

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

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

YEAR ENDED SEPTEMBER 30, 2021

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**
YEAR ENDED SEPTEMBER 30, 2021

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**STATE OF KOSRAE
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**INDEPENDENT AUDITORS' REPORT,
FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION**

YEAR ENDED SEPTEMBER 30, 2021

INDEPENDENT AUDITORS' REPORT

Honorable Carson K. Sigrah
Governor, State of Kosrae
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, each major fund, and the aggregate remaining fund information of the State of Kosrae (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.

Auditors' 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 audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Kosrae, 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 discussion with the FSM National Government to determine the ultimate collectability of certain receivables due from the FSM National Government in consultation with the grantor agency arising from Compact sector grant transactions.

COVID-19

As discussed in the Note 11 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

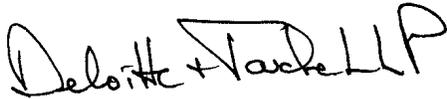
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 10 as well as the Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund and notes thereto, on pages 46 and 47, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (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.

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

December 31, 2022

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2021

Management of the State of Kosrae (Kosrae State) provide this narrative overview and analysis of the financial activities of Kosrae State for the fiscal year ended September 30, 2021. We encourage readers to consider this information in conjunction with the Kosrae State's financial statements, which follow. Fiscal year 2020 comparative information has been included, where appropriate.

Financial Highlights

Government-Wide:

- The total assets of Kosrae State as a whole exceeded its total liabilities for the fiscal year ended September 30, 2021, by \$37.8 million (presented as total net position).
- The net position of Kosrae State increased by \$0.6 million during the fiscal year.
- Of the total net position, \$28.9 million (76%) reflects Kosrae State's investment in capital assets, less any related outstanding debt used to acquire these assets.
- Restricted net position of \$9.3 million (25%) represents resources (such as Compact trust fund) that are subject to restrictions on how they may be used.
- Unrestricted net position of \$(0.47) million (-1%) increased by \$0.09 million during the fiscal year from the prior year deficit of \$(0.38) million.

Fund Level:

- Total assets of governmental funds exceeded total liabilities for the fiscal year ended September 30, 2021, by \$11.1 million (presented as total fund balances).
- The total fund balances increased by \$1.1 million during the fiscal year.
- Unassigned fund balance of the General Fund decreased by \$0.4 million during the fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Kosrae State's basic financial statements. Kosrae State's report consists of three major sections in accordance with required reporting standards: Management's Discussion and Analysis (MD&A), the basic financial statements, and required supplementary information. The basic financial statements comprise three components: (1) *Government-Wide Financial Statements*, (2) *Fund Financial Statements*, and (3) *Notes to the Financial Statements*.

(1) Government-Wide Financial Statements

The government-wide financial statements provide a broad view of the Kosrae State's operations in a manner similar to a private sector business. The statements provide both short-term and long-term information about the Kosrae State's financial position, which assists in assessing the Kosrae State's economic condition at September 30, 2021. These financial statements are prepared using the full accrual basis of accounting, which recognize all revenues when earned and expenditures when related liabilities are incurred.

- **Statement of Net Position** - This statement presents Kosrae State's all assets and liabilities. The difference between these items is reported as net position. Over time, increases or decreases in the Kosrae State's net position may serve as a useful indicator in assessing whether the overall financial position of Kosrae State is improving.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2021

- Statement of activities – This statement presents information on how Kosrae State's net position changed during the fiscal year ended September 30, 2021.

Both government-wide financial statements of Kosrae State are divided into two categories:

- Governmental activities are primarily supported by taxes and federal grants. Most of Kosrae State's basic services are included here, such as education, health and human services, environment protection, commerce, law, justice and public safety, resource development and general government operation. Compact sector and other federal grants finance most of these activities.
- Discretely presented component units, although legally separate entities, are important because Kosrae State is financially accountable for these entities. Discretely presented component units include Kosrae Utilities Authority, Kosrae Port Authority and Kosrae Housing Authority.

(2) Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities and objectives. Kosrae State uses fund accounting to ensure and demonstrate compliance with financial-related legal requirements. All of Kosrae State's individual funds are categorized as governmental funds.

(3) Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential for a full understanding of financial data presented in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the combining financial statements of the component units.

Required Supplementary Information

Budgetary comparison schedule is presented in the required supplementary information section, which includes a reconciliation between the statutory expenditures for budgetary purposes and the actual expenditures for the General Fund.

Other Supplementary Information

Other supplementary information includes the following statements and are presented immediately following the required supplementary information:

- Combining schedule of expenditures by account for governmental funds
- Statement of revenues, expenditures by function and changes in fund balance of the General Fund
- Statement of revenues, expenditures by function and changes in fund balance of the General Fund – Budget and Actual
- Combining financial statements for Nonmajor Governmental Funds
- Combining financial statements for Grant Assistance Fund

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Management's Discussion and Analysis
September 30, 2021

Government-Wide Financial Analysis

The following chart presents a summary of the Kosrae State's government-wide financial statements:

	Governmental Activities		
	2021	2020	Change
ASSETS:			
Current and other assets	\$ 13,790,279	\$ 12,208,058	\$ 1,582,221
Capital assets	30,207,911	31,050,498	(842,587)
	<u>\$ 43,998,190</u>	<u>\$ 43,258,556</u>	<u>\$ 739,634</u>
LIABILITIES:			
Current and other liabilities	\$ 3,137,573	\$ 2,725,577	\$ 411,996
Long-term debt	3,087,002	3,377,450	(290,448)
	<u>\$ 6,224,575</u>	<u>\$ 6,103,027</u>	<u>\$ 121,548</u>
NET POSITION:			
Net investment in capital assets	28,900,901	29,580,403	(679,502)
Restricted	9,342,336	7,954,349	1,387,987
Unrestricted	(469,622)	(379,223)	(90,399)
	<u>\$ 37,773,615</u>	<u>\$ 37,155,529</u>	<u>\$ 618,086</u>

The net position of the governmental activities increased by \$0.6 million primarily due to unrealized investment gain from Compact trust fund.

Capital assets, net of related debt of \$1.3 million, as of September 30, 2021, was \$28.9 million for governmental activities. Kosrae State uses these capital assets to provide services to its citizen, and therefore these assets are not available for future spending. Resources needed to pay for the related debt will be provided from the national tax revenue sharing and the annual General Fund operating revenues.

The following table presents a summary of changes in net position of the governmental activities:

	Governmental Activities		
	2021	2020	Change
REVENUES:			
Operating grants and contributions	\$ 10,033,029	\$ 9,332,680	\$ 700,349
Charges for services	870,935	692,068	178,867
Revenue sharing	1,935,398	1,386,643	548,755
Unrestricted investment earnings	148,637	143,585	5,052
Taxes	483,081	457,246	25,835
Other	88,815	105,531	(16,716)
Total revenues	<u>13,559,895</u>	<u>12,117,753</u>	<u>1,442,142</u>

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2021

	Governmental Activities		
	2021	2020	Change
EXPENSES:			
General government	2,228,720	3,355,632	(1,126,912)
Public work	187,806	40,813	146,993
Education	4,114,803	4,318,935	(204,132)
Health	4,068,937	3,510,365	558,572
Economic development	403,549	403,163	386
Boards, commissions and other	1,870,410	1,500,259	370,151
Environment protection and sanitation	40,000	19,933	20,067
Public order and safety	363,380	92,553	270,827
Unallocated interest	57,423	70,343	(12,920)
Total expenses	<u>13,335,028</u>	<u>13,311,996</u>	<u>(23,092)</u>
Deficiency of revenues under expenses	224,867	(1,194,243)	1,419,110
Special item - SDR foreign exchange loss	(19,150)	(133,684)	114,534
Special item - write-off of receivables	(1,004,421)	(150,000)	(854,421)
Contribution to permanent fund	<u>1,416,790</u>	<u>456,380</u>	<u>960,410</u>
Change in net position	<u>618,086</u>	<u>(1,021,547)</u>	<u>1,639,633</u>
Net position at the beginning of the year	<u>37,155,529</u>	<u>38,177,076</u>	<u>(1,021,547)</u>
Net position at the end of the year	<u>\$ 37,773,615</u>	<u>\$ 37,155,529</u>	<u>\$ 618,086</u>

Current year total operating revenues of \$13.5 million only exceeded its operating expenses of \$13.3 million by \$0.2 million. The increase in the net position was primarily due to the unrealized investment gain of \$1.4 million from Compact Trust Fund.

Financial Analysis of Kosrae State's Funds

Governmental funds are categorized into three major funds (General Fund, Grant Assistance Fund, and Compact Trust Fund) and other non-major governmental funds:

(1) General Fund

The General Fund is the main operating fund of Kosrae State. Total General Fund operating revenues of \$3.0 million exceeded its operating expenses of \$2.5 million by \$0.5 million. Main revenue sources were FSM national tax revenue sharing (60%), state taxes (16%) and fees and charges (15%) for the fiscal year ended September 30, 2021.

(2) Grant Assistance Fund

The Grant Assistance Fund is used to account for foreign grant revenues and expenses. The main revenue source of Grant Assistance Fund was various federal grants (99.6%) for the fiscal year ended September 30, 2021.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2021

(3) Compact Trust Fund

Compact Trust Fund balance increased by \$1,416,790 from \$5,989,437 as of September 30, 2020 to \$7,406,227 as of September 30, 2021 due to unrealized investment gain.

Nonmajor Governmental Funds

Total fund balances of the nonmajor governmental funds increased by \$0.29 million for the fiscal year ended September 30, 2021, primarily due to the increase in fund balance of the health care premium fund of \$0.21 million.

General Fund Budgetary Highlights

Actual revenues exceeded the final budgeted revenues by \$0.6 million. Expenditures on the budgetary basis of \$2.6 million exceeded the final budgeted expenditures of \$2.3 million by \$0.3 million primarily due to the repayments of loans not budgeted in the appropriations.

	Original	Final	Actual
Revenues	\$ 2,400,000	\$ 2,400,000	\$ 3,055,108
Expenditures:			
Executive	1,254,787	1,254,787	1,798,201
Legislative	523,607	523,607	495,161
Judicial	277,363	277,363	222,075
Boards, Commissions, and Others	310,899	310,899	628,012
Debt service	-	-	367,021
Other	-	-	75,436
	\$ 33,344	\$ 33,344	\$ (530,798)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of September 30, 2021, Kosrae State had invested \$30,207,911 in governmental activities capital assets, net of accumulated depreciation, which reflects a decrease of 3% from the prior year. The decrease was due to depreciation expense of \$1.9 million exceeding capital outlays of \$1.1 million. Additional information on capital assets can be found in Note 5.

The table below summarizes Kosrae State's capital assets, net:

	Governmental Activities		
	2021	2020	Change
Capital Assets			
Buildings	\$ 9,667,920	\$ 10,155,771	\$ (487,851)
Infrastructure	18,044,762	19,008,130	(963,368)
Machinery, equipment and others	2,495,229	1,886,597	608,632
	\$ 30,207,911	\$ 31,050,498	\$ (842,587)

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2021

Debt Administration

The following table provides a schedule of the Kosrae State's long-term debt obligations at September 30, 2020 and 2021.

	Governmental Activities		
	2021	2020	Change
Asian Development Bank loans	\$ 2,992,728	\$ 3,280,653	\$ (287,925)
RUS loan	94,274	96,797	(2,523)
	\$ 3,087,002	\$ 3,377,450	\$ (290,448)

Kosrae State's long-term debt decreased by \$0.29 million due to repayments of the loans. Additional information on the Kosrae State's long-term debt obligations can be found in notes 6 and 7.

ECONOMIC OUTLOOK

Kosrae State's economy continued to be significantly impacted by the COVID-19 pandemic during the fiscal year 2021. However, it appears that Kosrae State's economy is slowly recovering. Kosrae State prepares an annual financial forecast, which focuses on financial viability for the Kosrae State's General Fund. The annual financial forecast is based on these key assumptions:

National tax revenue sharing – FSM national tax revenue sharing with Kosrae State is the largest source of revenue to the General Fund. The revenue sharing was approximately 60% and 64% respectively of the Kosrae State's total General Fund revenues for the fiscal years ended September 30, 2021 and 2020. The collection of revenue sharing is expected to increase due to the recovering economic condition.

Sales Taxes – Kosrae State's sales taxes are the second largest source of revenue to the General Fund, which was approximately 16% of the Kosrae State's total General Fund revenues for the fiscal years ended September 30, 2021 and 2020. Current year projections for sales taxes are developed based on current economic conditions and historical collection data. The collection of sales taxes is expected to increase due to the recovering economic condition.

Fees and Charges – Kosrae State's fees and charges are the third largest source of revenue to the General Fund, which was approximately 15% and 17% of the Kosrae State's total General Fund revenues for 2021 and 2020. Current year projections for fees and charges are developed based on current economic conditions and historical collection data. The collection of fees and charges is expected to increase due to the recovering economic condition.

Personnel Costs – These are based on current staffing levels. The forecast does not include new positions or potential changes to the Kosrae State's employee service system.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2021

Management's Discussion and Analysis for the year ended September 30, 2020, is set forth in the report on the audit of financial statements, which is dated December 31, 2021. That Discussion and Analysis explains the major factors impacting the 2020 financial statements and can be viewed at the FSM Office of the National Public Auditors' website at www.fsmopa.fm.

CONTACTING KOSRAE STATE'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors, a general overview of Kosrae 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 of Administration and Finance; P.O. Box 878, Kosrae, FM, 96944.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Statement of Net Position
September 30, 2021

	Primary Government	Component Units
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 847,053	\$ 1,153,691
Time certificate of deposit	-	169,645
Investments	-	984,587
Receivables, net	1,068,929	707,081
Inventories	-	373,266
Prepayments	736,160	86,387
Advances	62,121	-
Other current assets	900,000	-
Restricted assets:		
Cash and cash equivalents	774,692	-
Time certificate of deposit	-	200,000
Total current assets	4,388,955	3,674,657
Noncurrent assets:		
Capital assets:		
Deposit for fuel contract	-	252,800
Nondepreciable capital assets	-	75,524
Capital assets, net of accumulated depreciation	30,207,911	15,057,180
Investments	1,448,604	-
Restricted assets:		
Time certificates of deposit	405,797	-
Investments	7,546,923	-
Total noncurrent assets	39,609,235	15,385,504
Total assets	\$ 43,998,190	\$ 19,060,161
<u>LIABILITIES</u>		
Current liabilities:		
Short-term borrowings	\$ 146,676	\$ -
Current portion of long-term obligations	180,264	91,987
Accounts payable	265,923	225,905
Other liabilities and accruals	477,950	100,824
Due to primary government	-	95,954
Unearned revenues	1,847,024	33,985
Total current liabilities	2,917,837	548,655
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	2,906,738	59,941
Unearned revenues	400,000	-
Total noncurrent liabilities	3,306,738	59,941
Total liabilities	6,224,575	608,596
Commitments and contingencies		
<u>NET POSITION</u>		
Net investment in capital assets	28,863,175	15,132,704
Restricted for:		
Nonexpendable:		
Future operations	7,406,227	-
Expendable:		
Debt service	140,696	-
Compact related	48,896	-
Other purposes	1,746,517	90,000
Unrestricted	(431,896)	3,228,861
Total net position	37,773,615	18,451,565
Total liabilities and net position	\$ 43,998,190	\$ 19,060,161

See accompanying notes to financial statements.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Statement of Activities
Year Ended September 30, 2021

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
Primary government:						
Governmental activities:						
General government	\$ 2,228,720	\$ 870,935	\$ 1,303,466	\$ -	\$ (54,319)	\$ -
Economic development	403,549	-	10,327	-	(393,222)	-
Education	4,114,803	-	4,471,875	-	357,072	-
Health services	4,068,937	-	3,940,646	-	(128,291)	-
Public order and safety	363,380	-	-	-	(363,380)	-
Public works	187,806	-	-	-	(187,806)	-
Environment protection and sanitation	40,000	-	266,715	-	226,715	-
Boards, commissions and other	1,870,410	-	40,000	-	(1,830,410)	-
Unallocated interest on long-term debt	57,423	-	-	-	(57,423)	-
Total primary government	\$ 13,335,028	\$ 870,935	\$ 10,033,029	\$ -	(2,431,064)	-
Component units:						
Kosrae Port Authority	\$ 1,065,833	\$ 520,258	\$ -	\$ -	-	(545,575)
Kosrae Utilities Authority	2,658,592	2,583,489	-	-	-	(75,103)
Kosrae Housing Authority	196,325	142,841	-	-	-	(53,484)
Total component units	\$ 3,920,750	\$ 3,246,588	\$ -	\$ -	-	(674,162)
General revenues:						
Taxes:						
FSM revenue sharing:						
Gross revenue taxes					583,334	-
Import taxes					612,011	-
Income taxes					618,235	-
Other taxes					121,818	-
State taxes					483,081	-
Unrestricted investment earnings					148,637	143,275
Contribution from the FSM National Government					-	241,092
Other					88,815	(21,006)
Total general revenues					2,655,931	363,361
Special item - loss on SDR foreign exchange					(19,150)	-
Special item - write off of receivables					(1,004,421)	-
Contributions to permanent fund					1,416,790	-
Total general revenues, special item and contributions					3,049,150	363,361
Change in net position					618,086	(310,801)
Net position at the beginning of the year					37,155,529	18,762,366
Net position at the end of the year					\$ 37,773,615	\$ 18,451,565

See accompanying notes to financial statements.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Balance Sheet

Governmental Funds
September 30, 2021

		Special Revenue	Permanent		
	General	Grants Assistance	Compact Trust	Other Governmental Funds	Total
ASSETS					
Cash and cash equivalents	\$ 847,053	\$ -	\$ -	\$ -	\$ 847,053
Investments	1,448,604	-	-	-	1,448,604
Receivables, net:					
General	28,214	-	-	-	28,214
Federal agencies	-	55,582	-	-	55,582
Due from FSM National Government	-	616,421	-	-	616,421
Taxes	368,712	-	-	-	368,712
Due from other funds	308,112	1,045,154	-	1,278,084	2,631,350
Prepaid items	-	728,250	-	7,910	736,160
Advances	-	62,121	-	-	62,121
Other assets	707,000	100,000	-	93,000	900,000
Restricted assets:					
Cash and cash equivalents	732,251	-	-	42,441	774,692
Time certificates of deposit	43,436	-	-	362,361	405,797
Investments	140,696	-	7,406,227	-	7,546,923
Total assets	<u>\$ 4,624,078</u>	<u>\$ 2,607,528</u>	<u>\$ 7,406,227</u>	<u>\$ 1,783,796</u>	<u>\$ 16,421,629</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Short-term borrowings	\$ 146,676	\$ -	\$ -	\$ -	\$ 146,676
Accounts payable	3,593	212,541	-	49,789	265,923
Other liabilities and accruals	249,505	227,865	-	580	477,950
Due to other funds	2,323,238	308,112	-	-	2,631,350
Unearned revenues	-	1,797,024	-	-	1,797,024
Total liabilities	<u>2,723,012</u>	<u>2,545,542</u>	<u>-</u>	<u>50,369</u>	<u>5,318,923</u>
Fund balances:					
Non-spendable	2,155,604	100,000	7,406,227	93,000	9,754,831
Restricted	140,696	(38,014)	-	452,083	554,765
Committed	-	-	-	1,188,344	1,188,344
Unassigned:					
General fund	(395,234)	-	-	-	(395,234)
Total fund balances	<u>1,901,066</u>	<u>61,986</u>	<u>7,406,227</u>	<u>1,733,427</u>	<u>11,102,706</u>
Total liabilities and fund balances	<u>\$ 4,624,078</u>	<u>\$ 2,607,528</u>	<u>\$ 7,406,227</u>	<u>\$ 1,783,796</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 not reported in the funds	30,207,911
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 debt payable	(3,087,002)
Advance lease payment	(450,000)
	<u>(3,537,002)</u>
Net position of governmental activities	<u>\$ 37,773,615</u>

See accompanying notes to financial statements.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2021

	General	Special Revenue	Permanent	Other Governmental Funds	Total
		Grants Assistance	Compact Trust		
Revenues:					
Compact funding	\$ -	\$ 8,043,441	\$ -	\$ -	\$ 8,043,441
Net change in the fair value of investments	145,753	-	1,416,790	-	1,562,543
Federal contributions	-	1,371,592	-	-	1,371,592
FSM revenue sharing	1,935,398	-	-	-	1,935,398
State taxes	483,081	-	-	-	483,081
CFSM grants	-	-	-	617,996	617,996
Fees and charges	443,574	-	-	377,361	820,935
Interest income	240	-	-	2,644	2,884
Other	47,062	37,700	-	4,053	88,815
Total revenues	3,055,108	9,452,733	1,416,790	1,002,054	14,926,685
Expenditures:					
Current:					
General government	1,055,592	828,142	-	533,986	2,417,720
Economic development	316,840	10,327	-	65,091	392,258
Education	-	4,471,875	-	-	4,471,875
Health services	-	3,940,646	-	63,834	4,004,480
Public order and safety	355,601	-	-	-	355,601
Public works	187,806	-	-	-	187,806
Environment protection and sanitation	-	40,000	-	-	40,000
Boards, commissions and other	254,382	266,715	-	44,181	565,278
Debt service	367,021	-	-	-	367,021
Total expenditures	2,537,242	9,557,705	-	707,092	12,802,039
Excess (deficiency) of revenues over (under) expenditures	517,866	(104,972)	1,416,790	294,962	2,124,646
Special items					
Write off of receivables	(1,004,421)	-	-	-	(1,004,421)
Other operating sources (uses):					
Operating transfers in	267,075	-	-	-	267,075
Operating transfers out	(265,497)	(83)	-	(1,495)	(267,075)
Net change in fund balances	(484,977)	(105,055)	1,416,790	293,467	1,120,225
Fund balances at the beginning of the year	2,386,043	167,041	5,989,437	1,439,960	9,982,481
Fund balances at the end of the year	\$ 1,901,066	\$ 61,986	\$ 7,406,227	\$ 1,733,427	\$ 11,102,706

See accompanying notes to financial statements.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Reconciliation of the Statement of Revenues, Expenditure, 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	\$ 1,120,225
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 the sum of depreciation (\$1,957,659) exceeded capital outlays \$1,115,072 in the current period.	(842,587)
Governmental funds report advance lease payment as revenues. However, in the statement of net position, such is reported as unearned revenues.	50,000
Special item associated with loss on SDR foreign exchange adjustment.	(19,150)
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	<u>309,598</u>
Change in net position of governmental activities	\$ <u>618,086</u>

See accompanying notes to financial statements.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Combining Statement of Net Position

Component Units
September 30, 2021

<u>ASSETS</u>	Kosrae Port Authority	Kosrae Utilities Authority	Kosrae Housing Authority	Total
Current assets:				
Cash and cash equivalents	\$ 125,050	\$ 997,870	\$ 30,771	\$ 1,153,691
Time certificate of deposit	-	169,645	-	169,645
Investments	-	984,587	-	984,587
Time certificate of deposit - restricted	-	-	200,000	200,000
Receivables:				
General	47,183	164,130	16,175	227,488
Loan	-	-	479,593	479,593
Total receivables	47,183	164,130	495,768	707,081
Inventories	-	373,266	-	373,266
Prepayments	27,500	58,887	-	86,387
Total current assets	199,733	2,748,385	726,539	3,674,657
Noncurrent assets:				
Deposit for fuel purchase contract	-	252,800	-	252,800
Capital assets:				
Nondepreciable capital assets	-	75,524	-	75,524
Capital assets, net of accumulated depreciation	13,324,216	1,670,959	62,005	15,057,180
Total assets	\$ 13,523,949	\$ 4,747,668	\$ 788,544	\$ 19,060,161
<u>LIABILITIES AND NET POSITION</u>				
Current liabilities:				
Current portion of long-term debt	\$ -	\$ -	\$ 91,987	\$ 91,987
Accounts payable	2,441	179,396	44,068	225,905
Accrued liabilities	17,796	60,632	22,396	100,824
Due to primary government	72,174	-	23,780	95,954
Unearned revenues	-	33,985	-	33,985
Total current liabilities	92,411	274,013	182,231	548,655
Long-term debt net of current portion	-	-	59,941	59,941
Total liabilities	92,411	274,013	242,172	608,596
Net position:				
Net investment in capital assets	13,324,216	1,746,483	62,005	15,132,704
Restricted	-	90,000	-	90,000
Unrestricted	107,322	2,637,172	484,367	3,228,861
Total net position	13,431,538	4,473,655	546,372	18,451,565
Total liabilities and net position	\$ 13,523,949	\$ 4,747,668	\$ 788,544	\$ 19,060,161

See accompanying notes to financial statements.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Combining Statement of Revenues, Expenses, and Changes in Net Position

Component Units
Year Ended September 30, 2021

	Kosrae Port Authority	Kosrae Utilities Authority	Kosrae Housing Authority	Total
Operating revenues:				
Charge for services	\$ <u>520,258</u>	\$ <u>2,583,489</u>	\$ <u>142,841</u>	\$ <u>3,246,588</u>
Operating expenses:				
Cost of services	-	2,154,419	-	2,154,419
Depreciation and amortization	702,827	395,238	14,000	1,112,065
Administration and general	<u>363,006</u>	<u>108,935</u>	<u>182,325</u>	<u>654,266</u>
Total operating expenses	<u>1,065,833</u>	<u>2,658,592</u>	<u>196,325</u>	<u>3,920,750</u>
Operating income (loss)	<u>(545,575)</u>	<u>(75,103)</u>	<u>(53,484)</u>	<u>(674,162)</u>
Nonoperating revenues (expenses):				
Net change in fair value of investments	-	143,275	-	143,275
Operating grant from FSM National Government	-	28,097	212,995	241,092
Interest expense	<u>-</u>	<u>(2,770)</u>	<u>(18,236)</u>	<u>(21,006)</u>
Total nonoperating revenues (expenses), net	<u>-</u>	<u>168,602</u>	<u>194,759</u>	<u>363,361</u>
Change in net position	(545,575)	93,499	141,275	(310,801)
Net position at beginning of year	<u>13,977,113</u>	<u>4,380,156</u>	<u>405,097</u>	<u>18,762,366</u>
Net position at end of year	\$ <u><u>13,431,538</u></u>	\$ <u><u>4,473,655</u></u>	\$ <u><u>546,372</u></u>	\$ <u><u>18,451,565</u></u>

See accompanying notes to financial statements.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(1) Summary of Significant Accounting Policies

The State of Kosrae (the State) was constituted on January 11, 1984, under the provisions of the Kosrae State Constitution (the Constitution) as approved by the people of Kosrae. 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 Chuuk, Pohnpei and Yap. The State is a constitutional government comprised of three branches: the Legislative Branch, consisting of 14 members elected for a term of four years by qualified voters of their respective election districts; 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 up to four Associate Justices, and other courts that may be created by law.

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.

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.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

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:

Kosrae Port Authority (KPA): KPA was created by Kosrae State Law (KSL) No. 7-91 to operate, manage, equip, and maintain all ports of entry and to expand and improve upon services offered at the ports of entry. KPA is governed by a five-member Board of Directors, of which four members are appointed by the Governor subject to the advice and consent of the Legislature, and, ex-officio, the Director of the Department of Transportation and Infrastructure. The State has the ability to impose its will on KPA.

Kosrae Utilities Authority (KUA): KUA was created by KSL No. 5-38 and is responsible for operating and maintaining, on a commercially accepted basis, the State's electric power. KUA is governed by a five-member Board of Directors, of which four members are appointed by the Governor subject to the advice and consent of the Legislature and, ex-officio, the Director of the Department of Transportation and Infrastructure. The State has the ability to impose its will on KUA.

Kosrae Housing Authority (KHA): KHA was created by KSL No. 10-113 and is responsible for managing and investing funds of Kosrae Home Improvement Program and other funds of the Kosrae Housing Authority and lending money to qualified Kosraeans who wish to build and maintain residential homes in Kosrae. KHA is governed by a five-member Board of Directors, of which four members are appointed by the Governor subject to the advice and consent of the Legislature. The State has the ability to impose its will on KHA.

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 727
Tofol, Kosrae, FSM 96944

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.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide Financial Statements, Continued

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, deferred outflows of resources, 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 three 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 \$9,342,336 of restricted net position, of which \$1,936,109 is restricted by enabling legislation.

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.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(1) Summary of Significant Accounting Policies, Continued

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 this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

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.

**STATE OF KOSRAE
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

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.

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.

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 a maturity date 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.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(1) Summary of Significant Accounting Policies, Continued

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 (i.e., 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. 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.

I. 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 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.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(1) Summary of Significant Accounting Policies, Continued

J. Inventories

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

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 investments in the amount of \$140,696 for the Early Retirement Scheme. Furthermore, investments recorded in the Compact Trust Fund of \$7,406,227 are restricted in that they are not available to be used in current operations.

As of September 30, 2021, cash and cash equivalents and time certificates of deposit were restricted for the following uses:

Primary Government:

Deposit account established for the purpose of receiving payments pursuant to the Compact of Free Association, as amended.	\$ 732,251
TCP with local bank	43,436
Deposit account established for the Gifford scholarship fund.	42,441
Time certificate of deposit with a local bank restricted for scholarships for post-secondary students.	<u>362,361</u>
	\$ <u>1,180,489</u>

Discretely Presented Component Units:

Time certificate of deposit for the Loan Guarantee Escrow Account established for the sole purpose of loan collateralization made through the USDA Rural Development. The escrow account may be drawn down in the event of a borrower's default on the obligation under the terms of the promissory note and the deed of trust security instrument supporting such note and for which such note is guaranteed by the State, the trustee of the Loan Guarantee Escrow Account.	\$ <u>200,000</u>
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L. Other Assets

The State holds approximately 8.79% of the outstanding shares of Pacific Islands Development Bank with a carrying value of \$900,000. This equity interest does not meet the definition of an investment as the assets are held primarily for economic development and is presented as other assets in the accompanying financial statements.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(1) Summary of Significant Accounting Policies, Continued

M. Capital Assets

Capital assets, including 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. 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.

All vehicles have been grouped together regardless of cost and depreciated on a composite basis.

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	10 - 40 years
Infrastructure - roads and bridges	5 - 50 years
Machinery, equipment and others	5 - 10 years

N. Deferred Outflows of Resources

In addition to assets, the statement 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 200 hours per year. All unused annual leave is cancelled at the end of each fiscal year. Accordingly, no liability is recorded for compensated absences in the accompanying financial statements.

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.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(1) Summary of Significant Accounting Policies, Continued

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.

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 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.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(1) Summary of Significant Accounting Policies, Continued

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, Kosrae State Government implemented the following pronouncements:

- 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.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards, Continued

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.

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

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards, Continued

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.

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. However, no material losses have been sustained from this practice in the last three years.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(1) Summary of Significant Accounting Policies, Continued

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

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.

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 & Poors 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 Poors 500 Index, unless prior approval is received from the Secretary of Finance.

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

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(2) Deposits and Investments, Continued

The Secretary of Administration and Finance shall be responsible for investment of all public funds collected or appropriated for use by the State. Funds under this arrangement shall include all appropriations from the State, whether funds are appropriated from the State Treasury or funds from other sources. Any funds in excess of the amount necessary for the operation of the State shall be deposited or invested to earn the safest optimum interest. The Secretary shall determine the amount to be invested with the consideration that such amount should not cause disruption of any government service due to low or lack of funds in the operational budget. The Secretary shall cause all investments to be made into financially secure institutions in Kosrae 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 January 9, 2017 requires the Trust Fund to allocate its managed investment portfolios among domestic and foreign equity and fixed income securities. All or a portion of the Trust Fund may be invested in exchange traded funds ("ETFs"), mutual funds, real estate investment trusts ("REITs"), separate accounts and common trust funds (commingled vehicles), hedge funds, private equity funds, and other pooled investment vehicles ("pooled vehicles"). A common trust fund is similar to an open-ended investment company or mutual fund, but participation is limited to investors with trust accounts. Commingled and pooled vehicles that invest exclusively in marketable fixed income securities are considered to be fixed income securities for the purpose of compliance with the Trust Fund's investment policy.

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

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

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

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(2) Deposits and Investments, Continued

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

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

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

A. Deposits

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

As of September 30, 2021, the carrying amount of the primary government's total cash and cash equivalents and time certificates of deposit was \$2,027,542 and the corresponding bank balance was \$2,194,017 which is maintained in financial institutions subject to FDIC insurance. As of September 30, 2021, bank deposits in the amount of \$335,845 were FDIC insured. The State does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Therefore, 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 \$1,523,336 and the corresponding bank balance was \$1,567,861, which were maintained in financial institutions subject to FDIC insurance. As of September 30, 2021, bank deposits in the amount of \$742,509 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 KOSRAE
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		\$ 44,943
Domestic equities		1,448,604
Common equities		90,251
Cash management account		<u>5,502</u>
		<u>1,589,300</u>
Compact Trust Fund:		
Common trust funds:		
Domestic Equity		630,778
International Equity		1,035,388
Fixed Income		3,572,957
Global Equity		933,883
Private Equity		590,844
Hedge Fund		293,356
Real Estate		330,663
Money market funds		<u>18,358</u>
		<u>7,406,227</u>
		<u>\$ 8,995,527</u>

As of September 30, 2021, the State's fixed income securities, including their Moody's investors service credit ratings, had the following maturities:

Investment Type	Moody's Rating	Market Value	Investment Maturity (in Years)			
			Current	1-5	6-10	Over 10
U.S. Treasury Obligations	Aaa	\$ 11,041	\$ 1,038	\$ 6,551	\$ 231	\$ 3,221
U.S. Government Agencies:						
Federal Farm Credit Bank	Aaa	2,499	1,154	171	462	712
Federal Home Loan Bank	Aaa	3,340	296	2,139	905	-
Federal Home Loan Mortgage Corporation	Aaa	137	-	-	-	137
Federal National Mortgage Association	Aaa	287	-	-	251	36
Overseas Private Investment Corporation	Aaa	1,408	-	1,408	-	-
Tennessee Valley Authority	Aaa	2,788	643	-	-	2,145
Municipal Obligations	Aa1	2,042	-	722	807	513
Municipal Obligations	Aa2	2,107	-	732	351	1,024
Municipal Obligations	Aa3	300	-	182	-	118
Corporate Bonds	Aaa	4,530	2,047	2,047	-	436
Corporate Bonds	Aa1	457	-	457	-	-
Corporate Bonds	Aa2	1,234	294	940	-	-
Corporate Bonds	Aa3	742	-	-	237	505
Corporate Bonds	A1	3,415	-	1,942	240	1,233
Corporate Bonds	A2	2,103	-	903	1,072	128
Corporate Bonds	A3	1,930	41	933	-	956
Corporate Bonds	Baa1	2,987	-	976	236	1,775
Corporate Bonds	Baa2	1,049	239	117	132	561
Corporate Bonds	Not listed	104	-	104	-	-
Corporate Bonds	No rating	443	-	443	-	-
		<u>\$ 44,943</u>	<u>\$ 5,752</u>	<u>\$ 20,767</u>	<u>\$ 4,924</u>	<u>\$ 13,500</u>

**STATE OF KOSRAE
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>	<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	\$ 11,041	\$ -	\$ 11,041	\$ -
U.S. Government Agencies	10,461	-	10,461	-
Municipal obligations	4,450	-	4,450	-
Corporate notes	<u>18,991</u>	<u>-</u>	<u>18,991</u>	<u>-</u>
	44,943	-	44,943	-
Equity securities:				
U.S. equities	<u>90,251</u>	<u>90,251</u>	<u>-</u>	<u>-</u>
Total investments at fair value	135,194	\$ <u>90,251</u>	\$ <u>44,943</u>	\$ <u>-</u>
Investments measured at NAV:				
Equity investment in Bank of the FSM	1,448,604			
Investments measured at amortized cost:				
Cash management account	<u>5,502</u>			
	\$ <u>1,589,300</u>			

Compact Trust Fund:

	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level:				
Common trust funds:				
Domestic Equity	\$ 630,778	\$ 630,778	\$ -	\$ -
International Equity	1,035,388	1,035,388	-	-
Fixed Income	3,572,957	3,572,957	-	-
Global Equity	933,883	933,883	-	-
Private Equity	<u>590,844</u>	<u>-</u>	<u>-</u>	<u>590,844</u>
Total investments at fair value	6,763,850	\$ <u>6,173,006</u>	\$ <u>-</u>	\$ <u>590,844</u>
Investments measured at NAV:				
Hedge Fund	293,356			
Real Estate	330,663			
Investments measured at amortized cost:				
Money market funds	<u>18,358</u>			
	\$ <u>7,406,227</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.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the 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.

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.

The Trust Fund's fixed income allocation consists of a Mercer Investment Management Opportunistic Fixed Income mutual fund ("MIM OFI") and a Mercer Investment Management Core Fixed Income Fund ("MIM CFI"); the performance of these funds is expected to closely replicate the performance of 50% of the JP Morgan Government Bond Index Emerging Market Global Diversified Index and 50% Bank of America/Merrill Lynch Global High Yield and the Barclays Capital U.S. Aggregate Bond Index, respectively. The bonds held by MIM CFI vary in credit quality with an average overall rating of "Ba1" as rated by Moody's as of September 30, 2021. High yield debt receiving a credit rating below "A" comprises approximately 65.5 of the MIM CFI fixed income portfolio as rated by Moody's at September 30, 2021. At September 30, 2021, the weighted average maturity of the bonds comprising MIM CFI is 7.7 years.

The bonds held by MIM OFI vary in credit quality with an average overall rating of "Aa3" as rated by Moody's as of September 30, 2021. High yield debt receiving a credit rating below "A" comprises approximately 29.9% of the MIM OFI fixed income portfolio as rated by Moody's at September 30, 2021. At September 30, 2021, the weighted average maturity of the bonds comprising MIM OFI is 10.23 years.

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

**STATE OF KOSRAE
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 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 \$277,000 in securities of foreign issuers held in common trust funds. Of this amount, approximately \$59,000 was held in securities whose functional currency is the Euro, \$20,000 whose functional currency is the British pound, \$49,000 whose functional currency is the Japanese yen, and \$149,000 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 16.2% 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.

The State owns 50,000 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.

Discretely Presented Component Units

Kosrae Utilities Authority (KUA):

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

Money market funds	\$ 33,670
Common equities	565,295
Fixed income	<u>385,622</u>
	\$ <u>984,587</u>

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

Kosrae Utilities Authority (KUA), Continued:

As of September 30, 2021, the fixed income securities consist of the following:

		Fair Value	Investment maturities (In Years)		
			Less Than <u>1 Year</u>	1 to 5 <u>Years</u>	6 to 10 <u>Years</u>
U.S. Treasury obligations	Aaa	\$ 219,139	\$ -	\$ 207,341	\$ 11,798
Corporate notes	A1	11,797	-	11,797	-
Corporate notes	A2	36,003	-	24,040	11,963
Corporate notes	A3	24,190	-	12,083	12,107
Corporate notes	Baa1	23,583	-	12,098	11,485
Corporate notes	Baa2	<u>70,910</u>	<u>-</u>	<u>35,805</u>	<u>35,105</u>
		\$ <u>385,622</u>	\$ <u>-</u>	\$ <u>303,164</u>	\$ <u>82,458</u>

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

	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level:				
Fixed income:				
U.S. Treasury obligations	\$ 219,139	\$ -	\$ 219,139	\$ -
Corporate notes	<u>166,483</u>	<u>-</u>	<u>166,483</u>	<u>-</u>
Total fixed income	<u>385,622</u>	<u>-</u>	<u>385,622</u>	<u>-</u>
Equity securities:				
U.S. equities	543,448	543,448	-	-
Non U.S. equities	<u>21,847</u>	<u>21,847</u>	<u>-</u>	<u>-</u>
	<u>565,295</u>	<u>565,295</u>	<u>-</u>	<u>-</u>
Total investments at fair value	\$ <u>950,917</u>	\$ <u>565,295</u>	\$ <u>385,622</u>	\$ <u>-</u>
Investments measured at amortized cost:				
Money market funds	<u>33,670</u>			
	\$ <u>984,587</u>			

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(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:

	<u>General</u>	<u>Grants Assistance</u>	<u>Compact Trust</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Receivables:					
General	\$ 168,931	\$ -	\$ -	\$ 1,523,219	\$ 1,692,150
Federal agencies	-	55,582	-	-	55,582
Due from FSM National Government	-	616,421	-	-	616,421
Taxes	368,712	-	-	-	368,712
Loans	<u>30,000</u>	<u>-</u>	<u>-</u>	<u>21,111</u>	<u>51,111</u>
	567,643	672,003	-	1,544,330	2,783,976
Less: Allowance for uncollectible accounts	<u>(170,717)</u>	<u>-</u>	<u>-</u>	<u>(1,544,330)</u>	<u>(1,715,047)</u>
Net receivables	<u>\$ 396,926</u>	<u>\$ 672,003</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,068,929</u>

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

Loans receivable of the primary government as of September 30, 2021 are as follows:

General Fund

Loan receivable due from Tropical Waters, Inc., uncollateralized and interest free. This loan has been fully provided for in the allowance for uncollectible accounts.

\$ 30,000

Nonmajor Governmental Funds

Loans receivable from post-secondary students issued under a student financial assistance program to qualified Kosraean students, uncollateralized with interest at up to 6% per annum. These loans have been fully provided for in the allowance for uncollectible accounts.

\$ 21,111

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(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	\$ 1,045,154
Nonmajor governmental funds	General	1,278,084
General	Grants Assistance	<u>308,112</u>
		<u>\$ 2,631,350</u>

(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>Increases</u>	<u>Decreases</u>	Balance September <u>30, 2021</u>
Depreciable assets:				
Buildings	\$ 27,433,910	\$ -	\$ -	\$ 27,433,910
Infrastructure	44,397,384	-	-	44,397,384
Machinery, equipment, others	<u>8,775,263</u>	<u>1,115,072</u>	-	<u>9,890,335</u>
	<u>80,606,557</u>	<u>1,115,072</u>	-	<u>81,721,629</u>
Less accumulated depreciation:				
Buildings	(17,278,139)	(487,851)	-	(17,765,990)
Infrastructure	(25,389,254)	(963,368)	-	(26,352,622)
Machinery, equipment, others	<u>(6,888,666)</u>	<u>(506,440)</u>	-	<u>(7,395,106)</u>
	<u>(49,556,059)</u>	<u>(1,957,659)</u>	-	<u>(51,513,718)</u>
	<u>\$ 31,050,498</u>	<u>\$ (842,587)</u>	<u>\$ -</u>	<u>\$ 30,207,911</u>

During the year ended September 30, 2021, depreciation expense was charged as follows:

General government	\$ 109,600
Economic development	11,291
Education	459,400
Health services	64,457
Public safety	7,779
Boards, commissions and others	<u>1,305,132</u>
	<u>\$ 1,957,659</u>

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(5) Capital Assets, Continued

Primary Government, Continued

During the year ended September 30, 2018, the State received a \$450,000 advance lease payment from a party that operates a Kosrae shipyard. The advance payment was used to purchase \$650,000 of capital assets from Kosrae Industrial Corporation (KIDCO), which is a related party joint venture company and recorded a related party payable of \$200,000 to the joint venture. The State received an additional \$200,000 prepayment during fiscal year ended September 30, 2019 for the same purpose from the same company and paid the remaining balance for the capital asset purchase and then liquidated the joint venture company.

Annual amortization of the lease prepayments received as of September 30, 2021, is as follows:

<u>Year ending September 30</u>	
2022	\$ 50,000
2023	50,000
2024	50,000
2025	50,000
2026	50,000
2027 – 2030	<u>200,000</u>
	<u>\$ 450,000</u>

Discretely Presented Component Units

	Balance October 1, 2020	Additions	Retirement	Balance September 30, 2021
Depreciable assets:				
Buildings	\$12,095,141	\$ -	\$ -	\$ 12,095,141
Utility plants	11,072,015	297,792	(100,417)	11,269,390
Infrastructure	37,972,012			37,972,012
Machinery, equipment, and others	<u>1,091,810</u>	<u>2,360</u>	-	<u>1,094,170</u>
Total capital assets, being depreciated	62,230,978	300,152	(100,417)	62,430,713
Less accumulated depreciation	<u>(46,361,885)</u>	<u>(1,112,065)</u>	<u>100,417</u>	<u>(47,373,533)</u>
	15,869,093	(811,913)	-	15,057,180
Non-depreciable assets:				
Construction work-in-progress	<u>279,891</u>	<u>7,013</u>	<u>(211,380)</u>	<u>75,524</u>
	<u>\$16,148,984</u>	<u>\$ (804,900)</u>	<u>\$ (211,380)</u>	<u>\$ 15,132,704</u>

(6) Long-Term Obligations

Primary Government

Malem Wastewater System Project (MWSP) Loan:

The State borrowed \$145,000 from the U.S. Department of Agriculture Rural Utilities Services for the Malem Wastewater System Project, payable in annual installments of \$8,119 commencing September 28, 2001, interest at 4.5% per annum, due September 28, 2040. As of September 30, 2021, the balance payable on this loan amounted to \$94,274.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(6) Long-Term Obligations, Continued

Primary Government, Continued

Asian Development Bank (ADB) Loans:

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 \$2,000,000 loan from the 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, 2002. Of the required \$2,000,000 identified for future debt service payments, \$140,696 is deposited in an investment account held jointly with the FSM National Government. That investment account is restricted for the repayment of this debt. As of September 30, 2021, the balance payable on this loan amounted to \$1,292,652.

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 Kosrae, 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 balances payable on these loans amounted to \$191,555 and \$258,059, respectively.

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 Loan with ADB (Loan Number 2099 FSM (SF)) for the purpose of funding the Omnibus Infrastructure Development Project, with interest at 1% to 1.5% per annum. Principal payments shall be made semiannually commencing 2013, with a maturity date of 2037. As of September 30, 2021, the balance payable on this loan amounted to \$1,250,462.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(6) Long-Term Obligations, Continued

Primary Government, Continued

Asian Development Bank (ADB) Loans, Continued:

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

Year ending September 30,	Principal	Interest	Total
2022	\$ 180,264	\$ 31,427	\$ 211,691
2023	235,068	29,667	264,735
2024	235,250	27,320	262,570
2025	235,441	24,963	260,404
2026	214,353	22,598	236,951
2027-2031	968,671	82,840	1,051,511
2032-2036	923,567	33,922	957,489
2037	94,388	1,467	95,855
	<u>\$ 3,087,002</u>	<u>\$ 254,204</u>	<u>\$ 3,341,206</u>

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, 2020	Additions	Reductions	SDR	Balance September 30, 2021	Due Within One Year
Loans payable:						
ADB loans:						
Loan 1520	\$ 1,366,575	\$ -	\$ (80,724)	\$ 6,801	\$ 1,292,652	\$ 80,798
Loan 1873	240,078	-	(50,113)	1,590	191,555	42,568
Loan 1874	300,702	-	(45,699)	3,056	258,059	20,645
Loan 2099	<u>1,373,298</u>	-	<u>(130,539)</u>	<u>7,703</u>	<u>1,250,462</u>	<u>32,376</u>
	3,280,653	-	(307,075)	19,150	2,992,728	176,387
MWSP	<u>96,797</u>	-	<u>(2,523)</u>	-	<u>94,274</u>	<u>3,877</u>
	<u>\$ 3,377,450</u>	<u>\$ -</u>	<u>\$ (309,598)</u>	<u>\$ 19,150</u>	<u>\$ 3,087,002</u>	<u>\$ 180,264</u>

When the ADB extends credit to a particular country, the loan is issued 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 loss of \$19,150 associated with valuation of the SDR, which is presented as a special item in the accompanying financial statements, and which results in an increase in ADB loans payable.

(7) Short-Term Borrowing

In the normal course of operations, the Kosrae State obtains short-term borrowings primarily for the purpose of protecting overdraft facility for the State's non-sector payroll checking account. As of September 30, 2021, the State has a bank credit line amounting to \$200,000 bearing interest at 10.0% per annum, with the amount overdrawn and accrued interests payable within 60 days after an overdraft occurs, which is collateralized by the State's funding allocation. For the year ended September 30, 2021, the State has drawn down \$1.0 million and has an outstanding balance of \$146,676 at September 30, 2021.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(8) Fund Balances

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 Fund	Grants Assistance Fund	Compact Trust Fund	Nonmajor Funds	Total Governmental Funds
Non-spendable:					
Pacific Islands Development Bank	\$ 707,000	\$ 100,000	\$ -	\$ 93,000	\$ 900,000
Bank of the FSM	1,448,604	-	-	-	1,448,604
Permanent fund principal	-	-	7,406,227	-	7,406,227
Restricted for:					
General government	-	(86,910)	-	-	(86,910)
Debt service	140,696	-	-	-	140,696
Capital projects	-	48,896	-	47,281	96,177
Scholarships	-	-	-	404,802	404,802
Committed for:					
Health services	-	-	-	777,896	777,896
Economic development	-	-	-	12,326	12,326
Board, commissioners, others	-	-	-	398,122	398,122
Unassigned	<u>(395,234)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(395,234)</u>
	<u>\$ 1,901,066</u>	<u>\$ 61,986</u>	<u>\$ 7,406,227</u>	<u>\$ 1,733,427</u>	<u>\$ 11,102,706</u>

(9) Commitments and Contingencies

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:

	General	Grants Assistance	Other Governmental Funds	Total
Encumbrances	<u>\$ 53,390</u>	<u>\$ 3,987,085</u>	<u>\$ 227,362</u>	<u>\$ 4,267,837</u>

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 \$685,767.

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.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2021

(9) Commitments and Contingencies, Continued

Federal Grants

Pursuant to Title I, Section 105 of United States Public Law 99-239, the Government of the Federated States of Micronesia (FSM) (which includes the State) is no longer liable for debts to U.S. federal agencies arising prior to the date of the implementation of the Compact of Free Association. This matter has not yet been officially resolved with the U.S. Government.

Litigation

The State is party to numerous legal proceedings, many of which are normal recurrences in governmental operations. The State's Attorney General is of the opinion that the probable outcome of suits existing at September 30, 2021, is not predictable. No provision for any liability has been made in the accompanying financial statements because management believes that no unfavorable outcome is likely to occur.

(10) Budgetary Compliance

For the year ended September 30, 2021, significant over-expenditures exceeded appropriations within the General Fund for the following:

Debt service	\$ 367,021
Bad debt expense	1,004,421

These over-expenditures of the General Fund have not been funded by legislative authorization.

(11) 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 confirmed cases of COVID-19 in the FSM. The State has determined that the pandemic 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.

(12) CFSM Unreimbursed Receivable

During FY2021, a net receivable of \$927,407 from FSM National Government pertaining to CFSM grants activities was reserved in its entirety within the allowance for doubtful accounts in the General Fund. FSM National Government has disallowed such CFSM expenditures incurred by Kosrae State Government due to represented noncompliance with CFSM appropriation allowable usage. Management is of the opinion that it will continue to pursue collection of the FSM receivable.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

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

YEAR ENDED SEPTEMBER 30, 2021

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

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

	Budgeted Amounts		Actual - Budgetary	Variance with Final Budget -
	Original	Final	Basis (see Note 1)	
Revenues:				
FSM revenue sharing	\$ 2,400,000	\$ 2,400,000	\$ 1,935,398	\$ (464,602)
State taxes	-	-	483,081	483,081
Licenses and fees	-	-	443,574	443,574
Net change in fair value of investments	-	-	145,753	145,753
Interest and dividends	-	-	240	240
Other	-	-	47,062	47,062
Total revenues	2,400,000	2,400,000	3,055,108	655,108
Expenditures:				
Current:				
General government	1,129,667	1,129,667	1,075,825	53,842
Public order and safety	383,944	383,944	366,753	17,191
Public works	229,650	229,650	192,404	37,246
Economic development	3,214,496	312,496	320,069	(7,573)
Boards, commissions and other	310,899	310,899	260,991	49,908
Debt service	-	-	364,021	(364,021)
Total expenditures	5,268,656	2,366,656	2,580,063	(213,407)
Excess of revenues over expenditures	(2,868,656)	33,344	475,045	441,701
Special items:				
Write off of receivables	-	-	(1,004,421)	(1,004,421)
Other financing sources:				
Operating transfers in	-	-	267,075	267,075
Operating transfers (out)	-	-	(265,497)	(265,497)
Net change in fund balance	(2,868,656)	33,344	(527,798)	(561,142)
Encumbrances	-	-	45,821	45,821
Fund balance at the beginning of the year	2,386,043	2,386,043	2,386,043	-
Fund balance at the end of the year	\$ (482,613)	\$ 2,419,387	\$ 1,904,066	\$ (515,321)

See Accompanying Independent Auditors' Report and Notes to Required Supplementary Information - Budgetary Reporting.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Required Supplementary Information – Budgetary Reporting
September 30, 2021

(1) Budgetary Information

The Governor presents to the Kosrae State Legislature, prior to September 30, proposed budget estimates for the fiscal year commencing October 1. The budget estimates include the overall and total proposed expenditures of the State and the means of financing those expenditures. The Kosrae State Legislature reviews and approves these estimates making changes, as it deems appropriate. The Appropriation Committee of the Kosrae State Legislature, during the regular session of the Kosrae State Legislature, holds public hearings at which time Departments and Offices are required to justify their budget estimates. During the regular session of the Kosrae State Legislature, an appropriation bill, as required by the Constitution, is introduced and budget estimates are then legally enacted by the Kosrae State Legislature.

Formal budget integration is employed as a management control device during the year for all funds. The Kosrae State Legislature has the authority to reprogram budgeted estimates in accordance with the Constitution. All annual appropriations lapse at fiscal year end unless otherwise specified by law. Supplemental appropriations may occur throughout the year. Unexpended encumbrances at each fiscal year end are carried forward until they are expended or canceled without further legislative action. The State does not establish budgets for the operations of its other governmental 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 KOSRAE
FEDERATED STATES OF MICRONESIA**

OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2021

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

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

	Special Revenue		Permanent	Other Governmental Funds		Total
	General	Grants Assistance	Compact Trust			
Expenditures:						
Salaries and wages:						
Regular	\$ 1,783,916	\$ 3,617,133	\$ -	\$ 25,995	\$ 5,427,044	
Overtime	77,019	352,336	-	10,834	440,189	
Fringe benefits	224,589	463,664	-	1,427	689,680	
Other personnel costs	-	-	-	561	561	
Travel and transportation	2,240	13,095	-	5,788	21,123	
Instructional materials	-	24,891	-	-	24,891	
Communications	722	94,386	-	82,308	177,416	
Customs and tax	-	65	-	-	65	
Dues, membership, and subscriptions	-	4,217	-	9,678	13,895	
Food stuffs	3,924	27,421	-	37,222	68,567	
Port charges	-	3,211	-	992	4,203	
Expendable equipment	450	177,820	-	10,047	188,317	
Office supplies and materials	13,225	822,801	-	140,222	976,248	
POL	809	77,380	-	39,856	118,045	
Printing and reproduction	1,367	7,025	-	870	9,262	
Rental services	90	6,564	-	1,719	8,373	
Repairs and maintenance	-	1,924	-	1,108	3,032	
Utilities	73	271,023	-	142,334	413,430	
Subsidies and contributions	18,000	-	-	-	18,000	
Medical referral	-	-	-	20,035	20,035	
Medical supplies	-	395,559	-	-	395,559	
Contractual services	5,062	1,769,413	-	73,418	1,847,893	
Professional services	-	-	-	1,020	1,020	
Scholarships and allowances	-	192,306	-	-	192,306	
Meeting allowances	8,755	3,430	-	1,660	13,845	
Representation allowances	-	-	-	43,208	43,208	
Training	-	51,432	-	11,485	62,917	
Leased housing, buildings and land	2,377	71,748	-	11,363	85,488	
Bank charges	16,852	142	-	6,707	23,701	
Nonpayroll compensation	-	-	-	595	595	
Construction Management	-	32,767	-	-	32,767	
Equipment	-	155,863	-	7,892	163,755	
Furniture & Fixtures	-	3,899	-	-	3,899	
Vehicles	-	833,401	-	-	833,401	
Principal repayment	309,598	-	-	-	309,598	
Interest payments	57,423	-	-	-	57,423	
Miscellaneous	10,751	82,989	-	18,748	112,488	
	<u>\$ 2,537,242</u>	<u>\$ 9,557,905</u>	<u>\$ -</u>	<u>\$ 707,092</u>	<u>\$ 12,802,239</u>	

See Accompanying Independent Auditors' Report.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures by Function,
and Changes in Fund Balance
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	\$ 583,334	\$ 389,147
Import taxes	612,011	419,747
Income taxes	618,235	466,057
Other taxes	121,818	111,692
	1,935,398	1,386,643
State taxes:		
Sales tax	483,081	457,246
Fees and charges:		
Licenses and fees	443,574	401,564
Net change in fair value of investments	145,753	140,676
Interest and dividend income	240	477
Other	47,062	18,152
Total revenues	3,055,108	2,404,758
Expenditures:		
Current:		
General government:		
Office of the Governor	144,973	97,152
Department of Administration and Finance	127,316	104,068
Judiciary Branch	212,882	324,116
Legislative Branch	490,977	655,230
Public Auditor	79,444	107,625
	1,055,592	1,288,191
Economic development:		
Resources and Economic Affairs	316,840	98,642
Public order and safety:		
Office of the Attorney General	355,601	83,974
Parole board	-	800
	355,601	84,774
Public Works:		
Department of Transportation and Infrastructure	187,806	40,813
	187,806	40,813
Boards, Commissions and Other:		
Kosrae Island Resource Management Authority	168,195	188,013
Broadcast Authority	33,834	37,745
Sports Council	9,830	17,617
Scholarship board	14,735	21,278
RM Small Business Development Center	-	8,210
Municipal governments	1,800	10,836
Kosrae Visitor's Bureau	25,988	46,551
	254,382	330,250

See Accompanying Independent Auditors' Report.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures by Function,
and Changes in Fund Balance, Continued
General Fund
Year Ended September 30, 2021
(with comparative totals for the year ended September 30, 2020)

	2021	2020
Expenditures, continued:		
Debt service:		
Principal payments	309,598	328,510
Interest charges	57,423	70,342
	367,021	398,852
Total expenditures	2,537,242	2,241,522
Excess of revenues over expenditures	517,866	163,236
Special items:		
Write off of receivables	(1,004,421)	(150,000)
Other financing sources:		
Operating transfers in	267,075	-
Operating transfers (out)	(265,497)	400,000
	1,578	400,000
Net change in fund balance	(484,977)	413,236
Fund balance at the beginning of the year	2,386,043	1,972,807
Fund balance at the end of the year	\$ 1,901,066	\$ 2,386,043

See Accompanying Independent Auditors' Report.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

**Statement of Revenues, Expenditures by Function,
and Changes in Fund Balance - Budget and Actual
General Fund
Year Ended September 30, 2021**

	Budgeted Amounts		Actual Amounts - Budgetary Basis	Variance
	Original	Final		
Revenues:				
FSM revenue sharing:	\$ 2,400,000	\$ 2,400,000	\$ 1,935,398	\$ (464,602)
State taxes:				
Sales tax	-	-	483,081	483,081
Fees and charges:				
Licences and fees	-	-	443,574	443,574
Net change in fair value of investments	-	-	145,753	145,753
Interest and dividend income	-	-	240	240
Other:				
Other	-	-	47,062	47,062
Total revenues	<u>2,400,000</u>	<u>2,400,000</u>	<u>3,055,108</u>	<u>655,108</u>
Expenditures:				
Current:				
General government:				
Office of the Governor	105,941	105,941	150,696	(44,755)
Department of Administration and Finance	142,215	142,215	128,235	13,980
Judiciary Branch	277,363	277,363	222,075	55,288
Legislative Branch	523,607	523,607	495,161	28,446
Public Auditor	80,541	80,541	79,658	883
	<u>1,129,667</u>	<u>1,129,667</u>	<u>1,075,825</u>	<u>53,842</u>
Public order and safety:				
Office of the Attorney General	383,944	383,944	366,753	17,191
	<u>383,944</u>	<u>383,944</u>	<u>366,753</u>	<u>17,191</u>
Economic development:				
Resources and Economic Affairs	312,496	312,496	320,069	(7,573)
Public Works:				
Department of Transportation and Infrastructure	229,650	229,650	192,404	37,246
Boards, commissions and other:				
Kosrae Island Resource Management Authority	174,995	174,995	169,222	5,773
Broadcast Authority	38,165	38,165	33,867	4,298
Sports Council	16,106	16,106	14,027	2,079
Small Business Development Center	39,140	39,140	315	38,825
Scholarship board	15,817	15,817	15,272	545
Municipal governments	-	-	1,800	(1,800)
Kosrae Visitor's Bureau	26,676	26,676	26,488	188
Debt Service:				
Principal payments	-	-	309,598	(309,598)
Interest charges	-	-	57,423	(57,423)
	<u>310,899</u>	<u>310,899</u>	<u>628,012</u>	<u>(317,113)</u>
Total expenditures	<u>2,366,656</u>	<u>2,366,656</u>	<u>2,583,063</u>	<u>(216,407)</u>
Excess of revenues over expenditures	33,344	33,344	472,045	438,701
Special items				
Write off of receivables	-	-	(1,004,421)	(1,004,421)
Other financing sources:				
Operating transfers in			267,075	267,075
Operating transfers (out)	-	-	(265,497)	(265,497)
Net change in fund balance	33,344	33,344	(530,798)	(564,142)
Encumbrances	-	-	45,821	45,821
Fund balances at the beginning of the year	2,386,043	2,386,043	2,386,043	-
Fund balance at the end of the year	<u>\$ 2,419,387</u>	<u>\$ 2,419,387</u>	<u>\$ 1,901,066</u>	<u>\$ (518,321)</u>

See Accompanying Independent Auditors' Report.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA

NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

Combining Balance Sheet
September 30, 2021

	38	37/39	36	33	34	35	32	25	88	40	
	Scholarship Revolving Loan	Production and Development Loan	Health Care	Sports Council	Transportation Infrastructure	Broadcasting Authority	Aluminum Recycling	CFSM Grants	Gifford Scholarship	Land Administration	Total
ASSETS											
Receivables:											
Due from other funds	\$ 17,069	\$ 12,378	\$ 777,363	\$ 683	\$ 4,313	\$ 13,570	\$ 337,793	\$ 89,042	\$ -	\$ 25,873	\$ 1,278,084
Prepaid items	-	-	2,001	-	1,623	-	-	4,286	-	-	7,910
Other assets	-	-	-	-	-	-	-	93,000	-	-	93,000
Restricted:											
Cash and equivalents	-	-	-	-	-	-	-	-	42,441	-	42,441
Time certificates of deposit	-	-	-	-	-	-	-	-	362,361	-	362,361
	-	-	-	-	-	-	-	-	-	-	-
Total assets	<u>\$ 17,069</u>	<u>\$ 12,378</u>	<u>\$ 779,364</u>	<u>\$ 683</u>	<u>\$ 5,936</u>	<u>\$ 13,570</u>	<u>\$ 337,793</u>	<u>\$ 186,328</u>	<u>\$ 404,802</u>	<u>\$ 25,873</u>	<u>\$ 1,783,796</u>
LIABILITIES AND FUND											
BALANCES											
Liabilities:											
Accounts payable	\$ 8	\$ 52	\$ 1,468	\$ -	\$ 2,794	\$ -	\$ -	\$ 45,467	\$ -	\$ -	\$ 49,789
Other liabilities and accruals	-	-	-	-	-	-	-	580	-	-	580
Total liabilities	<u>8</u>	<u>52</u>	<u>1,468</u>	<u>-</u>	<u>2,794</u>	<u>-</u>	<u>-</u>	<u>46,047</u>	<u>-</u>	<u>-</u>	<u>50,369</u>
Fund balances:											
Non-spendable	-	-	-	-	-	-	-	93,000	-	-	93,000
Restricted	-	-	-	-	-	-	-	47,281	404,802	-	452,083
Committed	17,061	12,326	777,896	683	3,142	13,570	337,793	-	-	25,873	1,188,344
Total fund balances	<u>17,061</u>	<u>12,326</u>	<u>777,896</u>	<u>683</u>	<u>3,142</u>	<u>13,570</u>	<u>337,793</u>	<u>140,281</u>	<u>404,802</u>	<u>25,873</u>	<u>1,733,427</u>
Total liabilities and fund balances	<u>\$ 17,069</u>	<u>\$ 12,378</u>	<u>\$ 779,364</u>	<u>\$ 683</u>	<u>\$ 5,936</u>	<u>\$ 13,570</u>	<u>\$ 337,793</u>	<u>\$ 186,328</u>	<u>\$ 404,802</u>	<u>\$ 25,873</u>	<u>\$ 1,783,796</u>

See Accompanying Independent Auditors' Report.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA

NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

Combining Statement of Revenues, Expenditures By Function,
and Changes in Fund Balances
Year Ended September 30, 2021

	38	37/39	36	33	34	35	32	25	88	40	
	Scholarship Revolving Loan	Production and Development Loan	Health Care	Sports Council	Transportation Infrastructure	Broadcasting Authority	Aluminum Recycling	CFSM Grants	Gifford Scholarship	Land Administration	Total
Revenues:											
Fees and charges	\$ -	\$ 5,447	\$ 273,984	\$ -	\$ 8,439	\$ 2,426	\$ 87,065	\$ -	\$ -	\$ -	\$ 377,361
CFSM grants	-	-	-	-	-	-	-	617,996	-	-	617,996
Interest income	-	3	65	-	-	-	35	-	2,541	-	2,644
Other revenues	4,053	-	-	-	-	-	-	-	-	-	4,053
Total revenues	<u>4,053</u>	<u>5,450</u>	<u>274,049</u>	<u>-</u>	<u>8,439</u>	<u>2,426</u>	<u>87,100</u>	<u>617,996</u>	<u>2,541</u>	<u>-</u>	<u>1,002,054</u>
Expenditures by function:											
Current:											
General Government	-	-	-	-	6,855	-	-	527,131	-	-	533,986
Economic development	-	11,375	-	-	-	-	-	53,716	-	-	65,091
Health services	-	-	63,834	-	-	-	-	-	-	-	63,834
Boards, commissions and other	-	-	-	-	-	200	6,832	37,149	-	-	44,181
Total expenditures	<u>-</u>	<u>11,375</u>	<u>63,834</u>	<u>-</u>	<u>6,855</u>	<u>200</u>	<u>6,832</u>	<u>617,996</u>	<u>-</u>	<u>-</u>	<u>707,092</u>
Excess (deficiency) of revenues over (under) expenditures	4,053	(5,925)	210,215	-	1,584	2,226	80,268	-	2,541	-	294,962
Other Financing sources (uses)											
Operating transfer out	-	(1,495)	-	-	-	-	-	-	-	-	(1,495)
Fund balances at the beginning of the year	<u>13,008</u>	<u>19,746</u>	<u>567,681</u>	<u>683</u>	<u>1,558</u>	<u>11,344</u>	<u>257,525</u>	<u>140,281</u>	<u>402,261</u>	<u>25,873</u>	<u>1,439,960</u>
Fund balances at the end of the year	<u>\$ 17,061</u>	<u>\$ 12,326</u>	<u>\$ 777,896</u>	<u>\$ 683</u>	<u>\$ 3,142</u>	<u>\$ 13,570</u>	<u>\$ 337,793</u>	<u>\$ 140,281</u>	<u>\$ 404,802</u>	<u>\$ 25,873</u>	<u>\$ 1,733,427</u>

See Accompanying Independent Auditors' Report.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA

NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

Combining Statement of Revenues, Expenditures By Account,
and Changes in Fund Balances
Year Ended September 30, 2021

	38	37/39	36	33	34	35	32	25	88	40	Total
	Scholarship Revolving Loan	Production and Development Loan	Health Care	Sports Council	Transportation Infrastructure	Broadcasting Authority	Aluminum Recycling	CFSM Grants	Gifford Scholarship	Land Administration	Total
Revenues:											
Fees and charges	\$ -	\$ 5,447	\$ 273,984	\$ -	\$ 8,439	\$ 2,426	\$ 87,065	\$ -	\$ -	\$ -	\$ 377,361
CFSM Grants	-	-	-	-	-	-	-	617,996	-	-	617,996
Interest income	-	3	65	-	-	-	35	-	2,541	-	2,644
Other revenues	4,053	-	-	-	-	-	-	-	-	-	4,053
Total revenues	4,053	5,450	274,049	-	8,439	2,426	87,100	617,996	2,541	-	1,002,054
Expenditures by account:											
Salaries and wages:											
Regular	-	-	-	-	-	-	-	25,995	-	-	25,995
Overtime	-	-	-	-	-	-	-	10,834	-	-	10,834
Fringe benefits	-	-	45	-	-	-	-	1,382	-	-	1,427
Other personnel cost	-	-	561	-	-	-	-	-	-	-	561
Travel and transportation	-	-	-	-	-	-	-	5,788	-	-	5,788
Dues, membership & subscription	-	-	-	-	109	-	-	9,678	-	-	9,678
Communications	-	-	-	-	-	-	-	82,199	-	-	82,308
Food stuffs	-	-	21,877	-	-	-	-	15,345	-	-	37,222
Port charges	-	172	-	-	-	-	-	820	-	-	992
Expendable equipment	-	-	988	-	-	-	-	9,059	-	-	10,047
Office supplies and materials	-	11,203	2,397	-	1,923	-	-	124,699	-	-	140,222
POL	-	-	-	-	1,858	-	-	37,998	-	-	39,856
Advertisement, printing	-	-	-	-	-	-	-	870	-	-	870
Repair and maintenance	-	-	-	-	-	-	-	1,108	-	-	1,108
Contractual services	-	-	-	-	-	-	-	73,418	-	-	73,418
Utilities	-	-	14,647	-	2,965	200	-	124,522	-	-	142,334
Medical supplies	-	-	20,035	-	-	-	-	-	-	-	20,035
Medical referral cost	-	-	-	-	-	-	-	-	-	-	-
Professional services	-	-	1,020	-	-	-	-	-	-	-	1,020
Nonpayroll compensation	-	-	-	-	-	-	-	595	-	-	595
Rental	-	-	969	-	-	-	-	750	-	-	1,719
Employee training	-	-	-	-	-	-	-	11,485	-	-	11,485
Meeting allowance	-	-	-	-	-	-	-	1,660	-	-	1,660
Representation allowanve	-	-	-	-	-	-	-	43,208	-	-	43,208
Leased buildings and offices	-	-	-	-	-	-	-	10,763	-	-	10,763
Leased land	-	-	-	-	-	-	-	600	-	-	600
Equipment	-	-	1,295	-	-	-	-	6,597	-	-	7,892
Bank charges	-	-	-	-	-	-	-	6,707	-	-	6,707
Miscellaneous	-	-	-	-	-	-	6,832	11,916	-	-	18,748
Total expenditures	-	11,375	63,834	-	6,855	200	6,832	617,996	-	-	707,092
Excess (deficiency) of revenues over (under) expenditures	4,053	(5,925)	210,215	-	1,584	2,226	80,268	-	2,541	-	294,962
Other Financing sources (uses)											
Operating transfer out	-	(1,495)	-	-	-	-	-	-	-	-	(1,495)
Fund balances at the beginning of the year	13,008	19,746	567,681	683	1,558	11,344	257,525	140,281	402,261	25,873	1,439,960
Fund balances at the end of the year	\$ 17,061	\$ 12,326	\$ 777,896	\$ 683	\$ 3,142	\$ 13,570	\$ 337,793	\$ 140,281	\$ 404,802	\$ 25,873	\$ 1,733,427

See Accompanying Independent Auditors' Report.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

GRANTS ASSISTANCE FUND

Combining Balance Sheet
September 30, 2021

	Section 211(a)(1) Education Sector	Section 211(a)(2) Health Sector	Section 211(a)(3) Private Sector Development	Section 211(a)(4) Capacity Building	Section 211(a)(5) Environment	Section 211(a)(6) Infrastructure Maintenance	Section 211(a)(6) Infrastructure
ASSETS							
Receivables:							
FSM National Government	\$ 178,019	\$ 2,403	\$ 46,039	\$ -	\$ -	\$ -	\$ 149,034
Federal agencies	-	-	-	-	-	-	-
Advances	-	629	1,271	13,518	-	-	-
Prepayments	574,567	-	20,886	-	-	-	62,114
Due from other funds	-	168,530	-	91,621	17,969	92,732	96,555
Other assets	-	-	-	-	-	-	-
Total assets	\$ 752,586	\$ 171,562	\$ 68,196	\$ 105,139	\$ 17,969	\$ 92,732	\$ 307,703
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 26,248	\$ 24,636	\$ 26,363	\$ 23,866	\$ -	\$ -	\$ 578
Other liabilities and accruals	83,245	79,215	-	1,680	50	-	4,636
Due to other funds	192,662	-	20,102	-	-	-	-
Unearned revenues	450,431	67,711	21,731	79,593	17,919	43,836	302,489
Total liabilities	752,586	171,562	68,196	105,139	17,969	43,836	307,703
Fund balances:							
Non-spendable	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	48,896	-
Total fund balances	-	-	-	-	-	48,896	-
Total liabilities and fund balances	\$ 752,586	\$ 171,562	\$ 68,196	\$ 105,139	\$ 17,969	\$ 92,732	\$ 307,703

See Accompanying Independent Auditors' Report.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

GRANTS ASSISTANCE FUND

Combining Balance Sheet, Continued
September 30, 2021

	Section 211(a)(7) Supplemental Education	Enhanced Reporting Accountability	U.S. Federal Grants	U.S. Direct Federal Grants	Foreign Assistance	Total
<u>ASSETS</u>						
Receivables:						
FSM National Government	\$ -	\$ 4,838	\$ 236,088	\$ -	\$ -	\$ 616,421
Federal agencies	-	-	-	55,582	-	55,582
Advances	2,064	-	-	864	43,775	62,121
Prepayments	70,383	-	300	-	-	728,250
Due from other funds	320,993	27,406	-	4,023	225,325	1,045,154
Other assets	-	-	-	-	100,000	100,000
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>100,000</u>	<u>100,000</u>
 Total assets	 <u>\$ 393,440</u>	 <u>\$ 32,244</u>	 <u>\$ 236,388</u>	 <u>\$ 60,469</u>	 <u>\$ 369,100</u>	 <u>\$ 2,607,528</u>
<u>LIABILITIES AND FUND BALANCES</u>						
Liabilities:						
Accounts payable	\$ 8,208	\$ -	\$ 99,782	\$ 432	\$ 2,428	\$ 212,541
Other liabilities and accruals	7,778	9,293	41,258	-	710	227,865
Due to other funds	-	-	95,348	-	-	308,112
Unearned revenues	377,454	22,951	-	60,037	352,872	1,797,024
	<u>377,454</u>	<u>22,951</u>	<u>-</u>	<u>60,037</u>	<u>352,872</u>	<u>1,797,024</u>
 Total liabilities	 <u>393,440</u>	 <u>32,244</u>	 <u>236,388</u>	 <u>60,469</u>	 <u>356,010</u>	 <u>2,545,542</u>
Fund balances:						
Non-spendable	-	-	-	-	100,000	100,000
Restricted	-	-	-	-	(86,910)	(38,014)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(86,910)</u>	<u>(38,014)</u>
 Total fund balances	 <u>-</u>	 <u>-</u>	 <u>-</u>	 <u>-</u>	 <u>13,090</u>	 <u>61,986</u>
 Total liabilities and fund balances	 <u>\$ 393,440</u>	 <u>\$ 32,244</u>	 <u>\$ 236,388</u>	 <u>\$ 60,469</u>	 <u>\$ 369,100</u>	 <u>\$ 2,607,528</u>

See Accompanying Independent Auditors' Report.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

GRANTS ASSISTANCE FUND

**Combining Statement of Revenues, Expenditures by Function,
and Changes in Fund Balances
Year Ended September 30, 2021**

	Section 211(a)(1) Education Sector	Section 211(a)(2) Health Sector	Section 211(a)(3) Private Sector Development	Section 211(a)(4) Capacity Building	Section 211(a)(5) Environment	Section 211(a)(6) Infrastructure Maintenance	Section 211(a)(6) Infrastructure
Revenues:							
Compact funding	\$ 3,168,107	\$ 3,197,010	\$ 10,327	\$ 167,607	\$ 40,000	\$ -	\$ 483,764
Federal contributions	-	-	-	-	-	-	-
Other grants	-	-	-	-	-	-	-
Total revenues	<u>3,168,107</u>	<u>3,197,010</u>	<u>10,327</u>	<u>167,607</u>	<u>40,000</u>	<u>-</u>	<u>483,764</u>
Expenditures by function:							
Current:							
General government	-	-	-	167,607	-	-	483,764
Economic development	-	-	10,327	-	-	-	-
Education	3,168,107	-	-	-	-	-	-
Health services	-	3,197,010	-	-	-	-	-
Environment protection and sanitation	-	-	-	-	40,000	-	-
Boards & Commissions	-	-	-	-	-	-	-
Total expenditures	<u>3,168,107</u>	<u>3,197,010</u>	<u>10,327</u>	<u>167,607</u>	<u>40,000</u>	<u>-</u>	<u>483,764</u>
Deficiency of revenues under expenditures	-	-	-	-	-	-	-
Other financing sources (uses):							
Operating transfer in (out)	-	-	-	-	-	-	(83)
Net change in fund balances	-	-	-	-	-	-	(83)
Fund balances at the beginning of the year	-	-	-	-	-	48,896	83
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,896</u>	<u>\$ -</u>

See Accompanying Independent Auditors' Report.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

GRANTS ASSISTANCE FUND

Combining Statement of Revenues, Expenditures by Function,
and Changes in Fund Balances, Continued
Year Ended September 30, 2021

	Section 211(a)(7) Supplemental Education	Enhanced Reporting Accountability	U.S. Federal Grants	U.S. Direct Federal Grants	Foreign Assistance	Total
Revenues:						
Compact funding	\$ 803,023	\$ 173,603	\$ -	\$ -	\$ -	\$ 8,043,441
Federal contributions	-	-	1,347,744	23,848	-	1,371,592
Other grants	-	-	-	-	37,700	37,700
Total revenues	<u>803,023</u>	<u>173,603</u>	<u>1,347,744</u>	<u>23,848</u>	<u>37,700</u>	<u>9,452,733</u>
Expenditures by function:						
Current:						
General government	-	173,603	-	-	3,168	828,142
Economic development	-	-	-	-	-	10,327
Education	803,023	-	500,745	-	-	4,471,875
Health services	-	-	742,070	1,566	-	3,940,646
Environment protection and sanitation	-	-	-	-	-	40,000
Boards & Commissions	-	-	104,929	22,282	139,504	266,715
Total expenditures	<u>803,023</u>	<u>173,603</u>	<u>1,347,744</u>	<u>23,848</u>	<u>142,672</u>	<u>9,557,705</u>
Deficiency of revenues under expenditures	-	-	-	-	(104,972)	(104,972)
Other financing sources (uses):						
Operating transfer in (out)	-	-	-	-	-	(83)
Net change in fund balances	-	-	-	-	(104,972)	(105,055)
Fund balances at the beginning of the year	-	-	-	-	118,062	167,041
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,090</u>	<u>\$ 61,986</u>

See Accompanying Independent Auditors' Report.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

GRANTS ASSISTANCE FUND

**Combining Statement of Revenues, Expenditures by Account,
and Changes in Fund Balances
Year Ended September 30, 2021**

	Section 211(a)(1) Education Sector	Section 211(a)(2) Health Sector	Section 211(a)(3) Private Sector Development	Section 211(a)(4) Capacity Building	Section 211(a)(5) Environment	Section 211(a)(6) Infrastructure Maintenance	Section 211(a)(6) Infrastructure
Revenues:							
Compact funding	\$ 3,168,107	\$ 3,197,010	\$ 10,327	\$ 167,607	\$ 40,000	\$ -	\$ 483,764
Federal contributions	-	-	-	-	-	-	-
Other grants	-	-	-	-	-	-	-
Total revenues	3,168,107	3,197,010	10,327	167,607	40,000	-	483,764
Expenditures by account:							
Salaries and wages:							
Regular	1,433,152	1,086,298	-	28,710	-	-	84,062
Overtime	-	277,434	-	-	-	-	-
Fringe benefits	184,335	135,884	-	3,652	-	-	7,083
Travel and transportation	-	-	-	12,000	-	-	-
Instructional materials	15,107	-	-	-	-	-	-
Communications	20,285	8,254	-	2,991	-	-	1,018
Customs and tax	-	65	-	-	-	-	-
Dues, membership, and subscriptions	-	1,000	-	3,217	-	-	-
Food stuffs	-	27,105	-	-	-	-	-
Port charges	-	1,837	-	-	-	-	-
Expendable equipment	20,844	17,403	-	999	-	-	-
Office supplies and materials	202,463	318,981	-	7,034	-	-	2,910
POL	38,216	17,746	-	-	-	-	758
Printing and reproduction	-	80	-	-	-	-	4,887
Rental services	125	3,025	-	-	-	-	-
Repairs and maintenance	634	-	-	-	-	-	950
Utilities	51,345	166,789	-	488	-	-	3,600
Medical supplies	-	283,036	-	-	-	-	-
Contractual services	142,245	699,171	10,327	97,781	40,000	-	338,854
Professional services	-	-	-	-	-	-	-
Architecture & Design	-	-	-	-	-	-	32,767
Scholarships and allowances	192,306	-	-	-	-	-	-
Training	-	-	-	-	-	-	-
Meeting allowances	-	-	-	-	-	-	-
Leased housing, buildings and land	21,064	34,628	-	6,013	-	-	6,875
Bank charges	142	-	-	-	-	-	-
Equipment	15,995	100,166	-	3,428	-	-	-
Furniture and fixtures	1,999	1,900	-	-	-	-	-
Vehicles	813,203	-	-	-	-	-	-
Miscellaneous	14,647	16,208	-	1,294	-	-	-
Total expenditures	3,168,107	3,197,010	10,327	167,607	40,000	-	483,764
Deficiency of revenues under expenditures	-	-	-	-	-	-	-
Other financing sources (uses):							
Operating transfer in (out)	-	-	-	-	-	-	(83)
Net change in fund balances	-	-	-	-	-	-	(83)
Fund balances at the beginning of the year	-	-	-	-	-	48,896	83
Fund balances at the end of the year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 48,896	\$ -

See Accompanying Independent Auditors' Report.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

GRANTS ASSISTANCE FUND

Combining Statement of Revenues, Expenditures by Account,
and Changes in Fund Balances, Continued
Year Ended September 30, 2021

	Section 211(a)(7) Supplemental Education	Enhanced Reporting Accountability	U.S. Federal Grants	U.S. Direct Federal Grants	Foreign Assistance	Total
Revenues:						
Compact funding	\$ 803,023	\$ 173,603	\$ -	\$ -	\$ -	\$ 8,043,441
Federal contributions	-	-	1,347,744	23,848	-	1,371,592
Other grants	-	-	-	-	37,700	37,700
Total revenues	803,023	173,603	1,347,744	23,848	37,700	9,452,733
Expenditures by account:						
Salaries and wages:						
Regular	135,573	151,123	679,979	1,407	16,829	3,617,133
Overtime	-	1,782	73,120	-	-	352,336
Fringe benefits	16,401	20,247	94,402	159	1,501	463,664
Travel and transportation	-	-	1,095	-	-	13,095
Instructional materials	9,784	-	-	-	-	24,891
Communications	39,726	-	20,843	-	1,269	94,386
Customs and tax	-	-	-	-	-	65
Dues, membership, and subscriptions	-	-	-	-	-	4,217
Food stuffs	-	-	-	316	-	27,421
Port charges	309	-	1,065	-	-	3,211
Expendable equipment	99,831	-	38,743	-	-	177,820
Office supplies and materials	114,304	-	126,493	612	50,004	822,801
POL	9,756	-	9,138	354	1,412	77,380
Printing and reproduction	-	-	2,058	-	-	7,025
Rental services	200	-	3,214	-	-	6,564
Repairs and maintenance	-	-	340	-	-	1,924
Utilities	40,500	-	6,701	-	1,600	271,023
Medical supplies	-	-	112,523	-	-	395,559
Contractual services	241,913	-	111,322	21,000	66,800	1,769,413
Professional services	-	-	-	-	-	-
Architecture & Design	-	-	-	-	-	32,767
Scholarships and allowances	-	-	-	-	-	192,306
Training	51,432	-	-	-	-	51,432
Meeting allowances	-	-	3,430	-	-	3,430
Leased housing, buildings and land	-	-	-	-	3,168	71,748
Bank charges	-	-	-	-	-	142
Equipment	23,296	451	12,527	-	-	155,863
Furniture and fixtures	-	-	-	-	-	3,899
Vehicles	19,998	-	-	-	-	833,201
Miscellaneous	-	-	50,751	-	89	82,989
Total expenditures	803,023	173,603	1,347,744	23,848	142,672	9,557,705
Deficiency of revenues under expenditures	-	-	-	-	(104,972)	(104,972)
Other financing sources (uses):						
Operating transfer in (out)	-	-	-	-	-	(83)
Net change in fund balances	-	-	-	-	(104,972)	(105,055)
Fund balances at the beginning of the year	-	-	-	-	118,062	167,041
Fund balances at the end of the year	\$ -	\$ -	\$ -	\$ -	\$ 13,090	\$ 61,986

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 Carson K. Sigrah
Governor, State of Kosrae
Federated States of Micronesia:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Kosrae (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 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 Kosrae Port Authority, the Kosrae Utilities Authority, and the Kosrae Housing Authority, which were all audited by us. We have issued separate reports on our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for these entities. 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 opinion 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.

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 State's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying [include the title of the schedule in which the findings are reported in the Schedule of Findings and Questioned Costs as item 2021-001 that we consider to be a material weakness.

Compliance and Other Matters

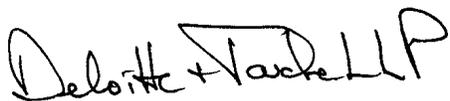
As part of obtaining reasonable assurance about whether the State's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 State'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 State's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

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 Carson K. Sigrah
Governor, State of Kosrae
Federated States of Micronesia:

Report on Compliance for the Sole Major Federal Program

We have audited the State of Kosrae'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 the State's sole major federal program for the year ended September 30, 2021. The State's sole major federal program is 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 the State's sole major federal program 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 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 the sole major federal program. However, our audit does not provide a legal determination of the State's compliance.

Basis for Opinion on the Sole Major Federal Program

As described as Finding 2021-002 in the accompanying Schedule of Findings and Questioned Costs, the State did not comply with requirement regarding the following:

Finding #	AL #	Program (or Cluster) Name	Compliance Requirement
2021-002	15.875	Economic, Social, and Political Development of the Territories - Compact of Free Association, As Amended, Compact Sector Grants	Allowable Costs/Cost Principles

Compliance with such requirements is necessary, in our opinion, for the State to comply with the requirements applicable to those programs.

Qualified Opinion on the Sole Major Federal Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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 the sole major federal program for the year ended September 30, 2021.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2021-003. Our opinion on the sole major federal program is not modified with respect to these matters.

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

Report on Internal Control Over Compliance

Management of the State is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the State’s internal control over compliance with the types of requirements that could have a direct and material effect on the sole major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the sole 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding 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. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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 a 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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2021-002 to be a material weakness.

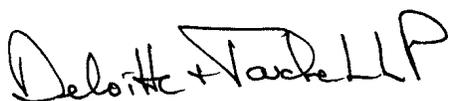
A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2021-003 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 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, each major fund, and the aggregate remaining fund information 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 unmodified opinions on those financial statements and included explanatory paragraphs concerning collectability of receivables and the impact of COVID-19. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



December 31, 2022

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

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

Agency	Expenditures
U.S. Department of Agriculture	\$ 41,741
U.S. Department of the Interior	8,370,198
U.S. Department of Education	500,745
U.S. Department of Health and Human Services	<u>502,349</u>
GRAND TOTAL	<u>\$ 9,415,033</u>

Reconciliation to the basic financial statements:	
Grants Assistance Fund expenditures	\$ 9,557,705
Less:	
Foreign Assistance Fund expenditures	<u>(142,672)</u>
	<u>\$ 9,415,033</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2021

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal ALN Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE:			
Direct Programs:			
Forest Legacy Program	10.676		\$ 316
Cooperative Forestry Assistance	10.664		19,459
International Forestry Program	10.684		21,966
Total U.S. Department of Agriculture			<u>\$ 41,741</u>
U.S. DEPARTMENT OF THE INTERIOR:			
Pass-Through From the FSM National Government:			
Economic, Social and Political Development of the Territories:			
Compact of Free Association Sector Grants:			
Compact II Education Sector	15.875		\$ 3,168,107
Compact Health (COVID-19)	15.875		241,286
Compact II Health Sector	15.875		3,197,010
Compact II Private Sector Development	15.875		10,327
Compact II Capacity Building	15.875		167,607
Compact II Environment	15.875		40,000
Compact II Infrastructure Sector	15.875		483,764
Supplemental Education Grant	15.875		803,023
Compact II Enhanced Reporting Accountability	15.875		173,603
Historic Preservation Fund Grants-In Aid	15.904		85,471
Total U.S. Department of the Interior			<u>\$ 8,370,198</u>
U.S. DEPARTMENT OF EDUCATION:			
Pass-Through From the FSM National Government:			
Special Education Cluster (IDEA):			
Special Education - Grants to States	84.027A	A3	\$ 500,745
Total Special Education Cluster (IDEA) and Total U.S. Department of Education			<u>\$ 500,745</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Direct Programs:			
EHID-IS Surveillance Program	93.314		\$ 1,566
Pass-Through From the FSM National Government:			
Public Health Emergency Preparedness			
Affordable Care Act (ACA) Personal Responsibility Education Program	93.069	A3	\$ 17,042
Maternal and Child Health Federal Consolidated Programs	93.092		35,228
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.110		8,072
Family Planning - Services	93.116		25,146
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.217		23,563
Immunization Cooperative Agreements	93.243		56,173
Prevention and Control of Chronic Disease and Associated Risk Factors in the U.S. Affiliated Pacific Islands, U.S. Virgin Islands and P.R.	93.268		65,560
Block Grants for OPIOD Responses	93.377		41,738
National Bioterrorism Hospital Preparedness Program	93.788		52,252
Health Center Program Cluster	93.889		1,942
Cancer Prevention and Control Programs for State, Territorial and Tribal Org	93.898		43,187
Block Grants for Community Mental Health Service	93.958		21,083
Block Grants for Prevention and Treatment of Substance Abuse	93.959		61,219
Preventive Health and Health Services Block Grant	93.991		6,848
Maternal and Child Health Services Block Grant to the States	93.994		41,730
Total U.S. Department of Health and Human Services			<u>\$ 502,349</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 9,415,033</u>

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2021

1. Scope

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the State under programs of the federal government for the year ended September 30, 2021. 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 the State, it is not intended to and does not present the financial positions or changes in financial positions of the State.

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 the State 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, the State'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 and did not expend federal awards during the year ended September 30, 2021. Accordingly, the accompanying Schedule presents the federal award programs administered by the State, 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

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

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 (the Compact), 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.

**STATE OF KOSRAE
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

Internal control over financial reporting:

- 2. Material weakness(es) identified? Yes
- 3. Significant deficiency(ies) identified? No
- 4. Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major federal programs:

- 5. Material weakness(es) identified? Yes
- 6. Significant deficiency(ies) identified? Yes
- 7. Type of auditors' report issued on compliance for major federal program: Qualified
- 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 Number</u>	<u>Name of Federal Program or Cluster</u>
------------------	---

15.875	Economic, Social and Political Development of the Territories – Compact of Free Association Compact Sector Grants
--------	---

- 10. Dollar threshold used to distinguish between Type A and Type B Programs: \$750,000
- 11. Auditee qualified as low-risk auditee? Yes

Section II – Financial Statements Findings

<u>Finding #</u>	<u>Finding</u>
2021-001	CFSM Expenditures

Section III - Federal Award Findings and Questioned Costs

<u>Finding #</u>	<u>AL #</u>	<u>Finding</u>	<u>Questioned Costs</u>
2021-002	15.875	Allowable Costs/Cost Principles	\$ 219,936
2021-003	15.875	Equipment and Real Property Management	-
			<u>\$ 219,936</u>

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

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

Finding No. 2021-001 – CFSM Expenditures

Criteria: Kosrae State should ensure that CFSM funds are expended for allowable activities.

Condition: We found that the outstanding receivable of \$927,406 for unreimbursed CFSM projects expenditures was reserved for in its entirety in the General Fund as an allowance for doubtful accounts based on adjustments provided by the State.

Cause: Expenditures incurred by Kosrae State did not appear to follow the intent of the CFSM appropriation law.

Effect: The effect of this condition is potential noncompliance with CFSM appropriation laws and a disallowance of reimbursements by the FSM National Government that adversely impacts the State's general fund.

Recommendation: We recommend that Kosrae State take steps to verify that CFSM funds are used for allowable purposes and in line with the intent of CFSM appropriation laws.

Views of Responsible Officials: We agree with the finding. Management has already started taking corrective measures to ensure that account reconciliation is performed on a monthly basis. Management has also started training of additional staff who is responsible for monthly reconciliation.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

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

Finding No.: 2021-002
 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.: Various Compact Sector Grants
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$219,936

Criteria: In accordance with applicable allowable costs/cost principles requirements, costs should not consist of improper payments which include costs that were not under statutory, contractual, administrative, or other legally applicable requirements.

Condition: For 1 (or 4%) of 25 transactions tested, aggregating \$1,994,362 of \$8,102,298 in total program expenditures, a payment was made; however, the associated contract and change modifications appear to have already expired.

date1	tr_no	ref1	amt
03/26/2021	129091	No. 6275	\$ 219,936

Cause: The State lacks controls over monitoring the validity of contracts associated with projects obligated under the grant awards.

Effect: The associated costs incurred and paid were made under what appears to be expired and possibly invalid obligations which results in the State making improper payments and being in noncompliance with applicable allowable costs/cost principles requirements. The total questioned cost is \$219,936.

Recommendation: The State should consider Compliance Oversight to monitor obligations under grant awards and the status of the projects therein to ensure that allowable expenditures incurred are valid prior to payment.

Views of Responsible Officials: We are still reviewing the finding and respond at a later time. The responsible KPMO official is off island and not available.

**STATE OF KOSRAE
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.:	Various Compact Sector Grants
Area:	Equipment and Real Property Management
Questioned Costs:	\$0

Criteria: A physical inventory of property acquired in whole or in part under a Federal award must be taken, and the results reconciled with the property records, at least once every two years, until disposition takes place.

Condition: The State did not perform the required physical inventory of property acquired in whole or in part under a Federal award within the past two years.

No question cost is presented as we are unable to determine the overall extent of the deficiency.

Cause: The State has weak internal controls over the receiving, recording, reviewing and tagging of capital assets by the supply officer prior to releasing the capital asset/equipment to a department.

Effect: The State is in noncompliance with applicable equipment management requirements. No questioned cost is presented as we are unable to quantify the extent of noncompliance.

Recommendation: The State's program management should perform the required physical inventory at least once every two years and reconcile results with the property records in accordance with applicable equipment and real property management requirements.

Views of Responsible Officials: We agree with the finding. Management has already started taking corrective measures to ensure that we perform a physical inspection of capital assets as required.



KOSRAE STATE GOVERNMENT
DEPARTMENT OF ADMINISTRATION AND FINANCE
OFFICE OF THE DIRECTOR
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Division of Planning & Statistics: (691) 370-3163/3797

Division of Finance & Budget: (691) 370-3004/3170

Division of Personnel & Employment Services: (691) 370-3400

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

Finding No.	CFDA No.	Requirement	Questioned Cost	Status
2020-001	-	-	\$0	Complete. Management took corrective measures to ensure that bank reconciliations were timely completed for all bank accounts.



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

Finding #	ALN	Questioned Costs	Corrective Action Plan	Anticipated Completion Date	Responsible Person
2021-001		-	We agree with the finding. Management has already started taking corrective measures to ensure that account reconciliation is performed on a monthly basis. Management has also started training of additional staff who is responsible for monthly reconciliation.	September 30, 2023	Mr. Palokoa George Chief of Finance Email: Psgeorge76.dofa@gmail.com
2021-002	15.875	\$219,936	We are still reviewing the finding and respond at a later time. The responsible KPMO official is off island and not available.	September 30, 2023	Mr. Palokoa George Chief of Finance Email: Psgeorge76.dofa@gmail.com Mr. Bruce Howell Kosrae PMO pmo@kosrae.gov.fm
2021-003	15.875	-	We agree with the finding. Management has already started	December 31, 2022	Mr. Palokoa George Chief of Finance Email: Psgeorge76.dofa@gmail.com

			taking corrective measures to ensure that we perform a physical inspection of capital assets as required.		
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