

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

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

YEAR ENDED SEPTEMBER 30, 2020

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

YEAR ENDED SEPTEMBER 30, 2020

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**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2020

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**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

**INDEPENDENT AUDITORS' REPORT,
FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION**

YEAR ENDED SEPTEMBER 30, 2020

INDEPENDENT AUDITORS' REPORT

Honorable Alexander R. Narruhn
Governor, State of Chuuk
Federated States of Micronesia:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, and each major fund of the State of Chuuk (the State), as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as set forth in Section III of the foregoing table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 qualified audit opinions.

Summary of Opinions

Opinion Unit	Type of Opinion
Governmental Activities	Qualified
Aggregate Discretely Presented Component Units	Unmodified
General Fund	Qualified
Grants Assistance Fund	Unmodified
Compact Trust Fund	Unmodified

Basis for Qualified Opinions on Governmental Activities and General Fund

As discussed in Note 11 to the financial statements, the State has not recorded a liability for land leases and related claims payable in the governmental activities and the General Fund and, accordingly, has not recorded an expenditure/expense for the current period change in that liability. Accounting principles generally accepted in the United States of America require that liabilities incurred attributable to services already rendered and that are not contingent upon a specific event that is outside of the control of the State be accrued as liabilities and expenditures/expenses, which would increase the liabilities, decrease net position, and change the expenses of the governmental activities and increase the liabilities, increase fund deficit, and change the expenditures of the General Fund. The amount by which this departure would affect the liabilities, net position and expenses of the governmental activities and the liabilities, fund deficit, and expenditures of the General Fund is not reasonably determinable.

Qualified Opinions

In our opinion, except for the matters described in the “Basis for Qualified Opinions on Governmental Activities and General Fund” paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the State of Chuuk as of September 30, 2020, 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.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the aggregate discretely presented component units, the Grants Assistance Fund and the Compact Trust Fund of the State of Chuuk as of September 30, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matters

Receivables from the FSM National Government

As discussed in Note 3 to the financial statements, the State is in discussions with the FSM National Government to determine the ultimate collectability of certain receivables due from the FSM National Government in consultation with federal grantor agencies arising from Compact sector grant transactions.

COVID-19

As discussed in the Note 12 to the financial statements, the State has determined that the COVID-19 pandemic may negatively impact its result of operations and net position. The State is unable to reasonably estimate its ultimate financial impact.

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

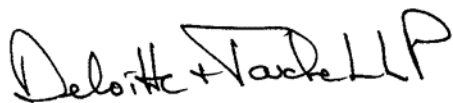
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 10 as well as the Schedule of Revenues, Expenditures and Changes in Deficit – Budget and Actual – General Fund and notes thereto, on pages 48 and 49, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The combining and individual fund financial statements as set forth in Section V of the foregoing table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2021 on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance.



December 31, 2021

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2020

This analysis, prepared by the Department of Administrative Services, Division of Treasury, offers readers of the Chuuk State Government's (Chuuk State) financial statements a narrative overview of the activities of the government for the fiscal year ended September 30, 2020. We encourage readers to consider this information in conjunction with Chuuk State's financial statements, which follow. Fiscal year 2019 comparative information has been included, where appropriate. This analysis is required by the Governmental Accounting Standards Board, (GASB) which provides guidelines on what must be included and excluded from this analysis.

FINANCIAL HIGHLIGHTS

- For the fiscal year ended September 30, 2020, Chuuk State's total net position increased by \$14.785 million (or 36.84%) from \$40.128 million in the prior year to \$54.913 million. The increase is mainly attributed to the booking of an administration building (\$11.391 million) donated by the government of China and parcels of land (\$2.767 million) which were donated by the FSM Congress.
- During fiscal year 2020, Chuuk State's revenues and contributions of \$57.149 million increased by \$19.741 million (or 52.77 %) from \$37.408 million in fiscal year 2019. The increase in revenue was primarily attributable to an increase in operating grants and contributions, capital grants and contributions, donated assets, unrestricted investment earnings and other general revenues. Chuuk State's expenses in fiscal year 2020 of \$42.364 million increased by \$3.465 million (or 8.91%) from \$38.899 million in fiscal year 2019. The increase is due to an increase in expenses for health services, education, economic development, public safety, unallocated interest on long term debt and capital projects.
- The General Fund deficit decreased by \$0.656 million in fiscal year 2020, from \$4.093 million in prior year to \$3.437 million in the current year. The decrease in the deficit was caused by an increase in revenues and a decrease in expenditures as compared with fiscal year 2019.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to Chuuk State's basic financial statements. Chuuk State's basic financial statements comprise three components: 1) governmental-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional required supplementary information in the form of budgetary schedules, which are prepared on the budgetary basis of accounting, and other optional supplementary information, in addition to the basic financial statements themselves, which includes combining statements for governmental funds and component units.

Government-Wide Financial Statements

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

The statement of net assets includes all the government's assets and liabilities. The difference in the two is called net position. Over time, increases or decreases in Chuuk State's net assets serve as an indicator to measure Chuuk State's financial position.

The statement of activities, on the other hand, account for Chuuk State's current year's revenues and expenses regardless of when cash is received or paid.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis, Continued
September 30, 2020

The government-wide financial statements of Chuuk State are divided into two categories:

- **Governmental Activities** - Most of Chuuk State's basic services are included here, such as education, health, special appropriations, finance, judiciary, and general administration. Compact sector and other federal grants finance most of these activities.
- **Component Units** - Chuuk State includes the operating results of the Chuuk State Health Care Plan, the Chuuk Public Utility Corporation, and the Chuuk State Housing Authority in its report. Although legally separate, these "component units" are important because Chuuk State is financially accountable for them.

Fund Financial Statements

The fund financial statements provide more detailed information about Chuuk State's significant funds. Funds are accounting devices that Chuuk State uses to keep track of specific sources of funding and spending for particular services. The State uses fund accounting to comply with financial and related legal requirements. The fund financial statements present a balance sheet and a statement of revenues, expenditures, and changes in fund balances for its major and aggregated non-major funds.

Most of Chuuk State's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance Chuuk State programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains and reconciles the relationship (or differences) between them.

Chuuk State maintains individual governmental funds, which are categorized as major and non-major. The major funds comprise the General Fund, the Grants Assistance Fund, and the permanent Compact Trust Fund.

FINANCIAL ANALYSIS OF CHUUK STATE AS A WHOLE

Net position may serve over time as a useful indicator of a government's financial position. At the end of fiscal year 2020, Chuuk State's assets exceeded liabilities by \$54.913 million. However, all such net position is restricted as to the purposes they can be used for or are invested in capital assets. Chuuk State uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although Chuuk State's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The following summary of Chuuk State's net position as of September 30, 2020, with comparable balances for fiscal year 2019, discloses this relationship.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis, Continued
September 30, 2020

	Governmental Activities			
	<u>2020</u>	<u>2019</u>	<u>Change</u>	<u>%</u>
Current and other assets	\$32,192,662	\$31,192,195	\$ 1,000,467	3.21
Capital assets	<u>46,906,673</u>	<u>34,780,773</u>	<u>12,125,900</u>	34.86
Total Assets	<u>\$79,099,335</u>	<u>\$65,972,968</u>	<u>\$13,126,367</u>	19.90
Current and other liabilities	\$16,749,593	\$18,654,040	\$(1,904,447)	(10.21)
Long-term debt	<u>7,436,681</u>	<u>7,191,195</u>	<u>245,486</u>	3.41
Total Liabilities	<u>24,186,274</u>	<u>25,845,235</u>	<u>(1,658,961)</u>	(6.42)
Net Position:				
Net investment in capital assets	46,906,673	34,780,773	12,125,900	34.86
Restricted	23,313,313	21,451,685	1,861,628	8.68
Unrestricted	<u>(15,306,925)</u>	<u>(16,104,725)</u>	<u>797,800</u>	(4.95)
Total net position	<u>54,913,061</u>	<u>40,127,733</u>	<u>14,785,328</u>	36.85
Total Liabilities and Net Position	<u>\$79,099,335</u>	<u>\$65,972,968</u>	<u>\$13,126,367</u>	19.90

At the end of fiscal year 2020, Chuuk State's unrestricted net position showed a deficit of \$15.307 million, a decrease of \$0.798 million (4.95%) from the prior year \$16.105 million. This deficit is the result of having current and long-term commitments that are greater than currently available resources. Chuuk State did not include in past annual budgets the full amounts needed to finance its current liabilities to vendors and others or its long-term liabilities arising from Asian Development Bank (ADB) loans and unused employee leave balances. Chuuk State will include these amounts in future years' budgets as funding permits.

Net position increased by \$14.785 million (or 36.85%) from the prior year. Key elements of the increase and the differences from the prior year are shown in the following schedule:

	Governmental Activities			
	<u>2020</u>	<u>2019</u>	<u>Change</u>	<u>%</u>
Revenues:				
Program Revenues:				
Charges for services	\$ 2,339,520	\$ 3,112,327	\$ (772,807)	(24.83)
Operating and capital grants and contributions	<u>30,375,447</u>	<u>26,520,495</u>	<u>3,854,952</u>	14.54
	<u>32,714,967</u>	<u>29,632,822</u>	<u>3,082,145</u>	10.40
General Revenues:				
Taxes	7,655,174	6,781,768	873,406	12.85
Unrestricted investment earnings (losses)	357,775	(353,507)	711,282	(201.21)
Other	<u>877,326</u>	<u>644,320</u>	<u>233,006</u>	36.16
	<u>8,890,275</u>	<u>7,072,581</u>	<u>1,817,694</u>	25.70
Total revenues	<u>41,605,242</u>	<u>36,705,403</u>	<u>4,899,839</u>	13.35
Special item-SDR foreign exchange gain	-	195,668	(195,668)	(100.00)
Donated land from the FSM Congress	2,766,569	-	2,766,569	100.00
Donated building	11,391,399	-	11,391,399	100.00
Contributions to permanent fund	<u>1,386,084</u>	<u>507,336</u>	<u>878,748</u>	173.21
Total revenues and contributions	<u>57,149,294</u>	<u>37,408,407</u>	<u>19,740,887</u>	52.77

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis, Continued
September 30, 2020

	Governmental Activities			
	<u>2020</u>	<u>2019</u>	<u>Change</u>	<u>%</u>
Expenses:				
General government	7,453,247	7,919,381	(466,134)	(5.89)
Health services	12,177,961	11,114,632	1,063,329	9.57
Education	14,755,608	12,938,666	1,816,942	14.04
Economic development	1,126,406	833,069	293,337	35.21
Public safety	1,094,333	1,081,649	12,684	1.17
Public works and transportation	1,442,515	1,627,819	(185,304)	(11.38)
Community affairs	-	152,093	(152,093)	(100.00)
Boards and commissions	1,235,970	1,262,730	(26,760)	(2.12)
Judiciary	464,036	543,091	(79,055)	(14.56)
Payments to component units	71,522	65,559	5,963	9.10
Municipal affairs	419,153	418,359	794	0.19
Unallocated Interest on long-term debt	1,004,607	100,476	904,131	899.85
Capital projects	1,115,026	835,701	279,325	33.42
Other	<u>3,582</u>	<u>6,131</u>	<u>(2,549)</u>	<u>(41.58)</u>
Total expenses	<u>42,363,966</u>	<u>38,899,356</u>	<u>3,464,610</u>	8.91
Change in net position	14,785,328	(1,490,949)	16,276,277	(1,091.67)
Net position at the beginning of the year	<u>40,127,733</u>	<u>41,618,682</u>	<u>(1,490,949)</u>	(3.58)
Net position at the end of the year	\$ <u>54,913,061</u>	\$ <u>40,127,733</u>	\$ <u>14,785,328</u>	36.85

The detail indicates the increases in both revenues and expenses in fiscal year 2020, resulting to an increase in overall net position of \$14.785 million.

Revenues and contributions of \$57.149 million increased by \$19.741 million (or 52.77%) from prior year's \$37.408 million. The key elements of the increase were due to an increase in operating and capital grants and contributions, donated land from the FSM Congress and a donated building from the government of China as compared with prior year.

The following table shows a comparison of each revenue component's contribution to total revenues:

<u>SOURCES OF REVENUE</u>	<u>2020</u>	<u>2019</u>
Compact funding	49.3%	65.3%
Federal and other grants	3.9%	5.9%
Investments	0.6%	0.4%
Revenue sharing	7.2%	9.9%
Taxes and fees	10.3%	16.7%
Other	<u>28.7%</u>	<u>1.8%</u>
	<u>100.0%</u>	<u>100.0%</u>

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis, Continued
September 30, 2020

Notwithstanding the increase in revenues on taxes, fees and departmental charges that reduce dependency on Compact funding, the predominance of sector funding at 49.3% of total revenue highlights the importance of optimizing Compact sector grant utilization.

Total expenses increased by \$3.465 million (or 8.91%), from \$38.899 million in the prior fiscal year to \$42.364 million in fiscal year 2020. The most notable increases in fiscal year 2020 were in health sector \$1.063 million, education sector \$1.817 million, economic development \$0.293 million, public safety \$0.013 million, unallocated interest on long-term debt \$0.904 million and capital projects of \$0.279 million. However, the major decreases in expenses occurred in the general government of \$0.466 million, public works and transportation of \$0.185 million, community affairs of \$0.152, boards and commissions of \$0.027 million and judiciary of \$0.079 million that offset the above increases.

FINANCIAL ANALYSIS OF CHUUK STATE'S FUNDS

As noted earlier, Chuuk State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. As of the end of fiscal year 2020, Chuuk State's governmental funds reported a combined fund balance of \$16.188 million, which represents a \$2.595 million increase (19.09%) from the \$13.593 million fund balance recorded at the end of fiscal 2019. Of this total combined fund balance, \$18.573 million is non-spendable because it is legally restricted for other purposes and \$5.500 million which is restricted to fund specific fund-related activities. These non-spendable and restricted fund balances are off-set by a combined unassigned fund deficit of \$7.885 million.

General Fund

Most of the basic current operational services are recorded, reported, and accounted for in the General Fund, except for Health, Education, Environment, Private Sector Development, Capacity Building, ERA and IMF which are reported and accounted for in the Grant Assistance Fund. As shown in the accompanying financial statements, at the end of fiscal year 2020, the General Fund recorded total revenues of \$11.084 million with total expenditures of \$9.918 million, which resulted in net revenues of \$1.166 million after repayment of ADB loan principal and interest of \$1.131 million. At the end of the year and after a transfer of \$0.510 million to Grants Assistance Fund, the General Fund deficit decreased by \$0.656 million decreasing from \$4.093 million in the prior year to \$3.437 million which resulted in a total accumulated unassigned fund deficit of \$7.885 million. The State needs to continue to develop strategies to increase revenues and reduce expenditures in order to sustainably eliminate the fund balance deficit over the next several years.

Grants Assistance Fund

The Grants Assistance Fund consists of funding provided through the amended Compact of Free Association Sector Grants; US Federal Grants, and other Non-US grants. As shown in the accompanying financial statements, at the end of fiscal year 2020, the Grant Assistance Fund had total revenues of \$30.375 million and total expenditures of \$30.422 million. After a transfer of \$0.505 million from General Fund, the result is an excess of revenues over expenditures of \$0.464 million which resulted in a net fund balance of \$2.315 million.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis, Continued
September 30, 2020

Compact Trust Fund

The Trust Fund was established to account for Chuuk State's share of the Compact Trust Fund. The Fund is managed by the FSM National Government and is a long-term restricted Fund. At the end of fiscal year 2020, the fund recorded a net change in the fair value of its investments of \$1.386 million, which increased the fund balance at the end of the year to \$17.156 million.

Other Governmental Fund

This fund is established to account and report on fees collected for services at the Chuuk State Hospital. At the end of fiscal year 2020, total revenues collected were \$0.146 million and expenditures were \$0.057 million. This resulted in an excess of revenues over expenditures of \$0.089 million.

Note 8 of the financial statements gives further details of the fund balance components of Chuuk State.

GENERAL FUND BUDGETARY HIGHLIGHTS

In fiscal year 2020, actual revenues of \$11.084 million exceeded the budgeted revenues of \$9.622 million by \$1.462 million. Actual budgetary expenditures of \$10.305 million were greater than budgetary appropriations of \$9.498 million by \$0.807 million, resulting in an excess of revenues over expenditures of \$0.779 million. The net change in unreserved fund deficit on a budgetary basis was a positive of \$0.269 million after a fund transfer of \$0.510 million. In accordance with the principles of budgetary accounting, the deficit includes encumbrances for goods or services ordered but not received, which amounted to \$0.387 million. The net change in unreserved fund deficit on a budgetary basis was a positive \$0.656 million.

Chuuk State retains a balanced operating budget but debt financing activities of the State that are not budgeted have a negative impact on the overall State operations. In fiscal year 2020, payments of \$1.131 million on principal and interest on ADB loans and debt relief reduced the positive amount that reduced the unreserved fund deficit.

CAPITAL ASSET AND DEBT ADMINISTRATION

Chuuk State's investment in capital assets for the primary government as of September 30, 2020, amounted to \$140.811 million less accumulated depreciation of \$93.905 million, leaving a net book value of \$46.907 million. This represents a net increase of \$12.126 million (or 34.86%) from fiscal year 2019. Chuuk State recorded net additions of \$2.558 million in land, \$11.4 in buildings and \$0.607 million in vehicles/equipment. The table below summarizes Chuuk State's net capital assets:

	Governmental Activities			
	<u>2020</u>	<u>2019</u>	<u>Change</u>	<u>%</u>
Land	\$ 20,995,251	\$ 18,437,566	\$ 2,557,685	13.87
Airport Facilities	3,053,095	4,005,780	(952,685)	(23.78)
Buildings	18,478,333	7,901,685	10,576,648	133.85
Seaport Facilities	1,325,862	1,988,792	(662,930)	(33.33)
Vehicles / Equipment	<u>3,054,132</u>	<u>2,446,950</u>	<u>607,182</u>	24.81
	\$ <u>46,906,673</u>	\$ <u>34,780,773</u>	\$ <u>12,125,900</u>	34.86

Additional information on Chuuk State's capital assets can be found in Note 5 to the accompanying financial statements.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis, Continued
September 30, 2020

Long –Term Debt

The following schedule shows Chuuk State's summarized long-term debt for fiscal year 2020 with comparative amounts for fiscal year 2019.

	Governmental Activities			
	2020	2019	Change	%
ADB Water Supply Loan (1459)	\$2,547,058	\$2,623,550	\$ (76,492)	(2.92)
ADB Early Retirement Loan (1520)	3,675,893	3,767,658	(91,765)	(2.44)
ADB Basic Social Services Program Loan (1816)	-	(101,090)	101,090	(100.00)
ADB Private Sector Reform Program Loan (1873)	212,684	243,668	(30,984)	(12.72)
ADB Private Sector Reform Program Loan (1874)	<u>628,862</u>	<u>657,409</u>	<u>(28,547)</u>	(4.34)
	<u>\$7,064,497</u>	<u>\$7,191,195</u>	<u>\$(126,698)</u>	(1.76)

Long-term debt decreased by \$0.127 million (or 1.76%) in fiscal year 2020 as the result of loan repayments.

Additional information on Chuuk State's long-term debt obligations can be found in Notes 6 and 7 to the accompanying financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Chuuk State local revenue collections are showing growth in fiscal year 2021 with revenue collections trending expected to have marginal growth from prior year; however, this does not include any gains or losses from investment earnings. As a result, State policymakers have cautiously kept general fund budgets capped within actual revenue collections, both in fiscal years 2021 and for the 2022 annual appropriation act. Revenue collections in excess of these fiscal ceilings will be used for debt relief payments of Chuuk's old liabilities.

No COVID-19 cases have been reported in the FSM. Should it reach the FSM, it may negatively impact the State; however, its impact on the States operations and financial position cannot be reasonably determined.

CONTACTING CHUUK STATE'S FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, taxpayers, customers, and investments and creditors, a general overview of Chuuk State's finances to demonstrate its accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Director, Office of Administrative Services, P.O. Box 849, Weno, Chuuk FM 96941

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Statement of Net Position
September 30, 2020

	<u>Primary Government</u>	<u>Component Units</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 2,189,414	\$ 3,033,857
Time certificates of deposit	-	100,000
Equity interest in internal investment pool	34,868	129,906
Receivables, net of allowance for uncollectibles	4,003,750	1,163,962
Inventories	-	1,231,089
Prepayments	168,549	-
Restricted assets:		
Cash and cash equivalents	<u>4,191,457</u>	<u>-</u>
Total current assets	<u>10,588,038</u>	<u>5,658,814</u>
Noncurrent assets:		
Restricted assets:		
Investments	20,188,114	-
Investments	816,510	-
Other assets	600,000	962,804
Capital assets:		
Nondepreciable capital assets	20,995,251	1,927,813
Capital assets, net of accumulated depreciation	<u>25,911,422</u>	<u>19,227,856</u>
Total noncurrent assets	<u>68,511,297</u>	<u>22,118,473</u>
Total assets	<u>\$ 79,099,335</u>	<u>\$ 27,777,287</u>
<u>LIABILITIES</u>		
Current liabilities:		
Current portion of long-term debt	\$ 460,704	\$ 285,738
Accounts payable	522,505	341,760
Land acquisition payable	8,543,745	-
Compensated absences payable	284,142	7,359
Other liabilities and accruals	425,858	482,215
Unearned revenues	<u>6,512,639</u>	<u>91,190</u>
Total current liabilities	<u>16,749,593</u>	<u>1,208,262</u>
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	6,603,793	3,606,131
Compensated absences payable, net of current portion	<u>832,888</u>	<u>66,050</u>
Total noncurrent liabilities	<u>7,436,681</u>	<u>3,672,181</u>
Total liabilities	<u>24,186,274</u>	<u>4,880,443</u>
<u>NET POSITION</u>		
Net investment in capital assets	46,906,673	17,263,800
Restricted for:		
Nonexpendable:		
Future operations	17,156,469	-
Expendable:		
Compact related	2,971,381	-
Debt service	3,031,645	-
Other purposes	153,818	2,490,509
Unrestricted	<u>(15,306,925)</u>	<u>3,142,535</u>
Total net position	<u>54,913,061</u>	<u>22,896,844</u>
Total liabilities and net position	<u>\$ 79,099,335</u>	<u>\$ 27,777,287</u>

See accompanying notes to financial statements.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Statement of Activities
Year Ended September 30, 2020

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
Primary government:						
Governmental activities:						
General government	\$ 7,453,247	\$ 1,462,439	\$ 3,870,731	\$ -	\$ (2,120,077)	\$ -
Health services	12,177,961	145,922	11,201,931	-	(830,108)	-
Education	14,755,608	-	13,932,529	-	(823,079)	-
Economic development	1,126,406	-	255,230	-	(871,176)	-
Public safety	1,094,333	91,622	-	-	(1,002,711)	-
Public works and transportation	1,442,515	639,537	-	-	(802,978)	-
Boards, commissions and other	1,235,970	-	-	-	(1,235,970)	-
Judiciary	464,036	-	-	-	(464,036)	-
Payments to component units	71,522	-	-	-	(71,522)	-
Municipal affairs	419,153	-	-	-	(419,153)	-
Unallocated interest on long-term debt	786,228	-	-	-	(786,228)	-
Capital projects	1,115,026	-	-	1,115,026	-	-
Other	3,582	-	-	-	(3,582)	-
Total primary government	<u>42,145,587</u>	<u>2,339,520</u>	<u>29,260,421</u>	<u>1,115,026</u>	<u>(9,430,620)</u>	<u>-</u>
Component units:						
Chuuk State Health Care Plan	284,346	695,994	-	-	-	411,648
Chuuk Public Utility Corporation	6,985,686	6,815,185	-	748,413	-	577,912
Chuuk State Housing Authority	181,458	148,900	-	-	-	(32,558)
Total component units	<u>\$ 7,451,490</u>	<u>\$ 7,660,079</u>	<u>\$ -</u>	<u>\$ 748,413</u>	<u>-</u>	<u>957,002</u>
General revenues:						
Taxes:						
FSM revenue sharing:						
Gross revenue taxes					1,338,388	-
Import taxes					1,274,974	-
Income taxes					1,238,974	-
Other taxes					266,476	-
State taxes:						
Sales tax					2,921,544	-
Other excise taxes					614,818	-
Unrestricted investment income					357,775	114,211
Other					877,326	71,213
Total general revenues					<u>8,890,275</u>	<u>185,424</u>
Special item - gain on SDR foreign exchange					(218,379)	-
Donated land from the FSM Congress					2,766,569	-
Donated building					11,391,399	-
Contributions to permanent fund					1,386,084	-
Total general revenues, special item and contributions					<u>24,215,948</u>	<u>185,424</u>
Change in net position					<u>14,785,328</u>	<u>1,142,426</u>
Net position at the beginning of the year					<u>40,127,733</u>	<u>21,754,418</u>
Net position at the end of the year					<u>\$ 54,913,061</u>	<u>\$ 22,896,844</u>

See accompanying notes to financial statements.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Balance Sheet
Governmental Funds
September 30, 2020

	General	Special Revenue Grants Assistance	Permanent Compact Trust	Other Governmental Funds	Total
ASSETS					
Cash and cash equivalents	\$ 2,189,414	\$ -	\$ -	\$ -	\$ 2,189,414
Equity interest in internal investment pool	34,868	-	-	-	34,868
Investments	816,510	-	-	-	816,510
Receivables, net	831,412	3,172,338	-	-	4,003,750
Prepayments	-	168,549	-	-	168,549
Due from other funds	3,128,198	8,920,837	-	161,459	12,210,494
Other assets	600,000	-	-	-	600,000
Restricted assets:					
Cash and cash equivalents	4,191,457	-	-	-	4,191,457
Investments	3,031,645	-	17,156,469	-	20,188,114
Total assets	<u>\$ 14,823,504</u>	<u>\$ 12,261,724</u>	<u>\$ 17,156,469</u>	<u>\$ 161,459</u>	<u>\$ 44,403,156</u>
LIABILITIES AND FUND BALANCES (DEFICIT)					
Liabilities:					
Accounts payable	\$ 380,365	\$ 134,499	\$ -	\$ 7,641	\$ 522,505
Accrued liabilities	254,315	171,543	-	-	425,858
Land acquisition payable	8,543,745	-	-	-	8,543,745
Unearned revenues	-	6,512,639	-	-	6,512,639
Due to other funds	9,082,296	3,128,198	-	-	12,210,494
Total liabilities	<u>18,260,721</u>	<u>9,946,879</u>	<u>-</u>	<u>7,641</u>	<u>28,215,241</u>
Fund balances (deficit):					
Nonspendable	1,416,510	-	17,156,469	-	18,572,979
Restricted	3,031,645	2,314,845	-	153,818	5,500,308
Unassigned:					
General fund	(7,885,372)	-	-	-	(7,885,372)
Total fund balances (deficit)	<u>(3,437,217)</u>	<u>2,314,845</u>	<u>17,156,469</u>	<u>153,818</u>	<u>16,187,915</u>
Total liabilities and fund balances	<u>\$ 14,823,504</u>	<u>\$ 12,261,724</u>	<u>\$ 17,156,469</u>	<u>\$ 161,459</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are reported in the funds 46,906,673

Long-term liabilities, including loans payable, are not due and payable in the current period and, therefore, are not reported in the funds. The liabilities include:

Long-term obligations	(7,064,497)
Compensated absences	(1,117,030)
	<u>(8,181,527)</u>

Net position of governmental activities \$ 54,913,061

See accompanying notes to financial statements.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)
Governmental Funds
Year Ended September 30, 2020

	General	Special	Permanent	Other Governmental Funds	Total
		Revenue	Grants		
		Assistance	Trust		
Revenues:					
Compact funding	\$ -	\$ 28,167,332	\$ -	\$ -	\$ 28,167,332
Net change in the fair value of investments	357,775	-	1,386,084	-	1,743,859
Federal contributions and other grants	-	2,208,115	-	-	2,208,115
FSM revenue sharing	4,118,812	-	-	-	4,118,812
State taxes	3,536,362	-	-	-	3,536,362
Fees and charges	2,193,598	-	-	145,922	2,339,520
Other	877,326	-	-	-	877,326
Total revenues	<u>11,083,873</u>	<u>30,375,447</u>	<u>1,386,084</u>	<u>145,922</u>	<u>42,991,326</u>
Expenditures:					
Current:					
General government	4,156,123	1,338,571	-	-	5,494,694
Health services	151,427	12,418,830	-	56,818	12,627,075
Education	-	14,823,609	-	-	14,823,609
Economic development	400,502	725,904	-	-	1,126,406
Public safety	1,099,166	-	-	-	1,099,166
Public works and transportation	778,185	-	-	-	778,185
Community affairs	-	-	-	-	-
Boards, commissions and other	1,242,859	-	-	-	1,242,859
Judiciary	464,036	-	-	-	464,036
Payments to component units	71,522	-	-	-	71,522
Municipal affairs	419,153	-	-	-	419,153
Other	3,582	-	-	-	3,582
Capital projects	-	1,115,026	-	-	1,115,026
Debt service	1,131,305	-	-	-	1,131,305
Total expenditures	<u>9,917,860</u>	<u>30,421,940</u>	<u>-</u>	<u>56,818</u>	<u>40,396,618</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,166,013</u>	<u>(46,493)</u>	<u>1,386,084</u>	<u>89,104</u>	<u>2,594,708</u>
Other financing sources (uses)					
Operating transfer in (out)	<u>(510,100)</u>	<u>510,100</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances (deficit)	<u>655,913</u>	<u>463,607</u>	<u>1,386,084</u>	<u>89,104</u>	<u>2,594,708</u>
Fund balances (deficit) at the beginning of the year	<u>(4,093,130)</u>	<u>1,851,238</u>	<u>15,770,385</u>	<u>64,714</u>	<u>13,593,207</u>
Fund balances (deficit) at the end of the year	<u>\$ (3,437,217)</u>	<u>\$ 2,314,845</u>	<u>\$ 17,156,469</u>	<u>\$ 153,818</u>	<u>\$ 16,187,915</u>

See accompanying notes to financial statements.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended September 30, 2020

Amounts reported for governmental activities in the statement of activities are different from changes in fund balances because:

Net change in fund balances - total governmental funds	\$ 2,594,708
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$3,046,642) exceeded capital outlays, net of \$15,172,542 in the current period.	12,125,900
The incurrence of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. For the current year, these amounts consist of:	
Repayment of ADB loans net of a gain on SPR foreign exchange adjustment	126,698
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. For the current year, these activities consist of:	
Change in compensated absences payable	<u>(61,978)</u>
Change in net position of governmental activities	\$ <u>14,785,328</u>

See accompanying notes to financial statements.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

DISCRETELY PRESENTED COMPONENT UNITS
Combining Statement of Net Position
September 30, 2020

<u>ASSETS</u>	<u>Chuuk State Health Care Plan</u>	<u>Chuuk Public Utility Corporation</u>	<u>Chuuk State Housing Authority</u>	<u>Total</u>
Current assets:				
Cash and cash equivalents	\$ 1,361,419	\$ 1,508,565	\$ 163,873	\$ 3,033,857
Time certificates of deposit	100,000	-	-	100,000
Investments	129,906	-	-	129,906
Receivables, net	372,002	599,571	192,389	1,163,962
Inventories	-	1,231,089	-	1,231,089
	<u>1,963,327</u>	<u>3,339,225</u>	<u>356,262</u>	<u>5,658,814</u>
Total current assets				
Noncurrent assets:				
Deposits	23,000	939,804	-	962,804
Capital assets:				
Nondepreciable capital assets	-	1,927,813	-	1,927,813
Capital assets, net of accumulated depreciation	33,886	19,181,520	12,450	19,227,856
	<u>33,886</u>	<u>19,181,520</u>	<u>12,450</u>	<u>19,227,856</u>
Total assets	<u>\$ 2,020,213</u>	<u>\$ 25,388,362</u>	<u>\$ 368,712</u>	<u>\$ 27,777,287</u>
<u>LIABILITIES AND NET POSITION</u>				
Current liabilities:				
Current portion of long-term debt	\$ -	\$ 285,738	\$ -	\$ 285,738
Compensated absence payable	-	7,359	-	7,359
Accounts payable	85,576	252,130	4,054	341,760
Accrued liabilities	-	400,691	81,524	482,215
Unearned income	-	91,190	-	91,190
	<u>85,576</u>	<u>1,037,108</u>	<u>85,578</u>	<u>1,208,262</u>
Total current liabilities				
Noncurrent liabilities:				
Accrued annual leave, net of current portion	-	66,050	-	66,050
Noncurrent portion of long-term debt	-	3,606,131	-	3,606,131
	<u>-</u>	<u>3,606,131</u>	<u>-</u>	<u>3,606,131</u>
Total liabilities	<u>85,576</u>	<u>4,709,289</u>	<u>85,578</u>	<u>4,880,443</u>
Net position:				
Net investment in capital assets	33,886	17,217,464	12,450	17,263,800
Restricted	1,900,751	589,758	-	2,490,509
Unrestricted	-	2,871,851	270,684	3,142,535
	<u>1,934,637</u>	<u>20,679,073</u>	<u>283,134</u>	<u>22,896,844</u>
Total net position				
Total liabilities and net position	<u>\$ 2,020,213</u>	<u>\$ 25,388,362</u>	<u>\$ 368,712</u>	<u>\$ 27,777,287</u>

See accompanying notes to financial statements.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

DISCRETELY PRESENTED COMPONENT UNITS
Combining Statement of Revenues, Expenses, and Changes in Net Position
Year Ended September 30, 2020

	Chuuk State Health Care Plan	Chuuk Public Utility Corporation	Chuuk State Housing Authority	Total
Operating revenues:				
Charges for services	\$ 678,209	\$ 6,731,182	\$ 148,900	\$ 7,558,291
Other	<u>17,785</u>	<u>84,003</u>	<u>-</u>	<u>101,788</u>
Total operating revenues	<u>695,994</u>	<u>6,815,185</u>	<u>148,900</u>	<u>7,660,079</u>
Operating expenses:				
Cost of services	-	3,432,972	-	3,432,972
Depreciation	14,903	1,346,952	-	1,361,855
Administration and general	<u>269,443</u>	<u>2,205,762</u>	<u>181,458</u>	<u>2,656,663</u>
Total operating expenses	<u>284,346</u>	<u>6,985,686</u>	<u>181,458</u>	<u>7,451,490</u>
Operating (loss) income	<u>411,648</u>	<u>(170,501)</u>	<u>(32,558)</u>	<u>208,589</u>
Nonoperating revenues (expenses):				
Other income	7,084	107,127	-	114,211
Operating grants	<u>70,000</u>	<u>1,213</u>	<u>-</u>	<u>71,213</u>
Total nonoperating revenues, net	<u>77,084</u>	<u>108,340</u>	<u>-</u>	<u>185,424</u>
Net income before capital contributions	488,732	(62,161)	(32,558)	394,013
Capital contributions	<u>-</u>	<u>748,413</u>	<u>-</u>	<u>748,413</u>
Change in net position	488,732	686,252	(32,558)	1,142,426
Net position at the beginning of the year	<u>1,445,905</u>	<u>19,992,821</u>	<u>315,692</u>	<u>21,754,418</u>
Net position at the end of the year	<u>\$ 1,934,637</u>	<u>\$ 20,679,073</u>	<u>\$ 283,134</u>	<u>\$ 22,896,844</u>

See accompanying notes to financial statements.

STATE OF CHUUK
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2020

(1) Summary of Significant Accounting Policies

The State of Chuuk (the State) was constituted on October 1, 1984, under the provisions of the Chuuk State Constitution (the Constitution) as approved by the people of Chuuk. The Constitution provides for the separation of powers of the executive, legislative, and judicial branches of the government.

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

A. Reporting Entity

The State is one of the four states that make up the Federated States of Micronesia (FSM), along with the states of Kosrae, Pohnpei and Yap. The State is a constitutional government comprised of three branches: the Legislative Branch, consisting of the Senate (10 members elected for a term of four years by qualified voters of their respective election districts with the President of the Senate as its highest officer) and the House of Representatives (28 members elected for a term of two years by qualified voters of their respective election districts with the Speaker as its highest officer); the Executive Branch, headed by the Governor and Lt. Governor who are primarily responsible for executing the laws and administering state government services; and the Judiciary Branch made up of the State Supreme Court, which consists of a Chief Justice and four Associate Justices, such inferior courts that may be created by law, and the municipal courts.

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

Each blended and discretely presented component unit of the State has a September 30 year-end.

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

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

Blended component units are entities that are legally separate from the State, but are so related to the State that they are, in substance, the same as the State or entities providing services entirely or almost entirely to the State. The State has not identified any entities that should be so blended.

i. Discretely Presented Component Units

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

Chuuk State Housing Authority (CSHA): CSHA was created by Chuuk State Law (CSL) No. 3-30 and is responsible for monitoring the U.S. Department of Housing and Urban Development Section 8 and CDBG housing renovation loan programs. Additionally, CSHA monitors the GLF loan fund of the State which provides low cost housing loans to the general public. CSHA is governed by a five-member Board of Directors appointed by the Governor subject to the advice and consent of the Legislature. The State has the ability to impose its will on CSHA.

Chuuk Public Utility Corporation (CPUC): CPUC was created by CSL No. 3-97-05 and is responsible for providing electrical services to the public through the operation and the maintenance of the State's electrical power system. CPUC is governed by a five-member Board of Directors appointed by the Governor subject to the advice and consent of the Legislature. The State has the ability to impose its will on CPUC.

Chuuk State Health Care Plan (CSHCP): CSHCP was established under CSL No. 2-94-06 for the purpose of establishing a financial system to provide universal coverage of an essential level of health care for all eligible enrollees and to create a means for collection of health care premiums for additional coverage. The State has the ability to impose its will on CSHCP.

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

P.O. Box 760
Weno, Chuuk, FSM 96942

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

ii. Omitted Governmental Funds

The following funds are considered to be nonmajor governmental funds of the State but are not included in the accompanying basic financial statements due to absence of account balances and financial activities. The omission of these funds is not considered material to either the nonmajor other governmental funds or the governmental activities reporting units:

Development Authorities - The Northern Namoneas Economic Development Authority, the Southern Namoneas Development Authority, the Inner Faichuk Social and Economic Development Authority, the Outer Faichuk Development Authority, the Faichuk Transportation and Economic Development Authority, the Hall Islands Economic Development Authority, the Pattiw Islands Development Authority, and the Witto Resources and Development Authority. These development authorities were established to identify the development needs and promote economic development within the various municipalities, in coordination and cooperation with the State and the FSM National Government.

Chuuk Visitors Bureau (CVB) Fund - This fund was created by CSL No. 6-39 and is responsible for improving and developing the State's tourism industry. CVB is governed by a nine-member Board of Directors, five of whom are appointed by the Governor subject to the advice and consent of the Legislature and the remaining four of whom are appointed by the President and Speaker of the Legislature.

Representation Fund: This fund was established under CSL No. 3-95-09 for the use of members of the State Legislature to provide assistance to constituents' legitimate emergencies, educational, and civic needs not met by other appropriations.

Chuuk State Legislature Entertainment Fund: This fund was established under Title 21, Section 751 of the Truk District Code (TDC), for the use by the Legislature to entertain guests or other distinguished persons living in or visiting the State.

Legislature Emergency Fund: This fund was established under Truk District Law (TDL) No. 21-1 to defray salaries of personnel of the Legislature and office expenses of the Legislature during a period of time between the close of a fiscal year and the signing into law of an appropriation for salaries and expenses of the Legislature office and staff for the next succeeding fiscal year.

Chuuk State Travel Fund: This fund was established under TDL No. 22-27 to enable members of the Legislature, Magistrates of municipalities, members of municipal councils, and other leaders in the State to travel outside of the State for the purposes of attending functions prescribed by the enabling legislation.

Association of Pacific Island Legislatures Fund: This fund was established under TDL No. 24-9 for the purpose of funding donations or membership fees to the Association of Pacific Island Legislatures.

Municipal Operations and Projects Fund: This fund was established under TDL No. 25-23 for the purpose of funding operational expenses of municipalities in the State, and providing funds for municipal projects and programs.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

ii. Omitted Governmental Funds, Continued

Fire Disaster Relief Fund: This fund was established under 7 TDC Section 51 for the purpose of providing relief to persons suffering loss or damage to homes or furnishings as a result of accidental fires.

Economic Development Loan Fund: This fund was established under 13 TDC Section 1 for the purpose of providing loans to any private citizen of the State or any Chuukese corporation or cooperative, wishing to begin, operate, or improve business operations in the State.

Chuuk Farmers', Fishermen's, and Handicrafts Fair Fund: This fund was established under TDL No. 23-28 for the purpose of paying for supplies, materials, prizes and other expenses incurred in the preparation for and holding of the Chuuk Farmers', Fishermen and Handicrafts Fair.

Chuuk State Local Farmers Revolving Fund: This fund was established under TDL No. 21-25 for the purpose of purchasing agricultural supplies, livestock, feeds, assorted tools and other materials, for the use of local farmers in the State.

Chuuk State Hospital Transportation Fund: This fund was established under TDL No. 22-32 for the purpose of transporting patients of the State, who require periodic medical treatment and care, to the Chuuk State Hospital, to provide return transportation to their homes after treatment at the Chuuk State Hospital, and to provide for each of these patients a one dollar and fifty cents (\$1.50) noon meal during such travel, treatment and care.

iii. Omitted Component Units

The following component units have been omitted from the basic financial statements due to the lack of available financial information. The omission of these component units is not considered material to the aggregate discretely presented component unit reporting unit:

Chuuk State Coconut Authority (CSCA): CSCA was created by TSL No. 1-1-12 and is responsible for the manufacturing, processing, buying, collecting, marketing, selling, exporting and dealing with, in general, all products derived from the coconut tree. CSCA is governed by a five-member Board of Directors appointed by the Governor subject to the advice and consent of the Legislature. The State has the ability to impose its will on CSCA.

Chuuk Public Fisheries Corporation (CPFC): CPFC was created by CSL No. 5-99-22 and is responsible for promoting the development of pelagic fisheries and related industries for the economic benefit of the people of the State. CPFC is governed by a five-member Board of Directors, which comprises of the Director of the Department of Marine Resources, the Director of the Department of Commerce and Industry, one member who is appointed by the Governor representing the Chamber of Commerce, and two members who are appointed by the President and the Speaker. The State has the ability to impose its will on CPFC.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide Financial Statements

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

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

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

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

The government-wide Statement of Net Position reports \$23,313,313 of restricted net position, of which none is restricted by enabling legislation.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide Financial Statements, Continued

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

C. Fund Financial Statements

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

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

D. Measurement Focus and Basis of Accounting

Government-Wide Financial Statements:

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

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

Governmental Fund Financial Statements:

Governmental fund financial statements account for the general governmental activities of the State and are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For the purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

Governmental Fund Financial Statements, Continued:

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

Component Unit Financial Statements:

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

Fund Accounting:

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

General Fund - this fund is the primary operating fund of the State. It is used to account for all governmental transactions, except those required to be accounted for in another fund.

Grants Assistance Fund - a Special Revenue Fund that accounts for funds received under sector grants pursuant to the amended Compact of Free Association; all financial transactions of federally assisted funds, which are subgranted to the State, as well as other direct federal grants that the State received from the United States government, and foreign assistance grants.

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

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(1) Summary of Significant Accounting Policies, Continued

E. Cash and Cash Equivalents and Time Certificates of Deposit

Cash and cash equivalents of the primary government and the discretely presented component units include cash held in demand accounts as well as short-term investments with maturity dates within three months of the date acquired by the State. Deposits maintained in time certificates of deposit with original maturity dates greater than ninety days are separately classified on the statement of net position/balance sheet.

F. Investments

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

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

G. Receivables

In general, tax revenue is recognized on the government-wide financial statements when assessed or levied and on the governmental fund financial statements to the extent that it is both measurable and available. Receivables are stated net of estimated allowances for uncollectible accounts. Federal receivables include those funds which are earned, primarily from FSM National Government administered federal grants, which have yet to be reimbursed by the applicable grantor.

Receivables of the primary government and the discretely presented component units are primarily due from businesses and individuals residing in the State. The State establishes an allowance for doubtful accounts receivable based on the credit risk of specific customers, historical trends and other information.

H. Inventories

Inventories of the discretely presented component units are valued at the lower of cost (FIFO) or market.

I. Prepaid Items

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

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(1) Summary of Significant Accounting Policies, Continued

J. Interfund Receivables/Payables

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

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

K. Restricted Assets

Certain assets of the primary government are classified as restricted assets because their use is completely restricted through loan agreements or enabling legislation. Specifically, the State has collateralized Asian Development Bank loan proceeds and earnings for the Chuuk State Early Retirement Scheme with investments recorded in the General Fund of \$3,031,645. Furthermore, investments recorded in the Compact Trust Fund of \$17,156,469 are restricted in that they are not available to be used in current operations.

As of September 30, 2020, cash and cash equivalents of the primary government were restricted for the following uses:

Savings account established in accordance with Section 211(d)(2) of the Compact of Free Association, as amended, for the purpose of funding the State's infrastructure maintenance plan	\$ 1,601,109
Deposit account established for the purpose of federal grants program activities	(117,878)
Deposit accounts established for the purpose of receiving payments pursuant to the Compact of Free Association, as amended	<u>2,708,226</u>
	\$ <u>4,191,457</u>

L. Other Assets

The State holds approximately 3.3% of the outstanding shares of Pacific Islands Development Bank with a carrying value of \$300,000 and 7% of the outstanding shares of the FSM Development Bank with a carrying value of \$300,000. These equity interests do not meet the definition of an investment as the assets are held primarily for economic development and are presented as other assets in the accompanying financial statements.

M. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure (e.g. roads, bridges, ramps and other similar items), are reported in the governmental activity column of the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at fair market value at the date of donation.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(1) Summary of Significant Accounting Policies, Continued

M. Capital Assets, Continued

The State currently holds no title to land. Singular pieces of machinery and equipment, other than vehicles, that equal or exceed \$50,000 are capitalized. Buildings and infrastructure projects with a cost that equals or exceeds \$100,000 are capitalized. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized.

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

Buildings	40 - 50 years
Infrastructure	25 - 50 years
Facilities	3 - 40 years
Machinery and equipment	3 - 25 years
Furniture and fixtures	3 - 10 years

N. Deferred Outflows of Resources

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

O. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Annual leave accumulates at the rate of one working day per bi-weekly pay period.

P. Unearned Revenues

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

Q. Deferred Inflows of Resources

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. The State has no items that qualify for reporting in this category.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(1) Summary of Significant Accounting Policies, Continued

R. Fund Balance

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

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

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

A formal minimum fund balance policy has not been adopted.

S. Interfund/Intrafund Transactions

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

T. New Accounting Standards

During fiscal year 2020, the State implemented the following pronouncements:

During the year ended September 30, 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No. 84, 89, 90, 91, 92 and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards, Continued

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 84 will be effective for fiscal year ending September 30, 2021.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. Management believes that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 will be effective for the fiscal year ending September 30, 2022.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 89 will be effective for fiscal year ending September 30, 2022.

In March 2018, GASB issued Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 90 will be effective for fiscal year September 30, 2021.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards, Continued

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements.

In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.

In January 2020, GASB issued statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefits. The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance. The remaining requirements of GASB Statement No. 92 is effective for the fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The primary objective of this statement is to address those and other accounting and financial reporting implications of the replacement of an IBOR. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 93 will be effective for fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This statement also provides guidance for accounting and financial reporting for availability payment arrangements. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards, Continued

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

U. Risk Financing

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

V. Estimates

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

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(1) Summary of Significant Accounting Policies, Continued

W. Total Columns

Total columns are presented primarily to facilitate financial analysis. The Management's Discussion and Analysis includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with the State's financial statements for the year ended September 30, 2019 from which summarized information was derived.

(2) Deposits and Investments

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

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

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

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

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

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(2) Deposits and Investments, Continued

The Secretary of Administration and Finance shall be responsible for investment of all public funds collected or appropriated for use by the State. Funds under this arrangement shall include all appropriations from the State, whether funds are appropriated from the State Treasury or funds from other sources. Any funds in excess of the amount necessary for the operation of the State shall be deposited or invested to earn the safest optimum interest. The Secretary shall determine the amount to be invested with the consideration that such amount should not cause disruption of any government service due to low or lack of funds in the operational budget. The Secretary shall cause all investments to be made into financially secure institutions in Chuuk or abroad as determined by the financial institution paying the highest rate of interest on savings when the investment is made.

The investment policy for the Compact Trust Fund (the Trust Fund), which was adopted by the Trust Fund Committee on September 15, 2010 and amended through December 17, 2013 requires the Trust Fund to allocate its managed investment portfolios among domestic and foreign equity and fixed income securities. All or a portion of the Trust Fund may be invested in exchange traded funds ("ETFs"), mutual funds, real estate investment trusts ("REITs"), separate accounts and common trust funds (commingled vehicles), hedge funds, private equity funds, and other pooled investment vehicles ("pooled vehicles"). A common trust fund is similar to an open-ended investment company or mutual fund, but participation is limited to investors with trust accounts. Commingled and pooled vehicles that invest exclusively in marketable fixed income securities are considered to be fixed income securities for the purpose of compliance with the Trust Fund's investment policy.

The fair values of ETFs, mutual funds, and common trust funds are generally determined by the fair value of the underlying marketable equity and debt securities owned, which are principally common stocks and bonds, respectively. Publicly traded ETFs, mutual funds, and similar vehicles may trade at prices above or below the fair values of the underlying investments held; therefore the fair value of such investments may differ from the sum of the fair values of the underlying investments owned. The core fixed income portfolios may be invested in debt securities issued by the U.S. government and government agencies, foreign governments, domestic and international corporate securities, including asset-backed and mortgage-backed obligations. The fixed income portfolio may invest in convertible and high yield debt securities; however the average quality of the fixed income portfolio must be rated "investment grade" by at least one nationally recognized rating agency at the time of purchase. The Trust Fund's fixed income investment objective is for each portfolio to achieve total return similar to a relevant index, such as Barclays Capital Aggregate Index and the Bank of America Merrill Lynch Global High Yield Index.

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

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

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(2) Deposits and Investments, Continued

The fair values of the underlying investments held by each private equity fund are generally determined by management of the equity investee or as determined by the general partner or manager of the private equity fund and is based upon the Trust Fund's percentage ownership of the underlying investments. Investments in private equity funds generally tend to be illiquid for significant periods of time.

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

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

Derivatives, options and future contracts are permitted investments for the purpose of reducing risk and efficient portfolio management. Derivatives, options and futures may not be used for speculative purposes.

A. Deposits

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

As of September 30, 2020, the carrying amount of the primary government's total cash and cash equivalents were \$6,380,871 and the corresponding bank balances were \$9,413,010, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2020, bank deposits in the amount of \$500,000 were FDIC insured. The State does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

As of September 30, 2020, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$3,133,857 and the corresponding bank balances were \$3,194,306, which are maintained in financial institutions subject to FDIC insurance. As of September 30, 2020, bank deposits in the amount of \$1,000,000 were FDIC insured. The component units do not require collateralization of their cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Therefore, these deposits are exposed to custodial credit risk.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(2) Deposits and Investments, Continued

B. Investments

Primary Government

As of September 30, 2020, the State's investments are as follows:

General Fund:	
Fixed income	\$ 1,026,089
Domestic equities	816,510
Common equities	1,951,593
Cash management account	<u>88,831</u>
	<u>3,883,023</u>
Compact Trust Fund:	
Common trust funds:	
Domestic Equity	4,896,348
International Equity	3,017,391
Global Equity	2,861,888
Fixed Income	2,764,712
Private Equity	1,426,813
Hedge Fund	738,496
Real Estate	1,428,057
Money market funds	<u>22,764</u>
	<u>17,156,469</u>
	\$ <u>21,039,492</u>

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. With the exception of investments in U.S. government securities, which are explicitly or implicitly guaranteed by the United States government, all other investments must be rated in accordance with the State's investment policy.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the State will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The State's investments are held and administered by trustees. Based on negotiated trust and custody contracts, all of these investments were held in the State's name by the State's custodial financial institutions at September 30, 2020.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the State. As of September 30, 2020, the State did not have any investments in a single issuer that represented 5% or more of the investments of the State.

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

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

The Trust Fund's fixed income allocation consists of a Mercer Investment Management Opportunistic Fixed Income mutual fund ("MIM OFI") and a Mercer Investment Management Core Fixed Income Fund ("MIM CFI"); the performance of these funds is expected to closely replicate the performance of 50% of the JP Morgan Government Bond Index Emerging Market Global Diversified Index and 50% Bank of America/Merrill Lynch Global High Yield and the Barclays Capital U.S. Aggregate Bond Index, respectively. The bonds held by MIM CFI vary in credit quality with an average overall rating of "Ba1" as rated by Moody's as of September 30, 2020. High yield debt receiving a credit rating below "A" comprises approximately 65.5% of the MIM CFI fixed income portfolio as rated by Moody's at September 30, 2020. At September 30, 2020, the weighted average maturity of the bonds comprising MIM CFI is 7.70 years.

The bonds held by MIM OFI vary in credit quality with an average overall rating of "Aa3" as rated by Moody's as of September 30, 2020. High yield debt receiving a credit rating below "A" comprises approximately 29.9% of the MIM OFI fixed income portfolio as rated by Moody's at September 30, 2020. At September 30, 2020, the weighted average maturity of the bonds comprising MIM OFI is 10.23 years.

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

The Trust Fund's exposure to foreign currency risk is derived from its investment in common trust funds, ETFs and REITs that hold investments in securities of foreign issuers and sovereigns. Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair values of an investment or deposit. At September 30, 2020, the Trust Fund held approximately \$221,315,000 in securities of foreign issuers held in common trust funds. Of this amount, approximately \$46,371,000 was held in securities whose functional currency is the Euro, \$18,758,000 whose functional currency is the British pound, \$40,904,000 whose functional currency is the Japanese yen, and \$115,282,000 in functional currencies of 36 other countries. Foreign currency exposure data is not available for the Trust Fund's investment in the Hedge Funds and its investments in Global Private Equity Funds, which comprise 4.3% of invested assets at September 30, 2020.

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

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

The State owns 25,000 shares of the outstanding common stock of the Bank of the Federated States of Micronesia, which engages in commercial banking services in the FSM. An equity investment in the common stock of the Bank of the Federated States of Micronesia (investee) is stated at the net asset value (NAV). The NAV is used as a practical expedient to estimate fair value. The NAV is determined based on the total shareholders' equities reported by the investee.

As of September 30, 2020, the State's fixed income securities, including related Moody's Investors Service credit ratings, had the following maturities:

Investment Type	Credit Ratings	Investment Maturities (In Years)				
		Fair Value	Current	1-5	6-10	Over 10
U.S. Treasury Notes and Bonds	Aaa	\$ 256,445	\$ -	\$157,977	\$ 4,030	\$ 94,438
U.S. Government Agencies Obligations:						
Federal Farm Credit Bank	Aaa	111,863	61,045	6,723	44,095	-
Federal Home Loan Bank	Aaa	45,134	-	7,099	38,035	-
Federal Home Loan Mortgage Corporation	Aaa	6,626	8	-	-	6,618
Government National Mortgage Association	Aaa	555	-	-	-	555
Federal National Mortgage Association	Aaa	17,136	-	-	-	17,136
Overseas Private Investment Corporation	Aaa	41,055	-	41,055	-	-
Tennessee Valley Authority	Aaa	70,471	-	15,231	-	55,240
Municipal Obligations	Aa1	25,425	10,068	7,024	2,727	5,606
Municipal Obligations	Aa2	45,096	25,688	-	8,918	10,490
Municipal Obligations	Aa3	4,368	-	4,368	-	-
Corporate Bonds	Aaa	83,298	-	58,984	10,727	13,587
Corporate Bonds	Aa1	4,244	-	4,244	-	-
Corporate Bonds	Aa2	36,271	9,407	15,074	-	11,790
Corporate Bonds	Aa3	9,960	-	-	9,960	-
Corporate Bonds	A1	68,482	6,652	17,747	22,102	21,981
Corporate Bonds	A2	55,606	5,383	18,183	29,004	3,036
Corporate Bonds	A3	40,900	-	18,283	4,578	18,039
Corporate Bonds	Baa1	56,982	-	14,506	23,963	18,513
Corporate Bonds	Baa2	11,417	-	8,322	3,095	-
Corporate Bonds	Baa3	13,012	-	13,012	-	-
Corporate Bonds	No rating	21,743	-	2,917	13,764	5,062
		<u>\$1,026,089</u>	<u>\$118,251</u>	<u>\$410,749</u>	<u>\$214,998</u>	<u>\$282,091</u>

The State has the following recurring fair value measurements as of September 30, 2020:

General Fund:

	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level:				
Fixed income:				
U.S. Treasury obligations	\$ 256,445	\$ -	\$ 256,445	\$ -
U.S. Government Agencies	292,840	-	292,840	-
Municipal obligations	74,889	-	74,889	-
Corporate notes	<u>401,915</u>	-	401,915	-
Total fixed income	1,026,089	-	1,026,089	-
Equity securities:				
U.S. equities	<u>1,951,593</u>	<u>1,951,593</u>	-	-
Total investments at fair value	<u>2,977,682</u>	<u>\$ 1,951,593</u>	<u>\$ 1,026,089</u>	<u>\$ -</u>

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(2) Deposits and Investments, Continued

B. Investments, Continued

	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments measured at NAV:				
Equity investment in the Bank of the FSM	816,510			
Investments measured at amortized cost:				
Cash management account	<u>88,831</u>			
	<u>\$ 3,883,023</u>			
 Compact Trust Fund:				
	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level:				
Common trust funds:				
Domestic Equity	\$ 4,896,348	\$4,896,348	\$ -	\$ -
International Equity	3,017,391	3,017,391	-	-
Global Equity	2,861,888	2,861,888	-	-
Fixed Income	2,764,712	2,764,712	-	-
Private Equity	<u>1,426,813</u>	<u>-</u>	<u>-</u>	<u>1,426,813</u>
Total investments at fair value	14,967,152	\$ <u>13,540,339</u>	\$ <u>-</u>	\$ <u>1,426,813</u>
Investments measured at NAV:				
Hedge Fund	738,496			
Real Estate	1,428,057			
Investments measured at amortized cost:				
Money market funds	<u>22,764</u>			
	<u>\$ 17,156,469</u>			

Discretely Presented Component Units

As of September 30, 2020, investments comprise the following:

Chuuk State Health Care Plan (CSHCP):

Common stock	\$ 84,642
Fixed income securities	37,908
Money market funds	<u>7,356</u>
	<u>\$ 129,906</u>

As of September 30, 2020, the Plan's investments recorded at fair value were as follows:

	Hierarchy			Moody's Credit Rating		Maturity			
	As of September 30, 2020					At September 30, 2020			
	Level 1	Level 2	Level 3			No Maturity	Less than 1 year	1 - 5 years	6 - 10 years
Investments by fair value level:									
Fixed income securities	\$ 37,908	\$ -	\$ -	Aaa	\$ 37,908	\$ -	\$ -	\$ -	\$ -
Common stock	<u>84,642</u>	<u>-</u>	<u>-</u>		<u>84,642</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	122,550	-	-		122,550	-	-	-	-
Investments measured at amortized cost:									
Money market funds	<u>7,356</u>	<u>-</u>	<u>-</u>		<u>-</u>	<u>7,356</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments	\$ <u>129,906</u>	\$ <u>-</u>	\$ <u>-</u>		\$ <u>122,550</u>	\$ <u>7,356</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(3) Receivables

Primary Government

Receivables as of September 30, 2020, for the primary government's individual major funds and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Grants Assistance</u>	<u>Compact Trust</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Receivables:					
General receivable	\$ 1,512,788	\$ 90,252	\$ -	\$ -	\$ 1,603,040
FSM National Government	<u>731,744</u>	<u>3,151,893</u>	<u>-</u>	<u>-</u>	<u>3,883,637</u>
	2,244,532	3,242,145	-	-	5,486,677
Less: allowance for uncollectible accounts	<u>(1,413,120)</u>	<u>(69,807)</u>	<u>-</u>	<u>-</u>	<u>(1,482,927)</u>
Net receivables	<u>\$ 831,412</u>	<u>\$ 3,172,338</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,003,750</u>

The final settlement of receivables due from the FSM National Government arising from Compact sector grant transactions can be determined only by final action of the FSM National Government in consultation with the grantor agency. Management is of the opinion that collection efforts will be favorable and thus no allowance for uncollectible accounts is considered necessary.

Discretely Presented Component Units

Receivables as of September 30, 2020, for the discretely presented component units in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	<u>Chuuk State Health Care Plan</u>	<u>Chuuk Public Utility Corporation</u>	<u>Chuuk State Housing Authority</u>	<u>Total</u>
Receivables:				
General	\$562,418	\$1,070,421	\$1,686,797	\$3,319,636
Other	<u>-</u>	<u>29,254</u>	<u>-</u>	<u>29,254</u>
	562,418	1,099,675	1,686,797	3,348,890
Allowance for uncollectible accounts	<u>(190,416)</u>	<u>(500,104)</u>	<u>(1,494,408)</u>	<u>(2,184,928)</u>
	<u>\$372,002</u>	<u>\$ 599,571</u>	<u>\$ 192,389</u>	<u>\$1,163,962</u>

(4) Interfund Receivables and Payables

Receivables and payables between funds reflected as due to/from other funds in the combined balance sheet at September 30, 2020, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Grants Assistance	General	\$ 8,920,837
General	Grants Assistance	3,128,198
Nonmajor governmental funds	General	<u>161,459</u>
		<u>\$ 12,210,494</u>

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(5) Capital Assets

Capital asset activities for the year ended September 30, 2020, are as follows:

Primary Government

	Balance October 1, 2019	Additions	Retirements	Balance September 30, 2020
Governmental activities:				
Depreciable assets:				
Airport facilities	\$ 38,107,415	\$ -	\$ -	\$ 38,107,415
Buildings	16,097,877	11,391,399	-	27,489,276
Seaport facilities	26,517,208	-	-	26,517,208
Vehicles and other equipment	11,921,901	1,175,780	(230,871)	12,866,810
Infrastructure	<u>14,835,315</u>	<u>-</u>	<u>-</u>	<u>14,835,315</u>
	<u>107,479,716</u>	<u>12,567,179</u>	<u>(230,871)</u>	<u>119,816,024</u>
Less accumulated depreciation for:				
Airport facilities	(34,101,635)	(952,685)	-	(35,054,320)
Buildings	(8,196,192)	(869,533)	54,782	(9,010,943)
Seaport facilities	(24,528,416)	(662,930)	-	(25,191,346)
Vehicles and other equipment	(9,474,951)	(561,494)	223,767	(9,812,678)
Infrastructure	<u>(14,835,315)</u>	<u>-</u>	<u>-</u>	<u>(14,835,315)</u>
	<u>(91,136,509)</u>	<u>(3,046,642)</u>	<u>278,549</u>	<u>(93,904,602)</u>
	16,343,207	9,520,537	47,678	25,911,422
Nondepreciable assets:				
Land	<u>18,437,566</u>	<u>2,766,569</u>	<u>(208,884)</u>	<u>20,995,251</u>
	<u>\$ 34,780,773</u>	<u>\$12,287,106</u>	<u>\$(161,206)</u>	<u>\$ 46,906,673</u>

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

General government	\$ 1,807,862
Health services	274,345
Education	290,098
Public safety	10,007
Public works and transportation	<u>664,330</u>
	<u>\$ 3,046,642</u>

Discretely Presented Component Units

	Balance October 1, 2019	Addition	Retirements	Balance September 30, 2020
Depreciable assets:				
Buildings	\$ 439,432	\$ -	\$ -	\$ 439,432
Utility plant	35,023,631	239,854	(12,649)	35,250,836
Machinery, equipment, others	<u>315,499</u>	<u>9,675</u>	<u>-</u>	<u>325,174</u>
	35,778,562	249,529	(12,649)	36,015,442
Less accumulated depreciation	<u>(15,443,077)</u>	<u>(1,356,531)</u>	<u>12,022</u>	<u>(16,787,586)</u>
	20,335,485	(1,107,002)	(627)	19,227,856
Nondepreciable assets:				
Construction work-in-progress	<u>955,249</u>	<u>972,564</u>	<u>-</u>	<u>1,927,813</u>
	<u>\$21,290,734</u>	<u>\$ (134,438)</u>	<u>\$ (627)</u>	<u>\$21,155,669</u>

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(6) Long-Term Obligations

Primary Government

The State implemented an Early Retirement Scheme (ERS) in which employees holding certain nonessential positions as identified by the State were retired early with a payout of the equivalent of two-years' wages. This ERS program is funded by a \$5,300,000 loan from the Asian Development Bank (ADB) (Loan Number 1520 (SF)) through the FSM National Government, non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. The activities of the ERS Program are recorded in the General Fund.

The ADB loan has a grace period of ten years with the first payment due in February 2008 and the last payment in August 2037. However, pursuant to the terms of the Financing Agreement between the State and the FSM National Government, the State is required to deposit into the ERS Trust account held in the name of the State within the FSM National Government investment portfolio, 100% of the outstanding principal balance by September 30, 2002.

Funds for the repayment of the ADB loan are expected to be derived from the annual appropriations for salaries and wages earmarked for the positions abolished under the Early Retirement Scheme. The Financing Agreement requires the State to continue to appropriate salaries for the abolished positions and deposit the appropriated funds into the ERS Trust Account. These funds had not been deposited to the Trust Account as of September 30, 2020. As of September 30, 2020, the amount outstanding against this loan was \$3,675,893. Of the required \$5,300,000 identified for future debt service payments, \$3,031,645 is deposited in an investment account held jointly with the FSM National Government. That investment account is restricted for the repayment of this debt and other ADB related debt set forth below.

The State also entered into an agreement with the FSM National Government to borrow a portion of the proceeds of the FSM National Government Program Loans with ADB (Loan Number 1873 (SF) and Loan Number 1874 FSM (SF)) for the purpose of promoting private sector development in Chuuk, with interest at 1% to 1.5% per annum. Principal payments shall be made in 32 equal semi-annual payments with the first payment due on May 15, 2010 and the last payment on November 15, 2025. As of September 30, 2020, the related principal balances were \$212,684 and \$628,862, respectively.

On December 21, 2010, the Chuuk Public Utilities Corporation (CPUC) and the State agreed through memorandum of understanding to offset certain claims and transferred certain debt between CPUC and the State. The transferred debt was the FSM National Government Program Loan with ADB (Loan Number 1459 (SF)), totaling \$3,868,102, for water wells and electric construction purposes, with interest at 1% to 1.5% per annum. Principal payments shall be made semiannually commencing August 1, 2007, with a maturity date of August 1, 2036. As of September 30, 2020, the balance payable on this loan amounted to \$2,547,058.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(6) Long-Term Obligations, Continued

Primary Government, Continued

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

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 460,704	\$ 53,189	\$ 513,893
2022	460,704	49,613	510,317
2023	460,704	46,036	506,740
2024	460,704	42,459	503,163
2025	460,704	38,883	499,587
2026 - 2030	2,129,500	144,064	2,273,564
2031 - 2035	2,040,292	64,995	2,105,287
2036 - 2038	<u>591,185</u>	<u>5,735</u>	<u>596,920</u>
	<u>\$7,064,497</u>	<u>\$444,974</u>	<u>\$7,509,471</u>

Discretely Presented Component Units

Chuuk Public Utility Corporation:

Loan payable to the State, facilitated by an ADB loan (Loan Number 2099-FSM) to the FSM National Government, original amount of \$1,800,000 due in semi-annual installments of \$85,883 from January 15, 2013 to July 15, 2036. Interest is payable at 1% per annum during the grace period and at 1.5% per annum thereafter. Proceeds were used for infrastructure projects: power distribution upgrades, decommissioning and environmental remediation of the existing power station, and institutional strengthening. \$ 1,752,495

Loan payable to the State, facilitated by an ADB loan (Loan Number 2100-FSM) to the FSM National Government, original amount of \$2,800,000, due in semi-annual installments of varying amounts through January 15, 2020. Interest is payable at LIBOR plus 0.6% per annum (2.1% at September 30, 2020). Proceeds were used for the purchase of two generator sets and related costs. 2,120,068

A \$207,000 loan with the FSM Development Bank, bearing interest fixed at 7% per annum, payable over 60 monthly installments of \$4,099, maturing in February 2021. The loan is collateralized by a security interest in the fixed assets. Proceed was used to pay off an existing outstanding payable. 19,306
\$ 3,891,869

ADB loans include particular covenants, (1) the borrower shall cause the states and CPUC to carry out the project with due diligence and efficiency and in conformity with sound administrative, financial, engineering, environmental and public utility practices; (2) The borrower shall take, or cause the respective states to take action necessary to enable CPUC perform its obligations under the relevant project implementation agreement, and shall not permit any action which would interfere with the performance of such obligations.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(6) Long-Term Obligations, Continued

Discretely Presented Component Units

Chuuk Public Utility Corporation:

FSMDB loan contains a provision that in an event of default, the note and any other liabilities may, at the option of lender and without demand or notice of any kind, be declared immediately due and payable. Lenders may exercise from time to time any rights and remedies available to it as a secured party under the laws of the FSM or the State in which the mortgaged property, the borrowers or the lenders reside or may be found in at the time the action accrues. Management believes that CPUC is in compliance with all covenants as of and for the years ended September 30, 2020 and 2019, and no event of default has been declared by the lenders.

Principal payments for subsequent years ending September 30 and applicable interest due are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 285,738	\$ 69,158	\$ 354,896
2022	283,815	63,679	347,494
2023	302,759	58,188	360,947
2024	323,881	52,368	376,249
2025	346,564	45,923	392,487
2026-2030	1,817,865	129,423	1,947,288
2031-2036	<u>531,247</u>	<u>17,011</u>	<u>548,258</u>
	<u>\$ 3,891,869</u>	<u>\$ 435,750</u>	<u>\$ 4,327,619</u>

(7) Changes in Long-Term Obligations

Primary Government

Long-term liabilities will be liquidated in the future from governmental funds. During the year ended September 30, 2020, the following changes occurred in liabilities reported as part of the primary government's long-term liabilities in the statement of net position:

	Balance October 1 <u>2019</u>	<u>Additions</u>	<u>Reductions</u>	SDR <u>Adjustments</u>	Balance September 30, 2020	Due Within <u>One Year</u>
Loans payable:						
ADB loans:						
Loan 1459	\$2,623,550	\$ -	\$ (156,336)	\$ 79,844	\$2,547,058	\$159,205
Loan 1520	3,767,658	-	(202,176)	110,411	3,675,893	216,246
Loan 1816	(101,090)	-	101,090	-	-	-
Loan 1873	243,668	-	(37,681)	6,697	212,684	38,671
Loan 1874	<u>657,409</u>	<u>-</u>	<u>(49,974)</u>	<u>21,427</u>	<u>628,862</u>	<u>46,582</u>
	7,191,195	-	(345,077)	218,379	7,064,497	460,704
Other:						
Compensated absences	<u>1,055,052</u>	<u>374,150</u>	<u>(312,172)</u>	<u>-</u>	<u>1,117,030</u>	<u>284,142</u>
	<u>\$8,246,247</u>	<u>\$374,150</u>	<u>\$(647,249)</u>	<u>\$218,379</u>	<u>\$8,181,527</u>	<u>\$744,846</u>

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(7) Changes in Long-Term Obligations, Continued

Primary Government, Continued

When the ADB extends credit to a particular country, the loan is booked in Special Drawing Rights (SDRs) but the actual loan is delivered in the currency of the borrower, at the current exchange rate between the currency and the SDR. The value of the SDR is subject to periodic review by the International Monetary Fund, which may result in the recognition of a foreign exchange gain or loss. During the year ended September 30, 2020, the State recognized a foreign exchange gain of \$218,379 associated with valuation of the SDR, which is presented as a special items net, in the accompanying financial statements, and which results in a reduction in ADB loans payable.

Discretely Presented Component Units

During the year ended September 30, 2020, the following changes occurred in long-term obligations of the discretely presented component units:

	Balance October 1, <u>2019</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2020</u>	Due Within <u>One Year</u>
Long-term debt	\$ 4,235,572	\$ -	\$ (343,703)	\$ 3,891,869	\$ 285,738
Accrued annual leave	<u>43,735</u>	<u>30,674</u>	<u>-</u>	<u>74,409</u>	<u>7,359</u>
	<u>\$ 4,279,307</u>	<u>\$ 30,674</u>	<u>\$ (343,703)</u>	<u>\$ 3,966,278</u>	<u>\$ 293,097</u>

(8) Fund Balance

Classifications of fund balances comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following table enumerates the fund balance classifications:

	General <u>Fund</u>	Grants Assistance <u>Fund</u>	Compact Trust <u>Fund</u>	Nonmajor <u>Funds</u>	Total Governmental <u>Funds</u>
Non-spendable:					
General government	\$ -	\$ -	\$ -	\$ -	\$ -
FSM Development Bank	300,000	-	-	-	300,000
Pacific Islands Development Bank	300,000	-	-	-	300,000
Bank of the FSM	816,510	-	-	-	816,510
Permanent fund principal	-	-	17,156,469	-	17,156,469
Restricted:					
Debt service	3,031,645	-	-	-	3,031,645
Capital projects	-	2,194,375	-	-	2,194,375
General government	-	12,519	-	-	12,519
Health services	-	-	-	153,818	153,818
Other foreign assistance	-	107,951	-	-	107,951
Unassigned	<u>(7,885,372)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,885,372)</u>
	<u>\$ (3,437,217)</u>	<u>\$ 2,314,845</u>	<u>\$ 17,156,469</u>	<u>\$ 153,818</u>	<u>\$ 16,187,915</u>

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(9) Contingencies

Sick Leave

It is the policy of the State to record expenditures for sick leave when leave is actually taken. Sick leave is compensated time for absence during working hours arising from employee illness or injury. The estimated accumulated amount of unused sick leave as of September 30, 2020 is \$4,064,563.

Insurance Coverage

The State does not maintain insurance coverage for a significant amount of fixed assets. In the event of a catastrophe, the State may be self-insured to a material extent.

Encumbrances

The State utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2020, the State has significant encumbrances summarized as follows:

<u>General Fund</u>	<u>Grants Assistance</u>	<u>Compact Trust</u>	<u>Other Governmental Funds</u>	<u>Total</u>
\$ <u>387,176</u>	\$ <u>4,560,397</u>	\$ <u>-----</u>	\$ <u>75,094</u>	\$ <u>5,022,667</u>

Federal Grants

The State participates in a number of federally assisted grant programs and other various U.S. Department of the Interior grants. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed.

Litigation

The State is a party to various legal proceedings in which the State's Attorney General indicates that pending land lease cases and other related claims against the State exist at September 30, 2020 in an amount that is material to the financial statements. Due to an inability to predict the ultimate outcome of these matters, no provision for these liabilities has been made in the accompanying financial statements.

Delinquent Taxes

The State is delinquent in remitting certain social security and withholding taxes. Management is of the opinion that no significant penalties or interest will arise from this matter and that if any such changes occur, they will be accounted for prospectively.

General Fund Financial Position

The State's General Fund has sustained recurring operating deficits and has an unassigned fund deficit of \$7,885,372 at September 30, 2020. In addition, at September 30, 2020, the primary government's current liabilities exceed current assets.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(9) Contingencies, Continued

General Fund Financial Position, Continued

Management of the State has entered into a memorandum of understanding with the FSM National Government to outline reform measures to address the deficit. The plan includes the following:

- The State will sell off its stock holdings or investments.
- The State is considering the sale of the Chuuk State Medical Referral House in Honolulu.
- The State will adopt measures to control General Fund expenditures. Such include moratorium of hiring, salary increases and other spending, such as travel.
- The State agreed to work to balance its proposed budgets.
- The State will work to restructure its government to include restructuring the Chuuk Legislature into a unicameral legislature.

Management of the State believes that the actions above will provide the State the opportunity to continue the process of reducing the General Fund deficit position.

(10) Budgetary Compliance

For the year ended September 30, 2020, significant over-expenditures exceeding appropriations within the General Fund were as follows:

Debt service	\$ 526,838
Debt relief payments	\$ 604,686
Political Status Commission	\$ 20,465
Micronesia Conservation Trust	\$ 18,074
Chuuk Housing Authority	\$ 4,396

(11) Land Lease and Related Claims

The State has not recorded a liability for land leases and related claims payable in the governmental activities and the General Fund and, accordingly, has not recorded an expenditure/expense for the current period change in that liability. Accounting principles generally accepted in the United States of America require that liabilities incurred attributable to services already rendered and that are not contingent upon a specific event that is outside of the control of the State be accrued as liabilities and expenditures/expenses, which would increase the liabilities, decrease net position, and change the expenses of the governmental activities and increase the liabilities, increase fund deficit, and change the expenditures of the General Fund. The amount by which this departure would affect the liabilities, net position and expenses of the governmental activities and the liabilities, fund deficit, and expenditures of the General Fund is not reasonably determinable.

(12) Covid-19

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. As of December 31, 2021, there have been no confirmed cases of COVID-19 in the Federated States of Micronesia. The State has determined that should the pandemic reach the FSM, it may negatively impact the State's results of operations and financial position and the State may become dependent upon the financial support of the FSM National Government. However, the effect of the pandemic on FSM National Government is also uncertain and future available funding may be limited. Therefore, while the State expects this matter to potentially have a negative impact on its operations and financial position, the related financial impact cannot be reasonably estimated at this time.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2020

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Revenues, Expenditures and Changes in Deficit
Budget and Actual - General Fund
Year Ended September 30, 2020

	<u>Budgeted Amounts</u>		Actual - Budgetary Basis	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Local revenues	\$ 9,152,227	\$ 9,622,324	\$ 10,726,098	\$ 1,103,774
Net change in fair value of investments	-	-	357,775	357,775
Total revenues	<u>9,152,227</u>	<u>9,622,324</u>	<u>11,083,873</u>	<u>1,461,549</u>
Expenditures:				
Current:				
General government	4,341,937	4,564,203	4,410,065	154,138
Education	166,150	166,150	151,427	14,723
Economic development	220,171	384,967	399,180	(14,213)
Public safety	1,137,770	1,139,425	1,123,579	15,846
Public works and transportation	837,409	897,529	829,830	67,699
Community affairs	3,774	3,774	-	3,774
Boards and commissions	1,057,644	1,297,443	1,251,675	45,768
Judiciary	575,850	550,840	500,756	50,084
Payments to component units	67,595	67,595	71,991	(4,396)
Municipal affairs	426,521	426,521	423,674	2,847
Other	-	-	11,335	(11,335)
Debt service	-	-	1,131,524	(1,131,524)
Total expenditures	<u>8,834,821</u>	<u>9,498,447</u>	<u>10,305,036</u>	<u>(806,589)</u>
Excess (deficiency) of revenues over (under) expenditures	317,406	123,877	778,837	654,960
Other financing uses:				
Operating transfers out	(510,100)	(510,100)	(510,100)	-
Net change in deficit	(192,694)	(386,223)	268,737	654,960
Other changes in fund deficit:				
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes but in the year the supplies are received for financial reporting purposes	-	-	387,176	387,176
Fund deficit at the beginning of the year	<u>(4,093,130)</u>	<u>(4,093,130)</u>	<u>(4,093,130)</u>	-
Fund deficit at the end of the year	<u>\$ (4,285,824)</u>	<u>\$ (4,479,353)</u>	<u>\$ (3,437,217)</u>	<u>\$ 1,042,136</u>

See Accompanying Independent Auditors' Report and accompanying notes to required supplementary information - budgetary reporting.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Required Supplementary Information – Budgetary Reporting
September 30, 2020

(1) Budgetary Information

The Governor shall submit an annual budget to the Legislature at a time prescribed by statute. The budget shall contain a complete plan of proposed expenditures, anticipated revenues, and other monies available to the State for the next fiscal year, and any additional information which the Legislature may require. The Legislature may alter all or any portion of the proposed budget.

An annual appropriated budget is adopted by the State's Legislature for the General Fund and Compact Programs through an Appropriations Act. However, additional appropriations and budget modifications occur throughout the year. The majority of unencumbered appropriations lapse as of year end unless specifically extended by the State's Legislature. Budgets for special revenue funds, except the Compact Program Fund, are not included in the annual Appropriations Act. Accordingly, a budget to actual presentation for special revenue funds, except the Compact Program Fund, is not required or presented. Project-length financial plans are generally adopted for all capital project funds.

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

See Accompanying Independent Auditors' Report.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2020

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Combining Schedule of Expenditures by Account
Governmental Funds
Year Ended September 30, 2020

	<u>Special Revenue</u>			Other Governmental Funds	<u>Total</u>
	<u>General</u>	<u>Grants Assistance</u>	<u>Compact Trust</u>		
Expenditures:					
Salaries and wages					
Regular	\$ 5,251,751	\$ 11,153,495	\$ -	\$ 7,155	\$ 16,412,401
Overtime	114,546	599,369	-	2,130	716,045
Fringe benefits	675,055	2,052,528	-	-	2,727,583
Travel and transportation	249,996	334,779	-	9,662	594,437
Books and library materials	-	1,148,960	-	-	1,148,960
Communications	62,749	151,320	-	-	214,069
Dues, membership, and subscription	46,222	2,110	-	-	48,332
Food stuffs	23,126	460,451	-	21,584	505,161
Port charges	-	8,214	-	3,850	12,064
Office supplies and materials	190,250	2,169,336	-	1,276	2,360,862
POL	141,259	608,286	-	-	749,545
Printing and reproduction	3,881	43,034	-	-	46,915
Rental services	6,375	75,655	-	6,414	88,444
Repairs and maintenance	71,265	436,888	-	998	509,151
Constructional materials	-	-	-	-	-
Utilities	315,626	980,591	-	(16,768)	1,279,449
Goods and services	114,460	166,442	-	12,375	293,277
Subsidies and contributions	-	287,318	-	(1,557)	285,761
Medical referrals	-	621,467	-	-	621,467
Medical supplies	-	1,617,325	-	-	1,617,325
Contractual services	546,210	4,417,457	-	-	4,963,667
Professional services	-	375,558	-	-	375,558
Housing allowance	89,110	24,900	-	-	114,010
Compensation non-payroll	5,221	2,480	-	-	7,701
Scholarships and allowances	-	323,089	-	-	323,089
Training	4,749	773,436	-	-	778,185
Official allowance	644,504	-	-	-	644,504
Meeting fees and allowance	1,785	13,304	-	-	15,089
Insurance	5,176	-	-	-	5,176
Leased housing, buildings and land	30,870	288,769	-	525	320,164
Equipment	3,162	1,043,100	-	-	1,046,262
Furniture and fixtures	-	-	-	-	-
Vehicles	51,538	242,279	-	5,000	298,817
Land	53,000	-	-	-	53,000
Principal repayment	455,150	-	-	-	455,150
Interest payments	71,688	-	-	-	71,688
Debt relief payments	604,467	-	-	-	604,467
Miscellaneous	84,669	-	-	4,174	88,843
	<u>\$ 9,917,860</u>	<u>\$ 30,421,940</u>	<u>\$ -</u>	<u>\$ 56,818</u>	<u>\$ 40,396,618</u>

See Accompanying Independent Auditors' Report.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

GENERAL FUND

September 30, 2020

The general fund is used to account for resources traditionally associated with government which are not required legally or by sound financial management to be accounted for in another fund.

See Accompanying Independent Auditors' Report.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures by Function, and Changes in Deficit
General Fund
Year Ended September 30, 2020
(with comparative totals for the year ended September 30, 2019)

	2020	2019
Revenues:		
FSM revenue sharing:		
Gross revenue taxes	\$ 1,338,388	\$ 1,118,136
Import taxes	1,274,974	1,452,335
Income taxes	1,238,974	908,143
Other taxes	266,476	200,289
FSM revenue sharing	4,118,812	3,678,903
State taxes:		
Sales tax	2,921,544	2,540,461
Other excise taxes	614,818	562,404
	3,536,362	3,102,865
Fees and charges:		
Licenses and permits	1,375,694	1,721,626
Leases and other rentals	178,367	149,841
	1,554,061	1,871,467
Departmental charges:		
Transportation collections	639,537	1,096,114
Net change in the fair value of investments	357,775	(353,507)
Other revenues	877,326	644,320
Total revenues	11,083,873	10,040,162
Expenditures:		
Current:		
General government:		
Office of the Governor	694,545	893,830
State Legislature	2,769,145	2,890,988
Department of Administrative Services	630,595	1,561,732
Office of Public Auditor	61,838	77,226
	4,156,123	5,423,776
Health:		
Department of Health	151,427	140,200
Economic development:		
Department of Marine Resources	158,850	168,085
Department of Agriculture	188,727	119,518
Historic Preservation Office	-	30,814
Division of Business and Trade	-	15,823
Division of Labor and Manpower	-	27,000
Division of Land Management	-	78,019
Registrar of Corporation	52,925	48,805
Division of Commerce and Industries	-	10,259
	400,502	498,323
Public safety:		
Office of the Attorney General	162,592	183,523
Department of Public Safety	936,574	911,780
	1,099,166	1,095,303
Public works and transportation:		
Department of Transportation	778,185	984,161
Community affairs:		
Public Affairs	-	90,727
Youth Affairs	-	19,938
Broadcast	-	41,428
	-	152,093

See Accompanying Independent Auditors' Report.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures by Function, and Changes in Deficit, Continued
General Fund
Year Ended September 30, 2020
(with comparative totals for the year ended September 30, 2019)

	2020	2019
Expenditures, continued:		
Current, continued:		
Boards, commissions and other:		
Land Commission	155,915	149,636
Public Service Commission	155,994	154,974
Election Commission	181,168	314,914
Farmers Home Administration	19,495	18,627
Chuuk Disaster Control Center	116,693	-
Micronesia Legal Services Corporation	25,000	-
Chuuk Recreation Board	93,211	73,115
Youth Constitution Day	500	-
Repatriation of Chief Justice	80,000	-
Overseas Development Assistance	45,187	50,981
Political Status Commission	23,132	69,281
Micronesia Conservation Trust	18,074	-
Solid and Hazardous Waste Management	125,782	163,565
SEPDIC	55,529	55,673
Chuuk Visitors Bureau	68,318	81,546
Delegation visit	-	30,000
Saipan Typhoon Yutu	-	50,000
Chuuk State Complex Utility	-	-
Chuuk Small Business Development Center	78,861	62,243
	1,242,859	1,274,555
Judiciary:		
State Court	464,036	551,597
Payments to component units:		
Chuuk State Housing Authority	71,522	65,559
Municipal affairs:		
Payments to municipalities	419,153	418,359
Other	3,582	6,131
Debt service:		
Debt relief payment	604,467	-
Principal repayment	455,150	541,934
Interest	71,688	100,476
	1,131,305	642,410
Total expenditures	9,917,860	11,252,467
Excess of revenues over expenditures	1,166,013	(1,212,305)
Other financing uses:		
Operating transfers out	(510,100)	-
Net change in deficit	655,913	(1,212,305)
Deficit at the beginning of the year	(4,093,130)	(2,880,825)
Deficit at the end of the year	\$ (3,437,217)	\$ (4,093,130)

See Accompanying Independent Auditors' Report.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures and Changes in Deficit
Budget and Actual - General Fund
Year Ended September 30, 2020

	Budgeted Amounts		Actual Budgetary Basis	Variance with Final Budget Positive/(Negative)
	Original	Final		
Revenues:				
Local revenues	\$ 9,152,227	\$ 9,622,324	\$ 10,726,098	\$ 1,103,774
Net change in fair value of investments	-	-	357,775	357,775
Total revenues	9,152,227	9,622,324	11,083,873	1,461,549
Expenditures:				
Current:				
General government:				
Office of the Governor	590,271	723,807	725,076	(1,269)
State Legislature	3,013,092	3,086,480	2,969,220	117,260
Department of Administrative Services	665,012	684,354	653,927	30,427
Office of Public Auditor	73,562	69,562	61,842	7,720
	<u>4,341,937</u>	<u>4,564,203</u>	<u>4,410,065</u>	<u>154,138</u>
Education:				
Department of Education	166,150	166,150	151,427	14,723
Economic development:				
Division of Marine Resources	76,255	153,823	157,528	(3,705)
Division of Agriculture	89,728	179,456	188,727	(9,271)
Historic Preservation Office	-	-	-	-
Division of Business and Trade	28	28	-	28
Division of Manpower and Labor	186	186	-	186
Division of Land management	680	680	-	680
Registrar of Corporation	53,294	50,794	52,925	(2,131)
Division of Commerce and Industry	-	-	-	-
	<u>220,171</u>	<u>384,967</u>	<u>399,180</u>	<u>(14,213)</u>
Public safety:				
Office of the Attorney General	181,413	181,413	164,141	17,272
Department of Public Safety	956,357	958,012	959,438	(1,426)
	<u>1,137,770</u>	<u>1,139,425</u>	<u>1,123,579</u>	<u>15,846</u>
Public works and transportation:				
Department of Transportation	837,409	897,529	829,830	67,699
Community affairs:				
Department of Public Affairs	3,774	3,774	-	3,774
Boards, commissions and other:				
Chuuk Recreation Board	91,578	105,986	93,211	12,775
Land Commission	190,219	191,984	159,453	32,531
Public Service Commission	152,831	156,681	156,793	(112)
Election Commission	126,852	193,852	181,241	12,611
Farmers Home Administration	19,163	19,163	19,657	(494)
Chuuk Disaster Control Center	117,926	117,926	116,843	1,083
Micronesian Legal Services Corporation	25,000	25,000	25,000	-
Chuuk State Complex Utility	76,600	-	-	-
Repatriation of Chief Justice	-	80,000	80,000	-
Youth Constitution Day	-	-	500	(500)
Guandong Proviencie	2,000	2,000	-	2,000
Chuuk EPA	77,216	155,948	125,782	30,166
Overseas Development Assistance	48,489	47,121	47,985	(864)
Chuuk Small Business Development Center	32,468	74,911	79,296	(4,385)
Chuuk Visitors Bureau	33,732	67,201	68,581	(1,380)
Political Status Commission	3,265	3,265	23,730	(20,465)
Micronesia Conservation Trust	-	-	18,074	(18,074)
Economic Policy Development and Implementation	58,955	55,055	55,529	(474)
Typhoon Yutu	1,350	1,350	-	1,350
	<u>1,057,644</u>	<u>1,297,443</u>	<u>1,251,675</u>	<u>45,768</u>

See Accompanying Independent Auditors' Report.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures and Changes in Deficit
Budget and Actual - General Fund, Continued
Year Ended September 30, 2020

	<u>Budgeted Amounts</u>		<u>Actual Budgetary Basis</u>	<u>Variance with Final Budget Positive/(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Judiciary:				
State Court	575,850	550,840	500,756	50,084
Payments to component units:				
Chuuk State Housing Authority	67,595	67,595	71,991	(4,396)
Municipal affairs:				
Payments to municipalities	426,521	426,521	423,674	2,847
Other	-	-	11,335	(11,335)
Debt service:				
Debt relief payment	-	-	604,686	(604,686)
Principal repayment	-	-	455,150	(455,150)
Interest payments	-	-	71,688	(71,688)
	-	-	1,131,524	(1,131,524)
Total expenditures	8,834,821	9,498,447	10,305,036	(806,589)
Excess (deficiency) of revenues over (under) expenditures	317,406	123,877	778,837	654,960
Other financing uses:				
Operating transfers out	(510,100)	(510,100)	(510,100)	-
Net change in deficit	(192,694)	(386,223)	268,737	654,960
Other changes in fund deficit:				
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes but in the year the supplies are received for financial reporting purposes	-	-	387,176	387,176
Fund deficit at the beginning of the year	(4,093,130)	(4,093,130)	(4,093,130)	-
Fund deficit at the end of the year	\$ (4,285,824)	\$ (4,479,353)	\$ (3,437,217)	\$ 1,042,136

See Accompanying Independent Auditors' Report.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2020

Special revenue funds are used to account for specific revenues that are legally restricted for particular purposes. A brief discussion of the State's Nonmajor Governmental Funds - Special Revenue Funds as of September 30, 2020, follows:

Hospital Revolving Fund

This fund accounts for the operations of the hospital and the purchase of pharmaceutical and medical supplies.

See Accompanying Independent Auditors' Report.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

GRANTS ASSISTANCE FUND

Combining Balance Sheet
September 30, 2020

	10	11	12	13	14	15	16	18	19	20&21	23	25	
	Education Sector	Health Sector	Environment Sector	Private Sector Development	Capacity Building Sector	Supplemental Education	Enhanced Reporting Accountability	Infrastructure Maintenance	Infrastructure	U.S. Federal Grants	Foreign Assistance	CFSM Grants	Total
ASSETS													
Receivables:	\$ 202,073	\$ 1,377,866	\$ 49,558	\$ 130,305	\$ -	\$ -	\$ 139,737	\$ 94,857	\$ 741,984	\$ 316,133	\$ 29,573	\$ -	\$ 3,082,086
Advances	2,390	15,111	-	-	1,081	17,275	-	-	5,057	49,338	-	-	90,252
Prepayments	56,975	111,489	-	85	-	-	-	-	-	-	-	-	168,549
Due from other funds	175,092	165,380	-	-	2,638,474	3,705,795	-	2,099,518	-	-	129,706	6,872	8,920,837
	<u>\$ 436,530</u>	<u>\$ 1,669,846</u>	<u>\$ 49,558</u>	<u>\$ 130,390</u>	<u>\$ 2,639,555</u>	<u>\$ 3,723,070</u>	<u>\$ 139,737</u>	<u>\$ 2,194,375</u>	<u>\$ 747,041</u>	<u>\$ 365,471</u>	<u>\$ 159,279</u>	<u>\$ 6,872</u>	<u>\$ 12,261,724</u>
LIABILITIES AND FUND BALANCES													
Liabilities:													
Accounts payable	\$ 42,385	\$ 35,993	\$ -	\$ -	\$ 4,275	\$ 38,054	\$ 1,626	\$ -	\$ 12,663	\$ (896)	\$ 399	\$ -	\$ 134,499
Accrued liabilities	71,374	61,090	-	-	4,597	3,910	6,338	-	-	24,146	88	-	171,543
Unearned revenues	-	176,872	-	-	2,596,948	3,681,106	-	-	-	-	50,841	6,872	6,512,639
Due to other funds	322,771	1,395,891	49,558	130,390	33,735	-	131,773	-	734,378	329,702	-	-	3,128,198
Total liabilities	<u>436,530</u>	<u>1,669,846</u>	<u>49,558</u>	<u>130,390</u>	<u>2,639,555</u>	<u>3,723,070</u>	<u>139,737</u>	<u>-</u>	<u>747,041</u>	<u>352,952</u>	<u>51,328</u>	<u>6,872</u>	<u>9,946,879</u>
Fund balances:													
Restricted	-	-	-	-	-	-	-	2,194,375	-	12,519	107,951	-	2,314,845
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,194,375</u>	<u>-</u>	<u>12,519</u>	<u>107,951</u>	<u>-</u>	<u>2,314,845</u>
Total liabilities and fund balances	<u>\$ 436,530</u>	<u>\$ 1,669,846</u>	<u>\$ 49,558</u>	<u>\$ 130,390</u>	<u>\$ 2,639,555</u>	<u>\$ 3,723,070</u>	<u>\$ 139,737</u>	<u>\$ 2,194,375</u>	<u>\$ 747,041</u>	<u>\$ 365,471</u>	<u>\$ 159,279</u>	<u>\$ 6,872</u>	<u>\$ 12,261,724</u>

See Accompanying Independent Auditors' Report.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

GRANTS ASSISTANCE FUND

Combining Statement of Revenues, Expenditures by Function,
and Changes in Fund Balances
Year Ended September 30, 2020

	Education Sector	Health Sector	Environment Sector	Private Sector Development	Capacity Building Sector	Supplemental Education	Enhanced Reporting Accountability	Infrastructure Maintenance	Infrastructure	U.S. Federal Grants	Foreign Assistance	CFSM Grants	Total
Revenues:													
Compact funding	\$ 9,776,845	\$ 11,201,931	\$ 85,142	\$ 170,088	\$ 572,149	\$ 4,155,684	\$ 673,549	\$ 416,918	\$ 1,115,026	\$ -	\$ -	\$ -	\$ 28,167,332
Federal and other grants	-	-	-	-	-	-	-	-	-	2,107,979	100,136	-	2,208,115
Total revenues	<u>9,776,845</u>	<u>11,201,931</u>	<u>85,142</u>	<u>170,088</u>	<u>572,149</u>	<u>4,155,684</u>	<u>673,549</u>	<u>416,918</u>	<u>1,115,026</u>	<u>2,107,979</u>	<u>100,136</u>	<u>-</u>	<u>30,375,447</u>
Expenditures by function:													
Current:													
General government	-	-	-	-	572,149	-	673,549	-	-	-	92,873	-	1,338,571
Health services	-	11,201,931	-	-	-	-	-	-	-	1,216,899	-	-	12,418,830
Education	9,776,845	-	-	-	-	4,155,684	-	-	-	891,080	-	-	14,823,609
Economic development	-	-	85,142	170,088	-	-	-	470,674	-	-	-	-	725,904
Public safety	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-	-	-	1,115,026	-	-	-	1,115,026
Total expenditures	<u>9,776,845</u>	<u>11,201,931</u>	<u>85,142</u>	<u>170,088</u>	<u>572,149</u>	<u>4,155,684</u>	<u>673,549</u>	<u>470,674</u>	<u>1,115,026</u>	<u>2,107,979</u>	<u>92,873</u>	<u>-</u>	<u>30,421,940</u>
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-	-	-	-	(53,756)	-	-	7,263	-	(46,493)
Other financing sources (uses)													
Operating transfer in (out)	-	-	-	-	-	-	-	510,100	-	-	-	-	510,100
Net change in fund balances	-	-	-	-	-	-	-	456,344	-	-	7,263	-	463,607
Fund balances at the beginning of the year	-	-	-	-	-	-	-	1,738,031	-	12,519	100,688	-	1,851,238
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,194,375</u>	<u>\$ -</u>	<u>\$ 12,519</u>	<u>\$ 107,951</u>	<u>\$ -</u>	<u>\$ 2,314,845</u>

See Accompanying Independent Auditors' Report.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

GRANTS ASSISTANCE FUND

Combining Statement of Revenues, Expenditures by Account,
and Changes in Fund Balances
Year Ended September 30, 2020

	10	11	12	13	14	15	16	18	19	20 & 21	23	25	
	Education Sector	Health Sector	Environment Sector	Private Sector Development	Capacity Building Sector	Supplemental Education	Enhanced Reporting Accountability	Infrastructure Maintenance	Infrastructure	U.S. Federal Grants	Foreign Assistance	CFSM Grants	Total
Revenues:													
Compact funding	\$ 9,776,845	\$ 11,201,931	\$ 85,142	\$ 170,088	\$ 572,149	\$ 4,155,684	\$ 673,549	\$ 416,918	\$ 1,115,026	\$ -	\$ -	\$ -	\$ 28,167,332
Federal and other grants	-	-	-	-	-	-	-	-	-	2,107,979	100,136	-	2,208,115
Total revenues	9,776,845	11,201,931	85,142	170,088	572,149	4,155,684	673,549	416,918	1,115,026	2,107,979	100,136	-	30,375,447
Expenditures by account:													
Salaries and wages:													
Regular	5,560,291	3,460,785	-	-	95,144	325,376	386,725	-	66,450	1,247,552	11,172	-	11,153,495
Overtime	63,378	501,187	-	-	4,837	-	26,198	-	3,769	-	-	-	599,369
Fringe benefits	885,102	513,867	-	-	25,040	382,839	52,579	-	26,918	164,969	1,214	-	2,052,528
Travel and transportation	1,131	97,982	12,420	22,838	6,914	74,771	1,832	-	14,129	100,866	1,896	-	334,779
Books and library materials	583,764	-	-	-	-	565,196	-	-	-	-	-	-	1,148,960
Communications	3,203	38,616	-	-	12,051	52,420	17,651	-	-	25,286	2,093	-	151,320
Dues, memberships, and subscriptions	-	2,000	-	-	110	-	-	-	-	-	-	-	2,110
Food stuffs	65,453	253,579	-	-	-	141,419	-	-	-	-	-	-	460,451
Freight and port charges	1,362	3,985	-	-	-	2,793	-	-	-	-	74	-	8,214
Office supplies and materials	390,105	428,714	-	-	33,931	1,098,390	47,584	-	29,093	141,519	-	-	2,169,336
POL	61,001	268,500	4,910	-	6,419	164,852	6,156	-	7,896	88,552	-	-	608,286
Printing and reproduction	8,654	16,724	-	-	-	-	-	-	2,093	15,563	-	-	43,034
Rental services	26,491	22,090	-	-	2,347	761	-	-	1,813	22,153	-	-	75,655
Repairs and maintenance	132,110	252,151	1,662	-	1,583	17,528	6,684	-	7,877	14,668	2,625	-	436,888
Construction materials	-	-	-	-	-	-	-	-	-	-	-	-	-
Utilities	132,788	619,348	-	-	5,346	140,126	42,353	-	12,931	24,999	2,700	-	980,591
Goods and services	3,600	54,898	-	-	13,012	2,822	41	-	994	91,075	-	-	166,442
Subsidies and contributions	159,556	-	-	-	-	127,762	-	-	-	-	-	-	287,318
Medical referrals	-	621,467	-	-	-	-	-	-	-	-	-	-	621,467
Medical supplies	-	1,609,132	-	-	-	-	-	-	-	8,193	-	-	1,617,325
Contractual services	762,466	1,570,002	66,150	147,250	133,729	422,680	69,096	470,674	700,680	74,730	-	-	4,417,457
Professional services	21,075	-	-	-	186,986	-	-	-	167,497	-	-	-	375,558
Housing allowances	-	-	-	-	16,200	1,500	7,200	-	-	-	-	-	24,900
Scholarships	323,089	-	-	-	-	-	-	-	-	-	-	-	323,089
Fees and meeting allowances	3,750	-	-	-	-	-	-	-	-	9,554	-	-	13,304
Training	475,959	11,255	-	-	-	257,553	-	-	-	28,669	-	-	773,436
Leased housing, buildings and land	16,639	204,555	-	-	28,500	-	9,450	-	15,450	14,175	-	-	288,769
Compensation non-payroll	-	-	-	-	-	-	-	-	-	2,480	-	-	2,480
Equipment	95,878	584,976	-	-	-	269,091	-	-	13,964	8,092	71,099	-	1,043,100
Furniture and fixtures	-	-	-	-	-	-	-	-	-	-	-	-	-
Vehicles	-	66,118	-	-	-	107,805	-	-	43,472	24,884	-	-	242,279
Total expenditures	9,776,845	11,201,931	85,142	170,088	572,149	4,155,684	673,549	470,674	1,115,026	2,107,979	92,873	-	30,421,940
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-	-	-	-	(53,756)	-	-	7,263	-	(46,493)
Other financing sources (uses)													
Operating transfer in (out)	-	-	-	-	-	-	-	510,100	-	-	-	-	510,100
Net change in fund balances	-	-	-	-	-	-	-	456,344	-	-	7,263	-	463,607
Fund balances at the beginning of the year	-	-	-	-	-	-	-	1,738,031	-	12,519	100,688	-	1,851,238
Fund balances at the end of the year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,194,375	\$ -	\$ 12,519	\$ 107,951	\$ -	\$ 2,314,845

See Accompanying Independent Auditors' Report.

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

Honorable Alexander R. Narruhn
Governor, State of Chuuk
Federated States of Micronesia:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component units, and each major fund of the State of Chuuk (the State) as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the State's basic financial statements, and have issued our report thereon dated December 31, 2021. Our report was qualified with respect to governmental activities expenses and General Fund expenditures and a liability for land leases and related claims payable in the governmental activities and the General Fund, and includes explanatory paragraphs concerning collectability of receivables and the impact of COVID-19.

For purposes of this report, our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants, and other matters did not include the Chuuk State Health Care Plan and Chuuk Public Utility Corporation, which were audited by us. We have issued separate reports on our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for these entities. The findings, if any, included in those reports are not included herein.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State's internal control over financial reporting (internal control) as a basis for designing 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 State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2020-002 to be a material weakness.

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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as items 2020-003 to be a significant deficiency.

Compliance and Other Matters

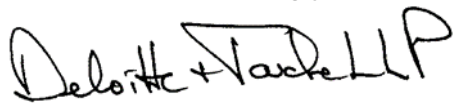
As part of obtaining reasonable assurance about whether the State's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2020-003.

The State's Response to Findings

The State's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The State's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



December 31, 2021

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

Honorable Alexander R. Narruhn
Governor, State of Chuuk
Federated States of Micronesia:

Report on Compliance for Each Major Federal Program

We have audited the State of Chuuk's (the State's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the State's major federal programs for the year ended September 30, 2020. The State's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

As discussed in Note 3B to the Schedule of Expenditures of Federal Awards, the State's basic financial statements include the operations of certain entities whose federal awards are not included in the accompanying Schedule of Expenditures of Federal Awards for the year ended September 30, 2020. Our audit, described below, did not include the operations of the entities identified in Note 3B as these entities conducted separate audits in accordance with Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), if required.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the State's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of the Uniform Guidance. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the State's compliance.

Opinion on Each Major Federal Program

In our opinion, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2020.

Other Matters

The results of our auditing procedures disclosed one other instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2020-001. Our opinion on each major federal program is not modified with respect to this matter.

The State's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The State's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the State is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the State's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as item 2020-001, that we consider to be significant deficiencies.

Report on Internal Control Over Compliance, Continued

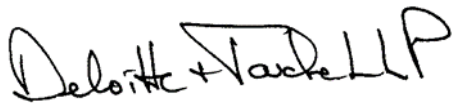
The State's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The State's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The State is responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. The State's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

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

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

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, and each major fund of the State as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the State's basic financial statements. We issued our report thereon dated December 31, 2021, which contained qualified opinions on those financial statements with respect to governmental activities expenses and General Fund expenditures and to a liability for land leases and related claims payable in the governmental activities and the General Fund, and included explanatory paragraphs concerning collectability of receivables and the impact of COVID-19. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



December 31, 2021

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Summary Schedule of Expenditures of Federal Awards, by Grantor
Year Ended September 30, 2020

Agency/Program	Expenditures
U.S. Department of the Interior	\$ 28,221,088
U.S. Department of Education	891,080
U.S. Department of Health and Human Services	<u>1,216,899</u>
 GRAND TOTAL	 \$ <u><u>30,329,067</u></u>
 Reconciliation to the basic financial statements:	
Grants Assistance Fund expenditures	\$ 30,421,940
Less:	
Foreign Assistance Fund expenditures included in General Government expenditures	<u>(92,873)</u>
	 \$ <u><u>30,329,067</u></u>

See accompanying notes to schedule of expenditures of federal awards.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2020

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA#	Pass-Through Entity Identifying #	Expenditures
U.S. DEPARTMENT OF THE INTERIOR			
Pass-Through Federated States of Micronesia National Government:		A2	
Economic, Social and Political Development of the Territories:	15.875		
Compact Sector Grants - Education Sector	15.875		\$ 9,776,845
Compact Sector Grants - Health Sector	15.875		11,201,931
Compact Sector Grants - Environment Sector	15.875		85,142
Compact Sector Grants - Private Sector Development	15.875		170,088
Compact Sector Grants - Capacity Building Sector	15.875		572,149
Supplemental Education Grant	15.875		4,155,684
Compact Sector Grants - ERA	15.875		673,549
Compact Sector Grants - Infrastructure	15.875		470,674
Compact Sector Grants - Infrastructure Maintenance	15.875		<u>1,115,026</u>
Total Compact Sector Grants Fund			<u>28,221,088</u>
TOTAL U.S. DEPARTMENT OF THE INTERIOR TOTAL			<u><u>\$ 28,221,088</u></u>
U.S. DEPARTMENT OF EDUCATION			
Pass-Through Federated States of Micronesia National Government:		A2	
Special Education Cluster (IDEA):			
Special Education - Grants to States (IDEA, Part B)	84.027		<u>\$ 891,080</u>
Special Education Cluster (IDEA) Subtotal			891,080
TOTAL U.S. DEPARTMENT OF EDUCATION TOTAL			<u><u>\$ 891,080</u></u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Pass-Through Federated States of Micronesia National Government:		A2	
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074		\$ 25,558
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092		34,164
Maternal and Child Health Federal Consolidated Program	93.110		10,927
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116		162,925
Family Planning Services	93.217		61,104
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243		189,055
Immunization Cooperative Agreements	93.268		214,122
Leading Edge Acceleration Projects (LEAP) in Health Information Technology	93.345		62,594
Preventive Health and Health Services Block Grant	93.758		3,453
OPIOID STR	93.788		55,666
Cancer Prevention and Control Programs for State, Territorial and Tribal Org	93.898		63,684
Assistance Programs for Chronic Disease Prevention and Control	93.945		30,438
Block Grants for Community Mental Health Services	93.958		18,967
Block Grants for Prevention and Treatment of Substance Abuse	93.959		197,289
Maternal and Child Health Services Block Grant to the States	93.994		<u>86,953</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL			<u><u>\$ 1,216,899</u></u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 30,329,067</u></u>

See accompanying notes to schedule of expenditures of federal awards.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2020

1. Scope

The State of Chuuk is one of the four States of the Federated States of Micronesia. All significant operations of State of Chuuk are included in the scope of the Single Audit. The U.S. Department of the Interior has been designated as State of Chuuk's cognizant agency for the Single Audit.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of State of Chuuk under programs of the federal government for the year ended September 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of State of Chuuk, it is not intended to and does not present the financial position or changes in financial position of State of Chuuk.

3. Summary of Significant Accounting Policies

A. Basis of Accounting

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, consistent with the manner in which State of Chuuk maintains its accounting records. All expenditures and capital outlays that represent the federal share are reported as expenditures. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented, where available.

B. Reporting Entity

For purposes of complying with the Single Audit Act of 1984, as amended in 1996, State of Chuuk's reporting entity is defined in Note 1A to its September 30, 2020 basic financial statements; and all of the discretely presented component units are excluded. Accordingly, the accompanying Schedule presents the federal award programs administered by State of Chuuk, as defined above, for the year ended September 30, 2020.

C. Matching Costs

Matching costs, i.e., the non-federal share of certain program costs, are not included in the accompanying Schedule.

D. Indirect Cost Allocation

State of Chuuk did not receive any indirect cost allocation and does not elect to use the de minimis indirect cost rate allowed under the Uniform Guidance. State of Chuuk did not charge indirect costs against federal programs.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2020

3. Summary of Significant Accounting Policies, Continued

E. CFDA #15.875

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

F. Component Units

State of Chuuk's component units are to separately satisfy the requirements of the Uniform Guidance, if applicable. The following presents information concerning State of Chuuk's component units:

Chuuk Public Utility Corporation

The Chuuk Public Utility Corporation (CPUC), a discretely presented component unit, is the recipient of various pass-through funds. The CPUC is to separately satisfy its 2020 reporting responsibilities under the Single Audit Act. CPUC's total federal award expenditures for the year ended September 30, 2020 is \$86,641.

Chuuk State Housing Authority

The Chuuk State Housing Authority (CSHA), a discretely presented component unit, is the recipient of various pass-through funds from State of Chuuk in a prior year and certain direct grants. CSHA's total federal award expenditures for the year ended September 30, 2020 is undetermined.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2020

Section I - Summary of Auditors' Results

Financial Statements

- | | |
|---|--------------------------|
| 1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: | Unmodified and Qualified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | Yes |
| 3. Significant deficiency(ies) identified? | Yes |
| 4. Noncompliance material to financial statements noted? | Yes |

Federal Awards

Internal control over major federal programs:

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

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
15.875	Economic, Social and Political Development of the Territories – Compact of Free Association, As Amended, Compact Sector Grants
84.027	Special Education Cluster (IDEA): Special Education – Grants to States (IDEA, Part B)

- | | |
|--|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$909,872 |
| 11. Auditee qualified as low-risk auditee? | No |

Section II – Financial Statements Findings

<u>Finding #</u>	<u>Finding</u>
2020-002	Land Leases
2020-003	Chuuk State Housing Authority

Section III - Federal Award Findings and Questioned Costs

<u>Finding #</u>	<u>CFDA #</u>	<u>Finding</u>	<u>Questioned Costs</u>
2020-001	15.875	Equipment and Real Property Management	\$ -

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2020

Finding No.: 2020-001
 Pass-Through Entity: Federated States of Micronesia National Government
 Federal Agency: U.S. Department of the Interior
 CFDA Program: 15.875 Economic, Social and Political Development of the Territories
 Federal Award No.: Compact of Free Association, As Amended, Compact Sector Grants
 Requirement: Equipment and Real Property Management
 Questioned Costs: \$0

Criteria:

1. Management should periodically review asset maintenance activities to facilitate compliance with program objectives and requirements.
2. A physical inventory of equipment purchased using Federal funds is required to be performed once every two years and the results reconciled with capital asset records and ledgers.

Condition:

1. Chuuk State should actively take steps to verify that capital assets funded by the program have not deteriorated and the related useful life lessened. We were not provided evidence to document steps taken to minimize asset deterioration.
2. The Government performed the physical inventory of its equipment in April 2021, more than two years after the last inventory was conducted. The required biennial inventory and related reconciliation was not performed as of September 30, 2020.

No questioned cost is presented as we are unable to determine the overall extent of the deficiency. However, summarized below are the total capital outlays of the program over the past three years.

<u>Program</u> <u>CFDA #</u>	<u>2020</u> <u>Purchases</u>	<u>2019</u> <u>Purchases</u>	<u>2018</u> <u>Purchases</u>	<u>Total</u>
15.875	\$1,100,971	\$750,182	\$633,488	\$2,484,641

Cause: The Government did not perform the required equipment maintenance, inventory, and reconciliations within the required timeframe.

Effect: The Government is noncompliance with applicable equipment management requirements. We are unable to determine the overall extent of the noncompliance, therefore the related capital outlays during the year are not considered questioned costs.

Identification as a Repeat Finding: Finding No. 2019-001.

Recommendation: The Government should inspect capital assets on a periodic basis (e.g., quarterly) and assess for damage and impairment and perform maintenance, as necessary. Furthermore, the Government should consider performing periodic reconciliations to assist in the reconciliation of the Government's biennial physical inventory.

Views of Responsible Officials: The Government agrees with the finding and describes corrective actions in its corrective action plan.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2020

Finding No.: 2020-002
Area: Land Leases

Criteria: A functioning system of internal control requires that subsidiary ledgers be maintained and be supported by underlying supporting documentation, such as vendor contracts, lease agreements, etc.

Condition: The Government lost many of its lease agreements in a fire some years ago and has been working to compile all of its land and building leases and to determine if liabilities should be recorded for delinquent lease payments. Due to the state of this project, we were not able to obtain documentation and to determine whether an associated liability should be recorded in the financial statements and whether all requisite lease disclosures have been included in notes thereto.

Cause: Management is still researching and reconstructing the underlying lease data.

Effect: There is a potential misstatement of the financial statements and the notes thereto, resulting in a report modification.

Recommendation: The Government should set a timetable and obtain technical assistance to assist in resolution of this matter.

Identification as a Repeat Finding: Finding No. 2019-005.

Views of Responsible Officials: The Government agrees with the finding and describes corrective actions in its corrective action plan.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2020

Finding No.: 2020-003
Area: Chuuk State Housing Authority

Criteria: Reconciling subsidiary ledgers to the general ledger on a regular basis is fundamental and critical to maintaining accurate financial records and to minimizing the opportunity for misappropriation of funds or fraudulent activities.

Condition: We determined subsidiary records, particularly the loan ledger, contained variances that are not timely reconciled.

Cause: The Government has yet to implement procedures where loan reconciliations and subsidiary ledger reconciliations of significant accounts are submitted to senior accountants for review on a regular basis.

Effect: There is a potential misstatement of the financial statements, particularly loan balances.

Recommendation: The Government should implement procedures where reconciliations of all loan accounts and subsidiary ledgers and performed and reviewed on a monthly basis.

Identification as a Repeat Finding: Finding No. 2019-006.

Views of Responsible Officials: The Government agrees with the finding and describes corrective actions in its corrective action plan.



**DEPARTMENT OF ADMINISTRATIVE
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Summary Schedule of Prior Audit Findings and Questioned Costs
Year Ended September 30, 2020

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Questioned Cost</u>	<u>Status</u>
2017-001	15.875	\$ -	Not Corrected or Resolved. See corrective action plan - Finding no. 2018-001
2017-002		-	Not Corrected or Resolved. See corrective action plan - Finding no. 2018-002
2017-003		-	Not Corrected or Resolved. See corrective action plan - Finding no. 2018-003
2018-001	15.875	-	Not Corrected or Resolved. See corrective action plan - Finding no. 2019-001
2018-002		-	Not Corrected or Resolved. See corrective action plan - Finding no. 2019-004
2018-003		-	Not Corrected or Resolved. See corrective action plan - Finding no. 2019-005
2018-004		-	Not Corrected or Resolved. See corrective action plan - Finding no. 2018-006
2019-001	15.875	-	Not Corrected or Resolved. See corrective action plan - Finding no. 2018-001
2019-002	84.027	10,418	Not Corrected or Resolved. See corrective action plan
2019-003	84.027	20,963	Not Corrected or Resolved. See corrective action plan
2019-004		-	Not Corrected or Resolved. See corrective action plan - Finding no. 2018-002
2019-005		-	Not Corrected or Resolved. See corrective action plan - Finding no. 2018-003
2019-006		-	Not Corrected or Resolved. See corrective action plan - Finding no. 2018-004
		<u>\$31,381</u>	



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CORRECTIVE ACTION PLAN
2 CFR § 200.511 (c)
Year Ended September 30, 2020

Finding Number	Corrective Action Plan	Anticipated Completion Date	Responsible Person (Contact Details)
2020-001	Department of Administrative Services issued a memorandum dated January 28, 2021 requiring every department to have fixed assets maintenance manual or procedures, maintain a register or list of fixed assets and conduct inspection and physical count at least once a year. Such manual, list and report of inspection are required to be attached with the requisition to purchase fixed assets starting April 01, 2021. DAS has also started to include account number of funding source of fixed asset to the fixed asset register for proper identification and accountability.	September 30, 2021	Roxalyn Kaminanga- Chief of Finance roxalynkaminanga@gmail.com Oturu Ray- Supervisor Procurement & Supply meldicksonray@gmail.com
2020-002	Department of Administrative Services has reconstructed subsidiary ledgers of the lessors and other individuals who have claim against Chuuk State Government. Such ledgers were submitted to the office of the governor for appropriate action and approval for booking.	September 30, 2022	Jonas M. Paul- Director Department of Administrative Services jpaulckdas@gmail.com Renedgardo S. Merencillo- Financial/Accounting Advisor rsmerencillo@yahoo.com
2020-003	As stated in previous year's corrective action plan, CSHA should submit monthly reports of daily activities to DAS. Since it was not complied, DAS director will have a meeting with CSHA executive director to ensure compliance.	September 30, 2021	Jonas M. Paul- Director Department of Administrative Services jpaulckdas@gmail.com Nola Rufes- Acting Executive Director Chuuk Housing Authority nolarufes58@gmail.com