



*2015
Annual
Report*

**Your
Partner
in
Business**

FSM DEVELOPMENT BANK

2015 Yzar in Review

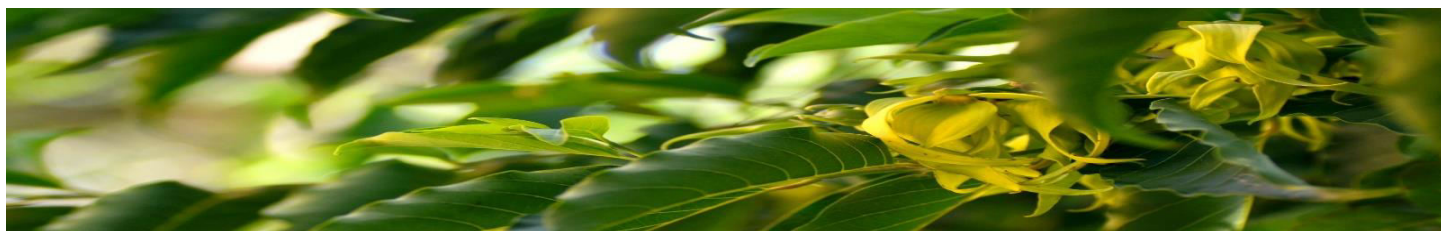


TABLE OF CONTENTS:

Page	2	Letter to Shareholders
	3	About the Bank
		A. Establishment
		B. Vision & Mission
		C. Shareholders Information
		D. Board of Directors
		E. Management
		F. Acknowledgements
		G. In Memoriam
		H. Organizational Chart (Staff listing in back)
	7	Management Report
	8	Business Development Office
	9	Lending Updates
	11	Development & Finance Institute
	14	Corporate Social Responsibility
	15	Financial Report/Audited Financial Statements



LETTER TO THE SHAREHOLDERS:

Dear Shareholders:

On behalf of the Board of Directors, we are pleased to submit the Annual Report for the year ended December 31, 2015 and the Audited Financial Statements of the FSM Development Bank for the years ended December 31, 2014 and 2015.

The year 2015 will be remembered as the year of typhoons. FSM was hit with three typhoons, namely Maysak, Noul, and Dolphin. The typhoons affected all the four states with Chuuk suffering the most in terms of damaged crops and homes. Naturally, with the typhoons came internal and external grant assistances, which affected many private businesses and of course our borrowers. To help rebuild, FSMDB responded by offering lower interest rates.

In 2015, \$14.8 million dollars was approved, representing 507 new loans. Over a third of these were business loans with 21% going to consumer loans and the remaining 2% for residential loans. \$10.5 million was disbursed showing little to no growth in the loan portfolio due to loans runoff. In addition, no government contribution was received in 2015.

Despite all of these challenges, especially given the country's stagnate economy, FSMDB ended the year with a net position of \$606,985. Moreover, the bank was able to successfully generate over \$2 million in revenues from our core operations to fully cover all of our expenses. In 2015, we updated our technology by purchasing new and improved software to manage our loans more efficiently. Furthermore, as we have in prior years, we again achieved an unqualified audit opinion from our external auditors for the period under review. And finally, noteworthy to mention is the success of FSMDB's Development & Finance Training Institute which has only been in operation for two short years but has provided many training opportunities for the bank's officers, employees, borrowers, invited guests, staff of our governments, and other stakeholders within the community and the nation as a whole.

These successes show how committed we are in fulfilling our mandate – and that is to contribute to the development of our islands. We believe it is important that FSMDB continues to strengthen its balance sheet, improve earnings, and expand its financial, human, and technical resources and capabilities. Going forward, we will continue to focus our efforts towards maintaining these goals.

We convey our gratitude and many thanks to our shareholders for their continued support and to the Board of Directors for working diligently with management. We also want to acknowledge the dedication and tireless efforts of our FSMDB management team and staff, who ensure that our Bank is operating and managed prudently. But most especially, we would like to thank our customers for allowing us to serve you as “Your partner in business.”

Sincerely,

Anna Mendiola, President/CEO

John Sohl, Chairman of the Board



ABOUT THE BANK

ESTABLISHMENT:

The Federated States of Micronesia Development Bank (FSMDB) is a component unit of the National Government of the Federated States of Micronesia. It was established in 1979 by Public Law 1-37. The Bank opened operation in 1980 but lending did not start until 1982. In 1994, the enabling law that created the Bank was amended to reorganize the structure of the Bank into a corporation.

The primary function of the Bank initially was to provide financing to commercial businesses mainly in the FSM. Over the years, the Bank has added more programs to meet its strategic objectives and customer needs. In 2008, the Bank created its residential home loan program to help locals build their homes. In 2011, the Bank added a consumer lending revolving fund mainly to help generate revenue.

The bank's headquarters is located in the State of Pohnpei, the capital of the FSM. The Bank also has branch offices in the other three FSM states of Chuuk, Kosrae and Yap and an online presence at www.fsmdb.fm.

VISION:

We make the best investment decisions to achieve the national vision of a vibrant private-sector led economy throughout the Federated States of Micronesia.

MISSION:

The mission of the bank is to assist new and existing businesses to grow prosperously, creating jobs and producing economic vitality throughout our Nation.

In the pursuit of our mission we value:

- Customer satisfaction from professional customer service;
- Teamwork, collaboration and dedication to our mission;
- Patient capital, commitment to long term investment;
- Fairness in all our dealings; and
- Economic development that enhances the lives of FSM's citizens while sensitive to the protection of our precious environment and respectful of our cultural values and heritage.



SHAREHOLDERS:

The FSM National Government is the principal shareholder of the bank. It owns 98.8% of the outstanding shares. The States of Chuuk and Kosrae each own 0.9% and 0.3% of the bank's outstanding shares respectively. The States of Pohnpei and Yap are not shareholders but they are given representation on the Bank's Board of Directors as a courtesy.

Shareholders	No. of Shares	Amount
FSM National Government	3,197,883	\$31,978,830
State of Kosrae	9,000	\$90,000
State of Chuuk	30,000	\$300,000
Total Shares	3,236,883	\$32,368,830

BOARD OF DIRECTORS:

The Board is comprised of seven members. Six of them are elected by the shareholders. The seventh member is the President and Chief Executive Officer (CEO), who serves as the Ex-Officio to the board. Aside from the Ex-Officio, all board members serve a term of 3 years on a staggering basis. The composition and representation of the board for the period under review were as follows:

John Sohl – Pohnpei State Government – Chairman

Sisinio Willy – Chuuk State Government – Vice Chairman

Juliet Jimmy – FSM National Government – Member

Lipar George – Kosrae State Government – Member

Sebastian Anefal – Yap State Government – Member

Florian Yatilman – FSM National Government – Member

Anna Mendiola – CEO and Ex-Officio



MANAGEMENT:

FSMDB is managed by a senior management team comprised of a President/Chief Executive Officer (CEO), Senior Vice President/Chief Operating Officer (COO), Senior Vice President/Business Development Officer (BDO) and Chief Financial Officer (CFO). Assisting the senior management is a Legal Counsel and Internal Auditor/Compliance Officer. For the period under review, the Bank's management team comprised of the following individuals:

President/CEO: Anna Mendiola

Senior Vice President/COO: Alik J. Alik

Senior Vice President/BDO: Fabian Nimea

Chief Financial Officer: Sihna Lawrence

Legal Counsel: Nora Sigrah

Internal Officer/Compliance Officer: Greeno Ismael

APPRECIATION TO FORMER STAFF:

Our utmost thanks and appreciation goes to our employees and board members who left the bank during 2015 for other endeavors. We wish them well. We especially want to extend our sincerest gratitude to Ms. Sihna Lawrence, our former CFO, who served the bank successfully for 15 years. While CFO, the bank saw many improvements in the Accounting division and FSMDB as a whole.

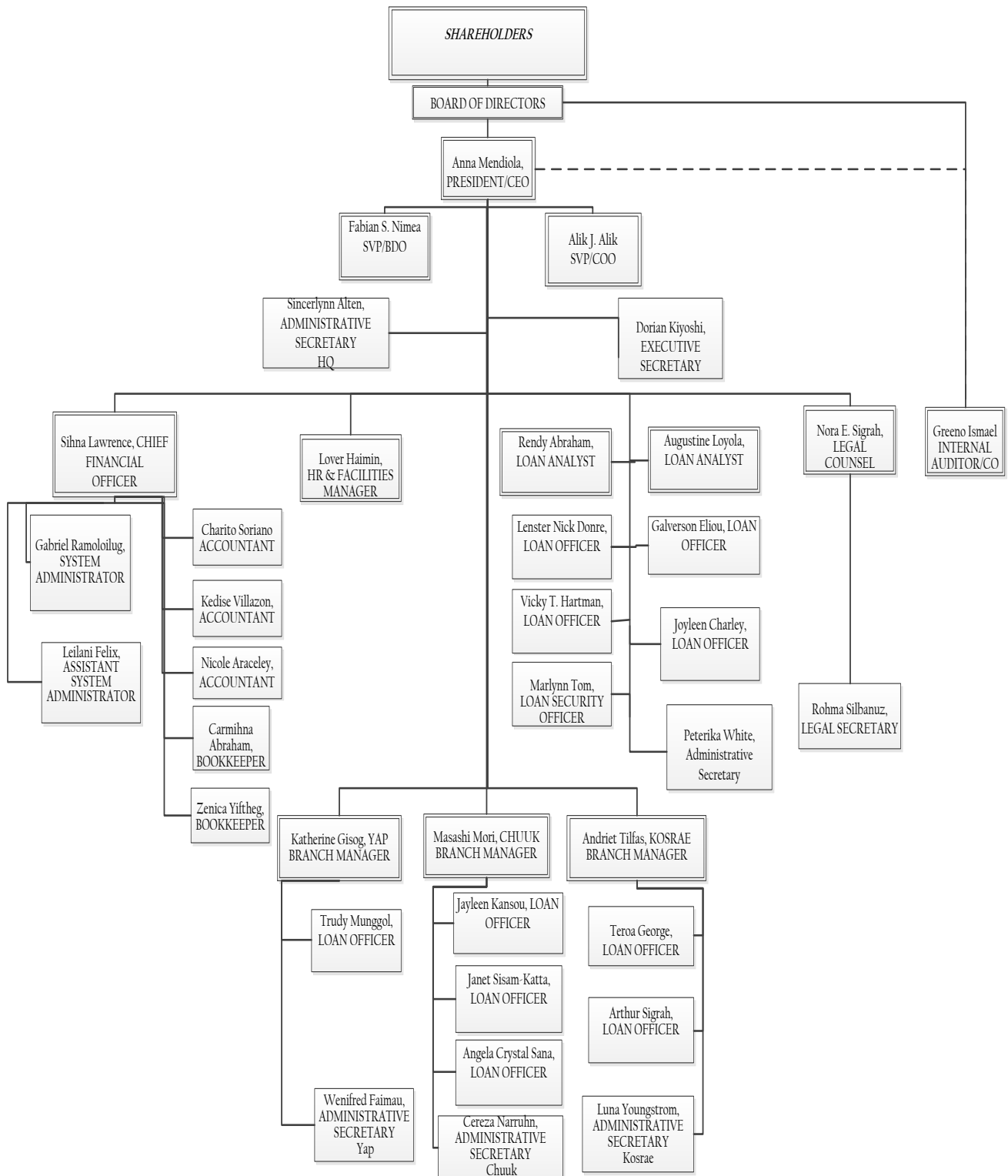
IN MEMORIAM:

We want to thank Sisinio Willy's family for his many years of service as a Board member. We dedicate this annual report to him. May he Rest in Peace.



Board Member Sisinio Willy with Chairman Sohl and CEO Mendiola.

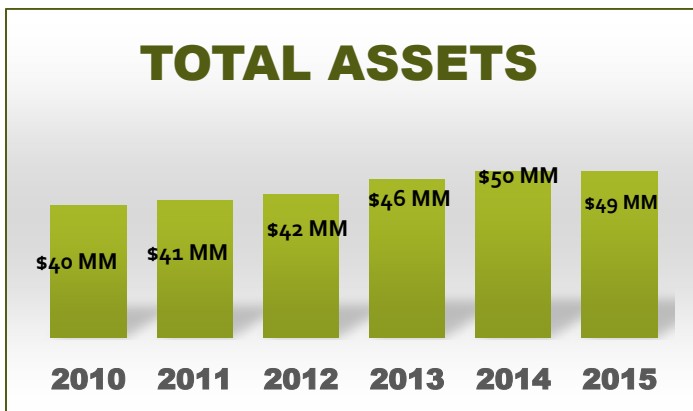
ORGANIZATIONAL CHART:



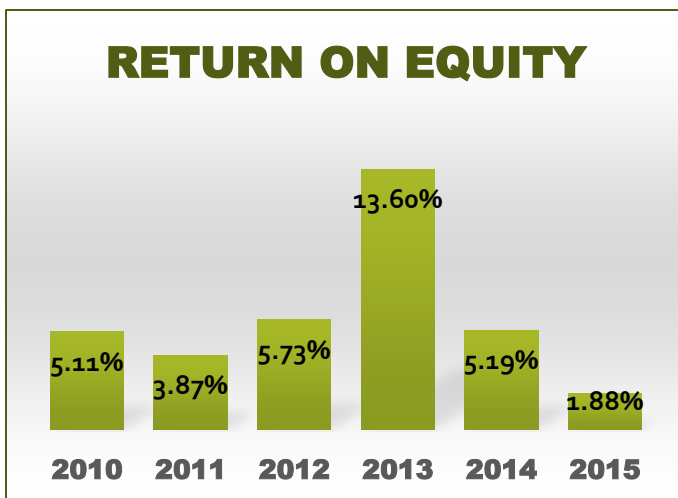


MANAGEMENT REPORT:

FSMDB continues to grow its assets by strategically ensuring that more than enough revenues are generated to cover operating expenses and surplus earnings are retained to increase assets. To ensure future growth and sustainability, within the last five years, the bank has grown its assets from \$40 MM to \$49 MM as illustrated below. Our loans receivable have also grown within the last five years. The bank in recent years have reduced its interest rates on its business loans from between 6% - 9% down to a range of 3% - 7%. In 2015, earnings from operations was positive, about 50% less than the prior year due to higher loan loss provisioning and also the creation of a Business Development Office to provide business advisory services to current as well as potential clients. Though our net income has fluctuated, FSMDB has for the past 5 years ended the year with a positive net position. The bank has also managed to improve collections and streamline expenses to maintain financial stability within the last five years.



The slight decrease between the last two years represents a prepayment of USDA loans and removal of seriously non-performing loans in 2015.



The Bank's return on equity has been positive for the past five years.



BUSINESS DEVELOPMENT OFFICE

PARADIGM SHIFT IN ADVANCING FSM SUSTAINABLE DEVELOPMENT

This has been a pivotal year for the Bank's operation as it strives to realign its purpose and strategies with its surrounding environment at all levels. Risks and vulnerabilities have become more pronounced. Environmental degradation, climate change, sea-level rise, natural disaster, and other threats pose additional challenges to the ability of FSM to achieve sustainable development. The downward trend and uncertainty regarding US Compact Economic Assistance post 2023 revealed risks within the FSM economy and financial system, as well as the vulnerability of FSM to exogenous shocks, adversely impact its capacity to mobilize resources for development.

In that view, the Bank has established a business development arm of its operation with the objective of aligning the strategic elements of the Bank's business in such a way as to best support the fulfillment of its long-term purpose. To ensure strategic alignment, the Bank's people, culture, structure and processes have to flex and change as the Bank's strategy itself shifts.

Sustainable development is imperative in this day and age. As an institution, the Bank must meet the evolving needs of FSM and its people. The FSM, as are many small, young nations in the world, is at the crossroads of protecting natural resources, lifting people out of poverty, and advancing sustainable economic growth. By global comparison, FSM is a poor country in terms of opportunities for its people. This is evidenced by the scarcity of meaningful job opportunities, quality education, adequate basic infrastructures, modernized health facilities, etc. The growing number of FSM citizens leaving the country for greener opportunities abroad also tells of FSM's growing social and economic challenges.

As a young nation facing these kinds of challenges, we must find effective solutions that are mutually beneficial for our governments and private sectors together. FSMDB believes sustainable development can be achieved through partnerships with our stakeholders within the FSM community as well as through some assistance with our international partners. Over the years, the Bank has made many improvements in delivering its programs such as introducing surety bonds to promote the development of the domestic construction industry that maximizes socio-economic value captured in country.



LENDING UPDATES:

FSMDB's total loan portfolio or outstanding loans at the end of this reporting period totaled a little over \$26 million. FSMDB has continued to grow its loan portfolio based on its approved strategic plan. More specifically, between 2010 and 2015, the bank grew its total loan portfolio by 27%. For the period between January 1, 2015 and ending December 31, 2015, FSMDB approved 507 loans totaling \$14.7 million.

Out of the \$14.7 million, 60% were for business term loans, 17% for business lines of credit, 2% home loans, and 21% consumer loans. About 75% of consumer loans were for home improvement purposes. In 2015, about \$4.4 million were loans approved for women, representing 30% of total loans approved.

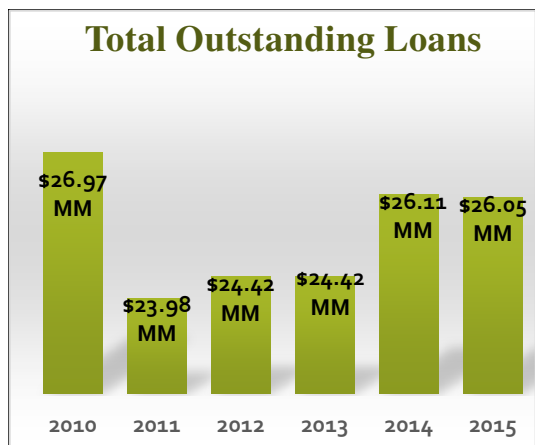
Of the total \$14.79 million, the largest sector went to wholesale/retail businesses, however, the bank remains mindful of the country's priorities and in the reporting period approved about 17% or \$2.41 million for agriculture, fisheries, and tourism projects.

HELP Project. Kitti, Pohnpei



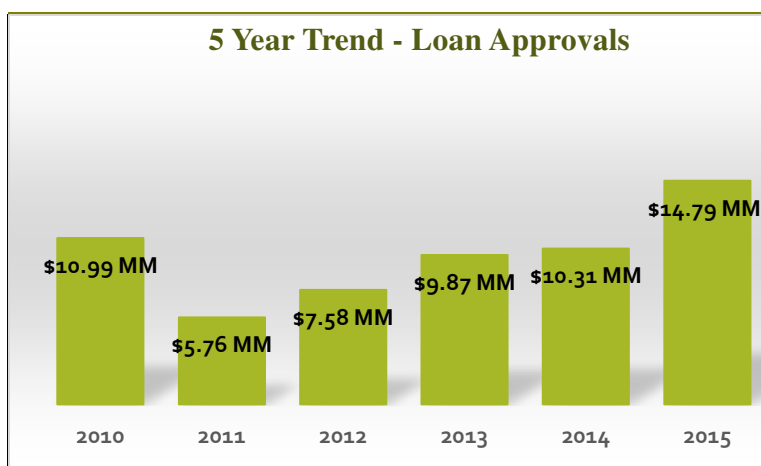
Retail Store, Kosrae





Loan Sectors	Amount	% of Total
Agriculture/Fisheries/Forestry	1,780,728	7%
Services	1,713,950	7%
Manufacturing	309,773	1%
Real Estate	2,399,047	9%
Wholesale/Retail	4,891,826	19%
Transportation	934,730	4%
Construction	784,758	3%
Residential	1,470,333	6%
Consumer	4,634,444	18%
Tourism	7,134,493	27%
Total Loans Outstanding	\$ 26,054,082	100%

Local Bungalows, Tourism Project, Kosrae Island





FSMDB'S DEVELOPMENT & FINANCE TRAINING INSTITUTE (DFI):

Human resources development has always been an important component of the bank's strategic goals. As part of the bank's reform efforts, the Board of Directors approved in 2014 the establishment of a Development & Finance Training Institute (DFI). Since its establishment, the DFI has conducted several trainings for our borrowers, Board members and staff, employees from our local partners including the governments and component units, commercial banks and lending institutions, members from the private sector, and community members. Among the many featured topics in 2015, courses such as "Decision Making for Executives and Trainers,"



"Supervisory Executive Assistant Training," "Strategic Planning for Small to Medium Enterprises," and "Risk Management and Financial Accounting for Non-Accountants" were conducted. FSMDB's DFI also offered specialized training that catered to our borrowers from the private sector industry.

We wish to thank our supporters and graduates for your continued confidence and support of FSMDB's DFI.



In 2015, FSM Development Bank was recognized by the ADFIAP or the Association of Development Financing Institutions in Asia and the Pacific, for the establishment of the DFI Training Institute. ADFIAP, based in Manila, Philippines, is the focal point of all development banks and other financial institutions engaged in the financing of development in the Asia-Pacific region.



CEO receiving FSMDB's ADFIAP award with her colleagues



CORPORATE SOCIAL RESPONSIBILITY:

In addition to supporting FSM's nation building efforts through our many projects, our Home Energy Loan Program (HELP) for energy efficient homes, and our in-house Development Finance & Training Institute, FSMDB also believes in supporting the nation in civic and socially responsible activities that contribute to the development of the FSM. At FSMDB, we value people. We respect our environment. We promote sustainable economic development. As your partners in business, for many years now, we have been contributing and will continue to contribute to sporting events, cultural activities, and educational endeavors of many individual students through our scholarship program, to local schools, and other worthy programs.



**FEDERATED STATES OF MICRONESIA
DEVELOPMENT BANK**

**(A COMPONENT UNIT OF THE FSM NATIONAL
GOVERNMENT)**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED DECEMBER 31, 2015 AND 2014

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

Table of Contents
Years Ended December 31, 2015 and 2014

	<u>Page No.</u>
I. FINANCIAL STATEMENTS	
<u>Federated States of Micronesia Development Bank</u>	
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Statements of Net Position	6
Statements of Revenues, Expenses and Changes in Net Position	7
Statements of Cash Flows	8
Notes to Financial Statements	10
<u>Trust Funds Administered by the Federated States of Micronesia Development Bank</u>	
Independent Auditors' Report	25
Statement of Fiduciary Net Position	27
Statement of Changes in Fiduciary Net Position	28
Notes to Financial Statements	29
II. INDEPENDENT AUDITORS' REPORTS ON COMPLIANCE WITH LAWS AND REGULATIONS	
<u>Federated States of Micronesia Development Bank</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 <i>Government Auditing Standards</i>	34
<u>Trust Funds Administered by the Federated States of Micronesia Development Bank</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 <i>Government Auditing Standards</i>	36



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Federated States of Micronesia Development Bank:

Report on the Financial Statements

We have audited the accompanying financial statements of the Federated States of Micronesia Development Bank (the Bank), which comprise the statements of net position as of December 31, 2015 and 2014, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Federated States of Micronesia Development Bank as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 to 5 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2016, on our consideration of the Bank's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Bank's internal control over financial reporting and compliance.

Deloitte & Touche LLP

April 7, 2016

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

Management's Discussion and Analysis
Years Ended December 31, 2015 and 2014

The following is a discussion and analysis of the Federated States of Micronesia Development Bank's (the Bank) financial performance for the fiscal year ended December 31, 2015.

The FSM economy saw no growth in 2015 and this lack of growth was contributed to by three typhoons (Maysak, Noul and Dolphin). The typhoons affected all the four States of the FSM, Chuuk State suffering the most in terms of damaged crops and homes. Inflow of grant assistance to address the typhoon relief effort affected business sales because goods and services were brought in directly by Government agencies and NGOs that provided the assistance. The bank responded by offering lower interest rate loans to the private businesses to rebuild after the typhoon damages. The bank approved \$14.8 million for 507 new loans in 2015. Seventy-seven percent (77%) were business loans, two percent (2%) were residential home loans and twenty-one (21%) were consumer/personal loans. Although \$10.5 million was disbursed during the year, there was no growth in the loan portfolio as the amount disbursed basically replaced loans runoff. There is a slight increase in total assets that is due to the purchase of computer equipment and software for the bank loan management and network system. For additional information concerning fixed assets, please refer to note 5 to the financial statements. Long term liabilities decreased due to prepayment of the IRP loan to USDA. The Bank was able to generate \$2.2 million in revenue from its core operations to cover its operating expenses in full. The Bank ended the year with a total increase in net position of about \$607 thousand, all from internal resources. There was no government contribution received in 2015.

Summary Statements of Net Position

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Assets:			
Current assets	\$ 15,822,373	\$ 13,887,315	\$ 14,087,286
Noncurrent assets	<u>33,878,027</u>	<u>35,560,556</u>	<u>32,411,664</u>
Total assets	\$ <u>49,700,400</u>	\$ <u>49,447,871</u>	\$ <u>46,498,950</u>
Liabilities:			
Liabilities	\$ <u>1,627,103</u>	\$ <u>1,981,559</u>	\$ <u>712,091</u>
Net position:			
Net investment in capital assets	1,633,285	1,657,506	1,694,055
Unrestricted	<u>46,440,012</u>	<u>45,808,806</u>	<u>44,092,804</u>
Total net position	<u>48,073,297</u>	<u>47,466,312</u>	<u>45,786,859</u>
Total liabilities and net position	\$ <u>49,700,400</u>	\$ <u>49,447,871</u>	\$ <u>46,498,950</u>

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

Management's Discussion and Analysis
Years Ended December 31, 2015 and 2014

During fiscal year 2015, the Bank started repaying its European Investment Bank (EIB) loan and prepaid the entire outstanding balance of the USDA IRP loan reducing the long term liabilities to \$1.2 million. Borrowed funds was only 3% of total asset. Leverage is very low providing ample room for the bank to borrow funds for its lending activities should the need arises. For additional information concerning the Bank's debt, please refer to note 8 to the financial statements.

Earnings from operations was positive at \$333,852 which was about 50% less that last year due to higher loan loss provisioning and increase in employment to staff the Business Development Unit of the bank. Return on equity was positive at 1.3% and return on asset was 1.2%. Capital to total asset was 97% with liabilities of only 3%. Total loan to asset ratio was at 52%. Non-performing loans were 14% of total outstanding loan. The loan loss coverage was 109% meaning there is sufficient reserves to cover potential loan losses.

At December 31, 2015, the market value of the Bank's investments in the financial markets stood at \$14.3 million, a decrease of about 9% from \$15.8 million at the end of 2014.

Summary Statements of Revenues, Expenses and Changes in Net Position

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Operating revenues	\$ 2,460,513	\$ 2,545,945	\$ 2,428,051
(Provision for) reversal of loan losses	(286,209)	(72,962)	446,769
Operating expenses	<u>(1,840,452)</u>	<u>(1,792,313)</u>	<u>(1,849,800)</u>
Earnings from operations	333,852	680,670	1,025,020
Non-operating revenues, net	<u>273,133</u>	<u>998,783</u>	<u>3,376,671</u>
Change in net position	606,985	1,679,453	4,401,691
Net position at beginning of year	<u>47,466,312</u>	<u>45,786,859</u>	<u>41,385,168</u>
Net position at end of year	\$ <u>48,073,297</u>	\$ <u>47,466,312</u>	\$ <u>45,786,859</u>

The Bank manages two trust funds, namely, the Investment Development Fund (IDF) and Yap Development Loan Fund (YDLF). The total assets for each of these funds at the end of 2015 were \$1,785,449 and \$267,263, respectively. Assets under IDF continues to decrease as there are no new loans under the program and the bank continues to draw management fees to help with the cost of managing the remaining IDF loans which are mostly problem loans. YDLF earned \$928 in 2015, mostly from interest on savings accounts. Management had re-submitted to the new government administration a request to repeal the IDF law.

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

Management's Discussion and Analysis
Years Ended December 31, 2015 and 2014

Economic Outlook

Management anticipates year 2016 to be slightly better than 2015 in terms of economic activities as there will be inflow of funds from the government infrastructure funds. The bank, in anticipation, had increased its lending targets to assist the private sector particularly the construction sector. The Bank also looks to increasing lending the residential home sector to take advantage of grant funding provided by IUCN for the Home Energy Loan Program. The bank is actively involved in seeking outside funding for both economic and social development projects. The Business Development Office of the bank had help in promoting projects for financing. The FSMDB Development Finance Training Institute will continue to provide training to promote financial literacy and improved business management.

Contacting Financial Management

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

Management's Discussion and Analysis for the year ended December 31, 2014 is set forth in the Bank's report on the audit of financial statements, which is dated April 7, 2015. That Discussion and Analysis explains the major factors impacting the 2014 financial statements and can be viewed at the Bank's website at www.fsmdb.fm or Office of the Public Auditor's website at www.fsmopa.fm.

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

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

Statements of Net Position
December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 8,627,124	\$ 5,478,528
Time certificates of deposit	936,381	1,993,326
Accounts receivable	8,146	37,091
Receivable from trust funds	197,448	79,888
Prepaid expenses	90,703	9,319
Interest and other receivables	122,571	206,163
Current portion of loans receivable	5,840,000	6,083,000
Total current assets	<u>15,822,373</u>	<u>13,887,315</u>
Noncurrent assets:		
Depreciable assets, net	1,633,285	1,581,749
Fixed assets in progress	-	75,757
Investments	14,291,833	15,778,622
Equity investment, at cost	1,912,188	1,912,188
Loans receivable, net of current portion and allowance for loan losses	<u>16,040,721</u>	<u>16,212,240</u>
Total noncurrent assets	<u>33,878,027</u>	<u>35,560,556</u>
Total assets	<u>\$ 49,700,400</u>	<u>\$ 49,447,871</u>
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Current portion of long-term debt	\$ 128,449	\$ 138,363
Accounts payable	128,021	84,857
Unearned grant revenues	124,010	-
Accrued interest payable	13,325	13,325
Credit life payable	78,401	61,897
Total current liabilities	472,206	298,442
Noncurrent liabilities:		
Long-term debt, net of current portion	<u>1,154,897</u>	<u>1,683,117</u>
Total liabilities	<u>1,627,103</u>	<u>1,981,559</u>
Commitments and contingencies		
Net position:		
Net investment in capital assets	1,633,285	1,657,506
Unrestricted	<u>46,440,012</u>	<u>45,808,806</u>
Total net position	<u>48,073,297</u>	<u>47,466,312</u>
Total liabilities and net position	<u>\$ 49,700,400</u>	<u>\$ 49,447,871</u>

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2015 and 2014

	2015	2014
Operating revenues:		
Interest income on loans	\$ 2,198,035	\$ 2,194,498
Loan fees	127,820	174,990
Rental	37,735	50,907
Interest income on time certificates of deposit	11,788	13,005
Miscellaneous	85,135	112,545
Total operating revenues	2,460,513	2,545,945
Provision for loan losses	(286,209)	(72,962)
Net operating revenues	2,174,304	2,472,983
Operating expenses:		
Interest expense	90,061	34,350
General and administrative expenses:		
Personnel services	965,145	901,661
Depreciation	118,162	131,210
Travel	103,326	114,090
Rent	102,900	137,084
Contractual services	98,747	104,604
Training	59,399	32,601
Retirement plan contributions	49,434	39,484
Utilities	44,887	56,217
Communication	42,939	40,224
Supplies	31,332	32,519
Branch automation	18,373	20,862
Equipment	14,417	31,638
Fuel, oil and petroleum	11,583	9,018
Repair and maintenance	9,329	5,626
Staff relations	8,625	9,400
Community development	8,586	20,647
Insurance	6,925	7,004
Printing	1,934	5,188
Miscellaneous	54,348	58,886
Total general and administrative expenses	1,750,391	1,757,963
Earnings from operations	333,852	680,670
Nonoperating revenues (expenses), net:		
IDF reimbursement	250,000	250,000
Investment earnings, net	24,523	740,127
(Loss) gain on sale of assets	(1,390)	8,656
Total nonoperating revenues, net	273,133	998,783
Change in net position	606,985	1,679,453
Net position at beginning of year	47,466,312	45,786,859
Net position at end of year	\$ 48,073,297	\$ 47,466,312

See accompanying notes to financial statements.

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

Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Cash received from customers	\$ 2,561,262	\$ 2,544,067
Cash received from grantor	124,970	-
Cash paid to suppliers for goods and services	(689,760)	(782,503)
Cash paid to employees for services	(965,145)	(901,661)
Interest received on time certificates of deposit	11,788	13,005
Interest paid	(90,061)	(21,025)
Net cash provided by operating activities	<u>953,054</u>	<u>851,883</u>
Cash flows from noncapital financing activities:		
Proceeds from long-term debt	-	1,406,526
Principal repayment of long-term debt	(538,134)	(34,909)
Net transfers in from trust funds	132,440	307,505
Net cash (used for) provided by noncapital financing activities	<u>(405,694)</u>	<u>1,679,122</u>
Cash flows from capital and related financing activities:		
Proceeds from sale of fixed assets	-	8,656
Acquisition of fixed assets	(95,331)	(94,661)
Net cash used for capital and related financing activities	<u>(95,331)</u>	<u>(86,005)</u>
Cash flows from investing activities:		
Loan origination and principal collections, net	128,310	(2,201,181)
Withdrawals from (additions to) time certificates of deposit, net	1,056,945	(582,764)
Withdrawals from (additions to) investments, net	1,353,197	(6,405)
Additions to equity investment	-	(750,000)
Interest income on savings accounts	615	1,060
Dividends received	157,500	164,250
Net cash provided by (used for) investing activities	<u>2,696,567</u>	<u>(3,375,040)</u>
Net change in cash and cash equivalents	3,148,596	(930,040)
Cash and cash equivalents at beginning of year	5,478,528	6,408,568
Cash and cash equivalents at end of year	<u>\$ 8,627,124</u>	<u>\$ 5,478,528</u>

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

Statements of Cash Flows, Continued
Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Reconciliation of earnings from operations to net cash provided by operating activities:		
Earnings from operations	\$ 333,852	\$ 680,670
Adjustment to reconcile earnings from operations to net cash provided by operating activities:		
Provision for loan losses	286,209	72,962
Depreciation	118,162	131,210
(Increase) decrease in assets:		
Accounts receivable	28,945	6,323
Interest and other receivables	83,592	4,804
Prepaid expenses	(81,384)	(8,652)
Increase (decrease) in liabilities:		
Accounts payable	43,164	(58,177)
Unearned grant revenues	124,010	-
Accrued interest payable	-	13,325
Credit life payable	16,504	9,418
Net cash provided by operating activities	<u>\$ 953,054</u>	<u>\$ 851,883</u>

See accompanying notes to financial statements.

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

Notes to Financial Statements
December 31, 2015 and 2014

(1) Summary of Significant Accounting Policies

Reporting Entities

The Federated States of Micronesia (FSM) Development Bank (the Bank) was created in 1979 by Public Law 1-37 of the First Congress of the Federated States of Micronesia. The Bank began its operations on October 1, 1980. The Bank was reorganized in January 1994 by Public Law 8-47 of the Eighth Congress of the Federated States of Micronesia. The purpose of the Bank is to provide loans for economic development of the FSM. Such loans may otherwise be too risky for commercial banks to underwrite. Additionally, the Bank's repayment terms tend to be longer than those offered by commercial banks. As of December 31, 2010, the Bank has issued 2,997,883 shares to the FSM National Government (98.7%), Kosrae State (0.3%) and Chuuk State (1.0%). These shares do not convey ownership and have been made in accordance with the aforementioned law but these shares have no financial impact on the accompanying financial statements.

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

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

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

Fund Structure and Basis of Accounting

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

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

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

Notes to Financial Statements
December 31, 2015 and 2014

(1) Summary of Significant Accounting Policies, Continued

Fund Structure and Basis of Accounting, Continued

The Bank utilizes the flow of economic resources measurement focus. Its financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units using the accrual basis of accounting. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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

- Net investment in capital assets - capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets as well as deferred outflows of resources and deferred inflows of resources that are attributable to those assets or related debt.
- Restricted - restricted assets reduced by liabilities and deferred inflows of resources related to those assets that are subject to externally imposed stipulations.
- Unrestricted - the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

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

Cash and Cash Equivalents

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

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

Investments

Investment securities 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 and is primarily determined based on quoted market values.

An equity investment in the common stock of Bank of the FSM is stated at cost as there is no active market for this investment.

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

Notes to Financial Statements
December 31, 2015 and 2014

(1) Summary of Significant Accounting Policies, Continued

Loans and Allowance for Loan Losses

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

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

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

Fixed Assets

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

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

Unearned Grant Revenues

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

Off-Balance Sheet Financial Instruments

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

Estimates

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

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

Notes to Financial Statements
December 31, 2015 and 2014

(1) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During the year ended December 31, 2015, the Bank implemented the following pronouncements:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The implementation of this statement did not have a material effect on the accompanying financial statements.

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The provisions in Statement 72 are effective for fiscal years beginning after June 15, 2015. Management believes that the implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and will not have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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

Notes to Financial Statements
December 31, 2015 and 2014

(1) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The provisions in Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(2) Deposits and Investments

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

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

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

Notes to Financial Statements
December 31, 2015 and 2014

(2) Deposits and Investments, Continued

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

A. Deposits:

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

As of December 31, 2015 and 2014, the carrying amount of the Bank's total cash and cash equivalents and time certificates of deposit was \$9,563,505 and \$7,471,854, respectively, and the corresponding bank balances were \$9,662,223 and \$7,610,727, respectively, which were all maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of December 31, 2015 and 2014, bank deposits in the amounts of \$1,521,581 and \$500,000, respectively, were FDIC insured. The Bank does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk. Management's confidence in the financial strength of their banking institutions was the basis of the decision to not require collateralization. No losses as a result of this practice were incurred for the years ended December 31, 2015 and 2014.

B. Investments

As of December 31, 2015 and 2014, investments at fair value are as follows:

	<u>2015</u>	<u>2014</u>
Fixed income securities:		
Domestic fixed income	\$ 5,008,967	\$ 4,987,915
Other investments:		
Domestic equities	8,298,900	8,387,491
Money market funds	-	1,375,093
Shares in a mutual fund (Templeton Global BD FD ADV TGBAX)	<u>983,966</u>	<u>1,028,123</u>
	<u>\$ 14,291,833</u>	<u>\$ 15,778,622</u>

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

Notes to Financial Statements
December 31, 2015 and 2014

(2) Deposits and Investments, Continued

B. Investments, Continued

As of December 31, 2015, investments in domestic fixed income are as follows:

	<u>Amount</u>	<u>Maturity</u>	<u>Moody's Rating</u>
U.S. Government Securities:			
U.S. Treasury Note	\$ 511,494	11/15/2021	Aaa
U.S. Treasury Note	681,224	02/15/2022	Aaa
U.S. Treasury Note	693,459	05/15/2022	Aaa
U.S. Treasury Bond	<u>1,071,281</u>	08/15/2023	Aaa
	2,957,458		
U.S. Government Agency Securities:			
Federal Home Loan Bank (FHLB) note	339,820	06/23/2017	Aaa
Federal National Mortgage Association (FNMA) note	90,687	09/26/2017	Aaa
FNMA note	275,605	04/27/2018	Aaa
Federal Farm Credit Bank note	179,348	05/17/2018	Aaa
FNMA note	125,663	08/17/2018	AA+ S&P
Federal Home Loan Mortgage Association (FHLMC) mortgage-backed securities	84,106	10/01/2023	not rated
FNMA mortgage-backed securities	189,344	09/01/2027	not rated
FHLMC mortgage-backed securities	<u>212,931</u>	06/01/2036	not rated
	1,497,504		
Corporate Bonds:			
Morgan Stanley (CUSIP 61747WAF6)	56,137	01/25/2021	A3
General Electric Capital Corp (CUSIP 36962G5J9)	49,823	10/17/2021	A1
Wells Fargo & Company (CUSIP 94974BFJ4)	55,130	02/13/2023	A3
Wyeth (CUSIP 983024AF7)	42,812	02/01/2024	A1
IBM Corp (CUSIP 459200HU8)	51,471	02/12/2024	Aa3
Apple Inc. (CUSIP 037833AS9)	51,797	05/06/2024	Aa1
Florida Power & Light Company (CUSIP 341081FK8)	45,947	06/01/2024	Aa2
Goldman Sachs Group, Inc. (CUSIP 38141EC23)	35,716	07/08/2024	A3
Aflac, Inc. (CUSIP 001055AM4)	50,886	11/15/2024	A3
Citigroup Inc. (CUSIP 172967JT9)	60,601	06/10/2025	Baa3
MetLife Inc. (CUSIP 59156RBB3)	<u>53,685</u>	11/21/2036	A3
	554,005		
	\$ <u>5,008,967</u>		

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

Notes to Financial Statements
December 31, 2015 and 2014

(2) Deposits and Investments, Continued

B. Investments, Continued

As of December 31, 2014, investments in domestic fixed income are as follows:

	<u>Amount</u>	<u>Maturity</u>	<u>Moody's Rating</u>
U.S. Government Securities:			
U.S. Treasury Bond	\$ 514,041	08/15/2021	Aaa
U.S. Treasury Note	421,541	11/15/2021	Aaa
U.S. Treasury Note	335,838	02/15/2022	Aaa
U.S. Treasury Note	<u>594,745</u>	05/15/2022	Aa
	1,866,165		
U.S. Government Agency Securities:			
FHLMC	214,818	02/09/2015	Aa2
FHLB note	257,302	06/13/2016	A2
FHLB note	341,057	03/27/2017	Aaa
FHLB note	522,241	04/28/2017	Aaa
FNMA note	343,751	09/20/2017	Aaa
FNMA note	91,720	09/26/2017	Aaa
FHLMC note	338,547	12/14/2018	Aaa
FHLMC mortgage-backed securities	116,861	10/01/2023	not rated
FNMA mortgage-backed securities	<u>244,339</u>	09/01/2027	not rated
	2,470,636		
Corporate Bonds:			
Aflac, Inc. (CUSIP 001055AC6)	56,237	05/15/2019	A3
Morgan Stanley (CUSIP 61747WAF6)	57,398	01/25/2021	Baa2
Goldman Sachs Group, Inc. (CUSIP 38141GGQ1)	39,503	07/27/2021	Baa1
General Electric Capital Corp (CUSIP 36962G5J9)	50,721	10/17/2021	A1
Bank of America Corp (CUSIP 06051GEM7)	46,338	01/24/2022	Baa2
PNC Funding Corp (CUSIP 693476BN2)	41,137	03/08/2022	A3
Citigroup Inc. (CUSIP 172967GK1)	72,426	07/30/2022	Baa3
Wells Fargo & Company (CUSIP 94974BFJ4)	70,944	02/13/2023	A3
MetLife Inc (CUSIP 59156RBB3)	54,520	09/15/2023	A3
IBM Corp (CUSIP 459200HU8)	83,346	02/12/2024	Aa3
Apple Inc. (CUSIP 037833AS9)	<u>78,544</u>	05/06/2024	Aaa
	651,114		
	\$ <u>4,987,915</u>		

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

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Bank will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Bank's investments are held and administered by trustees. Accordingly, these investments are exposed to custodial credit risk. Based on negotiated trust and custody contracts, all of these investments were held in the Bank's name by the Bank's custodial financial institution at December 31, 2015 and 2014.

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

Notes to Financial Statements
December 31, 2015 and 2014

(2) Deposits and Investments, Continued

B. Investments, Continued

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the Bank. As of December 31, 2015, the Bank's investment in U.S. Treasury securities constituted 21% of its total investments. As of December 31, 2014, the Bank's investment in U.S. Treasury securities and agency obligations of the FHLB constituted 12% and 7%, respectively, of its total investments.

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

(3) Equity Investment, at Cost

At December 31, 2015 and 2014, the equity investment in Bank of the FSM, carried at cost, represents 225,000 common shares and approximately 24.1% ownership interest. Since the book value of the shares exceeds the carrying value, management believes that the equity investment has not become impaired.

(4) Loans Receivable

A summary of loans receivable at December 31, 2015 and 2014 follows:

	<u>2015</u>	<u>2014</u>
Unpaid principal balance	\$ 25,832,979	\$ 26,124,133
Allowance for loan losses	<u>(3,952,258)</u>	<u>(3,828,893)</u>
	\$ <u>21,880,721</u>	\$ <u>22,295,240</u>

Movements in the allowance for loan losses during the years ended December 31, 2015 and 2014, are as follows:

	<u>2015</u>	<u>2014</u>
Balance at beginning of year	\$ 3,828,893	\$ 4,248,534
Provision for loan losses	286,209	72,962
Loans charged off	(1,374,436)	(1,548,067)
Loan recoveries from previously charged off loans	<u>1,211,592</u>	<u>1,055,464</u>
Balance at end of year	\$ <u>3,952,258</u>	\$ <u>3,828,893</u>

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

Notes to Financial Statements
December 31, 2015 and 2014

(5) Fixed Assets

A summary of fixed assets as of December 31, 2015 and 2014, is as follows:

	Beginning January 1, <u>2015</u>	Additions/ <u>Transfers</u>	Deletions/ <u>Transfers</u>	Ending December 31, <u>2015</u>
Building	\$ 1,674,348	\$ -	\$ -	\$ 1,674,348
Computers and software	485,103	171,088	(3,279)	652,912
Vehicles	144,572	-	-	144,572
Office furniture, fixtures and equipment	<u>39,733</u>	<u>-</u>	<u>-</u>	<u>39,733</u>
	2,343,756	171,088	(3,279)	2,511,565
Less accumulated depreciation	<u>(762,007)</u>	<u>(118,162)</u>	<u>1,889</u>	<u>(878,280)</u>
	1,581,749	52,926	(1,390)	1,633,285
Fixed assets in progress	<u>75,757</u>	<u>-</u>	<u>(75,757)</u>	<u>-</u>
Fixed assets, net	\$ <u>1,657,506</u>	\$ <u>52,926</u>	\$ <u>(77,147)</u>	\$ <u>1,633,285</u>

	Beginning January 1, <u>2014</u>	Additions/ <u>Transfers</u>	Deletions/ <u>Transfers</u>	Ending December 31, <u>2014</u>
Building	\$ 1,674,348	\$ -	\$ -	\$ 1,674,348
Computers and software	466,199	18,904	-	485,103
Vehicles	170,651	-	(26,079)	144,572
Office furniture, fixtures and equipment	<u>39,733</u>	<u>-</u>	<u>-</u>	<u>39,733</u>
	2,350,931	18,904	(26,079)	2,343,756
Less accumulated depreciation	<u>(656,876)</u>	<u>(131,210)</u>	<u>26,079</u>	<u>(762,007)</u>
	1,694,055	(112,306)	-	1,581,749
Fixed assets in progress	<u>-</u>	<u>75,757</u>	<u>-</u>	<u>75,757</u>
Fixed assets, net	\$ <u>1,694,055</u>	\$ <u>(36,549)</u>	\$ <u>-</u>	\$ <u>1,657,506</u>

(6) Related Party Transactions

As of December 31, 2015 and 2014, the Bank has direct loans with outstanding balances of \$336,606 and \$289,127, respectively, to employees of the Bank and project loans extended to businesses owned by or affiliated with employees of \$581,483 and \$497,004, respectively. These loans were made under similar terms and conditions as exist with other borrowers. Officers and Board members are not eligible to borrow from the Bank.

(7) Staff Loan Revolving Fund

In July 2007, the Bank's Board of Directors approved the establishment of a Staff Loan Revolving Fund. In September 2007, a savings account was established for this purpose. As of December 31, 2015 and 2014, the account has a balance of \$260,530 and \$156,693, respectively.

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

Notes to Financial Statements
December 31, 2015 and 2014

(8) Long-Term Debt

Long-term debt consists of the following at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Loans payable to European Investment Bank under a August 2010 master finance contract of EUR 4 million:		
Drawn on August 20, 2014; original amount of \$275,000 (equivalent EUR 205,500), bearing interest fixed at 3.705%, and payable through semi-annual principal and interest installments of \$24,778 on January 15, 2015 and equal installments of \$25,772 beginning on July 15, 2015 through maturity on July 15, 2020.	233,268	275,000
Drawn on August 20, 2014; original amount of \$334,550 (equivalent EUR 250,000), bearing interest fixed at 4.520%, and payable through semi-annual principal and interest installments of \$17,997 on January 15, 2015 and equal installments of \$19,467 beginning on July 15, 2015 through maturity on July 15, 2025.	310,469	334,550
Drawn on August 20, 2014; original amount of \$796,976 (equivalent EUR 595,558), bearing interest fixed at 4.520%, and payable through semi-annual principal and interest installments of \$42,873 on January 15, 2015 and equal installments of \$46,375 beginning on July 15, 2015 through maturity on July 15, 2025.	739,609	796,976
Payable on an Intermediary Relending Program (IRP) loan by the U.S. Department of Agriculture, granted in December, 2009 for \$466,254. The loan bears interest fixed at 1% per annum, requires interest only payments for the first three years and semi-annual principal and interest installments of \$19,793 beginning on December 8, 2013 through December 8, 2039. The loan was repaid on June 25, 2015.	-	414,954
Total long-term debt	1,283,346	1,821,480
Less current portion	<u>(128,449)</u>	<u>(138,363)</u>
Long-term debt, net of current portion	\$ <u>1,154,897</u>	\$ <u>1,683,117</u>

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

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 128,449	\$ 54,779	\$ 183,228
2017	133,961	49,267	183,228
2018	139,710	43,518	183,228
2019	145,709	37,519	183,228
2020	151,968	31,260	183,228
2021-2025	<u>583,549</u>	<u>75,090</u>	<u>658,639</u>
	\$ <u>1,283,346</u>	\$ <u>291,433</u>	\$ <u>1,574,779</u>

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

Notes to Financial Statements
December 31, 2015 and 2014

(8) Long-Term Debt, Continued

Long-term debt changes during the years ended December 31, 2015 and 2014 are as follows:

	<u>Balance January 1,</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31,</u>	<u>Due Within One Year</u>
2015:					
Loan payable	\$ <u>1,821,480</u>	\$ <u>-</u>	\$ <u>(538,134)</u>	\$ <u>1,283,346</u>	\$ <u>128,449</u>
2014:					
Loan payable	\$ <u>449,863</u>	\$ <u>1,406,526</u>	\$ <u>(34,909)</u>	\$ <u>1,821,480</u>	\$ <u>138,363</u>

(9) Unearned Grant Revenues

During the year ended December 31, 2015, the Bank was awarded a \$250,000 Home Energy Loan Program grant from the International Union for Conservation of Nature Resources (IUCN). \$232,000 of the grant will be awarded to the qualified borrowers for new loans to construct homes that will demonstrate features and measures designed to conserve energy, reduce consumption of fossil fuels and enhance energy efficiency as principle reduction of loans, while the remaining \$18,000 will be used by the Bank for renovations to improve energy efficiency. At December 31, 2015, \$124,970 has been received and \$960 expended by the Bank.

(10) Nonoperating Revenue

The Bank was reimbursed for expenses incurred in administering the IDF program from the IDF Private Sub Account for \$250,000 for each of the years ended December 31, 2015 and 2014.

(11) Retirement Plan

The Bank's retirement plan (the Plan) is a self-administered program established to pay retirement, disability and survivor income to employees and their survivors to supplement similar benefits that employees receive from the FSM Social Security System. The Plan is a contributory plan in which the Bank matches 100% of the participants' contributions up to a maximum of 10 percent of the participant's annual salary, if the participant contributes 3 or more percent from his or her annual salary. Employee participation is optional. The Bank's Chief Financial Officer is the designated Plan Administrator. Matching contributions to the Plan during the years ended December 31, 2015 and 2014 were \$49,434 and \$39,484 respectively. Total Plan assets as of December 31, 2015 and 2014 were \$706,804 and \$700,999, respectively. Management is of the opinion that the Plan does not represent an asset or a liability of the Bank.

(12) Commitments and Contingencies

Guaranty

The Bank, from time-to-time, is contingently liable on loan guarantees ranging from 50% to 90% of the outstanding loan balances for commercial projects within the FSM. There were no outstanding guaranteed loan balances as of December 31, 2015 and 2014.

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

Notes to Financial Statements
December 31, 2015 and 2014

(12) Commitments and Contingencies, Continued

Loan Commitments

Undrawn balances on lines of credit and loan commitments for loans approved but undisbursed approximated \$4,075,000 at December 31, 2015.

Litigation

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

Insurance

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

Lease Commitments

The Bank has four operating leases for each of its State operating locations. These leases expire in varying dates through February 2018. Several of these leases provide options to renew upon expiration, based on renegotiated rates. Future minimum annual lease payments payable under the noncancellable lease agreements are as follows:

<u>Year ending December 31,</u>	
2016	\$ 40,900
2017	25,350
2018	<u>1,250</u>
	\$ <u>67,500</u>

The Bank leases portions of its headquarters building under three separate agreements expiring from September 2016 to September 2025. Future minimum annual lease income receivable under the noncancellable lease agreements are as follows:

<u>Year ending December 31,</u>	
2016	\$ 26,300
2017	20,700
2018	20,700
2019	20,700
2020	19,600
Thereafter	<u>55,600</u>
	\$ <u>163,600</u>

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

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

Notes to Financial Statements
December 31, 2015 and 2014

(12) Commitments and Contingencies, Continued

Lease Commitments, Continued

Total recorded lease expense and income under the aforementioned agreements amounted to \$102,900 and \$37,635, respectively, for the year ended December 31, 2015 and \$137,084 and \$50,907, respectively, for the year ended December 31, 2014.

(13) Subsequent Events

Management has evaluated subsequent events through April 7, 2016, which is the date that the financial statements are available to be issued. There were no material subsequent events that would require recognition or disclosure in the financial statements for the year ended December 31, 2015.

**TRUST FUNDS ADMINISTERED BY THE
FEDERATED STATES OF MICRONESIA DEVELOPMENT BANK
(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEAR ENDED DECEMBER 31, 2015



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Federated States of Micronesia Development Bank:

Report on the Financial Statements

We have audited the accompanying financial statements of the Investment Development Fund and the Yap Development Loan Fund (the Funds), administered by the Federated States of Micronesia Development Bank (the Bank), which comprise the respective statement of fiduciary net position as of December 31, 2015, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Investment Development Fund and the Yap Development Loan Fund as of December 31, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As discussed in Note 1 to the financial statements, the financial statements referred to above present only the respective financial position of the Investment Development Fund and the Yap Development Loan Fund and are not intended to present fairly the financial position and results of operations of the Federated States of Micronesia Development Bank in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2016, on our consideration of the Bank's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Bank's internal control over financial reporting and compliance.

Deloitte & Touche LLP

April 7, 2016

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

Trust Funds
Statement of Fiduciary Net Position
December 31, 2015

	<u>IDF</u>	<u>YDLF</u>	<u>Total</u>
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 1,448,198	\$ 118,427	\$ 1,566,625
Total current assets	<u>1,448,198</u>	<u>118,427</u>	<u>1,566,625</u>
Noncurrent assets:			
Time certificates of deposit	-	148,203	148,203
Interest and other receivables	6,008	633	6,641
Loans receivable, net	<u>331,243</u>	<u>-</u>	<u>331,243</u>
Total noncurrent assets	<u>337,251</u>	<u>148,836</u>	<u>486,087</u>
	<u>\$ 1,785,449</u>	<u>\$ 267,263</u>	<u>\$ 2,052,712</u>
<u>LIABILITIES AND NET POSITION</u>			
Liabilities:			
Payable to FSMDB	<u>\$ 185,166</u>	<u>\$ 12,282</u>	<u>\$ 197,448</u>
Commitments			
Net position:			
Restricted	331,243	-	331,243
Unrestricted	<u>1,269,040</u>	<u>254,981</u>	<u>1,524,021</u>
Total net position	<u>1,600,283</u>	<u>254,981</u>	<u>1,855,264</u>
	<u>\$ 1,785,449</u>	<u>\$ 267,263</u>	<u>\$ 2,052,712</u>

See accompanying notes to financial statements.

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

Trust Funds
Statement of Changes in Fiduciary Net Position
Year Ended December 31, 2015

	<u>IDF</u>	<u>YDLF</u>	<u>Total</u>
Additions:			
Recovery of loan losses	\$ 41,260	\$ -	\$ 41,260
Loan interest	20,123	353	20,476
Investment interest	<u>3,569</u>	<u>575</u>	<u>4,144</u>
Total additions	<u>64,952</u>	<u>928</u>	<u>65,880</u>
Deductions:			
Investment management fee	250,000	-	250,000
Miscellaneous	<u>193</u>	<u>-</u>	<u>193</u>
Total deductions	<u>250,193</u>	<u>-</u>	<u>250,193</u>
Change in net position	(185,241)	928	(184,313)
Net position at beginning of year	<u>1,785,524</u>	<u>254,053</u>	<u>2,039,577</u>
Net position at end of year	<u><u>\$ 1,600,283</u></u>	<u><u>\$ 254,981</u></u>	<u><u>\$ 1,855,264</u></u>

See accompanying notes to financial statements.

**TRUST FUNDS ADMINISTERED BY THE
FEDERATED STATES OF MICRONESIA DEVELOPMENT BANK
(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)**

Notes to Financial Statements
December 31, 2015

(1) Purpose and Summary of Significant Accounting Policies

Purpose

The Investment Development Fund (IDF) and the Yap Development Loan Fund (YDLF) are administered by the Federated States of Micronesia Development Bank (the Bank). The Bank utilizes the Funds to carry out its stated purpose of providing loans for the economic development of the FSM. The specific purpose of each fund is as follows:

IDF was created to finance projects which will (1) have their operations primarily located within the FSM; (2) improve the balance of payments position of the FSM; (3) increase the value of visible and invisible exports or result in import substitutions; (4) demonstrate positive economic returns; and (5) contribute to the furtherance of close economic relations with the United States. The IDF is administered by the Bank in a Trust capacity on behalf of the FSM National Government and its four States.

YDLF is administered by the Bank in a Trust capacity. All loan decisions are made by executives of the respective state governments as these funds represent local appropriations designated to be loaned for development purposes.

Fund Structure and Basis of Accounting

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

Cash and Time Certificates of Deposit

For the purposes of the statement of fiduciary net position, cash is defined as cash in bank checking and savings accounts, and time certificates of deposit with original maturities of three months or less. Deposits maintained in time certificates of deposit with original maturity dates greater than three months are separately classified.

Loans and Allowance for Loan Losses

Loans receivable are stated at unpaid principal balance less the allowance for loan losses and are reserved in net position as restricted net position.

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

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

**TRUST FUNDS ADMINISTERED BY THE
FEDERATED STATES OF MICRONESIA DEVELOPMENT BANK
(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)**

Notes to Financial Statements
December 31, 2015

(1) Purpose and Summary of Significant Accounting Policies, Continued

New Accounting Standards

During the year ended December 31, 2015, the Funds implemented the following pronouncements:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The implementation of this statement did not have a material effect on the accompanying financial statements.

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The provisions in Statement 72 are effective for fiscal years beginning after June 15, 2015. Management believes that the implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and will not have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

**TRUST FUNDS ADMINISTERED BY THE
FEDERATED STATES OF MICRONESIA DEVELOPMENT BANK
(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)**

Notes to Financial Statements
December 31, 2015

(1) Purpose and Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The provisions in Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) Deposits

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

- (i) Government obligations - Obligations issued or guaranteed as to principal and interest by the National Government and/or State governments of the Federated States of Micronesia or by the Government of the United States, provided that the principal and interest on each obligation are payable in the currency of the United States.

**TRUST FUNDS ADMINISTERED BY THE
FEDERATED STATES OF MICRONESIA DEVELOPMENT BANK
(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)**

Notes to Financial Statements
December 31, 2015

(2) Deposits, Continued

- (ii) Corporate obligations and mortgage-backed securities - Obligations of any public or private entity or corporation created or existing under the laws of the Federated States of Micronesia or of the United States or any state, territory or commonwealth thereof, or obligations of any other government or economic community which are payable in United States dollars, or other mortgage-backed securities provided that the obligation is an agency of the United States Government, the National Government of the Federated States of Micronesia, or is rated in one of the three highest categories by two nationally recognized rating agencies. No investment under this heading shall exceed ten percent of the market value of the Funds' investments or ten percent of the outstanding value of the issue at the time of purchase.
- (iii) Preferred and common stocks - Shares of preferred or common stocks of any corporation created or existing under the laws of the Federated States of Micronesia or under the laws of the United States or any state, territory or commonwealth thereof provided that the purchase of such shares shall be considered reasonable and prudent by the Funds' investment advisor at the time of purchase, that not more than five percent of the market value of its investments shall be invested in the stock of any one corporation, and that not more than ten percent of the market value of its investments shall be invested in any one industry group.
- (iv) Insurance company obligations - Contracts and agreements supplemental thereto providing for participation in one or more accounts of a life insurance company authorized to do business in the Federated States of Micronesia or in any state, territory or commonwealth of the United States provided that the total market value of these investments at no time shall exceed ten percent of all investments.

Custodial credit risk is the risk that in the event of a bank failure, the Funds' deposits may not be returned to them. 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 Funds do not have a deposit policy for custodial credit risk.

As of December 31, 2015, the carrying amount and corresponding bank balances of the Funds' total cash and time certificates of deposit was \$1,714,828. All of the bank balances are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. However, none of the balances were covered as the FSMDB have already exceeded the insurable limit per depositor. For purposes of FDIC insurance termination, funds held in trust are not differentiable with regular accounts held by FSMDB. The 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. Management's confidence in the financial strength of their banking institutions was the basis of the decision to not require collateralization. No losses as a result of this practice were incurred for the year ended December 31, 2015.

**TRUST FUNDS ADMINISTERED BY THE
FEDERATED STATES OF MICRONESIA DEVELOPMENT BANK
(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)**

Notes to Financial Statements
December 31, 2015

(3) Loans Receivable

The following is a schedule of loans receivable as of December 31, 2015:

	<u>Loan Balance</u>	<u>Allowance</u>	<u>Net</u>
IDF	\$ 334,589	\$ 3,346	\$ 331,243

Management is of the opinion that since these are trust funds, they are usually unable to provide against these balances, and therefore these loans have been presented as restricted net position.

(4) Subsequent Events

Management has evaluated subsequent events through April 7, 2016, which is the date that the financial statements are available to be issued. There were no material subsequent events that would require recognition or disclosure in the financial statements for the year ended December 31, 2015.

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

The Board of Directors
Federated States of Micronesia Development Bank:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Federated States of Micronesia Development Bank (the Bank), which comprise the statement of net position as of December 31, 2015, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 7, 2016.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Bank in a separate letter dated April 7, 2016.

Purpose of this Report

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

Deloitte & Touche LLP

April 7, 2016

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

The Board of Directors
Federated States of Micronesia Development Bank:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Investment Development Fund and the Yap Development Loan Fund, administered by the Federated States of Micronesia Development Bank (the Bank), which comprise the respective statement of fiduciary net position as of December 31, 2015, and the related statement of change in fiduciary net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 7, 2016.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the respective financial statements of the Investment Development Fund and the Yap Development Loan Fund are free from material misstatement, we performed tests of their 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*.

We noted certain matters that we reported to management of the Bank in a separate letter dated April 7, 2016.

Purpose of this Report

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Deloitte & Touche LLP

April 7, 2016

This 2015 Annual Report was printed on digital gloss paper and distributed to our shareholders, board members, partner-organizations, and the FSM leadership in limited copies, consistent with our commitment to reduce our carbon footprint. An electronic copy may be downloaded on our website, www.fsmdb.fm.

Corporate Office:			
	<u>Name</u>		<u>Title</u>
	Rendy	Abraham	Loan Analyst
	Carmihna	Abraham	Bookkeeper
	Sincerlynn	Alten	Admin.Secretary
	Charito	Soriano	Accountant
	Joyleen	Charley	Loan Officer
	Lenster	Donre	Loan Officer
	Galverson	Eliou	Loan Officer
	Leilani	Felix	Assistant Sys. Admin.
	Lover	Haimin	HR & Facilities Manager
	Vicky	Hartman	Loan Officer
	Dorian	Kiyoshi	Executive Assistant
	Augustine	Loyola	Loan Analyst
	Nicole	Araceley	Accountant
	Gabriel	Ramoloilug	Systems Administrator
	Nora	Sigrah	Legal Counsel
	Rohma	Silbanuz	Legal Secretary
	Marleen	Tom	Loan Security Officer
	Kedise	Villazon	Accountant
	Peterika	White	Admin.Secretary
	Zenica	Yiftheg	Bookkeeper
Kosrae Branch:			
	Teroa	George	Loan Officer
	Arthur	Sigrah	Loan Officer
	Andriet	Tilfas	Branch Manager
	Luna	Youngstrom	Admin.Secretary
Chuuk Branch:			
	Jayleen	Killion	Loan Officer
	Masashi	Mori	Branch Manager
	Cereza	Narruhn	Admin.Secretary
	Crystal	Sana	Loan Officer
	Janet	Sisam	Loan Officer
	Ignacio	Stephen	Management Assistant
Yap Branch:			
	Wenifred	Faimau	Admin.Secretary
	Katherine	Gisog	Branch Manager
	Trudy	Mungol	Loan Officer

