

Financial Statements and Additional Information

**State of Chuuk
Federated States of Micronesia**

*Year Ended September 30, 2023
with Report of Independent Auditors*



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State of Chuuk
Federated States of Micronesia

Financial Statements, Required Supplementary Information,
and Other Supplementary Information

Year Ended September 30, 2023

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Report of Independent Auditors

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

Report on the Audit of the Financial Statements

Qualified, Unmodified, and Disclaimer of Opinions

We have audited the governmental activities, the aggregate discretely presented component units, grants assistance fund, compact trust fund and the aggregate remaining fund information; and we were engaged to audit the general fund, of the State of Chuuk (the State), as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as listed in the table of contents (collectively referred to as the "financial statements").

Summary of Opinions

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

Disclaimer of Opinion on the General Fund

We do not express an opinion on the accompanying financial statements of the general fund of the State. Because of the significance of the matter described in the Basis for Disclaimer of Opinion on the General Fund section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the general fund.

Qualified Opinion on Governmental Activities

In our opinion, except for the effects of the matters described in the Basis for Qualified and Unmodified Opinions section of our report, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the State as of September 30, 2023, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions on Aggregate Discreetly Presented Component Units, Grants Assistance Fund, Compact Trust Fund and Aggregate Remaining Fund Information

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the aggregate discreetly presented component units, grants assistance fund, compact trust fund and the aggregate remaining fund information of the State as of September 30, 2023, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Disclaimer of Opinion on the General Fund

As discussed in Note 11 to the financial statements, the State has not recorded right-of-use assets and lease liabilities, as required by generally accepted accounting principles, for land leases in the general fund. The amount by which this departure would affect the liabilities, fund balance, and expenditures of the general fund is not reasonably determinable. In addition, we were unable to obtain sufficient audit evidence to support \$8,543,745 recorded as land acquisition payable in the State's general fund as of September 30, 2023. Consequently, we were unable to determine whether any adjustments to these amounts were necessary in the general fund.

Basis for Qualified and Unmodified Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the State and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Matters Giving Rise to Qualified Opinion on Governmental Activities

As discussed in Note 11 to the financial statements, the State has not recorded right-of-use assets and lease liabilities, as required by generally accepted accounting principles, for land leases in the governmental activities. The amount by which this departure would affect the liabilities, net position and expenses of the governmental activities is not reasonably determinable. In addition, we were unable to obtain sufficient audit evidence to support \$8,543,745 recorded as land acquisition payable in the State's governmental activities as of September 30, 2023. Consequently, we were unable to determine whether any adjustments to these amounts were necessary in the governmental activities.

Emphasis of Matter-Restatement of 2022 Financial Statements

As discussed in note 12 to the financial statements, the 2023 financial statements have been restated to correct a misstatement. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the State's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 State's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the State’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis and the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund, be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State’s financial statements. The information as set forth in Section V of the foregoing table of contents is presented for purposes of additional analysis 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 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 GAAS.. In our opinion, except for the effects on the supplementary information of the matter described in the *Matter Giving Rise to Qualified Opinion on the Governmental Activities* paragraph, the information is 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 October 1, 2025, 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.

Ernst + Young LLP

October 1, 2025

State of Chuuk
Federated States of Micronesia

Management's Discussion and Analysis

September 30, 2023

This analysis, prepared by the Department of Administrative Services, Division of Treasury, offers readers of the Chuuk State Government's (Chuuk State) financial statements a narrative overview of the activities of the government for the fiscal year ended September 30, 2023. We encourage readers to consider this information in conjunction with Chuuk State's financial statements, which follow. Fiscal year 2022 comparative information has been included, where appropriate. This analysis is required by the Governmental Accounting Standards Board, (GASB) which provides guidelines on what must be included and excluded from this analysis.

FINANCIAL HIGHLIGHTS

- For the fiscal year ended September 30, 2023, Chuuk State's total net position increased by \$14.333 million (or 23.43 %) from \$61.187 million in the prior year to \$75.520 million. The increase is mainly attributed to the slight increase in general revenues and final reconciliation of deferred revenue from Compact funds.
- During fiscal year 2023, Chuuk State's revenues and contributions of \$50.272 million increased by \$8.39 million or 20.05 % from \$41.876 million in fiscal year 2022. The increase in revenue was primarily attributable to fishing fees compared to fiscal year 2022. Chuuk State's expenses in fiscal year 2023 of \$42.684 million increased by \$0.774 million or 1.85% from \$41.910 million in fiscal year 2022. The increase is due to increase in expenses in health services, boards, commissions and other, judiciary, payments to component units and unallocated payments on long term debt.
- The General Fund has a positive balance of \$12.518 million in fiscal year 2023, from \$1.282 million positive balance in fiscal year 2022. The increase in fund balance was due to the excess of revenues over expenditures by \$11.236.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

State of Chuuk
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Management's Discussion and Analysis, continued

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

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

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

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

Fund Financial Statements

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

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

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

State of Chuuk
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Management's Discussion and Analysis, continued

FINANCIAL ANALYSIS OF CHUUK STATE AS A WHOLE

Net position may serve over time as a useful indicator of a government's financial position. At the end of fiscal year 2023, Chuuk State's assets exceeded liabilities by \$75.520 million. However, all such net position is restricted as to the purposes they can be used for or are invested in capital assets. Chuuk State uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although Chuuk State's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The following summary of Chuuk State's net position as of September 30, 2023, with comparable balances for fiscal year 2022, discloses this relationship.

	Governmental Activities			
	<u>2023</u>	<u>2022</u>	<u>Change</u>	<u>%</u>
Current and other assets	\$48,289,158	\$44,541,506	\$ 3,747,652	8.41
Capital assets	<u>46,185,106</u>	<u>43,906,214</u>	<u>2,278,892</u>	5.19
Total Assets	<u>\$94,474,264</u>	<u>\$88,447,720</u>	<u>\$ 6,026,544</u>	6.81
Current and other liabilities	\$13,233,887	\$21,368,149	\$(8,134,262)	(38.07)
Long-term debt	<u>5,720,301</u>	<u>5,892,781</u>	<u>(172,480)</u>	(2.93)
Total Liabilities	<u>18,954,188</u>	<u>27,260,930</u>	<u>(8,306,742)</u>	(30.47)
Net Position:				
Net investment in capital assets	46,185,106	43,906,214	2,278,892	5.19
Restricted	25,686,319	25,171,164	515,155	2.05
Unrestricted	<u>3,648,651</u>	<u>(7,890,588)</u>	<u>11,539,239</u>	(146.24)
Total net position	<u>75,520,076</u>	<u>61,186,790</u>	<u>14,333,286</u>	23.43
Total Liabilities and Net Position	<u>\$94,474,264</u>	<u>\$88,447,720</u>	<u>\$ 6,026,544</u>	6.81

At the end of fiscal year 2023, Chuuk State's unrestricted net position showed a surplus of \$3.649 million, an increase of \$11.539 million 146.24% from the prior year \$(7.891) million. This surplus is the result of final reconciliation of compact receivable and deferred revenue. Current and long-term commitments that are greater than currently available resources. Chuuk State did not include in past annual budgets the full amounts needed to finance its current liabilities to vendors and others or its long-term liabilities arising from Asian Development Bank (ADB) loans and unused employee leave balances. Chuuk State will include these amounts in future years' budgets as funding permits.

State of Chuuk
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Management's Discussion and Analysis, continued

Net position increased by \$14.333 million 23.43% from the prior year. Key elements of the increase and the differences from the prior year are shown in the following schedule:

	Governmental Activities			
	<u>2023</u>	<u>2022</u>	<u>Change</u>	<u>%</u>
Revenues:				
Program Revenues:				
Charges for services	\$ 2,948,624	\$ 2,147,508	\$ 801,116	37.30
Operating and capital grants and contributions	<u>33,356,342</u>	<u>30,855,203</u>	<u>2,501,139</u>	8.11
	<u>36,304,966</u>	<u>33,002,711</u>	<u>3,302,255</u>	10.01
General Revenues:				
Taxes	14,518,445	10,696,964	3,821,481	35.72
Unrestricted investment earnings (losses)	144,517	(669,238)	813,755	(121.59)
Other	<u>(2,449,159)</u>	<u>1,007,221</u>	<u>(3,456,380)</u>	(343.16)
	<u>12,213,803</u>	<u>11,034,947</u>	<u>1,178,856</u>	10.68
Total revenues	<u>48,518,769</u>	<u>44,037,658</u>	<u>4,481,111</u>	10.18
SDR foreign exchange gain	---	604,885	(604,885)	(100.00)
Write off of receivable	---	(120,399)	120,399	(100.00)
Contributions to permanent fund	<u>1,753,097</u>	<u>(2,645,502)</u>	<u>4,398,599</u>	(166.27)
Total revenues and contributions	<u>50,271,866</u>	<u>41,876,642</u>	<u>8,395,224</u>	20.05
Expenses:				
General government	6,473,257	6,330,302	142,955	2.26
Health services	13,633,373	12,837,968	795,405	6.20
Education	15,741,706	14,202,840	1,538,866	10.83
Economic development	553,401	574,041	(20,640)	(3.60)
Public safety	1,267,717	1,169,320	98,397	8.41
Public works and transportation	1,111,038	1,686,526	(575,488)	(34.12)
Community affairs	169,576	156,997	12,579	8.01
Boards and commissions	2,051,819	1,427,838	623,981	43.70
Judiciary	501,485	595,109	(93,624)	(15.73)
Payments to component units	128,628	275,798	(147,170)	(53.36)
Municipal affairs	427,247	408,858	18,389	4.50
Unallocated interest on long- term debt	247,050	1,243,657	(996,607)	(80.14)
Capital projects	<u>378,216</u>	<u>1,000,770</u>	<u>(622,554)</u>	(62.21)
Total expenses	<u>42,684,513</u>	<u>41,910,024</u>	<u>774,489</u>	1.85
Change in net position	<u>7,587,353</u>	<u>(33,382)</u>	<u>7,620,735</u>	(22828.87)
Net position at the beginning of the year, as previously reported	61,186,790	61,220,172	(33,382)	(0.05)
Prior period adjustment	<u>6,745,933</u>	<u>---</u>	<u>6,745,933</u>	
Net position at the end of the year, as restated	<u>\$75,520,076</u>	<u>\$61,186,790</u>	<u>\$14,333,286</u>	23.43

State of Chuuk
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Management's Discussion and Analysis, continued

The detail indicates the increase in revenues and increases in expenses in fiscal year 2023, resulting to a positive balance in change in net position of \$14.333 million.

Revenues and contributions of \$50.272 million increased by \$8.396 million or 0.20% from prior year's \$41.876 million. The key elements of the increase were due to investment earnings and revenue share as compared from prior year.

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

<u>Sources of Revenue</u>	<u>2023</u>	<u>2022</u>
Compact funding	61.93%	68.90%
Federal and other grants	4.42%	5.64%
Investments	3.77%	-8.01%
Revenue sharing	20.62%	15.90%
Taxes and fees	14.13%	15.14%
Other	<u>-4.87%</u>	<u>2.43%</u>
	<u>100.00%</u>	<u>100.00%</u>

Notwithstanding the increase in revenues on taxes and fees that reduces dependency on Compact funding, the predominance of sector funding as 61.93% of the total revenue highlights the importance of optimizing Compact sector grant utilization.

Total expenses increased by \$0.774 million or 1.85%, from \$41.910 million in the prior fiscal year to \$42.685 million in fiscal year 2023. The most notable increases in fiscal year 2023 were in health sector of \$0.795 million, boards and commissions of \$0.624 million, education sector of \$1.539, public safety of \$0.098 and community affairs of \$0.013 million. However, the major decreases in expenses occurred in payments to component units of \$0.147 million, unallocated interest on long-term debt of \$0.997 million and capital projects of \$0.623 million.

FINANCIAL ANALYSIS OF CHUUK STATE'S FUNDS

As noted earlier, Chuuk State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. As of the end of fiscal year 2023, Chuuk State's governmental funds reported a combined fund balance of \$35.914 million, which represents a \$11.943 million increase 49.82% from the \$23.971 million fund balance recorded at the end of fiscal 2022. Of this total combined fund balance, \$21.681 million is non-spendable because it is legally restricted to other purposes and \$13.501 million is restricted to fund specific fund-related activities. These non-spendable and restricted fund balances are off-set by a combined unassigned fund deficit of \$0.731 million.

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Management's Discussion and Analysis, continued

General Fund

Most of the basic current operational services are recorded, reported, and accounted for in the General Fund, except for Health, Education, Environment, Private Sector Development, Capacity Building, ERA and IMF which are reported and accounted for in the Grant Assistance Fund. As shown in the accompanying financial statements, at the end of fiscal year 2023, the General Fund recorded total revenues of \$14.864 million with total expenditures of \$10.748 million, which resulted in net revenues of \$11.236 million after repayment of ADB loan principal and interest of \$0.503 million and write off of receivable of \$0 million. At the end of the year, General Fund unassigned fund balance increased to \$12.518 million. The State needs to continue to develop strategies to increase revenues and reduce expenditures in order to maintain and increase the fund balance to the next fiscal years.

Grants Assistance Fund

The Grants Assistance Fund consists of funding provided through the amended Compact of Free Association Sector Grants; US Federal Grants, and other Non-US grants. As shown in the accompanying financial statements, at the end of fiscal year 2023, the Grant Assistance Fund had total revenues of \$33.356 million and total expenditures of \$34.077 million and the result is an excess of expenditure over revenues of \$0.721 million which resulted in a fund balance of \$2.775 million.

Compact Trust Fund

The Trust Fund was established to account for Chuuk State's share of the Compact Trust Fund. The Fund is managed by the FSM National Government and is a long-term restricted Fund. At the end of fiscal year 2023, the fund recorded a positive net change in the fair value of its investments of \$1.753 million, which increased the fund balance at the end of the year to \$20.217 million.

Other Governmental Fund

This fund is established to account and report on fees collected for services at the Chuuk State Hospital. At the end of fiscal year 2023, total revenue collected was \$0.298 million and expenditures were \$0.250 million. This resulted in excess of revenues over expenditure of \$0.049 million.

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

State of Chuuk
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Management's Discussion and Analysis, continued

GENERAL FUND BUDGETARY HIGHLIGHTS

In fiscal year 2023, actual revenues of \$14.864 million exceeded the budgeted revenues of \$9.448 million by \$5.416 million. Actual budgetary expenditures of \$10.1951 million were less than budgetary appropriations of \$11.047 million by \$0.096 million, resulting in an excess of revenues over expenditures of \$3.913 million. The net change in unreserved fund surplus on a budgetary basis was a positive of \$11.033 million, net of fund transfer. In accordance with the principles of budgetary accounting, the surplus includes encumbrances for goods or services ordered but had not been received amounted to \$0.203 million, the net change in unreserved fund balance on a budgetary basis was a positive \$11.236 million, increasing prior year's fund balance and leaving \$12.518 million fund balance in fiscal year 2023.

Chuuk State retains a balanced operating budget but debt financing activities of the State that are not budgeted have negative impact on the overall State operations. In fiscal year 2023, payments of \$1.683 million on principal and interest on ADB loans and debt relief reduced the positive amount that increased the unreserved fund balance.

CAPITAL ASSET AND DEBT ADMINISTRATION

Chuuk State's investment in capital assets for the primary government as of September 30, 2023, amounted to \$138.661 million less accumulated depreciation of \$92.475 million, leaving a net book value of \$46.185 million. This represents a net increase of \$2.278 million (or 5.19%) from fiscal year 2022. Chuuk State recorded additions of \$0.555 million in vehicles/equipment without retirement in any of the assets. The table below summarizes Chuuk State's net capital assets:

	Governmental Activities			
	<u>2023</u>	<u>2022</u>	<u>Change</u>	<u>%</u>
Land	\$21,003,461	\$21,003,461	\$ ---	0.00
Airport Facilities	1,925,376	2,012,893	(87,517)	(4.35)
Buildings	16,763,532	17,333,175	(569,643)	(3.29)
Seaport Facilities	---	---	---	0.00
Vehicles / Equipment	3,544,486	3,556,684	(12,198)	(0.34)
Construction in progress	<u>2,948,250</u>	<u>---</u>	<u>2,948,250</u>	100.00
	<u>\$46,185,105</u>	<u>\$43,906,213</u>	<u>\$2,278,892</u>	5.19

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

State of Chuuk
Federated States of Micronesia

Management's Discussion and Analysis, continued

Long-Term Debt

The following schedule shows Chuuk State's summarized long-term debt for fiscal year 2023 with comparative amounts for fiscal year 2022.

	Governmental Activities			
	<u>2023</u>	<u>2022</u>	<u>Change</u>	<u>%</u>
ADB Water Supply Loan (1459)	\$1,933,424	\$2,020,307	\$ (86,883)	(4.30)
ADB Early Retirement Loan (1520)	2,876,289	2,981,938	(105,649)	(3.54)
ADB Private Sector Reform Program Loan (1873)	90,340	122,712	(32,372)	(26.38)
ADB Private Sector Reform Program Loan (1874)	<u>439,692</u>	<u>471,226</u>	<u>(31,534)</u>	(6.69)
	<u>\$5,339,745</u>	<u>\$5,596,183</u>	<u>\$ (256,438)</u>	(4.58)

Long-term debt decreased by \$0.256 million (or 4.58%) in fiscal year 2023 as the result of loan repayments.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Chuuk State local revenue collections are showing growth in fiscal year 2023 with revenue collections trending expected to have marginal growth from prior year; however, this does not include any gains or losses from investment earnings. As a result, State policymakers have cautiously kept general fund budgets capped within actual revenue collections, both in fiscal years 2023 and for the 2024 annual appropriation act. Revenue collections in excess of these fiscal ceilings will be used for debt relief payments of Chuuk's old liabilities.

COVID-19 cases have been reported in the FSM. It caused the closure of Chuuk International Airport for several months for international travelers and negatively impacted the State; however, its impact on the States operations and financial position cannot be reasonably determined.

CONTACTING CHUUK STATE'S FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, taxpayers, customers, and investments and creditors, a general overview of Chuuk State's finances to demonstrate its accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Director, Office of Administrative Services, P.O. Box 849, Weno, Chuuk FM 96942

State of Chuuk
Federated States of Micronesia

Statement of Net Position

September 30, 2023

	<u>Primary Government</u>	<u>Component Units</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 10,087,674	\$ 4,115,574
Time certificates of deposit	-	100,000
Equity interest in internal investment pool	36,301	893,210
Receivables, net of allowance for uncollectibles	6,101,209	1,446,381
Inventories	-	1,230,727
Prepayments	60,046	308,145
Restricted assets:		
Cash and cash equivalents	<u>7,911,480</u>	<u>-</u>
Total current assets	<u>24,196,710</u>	<u>8,094,037</u>
Noncurrent assets:		
Restricted assets:		
Investments	22,628,198	-
Investments	664,250	-
Other assets	800,000	1,471,290
Capital assets:		
Nondepreciable capital assets	23,951,711	512,702
Capital assets, net of accumulated depreciation	<u>22,233,395</u>	<u>20,539,277</u>
Total noncurrent assets	<u>70,277,554</u>	<u>22,523,269</u>
Total assets	<u><u>\$ 94,474,264</u></u>	<u><u>\$ 30,617,306</u></u>
<u>LIABILITIES</u>		
Current liabilities:		
Current portion of long-term debt	\$ 439,911	\$ 323,337
Accounts payable	2,345,908	216,567
Land acquisition payable	8,543,745	-
Compensated absences payable	418,581	70,825
Other liabilities and accruals	1,304,431	412,768
Due to grantor	105,338	-
Unearned revenues	<u>75,973</u>	<u>99,721</u>
Total current liabilities	<u>13,233,887</u>	<u>1,123,218</u>

See accompanying notes.

State of Chuuk
Federated States of Micronesia

Statement of Net Position, continued

	<u>Primary Government</u>	<u>Component Units</u>
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	4,899,834	2,665,030
Compensated absences payable, net of current portion	<u>820,467</u>	<u>12,834</u>
Total noncurrent liabilities	<u>5,720,301</u>	<u>2,677,864</u>
Total liabilities	<u>18,954,188</u>	<u>3,801,082</u>
<u>NET POSITION</u>		
Net investment in capital assets	46,185,106	18,069,996
Restricted for:		
Nonexpendable:		
Future operations	20,216,915	-
Expendable:		
Compact related	2,654,217	-
Debt service	2,411,283	-
Other purposes	403,904	4,228,921
Unrestricted	<u>3,648,651</u>	<u>4,517,307</u>
Total net position	<u>75,520,076</u>	<u>26,816,224</u>
Total liabilities and net position	<u><u>\$ 94,474,264</u></u>	<u><u>\$ 30,617,306</u></u>

State of Chuuk
Federated States of Micronesia
Statement of Activities
Year Ended September 30, 2023

	Program Revenues				Net (Expenses) Revenues and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
<u>Functions/Programs</u>						
Primary government:						
Governmental activities:						
General government	\$ 6,473,257	\$ 1,695,136	\$ 3,639,410	\$ -	\$ (1,138,711)	\$ -
Health services	13,633,373	298,402	12,089,914	-	(1,245,057)	-
Education	15,741,706	-	15,316,760	-	(424,946)	-
Economic development	553,401	-	43,550	-	(509,851)	-
Public safety	1,267,717	143,182	-	-	(1,124,535)	-
Public works and transportation	1,111,038	811,904	-	-	(299,134)	-
Community affairs	169,576	-	-	-	(169,576)	-
Boards, commissions and other	2,051,819	-	-	-	(2,051,819)	-
Judiciary	501,485	-	-	-	(501,485)	-
Payments to component units	128,628	-	-	-	(128,628)	-
Municipal affairs	427,247	-	-	-	(427,247)	-
Unallocated interest on long-term debt	247,050	-	-	-	(247,050)	-
Capital projects	378,216	-	-	2,266,708	1,888,492	-
Total primary government	\$ 42,684,513	\$ 2,948,624	\$ 31,089,634	2,266,708	(6,379,547)	-
Component units:						
Chuuk State Health Care Plan	\$ 2,086,197	\$ 1,760,405	\$ -	\$ -	-	(325,792)
Chuuk Public Utility Corporation	9,725,679	8,661,671	-	158,086	-	(905,922)
Chuuk State Housing Authority	15,121	96,413	-	-	-	81,292
Total component units	\$ 11,826,997	\$ 10,518,489	\$ -	\$ 158,086	-	(1,150,422)
General revenues:						
Taxes:						
FSM revenue sharing:						
Gross revenue taxes					2,069,544	-
Import taxes					2,691,284	-
Income taxes					1,841,045	-
Fishing rights fees					3,526,210	-
Other taxes					235,567	-
State taxes:						
Sales tax					3,187,704	-
Other excise taxes					967,091	-
Unrestricted investment income					144,517	144,217
Other					(2,449,159)	285,107
Total general revenues					12,213,803	429,324
Contributions to permanent fund					1,753,097	-
Total general revenues and contributions					13,966,900	429,324
Change in net position					7,587,353	(721,098)
Net position at the beginning of the year, as previously reported					61,186,790	27,537,322
Prior period adjustment					6,745,933	
Net Position at the beginning of the year, as restated					67,932,723	
Net position at the end of the year					\$ 75,520,076	\$ 26,816,224

See accompanying notes.

State of Chuuk
Federated States of Micronesia

Balance Sheet
Governmental Funds

September 30, 2023

		Special Revenue	Permanent		
	General Fund	Grant Assistance Fund	Compact Trust	Other Gov't Funds	Total
<u>ASSETS</u>					
Cash and cash equivalents	\$ 10,087,674	\$ -	\$ -	\$ -	\$ 10,087,674
Equity interest in internal investment pool	36,301	-	-	-	36,301
Investments	664,250	-	-	-	664,250
Receivables, net	5,395,629	695,871	-	9,709	6,101,209
Prepayments	10,046	50,000	-	-	60,046
Due from other funds	464,769	4,489,378	-	396,939	5,351,086
Other assets	800,000	-	-	-	800,000
Restricted assets:					
Cash and cash equivalents	7,911,480	-	-	-	7,911,480
Investments	2,411,283	-	20,216,915	-	22,628,198
Total assets	<u>\$ 27,781,432</u>	<u>\$ 5,235,249</u>	<u>\$ 20,216,915</u>	<u>\$ 406,648</u>	<u>\$ 53,640,244</u>
<u>LIABILITIES AND FUND BALANCES (DEFICIT)</u>					
Liabilities:					
Accounts payable	854,130	1,489,034	\$ -	2,744	\$ 2,345,908
Accrued liabilities	903,011	401,420	-	-	1,304,431
Land acquisition payable	8,543,745	-	-	-	8,543,745
Unearned revenues	75,973	-	-	-	75,973
Due to grantor	-	105,338	-	-	105,338
Due to other funds	4,886,317	464,769	-	-	5,351,086
Total liabilities	<u>15,263,176</u>	<u>2,460,561</u>	<u>-</u>	<u>2,744</u>	<u>17,726,481</u>
Fund balances (deficit):					
Nonspendable	1,464,250	-	20,216,915	-	21,681,165
Restricted	10,322,763	2,774,688	-	403,904	13,501,355
Unassigned:					
General fund	731,243	-	-	-	731,243
Total fund balances	<u>12,518,256</u>	<u>2,774,688</u>	<u>20,216,915</u>	<u>403,904</u>	<u>35,913,763</u>
Total liabilities and fund balances	<u>\$ 27,781,432</u>	<u>\$ 5,235,249</u>	<u>\$ 20,216,915</u>	<u>\$ 406,648</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	46,185,106
Long-term liabilities, including loans payable, are not due and payable in the current period and, therefore, are not reported in the funds. The liabilities include:	
Long-term obligations	(5,339,745)
Compensated absences	(1,239,048)
	<u>(6,578,793)</u>
Net position of governmental activities	<u>\$ 75,520,076</u>

See accompanying notes.

State of Chuuk
Federated States of Micronesia

Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)
Governmental Funds

Year Ended September 30, 2023

		Special Revenue Grant Assistance	Permanent		
	General Fund	Fund	Compact Trust	Other Gov't Funds	Total
Revenues:					
Compact funding	\$ -	\$ 31,133,505	\$ -	\$ -	\$ 31,133,505
Net change in the fair value of investments	144,517	-	1,753,097	-	1,897,614
Federal contributions and other grants	-	2,222,837	-	-	2,222,837
FSM revenue sharing	10,363,651	-	-	-	10,363,651
State taxes	4,154,795	-	-	-	4,154,795
Fees and charges	2,650,222	-	-	298,402	2,948,624
Other	(2,449,159)	-	-	-	(2,449,159)
Total revenues	14,864,026	33,356,342	1,753,097	298,402	50,271,867
Expenditures:					
Current:					
General government	5,119,849	770,535	-	-	5,890,384
Health services	186,834	13,202,407	-	238,511	13,627,752
Education	-	15,532,533	-	-	15,532,533
Economic development	547,911	3,713	-	-	551,624
Public safety	1,093,706	159,256	-	-	1,252,962
Public works and transportation	954,783	117,648	-	11,045	1,083,476
Community affairs	169,576	-	-	-	169,576
Boards, commissions and other	1,175,345	871,289	-	-	2,046,634
Judiciary	498,463	-	-	-	498,463
Payments to component units	71,077	57,551	-	-	128,628
Municipal affairs	427,247	-	-	-	427,247
Capital projects	-	3,362,466	-	-	3,362,466
Debt service	503,488	-	-	-	503,488
Total expenditures	10,748,279	34,077,398	-	249,556	45,075,233
Excess (deficiency) of revenues over (under) expenditures	4,115,747	(721,056)	1,753,097	48,846	5,196,634
Other financing sources (uses):					
Operating transfer in	7,120,634	-	-	-	7,120,634
Operating transfer out	-	(7,120,634)	-	-	(7,120,634)
Net change in fund balances (deficit)	11,236,381	(7,841,690)	1,753,097	48,846	5,196,634
Fund balances at the beginning of the year, as previously reported	1,281,875	3,870,445	18,463,818	355,058	23,971,196
Prior period adjustment	-	6,745,933	-	-	6,745,933
Fund balances (deficit) at the beginning of the year, as restated	1,281,875	10,616,378	18,463,818	355,058	30,717,129
Fund balances at the end of the year	<u>\$ 12,518,256</u>	<u>\$ 2,774,688</u>	<u>\$ 20,216,915</u>	<u>\$ 403,904</u>	<u>\$ 35,913,763</u>

See accompanying notes.

**State of Chuuk
Federated States of Micronesia**

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund
Balances of Governmental Funds to the Statement of Activities**

Year Ended September 30, 2023

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	\$ 5,196,634
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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 net capital outlays and deletion of \$3,785,244 exceeded depreciation (\$1,506,352) in the current period	2,278,892
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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, this amount consists of:

Repayment of ADB loans	433,406
Loss on foreign exchange on SDR Investments	(176,968)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. For the current year, these activities consist of:

Change in compensated absences payable	(<u>144,611</u>)
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Change in net position of governmental activities	<u>\$7,587,353</u>
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State of Chuuk
Federated States of Micronesia
Combining Statement of Net Position
Component Units
September 30, 2023

<u>ASSETS</u>	Chuuk State Health Care Plan	Chuuk Public Utility Corporation	Chuuk State Housing Authority	Total
Current assets:				
Cash and cash equivalents	\$ 2,291,954	1,622,619	\$ 201,001	\$ 4,115,574
Time certificates of deposit	100,000	-	-	100,000
Investments	893,210	-	-	893,210
Receivables, net	279,404	1,166,744	233	1,446,381
Prepaid expense	-	297,154	10,991	308,145
Inventories	-	1,230,727	-	1,230,727
Total current assets	3,564,568	4,317,244	212,225	8,094,037
Noncurrent assets:				
Deposits	-	499,423	-	499,423
Advance receivable	200,000	-	-	200,000
Prepaid land lease	-	767,617	-	767,617
Intangible assets, net	4,250	-	-	4,250
Capital assets:				
Nondepreciable capital assets	-	512,702	-	512,702
Capital assets, net of accumulated depreciation	63,254	20,482,408	(6,385)	20,539,277
Total assets	\$ 3,832,072	\$ 26,579,394	\$ 205,840	\$ 30,617,306
<u>LIABILITIES AND NET POSITION</u>				
Current liabilities:				
Current portion of long-term debt	\$ -	323,337	\$ -	\$ 323,337
Compensated absence payable	-	70,825	-	70,825
Accounts payable	46,617	61,355	108,595	216,567
Accrued liabilities	19,436	316,664	76,668	412,768
Unearned income	-	99,721	-	99,721
Total current liabilities	66,053	871,902	185,263	1,123,218
Noncurrent liabilities:				
Accrued annual leave, net of current portion	-	12,834	-	12,834
Noncurrent portion of long-term debt	-	2,665,030	-	2,665,030
Total liabilities	66,053	3,549,766	185,263	3,801,082
Net position:				
Net investment in capital assets	63,254	18,006,742	-	18,069,996
Restricted	3,702,765	526,156	-	4,228,921
Unrestricted	-	4,496,730	20,577	4,517,307
Total net position	3,766,019	23,029,628	20,577	26,816,224
Total liabilities and net position	\$ 3,832,072	\$ 26,579,394	\$ 205,840	\$ 30,617,306

See accompanying notes.

**State of Chuuk
Federated States of Micronesia**

**Combining Statement of Revenues, Expenses, and Changes in Net Position
Component Units**

Year Ended September 30, 2023

	Chuuk State Health Care Plan	Chuuk Public Utility Corporation	Chuuk State Housing Authority	Total
Operating revenues:				
Charges for services	\$ 1,745,849	\$ 8,619,544	\$ 96,413	\$ 10,461,806
Other	14,556	42,127	-	56,683
Total operating revenues	1,760,405	8,661,671	96,413	10,518,489
Operating expenses:				
Cost of services	1,681,760	4,567,560	-	6,249,320
Depreciation	20,216	2,188,584	-	2,208,800
Administration and general	384,221	2,969,535	15,121	3,368,877
Total operating expenses	2,086,197	9,725,679	15,121	11,826,997
Operating (loss) income	(325,792)	(1,064,008)	81,292	(1,308,508)
Nonoperating revenues (expenses):				
Other income	20,000	11,407	9,316	40,723
Net changes in fair value of investment	103,494	-	-	103,494
ADB grant expense	-	(1,652,068)	-	(1,652,068)
Operating grants	-	1,937,175	-	1,937,175
Total nonoperating revenues, net	123,494	296,514	9,316	429,324
Net income before capital contributions	(202,298)	(767,494)	90,608	(879,184)
Capital contributions	-	158,086	-	158,086
Change in net position	(202,298)	(609,408)	90,608	(721,098)
Net position at the beginning of the year	3,968,317	\$ 23,639,036	\$ (70,031)	27,537,322
Net position at the end of the year	\$ 3,766,019	\$ 23,029,628	\$ 20,577	\$ 26,816,224

See accompanying notes.

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements

Year ended September 30, 2023

1. Summary of Significant Accounting Policies

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

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

Reporting Entity

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

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

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

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Reporting Entity, continued

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.

Discretely Presented Component Units

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

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

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

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

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Reporting Entity, continued

Discretely Presented Component Units, continued

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

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

Omitted Governmental Funds

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

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

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

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

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

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Reporting Entity, continued

Omitted Governmental Funds, continued

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

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

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

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

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

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

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

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

State of Chuuk
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Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Reporting Entity, continued

Omitted Governmental Funds, continued

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

Omitted Component Units

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

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

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

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 Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

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 and deferred outflows of resources, and liabilities and deferred inflows of resources with the difference reported as net position. Net position is reported in the following categories:

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

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Government-Wide Financial Statements, continued

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

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.

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.

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Measurement Focus and Basis of Accounting, continued

Governmental Fund Financial Statements:

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

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

Component Unit Financial Statements:

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

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Measurement Focus and Basis of Accounting, continued

Fund Accounting:

GASB 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.

Cash and Cash Equivalents and Time Certificates of Deposit

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

Prepaid Items

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

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Investments

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

The State also participates in two external investment pools. The external investment pools are (1) the Trust Fund for the People of the Federated States of Micronesia and (2) the Federated States of Micronesia Early Retirement Program. Investments in external investment pools are recorded at fair value. The State cannot directly access individual investments in external investment pools.

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.

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 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.

Inventories

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

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Interfund Receivables/Payables

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

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

Restricted Assets

Certain assets of the primary government are classified as restricted assets because their use is completely restricted through loan agreements or enabling legislation. Specifically, the State has collateralized Asian Development Bank loan proceeds and earnings for the Chuuk State Early Retirement Scheme with investments recorded in the General Fund of \$2,411,283. Furthermore, investments recorded in the Compact Trust Fund of \$20,216,915 are restricted in that they are not available to be used in current operations.

As of September 30, 2023, cash and cash equivalents of the primary government were restricted for the following uses:

Savings account established in accordance with Section 211(d)(2) of the Compact of Free Association, as amended, for the purpose of funding the State's infrastructure maintenance plan	\$2,717,253
Deposit account established for the purpose of federal grants program activities	1,174,130
Deposit accounts established for the purpose of receiving payments pursuant to the Compact of Free Association, as amended	<u>4,020,097</u>
	<u>\$7,911,480</u>

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.

Deferred Inflows of Resources

In addition to liabilities, the statement 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.

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Other Assets

The State holds approximately 3.3% of the outstanding shares of Pacific Islands Development Bank with a carrying value of \$500,000 and 7% of the outstanding shares of the FSM Development Bank with a carrying value of \$300,000. These equity interests do not meet the definition of an investment as the assets are held primarily for economic development and are presented as other assets in the accompanying financial statements.

Capital Assets

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

Singular pieces of machinery and equipment, other than vehicles, that equal or exceed \$50,000 are capitalized. Buildings and infrastructure projects with a cost that equals or exceeds \$100,000 are capitalized. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized.

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

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

Right-to-use (RTU) assets are recognized at the lease commencement date and represent the State's right to use an underlying asset for the lease term. RTU assets are measured at the initial value of the lease liability plus any payments made to the lessor before commencement and initial direct costs. Options to renew or terminate the lease are recognized as part of RTU assets and lease liabilities when it is reasonably certain the options will be exercised.

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Compensated Absences

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

Unearned Revenues/Due to Grantor

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 which have not been earned or do not meet the "available" criterion for revenue recognition under the modified accrual basis of accounting.

The amounts recorded as due to grantor in the government-wide financial statements and the governmental fund financial statements has primarily resulted as federal funds are received in advance of eligible expenditures.

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.

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Fund Balance, continued

- 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.

Interfund/Intrafund Transactions

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

Recently Adopted Accounting Pronouncements

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. The adoption of GASB Statement No. 91 during the year ended September 30, 2023 did not have an effect on the accompanying financial statements.

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

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. The adoption of GASB Statement No. 94 during the year ended September 30, 2023 did not have an effect on the accompanying financial statements.

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. The adoption of GASB Statement No. 96 during the year ended September 30, 2023 did not have an effect on the accompanying financial statements.

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. This statement provides clarification guidance on several of its recent statements that addresses different accounting and financial reporting issues identified during implementation of the new standards and during the GASB's review of recent pronouncements. GASB Statement No. 99:

- Provides clarification of provisions in GASB Statement No. 87 related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives. This implementation did not have a material effect on the accompanying financial statements.
- Provides clarification of provisions in GASB Statement No. 94 related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset. This implementation did not have a material effect on the accompanying financial statements.
- Provides clarification of provisions in GASB Statement No. 96 related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability. This implementation did not have a material effect on the accompanying financial statements.
- Modifies accounting and reporting guidance in GASB Statement No. 53 related to termination of hedge. This implementation did not have a material effect on the accompanying financial statements.

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Upcoming Accounting Standards

In April 2022, GASB issued Statement No. 99. This Statement contains guidance whose effective dates are in future periods. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 99:

- Modifies guidance in GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, to bring all guarantees under the same financial reporting requirements and disclosures effective for fiscal year ending September 30, 2024.
- Provides guidance on classification and reporting of derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for fiscal year ending September 30, 2024.

In June 2022, GASB issues Statement No. 100, Accounting Changes and Error Corrections An Amendment of GASB Statement No. 62. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent and comparable information for making decisions or assessing accountability. The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability. In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections. GASB Statement No. 100 will be effective for fiscal year ending September 30, 2024.

In June 2022, GASB issued Statement No. 101, Compensated Absences. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave. The model also will result in a more robust estimate of the amount of compensated absences that a government will pay or settle, which will enhance the relevance and reliability of information about the liability for compensated absences. GASB Statement No. 101 will be effective for fiscal year ending September 30, 2025.

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Upcoming Accounting Standards, continued

In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. The primary objective of this Statement is to provide users of the government financial statements with essential or constraints. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 102 will be effective for fiscal year ending September 30, 2025.

In April 2024, GASB issued Statement No. 103, *Financial Reporting Model Improvements*. The primary objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues identified through agenda research conducted by the GASB. This Statement establishes new accounting and financial reporting requirements - or modifies existing requirements - related to the following: a) management's discussion and analysis (MD&A); b) unusual or infrequent items; c) presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position; d) information about major component units in basic financial statements; e) budgetary comparison information; and f) financial trends information in the statistical section. GASB Statement No. 103 will be effective for fiscal year ending September 30, 2026.

In September 2024, GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34. Lease assets recognized in accordance with Statement No. 87, *Leases*, and intangible right-to-use assets recognized in accordance with Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96, *Subscription-Based Information Technology Arrangements*, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class. This Statement also requires additional disclosures for capital assets held for sale. GASB Statement No. 104 will be effective for fiscal years ending September 30, 2026.

The State is currently evaluating the effects the above upcoming accounting pronouncements might have on its financial statements.

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Risk Financing

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

Estimates

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

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, 2023 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:

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

2. Deposits and Investments, continued

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

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

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

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

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

2. Deposits and Investments, continued

Deposits

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

As of September 30, 2023, the carrying amount of the primary government's total deposits was \$17,999,154 and the corresponding bank balances was \$20,789,783, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2023, bank deposits in the amount of \$500,000 were FDIC insured. The State does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

As of September 30, 2023, the carrying amount of the discretely presented component units' deposits was \$4,215,574 and the corresponding bank balances were \$4,770,152, which are maintained in financial institutions subject to FDIC insurance. As of September 30, 2023, bank deposits in the amount of \$951,001 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.

Primary Government

Investments

As of September 30, 2023, the State's investments are as follows:

General Fund:

Investment in an external investment pool	\$2,411,283
Domestic equities – Bank of Federated States of Micronesia	664,250
Cash management account	<u>36,301</u>
	<u>\$3,111,834</u>

The States's General Fund includes an investment in an external investment pool; Federated States of Micronesia-Early Retirement Program Trust Fund. The purpose of the Early Retirement Program Trust Fund is to have monies in an investment account whereby withdrawals can be made to repay amounts owed to the Asian Development Bank.

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

2. Deposits and Investments, continued

Primary Government, continued

Investments, continued

The credit quality rating for aforementioned external investment pool is unrated.

Compact Trust Fund:

Investment in an external investment pool	<u>\$20,216,915</u>
---	---------------------

The States's Compact Trust Fund includes an investment in an external investment pool; Trust Fund for the People of the Federated States of Micronesia. The purpose of the Fund is to contribute to the economic advancement and long-term self-reliance of the FSM by providing an annual source of revenue after fiscal year 2023.

The credit quality rating for aforementioned external investment pool is unrated.

The fair value of the position in external investment pools are the same as the value of the pool shares as provided by the pool sponsors.

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

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the State will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The State's investments are held and administered by trustees. Based on negotiated trust and custody contracts, all of these investments were held in the State's name by the State's custodial financial institutions at September 30, 2023.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. As of September 30, 2023, the State did not have any investments in a single issuer that represented 5% or more of the investments of the State.

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

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

2. Deposits and Investments, continued

Investments, continued

Primary Government, continued

The State owns 25,000 shares of the outstanding common stock of the Bank of the Federated States of Micronesia, which engages in commercial banking services in the FSM. 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.

The State has the following recurring fair value measurements as of September 30, 2023:

General Fund:

	Fair Value Measurements Using			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments in an external investment pool by fair value level	\$2,411,283	<u>\$2,411,283</u>	<u>\$ ---</u>	<u>\$ ---</u>
Investments measured at NAV:				
Investment in the Bank of the FSM (3% ownership)	664,250			
Investments measured at amortized cost:				
Cash management account	<u>36,301</u>			
	<u>\$3,111,834</u>			

Compact Trust Fund:

	Fair Value Measurements Using			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments in an external investment pool by fair value level	\$18,181,762	<u>\$16,450,505</u>	<u>\$ ---</u>	<u>\$1,731,257</u>
Investments in an external investment pool measured at NAV	2,036,392			
Investments in an external investment pool at amortized cost:	<u>(1,239)</u>			
	<u>\$20,216,915</u>			

Discretely Presented Component Units

As of September 30, 2023, investments comprise the following:

Chuuk State Health Care Plan (CSHCP):

Common stock	\$ 522,850
Exchange Traded Funds	<u>370,360</u>
	<u>\$ 893,210</u>

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

2. Deposits and Investments, continued

Investments, continued

Discretely Presented Component Units, continued

As of September 30, 2023, the Plan's investments recorded at fair value were as follows:

	Hierarchy		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level:			
Exchange Traded Funds	\$370,360	\$ ---	\$ ---
Common stock	<u>522,850</u>	<u>---</u>	<u>---</u>
Total investments	<u>\$893,210</u>	<u>\$ ---</u>	<u>\$ ---</u>

3. Receivables

Primary Government

Receivables as of September 30, 2023, for the primary government's individual major funds and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Grants Assistance</u>	<u>Compact Trust</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Receivables:					
General receivable	\$1,734,862	\$ 136,850	\$ ---	\$13,884	\$1,885,596
FSM National Government	<u>5,096,631</u>	<u>1,208,185</u>	<u>---</u>	<u>---</u>	<u>6,304,816</u>
	6,831,493	1,345,035	---	13,884	8,190,412
Less allowance for uncollectible accounts	<u>(1,435,864)</u>	<u>(649,164)</u>	<u>---</u>	<u>(4,175)</u>	<u>(2,089,203)</u>
Net receivables	<u>\$5,395,629</u>	<u>\$695,871</u>	<u>\$ ---</u>	<u>\$ 9,709</u>	<u>\$6,101,209</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.

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

3. Receivables, continued

Discretely Presented Component Units

Receivables as of September 30, 2023, for the discretely presented component units in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	Chuuk State Health Care Plan	Chuuk Public Utility Corporation	Chuuk State Housing Authority	Total
Receivables:				
General	\$ 464,208	\$ 1,251,460	\$ 1,694,239	\$ 3,409,907
Grantor	---	381,756	---	381,756
Other	<u>200,000</u>	<u>33,632</u>	<u>---</u>	<u>233,632</u>
	664,208	1,666,848	1,694,239	4,025,295
Allowance for uncollectible accounts	(<u>184,804</u>)	(<u>500,104</u>)	(<u>1,694,006</u>)	(<u>2,378,914</u>)
	<u>\$ 479,404</u>	<u>\$ 1,166,744</u>	<u>\$ 233</u>	<u>\$ 1,646,381</u>

4. Interfund Receivables and Payables

Receivables and payables between funds reflected as due to/from other funds in the combined balance sheet at September 30, 2023, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Grants Assistance	General	\$4,489,378
General	Grants Assistance	\$464,769
Nonmajor governmental funds	General	<u>\$396,939</u>
		<u>\$5,351,086</u>

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

5. Capital Assets

Capital asset activities for the year ended September 30, 2023, are as follows:

Primary Government

	Balance October <u>1, 2022</u>	<u>Additions</u>	<u>Retirements/Adjustments</u>	Balance September <u>30, 2023</u>
Governmental activities:				
Depreciable assets:				
Airport facilities	\$ 38,107,415	\$ ---	\$ ---	\$ 38,107,415
Buildings	27,489,276	---	---	27,489,276
Seaport facilities	26,517,208	---	---	26,517,208
Vehicles and other equipment	8,596,474	555,351	(1,392,244)	7,759,581
Infrastructure	<u>14,835,315</u>	<u>---</u>	<u>---</u>	<u>14,835,315</u>
	<u>115,545,688</u>	<u>555,351</u>	<u>(1,392,244)</u>	<u>114,708,795</u>
Less accumulated depreciation for:				
Airport facilities	(36,094,522)	(87,517)	---	(36,182,039)
Buildings	(10,156,101)	(569,643)	---	(10,725,744)
Seaport facilities	(26,517,207)	---	---	(26,517,207)
Vehicles and other equipment	(5,039,790)	(849,192)	1,673,887	(4,215,095)
Infrastructure	<u>(14,835,315)</u>	<u>---</u>	<u>---</u>	<u>(14,835,315)</u>
	<u>(92,642,935)</u>	<u>(1,506,352)</u>	<u>1,673,887</u>	<u>(92,475,400)</u>
	<u>22,902,753</u>	<u>(951,001)</u>	<u>281,643</u>	<u>22,233,395</u>
Nondepreciable assets:				
Construction in Progress	---	2,948,250	---	2,948,250
Land	<u>21,003,461</u>	<u>---</u>	<u>---</u>	<u>21,003,461</u>
	<u>21,003,461</u>	<u>2,948,250</u>	<u>---</u>	<u>23,951,711</u>
	<u>\$ 43,906,214</u>	<u>\$1,997,249</u>	<u>\$ 281,643</u>	<u>\$ 46,185,106</u>

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

General government	\$ 710,227
Health services	423,405
Education	342,677
Public safety	13,732
Public works and transportation	<u>16,311</u>
	<u>\$ 1,506,352</u>

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

5. Capital Assets, continued

Discretely Presented Component Units

	Balance October 1, 2022	Additions	Retirements	Balance September 30, 2023
Depreciable assets:				
Buildings	\$ 439,432	\$ ---	\$ ---	\$ 439,432
Utility plant	41,059,586	996,384	(71,138)	41,984,832
Machinery, equipment, others	<u>348,296</u>	<u>37,922</u>	<u>---</u>	<u>386,218</u>
	41,847,314	1,034,306	(71,138)	42,810,482
Less accumulated depreciation	(<u>20,049,819</u>)	(<u>2,221,386</u>)	<u>---</u>	(<u>22,271,205</u>)
	21,797,495	(1,187,080)	(71,138)	20,539,277
Nondepreciable assets:				
Construction work-in-progress	<u>915,470</u>	<u>575,282</u>	(<u>978,050</u>)	<u>512,702</u>
	<u>\$ 22,712,965</u>	<u>\$ (611,798)</u>	<u>\$ (1,049,188)</u>	<u>\$ 21,051,979</u>

6. Long-Term Obligations

Primary Government

The State implemented an Early Retirement Scheme (ERS) in which employees holding certain nonessential positions as identified by the State were retired early with a payout of the equivalent of two-years' wages. This ERS program is funded by a \$5,300,000 loan from the Asian Development Bank (ADB) (Loan Number 1520 (SF)) through the FSM National Government. The loan is 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.

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

6. Long-Term Obligations, continued

Primary Government, continued

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, 2023. As of September 30, 2023, the amount outstanding against this loan was \$2,876,289. Of the required \$5,300,000 identified for future debt service payments, \$2,411,283 is deposited in an investment account held jointly with the FSM National Government. That investment account is restricted for the repayment of this debt and other ADB related debt set forth below.

The State also entered into an agreement with the FSM National Government to borrow a portion of the proceeds of the FSM National Government Program Loans with ADB (Loan Number 1873 (SF) and Loan Number 1874 FSM (SF)) for the purpose of promoting private sector development in Chuuk, with interest at 1% to 1.5% per annum. Principal payments shall be made in 32 equal semi-annual payments with the first payment due on May 15, 2010 and the last payment on November 15, 2025. As of September 30, 2023, the related principal balances were \$90,340 and \$439,692, respectively.

On December 21, 2010, the Chuuk Public Utilities Corporation (CPUC) and the State agreed through memorandum of understanding to offset certain claims and transferred certain debt between CPUC and the State. The transferred debt was the FSM National Government Program Loan with ADB (Loan Number 1459 (SF)), totaling \$3,868,102, for water wells and electric construction purposes, with interest at 1% to 1.5% per annum. Principal payments shall be made semiannually commencing August 1, 2007, with a maturity date of August 1, 2036. As of September 30, 2023, the balance payable on this loan amounted to \$1,933,424.

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 439,911	\$ 42,417	\$ 482,328
2025	439,911	38,854	478,765
2026	422,149	35,291	457,440
2027	403,877	31,930	435,807
2028	403,877	28,773	432,650
2029 - 2033	2,019,386	96,499	2,115,885
2034 - 2037	<u>1,210,634</u>	<u>22,510</u>	<u>1,233,144</u>
	<u>\$ 5,339,745</u>	<u>\$ 296,274</u>	<u>\$ 5,636,019</u>

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

6. Long-Term Obligations, continued

Discretely Presented Component Units

Chuuk Public Utility Corporation:

Loan payable to the State, facilitated by an ADB loan (Loan Number 2099-FSM) to the FSM National Government, original amount of \$1,800,000 due in semi-annual installments of \$85,883 from January 15, 2013 to July 15, 2036. Interest is payable at 1% per annum during the grace period and at 1.5% per annum thereafter. Proceeds were used for infrastructure projects: power distribution upgrades, decommissioning and environmental remediation of the existing power station, and institutional strengthening. \$ 1,301,454

Loan payable to the State, facilitated by an ADB loan (Loan Number 2100-FSM) to the FSM National Government, original amount of \$2,800,000, due in semi-annual installments of varying amounts through January 15, 2020. Interest is payable at LIBOR plus 0.6% per annum (2.3% at September 30, 2022). Proceeds were used for the purchase of two generator sets and related costs. 1,686,913

\$ 2,988,367

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

FSMDB loan contains a provision that in an event of default, the note and any other liabilities may, at the option of lender and without demand or notice of any kind, be declared immediately due and payable. Lenders may exercise from time to time any rights and remedies available to it as a secured party under the laws of the FSM or the State in which the mortgaged property, the borrowers or the lenders reside or may be found in at the time the action accrues. Management believes that CPUC is in compliance with all covenants as of and for the year ended September 30, 2023, and no event of default has been declared by the lenders.

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

6. Long-Term Obligations, continued

Discretely Presented Component Units, continued

Chuuk Public Utility Corporation, continued:

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 323,337	\$ 73,175	\$ 396,512
2025	346,564	63,700	410,264
2026	371,118	53,578	424,696
2027	398,771	42,578	441,349
2028	428,294	30,660	458,954
2029-2033	1,068,829	60,193	1,129,022
2034-2036	<u>51,454</u>	<u>1,213</u>	<u>52,667</u>
	<u>\$2,988,367</u>	<u>\$325,097</u>	<u>\$3,313,464</u>

Change in long term debt for the year ended September 30, 2023 is as follows:

	Outstanding October 1, <u>2022</u>	<u>Addition</u>	<u>Reduction</u>	Outstanding September 30, 2023	Amount due Within <u>One Year</u>
Long-term debt	\$ <u>3,269,159</u>	\$ <u>---</u>	\$ <u>(280,792)</u>	\$ <u>2,988,367</u>	\$ <u>323,337</u>

Noncurrent Liabilities

Change in noncurrent liabilities for the year ended September 30, 2023 is as follows:

	Outstanding October 1, <u>2022</u>	<u>Addition</u>	<u>Reduction</u>	Outstanding September 30, 2023	Amount due Within <u>One Year</u>
Accrued annual leave	\$ <u>42,802</u>	\$48,340	\$ <u>(7,483)</u>	\$ <u>83,659</u>	\$ <u>70,825</u>

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

7. Changes in Long-Term Obligations

Primary Government

Long-term liabilities will be liquidated in the future from governmental funds. During the year ended September 30, 2023, 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, 2022	Additions	Reductions	SDR Adjustments	Balance September 30, 2023	Due Within One Year
Loans payable:						
ADB loans:						
Loan 1459	\$2,020,307	\$ ---	\$(153,188)	\$66,305	\$1,933,424	\$153,049
Loan 1520	2,981,938	---	(195,044)	89,395	2,876,289	208,473
Loan 1873	122,712	---	(36,614)	4,242	90,340	36,034
Loan 1874	<u>471,226</u>	<u>---</u>	<u>(48,560)</u>	<u>17,026</u>	<u>439,692</u>	<u>42,355</u>
	5,596,183	---	(433,406)	176,968	5,339,745	439,911
Other:						
Compensated absences	<u>1,094,437</u>	<u>693,114</u>	<u>(548,503)</u>	<u>---</u>	<u>1,239,048</u>	<u>418,581</u>
	<u>\$6,690,620</u>	<u>\$693,114</u>	<u>\$(981,909)</u>	<u>\$176,968</u>	<u>\$6,578,793</u>	<u>\$858,492</u>

When the ADB extends credit to a particular country, the loan is booked in Special Drawing Rights (SDRs) but the actual loan is delivered in the currency of the borrower, at the current exchange rate between the currency and the SDR. The value of the SDR is subject to periodic review by the International Monetary Fund, which may result in the recognition of a foreign exchange gain or loss. During the year ended September 30, 2023, the State recognized a foreign exchange loss of \$176,968 associated with valuation of the SDR and which results in a reduction in ADB loans payable.

Discretely Presented Component Units

During the year ended September 30, 2023, the following changes occurred in long-term obligations of the discretely presented component units:

	Balance October 1, 2022	Additions	Reductions	Balance September 30, 2023	Due Within One Year
Long-term debt	\$ 3,269,159	\$ ---	\$(280,792)	\$ 2,988,367	\$ 323,337
Accrued annual leave	<u>42,802</u>	<u>48,340</u>	<u>(7,483)</u>	<u>83,659</u>	<u>70,825</u>
	<u>\$ 3,311,961</u>	<u>\$ 48,340</u>	<u>\$(288,275)</u>	<u>\$ 3,072,026</u>	<u>\$ 394,162</u>

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

8. Fund Balance

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

	<u>General Fund</u>	<u>Grants Assistance Fund</u>	<u>Compact Trust Fund</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
Non-spendable:					
FSM Development Bank	\$ 300,000	\$ ---	\$ ---	\$ ---	\$ 300,000
Pacific Islands Development Bank	500,000	---	---	---	500,000
Bank of the FSM	664,250	---	---	---	664,250
Permanent fund principal	---	---	20,216,915	---	20,216,915
Restricted:					
Debt service	2,411,283	---	---	---	2,411,283
Capital projects	2,717,253	2,654,217	---	---	5,371,470
General government	5,194,227	12,519	---	---	5,206,746
Health services	---	---	---	403,904	403,904
Other foreign assistance	---	107,952	---	---	107,952
Unassigned	<u>731,243</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>731,243</u>
	<u>\$12,518,256</u>	<u>\$ 2,774,688</u>	<u>\$ 20,216,915</u>	<u>\$403,904</u>	<u>\$35,913,763</u>

9. Contingencies

Sick Leave

It is the policy of the State to record expenditures for sick leave when leave is actually taken. Sick leave is compensated time for absence during working hours arising from employee illness or injury. The estimated accumulated amount of unused sick leave as of September 30, 2023 is \$4,328,400

Insurance Coverage

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

Encumbrances

The State utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2023, the State has significant encumbrances summarized as follows:

<u>General</u>	<u>Grants Assistance</u>	<u>Compact Trust</u>	<u>Other Governmental Funds</u>	<u>Total</u>
\$ <u>203,137</u>	\$ <u>8,304,946</u>	\$ <u>---</u>	\$ <u>13,106</u>	\$ <u>8,521,189</u>

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

9. Contingencies, continued

Federal Grants

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

Litigation

The State is a party to various legal proceedings in which the State's Attorney General indicates that pending land lease cases and other related claims against the State exist at September 30, 2023 in an amount that is material to the financial statements. Due to an inability to predict the ultimate outcome of these matters, no provision for these liabilities has been made in the accompanying financial statements.

Delinquent Taxes

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

10. Budgetary Compliance

For the year ended September 30, 2023, significant over-expenditures exceeding appropriations within the General Fund were as follows:

Debt service	\$ 503,269
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11. Land Lease and Related Claims

The State utilizes properties and facilities, owned by various third parties, to perform its government operations. As of September 30, 2023, the State has recorded \$8,543,745 land acquisition liability, carried over from prior years, to account for land leases and related claims payable resulting from use of the leased properties and facilities, but has not recorded an expenditure/expense for the current period change in that liability. These lease transactions however, are not supported by written contracts. Accordingly, the State could not determine the effects on its financial statements of adopting GASB Statement No. 87.

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

12. Prior Period Adjustment

After the issuance of the 2022 financial statements, management of the State determined that:

- Accounts receivable were overstated by \$274,992 in the grants assistance fund
- Due to grantor agency was overstated by \$7,020,925 in the grants assistance fund

Accordingly, beginning net position of governmental activities and beginning fund balance of the grants assistance fund have been restated as follows:

Reporting Units Affected by Adjustments to and Restatements of Beginning Balances

	Government Wide Governmental <u>Activities</u>	Grants Assistance <u>Fund</u>
Net position/fund balance, at beginning of year as originally reported	\$ <u>61,186,790</u>	\$ <u>3,870,445</u>
Overstatement of receivables	(274,992)	(274,992)
Overstatement due to grantor agency	<u>7,020,925</u>	<u>7,020,925</u>
	<u>6,745,933</u>	<u>6,745,933</u>
Net position/fund balance, at beginning of year as restated	\$ <u>67,932,723</u>	\$ <u>10,616,378</u>

Required Supplementary Information -
Other Than Management's Discussion and Analysis

State of Chuuk
Federated States of Micronesia

Schedule of Revenues, Expenditures and Changes in Deficit
Budget and Actual - General Fund

Year Ended September 30, 2023

	Budgeted Amounts		Actual - Budgetary	Variance with Final Budget - Positive
	Original	Final	Basis	(Negative)
Revenues:				
Local revenues	\$ 9,447,622	\$ 9,447,622	\$ 14,719,509	\$ 5,271,887
Net change in fair value of investments	-	-	144,517	144,517
Total revenues	<u>9,447,622</u>	<u>9,447,622</u>	<u>14,864,026</u>	<u>5,416,404</u>
Expenditures:				
Current:				
General government	5,075,402	5,386,974	5,261,933	125,041
Health	157,850	199,238	186,834	12,404
Economic development	454,775	457,535	552,721	(95,186)
Public safety	1,227,858	1,190,725	1,102,934	87,791
Public works and transportation	1,111,500	1,126,690	969,624	157,066
Community affairs	4,931	4,931	51,291	(46,360)
Boards and commissions	1,409,126	1,593,310	1,319,486	273,824
Judiciary	569,313	587,032	499,256	87,776
Payments to component units	68,435	68,435	70,917	(2,482)
Municipal affairs	109,521	424,521	430,932	(6,411)
Other	7,754	7,754	2,000	5,754
Debt service	<u>220</u>	<u>220</u>	<u>503,488</u>	<u>(503,268)</u>
Total expenditures	<u>10,196,684</u>	<u>11,047,364</u>	<u>10,951,416</u>	<u>95,948</u>
Excess (deficiency) of revenues over (under) expenditures	(749,062)	(1,599,742)	3,912,610	5,512,352
Other financing sources (uses)				
Operating transfer in	\$ -	\$ -	\$ 7,120,634	\$ 7,120,634
Net change in deficit			\$ 11,033,244	\$ 12,632,986
Other changes in fund deficit:				
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes but in the year the supplies are received for financial reporting purposes	-	-	203,137	203,137
Fund deficit at the beginning of the year	<u>1,281,875</u>	<u>1,281,875</u>	<u>1,281,875</u>	<u>-</u>
Fund deficit at the end of the year	<u>\$ 532,813</u>	<u>\$ (317,867)</u>	<u>\$ 12,518,256</u>	<u>\$ 12,836,123</u>

State of Chuuk
Federated States of Micronesia

Notes to Required Supplementary Information - Budgetary Reporting

September 30, 2023

1. Budgetary Information

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

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

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

2. Budgetary Compliance

For the year ended September 30, 2023, significant over-expenditures exceeding appropriations within the General Fund were as follows:

Debt service	\$ 503,269
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Supplementary and Other Information

State of Chuuk
Federated States of Micronesia

Combining Schedule of Expenditures by Account
Governmental Funds

Year Ended September 30, 2023

	<u>General Fund</u>	<u>Grant Assistance Fund</u>	<u>Compact Trust</u>	<u>Other Gov't Funds</u>	<u>Total</u>
Expenditures:					
Salaries and wages					
Regular	\$ 5,064,793	\$ 11,430,839	\$ -	\$ 12,426	\$ 16,508,058
Overtime	110,488	849,255	-	-	959,743
Fringe benefits	681,877	1,580,144	-	-	2,262,021
Travel and transportation	705,031	457,453	-	58,629	1,221,113
Books and library materials	-	-	-	-	-
Communications	90,830	232,887	-	-	323,717
Dues, memberships, and subscriptions	178,675	2,060	-	-	180,735
Food stuffs	55,720	704,908	-	15,582	776,210
Freight and Port charges	-	16,975	-	1,058	18,033
Office supplies and materials	329,324	2,931,966	-	53	3,261,343
POL	231,068	680,616	-	500	912,184
Printing and reproduction	14,428	41,384	-	-	55,812
Rental services	21,662	230,940	-	8,114	260,716
Repairs and maintenance	57,328	839,083	-	-	896,411
Constructional materials	-	143,146	-	-	143,146
Utilities	445,906	1,189,764	-	6,052	1,641,722
Goods and services	235,539	120,132	-	25,286	380,957
Subsidies and contributions	-	356,845	-	-	356,845
Medical referrals	-	420,355	-	-	420,355
Medical supplies	-	1,764,433	-	-	1,764,433
Contractual services	693,099	6,420,795	-	6,000	7,119,894
Professional services	-	424,344	-	-	424,344
Housing allowance	113,907	52,628	-	-	166,535
Compensation non-payroll	31,500	591,199	-	-	622,699
Scholarships and allowances	-	323,500	-	-	323,500
Training	4,881	1,044,076	-	-	1,048,957
Official allowance	687,066	-	-	-	687,066
Meeting fees and allowance	4,018	4,100	-	-	8,118
Insurance	-	-	-	-	-
Leased housing, buildings and land	11,808	368,759	-	-	380,567
Equipment	13,999	446,389	-	79,496	539,884
Furniture and fixtures	3,212	14,835	-	-	18,047
Vehicles	43,485	353,223	-	36,360	433,068
Vessels	-	40,215	-	-	40,215
Land	-	-	-	-	-
Principal repayment	433,406	-	-	-	433,406
Interest payments	(125,956)	-	-	-	(125,956)
Loss on foreign exchange fluctuation	176,968	-	-	-	176,968
Debt relief payments	19,070	-	-	-	19,070
Write-off of Receivables	409,731	-	-	-	409,731
Miscellaneous	5,416	150	-	-	5,566
	<u>\$ 10,748,279</u>	<u>\$ 34,077,398</u>	<u>\$ -</u>	<u>\$ 249,556</u>	<u>\$ 45,075,233</u>

State of Chuuk
Federated States of Micronesia

Statement of Revenues, Expenditures by Function, and Changes in Deficit
General Fund

Year Ended September 30, 2023
(with comparative totals for the year ended September 30, 2022)

	<u>2023</u>	<u>2022</u>
Revenues:		
FSM revenue sharing:		
Gross revenue taxes	\$ 2,069,544	\$ 2,018,564
Import taxes	2,691,284	2,483,520
Income taxes	1,841,045	1,746,737
Fishing rights fees	3,526,210	-
Other taxes	<u>235,568</u>	<u>330,907</u>
FSM revenue sharing	<u>10,363,651</u>	<u>6,579,728</u>
State taxes:		
Sales tax	3,187,704	3,234,614
Other excise taxes	<u>967,091</u>	<u>882,622</u>
	<u>4,154,795</u>	<u>4,117,236</u>
Fees and charges:		
Licenses and permits	1,731,257	1,369,099
Leases and other rentals	<u>107,061</u>	<u>91,177</u>
	<u>1,838,318</u>	<u>1,460,276</u>
Departmental charges:		
Transportation collections	<u>811,904</u>	<u>460,038</u>
Net change in the fair value of investments	<u>144,517</u>	<u>(669,238)</u>
Other revenues	<u>(2,449,159)</u>	<u>1,007,223</u>
Total revenues	<u>14,864,026</u>	<u>12,955,263</u>
Expenditures:		
Current:		
General government:		
Office of the Governor	1,006,504	1,710,196
State Legislature	3,294,624	3,007,924
Department of Administrative Services	818,721	497,198
Office of Public Auditor	<u>-</u>	<u>-</u>
	<u>5,119,849</u>	<u>5,215,318</u>
Health:		
Department of Health	<u>186,834</u>	<u>142,787</u>

State of Chuuk
Federated States of Micronesia

Statement of Revenues, Expenditures by Function, and Changes in Deficit, continued
General Fund

	2023	2022
Expenditures, continued:		
Economic development:		
Department of Marine Resources	170,171	153,148
Department of Agriculture	170,213	177,125
Historic Preservation Office	33,906	32,577
Division of Business and Trade	14,234	15,238
Division of Labor and Manpower	11,522	19,973
Division of Land Management	73,490	74,502
Registrar of Corporation	59,512	69,801
Division of Commerce and Industries	14,863	10,179
	<u>547,911</u>	<u>552,543</u>
Public safety:		
Office of the Attorney General	214,508	215,299
Department of Public Safety	879,198	968,417
	<u>1,093,706</u>	<u>1,183,716</u>
Public works and transportation:		
Department of Transportation	954,783	960,055
Community affairs:		
Public Affairs	118,285	97,653
Youth Affairs	16,867	19,159
Broadcast	34,424	40,185
	<u>169,576</u>	<u>156,997</u>
Boards, commissions and other:		
Chuuk Recreation Board	-	-
Land Commission	150,844	144,408
Public Service Commission	-	-
Election Commission	145,313	119,968
Farmers Home Administration	15,691	13,994
Micronesian Legal Services Corporation	25,000	25,000
Micro Games in Palau	89,454	69,011
Overseas Development Assistance	43,279	42,268
Political Status Commission	-	-
Micronesia Conservation Trust	-	11,281
Contribution to PIDB	125,000	-
Chuuk Environmental Protection Agency	124,744	144,077
SEPDIC	51,217	54,696
Chuuk Visitors Bureau	100,115	77,000
General election	210,490	1,321
Chuuk 2022 Goodwill Games	29,050	
Chuuk State Complex Utility	-	
Chuuk Small Business Development Center	65,148	57,230
	<u>1,175,345</u>	<u>760,254</u>

State of Chuuk
Federated States of Micronesia

Statement of Revenues, Expenditures by Function, and Changes in Deficit, continued
General Fund

	<u>2023</u>	<u>2022</u>
Expenditures, continued:		
Judiciary:		
State Court	<u>498,463</u>	<u>595,943</u>
Payments to component units:		
Chuuk State Housing Authority	<u>71,077</u>	<u>76,734</u>
Municipal affairs:		
Payments to municipalities	<u>427,247</u>	<u>408,858</u>
Debt service:		
Debt relief payment	19,070	570,195
Principal repayment	433,406	438,895
Loss on foreign exchange fluctuation	176,968	604,885
Interest	<u>(125,956)</u>	<u>68,577</u>
	<u>503,488</u>	<u>1,682,552</u>
Total expenditures	<u>10,748,279</u>	<u>11,735,757</u>
Excess of revenues over expenditures	4,115,747	1,219,506
Other financing sources (uses)		
Operating transfer in	<u>7,120,634</u>	<u>-</u>
Net change in deficit	11,236,381	1,219,506
Deficit at the beginning of the year	<u>1,281,875</u>	<u>62,369</u>
Deficit at the end of the year	<u><u>\$ 12,518,256</u></u>	<u><u>\$ 1,281,875</u></u>

State of Chuuk
Federated States of Micronesia

Other Governmental Funds
Combining Balance Sheet

September 30, 2023

Fund No.	30	33	
	Hospital	Chuuk	
	Revolving Fund	Visitor's	
	Bureau Fund	Total	
<u>ASSETS</u>			
Receivables	\$ 9,709	\$ -	\$ 9,709
Advances	-	-	-
Prepayments	-	-	-
Due from other funds	390,055	6,884	396,939
	<u>\$ 399,764</u>	<u>\$ 6,884</u>	<u>\$ 406,648</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 2,744	\$ -	\$ 2,744
Accrued liabilities	-	-	-
Unearned revenues	-	-	-
Due to other funds	-	-	-
Total liabilities	<u>2,744</u>	<u>-</u>	<u>2,744</u>
Fund balances:			
Restricted	397,020	6,884	403,904
Total fund balances	<u>397,020</u>	<u>6,884</u>	<u>403,904</u>
Total liabilities and fund balances	<u>\$ 399,764</u>	<u>\$ 6,884</u>	<u>\$ 406,648</u>

State of Chuuk
Federated States of Micronesia

Other Governmental Funds

Combining Statement of Revenues, Expenditures by Function and Changes in Fund Balances

Year Ended September 30, 2023

Fund No.	30	33	
	Hospital Revolving Fund	Chuuk Visitor's Bureau Fund	Total
Revenues:			
Fees and charges	\$ 280,473	\$ 17,929	\$ 298,402
Other	-	-	-
Total revenues	<u>280,473</u>	<u>17,929</u>	<u>298,402</u>
Expenditures by function:			
Current:			
General government	-	-	-
Health services	238,511	-	238,511
Education	-	-	-
Economic development	-	-	-
Public works and transportation	-	11,045	11,045
Boards, commissions and other	-	-	-
Payments to component units	-	-	-
Capital projects	-	-	-
Total expenditures	<u>238,511</u>	<u>11,045</u>	<u>249,556</u>
Net change in fund balances	41,962	6,884	48,846
Fund balances at the beginning of the year	<u>355,058</u>	<u>-</u>	<u>355,058</u>
Fund balances at the end of the year	<u>\$ 397,020</u>	<u>\$ 6,884</u>	<u>\$ 403,904</u>

State of Chuuk
Federated States of Micronesia

Other Governmental Funds
Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balances

Year Ended September 30, 2023

Fund No.	30	33	
	Hospital	Chuuk	
	Revolving Fund	Visitor's	
		Bureau Fund	Total
Revenues:			
Fees and charges	\$ 280,473	\$ 17,929	\$ 298,402
Other	-	-	-
Total revenues	<u>280,473</u>	<u>17,929</u>	<u>298,402</u>
Expenditures by account:			
Salaries and wages:			
Regular	12,426	-	12,426
Travel and transportation	58,629	-	58,629
Food stuffs	15,582	-	15,582
Freight and port charges	1,058	-	1,058
Office supplies and materials	53	-	53
POL	500	-	500
Rental services	8,114	-	8,114
Utilities	6,052	-	6,052
Goods and services	14,241	11,045	25,286
Contractual services	6,000	-	6,000
Equipment	79,496	-	79,496
Vehicles	36,360	-	36,360
Miscellaneous	-	-	-
Total expenditures	<u>238,511</u>	<u>11,045</u>	<u>249,556</u>
Excess (deficiency) of revenues			
over (under) expenditures	<u>41,962</u>	<u>6,884</u>	<u>48,846</u>
Other financing sources (uses)			
Operating transfer in (out)	-	-	-
Net change in fund balances	41,962	6,884	48,846
Fund balances at the beginning of the year	<u>355,058</u>	-	<u>355,058</u>
Fund balances at the end of the year	<u>\$ 397,020</u>	<u>\$ 6,884</u>	<u>\$ 403,904</u>

**State of Chuuk
Federated States of Micronesia**

Grants Assistance Fund
Combining Balance Sheet

September 30, 2023

Fund No.	10	11	12	13	14	15	16	18	19
	Education Sector	Health Sector	Environment Sector	Private Sector Development	Capacity Building Sector	Supplemental Education	Enhanced Reporting Accountability	Infrastructure Maintenance	Infrastructure
<u>ASSETS</u>									
Receivables								\$ -	\$ 403,706
Advances	-	-	-	-	-	-	-	-	-
Prepayments	50,000	-	-	-	-	-	-	-	-
Due from other funds	473,368	425,278	5,514	-	20,128	342,431	31,848	2,672,192	-
	<u>\$ 523,368</u>	<u>\$ 425,278</u>	<u>\$ 5,514</u>	<u>\$ -</u>	<u>\$ 20,128</u>	<u>\$ 342,431</u>	<u>\$ 31,848</u>	<u>\$ 2,672,192</u>	<u>\$ 403,706</u>
<u>LIABILITIES AND FUND BALANCES</u>									
Liabilities:									
Accounts payable	\$ 284,703	\$ 345,932	\$ 5,514	\$ -	\$ 10,038	\$ 334,215	\$ 21,856	\$ 17,974	\$ 128,338
Accrued liabilities	238,665	79,346	-	-	10,090	8,216	9,992	-	5,462
Unearned Revenues								-	
Due to grantor	-	-	-	-	-	-	-	-	-
Due to other funds									269,906
Total liabilities	523,368	425,278	5,514	-	20,128	342,431	31,848	17,974	403,706
Fund balances:									
Restricted	-	-	-	-	-	-	-	2,654,218	-
Total fund balances	-	-	-	-	-	-	-	2,654,218	-
Total liabilities and fund balances	<u>\$ 523,368</u>	<u>\$ 425,278</u>	<u>\$ 5,514</u>	<u>\$ -</u>	<u>\$ 20,128</u>	<u>\$ 342,431</u>	<u>\$ 31,848</u>	<u>\$ 2,672,192</u>	<u>\$ 403,706</u>

See accompanying Report of Independent Auditors.

**State of Chuuk
Federated States of Micronesia**

Grants Assistance Fund
Combining Balance Sheet, continued

Fund No.	20 U.S. Federal Grants	21 U.S. Federal Grants - Direct	23 Foreign Assistance	25 CFSM Grants	27 Carry-Over Education Sector	28 Carry-Over Health Sector	32 Carry-Over Capacity Building Sector	Total
<u>ASSETS</u>								
Receivables	\$ 270,006	\$ 22,159	\$ -	\$ -			-	\$ 695,871
Advances	-	-	-	-	-	-	-	-
Prepayments	-	-	-	-	-	-	-	50,000
Due from other funds	-	-	213,687	-	376	304,556	-	4,489,378
	<u>\$ 270,006</u>	<u>\$ 22,159</u>	<u>\$ 213,687</u>	<u>\$ -</u>	<u>\$ 376</u>	<u>\$ 304,556</u>	<u>\$ -</u>	<u>\$ 5,235,249</u>
<u>LIABILITIES AND FUND BALANCES</u>								
Liabilities:								
Accounts payable	\$ 35,134	\$ -	\$ 398	\$ -	\$ 376	\$ 304,556	\$ -	\$ 1,489,034
Accrued liabilities	49,649	-	-	-	-	-	-	401,420
Unearned Revenues	-	-	-	-	-	-	-	-
Due to grantor	-	-	105,338	-	-	-	-	105,338
Due to other funds	172,704	22,159	-	-		-		464,769
Total liabilities	<u>257,487</u>	<u>22,159</u>	<u>105,736</u>	<u>-</u>	<u>376</u>	<u>304,556</u>	<u>-</u>	<u>2,460,561</u>
Fund balances:								
Restricted	<u>12,519</u>	<u>-</u>	<u>107,951</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,774,688</u>
Total fund balances	<u>12,519</u>	<u>-</u>	<u>107,951</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,774,688</u>
Total liabilities and fund balances	<u>\$ 270,006</u>	<u>\$ 22,159</u>	<u>\$ 213,687</u>	<u>\$ -</u>	<u>\$ 376</u>	<u>\$ 304,556</u>	<u>\$ -</u>	<u>\$ 5,235,249</u>

See accompanying Report of Independent Auditors.

State of Chuuk
Federated States of Micronesia

Grants Assistance Fund
Combining Statement of Revenues, Expenditures by Function and Changes in Fund Balances, continued

Fund No.	10	11	12	13	14	15	16	18	19
	Education Sector	Health Sector	Environment Sector	Private Sector Development	Capacity Building Sector	Supplemental Education	Enhanced Reporting Accountability	Infrastructure Maintenance	Infrastructure
Revenues:									
Compact funding	\$ 10,980,324	\$ 10,053,725	\$ 43,550	\$ -	\$ 728,147	\$ 4,336,436	\$ 688,425	\$ -	\$ 2,266,709
Federal contributions and other grants	-	-	-	-	-	-	-	-	-
Total revenues	<u>10,980,324</u>	<u>10,053,725</u>	<u>43,550</u>	<u>-</u>	<u>728,147</u>	<u>4,336,436</u>	<u>688,425</u>	<u>-</u>	<u>2,266,709</u>
Expenditures by function:									
Current:									
General government	-	-	-	-	138,654	-	631,881	-	-
Health services	-	10,053,725	-	-	-	-	-	-	-
Education	10,467,777	-	-	-	-	4,079,100	-	-	-
Economic development	-	-	3,713	-	-	-	-	-	-
Public safety	-	-	-	-	68,904	-	-	-	-
Public works and transportation	-	-	-	-	117,648	-	-	-	-
Boards, commissions and other	489,332	-	39,837	-	342,120	-	-	-	-
Payments to component units	23,215	-	-	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-	-	1,095,757	2,266,709
Total expenditures	<u>10,980,324</u>	<u>10,053,725</u>	<u>43,550</u>	<u>-</u>	<u>667,326</u>	<u>4,079,100</u>	<u>631,881</u>	<u>1,095,757</u>	<u>2,266,709</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>60,821</u>	<u>257,336</u>	<u>56,544</u>	<u>(1,095,757)</u>	<u>-</u>
Operating transfer in (out)					(2,780,392)	(4,237,097)	(103,145)		
Net change in fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,719,571)</u>	<u>(3,979,761)</u>	<u>(46,601)</u>	<u>(1,095,757)</u>	<u>-</u>
Fund balances at the beginning of the year, as previously reported	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,749,975</u>	<u>-</u>
Prior Period Adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,719,571</u>	<u>3,979,761</u>	<u>46,601</u>	<u>-</u>	<u>-</u>
Fund balances at the beginning of the year, as restated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,719,571</u>	<u>3,979,761</u>	<u>46,601</u>	<u>3,749,975</u>	<u>-</u>
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,654,218</u>	<u>\$ -</u>

See Accompanying Independent Auditors' Report.

State of Chuuk
Federated States of Micronesia

Grants Assistance Fund
Combining Statement of Revenues, Expenditures by Function and Changes in Fund Balances

Year Ended September 30, 2023

Fund No.	20 U.S. Federal Grants	21 U.S. Federal Grants-Direct	23 Foreign Assistance	25 CFSM Grants	27 Carry-Over Education	28 Carry-Over Health	32 Carry-Over Capacity Building	Total
Revenues:								
Compact funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,036,189	\$ -	\$ 31,133,505
Federal contributions and other grants	2,098,149	-	124,688	-	-	-	-	2,222,837
Total revenues	2,098,149	-	124,688	-	-	2,036,189	-	33,356,342
Expenditures by function:								
Current:								
General government	-	-	-	-	-	-	-	770,535
Health services	1,112,493	-	-	-	-	2,036,189	-	13,202,407
Education	985,656	-	-	-	-	-	-	15,532,533
Economic development	-	-	-	-	-	-	-	3,713
Public safety	-	-	90,352	-	-	-	-	159,256
Public works and transportation	-	-	-	-	-	-	-	117,648
Boards, commissions and other	-	-	-	-	-	-	-	871,289
Payments to component units	-	-	34,336	-	-	-	-	57,551
Capital projects	-	-	-	-	-	-	-	3,362,466
Total expenditures	2,098,149	-	124,688	-	-	2,036,189	-	34,077,398
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-	-	-	-	(721,056)
Operating transfer in (out)								(7,120,634)
Net change in fund balances	-	-	-	-	-	-	-	(7,841,690)
Fund balances at the beginning of the year, as previously reported	12,519	-	107,951	-	-	-	-	3,870,445
Prior Period Adjustment	-	-	-	-	-	-	-	6,745,933
<u>Fund balances at the beginning of the year, as restated</u>	12,519	-	107,951	-	-	-	-	10,616,378
Fund balances at the end of the year	\$ 12,519	\$ -	\$ 107,951	\$ -	\$ -	\$ -	\$ -	\$ 2,774,688

See accompanying Report of Independent Auditors.

State of Chuuk
Federated States of Micronesia

Grants Assistance Fund
Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balances, continued

Fund No.	10	11	12	13	14	15	16	18	19
	Education Sector	Health Sector	Environment Sector	Private Sector Development	Capacity Building Sector	Supplemental Education	Enhanced Reporting Accountability	Infrastructure Maintenance	Infrastructure
Revenues:									
Compact funding	\$ 10,980,324	\$ 10,053,725	\$ 43,550	\$ -	\$ 728,147	\$ 4,336,436	\$ 688,425	\$ -	\$ 2,266,709
Federal contributions and other grants	-	-	-	-	-	-	-	-	-
Total revenues	<u>10,980,324</u>	<u>10,053,725</u>	<u>43,550</u>	<u>-</u>	<u>728,147</u>	<u>4,336,436</u>	<u>688,425</u>	<u>-</u>	<u>2,266,709</u>
Expenditures by account:									
Salaries and wages:									
Regular	5,923,643	3,406,767	-	-	146,652	298,292	313,544	-	63,949
Overtime	37,140	645,527	-	-	10,064	4,984	19,555	-	24,686
Fringe benefits	766,766	490,257	-	-	25,214	46,314	48,315	-	35,656
Travel and transportation	3,256	99,440	-	-	27,007	82,118	30,717	-	21,924
Books and library materials	-	-	-	-	-	-	-	-	-
Communications	91,069	26,526	-	-	4,158	40,979	30,274	-	3,240
Dues, memberships, and subscriptions	-	1,000	-	-	1,060	-	-	-	-
Food stuffs	156,697	456,092	-	-	-	39,040	-	-	-
Freight and port charges	39	6,796	-	-	-	9,526	-	-	614
Office supplies and materials	699,050	447,024	1,650	-	84,662	1,377,569	55,451	-	96,044
POL	83,740	249,495	1,838	-	6,454	165,566	4,527	-	34,478
Printing and reproduction	-	2,243	-	-	-	158	-	-	400
Rental services	26,590	9,133	-	-	3,883	63,660	40	-	25,767
Repairs and maintenance	491,758	202,173	-	-	7,232	115,812	6,203	-	10,066
Constructional materials	-	-	-	-	-	-	-	-	-
Utilities	147,727	786,976	-	-	5,085	173,946	39,941	-	16,591
Goods and services	6,974	24,986	119	-	105	101	829	-	607
Subsidies and contributions	189,211	-	-	-	-	167,634	-	-	-
Medical referrals	-	420,355	-	-	-	-	-	-	-
Medical supplies	-	1,569,516	-	-	-	-	-	-	-
Contractual services	1,374,476	713,002	-	-	167,891	546,757	32,817	1,095,757	1,562,446
Professional services	-	-	-	-	131,854	-	-	-	292,490
Housing allowance	-	-	-	-	15,120	-	19,800	-	17,708
Scholarships and allowances	323,500	-	-	-	-	-	-	-	-
Meeting fees and allowance	2,300	-	-	-	-	-	-	-	-
Training	522,328	18,995	-	-	4,560	411,692	-	-	-
Leased housing, buildings and land	-	315,434	-	-	26,325	-	14,400	-	12,600
Compensation non-payroll	55,020	-	-	-	-	439,360	4,068	-	-
Equipment	43,651	67,884	39,943	-	-	37,276	11,400	-	12,101
Furniture and fixtures	-	-	-	-	-	14,835	-	-	-
Vehicles	18,868	86,861	-	-	-	27,030	-	-	35,192
Vessels	16,521	7,243	-	-	-	16,451	-	-	-
Miscellaneous	-	-	-	-	-	-	-	-	150
Total expenditures	<u>10,980,324</u>	<u>10,053,725</u>	<u>43,550</u>	<u>-</u>	<u>667,326</u>	<u>4,079,100</u>	<u>631,881</u>	<u>1,095,757</u>	<u>2,266,709</u>
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-	60,821	257,336	56,544	(1,095,757)	-
Other financing sources (uses)									
Operating transfer in (out)	-	-	-	-	(2,780,392)	(4,237,097)	(103,145)	-	-
Net change in fund balances	-	-	-	-	(2,719,571)	(3,979,761)	(46,601)	(1,095,757)	-
Fund balances at the beginning of the year , as previously reported	-	-	-	-	-	-	-	3,749,975	-
Prior Period Adjustment	-	-	-	-	2,719,571	3,979,761	46,601	-	-
Fund balances at the beginning of the year , as restated	-	-	-	-	2,719,571	3,979,761	46,601	3,749,975	-
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,654,218</u>	<u>\$ -</u>

State of Chuuk
Federated States of Micronesia

Grants Assistance Fund
Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balances

Year Ended September 30, 2023

Fund No.	20 U.S. Federal Grants	21 U.S. Federal Grants - Direct	23 Foreign Assistance	25 CFSM Grants	27 Carry-Over Education	28 Carry-Over Health	32 Carry-Over Capacity Building	Total
Revenues:								
Compact funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,036,189	\$ -	\$ 31,133,505
Federal contributions and other grants	2,098,149	-	124,688	-	-	-	-	2,222,837
Total revenues	<u>2,098,149</u>	<u>-</u>	<u>124,688</u>	<u>-</u>	<u>-</u>	<u>2,036,189</u>	<u>-</u>	<u>33,356,342</u>
Expenditures by account:								
Salaries and wages:								
Regular	1,244,658	-	16,955	-	-	16,379	-	11,430,839
Overtime	3,061	-	-	-	-	104,238	-	849,255
Fringe benefits	156,631	-	2,425	-	-	8,566	-	1,580,144
Travel and transportation	86,916	-	13,907	-	-	92,168	-	457,453
Books and library materials	-	-	-	-	-	-	-	-
Communications	11,157	-	-	-	-	25,484	-	232,887
Dues, memberships, and subscriptions	-	-	-	-	-	-	-	2,060
Food stuffs	-	-	-	-	-	53,079	-	704,908
Freight and port charges	-	-	-	-	-	-	-	16,975
Office supplies and materials	75,151	-	-	-	-	95,365	-	2,931,966
POL	78,879	-	-	-	-	55,639	-	680,616
Printing and reproduction	25,607	-	-	-	-	12,976	-	41,384
Rental services	88,051	-	-	-	-	13,816	-	230,940
Repairs and maintenance	5,839	-	-	-	-	-	-	839,083
Constructional materials	-	-	-	-	-	143,146	-	143,146
Utilities	18,449	-	1,049	-	-	-	-	1,189,764
Goods and services	40,213	-	-	-	-	46,199	-	120,133
Subsidies and contributions	-	-	-	-	-	-	-	356,845
Medical referrals	-	-	-	-	-	-	-	420,355
Medical supplies	9,183	-	-	-	-	185,734	-	1,764,433
Contractual services	44,002	-	-	-	-	883,646	-	6,420,794
Professional services	-	-	-	-	-	-	-	424,344
Housing allowance	-	-	-	-	-	-	-	52,628
Scholarships and allowances	-	-	-	-	-	-	-	323,500
Meeting fees and allowance	1,800	-	-	-	-	-	-	4,100
Training	86,501	-	-	-	-	-	-	1,044,076
Leased housing, buildings and land	-	-	-	-	-	-	-	368,759
Compensation non-payroll	92,751	-	-	-	-	-	-	591,199
Equipment	24,300	-	90,352	-	-	119,482	-	446,389
Furniture and fixtures	-	-	-	-	-	-	-	14,835
Vehicles	5,000	-	-	-	-	180,272	-	353,223
Vessels	-	-	-	-	-	-	-	40,215
Miscellaneous	-	-	-	-	-	-	-	150
Total expenditures	<u>2,098,149</u>	<u>-</u>	<u>124,688</u>	<u>-</u>	<u>-</u>	<u>2,036,189</u>	<u>-</u>	<u>34,077,398</u>
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-	-	-	-	(721,056)
Other financing sources (uses)								
Operating transfer in (out)	-	-	-	-	-	-	-	(7,120,634)
Net change in fund balances	-	-	-	-	-	-	-	(7,841,690)
Fund balances at the beginning of the year , as previously reported	12,519	-	107,951	-	-	-	-	3,870,445
Prior Period Adjustment	-	-	-	-	-	-	-	6,745,933
Fund balances at the beginning of the year , as restated	12,519	-	107,951	-	-	-	-	10,616,378
Fund balances at the end of the year	<u>\$ 12,519</u>	<u>\$ -</u>	<u>\$ 107,951</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,774,688</u>

See accompanying Report of Independent Auditors.

State of Chuuk
Federated States of Micronesia

Statement of Revenues, Expenditures By Function and Department and Changes in Deficit
Budget and Actual - General Fund

Year Ended September 30, 2023

	Budgeted Amounts		Actual	Variance with
	Original	Final	Budgetary Basis	Final Budget Positive/(Negative)
Revenues:				
Local revenues	\$ 9,447,622	\$ 9,447,622	\$ 14,719,509	\$ 5,271,887
Net change in fair value of investments	-	-	144,517	144,517
Total revenues	9,447,622	9,447,622	14,864,026	5,416,404
Expenditures:				
Current:				
General government:				
Office of the Governor	740,498	827,498	1,012,456	(184,958)
State Legislature	3,593,513	3,813,315	3,432,385	380,930
Department of Administrative Services	657,470	666,388	812,955	(146,567)
Office of Public Auditor	83,922	79,774	4,137	75,637
	5,075,402	5,386,974	5,261,933	125,041
Education:				
Department of Education	-	-	-	-
Health:				
Department of Health	157,850	199,238	186,834	12,404
Economic development:				
Division of Marine Resources	192,390	199,667	170,707	28,960
Division of Agriculture	193,221	188,704	172,680	16,024
Historic Preservation Office	-	-	33,906	(33,906)
Division of Business and Trade	28	28	14,234	(14,206)
Division of Manpower and Labor	186	186	11,522	(11,336)
Division of Land management	6,133	6,133	73,490	(67,357)
Registrar of Corporation	62,816	62,816	61,319	1,497
Division of Commerce and Industry	-	-	14,863	(14,863)
	454,775	457,535	552,721	(95,186)
Public safety:				
Office of the Attorney General	233,342	229,709	215,732	13,977
Department of Public Safety	994,516	961,016	887,202	73,814
	1,227,858	1,190,725	1,102,934	87,791
Public works and transportation:				
Department of Transportation	1,111,500	1,126,690	969,624	157,066
Community affairs:				
Department of Public Affairs	4,931	4,931	51,291	(46,360)
Boards, commissions and other:				
Chuuk Recreation Board	94,404	94,404	89,974	4,430
Land Commission	178,429	163,255	153,318	9,937
Public Service Commission	171,227	171,227	119,608	51,619
Election Commission	125,520	125,520	149,801	(24,281)
Farmers Home Administration	19,001	19,001	15,691	3,310
Chuuk Disaster Control Center	-	-	-	-
Micronesian Legal Services Corporation	25,000	25,000	25,000	-
Micronesia Conservation Trust	-	-	-	-
Rural Development	910	910	-	910
Chuuk Residents' Repatriation Expenses	-	-	-	-
King Tide Declaration	315	315	315	-
Chuuk EPA	152,140	159,140	125,993	33,147
Overseas Development Assistance	42,326	47,326	44,196	3,130
Chuuk Small Business Development Center	65,850	65,850	65,148	702

State of Chuuk
Federated States of Micronesia

Statement of Revenues, Expenditures By Function and Department and Changes in Deficit
Budget and Actual - General Fund, continued

	Budgeted Amounts		Actual Budgetary Basis	Variance with Final Budget Positive/(Negative)
	Original	Final		
Boards, commissions and other, continued:				
Chuuk Visitors Bureau	115,931	115,931	104,450	11,481
Political Status Commission	598	598	-	598
Economic Policy Development and Implementation	53,223	54,773	-	54,773
General Election	224,489	224,489	220,480	4,009
Chuuk State Disaster and Emergency Operation Center	139,761	122,554	245	122,309
President's 1st Visit	-	37,015	-	37,015
SDP Planning Group	-	10,000	-	10,000
Capital Contribution to PIDB	-	125,000	125,000	-
SEPDIC	-	-	51,217	(51,217)
Chuuk 2022 Goodwill Games	-	31,000	29,050	1,950
	<u>1,409,126</u>	<u>1,593,310</u>	<u>1,319,486</u>	<u>273,824</u>
Judiciary:				
State Court	<u>569,313</u>	<u>587,032</u>	<u>499,256</u>	<u>87,776</u>
Payments to component units:				
Chuuk State Housing Authority	<u>68,435</u>	<u>68,435</u>	<u>70,917</u>	<u>(2,482)</u>
Municipal affairs:				
Payments to municipalities	<u>109,521</u>	<u>424,521</u>	<u>430,932</u>	<u>(6,411)</u>
Other	<u>7,754</u>	<u>7,754</u>	<u>2,000</u>	<u>5,754</u>
Debt service:				
Debt relief payment	220	220	19,070	(18,850)
Principal repayment	-	-	433,406	(433,406)
Loss on foreign exchange fluctuation	-	-	176,968	(176,968)
Interest payments	-	-	(125,956)	125,956
	<u>220</u>	<u>220</u>	<u>503,488</u>	<u>(503,268)</u>
Total expenditures	<u>10,196,684</u>	<u>11,047,364</u>	<u>10,951,416</u>	<u>95,948</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(749,062)</u>	<u>(1,599,742)</u>	<u>3,912,610</u>	<u>5,512,352</u>
Other financing sources (uses)				
Operating transfer in	<u>-</u>	<u>-</u>	<u>7,120,634</u>	<u>7,120,634</u>
Net change in deficit	<u>(749,062)</u>	<u>(1,599,742)</u>	<u>11,033,244</u>	<u>12,632,986</u>
Other changes in fund deficit:				
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes but in the year the supplies are received for financial reporting purposes	-	-	203,137	203,137
Fund deficit at the beginning of the year	<u>1,281,875</u>	<u>1,281,875</u>	<u>1,281,875</u>	<u>-</u>
Fund deficit at the end of the year	<u>\$ 532,813</u>	<u>\$ (317,867)</u>	<u>\$ 12,518,256</u>	<u>\$ 12,836,123</u>