

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

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

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**YEAR ENDED SEPTEMBER 30, 2009**

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

YEAR ENDED SEPTEMBER 30, 2009

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

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**YEAR ENDED SEPTEMBER 30, 2009**

## **INDEPENDENT AUDITORS' REPORT**

His Excellency Emmanuel Mori  
President  
Federated States of Micronesia:

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Federated States of Micronesia (FSM) National Government as of and for the year ended September 30, 2009, which collectively comprise the FSM National Government's basic financial statements as set forth in Section II of the foregoing table of contents. These financial statements are the responsibility of the management of the FSM National Government. Our responsibility is to express an opinion on the respective financial statements based on our audit. We did not audit the financial statements of Caroline Islands Air, Inc., which represents 0.1%, 0.1% and 0.3%, respectively, of the assets, net assets and operating revenues of the FSM National Government's discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Caroline Islands Air, Inc., is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the FSM National Government's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

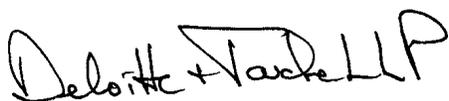
In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material aspects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the FSM National Government as of September 30, 2009, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 11 to the financial statements, the beginning net assets of the governmental activities and the beginning fund balance of the governmental funds have been restated for the correction of an error.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2010, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

June 30, 2010

FEDERATED STATES OF MICRONESIA  
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Management's Discussion and Analysis  
September 30, 2009

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, 2009 and of the financial position of the FSM National Government at September 30, 2009. This report is to be read in conjunction with the financial statements of the FSM National Government which begin on page 12. Fiscal Year 2008 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, 2009, FSM National Government has total net assets of \$120,269,076 (FY08 as restated \$84,890,213). The increase is primarily due to the receipt of Compact Infrastructure Sector grants pertaining to infrastructure and construction in progress for airport improvement and infrastructure projects in the Government-wide financial statements.
- During the year, FSM National Government expenses for governmental activities were \$55,058,718 (FY08 \$52,077,160) and were funded by program revenues of \$59,269,557 (FY08 \$27,454,162) and were further funded with taxes and other general revenues (excluding special items) that totaled \$33,400,452 (FY08 as restated \$32,460,881).
- During the year, FSM National Government wrote-off its old receivable balances of \$2,232,428 (FY08 \$2,455,919).
- The net change in governmental funds increased by \$4,071,803 (FY08 decreased by \$2,380,466). Total revenues reported are \$90,295,683 with total expenditures of \$85,241,653. Total loan proceeds from ADB Loan are \$1,250,201.
- At September 30, 2009, the General Fund reported an unreserved surplus of \$5,189,420 (FY08 as restated \$3,575,187). Of the total unreserved surplus, \$3,918,871 came from the excess of revenue against the projected/budgeted amounts and the remaining \$1,270,549 came from unexpended appropriations in the budgetary expenditures, net of operating transfers in and out, write-off of old receivable balances and other changes in the unreserved fund balance. The summary and details of these amounts can be found on page 57 and pages 70-72, respectively.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This Financial Statements for the Year Ended September 30, 2009 consists of four parts - management's discussion and analysis (this section), the basic financial statements, required supplementary information, and notes to financial statements.

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

#### The Government-Wide Financial Statements

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

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

FEDERATED STATES OF MICRONESIA  
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Management's Discussion and Analysis  
September 30, 2009

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.

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

- **Governmental Activities** - Most of the FSM National Government's basic services are reported here. These include the services provided by the Executive Branch such as health, education, foreign affairs, transportation, resources and development, finance, the Attorney General's office, and general administration; the Judicial Branch; the Legislative Branch; other National Government programs; Boards and Commissions; and other legislative appropriations. These services are funded by Compact of Association funds, US Federal grants, FSM tax revenues, licenses, fees and investment earnings.
- **Components Units** – The FSM National Government has eight (8) component units namely, College of Micronesia - FSM, National Fisheries Corporation, FSM Telecommunications Corporation, FSM Development Bank, FSM Social Security Administration, the FSM Coconut Development Authority, FSM Petroleum Corporation and the Mi Care Plan. 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 programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliations at the bottom of the page 14 and on page 16.
- **Fiduciary funds** - These funds are used to account for assets held by a Government unit in a trustee capacity for individuals, private organizations, and other governmental resources. This fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs (expenses, including amortization and depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

FEDERATED STATES OF MICRONESIA  
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Management's Discussion and Analysis  
September 30, 2009

**THE NATIONAL GOVERNMENT AS A WHOLE**

Net Assets may serve over time as a useful indicator of government's financial position. At the end of FY09, National Government assets exceeded liabilities by \$120,269,076. Of the total net assets, \$103,061,039 is restricted as to purposes for which they may be used. 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 assets as of September 30, 2009 and 2008.

**Table 1 - Net Assets**

	<u>Governmental Activities</u>	
	<u>2009</u>	(As Restated) <u>2008</u>
Assets:		
Current Assets	\$ 65,418,009	\$ 53,240,404
Other Assets	42,760,445	49,991,788
Capital Assets	<u>85,303,419</u>	<u>53,442,653</u>
Total assets	<u>193,481,873</u>	<u>156,674,845</u>
Liabilities:		
Current Liabilities	23,295,457	20,840,426
Other Liabilities	<u>50,768,751</u>	<u>50,944,206</u>
Total Liabilities	<u>74,064,208</u>	<u>71,784,632</u>
Net Assets:		
Invested in capital assets	85,303,419	53,442,653
Restricted	17,757,620	14,977,434
Unrestricted	<u>17,208,037</u>	<u>16,470,126</u>
Net assets	<u>\$120,269,076</u>	<u>\$ 84,890,213</u>

At the end of FY09, the FSM National Government unrestricted assets show a surplus of \$17,208,037 compared to \$16,470,126 at the end of FY08.

Table 2 shows the changes in Net Assets of the National Government for the years ended September 30, 2009 and 2008.

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September 30, 2009

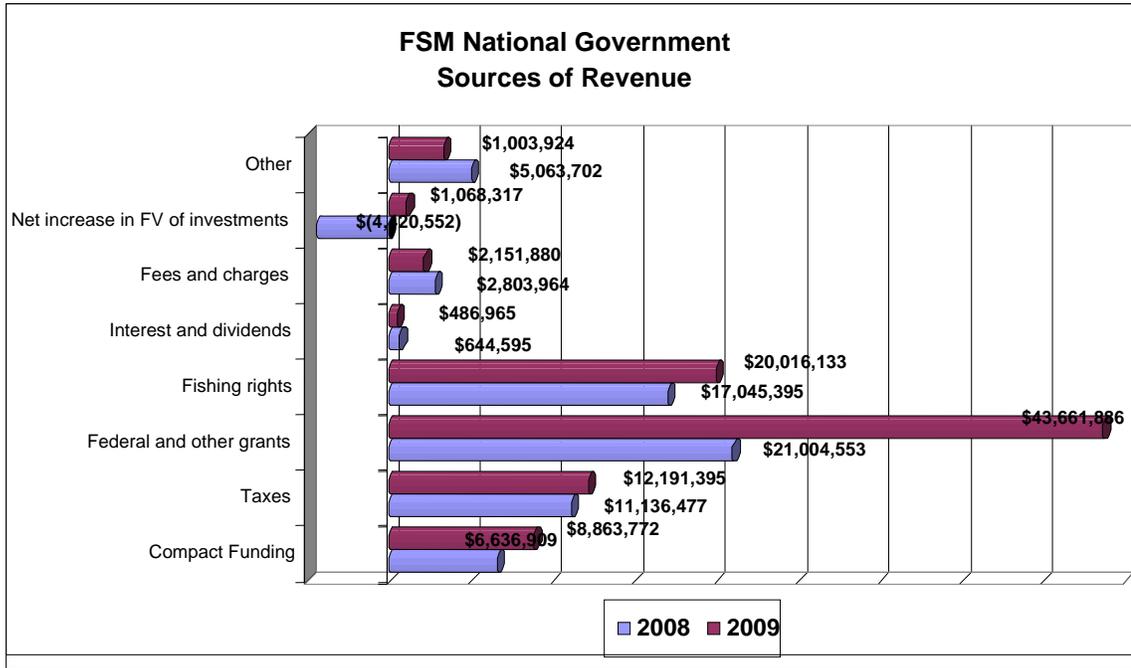
Table 2  
Changes in Net Assets

	<u>Governmental Activities</u>	
	(As Restated)	
	<u>2009</u>	<u>2008</u>
Revenues:		
Program Revenues:		
Charges for services	\$ 2,629,918	\$ 2,984,956
Operating grants and contributions	16,783,683	11,612,635
Capital grants and contributions	39,855,956	12,856,571
General Revenues:		
Income tax	3,452,260	3,621,662
Fishing rights	20,016,133	17,045,395
Fuel tax	156,511	118,465
Import tax	4,652,636	4,136,704
Gross receipts tax	3,872,080	3,385,961
Corporate tax	57,908	34,318
Unrestricted investment earnings	667,038	(2,011,414)
Grants	-	1,066,088
Other	<u>525,886</u>	<u>5,063,702</u>
Total revenues	<u>92,670,009</u>	<u>59,915,043</u>
Expenses:		
Executive	35,189,408	36,724,346
Judicial	1,234,540	1,172,123
Legislative	2,999,287	3,003,016
Office of Public Auditor	1,736,797	1,753,854
Other National Gov't. Programs	2,192,707	2,594,413
Boards and commissions	1,407,409	1,166,179
Future operations	-	203,269
Payments to component units	1,203,202	1,338,198
Capital projects	8,633,019	3,777,474
Interest-unallocated	<u>462,349</u>	<u>344,288</u>
Total expenses	<u>55,058,718</u>	<u>52,077,160</u>
Excess before special items	37,611,291	7,837,883
Special items	<u>(2,232,428)</u>	<u>(2,455,919)</u>
Change in net assets	35,378,863	5,381,964
Net assets, beginning of year	<u>84,890,213</u>	<u>79,508,249</u>
Net assets , end of year	<u>\$120,269,076</u>	<u>\$84,890,213</u>

National Government revenues from governmental activities, including local revenues, gain on investments, Compact and other grants funding totaled \$92,670,009 (FY08 as restated \$59,915,043). In FY09, the cost of governmental activities totaled \$55,058,718 (FY08 \$52,077,160). In FY09, special items amounted to \$2,232,428 (FY08 \$2,455,919). The difference between the two, including special items, represents an increase in net assets of \$35,378,863 (FY08 as restated \$5,381,964). To assist in appreciating the details of governmental activities, the above governmental activities information is shown in pictorial form in the following graph.

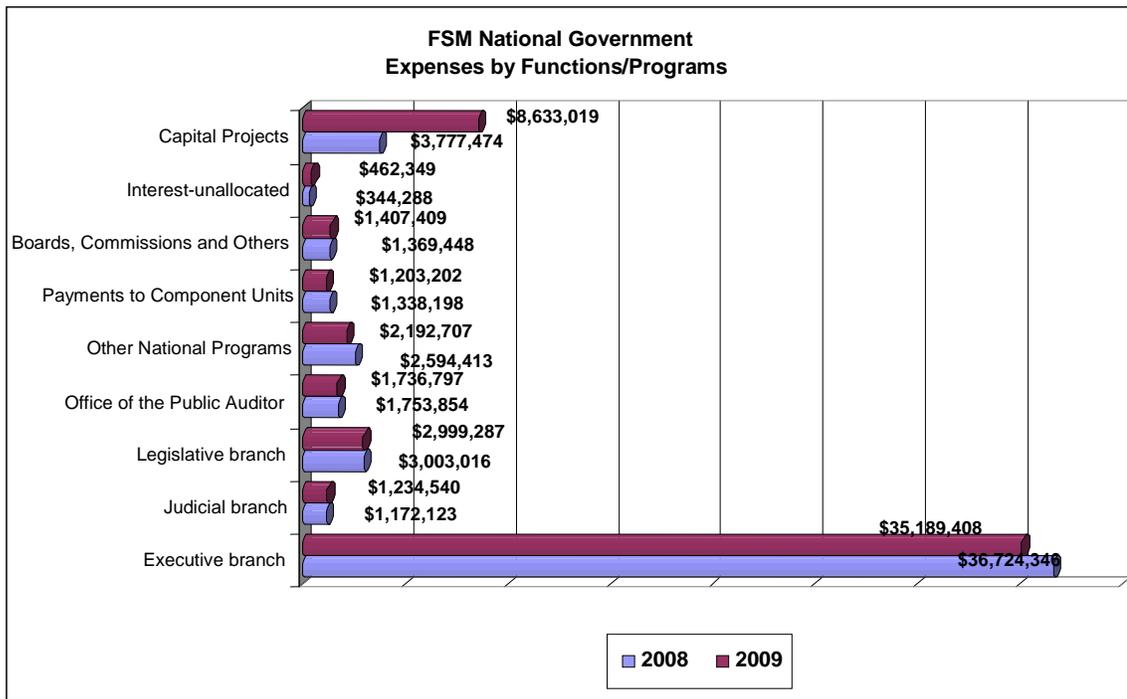
FEDERATED STATES OF MICRONESIA  
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Restatement

The beginning net assets of the governmental activities have been restated for the correction of an error. Additional information on this restatement can be found in note 11 to the financial statements.



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NATIONAL GOVERNMENT

Management's Discussion and Analysis  
September 30, 2009

## **FINANCIAL ANALYSIS OF THE FSM NATIONAL GOVERNMENT'S FUNDS**

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

### **Governmental Funds**

The focus of the FSM National Government governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the FSM National Government financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the FSM National Government governmental funds reported combined ending fund balances of \$83.1 million, which represents a slight increase of \$4.1 million (or 5%) 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, and the General Fund. Of this total combined fund balance, \$222 million is reserved to indicate that it is not available for new spending because it has already been committed: 1) to generate income for future operations (\$58 million); 2) to continuing appropriations through grant awards or enabling legislation (\$90 million); 3) to liquidate contracts and purchase orders of the prior period (\$74 million); The combined unreserved deficit of the FSM National Government governmental funds is \$139 million, an increase of \$55 million (or 39%) from the prior year. This deficit will be funded through future budgetary surpluses.

The General Fund is the chief operating fund of the FSM National Government. At the end of the current fiscal year, the unreserved fund surplus of the General Fund was \$5.2 million as compared with the prior year ending unreserved fund surplus as restated of \$3.6 million, an improvement of \$1.6 million (or 31%), while total fund balance was \$23 million compared with a total fund balance of as restated \$21 million at the end of the prior fiscal year, an increase of \$2 million. The increase in the overall fund balance of the General Fund was primarily the result of the increase in collection in local taxes and fishing access fees.

The Grants Assistance Fund has a total fund balance of \$0.6 million, which primarily represents Compact Sector grant revenues received not yet expended at year end. The net increase in fund balance during the current year in the Grants Assistance Fund was \$.07 million (or 1.2%), which primarily was the result of unexpended Compact revenue receipts of \$0.1 million together with the local match of \$0.5 million associated with the Disaster Assistance Emergency Fund.

The Compact Trust Fund has a total fund balance of \$9 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 \$0.2 million (or 1.9%), which continues to reflect the weakness in global financial markets.

The Asian Development Bank Loan Fund has a total fund balance of \$32 million, of which \$30 million is reserved for the re-lending of loans to the FSM States Government and \$1 million is reserved in cash and cash equivalents to fund the Private Sector Development Fund Project while \$70,000 is reserved for encumbrance. The net decrease in fund balance during the current year in the Asian Development Bank Loan Fund was \$0.3 million primarily due to loan repayments.

The Early Retirement Program Fund has a total fund deficit balance of \$0.1 million. There were no significant changes in this fund as there is no change in the fund balance deficit in the current year as compared with last year's balance.

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The Section 111 Investment Development Fund has a total fund balance of \$10 million of which \$7 million is reserved for loans receivable from the Private Sector while \$3 million represents the unreserved fund balance. The net decrease in fund balance as compared with last year's balance was \$0.3 million or (0.02%) primarily due to payment of commission to FSM Development Bank for administering the IDF Fund and the write-off of old receivable balances, net of interest and dividends.

Table 3 shows the National Government Governmental Fund changes in fund balances for the years ended September 30, 2009 and 2008.

Table 3  
Changes in Fund Balances

	<u>General Fund</u>		<u>Other Funds</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Revenues:						
Compact funding	\$ -	\$ -	\$ 8,863,772	\$ 6,636,909	\$ 8,863,772	\$ 6,636,909
Federal and other grants	9,278	1,066,088	43,652,608	19,938,465	43,661,886	21,004,553
Taxes	11,984,202	11,136,477	207,193	-	12,191,395	11,136,477
Fishing rights	20,016,133	17,045,395	-	-	20,016,133	17,045,395
Net change in fair value of Investments	479,183	(2,219,360)	589,134	(2,201,192)	1,068,317	(4,420,552)
Other	<u>2,223,766</u>	<u>4,511,229</u>	<u>1,419,003</u>	<u>1,479,206</u>	<u>3,642,769</u>	<u>5,990,435</u>
Total revenues	<u>34,712,562</u>	<u>31,539,829</u>	<u>54,731,710</u>	<u>25,853,388</u>	<u>89,444,272</u>	<u>57,393,217</u>
Expenditures (deficiency)	<u>28,139,046</u>	<u>28,083,091</u>	<u>57,102,607</u>	<u>32,867,122</u>	<u>85,241,653</u>	<u>60,950,213</u>
Excess (deficiency) of revenues over (under) expenditures	<u>6,573,516</u>	<u>3,546,738</u>	<u>(2,370,897)</u>	<u>(7,013,734)</u>	<u>4,202,619</u>	<u>(3,556,906)</u>
Net transfers	<u>(2,676,200)</u>	<u>156,887</u>	<u>3,926,401</u>	<u>3,475,562</u>	<u>1,250,201</u>	<u>3,632,449</u>
Special items	<u>(2,024,148)</u>	<u>(2,455,919)</u>	<u>(208,280)</u>	<u>-</u>	<u>(2,232,428)</u>	<u>(2,455,919)</u>
Net change in fund balances	<u>\$ 1,873,168</u>	<u>\$ 1,157,706</u>	<u>\$ 1,347,224</u>	<u>\$ (3,538,172)</u>	<u>\$ 3,220,392</u>	<u>\$ (2,380,466)</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 requiring increases in appropriations. As can be seen in the following table, actual revenues exceeded final budget by \$3,918,871 or 12.70% while expenditures were less than final budget by \$3,935,434 or 11.20%. There were no material budget overruns at any level.

	<u>Budget Original</u>	<u>Budget Final</u>	<u>Actual Amounts</u>	<u>Variance Positive (Negative)</u>
Revenues	\$ 32,595,940	\$ 30,793,691	\$ 34,712,562	\$ 3,918,871
Expenditures	<u>31,792,779</u>	<u>35,214,369</u>	<u>31,278,935</u>	<u>3,935,434</u>
Excess (deficiency)	803,161	(4,420,678)	3,433,627	7,854,305
Other financing sources (uses) and special items	<u>(3,026,977)</u>	<u>(3,176,977)</u>	<u>(4,700,348)</u>	<u>(1,523,371)</u>
Net change in unreserved fund balance	(2,223,816)	(7,597,655)	(1,266,721)	6,330,934
Other changes in unreserved fund balance	2,847,584	2,847,584	2,880,954	33,370
Unreserved-beginning of year, as restated	<u>1,266,267</u>	<u>1,266,267</u>	<u>3,575,187</u>	<u>2,308,920</u>
Unreserved-end of year	<u>\$ 1,890,035</u>	<u>\$ (3,483,804)</u>	<u>\$ 5,189,420</u>	<u>\$ 8,673,224</u>

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During the year, the FSM National Government revised its revenue projection to decrease the investment earnings and other revenue and increase the fishing access fees that resulted in a net decrease of \$1,802,249 in the revenue projection. During the year, the FSM National Government additional supplemental appropriations under Public Law Nos. 15-67, 15-77, 15-80, 15-83 and 16-05 totaled to \$2,158,646. The decrease in revenue projection, the additional supplemental appropriations and some other activities in the budget resulted in a budget change between original and final of \$3,483,804.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

Capital Assets

At the end of September 30, 2009, the FSM National Government had invested \$85,303,419 (FY08 \$53,442,653) 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 is shown below:

	<u>Primary Government Governmental Activities</u>	
	<u>2009</u>	<u>2008</u>
Buildings	\$ 16,761,302	\$ 16,761,302
Boats and ships	22,178,099	23,332,744
Infrastructure	4,879,599	6,587,872
Motor vehicles	8,497,256	7,950,963
Computer equipment	4,477,874	4,005,571
Aircraft	709,207	709,207
Furniture, fixture, equipment	<u>8,457,781</u>	<u>3,890,808</u>
	65,961,118	63,238,467
Less: accumulated depreciation	(30,053,108)	(27,772,795)
Construction in progress	<u>49,395,409</u>	<u>17,976,981</u>
Total assets	<u>\$ 85,303,419</u>	<u>\$ 53,442,653</u>

During the year, the FSM National Government recorded additional construction in progress for AIP Improvement and Infrastructure projects of \$31,418,428.

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 2009, the National Government had long-term debt and other obligations of \$52,340,205 (FY08 \$51,775,981) relating to Governmental Activities as shown below:

	<u>2009</u>	<u>2008</u>
ADB Loan - Early Retirement	\$ 19,528,878	\$ 19,935,753
-Fisheries and water project	15,425,188	15,761,325
-Private Sector Development	11,076,687	10,252,016
-Basic social Services	4,013,568	4,090,242
-Omnibus Infrastructure Dev.	953,520	715,241
Compensated Absences (Annual Leave)	<u>1,342,364</u>	<u>1,021,404</u>
Total	<u>\$ 52,340,205</u>	<u>\$ 51,775,981</u>

FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT

Management's Discussion and Analysis  
September 30, 2009

During the year, the FSM National Government received loan proceeds of \$1,270,690 for loans under ADB Loan Nos. 1816 FSM (SF) Basic Social Services project loan, 1874 FSM (SF) Private Sector Development Project, 2100 FSM (SF) and 2099 FSM (SF) Omnibus Infrastructure Development Project. Included in the loan proceeds is a foreign exchange adjustment due to a change in SDR calculation of \$20,489. Of this amount, \$10,518 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 6 to the accompanying financial statements.

Economic Factors and Next Year's Budget:

Fiscal year 2009 represents the sixth 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 \$81,741,775. Funding under the amended Compact represents 63% of the National Government FY09 annual budget. The remaining 37% came from locally generated tax revenues, fishing access fees and related government services fees.

The FSM National Government ended fiscal year 2009 with a positive unreserved general fund surplus.

For FY2010, the total revenue projection is approximately \$39,739,723, of which \$30,459,406 or 77% is from domestic sources, \$8,101,184 or 20% from the FSM National share of the Compact Sector Grants, and \$1,179,133 or 3% from the Supplemental Education Grant (SEG), respectively. This revenue projection does not include potential funds from US Federal grantor agencies, foreign governments, and other international and regional organizations.

In the beginning of FY2010, the first annual appropriation amounted to \$35,278,975 of which \$30,249,535 or 85.74% will come from locally generated revenues of the FSM National Government and the remaining amount of \$5,029,400 or 14.26% will come from the amended Sector Grants. It is anticipated that the FY2010 budget will reflect an increase from the FY09 budgetary level due to increase in the carry over in FY09 and increases in the collection of fishing access fees and other local taxes.

In addition to receiving Compact grant assistance, the FSM receives substantial programs assistance from agencies of the United States Federal Government, Peoples Republic of China, Japan and other foreign governments. Grants and other technical assistance programs are also made available to the FSM from the international and regional organizations. In FY09, assistance received from these sources was estimated at approximately \$54.73 million.

**FINANCIAL MANAGEMENT CONTACT –NATIONAL GOVERNMENT**

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

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Statement of Net Assets  
September 30, 2009

	Primary Government	Component Units
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 1,625,824	\$ 13,109,281
Cash and cash equivalents - restricted	3,675,842	-
Time certificates of deposit	1,408,739	2,534,194
Investments	28,214,876	7,942,642
Receivables, net of allowance for uncollectibles	29,707,923	13,983,113
Due from primary government	-	738,460
Due from component units	500,000	-
Advances	1,136,216	-
Inventories	-	7,055,133
Other current assets	-	3,101,823
Total current assets	66,269,420	48,464,646
Noncurrent assets:		
Investments	9,288,558	12,539,388
Loans receivable, net of current portion	30,013,117	14,939,334
Capital assets, net of accumulated depreciation	85,303,419	70,685,634
Deposits and other assets	3,458,770	-
Total noncurrent assets	128,063,864	98,164,356
Total assets	\$ 194,333,284	\$ 146,629,002
<u>LIABILITIES</u>		
Current liabilities:		
Current portion of long-term obligations	\$ 1,412,895	\$ 5,327,998
Short-term notes payable	-	308,150
Accounts payable	5,931,398	2,482,943
Due to component units	738,460	-
Current portion of compensated absences payable	158,560	-
Other liabilities and accruals	998,518	3,159,856
Tax refunds payable	499,450	-
Retention payable	2,150,067	-
Due to federal agencies	3,270,415	-
Due to FSM State Governments	5,204,243	-
Due to primary government	-	500,000
Deferred revenue	2,931,451	2,906,013
Total current liabilities	23,295,457	14,684,960
Noncurrent liabilities:		
Long-term obligations, net of current portion	49,584,946	37,525,387
Compensated absences payable, net of current portion	1,183,805	-
Total noncurrent liabilities	50,768,751	37,525,387
Total liabilities	74,064,208	52,210,347
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	85,303,419	33,031,889
Restricted for:		
Nonexpendable:		
Future operations	9,288,558	-
Other purposes	-	3,374,388
Expendable:		
Compact related	936,418	-
Other purposes	7,532,644	-
Unrestricted	17,208,037	58,012,378
Total net assets	120,269,076	94,418,655
Total liabilities and net assets	\$ 194,333,284	\$ 146,629,002

See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Statement of Activities  
Year Ended September 30, 2009

Functions/Programs	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
<b>Primary government:</b>						
<b>Governmental activities:</b>						
Office of the President	\$ 787,590	\$ -	\$ -	\$ -	\$ (787,590)	\$ -
Foreign affairs	3,541,638	-	23,722	-	(3,517,916)	-
Finance and administration	4,896,404	372,142	1,803,428	-	(2,720,834)	-
Resources and development	1,592,707	50,639	1,289,099	-	(252,969)	-
Transportation, communication and infrastructure	5,610,210	160,128	907,329	-	(4,542,753)	-
Health and social affairs	5,570,615	20,766	5,388,314	-	(161,535)	-
Education	5,434,102	-	4,239,690	-	(1,194,412)	-
Justice	4,010,695	375,401	55,732	-	(3,579,562)	-
Office of the Public Defender	634,316	-	-	-	(634,316)	-
SBOC Office	1,257,012	-	288,614	-	(968,398)	-
Environment and emergency management	1,512,558	300	389,825	-	(1,122,433)	-
National archives, cultural and historic preservation	341,561	-	182,486	-	(159,075)	-
Legislature	2,999,287	-	5,000	-	(2,994,287)	-
Judiciary	1,234,540	403	-	-	(1,234,137)	-
Office of the National Public Auditor	1,736,797	36,750	661,525	-	(1,038,522)	-
National government programs	2,074,382	127,761	693,331	-	(1,253,290)	-
Agencies, boards and commissions	1,407,409	1,015,783	120,580	-	(271,046)	-
Payments to component units	1,321,527	144,072	116,660	-	(1,060,795)	-
Future operations	-	325,773	618,348	-	944,121	-
Capital projects	8,633,019	-	-	39,855,956	31,222,937	-
Interest - unallocated	462,349	-	-	-	(462,349)	-
<b>Total primary government</b>	<b>\$ 55,058,718</b>	<b>\$ 2,629,918</b>	<b>\$ 16,783,683</b>	<b>\$ 39,855,956</b>	<b>4,210,839</b>	<b>-</b>
<b>Component units:</b>						
FSM Telecommunications Corporation	\$ 14,733,130	\$ 12,948,819	\$ -	\$ -	-	(1,784,311)
FSM Development Bank	1,559,899	2,865,589	-	-	-	1,305,690
National Fisheries Corporation	260,969	177,545	-	-	-	(83,424)
College of Micronesia - FSM	22,311,442	23,299,341	-	-	-	987,899
FSM Coconut Development Authority	262,014	83,104	176,196	-	-	(2,714)
FSM Petroleum Corporation	35,617,890	41,960,542	-	-	-	6,342,652
Caroline Islands Air, Inc.	304,282	281,907	147,421	-	-	125,046
MiCare Plan, Inc.	4,993,341	5,416,496	100,000	-	-	523,155
<b>Total component units</b>	<b>\$ 80,042,967</b>	<b>\$ 87,033,343</b>	<b>\$ 423,617</b>	<b>\$ -</b>	<b>-</b>	<b>7,413,993</b>
<b>General revenues:</b>						
<b>Taxes:</b>						
Income					3,452,260	-
Import					4,652,636	-
Gross receipts					3,872,080	-
Corporate tax					57,908	-
Fuel					156,511	-
Fishing rights					20,016,133	-
Unrestricted investment earnings					667,038	1,865,762
Other					525,886	-
Special item - write-off of receivable balances					(2,232,428)	-
<b>Total general revenues and special items</b>					<b>31,168,024</b>	<b>1,865,762</b>
<b>Change in net assets</b>					<b>35,378,863</b>	<b>9,279,755</b>
Net assets at the beginning of the year, as previously reported					82,581,293	85,138,900
Prior-period adjustment (Note 11)					2,308,920	-
Net assets at the beginning of the year, as restated					84,890,213	85,138,900
Net assets at the end of the year					<b>\$ 120,269,076</b>	<b>\$ 94,418,655</b>

See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

**Balance Sheet  
Governmental Funds  
September 30, 2009**

	Special Revenue					Permanent	Other Governmental Funds	Total
	General	Grants Assistance	Section 111 Investment Development	Early Retirement Program	Asian Development Bank Loan	Compact Trust		
<b>ASSETS</b>								
Cash and cash equivalents	\$ 587,823	\$ -	\$ -	\$ -	\$ 1,038,001	\$ -	\$ -	\$ 1,625,824
Time certificates of deposit	-	-	1,408,739	-	-	-	-	1,408,739
Equity in internal investment pool	11,860,965	-	-	3,015,666	-	-	5,605,376	20,482,007
Investments	5,254,204	-	2,478,665	-	-	-	-	7,732,869
Receivables, net:								
General	28,851	-	-	-	12,613	-	-	41,464
Taxes	3,926,162	-	-	-	-	-	-	3,926,162
Federal agencies	190,775	13,359,320	-	-	-	-	-	13,550,095
Loans	1,500,000	-	6,854,533	-	29,605,399	-	-	37,959,932
Accrued interest	-	-	25,207	-	-	-	-	25,207
Due from component units	500,000	-	-	-	-	-	-	500,000
Due from other funds	7,177,149	3,477,279	-	-	1,667,918	-	2,009,682	14,332,028
Advances	185,564	950,652	-	-	-	-	-	1,136,216
Deposits and other assets	3,458,770	-	-	-	-	-	-	3,458,770
Restricted assets:								
Cash and cash equivalents	3,401,497	-	-	-	274,345	-	-	3,675,842
Investments	-	-	-	-	-	9,288,558	-	9,288,558
<b>Total assets</b>	<b>\$ 38,071,760</b>	<b>\$ 17,787,251</b>	<b>\$ 10,767,144</b>	<b>\$ 3,015,666</b>	<b>\$ 32,598,276</b>	<b>\$ 9,288,558</b>	<b>\$ 7,615,058</b>	<b>\$ 119,143,713</b>
<b>LIABILITIES AND FUND BALANCES</b>								
<b>Liabilities:</b>								
Accounts payable	\$ 1,592,526	\$ 4,261,235	\$ -	\$ -	\$ 14,684	\$ -	\$ 62,953	\$ 5,931,398
Retention payable	69,185	2,080,882	-	-	-	-	-	2,150,067
Other liabilities and accruals	998,518	-	-	-	-	-	-	998,518
Tax refunds payable	499,450	-	-	-	-	-	-	499,450
Due to component units	376,939	80,310	281,211	-	-	-	-	738,460
Due to federal agencies	2,181,220	1,089,195	-	-	-	-	-	3,270,415
Due to FSM State Governments	2,471,338	2,713,800	-	-	19,105	-	-	5,204,243
Due to other funds	7,154,879	4,021,938	-	3,155,211	-	-	-	14,332,028
Deferred revenue	-	2,931,451	-	-	-	-	-	2,931,451
<b>Total liabilities</b>	<b>15,344,055</b>	<b>17,178,811</b>	<b>281,211</b>	<b>3,155,211</b>	<b>33,789</b>	<b>-</b>	<b>62,953</b>	<b>36,056,030</b>
<b>Fund balances (deficits):</b>								
<b>Reserved for:</b>								
Related assets	11,222,628	-	6,854,533	-	30,930,358	9,288,558	-	58,296,077
Encumbrances	3,139,889	70,441,748	-	-	70,093	-	195,853	73,847,583
Continuing appropriations	3,175,768	86,797,028	-	-	-	-	-	89,972,796
<b>Unreserved:</b>								
General fund	5,189,420	-	-	-	-	-	-	5,189,420
Special revenue funds	-	(156,630,336)	-	(139,545)	1,564,036	-	1,750,876	(153,454,969)
Permanent funds	-	-	3,631,400	-	-	-	5,605,376	9,236,776
<b>Total fund balances (deficit)</b>	<b>22,727,705</b>	<b>608,440</b>	<b>10,485,933</b>	<b>(139,545)</b>	<b>32,564,487</b>	<b>9,288,558</b>	<b>7,552,105</b>	<b>83,087,683</b>
<b>Total liabilities and fund balances</b>	<b>\$ 38,071,760</b>	<b>\$ 17,787,251</b>	<b>\$ 10,767,144</b>	<b>\$ 3,015,666</b>	<b>\$ 32,598,276</b>	<b>\$ 9,288,558</b>	<b>\$ 7,615,058</b>	
Amounts reported for governmental activities in the statement of net assets are different because:								
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds							85,303,419	
Loans receivable from FSM State Governments							4,218,180	
Long-term liabilities, including loans payable, are not due and payable in the current period and, therefore, are not reported in the funds. These liabilities include:								
Loans payable							(50,997,841)	
Compensated absences payable							(1,342,365)	
								37,181,393
Net assets of governmental activities								\$ 120,269,076

See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficits)  
Governmental Funds  
Year Ended September 30, 2009

	Special Revenue					Permanent		Total
	General	Grants Assistance	Section 111 Investment Development	Early Retirement Program	Asian Development Bank Loan	Compact Trust	Other Governmental Funds	
<b>Revenues:</b>								
Compact funding	\$ -	\$ 9,715,183	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,715,183
Taxes	11,984,202	-	-	-	-	-	207,193	12,191,395
Federal and other grants	9,278	43,652,608	-	-	-	-	-	43,661,886
Fishing rights	20,016,133	-	-	-	-	-	-	20,016,133
Interest and dividends	187,855	-	15,279	-	270,772	-	13,059	486,965
Fees and charges	1,034,056	-	144,072	-	-	-	973,752	2,151,880
Net change in the fair value of investments	479,183	-	-	-	-	173,656	415,478	1,068,317
MiCare reimbursible	265,347	-	-	-	-	-	-	265,347
Other	736,508	-	2,069	-	-	-	-	738,577
<b>Total revenues</b>	<u>34,712,562</u>	<u>53,367,791</u>	<u>161,420</u>	<u>-</u>	<u>270,772</u>	<u>173,656</u>	<u>1,609,482</u>	<u>90,295,683</u>
<b>Expenditures:</b>								
<b>Current:</b>								
<b>General government:</b>								
Office of the President	717,520	-	-	-	-	-	-	717,520
Foreign affairs	3,441,684	23,722	-	-	-	-	-	3,465,406
Finance and administration	2,692,964	1,719,340	-	-	432,881	-	-	4,845,185
Resources and development	832,198	1,273,820	-	-	109,923	-	8,362	2,224,303
Transportation, communication and infrastructure	1,334,478	907,329	-	-	-	-	993,798	3,235,605
Health and social affairs	261,649	5,385,993	-	-	-	-	3,016	5,650,658
Education	1,130,767	4,157,795	-	-	-	-	195,126	5,483,688
Justice	3,502,399	55,732	-	-	-	-	30,067	3,588,198
Office of the Public Defender	624,792	-	-	-	-	-	-	624,792
SBOC Office	1,084,690	288,614	-	-	13,032	-	-	1,386,336
Environment and emergency management	1,112,883	389,825	-	-	-	-	-	1,502,708
National archives, cultural and historic preservation	167,227	182,486	-	-	-	-	-	349,713
Legislature	2,936,988	-	-	-	-	-	-	2,936,988
Judiciary	1,257,485	5,000	-	-	-	-	-	1,262,485
Office of the National Public Auditor	1,068,839	661,525	-	-	-	-	-	1,730,364
National government programs	1,424,599	693,331	-	-	-	-	-	2,117,930
Agencies, boards and commissions	1,176,952	120,580	-	-	-	-	111,645	1,409,177
Payments to component units	953,267	116,660	251,600	-	-	-	-	1,321,527
Capital projects	2,417,665	37,481,630	-	-	-	-	-	39,899,295
<b>Debt service:</b>								
Capitalized interest and service charges	-	-	-	-	104,988	-	-	104,988
Principal and interest payments	-	-	-	109,353	1,275,434	-	-	1,384,787
<b>Total expenditures</b>	<u>28,139,046</u>	<u>53,463,382</u>	<u>251,600</u>	<u>109,353</u>	<u>1,936,258</u>	<u>-</u>	<u>1,342,014</u>	<u>85,241,653</u>
Excess (deficiency) of revenues over (under) expenditures	<u>6,573,516</u>	<u>(95,591)</u>	<u>(90,180)</u>	<u>(109,353)</u>	<u>(1,665,486)</u>	<u>173,656</u>	<u>267,468</u>	<u>5,054,030</u>
<b>Other financing sources (uses):</b>								
Proceeds from issuance of long-term debt	-	-	-	-	1,250,201	-	-	1,250,201
Operating transfers in	396,473	343,961	-	109,353	150,000	-	2,469,359	3,469,146
Operating transfers out	(3,072,673)	(50,000)	-	-	-	-	(346,473)	(3,469,146)
<b>Total other financing sources (uses), net</b>	<u>(2,676,200)</u>	<u>293,961</u>	<u>-</u>	<u>109,353</u>	<u>1,400,201</u>	<u>-</u>	<u>2,122,886</u>	<u>1,250,201</u>
<b>Special item:</b>								
Write-off of receivable balances	2,024,148	-	208,280	-	-	-	-	2,232,428
Net change in fund balances (deficits)	<u>1,873,168</u>	<u>198,370</u>	<u>(298,460)</u>	<u>-</u>	<u>(265,285)</u>	<u>173,656</u>	<u>2,390,354</u>	<u>4,071,803</u>
Fund balances (deficit) at the beginning of the year, as previously reported	18,545,617	410,070	10,784,393	(139,545)	32,829,772	9,114,902	5,161,751	76,706,960
Prior-period adjustment (Note 11)	2,308,920	-	-	-	-	-	-	2,308,920
Fund balances (deficit) at the beginning of the year, as restated	<u>20,854,537</u>	<u>410,070</u>	<u>10,784,393</u>	<u>(139,545)</u>	<u>32,829,772</u>	<u>9,114,902</u>	<u>5,161,751</u>	<u>79,015,880</u>
Fund balances (deficit) at the end of the year	<u>\$ 22,727,705</u>	<u>\$ 608,440</u>	<u>\$ 10,485,933</u>	<u>\$(139,545)</u>	<u>\$ 32,564,487</u>	<u>\$ 9,288,558</u>	<u>\$ 7,552,105</u>	<u>\$ 83,087,683</u>

See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Reconciliation of the Statement of Revenues, Expenditure, and Changes in Fund  
Balances of Governmental Funds to the Statement of Activities  
Year Ended September 30, 2009

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

Net change in fund balances - total governmental funds	\$ 4,071,803
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.	31,860,766
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets.	
This is the amount that represents the Special Drawing Rights (SDR) adjustment to long-term loans allocated to the National Government.	(9,971)
This is the additional loan proceeds received from ADB loans, excluding the SDR adjustment.	(1,250,201)
This is the repayment of ADB loans (see Note 6).	1,027,426
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds. These expenses include accrued annual leave and claims and judgments payable that are reported in the statement of activities, but not in funds	<u>(320,960)</u>
Change in net assets of governmental activities	\$ <u>35,378,863</u>

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Combining Statement of Fiduciary Net Assets  
Fiduciary Funds - Private Purpose Trusts  
September 30, 2009

	<u>FSM Social Security Administration</u>	<u>Pohnpei State Development Loan Fund</u>	<u>Yap State Development Loan Fund</u>	<u>Total</u>
<b><u>ASSETS</u></b>				
Cash and cash equivalents	\$ 1,895,295	\$ 172,792	\$ 25,810	\$ 2,093,897
Time certificates of deposit	-	566,520	140,282	706,802
Receivables, net:				
Contributions	1,776,339	-	-	1,776,339
Accrued interest	130,454	7,355	852	138,661
Loans	-	46,335	50,619	96,954
Other	24,791	-	25,449	50,240
Due from primary government	900,000	-	-	900,000
Investments	36,409,513	-	-	36,409,513
Capital assets, net of accumulated depreciation	66,491	-	-	66,491
Total assets	<u>41,202,883</u>	<u>793,002</u>	<u>243,012</u>	<u>42,238,897</u>
<b><u>LIABILITIES</u></b>				
Accounts payable	168,188	-	-	168,188
Other liabilities and accruals	31,250	66,840	-	98,090
Total liabilities	<u>199,438</u>	<u>66,840</u>	<u>-</u>	<u>266,278</u>
<b><u>NET ASSETS</u></b>				
Held in trust for:				
Social security benefits	41,003,445	-	-	41,003,445
Restricted	-	46,335	50,619	96,954
Other purposes	-	679,827	192,393	872,220
Total net assets	<u>\$ 41,003,445</u>	<u>\$ 726,162</u>	<u>\$ 243,012</u>	<u>\$ 41,972,619</u>

See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Combining Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds - Private Purpose Trusts  
Year Ended September 30, 2009

	FSM Social Security Administration	Pohnpei State Development Loan Fund	Yap State Development Loan Fund	Total
<b>Additions:</b>				
Contributions	\$ 12,955,409	\$ -	\$ -	\$ 12,955,409
	<u>12,955,409</u>	<u>-</u>	<u>-</u>	<u>12,955,409</u>
<b>Investment earnings:</b>				
Net change in the fair value of investments	5,278,838	4,447	4,898	5,288,183
Interest and dividends	1,065,538	12,275	993	1,078,806
	<u>6,344,376</u>	<u>16,722</u>	<u>5,891</u>	<u>6,366,989</u>
Less investment expense	194,543	-	-	194,543
	<u>6,149,833</u>	<u>16,722</u>	<u>5,891</u>	<u>6,172,446</u>
Net investment earnings	6,149,833	16,722	5,891	6,172,446
Other	1,652,706	59	435	1,653,200
	<u>20,757,948</u>	<u>16,781</u>	<u>6,326</u>	<u>20,781,055</u>
<b>Deductions:</b>				
Benefits	15,587,539	-	-	15,587,539
Refunds	17,410	-	-	17,410
Administrative expenses	985,949	10,534	3,200	999,683
	<u>16,590,898</u>	<u>10,534</u>	<u>3,200</u>	<u>16,604,632</u>
Total deductions	16,590,898	10,534	3,200	16,604,632
Change in net assets	4,167,050	6,247	3,126	4,176,423
Net assets at the beginning of the year	36,836,395	719,915	239,886	37,796,196
Net assets at the end of the year	<u>\$ 41,003,445</u>	<u>\$ 726,162</u>	<u>\$ 243,012</u>	<u>\$ 41,972,619</u>

See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Combining Statement of Net Assets  
Component Units  
September 30, 2009

	FSM Tele- Communications Corporation	FSM Development Bank	National Fisheries Corporation	College of Micronesia- FSM	FSM Coconut Development Authority	FSM Petroleum Corporation	Caroline Islands Air, Inc.	MiCare Plan, Inc.	Total
<b>ASSETS</b>									
Current assets:									
Cash and cash equivalents	\$ 482,043	\$ 3,485,431	\$ 18,036	\$ 6,941,437	\$ 109,488	\$ 1,687,075	\$ 143,592	\$ 242,179	\$ 13,109,281
Time certificates of deposit	114,674	1,906,333	-	-	-	513,187	-	-	2,534,194
Investments	7,340,920	-	-	-	-	-	-	601,722	7,942,642
Receivables, net:									
General	1,488,845	11,034	13,909	2,526,713	12,920	864,526	-	241,256	5,159,203
Loans	-	7,697,812	-	-	-	-	-	-	7,697,812
Interest	163,387	160,323	-	-	-	-	-	-	323,710
Other	9,838	77,633	-	649,219	-	-	-	65,698	802,388
Due from primary government	-	281,211	-	457,249	-	-	-	-	738,460
Inventories	576,317	-	64,692	753,306	49,920	5,610,898	-	-	7,055,133
Prepaid expenses	1,012,170	2,500	-	211,303	1,300	1,652,234	-	222,316	3,101,823
Total current assets	<u>11,188,194</u>	<u>13,622,277</u>	<u>96,637</u>	<u>11,539,227</u>	<u>173,628</u>	<u>10,327,920</u>	<u>143,592</u>	<u>1,373,171</u>	<u>48,464,646</u>
Noncurrent assets:									
Capital assets, net of accumulated depreciation	53,391,534	224,450	113,477	10,988,131	136,872	5,787,083	240	43,847	70,685,634
Investments	-	9,665,000	-	2,874,388	-	-	-	-	12,539,388
Loans receivable, net	-	14,939,334	-	-	-	-	-	-	14,939,334
Total noncurrent assets	<u>53,391,534</u>	<u>24,828,784</u>	<u>113,477</u>	<u>13,862,519</u>	<u>136,872</u>	<u>5,787,083</u>	<u>240</u>	<u>43,847</u>	<u>98,164,356</u>
Total assets	<u>\$ 64,579,728</u>	<u>\$ 38,451,061</u>	<u>\$ 210,114</u>	<u>\$ 25,401,746</u>	<u>\$ 310,500</u>	<u>\$ 16,115,003</u>	<u>\$ 143,832</u>	<u>\$ 1,417,018</u>	<u>\$146,629,002</u>
<b>LIABILITIES</b>									
Current liabilities:									
Current portion of long-term debt	\$ 928,868	\$ 400,000	\$ 3,600,000	\$ -	\$ -	\$ 399,130	\$ -	\$ -	\$ 5,327,998
Short term notes payable	308,150	-	-	-	-	-	-	-	308,150
Accounts payable	348,382	129,902	237,242	252,790	3,343	336,858	12,813	1,161,613	2,482,943
Other liabilities and accruals	937,090	97,297	17,021	1,276,969	1,480	824,026	5,973	-	3,159,856
Due to primary government	-	-	-	-	-	500,000	-	-	500,000
Deferred revenue	125,373	-	-	2,780,640	-	-	-	-	2,906,013
Total current liabilities	<u>2,647,863</u>	<u>627,199</u>	<u>3,854,263</u>	<u>4,310,399</u>	<u>4,823</u>	<u>2,060,014</u>	<u>18,786</u>	<u>1,161,613</u>	<u>14,684,960</u>
Noncurrent liabilities:									
Noncurrent portion of long-term debt	32,095,934	1,200,000	-	-	-	4,229,453	-	-	37,525,387
Total noncurrent liabilities	<u>32,095,934</u>	<u>1,200,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,229,453</u>	<u>-</u>	<u>-</u>	<u>37,525,387</u>
Total liabilities	<u>34,743,797</u>	<u>1,827,199</u>	<u>3,854,263</u>	<u>4,310,399</u>	<u>4,823</u>	<u>6,289,467</u>	<u>18,786</u>	<u>1,161,613</u>	<u>52,210,347</u>
<b>NET ASSETS</b>									
Invested in capital assets, net of related debt	20,366,372	224,450	113,477	10,988,131	136,872	1,158,500	240	43,847	33,031,889
Restricted for:									
Nonexpendable	-	500,000	-	2,874,388	-	-	-	-	3,374,388
Unrestricted	9,469,559	35,899,412	(3,757,626)	7,228,828	168,805	8,667,036	124,806	211,558	58,012,378
Total net assets	<u>29,835,931</u>	<u>36,623,862</u>	<u>(3,644,149)</u>	<u>21,091,347</u>	<u>305,677</u>	<u>9,825,536</u>	<u>125,046</u>	<u>255,405</u>	<u>94,418,655</u>
Total liabilities and net assets	<u>\$ 64,579,728</u>	<u>\$ 38,451,061</u>	<u>\$ 210,114</u>	<u>\$ 25,401,746</u>	<u>\$ 310,500</u>	<u>\$ 16,115,003</u>	<u>\$ 143,832</u>	<u>\$ 1,417,018</u>	<u>\$146,629,002</u>

See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Combining Statement of Revenues, Expenses, and Changes in Net Assets  
Component Units  
Year Ended September 30, 2009

	FSM Tele- Communications Corporation	FSM Development Bank	National Fisheries Corporation	College of Micronesia- FSM	FSM Coconut Development Authority	FSM Petroleum Corporation	Caroline Islands Air, Inc.	MiCare Plan, Inc.	Total
<b>Operating revenues:</b>									
Charges for services	\$ 12,765,828	\$ 2,814,098	\$ 177,545	\$ 21,495,451	\$ 83,104	\$ 41,853,012	\$ 281,907	\$ 5,406,846	\$ 84,877,791
Other	182,991	51,491	-	1,803,890	-	107,530	-	9,650	2,155,552
Total operating revenues	12,948,819	2,865,589	177,545	23,299,341	83,104	41,960,542	281,907	5,416,496	87,033,343
<b>Operating expenses:</b>									
Cost of services	9,760,080	941,549	6,983	18,719,130	20,719	30,050,741	310,406	4,865,222	64,674,830
Depreciation and amortization	3,827,373	80,936	1,100	1,060,758	68,865	434,502	1,240	15,511	5,490,285
Administrative costs	-	681,689	214,799	2,531,554	172,430	4,545,642	-	116,517	8,262,631
Total operating expenses	13,587,453	1,704,174	222,882	22,311,442	262,014	35,030,885	311,646	4,997,250	78,427,746
Operating income (loss)	(638,634)	1,161,415	(45,337)	987,899	(178,910)	6,929,657	(29,739)	419,246	8,605,597
<b>Nonoperating revenues (expenses):</b>									
Net change in the fair value of investments	478,570	1,286,632	-	76,043	(27,327)	-	-	45,982	1,859,900
Interest income	5,862	-	-	-	-	-	-	-	5,862
Interest expense	(1,145,677)	(120,090)	-	-	-	-	-	-	(1,265,767)
Contributions from primary government	-	-	-	-	176,196	-	147,421	100,000	423,617
Other income (expense)	-	264,365	(38,087)	-	-	(587,005)	7,364	3,909	(349,454)
Total nonoperating revenues (expenses), net	(661,245)	1,430,907	(38,087)	76,043	148,869	(587,005)	154,785	149,891	674,158
Net income (loss)	(1,299,879)	2,592,322	(83,424)	1,063,942	(30,041)	6,342,652	125,046	569,137	9,279,755
<b>Net assets at the beginning of the year</b>	<u>31,135,810</u>	<u>34,031,540</u>	<u>(3,560,725)</u>	<u>20,027,405</u>	<u>335,718</u>	<u>3,482,884</u>	<u>-</u>	<u>(313,732)</u>	<u>85,138,900</u>
<b>Net assets at the end of the year</b>	<u>\$ 29,835,931</u>	<u>\$ 36,623,862</u>	<u>\$ (3,644,149)</u>	<u>\$ 21,091,347</u>	<u>\$ 305,677</u>	<u>\$ 9,825,536</u>	<u>\$ 125,046</u>	<u>\$ 255,405</u>	<u>\$ 94,418,655</u>

See accompanying notes to basic financial statements.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2009

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

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

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

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2009

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

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

Blended Component Units

The following component unit is blended within the primary government:

FSM Social Security Administration (FSMSSA), a Fiduciary Fund Type - Private Purpose Trust Fund. FSMSSA was established under FSM Public Law No. 2-74 to provide retirement, disability and survivor benefits for the citizens of the FSM. FSMSSA is governed by a five-member Board of Directors appointed by the President with the advice and consent of the Congress.

Discretely Presented Component Units

Discretely presented component units are entities which are legally separate from the FSM National Government, but are financially accountable to the FSM National Government, or whose relationships with the FSM National Government are such that exclusion would cause the FSM National Government's basic financial statements to be misleading or incomplete. The component units' column of the basic financial statements includes the financial data of the following major component units:

FSM Telecommunications Corporation (FSMTC): FSMTC was incorporated under FSM Public Law No. 2-10 to engage in the business of providing telecommunications services, except radio and television broadcasting, throughout the FSM and to points outside the FSM. FSMTC is governed by a five-member Board of Directors, which includes one appointee by the President (with the advice and consent of the Congress) and four appointees by the Governors of each State (with the advice and consent of the respective State legislatures).

FSM Development Bank (FSMDB): FSMDB was established under FSM Public Law No. 8-47 to advance the economic development of the FSM through the provision of economic development loans. FSMDB is governed by a seven-member Board of Directors appointed by election at the annual shareholders meeting by the plurality of votes thereof. As of December 31, 2009, FSMDB has issued 2,997,883 shares to the FSM National Government (98.7%), the State of Chuuk (1%), and the State of Kosrae (0.3%).

National Fisheries Corporation (NFC): NFC was established under FSM Public Law No. 3-14 to promote the development of pelagic fisheries and related industries within the extended fishery zone for the benefit of the people of the FSM. NFC is governed by a seven-member Board of Directors, which includes one appointee by the President (with the advice and consent of the Congress), four appointees by the Governors of each State (with the advice and consent of the respective State legislatures), the Executive Director of the Micronesian Maritime Authority, and the Secretary of the Department of Economic Affairs.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2009

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

Discretely Presented Component Units, Continued

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

FSM Coconut Development Authority (CDA): CDA was established under FSM Public Law No. 1-156 to engage in the manufacture and processing of all products derived from the coconut tree; to buy, collect, market, sell, export, inspect, improve the quality, and deal with, in general, all products derived from the coconut tree; to establish prices to producers or sellers of coconut products in the FSM; to collect and receive all monies derived from the sales of coconut products; and to stabilize the price of these products. CDA is governed by a five-member Board of Directors, which includes one appointee by the President (with the advice and consent of the Congress) and four appointees by the Governors of each State (with the advice and consent of the respective State legislatures).

FSM Petroleum Corporation (FSMPC): FSMPC was established under FSM Public Law 15-08, which was signed into law on September 11, 2007, for the purpose of providing the oil and gas distribution for the entire FSM. FSMPC is governed by a seven-member Board of Directors, which includes one appointee by the President (with the advice and consent of the Congress) and four appointees by the Governors of each State (with the advice and consent of the respective State legislatures), and two appointees from the private sector by the President (with the advice and consent of the Congress).

Caroline Islands Air, Inc. (CIA): CIA was established under FSM Public Law No. 10-72 to operate, maintain, and administer an inter-island air service based in Pohnpei State. CIA is governed by a five-member Board of Directors, which includes one appointee by the President (with the advice and consent of the Congress) and four appointees by the Governors of each State (with the advice and consent of the respective State Legislatures).

MiCare Plan, Inc. (the Plan): The Plan was established under FSM Public Law No. 12-77 to provide, arrange, pay, or reimburse the costs of medical, dental and vision treatment and care, hospitalization, surgery, prescription drugs, medicine, prosthetic appliances, out-patient care, and other medical care benefits. The Plan is governed by a seven-member Board of Directors appointed by the President with the advice and consent of the Congress.

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

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

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2009

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide Financial Statements

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

Primary government activities are defined as either governmental or business-type activities. Governmental activities, which normally are supported by taxes, intergovernmental revenues and other non-exchange revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties for goods or services. As such, business-type activities account for operations similarly to a for-profit business. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. Discretely presented component unit activities are presented with their business-type focus.

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

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

The government-wide Statement of Net Assets reports \$17,757,620 of restricted net assets, of which \$7,532,644 is restricted by enabling legislation.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2009

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide Financial Statements, Continued

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

C. Fund Financial Statements

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

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

D. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements account for the general governmental activities of the FSM National Government and are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the FSM National Government considers revenues to be available if they are collected within 90 days of the end of the current fiscal period.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2009

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

Significant revenues susceptible to accrual include income and gross receipts taxes, federal grants, federal reimbursements and other reimbursements for use of materials and services. Miscellaneous revenues from other financing sources are recognized when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Investments and related investment earnings are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Expenditures generally are recorded in the period in which the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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.

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

The FSM National Government reports the following fund types:

1. Governmental Fund Types

i. General Fund

This fund is the primary operating fund of the FSM National Government. It is used to account for all governmental transactions, except those required to be accounted for in another fund.

ii. Special Revenue Funds

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

iii. Permanent Funds

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

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2009

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

2. Fiduciary Fund Types

i. Private Purpose Trust Funds

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

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

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

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

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

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

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

**FEDERATED STATES OF MICRONESIA  
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Notes to Financial Statements  
September 30, 2009

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

Compact Trust Fund, a Governmental Fund Type - Permanent Fund, which accounts for the FSM National Government's contributions to the Trust Fund established in accordance with Section 215 of the Compact of Free Association, as amended, to provide for an additional source of revenue for the government budget that will be needed to substitute for the absence of Compact of Free Association funding.

E. Reporting Standards

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

F. Cash and Cash Equivalents and Time Certificates of Deposit

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

G. Investments

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

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

H. Receivables

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

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

**FEDERATED STATES OF MICRONESIA  
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Notes to Financial Statements  
September 30, 2009

(1) Summary of Significant Accounting Policies, Continued

I. Inventories and Prepaid Items

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

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

J. Interfund Receivables/Payables

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

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

K. Restricted Assets

Certain assets of the primary government are classified as restricted assets because their use is completely restricted through loan agreements or enabling legislation. Specifically, the FSM National Government has cash and cash equivalents recorded in the General Fund of \$3,401,497 and investments recorded in the Compact Trust Fund of \$9,288,558, which are restricted in that they are not available to be used in current operations. The Asian Development Bank Loan Fund has \$274,345 of loan proceeds maintained in an imprest revolving fund that are not available to be used in current operations.

L. Capital Assets

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

**FEDERATED STATES OF MICRONESIA  
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Notes to Financial Statements  
September 30, 2009

(1) Summary of Significant Accounting Policies, Continued

L. Capital Assets, Continued

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

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

M. Interfund/Intrafund Transactions

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

N. Deferred Revenue

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

O. Compensated Absences

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

**FEDERATED STATES OF MICRONESIA  
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Notes to Financial Statements  
September 30, 2009

(1) Summary of Significant Accounting Policies, Continued

P. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. The unreserved fund balances for the governmental funds represent the amount available for budgeting future operations. The reserve for related assets as of September 30, 2009, is represented by the following assets:

	General	Grants Assistance	Section 111 Investment Development	Early Retirement Program	Asian Development Bank Loan	Compact Trust	Other Governmental Funds	Total
Cash and cash equivalents	\$ 635,304	\$ -	\$ -	\$ -	\$ 1,312,346	\$ -	\$ -	\$ 1,947,650
Investments	5,254,204	-	-	-	-	-	-	5,254,204
Receivables:								
General	24,350	-	-	-	12,613	-	-	36,963
Loans	1,350,000	-	6,854,533	-	29,605,399	-	-	37,809,932
Due from component units	500,000	-	-	-	-	-	-	500,000
Deposits and others	3,458,770	-	-	-	-	-	-	3,458,770
Investments	-	-	-	-	-	9,288,558	-	9,288,558
	<u>\$11,222,628</u>	<u>\$ -</u>	<u>\$ 6,854,533</u>	<u>\$ -</u>	<u>\$ 30,930,358</u>	<u>\$ 9,288,558</u>	<u>\$ -</u>	<u>\$ 58,296,077</u>

Q. New Accounting Standards

During fiscal year 2009, the State implemented the following pronouncements:

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers.
- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation.
- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income.
- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source.

**FEDERATED STATES OF MICRONESIA  
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Notes to Financial Statements  
September 30, 2009

(1) Summary of Significant Accounting Policies, Continued

Q. New Accounting Standards, Continued

- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations, and subsequent events.

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

In June 2007, GASB issued statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. 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 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. 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 December 2008, GASB issued Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment. The provisions of this statement are effective for periods beginning after December 15, 2008. 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 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of the FSM National Government.

**FEDERATED STATES OF MICRONESIA  
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Notes to Financial Statements  
September 30, 2009

(1) Summary of Significant Accounting Policies, Continued

R. Risk Financing

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

S. Estimates

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

T. Total Columns

Total columns are presented primarily to facilitate financial analysis. The Management's Discussion and Analysis includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with the FSM National Government's financial statements for the year ended September 30, 2008 from which summarized information was derived.

(2) Deposits and Investments

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

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 General Fund.

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(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.

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

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

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

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

A. Deposits

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

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

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

**FEDERATED STATES OF MICRONESIA  
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Notes to Financial Statements  
September 30, 2009

(2) Deposits and Investments, Continued

A. Deposits, Continued

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

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the FSM National Government's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The FSM National Government does not have a deposit policy for custodial credit risk.

As of September 30, 2009, the carrying amount of the primary government's total cash and cash equivalents and time certificates of deposit was \$6,710,405 and the corresponding bank balances were \$8,474,448. Of the bank balances, \$5,218,417 is maintained in financial institutions subject to FDIC insurance while \$3,227,581 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, 2009 while the remaining amount of \$28,450 is maintained in financial institution not subject to FDIC insurance. As of September 30, 2009, bank deposits in the amount of \$1,297,846 were FDIC insured. The FSM National Government does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

As of September 30, 2009, the carrying amount of the fiduciary funds' total cash and cash equivalents and time certificates of deposit was \$2,800,699 and the corresponding bank balances were \$3,031,865. Of the bank balances, \$2,571,757 is maintained in financial institutions subject to FDIC insurance. As of September 30, 2009, bank deposits in the amount of \$1,500,000 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, 2009, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$15,643,475 and the corresponding bank balances were \$17,907,298. Of this amount, \$14,290,797 is maintained in financial institutions subject to FDIC insurance and \$3,616,501 is maintained in financial institution subject to coverage by Securities Investor Protection Corporation (SIPC). As of September 30, 2009, bank deposits in the amount of \$1,750,572 were FDIC insured and \$500,000 is subject to coverage by SIPC. The component units do not require collateralization of their cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

**FEDERATED STATES OF MICRONESIA  
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Notes to Financial Statements  
September 30, 2009

(2) Deposits and Investments, Continued

B. Investments

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

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

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

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

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

Primary Government

As of September 30, 2009, investments at fair value are as follows:

Fixed income securities:	
Domestic fixed income	\$ <u>8,164,434</u>
Other investments:	
Equities	20,172,405
Money market funds	561,001
Cash management accounts	<u>3,351,390</u>
	<u>24,084,796</u>
	\$ <u>32,249,230</u>

Additionally, the primary government owns 50,000 shares of the common stock of a commercial enterprise located in the Commonwealth of the Northern Marianas. The investment of \$1,500,000 is accounted for at cost since the investment constitutes less than a 20% ownership share. Furthermore, the primary government owns 290,921 shares of the common stock of the Bank of the Federated States of Micronesia, which engages in commercial banking services in the FSM. The investment of \$3,754,204 is accounted for on the equity method since the investment constitutes a 31% ownership share.

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Notes to Financial Statements  
September 30, 2009

(2) Deposits and Investments, Continued

**B. Investments, Continued**

**Primary Government, Continued**

A summary of audited financial information as of and for the twelve months ended December 31, 2009 for investees accounted for using the equity method of accounting for investments, is as follows:

Assets	\$ <u>85,192,140</u>
Liabilities	\$ <u>68,632,757</u>
Net earnings	\$ <u>1,275,823</u>

As of September 30, 2009, the primary government's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

<u>Investment Type</u>	<u>Rating Type</u>	<u>Maturity (in years)</u>				<u>Total</u>
		<u>Current</u>	<u>1-5</u>	<u>6-10</u>	<u>Over</u>	
US Treasury Notes	AAA	\$ 129,754	\$ 302,438	\$ 330,132	\$ 177,052	\$ 939,376
U.S. government agency obligations:						
Federal Home Loan Mortgage Corporation	AAA	1,464,247	35,664	7,399	348,425	1,855,735
Federal Farm Credit Bank	AAA	-	48,227	-	-	48,227
Federal National Mortgage Association	AAA	535,530	163,667	11,161	166,002	876,360
Federal Home Loan Bank	AAA	25,500	144,152	-	-	169,652
Government National Mortgage Association	AAA	-	-	-	1,530,231	1,530,231
Tennessee Valley Authority	AAA	-	-	-	8,959	8,959
Sonoma Cnty Calif Pension Oblig	AA1	-	46,882	-	-	46,882
San Antonio Tex Elec & Gas Ref	AA1	-	-	-	57,451	57,451
Golden West Schs Fing Auth Calif	AA2	-	-	-	55,990	55,990
Honolulu Hi City & Cnty Wastewater	AA2	-	-	-	3,393	3,393
Corporate notes and bonds	AAA	-	47,865	152,697	201,075	401,637
Corporate notes and bonds	AA1	-	136,664	18,730	-	155,394
Corporate notes and bonds	AA2	15,176	42,881	-	12,990	71,047
Corporate notes and bonds	AA3	-	71,244	56,049	-	127,293
Corporate notes and bonds	A1	10,356	174,543	105,190	73,401	363,490
Corporate notes and bonds	A2	83,538	209,530	165,820	49,771	508,659
Corporate notes and bonds	A3	-	183,746	57,665	80,310	321,721
Corporate notes and bonds	BAA1	-	30,550	201,389	-	231,939
Corporate notes and bonds	BAA2	-	177,389	27,634	85,746	290,769
Corporate notes and bonds	BA1	-	-	-	899	899
Corporate notes and bonds	NR	-	5,179	69,441	24,710	99,330
Grand total		<u>\$2,264,101</u>	<u>\$1,820,621</u>	<u>\$ 1,203,307</u>	<u>\$ 2,876,405</u>	<u>\$8,164,434</u>

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.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2009

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the FSM National Government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The FSM National Government's investments are held and administered by trustees. Based on negotiated trust and custody contracts, all of these investments were held in the FSM National Government's name by the FSM National Government's custodial financial institutions at September 30, 2009.

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, 2009, the FSM National Government did not hold an investment in any one issuer that represented more than 5% of the FSM National Government's total investments.

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

Fiduciary Funds

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

- i. Government obligations - Obligations issued or guaranteed as to principal and interest by the FSM National Government and/or State governments of the FSM or by the Government of the United States, provided that the principal and interest on each obligation are payable in the currency of the United States.
- ii. Corporate obligations and mortgage-backed securities - Obligations of any public or private entity or corporation created or existing under the laws of the FSM or of the United States or any state, territory or commonwealth thereof, or obligations of any other government or economic community which are payable in United States dollars, or pass through and other mortgage-backed securities provided that the obligation is issued by an agency of the United States Government, the FSM National Government, or is rated in one of the three highest categories by two nationally recognized rating agencies. No investment under this heading shall exceed ten percent of the market value of the FSMSSA Retirement Fund or ten percent of the outstanding value of the issue at the time of purchase.

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Notes to Financial Statements  
September 30, 2009

(2) Deposits and Investments, Continued

B. Investments, Continued

Fiduciary Funds, Continued

- iii. Preferred and common stocks - Shares of preferred or common stocks of any corporation created or existing under the laws of the FSM or under the laws of the United States or any state, territory or commonwealth thereof provided that the purchase of such shares shall be considered reasonable and prudent by the respective investment advisors at the time of purchase, that not more than five percent of the market value of the FSMSSA Retirement Fund shall be invested in the stock of any one corporation, and that not more than ten percent of the market value of the FSMSSA Retirement Fund shall be invested in any one industry group.
- iv. Insurance company obligations - Contracts and agreements supplemental thereto providing for participation in one or more accounts of a life insurance company authorized to do business in the FSM or in any state, territory or commonwealth of the United States provided that the total market value of these investments at no time shall exceed ten percent of all investments of the FSMSSA Retirement Fund.

As of December 31, 2009, investments at fair value are as follows:

Fixed income securities:		
Domestic fixed income		\$ 13,024,950
International fixed income		<u>988,413</u>
		14,013,363
Other investments:		
Domestic equities		<u>22,396,150</u>
		\$ <u>36,409,513</u>

As of December 31, 2009, FSMSSA's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

	Investment Maturities (In Years)				
	Less <u>Than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	Greater <u>Than 10</u>	Fair <u>Value</u>
U.S. Treasury obligations	\$ 556,150	\$ 465,178	\$ 19,456	\$ 389,402	\$ 1,430,186
Mortgage and asset-backed securities	-	-	-	5,513,264	5,513,264
U.S. Government agencies	-	435,371	255,964	-	691,335
Corporate notes and bonds	<u>83,653</u>	<u>2,926,981</u>	<u>2,513,407</u>	<u>854,537</u>	<u>6,378,578</u>
	\$ <u>639,803</u>	\$ <u>3,827,530</u>	\$ <u>2,788,827</u>	\$ <u>6,757,203</u>	\$ <u>14,013,363</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, 2009.

As of December 31, 2009, FSMSSA did not hold an investment in any one issuer that represented more than 5% of FSMSSA's total investments.

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(2) Deposits and Investments, Continued

B. Investments, Continued

Fiduciary Funds, Continued

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

Discretely Presented Component Units

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

As of September 30, 2009, investments at fair value are as follows:

FSM Telecommunications Corporation (FSMTC):

Fixed income securities:

U.S. Treasury obligations	\$ 407,439
U.S. Government agencies	489,407
Corporate notes	1,409,944
International bonds	<u>82,645</u>
	2,389,435

Other investments:

Domestic and international equities	4,557,641
Money market funds	<u>393,844</u>
	<u>\$ 7,340,920</u>

As of September 30, 2009, FSMTC's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

	Moody's Credit Rating	Investment Maturities (In Years)					Fair Value
		Less Than 1	1 to 5		Greater Than 10		
				6 to 10			
U.S. Treasury obligations	Aaa/P-1	\$ 317,438	\$ 90,001	\$ -	\$ -	\$ 407,439	
U.S. Government agencies	Aaa/P-1	489,407	-	-	-	489,407	
International bonds	Aa1/P-1	-	82,645	-	-	82,645	
Corporate notes	A1/P-1	404,004	136,029	-	-	540,033	
Corporate notes	A2/P-1	246,046	219,799	-	-	465,845	
Corporate notes	Aa2/P-1	-	254,841	-	-	254,841	
Corporate notes	Aa3/P-1	-	-	149,225	-	149,225	
		<u>\$ 1,456,895</u>	<u>\$ 783,315</u>	<u>\$ 149,225</u>	<u>\$ -</u>	<u>\$ 2,389,435</u>	

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September 30, 2009

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

College of Micronesia - FSM (COM-FSM):

Fixed income securities:

Domestic fixed income	\$ 651,544
International fixed income	<u>66,295</u>
	<u>717,839</u>

Other investments:

Common equities	2,041,944
Money market funds	<u>114,605</u>
	<u>2,156,549</u>
	<u>\$ 2,874,388</u>

As of September 30, 2009, COM-FSM's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>5-10</u>	<u>more than 10</u>
Mortgage and asset backed securities	\$ 181,214	\$ -	\$ 15,563	\$ 34,074	\$ 131,577
International bond	66,295	-	25,841	14,249	26,205
Corporate bond	342,553	-	134,208	101,716	106,629
Government bond	<u>127,777</u>	<u>34,522</u>	<u>33,745</u>	<u>59,510</u>	<u>-</u>
	<u>\$ 717,839</u>	<u>\$ 34,522</u>	<u>\$ 209,357</u>	<u>\$ 209,549</u>	<u>\$ 264,411</u>

<u>Moody's Rating</u>	<u>Total</u>	<u>Domestic</u>	<u>International</u>
AAA/AAA	\$ 308,991	\$ 308,991	\$ -
AA2/A-	12,956	12,956	-
AA2/AA	38,734	38,734	-
AA3/A+	13,080	13,080	-
A1/A+	34,202	34,202	-
A1/AA1-	12,974	-	12,974
A2/A	52,286	52,286	-
A2/A+	13,033	13,033	-
A3/A-	52,298	25,149	27,149
BAA1/A-	40,764	14,592	26,172
BAA1/BBB+	26,236	26,236	-
BAA2/BBB	45,260	45,260	-
BAA2/BBB-	13,480	13,480	-
BAA2/BBB+	13,487	13,487	-
BAA3/BBB	11,654	11,654	-
BAA3/BBB-	<u>28,404</u>	<u>28,404</u>	<u>-</u>
Total credit risk debt securities	<u>\$ 717,839</u>	<u>\$ 651,544</u>	<u>\$ 66,295</u>

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Notes to Financial Statements  
September 30, 2009

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

As of December 31, 2009, investments at fair value are as follows:

FSM Development Bank (FSMDB):

Fixed income securities:

Domestic fixed income \$ 3,019,931

Other investments:

Domestic equities 4,600,775

Money market funds 1,382,106

\$ 9,002,812

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

As of December 31, 2009, FSMDB's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

	Less Than <u>1 Year</u>	1 to 5 <u>Years</u>	6 to 10 <u>Years</u>	Greater Than <u>10 Years</u>	Fair <u>Value</u>
U.S. Treasury obligations	\$ 160,619	\$ 1,257,781	\$ 158,564	\$ 73,369	\$ 1,650,333
U.S. Government agency obligations	<u>-</u>	<u>1,014,232</u>	<u>355,366</u>	<u>-</u>	<u>1,369,598</u>
	<u>\$ 160,619</u>	<u>\$ 2,272,013</u>	<u>\$ 513,930</u>	<u>\$ 73,369</u>	<u>\$ 3,019,931</u>

Domestic

Moody's Rating – AAA

\$ 3,019,931

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

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September 30, 2009

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

As of September 30, 2009, investments at fair value are as follows:

MiCare Plan, Inc. (the Plan):		
Fixed income securities:		
Domestic fixed income		\$ 569,943
Other investments:		
Money market funds		<u>31,779</u>
		<u>\$ 601,722</u>

As of September 30, 2009, the Plan's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

	Moody's Credit Rating	Less Than 1 Year	1 to 5 Years	6 to 10 Years	Greater Than 10 Years	Fair Value
U.S. Treasury obligations	AAA	\$ -	\$ 15,395	\$ -	\$ -	\$ 15,395
U.S. Government agencies obligations	AAA	49,985	198,021	-	-	248,006
Corporate bonds	AAA	-	10,748	-	-	10,748
Corporate bonds	AA1	-	21,206	-	-	21,206
Corporate bonds	AA2	-	36,999	-	-	36,999
Corporate bonds	AA3	-	28,247	2,974	-	31,221
Corporate bonds	A1	-	28,630	2,022	-	30,652
Corporate bonds	A2	5,061	73,883	2,048	-	80,992
Corporate bonds	A3	-	31,450	-	-	31,450
Corporate bonds	BAA1	-	42,013	-	-	42,013
Corporate bonds	BAA2	-	21,261	-	-	21,261
		<u>\$ 55,046</u>	<u>\$ 507,853</u>	<u>\$ 7,044</u>	<u>\$ -</u>	<u>\$ 569,943</u>

(3) Receivables

Receivables as of September 30, 2009, for the primary government's individual major governmental funds, and nonmajor governmental and fiduciary funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	General	Grants Assistance	Section 111 Investment Development	Early Retirement Program	Asian Development Bank Loan	Compact Trust	Nonmajor and Fiduciary Funds	Totals
Receivables:								
General	\$ 991,649	\$ -	\$ -	\$ -	\$ 12,613	\$ -	\$ -	\$ 1,004,262
Taxes	3,926,162	-	-	-	-	-	-	3,926,162
Federal agencies	1,023,132	12,507,909	-	-	-	-	-	13,531,041
Contributions	-	-	-	-	-	-	1,776,339	1,776,339
Loans	5,661,987	-	6,874,033	-	34,498,927	-	1,703,907	48,738,854
Accrued interest	-	-	25,207	-	-	-	138,661	163,868
Other	-	-	-	-	-	-	50,240	50,240
	<u>11,602,930</u>	<u>12,507,909</u>	<u>6,899,240</u>	<u>-</u>	<u>34,511,540</u>	<u>-</u>	<u>3,669,147</u>	<u>69,190,766</u>
Less: allowance for uncollectible accounts	<u>(5,957,142)</u>	<u>-</u>	<u>(19,500)</u>	<u>-</u>	<u>(4,893,528)</u>	<u>-</u>	<u>(1,606,953)</u>	<u>(12,477,123)</u>
Net receivables	<u>\$ 5,645,788</u>	<u>\$ 12,507,909</u>	<u>\$ 6,879,740</u>	<u>\$ -</u>	<u>\$ 29,618,012</u>	<u>\$ -</u>	<u>\$ 2,062,194</u>	<u>\$ 56,713,643</u>

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September 30, 2009

(3) Receivables, 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. \$ 3,600,000

Loan receivable from the State of Chuuk, payable in quarterly installments of \$416,667, non-interest bearing with a service charge of 1% per annum, due on September 30, 2001. This loan has been fully provided for in the allowance for uncollectable accounts. 561,987

Loan receivable from the State of Kosrae, payable in quarterly installments of \$37,500, non-interest bearing, on each of the first day of the month of October, January, April and July starting on October 1, 2009 and ending on July 1, 2019. 1,500,000

\$ 5,661,987

Section 111 Investment Development Fund:

Loans receivable from businesses and individuals at varying terms and conditions administered by the FSM Development Bank. \$ 6,874,033

Asian Development Bank Loan Fund:

Loan receivable from Micronesia Longline Fishing Company, a majority-owned subsidiary of NFC, in the amount of SDR 3,514,000, interest at 6.64% per annum, repayments commencing January 15, 1998, with a maturity date of July 15, 2007. The loan is a subsidiary loan of a loan agreement (Loan Number 1257 FSM (SF)) between the FSM National Government and the Asian Development Bank (ADB). This loan has been fully provided for in the allowance for uncollectible accounts. \$ 4,893,528

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

Chuuk Public Utility Corporation	\$ 3,201,403	
Pohnpei Utilities Corporation	1,966,975	
Yap State Public Service Corporation	<u>2,103,034</u>	7,271,412

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Notes to Financial Statements  
September 30, 2009

(3) Receivables, Continued

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

State of Chuuk	\$ 5,067,413	
State of Kosrae	1,911,984	
State of Pohnpei	4,015,603	
State of Yap	<u>3,347,063</u>	14,342,063

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

State of Kosrae	\$ 291,644	
State of Yap	444,644	
State of Chuuk	<u>1,201,401</u>	1,937,689

Loans receivable from the States to assist in the implementation of the Private Sector Development Program. These loans are subsidiary loans of loan agreements (Loan Number 1873 FSM (SF) and Loan Number 1874 FSM (SF)) between the FSM National Government and the ADB. The FSM National Government entered into Financing Agreements with the States whereby a portion of the loan proceeds under these ADB loans were relent under the same terms and conditions imposed by the ADB. The amounts outstanding from the States are as follows:

State of Chuuk	\$ 1,902,418	
State of Kosrae	1,639,068	
State of Pohnpei	1,213,789	
State of Yap	<u>1,298,960</u>	6,054,235

\$ 34,498,927

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September 30, 2009

(3) Receivables, Continued

Nonmajor Governmental and Fiduciary Funds

Student Loan Fund:

Loans receivable from students under a student financial assistance loan program, interest at 4% per annum, with repayment commencing ten years and nine months after completion of study. \$ 1,606,953

Pohnpei Development Loan Fund:

Loans receivable from businesses and individuals at varying terms and conditions administered by the FSM Development Bank. 46,335

Yap Development Loan Fund:

Loans receivable from businesses and individuals at varying terms and conditions administered by the FSM Development Bank. 50,619

\$ 1,703,907

Receivables as of September 30, 2009, for the discretely presented component units, including applicable allowances for uncollectible accounts, are as follows:

	FSM Tele- Communications Corporation	FSM Development Bank	National Fisheries Corporation	College of Micronesia- FSM	FSM Coconut Development Authority	FSM Petroleum Corporation	Caroline Islands Air, Inc.	MiCare Plan, Inc.	Total
Receivables:									
General	\$ 1,607,932	\$ 11,034	\$ 914,455	\$ 6,628,635	\$ 111,053	\$ 864,526	\$ -	\$ 241,256	\$ 10,378,891
Loans	-	28,426,407	-	-	-	-	-	-	28,426,407
Interest	163,387	160,323	-	-	-	-	-	-	323,710
Other	<u>529,248</u>	<u>77,633</u>	<u>-</u>	<u>872,230</u>	<u>-</u>	<u>10,330</u>	<u>-</u>	<u>136,471</u>	<u>1,625,912</u>
	2,300,567	28,675,397	914,455	7,500,865	111,053	874,856	-	377,727	40,754,920
Less: allowance for uncollectible accounts	<u>(638,497)</u>	<u>(5,789,261)</u>	<u>(900,546)</u>	<u>(4,324,933)</u>	<u>(98,133)</u>	<u>(10,330)</u>	<u>-</u>	<u>(70,773)</u>	<u>(11,832,473)</u>
	<u>\$ 1,662,070</u>	<u>\$ 22,886,136</u>	<u>\$ 13,909</u>	<u>\$ 3,175,932</u>	<u>\$ 12,920</u>	<u>\$ 864,526</u>	<u>\$ -</u>	<u>\$ 306,954</u>	<u>\$ 28,922,447</u>

**FEDERATED STATES OF MICRONESIA  
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Notes to Financial Statements  
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**(4) Interfund Receivables and Payables**

Receivables and payables between funds reflected as due to/from other funds in the combined balance sheet at September 30, 2009, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Grants Assistance	\$ 4,021,938
General	Early Retirement Program	3,155,211
Asian Development Bank Loan	General	1,667,918
Grants Assistance	General	3,477,279
Nonmajor governmental funds	General	<u>2,009,682</u>
		<u>\$ 14,332,028</u>

**(5) Capital Assets**

Capital asset activities of the primary government for the year ended September 30, 2009, are as follows:

	Balance October 1, 2008	<u>Additions and Reclassifications</u>	<u>Retirements and Reclassifications</u>	Balance September 30, 2009
Governmental Activities:				
Buildings and improvements	\$ 16,761,302	\$ -	\$ -	\$ 16,761,302
Boats	23,332,744	33,355	(1,188,000)	22,178,099
Infrastructure	6,587,872	2,949,280	(4,657,553)	4,879,599
Motor vehicles	7,950,963	642,091	(95,798)	8,497,256
Computer equipment	4,005,571	521,558	(49,255)	4,477,874
Aircraft	709,207	-	-	709,207
Furniture, equipment and machinery	<u>3,890,808</u>	<u>4,623,390</u>	<u>(56,417)</u>	<u>8,457,781</u>
	<u>63,238,467</u>	<u>8,769,674</u>	<u>(6,047,023)</u>	<u>65,961,118</u>
Less accumulated depreciation:				
Buildings and improvements	(4,142,192)	(335,226)	-	(4,477,418)
Boats	(12,012,496)	(931,470)	1,089,000	(11,854,966)
Infrastructure	(503,811)	(133,382)	174,658	(462,535)
Motor vehicles	(4,547,864)	(641,099)	95,798	(5,093,165)
Computer equipment	(3,062,161)	(323,871)	48,866	(3,337,166)
Aircraft	(335,808)	(35,460)	-	(371,268)
Furniture, equipment and machinery	<u>(3,168,463)</u>	<u>(1,344,296)</u>	<u>56,169</u>	<u>(4,456,590)</u>
	<u>(27,772,795)</u>	<u>(3,744,804)</u>	<u>1,464,491</u>	<u>(30,053,108)</u>
Construction in progress	<u>17,976,981</u>	<u>31,418,428</u>	<u>-</u>	<u>49,395,409</u>
	<u>\$ 53,442,653</u>	<u>\$ 36,443,298</u>	<u>\$ (4,582,532)</u>	<u>\$ 85,303,419</u>

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(5) Capital Assets, Continued

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

Office of the President	\$ 67,069
Foreign affairs	56,297
Health and social affairs	242,820
Education	57,279
Resources and development	35,492
Transportation, communication and infrastructure	2,125,302
Finance and administration	53,456
Justice	411,042
Office of the Public Defender	6,910
SBOC Office	29,480
Judiciary	24,337
Legislature	89,109
Office of the National Public Auditor	17,882
Environment and emergency management	299
National government programs	90,932
Agencies, Boards and commissions	23,377
Capital projects	<u>253,690</u>
	<u>\$ 3,584,773</u>

The primary government has assumed a construction management role for various infrastructure grant related expenditures. These expenditures are accounted for at the government-wide level as construction in progress until completion of the project and resulting turnover to the applicable beneficiary. Until formal turnover occurs, the assets are capitalized and are depreciated by the primary government.

(6) Long-Term Obligations

Primary Government

Asian Development Bank (ADB) Loan Number 1257 FSM (SF) - Fisheries Development Project Loan (SDR 3,792,000), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. The loan is payable semiannually commencing January 15, 2004 in an amount of SDR 46,100 increasing to SDR 92,400 on January 15, 2014, with a maturity date of July 15, 2033. \$ 5,597,607

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 semiannually commencing February 1, 2007 in an amount of SDR 69,200, increasing to SDR 138,500 on February 1, 2017, with a maturity date of August 1, 2036. 9,827,581

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September 30, 2009

(6) Long-Term Obligations, Continued

Primary Government, Continued

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 semiannually commencing February 1, 2008 in an amount of SDR 129,800, increasing to SDR 259,600 on February 1, 2018, with a maturity date of August 1, 2037. 19,528,878

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 semiannually 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. 4,013,568

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 semiannually commencing May 15, 2010 in an amount of SDR 122,250, at which time the service charge increases to 1.5% per annum, with a maturity date of November 15, 2025. 3,892,241

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 semiannually commencing May 15, 2010 in an amount of SDR 130,687, at which time the service charge increases to 1.5% per annum, with a maturity date of November 15, 2033. 7,184,446

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 semiannually commencing January 15, 2010, at which time the grace period ends, in an amount of .83% of the outstanding loan balance and incrementing at certain years between .04% - .16% up to the maturity date of July 15, 2029. 137,752

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 semiannually 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. 815,768

\$ 50,997,841

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Notes to Financial Statements  
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(6) Long-Term Obligations, Continued

Primary Government, Continued

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 Charge</u>	<u>Total</u>
2010	\$ 1,412,895	\$ 584,999	\$ 1,997,894
2011	1,413,130	567,536	1,980,666
2012	1,413,405	550,072	1,963,477
2013	1,447,671	536,683	1,984,354
2014	1,575,153	518,704	2,093,857
2015-2019	9,944,957	2,267,529	12,212,486
2020-2024	11,598,860	1,623,899	13,222,759
2025-2029	10,892,978	951,637	11,844,615
2030-2034	7,941,448	405,840	8,347,288
2035-2037	<u>3,357,344</u>	<u>60,768</u>	<u>3,418,112</u>
	<u>\$ 50,997,841</u>	<u>\$ 8,067,667</u>	<u>\$ 59,065,508</u>

Other long-term liabilities will be liquidated in the future from governmental funds. During the year ended September 30, 2009, the following changes occurred in liabilities reported as part of the primary government's long-term liabilities in the statement of net assets:

	<u>Balance October 1, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2009</u>	<u>Due Within One Year</u>
Loans payable:					
ADB Loan 1257 FSM (SF)	\$ 5,724,773	\$ -	\$ (127,166)	\$ 5,597,607	\$ 127,166
ADB Loan 1459 FSM (SF)	10,036,552	-	(208,971)	9,827,581	208,971
ADB Loan 1520 FSM (SF)	19,935,753	-	(406,875)	19,528,878	406,875
ADB Loan 1816 FSM (SF)	4,090,242	143,587	(220,261)	4,013,568	170,426
ADB Loan 1873 FSM (SF)	3,892,241	-	-	3,892,241	194,612
ADB Loan 1874 FSM (SF)	6,359,775	888,824	(64,153)	7,184,446	302,503
ADB Loan 2100 FSM (SF)	100,697	37,055	-	137,752	2,342
ADB Loan 2099 FSM (SF)	<u>614,544</u>	<u>201,224</u>	<u>-</u>	<u>815,768</u>	<u>-</u>
	50,754,577	1,270,690	(1,027,426)	50,997,841	1,412,895
Other:					
Compensated absences	<u>1,021,405</u>	<u>711,307</u>	<u>(390,347)</u>	<u>1,342,365</u>	<u>158,560</u>
	<u>\$ 51,775,982</u>	<u>\$ 1,981,997</u>	<u>\$ (1,417,773)</u>	<u>\$ 52,340,206</u>	<u>\$ 1,571,455</u>

Included in the net additions is a foreign exchange adjustment due to a change in the SDR calculation of \$20,489. Of this amount, \$10,518 was allocated to the States, which also resulted in an increase in loans receivable from the States of the same amount.

Discretely Presented Component Units

As of September 30, 2009, the discretely presented component units had the following long-term debt outstanding:

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2009

(6) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

FSM Telecommunications Corporation (FSMTC)

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

\$ 33,024,802

National Fisheries Corporation (NFC)

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

3,600,000

FSM Development Bank (FSMDB)

On September 29, 2007, FSMDB entered into a line of credit agreement with Export and Import Bank of China in the amount of \$2,000,000, due July 21, 2013, for the purpose of funding its loan programs. The loan is uncollateralized, bears interest at 7.38% per annum. Repayment of principal and interest commenced January 21, 2008 in semi-annual installments of \$200,000.

1,600,000

FSM Petroleum Corporation (FSMPC)

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

4,628,583

\$ 42,853,385

**FEDERATED STATES OF MICRONESIA  
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Notes to Financial Statements  
September 30, 2009

(6) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 5,327,998	\$ 2,132,682	\$ 7,460,680
2011	1,976,265	2,055,184	4,031,449
2012	2,289,560	494,731	2,784,291
2013	2,400,999	1,787,922	4,188,921
2014	2,116,338	1,650,444	3,766,782
2015 - 2019	12,032,939	6,279,411	18,312,350
2020 - 2024	12,219,776	3,137,223	15,356,999
2025-2026	<u>4,489,510</u>	<u>389,071</u>	<u>4,878,581</u>
	<u>\$ 42,853,385</u>	<u>\$ 17,926,668</u>	<u>\$ 60,780,053</u>

Changes in long-term liabilities of the discretely presented component units for the year ended September 30, 2009, are as follows:

	<u>Balance October 1, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2009</u>	<u>Due Within One Year</u>
Loans payable:					
FSMTC	\$ 22,824,414	\$ 11,072,394	\$ (872,006)	\$ 33,024,802	\$ 928,868
NFC	3,600,000	-	-	3,600,000	3,600,000
FSMDB	2,000,000	-	(400,000)	1,600,000	400,000
FSMPC	5,047,000	-	(418,417)	4,628,583	399,130
	<u>\$ 33,471,414</u>	<u>\$ 11,072,394</u>	<u>\$ (1,690,423)</u>	<u>\$ 42,853,385</u>	<u>\$ 5,327,998</u>

(7) Short-Term Obligations

Discretely Presented Component Units

FSMTC has one line of credit facility with a bank of \$4,464,580 with interest at 5.25% per annum, collateralized by investment securities.

FSMPC have two line of credit facilities (LOC) with a bank of \$4,300,000 and \$2,000,000. The LOC is evidenced by promissory notes drawn on various dates for various amounts. This line of credit is utilized by FSMPC to fund fuel inventory purchases. The LOC and the related long-term obligation are secured and collateralized by an executed Pledge and Security Agreement for the assignment of the Reserve Bank Account and Revenue, an executed Notice of Security Interest and Chattel Mortgage and are guaranteed by the FSM National Government.

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Reductions</u>	<u>Ending Balance</u>
Line of credit:				
FSMPC	\$ 3,930,617	\$ 15,301,583	\$ (19,232,200)	\$ -
FSMTC	<u>-</u>	<u>1,784,213</u>	<u>(1,476,063)</u>	<u>308,150</u>
	<u>\$ 3,930,617</u>	<u>\$ 17,085,796</u>	<u>\$ (20,708,263)</u>	<u>\$ 308,150</u>

**FEDERATED STATES OF MICRONESIA  
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Notes to Financial Statements  
September 30, 2009

**(8) Operating Transfers In/Out**

Operating transfers in/out for each major governmental fund and nonmajor governmental funds in the aggregate, for the year ended September 30, 2009, are as follows:

<u>Source</u>	<u>Recipient</u>	<u>Transfers Out</u>	<u>Transfers In</u>
<u>General Fund</u>			
General Fund	Nonmajor governmental funds	\$ 2,469,359	\$ -
General Fund	ADB Loan Fund	150,000	-
General Fund	Grants Assistance Fund	343,961	-
General Fund	Early Retirement Program Fund	109,353	-
Grants Assistance Fund	General Fund	-	50,000
Nonmajor governmental funds	General Fund	-	<u>346,473</u>
		<u>\$ 3,072,673</u>	<u>\$ 396,473</u>
 <u>Grants Assistance Fund</u>			
General Fund	Grants Assistance Fund	\$ <u>50,000</u>	\$ <u>343,961</u>
 <u>Early Retirement Program Fund</u>			
General Fund	Early Retirement Program Fund	\$ -	\$ <u>109,353</u>
 <u>Asian Development Bank (ADB) Loan Fund</u>			
General Fund	ADB Loan Fund	\$ -	\$ <u>150,000</u>
 <u>Nonmajor Governmental Funds</u>			
General Fund	Nonmajor governmental funds	\$ -	\$ 2,469,359
Nonmajor governmental funds	General Fund	<u>346,473</u>	-
		<u>\$ 346,473</u>	<u>\$ 2,469,359</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.

**(9) Contingencies and Commitments**

Sick Leave

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

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2009

(9) Contingencies and Commitments, Continued

FSMPC Loan Guarantee

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

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 of \$6,079,078 have been set forth in the FSM National Government's Single Audit Report as of September 30, 2009. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements. In addition, a material amount of questioned costs exists from the four States, which receive federal funds in a subrecipient capacity. If these questioned costs are sustained, such will be funded by State resources.

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

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, 2009, 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.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2009

(9) Contingencies and Commitments, Continued

Asian Development Bank (ADB) Loans

On November 5, 2004, the FSM National Government entered into two loan agreements (Loan Number 2099 FSM (SF) and Loan Number 2100 FSM (SF)) with the Asian Development Bank in the combined amount of \$19,000,000 for the Omnibus Infrastructure Development Project. The proceeds are to be used to enhance public health and the environment through assistance to improve water supply infrastructure in Kosrae and Yap, and wastewater infrastructure in Pohnpei; and to support economic growth and poverty reduction in Chuuk through improvements to the electrical power sector, which will include on lending a portion of the loan proceeds to the States under separate Financing Agreements. As of September 30, 2009, the FSM National Government had drawn down \$953,520 against these loans.

(10) Continuing Appropriations

As of September 30, 2009, the general fund has a continuing appropriation representing amounts legally segregated for a specific future use from the general fund of \$3,175,768. As of September 30, 2009, the remaining balance of the various infrastructure projects appropriated based on Compact infrastructure grants to be received from the U.S. Department of the Interior appropriations amounts to \$86,797,028 and is reflected in the Grants Assistance Fund.

(11) Restatement and Special Items

During the year ended September 30, 2009, the FSM National Government determined that the investment in equity shares held by the General Fund of Asian Development Bank amounting to \$2,308,920 (equivalent to \$1,420,000 SDR) was understated. As a result of this determination, the deposits and other assets balance has been restated from the amount previously reported.

Special items mainly consist of the elimination of certain receivables from investees of a component unit assumed by the National Government and other similar receivables.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

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

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**YEAR ENDED SEPTEMBER 30, 2009**

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual  
General Fund  
Year Ended September 30, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget -
	Original	Final		Positive (Negative)
<b>Revenues:</b>				
Taxes	\$ 10,747,750	\$ 10,800,000	\$ 11,984,202	\$ 1,184,202
Fishing rights	15,952,770	16,952,770	20,016,133	3,063,363
Postal revenues	499,730	499,730	611,173	111,443
Investment earnings	2,615,860	700,000	667,038	(32,962)
Fees and charges	291,191	291,191	422,883	131,692
Grants	-	-	9,278	9,278
Other	2,488,639	1,550,000	1,001,855	(548,145)
Total revenues	<u>32,595,940</u>	<u>30,793,691</u>	<u>34,712,562</u>	<u>3,918,871</u>
<b>Expenditures:</b>				
Executive Branch	17,540,277	18,772,211	18,539,568	232,643
Judicial Branch	1,433,186	1,433,186	1,348,461	84,725
Legislative Branch	3,642,060	3,681,382	3,379,347	302,035
Office of the National Public Auditor	1,309,932	1,317,232	1,266,843	50,389
Other National Programs	1,603,351	1,663,351	1,529,942	133,409
Boards and Commissions	1,658,172	1,658,172	1,208,152	450,020
Payments to Component Units	863,424	1,012,461	1,025,017	(12,556)
Legislative Appropriations	<u>3,742,377</u>	<u>5,676,373</u>	<u>2,981,605</u>	<u>2,694,768</u>
Total expenditures	<u>31,792,779</u>	<u>35,214,369</u>	<u>31,278,935</u>	<u>3,935,434</u>
Excess (deficiency) of revenues over (under expenditures)	803,161	(4,420,678)	3,433,627	7,854,305
<b>Other financing sources (uses):</b>				
Operating transfers in	-	-	396,473	396,473
Operating transfers out	<u>(3,026,977)</u>	<u>(3,176,977)</u>	<u>(3,072,673)</u>	<u>104,304</u>
Total other financing sources (uses), net	<u>(3,026,977)</u>	<u>(3,176,977)</u>	<u>(2,676,200)</u>	<u>500,777</u>
<b>Special items:</b>				
Write-off of receivable balances	-	-	2,024,148	2,024,148
Net change in unreserved fund balance	<u>(2,223,816)</u>	<u>(7,597,655)</u>	<u>(1,266,721)</u>	<u>6,330,934</u>
<b>Other changes in unreserved fund balance:</b>				
Increase in reserve for related assets	-	-	(1,907,073)	(1,907,073)
Decrease in reserve for continuing appropriations	-	-	1,940,443	1,940,443
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>2,847,584</u>	<u>2,847,584</u>	<u>2,847,584</u>	<u>-</u>
	<u>623,768</u>	<u>(4,750,071)</u>	<u>1,614,233</u>	<u>6,364,304</u>
Unreserved fund balance at beginning of year, as previously reported	1,266,267	1,266,267	1,266,267	-
Prior-period adjustment	-	-	2,308,920	2,308,920
Unreserved fund balance at beginning of year, as restated	<u>1,266,267</u>	<u>1,266,267</u>	<u>3,575,187</u>	<u>2,308,920</u>
Unreserved fund balance at the end of the year	<u>\$ 1,890,035</u>	<u>\$ (3,483,804)</u>	<u>\$ 5,189,420</u>	<u>\$ 8,673,224</u>

See accompanying notes to required supplementary information - budgetary reporting.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Notes to Required Supplementary Information - Budgetary Reporting  
September 30, 2009

(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 2009, supplemental appropriations were also made for both operating and capital purposes, to reflect the evolving priorities of the FSM National Government.

Budgetary control is maintained at the departmental level. Budget revisions during the year, reflecting program changes, may be effected by CFSM approval.

Formal budget integration is employed as a management control device during the year for all funds. The Congress of the FSM has the authority to reprogram budgeted estimates in accordance with the Constitution. All annual appropriations lapse at fiscal year end unless otherwise specified by law. Supplemental appropriations may occur throughout the year. Unexpended encumbrances at each fiscal year end are carried forward until they are expended or canceled without further legislative action.

Accounting principles used in developing data on a budgetary basis differ from those used in preparing the basic financial statements in conformity with GAAP. Amounts included on the Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund (which is presented on a non-GAAP budgetary basis) are reconciled to unreserved fund balance of the Governmental Fund Balance Sheet within the other changes in unreserved fund balance section of that schedule.

Encumbrance accounting is employed in governmental funds. For budgetary purposes, the encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent fiscal year.

For the year ended September 30, 2009, expenditures of the General Fund exceeded budget at the program area level (i.e., the legal level of budgetary control) as follows:

<u>Program Area</u>	<u>Excess</u>
Payment to Component Units	\$ <u>43,934</u>

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Notes to Required Supplementary Information - Budgetary Reporting, Continued  
September 30, 2009

(2) Reconciliation - GAAP and Budgetary Bases of Accounting

Encumbrance accounting is employed in governmental funds. For budgetary purposes, the encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent fiscal year.

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

Net change in fund balance	\$ 1,873,168
Encumbrances	<u>(3,139,889)</u>
Net change in unreserved fund balance	\$ <u>(1,266,721)</u>

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

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**OTHER SUPPLEMENTARY INFORMATION**

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**YEAR ENDED SEPTEMBER 30, 2009**

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

**Combined Schedule of Expenditures by Account -  
Governmental Fund Types  
Year Ended September 30, 2009**

	Special Revenue					Permanent	Other Governmental Funds	Total
	General	Grants Assistance	Section 111 Investment Development	Early Retirement Program	Asian Development Bank Loan	Compact Trust		
Expenditures:								
Personnel	\$ 10,847,118	\$ 5,087,314	\$ -	\$ -	\$ 90,742	\$ -	\$ 301,647	\$ 16,326,821
Travel and transportation	2,341,781	2,821,639	-	-	153,299	-	50,782	5,367,501
Books and library materials	1,980	409,359	-	-	-	-	6,919	418,258
Communications	620,744	233,487	-	-	200	-	8,828	863,259
Customs and taxes	21,824	17,748	-	-	-	-	1,511	41,083
Dues, membership and subscription	442,790	27,366	-	-	-	-	-	470,156
Food stuffs	811,112	28,262	-	-	2,651	-	71,085	913,110
Freight	38,542	207,452	-	-	-	-	11,813	257,807
Expendable equipment	167,383	88,313	-	-	2,120	-	-	257,816
Office supplies and materials	1,038,175	518,696	-	-	3,385	-	61,854	1,622,110
POL	1,315,952	212,345	-	-	-	-	421,901	1,950,198
Advertising, printing and reproduction	124,700	126,615	-	-	-	-	2,424	253,739
Rental services	233,568	261,278	-	-	-	-	-	494,846
Repair and maintenance	175,115	17,104	-	-	69	-	3,301	195,589
Utilities	709,827	201,935	-	-	-	-	-	911,762
Warehousing	5,260	386	-	-	-	-	-	5,646
Miscellaneous goods and services	132,293	60,769	-	-	-	-	-	193,062
Medical supplies	6,539	184,949	-	-	-	-	-	191,488
General contractual services	2,363,263	39,544,359	-	-	82,478	-	-	41,990,100
Professional services	60,823	672,616	-	-	209,609	-	-	943,048
Employee housing and household storage	542,824	75,300	-	-	-	-	5,850	623,974
Training and registration fees	7,082	17,000	-	-	-	-	105,892	129,974
Leased housing, offices, buildings and land	1,396,345	285,862	-	-	9,000	-	-	1,691,207
Insurance and fees	122,244	1,463	-	-	-	-	78,300	202,007
Representation	1,072,754	130	-	-	-	-	312	1,073,196
Budget authorization	-	-	-	-	-	-	994	994
Scholarships	439,883	54,808	-	-	-	-	195,126	689,817
Investment management fee	-	-	251,600	-	-	-	-	251,600
Bank charges	25,353	1,583	-	-	361	-	75	27,372
Survey and investigation	-	-	-	-	-	-	13,400	13,400
Architecture and design	-	1,843,494	-	-	-	-	-	1,843,494
Equipment	334,861	99,764	-	-	1,925	-	-	436,550
Vehicle	215,991	199,937	-	-	-	-	-	415,928
Heavy machinery	-	76,178	-	-	-	-	-	76,178
Other	2,522,920	85,869	-	-	-	-	-	2,608,789
Debt service:								
Capitalized Interest	-	-	-	-	104,987	-	-	104,987
Principal and Interest payments	-	-	-	109,353	1,275,432	-	-	1,384,785
Total expenditures	<u>\$ 28,139,046</u>	<u>\$ 53,463,382</u>	<u>\$ 251,600</u>	<u>\$ 109,353</u>	<u>\$ 1,936,258</u>	<u>\$ -</u>	<u>\$ 1,342,014</u>	<u>\$ 85,241,653</u>

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

**GENERAL FUND**

Statement of Revenues, Expenditures by Function and Department,  
and Changes in Fund Balance  
Year Ended September 30, 2009  
(with comparatives for the year ended September 30, 2008)

	2009	2008
Revenue:		
Taxes:		
Import	\$ 4,445,443	\$ 3,976,071
Fuel	156,511	118,465
Coporate tax	57,908	34,318
Income tax, individuals, net of tax refunds	3,452,260	3,621,662
Gross receipts tax, businesses	3,872,080	3,385,961
	11,984,202	11,136,477
Federal and other grants:		
Other	9,278	1,066,088
	9,278	1,066,088
Fishing rights	20,016,133	17,045,395
Fees and charges:		
Postal collections	611,173	431,518
Business license and various fees	129,961	147,228
Other	292,922	1,188,102
	1,034,056	1,766,848
Investment earnings (loss):		
Net change in the fair value of investments	479,183	(2,219,360)
Dividend and interest income	187,855	207,946
	667,038	(2,011,414)
MiCare reimbursible	265,347	206,216
Other	736,508	2,330,219
	265,347	206,216
Total revenues	34,712,562	31,539,829
Expenditures:		
Executive Branch:		
President's Office	717,520	609,498
Department of External Affairs and LNO's	3,441,684	3,322,354
Department of Health and Social Affairs	261,649	199,653
Department of Education	1,130,767	706,746
Resources and development	832,198	833,711
National archives, cultural and historic prevention	167,227	141,428
SBOC Office	1,084,690	877,056
Environment and emergency management	1,112,883	268,708
Department of Transportation, Communication and Infrastructure	1,334,478	2,510,795
Department of Finance and Administration	2,692,964	2,640,905
Department of Justice	3,502,399	3,572,879
Office of the Public Defender	624,792	658,005
	16,903,251	16,341,738
Total Executive Branch	16,903,251	16,341,738
Judicial Branch	1,257,485	1,152,247
	1,257,485	1,152,247
Legislative Branch:		
Office of the Speaker and members	1,339,175	1,300,115
Congress staff	1,096,974	1,076,632
Delegation offices	474,522	575,023
Legislative committees	26,317	34,542
	2,936,988	2,986,312
Total Legislative Branch	2,936,988	2,986,312

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

**GENERAL FUND**

Statement of Revenues, Expenditures by Function and Department,  
and Changes in Fund Balance, Continued  
Year Ended September 30, 2009  
(with comparatives for the year ended September 30, 2008)

	2009	2008
Expenditures, continued:		
Office of the National Public Auditor	1,068,839	1,171,481
Other National Government Programs	1,424,599	1,302,303
Agencies, Boards and Commissions	1,176,952	1,121,226
Payments to Component Units:		
FSM Social Security Authority	500,000	-
Micare Plan, Inc.	100,000	-
FSM Petroleum Corporation	-	32,228
College of Micronesia-FSM	45,000	620,000
FSM Coconut Development Authority	189,942	184,228
Caroline Island Air	118,325	-
National Fisheries Corporation	-	135,000
	953,267	971,456
Capital Projects	2,417,665	3,036,328
Total expenditures	28,139,046	28,083,091
Excess of revenues over expenditures	6,573,516	3,456,738
Other financing sources (uses):		
Operating transfers in:		
Disaster Assistance Emergency Fund	50,000	-
OIA Capital Projects Fund	-	78,822
Compact Capital Projects Fund	-	3,258,433
Fisheries Observer Revolving Fund	1,534	78,247
Passport Revolving Fund	344,939	334,304
	396,473	3,749,806
Operating transfers out:		
FSM Trust Fund	(1,500,000)	(2,508,835)
Infrastructure Maintenance Fund	(338,961)	-
Early Retirement Program Fund	(109,353)	-
Asian Development Bank Loan Fund	(150,000)	-
Disaster Assistance Emergency Fund	-	(200,000)
Compact Capital Projects Fund	(5,000)	-
Maritime Operations Revolving Fund	(848,822)	(884,084)
Scholarship Fund	(120,537)	-
	(3,072,673)	(3,592,919)
Total other financing uses, net	(2,676,200)	156,887
Special items:		
Write-off of receivable balances	2,024,148	2,455,919
Net change in fund balance	1,873,168	1,157,706
Fund balance at the beginning of the year	20,854,537	19,696,831
Fund balance at the end of the year	\$ 22,727,705	\$ 20,854,537

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

**NONMAJOR GOVERNMENTAL FUNDS**

Combining Balance Sheet  
September 30, 2009

	27	28	29	31	32	33	34	35	38	39	89	Total
	Permit Revolving	Filling Office Revolving	Maritime Operations Revolving	Passport Revolving	Aquaculture Revolving	Fisheries Observer Revolving	Medical Revolving	Nurse Board Revolving	Student Loans	Scholarship	FSM Trust	Total
<b>ASSETS</b>												
Equity in internal investment pool	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,605,376	\$ 5,605,376
Due from other funds	<u>546,952</u>	<u>14,425</u>	<u>147,808</u>	<u>101,724</u>	<u>32,369</u>	<u>248,168</u>	<u>3,700</u>	<u>13,286</u>	<u>611,092</u>	<u>290,158</u>	<u>-</u>	<u>2,009,682</u>
Total assets	<u>\$ 546,952</u>	<u>\$ 14,425</u>	<u>\$ 147,808</u>	<u>\$ 101,724</u>	<u>\$ 32,369</u>	<u>\$ 248,168</u>	<u>\$ 3,700</u>	<u>\$ 13,286</u>	<u>\$ 611,092</u>	<u>\$ 290,158</u>	<u>\$ 5,605,376</u>	<u>\$ 7,615,058</u>
<b>LIABILITIES AND FUND BALANCES</b>												
Liabilities:												
Accounts payable	\$ -	\$ -	\$ 40,920	\$ 1,724	\$ -	\$ 12,994	\$ -	\$ -	\$ -	\$ 7,315	\$ -	\$ 62,953
Total liabilities	<u>-</u>	<u>-</u>	<u>40,920</u>	<u>1,724</u>	<u>-</u>	<u>12,994</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,315</u>	<u>-</u>	<u>62,953</u>
Fund balances:												
Reserved for:												
Encumbrances	-	-	16,752	18,780	-	160,174	-	147	-	-	-	195,853
Unreserved:												
Special revenue funds	546,952	14,425	90,136	81,220	32,369	75,000	3,700	13,139	611,092	282,843	-	1,750,876
Permanent funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,605,376</u>	<u>5,605,376</u>
Total fund balances	<u>546,952</u>	<u>14,425</u>	<u>106,888</u>	<u>100,000</u>	<u>32,369</u>	<u>235,174</u>	<u>3,700</u>	<u>13,286</u>	<u>611,092</u>	<u>282,843</u>	<u>5,605,376</u>	<u>7,552,105</u>
Total liabilities and fund balances	<u>\$ 546,952</u>	<u>\$ 14,425</u>	<u>\$ 147,808</u>	<u>\$ 101,724</u>	<u>\$ 32,369</u>	<u>\$ 248,168</u>	<u>\$ 3,700</u>	<u>\$ 13,286</u>	<u>\$ 611,092</u>	<u>\$ 290,158</u>	<u>\$ 5,605,376</u>	<u>\$ 7,615,058</u>

See Accompanying Independent Auditors' Report

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

**NONMAJOR GOVERNMENTAL FUNDS**

Combining Statement of Revenues, Expenditures by Function,  
and Changes in Fund Balances  
Year Ended September 30, 2009

	27	28	29	31	32	33	34	35	38	39	89	Total
	Permit Revolving	Filling Office Revolving	Maritime Operations Revolving	Passport Revolving	Aquaculture Revolving	Fisheries Observer Revolving	Medical Revolving	Nurse Board Revolving	Student Loans	Scholarship	FSM Trust	Total
<b>Revenues:</b>												
Fees and charges	\$ 196,680	\$ 1,110	\$ 160,128	\$ 375,006	\$ -	\$ 235,383	\$ 385	\$ 2,980	\$ 2,080	\$ -	\$ -	\$ 973,752
Taxes	-	-	-	-	-	-	-	-	-	207,193	-	207,193
Net change in the fair value of investments	-	-	-	-	-	-	-	-	-	-	415,478	415,478
Interest and dividends	-	-	-	-	-	-	-	-	-	-	13,059	13,059
Total revenues	<u>196,680</u>	<u>1,110</u>	<u>160,128</u>	<u>375,006</u>	<u>-</u>	<u>235,383</u>	<u>385</u>	<u>2,980</u>	<u>2,080</u>	<u>207,193</u>	<u>428,537</u>	<u>1,609,482</u>
<b>Expenditures by function:</b>												
<b>Current:</b>												
<b>General government:</b>												
Justice	-	-	-	30,067	-	-	-	-	-	-	-	30,067
Education	-	-	-	-	-	-	-	-	-	195,126	-	195,126
Resources and development	-	-	-	-	8,362	-	-	-	-	-	-	8,362
Health and social affairs	-	-	-	-	-	-	2,201	815	-	-	-	3,016
Transportation, communication and infrastructure	-	-	993,798	-	-	-	-	-	-	-	-	993,798
Agencies, boards and commissions	-	-	-	-	-	111,645	-	-	-	-	-	111,645
Total expenditures	<u>-</u>	<u>-</u>	<u>993,798</u>	<u>30,067</u>	<u>8,362</u>	<u>111,645</u>	<u>2,201</u>	<u>815</u>	<u>-</u>	<u>195,126</u>	<u>-</u>	<u>1,342,014</u>
Excess (deficiency) of revenues over (under) expenditures	<u>196,680</u>	<u>1,110</u>	<u>(833,670)</u>	<u>344,939</u>	<u>(8,362)</u>	<u>123,738</u>	<u>(1,816)</u>	<u>2,165</u>	<u>2,080</u>	<u>12,067</u>	<u>428,537</u>	<u>267,468</u>
<b>Other financing sources (uses):</b>												
Operating transfers in	-	-	848,822	-	-	-	-	-	-	120,537	1,500,000	2,469,359
Operating transfers out	-	-	-	(344,939)	-	(1,534)	-	-	-	-	-	(346,473)
Total other financing sources (uses), net	<u>-</u>	<u>-</u>	<u>848,822</u>	<u>(344,939)</u>	<u>-</u>	<u>(1,534)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>120,537</u>	<u>1,500,000</u>	<u>2,122,886</u>
Net change in fund balances	<u>196,680</u>	<u>1,110</u>	<u>15,152</u>	<u>-</u>	<u>(8,362)</u>	<u>122,204</u>	<u>(1,816)</u>	<u>2,165</u>	<u>2,080</u>	<u>132,604</u>	<u>1,928,537</u>	<u>2,390,354</u>
Fund balances at the beginning of the year	<u>350,272</u>	<u>13,315</u>	<u>91,736</u>	<u>100,000</u>	<u>40,731</u>	<u>112,970</u>	<u>5,516</u>	<u>11,121</u>	<u>609,012</u>	<u>150,239</u>	<u>3,676,839</u>	<u>5,161,751</u>
Fund balances at the end of the year	<u>\$ 546,952</u>	<u>\$ 14,425</u>	<u>\$ 106,888</u>	<u>\$ 100,000</u>	<u>\$ 32,369</u>	<u>\$ 235,174</u>	<u>\$ 3,700</u>	<u>\$ 13,286</u>	<u>\$ 611,092</u>	<u>\$ 282,843</u>	<u>\$ 5,605,376</u>	<u>\$ 7,552,105</u>

See Accompanying Independent Auditors' Report

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

**NONMAJOR GOVERNMENTAL FUNDS**

Combining Statement of Revenues, Expenditures by Account,  
and Changes in Fund Balances  
Year Ended September 30, 2009

	27	28	29	31	32	33	34	35	38	39	89	Total
	Permit Revolving	Filling Office Revolving	Maritime Operations Revolving	Passport Revolving	Aquaculture Revolving	Fisheries Observer Revolving	Medical Revolving	Nurse Board Revolving	Student Loans	Scholarship	FSM Trust	
<b>Revenues:</b>												
Fees and charges	\$ 196,680	\$ 1,110	\$ 160,128	\$ 375,006	\$ -	\$ 235,383	\$ 385	\$ 2,980	\$ 2,080	\$ -	\$ -	\$ 973,752
Taxes	-	-	-	-	-	-	-	-	-	207,193	-	207,193
Net change in the fair value of investments	-	-	-	-	-	-	-	-	-	-	415,478	415,478
Interest and dividends	-	-	-	-	-	-	-	-	-	-	13,059	13,059
<b>Total revenues</b>	<b>196,680</b>	<b>1,110</b>	<b>160,128</b>	<b>375,006</b>	<b>-</b>	<b>235,383</b>	<b>385</b>	<b>2,980</b>	<b>2,080</b>	<b>207,193</b>	<b>428,537</b>	<b>1,609,482</b>
<b>Expenditures by account:</b>												
Personnel	-	-	286,378	-	-	15,269	-	-	-	-	-	301,647
Travel and transportation	-	-	2,623	-	-	46,007	1,337	815	-	-	-	50,782
Books and library materials	-	-	3,089	3,830	-	-	-	-	-	-	-	6,919
Communications	-	-	6,343	2,137	-	-	348	-	-	-	-	8,828
Customs and taxes	-	-	1,478	-	-	33	-	-	-	-	-	1,511
Food stuffs	-	-	70,901	-	-	184	-	-	-	-	-	71,085
Freight	-	-	-	6,808	3,005	2,000	-	-	-	-	-	11,813
Office supplies and materials	-	-	43,366	11,908	5,357	707	516	-	-	-	-	61,854
POL	-	-	421,901	-	-	-	-	-	-	-	-	421,901
Advertising, printing and reproduction	-	-	1,864	560	-	-	-	-	-	-	-	2,424
Repair and maintenance	-	-	3,301	-	-	-	-	-	-	-	-	3,301
Employee housing and household storage	-	-	5,850	-	-	-	-	-	-	-	-	5,850
Training and registration fees	-	-	54,929	4,824	-	46,139	-	-	-	-	-	105,892
Insurance and fees	-	-	78,300	-	-	-	-	-	-	-	-	78,300
Representation	-	-	-	-	-	312	-	-	-	-	-	312
Budget authorization	-	-	-	-	-	994	-	-	-	-	-	994
Scholarships	-	-	-	-	-	-	-	-	-	195,126	-	195,126
Bank charges	-	-	75	-	-	-	-	-	-	-	-	75
Survey and investigation	-	-	13,400	-	-	-	-	-	-	-	-	13,400
<b>Total expenditures</b>	<b>-</b>	<b>-</b>	<b>993,798</b>	<b>30,067</b>	<b>8,362</b>	<b>111,645</b>	<b>2,201</b>	<b>815</b>	<b>-</b>	<b>195,126</b>	<b>-</b>	<b>1,342,014</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>196,680</b>	<b>1,110</b>	<b>(833,670)</b>	<b>344,939</b>	<b>(8,362)</b>	<b>123,738</b>	<b>(1,816)</b>	<b>2,165</b>	<b>2,080</b>	<b>12,067</b>	<b>428,537</b>	<b>267,468</b>
<b>Other financing sources (uses):</b>												
Operating transfers in	-	-	848,822	-	-	-	-	-	-	120,537	1,500,000	2,469,359
Operating transfers out	-	-	-	(344,939)	-	(1,534)	-	-	-	-	-	(346,473)
<b>Total other financing sources (uses), net</b>	<b>-</b>	<b>-</b>	<b>848,822</b>	<b>(344,939)</b>	<b>-</b>	<b>(1,534)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>120,537</b>	<b>1,500,000</b>	<b>2,122,886</b>
<b>Net change in fund balances</b>	<b>196,680</b>	<b>1,110</b>	<b>15,152</b>	<b>-</b>	<b>(8,362)</b>	<b>122,204</b>	<b>(1,816)</b>	<b>2,165</b>	<b>2,080</b>	<b>132,604</b>	<b>1,928,537</b>	<b>2,390,354</b>
<b>Fund balances at the beginning of the year</b>	<b>350,272</b>	<b>13,315</b>	<b>91,736</b>	<b>100,000</b>	<b>40,731</b>	<b>112,970</b>	<b>5,516</b>	<b>11,121</b>	<b>609,012</b>	<b>150,239</b>	<b>3,676,839</b>	<b>5,161,751</b>
<b>Fund balances at the end of the year</b>	<b>\$ 546,952</b>	<b>\$ 14,425</b>	<b>\$ 106,888</b>	<b>\$ 100,000</b>	<b>\$ 32,369</b>	<b>\$ 235,174</b>	<b>\$ 3,700</b>	<b>\$ 13,286</b>	<b>\$ 611,092</b>	<b>\$ 282,843</b>	<b>\$ 5,605,376</b>	<b>\$ 7,552,105</b>

See Accompanying Independent Auditors' Report

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

**GRANTS ASSISTANCE FUND**

**Combining Balance Sheet  
September 30, 2009**

	10	11	12	13	14	15	19	21	26	20	23	51	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	Section 211(a)(6) Infrastructure	Infrastructure Maintenance	Disaster Assistance Emergency	U.S. Federal Grants	Non-U.S. Grants	Compact Capital Projects	Total
<b>ASSETS</b>													
Receivables:													
Federal agencies	\$ 469,741	\$ 342,254	\$ 20,854	\$ -	\$ 717,097	\$ 484,507	\$ 2,024,165	\$ -	\$ -	\$ 9,300,702	\$ -	\$ -	\$ 13,359,320
Due from other funds	-	-	-	12,531	-	-	-	677,922	712,441	-	2,074,385	-	3,477,279
Advances	15,663	24,274	2,566	1,957	26,928	29,661	39,530	-	-	810,073	-	-	950,652
	<u>\$ 485,404</u>	<u>\$ 366,528</u>	<u>\$ 23,420</u>	<u>\$ 14,488</u>	<u>\$ 744,025</u>	<u>\$ 514,168</u>	<u>\$ 2,063,695</u>	<u>\$ 677,922</u>	<u>\$ 712,441</u>	<u>\$ 10,110,775</u>	<u>\$ 2,074,385</u>	<u>\$ -</u>	<u>\$ 17,787,251</u>
<b>LIABILITIES AND FUND BALANCES</b>													
Liabilities:													
Accounts payable	\$ 49,072	\$ 57,616	\$ -	\$ 1,335	\$ 116,953	\$ 25,863	\$ 363,462	\$ -	\$ -	\$ 3,553,261	\$ 93,673	\$ -	\$ 4,261,235
Retention payable	-	-	-	-	-	-	671,759	-	-	1,409,123	-	-	2,080,882
Due to component units	-	-	-	-	-	-	-	-	-	80,310	-	-	80,310
Due to federal agencies	-	-	-	-	-	-	-	-	-	1,089,195	-	-	1,089,195
Due to FSM State Governments	-	-	-	-	-	-	-	-	-	2,706,699	7,101	-	2,713,800
Due to other funds	336,332	308,912	23,420	-	754,911	550,888	1,140,655	-	-	906,820	-	-	4,021,938
Deferred revenues	-	-	-	-	-	-	-	338,961	228,137	371,281	1,993,072	-	2,931,451
Total liabilities	<u>385,404</u>	<u>366,528</u>	<u>23,420</u>	<u>1,335</u>	<u>871,864</u>	<u>576,751</u>	<u>2,175,876</u>	<u>338,961</u>	<u>228,137</u>	<u>10,116,689</u>	<u>2,093,846</u>	<u>-</u>	<u>17,178,811</u>
Fund balances (deficits):													
Reserved for:													
Encumbrances	41,479	74,022	-	-	896,551	80,378	34,804,013	-	-	34,244,489	300,816	-	70,441,748
Continuing appropriations	-	-	-	-	-	-	86,797,028	-	-	-	-	-	86,797,028
Unreserved (deficits)	58,521	(74,022)	-	13,153	(1,024,390)	(142,961)	(121,713,222)	338,961	484,304	(34,250,403)	(320,277)	-	(156,630,336)
Total fund balances (deficits)	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>13,153</u>	<u>(127,839)</u>	<u>(62,583)</u>	<u>(112,181)</u>	<u>338,961</u>	<u>484,304</u>	<u>(5,914)</u>	<u>(19,461)</u>	<u>-</u>	<u>608,440</u>
Total liabilities and fund balances	<u>\$ 485,404</u>	<u>\$ 366,528</u>	<u>\$ 23,420</u>	<u>\$ 14,488</u>	<u>\$ 744,025</u>	<u>\$ 514,168</u>	<u>\$ 2,063,695</u>	<u>\$ 677,922</u>	<u>\$ 712,441</u>	<u>\$ 10,110,775</u>	<u>\$ 2,074,385</u>	<u>\$ -</u>	<u>\$ 17,787,251</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, 2009

	10	11	12	13	14	15	19	21	26	20	23	51	816,421
	Section 211(a)(1) Education Sector	Section 211(a)(2) Health Sector	Section 211(a)(5) Environment	Section 211(a)(3) Private Sector Development	Section 211(a)(4) Capacity Building	Supplemental Education	Section 211(a)(6) Infrastructure	Infrastructure Maintenance	Disaster Assistance Emergency	U.S. Federal Grants	Non-U.S. Grants	Compact Capital Projects	Total
<b>Revenues:</b>													
Compact funding	\$ 869,741	\$ 756,808	\$ 20,854	\$ -	\$ 817,097	\$ 484,507	\$ 6,737,676	\$ -	\$ -	\$ -	\$ -	\$ 28,500	\$ 9,715,183
Federal and other grants	-	-	-	-	-	-	-	-	-	41,812,102	1,840,506	-	43,652,608
	<u>869,741</u>	<u>756,808</u>	<u>20,854</u>	<u>-</u>	<u>817,097</u>	<u>484,507</u>	<u>6,737,676</u>	<u>-</u>	<u>-</u>	<u>41,812,102</u>	<u>1,840,506</u>	<u>28,500</u>	<u>53,367,791</u>
<b>Expenditures by function:</b>													
<b>Current:</b>													
<b>General government:</b>													
Foreign Affairs	-	-	-	-	-	-	-	-	-	-	23,722	-	23,722
Office of the National Public Auditor	-	-	-	-	153,566	-	-	-	-	507,959	-	-	661,525
Finance and administration	-	-	-	-	757,113	-	-	-	-	962,227	-	-	1,719,340
SBOC Office	-	-	-	-	202,380	-	-	-	-	32,225	54,009	-	288,614
Justice	-	-	-	-	-	-	-	-	-	55,732	-	-	55,732
Resources and development	-	-	12,813	3,695	-	-	-	-	-	113,970	1,143,342	-	1,273,820
Environment and emergency management	-	-	-	-	-	-	-	-	-	111,556	278,269	-	389,825
National archives, cultural and historic preservation	-	-	-	-	-	-	-	-	-	182,486	-	-	182,486
Education	687,730	-	-	-	-	486,698	-	-	-	2,983,367	-	-	4,157,795
Health and social affairs	-	754,487	-	-	-	-	-	-	-	4,485,541	145,965	-	5,385,993
Judiciary	-	-	-	-	-	-	-	-	-	-	-	5,000	5,000
Transportation, communication and infrastructure	-	-	-	-	-	-	907,329	-	-	-	-	-	907,329
National government programs	-	-	-	-	-	-	-	-	-	664,831	-	28,500	693,331
Agencies, boards and commissions	-	-	-	-	-	-	-	-	-	-	120,580	-	120,580
Payments to component units	-	-	-	-	-	-	-	-	-	116,660	-	-	116,660
Capital Projects	-	-	-	-	-	-	5,830,347	-	-	31,575,697	75,586	-	37,481,630
<b>Total expenditures</b>	<u>687,730</u>	<u>754,487</u>	<u>12,813</u>	<u>3,695</u>	<u>1,113,059</u>	<u>486,698</u>	<u>6,737,676</u>	<u>-</u>	<u>-</u>	<u>41,792,251</u>	<u>1,841,473</u>	<u>33,500</u>	<u>53,463,382</u>
Excess (deficiency) of revenues over (under) expenditures	<u>182,011</u>	<u>2,321</u>	<u>8,041</u>	<u>(3,695)</u>	<u>(295,962)</u>	<u>(2,191)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,851</u>	<u>(967)</u>	<u>(5,000)</u>	<u>(95,591)</u>
<b>Other financing sources (uses):</b>													
Operating transfers in	-	-	-	-	-	-	-	338,961	-	-	-	5,000	343,961
Operating transfers out	-	-	-	-	-	-	-	-	(50,000)	-	-	-	(50,000)
<b>Total other financing sources (uses), net</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>338,961</u>	<u>(50,000)</u>	<u>-</u>	<u>-</u>	<u>5,000</u>	<u>293,961</u>
<b>Net change in fund balances (deficit)</b>	<u>182,011</u>	<u>2,321</u>	<u>8,041</u>	<u>(3,695)</u>	<u>(295,962)</u>	<u>(2,191)</u>	<u>-</u>	<u>338,961</u>	<u>(50,000)</u>	<u>19,851</u>	<u>(967)</u>	<u>-</u>	<u>198,370</u>
Fund balances (deficit) at the beginning of the year	(82,011)	(2,321)	(8,041)	16,848	168,123	(60,392)	(112,181)	-	534,304	(25,765)	(18,494)	-	410,070
Fund balances (deficit) at the end of the year	<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,153</u>	<u>\$ (127,839)</u>	<u>\$ (62,583)</u>	<u>\$ (112,181)</u>	<u>\$ 338,961</u>	<u>\$ 484,304</u>	<u>\$ (5,914)</u>	<u>\$ (19,461)</u>	<u>\$ -</u>	<u>\$ 608,440</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, 2009**

	10	11	12	13	14	15	19	21	26	20	23	51	
	Section 211(a)(1) Education Sector	Section 211(a)(2) Health Sector	Section 211(a)(5) Environment	Section 211(a)(3) Private Sector Development	Section 211(a)(4) Capacity Building	Supplemental Education	Section 211(a)(6) Infrastructure	Infrastructure Maintenance	Disaster Assistance Emergency	U.S. Federal Grants	Non-U.S. Grants	Compact Capital Projects	Total
Revenues:													
Compact funding	\$ 869,741	\$ 756,808	\$ 20,854	\$ -	\$ 817,097	\$ 484,507	\$ 6,737,676	\$ -	\$ -	\$ -	\$ -	\$ 28,500	\$ 9,715,183
Federal and other grants	-	-	-	-	-	-	-	-	-	41,812,102	1,840,506	-	43,652,608
	<u>869,741</u>	<u>756,808</u>	<u>20,854</u>	<u>-</u>	<u>817,097</u>	<u>484,507</u>	<u>6,737,676</u>	<u>-</u>	<u>-</u>	<u>41,812,102</u>	<u>1,840,506</u>	<u>28,500</u>	<u>53,367,791</u>
Expenditures by account:													
Personnel	227,300	329,924	-	-	336,653	133,740	407,100	-	-	3,396,869	255,728	-	5,087,314
Travel and transportation	77,618	100,712	9,813	3,695	289,040	89,919	114,828	-	-	1,793,531	341,962	522	2,821,639
Books and library materials	9,790	-	-	-	-	26,094	-	-	-	373,475	-	-	409,359
Communications	12,444	15,178	-	-	10,225	14,308	9,429	-	-	165,072	6,031	800	233,487
Customs and taxes	356	128	-	-	(2,715)	1,506	7,694	-	-	10,564	215	-	17,748
Dues, membership and subscription	-	-	-	-	19,472	-	-	-	-	7,894	-	-	27,366
Food stuffs	-	-	-	-	-	-	-	-	-	11,289	16,973	-	28,262
Freight	745	-	-	-	(8,507)	4,291	9,693	-	-	36,488	164,742	-	207,452
Expendable equipment	3,833	1,789	-	-	1,370	4,874	9,311	-	-	55,700	11,436	-	88,313
Office Supplies and materials	14,504	22,084	-	-	12,619	10,945	8,452	-	-	402,177	47,915	-	518,696
POL	2,267	16,155	-	-	12,321	5,021	4,900	-	-	168,830	1,801	1,050	212,345
Advertising, printing and reproduction	3,766	9,267	-	-	-	5,657	1,480	-	-	93,720	12,726	-	126,615
Rental services	19,428	266	-	-	495	6,755	10,645	-	-	153,298	70,391	-	261,278
Repair and maintenance	-	1,197	-	-	698	605	1,078	-	-	12,080	1,446	-	17,104
Utilities	4,622	2,100	-	-	28,101	7,896	2,136	-	-	156,080	1,000	-	201,935
Warehousing	-	-	-	-	-	-	386	-	-	-	-	-	386
Miscellaneous goods and services	-	-	-	-	-	-	3,400	-	-	20,886	36,482	-	60,769
Medical Supplies	-	9,032	-	-	-	-	-	-	-	175,917	-	-	184,949
General Contractual services	262,079	221,355	3,000	-	151,545	52,970	4,648,974	-	-	33,461,772	737,665	5,000	39,544,359
Professional services	22,391	-	-	-	182,506	-	7,121	-	-	383,398	77,200	-	672,616
Employee housing and household storage	-	-	-	-	18,600	-	39,600	-	-	17,100	-	-	75,300
Training and registration fees	-	400	-	-	15,960	-	-	-	-	440	200	-	17,000
Leased housing, offices, buildings and land	-	24,750	-	-	55,837	40,440	61,601	-	-	103,234	-	-	285,862
Insurance and fees	-	-	-	-	-	-	-	-	-	1,463	-	-	1,463
Representation	-	-	-	-	-	-	-	-	-	-	130	-	130
Scholarships	4,395	-	-	-	-	46,363	-	-	-	-	-	4,050	54,808
Budget authorization	-	-	-	-	-	-	-	-	-	-	-	-	-
Bank charges	125	150	-	-	(50)	75	-	-	-	875	408	-	1,583
Architecture and design	-	-	-	-	-	-	1,193,911	-	-	649,583	-	-	1,843,494
Equipment	22,067	-	-	-	(18,411)	35,239	33,098	-	-	10,765	17,006	-	99,764
Vehicle	-	-	-	-	7,350	-	108,611	-	-	68,672	15,304	-	199,937
Heavy machinery	-	-	-	-	-	-	54,228	-	-	21,950	-	-	76,178
Other	-	-	-	-	(50)	-	-	-	-	39,130	24,711	22,078	85,869
Total expenditures	<u>687,730</u>	<u>754,487</u>	<u>12,813</u>	<u>3,695</u>	<u>1,113,059</u>	<u>486,698</u>	<u>6,737,676</u>	<u>-</u>	<u>-</u>	<u>41,792,251</u>	<u>1,841,473</u>	<u>33,500</u>	<u>53,463,382</u>
Excess (deficiency) of revenues over (under) expenditures	<u>182,011</u>	<u>2,321</u>	<u>8,041</u>	<u>(3,695)</u>	<u>(295,962)</u>	<u>(2,191)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,851</u>	<u>(967)</u>	<u>(5,000)</u>	<u>(95,591)</u>
Other financing sources (uses):													
Operating transfers in	-	-	-	-	-	-	-	338,961	-	-	-	5,000	343,961
Operating transfers out	-	-	-	-	-	-	-	-	(50,000)	-	-	-	(50,000)
Total other financing sources (uses), net	-	-	-	-	-	-	-	338,961	(50,000)	-	-	5,000	293,961
Net change in fund balances (deficit)	<u>182,011</u>	<u>2,321</u>	<u>8,041</u>	<u>(3,695)</u>	<u>(295,962)</u>	<u>(2,191)</u>	<u>-</u>	<u>338,961</u>	<u>(50,000)</u>	<u>19,851</u>	<u>(967)</u>	<u>-</u>	<u>198,370</u>
Fund balances (deficit) at the beginning of the year	<u>(82,011)</u>	<u>(2,321)</u>	<u>(8,041)</u>	<u>16,848</u>	<u>168,123</u>	<u>(60,392)</u>	<u>(112,181)</u>	<u>-</u>	<u>534,304</u>	<u>(25,765)</u>	<u>(18,494)</u>	<u>-</u>	<u>410,070</u>
Fund balances (deficit) at the end of the year	<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,153</u>	<u>\$ (127,839)</u>	<u>\$ (62,583)</u>	<u>\$ (112,181)</u>	<u>\$ 338,961</u>	<u>\$ 484,304</u>	<u>\$ (5,914)</u>	<u>\$ (19,461)</u>	<u>\$ -</u>	<u>\$ 608,440</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, 2009**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Local taxes	\$ 10,747,750	\$ 10,800,000	\$ 11,984,202	\$ 1,184,202
Fishing right fees	15,952,770	16,952,770	20,016,133	3,063,363
Postal revenues	499,730	499,730	611,173	111,443
Investment earnings	2,615,860	700,000	667,038	(32,962)
Fees and charges	291,191	291,191	422,883	131,692
Grants	-	-	9,278	9,278
MiCare reimbursible	-	-	265,347	265,347
Other	2,488,639	1,550,000	736,508	(813,492)
Total revenues	<u>32,595,940</u>	<u>30,793,691</u>	<u>34,712,562</u>	<u>3,918,871</u>
<b>Expenditures-budgetary basis by department:</b>				
<b>Executive Branch:</b>				
Office of the President	543,492	560,266	577,634	(17,368)
President's Office Non-operational Projects	127,477	127,477	161,244	(33,767)
Public Information	123,009	123,009	126,784	(3,775)
Total	<u>793,978</u>	<u>810,752</u>	<u>865,662</u>	<u>(54,910)</u>
<b>Department of External Affairs:</b>				
Administration	457,377	455,377	344,253	111,124
Division of APA & Multilateral Affairs	103,610	103,610	103,185	425
Division of American and European Affairs	81,101	81,101	77,479	3,622
FSM Consulate - China	416,709	373,947	350,462	23,485
FSM Consulate - Guam	219,942	224,442	212,916	11,526
FSM Consulate - Honolulu	302,722	309,222	286,690	22,532
FSM Embassy - Tokyo	873,530	933,994	882,969	51,025
FSM Embassy - Washington D.C.	455,679	452,131	398,597	53,534
FSM Embassy - Fiji	235,919	235,919	207,473	28,446
FSM Permanent Mission - New York	624,990	624,990	621,404	3,586
Total	<u>3,771,579</u>	<u>3,794,733</u>	<u>3,485,428</u>	<u>309,305</u>
<b>Department of Health and Social Affairs:</b>				
Personnel	85,388	81,757	108,790	(27,033)
Women's Interests Unit	78,854	77,678	50,495	27,183
Sports & Youth Unit	91,377	91,377	92,934	(1,557)
Non Operational Programs	27,000	27,000	42,557	(15,557)
Total	<u>282,619</u>	<u>277,812</u>	<u>294,776</u>	<u>(16,964)</u>
<b>Department of Education:</b>				
Administration	32,308	32,308	34,892	(2,584)
Basic Education Support - Aid to Non-public schools	450,000	450,000	449,999	1
Basic Education Support - Others	470,198	470,198	512,998	(42,800)
Division of Carreer and Technical Education	99,468	99,468	145,574	(46,106)
Total	<u>1,051,974</u>	<u>1,051,974</u>	<u>1,143,463</u>	<u>(91,489)</u>
<b>Department of Resources and Development:</b>				
Administration	187,598	187,598	170,873	16,725
Division of Sectoral Development	429,962	412,107	441,566	(29,459)
Division of Trade and Investment	98,985	98,985	79,837	19,148
Division of Energy	50,324	50,324	38,702	11,622
Resource and Development Non Operational Projects	286,322	286,322	230,836	55,486
Total	<u>1,053,190</u>	<u>1,035,335</u>	<u>961,814</u>	<u>73,521</u>
<b>Office of National archives, cultural and historic prevention:</b>				
Office of the Director	119,803	139,803	160,314	(20,511)
Non operational projects	43,508	43,508	18,889	24,619
Total	<u>163,310</u>	<u>183,310</u>	<u>179,203</u>	<u>4,107</u>
<b>SBOC Office:</b>				
Office of the Director	-	-	-	-
Division of Statistics	395,223	391,613	382,281	9,332
Division of Overseas Development	34,989	34,989	17,162	17,827
Division of Budget and Economic Management	249,086	243,147	220,581	22,566
Division of Compact Management	651,912	658,218	629,309	28,909
Total	<u>1,331,210</u>	<u>1,327,967</u>	<u>1,249,333</u>	<u>78,634</u>
<b>Office of Environment and Emergency Management:</b>				
Office of the Director	93,226	95,576	43,831	51,745
Division of Sustainable Development	51,629	51,629	85,282	(33,653)
Division of Emergency Management	-	1,184,203	1,208,020	(23,817)
Non operational projects	44,535	44,535	44,932	(397)
Total	<u>189,390</u>	<u>1,375,943</u>	<u>1,382,065</u>	<u>(6,122)</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, Continued  
Year Ended September 30, 2009**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Expenditures-budgetary basis by department, continued:				
Department of Transportation, Communication & Infrastructure:				
Administration	184,376	184,376	191,327	(6,952)
Division of Marine Transportation	130,505	130,505	121,253	9,252
Division of Infrastructure	461,657	459,657	424,496	35,161
Civil Aviation	72,215	72,215	63,818	8,397
Communication	148,450	148,450	155,627	(7,177)
Drydocking of Caroline Voyager	8,027	8,027	-	8,027
FSM Capital Energy Utilities	400,000	400,000	399,963	37
Other National Programs	101,484	101,484	100,025	1,459
Total	<u>1,506,713</u>	<u>1,504,713</u>	<u>1,456,509</u>	<u>48,204</u>
Department of Finance and Administration:				
Administration	181,484	180,708	205,597	(24,889)
Division of National Treasury	557,282	556,982	590,618	(33,636)
Division of Customs and Tax Administration	968,500	968,500	931,145	37,355
Division of Personnel	1,050,748	1,050,748	934,672	116,076
Investment & International Finance	134,377	134,377	124,937	9,440
Maintenance fee for FMIS	91,080	91,080	28,347	62,733
Reimbursible - MiCare	-	-	292,564	(292,564)
Finance Non operational Projects and Adjustments	4,000	4,000	2,113	1,887
Total	<u>2,987,472</u>	<u>2,986,396</u>	<u>3,109,993</u>	<u>(123,597)</u>
Department of Justice:				
Administration	220,342	239,776	220,485	19,291
Registry of Corporation	56,145	64,145	49,169	14,976
Division of Law	192,495	192,495	137,371	55,124
Division of Litigation	180,563	175,063	185,951	(10,888)
Division of Immigration & Labor	775,512	779,512	835,747	(56,235)
FSM National Police	1,981,163	1,971,163	2,094,540	(123,377)
Other Programs	-	-	-	-
Joint Law	175,338	175,338	156,025	19,313
Total	<u>3,581,558</u>	<u>3,597,492</u>	<u>3,679,288</u>	<u>(81,796)</u>
Office of the Public Defender				
Total Executive Branch	<u>827,283</u>	<u>825,783</u>	<u>732,034</u>	<u>93,749</u>
Judicial Branch	<u>1,433,186</u>	<u>1,433,186</u>	<u>1,348,461</u>	<u>84,725</u>
Legislative Branch:				
Office of the Speaker and members	1,724,415	1,765,515	1,631,664	133,851
Congress staff	1,274,988	1,279,710	1,204,025	75,685
Delegation offices	606,217	596,017	517,341	78,676
Legislative committees	36,440	40,140	26,317	13,823
Total Legislative Branch	<u>3,642,060</u>	<u>3,681,382</u>	<u>3,379,347</u>	<u>302,035</u>
Office of the National Public Auditor				
Public Auditor	954,120	961,420	728,348	233,072
Single Audit	355,812	355,812	538,495	(182,683)
Total Office of the Public Auditor	<u>1,309,932</u>	<u>1,317,232</u>	<u>1,266,843</u>	<u>50,389</u>
Other National Government Programs:				
FEMA Matching	-	-	15,983	(15,983)
National Election Director	587,017	647,017	615,148	31,869
Micronesia Legal Services Corporation	100,000	100,000	116,300	(16,300)
FSM Red Cross	70,000	70,000	72,000	(2,000)
Fisheries Marine Institute	655,110	655,110	655,110	-
Aquaculture Center	95,538	95,538	55,401	40,137
Other National Programs	95,685	95,685	-	95,685
Total Other National Government Programs	<u>1,603,351</u>	<u>1,663,351</u>	<u>1,529,942</u>	<u>133,409</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, Continued  
Year Ended September 30, 2009**

	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	428,212	428,212	277,472	150,740
FSM Banking Board	248,059	248,059	161,374	86,685
Board of Regents-COM	65,000	65,000	65,000	-
Postal Services	742,989	742,989	696,397	46,592
National Maritime Board	160,804	160,804	-	160,804
National Board of Nursing	13,107	13,107	7,909	5,198
Total Boards and Commissions	<u>1,658,172</u>	<u>1,658,172</u>	<u>1,208,152</u>	<u>450,020</u>
Payments to component units and fiduciary fund:				
FSM MiCare	100,000	100,000	100,000	-
FSM Social Security Authority	500,000	500,000	500,000	-
Copra Subsidy	128,747	111,247	96,246	15,001
Coconut Development Authority	104,677	104,677	146,449	(41,772)
Caroline Island Air	-	166,537	135,159	31,378
National Fisheries Corporation	-	-	-	-
COM-FSM	30,000	30,000	47,163	(17,163)
Total payments to component units	<u>863,424</u>	<u>1,012,461</u>	<u>1,025,017</u>	<u>(12,556)</u>
Public Projects	3,742,377	5,676,373	2,981,605	2,694,768
Total expenditures	<u>31,792,779</u>	<u>35,214,369</u>	<u>31,278,935</u>	<u>3,935,434</u>
Excess (deficiency) of revenues over (under) expenditures	<u>803,161</u>	<u>(4,420,678)</u>	<u>3,433,627</u>	<u>7,854,305</u>
Other financing sources (uses):				
Operating Transfer in:				
OIA Capital Projects	-	-	-	-
Disaster Assistance Emergency Fund	-	-	50,000	50,000
Compact Capital Projects	-	-	-	-
Fisheries Observer Revolving Fund	-	-	1,534	1,534
Passport Revolving Fund	-	-	344,939	344,939
Total Operating Transfer in	<u>-</u>	<u>-</u>	<u>396,473</u>	<u>396,473</u>
Operating Transfer out:				
Disaster Assistance Fund	200,000	200,000	-	200,000
Early Retirement Program	-	-	109,353	(109,353)
Compact Capital Projects	-	-	5,000	(5,000)
Scholarship Fund	-	-	120,537	(120,537)
Infrastructure Maintenance Fund	460,655	460,655	338,961	121,694
ADB loan fund	-	150,000	150,000	-
FSM Trust Fund	1,500,000	1,500,000	1,500,000	-
Maritime Revolving Fund	866,322	866,322	848,822	17,500
Total Operating Transfer out	<u>3,026,977</u>	<u>3,176,977</u>	<u>3,072,673</u>	<u>104,304</u>
Total other financing sources (uses), net	<u>(3,026,977)</u>	<u>(3,176,977)</u>	<u>(2,676,200)</u>	<u>500,777</u>
Special items:				
Write-off of receivable balances	-	-	2,024,148	2,024,148
Net change in unreserved fund balance	<u>(2,223,816)</u>	<u>(7,597,655)</u>	<u>(1,266,721)</u>	<u>6,330,934</u>
Other changes in unreserved fund balance:				
Increase in reserve for related assets	-	-	(1,907,073)	(1,907,073)
Decrease in reserve for continuing appropriations	-	-	1,940,443	1,940,443
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	2,847,584	2,847,584	2,847,584	-
	<u>623,768</u>	<u>(4,750,071)</u>	<u>1,614,233</u>	<u>6,364,304</u>
Unreserved fund balance at beginning of year, as previously reported	1,266,267	1,266,267	1,266,267	-
Prior-period adjustment	-	-	2,308,920	2,308,920
Unreserved fund balance at beginning of year, as restated	<u>1,266,267</u>	<u>1,266,267</u>	<u>3,575,187</u>	<u>2,308,920</u>
Unreserved fund balance at end of year	<u>\$ 1,890,035</u>	<u>\$ (3,483,804)</u>	<u>\$ 5,189,420</u>	<u>\$ 8,673,224</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**

His Excellency Emmanuel Mori  
President  
Federated States of Micronesia:

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Federated States of Micronesia (FSM) National Government as of and for the year ended September 30, 2009, which collectively comprise the FSM National Government's basic financial statements, and have issued our report thereon dated June 30, 2010. Our report was modified to include a reference to other auditors and an explanatory paragraph regarding a restatement for the correction of an error. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Caroline Islands Air, Inc., as described in our report of the FSM National Government's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that is reported on separately by those other auditors.

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

### Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs (pages 89 through 127) as items 2009-20 through 2009-24 to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described above are material weaknesses.

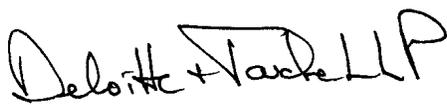
#### Compliance and Other Matters

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

We noted certain matters that we reported to management of the FSM National Government in a separate letter dated June 30, 2010.

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

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



June 30, 2010

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND ON THE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

His Excellency Emmanuel Mori  
President  
Federated States of Micronesia:

### Compliance

We have audited the compliance of the Federated States of Micronesia (FSM) National Government with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2009. The FSM National Government's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (pages 89 through 127). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the FSM National Government's management. Our responsibility is to express an opinion on the FSM National Government's compliance based on our audit.

As discussed in Note 2b to the Schedule of Expenditures of Federal Awards, the FSM National Government's basic financial statements include the operations of certain entities whose federal awards are not included in the Schedule of Expenditures of Federal Awards for the year ended September 30, 2009. Our audit, described below, did not include the operations of the entities identified in Note 2b as these entities conducted separate audits in accordance with OMB Circular A-133, if required.

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

As described in items 2009-02, 2009-04, 2009-05, 2009-06, 2009-09, 2009-13, 2009-14, 2009-16, 2009-18 and 2009-20 in the accompanying Schedule of Findings and Questioned Costs, the FSM National Government did not comply with requirements regarding allowable costs/cost principles, cash management, equipment and real property management, procurement and suspension and debarment, reporting, and special tests and provisions that are applicable to its Compact of Free Association Compact Sector Grants major program (CFDA # 15.875); cash management, equipment and real property management, and special tests and provisions that are applicable to its Airport Improvement Program major program (CFDA # 20.106); and cash management, equipment and real property management, period of availability of Federal funds, reporting, and special tests and provisions that are applicable to its Special Education-Grants to States major program (CFDA # 84.027). Compliance with such requirements is necessary, in our opinion, for the FSM National Government to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the FSM National Government complied, in all material respects, with the requirements referred to above that are applicable to its Compact of Free Association Compact Sector Grants major program (CFDA # 15.875), its Airport Improvement Program major program (CFDA # 20.106), and its Special Education-Grants to States major program (CFDA # 84.027) for the year ended September 30, 2009. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2009-01, 2009-03, 2009-07, 2009-08, 2009-10, 2009-11, 2009-12, 2009-15, 2009-17 and 2009-19.

#### Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2009-01 through 2009-20 to be significant deficiencies.

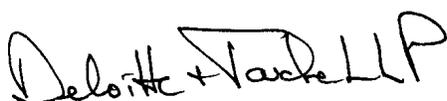
A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider items 2009-02, 2009-04, 2009-05, 2009-06, 2009-09, 2009-13, 2009-14, 2009-16, 2009-18 and 2009-20 to be material weaknesses.

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

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Federated States of Micronesia (FSM) National Government as of and for the year ended September 30, 2009, which collectively comprise the FSM National Government's basic financial statements, and have issued our report thereon dated June 30, 2010. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the FSM National Government's basic financial statements. We did not audit the financial statements of the Caroline Islands Air, Inc., which represents 0.1%, 0.1% and 0.3%, respectively, of the assets, net assets and operating revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Caroline Islands Air, Inc., is based on the report of the other auditors. The accompanying Schedule of Expenditures of Federal Awards (pages 78 through 85) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of the FSM National Government. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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



June 30, 2010

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Summary Schedule of Expenditures of Federal Awards, by Grantor  
Year Ended September 30, 2009

<u>Agency/Program</u>	<u>Expenditures</u>	Amounts Passed-Through to <u>Subrecipients</u>
U.S. Department of Agriculture	\$ 113,970	\$ 135,165
U.S. Department of Commerce	1,277,555	-
U.S. Department of the Interior	10,919,314	52,845,498
U.S. Department of Transportation	31,575,697	-
U.S. Department of Homeland Security	110,575	1,494,774
U.S. Department of Education	2,970,479	1,650,199
U.S. Department of Health and Human Services	4,615,089	1,211,847
Institute of Museum and Library Services	39,230	-
GRAND TOTAL	<u>\$ 51,621,909</u>	<u>\$ 57,337,483</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	\$ 53,463,382
Less:	
Expenditures of the Non U.S. Grants Fund (page 68)	<u>(1,841,473)</u>
Total expenditures per financial statements	<u>\$ 51,621,909</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, 2009

<u>Agency/Program</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>	<u>Amounts Passed-Through to Subrecipients</u>
U.S. DEPARTMENT OF AGRICULTURE			
Rural Self-Help Housing Technical Assistance	10.420	\$ -	\$ 81,704
Forestry Research	10.652	-	-
Cooperative Forestry Assistance	10.664	92,290	53,461
Urban and Community Forestry Program	10.675	21,681	-
Forest Stewardship Program	10.678	-	-
Community Facilities Loans and Grants	10.766	-	-
Rural Sanitation Project	10.999	-	-
U.S. DEPARTMENT OF AGRICULTURE TOTAL		<u>\$ 113,970</u>	<u>\$ 135,165</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Expenditures of Federal Awards, Continued  
Year Ended September 30, 2009

<u>Agency/Program</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>	<u>Amounts Passed-Through to Subrecipients</u>
U.S. DEPARTMENT OF COMMERCE			
Anadromous Fish Conservation Act Program	11.405	\$ -	\$ -
Financial Assistance for National Centers for Coastal Ocean Science	11.426	-	-
Special Oceanic and Atmospheric Projects -NOAA	11.460	<u>1,277,555</u>	<u>-</u>
U.S. DEPARTMENT OF COMMERCE		<u>\$ 1,277,555</u>	<u>\$ -</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Expenditures of Federal Awards, Continued  
Year Ended September 30, 2009

<u>Agency/Program</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>	<u>Amounts Passed-Through to Subrecipients</u>
U.S. DEPARTMENT OF THE INTERIOR			
Economic, Social and Political Development of the Territories	15.875		
Compact Capital Account		\$ 33,500	\$ 774,199
Compact Energy Grant		-	-
Compact Communications-One Time		-	-
Compact Marine Surveillance-Annual		-	-
Compact Health and Medical 216(a)		-	190,766
Compact Post Secondary Education		-	-
Compact Marine Surveillance-One Time		-	-
Compact Scholarship Grant		-	-
Compact Special Block Grant 221(b)		-	19,867
Compact Sector Funds:			
Infrastructure		6,737,676	679,794
Education		687,731	20,711,594
Health		754,486	17,716,963
Capacity		1,113,059	1,695,789
Environment		12,813	935,464
Private		3,695	1,143,765
Compact Supplemental Ed		486,698	8,694,229
Subtotal Compact Sector Funds		<u>9,796,158</u>	<u>51,577,598</u>
Technical Assistance:			
Single Audit		436,972	-
Other Technical Assistance:		508,447	-
Technical Assistance OIA/DOI Other		-	-
		<u>945,419</u>	<u>-</u>
Total CFDA #15.875		10,775,077	52,562,430
Historic Preservation Fund Grants-In-Aid	15.904	144,238	171,883
U.S. DEPARTMENT OF THE INTERIOR TOTAL		<u>\$ 10,919,314</u>	<u>\$ 52,734,313</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**NATIONAL GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued  
Year Ended September 30, 2009

<u>Agency/Program</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>	<u>Amounts Passed-Through to Subrecipients</u>
U.S. DEPARTMENT OF TRANSPORTATION			
Airport Improvement Program	20.106	\$ <u>31,575,697</u>	\$ <u>-</u>
U.S. DEPARTMENT OF TRANSPORTATION TOTAL		\$ <u><u>31,575,697</u></u>	\$ <u><u>-</u></u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Expenditures of Federal Awards, Continued  
Year Ended September 30, 2009

<u>Agency/Program</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>	<u>Amounts Passed-Through to Subrecipients</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
Public Assistance Grants - Typhoon Fern HMGP/Subgrantee	83.544	\$ -	\$ -
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (B)	97.036	25,007	1,172,116
Individual and Family Grants - FEMA 1427/IFG Admin. Cost	83.543	-	-
Hazard Mitigation Grant	83.548	-	41,680
Hazard Mitigation Grant	97.039	51,264	280,978
Crisis Counseling	97.032	-	-
Emergency Management Performance Grants	97.042	34,304	-
U.S. DEPARTMENT OF HOMELAND SECURITY TOTAL		<u>\$ 110,575</u>	<u>\$ 1,494,774</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Expenditures of Federal Awards, Continued  
Year Ended September 30, 2009

<u>Agency/Program</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>	<u>Amounts Passed-Through to Subrecipients</u>
U.S. DEPARTMENT OF EDUCATION			
Adult Education-Basic Grants to States	84.002A	\$ -	\$ -
Special Education - Grants to States	84.027	<u>2,970,479</u>	<u>1,650,199</u>
U.S. DEPARTMENT OF EDUCATION TOTAL		<u>\$ 2,970,479</u>	<u>\$ 1,650,199</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Expenditures of Federal Awards, Continued  
Year Ended September 30, 2009

<u>Agency/Program</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>	<u>Amounts Passed-Through to Subrecipients</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Public Health and Social Services Emergency Fund	93.003	\$ 6,139	\$ -
Public Health Emergency Preparedness	93.069	16,994	-
Maternal and Child Health Federal Consolidated Programs	93.110	92,228	-
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	200,360	60,631
Health Activities Recommendation Panel Health Activities - Tobacco Use Prevention Programs	93.203	175,095	-
Family Planning-Services	93.217	284,078	127,961
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers)	93.224	1,276	206,835
Immunization Grants	93.268	796,405	120,166
Abstinence Education Program	93.235	-	-
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	-	-
Centers for Disease Control and Prevention-Investigations and Technical Assistance	93.283	345,354	192,509
Universal Newborn Hearing Screening	93.251	107,323	-
National Bioterrorism Hospital Preparedness Program	93.889	1,185,156	-
HIV Care Formula Grants	93.917	55,850	2,167
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	12,887	-
HIV Prevention Activities-Health Department Based	93.940	-	39,979
Epidemiologic Research Studies of AIDS and HIV Infection in Selected Population Groups	93.943	186,886	21,706
HIV/AIDS Surveillance	93.944	7,696	-
Block Grants for Community Mental Health Services	93.958	130,982	-
Block Grants for Prevention and Treatment of Substance Abuse	93.959	561,227	183,842
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977	658	7,227
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988	93,975	23,345
Preventive Health and Health Services Block Grant	93.991	33,481	9,078
Maternal and Child Health Services Block Grant to the States	93.994	307,012	159,606
Unknown	93.18C	-	-
Small Business Innovation Research (NIAAA, NIDA, NIMH)	93.126	14,027	8,488
Centers for Disease Control and Prevention-Investigations and Technical Assistance - Comprehensive Cancer Program	93.283	-	-
Occupational Health and Safety Surveillance	93.957	-	-
ARRA Health Center Integrated Services	93.703	-	5,970
CCPI Cancer Program	93.999	-	21,826
Pacific Cancer Initiative	93.Unknown	-	20,511
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL</b>		<b>\$ 4,615,089</b>	<b>\$ 1,211,847</b>
<b>INSTITUTE OF MUSEUM AND LIBRARY SERVICES</b>			
Grants to States	45.310	\$ 39,230	\$ -
<b>INSTITUTE OF MUSEUM AND LIBRARY SERVICES</b>		<b>\$ 39,230</b>	<b>\$ -</b>
<b>GRAND TOTAL</b>		<b>\$ 51,621,909</b>	<b>\$ 57,226,298</b>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Notes to Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2009

1. Scope of Audit

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

a. Programs Subject to Single Audit

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

2. Summary of Significant Accounting Policies

A. Basis of Accounting

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

B. Reporting Entity

For purposes of complying with The Single Audit Act of 1984, as amended in 1996, the FSM National Government's reporting entity is defined in Note 1A to its September 30, 2009 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, 2009.

C. Indirect Cost Allocation

The FSM National Government did not receive an indirect cost allocation and did not charge indirect costs against federal programs in fiscal year 2009.

D. CFDA #15.875

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

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Notes to Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2009

2. Summary of Significant Accounting Policies, Continued

E. Subgrantees

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

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Programs  
Selected for audit in accordance with  
OMB Circular A-133  
Year Ended September 30, 2009

<u>Grantor</u>	<u>Description</u>	<u>CFDA No.</u>	<u>Amount of 2009 Expenditures</u>
<u>U.S. Department of the Interior</u>			
	Economic, Social and Political Development of the Territories:		
	Compact of Free Association:		
	Compact Sector Grants	15.875	\$ 9,796,158
<u>U.S. Department of Transportation</u>			
	Airport Improvement Program	20.106	31,575,697
<u>U.S. Department of Education</u>			
	Special Education – Grants to States	84.027	<u>2,970,479</u>
	Total program expenditures selected		\$ <u>44,342,334</u>
	Total U.S. Federal Program expenditures		\$ <u>51,621,909</u>
	% of Total U.S. Federal expenditures covered by major programs		<u>86</u> %

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2009

**Part I - Summary of Auditors' Results**

*Financial Statements*

- |    |  |               |
|----|--|---------------|
| 1. | Type of auditors' report issued:   | Unqualified   |
|    | Internal control over financial reporting:   |               |
| 2. | Material weakness(es) identified?  | Yes           |
| 3. | Significant deficiency(ies) identified that is not considered to be a material weakness? | None reported |
| 4. | Noncompliance material to the financial statements noted?                                | No            |

*Federal Awards*

Internal control over major programs:

- | 5.                 | Material weakness(es) identified?   | Yes                |                        |        |  |        |                             |        |                                      |  |
|--------------------|---|--------------------|------------------------|--------|--|--------|-----------------------------|--------|--------------------------------------|--|
| 6.                 | Significant deficiency(ies) identified that is not considered to be a material weakness?  | Yes                |                        |        |  |        |                             |        |                                      |  |
| 7.                 | Type of auditors' report issued on compliance for major programs:   | Qualified          |                        |        |  |        |                             |        |                                      |  |
| 8.                 | Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?  | Yes                |                        |        |  |        |                             |        |                                      |  |
| 9.                 | The FSM National Government's major programs were as follows:   |                    |                        |        |  |        |                             |        |                                      |  |
|                    | <table border="0" style="margin-left: 20px;"> <thead> <tr> <th style="text-align: left;"><u>CFDA Number</u></th> <th style="text-align: left;"><u>Federal Program</u></th> </tr> </thead> <tbody> <tr> <td>15.875</td> <td>Compact of Free Association, Compact Sector Grants</td> </tr> <tr> <td>20.106</td> <td>Airport Improvement Program</td> </tr> <tr> <td>84.027</td> <td>Special Education – Grants to States</td> </tr> </tbody> </table> | <u>CFDA Number</u> | <u>Federal Program</u> | 15.875 | Compact of Free Association, Compact Sector Grants | 20.106 | Airport Improvement Program | 84.027 | Special Education – Grants to States |  |
| <u>CFDA Number</u> | <u>Federal Program</u>  |                    |                        |        |  |        |                             |        |                                      |  |
| 15.875             | Compact of Free Association, Compact Sector Grants  |                    |                        |        |  |        |                             |        |                                      |  |
| 20.106             | Airport Improvement Program   |                    |                        |        |  |        |                             |        |                                      |  |
| 84.027             | Special Education – Grants to States  |                    |                        |        |  |        |                             |        |                                      |  |
| 10.                | Dollar threshold used to distinguish between Type A and Type B Programs, as those terms are defined in OMB Circular A-133:  | \$1,548,657        |                        |        |  |        |                             |        |                                      |  |
| 11.                | The FSM National Government qualified as a low-risk auditee, as that term is defined in OMB Circular A-133?   | No                 |                        |        |  |        |                             |        |                                      |  |

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

**Part II - Financial Statement Findings Section**

<u>Finding #</u>	<u>Findings</u>
2009-20	Equipment and Real Property Management
2009-21	Travel Advances
2009-22	Timely and Accurate Reconciliation of Accounts
2009-23	Encumbrances
2009-24	ADB Loans

**Part III - Federal Award Findings and Questioned Cost Section**

<u>Finding #</u>	<u>CFDA #</u>	<u>Findings</u>	<u>Questioned Costs</u>
2009-01	15.875	Reporting	\$ 0
2009-02	84.027	Period of Availability of Federal Funds	\$ 109,099
2009-03	15.875	Period of Availability of Federal Funds	\$ 133,850
2009-04	15.875/ 84.027	Reporting	\$ 0
2009-05	15.875	Cash Management	\$ 0
2009-06	15.875/ 20.106/ 84.027	Cash Management	\$ 0
2009-07	15.875	Allowable Costs/Cost Principles	\$ 102,800
2009-08	84.027	Allowable Costs/Cost Principles	\$ 326,524
		Procurement and Suspension and Debarment	\$ 486,672
2009-09	20.106	Equipment and Real Property Management	\$ 0
2009-10	20.106	Reporting	\$ 0
2009-11	20.106	Allowable Costs/Cost Principles	\$ 252,411
2009-12	93.268	Allowable Costs/Cost Principles	\$ 79,377
2009-13	15.875/ 20.106/ 84.027	Special Tests and Provisions	\$ 0
2009-14	15.875	Allowable Costs/Cost Principles	\$ 673,324
		Procurement and Suspension and Debarment	\$ 731,193
2009-15	93.994	Period of Availability Federal Funds	\$ 52,021
2009-16	15.875/ 20.106/ 84.027	Cash Management	\$ 0
2009-17	15.875	Allowable Costs/Cost Principles	\$ 17,129
2009-18	15.875	Procurement and Suspension and Debarment	\$ 0
2009-19	15.875/ 20.106/ 84.027	Procurement and Suspension and Debarment	\$ 0
2009-20	15.875/ 20.106/ 84.027	Equipment and Real Property Management	\$ 0
Total Questioned Costs			\$ 2,964,400

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-01  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Compact of Free Association, Compact Sector Grants  
Grant Number: Disaster Assistance Emergency Fund  
Requirement: Reporting  
Questioned Costs: \$0

Criteria: Per “Agreement on the Establishment and Use of the Disaster Assistance Emergency Fund” (DAEF), withdrawals from the fund up to \$50,000 for any one State Emergency would require approval of the President of the FSM and would be reported to the United States Chief of Mission as to the use and amount of the withdrawal.

Condition: A withdrawal of \$50,000 from FSM’s contribution from the DAEF occurred during the year as a result of an Emergency Declaration issued by the President due to tidal surges. This withdrawal does not appear to have been reported to the US Chief of Mission.

Cause: Either the FSM considered the withdrawal to be a portion of FSM’s contribution thereby negating the DAEF provisions or DAEF’s reporting requirements were not considered.

Effect: Possible noncompliance with the criteria could result from the condition.

Recommendation: Compliance with the criteria should occur. If the circumstances surrounding the withdrawal are not applicable, the basis should be documented on file.

Auditee Response and Corrective Action Plan: We agree with this finding. The withdrawal has been reported to US Department of Interior on June 16, 2010. Any future withdrawal will be documented and reported to the United States Chief of Mission as to its use and amount.

Responsible Party: Rose Nakanaga

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-02  
Federal Agency: U.S. Department of Education  
CFDA Program: 84.027 Special Education – Grants to States  
Grant Number: H027A050005, H027A060005A  
Requirement: Period of Availability of Federal Funds  
Questioned Costs: \$109,099

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

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

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

PRG - YR	Program	Amount
20010-06	FY06 Special ED Grant	\$ 2,520
20010-07	FY07 Special ED Grant	106,579
		<u>\$ 109,099</u>

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

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

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

Auditee Response and Corrective Action Plan: We agree with this finding. The Assistant Secretary for National Treasury will obtain necessary documentation from FSM Department of Education to support compliance with the criteria and will provide that documentation to the auditors to clear this finding on or before September 30, 2010.

Responsible Party: Juliet Jimmy

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No: 2009-03  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Compact of Free Association, Compact Sector Grants  
Grant Number: CSG-FSM-2006-SEG,  
CSG-FSM-2007-SEG,  
CSG-FSM-2008-EDU,  
CSG-FSM-2008-HLT  
Requirement: Period of Availability of Federal Funds  
Questioned Costs: \$133,850

Criteria: Funding for grants, other than grants for infrastructure and other grants that are not operational, shall generally be available for one year.

The Government of the Federated States of Micronesia shall liquidate all obligations incurred under a grant not later than ninety days after the end of the funding period or as otherwise mutually agreed, to coincide with the submission of the final annual cash transactions report.

Condition: The FY08 Operational Grant (except FY08 SEG and FY08 Capacity) expired on 9/30/08. DOI granted a no cost extension from 12/31/08 to 3/31/09. As the applicable Grant expired on 9/30/08, there should be no further payroll postings against this grant after the expiration date as only liquidations of obligations should be further recorded. A total of \$92,662 of payroll postings was charged to the FY08 program from October 2008 to September 2009.

The FY07 SEG expired on 3/31/09. Although DOI granted an extension to 9/30/09 to allow clearance of related expenditures, there should not be any payroll postings against this grant after the expiration date as only liquidations of existing obligations should occur. A total of \$39,795 of payroll postings was charged to the FY07 program with posting dates from April 2009 to September 2009.

The FY08 Operational Grant (except FY08 SEG and FY08 Capacity) expired on 9/30/08. DOI granted a no cost extension from 12/31/08 to 3/31/09, while the FY07 SEG expired on 3/31/09 with a liquidation date of 9/30/09. A total of \$1,393 of non payroll expenditures was posted past the liquidation date.

Cause: There appears to be lack of timely monitoring of program period of availability. For the FY08 Capacity and FY07 SEG Grants, a request for grant extensions was only submitted upon the audit bringing the matter to the Government's attention.

Effect: A questioned cost results from this potential noncompliance.

Recommendation: The Government should comply with Compact Sector program requirements and timely monitor period of availability requirements. Payroll accounts charged to programs should be evaluated annually as to funding availability.

Auditee Response and Corrective Action Plan: We agree with this finding. The Assistant Secretary for National Treasury will obtain necessary documentation from FSM Department of Education and FSM Department of Health to support compliance with the criteria and will provide that documentation to the auditors to clear this finding on or before September 30, 2010.

Responsible Party: Juliet Jimmy

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-04  
Federal Agency: U.S. Department of the Interior  
U.S. Department of Education  
CFDA Program: 15.875 Compact of Free Association, Compact Sector Grants  
84.027 Special Education – Grants to States  
Grant Number: 2009-COFA-FSM, CSG-FSM-2008  
H027B03002, H027A07005, H027A08005  
Requirement: Reporting  
Questioned Costs: \$0

Criteria: In accordance with OMB Circular A-133, Financial Status Reports (FSR's), SF 270 Request for Advance or Reimbursement, SF-271 Outlay Report and Request for Reimbursement for Construction Programs and/or its equivalent report, as applicable to the program, should be correctly completed and submitted in accordance with grant terms and conditions. Submitted reports should reconcile with underlying records.

Condition: For the Compact Sector Grants and Special Education, SF 270 Requests for Advance or Reimbursement and/or equivalent reports, as applicable were not provided. The FSRs for the Compact Sector Grants were also not available.

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

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

For the Compact sector, drawdown records are maintained outside the Fundware system. This could contribute to non-timely reporting as information is not readily accessible.

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

Prior Year Status: This condition was cited in the 2008 Single Audit.

Recommendation: The Government should ensure that the responsible personnel prepares the required reports and maintains underlying records to substantiate reported amounts.

Additionally, the Government should also maximize the functionality of Fundware for compact sector transactions. Drawdown transactions should be entered in Fundware and segregation of duties should be considered while designing this task.

Auditee Response and Corrective Action Plan: We disagree with this finding. FSMNG prepares the SF269 and SF272 for reporting but not SF270 or SF271. FSMNG make the drawdown online for federal which does not require SF270 or SF271.

Auditor's Response: As indicated in the condition, we requested for equivalent reports, which also include online confirmations of draw downs and amounts drawn down as of 9/30/09 to perform audit procedures; however, such were not provided.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-05  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Compact of Free Association, Compact Sector Grants  
Grant Number: Various Compact Public Infrastructure Sector Projects  
Requirement: Cash management  
Questioned Costs: \$0

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

Condition: Infrastructure project funds were paid to the States without a State expenditure report in support of the payment. Given the absence of the expenditure report, we were not able to conclude that payments were made on the basis of accrued expenditures.

Cause: The Government did not obtain appropriate documentation from the applicable State agency and did not obtain approval from the Grantor that waived applicable grant requirements.

Effect: Noncompliance with cash management requirements results from the criteria. We are unable to quantify resulting questioned costs, if any.

Recommendation: The Government should document grantor approval that waived the cited grant provisions.

Auditee Response and Corrective Action Plan: We agree with this finding but it should be pointed out that U S Department of the Interior made the determination to advance to the States the Infrastructure Maintenance Fund (IMF) based on their cash needs. All other Infrastructure payments are based on the expenditures.

Any future payment to the States for Infrastructure projects funds will be supported by their expenditure reports.

Responsible Party: Delihda Lebehn

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.:	2009-06
Federal Agency:	U.S. Department of the Interior U.S. Department of Transportation U.S. Department of Education
CFDA Program:	15.875 Compact of Free Association, Compact Sector Grants 20.106 Airport Improvement Program 84.027 Special Education – Grants to the States
Grant Number:	Various Compact Public Infrastructure Projects Various Airport Improvement Projects (AIP) H027B03002, H027A07005, H027A08005
Requirement:	Cash Management
Questioned Costs:	\$0

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

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

Condition: In 6 or (7%) of 86 items tested for CFDA# 20.106; in 35 or (92%) of 38 items tested for CFDA# 84.027 and in 100% of items tested for CFDA # 15.875, the detail of certain program drawdowns could not be provided. Therefore, it is not possible to conclude as to compliance with applicable cash management requirements.

For CFDA 84.027, the National Government received cash in excess of immediate needs and an interest liability results.

Cause: The Government did not monitor drawdowns for compliance with applicable cash management requirements. Furthermore, the FSM does not have readily available ACH capacity, which exacerbates the cash management function.

Effect: It is not possible to determine the amount of questioned costs, if any, due to the lack of available information.

For CFDA 84.027, the National Government appears to be non-compliant with applicable cash management requirements. However no questioned costs result from this condition as the assessed interest liability for each program tested is less than \$10,000.

Prior Year Status: This condition was cited in the 2008 Single Audit.

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

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-06, Continued

Auditee Response and Corrective Action Plan: We agree with this finding and recommendation. Cash management has been an issue for the FSM National Government. The Federated States of Micronesia operates in an isolated environment. Local banks do not provide ACH services and many payments are made to those who do not have bank accounts. Therefore, cash management compliance can become quite difficult.

FSMNG is currently doing an extensive study of its cash management clearance pattern and will report the outcome to Joint Economic Management Committee (JEMCO) for an alternative federal cash management to the three-day rule.

Responsible Party: Jackson Jack

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-07  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Compact of Free Association, Compact Sector Grants  
Grant Number: CSG-FSM-2007-INF  
Requirement: Allowable Costs/Cost Principles  
Questioned Costs: \$102,800

Criteria: In accordance with applicable allowable costs/cost principles requirements, expenditures should be necessary and reasonable for program needs and should be in accordance with program requirements.

Condition: Infrastructure project funds were used as the local 5% match for AIP projects. In prior years, the National Government obtained concurrence from DOI to reprogram the Infrastructure Grant matching to fund the AIP projects with the understanding that upon issuance of the FAA-AIP grants, the Infrastructure Grants Project would be reimbursed. The two AIP grants are currently utilized for matching requirements as authorized by U. S. DOI.

The AIP share of billings (the 95% portion) was charged to the FAA replacement grant in the amount of \$102,800. As this grant is allocated for matching requirements, the AIP share of expenditures does not appear allowable. The National Government was not able to provide authorization from U. S. DOI allowing this expenditure be charged to the program.

Total AIP replacement Grant (Design)	\$ 2,700,000
Total Infrastructure Grant Initially Used	<u>2,679,116</u>
Remaining Grant for AIP projects share	20,884
AIP share charged to the matching accounts	<u>123,684</u>
AIP share of expenditures that requires approval from DOI	\$ <u>102,800</u>

Cause: The Government determined that of the \$2.7M FAA replacement grant, approximately \$2.5M is required for matching and the remaining amount can be used for the AIP project share. The Government did not obtain approval from DOI to use the replacement grant for AIP expenditures.

Effect: Noncompliance with the criteria exists.

Recommendation: The Government should document authorization of the usage of the grant.

Auditee Response and Corrective Action Plan: The FSM Department of Transportation and Communication as per advised by Lyons and Associates indicated that approval from US Department of Interior to use the fund for 95% matching is not necessary as the fund came from AIP. FSM Finance will work with Lyons and Associates and FSM Department of TC&I to determine the funding source of the 95% match and clear this finding and questioned costs before September 30, 2010.

Responsible Party: Juliet Jimmy

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-08  
 Federal Agency: U.S. Department of Education  
 CFDA Program: 84.027 Special Education – Grants to States  
 Grant Number: H027A070005, H027B030002-04  
 Requirement: Allowable Costs/Cost Principles  
 Questioned Costs: \$326,524  
 Requirement: Procurement and Suspension and Debarment  
 Questioned Costs: \$486,672

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

Conditions:

1. For 10 (or 26%) of 38 transactions tested, there was insufficient documentation to evidence the Program’s procurement of services in the transactions listed below.

For item 26, the original contract for a disciplinary bachelor degree program for SPED teachers was executed in prior years. In a prior year, a finding was raised as the Government’s understanding of procurement was not sufficient to maximize competition; however, no questioned cost was raised as services were procured and received. A change order was subsequently added to include the purchase of 45 laptops and payment of lower level online courses (American History and American Constitution) to another community college. There was no documentation provided if other vendors or colleges were considered in the change order and no documentation as to price comparisons.

2. For 18 (or 47%) of 38 transactions tested, there was either partial or no financial and/or programmatic records (i.e., contracts, receiving reports, invoices, boarding passes, etc.) on file to substantiate the following transactions.

For item 26, the Government was not able to provide the whereabouts of the 45 laptops purchased. Receipts provided by the vendor for the laptops approximated \$34,000. However, the Government paid the vendor \$45,000. We also selected two students enrolled in the program but the students’ records were also not readily available for verification.

Per Transaction Details

	Acct_Name	Amt		Ref 1	Ref 2	Questioned Costs	
		Tested	Date			Procurement	Allowable Cost
1	Salaries	\$ (248)	12/20/2008		REG	\$ -	\$ (248)
2	Equipment	9,219	10/9/2008	L8C184	62914		9,219
3	Benefits Life	80	7/21/2009	Payroll summary	ER AGLI2		80
4	Professional Services	32,903	6/11/2009	CE0063	55443	32,903	
5	Gen Contractual Svcs	35,292	3/17/2009	CD01771	29209	35,292	
6	Gen Contractual Svcs	88,462	5/19/2009	CE02341	29211	88,462	
7	Gen Contractual Svcs	18,986	12/19/2008	29205	transfer	18,986	18,986
8	Gen Contractual Svcs	4,025	1/28/2009	29206	Transfer	4,025	
9	Gen Contractual Svcs	36,651	2/10/2009	46451	Split	36,651	
10	Gen Contractual Svcs	263,226	2/11/2009	46520	Split	-	263,226

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-08, Continued

<u>Per Transaction Details</u>					<u>Questioned Costs</u>	
<u>Acct_Name</u>	<u>Amt</u>	<u>Date</u>	<u>Ref 1</u>	<u>Ref 2</u>	<u>Procurement</u>	<u>Allowable Cost</u>
11 Gen Contractual Srvc	128,000	3/25/2009	CC01031	50159	128,000	
12 Gen Contractual Srvc	46,555	5/12/2009	CF0180	53039	46,555	
13 Gen Contractual Srvc	36,650	6/11/2009	CE0289	55478	36,650	
14 Gen Contractual Srvc	17,160	11/5/2008	39894	manual ent		17,160
15 Gen Contractual Srvc	8,580	12/4/2008	C9C001	70819		8,580
16 Gen Contractual Srvc	14,000	8/31/2009	C9C035	64919		14,000
Office Supplies &						
17 Materials	2,784	10/9/2008	L8C226	62913		2,784
Office Supplies &						
18 Materials	2,784	5/19/2009	L8C226	53614		2,784
Office Supplies &						
19 Materials	3,003	7/31/2009	L9C073	63546		3,003
20 Communications	740	2/11/2009	46526	entry		740
21 Travel & Transportation	456	10/7/2008	29106	Transfer		456
22 Travel & Transportation	1,256	11/11/2008	38263	Split		1,256
23 Travel & Transportation	590	4/23/2009	TF0914	51928		590
24 Travel & Transportation	746	1/6/2009	T9C079	71046		746
25 Travel & Transportation	1,516	8/31/2009	T9C251	64840		1,516
26 Contractual Services	251,148	12/17/2009	CC01031	68579	<u>59,148</u>	<u>45,000</u>
					<u>\$ 486,672</u>	<u>389,878</u>
				Total		876,550
				Less items 7 and 26		<u>63,896</u>
						<u>\$ 812,654</u>

3. For 7 (or 23%) of 30 payroll samples tested, we noted that (1) pay rates per the system and PAFs differed, or (2) either partial or no financial records (i.e., PAF, approved timesheet, etc.) were provided to substantiate the transaction, as follows:

		<u>Rate</u>			
	<u>Emp No</u>	<u>System</u>	<u>PAF</u>	<u>Diff</u>	<u>Approx error</u>
1	610156	2.25	2.13	0.12	\$ 245
2	58469	10.67	10.76	(0.09)	(182)
3	800966	3.55	2.84	0.71	1,477
4	610368	2.25	2.13	0.12	250
5	35318	4.74	5.34	(0.60)	(1,248)
6	72291	5.07	-	-	-
7	617251	2.02	-	-	-
					<u>\$ 542</u>

Cause: Conditions 1 and 2 - for the remaining items, and Condition 3, there appears to be a lack of control over ensuring compliance with the criteria.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-08, Continued

Effect: Condition 1 and 2 – For item 33, the Government is not fully in compliance with the criteria. No costs have been questioned on the original contract as payment terms are in accordance with the contract, but we will raise questioned cost on the change order.

Condition 1 and 2, for all the remaining items, and Condition 3, the Government appears to be in noncompliance with the criteria and questioned costs result.

Prior Year Status: This condition was cited in the 2008 Single Audit.

Recommendation: The Government should retain sufficient documentation on file to support compliance with the requirements. Students' records should be readily available as well for verification.

The National Government should consider procuring such services on a multi-year basis to maximize competition among interested parties. Additionally, given the specialized nature of the procured services, we recommend that the Government consider use of a Request for Interest to establish listings of eligible parties and to ensure that RFP preparation considers input received from those parties.

The Government should comply with the grant requirements.

Auditee Response and Corrective Action Plan: We agree with this finding. FSM National Treasury will work with the Department of Education to clear this finding with Deloitte and Touche before September 30, 2010.

Responsible Party: Noel Pascua

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-09  
Federal Agency: U.S. Department of Transportation  
CFDA Program: 20.106 Airport Improvement Program  
Grant Number: Various Airport Improvement Projects  
Requirement: Equipment and Real Property Management  
Questioned Costs: \$0

Criteria: In accordance with applicable equipment management requirements, tangible, nonexpendable, personal property having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit meets the definition of equipment and should be accounted for and maintained in the fixed asset register.

Condition: Per the terms of contract CD0179, all equipment purchased is the property of the National Government. Office equipment and vehicles purchased in prior year from this contract were not capitalized in the fixed asset register.

Cause: The Government appeared to lack awareness of the applicable equipment management requirements. It is the National Government's viewpoint that these assets are not to be included in the register.

Effect: The Government appears to be in noncompliance with the criteria. There is a potential error in the fixed asset account at the Government wide level. Moreover, this condition does not allow verification as to the existence, usage and condition of the equipment.

Recommendation: Assets should be completely and accurately included in the fixed asset register to comply with grant requirements.

Prior Year Status: This condition was cited in the 2008 Single Audit.

Auditee Response and Corrective Action Plan: We agree with this finding. FSM National Treasury initiated to perform the inventory of assets purchased by Lyons and Associates under contract no. CD0179 which was funded under AIP grant; however, this was denied by Lyons and Associates with the understanding that the assets do not need to be recorded to the book of FSMNG per communication from US Department of Transportation Federal Aviation Administration dated July 22, 2009. The procurement and supply will conduct an inventory of assets purchased by under contract no. CD0179 and will tag these assets for inclusion to FSMNG fixed assets register this FY2010.

Responsible Party: Stoney Fritz

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-10  
 Federal Agency: U.S. Department of Transportation  
 CFDA Program: 20.106 Airport Improvement Program  
 Grant Number: Various Airport Improvement Projects  
 Requirement: Reporting  
 Questioned Costs: \$0

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

Conditions:

1. The Government submits a SF 272 Federal Cash Transaction Report which reflects the accumulated drawdown per grant for a given period. The latest SF272 for the period ending 9/30/09 reflects an amount greater than the accumulated expenditures per the Fundware generated accounting report. The National Government was not able to reconcile the differences. For item number 5, the difference pertains to the 5% local match which was expensed in the general ledger in the Compact sector infrastructure fund but was erroneously drawdown in the AIP grant.

Table 1					Cumulative Amount			
	Prg-YR	Proj Name	Grant No	FY09 Expenditure	Fundware - GL	FY SF272 last prepared	SF 272	Excess of SF272 against GL
1	A1-27200-05	CHUUK AIRPORT IMPROV. PROJ.	3-64-0003-08	\$ 33,279	\$1,533,691	FY08	\$1,546,863	\$ 13,172
2	A1-27400-05	POHNPEI AIRPORT IMPROV. PROJ.	3-64-0002-05	55,243	1,493,712	FY08	1,553,135	59,423
3	A1-27501-05	YAP AIRPORT IMPROV. PROJ.	3-64-0004-06	213,651	2,989,030	FY08	3,000,000	10,970
4	27300-05	Kosrae Airport Improvement Proj.	3-64-0001-05 3-64-0001-07	37,964	1,471,486	FY08	1,547,098	75,612
5	27211-08 27311-08 27411-08 27511-08	Airport Master Plan	3-64-0000-01	569,277	569,277	FY09	581,277	12,000
								\$171,177

2. Each grant number is assigned a unique account number. For items 1-4 in the Table 1 above, there appear to be erroneous applications of draw downs. For the items in the table 2 below, the drawdown was erroneously applied.

Table 2

	PRG# - GL	Grant No - GL	Amount	Prg # - SF272	Grant No - SF272
1	27522-07	3-64-0004-09	\$ 128,250	27521-07	3-64-0004-10
2	27422-08	3-64-0002-11	<u>134,529</u>	27422-07	3-64-0002-09
			\$ <u>262,779</u>		

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-10, Continued

3. The ECHO Web Payment Report print-outs are inconsistently filed to allow for verification of the accuracy of the submitted SF 272. The ECHO Web Payment Report shows the amount drawn down relative to a specific grant number.
4. There is an error in the SF272 for Grant number 3-64-0003-12. The report did not reflect the cumulative drawdown, but only reflected the September 2009 drawdown.

Prg Number	Accumulated Expenditures per the general ledger	Grant Number	SF 272	Drawdown Ledger
A2-27000-09	\$667,637	3-64-0003-12	\$72,056	\$631,978

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

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

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

Auditee Response and Corrective Action Plan: We agree with this finding. The investment accountant who prepares the SF272 will perform the reconciliation with staff from FSM National Treasury to correct this finding.

Responsible Party: Melinda Irons and Noel Pascua

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-11  
 Federal Agency: U.S. Department of Transportation  
 CFDA Program: 20.106 Airport Improvement Program  
 Grant Number: Various Airport Improvement Projects  
 Requirement: Allowable Costs/Cost Principles  
 Questioned Costs: \$252,411

Criteria: Expenditures should be necessary and reasonable for program needs and should be in accordance with program requirements. Furthermore, financial and programmatic records should be maintained on file for at least three years. Reviews performed by the project management unit (PMU) should be clearly documented for all vendor payments made.

Condition:

- For 11 (or 13%) of 86 transactions tested, there was either only partial or no financial and/or programmatic records (i.e., receiving reports, invoices, boarding passes, etc.) on file to substantiate the following transactions. Additionally, two items aggregating \$29,451, which were posted as negatives in the expenditure ledger, are presented below as no underlying documentation, such as attendant journal vouchers, were available to support the nature of the recorded reversals.

	Ref 1	Ref 2	Trx	Amount
1	40450	split	9377	\$ 5,020
2	37663	split	7056	22,323
3	CB0166	49342	16671	2,997
4	CD0179	51455	18982	2,341
5	CB0166	59471	26433	2,977
6	46535	split	14512	7,185
7	CD0179	52224	19761	8,553
8	CD0179	57206	24563	1,973
9	CD0179	58287	25299	3,453
10	CD0179	60173	27098	3,537
11	JVF0577		37154	192,052
				\$252,411

	Ref	Desc	Amount
1	CC01801	29233 CHUUK AIRPORT JULY 2009	\$ (15,095)
2	JVF0436	Transfer mispost charges	(14,356)
			\$ (29,451)

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

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-11, Continued

Condition, Continued:

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

Cause: There appears to be a lack of control over ensuring compliance with the criteria. For condition 3, the current process does not incorporate documentation of the PMU review.

Effect: The Government appears to be in noncompliance with the criteria and questioned costs result. For condition 3, no questioned cost results from this condition. However, evidence of PMU approval of billings is not evident.

Prior Year Status: This condition was cited in the 2008 Single Audit.

Recommendation: The FSM National Government should comply with the stated grant requirements. Clarification should be sought with the PMU to clarify their role with respect to formal approval of contractor billings.

Auditee Response and Corrective Action Plan: We agree with this finding. FSM National Treasury will work with the Department of Transportation and Communication to clear this finding with Deloitte and Touche' before September 30, 2010.

Responsible Party: Noel Pascua

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-12  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.268 Immunization Grants  
Grant Number: 2H231P922505-06  
Requirement: Allowable Costs/Cost Principles  
Questioned Costs: \$79,377

Criteria: Expenditures should be necessary and reasonable for program needs and should be in accordance with program requirements. Financial and programmatic records should be maintained on file for at least three years and readily available for verification.

Conditions: The Immunization program was charged by the Department of Justice for a boat charter for the use of the FSM Patrol boat to conduct immunization programs in the outer islands of Chuuk in the amount of \$79,377 – JVF0071 and JVF0517. This sum includes food and supplies of \$5,300. There was insufficient documentation to verify the appropriateness of the amount charged to the program such as lack of boat's activity log – including a fuel consumption log, passenger manifests, invoices and an activity trip report.

Cause: The Government did not maintain sufficient documents to substantiate related program costs.

Effect: There is potential noncompliance with the criteria and potential questioned costs result.

Recommendation: The Government should comply with grant requirements and should retain sufficient documentation on file to substantiate program costs.

Prior Year Status: This condition was cited in the 2008 Single Audit.

Auditee Response and Corrective Action Plan: We disagree with this finding. FSM Department of Health requested the assistance of Department of Justice for a boat charter for the use of the FSM Patrol boat to conduct immunization programs in the outer island of Chuuk. It was determined that using the FSM Patrol Boat is much cheaper than renting a boat. The expenses which include food and supplies are part of the provisioning during the travel. The amount charged by Department of Justice was based on the actual expenditures as evident by the purchase order for fuel presented to the auditor.

Auditor's Response: The subsequent documents provided were not sufficient to address the stated condition.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.:	2009-13
Federal Agency:	U.S. Department of the Interior
CFDA Program:	15.875 Compact of Free Association, Compact Sector Grants
Grant Number:	Compact Sector Grants
Federal Agency:	U.S. Department of Transportation
CFDA Program:	20.106 Airport Improvement Program
Grant Number:	Various Airport Improvement Projects
Federal Agency:	U.S. Department of Education
CFDA Program:	84.027 Special Education – Grants to States
Requirement:	Special Tests and Provisions
Questioned Cost:	\$0

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

- (i) For contracts in excess of \$100,000, administrative, contractual, or legal remedies in instances where contractors violate or breach contract terms, and the provision of such sanctions and penalties as appropriate;
- (ii) For contracts in excess of \$100,000, termination for cause and for convenience by the Grantee or Sub-Grantee including the manner by which it will be effected and the basis for settlement;
- (iii) Compliance with local statutes regarding kickbacks and corrupt practices;
- (iv) Access by the Government of the Federated States of Micronesia and its Sub-Grantees, the Government of the United States, or any of their duly authorized representatives to any books, documents, papers, and records of the contractor which are directly pertinent to the contract for the purpose of making audit, examination, excerpts, and transcriptions;
- (v) Retention of all required records for three years after Grantees or Sub-Grantees make final payments and all other pending matters are closed; and
- (vi) Compliance with all applicable standards, orders, or requirements issued under local environmental laws.

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

Cause: There appears to be lack of internal control over ensuring that compliance with the criteria occurs.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-13, Continued

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

The conditions cited relate to the provisions in the contracts and not to amounts incurred under contracts and therefore no questioned costs result from this finding.

Prior Year Status: This condition was cited in the 2008 Single Audit.

Recommendation: We recommend that the State strengthen its control over ensuring that compliance with the criteria occurs.

Auditee Response and Corrective Action Plan: We agree with this finding. FSM Department of Finance has already issued a memorandum to Department of Justice to ensure that such applicable provisions should be included to the contract prior to signing off for legal sufficiency. A reminder will be issued again to strictly comply with Fiscal Procedures Agreement. We will also bring this matter to the Project Management Unit (PMU) whose legal staff is authorized to sign as to legal sufficiency of the contract. We will also bring to the attention of the Department Heads to ensure that the applicable provisions are included in the contract.

Responsible Party: Jacobson Jacob

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-14  
 Federal Agency: U.S. Department of the Interior  
 CFDA Program: 15.875 Compact of Free Association, Compact Sector Grants  
 Grant Number: Various Infrastructure Grants, FY07 SEG, FY08 SEG, FY08 Operational Grant, FY09 Operational Grant, FY05 Capacity Carryover  
 Requirement: Allowable Costs/Cost Principles  
 Questioned Costs: \$673,324  
 Requirement: Procurement Suspension and Debarment  
 Questioned Costs: \$731,193

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

Per the Compact subsidiary agreement, “funds awarded under the Supplemental Education Grant shall not be used for school construction, or remodeling, general operational costs, or teacher salaries, except for the salaries of teachers, teaching assistants, paraprofessionals, or instructors who are needed to carry out programs or activities supported by the Supplemental Education Grant.”

Condition:

1. For 27 (or 28%) of 96 transactions tested, there was either only partial or no financial and/or programmatic records (i.e., contracts, receiving reports, invoices, boarding passes, etc.) on file to substantiate the following transactions. In addition for items 20 to 27, no questioned cost will be raised as we were able to determine that services were received.

	<b>FD Name</b>	<b>Prg-YR</b>	<b>Ref_1</b>	<b>Ref_2</b>	<b>Amount</b>
1	Educ	10150-09	N90039	61808	\$ 1,703
2	Health	11600-09	CD0253	52703	3,900
3	Health	11110-05	38073	split	39,140
4	Health	11100-09	TF1565	57713	3,442
5	Capacity	14256-08	37912	split	31,515
6	Infra	70010-05	JVF0265	1259	14,435
7	Capacity	14026-08	CB0423	53547	3,588
8	Capacity	14045-08	TF1686	57229	1,126
9	Infra	72241-06	38099	split	75,000
10	SEG	15110-08	CD0119111	60396	19,440
11	SEG	15110-07	46356	entry	3,000
12	Infra	70010-05	CF0239	58510	20,000
13	Infra	70010-05	CF0111	56443	3,600
14	Infra	72202-06	45521	split	65,905
15	Infra	74218-07	CF0126	55044	145,131
16	Infra	70010-05	36555	split	1,460
17	Infra	74217-07	CF0127	54968	214,965
18	Capacity	14120-09	JVF0424		29,574
19	Capacity	14045-08	9018339	66909	400
					\$ 673,324

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-14, Continued

	<b>Fd</b>		<b>Ref_1</b>	<b>Ref_2</b>	<b>No QC</b>	<b>Remarks</b>
20	Capacity	14045-08	9010581	64223	\$ 600	House lease contract
21	SEG	15110-07	44223	Entry	6,000	scholarship documents
22	SEG	15110-07	TF0645	45387	853	travel report
23	Infra	72241-06	47230	Split	46,820	Task order
24	Infra	74217-07	CF0127	54968	214,965	contract not available
25	Infra	74217-07	CF0127	57610	146,140	contract not available
26	Infra	74217-07	CF0127	61004	236,778	contract not available
27	Capacity	14255-05	CD02071	73386	93,542	Deliverable report not available
					<u>\$ 745,698</u>	

We were not able to determine the basis of the number of days encompassed in per diem payments charged to contract CB0423. Hotel payments were also reimbursed despite having been included within attendant per diem calculations. The National Government should further scrutinize billings and conclude that the correct number of days are charged as per diem. Additionally, certain related hotel and car rental payments were also reimbursed that were not supported by detailed invoices.

Items 10 and 11 (\$19,440 and \$3,000) are payments for office lease rental and utilities which do not appear to be allowable charges against the SEG program. The Government wasn't able to provide us attendant Grantor concurrence.

- For 12 (or 13%) of 96 samples tested for the Compact Sector Programs, there was either insufficient documentation or none was provided to support competitive procurement requirements.

	<b>FD Name - DTT</b>		<b>Ref_1</b>	<b>Ref_2</b>	<b>Procurement</b>
1	Educ	10110-08	35078	transfer	\$ 100,000
2	Educ	10110-08	31931	transfer	5,000
3	Educ	10110-09	43537	split	112,500
4	Health	11600-09	CD0253	52703	3,900
5	Health	11110-08	37661	split	45,000
6	Health	11110-09	CF0188	56012	53,375
7	Health	11100-09	CF0188	53744	32,400
8	Infra	70010-05	CF0111	56443	3,600
9	Infra	74217-07	CF0127	54968	214,965
10	Infra	74217-07	CF0127	57610	146,140
11	Infra	74217-07	CF0127	61004	236,778
12	Infra	70010-05	JVF0265	1259	14,435
					<u>968,093</u>
Less items questioned in Condition 1 (2,13, 8, 17)					<u>236,900</u>
Questioned Costs					<u>\$ 731,193</u>

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

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-14, Continued

4. The Infrastructure fund pays for the 5% matching cost of AIP projects. Travel for Government employees is included in the contract cost of CD0179. All billings to the CD0179 account are subject to fixed management costs; therefore the Government incurs additional costs on government travel in addition to the costs that it would incur if it paid for the direct costs of travel. This added cost could be eliminated if management of the travel budget was performed by the Government itself and not by the contractor.
5. For 10 (or 10%) of 96 samples tested for the Compact Sector Programs aggregating \$111,782, negative balances were posted in the expenditure ledger, as presented below and there were either no or only partial underlying documentation, such as attendant journal voucher details, available to support the nature of the recorded reversals and transfers.

	<b>Prog Name /FD</b>	<b>Ref 1</b>	<b>Ref 2</b>	<b>Amount</b>
1	Health	42330	REG	\$ (661)
2	Capacity	602482	REG	(1,346)
3	AIP Security Fenc Elect Upgrad	9014932	59177	(6,056)
4	CHK Airport Design	CC01939	51101	96,265
5	CHK Airport Design	CC01939	51101	(96,265)
6	KOS Airport Design	CC01939	51101	(8,734)
7	PNI Construct Arff Bldg	JVF0028	GR/1-09	(33,302)
8	Yap Rehab Apron Signage Turn	JVF0028	GR/3-11	(53,935)
9	Pjt Mgmt Unit	704196	REG	(3,077)
10	Capacity	JVF0146	9009156	(4,671)
				\$ 111,782

6. For 3 (or 20%) of 20 payroll samples tested, pay rates per the system and Personnel Action Forms differed resulting in a net underpayment.

<b>Employee#</b>	<b>Rate</b>		<b>Diff</b>	<b>Approx error</b>
	<b>System</b>	<b>PAF</b>		
915435	20.67	21.63	(0.96)	\$ (1,997)
35389	5.80	4.88	0.92	1,914
73705	9.76	10.76	(1.00)	(2,080)
				\$ (2,163)

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

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

Prior Year Status: This condition was cited in the 2008 Single Audit.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-14, Continued

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

Price negotiation on additional task orders be documented to show the manner in obtaining the most advantageous contract cost.

Auditee Response and Corrective Action Plan: We agree in part with this finding. We do not agree that all costs should be questioned as we believe that adequate documentation exist to support compliance with the criteria. We have provided the procurement documents for Contract No. CF0127 as well as the Contract but still this was not removed in the finding. However, we agree that some documents stated in the finding may not have been available. FSM National Treasury will obtain the necessary documentation to support compliance with the criteria and will provide that documentation to Deloitte & Touche to clear the finding by September 30, 2010.

Responsible Party: Jay Isaac

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-15  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.994 Maternal and Child Health Services Block Grant to the States  
Grant Number: B04MC07780  
Requirement: Period of Availability of Federal Funds  
Questioned Costs: \$52,021

Criteria: The Government of the Federated States of Micronesia shall liquidate all obligations incurred under a grant no later than ninety days after the end of the funding period or as otherwise mutually agreed.

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

Condition: Expenditures were charged to the program past the liquidation period. A transfer of \$52,021 of payroll expenditures from the 2008 program to the 2007 program was posted thru JVF0441. The 2007 program budget expired on 9/30/2008. Grantee approval of the extension of funds availability was not located.

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

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

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

Auditee Response and Corrective Action Plan: We agree with this finding. The Assistant Secretary for National Treasury will obtain necessary documentation from FSM Department of Health to support compliance with the criteria and will provide that documentation to the auditors to clear this finding on or before September 30, 2010.

Responsible Party: Juliet Jimmy

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-16

Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Compact of Free Association, Compact Sector Grants  
Grant Number: Compact Sector Grants

Federal Agency: U.S. Department of Transportation  
CFDA Program: 20.106 Airport Improvement Program  
Grant Number: Various Airport Improvement Projects

Federal Agency: U.S. Department of Education  
CFDA Program: 84.027 Special Education – Grants to States

Requirement: Cash Management  
Questioned Costs: \$0

Criteria: Grants drawdowns received into the Holding Bank Account should be timely identified and be disbursed to the entitled State. Furthermore, financial and programmatic records should be maintained on file for at least three years. Additionally, for federal grants, drawdowns should be made on a reimbursement basis.

Condition:

- 1) Timely reconciliation of the federal holding account does not occur. A schedule indicating the distribution of federal holding cash in current year was provided in February 2010. Postings to the accounts occurred from September through December 2009 with effective posting dates from January to September 2009. The transactions in this cash account were not timely recorded in the National Government's books. Transactions were recorded thru a journal voucher upon reconciliation of the account instead of recording the receipts and disbursements upon execution of the underlying transactions. As of September 30, 2009, there exist unidentified federal funds of \$279,122 that were drawn down from the Federal Holding Account that are included within General fund cash. Additionally, the Government was not able to locate certain expenditure reports and grantor confirmations to support draw downs from the holding account.
- 2) As of September 30, 2009, the Government recorded deferred revenue of \$371,281 for the federal grants fund. Certain federal programs appear to have overdrawn cash that is equivalent to or in excess of this balance. Additionally, the initial deferred revenue balance was overstated by approximately \$316,000 which was corrected by the entity during the audit process due to an error in application against a specific program account.

Cause: For condition 1, the unidentified cash resulted from a prior year unreconciled balance that was transferred in 2009 to the general fund. It does not appear that subsequent attempts to reconcile this balance have occurred. Recordkeeping of the 2009 transactions appears to be untimely. Additionally, filing online confirmations of draw downs does not consistently occur.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-16, Continued

For condition 2, there appears untimely monitoring of drawdown against expenditures to ensure that drawdowns and applications of revenue are accurate and that cash is not drawn down prior to the incurrence of expenditures.

Effect: Condition 1 and 2 – There is a potential liability of the National Government to return the money to the U. S. Federal Government. A liability has been duly recorded in the general fund federal grants fund for this possibility. This condition also has the effect of not allowing for the verification of the accuracy of the application of drawdown against appropriate grant numbers.

Prior Year Status: This condition was cited in the 2008 Single Audit.

Recommendation: Records should be timely prepared, should be completely filed and be readily available. Postings of federal collections should be accurately and timely performed. Additionally, the Government should resolve its potential liability to the US federal government.

Auditee Response and Corrective Action Plan: We do not agree with this finding. The Federal Holding Account has been reconciled monthly since October 2008 and continues to reconcile on a monthly basis up to this date. The Investment accountant reconciles the Federal Holding account and submits the reconciliation to National Treasury for the preparation of Journal Voucher to record the transactions on a monthly basis. However, we do agree that preparation and recording of Journal Voucher may not have been prepared and posted timely by National Treasury. Effective, July 2010, National Treasury will prepare the Journal Voucher upon receipt of reconciliation from Investment and post this accordingly.

Auditor's Response: As preparation and posting of the journal vouchers was not performed timely, we cannot determine the timeliness of the underlying reconciliation. Additionally the National Government may consider documenting the date of completion of the reconciliation and the related review in the future.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-17  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories  
Grant Number: DOI Technical Assistance - MCI-14  
Requirement: Allowable Costs/Cost Principles  
Questioned Costs: \$17,129

Criteria: Expenditures should be necessary and reasonable for program needs and should be in accordance with program requirements. Financial and programmatic records should be maintained on file for at least three years and readily available for verification.

Condition: For the following items, there was either only partial or no financial and/or programmatic records (i.e., receiving report, purchase orders, contract change orders, invoices, boarding passes, etc.) on file to substantiate the following transactions.

Program	Ref 1	Ref 2	Amount
FSM FMIS Pjt	37087	split	\$ 12,458
FSM FMIS Pjt	JVF0146 9009156	entry	4,671
			\$ 17,129

Cause: There appears to be a lack of control over ensuring compliance with the criteria and improvement is necessary in maintaining updated files.

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

Prior Year Status: This condition was cited in the 2008 Single Audit.

Recommendation: The Government should comply with grant requirements and should retain sufficient documentation on file and readily available for verification.

Auditee Response and Corrective Action Plan: We agree with this finding. The FMIS project manager will obtain the necessary documentation to clear this finding before September 30, 2010.

Responsible Party: Deborah Atwood

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No: 2009-18  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Compact of Free Association, Compact Sector Grants  
Grant Number: Various Infrastructure Development Project  
Requirement: Procurement and Suspension and Debarment  
Questioned Costs: \$0

Criteria: For construction or facility improvement contracts or subcontracts exceeding \$100,000, the awarding agency may accept the bonding policy and requirements of the grantee or subgrantee provided the awarding agency has made a determination that the awarding agency's interest is adequately protected. If such a determination has not been made, the minimum requirements shall be as follows:

- (1) *A bid guarantee from each bidder equivalent to five percent of the bid price.* The "bid guarantee" shall consist of a firm commitment such as a bid bond, certified check, or other negotiable instrument accompanying a bid as assurance that the bidder will, upon acceptance of his bid, execute such contractual documents as may be required within the time specified.
- (2) *A performance bond on the part of the contractor for 100 percent of the contract price.* A "performance bond" is one executed in connection with a contract to secure fulfillment of all the contractor's obligations under such contract.
- (3) *A payment bond on the part of the contractor for 100 percent of the contract price.* A "performance bond" is one executed in connection with a contract to assure payment as required by law of all persons supplying labor and material in the execution of the work provided for in the contract.

Condition: The Government has a waiver from DOI relative to the bonding requirement up to a certain amount; however, the waiver was no longer valid as of September 30, 2009.

Cause: A lack of monitoring appears to have facilitated the condition.

Effect: Potential noncompliance with the criteria has resulted.

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

Auditee Response and Corrective Action Plan: We agree with this finding. The Secretary of FSM Finance and Administration will discuss this matter with the Secretary of Transportation, Communication and Infrastructure to address this issue.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.:	2009-19
Federal Agency:	U.S. Department of the Interior
CFDA Program:	15.875 Compact of Free Association, Compact Sector Grants
Grant Number:	Compact Sector Grants
Federal Agency:	U.S. Department of Transportation
CFDA Program:	20.106 Airport Improvement Program
Grant Number:	Various Airport Improvement Projects
Federal Agency:	U.S. Department of Education
CFDA Program:	84.027 Special Education – Grants to States
Requirement:	Procurement and Suspension and Debarment
Questioned Costs:	\$0

Criteria: Grantees and subgrantees will maintain a written code of standards of conduct governing the performance of their employees engaged in award and administration of contracts. No employee, officer or agent of the grantee or subgrantee shall participate in selection, or in the award or administration of a contract supported by Federal funds if a conflict of interest, real or apparent, would be involved.

Condition: No documentation was provided to determine compliance with the criteria.

Cause: There does not appear to be existing policy that meets the requirements.

Effect: Potential noncompliance has resulted with federal compliance requirements.

Recommendation: Compliance with the criteria should occur. If alternative procedures are implemented to satisfy the criteria, the basis should be documented in file and be readily available.

Auditee Response and Corrective Action Plan: FSM Department of Finance and Administration, Division of Personnel maintains the Code of Conduct which was adopted on June 14, 1999. The Code of Conduct was provided to Deloitte after the conclusion of the audit.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-20

Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Compact of Free Association, Compact Sector Grants  
Grant Number: Compact Sector Grants

Federal Agency: U.S. Department of Transportation  
CFDA Program: 20.106 Airport Improvement Program  
Grant Number: Various Airport Improvement Projects

Federal Agency: U.S. Department of Education  
CFDA Program: 84.027 Special Education – Grants to States

Requirement: Fixed Asset Reconciliation/Equipment and Real Property Management  
Questioned Costs: \$0

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

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

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

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

Condition:

1. The National Government did not timely capitalize approximately \$2.9 million of Renewable energy infrastructure projects located in various locations in the states funded by an EU Grant. The adjustment was only made in June 2010 during the audit process.
2. The National Government initially deleted \$1.37 million of prior year Weno Emergency Power Project capitalized assets. The assets were subsequently readjusted in March 2010 during the audit process.
3. The National Government determined that utility supplies of approximately \$390,000 were erroneously included in the Weno Emergency Power Project. The effect of this determination is reflected in the list of Uncorrected Adjustments. The current custodian of these supplies – Chuuk Public Utilities Company (CPUC) confirmed inventory of supplies exists as of September 30, 2009; however, corresponding costs are not determinable as these supplies were not yet turned over pending ownership determination. The National Government did not monitor the usage of these supplies. Therefore these supplies are not accounted for in the books of the National Government.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-20, Continued

4. The National Government capitalized ARFF vehicles and related equipment utilized by the States of Kosrae, Chuuk and Yap of approximately \$10.8 million. It is our understanding that these assets are not yet tagged as a determination as to ownership has not yet been made.
5. There appears to be an absence of documentation formalizing the turnover of assets purchased by the National Government to the recipient states and/or component units.
6. Included in the contract cost of the Construction Managers (CM) or Project Management Unit (PMU) are costs not directly related to the construction such as travel for other than site inspections, office costs (i.e. office rent, utilities, vehicle maintenance, etc). These non-ancillary charges are currently included in construction in progress.
7. No formal maintenance procedures for equipment are established and we could not determine the manner in which maintenance responsibilities are carried out.
8. A number of fixed assets in the fixed asset register have no assigned tag as of September 2009. Additionally, the fixed asset register does not include the percentage of participation in the cost of a federal program and the federal program's name.

Cause: For conditions 1 to 3, it appears that the compilation of completed projects and construction-in-progress data, the project engineer's estimate, project completion reports, and asset receiving reports were not sufficiently utilized to determine appropriateness and accuracy of underlying financial reports. Additionally for condition 3, current procedures do not appear adequate to monitor supplies sub-granted to the states or component units.

For condition 6, it has been a practice of the National Government to capitalize all payments made to the CM or PMU.

For condition 8, there appears to be untimely reconciliation of the fixed account register against the general ledger. Inclusion of the federal grant funding source in the fixed asset register is not currently part of standard procedures.

The absence of a formal transfer of assets to the States and component units has been a recurring audit concern as has absence of adequate maintenance procedures.

Effect: The effect of this condition is that inadequate accounting for fixed assets occurs and that complications between the National Government and the States result due to potential misunderstandings concerning ownership and accountability of fixed assets. Noncompliance has resulted with federal compliance requirements applicable to equipment maintenance and recording of supplies.

Additionally there is a probably an immaterial misstatement of capitalized costs as a result of non-direct construction costs included in the capitalization of construction in progress.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-20, Continued

Prior Year Status: The conditions were cited in the 2008 Single Audit except for conditions 3, 6 and 8.

Recommendation: Quarterly reconciliations of the fixed asset register should occur. A formal document should be utilized to convey ownership of assets provided to the States or to component units. A formal maintenance program should also be developed.

The funding source including the federal program identification number, the CFDA, should also be incorporated in the fixed asset register.

For the contract costs of CM and PMU, the National Government may consider assigning a unique expenditure code to that portion of the contract cost that is non-construction related.

Auditee Response and Corrective Action Plan: We agree with this finding and recommendation. The procurement and Supply performs reconciliation on a quarterly basis; however, asset purchase thru contract does not form part in the procedure. The Assistant Secretary for National Treasury has instructed the procurement and supply to ensure that asset purchase thru contract will be identified and included in the Fixed Assets Register as well as the inclusion of the federal grant funding source.

FSM National Treasury will also start transferring completed projects to the states by July 2010.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No. 2009-21 – Travel Advances

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

Condition: For all 3 (or 100%) Sector travel advances tested and for 3 (or 43%) of 7 general fund advances tested, timely liquidation of travel advances did not occur. For the remaining four general fund samples, the travel voucher and attendant documentation could not be located.

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

	Amount	Allowance	NRV
GF	\$ 1,439,967	\$ 1,439,967	\$ -
Sector	140,579	-	140,579
	<u>\$ 1,580,546</u>	<u>\$ 1,439,967</u>	<u>\$ 140,579</u>

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

Effect: Reported expenditures reported may be understated.

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

Prior Year Status: This condition was reported as Other Matters in fiscal year 2008.

Recommendation: We recommend that compliance with the Financial Management Regulations occur with respect to the collection of travel advances. Additionally the Government should retain sufficient documentation on file to support the transactions.

Auditee Response and Corrective Action Plan: We agree with this finding. The current regulation requiring traveler to submit a travel claim within 10 days after the completion of the travel appears to be impractical. FSM Finance and Administration will revisit the current regulation to amend and extend the filing of travel claim to 30 days.

Responsible Party: Juliet Jimmy and Noel Pascua

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No. 2009-22 – Timely and Accurate Reconciliation of Accounts

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

Condition:

- (1) The National Government provided several adjusting entries from March to June 2010 to correct and reconcile various accounts including accounts payable, accounts receivable, expenditures, loans payable, fixed asset accounts and deferred revenue.
- (2) Accounts payable (AP) was not accurately reconciled. An AP schedule was provided in January 2010 but contained a number of inconsistencies as captured in the audit process. A revised schedule was provided in May 2010. The inaccuracies included interfund transfers of travel related payables resulting in a general fund adjustment of approximately \$337,000. Additionally the travel reversals occurred without determining if a related receivable should be recorded.

Cause: Reconciliation of the accounts was not accurately and timely performed.

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

Prior Year Status: This condition was cited in the 2008 Single Audit.

Recommendation: We recommend that the FSM National Government perform monthly reconciliations of material accounts to promptly identify reconciling items and appropriate recording. Reconciliations should be reviewed by appropriate management to ensure such that occurs and that corrective actions are undertaken as necessary.

Auditee Response and Corrective Action Plan: We agree with this finding. The Accounting Advisor is currently doing the monthly reconciliation of travel advances and accounts payable to address this finding.

Responsible Party: Robel Basa

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No. 2009-23 – Encumbrances

Criteria: Encumbrances should reflect the remaining unliquidated balance of contracts, purchase orders or travel authorizations. The listing should be periodically reviewed as to its validity and if period of availability requirements.

Condition:

1. For 1 or (33%) of 3 Asian Development Bank Fund samples; 1 or (3%) of 29 grants fund samples and for 5 (or 33%) of 15 general fund samples, there was no documentation provided.
2. Certain 2005, 2006 and 2007 accounts appear to have expired as of September 30, 2009; however, outstanding encumbrances are still recorded and the Government was not able to provide us the basis for retaining the encumbrances on the books.

<u>Year</u>	<u>Amount</u>
05	\$ 1,048
06	18,246
07	<u>42,657</u>
	\$ <u>61,951</u>

3. For 4 or (14%) of 29 grants fund encumbrances tested, there was no rationale provided for differences between the recalculation and the general ledger balance for the following construction related contracts.

	<u>Amount</u>
CB0166	\$ (15,979)
CE02201	(43,331)
CE0157	(251,115)
CE01281	<u>(32,475)</u>
	\$ <u>(342,900)</u>

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

Effect: Encumbrance balances could be erroneous.

Prior Year Status: This condition was cited in the 2008 Single Audit.

Recommendation: We recommend that encumbrances be periodically reviewed for validity.

Auditee Response and Corrective Action Plan: We agree with this finding. The Operations Manager has been instructed to perform a monthly reconciliation of encumbrance to identify the validity of the encumbrance and to close encumbrances that are no longer valid.

Responsible Party: Jackson Jack

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No. 2009-24 – ADB Loans

Criteria: All loan transactions should be appropriately and timely recorded in the financial statements. Timely reconciliation between the States and National Government should occur for all loan draw downs and for all repayments.

Condition: Timely and accurate recording of all loan transactions and reconciliation of loan balance activity between the States and the National Government did not occur. The State Finance Officers were not made aware on time on certain loan movements such as debt service charges payments taken out from the States' Early Retirement (ER) Program and allocated capitalized interest. Adjustments to correct the loan balances were provided in between March to May 2010.

Additionally, the states were not notified of the amount returned to State ER investments as a result of the Government's determination of the amount of the state loan repayment allocations.

The agreement entered between the FSM and Asian Development Bank (ADB) pertaining to the ADB Loan SDR adjustment effected in prior year was not available.

During the year, \$441,905 of loan payments for ADB Loan Number 1459 FSM (SF) - Water Supply and Sanitation Project Loan and Loan Number 1816 FSM (SF) – Basic Social Services Program were made. The National Government allocated these loans to the three states and the National Government. Consequently, the National Government may have an equitable share in the loan amortization. However the entire principal amortizations for both loans were paid solely by three states. The Government still has not provided the formal agreement with the States to document transfer of expenditures allocated to the National Government to the States.

Cause: Monitoring and reconciliation of payments and draw downs of ADB loans against the records of ADB and investigation of differences does not appear to timely occur.

For loan draw downs, there appears to be untimely and insufficient communication among departments, with ADB personnel and with the States and the National Government to ensure that applicable transactions are captured, recorded and issues, if any, are timely resolved.

For ADB Loan 1459 1816, it is our understanding that a portion of the loan allocation was provided to the National Government which resulted from unaccounted for prior years loan proceeds. It is the National Government's understanding that related projects were for the benefit of the states and as such, the states will bear responsibility for loan repayment.

Effect: Due to non-reconciliation of payments with ADB records, erroneous applications of loan payments could occur.

Recommendation: We recommend that timely monitoring and communications of ADB loan transactions be coordinated by the National Government with the States and ADB personnel.

Reconciliation of payments and differences arising from comparisons with ADB records should be investigated and timely resolved.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No. 2009-24 – ADB Loans, Continued

Recommendation, Continued

For the ADB Loan 1459 and 1816 the National Government may consider obtaining a formal agreement with the States documenting repayment terms.

Prior Year Status: This condition was cited in the 2008 Single Audit.

Auditee Response and Corrective Action Plan: We do not agree as to the untimely recording of loan transactions of FSMNG as it has been recorded timely for the Fiscal Year 2009. However, we do agree on the untimely recording of the allocated capitalized interest and the untimely information provided to the states as accounting was not properly informed on the capitalized interest.

During Fiscal Year 2009, a formal communication was provided to the FSM States for financial report for BSS and PSD loans to enable the states to record the loan transactions.

For Loan No. 1459 (Water Supply and Sanitation Project loan), it is the FSMNG understanding that this loan should be allocated only to the states and that prior expenses recorded to the FSMNG should be properly transferred and allocated to the states. We will obtain a final report and confirmation from ADB Manila to properly transfer and allocate the prior years expenditures recorded to the FSMNG. A formal communication will be made to the FSM states for any result we obtain from ADB.

Responsible Party: Rose Nakanaga and Noel Pascua

Auditor's Response: As indicated in the condition, various adjusting entries were recorded that were provided between March to May 2010. Differences between ADB confirmations and recorded balances prompted the audit inquiries.

**FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT**

Schedule of Prior Audit Findings and Questioned Costs  
Year Ended September 30, 2009

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

	Questioned Costs Set Forth in Prior Audit Report <u>2008</u>	Questioned Costs Resolved in Fiscal Year <u>2009</u>	Questioned Costs at <u>September 30, 2009</u>
Unresolved Questioned Costs FY 06	\$ 1,032,439	\$ 1,032,439	\$ -
Unresolved Questioned Costs FY 07	3,704,135	1,785,517**	1,918,618
Unresolved Questioned Costs FY 08	<u>2,372,041</u>	<u>1,175,981*</u>	<u>1,196,060</u>
	<u>\$ 7,108,615</u>	<u>\$ 3,993,937</u>	3,114,678
Questioned Costs FY 09			<u>2,964,400</u>
			<u>\$ 6,079,078</u>

Of the \$3,993,937 resolved during fiscal year 2009, \$1,016,837 was resolved per OMB Circular A-133, Section .315(b)(4). The remaining balance was resolved through either communication from grantor agencies, or corrective action.

\*Corrective action was taken.

\*\* Resolved due to correspondence with grantor agency.

The status of prior year findings is set forth in the accompanying Schedule of Findings and Questioned Costs (pages 89 through 127).