

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

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

YEAR ENDED SEPTEMBER 30, 2021

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

YEAR ENDED SEPTEMBER 30, 2021

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**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2021

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FINANCIAL STATEMENTS
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**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

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

YEAR ENDED SEPTEMBER 30, 2021

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, 2021, 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 unmodified and 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, 2021, 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, 2021, 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

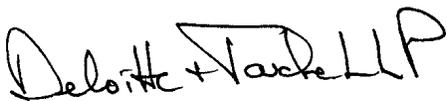
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 10 as well as the Schedule of Revenues, Expenditures and Changes in Deficit – Budget and Actual – General Fund and notes thereto, on pages 50 and 51, be presented 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, 2022 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, 2022

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2021

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, 2021. We encourage readers to consider this information in conjunction with Chuuk State's financial statements, which follow. Fiscal year 2020 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, 2021, Chuuk State's total net position increased by \$6.307 million (or 11.67 %) from \$54.913 million in the prior year to \$61.220 million. The increase is mainly attributed to the increase in general revenues and decrease in expenses.
- During fiscal year 2021, Chuuk State's revenues and contributions of \$46.931 million decreased by \$10.218 million (or 17.82 %) from \$57.149 million in fiscal year 2020. The decrease in revenue was primarily attributable to a decrease in operating grants and contributions and absence of donated assets as compared from fiscal year 2020. Chuuk State's expenses in fiscal year 2021 of \$40.624 million decreased by \$1.740 million (or 4.26%) from \$42.364 million in fiscal year 2020. The decrease is due to decrease in expenses in general government, health services, economic development and unallocated interest on long term debt.
- The General Fund has positive balance of \$0.062 million in fiscal year 2021, from \$3.437 million deficit balance in fiscal year 2020. The elimination of deficit was caused by an increase in revenues due to the receipt of 20% revenue share from FSM NG and minor increase in expenditures as compared from fiscal year 2020.

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, 2021

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 2021, Chuuk State's assets exceeded liabilities by \$61.220 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, 2021, with comparable balances for fiscal year 2020, discloses this relationship.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis, Continued
September 30, 2021

Governmental Activities							
		<u>2021</u>		<u>2020</u>		<u>Change</u>	<u>%</u>
Current and other assets	\$	41,733,228	\$	32,192,662	\$	9,540,566	29.64
Capital assets		<u>45,305,584</u>		<u>46,906,673</u>		<u>(1,601,089)</u>	(3.41)
Total Assets	\$	<u>87,038,812</u>	\$	<u>79,099,335</u>	\$	<u>7,939,477</u>	10.04
Current and other liabilities	\$	18,842,998	\$	16,749,593	\$	2,093,405	12.50
Long-term debt		<u>6,975,642</u>		<u>7,436,681</u>		<u>(461,039)</u>	(6.20)
Total Liabilities		<u>25,818,640</u>		<u>24,186,274</u>		<u>1,632,366</u>	6.75
Net Position:							
Net investment in capital assets		45,305,584		46,906,673		(1,601,089)	(3.41)
Restricted		27,639,118		23,313,313		4,325,805	18.56
Unrestricted		<u>(11,724,530)</u>		<u>(15,306,925)</u>		<u>3,582,395</u>	(23.40)
Total net position		<u>61,220,172</u>		<u>54,913,061</u>		<u>6,307,111</u>	11.49
Total Liabilities and Net Position	\$	<u>87,038,812</u>	\$	<u>79,099,335</u>	\$	<u>7,939,477</u>	10.04

At the end of fiscal year 2021, Chuuk State's unrestricted net position showed a deficit of \$11.725 million, a decrease of \$3.582 million (24.05%) from the prior year \$15.307 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 \$6.307 million (11.67%) 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>2021</u>		<u>2020</u>		<u>Change</u>	<u>%</u>
Revenues:							
Program Revenues:							
Charges for services	\$	2,078,930	\$	2,339,520	\$	(260,590)	(11.14)
Operating and capital grants and contributions		<u>28,630,387</u>		<u>30,375,447</u>		<u>(1,745,060)</u>	(5.74)
		<u>30,709,317</u>		<u>32,714,967</u>		<u>(2,005,650)</u>	(6.13)
General Revenues:							
Taxes		10,558,699		7,655,174		2,903,525	37.93
Unrestricted investment earnings (losses)		603,917		357,775		246,142	68.86
Other		<u>1,142,182</u>		<u>877,326</u>		264,856	30.19
		<u>12,304,798</u>		<u>8,890,275</u>		<u>3,414,523</u>	38.41
Total revenues		43,014,115		41,605,242		1,408,873	3.39
Special item-SDR foreign exchange loss		(35,598)		-		(35,598)	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>3,952,852</u>		<u>1,386,084</u>		<u>2,566,768</u>	185.18
Total revenues and contributions		<u>46,931,369</u>		<u>57,149,294</u>		<u>(10,217,925)</u>	(17.88)

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis, Continued
September 30, 2021

	Governmental Activities			
	<u>2021</u>	<u>2020</u>	<u>Change</u>	<u>%</u>
Expenses:				
General government	\$ 7,187,186	7,453,247	\$ (266,061)	(3.57)
Health services	11,390,370	12,177,961	(787,591)	(6.47)
Education	14,466,731	14,755,608	(288,877)	(1.96)
Economic development	661,106	1,126,406	(465,300)	(41.31)
Public safety	1,109,948	1,094,333	15,615	1.43
Public works and transportation	1,707,346	1,442,515	264,831	18.36
Community affairs	152,421	0	152,421	100.00
Boards and commissions	879,866	1,235,970	(356,104)	(28.81)
Judiciary	473,262	464,036	9,226	1.99
Payments to component units	74,250	71,522	2,728	3.81
Municipal affairs	418,800	419,153	(353)	(0.08)
Unallocated Interest on long-term debt	546,300	1,004,607	(458,307)	(45.62)
Capital projects	1,556,672	1,115,026	441,646	39.61
Other	<u>-</u>	<u>3,582</u>	<u>(3,582)</u>	(100.00)
Total expenses	<u>40,624,258</u>	<u>42,363,966</u>	<u>(1,739,708)</u>	(4.11)
Change in net position	6,307,111	14,785,328	(8,478,217)	(57.34)
Net position at the beginning of the year	<u>54,913,061</u>	<u>40,127,733</u>	<u>14,785,328</u>	36.85
Net position at the end of the year	\$ <u>61,220,172</u>	\$ <u>54,913,061</u>	\$ <u>6,307,111</u>	11.49

The detail indicates the decreases in both revenues and expenses in fiscal year 2021, resulting to a increase in overall net position of \$6.307 million.

Revenues and contributions of \$46.931 million decreased by \$10.22 million (or 17.82%) from prior year's \$57.149 million. The key elements of the decrease were due to decrease in operating and capital grants and contributions, absence of donated land from the FSM Congress and donated building from the government of China as compared from prior year.

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

<u>SOURCES OF REVENUE</u>	<u>2021</u>	<u>2020</u>
Compact funding	56.25%	49.30%
Federal and other grants	4.71%	3.90%
Investments	9.70%	0.60%
Revenue sharing	14.18%	7.20%
Taxes and fees	12.73%	10.30%
Other	<u>2.43%</u>	<u>28.70%</u>
	<u>100.00%</u>	<u>100.00%</u>

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis, Continued
September 30, 2021

Notwithstanding the increase in revenues on taxes and fees that reduces dependency on Compact funding, the predominance of sector funding as 56.25% of the total revenue highlights the importance of optimizing Compact sector grant utilization.

Total expenses decreased by \$1.740 million (or 4.26%), from \$42.364 million in the prior fiscal year to \$40.624 million in fiscal year 2021. The most notable decreases in fiscal year 2021 were in general government of \$0.266 million, health sector of \$0.788 million, education sector of \$0.289 million, economic development of \$0.465 million, boards and commissions of \$0.356 million and unallocated interest on long-term debt of \$0.458 million. However, the major increases in expenses occurred in public safety of \$0.016 million, public works and transportation of \$0.265 million, community affairs of \$0.152 million and capital projects of \$0.442 million that offset the above decreases.

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 2021, Chuuk State's governmental funds reported a combined fund balance of \$23.674 million, which represents a \$7.486 million increase (46.86%) from the \$16.188 million fund balance recorded at the end of fiscal 2020. Of this total combined fund balance, \$22.761 million is non-spendable because it is legally restricted to other purposes and \$13.818 million 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 \$12.905 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 2021, the General Fund recorded total revenues of \$14.100 million with total expenditures of \$10.600 million, which resulted in net revenues of \$3.500 million after repayment of ADB loan principal and interest of \$1.006 million. At the end of the year, General Fund deficit of \$3.437 million from fiscal year 2020 was eliminated and resulted to unassigned fund balance of \$0.062 million in fiscal year 2021. The State needs to continue to develop strategies to increase revenues and reduce expenditures in order to maintain and increase the fund balance to the next fiscal 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 2021, the Grant Assistance Fund had total revenues of \$28.630 million and total expenditures of \$28.757 million. The result is a deficiency of revenues under expenditures of \$0.126 million which resulted in a net fund balance of \$2.188 million.

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 2021, the fund recorded a net change in the fair value of its investments of \$3.953 million, which increased the fund balance at the end of the year to \$21.109 million.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis, Continued
September 30, 2021

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 2021, total revenue collected were \$0.284 million and expenditures were \$0.123 million. This resulted in excess of revenues over expenditures of \$0.160 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 2021, actual revenues of \$14.100 million exceeded the budgeted revenues of \$10.581 million by \$3.519 million. Actual budgetary expenditures of \$11.362 million were greater than budgetary appropriations of \$10.968 million by \$0.393 million, resulting in an excess of revenues over expenditures of \$2.837 million. The net change in unreserved fund deficit on a budgetary basis was a positive of \$2.738 million without any fund transfer. In accordance with the principles of budgetary accounting, the deficit includes encumbrances for goods or services ordered but had not been received amounted to \$0.761 million, the net change in unreserved fund deficit on a budgetary basis was a positive \$3.500 million, eliminating prior year's deficit and leaving \$0.062 million fund balance in fiscal year 2021.

Chuuk State retains a balanced operating budget but debt financing activities of the State that are not budgeted have negative impact on the overall State operations. In fiscal year 2021, payments of \$1.006 million on principal and interest on ADB loans and debt relief reduced the positive amount that eliminated the unreserved fund deficit.

CAPITAL ASSET AND DEBT ADMINISTRATION

Chuuk State's investment in capital assets for the primary government as of September 30, 2021, amounted to \$135.816 million less accumulated depreciation of \$90.511 million, leaving a net book value of \$45.306 million. This represents a net decrease of \$1.601 million (or 3.41%) from fiscal year 2020. Chuuk State recorded net additions of \$0.008 million in land, \$0.0579 million in vehicles/equipment and retirements of \$6.325 million in vehicles/equipment. The table below summarizes Chuuk State's net capital assets:

	Governmental Activities			
	<u>2021</u>	<u>2020</u>	<u>Change</u>	<u>%</u>
Land	\$ 21,003,461	\$ 20,995,251	\$ 8,210	0.04
Airport Facilities	2,100,410	3,053,095	(952,685)	(31.20)
Buildings	17,905,754	18,478,337	(572,583)	(3.10)
Seaport Facilities	662,932	1,325,862	(662,930)	(50.00)
Vehicles / Equipment	<u>3,633,027</u>	<u>3,054,130</u>	<u>578,897</u>	18.95
	\$ <u>45,305,584</u>	\$ <u>46,906,675</u>	\$ <u>(1,601,091)</u>	(3.41)

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, 2021

Long -Term Debt

The following schedule shows Chuuk State's summarized long-term debt for fiscal year 2021 with comparative amounts for fiscal year 2020.

	Governmental Activities			
	<u>2021</u>	<u>2020</u>	<u>Change</u>	<u>%</u>
ADB Water Supply Loan (1459)	\$ 2,398,405	\$ 2,547,058	\$ (148,653)	(5.84)
ADB Early Retirement Loan (1520)	3,486,338	3,675,893	(189,555)	(5.16)
ADB Private Sector Reform Program Loan (1873)	174,791	212,684	(37,893)	(17.82)
ADB Private Sector Reform Program Loan (1874)	<u>580,429</u>	<u>628,862</u>	<u>(48,433)</u>	(7.70)
	<u>\$ 6,639,963</u>	<u>\$ 7,064,497</u>	<u>\$ (424,534)</u>	(6.01)

Long-term debt decreased by \$0.425 million (or 6.01%) in fiscal year 2021 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 2022 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 2022 and for the 2023 annual appropriation act. Revenue collections in excess of these fiscal ceilings will be used for debt relief payments of Chuuk's old liabilities.

COVID-19 cases have been reported in the FSM. It caused the closure of Chuuk International Airport for several months for international travelers and negatively impacted 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, 2021

	<u>Primary Government</u>	<u>Component Units</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 4,650,286	\$ 2,615,083
Time certificates of deposit	-	100,000
Equity interest in internal investment pool	34,856	1,007,834
Receivables, net of allowance for uncollectibles	2,901,752	1,201,694
Inventories	-	1,230,389
Prepayments	284,788	141,677
Restricted assets:		
Cash and cash equivalents	7,954,416	-
Total current assets	<u>15,826,098</u>	<u>6,296,677</u>
Noncurrent assets:		
Restricted assets:		
Investments	24,470,030	-
Investments	812,100	-
Other assets	625,000	907,538
Capital assets:		
Nondepreciable capital assets	21,003,461	2,036,457
Capital assets, net of accumulated depreciation	24,302,123	21,444,195
Total noncurrent assets	<u>71,212,714</u>	<u>24,388,190</u>
Total assets	<u>\$ 87,038,812</u>	<u>\$ 30,684,867</u>
<u>LIABILITIES</u>		
Current liabilities:		
Current portion of long-term debt	\$ 463,100	\$ 283,815
Accounts payable	1,319,842	178,500
Land acquisition payable	8,543,745	-
Compensated absences payable	320,960	37,855
Other liabilities and accruals	649,561	473,689
Unearned revenues	7,545,790	76,379
Total current liabilities	<u>18,842,998</u>	<u>1,050,238</u>
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	6,176,863	3,362,018
Compensated absences payable, net of current portion	798,779	18,636
Total noncurrent liabilities	<u>6,975,642</u>	<u>3,380,654</u>
Total liabilities	<u>25,818,640</u>	<u>4,430,892</u>
<u>NET POSITION</u>		
Net investment in capital assets	45,305,584	19,822,369
Restricted for:		
Nonexpendable:		
Future operations	21,109,321	-
Expendable:		
Compact related	2,854,937	-
Debt service	3,360,709	-
Other purposes	314,151	363,204
Unrestricted	(11,724,530)	6,068,402
Total net position	<u>61,220,172</u>	<u>26,253,975</u>
Total liabilities and net position	<u>\$ 87,038,812</u>	<u>\$ 30,684,867</u>

See accompanying notes to financial statements.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Statement of Activities
Year Ended September 30, 2021

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	\$ 7,187,186	\$ 1,266,653	\$ 3,421,593	\$ -	\$ (2,498,940)	\$ -
Health services	11,390,370	283,653	10,233,656	-	(873,061)	-
Education	14,466,731	-	13,405,284	-	(1,061,447)	-
Economic development	661,106	-	13,182	-	(647,924)	-
Public safety	1,109,948	148,640	-	-	(961,308)	-
Public works and transportation	1,707,346	379,984	-	-	(1,327,362)	-
Community affairs	152,421	-	-	-	(152,421)	-
Boards, commissions and other	879,866	-	-	-	(879,866)	-
Judiciary	473,262	-	-	-	(473,262)	-
Payments to component units	74,250	-	-	-	(74,250)	-
Municipal affairs	418,800	-	-	-	(418,800)	-
Unallocated interest on long-term debt	546,300	-	-	-	(546,300)	-
Capital projects	1,556,672	-	-	1,556,672	-	-
Total primary government	40,624,258	2,078,930	27,073,715	1,556,672	(9,914,941)	-
Component units:						
Chuuk State Health Care Plan	602,649	1,741,104	-	-	-	1,138,455
Chuuk Public Utility Corporation	6,660,563	6,751,255	-	2,321,148	-	2,411,840
Chuuk State Housing Authority	368,515	32,513	-	-	-	(336,002)
Total component units	\$ 7,631,727	\$ 8,524,872	\$ -	\$ 2,321,148	-	3,214,293
General revenues:						
Taxes:						
FSM revenue sharing:						
Gross revenue taxes					1,794,579	-
Import taxes					2,814,907	-
Income taxes					1,639,569	-
Other taxes					409,369	-
State taxes:						
Sales tax					3,160,550	-
Other excise taxes					739,725	-
Unrestricted investment income					603,917	(55,692)
Other					1,142,182	198,530
Total general revenues					12,304,798	142,838
Special item - loss on SDR foreign exchange					(35,598)	-
Contributions to permanent fund					3,952,852	-
Total general revenues, special item and contributions					16,222,052	142,838
Change in net position					6,307,111	3,357,131
Net position at the beginning of the year					54,913,061	22,896,844
Net position at the end of the year					\$ 61,220,172	\$ 26,253,975

See accompanying notes to financial statements.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Balance Sheet
Governmental Funds
September 30, 2021

	General	Special Revenue Grants Assistance	Permanent Compact Trust	Other Governmental Funds	Total
ASSETS					
Cash and cash equivalents	\$ 4,650,286	\$ -	\$ -	\$ -	\$ 4,650,286
Equity interest in internal investment pool	34,856	-	-	-	34,856
Investments	812,100	-	-	-	812,100
Receivables, net	1,735,020	1,165,971	-	761	2,901,752
Prepayments	214,980	69,808	-	-	284,788
Due from other funds	897,318	10,111,574	-	317,922	11,326,814
Other assets	625,000	-	-	-	625,000
Restricted assets:					
Cash and cash equivalents	7,954,416	-	-	-	7,954,416
Investments	3,360,709	-	21,109,321	-	24,470,030
Total assets	<u>\$ 20,284,685</u>	<u>\$ 11,347,353</u>	<u>\$ 21,109,321</u>	<u>\$ 318,683</u>	<u>\$ 53,060,042</u>
LIABILITIES AND FUND BALANCES (DEFICIT)					
Liabilities:					
Accounts payable	\$ 812,306	\$ 503,004	\$ -	\$ 4,532	\$ 1,319,842
Accrued liabilities	436,769	212,792	-	-	649,561
Land acquisition payable	8,543,745	-	-	-	8,543,745
Unearned revenues	-	7,545,790	-	-	7,545,790
Due to other funds	10,429,496	897,318	-	-	11,326,814
Total liabilities	<u>20,222,316</u>	<u>9,158,904</u>	<u>-</u>	<u>4,532</u>	<u>29,385,752</u>
Fund balances (deficit):					
Nonspendable	1,652,080	-	21,109,321	-	22,761,401
Restricted	11,315,125	2,188,449	-	314,151	13,817,725
Unassigned:					
General fund	(12,904,836)	-	-	-	(12,904,836)
Total fund balances (deficit)	<u>62,369</u>	<u>2,188,449</u>	<u>21,109,321</u>	<u>314,151</u>	<u>23,674,290</u>
Total liabilities and fund balances	<u>\$ 20,284,685</u>	<u>\$ 11,347,353</u>	<u>\$ 21,109,321</u>	<u>\$ 318,683</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					45,305,584
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					(6,639,963)
Compensated absences					(1,119,739)
					<u>(7,759,702)</u>
Net position of governmental activities					<u>\$ 61,220,172</u>

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, 2021

	General	Special Revenue Grants Assistance	Permanent Compact Trust	Other Governmental Funds	Total
Revenues:					
Compact funding	\$ -	\$ 26,418,168	\$ -	\$ -	\$ 26,418,168
Net change in the fair value of investments	603,917	-	3,952,852	-	4,556,769
Federal contributions and other grants	-	2,212,219	-	-	2,212,219
FSM revenue sharing	6,658,424	-	-	-	6,658,424
State taxes	3,900,275	-	-	-	3,900,275
Fees and charges	1,795,277	-	-	283,653	2,078,930
Other	1,142,182	-	-	-	1,142,182
Total revenues	<u>14,100,075</u>	<u>28,630,387</u>	<u>3,952,852</u>	<u>283,653</u>	<u>46,966,967</u>
Expenditures:					
Current:					
General government	4,600,418	1,256,939	-	-	5,857,357
Health services	128,825	11,446,674	-	123,320	11,698,819
Education	-	14,356,920	-	-	14,356,920
Economic development	521,528	139,578	-	-	661,106
Public safety	1,141,563	-	-	-	1,141,563
Public works and transportation	1,026,957	-	-	-	1,026,957
Community affairs	152,421	-	-	-	152,421
Boards, commissions and other	1,056,033	-	-	-	1,056,033
Judiciary	473,262	-	-	-	473,262
Payments to component units	74,250	-	-	-	74,250
Municipal affairs	418,800	-	-	-	418,800
Capital projects	-	1,556,672	-	-	1,556,672
Debt service	1,006,432	-	-	-	1,006,432
Total expenditures	<u>10,600,489</u>	<u>28,756,783</u>	<u>-</u>	<u>123,320</u>	<u>39,480,592</u>
Net change in fund balances (deficit)	3,499,586	(126,396)	3,952,852	160,333	7,486,375
Fund balances (deficit) at the beginning 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>
Fund balances (deficit) at the end of the year	<u>\$ 62,369</u>	<u>\$ 2,188,449</u>	<u>\$ 21,109,321</u>	<u>\$ 314,151</u>	<u>\$ 23,674,290</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, 2021

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	\$ 7,486,375
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 (\$2,931,374) exceeded capital outlays, net of \$1,322,075 in the current period.	(1,601,089)
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	460,132
Loss on ADB loans SPR foreign exchange adjustment	(35,598)
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>(2,709)</u>
Change in net position of governmental activities	\$ <u>6,307,111</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, 2021

<u>ASSETS</u>	Chuuk State Health Care Plan	Chuuk Public Utility Corporation	Chuuk State Housing Authority	Total
Current assets:				
Cash and cash equivalents	\$ 1,380,978	\$ 1,105,851	\$ 128,254	\$ 2,615,083
Time certificates of deposit	100,000	-	-	100,000
Investments	1,007,834	-	-	1,007,834
Receivables, net	388,172	813,522	-	1,201,694
Prepaid expense	40,000	101,677	-	141,677
Inventories	-	1,230,389	-	1,230,389
Total current assets	<u>2,916,984</u>	<u>3,251,439</u>	<u>128,254</u>	<u>6,296,677</u>
Noncurrent assets:				
Deposits	-	356,424	-	356,424
Advance receivable	160,000	-	-	160,000
Prepaid land lease	-	374,364	-	374,364
Intangible assets, net	16,750	-	-	16,750
Capital assets:				
Nondepreciable capital assets	-	2,036,457	-	2,036,457
Capital assets, net of accumulated depreciation	<u>38,900</u>	<u>21,392,845</u>	<u>12,450</u>	<u>21,444,195</u>
Total assets	<u>\$ 3,132,634</u>	<u>\$ 27,411,529</u>	<u>\$ 140,704</u>	<u>\$ 30,684,867</u>
<u>LIABILITIES AND NET POSITION</u>				
Current liabilities:				
Current portion of long-term debt	\$ -	\$ 283,815	\$ -	\$ 283,815
Compensated absence payable	-	37,855	-	37,855
Accounts payable	10,380	50,982	117,138	178,500
Accrued liabilities	8,940	388,315	76,434	473,689
Unearned income	-	76,379	-	76,379
Total current liabilities	<u>19,320</u>	<u>837,346</u>	<u>193,572</u>	<u>1,050,238</u>
Noncurrent liabilities:				
Accrued annual leave, net of current portion	-	18,636	-	18,636
Noncurrent portion of long-term debt	-	3,362,018	-	3,362,018
Total liabilities	<u>19,320</u>	<u>4,218,000</u>	<u>193,572</u>	<u>4,430,892</u>
Net position:				
Net investment in capital assets	38,900	19,783,469	-	19,822,369
Restricted	-	363,204	-	363,204
Unrestricted	<u>3,074,414</u>	<u>3,046,856</u>	<u>(52,868)</u>	<u>6,068,402</u>
Total net position	<u>3,113,314</u>	<u>23,193,529</u>	<u>(52,868)</u>	<u>26,253,975</u>
Total liabilities and net position	<u>\$ 3,132,634</u>	<u>\$ 27,411,529</u>	<u>\$ 140,704</u>	<u>\$ 30,684,867</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, 2021

	Chuuk State Health Care Plan	Chuuk Public Utility Corporation	Chuuk State Housing Authority	Total
Operating revenues:				
Charges for services	\$ 1,708,624	\$ 6,714,365	\$ 32,513	\$ 8,455,502
Other	<u>32,480</u>	<u>36,890</u>	<u>-</u>	<u>69,370</u>
Total operating revenues	<u>1,741,104</u>	<u>6,751,255</u>	<u>32,513</u>	<u>8,524,872</u>
Operating expenses:				
Cost of services	317,084	2,974,611	-	3,291,695
Depreciation	15,002	1,339,549	-	1,354,551
Administration and general	<u>270,563</u>	<u>2,346,403</u>	<u>368,515</u>	<u>2,985,481</u>
Total operating expenses	<u>602,649</u>	<u>6,660,563</u>	<u>368,515</u>	<u>7,631,727</u>
Operating (loss) income	<u>1,138,455</u>	<u>90,692</u>	<u>(336,002)</u>	<u>893,145</u>
Nonoperating revenues (expenses):				
Other income	40,222	(95,914)	-	(55,692)
ADB grant expense	-	(1,076,110)	-	(1,076,110)
Operating grants	<u>-</u>	<u>1,274,640</u>	<u>-</u>	<u>1,274,640</u>
Total nonoperating revenues, net	<u>40,222</u>	<u>102,616</u>	<u>-</u>	<u>142,838</u>
Net income before capital contributions	1,178,677	193,308	(336,002)	1,035,983
Capital contributions	<u>-</u>	<u>2,321,148</u>	<u>-</u>	<u>2,321,148</u>
Change in net position	1,178,677	2,514,456	(336,002)	3,357,131
Net position at the beginning of the year	<u>1,934,637</u>	<u>20,679,073</u>	<u>283,134</u>	<u>22,896,844</u>
Net position at the end of the year	<u>\$ 3,113,314</u>	<u>\$ 23,193,529</u>	<u>\$ (52,868)</u>	<u>\$ 26,253,975</u>

See accompanying notes to financial statements.

STATE OF CHUUK
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2021

(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, 2021

(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, 2021

(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, 2021

(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, 2021

(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 \$27,639,118 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, 2021

(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, 2021

(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, 2021

(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, 2021

(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 \$3,360,709. Furthermore, investments recorded in the Compact Trust Fund of \$21,109,321 are restricted in that they are not available to be used in current operations.

As of September 30, 2021, 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	\$ 2,112,881
Deposit account established for the purpose of federal grants program activities	(76,567)
Deposit accounts established for the purpose of receiving payments pursuant to the Compact of Free Association, as amended	<u>5,918,102</u>
	\$ <u>7,954,416</u>

L. Other Assets

The State holds approximately 3.3% of the outstanding shares of Pacific Islands Development Bank with a carrying value of \$325,000 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, 2021

(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, 2021

(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

In 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed 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.

During the year ended September 30, 2021, Chuuk State Government implemented the following pronouncements:

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Notes to Financial Statements
September 30, 2021

- GASB Statement No. 84, *Fiduciary Activities*, which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.
- GASB Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*, which improves 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.
- GASB Statement No. 93, *Replacement of Interbank Offered Rates*, which establishes accounting and reporting requirements related to the replacement of Interbank Offered Rates such as the London Interbank Offered Rate (LIBOR) for hedging derivative instruments. The provision removing LIBOR as an appropriate benchmark interest rate for the evaluation of the effectiveness of derivative instruments is effective for the year ended September 30, 2022.

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

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 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 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.

STATE OF CHUUK
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2021

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards, Continued

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. In accordance with GASB Statement No. 95, 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. 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.

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. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards, Continued

In October 2021, GASB issued Statement No. 98, *The Annual Comprehensive Financial Report*. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 98 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.

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, 2020 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.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(2) Deposits and Investments, Continued

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.

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.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(2) Deposits and Investments, Continued

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.

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.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(2) Deposits and Investments, Continued

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, 2021, the carrying amount of the primary government's total cash and cash equivalents were \$12,604,702 and the corresponding bank balances were \$16,124,760, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2021, 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, 2021, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$2,715,083 and the corresponding bank balances were \$2,997,879, which are maintained in financial institutions subject to FDIC insurance. As of September 30, 2021, 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, 2021

(2) Deposits and Investments, Continued

B. Investments

Primary Government

As of September 30, 2021, the State's investments are as follows:

General Fund:	
Fixed income	\$ 1,110,897
Domestic equities	812,100
Common equities	2,189,136
Cash management account	<u>95,532</u>
	\$ <u>4,207,665</u>
Compact Trust Fund:	
Common trust funds:	
Domestic Equity	\$ 5,744,777
International Equity	5,136,402
Global Equity	1,937,521
Fixed Income	3,143,158
Private Equity	2,278,610
Hedge Fund	1,128,772
Real Estate	1,687,755
Money market funds	<u>52,326</u>
	\$ <u>21,109,321</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, 2021.

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, 2021, 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, 2021

(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 "Aa3" as rated by Moody's as of September 30, 2021. High yield debt receiving a credit rating below "A" comprises approximately 29.9% of the MIM CFI fixed income portfolio as rated by Moody's at September 30, 2021. At September 30, 2021, the weighted average maturity of the bonds comprising MIM CFI is 9.46 years.

The bonds held by MIM OFI vary in credit quality with an average overall rating of "Ba1" as rated by Moody's as of September 30, 2021. High yield debt receiving a credit rating below "A" comprises approximately 62.8% of the MIM OFI fixed income portfolio as rated by Moody's at September 30, 2021. At September 30, 2021, the weighted average maturity of the bonds comprising MIM OFI is 7.3 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, 2021, the Trust Fund held approximately \$276,891,000 in securities of foreign issuers held in common trust funds. Of this amount, approximately \$59,453,000 was held in securities whose functional currency is the Euro, \$20,194,000 whose functional currency is the British pound, \$48,715,000 whose functional currency is the Japanese yen, and \$148,529,000 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, 2021.

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, 2021

(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, 2021, the State's fixed income securities, including related Moody's Investors Service credit ratings, had the following maturities:

Investment Type	Credit Ratings	Fair Value	Current	1-5	6-10	Over 10
U.S. Treasury Notes and Bonds	Aaa	\$ 272,919	\$ 25,681	\$ 161,933	\$ 5,728	\$ 79,577
U.S. Government Agencies Obligations:						
Federal Farm Credit Bank	Aaa	61,774	28,525	4,234	11,437	17,578
Federal Home Loan Bank	Aaa	82,570	7,325	52,871	22,374	-
Federal Home Loan Mortgage Corporation	Aaa	3,389	-	-	-	3,389
Federal National Mortgage Association	Aaa	7,095	-	-	6,204	891
Overseas Private Investment Corporation	Aaa	34,821	-	34,821	-	-
Tennessee Valley Authority	Aaa	68,912	15,911	-	-	53,001
Municipal Obligations	Aa1	50,484	-	17,850	19,955	12,679
Municipal Obligations	Aa2	52,099	-	18,105	8,679	25,315
Municipal Obligations	Aa3	7,415	-	4,520	-	2,895
Corporate Bonds	Aaa	111,987	50,644	50,604	-	10,739
Corporate Bonds	Aa1	11,306	-	11,306	-	-
Corporate Bonds	Aa2	30,515	7,259	23,256	-	-
Corporate Bonds	Aa3	18,362	-	-	5,871	12,491
Corporate Bonds	A1	84,426	-	48,022	5,936	30,468
Corporate Bonds	A2	51,989	-	22,342	26,507	3,140
Corporate Bonds	A3	47,709	1,019	23,066	-	23,624
Corporate Bonds	Baa1	73,843	-	24,146	5,848	43,849
Corporate Bonds	Baa2	25,950	5,806	2,908	3,180	14,056
Corporate Bonds	Not listed	2,588	-	2,588	-	-
Corporate Bonds	No rating	10,744	-	10,744	-	-
		<u>\$ 1,110,897</u>	<u>\$ 142,170</u>	<u>\$ 513,316</u>	<u>\$ 121,719</u>	<u>\$ 333,692</u>

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

The State has the following recurring fair value measurements as of September 30, 2021:

General Fund:

	<u>Total</u>	General Fund: <u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level:				
Fixed income:				
U.S. Treasury obligations	\$ 272,919	\$ -	\$ 272,919	\$ -
U.S. Government Agencies	258,561	-	258,561	-
Municipal obligations	109,998	-	109,998	-
Corporate notes	<u>469,419</u>	-	<u>469,419</u>	-
Total fixed income	1,110,897	-	1,110,897	-
Equity securities:				
U.S. equities	<u>2,189,136</u>	<u>2,189,136</u>	-	-
Total investments at fair value	\$ 3,300,033	\$ 2,189,136	\$ 1,110,897	\$ -
Investments measured at NAV:				
Equity investment in the Bank of the FSM	812,100			
Investments measured at amortized cost:				
Cash management account	<u>95,532</u>			
	\$ <u>4,207,665</u>			
Compact Trust Fund:				
		<u>Fair Value Measurements Using</u>		
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level:				
Common trust funds:				
Domestic Equity	\$ 5,744,777	\$ 5,744,777	\$ -	\$ -
International Equity	5,136,402	5,136,402	-	-
Global Equity	1,937,521	1,937,521	-	-
Fixed Income	3,143,158	3,143,158	-	-
Private Equity	<u>2,278,610</u>	-	-	<u>2,278,610</u>
Total investments at fair value	18,240,468	\$ 15,961,858	\$ -	\$ 2,278,610
Investments measured at NAV:				
Hedge Fund	1,128,772			
Real Estate	1,687,755			
Investments measured at amortized cost:				
Money market funds	<u>52,326</u>			
	\$ <u>21,109,321</u>			

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

Discretely Presented Component Units

As of September 30, 2021, investments comprise the following:

Chuuk State Health Care Plan (CSHCP):

Common stock	\$ 597,594
Fixed income securities	374,752
Money market funds	<u>35,488</u>
	<u>\$ 1,007,834</u>

As of September 30, 2021, the Plan's investments recorded at fair value were as follows:

	Hierarchy As of September 30, 2021			Moody's Credit Rating	Maturity At September 30, 2021	Maturity				
	Level 1	Level 2	Level 3			No Maturity	Less than	1 - 5	6 - 10	More than
							1 year	years	years	10 years
Investments by fair value level:										
Fixed income securities	\$ 374,752	\$ -	\$ -	Aaa	\$ 374,752	\$ -	\$ -	\$ -	\$ -	
Common stock	<u>597,594</u>	<u>-</u>	<u>-</u>		<u>597,594</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
	972,346	-	-		972,346	-	-	-	-	
Investments measured at amortized cost:										
Money market funds	<u>35,488</u>	<u>-</u>	<u>-</u>		<u>35,488</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Total investments	<u>\$ 1,007,834</u>	<u>\$ -</u>	<u>\$ -</u>		<u>\$ 1,007,834</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

(3) Receivables

Primary Government

Receivables as of September 30, 2021, for the primary government's individual major funds and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	General	Grants Assistance	Compact Trust	Other Governmental Funds	Total
Receivables:					
General receivable	\$ 1,595,099	\$ 84,684	\$ -	\$ 4,936	\$ 1,684,719
FSM National Government	<u>1,477,537</u>	<u>1,714,778</u>	<u>-</u>	<u>-</u>	<u>3,192,315</u>
	3,072,636	1,799,462	-	4,936	4,877,034
Less: allowance for uncollectible accounts	<u>(1,337,616)</u>	<u>(633,491)</u>	<u>-</u>	<u>(4,175)</u>	<u>(1,975,282)</u>
Net receivables	<u>\$ 1,735,020</u>	<u>\$ 1,165,971</u>	<u>\$ -</u>	<u>\$ 761</u>	<u>\$ 2,901,752</u>

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(3) Receivables

Primary Government, Continued

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, 2021, for the discretely presented component units in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	Chuuk State Health <u>Care Plan</u>	Chuuk Public Utility <u>Corporation</u>	Chuuk State Housing <u>Authority</u>	<u>Total</u>
Receivables:				
General	\$ 582,826	\$ 959,383	\$ -	\$ 1,542,209
Other	<u>-</u>	<u>354,243</u>	<u>-</u>	<u>354,243</u>
	582,826	1,313,626	-	1,896,452
Allowance for uncollectable accounts	<u>(194,654)</u>	<u>(500,104)</u>	<u>-</u>	<u>(694,758)</u>
	<u>\$ 388,172</u>	<u>\$ 813,522</u>	<u>\$ -</u>	<u>\$ 1,201,694</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, 2021, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Grants Assistance	General	\$ 10,111,574
General	Grants Assistance	897,318
Nonmajor governmental funds	General	<u>317,922</u>
		<u>\$ 11,326,814</u>

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(5) Capital Assets

Capital asset activities for the year ended September 30, 2021, are as follows:

Primary Government

	Balance October <u>1, 2020</u>	<u>Additions</u>	<u>Retirements</u>	Balance September <u>30, 2021</u>
Governmental activities:				
Depreciable assets:				
Airport facilities	\$ 38,107,415	\$ -	\$ -	\$ 38,107,415
Buildings	27,489,276	-	-	27,489,276
Seaport facilities	26,517,208	-	-	26,517,208
Vehicles and other equipment	12,866,810	1,322,075	(6,325,319)	7,863,566
Infrastructure	<u>14,835,315</u>	<u>-</u>	<u>-</u>	<u>14,835,315</u>
	<u>119,816,024</u>	<u>1,322,075</u>	<u>(6,325,319)</u>	<u>114,812,780</u>
Less accumulated depreciation for:				
Airport facilities	(35,054,320)	(952,685)	-	(36,007,005)
Buildings	(9,010,943)	(572,579)	-	(9,583,522)
Seaport facilities	(25,191,346)	(662,930)	-	(25,854,276)
Vehicles and other equipment	(9,812,678)	(743,180)	6,325,319	(4,230,539)
Infrastructure	<u>(14,835,315)</u>	<u>-</u>	<u>-</u>	<u>(14,835,315)</u>
	<u>(93,904,602)</u>	<u>(2,931,374)</u>	<u>6,325,319</u>	<u>(90,510,657)</u>
	25,911,422	(1,609,299)	-	24,302,123
Nondepreciable assets:				
Land	<u>20,995,251</u>	<u>8,210</u>	<u>-</u>	<u>21,003,461</u>
	<u>\$ 46,906,673</u>	<u>\$ (1,601,089)</u>	<u>\$ -</u>	<u>\$ 45,305,584</u>

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

General government	\$ 1,586,541
Health services	355,115
Education	298,067
Public safety	11,262
Public works and transportation	<u>680,389</u>
	<u>\$ 2,931,374</u>

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(5) Capital Assets, Continued

Discretely Presented Component Units

	Balance October 1, <u>2020</u>	<u>Addition</u>	<u>Retirements</u>	Balance September 30, <u>2021</u>
Depreciable assets:				
Buildings	\$ 439,432	\$ -	\$ -	\$ 439,432
Utility plant	35,250,836	3,550,874	-	38,801,710
Machinery, equipment, others	<u>325,174</u>	<u>15,584</u>	<u>(1,822)</u>	<u>338,936</u>
	36,015,442	3,566,458	(1,822)	39,580,078
Less accumulated depreciation	<u>(16,787,586)</u>	<u>(1,354,551)</u>	<u>6,254</u>	<u>(18,135,883)</u>
	19,227,856	2,211,907	4,432	21,444,195
Nondepreciable assets:				
Construction work-in-progress	<u>1,927,813</u>	<u>2,578,378</u>	<u>(2,469,734)</u>	<u>2,036,457</u>
	<u>\$ 21,155,669</u>	<u>\$ 4,790,285</u>	<u>\$ (2,465,302)</u>	<u>\$ 23,480,652</u>

(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, 2021. As of September 30, 2021, the amount outstanding against this loan was \$3,486,338. Of the required \$5,300,000 identified for future debt service payments, \$3,360,709 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, 2021, the related principal balances were \$174,791 and \$580,429, respectively.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(6) Long-Term Obligations, Continued

Primary Government, Continued

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, 2021, the balance payable on this loan amounted to \$2,398,405.

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

<u>Year Ending</u>				
<u>September 30</u>	<u>Principal</u>		<u>Interest</u>	<u>Total</u>
2022	\$ 463,100	\$	49,645	\$ 512,745
2023	463,100		46,067	509,167
2024	463,100		42,489	505,589
2025	463,100		38,911	502,011
2026	443,676		35,334	479,010
2027 - 2031	2,121,287		128,155	2,249,442
2032 - 2036	2,004,983		50,000	2,054,983
2037 - 2038	217,617		1,543	219,160
	<u>\$ 6,639,963</u>	<u>\$</u>	<u>392,144</u>	<u>\$ 7,032,107</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.

\$ 1,656,302

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, 2021). Proceeds were used for the purchase of two generator sets and related costs.

1,989,531

\$ 3,645,833

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(6) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

Chuuk Public Utility Corporation:, Continued

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.

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, 2021 and 2020, 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>
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	371,118	39,075	410,193
2027-2031	1,601,029	97,626	1,698,655
2032-2036	<u>416,667</u>	<u>9,734</u>	<u>426,401</u>
	\$ <u>3,645,833</u>	\$ <u>366,593</u>	\$ <u>4,012,426</u>

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(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, 2021, 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>2020</u>	<u>Additions</u>	<u>Reductions</u>	SDR <u>Adjustments</u>	Balance September <u>30, 2021</u>	Due Within <u>One Year</u>
Loans payable:						
ADB loans:						
Loan 1459	\$ 2,547,058	\$ -	\$ (162,103)	\$ 13,450	\$ 2,398,405	\$ 159,908
Loan 1520	3,675,893	-	(206,989)	17,434	3,486,338	217,915
Loan 1873	212,684	-	(39,136)	1,243	174,791	38,843
Loan 1874	<u>628,862</u>	<u>-</u>	<u>(51,904)</u>	<u>3,471</u>	<u>580,429</u>	<u>46,434</u>
	7,064,497	-	(460,132)	35,598	6,639,963	463,100
Other:						
Compensated absences	<u>1,117,030</u>	<u>319,386</u>	<u>(316,677)</u>	<u>-</u>	<u>1,119,739</u>	<u>320,960</u>
	<u>\$ 8,181,527</u>	<u>\$ 319,386</u>	<u>\$ (776,809)</u>	<u>\$ 35,598</u>	<u>\$ 7,759,702</u>	<u>\$ 784,060</u>

When the ADB extends credit to a particular country, the loan is booked in Special Drawing Rights (SDRs) but the actual loan is delivered in the currency of the borrower, at the current exchange rate between the currency and the SDR. The value of the SDR is subject to periodic review by the International Monetary Fund, which may result in the recognition of a foreign exchange gain or loss. During the year ended September 30, 2021, the State recognized a foreign exchange gain of \$35,598 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, 2021, the following changes occurred in long-term obligations of the discretely presented component units:

	Balance October 1, <u>2020</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2021</u>	Due Within <u>One Year</u>
Long-term debt	\$ 3,891,869	\$ -	\$ (246,036)	\$ 3,645,833	\$ 283,815
Accrued annual leave	<u>74,409</u>	<u>-</u>	<u>(17,918)</u>	<u>56,491</u>	<u>37,855</u>
	<u>\$ 3,966,278</u>	<u>\$ -</u>	<u>\$ (263,954)</u>	<u>\$ 3,702,324</u>	<u>\$ 321,670</u>

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(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	Grants Assistance	Compact Trust	Nonmajor	Total Governmental
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Funds</u>	<u>Funds</u>
Non-spendable:					
General government	\$ 214,980	\$ -	\$ -	\$ -	\$ 214,980
FSM Development Bank	300,000	-	-	-	300,000
Pacific Islands Development Bank	325,000	-	-	-	325,000
Bank of the FSM	812,100	-	-	-	812,100
Permanent fund principal	-	-	21,109,321	-	21,109,321
Restricted:					
Debt service	3,360,709	-	-	-	3,360,709
Capital projects	2,112,881	2,067,979	-	-	4,180,860
General government	5,841,535	12,519	-	-	5,854,054
Health services	-	-	-	314,151	314,151
Other foreign assistance	-	107,951	-	-	107,951
Unassigned	<u>(12,904,836)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(12,904,836)</u>
	<u>\$ 62,369</u>	<u>\$ 2,188,449</u>	<u>\$ 21,109,321</u>	<u>\$ 314,151</u>	<u>\$ 23,674,290</u>

(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, 2021 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, 2021, the State has significant encumbrances summarized as follows:

<u>General Fund</u>	Grants <u>Assistance</u>	Compact <u>Trust</u>	Other Governmental <u>Funds</u>	<u>Total</u>
\$ <u>761,350</u>	\$ <u>4,711,068</u>	\$ <u>-</u>	\$ <u>75,791</u>	\$ <u>5,548,208</u>

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(9) Contingencies, Continued

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, 2021 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 \$12,904,836 at September 30, 2021. In addition, at September 30, 2021, the primary government's current liabilities exceed current assets.

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, 2021, significant over-expenditures exceeding appropriations within the General Fund were as follows:

Debt service	\$ 541,297
Debt relief payments	\$ 465,135
Governor's Office	\$ 321,283
Economic development	\$ 107,308
Public Affairs	\$ 152,421
Chuuk Housing Authority	\$ 9,001

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(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, 2022, 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 -
OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS**

YEAR ENDED SEPTEMBER 30, 2021

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Revenues, Expenditures and Changes in Deficit
Budget and Actual - General Fund
Year Ended September 30, 2021

	<u>Budgeted Amounts</u>		Actual - Budgetary Basis	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Local revenues	\$ 9,022,144	\$ 10,581,296	\$ 13,496,158	\$ 2,914,862
Net change in fair value of investments	-	-	603,917	603,917
Total revenues	<u>9,022,144</u>	<u>10,581,296</u>	<u>14,100,075</u>	<u>3,518,779</u>
Expenditures:				
Current:				
General government	4,300,612	5,179,721	5,220,276	(40,555)
Education	163,750	163,750	128,825	34,925
Economic development	234,406	412,898	520,206	(107,308)
Public safety	1,104,093	1,255,138	1,165,976	89,162
Public works and transportation	862,452	1,147,097	1,082,949	64,148
Community affairs	-	-	152,421	(152,421)
Boards and commissions	1,342,677	1,751,032	1,068,751	682,281
Judiciary	528,905	560,625	509,990	50,635
Payments to component units	65,249	65,718	74,719	(9,001)
Municipal affairs	420,000	424,521	423,321	1,200
Other	-	7,754	7,754	-
Debt service	-	219	1,006,651	(1,006,432)
Total expenditures	<u>9,022,144</u>	<u>10,968,473</u>	<u>11,361,839</u>	<u>(393,366)</u>
Excess (deficiency) of revenues over (under) expenditures	-	(387,177)	2,738,236	3,125,413
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	-	-	761,350	761,350
Fund deficit at the beginning of the year	<u>(3,437,217)</u>	<u>(3,437,217)</u>	<u>(3,437,217)</u>	<u>-</u>
Fund deficit at the end of the year	<u>\$ (3,437,217)</u>	<u>\$ (3,824,394)</u>	<u>\$ 62,369</u>	<u>\$ 3,886,763</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, 2021

(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, 2021

**STATE OF CHUUK
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GENERAL FUND

September 30, 2021

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**

Combining Schedule of Expenditures by Account
Governmental Funds
Year Ended September 30, 2021

	Special Revenue				Total
	General	Grants Assistance	Compact Trust	Other Governmental Funds	
Expenditures:					
Salaries and wages					
Regular	\$ 5,115,234	\$ 11,181,650	\$ -	\$ 5,886	\$ 16,302,770
Overtime	124,877	707,239	-	-	832,116
Fringe benefits	676,348	2,102,345	-	-	2,778,693
Travel and transportation	220,436	224,008	-	1,080	445,524
Books and library materials	-	796,596	-	-	796,596
Communications	76,466	185,172	-	-	261,638
Dues, membership, and subscriptions	15,605	-	-	-	15,605
Food stuffs	81,873	339,442	-	40,634	461,949
Port charges	10,000	29,743	-	116	39,859
Office supplies and materials	412,159	2,228,184	-	3,001	2,643,344
POL	193,816	639,986	-	165	833,967
Printing and reproduction	32,511	33,449	-	-	65,960
Rental services	6,708	156,788	-	19,059	182,555
Repairs and maintenance	58,177	475,747	-	1,218	535,142
Utilities	317,853	936,664	-	-	1,254,517
Goods and services	294,773	142,888	-	38,390	476,051
Subsidies and contributions	-	226,408	-	-	226,408
Medical referrals	-	500,548	-	-	500,548
Medical supplies	-	1,544,252	-	-	1,544,252
Contractual services	644,535	2,975,479	-	-	3,620,014
Professional services	-	762,325	-	1,492	763,817
Housing allowance	83,548	50,438	-	-	133,986
Compensation non-payroll	63	4,345	-	9,729	14,137
Scholarships and allowances	-	322,189	-	-	322,189
Training	-	912,418	-	-	912,418
Official allowance	729,539	-	-	-	729,539
Meeting fees and allowance	1,170	9,125	-	975	11,270
Leased housing, buildings and land	21,184	276,503	-	1,575	299,262
Equipment	16,768	619,415	-	-	636,183
Furniture and fixtures	-	5,782	-	-	5,782
Vehicles	337,395	367,655	-	-	705,050
Principal repayment	460,133	-	-	-	460,133
Interest payments	45,565	-	-	-	45,565
Debt relief payments	465,135	-	-	-	465,135
Miscellaneous	158,618	-	-	-	158,618
	<u>\$ 10,600,489</u>	<u>\$ 28,756,783</u>	<u>\$ -</u>	<u>\$ 123,320</u>	<u>\$ 39,480,592</u>

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, 2021
(with comparative totals for the year ended September 30, 2020)

	2021	2020
Revenues:		
FSM revenue sharing:		
Gross revenue taxes	\$ 1,794,579	\$ 1,338,388
Import taxes	2,814,907	1,274,974
Income taxes	1,639,569	1,238,974
Other taxes	409,369	266,476
FSM revenue sharing	6,658,424	4,118,812
State taxes:		
Sales tax	3,160,550	2,921,544
Other excise taxes	739,725	614,818
	3,900,275	3,536,362
Fees and charges:		
Licenses and permits	1,282,832	1,375,694
Leases and other rentals	132,461	178,367
	1,415,293	1,554,061
Departmental charges:		
Transportation collections	379,984	639,537
Net change in the fair value of investments	603,917	357,775
Other revenues	1,142,182	877,326
Total revenues	14,100,075	11,083,873
Expenditures:		
Current:		
General government:		
Office of the Governor	1,050,466	694,545
State Legislature	2,886,212	2,769,145
Department of Administrative Services	620,191	630,595
Office of Public Auditor	43,549	61,838
	4,600,418	4,156,123
Health:		
Department of Health	128,825	151,427
Economic development:		
Department of Marine Resources	141,002	158,850
Department of Agriculture	167,178	188,727
Historic Preservation Office	36,041	-
Division of Business and Trade	17,790	-
Division of Labor and Manpower	25,545	-
Division of Land Management	71,093	-
Registrar of Corporation	52,867	52,925
Division of Commerce and Industries	10,012	-
	521,528	400,502
Public safety:		
Office of the Attorney General	175,643	162,592
Department of Public Safety	965,920	936,574
	1,141,563	1,099,166
Public works and transportation:		
Department of Transportation	1,026,957	778,185
Community affairs:		
Public Affairs	94,192	-
Youth Affairs	22,327	-
Broadcast	35,902	-
	152,421	-

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, 2021
(with comparative totals for the year ended September 30, 2020)

	<u>2021</u>	<u>2020</u>
Expenditures, continued:		
Current, continued:		
Boards, commissions and other:		
Land Commission	150,135	155,915
Public Service Commission	-	155,994
Election Commission	114,456	181,168
Farmers Home Administration	19,360	19,495
Chuuk Disaster Control Center	-	116,693
Micronesia Legal Services Corporation	25,000	25,000
Chuuk Recreation Board	-	93,211
Youth Constitution Day	-	500
Repatriation of Chief Justice	-	80,000
Overseas Development Assistance	48,508	45,187
Political Status Commission	5,493	23,132
Micronesia Conservation Trust	-	18,074
Solid and Hazardous Waste Management	172,167	125,782
SEPDIC	56,242	55,529
Chuuk Visitors Bureau	75,325	68,318
General election	332,327	-
Chuuk State Wide COVID- 19 Summit	-	-
Chuuk State Complex Utility	-	-
Chuuk Small Business Development Center	57,020	78,861
	<u>1,056,033</u>	<u>1,242,859</u>
Judiciary:		
State Court	<u>473,262</u>	<u>464,036</u>
Payments to component units:		
Chuuk State Housing Authority	<u>74,250</u>	<u>71,522</u>
Municipal affairs:		
Payments to municipalities	<u>418,800</u>	<u>419,153</u>
Other	<u>-</u>	<u>3,582</u>
Debt service:		
Debt relief payment	465,135	604,467
Principal repayment	460,133	455,150
Interest	81,164	71,688
	<u>1,006,432</u>	<u>1,131,305</u>
Total expenditures	<u>10,600,489</u>	<u>9,917,860</u>
Excess of revenues over expenditures	3,499,586	1,166,013
Other financing uses:		
Operating transfers out	<u>-</u>	<u>(510,100)</u>
Net change in deficit	3,499,586	655,913
Deficit at the beginning of the year	<u>(3,437,217)</u>	<u>(4,093,130)</u>
Deficit at the end of the year	<u>\$ 62,369</u>	<u>\$ (3,437,217)</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
Year Ended September 30, 2021

	Budgeted Amounts		Actual Budgetary Basis	Variance with Final Budget Positive/(Negative)
	Original	Final		
Revenues:				
Local revenues	\$ 9,022,144	\$ 10,581,296	\$ 13,496,158	\$ 2,914,862
Net change in fair value of investments	-	-	603,917	603,917
Total revenues	9,022,144	10,581,296	14,100,075	3,518,779
Expenditures:				
Current:				
General government:				
Office of the Governor	646,430	797,660	1,118,943	(321,283)
State Legislature	2,917,599	3,581,842	3,412,172	169,670
Department of Administrative Services	664,521	728,153	644,001	84,152
Office of Public Auditor	72,062	72,066	45,160	26,906
	<u>4,300,612</u>	<u>5,179,721</u>	<u>5,220,276</u>	<u>(40,555)</u>
Education:				
Department of Education	163,750	163,750	128,825	34,925
Economic development:				
Division of Marine Resources	88,891	165,260	139,680	25,580
Division of Agriculture	97,552	194,704	167,178	27,526
Historic Preservation Office	-	-	36,041	(36,041)
Division of Business and Trade	-	-	17,790	(17,790)
Division of Manpower and Labor	-	-	25,545	(25,545)
Division of Land management	-	-	71,093	(71,093)
Registrar of Corporation	47,963	52,934	52,867	67
Division of Commerce and Industry	-	-	10,012	(10,012)
	<u>234,406</u>	<u>412,898</u>	<u>520,206</u>	<u>(107,308)</u>
Public safety:				
Office of the Attorney General	165,721	186,402	177,192	9,210
Department of Public Safety	938,372	1,068,736	988,784	79,952
	<u>1,104,093</u>	<u>1,255,138</u>	<u>1,165,976</u>	<u>89,162</u>
Public works and transportation:				
Department of Transportation	862,452	1,147,097	1,082,949	64,148
Community affairs:				
Department of Public Affairs	-	-	152,421	(152,421)
Boards, commissions and other:				
Chuuk Recreation Board	91,578	89,578	490	89,088
Land Commission	177,827	178,151	153,673	24,478
Public Service Commission	161,329	160,427	921	159,506
Election Commission	121,481	129,554	114,529	15,025
Farmers Home Administration	19,001	19,163	19,522	(359)
Chuuk Disaster Control Center	117,866	118,466	150	118,316
Micronesia Legal Services Corporation	25,000	25,000	25,000	-
Joint Administration Inauguration	-	120,000	-	120,000
Chuuk EPA	75,035	179,265	172,167	7,098
Overseas Development Assistance	48,671	59,469	51,306	8,163
Chuuk Small Business Development Center	35,333	56,055	57,020	(965)
Chuuk Visitors Bureau	64,158	89,890	75,588	14,302
Political Status Commission	-	598	6,091	(5,493)
Micronesia Conservation Trust	-	10,686	-	10,686
Economic Policy Development and Implementation	58,955	59,386	56,677	2,709
General Election	346,443	345,325	335,617	9,708
Outstanding medical billing	-	110,019	-	110,019
	<u>1,342,677</u>	<u>1,751,032</u>	<u>1,068,751</u>	<u>682,281</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, 2021

	Budgeted Amounts		Actual Budgetary Basis	Variance with Final Budget Positive/(Negative)
	Original	Final		
Judiciary:				
State Court	528,905	560,625	509,990	50,635
Payments to component units:				
Chuuk State Housing Authority	65,249	65,718	74,719	(9,001)
Municipal affairs:				
Payments to municipalities	420,000	424,521	423,321	1,200
Other	-	7,754	7,754	-
Debt service:				
Debt relief payment	-	219	465,354	(465,135)
Principal repayment	-	-	460,133	(460,133)
Interest payments	-	-	81,164	(81,164)
	-	219	1,006,651	(1,006,432)
Total expenditures	9,022,144	10,968,473	11,361,839	(393,366)
Excess (deficiency) of revenues over (under) expenditures	-	(387,177)	2,738,236	3,125,413
Other financing uses:				
Operating transfers out	-	-	-	-
Net change in deficit	-	(387,177)	2,738,236	3,125,413
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	-	-	761,350	761,350
Fund deficit at the beginning of the year	(3,437,217)	(3,437,217)	(3,437,217)	-
Fund deficit at the end of the year	\$ (3,437,217)	\$ (3,824,394)	\$ 62,369	\$ 3,886,763

See Accompanying Independent Auditors' Report.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2021

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, 2021, 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, 2021

	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	U.S. Federal Grants - Direct	Foreign Assistance	CFSM Grants	Total
ASSETS														
Receivables	\$ -	\$ -	\$ 42,741	\$ 130,305	\$ -	\$ -	\$ 39,575	\$ 94,857	\$ 265,073	\$ 457,003	\$ 22,159	\$ 29,573	\$ -	\$ 1,081,286
Advances	4,074	25,689	-	-	705	33,263	-	-	5,459	15,495	-	-	-	84,685
Prepayments	56,975	12,748	-	85	-	-	-	-	-	-	-	-	-	69,808
Due from other funds	482,072	739,506	-	-	2,700,109	4,095,654	-	1,973,122	-	-	-	114,239	6,872	10,111,574
	<u>\$ 543,121</u>	<u>\$ 777,943</u>	<u>\$ 42,741</u>	<u>\$ 130,390</u>	<u>\$ 2,700,814</u>	<u>\$ 4,128,917</u>	<u>\$ 39,575</u>	<u>\$ 2,067,979</u>	<u>\$ 270,532</u>	<u>\$ 472,498</u>	<u>\$ 22,159</u>	<u>\$ 143,812</u>	<u>\$ 6,872</u>	<u>\$ 11,347,353</u>
LIABILITIES AND FUND BALANCES														
Liabilities:														
Accounts payable	\$ 207,363	\$ 109,443	\$ -	\$ -	\$ 13,979	\$ 144,412	\$ 3,460	\$ -	\$ 8,875	\$ 14,175	\$ -	\$ 1,297	\$ -	\$ 503,004
Accrued liabilities	91,770	73,731	-	-	999	4,744	6,446	-	1,969	33,133	-	-	-	212,792
Unearned revenues	243,988	594,769	-	-	2,685,836	3,979,761	-	-	-	-	-	34,564	6,872	7,545,790
Due to other funds	-	-	42,741	130,390	-	-	29,669	-	259,688	412,671	22,159	-	-	897,318
Total liabilities	<u>543,121</u>	<u>777,943</u>	<u>42,741</u>	<u>130,390</u>	<u>2,700,814</u>	<u>4,128,917</u>	<u>39,575</u>	<u>-</u>	<u>270,532</u>	<u>459,979</u>	<u>22,159</u>	<u>35,861</u>	<u>6,872</u>	<u>9,158,904</u>
Fund balances:														
Restricted	-	-	-	-	-	-	-	2,067,979	-	12,519	-	107,951	-	2,188,449
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,067,979</u>	<u>-</u>	<u>12,519</u>	<u>-</u>	<u>107,951</u>	<u>-</u>	<u>2,188,449</u>
Total liabilities and fund balances	<u>\$ 543,121</u>	<u>\$ 777,943</u>	<u>\$ 42,741</u>	<u>\$ 130,390</u>	<u>\$ 2,700,814</u>	<u>\$ 4,128,917</u>	<u>\$ 39,575</u>	<u>\$ 2,067,979</u>	<u>\$ 270,532</u>	<u>\$ 472,498</u>	<u>\$ 22,159</u>	<u>\$ 143,812</u>	<u>\$ 6,872</u>	<u>\$ 11,347,353</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, 2021

	Education Sector	Health Sector	Environment Sector	Private Sector Development	Capacity Building Sector	Supplemental Education	Enhanced Reporting Accountability	Infrastructure Maintenance	Infrastructure	U.S. Federal Grants	U.S. Federal Grants-Direct	Foreign Assistance	CFSM Grants	Total
Revenues:														
Compact funding	\$ 10,003,939	\$ 10,233,656	\$ 13,182	\$ -	\$ 563,129	\$ 3,401,345	\$ 646,245	\$ -	\$ 1,556,672	\$ -	\$ -	\$ -	\$ -	\$ 26,418,168
Federal and other grants	-	-	-	-	-	-	-	-	-	2,164,654	-	47,565	-	2,212,219
Total revenues	10,003,939	10,233,656	13,182	-	563,129	3,401,345	646,245	-	1,556,672	2,164,654	-	47,565	-	28,630,387
Expenditures by function:														
Current:														
General government	-	-	-	-	563,129	-	646,245	-	-	-	-	47,565	-	1,256,939
Health services	-	10,233,656	-	-	-	-	-	-	-	1,213,018	-	-	-	11,446,674
Education	10,003,939	-	-	-	-	3,401,345	-	-	-	951,636	-	-	-	14,356,920
Economic development	-	-	13,182	-	-	-	-	126,396	-	-	-	-	-	139,578
Capital projects	-	-	-	-	-	-	-	-	1,556,672	-	-	-	-	1,556,672
Total expenditures	10,003,939	10,233,656	13,182	-	563,129	3,401,345	646,245	126,396	1,556,672	2,164,654	-	47,565	-	28,756,783
Net change in fund balances	-	-	-	-	-	-	-	(126,396)	-	-	-	-	-	(126,396)
Fund balances at the beginning of the year	-	-	-	-	-	-	-	2,194,375	-	12,519	-	107,951	-	2,314,845
Fund balances at the end of the year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,067,979	\$ -	\$ 12,519	\$ -	\$ 107,951	\$ -	\$ 2,188,449

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, 2021

	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	U.S. Federal Grants - Direct	Foreign Assistance	CFSM Grants	Total
Revenues:														
Compact funding	\$ 10,003,939	\$ 10,233,656	\$ 13,182	\$ -	\$ 563,129	\$ 3,401,345	\$ 646,245	\$ -	\$ 1,556,672	\$ -	\$ -	\$ -	\$ -	\$ 26,418,168
Federal and other grants	-	-	-	-	-	-	-	-	-	2,164,654	-	47,565	-	2,212,219
Total revenues	<u>10,003,939</u>	<u>10,233,656</u>	<u>13,182</u>	<u>-</u>	<u>563,129</u>	<u>3,401,345</u>	<u>646,245</u>	<u>-</u>	<u>1,556,672</u>	<u>2,164,654</u>	<u>-</u>	<u>47,565</u>	<u>-</u>	<u>28,630,387</u>
Expenditures by account:														
Salaries and wages:														
Regular	5,718,102	3,504,464	-	-	(525)	301,662	372,042	-	58,284	1,226,048	-	1,573	-	11,181,650
Overtime	47,384	624,706	-	-	6,495	-	19,688	-	8,966	-	-	-	-	707,239
Fringe benefits	762,950	527,092	-	-	32,998	505,299	56,477	-	22,655	172,904	-	21,970	-	2,102,345
Travel and transportation	-	56,461	-	-	435	45,170	-	-	1,675	120,267	-	-	-	224,008
Books and library materials	776,933	-	-	-	-	19,663	-	-	-	-	-	-	-	796,596
Communications	3,545	45,444	649	-	13,462	62,857	30,631	-	3,631	23,617	-	1,336	-	185,172
Food stuffs	321	283,698	-	-	-	55,423	-	-	-	-	-	-	-	339,442
Freight and port charges	22,351	4,820	-	-	-	2,224	-	-	19	-	-	329	-	29,743
Office supplies and materials	462,788	276,230	2,390	-	70,500	1,200,498	39,419	-	26,051	147,332	-	2,976	-	2,228,184
POL	71,005	219,179	7,695	-	4,559	238,572	4,696	-	3,986	90,294	-	-	-	639,986
Printing and reproduction	5,751	12,934	-	-	-	-	-	-	(1,320)	16,084	-	-	-	33,449
Rental services	41,559	28,716	1,428	-	2,355	4,666	-	-	-	78,064	-	-	-	156,788
Repairs and maintenance	76,073	248,029	-	-	2,135	117,706	2,533	-	15,504	12,703	-	1,064	-	475,747
Utilities	156,115	637,079	1,020	-	8,176	75,591	30,331	-	14,403	10,000	-	3,949	-	936,664
Goods and services	5,985	61,156	-	-	15,943	2,321	-	-	1,623	55,860	-	-	-	142,888
Subsidies and contributions	163,551	-	-	-	-	62,857	-	-	-	-	-	-	-	226,408
Medical referrals	-	500,548	-	-	-	-	-	-	-	-	-	-	-	500,548
Medical supplies	-	1,528,180	-	-	-	-	-	-	-	16,072	-	-	-	1,544,252
Contractual services	504,005	735,728	-	-	162,738	510,014	65,318	126,396	776,431	81,379	-	13,470	-	2,975,479
Professional services	-	-	-	-	192,951	-	-	-	569,374	-	-	-	-	762,325
Housing allowances	-	-	-	-	19,200	-	14,400	-	9,750	7,088	-	-	-	50,438
Scholarships	322,189	-	-	-	-	-	-	-	-	-	-	-	-	322,189
Fees and meeting allowances	4,850	-	-	-	-	-	-	-	-	4,275	-	-	-	9,125
Training	663,050	54,645	-	-	-	137,160	-	-	-	56,665	-	898	-	912,418
Leased housing, buildings and land	-	229,403	-	-	18,900	-	10,710	-	12,450	5,040	-	-	-	276,503
Compensation non-payroll	-	-	-	-	-	-	-	-	-	4,345	-	-	-	4,345
Equipment	109,277	376,342	-	-	12,807	59,662	-	-	33,190	28,137	-	-	-	619,415
Furniture and fixtures	-	5,782	-	-	-	-	-	-	-	-	-	-	-	5,782
Vehicles	86,155	273,020	-	-	-	-	-	-	-	8,480	-	-	-	367,655
Total expenditures	<u>10,003,939</u>	<u>10,233,656</u>	<u>13,182</u>	<u>-</u>	<u>563,129</u>	<u>3,401,345</u>	<u>646,245</u>	<u>126,396</u>	<u>1,556,672</u>	<u>2,164,654</u>	<u>-</u>	<u>47,565</u>	<u>-</u>	<u>28,756,783</u>
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-	-	-	-	(126,396)	-	-	-	-	-	(126,396)
Other financing sources (uses)														
Operating transfer in (out)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net change in fund balances	-	-	-	-	-	-	-	(126,396)	-	-	-	-	-	(126,396)
Fund balances at the beginning of the year	-	-	-	-	-	-	-	2,194,375	-	12,519	-	107,951	-	2,314,845
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,067,979</u>	<u>\$ -</u>	<u>\$ 12,519</u>	<u>\$ -</u>	<u>\$ 107,951</u>	<u>\$ -</u>	<u>\$ 2,188,449</u>

See Accompanying Independent Auditors' Report.

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

Honorable 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, 2021, 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, 2022. 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 2021-002 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 2021-001 to be a significant deficiency.

Compliance and Other Matters

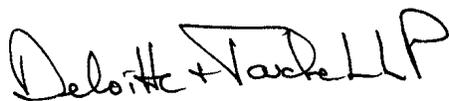
As part of obtaining reasonable assurance about whether the State's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 2021-001.

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, 2022

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, 2021. 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, 2021. 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, 2021.

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 2021-003. 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.

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.

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 a certain deficiency in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as item 2021-003, that we consider to be a significant deficiency.



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, 2021, 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, 2022, 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.

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

December 31, 2022

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Summary Schedule of Expenditures of Federal Awards, by Grantor
Year Ended September 30, 2021

Agency/Program	Expenditures
U.S. Department of the Interior	\$ 26,544,564
U.S. Department of Education	951,635
U.S. Department of Health and Human Services	<u>1,213,019</u>
 GRAND TOTAL	 \$ <u>28,709,218</u>
 Reconciliation to the basic financial statements:	
Grants Assistance Fund expenditures	\$ 28,756,783
Less:	
Foreign Assistance Fund expenditures included in General Government expenditures	<u>(47,565)</u>
	<u>\$ 28,709,218</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, 2021

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	AL#	Pass-Through Entity Identifying #	Other Identifier	Expenditures
U.S. DEPARTMENT OF THE INTERIOR				
Pass-Through Federated States of Micronesia National Government:				
Economic, Social and Political Development of the Territories:	15.875	A2		
Compact Sector Grants - Education Sector	15.875			\$ 10,003,939
Compact Sector Grants - Health Sector	15.875			10,233,656
Compact Sector Grants - Environment Sector	15.875			13,182
Compact Sector Grants - Capacity Building Sector	15.875			563,129
Supplemental Education Grant	15.875			3,401,345
Compact Sector Grants - ERA	15.875			646,245
Compact Sector Grants - Infrastructure	15.875			126,396
Compact Sector Grants - Infrastructure Maintenance	15.875			<u>1,556,672</u>
Total Compact Sector Grants Fund				<u>26,544,564</u>
TOTAL U.S. DEPARTMENT OF THE INTERIOR TOTAL				<u>\$ 26,544,564</u>
U.S. DEPARTMENT OF EDUCATION				
Pass-Through Federated States of Micronesia National Government:				
Special Education Cluster (IDEA):		A2		
Special Education - Grants to States (IDEA, Part B)	84.027			\$ 951,635
Special Education Cluster (IDEA) Subtotal				<u>951,635</u>
TOTAL U.S. DEPARTMENT OF EDUCATION TOTAL				<u>\$ 951,635</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Pass-Through Federated States of Micronesia National Government:				
Public Health Emergency Preparedness	93.069	A2		\$ 8,023
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092			30,895
Maternal and Child Health Federal Consolidated Program	93.110			11,386
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116			185,403
Family Planning Services	93.217			59,058
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243			71,084
Immunization Cooperative Agreements	93.268			332,390
Leading Edge Acceleration Projects (LEAP) in Health Information Technology	93.345			32,006
OPIOID STR	93.788			58,520
National Bioterrorism Hospital Preparedness Program	93.889			19,211
Cancer Prevention and Control Programs for State, Territorial and Tribal Or	93.898			51,988
Block Grants for Community Mental Health Services	93.958			25,572
Block Grants for Prevention and Treatment of Substance Abuse	93.959			185,398
Maternal and Child Health Services Block Grant to the States	93.994			<u>142,085</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL				<u>\$ 1,213,019</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u>\$ 28,709,218</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, 2021

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, 2021 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, 2021.

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, 2021

3. Summary of Significant Accounting Policies, Continued

E. AL #15.875

AL #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 AL #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 2021 reporting responsibilities under the Single Audit Act. CPUC's total federal award expenditures for the year ended September 30, 2021 is \$168,008.

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, 2021 is undetermined.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2021

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>AL #</u>	<u>Name of Federal Program</u>
15.875	Economic, Social and Political Development of the Territories – Compact of Free Association, As Amended, Compact Sector Grants
93.268	Immunization Cooperative Agreements

- | | |
|--|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$861,276 |
| 11. Auditee qualified as low-risk auditee? | No |

Section II – Financial Statements Findings

<u>Finding #</u>	<u>Finding</u>
2021-001	Chuuk State Housing Authority
2021-002	Land Leases

Section III - Federal Award Findings and Questioned Costs

<u>Finding #</u>	<u>AL #</u>	<u>Finding</u>	<u>Questioned Costs</u>
2021-003	15.875	Special Tests and Provisions – Employee Evaluations	\$ -

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2021

Finding No.: 2021-001
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 cause of this condition is an absence of timely or accurate loan ledger and subsidiary ledger reconciliations.

Effect: The effect of this condition is a potential misstatement of the financial statements.

Recommendation: The State of Chuuk should perform monthly reconciliations of loans and subsidiary ledgers.

Identification as a Repeat Finding: Finding No. 2020-003.

Views of Auditee and Planned Corrective Actions: The State's Corrective Action Plan provides planned corrective actions.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2021

Finding No.: 2021-002
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 State of Chuuk lost many of its lease agreements in a fire some years ago and has been working to compile 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 to determine if an associated liability should be recorded in the financial statements and if all requisite lease disclosures have been made.

Cause: The cause of this condition is that management is still researching and reconstructing the underlying lease data.

Effect: The effect of this condition is a potential misstatement of the financial statements and the notes thereto resulting in a report modification.

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

Identification as a Repeat Finding: Finding No. 2020-002.

Views of Auditee and Planned Corrective Actions: The State's Corrective Action Plan provides planned corrective actions.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2021

Finding No.: 2021-003
 Pass-Through Entity: Federated States of Micronesia National Government
 Federal Agency: U.S. Department of the Interior
 AL Program: 15.875 Economic, Social and Political Development of the Territories -
 Federal Award No.: D21AF00001
 Area: Special Tests and Provisions – Employee Evaluations
 Questioned Costs: \$0

Criteria: In accordance with grant terms and conditions, all personnel funded under Education Sector and SEG are required to undergo an annual performance evaluation and such evaluation shall be maintained as part of the personnel files and made available when requested for purposes of grant oversight or audits.

Condition:

1. For 2 (or 8%) of 25 payroll selections for employees funded under the Education sector grant, the annual performance evaluations were completed in 2022, after the end of the fiscal year-ending September 30, 2021.

Date	Emp_no	Fund	Dep	Div	Prog	Yr
01/21/2021	628368	10	60	62	10169	21
09/16/2021	42922	10	60	67	10510	21

2. For 2 (or 8%) of 25 payroll selections for employees funded under the Education sector grant, an annual performance evaluation had not been completed for the selected employee.

Date	Emp_no	Fund	Dep	Div	Prog	Yr
05/13/2021	620480	10	60	67	10321	21
04/29/2021	623272	10	60	68	10231	21

Cause: The State has a potential weakness in performing the required evaluations as stipulated in the grant awards.

Effect: The State is in noncompliance with the requirement. No questioned cost is presented as the monetary impact is not determinable.

Recommendation: The State should implement procedures to periodically monitor employees funded under the Education Sector and SEG grants to determine if the required annual performance evaluations had been performed and maintained in the employee files.

Views of Responsible Officials: The State’s Corrective Action Plan provides planned corrective actions.



**DEPARTMENT OF ADMINISTRATIVE SERVICES
CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Tel. No. (691) 330-2230

Fax No. (691) 330-2233

Jonas M. Paul
Director

Restmena S. Nonumwar
Deputy Director

Summary Schedule of Prior Audit Findings and Questioned Costs
Year Ended September 30, 2021

Finding Number	AL Number	Questioned Cost	Status
2020-001	15.875	-	Corrected.
2020-002	N/A	-	Not Corrected or Resolved. See corrective action plan – Finding no. 2021-002
2020-003	N/A	-	Not Corrected or Resolved. See corrective action plan – Finding no. 2021-001
		\$ -	



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Director

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Deputy Director

**CORRECTIVE ACTION PLAN
2 CFR § 200.511 (c)
Year Ended September 30, 2021**

Finding Number	Corrective Action Plan	Anticipated Completion Date	Responsible Person (Contact Details)
2021-001	As stated in previous year's corrective action plan, CSHA should submit monthly reports of daily activities to DAS. DAS director had a meeting with CSHA acting executive director and board of directors and sent a letter to CSHA stating the required tasks that CSHA needs to perform to resolve the issue.	September 30, 2023	Jonas M. Paul- Director Department of Administrative Services jpaulckdas@gmail.com Cathy Lucas- Executive Director Chuuk Housing Authority
2021-002	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, 2023	Jonas M. Paul- Director Department of Administrative Services jpaulckdas@gmail.com Renedgardo S. Merencillo- Financial/Accounting Advisor rsmerencillo@yahoo.com
2021-003	As agreed during the meeting, performance evaluation will be done during the months of May and June in time for the renewal of contracts due to the length of time it takes to complete processing of contracts and distant location of the schools.	September 30, 2023	Jonas M. Paul- Director Department of Administrative Services jpaulckdas@gmail.com Jason Reiong- Acting Director Department of Education reiongjason@gmail.com