

Trust Fund for the People of the Federated States of Micronesia

Financial Statements

September 30, 2012 and 2011



Trust Fund for the People of the Federated States of Micronesia

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Trust Fund for the People of the Federated States of Micronesia

Management's Discussion and Analysis

Fiscal Years Ended September 30, 2012 and 2011

The following represents the Trust Fund Committee's management discussion and analysis of the Trust Fund for the People of the Federated States of Micronesia's (Trust Fund) financial performance for the years ended September 30, 2012 and 2011. Please read it in conjunction with the Trust Fund's financial statements, which follow this section.

Summary of FY12 Financial Highlights

- The total Net Asset Value of the Fund increased 30% to \$257.3 million in fiscal year 2012 from \$198.5 million in fiscal year 2011. The increase was due to increased contributions from the United States government of \$23.6 million and a net investment gain of \$35.4 million.
- Overall, the Trust Fund had an effective yield of 14.78% - the Trust Fund's second best annual yield since inception in 2004. On a performance basis, excluding fees and expenses, the Trust Fund gained 16.9% compared to a benchmark of 19.0%.¹
- The net investment gain was primarily due to strong performance in U.S. and international equity markets that positively impacted the Trust Fund's managed assets (69.9% of total assets) and supported by solid performance of the Trust Fund's diverse non-discretionary assets (30.1% of total assets). The weight toward equities positively impacted the portfolio's returns and performance.
- Given the positive returns, a transfer of \$20.9 million was made to the "C" account for fiscal year 2012 bringing the total of that account to \$41.2 million.²
- Investment expenses increased by 14.3% to \$737,949 for fiscal year 2012 from \$645,382 in fiscal year 2011. The increase was mainly due to the increased value of funds managed by the Investment Advisor, Money Managers and Custodian and slight fee increases.
- Administrative expenses increased by 6.1% to \$156,960 for fiscal year 2012 from \$147,921 in fiscal year 2011. Increases were for the Executive Administrator's fee and miscellaneous expenses. Reductions occurred for legal, audit and accounting fees.

¹ As of 5/1/12, the Total Trust Benchmark is comprised of 27% Russell 3000, 28% MSCI ACWIxUS (Net Dividends), 10% Barclays Capital Aggregate, 8.5% JPMorgan Emerging Market Bond Index, 5% BofA Merrill Lynch All U.S. Convertibles, 5% T-Bills+3%, 7.5% NCREIF NFI ODCE, 9% S&P 500+3%.

² The C account contains any annual income on the Fund over 6%. The C account shall contain no more than three times the estimated equivalent of the fiscal year 2023 annual grant assistance, including the estimated inflation adjustment provided in the Amended Compact of Free Association (Section 218). After fiscal year 2023, the C account may be drawn on, to the extent it has sufficient funds, to address any shortfall if Fund income from the previous year falls below the previous year's distribution adjusted for inflation. Transfers were made to the C account in FY06, FY07 and FY10- the years with over 6% annual income.

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Management's Discussion and Analysis

Fiscal Years Ended September 30, 2012 and 2011

The Trust Fund for the People of the Federated States of Micronesia Net Assets Summary

	September 30,	
	2012	2011
Assets		
Cash and investments	\$ 257,614,686	\$ 198,742,509
Accrued investment income	95,834	88,507
Total assets	<u>257,710,520</u>	<u>198,831,016</u>
Liabilities		
Accrued expenses	87,814	69,998
Due to broker	276,598	300,985
Total liabilities	<u>364,412</u>	<u>370,983</u>
Restricted net assets	<u>\$ 257,346,108</u>	<u>\$ 198,460,033</u>

Financial Highlights - Net Assets at September 30, 2012

The fair value of the Trust Fund's net assets was \$257.3 million as of September 30, 2012, compared to \$198.5 million at September 30, 2011. The 30.0% increase of net assets of \$58.9 million is attributable to the annual contribution from the Government of the United States that amounted to \$23.6 million and \$36.2 million in gross investment earnings. The gain in gross investment earnings is primarily attributable to unrealized gains of \$28.8 million and interest and dividends of \$6.3 million. Excluding investment fees of \$737,949 and administrative expenses of \$156,960, the net investment gain was \$35.4 million. Given the investment gain, a contribution was made to the Trust Fund's "C" account.

At September 30, 2012, the Trust Fund's assets consisted of managed assets (69.9% of the Trust Fund) and non-discretionary assets (30.1%). The managed assets portfolio consisted of domestic equity mutual funds (29.9% of the Trust Fund), international equity mutual funds (29.9%) and fixed income securities (10.1%). For the international equities category, an emerging market equity fund was added in May 2012. The non-discretionary assets portfolio consisted of emerging market debt and convertible bonds (11.4%), real estate (7.3%), a hedge fund (3.7%), and private equity investments (7.6%). The asset category percentages are within the ranges set by the Trust Fund's Investment Policy Statement.

Accrued expenses represent amounts payable for accounting, custodial and investment management services incurred during the fiscal year.

Trust Fund for the People of the Federated States of Micronesia

Management's Discussion and Analysis

Fiscal Years Ended September 30, 2012 and 2011

Financial Highlights - Net Assets at September 30, 2011

The fair value of the Trust Fund's net assets was \$198.5 million as of September 30, 2011, compared to \$177.2 million at September 30, 2010. The increase was attributable to a Government of the United States contribution of \$22.4 million. The increase was offset by a net loss of \$1.1 million inclusive of investment loss, investment expense and administrative expense. At September 30, 2011, the Trust Fund's assets were primarily invested in domestic equity funds, international equity funds, a hedge fund, global private equity funds, a domestic real estate fund, convertible bonds and other debt securities.

Accrued expenses represent amounts payable for accounting, custodial and investment expenses incurred during the fiscal year.

The Trust Fund for the People of the Federated States of Micronesia Changes in Net Assets Summary

	Year ended September 30,	
	2012	2011
Contributions	\$ 23,587,200	\$ 22,394,286
Net investment income (loss)	35,455,835	(984,694)
Total additions	59,043,035	21,409,592
Administrative expenses	156,960	147,921
Change in net assets	58,886,075	21,261,671
Restricted net assets, beginning	198,460,033	177,198,362
Restricted net assets, ending	\$ 257,346,108	\$ 198,460,033

Trust Fund for the People of the Federated States of Micronesia

Management's Discussion and Analysis

Fiscal Years Ended September 30, 2012 and 2011

Financial Highlights - Changes in Net Assets for Fiscal Year Ended September 30, 2012

The Government of the United States made the only contribution to the Trust Fund on October 14, 2011 in the amount of \$23.6 million. The contribution consisted of the base amount of \$20.0 million, an \$800,000 increment, plus a cumulative partial inflation adjustment.

The net investment income gain of \$35.4 million was due to: unrealized gains of \$28.8 million, dividends of \$6.3 million, realized gains of \$0.7 million, interest of \$0.3 million, and accretion of \$0.05 million and a slight loss of currency value change during the fiscal year ended September 30, 2012, net of investment expenses of \$737,949. The gains were experienced mainly in the managed asset portion of the portfolio from the periodic gains in U.S. and international equities. The fixed income and non-discretionary assets also contributed to the positive performance but at lower growth rates.

Investment expenses increased by 14.3% compared to fiscal year 2011 to \$737,949 from \$645,382. The investment expense increase was mainly due to the larger amount of assets managed by the Investment Advisor, Money Managers, and Custodian since their fees are based on the amount of funds managed. The Investment Manager fee also slightly increased with the addition of the emerging market equity fund and the Custodian added a fee to meet regulatory, market and service requirements. The fiscal year 2012 amount remains lower than the amounts experienced annually during fiscal years 2008 through 2010. The fiscal year 2012 amount is also a lower amount as a percent of total net assets (0.29%) experienced by the Trust Fund since being fully invested in fiscal year 2007. For the fiscal year ended September 30, 2012, the Trust Fund incurred Investment Advisory fees of \$179,738, Custodian fees of \$67,313 and Money Manager fees of \$490,898.

Administrative expenses amounted to \$156,960, an increase of 6.1% over the fiscal year 2011 amount of \$147,921. The increase is attributed to increases in the Executive Administrator fee and miscellaneous fees. Decreases are attributed to legal, audit, and accounting fees. Though the dollar amount increased, the percentage of administrative expenses were reduced to 0.06% of restricted net assets of the fiscal year ending September 30, 2012 from 0.07% in the fiscal year ending September 30, 2011.

The U.S. Departments of the Interior, State and Commerce contributed staff time, equipment usage and incidental expenses during the fiscal year ended September 30, 2012. No amounts have been recorded in the accompanying financial statements.

Financial Highlights - Changes in Net Assets for Fiscal Year Ended September 30, 2011

The Government of the United States made the only contribution to the Trust Fund in October, 2010 in the amount of \$22.4 million.

The net investment loss of \$984,694 was due to unrealized losses of \$4.3 million which were offset by interest and dividends of \$4 million, net of investment expenses of \$645,382. The poor performance of the U.S. and international equity markets and the related Trust Fund managed assets were somewhat offset by the more positive performance of the fixed income and non-discretionary assets. The Trust Fund had an effective yield of -0.57% for the year compared to 10.46% in fiscal year 2010.

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Investment expenses were significantly reduced by 31% to \$645,382 from the fiscal year 2010 amount of \$939,224. The investment expenses reduction was due to the fee structures entered into with a newly contracted Investment Advisor and Custodian in September 2010.

Administrative expenses amounted to \$147,921, a decrease of 3.1% over the fiscal year 2010 amount of \$152,679. The decrease was attributed to reduced legal, audit and miscellaneous administrative fees. Accounting and Executive Administrator fees slightly increased.

The U.S. Department of the Interior and U.S. Department of State contributed staff time, equipment usage and incidental expenses during the fiscal year ended September 30, 2011. No amounts have been recorded in the accompanying financial statements.

Future Prospects Beyond Financial September 30, 2012

As stated in the Trust Fund Agreement between the United States and the Federated States of Micronesia, the purpose of the Trust Fund is *"to contribute to the economic advancement and long-term budgetary self-reliance of the Federated States of Micronesia by providing an annual source of revenue, after Fiscal Year 2023, for assistance in sectors described in Section 211 of the Compact, as amended, or other sectors as mutually agreed by the Original Parties, with priorities in education and health care."*

The investment objective as set forth in the Investment Policy Statement of September, 2010 states:

"The broad investment objective will be to maximize investment returns, subject to constraints aimed at containing fluctuations in returns over shorter periods within acceptable limits. Over shorter periods, outperformance will be sought relative to the notional return on a benchmark portfolio designed to reflect the risk profile according to which the assets are invested at the time."

The Trust Fund's total return, exclusive of contributions, fees and expenses, was 14.78% for the year compared to -0.57% for fiscal year 2011 and 10.46% in fiscal year 2010. The fiscal year 2012 yield is the second largest annual total return experienced since Trust Fund inception in 2004. In terms of performance measurement (excluding fees and expenses), the Trust Fund gained 16.9%. This gain compares to a 19% gain for the Total Trust Benchmark and a 14.5% gain for the Foundations Median.

For managed assets, gross of fees, domestic equity investments posted a 29.9% gain (benchmark gain 30.2%) and international equities a 14.4% gain (benchmark 13.2%). An emerging market equity fund was added to the international equities category in May 2012. The fixed income category had an 8.7% gain (benchmark 5.2%).

The total non-discretionary assets portfolio, gross of fees, was up 11.4%. Gains were made in fixed income investments consisting of convertible and emerging market bond funds (15.4%; benchmark 19.1%), real estate (11.2%; benchmark 11.6%), hedge fund (8.0%; benchmark 3.1%), and private equity (8.1%; benchmark 34.0%).

The periodic extensive gains in the U.S. and international equity assets were supplemented by strong gains in the fixed income and non-discretionary assets. With both components of the portfolio performing positively, the Trust Fund was able to regain some of the momentum lost in fiscal year 2011 after an also strong fiscal year 2010.

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The positive performance has also affected the ability to transfer funds to the C account. For fiscal year 2012, an amount of \$20.9 was transferred to the C account, since more than the 6% annual income growth threshold was attained. The C account now amounts to \$41.2 million compared to \$20.2 million in fiscal year 2011. The C account now holds about 50% of the estimated fiscal year 2023 sector grant amount to be provided to the Federated States of Micronesia through the Amended Compact of Free Association

An analysis by the Investment Adviser estimates that, assuming a 6% payout from the Trust Fund, if the Trust Fund earns an average 5% return annually from fiscal year 2012 to fiscal year 2023, the distribution from the estimated assets would probably provide fiscal year 2024 revenue equivalent to approximately 85% of the nominal fiscal year 2023 Compact of Free Association, as Amended, Section 211 sector grant level without a partial inflation adjustment. As of fiscal year 2012, the average annual rate of return is 4.3% (gross of fees) and 3.8% (net of fees).

If the Trust Fund were to achieve an average 8% return annually, the Trust Fund would probably provide fiscal year 2024 revenue equivalent to nominal fiscal year 2023 sector grant assistance without an inflation adjustment. There would also be a build-up of the C account but probably not to the maximum level permitted under the Trust Fund Agreement. The Trust Fund has only achieved 8% or more return in three fiscal years- 2007, 2010 and 2012.

If the Trust Fund were to achieve an average 10% return annually, the Trust Fund would probably provide fiscal year 2024 revenue equivalent to partially inflation adjusted fiscal year 2023 sector grant assistance. However, this would not allow for future inflation adjustments beyond the fiscal year 2023 amount. There would also be a build-up of the C account, but not to the maximum level permitted under the Trust Fund Agreement. However, achieving such annual average growth is not expected.

Achieving an 8% annual growth rate is possible but not certain given the potential for market volatility to fiscal year 2023. In addition to potential earnings on investment, analysis shows that additional contributions beyond those currently scheduled will improve the possibility to achieve such a rate.

Per Resolution FSM 2012-5 Additional Subsequent Contributors, the Committee has taken actions in fiscal year 2012 to help attract other contributions to the Trust Fund. Activities to date have included applying to foundations and other sources of funding, and some inquiries with other potential bilateral donors.

Independent Auditors' Report

Joint Trust Fund Committee
Trust Fund for the People of the Federated States of Micronesia

We have audited the accompanying statement of net assets of the Trust Fund for the People of the Federated States of Micronesia (a District of Columbia not for profit corporation) as of September 30, 2012 and 2011, and the related statement of changes in net assets for the years then ended. These financial statements are the responsibility of Trust Fund for the People of the Federated States of Micronesia's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of the Trust Fund for the People of the Federated States of Micronesia as of September 30, 2012 and 2011, and the changes in its net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2013, on our consideration of the Trust Fund for the People of the Federated States of Micronesia'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 audits.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1 through 6, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

ParenteBeard LLC

Philadelphia, Pennsylvania
March 22, 2013

Trust Fund for the People of the Federated States of Micronesia

Statement of Net Assets

September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets		
Cash equivalents	\$ 981,858	\$ 379,169
Investments, at fair value	<u>256,632,828</u>	<u>198,363,340</u>
	257,614,686	198,742,509
Accrued investment income	95,834	88,507
Prepaid expenses		
Total assets	<u><u>\$ 257,710,520</u></u>	<u><u>\$ 198,831,016</u></u>
Liabilities and Restricted Net Assets		
Liabilities		
Accrued expenses	\$ 87,814	\$ 69,998
Due to broker	<u>276,598</u>	<u>300,985</u>
Total liabilities	<u>364,412</u>	<u>370,983</u>
Restricted Net Assets	<u>257,346,108</u>	<u>198,460,033</u>
Total liabilities and restricted net assets	<u><u>\$ 257,710,520</u></u>	<u><u>\$ 198,831,016</u></u>

See notes to financial statements

Trust Fund for the People of the Federated States of Micronesia

Statement of Changes in Net Assets

Years Ended September 2012 and 2011

	<u>2012</u>	<u>2011</u>
Additions		
Contributions:		
Government of the United States of America	<u>\$ 23,587,200</u>	<u>\$ 22,394,286</u>
Investment income:		
Interest and dividends	6,684,643	4,006,987
Net increase (decrease) in the fair value of investments	<u>29,509,141</u>	<u>(4,346,299)</u>
Gross investment income (loss)	36,193,784	(339,312)
Less: investment expenses	<u>737,949</u>	<u>645,382</u>
Net investment income (loss)	<u>35,455,835</u>	<u>(984,694)</u>
Total additions	<u>59,043,035</u>	<u>21,409,592</u>
Deduction		
Administrative expenses	<u>156,960</u>	<u>147,921</u>
Change in net assets	58,886,075	21,261,671
Restricted Net Assets, Beginning	<u>198,460,033</u>	<u>177,198,362</u>
Restricted Net Assets, Ending	<u><u>\$ 257,346,108</u></u>	<u><u>\$ 198,460,033</u></u>

See notes to financial statements

Trust Fund for the People of the Federated States of Micronesia

Notes to Financial Statements
September 30, 2012 and 2011

1. Summary of Significant Accounting Policies

Overview of the Trust Fund:

Compact

The Compact of Free Association Between the Governments of the United States of America (United States) and the Federated States of Micronesia and the Republic of the Marshall Islands was approved by the United States Congress in Section 201 of Public Law 99-239 (January 14, 1986) and went into effect with respect to the Federated States of Micronesia on November 3, 1986 as amended by Public Law 108-188 approved December 17, 2003 (Compact) and provided legislation to establish the Trust Fund for the People of the Federated States of Micronesia (Trust Fund).

Trust Fund

The Compact provides for the establishment of the Trust Fund. Pursuant to the provisions of the Compact and its subsidiary *Agreement Between the Government of the United States of America and the Government of the Federated States of Micronesia (Original Parties) Implementing Section 215 and Section 216 of the Compact, as Amended, regarding a Trust Fund (Trust Fund Agreement)*, the *Trust Fund for the People of the Federated States of Micronesia* was incorporated in Washington, D.C. on August 17, 2004, as a nonprofit corporation. The purpose of the Trust Fund is to contribute to the economic advancement and long-term budgetary self-reliance of the Federated States of Micronesia by providing an annual source of revenue through fiscal year 2023. After fiscal year 2023, the Trust Fund will provide an annual source of revenue for assistance in specific sectors described in Section 211 of the Compact, or other sectors as mutually agreed by the Original Parties, with priorities in education and health care. In accordance with the agreement, the situs of the Trust Fund was established within the United States. The Original Parties are committed to contribute to the Trust Fund amounts described in the Compact, subsequent contributors may contribute to the Trust Fund if first approved by all Joint Trust Fund Committee (Committee) voting members. By a majority vote of the Committee, other voting or non-voting members may be appointed from Subsequent Contributors that contribute to the Trust Fund from time to time, provided that the United States maintains the majority vote in the Committee.

After the initial twenty (20) years beginning October 1, 2023, the Original Parties will consult regarding the future composition of the Committee. The Committee shall remain the same, unless otherwise agreed by the Original Parties.

The composition of the Committee consists of three voting members from the United States appointed by the Government of the United States, which include the Chairman of the Joint Trust Fund Committee, and two voting members appointed by and for the Government of the Federated States of Micronesia. The Committee has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has primary accountability for fiscal matters.

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The Government of the United States may unilaterally withdraw the accumulated market value of its contributions from the Trust Fund, plus any undistributed income under certain circumstances which include the Government of the Federated States of Micronesia's gross misuse of the Trust Fund's financial resources. The Trust Fund's operations may be terminated by written agreement of the Original Parties.

Tax Exempt Status

As provided by the Compact, the Trust Fund is exempt from U.S. federal income tax.

Trust Fund Financial Statements

The statement of net assets and the statement of changes in net assets are private purpose trust financial statements. They report information on all of the Trust Fund's assets, liabilities, net assets, and activities. The Trust Fund's activities are supported primarily by contributions by the Original Parties and investment income. The Trust Fund has no business or proprietary type activities that rely on fees or charges for support.

Contributions represent amounts paid by the Original Parties to help meet the operational requirements of the Trust Fund and represent principal.

The financial statements provide information on the net assets and changes in net assets of the Trust. The Trust Fund is designed to contribute to the long-term budgetary self-reliance of the Federated States of Micronesia by establishing a trust fund to provide the Government of the Federated States of Micronesia with an ongoing source of revenue after Fiscal Year 2023; recognizing that it is the mutual intention of the Governments of the United States and the Federated States of Micronesia that the Government of the United States discontinue annual grant assistance beyond fiscal year 2023. The Trust Fund consists of three accounts the "A" Account, the "B" Account, and the "C" Account, respectively (collectively, the Accounts). Each account has a specific purpose with respect to the use of contributions and income derived from investments as specified by the Trust Fund Agreement in accordance with the special purpose of the Trust Fund.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Trust Fund's financial statements use the economic resources measurement focus and are prepared using the accrual basis of accounting. Contributions are recorded when due and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Additional contributions are recognized as revenue as soon as all eligibility requirements imposed by the Compact have been met. Investment earnings are recorded as earned, since they are both measurable and available.

The Trust Fund has adopted applicable Government Accounting Standards Board (GASB) pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of the Trust Fund are included in the accompanying statements of net assets. The Trust Fund's net assets are restricted for future use after fiscal year 2023.

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Cash Equivalents

The Committee considers all highly liquid financial instruments with maturities of three months or less when purchased to be cash equivalents. The Trust Fund's policy is to report cash equivalents at cost, which approximates fair value.

Investments

Investments are reported at fair value unless a legal contract exists which guarantees a higher value. Securities dated on a national or international exchange are valued at the last reported sales price at current exchange rates. Open-ended mutual funds are valued at net asset value, generally based on quoted market values of the underlying marketable securities. The fair value of private equities and investments in hedge funds are based on management's valuation of estimates and assumptions from information and representations provided by the respective general partners, in the absence of readily ascertainable market values. Real estate assets are reported at fair value utilizing an income approach to valuation. Investment income consists of interest, dividends and net investment gains or losses resulting from changes in the fair value of investments. Amounts due to broker represent purchases of securities as of the fiscal year end which have not settled, and for which payment has not yet been transferred to the broker. Investment income consists of interest, dividends and net investment gains or losses resulting from changes in the fair value of investments.

The investment policy adopted by the Trust Fund Committee on April 9, 2012 requires the Trust Fund to allocate its managed investment portfolios among domestic and foreign equity and fixed income securities. All or a portion of the Trust Fund may be invested in exchange traded funds (ETFs), mutual funds, separate accounts and common trust funds (commingled vehicles), hedge funds, private equity funds, and other pooled investment vehicles (pooled vehicles). A common trust fund is similar to an open-ended investment company or mutual fund, but participation is limited to investors with trust accounts. Equity securities issued by ETFs, mutual funds, REITs, commingled and pooled vehicles that invest exclusively in marketable fixed income securities are considered to be fixed income securities for the purpose of compliance with the Trust Fund's investment policy. The fair values of ETFs, mutual funds, and common trust funds are generally determined by the fair value of the underlying marketable equity and debt securities owned, which are principally common stocks and bonds, respectively. Publicly traded ETFs, mutual funds, and similar vehicles may trade at prices above or below the fair values of the underlying investments held; therefore the fair value of such investments may differ from the sum of the fair values of the underlying investments owned. The core fixed income portfolios may be invested in debt securities issued by the U.S. government and government agencies, foreign governments, domestic and international corporate securities, including asset-backed and mortgage-backed obligations. The fixed income portfolio may invest in convertible and high yield debt securities; however the average quality of the fixed income portfolio must be rated "investment grade" by at least one nationally recognized rating agency at the time of purchase. The Trust Fund's fixed income investment objective is for each portfolio to achieve total return similar to a relevant index, such as Barclays Capital Aggregate Index and the Bank of America Merrill Lynch All US Convertibles Index.

The Trust Fund's equity investment objective is for its various portfolios to achieve total returns similar to their benchmark equity indices. Benchmark indices include the Russell 3000, the S&P 500 and the MSCI EAFE.

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Private equity funds are a form of pooled investment vehicle, typically limited partnerships controlled by a private equity firm that acts as general partner. The general partner seeks to obtain specific dollar commitments from qualified institutional and accredited investors to invest capital in the fund as limited partners. The passive limited partners fund pro rata portions of their commitments when the general partner has identified an appropriate opportunity, which may be venture capital in the form of equity securities, convertible debt securities, or real estate for which no active markets exist. Venture capital is often used to finance new products and technologies, expand working capital, make acquisitions, or finance leveraged buyouts. A typical private equity fund could make between 15 and 25 separate investments over a ten-year life, with no single investment exceeding 10% of the total capital commitment. The fair values of the underlying investments held by each private equity fund are generally determined by management of the equity investee or as determined by the general partner or manager of the private equity fund and is based upon Trust Fund's percentage ownership of the underlying investments. Investments in private equity funds generally tend to be illiquid for significant periods of time.

Hedge funds are a form of pooled investment vehicle, generally a limited partnership or a foreign (off-shore) investment corporation, that seeks to maximize absolute returns whose offering memorandum allows for the fund to take both long and short positions, use leverage and derivatives, and invest in many markets. Hedge funds often take large risks using a broad range speculative strategies, including investing in unconventional and illiquid investments. The fair value of Trust Fund's investment in a hedge fund is determined by the hedge fund manager and is based upon Trust Fund's percentage ownership of the underlying investments.

Commingled separate accounts invested in real estate and related assets are carried at fair value of the underlying investments. The fair value of separate account investments in real property real estate partnerships are generally determined based on independent appraisals obtained no less frequently than annually. The fair value of value of separate account investments in real estate partnerships are generally determined based the equity method of accounting, and the fair value of underlying investments in real estate loans and mortgages are generally determined through the use of cash flow forecasting or other models by management of the insurance company that manages the separate account.

Restricted Net Assets

Restricted net assets consist of the "A", "B", and "C" Accounts as described below are subject to legal, regulatory, budgetary, or other restrictions in accordance with the Compact.

1. The "A" Account:
 - a. The "A" Account, which established upon the effective date of the Compact, as amended, shall form the Corpus and consist of contributions from the Original Parties and subsequent contributors. Except as otherwise provided in the Trust Fund Agreement, it also consists of the income from the investments made from contributions (principal), and transfers from the "B" Account and "C" Account in accordance with the Trust Fund Agreement.

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- b. Through September 30, 2022, payment of allowable expenses of the Trust Fund shall be made from the "A" Account. During this period, the amount, if any, of income in each fiscal year which remains after such payment of expenses shall be reinvested into the "A" Account. Except as provided in the Trust Fund Agreement, or upon termination of the Trust Fund, no funds may be removed from the "A" Account.

The balance of the "A" Account as of September 30, 2012 and 2011 was \$216,162,380 and \$178,243,111, respectively.

2. The "B" Account:
 - a. On October 1, 2022, the "B" Account shall be created.
 - b. During fiscal year 2023, all income earned in fiscal year 2023 shall be deposited into the "B" Account for disbursement in fiscal year 2024.
 - c. For fiscal year 2024, and thereafter, the "B" Account shall consist of the prior year's income from investment of funds in the "A" Account.
3. The "C" Account:
 - a. Shall be created at the same time as the "A" Account, and beginning in fiscal year 2004 through fiscal year 2022, any annual income on the Trust Fund over six percent (6%) shall be deposited in the "C" Account, up to the limit specified in (b) below. Beginning in fiscal year 2023, the "C" Account shall be replenished from the "B" Account in accordance with paragraph 6 below;
 - b. Shall contain no more than three times the estimated equivalent of the fiscal year 2023 annual grant assistance, including estimated inflation calculated in accordance with Section 217 of the Compact. Any excess above the estimated amount shall return to the "A" Account; and
 - c. May be drawn on, to the extent it contains sufficient funds, to address any shortfall in the "B" Account after fiscal year 2023, if income on the "A" Account falls below the previous year's distribution (not including any amount distributed that year for special needs) adjusted for inflation to the Government of the Federated States of Micronesia and for special needs agreed to by the Committee.

The "C" Account is maintained as a memorandum account within the Trust Fund, and is not separately invested.

Additions to the "C" Account during the years ended September 30, 2012 and 2011 were \$20,966,806 and \$-0-, respectively. The balance of the "C" Account as of September 30, 2012 and 2011 was \$41,183,728 and \$20,216,922.

4. After fiscal year 2023, if the income in the "B" Account is less than the previous year's distribution to the Government of the Federated States of Micronesia, and the "C" Account cannot cover the shortfall in the "B" Account, then the principal and reinvested income not available for distribution (corpus) shall not be accessed to compensate for the shortfall.

Trust Fund for the People of the Federated States of Micronesia

Notes to Financial Statements
September 30, 2012 and 2011

5. The Committee may disburse to the Government of the Federated States of Micronesia from the “B” Account (supplemented from the “C” Account if the “B” Account is insufficient):
 - a. In fiscal year 2024, an amount equal to the annual grant assistance provided by the Government of the United States to the Government of the Federated States of Micronesia in fiscal year 2023, plus an inflation adjustment; and
 - b. Beginning in fiscal year 2025 and thereafter, an amount of funds no more than the amount equal to the United States annual financial assistance to the Federated States of Micronesia in fiscal year 2023 plus a cumulative inflation adjustment thereon, plus any additional amounts for special needs as approved above.
6. Beginning in fiscal year 2023, the Committee shall transfer to the “A” Account any funds in the “B” Account in excess of the amount approved for disbursement in the following fiscal year, in accordance with paragraph 5 above, unless such excess funds are needed to bring the “C” Account to its maximum permitted level.
7. A special account, (“D” Account), may be established to allow contribution by the Federated States of Micronesia for revenues or income from unanticipated sources. This account shall not be commingled with the Trust Fund and must have a separate account number. The Federated States of Micronesia shall have access to funds in this account for unanticipated shortfalls or other purposes. Funds in this account are not part of the Trust Fund corpus and are not under the control of the Joint Trust Fund Committee. There were no contributions to the “D” Account during the periods presented in the accompanying financial statements.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. Contributions

The Government of the United States shall contribute to the Trust Fund annually for twenty years from the effective date of the Compact, amounts set forth in Section 216 of the Compact. Upon termination of the annual financial assistance under Section 211 of the Compact, the proceeds of the Trust Fund shall thereafter be used for the purposes described in Section 211 of the Compact or as otherwise mutually agreed by the Original Parties.

Trust Fund for the People of the Federated States of Micronesia

Notes to Financial Statements
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The Government of the United States contribution to the Trust Fund was conditioned on the Government of the Federated States of Micronesia contributing at least \$30 million to the Trust Fund, prior to September 30, 2004. Any funds received by the Government of the Federated States of Micronesia under Section 111 (d) of Public Law 99-239 (January 14, 1986), or successor provisions, would be contributed to the Trust Fund as a Government of the Federated States of Micronesia contribution.

Contributions to the Trust Fund's "A" Account from inception are as follows:

Date	Contribution (Millions)	Contributor
October 1, 2004	\$ 30.3	Federated States of Micronesia
October 5, 2004	32.2	United States
October 6, 2005	16.4	United States
October 6, 2006	17.7	United States
October 9, 2007	19.0	United States
October 6, 2008	20.9	United States
October 2, 2009	21.5	United States
October 1, 2010	22.4	United States
October 14, 2011	23.6	United States
Total contributions from inception through fiscal year 2012		\$ 204.0

Past received and future scheduled contributions to the Trust Fund "A" Account by the Government of the United States during the Trust Fund period are as follows:

Fiscal Year	Contribution (Millions)
2004	\$ 16.0
2005	16.2
2006	16.4
2007	17.7
2008	19.0
2009	20.9
2010	21.5
2011	22.4
2012	24.0
2013	21.6
2014	22.4
2015	23.2
2016	24.0
2017	24.8
2018	25.6
2019	26.4
2020	27.2
2021	28.0
2022	28.8
2023	29.6

Trust Fund for the People of the Federated States of Micronesia

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The amounts of scheduled contributions as shown are subject to an inflation adjustment for each United States fiscal year by the percent that equals two-thirds of the percent change in the United States Gross Domestic Product Implicit Price Deflator, or 5 percent, whichever is less in any one year, using the beginning of fiscal period 2004 as a base.

Contributions to the "D" Account are not reflected in the accompanying financial statements. As described in Note 1, the "D" Account was set up to allow for additional income to the Trust Fund from unanticipated sources. These contributions may not be commingled with assets of the Trust Fund and are required to have a separate account number. The Government of the Federated States of Micronesia has access to funds in this account for unanticipated shortfalls or other purposes. Funds in the "D" Account are not part of the corpus of the Trust Fund for the People of the Federated States of Micronesia.

3. Investments

During 2012 and 2011, the Trust Fund realized net gains from the sale of investments of \$744,530 and \$1,246,658, respectively. The calculation of net realized investment gains is independent of the calculation of the net increase (decrease) in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. The net increase (decrease) in the fair value of investments during the fiscal years ended September 30, 2012 and 2011 was \$29,509,140 and \$(4,346,299), respectively. This amount takes into account all changes in fair value that occurred during the year including approximately \$9,000 of foreign currency transaction losses. The cumulative net unrealized gain (loss) on investments held at September 30, 2012 and 2011 was \$17,734,995 and \$(11,034,900), respectively.

Trust Fund for the People of the Federated States of Micronesia

Notes to Financial Statements
September 30, 2012 and 2011

The cost and fair values of cash equivalents and related activity for the years ended September 30 are as follows:

Investment Class	Cost 9/30/12	Fair Value				Ending Fair Value 9/30/12	Change in Fair Value
		Beginning Fair Value 10/1/11	Purchases	Sales	Subtotal		
(In Thousands)							
2012							
Equity:							
Equity securities							
– domestic common and preferred stocks	\$ -	\$ 391	\$ -	\$ 350	\$ 41	\$ -	\$ (41)
Common trust funds and mutual funds – domestic equity	63,966	53,782	10,845	3,714	60,913	76,965	16,052
Mutual fund – international equity	78,525	54,282	25,553	10,319	69,516	76,936	7,420
Private equity funds - global	14,983	18,892	779	1,388	18,283	19,673	1,390
Hedge Fund:							
Mutual fund (Cayman) – global fund of funds	8,500	8,929	-	-	8,929	9,524	595
Fixed Income:							
Convertible bonds – domestic	9,437	9,018	5,249	5,034	9,233	10,044	811
Mutual fund – domestic debt	25,345	19,968	5,305	223	25,050	26,152	1,102
Mutual fund (Cayman) – emerging market debt	18,945	16,121	18,945	16,714	18,352	18,654	302
Private Real Estate:							
Commingled separate account – domestic real estate	19,197	16,980	-	179	16,801	18,688	1,887
Cash:							
Cash equivalents	982	379	32,289	31,680	988	979	(9)
Total	\$ 239,880	\$ 198,742	\$ 98,965	\$ 69,601	\$ 228,106	\$ 257,615	\$ 29,509

Trust Fund for the People of the Federated States of Micronesia

Notes to Financial Statements
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Investment Class	Cost 9/30/11	Fair Value				Ending Fair Value 9/30/11	Change in Fair Value
		Beginning Fair Value 10/1/10	Purchases	Sales	Subtotal		
(In Thousands)							
2011							
Equity:							
Equity securities							
– domestic common and preferred stocks	\$ 442	\$ 12,015	\$ 298	\$ 12,226	\$ 87	\$ 391	\$ 304
Common trust funds and mutual funds – domestic equity	56,292	36,250	61,098	42,672	54,676	53,782	(894)
Mutual fund – international equity	63,559	53,591	74,441	65,881	62,151	54,283	(7,868)
Private equity funds - global	15,513	14,922	1,641	544	16,019	18,892	2,873
Hedge Fund:							
Mutual fund (Cayman) – global fund of funds	8,500	8,810	-	-	8,810	8,929	119
Fixed Income:							
Convertible bonds – domestic	9,080	8,871	5,675	5,560	8,986	9,018	32
Commingled separate account – global debt	-	20,244	-	20,391	(147)	-	147
Mutual fund – domestic debt	20,262	-	23,812	3,487	20,325	19,968	(357)
Mutual fund (Cayman) – emerging market debt	16,363	16,070	36,735	36,243	16,562	16,121	(441)
Private Real Estate:							
Commingled separate account – domestic real estate	19,388	6,132	9,200	91	15,241	16,980	1,739
Cash:							
Cash equivalents	379	359	34,020	34,000	379	379	-
Total	\$ 209,778	\$ 177,264	\$ 246,920	\$ 221,095	\$ 203,089	\$ 198,743	\$ (4,346)

Trust Fund for the People of the Federated States of Micronesia

Notes to Financial Statements
September 30, 2012 and 2011

The Trust Fund has an investment policy which has been established to reflect the growth objectives and risk tolerance of the Committee. The Trust Fund's investment policy was revised effective beginning in September 2012, and will be fully implemented in the fiscal year ending September 30, 2013. It is anticipated investment risk will be limited by appropriate diversification between and within asset classes. Asset allocations are targets and will be dictated by current and anticipated market conditions. Tactical ranges anticipate fluctuation and provide flexibility for the investment manager's portfolio to vary within the range without the need for immediate rebalancing.

Direct investments in bonds at September 30, 2012 and 2011 are as follows:

	Fair Value			Range of Interest Yield to Maturity	Average Credit Rating	
	Domestic Corporate Bonds	Domestic Corporate Convertible Bonds	Total		Moody's	Standard & Poor's
2012						
Due in one year or less	\$ 138,337	\$ 5,561,365	\$ 5,699,702	(159,000)% to 7.14 %	B2/Caa3	BB/CCC
Due after one year through five years	555,301	415,919	971,220	(1.92)% to 6.31 %	A1/Caa1	AA-/CCC
Due after five years through ten years	25,125	3,348,513	3,373,638	(.76)% to 8.14 %	B1/Caa1	BB/CCC+
Due after ten years	-	-	-	0.00 %	A3/Baa3	A-/CCC+
Total	<u>\$ 718,763</u>	<u>\$ 9,325,797</u>	<u>\$ 10,044,560</u>			
2011						
Due in one year or less	\$ -	\$ 740,101	\$ 740,101	(0.94)% to 5.59 %	B2/Caa3	BB/CCC
Due after one year through five years	176,187	3,699,963	3,876,150	(11.04)% to 15.32 %	A1/Caa1	AA-/CCC
Due after five years through ten years	358,500	576,581	935,081	3.78% to 10.47 %	B1/Caa1	BB/CCC+
Due after ten years	-	3,466,819	3,466,819	0.01% to 14.64 %	A3/Baa3	A-/CCC+
Total	<u>\$ 534,687</u>	<u>\$ 8,483,464</u>	<u>\$ 9,018,151</u>			

As of September 30, 2012, the Trust Fund's fixed income allocation consists of a Mercer Investment Management Core Opportunistic Fixed Income mutual fund (MIM COFI) and an Ashmore Emerging Markets Debt Fund, a Cayman Islands exempted company mutual fund (AEMDF); the performance of these funds is expected to closely replicate the performance of the Barclays Capital U.S. Aggregate Bond Index and the JP Morgan Emerging Market Bond Index, respectively. The bonds held by MIM COFI vary in credit quality with an average overall rating of "Aa2" as rated by Moody's as of September 30, 2012. High yield debt receiving a credit rating below "A" comprises approximately 18% of the MIM COFI fixed income portfolio as rated by Moody's at September 30, 2012. At September 30, 2012, the weighted average maturity of the bonds comprising MIM COFI is 6.45 years. The bonds held by AEMDF vary in credit quality with an average overall rating of "Baa1/Ba2" as rated by Moody's as of September 30, 2012. High yield debt receiving a credit rating below "A" comprises approximately 87% of the AEMDF fixed income portfolio as rated by Moody's at September 30, 2012. At September 30, 2012, the weighted average maturity of the bonds comprising AEMDF is 10.87 years.

Trust Fund for the People of the Federated States of Micronesia

Notes to Financial Statements
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As of September 30, 2011, the Trust Fund's fixed income allocation consists of a Mercer Investment Management Core Opportunistic Fixed Income mutual fund (MIM COFI) and an Ashmore Emerging Markets Debt Fund, a Cayman Islands exempted company mutual fund (AEMDF); the performance of these funds is expected to closely replicate the performance of the Barclays Capital U.S. Aggregate Bond Index and the JP Morgan Emerging Market Bond Index, respectively. The bonds held by MIM COFI vary in credit quality with an average overall rating of "Aa2" as rated by Moody's as of September 30, 2011. High yield debt receiving a credit rating below "A" comprises approximately 18% of the MIM COFI fixed income portfolio as rated by Moody's at September 30, 2011. At September 30, 2011, the weighted average maturity of the bonds comprising MIM COFI is 7.28 years. The bonds held by AEMDF vary in credit quality with an average overall rating of "Baa1/Ba2" as rated by Moody's as of September 30, 2011. High yield debt receiving a credit rating below "A" comprises approximately 82% of the AEMDF fixed income portfolio as rated by Moody's at September 30, 2011. At September 30, 2011, the weighted average maturity of the bonds comprising AEMDF is 10.03 years.

The Trust Fund's investment policy permits investments in the following types of marketable and non-marketable fixed income investments: debentures, high yield bonds, convertible bonds, non-convertible corporate debt, synthetic convertible securities, non-convertible preferred stocks and other equity securities with characteristics of debt securities. The Trust Fund's investment policy considers investments in debt securities held by common trust funds, investment companies, ETFs, separate accounts, and mutual funds to be fixed income investments. The Trust Fund's investment policy limits its investment in corporate debt securities to a maximum of 5% in any single issuer. The Trust Fund's investment policy does not require debt securities to be held to maturity and imposes no restrictions on trading of debt securities. As a means of managing its exposure to losses from rising market interest rates or deterioration of credit quality, the Trust Fund may trade or liquidate its positions in fixed income investments. Approximately 72% of the Trust Fund's direct investments in domestic corporate convertible bonds were not rated by either Moody's or Standards & Poor's as of September 30, 2012.

Trust Fund for the People of the Federated States of Micronesia

Notes to Financial Statements
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The Trust Fund's allocation by investment classes as of September 30 is as follows:

Investment Class	% of Strategic Target Allocation	% of Fund Tactical Range	% of Allocation at 9/30/12
2012			
Equity:			
Domestic	27.0 %	22.0 - 32.0 %	29.9 %
International	28.0	23.0 - 33.0	29.9
Global Private Equity	9.0	4.0 - 14.0	7.6
Hedge Fund:			
Global Multi Strategy	5.0	0.0 - 10.0	3.7
Fixed Income:			
Domestic	10.0	5.0 - 15.0	10.1
Domestic Convertible Bonds	5.0	0.0 - 10.0	3.9
International	8.5	3.5 - 13.5	7.2
Private Real Estate	7.5	2.5 - 12.5	7.3
Cash and Cash Equivalents	0.0	0.0 - 3.0	0.4
	100.0 %		100.0 %

Investment Class	% of Strategic Target Allocation	% of Fund Tactical Range	% of Allocation at 9/30/11
2011			
Equity:			
Domestic Small/Mid Cap	7.0 %	5.0 - 9.0 %	6.7 %
Domestic Large Cap	21.0	18.0 - 24.0	20.6
International	29.0	24.0 - 34.0	27.3
Global Private Equity	7.0	2.0 - 12.0	9.5
Hedge Fund:			
Global Multi Strategy	5.0	0.0 - 10.0	4.5
Fixed Income:			
Domestic	10.0	5.0 - 15.0	10.1
Domestic Convertible Bonds	5.0	0.0 - 10.0	4.5
International	8.5	3.5 - 13.5	8.1
Private Real Estate	7.5	2.5 - 12.5	8.5
Cash and Cash Equivalents	0.0	0.0 - 3.0	0.2
	100.0 %		100.0 %

The Trust Fund's exposure to foreign currency risk is derived from its investments in commingled and pooled investment vehicles that hold investments in securities of foreign issuers. The underlying investments expose the Trust Fund to foreign currencies.

Foreign currency exposure data is not available for the Trust Fund's investment in the Hedge Fund and its investments in Global Private Equity Funds, which comprise 11.3% and 14% of invested assets at September 30, 2012 and 2011, respectively.

Trust Fund for the People of the Federated States of Micronesia

Notes to Financial Statements
September 30, 2012 and 2011

The Trust Fund's exposure to foreign currencies at September 30 is as follows:

<u>Currency</u>	<u>\$USD Fair Value of Investments in Foreign Issuers Total</u>
2012	(In Thousands)
Australian Dollar	\$ 1,909
Brazilian Real	2,074
British Pound	11,214
Canadian Dollar	573
Cayman Island Dollar	1,098
Chilean Peso	319
Chinese Yuan	1,035
Columbian Peso	226
Czech Koruna	40
Danish Krone	1,972
European Euro	19,597
Hong Kong Dollar	1,352
Hungarian Forint	13
Indian Rupee	772
Indonesian Rupiah	786
Israeli New Shekel	382
Japanese Yen	12,661
Kazakhstani Tenge	142
Malaysian Ringgit	952
Mauritian Rupee	64
Mexican Peso	1,926
New Zealand Dollar	127
Norwegian Krone	1,463
Peruvian Nuevo Sol	67
Philippine Peso	106
Polish Zloty	870
Russian Ruble	591
Singapore Dollar	954
South African Rand	973
South Korean Won	1,738
Swedish Krona	2,227
Swiss Franc	5,663
Taiwan New Dollar	1,346
Thai Baht	544
Turkish Lira	309
Other	1,636
	<u>\$ 77,721</u>

Trust Fund for the People of the Federated States of Micronesia

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Currency	\$USD Fair Value of Investments in Foreign Issuers Total
2011	(In Thousands)
Angolan Kwanza	\$ 49
Argentina Peso	477
Australian Dollar	1,791
Bahraini Dinar	12
Barbados Dollar	28
Belarusian Ruble	47
Bosnian Convertible Mark	6
Brazilian Real	3,118
British Pound	9,716
Canadian Dollar	651
Cayman Island Dollar	552
Chilean Peso	277
Chinese Yuan	1,284
Columbian Peso	602
Croatian Dinar	72
Czech Koruna	40
Danish Krone	434
Dominican Republic Peso	53
Egyptian Pound	167
European Euro	16,994
Gabon Franc de la Communaute' financiere' africaine	121
Georgian Lari	63
Ghana Cedi	37
Hong Kong Dollar	434
Hungarian Forint	185
Indian Rupee	963
Indonesian Rupiah	1,294
Iraqi Dinar	198
Israeli New Shekel	658
Jamaican Dollar	107
Japanese Yen	13,516
Jordanian Dinar	68
Kazakhstani Tenge	819
Kuwaiti Dinar	17
Lebanese Pound	187
Lithuanian Litas	209
Malaysian Ringgit	267
Mexican Peso	1,709
Moroccan Dirham	79
New Zealand Dollar	163
Nigerian Naira	83
Norwegian Krone	814
Pakistani Rupee	142

Trust Fund for the People of the Federated States of Micronesia

Notes to Financial Statements
September 30, 2012 and 2011

Panamanian Balboa	238
Paraguayan Guarani	13
Peruvian Nuevo Sol	258
Philippine Peso	898
Polish Zloty	176
Qatari Riyal	154
Russian Ruble	1,435
Salvadorian Colon	177
Saudi Riyal	45
Senegalese Franc de la Communaute' financiere' africaine	40
Serbian Dinar	42
Singapore Dollar	1,562
South African Rand	916
South Korean Won	1,193
Sri Lanka Rupee	72
Swedish Krona	1,194
Swiss Franc	3,474
Taiwan New Dollar	651
Thai Baht	145
Trinidad and Tobago Dollar	50
Tunisian Dollar	11
Turkish Lira	860
Ukraine Hryvnia	594
United Arab Emirates Dirham	836
Uruguayan Peso	436
Venezuelan Bolivar	556
Vietnam Dong	66
	<hr/>
	\$ 74,595

Trust Fund for the People of the Federated States of Micronesia

Notes to Financial Statements
September 30, 2012 and 2011

4. Commitments

At September 30, 2012 and 2011, the Trust Fund had capital funding commitments relating to its investments in private equity funds. Capital commitments, capital contributions, and unfunded capital commitments at September 30, 2012 and 2011 were as follows:

<u>Currency</u>	<u>Capital Commitments</u>	<u>Capital Contributions</u>	<u>Unfunded Capital Commitments</u>
2012			
Private equity funds	<u>\$ 25,126,001</u>	<u>\$ 19,630,764</u>	<u>\$ 5,495,237</u>
2011			
Private equity funds	<u>\$ 25,319,342</u>	<u>\$ 18,353,810</u>	<u>\$ 6,965,532</u>

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

Joint Trust Fund Committee
Trust Fund for the People of the Federated States of Micronesia

We have audited the accompanying statement of net assets of Trust Fund for the People of the Federated States of Micronesia (a District of Columbia not for profit corporation herein after referred to as Trust Fund) as of September 30, 2012 and the related statement of changes in net assets for the year then ended, and have issued our report thereon dated March 22, 2013. 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.

Internal Control Over Financial Reporting

Management of Trust fund is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Trust Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Trust Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Trust Fund's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Joint Trust Fund Committee, management, and Governments of the United States of America and the Federated States of Micronesia and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "ParenteBeard LLC".

Philadelphia, Pennsylvania
March 22, 2013