<u>36,468,107</u>	<u>28,333,453</u>
Historic Preservation Fund Grants-In-Aid	15.904	<u>286,089</u>	<u>273,749</u>
U.S. DEPARTMENT OF THE INTERIOR TOTAL		<u>\$ 36,754,196</u>	<u>\$ 28,607,202</u>
U.S. DEPARTMENT OF TRANSPORTATION			
Airport Improvement Program	20.106	<u>\$ 14,448,889</u>	<u>\$ -</u>
U.S. DEPARTMENT OF TRANSPORTATION TOTAL		<u>\$ 14,448,889</u>	<u>\$ -</u>
INSTITUTE OF MUSEUM AND LIBRARY SERVICES			
Grants to States	45.310	<u>\$ 25,017</u>	<u>\$ -</u>
INSTITUTE OF MUSEUM AND LIBRARY SERVICES		<u>\$ 25,017</u>	<u>\$ -</u>
U.S. DEPARTMENT OF EDUCATION			
Special Education - Grants to States	84.027A	<u>\$ 3,506,301</u>	<u>\$ 2,984,032</u>
U.S. DEPARTMENT OF EDUCATION TOTAL		<u>\$ 3,506,301</u>	<u>\$ 2,984,032</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Public Health Emergency Preparedness	93.069	\$ 6,430	\$ -
Hospital Preparedness Program	93.074	709,516	-
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092	197,923	129,897
Maternal and Child Health Federal Consolidated Programs - SSDI Program	93.110	95,874	30,669
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	868,190	339,595
Emergency Medical Services for Children	93.127	18,591	-
Family Planning-Services	93.217	300,908	239,759
Health Center Program	93.224	140,600	140,600
Affordable Care Act (ACA) Abstinence Education Program	93.235	6,190	3,980
Oral Health Care	93.236	338,715	78,956
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	1,252,907	732,796
Universal Newborn Hearing Screening	93.251	202,896	54,371
Immunization Cooperative Agreements	93.268	1,135,371	404,916
CDC and Prevention-Investigations and Technical Assistance	93.283	488,786	345,321
Strengthening PH Infrastructure for Improved Health Outcomes	93.292	10,999	-
Tracking Surveillance	93.314	88,335	9,254
Behavioral Risk Factor	93.336	77,152	-
Epidemiology and Laboratory Capacity for Infectious Disease Capacity Building in FSM	93.521	68,628	-
Immunization PPHF	93.539	80	-
Preventive Health and Health Services Block Grant	93.758	19,072	17,908
ELC Supplement for Ebola	93.815	79,981	-
Healthcare Coalition Ebola	93.817	876	-
HIV Care Formula Grants	93.917	41,057	7,657
Tobacco Prevention	93.945	334,958	116,277
Block Grants for Community Mental Health Services	93.958	83,276	15,617
Block Grants for Prevention and Treatment of Substance Abuse	93.959	646,513	397,220
Preventive Health and Health Services Block Grant	93.991	65,115	-
Maternal and Child Health Services Block Grant to the States	93.994	<u>507,201</u>	<u>299,150</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL		<u>\$ 7,786,139</u>	<u>\$ 3,363,941</u>
GRAND TOTAL		<u>\$ 64,171,736</u>	<u>\$ 34,988,818</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, 2016

1. Scope

Federated States of Micronesia (FSM) National Government is a governmental entity governed by its own Constitution. All significant operations of FSM National Government are included in the scope of the audit (the "Single Audit"). The U.S. Department of the Interior has been designated as FSM National Government's cognizant agency for the Single Audit.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of FSM National Government under programs of the federal government for the year ended September 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Because the Schedule presents only a selected portion of the operations of FSM National Government, it is not intended to and does not present the financial positions or changes in financial positions of FSM National Government.

3. Summary of Significant Accounting Policies

A. Basis of Accounting

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, consistent with the manner in which FSM National Government and its subrecipients maintain their accounting records. All expenditures and capital outlays that represent the federal share are reported as expenditures. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

B. Reporting Entity

For purposes of complying with the Single Audit Act of 1984, as amended in 1996, FSM National Government's reporting entity is defined in Note 1A to its September 30, 2016 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, 2016.

The FSM National Government's component units are to separately satisfy the requirements of the Uniform Guidance, and information concerning component units is, as follows:

College of Micronesia-FSM

The College of Micronesia-FSM (COM-FSM), a discretely presented component unit, is the recipient of various pass-through funds from FSM National Government and direct grants from the U.S. Department of Agriculture, U.S. Department of the Interior, U.S. Department of Education, and the U.S. Department of Health and Human Services. COM-FSM is to separately satisfy its 2016 reporting responsibilities under the Single Audit Act. Total federal awards for COM-FSM is \$1,786,722.

**FSM NATIONAL GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2016

3. Summary of Significant Accounting Policies, Continued

C. Subrecipients

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

D. Indirect Cost Allocation

FSM National Government did not receive any indirect cost allocation. FSM National Government did not elect to use the de minimis indirect cost rate allowed under the Uniform Guidance and did not charge indirect costs against federal programs.

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 for purposes of major program determinations.

**FSM NATIONAL GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2016

Section I - Summary of Auditors' Results

Financial Statements

- | | |
|---|---------------|
| 1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: | 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? | No |

Federal Awards

Internal control over major federal programs:

- | | |
|---|------------|
| 5. Material weakness(es) identified? | No |
| 6. Significant deficiency(ies) identified? | Yes |
| 7. Type of auditors' report issued on compliance for major federal programs: | Unmodified |
| 8. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | Yes |
| 9. Identification of major federal programs: | |

CFDA

<u>Numbers</u>	<u>Name of Federal Program or Cluster</u>
15.875	Economic, Social, and Political Development of the Territories – Compact of Free Association Compact Sector Grants
20.106	Airport Improvement Program
93.268	Immunization Cooperative Agreements

- | | |
|--|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$875,488 |
| 11. Auditee qualified as low-risk auditee? | No |

Section II – Financial Statements Findings

<u>Finding #</u>	<u>Finding</u>
2016-003	Unearned Revenues

**FSM NATIONAL GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Section III - Federal Award Findings and Questioned Costs

<u>Finding #</u>	<u>CFDA #</u>	<u>Finding</u>	<u>Questioned Costs</u>
2016-001	20.106	Reporting	\$ -
2016-002	15.875	Subrecipient Monitoring	-
			\$ -

**FSM NATIONAL GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-001
 Federal Agency: U.S. Department of Transportation
 CFDA Program: 20.106 Airport Improvement Program
 Requirement: Reporting
 Questioned Costs: \$0

Criteria:

In accordance with the Federal Aviation Administration Grant Agreement, 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. The report shall include transaction information such as federal cash receipt, federal share of expenditures and recipient share. Additionally, submitted reports should reconcile with underlying records.

Condition:

1. The SF-425 Federal Financial Report, which covered the period October 1, 2015 to September 30, 2016, reflected cash receipts reported that are less than actual cash drawdowns:

Account number	Cash receipts per SF-425	Cash receipts per drawdown log/bank	Variance:	Award number:
1-20-80-84-27011-15	\$11,472,395	\$11,625,878	\$153,483	3-64-0003-020-2015

2. The SF-425 Federal Financial Report, which covered the period October 1, 2015 to September 30, 2016, reflected expenditures less than the general ledger:

Account number	Expenses per SF-425	Expenses per GL:	Variance:	Award number:
1-20-80-84-27011-14	\$3,147,439	\$3,830,798	\$683,359	3-64-0003-018-2014

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

Effect: Noncompliance with reporting requirements results from this condition. No questioned costs have been reported as condition relates to reconciliation between amounts recorded and reported and rather than from cash drawdowns being requested in excess of expenditures incurred.

Identification as a Repeat Finding: Finding No. 2015-003

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:

The FSM National Government describes the corrective actions in the corrective action plan.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-002
Federal Agency: U.S. Department of Interior
CFDA Program: 15.875 – Economic, Social, and Political Development of the Territories
Requirement: Subrecipient Monitoring
Questioned Costs: \$0

Criteria: In accordance with applicable subrecipient monitoring requirements, the pass-through entity is responsible for issuing a management decision for audit findings that relate to Federal awards it makes to subrecipients. Such a decision must be issued within six months of acceptance of the audit report by the Federal Audit Clearinghouse.

Condition: Certain subrecipients of the FSM National Government receiving pass-through funds under CFDA 15.875 reported findings in their respective FY2015 audit reports accepted by the Federal Audit Clearinghouse, in which a management decision needed to be issued in December 2015. Evidence of the required management decision on subrecipient findings was not apparent.

Cause: The FSM National Government did not perform the applicable subrecipient monitoring requirements. The FSM National Government prioritized resolution of National Government prior year questioned costs, a process that appeared successful.

Effect: The FSM National Government is not in compliance with applicable subrecipient monitoring requirements.

Recommendation: The FSM National Government should monitor receipt of respective subrecipient audit reports and determine if questioned costs exist for the related subgrants. Responsible personnel should prepare and transmit management's decisions on such findings to its subgrantees. Now that the FSM National Government questioned costs have been substantially resolved, we recommend that this matter be prioritized.

Auditee Response and Corrective Action Plan:

The FSM National Government describes the corrective actions in the corrective action plan.

**FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No. 2016-003 – Unearned Revenues

Criteria: The FSM National Government records as unearned revenues, collections of non-federal grant monies that have not been expended.

Condition: Unearned revenues recorded in FY16 and prior have not been reversed against related expenditures. Certain accounts have not reflected movements. Details are as follows:

	<u>FY15 Balance</u>	<u>FY16 Balance</u>	<u>Change</u>
Deferred Revenues	\$5,939,236	\$5,538,857	\$400,379

In addition, there are various deposits received in which sources and programs are unidentified as of September 30, 2016. Unidentified deposits increased from \$356,826 in FY15 to \$1,074,584 in FY16. Further, examination revealed negative balances of \$501,319 in unearned revenue balances, which pertain to the excess of expenditures over total grants received.

Cause: The cause of the above condition is the lack of internal control policies and procedures over monitoring unearned revenues and related expenditures.

Effect: The effect of the above condition is potential misstatements of unearned revenue and related revenue being incorrectly accounted for.

Identification as a Repeat Finding: Finding No. 2015-007

Recommendation: We recommend that the account be monitored for appropriate recognition of the related revenues.

Auditee Response and Corrective Action Plan:

The FSM National Government describes the corrective actions in the corrective action plan.

**FSM NATIONAL GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Summary Schedule of Prior Audit Findings and Questioned Costs
Year Ended September 30, 2016

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

	Questioned Costs Set Forth in Prior Audit Report <u>2015</u>	Questioned Costs Resolved in Fiscal Year <u>2016</u>	Questioned Costs at <u>September 30, 2016</u>
Unresolved Questioned Costs FY11	\$ 267,434	\$ 267,434	\$ -
Unresolved Questioned Costs FY12	709,783	709,783	-
Unresolved Questioned Costs FY13	2,669,022	2,669,022	-
Unresolved Questioned Costs FY14	582,384	582,384	-
Unresolved Questioned Costs FY15	<u>28,936</u>	<u>1,545</u>	<u>27,391</u>
	\$ <u>4,257,599</u>	\$ <u>4,230,168</u>	27,391
Questioned costs for the year ended September 30, 2016			<u>-</u>
Total questioned costs			\$ <u>27,391</u>

The status of prior year findings is set forth in the accompanying Status of Audit Findings and Questioned Costs.

**FSM STATES OF MICRONESIA
NATIONAL GOVERNMENT**

**CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)
Year Ended September 30, 2016**

Finding Number	Corrective Action Plan	Anticipated Completion Date	Responsible Person (Contact details)
2016-001	<p>1. Division of Investment & International Finance and Division of National Treasury will frequently reconcile the cash draw downs and cash receipts.</p> <p>2. Division of Investment & International Finance will advise and remind the grants' program managers to monitor their respective grants and perform the liquidations on a timely manner.</p> <p>3. Division of National Treasury will perform the timely reconciliations between the general ledger and related reports.</p> <p>4. Division of Investment & International Finance and Division of National Treasury will ensure that the required reports are submitted on or before the due date.</p>	September 30, 2017	<p>Ms. Rose Nakanaga - Assistant Secretary, Division of Investment & International Finance, Assistant Secretary, Division of National Treasury</p> <p>Fsminvestment@mail.fm</p>
2016-002	<p>1. Secretary of Finance and Administration and National Public Auditor will reorganize the audit resolution committee to monitor subrecipients' audit findings.</p> <p>2. Audit resolution committee will then monitor and issue decisions on subrecipients' audit findings before December 2017.</p>	July 01, 2017	<p>Ms. Sihna Lawrence – Secretary of FSM Finance Lawrence.sihna@gmail.com</p> <p>Mr. Haser Hainrick – FSM National Public Auditor hhainrick@fsmopa.fm</p>
2016-003	We will implement procedures to reconcile deferred revenue on monthly basis.	July 01,2017	<p>Renegardo Mercillo- FSM Finance Financial Advisor rsmercillo@yahoo.com</p>