

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

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**REPORT ON THE AUDIT OF  
FINANCIAL STATEMENTS IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

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**YEAR ENDED SEPTEMBER 30, 2013**

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

YEAR ENDED SEPTEMBER 30, 2013

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**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

**FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2013**

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**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

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

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**YEAR ENDED SEPTEMBER 30, 2013**

## **INDEPENDENT AUDITORS' REPORT**

Honorable Johnson Elimo  
Governor, State of Chuuk  
Federated States of Micronesia:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Chuuk (the State) as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as set forth in Section III of the foregoing table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

## ***Summary of Opinions***

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

### ***Basis for Qualified Opinions on Governmental Activities and General Fund***

Documentary evidence available to us was limited because the State has been unable to identify the cause of significant unsubstantiated differences between the general ledger and bank reconciliation balances that form part of the governmental activities and the General Fund cash and cash equivalents balance stated at \$856,208 as of September 30, 2013. We were unable to obtain sufficient appropriate audit evidence to confirm that all bank transactions have been properly recorded.

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

### ***Qualified Opinions***

In our opinion, except for the matters described in the “Basis for Qualified Opinions on Governmental Activities and General Fund” paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the State of Chuuk as of September 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Unmodified Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the aggregate discretely presented component units, the Grants Assistance Fund, the Compact Trust Fund, and the aggregate remaining fund information of the State of Chuuk as of September 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 9 as well as the Schedule of Revenues, Expenditures, and Changes in Fund Deficit – Budget and Actual – General Fund and notes thereto, on pages 45 and 46, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

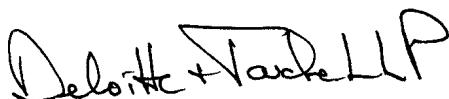
### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The combining and individual fund financial statements as set forth in Section V of the foregoing table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2014, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance.



June 27, 2014



**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis  
September 30, 2013

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, 2013. We encourage readers to consider this information in conjunction with Chuuk State's financial statements, which follow. Fiscal year 2012 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, 2013, Chuuk State's total net position increased by \$1.593 million (or 4.1%) from \$39.103 million in the prior year to \$40.696 million. This increase was primarily attributable to Compact Trust Fund earnings of \$1.447 million.
- During fiscal year 2013, Chuuk State's revenues of \$34.581 million declined by \$0.463 million from \$35.043 million (or 1.32%) in fiscal year 2012. The decline in revenue was attributable to decreased in revenue sharing proceeds and operating grants. Expenses in fiscal year 2013 of \$35.173 million also declined by \$0.480 million (or 1.35%) from \$35.653 million in fiscal year 2012. The decline in expenses reflects a decrease in municipal affairs, health sector and general government.
- The General Fund deficit slightly decreased by \$0.642 million in fiscal year 2013, decreasing from \$5.38 million in the prior year to \$4.74 million. The State's general operating revenues reflected a small deficit even after repayment of ADB loans principal and interest of \$0.1 million.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

#### Government-Wide Financial Statements

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

The statement of net 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.

**STATE OF CHUUK  
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Management's Discussion and Analysis, Continued  
September 30, 2013

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

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

Fund Financial Statements

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

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

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

**FINANCIAL ANALYSIS OF CHUUK STATE AS A WHOLE**

Net position may serve over time as a useful indicator of a government's financial position. At the end of fiscal year 2013, Chuuk State's assets exceeded liabilities by \$40.69 million. However, all of this net position is restricted as to the purposes such can be used for or is 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, 2013, with comparable balances for fiscal year 2012, discloses this relationship.

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis, Continued  
September 30, 2013

	Governmental Activities			
	<u>2013</u>	<u>2012</u>	<u>Change</u>	<u>%</u>
Current and other assets	\$ 21,237,158	\$ 19,659,758	\$ 1,577,400	8.02
Capital assets	<u>43,549,755</u>	<u>44,791,659</u>	<u>(1,241,904)</u>	(2.77)
Total Assets	\$ <u>64,786,913</u>	\$ <u>64,451,417</u>	\$ <u>335,496</u>	0.52
Current and other liabilities	12,236,398	13,071,563	(835,165)	(6.39)
Long-term debt	<u>11,854,451</u>	<u>12,276,394</u>	<u>(421,943)</u>	(3.44)
Total Liabilities	<u>24,090,849</u>	<u>25,347,957</u>	<u>(1,257,108)</u>	(4.96)
Net Position:				
Net investment in capital assets	43,549,755	44,791,659	(1,241,904)	(2.77)
Restricted	21,263,340	19,328,760	1,934,580	10.00
Unrestricted	<u>(24,117,031)</u>	<u>(25,016,959)</u>	<u>899,928</u>	3.60
Total net position	<u>40,696,064</u>	<u>39,103,460</u>	<u>1,592,604</u>	4.07
	\$ <u>64,786,913</u>	\$ <u>64,451,417</u>	\$ <u>335,496</u>	

At the end of fiscal year 2013, Chuuk State's unrestricted assets showed a deficit of \$24.117 million, a decrease of \$0.900 million (or 3.6%) from the prior year \$25.02 million. This deficit is the result of having current and long-term commitments that are greater than currently available resources. Chuuk State did not include in past annual budgets the full amounts needed to finance its current liabilities to vendors and others or its long-term liabilities arising from Asian Development Bank (ADB) loans and unused employee leave balances. Chuuk State will include these amounts in future years' budgets as funding permits.

Net position increased by \$1.593 million (or 4.07%) 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>2013</u>	<u>2012</u>	<u>Change</u>	<u>%</u>
Revenues:				
Program Revenues:				
Charges for services	\$ 1,792,756	\$ 1,696,865	\$ 95,891	5.65
Operating grants	26,365,623	25,986,993	378,630	1.46
General Revenues:				
Taxes	5,692,357	5,882,505	(190,148)	(3.23)
Unrestricted investment earnings	462,875	740,417	(277,542)	(37.48)
Other	<u>267,327</u>	<u>736,683</u>	<u>(469,356)</u>	(63.71)
Total revenues	34,580,983	35,043,463	(462,525)	(1.32)
Special item	737,563	-	737,563	
Contributions to permanent fund	<u>1,447,169</u>	<u>1,405,096</u>	<u>42,073</u>	2.99
Total revenues, special items and contributions	<u>36,765,670</u>	<u>36,448,559</u>	<u>317,111</u>	0.87

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis, Continued  
September 30, 2013

Expenses:				
General government	5,846,360	6,979,439	1,133,079	16.23
Health services	9,327,619	9,444,728	117,109	1.24
Education	11,785,727	11,170,011	(615,716)	(5.51)
Economic development	2,905,698	2,769,549	(136,149)	(4.92)
Public safety	1,057,829	1,007,517	(50,312)	(4.99)
Public works and transportation	2,502,939	2,543,562	40,623	1.60
Community affairs	43,147	35,587	(7,560)	(21.24)
Boards and commissions	563,693	413,917	(149,776)	(36.19)
Judiciary	460,927	451,622	(9,305)	(2.06)
Payments to component units	58,879	54,273	(4,606)	(8.49)
Municipal affairs	429,005	685,790	256,785	37.44
Unallocated Interest	27,551	9,779	(17,772)	(181.74)
Other	<u>163,692</u>	<u>86,843</u>	<u>(76,849)</u>	(88.49)
Total expenses	<u>35,173,066</u>	<u>35,652,617</u>	<u>479,551</u>	1.35
Change in net position	1,592,604	795,942	796,662	100.01
Net position at the beginning of the year	<u>39,103,460</u>	<u>38,307,518</u>	<u>795,942</u>	2.08
Net position at the end of the year	\$ <u>40,696,064</u>	\$ <u>39,103,460</u>	\$ <u>1,592,604</u>	4.07

The detail indicates decreases in both revenue and expenses in fiscal year 2013, and the increase of net position resulting in decrease of liabilities and Chuuk State Debt Service payments of ADB loans.

Revenues and contributions of \$36.77 million increased \$0.32 million (or 0.9%) from the prior year's \$36.45 million. The key elements of the increase was the recognition of a special item of \$0.74 million for loan recovery offset by declines of Compact revenues \$24.24 million declining \$1.65 million (or 6.36%) from \$25.89 million in fiscal year 2012, investment earnings declined \$0.27 million, revenue share proceeds declined \$0.18 million and other revenues declined \$0.53 million. In addition, combined State service tax, user fees and department charges offset the decline. Decrease in both local revenue and revenue sharing proceeds was due to small declines in infrastructure construction activity.

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

SOURCE OF REVENUE	<u>2013</u>	<u>2012</u>
Compact funding	68.4%	71.0%
Investments	5.4%	2.0%
Revenue sharing	8.6%	8.9%
Federal and other grants	2.1%	3.9%
Taxes and fees	14.9%	11.9%
Other	<u>0.6%</u>	<u>2.9%</u>
TOTAL	<u>100.0%</u>	<u>100.0%</u>

Notwithstanding the decreases in both revenue shares passed through to the State and local sales tax collections, which reduce the dependency on Compact funding, the predominance of sector funding as 68.4% of total revenue highlights the importance of maximizing sector grant utilization.

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis, Continued  
September 30, 2013

Total Expenses decreased by \$0.480 million (or 1.35%), from \$35.653 million in the prior fiscal year to \$35.173 million in fiscal year 2013. The most notable decreases in fiscal year 2013 were in municipal payments of \$0.256 million, general government of \$1.133 million and a slight decrease in health sector of \$0.117 million offset by increases in expenses for education of \$0.616 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 2013, Chuuk State's governmental funds reported a combined fund balance of \$11.109 million, which represents a \$2.461 million increase from the \$8.648 million fund balance recorded at the end of fiscal year 2012. Of this total combined fund balance, \$12.893 million is non-spendable because it is legally restricted for other purposes and \$8.684 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 \$10.468 million.

Footnote 10 of the financial statements gives further details of the components of Chuuk State's fund balance.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

In fiscal year 2013, actual revenues of \$8.835 million exceeded budgeted revenues of \$7.794 million by \$1.041 million. Actual expenditures of \$7.850 million were greater than budgetary appropriations of \$8.194 by \$0.317 million, resulting in an overall excess of revenues over expenditures of \$0.985 million. When combined with the transfers out to other funds (\$0.661 million), the net change in unreserved fund deficit on a budgetary basis was a positive \$0.324 million. In accord with the principles of budgetary accounting, the deficit includes encumbrances for which goods or services had not been received (\$0.318 million), the net change in unreserved fund deficit on a budgetary basis was a positive of \$0.642 million.

Chuuk State retains a balanced operating budget but debt financing activities of the State that are not budgeted have negative impacts on overall State operations. In fiscal year 2013, principal and debt service charges on ADB loans of \$0.422 million contributed to the deficiency.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

Chuuk State's investment in capital assets for the primary government as of September 30, 2013, amounted to \$120.6 million, net of accumulated depreciation of \$77.1 million, leaving a net book value of \$43.5 million. This represents a net decrease of \$1.2 million (or 2.77%) from fiscal year 2012. Chuuk State recorded major additions of \$2.1 million in 2013 related to buildings of \$1.6 million and vehicles and other equipments of \$0.4 million, but current year depreciation charges of \$3.3 million resulted minor net increase. The table below summarizes Chuuk State's net capital assets:

	Governmental Activities			
	2013	2012	Change	%
Land	\$ 17,954,462	\$ 17,948,262	\$ 6,200	0.03
Airport Facilities	9,721,893	10,674,578	(952,685)	(8.92)
Buildings	7,010,303	5,652,625	1,357,678	24.02
Seaport Facilities	5,966,372	6,629,303	(662,931)	(10.00)
Vehicles / Equipment	2,896,725	2,897,870	(1,145)	(0.04)
Infrastructure	-	989,021	(989,021)	(100.00)
	<u>\$ 43,549,755</u>	<u>\$ 44,791,659</u>	<u>\$ (1,241,904)</u>	<u>(2.77)</u>

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis, Continued  
September 30, 2013

Capital asset additions during the year ended September 30, 2013, amounted to \$2.03 million offset by current year depreciation expense of \$3.28 million, which resulted in an overall decrease of \$1.25 million. Major additions for the year included \$1.12 million for school buildings and \$0.4 million for renovation of the administrative building.

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

Long -Term Debt

The following schedule shows Chuuk State's summarized long-term debt for fiscal year 2013 and comparable amounts for fiscal year 2012.

	Governmental Activities			
	<u>2013</u>	<u>2012</u>	<u>Change</u>	<u>%</u>
ADB Water Supply Loan (1459)	\$ 3,960,138	\$ 4,052,173	\$ (92,035)	(2.27)
ADB Early Retirement Loan (1520)	5,398,252	5,512,255	(114,003)	(2.07)
ADB Private Sector Reform Program Loan (1873)	807,242	920,304	(113,062)	(12.29)
ADB Private Sector Reform Program Loan (1874)	556,247	600,747	(44,500)	(7.41)
ADB Basic Social Services Program Loan (1816)	<u>1,132,572</u>	<u>1,190,915</u>	<u>(58,343)</u>	(4.90)
	<u>\$ 11,854,451</u>	<u>\$ 12,276,394</u>	<u>\$ (421,943)</u>	(3.44)

Long-term debt decreased by \$0.421 million (or 3.44%) in fiscal year 2013 as the result of loan repayments resulting in a gradual debt reductions.

Additional information on Chuuk State's long-term debt obligations can be found in Notes 7 and 8 to the accompanying financial statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The Chuuk economy in fiscal year 2014 continues to perform at levels seen in fiscal 2013 with revenue collections trending expected to remain the same as in the prior year. As a result, State policymakers have cautiously kept general fund budgets capped within actual revenue collections, both in fiscal years 2014 and for the 2015 annual appropriation act. Revenue collections in excess of these fiscal ceilings will be used for debt relief payments of Chuuk's old liabilities.

**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, 2013

	Primary Government	Component Units
<b><u>ASSETS</u></b>		
Current assets:		
Cash and cash equivalents	\$ 856,208	\$ 939,387
Time certificates of deposit	-	200,000
Equity interest in internal investment pool	109,388	295,473
Receivables, net of allowance for uncollectibles	2,516,840	1,486,242
Inventories	-	1,130,315
Due from primary government	-	1,216
Prepayments	402,525	-
Restricted assets:		
Cash and cash equivalents	1,044,754	-
Total current assets	4,929,715	4,052,633
Noncurrent assets:		
Restricted assets:		
Investments	14,757,443	-
Investments	1,550,000	-
Deposits	-	536,262
Capital assets:		
Nondepreciable capital assets	17,954,462	1,969,664
Capital assets, net of accumulated depreciation	25,595,293	5,415,431
Total noncurrent assets	59,857,198	7,921,357
Total assets	\$ 64,786,913	\$ 11,973,990
<b><u>LIABILITIES</u></b>		
Current liabilities:		
Current portion of long-term debt	\$ 357,159	\$ 92,353
Note payable	-	739,243
Accounts payable	1,465,554	642,374
Land acquisition payable	8,618,545	-
Compensated absences payable	725,008	-
Other liabilities and accruals	43,149	1,660,595
Due to component units	1,216	-
Unearned revenues	-	17,693
Total current liabilities	11,210,631	3,152,258
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	11,497,292	3,632,007
Compensated absences payable, net of current portion	1,382,926	-
Total noncurrent liabilities	12,880,218	3,632,007
Total liabilities	24,090,849	6,784,265
<b><u>NET POSITION</u></b>		
Net investment in capital assets	43,549,755	2,853,694
Restricted for:		
Nonexpendable:		
Future operations	10,940,700	-
Expendable:		
Compact related	6,366,875	-
Debt service	3,816,743	-
Other purposes	139,022	784,331
Unrestricted	(24,117,031)	1,551,700
Total net position	40,696,064	5,189,725
Total liabilities and net position	\$ 64,786,913	\$ 11,973,990

See accompanying notes to financial statements.

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Statement of Activities  
Year Ended September 30, 2013

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
<b>Primary government:</b>						
Governmental activities:						
General government	\$ 5,846,360	\$ 887,658	\$ 3,489,859	\$ -	\$ (1,468,843)	\$ -
Health services	9,327,619	118,377	7,670,000	-	(1,539,242)	-
Education	11,785,727	-	14,051,779	-	2,266,052	-
Economic development	2,905,698	75,930	1,153,985	-	(1,675,783)	-
Public safety	1,057,829	65,639	-	-	(992,190)	-
Public works and transportation	2,502,939	631,882	-	-	(1,871,057)	-
Community affairs	43,147	-	-	-	(43,147)	-
Boards and commissions	563,693	-	-	-	(563,693)	-
Judiciary	460,927	13,270	-	-	(447,657)	-
Payments to component units	58,879	-	-	-	(58,879)	-
Municipal affairs	429,005	-	-	-	(429,005)	-
Unallocated interest on long-term debt	27,551	-	-	-	(27,551)	-
Other	163,692	-	-	-	(163,692)	-
<b>Total primary government</b>	<b>\$ 35,173,066</b>	<b>\$ 1,792,756</b>	<b>\$ 26,365,623</b>	<b>\$ -</b>	<b>(7,014,687)</b>	<b>-</b>
<b>Component units:</b>						
Chuuk State Health Care Plan	\$ 1,382,369	\$ 1,427,688	\$ -	\$ 6,862	-	52,181
Chuuk Public Utility Corporation	6,417,995	6,445,773	-	3,091,089	-	3,118,867
Chuuk State Housing Authority	106,500	93,608	-	-	-	(12,892)
<b>Total component units</b>	<b>\$ 7,906,864</b>	<b>\$ 7,967,069</b>	<b>\$ -</b>	<b>\$ 3,097,951</b>	<b>-</b>	<b>3,158,156</b>
<b>General revenues:</b>						
Taxes:						
FSM revenue sharing:						
Gross revenue taxes					891,839	-
Import taxes					1,050,331	-
Income taxes					985,976	-
Other taxes					120,775	-
State taxes:						
Sales tax					2,416,289	-
Other excise taxes					227,147	-
Unrestricted investment income					462,875	-
Other					267,327	636,252
<b>Special item:</b>						
Chuuk loan recovery					737,563	-
<b>Total general revenues and special item</b>					<b>7,160,122</b>	<b>636,252</b>
Contributions to permanent fund					1,447,169	-
<b>Change in net position</b>					<b>1,592,604</b>	<b>3,794,408</b>
Net position at the beginning of the year					39,103,460	1,395,317
Net position at the end of the year					<b>\$ 40,696,064</b>	<b>\$ 5,189,725</b>

See accompanying notes to financial statements.



**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Balance Sheet  
Governmental Funds  
September 30, 2013

		<u>Special Revenue</u>	<u>Permanent</u>	Other	
	General	Grants Assistance	Compact Trust	Governmental Funds	Total
<b><u>ASSETS</u></b>					
Cash and cash equivalents	\$ 856,208	\$ -	\$ -	\$ -	\$ 856,208
Equity interest in internal investment pool	109,388	-	-	-	109,388
Investments	1,550,000	-	-	-	1,550,000
Receivables, net	839,962	1,621,673	-	55,205	2,516,840
Prepayments	329,542	72,983	-	-	402,525
Due from other funds	1,403,603	5,305,369	-	-	6,708,972
Restricted assets:					
Cash and cash equivalents	1,044,754	-	-	-	1,044,754
Investments	3,816,743	-	10,940,700	-	14,757,443
Total assets	<u>\$ 9,950,200</u>	<u>\$ 7,000,025</u>	<u>\$ 10,940,700</u>	<u>\$ 55,205</u>	<u>\$ 27,946,130</u>
<b><u>LIABILITIES AND FUND BALANCES (DEFICIT)</u></b>					
Liabilities:					
Accounts payable	\$ 731,202	\$ 734,257	\$ -	\$ 95	\$ 1,465,554
Accrued liabilities	38,151	4,998	-	-	43,149
Land acquisition payable	8,618,545	-	-	-	8,618,545
Due to component units	1,216	-	-	-	1,216
Due to other funds	5,305,369	1,348,493	-	55,110	6,708,972
Total liabilities	<u>14,694,483</u>	<u>2,087,748</u>	<u>-</u>	<u>55,205</u>	<u>16,837,436</u>
Fund balances (deficit):					
Nonspendable	1,879,542	72,983	10,940,700	-	12,893,225
Restricted	3,816,743	4,867,666	-	-	8,684,409
Unassigned:					
General fund	(10,440,568)	-	-	-	(10,440,568)
Special revenue funds	-	(28,372)	-	-	(28,372)
Total fund balances (deficit)	<u>(4,744,283)</u>	<u>4,912,277</u>	<u>10,940,700</u>	<u>-</u>	<u>11,108,694</u>
Total liabilities and fund balances	<u>\$ 9,950,200</u>	<u>\$ 7,000,025</u>	<u>\$ 10,940,700</u>	<u>\$ 55,205</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are reported in the funds 43,549,755

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	(11,854,451)
Compensated absences	(2,107,934)
	<u>(13,962,385)</u>

Net position of governmental activities \$ 40,696,064

See accompanying notes to financial statements.

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)  
Governmental Funds  
Year Ended September 30, 2013

	General	Special Revenue Grants Assistance	Permanent Compact Trust	Other Governmental Funds	Total
<b>Revenues:</b>					
Compact funding	\$ -	\$ 25,609,918	\$ -	\$ -	\$ 25,609,918
Net change in the fair value of investments	462,875	-	1,447,169	-	1,910,044
Federal contributions and other grants	-	755,705	-	-	755,705
FSM revenue sharing	3,048,921	-	-	-	3,048,921
State taxes	2,643,436	-	-	-	2,643,436
Fees and charges	1,674,379	-	-	118,377	1,792,756
Other	267,327	-	-	-	267,327
<b>Total revenues</b>	<b>8,096,938</b>	<b>26,365,623</b>	<b>1,447,169</b>	<b>118,377</b>	<b>36,028,107</b>
<b>Expenditures:</b>					
<b>Current:</b>					
General government	3,200,099	1,864,946	-	-	5,065,045
Health services	138,041	8,989,837	-	174,005	9,301,883
Education	-	12,796,788	-	-	12,796,788
Economic development	39,192	2,892,824	-	-	2,932,016
Public safety	1,139,158	54,332	-	-	1,193,490
Public works and transportation	849,865	-	-	-	849,865
Community affairs	43,147	-	-	-	43,147
Boards and commissions	562,331	-	-	-	562,331
Judiciary	459,277	-	-	-	459,277
Payments to component units	58,879	-	-	-	58,879
Municipal affairs	429,005	-	-	-	429,005
Other	191,243	-	-	-	191,243
Debt service	421,943	-	-	-	421,943
<b>Total expenditures</b>	<b>7,532,180</b>	<b>26,598,727</b>	<b>-</b>	<b>174,005</b>	<b>34,304,912</b>
Excess (deficiency) of revenues over (under) expenditures	564,758	(233,104)	1,447,169	(55,628)	1,723,195
<b>Other financing sources (uses):</b>					
Operating transfers in	-	630,743	-	30,069	660,812
Operating transfers out	(660,812)	-	-	-	(660,812)
<b>Total other financing sources (uses), net</b>	<b>(660,812)</b>	<b>630,743</b>	<b>-</b>	<b>30,069</b>	<b>-</b>
<b>Special item:</b>					
Chuuk loan recovery	737,563	-	-	-	737,563
Net change in fund balances (deficit)	641,509	397,639	1,447,169	(25,559)	2,460,758
Fund balances (deficit) at the beginning of the year	(5,385,792)	4,514,638	9,493,531	25,559	8,647,936
Fund balances (deficit) at the end of the year	<u>\$ (4,744,283)</u>	<u>\$ 4,912,277</u>	<u>\$ 10,940,700</u>	<u>\$ -</u>	<u>\$ 11,108,694</u>

See accompanying notes to financial statements.

**STATE OF CHUUK**  
**FEDERATED STATES OF MICRONESIA**

Reconciliation of the Statement of Revenues, Expenditures,  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
Year Ended September 30, 2013

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

Net change in fund balances - total governmental funds	\$ 2,460,758
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period	(1,241,904)
The incurrence of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. For the current year, these amounts consist of:	
Repayment of ADB Loans	421,943
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	<u>(48,193)</u>
Change in net position of governmental activities	\$ <u>1,592,604</u>

See accompanying notes to financial statements.

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

**DISCRETELY PRESENTED COMPONENT UNITS  
Combining Statement of Net Position  
September 30, 2013**

<u>ASSETS</u>	Chuuk State Health Care Plan	Chuuk Public Utility Corporation	Chuuk State Housing Authority	Total
Current assets:				
Cash and cash equivalents	\$ 536,181	\$ 307,874	\$ 95,332	\$ 939,387
Time certificates of deposit	200,000	-	-	200,000
Investments	295,473	-	-	295,473
Receivables, net	426,217	773,877	286,148	1,486,242
Inventories	-	1,130,315	-	1,130,315
Due from primary government	-	-	1,216	1,216
	<hr/>	<hr/>	<hr/>	<hr/>
Total current assets	1,457,871	2,212,066	382,696	4,052,633
Noncurrent assets:				
Deposits	-	536,262	-	536,262
Capital assets:				
Nondepreciable capital assets	-	1,969,664	-	1,969,664
Capital assets, net of accumulated depreciation	18,372	5,329,261	67,798	5,415,431
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	\$ 1,476,243	\$ 10,047,253	\$ 450,494	\$ 11,973,990
	<hr/>	<hr/>	<hr/>	<hr/>
<u>LIABILITIES AND NET POSITION</u>				
Current liabilities:				
Notes payable	\$ -	\$ 739,243	\$ -	\$ 739,243
Current portion of long-term debt	-	92,353	-	92,353
Accounts payable	133,737	503,469	5,168	642,374
Accrued liabilities	44,423	1,616,172	-	1,660,595
Unearned income	-	17,693	-	17,693
	<hr/>	<hr/>	<hr/>	<hr/>
Total current liabilities	178,160	2,968,930	5,168	3,152,258
Noncurrent liabilities:				
Noncurrent portion of long-term debt	-	3,632,007	-	3,632,007
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	178,160	6,600,937	5,168	6,784,265
Net position:				
Net investment in capital assets	18,372	2,835,322	-	2,853,694
Restricted	-	784,331	-	784,331
Unrestricted	1,279,711	(173,337)	445,326	1,551,700
	<hr/>	<hr/>	<hr/>	<hr/>
Total net position	1,298,083	3,446,316	445,326	5,189,725
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities and net position	\$ 1,476,243	\$ 10,047,253	\$ 450,494	\$ 11,973,990
	<hr/>	<hr/>	<hr/>	<hr/>

See accompanying notes to financial statements.

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

**DISCRETELY PRESENTED COMPONENT UNITS  
Combining Statement of Revenues, Expenses, and Changes in Net Position  
Year Ended September 30, 2013**

	Chuuk State Health Care Plan	Chuuk Public Utility Corporation	Chuuk State Housing Authority	Total
Operating revenues:				
Charges for services, net	\$ 1,417,263	\$ 6,170,687	\$ 93,608	\$ 7,681,558
Other	10,425	275,086	-	285,511
Total operating revenues	<u>1,427,688</u>	<u>6,445,773</u>	<u>93,608</u>	<u>7,967,069</u>
Operating expenses:				
Cost of services	1,108,337	4,588,361	-	5,696,698
Depreciation	10,860	224,368	16,949	252,177
Administration and general	263,172	1,605,266	89,551	1,957,989
Total operating expenses	<u>1,382,369</u>	<u>6,417,995</u>	<u>106,500</u>	<u>7,906,864</u>
Operating income (loss)	<u>45,319</u>	<u>27,778</u>	<u>(12,892)</u>	<u>60,205</u>
Nonoperating revenues (expenses):				
Other income (loss)	33,147	792,766	-	825,913
Interest expense	-	(189,661)	-	(189,661)
Total nonoperating revenues (expenses), net	<u>33,147</u>	<u>603,105</u>	<u>-</u>	<u>636,252</u>
Net income (loss) before capital contributions	78,466	630,883	(12,892)	696,457
Capital contributions	<u>6,862</u>	<u>3,091,089</u>	<u>-</u>	<u>3,097,951</u>
Change in net position	85,328	3,721,972	(12,892)	3,794,408
Net position at the beginning of the year	<u>1,212,755</u>	<u>(275,656)</u>	<u>458,218</u>	<u>1,395,317</u>
Net position at the end of the year	<u>\$ 1,298,083</u>	<u>\$ 3,446,316</u>	<u>\$ 445,326</u>	<u>\$ 5,189,725</u>

See accompanying notes to financial statements.

**STATE OF CHUUK**  
**FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2013

(1) Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

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

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

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

**STATE OF CHUUK**  
**FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

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

i. Discretely Presented Component Units

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

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

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

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

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

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

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

ii. Omitted Governmental Funds

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

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

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

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

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

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

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



**STATE OF CHUUK**  
**FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

ii. Omitted Governmental Funds, Continued

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.

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.

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

iii. Omitted Component Units

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

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

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

B. Government-Wide Financial Statements

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

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

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

**B. Government-Wide Financial Statements, Continued**

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

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

The government-wide Statement of Net Position reports \$21,263,340 of restricted net position, of which none is restricted by enabling legislation.

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

**C. Fund Financial Statements**

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

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

C. Fund Financial Statements, Continued

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

D. Measurement Focus and Basis of Accounting

Government-Wide Financial Statements:

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

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

Governmental Fund Financial Statements:

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

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

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

Component Unit Financial Statements:

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

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

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

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

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

E. Cash and Cash Equivalents and Time Certificates of Deposit

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

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

F. Investments

Investments and related investment earnings of the primary government and the discretely presented component units are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

G. Receivables

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

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

H. Inventories

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

I. Prepaid Items

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

J. Interfund Receivables/Payables

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

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

**STATE OF CHUUK**  
**FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

K. Restricted Assets

Certain assets of the primary government are classified as restricted assets because their use is completely restricted through loan agreements or enabling legislation. Specifically, the State has collateralized Asian Development Bank loan proceeds and earnings for the Chuuk State Early Retirement Scheme with investments recorded in the General Fund of \$3,816,743. Furthermore, investments recorded in the Compact Trust Fund of \$10,940,700 are restricted in that they are not available to be used in current operations.

As of September 30, 2013, 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	\$ 978,826
Deposit accounts established for the purpose of receiving payments pursuant to the Compact of Free Association, as amended	<u>65,928</u>
	\$ <u>1,044,754</u>

L. 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.

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

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

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

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

M. Deferred Outflows of Resources

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

N. 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.

O. Deferred Inflows of Resources

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

P. Fund Balance

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

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



**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

P. Fund Balance, Continued

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.

Q. 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.

R. 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.

S. Estimates

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

T. New Accounting Standards

During fiscal year 2013, the State implemented the following pronouncements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into.

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards, Continued

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, the Statement of Net Position includes two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are reported in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are reported in a separate section following liabilities.

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

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the State.

**STATE OF CHUUK  
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Notes to Financial Statements  
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards, Continued

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of the State.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the State.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the State.

U. 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, 2012 from which summarized information was derived.

(2) Deposits and Investments

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

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2013

(2) Deposits and Investments, Continued

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

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

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

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

A. Deposits

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

As of September 30, 2013, the carrying amount of the primary government's total cash and cash equivalents were \$1,900,962 and the corresponding bank balances were \$4,201,291, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2013, bank deposits in the amount of \$3,800,542 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.

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2013

(2) Deposits and Investments, Continued

A. Deposits, Continued

As of September 30, 2013, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$1,139,387 and the corresponding bank balances were \$1,236,654, which were maintained in financial institutions subject to FDIC insurance. As of September 30, 2013, bank deposits in the amount of \$824,400 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.

B. Investments

Primary Government

As of September 30, 2013, the State's investments at fair value are as follows:

Fixed income securities:	
Domestic fixed income	\$ 1,002,782
Other investments:	
Domestic equities	<u>13,754,661</u>
	\$ <u>14,757,443</u>

As of September 30, 2013, the General Fund has an Automated Cash Management account with the Bank of Hawaii in the amount of \$109,388.

As of September 30, 2013, the General Fund holds 11% of the shares of the Bank of the Federated States of Micronesia in the amount of \$1,000,000, 3.3% of the shares of the Pacific Islands Development Bank in the amount of \$250,000, and 1% of the shares of the FSM Development Bank in the amount of \$300,000. As the fair market value of these investments is not readily available, such have been recorded at cost.

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, 2013.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the State. As of September 30, 2013, the State did not hold an investment in any one issuer that represented more than 5% of the State's total investments.

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2013

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

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.

As of September 30, 2013, the State's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

Investment Type	Rating Type	Maturity (in years)				Total
		Less than 1	1-5	6-10	Over	
U.S. Treasury Notes and Bonds	AAA	\$ 58,040	\$ 4,670	\$ 14,096	\$ 14,224	\$ 91,030
U.S. Government Agencies Obligations:						
Federal Home Loan Mortgage Corporation	AAA	58,326	9,831	1,885	49,907	119,949
Government National Mortgage Association	AAA	-	-	-	1,890	1,890
Federal National Mortgage Association	AAA	-	147,024	-	73,317	220,341
Tennessee Valley Authority	AAA	-	-	14,379	12,136	26,515
Housing Urban Development	No rating	10,290	-	-	-	10,290
AID-Tunisia	AAA/No rating	-	43,228	-	-	43,228
Municipal Obligations	A2	-	-	9,094	-	9,094
Municipal Obligations	Aa1	31,908	-	26,252	22,168	80,328
Municipal Obligations	Aa2	-	-	-	10,602	10,602
Municipal Obligations	No rating	27,479	-	-	-	27,479
Municipal Obligations	WR	-	7,628	-	-	7,628
Corporate Bonds	A1	36,014	39,109	-	18,303	93,425
Corporate Bonds	A2	-	40,806	13,544	-	54,350
Corporate Bonds	A3	4,444	30,427	19,258	-	54,130
Corporate Bonds	Aa1	-	23,240	6,670	-	29,910
Corporate Bonds	Aa2	-	-	7,473	5,399	12,872
Corporate Bonds	Aa3	-	33,341	6,811	-	40,152
Corporate Bonds	Aaa	-	-	7,875	6,585	14,460
Corporate Bonds	Baa1	-	14,352	-	-	14,352
Corporate Bonds	Baa2	7,581	-	-	7,817	15,398
Corporate Bonds	No rating	-	-	10,580	14,779	25,359
		<u>\$ 234,082</u>	<u>\$ 393,656</u>	<u>\$ 137,917</u>	<u>\$ 237,127</u>	<u>\$ 1,002,782</u>

Discretely Presented Component Units

As of September 30, 2013, investments at fair value comprise the following:

Chuuk State Health Care Plan (CSHCP):

Fixed income securities:	
Domestic fixed income	\$ 54,565
Other investments:	
Domestic equities	231,779
Money market funds	<u>9,129</u>
	<u>\$ 295,473</u>

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2013

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

Chuuk State Health Care Plan (CSHCP), Continued:

As of September 30, 2013, CSHCP's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

Investment Type	Investment Maturities (In Years)					Credit Ratings
	Fair Value	Current	1-5	6-10	Over 10	
U.S. Treasury Notes and Bonds	\$ 18,040	\$ -	\$ 18,040	\$ -	\$ -	AAA
U.S. Government Agencies Obligations:						
Federal National Mortgage Association	36,525	17,152	19,373	-	-	AAA
	<u>\$ 54,565</u>	<u>\$ 17,152</u>	<u>\$ 37,413</u>	<u>\$ -</u>	<u>\$ -</u>	

(3) Receivables

Primary Government

Receivables as of September 30, 2013, for the primary government's individual major funds and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	General	Grants Assistance	Compact Trust	Other Governmental Funds	Total
Receivables:					
General receivables	\$ 598,171	\$ 73,292	\$ -	\$ 55,205	\$ 726,668
FSM National Government	<u>557,365</u>	<u>1,548,381</u>	-	-	<u>2,105,746</u>
	1,155,536	1,621,673	-	55,205	2,832,414
Less: allowance for uncollectible accounts	<u>(315,574)</u>	-	-	-	<u>(315,574)</u>
Net receivables	<u>\$ 839,962</u>	<u>\$ 1,621,673</u>	<u>\$ -</u>	<u>\$ 55,205</u>	<u>\$ 2,516,840</u>

Discretely Presented Component Units

Receivables as of September 30, 2013, 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	\$ 469,089	\$ 583,612	\$ 2,183,204	\$ 3,235,905
Other	-	455,634	-	455,634
	469,089	1,039,246	2,183,204	3,691,539
Allowance for uncollectable accounts	<u>(42,872)</u>	<u>(265,369)</u>	<u>(1,897,056)</u>	<u>(2,205,297)</u>
	<u>\$ 426,217</u>	<u>\$ 773,877</u>	<u>\$ 286,148</u>	<u>\$ 1,486,242</u>

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2013

(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, 2013, are summarized as follows:

Receivable Fund	Payable Fund	Amount
Grants Assistance	General	\$ 5,305,369
General	Grants Assistance	1,348,493
Nonmajor governmental funds	General	<u>55,110</u>
		<u>\$ 6,708,972</u>

(5) Capital Assets

Capital asset activities for the year ended September 30, 2013, are as follows:

Primary Government

	Balance October 1, 2012	Additions	Retirements	Balance September 30, 2013
Governmental activities:				
Depreciable assets:				
Airport facilities	\$ 38,107,415	\$ -	\$ -	\$ 38,107,415
Buildings	11,970,009	1,595,716	-	13,565,725
Seaport facilities	26,517,208	-	-	26,517,208
Vehicles and other equipment	9,216,545	438,133	-	9,654,678
Infrastructure	<u>14,835,315</u>	<u>-</u>	<u>-</u>	<u>14,835,315</u>
	<u>100,646,492</u>	<u>2,033,849</u>	<u>-</u>	<u>102,680,341</u>
Less accumulated depreciation for:				
Airport facilities	(27,432,837)	(952,685)	-	(28,385,522)
Buildings	(6,317,384)	(238,038)	-	(6,555,422)
Seaport facilities	(19,887,905)	(662,931)	-	(20,550,836)
Vehicles and other equipment	(6,318,675)	(439,278)	-	(6,757,953)
Infrastructure	<u>(13,846,294)</u>	<u>(989,021)</u>	<u>-</u>	<u>(14,835,315)</u>
	<u>(73,803,095)</u>	<u>(3,281,953)</u>	<u>-</u>	<u>(77,085,048)</u>
	<u>26,843,397</u>	<u>(1,248,104)</u>	<u>-</u>	<u>25,595,293</u>
Nondepreciable assets:				
Land	<u>17,948,262</u>	<u>6,200</u>	<u>-</u>	<u>17,954,462</u>
	<u>\$ 44,791,659</u>	<u>\$ (1,241,904)</u>	<u>\$ -</u>	<u>\$ 43,549,755</u>



**STATE OF CHUUK  
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Notes to Financial Statements  
September 30, 2013

(5) Capital Assets, Continued

Primary Government, Continued

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

General government	\$ 1,236,974
Health services	216,416
Education	168,188
Public safety	8,424
Public works and transportation	<u>1,651,951</u>
	<u>\$ 3,281,953</u>

Discretely Presented Component Units

	Balance October <u>1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	Balance September <u>30, 2013</u>
Depreciable assets:				
Buildings	\$ 415,089	\$ -	\$ -	\$ 415,089
Utility plant	25,352,449	3,133,386	(32,150)	28,453,685
Machinery, equipment, others	<u>254,234</u>	<u>1,524</u>	<u>-</u>	<u>255,758</u>
	26,021,772	3,134,910	(32,150)	29,124,532
Less accumulated depreciation	<u>(23,475,500)</u>	<u>(252,155)</u>	<u>18,554</u>	<u>(23,709,101)</u>
	2,546,272	2,882,755	(13,596)	5,415,431
Nondepreciable assets:				
Construction work-in-progress	<u>1,856,143</u>	<u>1,605,010</u>	<u>(1,491,489)</u>	<u>1,969,664</u>
	<u>\$ 4,402,415</u>	<u>\$ 4,487,765</u>	<u>\$ (1,505,085)</u>	<u>\$ 7,385,095</u>

(6) Short-Term Debt

Discretely Presented Component Units

Chuuk Public Utility Corporation (CPUC):

Note payable to a commercial bank on an original line of credit of \$150,000 bearing interest of 7.25% per annum. The loan is collateralized by a security interest in fixed assets, accounts receivable and inventories and is past due, and is therefore presented as a current liability.

\$ 81,650

**STATE OF CHUUK  
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Notes to Financial Statements  
September 30, 2013

(6) Short-Term Debt, Continued

Discretely Presented Component Units, Continued

Chuuk Public Utility Corporation (CPUC), Continued:

Note payable to the Federated States of Micronesia Development Bank on an amount drawn with an available total of \$737,743 bearing interest of 9% per annum with principal installments of \$4,000 per month. Proceeds from the note were used for cash power meters and other equipment purchases and is collateralized by major machinery, equipment and assignment of income. The loan requires that CPUC maintain hazard insurance which has not been obtained. As a result, this note is presented as a current liability (see note 12).

657,593

\$ 739,243

Changes in short-term debt of the discretely presented component units are as follows:

	Balance October 1, <u>2012</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2013</u>
Notes payable:				
CPUC	\$ <u>732,898</u>	\$ <u>6,345</u>	\$ <u>      -</u>	\$ <u>739,243</u>

(7) 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 ADB (Loan Number 1520 (SF)) through the FSM National Government, non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. The activities of the ERS Program are recorded in the General Fund.

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

Funds for the repayment of the ADB loan are expected to be derived from the annual appropriations for salaries and wages earmarked for the positions abolished under the Early Retirement Scheme. The Financing Agreement requires the State to continue to appropriate salaries for the abolished positions and deposit the appropriated funds into the ERS Trust Account. These funds had not been deposited to the Trust Account as of September 30, 2013. As of September 30, 2013, the amount outstanding against this loan was \$5,398,252. Of the required \$5,300,000 identified for future debt service payments, \$3,816,743 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.

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2013

(7) Long-Term Obligations, Continued

Primary Government, Continued

The State also entered into an agreement with the FSM National Government to borrow a portion of the proceeds of the FSM National Government Program Loan with ADB (Loan Number 1816 FSM (SF)) for the purpose of funding the Basic Social Services Project, with interest at 1% to 1.5% per annum. Principal payments shall be made semiannually commencing February 1, 2009, with a maturity date of August 1, 2032. As of September 30, 2013, the balance payable on this loan amounted to \$807,242.

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, 2011 and the last payment on November 15, 2025. As of September 30, 2013, the balances payable on these loans amounted to \$556,247 and \$1,132,572, 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 \$3,554,435, 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, 2013, the balance payable on this loan amounted to \$3,960,138.

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

<u>Year Ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 357,159	\$ 131,097	\$ 488,256
2015	357,159	126,814	483,973
2016	357,159	122,530	479,689
2017	449,250	118,247	567,497
2018	572,126	110,585	682,711
2019-2023	2,860,630	468,720	3,329,350
2024-2028	2,749,336	309,232	3,058,568
2029-2033	2,595,601	162,098	2,757,699
2034-2037	<u>1,556,031</u>	<u>36,012</u>	<u>1,592,043</u>
	<u>\$ 11,854,451</u>	<u>\$ 1,585,335</u>	<u>\$ 13,439,786</u>

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2013

(7) 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. \$ 1,563,459

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, 2019. Interest is payable at LIBOR plus 0.6% per annum (2.1% at September 30, 2013). Proceeds were used for the purchase of two generator sets and related costs. 2,160,901

\$ 3,724,360

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>
2014	\$ 92,353	\$ 134,075	\$ 226,428
2015	97,729	142,727	240,456
2016	106,458	139,200	245,658
2017	116,034	135,150	251,184
2018	126,699	130,897	257,596
2019-2023	828,854	577,659	1,406,513
2024-2028	1,289,545	404,987	1,694,532
2029-2033	712,313	205,912	918,225
2034-2036	<u>354,375</u>	<u>48,943</u>	<u>403,318</u>
	<u>\$ 3,724,360</u>	<u>\$ 1,919,550</u>	<u>\$ 5,643,910</u>

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2013

(8) 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, 2013, the following changes occurred in liabilities reported as part of the primary government's long-term liabilities in the statement of net position:

	Balance October 1, <u>2012</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2013</u>	Due Within <u>One Year</u>
Loans payable:					
ADB loans:					
Loan 1459	\$ 4,052,173	\$ -	\$ (92,035)	\$ 3,960,138	\$ 91,947
Loan 1520	5,512,255	-	(114,003)	5,398,252	122,876
Loan 1816	920,304	-	(113,062)	807,242	42,438
Loan 1873	600,747	-	(44,500)	556,247	44,518
Loan 1874	<u>1,190,915</u>	<u>-</u>	<u>(58,343)</u>	<u>1,132,572</u>	<u>55,380</u>
	12,276,394	-	(421,943)	11,854,451	357,159
Other:					
Compensated absences	<u>2,059,741</u>	<u>591,561</u>	<u>(543,368)</u>	<u>2,107,934</u>	<u>725,008</u>
	<u>\$14,336,135</u>	<u>\$ 591,561</u>	<u>\$ (965,311)</u>	<u>\$13,962,385</u>	<u>\$1,082,167</u>

Discretely Presented Component Units

During the year ended September 30, 2013, the following changes occurred in long-term obligations of the discretely presented component units:

	Balance October 1, <u>2012</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2013</u>	Due Within <u>One Year</u>
Loans payable:					
CPUC	<u>\$2,235,136</u>	<u>\$1,589,491</u>	<u>\$(100,267)</u>	<u>\$3,724,360</u>	<u>\$92,353</u>

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2013

(9) Interfund/Intrafund Transactions

Operating transfers in/out for each major governmental fund and nonmajor governmental funds in the aggregate, for the year ended September 30, 2013, are as follows:

	<u>Transfers Out</u>	<u>Transfers In</u>
General Fund:		
Grants Assistance Fund	\$ 630,743	\$ -
Nonmajor governmental funds	<u>30,069</u>	<u>-</u>
	<u>660,812</u>	<u>-</u>
Grants Assistance Fund:		
General Fund	<u>-</u>	<u>630,743</u>
Nonmajor Governmental funds:		
General Fund	<u>-</u>	<u>30,069</u>
	<u>\$ 660,812</u>	<u>\$ 660,812</u>

Transfers are used to 1) move revenues from the fund that enabling legislation or budget requires to collect them to the fund that enabling legislation or budget requires to expend them, 2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and 3) record reductions in interfund loans for amounts that are not expected to be repaid. Specifically, the State transferred \$464,321 from the General Fund to the Grants Assistance Fund to primarily finance infrastructure maintenance programs and \$166,422 from the General Fund to the Grants Assistance Fund to fund a deficit.

(10) 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:					
General government	\$ 329,542	\$ 72,983	\$ -	\$ -	\$ 402,525
FSM Development Bank	300,000	-	-	-	300,000
Pacific Islands Development Bank	250,000	-	-	-	250,000
Bank of the FSM	1,000,000	-	-	-	1,000,000
Permanent fund principal	-	-	10,940,700	-	10,940,700
Debt service	3,816,743	-	-	-	3,816,743
Capital projects	-	1,013,455	-	-	1,013,455
General government	-	1,578,168	-	-	1,578,168
Education	-	1,715,167	-	-	1,715,167
Health services	-	423,717	-	-	423,717
Other foreign assistance	-	137,159	-	-	137,159
Unassigned	<u>(10,440,568)</u>	<u>(28,372)</u>	<u>-</u>	<u>-</u>	<u>(10,468,940)</u>
	<u>\$ (4,744,283)</u>	<u>\$ 4,912,277</u>	<u>\$ 10,940,700</u>	<u>\$ -</u>	<u>\$ 11,108,694</u>

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2013

(11) 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, 2013 is \$5,154,377.

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, 2013, 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>412,185</u>	\$ <u>2,751,749</u>	\$ <u>-</u>	\$ <u>58,888</u>	\$ <u>3,222,822</u>

Federal Grants

The State participates in a number of federally assisted grant programs. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. The ultimate disposition of questioned costs can be determined only by final action of the respective grantor agencies. No provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

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, 2013 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.

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2013

(11) Contingencies, Continued

General Fund Financial Position

The State's General Fund has sustained recurring operating deficits and has an unassigned fund deficit of \$10,440,568 at September 30, 2013. In addition, at September 30, 2013, the primary government's current liabilities exceed current assets by \$6,280,916.

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

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

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

(12) Budgetary Compliance

For the year ended September 30, 2013, significant over-expenditures exceeding appropriations within the General Fund were as follows:

Department of Planning and Statistics	\$ 79,816
Department of Administrative Services	\$ 56,304
Department of Public Safety	\$130,069
CFSM Grants Fund	\$166,422

(13) Subsequent Events

On April 30, 2014, the Chuuk Public Utility Corporation entered into an agreement for the full and final settlement of unpaid tax liabilities and related penalties and interest for total consideration of \$478,225, which resulted in a recognized gain of \$353,266 during the year ended September 30, 2013.

On May 23, 2014, the Chuuk Public Utility Corporation entered into an agreement for the full and final settlement of a note payable for total consideration of \$750,182, which resulted in a recognized gain of \$225,099 during the year ended September 30, 2013.



**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

**REQUIRED SUPPLEMENTARY INFORMATION**

**YEAR ENDED SEPTEMBER 30, 2013**

**STATE OF CHUUK  
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Schedule of Revenues, Expenditures and Changes in Deficit  
Budget and Actual - General Fund  
Year Ended September 30, 2013

	Budgeted Amounts		Actual - Budgetary Basis (see Note 1)	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Local revenues	\$ 6,694,574	\$ 7,399,574	\$ 7,634,063	\$ 234,489
Net change in fair value of investments	394,362	394,362	462,875	68,513
<b>Total revenues</b>	<b>7,088,936</b>	<b>7,793,936</b>	<b>8,096,938</b>	<b>303,002</b>
<b>Expenditures:</b>				
<b>Current:</b>				
General government	3,022,886	3,277,699	3,406,132	(128,433)
Education	143,560	143,560	138,041	5,519
Economic development	44,315	44,315	40,162	4,153
Public safety	1,034,933	1,034,933	1,164,970	(130,037)
Public works and transportation	970,597	887,156	883,045	4,111
Community affairs	42,810	42,810	43,147	(337)
Boards and commissions	593,860	622,660	576,211	46,449
Judiciary	463,166	480,507	465,160	15,347
Payments to component units	59,388	59,388	59,115	273
Municipal affairs	232,590	442,590	455,422	(12,832)
Other	22,600	300,087	196,979	103,108
Debt service	394,362	394,362	421,943	(27,581)
<b>Total expenditures</b>	<b>7,025,067</b>	<b>7,730,067</b>	<b>7,850,327</b>	<b>(120,260)</b>
<b>Excess of revenues over expenditures</b>	<b>63,869</b>	<b>63,869</b>	<b>246,611</b>	<b>182,742</b>
<b>Other financing uses:</b>				
Operating transfers out	(464,321)	(464,321)	(660,812)	(196,491)
<b>Special item:</b>				
Chuuk loan recovery	-	-	737,563	737,563
<b>Net change in deficit</b>	<b>(400,452)</b>	<b>(400,452)</b>	<b>323,362</b>	<b>723,814</b>
<b>Other changes in fund deficit:</b>				
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	400,452	400,452	318,147	(82,305)
Fund deficit at the beginning of the year	(5,385,792)	(5,385,792)	(5,385,792)	-
Fund deficit at the end of the year	<b>\$ (5,385,792)</b>	<b>\$ (5,385,792)</b>	<b>\$ (4,744,283)</b>	<b>\$ 641,509</b>

See accompanying notes to required supplementary information - budgetary reporting.

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Notes to Required Supplementary Information – Budgetary Reporting  
September 30, 2013

(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.

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

**OTHER SUPPLEMENTARY INFORMATION**

**YEAR ENDED SEPTEMBER 30, 2013**

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Combining Schedule of Expenditures by Account  
Governmental Funds  
Year Ended September 30, 2013

	General	Special	Permanent	Other	Total
		Revenue		Governmental	
		Grants	Compact	Funds	
		Assistance	Trust		
Expenditures:					
Salaries and wages					
Regular	\$ 3,978,018	\$ 11,089,102	\$ -	\$ 13,790	\$ 15,080,910
Overtime	61,629	578,041	-	-	639,670
Fringe benefits	497,428	1,434,197	-	1,451	1,933,076
Travel and transportation	406,861	521,605	-	50,666	979,132
Books and library materials	-	455,283	-	-	455,283
Communications	45,724	112,165	-	1,174	159,063
Dues, membership, and subscriptions	10,695	4,664	-	-	15,359
Food stuffs	29,756	435,702	-	4,737	470,195
Port charges	3,685	9,684	-	2,030	15,399
Office supplies and materials	83,617	1,218,190	-	2,888	1,304,695
POL	142,719	530,153	-	549	673,421
Printing and reproduction	39,141	32,761	-	-	71,902
Rental services	3,588	58,975	-	4,047	66,610
Repairs and maintenance	14,887	297,697	-	-	312,584
Constructional materials	1,547	26,338	-	-	27,885
Utilities	205,472	1,141,871	-	649	1,347,992
Goods and services	178,048	10,967	-	18,862	207,877
Subsidies and contributions	15,200	193,917	-	-	209,117
Medical referrals	-	164,307	-	25,458	189,765
Medical supplies	-	1,371,379	-	11,259	1,382,638
Contractual services	276,162	3,990,400	-	-	4,266,562
Professional services	-	244,677	-	-	244,677
Housing allowance	82,172	-	-	-	82,172
Compensation non-payroll	-	600	-	-	600
Scholarships and allowances	-	541,825	-	-	541,825
Training	-	271,865	-	-	271,865
Official allowance	637,431	-	-	150	637,581
Meeting fees and allowance	3,035	5,045	-	-	8,080
Insurance	-	2,092	-	-	2,092
Leased housing, buildings and land	49,518	458,716	-	26,839	535,073
Equipment	52,897	610,612	-	5,590	669,099
Furniture and fixtures	1,685	736,030	-	-	737,715
Vehicles	120,197	49,859	-	-	170,056
Court Judgement	100,473	-	-	-	100,473
Principal repayment	421,943	-	-	-	421,943
Bank charges	71	8	-	-	79
Bad debt	68,581	-	-	-	68,581
Miscellaneous	-	-	-	3,866	3,866
	<u>\$ 7,532,180</u>	<u>\$ 26,598,727</u>	<u>\$ -</u>	<u>\$ 174,005</u>	<u>\$ 34,304,912</u>

See Accompanying Independent Auditors' Report.

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

**GENERAL FUND**

September 30, 2013

The general fund is used to account for resources traditionally associated with government which are not required legally or by sound financial management to be accounted for in another fund. The United States Compact of Free Association current account and inflation adjustment funds associated with the current account are accounted for in this fund in addition to local taxes and other revenues.

See Accompanying Independent Auditors' Report.

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures by Function, and Changes in Deficit  
General Fund  
Year Ended September 30, 2013  
(with comparative totals for the year ended September 30, 2012)

	2013	2012
Revenues:		
FSM revenue sharing:		
Gross revenue taxes	\$ 891,839	\$ 1,187,776
Import taxes	1,050,331	998,930
Income taxes	985,976	930,242
Other taxes	120,775	113,339
FSM revenue sharing	3,048,921	3,230,287
State taxes:		
Sales tax	2,416,289	2,604,533
Other excise taxes	227,147	47,685
	2,643,436	2,652,218
Fees and charges:		
Licenses and permits	890,877	854,573
Leases and other rentals	151,620	168,889
	1,042,497	1,023,462
Departmental charges:		
Transportation collections	631,882	570,720
Net change in the fair value of investments	462,875	740,417
Other revenues	267,327	736,683
Total revenues	8,096,938	8,953,787
Expenditures:		
Current:		
General government:		
Office of the Governor	482,370	502,271
State Legislature	2,262,170	2,365,561
Department of Planning and Statistics	78,842	74,697
Department of Administrative Services	376,717	819,384
	3,200,099	3,761,913
Health:		
Department of Health	138,041	-
Economic development:		
Department of Marine Resources	4,458	43,876
Historic Preservation Office	20,640	13,719
Department of Commerce & Industries	14,094	28,567
	39,192	86,162
Public safety:		
Office of the Attorney General	231,519	228,332
Department of Public Safety	907,639	725,069
	1,139,158	953,401
Public works and transportation:		
Department of Transportation	849,865	883,145
Community affairs:		
Broadcast	43,147	35,587

See Accompanying Independent Auditors' Report.

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures by Function, and Changes in Deficit, Continued  
General Fund  
Year Ended September 30, 2013  
(with comparative totals for the year ended September 30, 2012)

	2013	2012
Expenditures, continued:		
Current, continued:		
Boards and commissions:		
Land Commission	115,508	156,175
Public Service Commission	102,365	103,688
Election Commission	344,458	154,054
	562,331	413,917
Judiciary:		
State Court	459,277	451,622
Payments to component units:		
Chuuk State Housing Authority	58,879	54,273
Municipal affairs:		
Payments to municipalities	429,005	685,790
Other:		
Farmers Home Administration	25,837	24,851
Peace Corps	15,600	15,063
Micro Games	16,396	14,765
Goodwill games	-	2,500
Guandong Province	947	-
Land Management	52,669	-
Overseas Development Assistance	17,592	-
Political Status Commission	49,404	-
Labor and Manpower	12,798	13,276
Chuuk Women Council	-	9,998
Other	-	6,390
	191,243	86,843
Debt service:		
Principal repayment	421,943	448,134
Interest payment	-	9,779
	421,943	457,913
Total expenditures	7,532,180	7,870,566
Excess of revenues over expenditures	564,758	1,083,221
Other financing sources (uses):		
Operating transfers in	-	2,258,772
Operating transfers out	(660,812)	(460,233)
Total other financing sources (uses), net	(660,812)	1,798,539
Special item:		
Chuuk loan recovery	737,563	-
Net change in deficit	641,509	2,881,760
Deficit at the beginning of the year	(5,385,792)	(8,267,552)
Deficit at the end of the year	\$ (4,744,283)	\$ (5,385,792)

See Accompanying Independent Auditors' Report.



**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures and Changes in Deficit  
Budget and Actual - General Fund  
Year Ended September 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Local revenues	\$ 6,694,574	\$ 7,399,574	\$ 7,634,063	\$ 234,489
Net change in fair value of investments	<u>394,362</u>	<u>394,362</u>	<u>462,875</u>	<u>68,513</u>
Total revenues	<u>7,088,936</u>	<u>7,793,936</u>	<u>8,096,938</u>	<u>303,002</u>
Expenditures:				
Current:				
General government:				
Office of the Governor	437,070	467,070	488,537	(21,467)
State Legislature	2,284,870	2,437,585	2,408,431	29,154
Department of Planning and Statistics	2,239	2,239	82,055	(79,816)
Department of Administrative Services	<u>298,707</u>	<u>370,805</u>	<u>427,109</u>	<u>(56,304)</u>
	<u>3,022,886</u>	<u>3,277,699</u>	<u>3,406,132</u>	<u>(128,433)</u>
Education:				
Department of Education	<u>143,560</u>	<u>143,560</u>	<u>138,041</u>	<u>5,519</u>
Economic development:				
Department of Marine Resources	-	-	4,458	(4,458)
Historic Preservation Office	27,658	27,658	20,640	7,018
Department of Commerce & Industry	<u>16,657</u>	<u>16,657</u>	<u>15,064</u>	<u>1,593</u>
	<u>44,315</u>	<u>44,315</u>	<u>40,162</u>	<u>4,153</u>
Public safety:				
Office of the Attorney General	243,579	243,579	243,547	32
Department of Public Safety	<u>791,354</u>	<u>791,354</u>	<u>921,423</u>	<u>(130,069)</u>
	<u>1,034,933</u>	<u>1,034,933</u>	<u>1,164,970</u>	<u>(130,037)</u>
Public works and transportation:				
Department of Transportation	<u>970,597</u>	<u>887,156</u>	<u>883,045</u>	<u>4,111</u>
Community affairs:				
Department of Public Affairs	<u>42,810</u>	<u>42,810</u>	<u>43,147</u>	<u>(337)</u>
Boards and commissions:				
Chuuk Recreation Board	18,066	18,066	-	18,066
Land Commission	114,837	114,837	116,548	(1,711)
Public Service Commission	113,711	128,711	102,365	26,346
Election Commission	<u>347,246</u>	<u>361,046</u>	<u>357,298</u>	<u>3,748</u>
	<u>593,860</u>	<u>622,660</u>	<u>576,211</u>	<u>46,449</u>
Judiciary:				
State Court	<u>463,166</u>	<u>480,507</u>	<u>465,160</u>	<u>15,347</u>
Payments to component units:				
Chuuk State Housing Authority	<u>59,388</u>	<u>59,388</u>	<u>59,115</u>	<u>273</u>
Municipal affairs:				
Payments to municipalities	<u>232,590</u>	<u>442,590</u>	<u>455,422</u>	<u>(12,832)</u>
Other:				
Farmers Home Administration	-	25,287	25,837	(550)
Peace Corps	15,600	15,600	15,600	-
Micro Games	-	30,000	16,396	13,604
Guandong Province	2,000	2,000	2,947	(947)
Insurance broker	-	-	52,669	(52,669)
Overseas Development Assistance	-	30,000	20,370	9,630
Chuuk Women Council	5,000	5,000	-	5,000
Labor and Manpower	-	-	12,928	(12,928)
Political Status Commission	-	50,000	50,232	(232)
Chuuk House	<u>-</u>	<u>142,200</u>	<u>-</u>	<u>142,200</u>
	<u>22,600</u>	<u>300,087</u>	<u>196,979</u>	<u>103,108</u>

See Accompanying Independent Auditors' Report.

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures and Changes in Deficit  
Budget and Actual - General Fund, Continued  
Year Ended September 30, 2013

	Budgeted Amounts		Actual Budgetary Basis	Variance with Final Budget Positive/(Negative)
	Original	Final		
Debt service:				
Principal repayment	394,362	394,362	421,943	(27,581)
Total expenditures	7,025,067	7,730,067	7,850,327	(120,260)
Excess of revenues over expenditures	63,869	63,869	246,611	182,742
Other financing uses:				
Operating transfers out	(464,321)	(464,321)	(660,812)	(196,491)
Special item:				
Chuuk loan recovery	-	-	737,563	737,563
Net change in deficit	(400,452)	(400,452)	323,362	723,814
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	400,452	400,452	318,147	(82,305)
Fund deficit at the beginning of the year	(5,385,792)	(5,385,792)	(5,385,792)	-
Fund deficit at the end of the year	<u>\$ (5,385,792)</u>	<u>\$ (5,385,792)</u>	<u>\$ (4,744,283)</u>	<u>\$ 641,509</u>

See Accompanying Independent Auditors' Report.

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

**NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS**

September 30, 2013

Special revenue funds are used to account for specific revenues that are legally restricted for particular purposes. A brief discussion of the State's Nonmajor Governmental Funds - Special Revenue Funds as of September 30, 2013, follows:

Hospital Revolving Fund

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

See Accompanying Independent Auditors' Report.

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

**GRANTS ASSISTANCE FUND**

Combining Balance Sheet  
September 30, 2013

	Education Sector	Health Sector	Environment Sector	Private Sector Development	Capacity Building Sector	Supplemental Education	Enhanced Reporting Accountability	Infrastructure Maintenance	Infrastructure	U.S. Federal Grants	Foreign Assistance	CFSM Grants	Total
<b>ASSETS</b>													
Receivables, net	\$ 1,206,779	\$ -	\$ 33,186	\$ 15,799	\$ -	\$ -	\$ 112,374	\$ -	\$ -	\$ 178,284	\$ -	\$ 1,959	\$ 1,548,381
Advances	11,382	42,467	-	4,768	2,623	10,125	1,527	-	-	400	-	-	73,292
Prepayments	-	6,475	5,139	16,877	38,136	-	6,356	-	-	-	-	-	72,983
Due from other funds	-	661,969	-	-	1,568,766	1,922,466	-	1,015,907	-	-	124,640	11,621	5,305,369
	<u>\$ 1,218,161</u>	<u>\$ 710,911</u>	<u>\$ 38,325</u>	<u>\$ 37,444</u>	<u>\$ 1,609,525</u>	<u>\$ 1,932,591</u>	<u>\$ 120,257</u>	<u>\$ 1,015,907</u>	<u>\$ -</u>	<u>\$ 178,684</u>	<u>\$ 124,640</u>	<u>\$ 13,580</u>	<u>\$ 7,000,025</u>
<b>LIABILITIES AND FUND BALANCES (DEFICITS)</b>													
<b>Liabilities:</b>													
Accounts payable	\$ 173,706	\$ 280,719	\$ 15,269	\$ 33,402	\$ (6,779)	\$ 217,424	\$ (3,213)	\$ 2,452	\$ -	\$ 7,697	\$ -	\$ 13,580	\$ 734,257
Accrued liabilities	3,648	-	-	-	-	-	-	-	-	1,350	-	-	4,998
Due to other funds	1,040,807	-	23,056	4,042	-	-	123,470	-	-	157,118	-	-	1,348,493
Total liabilities	<u>1,218,161</u>	<u>280,719</u>	<u>38,325</u>	<u>37,444</u>	<u>(6,779)</u>	<u>217,424</u>	<u>120,257</u>	<u>2,452</u>	<u>-</u>	<u>166,165</u>	<u>-</u>	<u>13,580</u>	<u>2,087,748</u>
<b>Fund balances:</b>													
Non-spendable	-	6,475	5,139	16,877	38,136	-	6,356	-	-	-	-	-	72,983
Restricted	-	423,717	-	-	1,578,168	1,715,167	-	1,013,455	-	12,519	124,640	-	4,867,666
Unassigned	-	-	(5,139)	(16,877)	-	-	(6,356)	-	-	-	-	-	(28,372)
Total fund balances (deficits)	<u>-</u>	<u>430,192</u>	<u>-</u>	<u>-</u>	<u>1,616,304</u>	<u>1,715,167</u>	<u>-</u>	<u>1,013,455</u>	<u>-</u>	<u>12,519</u>	<u>124,640</u>	<u>-</u>	<u>4,912,277</u>
Total liabilities and fund balances (deficits)	<u>\$ 1,218,161</u>	<u>\$ 710,911</u>	<u>\$ 38,325</u>	<u>\$ 37,444</u>	<u>\$ 1,609,525</u>	<u>\$ 1,932,591</u>	<u>\$ 120,257</u>	<u>\$ 1,015,907</u>	<u>\$ -</u>	<u>\$ 178,684</u>	<u>\$ 124,640</u>	<u>\$ 13,580</u>	<u>\$ 7,000,025</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 (Deficits)  
Year Ended September 30, 2013

	Education Sector	Health Sector	Environment Sector	Private Sector Development	Capacity Building Sector	Supplemental Education	Enhanced Reporting Accountability	Infrastructure Maintenance	Infrastructure	U.S. Federal Grants	Foreign Assistance	CFSM Grants	Total
<b>Revenues:</b>													
Compact funding	\$ 9,896,779	\$ 7,670,000	\$ 548,186	\$ 605,799	\$ 1,799,547	\$ 4,155,000	\$ 594,374	\$ 340,233	\$ -	\$ -	\$ -	\$ -	\$ 25,609,918
Federal and other grants	-	-	-	-	-	-	-	-	-	696,048	25,470	34,187	755,705
Total revenues	<u>9,896,779</u>	<u>7,670,000</u>	<u>548,186</u>	<u>605,799</u>	<u>1,799,547</u>	<u>4,155,000</u>	<u>594,374</u>	<u>340,233</u>	<u>-</u>	<u>696,048</u>	<u>25,470</u>	<u>34,187</u>	<u>26,365,623</u>
<b>Expenditures by function:</b>													
Current:													
General government	-	-	-	-	1,255,624	-	580,810	-	-	-	28,512	-	1,864,946
Health services	-	8,638,334	-	-	-	-	-	-	-	351,503	-	-	8,989,837
Education	8,944,963	-	-	-	-	3,507,280	-	-	-	344,545	-	-	12,796,788
Economic development	-	-	627,510	764,994	-	-	-	1,500,320	-	-	-	-	2,892,824
Public safety	-	-	-	-	-	-	-	-	-	-	-	54,332	54,332
Total expenditures	<u>8,944,963</u>	<u>8,638,334</u>	<u>627,510</u>	<u>764,994</u>	<u>1,255,624</u>	<u>3,507,280</u>	<u>580,810</u>	<u>1,500,320</u>	<u>-</u>	<u>696,048</u>	<u>28,512</u>	<u>54,332</u>	<u>26,598,727</u>
Excess (deficiency) of revenues over (under) expenditures	<u>951,816</u>	<u>(968,334)</u>	<u>(79,324)</u>	<u>(159,195)</u>	<u>543,923</u>	<u>647,720</u>	<u>13,564</u>	<u>(1,160,087)</u>	<u>-</u>	<u>-</u>	<u>(3,042)</u>	<u>(20,145)</u>	<u>(233,104)</u>
<b>Other financing sources:</b>													
Operating transfers in	-	-	-	-	-	-	-	464,321	-	-	-	166,422	630,743
Net change in fund balances (deficits)	<u>951,816</u>	<u>(968,334)</u>	<u>(79,324)</u>	<u>(159,195)</u>	<u>543,923</u>	<u>647,720</u>	<u>13,564</u>	<u>(695,766)</u>	<u>-</u>	<u>-</u>	<u>(3,042)</u>	<u>146,277</u>	<u>397,639</u>
Fund balances (deficits) at the beginning of the year	<u>(951,816)</u>	<u>1,398,526</u>	<u>79,324</u>	<u>159,195</u>	<u>1,072,381</u>	<u>1,067,447</u>	<u>(13,564)</u>	<u>1,709,221</u>	<u>-</u>	<u>12,519</u>	<u>127,682</u>	<u>(146,277)</u>	<u>4,514,638</u>
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ 430,192</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,616,304</u>	<u>\$ 1,715,167</u>	<u>\$ -</u>	<u>\$ 1,013,455</u>	<u>\$ -</u>	<u>\$ 12,519</u>	<u>\$ 124,640</u>	<u>\$ -</u>	<u>\$ 4,912,277</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 (Deficits)  
Year Ended September 30, 2013

	Education Sector	Health Sector	Environment Sector	Private Sector Development	Capacity Building Sector	Supplemental Education	Enhanced Reporting Accountability	Infrastructure Maintenance	Infrastructure	U.S. Federal Grants	Foreign Assistance	CFSM Grants	Total
<b>Revenues:</b>													
Compact funding	\$ 9,896,779	\$ 7,670,000	\$ 548,186	\$ 605,799	\$ 1,799,547	\$ 4,155,000	\$ 594,374	\$ 340,233	\$ -	\$ -	\$ -	\$ -	\$ 25,609,918
Federal and other grants	-	-	-	-	-	-	-	-	-	696,048	25,470	34,187	755,705
Total revenues	<u>9,896,779</u>	<u>7,670,000</u>	<u>548,186</u>	<u>605,799</u>	<u>1,799,547</u>	<u>4,155,000</u>	<u>594,374</u>	<u>340,233</u>	<u>-</u>	<u>696,048</u>	<u>25,470</u>	<u>34,187</u>	<u>26,365,623</u>
<b>Expenditures by account:</b>													
Salaries and wages:													
Regular	5,831,056	2,905,892	339,800	301,577	-	799,164	444,419	377	-	466,817	-	-	11,089,102
Overtime	28,806	526,144	1,600	10,625	-	954	9,912	-	-	-	-	-	578,041
Fringe benefits	713,240	410,488	41,213	41,280	13,704	107,016	55,746	36	-	51,474	-	-	1,434,197
Travel and transportation	13,978	144,973	21,417	83,586	64,879	145,180	17,612	1,342	-	6,487	-	22,151	521,605
Books and library materials	25,043	-	-	-	-	430,240	-	-	-	-	-	-	455,283
Communications	3,632	21,338	7,562	1,519	11,725	55,365	6,924	1,881	-	1,719	500	-	112,165
Dues, memberships, and subscriptions	-	1,055	545	325	55	2,654	30	-	-	-	-	-	4,664
Food stuffs	136,523	236,329	-	714	-	53,291	-	-	-	-	500	8,345	435,702
Freight and port charges	1,301	1,417	-	1,810	1,473	3,281	-	-	-	402	-	-	9,684
Office supplies and materials	122,897	203,941	48,322	60,348	29,439	708,503	14,346	1,250	-	10,871	14,598	3,675	1,218,190
POL	37,504	208,458	61,240	49,091	22,406	112,225	8,781	6,593	-	11,134	2,335	10,386	530,153
Printing and reproduction	819	22,548	-	851	-	-	-	-	-	2,558	5,985	-	32,761
Rental services	821	10,266	6,670	4,626	2,023	29,958	130	1,800	-	2,006	675	-	58,975
Repairs and maintenance	73,364	130,131	12,218	6,665	261	70,397	2,018	1,658	-	710	-	275	297,697
Construction materials	2,161	6,895	6,626	8,247	-	2,409	-	-	-	-	-	-	26,338
Utilities	36,136	937,234	18,234	14,530	14,749	101,545	18,943	-	-	-	500	-	1,141,871
Goods and services	2,817	6,735	-	548	1,312	55	-	-	-	-	-	(500)	10,967
Subsidies and contributions	193,917	-	-	-	-	-	-	-	-	-	-	-	193,917
Medical referrals	-	164,307	-	-	-	-	-	-	-	-	-	-	164,307
Medical supplies	-	1,371,379	-	-	-	-	-	-	-	-	-	-	1,371,379
Contractual services	359,417	782,583	27,120	98,170	749,459	348,829	1,949	1,484,758	-	138,115	-	-	3,990,400
Professional services	-	-	-	-	244,677	-	-	-	-	-	-	-	244,677
Scholarships and allowances	540,350	-	-	-	-	-	-	-	-	1,475	-	-	541,825
Fees and meeting allowances	4,545	-	200	300	-	-	-	-	-	-	-	-	5,045
Training	21,661	3,050	-	5,110	3,727	237,417	-	-	-	900	-	-	271,865
Insurance	-	132	-	1,960	-	-	-	-	-	-	-	-	2,092
Leased housing, buildings and land	39,900	184,905	1,890	41,318	28,163	162,540	-	-	-	-	-	-	458,716
Compensation non-payroll	-	600	-	-	-	-	-	-	-	-	-	-	600
Equipment	64,907	340,253	9,272	17,502	60,472	109,922	-	625	-	1,380	3,419	2,860	610,612
Furniture and fixtures	690,168	17,273	-	1,654	600	26,335	-	-	-	-	-	-	736,030
Vehicles	-	-	23,581	12,638	6,500	-	-	-	-	-	-	7,140	49,859
Bank charges	-	8	-	-	-	-	-	-	-	-	-	-	8
Total expenditures	<u>8,944,963</u>	<u>8,638,334</u>	<u>627,510</u>	<u>764,994</u>	<u>1,255,624</u>	<u>3,507,280</u>	<u>580,810</u>	<u>1,500,320</u>	<u>-</u>	<u>696,048</u>	<u>28,512</u>	<u>54,332</u>	<u>26,598,727</u>
Excess (deficiency) of revenues over (under) expenditures	<u>951,816</u>	<u>(968,334)</u>	<u>(79,324)</u>	<u>(159,195)</u>	<u>543,923</u>	<u>647,720</u>	<u>13,564</u>	<u>(1,160,087)</u>	<u>-</u>	<u>-</u>	<u>(3,042)</u>	<u>(20,145)</u>	<u>(233,104)</u>
<b>Other financing sources:</b>													
Operating transfers in	-	-	-	-	-	-	-	464,321	-	-	-	166,422	630,743
Net change in fund balances (deficits)	<u>951,816</u>	<u>(968,334)</u>	<u>(79,324)</u>	<u>(159,195)</u>	<u>543,923</u>	<u>647,720</u>	<u>13,564</u>	<u>(695,766)</u>	<u>-</u>	<u>-</u>	<u>(3,042)</u>	<u>146,277</u>	<u>397,639</u>
Fund balances (deficits) at the beginning of the year	<u>(951,816)</u>	<u>1,398,526</u>	<u>79,324</u>	<u>159,195</u>	<u>1,072,381</u>	<u>1,067,447</u>	<u>(13,564)</u>	<u>1,709,221</u>	<u>-</u>	<u>12,519</u>	<u>127,682</u>	<u>(146,277)</u>	<u>4,514,638</u>
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ 430,192</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,616,304</u>	<u>\$ 1,715,167</u>	<u>\$ -</u>	<u>\$ 1,013,455</u>	<u>\$ -</u>	<u>\$ 12,519</u>	<u>\$ 124,640</u>	<u>\$ -</u>	<u>\$ 4,912,277</u>

See Accompanying Independent Auditors' Report.

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

Honorable Johnson Elimo  
Governor, State of Chuuk  
Federated States of Micronesia:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Chuuk as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the State of Chuuk's basic financial statements, and have issued our report thereon dated June 27, 2014, which report was modified with respect to cash and cash equivalents and a liability for land leases and related claims payable in the governmental activities and the General Fund.

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

### **Internal Control Over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2013-004, 2013-006, and 2013-008 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2013-005 and 2013-007 to be significant deficiencies.

### **Compliance and Other Matters**

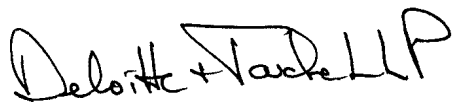
As part of obtaining reasonable assurance about whether the State of Chuuk's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material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

### **State of Chuuk's Response to Findings**

The State of Chuuk's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The State of Chuuk's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

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



June 27, 2014



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

Honorable Johnson Elimo  
Governor, State of Chuuk  
Federated States of Micronesia:

### **Report on Compliance for Each Major Federal Program**

We have audited the State of Chuuk's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the State of Chuuk's major federal program for the year ended September 30, 2013. The State of Chuuk's major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

As discussed in Note 2B to the Schedule of Expenditures of Federal Awards, the State of Chuuk's basic financial statements include the operations of certain entities whose federal awards are not included in the accompanying Schedule of Expenditures of Federal Awards for the year ended September 30, 2013. Our audit, described below, did not include the operations of the entities identified in Note 2B as these entities conducted separate audits in accordance with OMB Circular A-133, if required.

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for the State of Chuuk's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State of Chuuk's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

***Basis for Qualified Opinion on CFDA 15.875 Compact Sector Grants***

As described in the accompanying Schedule of Findings and Questioned Costs, the State of Chuuk did not comply with requirements regarding CFDA 15.875 Economic, Social and Political Development of the Territories – Compact Sector Grants as described in item 2013-003 for Procurement and Suspension and Debarment. Compliance with such requirements is necessary, in our opinion, for the State of Chuuk to comply with the requirements applicable to that program.

***Qualified Opinion on CFDA 15.875 Compact Sector Grants***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the State of Chuuk complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 15.875 Economic, Social and Political Development of the Territories – Compact Sector Grants for the year ended September 30, 2013.

***Other Matters***

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2013-001, 2013-002 and 2013-004 regarding the following:

Finding #	CFDA #	Compliance Requirement
2013-001	15.875	Equipment and Real Property Management
2013-002	15.875	Allowable Costs/Cost Principles
2013-004	15.875	Period of Availability of Federal Funds

Our opinion on the major federal program is not modified with respect to these matters.

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

**Report on Internal Control Over Compliance**

Management of the State of Chuuk is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the State of Chuuk’s internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State of Chuuk’s internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2013-003 to be material weaknesses.

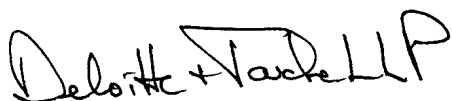
A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned costs as items 2013-001, 2013-002 and 2013-004 to be significant deficiencies.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

### **Report on Schedule of Expenditures of Federal Awards Required by OMB A-133**

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Chuuk as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the State of Chuuk's basic financial statements. We issued our report thereon dated June 27, 2014, which report was modified with respect to cash and cash equivalents and a liability for land leases and related claims payable in the governmental activities and the General Fund. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



June 27, 2014

**STATE OF CHUUK**  
**FEDERATED STATES OF MICRONESIA**

Summary Schedule of Expenditures of Federal Awards, by Grantor  
Year Ended September 30, 2013

<u>Agency/Program</u>	<u>Expenditures</u>
U.S. Department of the Interior	\$ 25,819,835
U.S. Department of Education	324,838
U.S. Department of Health and Human Services	<u>371,210</u>
 GRAND TOTAL	 \$ <u>26,515,883</u>
 Reconciliation to the basic financial statements:	
Grants Assistance Fund	\$ 26,598,727
Less: CFSM Grants	(54,332)
Non-US Grants	<u>(28,512)</u>
	\$ <u>26,515,883</u>

See accompanying notes to schedule of expenditures of federal awards.

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued  
Year Ended September 30, 2013

Agency/Program	CFDA#	Expenditures
<b>U.S. DEPARTMENT OF THE INTERIOR</b>		
Pass-Through Federated States of Micronesia National Government:		
Economic, Social and Political Development of the Territories:	15.875	
Compact Sector Grants - Education Sector		\$ 8,944,963
Compact Sector Grants - Health Sector		8,638,334
Compact Sector Grants - Environment Sector		627,510
Compact Sector Grants - Private Sector Development		764,994
Compact Sector Grants - Capacity Building Sector		1,255,624
Supplemental Education Grant		3,507,280
Compact Sector Grants - ERA		580,810
Compact Sector Grants - Infrastructure Maintenance		1,500,320
Compact Sector Grants - Infrastructure		-
		<u>25,819,835</u>
Total Compact Sector Grants Fund		<u>25,819,835</u>
		<u>\$ 25,819,835</u>
<b>U.S. DEPARTMENT OF THE INTERIOR TOTAL</b>		
<b>U.S. DEPARTMENT OF EDUCATION</b>		
Pass-Through Federated States of Micronesia National Government:		
Special Education - Grants to States	84.027	\$ <u>324,838</u>
		<u>\$ 324,838</u>
<b>U.S. DEPARTMENT OF EDUCATION TOTAL</b>		
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>		
Pass-Through Federated States of Micronesia National Government:		
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	\$ 25,155
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	59,376
Block Grant for Prevention and Treatment of Substance Abuse	93.959	151,400
Universal Newborn Hearing Screening	93.251	5,714
Immunization Cooperative Agreements	93.268	84,042
CDC and Prevention - Investigations and Technical Assistance	93.283	5,370
HIV Prevention Activities - Health Department Based	93.940	20,065
Maternal and Child Health Services Block Grant to the States	93.994	2,437
CCPI Cancer Program	93.UNKNOWN	<u>17,651</u>
		<u>\$ 371,210</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL</b>		
		<u>\$ 371,210</u>
		<u>\$ 26,515,883</u>
<b>TOTAL FEDERAL AWARDS</b>		

**STATE OF CHUUK**  
**FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2013

1. Scope

The State of Chuuk is one of the four States of the Federated States of Micronesia. All significant operations of the State of Chuuk are included in the scope of the OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior has been designated as the State of Chuuk's cognizant agency for Single Audit.

• Programs Subject to Single Audit

The Schedule of Expenditures of Federal Awards presents federal programs related to the following agencies:

- U.S. Department of Education
- U.S. Department of Health and Human Services
- U.S. Department of the Interior

2. Summary of Significant Accounting Policies

A. Basis of Accounting

For purposes of this report, certain accounting procedures were followed which help illustrate the expenditures of the individual programs. All expenses and capital outlays are reported as expenditures on the accrual basis of accounting.

B. Reporting Entity

For purposes of complying with The Single Audit Act of 1984, as amended in 1996, the State of Chuuk's reporting entity is defined in Note 1A to its September 30, 2013 basic financial statements; and all of the discretely presented component units are excluded. Accordingly, the accompanying Schedule of Expenditures of Federal Awards presents the federal award programs administered by the State of Chuuk, as defined above, for the year ended September 30, 2013.

C. Subgrantees

Certain program funds are passed through the State of Chuuk to subgrantee organizations. The Schedule of Expenditures of Federal Awards does not contain separate schedules disclosing how the subgrantee outside of the State of Chuuk's control utilizes these funds.

D. Indirect Cost Allocation

The State of Chuuk did not receive any indirect cost allocation and did not charge indirect costs against federal programs.

E. CFDA #15.875

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

**STATE OF CHUUK**  
**FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2013

(2) Summary of Significant Accounting Policies, Continued

F. Component Units

The State of Chuuk's component units are to separately satisfy the requirements of OMB Circular A-133. The following presents information concerning one component unit, which is to separately satisfy its A-133 requirements:

Chuuk Public Utility Corporation

The Chuuk Public Utility Corporation, (CPUC), a discretely presented component unit, is the recipient of various pass-through funds from the State of Chuuk and direct grants from the U.S. Department of the Interior. The CPUC is to separately satisfy its 2013 reporting responsibilities under the Single Audit Act. CPUC's total federal award expenditures for the year ended September 30, 2013 is \$1,360,900.

Chuuk State Housing Authority

The Chuuk State Housing Authority (CSHA), a discretely presented component unit, is the recipient of various pass-through funds from the State of Chuuk and certain direct grants.

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2013

**Section I - Summary of Auditors' Results**

*Financial Statements*

- |  |                          |
|--|--------------------------|
| 1. Type of auditors' report issued:                      | Unmodified and Qualified |
| Internal control over financial reporting:               |                          |
| 2. Material weakness(es) identified?                     | Yes                      |
| 3. Significant deficiency(ies) identified?               | Yes                      |
| 4. Noncompliance material to financial statements noted? | No                       |

*Federal Awards*

Internal control over major programs:

- |   |           |
|---|-----------|
| 5. Material weakness(es) identified?  | Yes       |
| 6. Significant deficiency(ies) identified?  | Yes       |
| 7. Type of auditors' report issued on compliance for major programs:  | Qualified |
| 8. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | Yes       |
| 9. Identification of major programs:  |           |

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
--------------------	---

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

- |  |            |
|--|------------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$ 795,476 |
| 11. Auditee qualified as low-risk auditee?                                   | No         |

**Section II – Financial Statements Findings**

<u>Finding #</u>	<u>Finding</u>
2013-005	Timely and Accurate Reconciliation
2013-006	Filing System
2013-007	Land Leases
2013-008	Stale Dated Checks
2013-009	Housing Loans/Fixed Assets



**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

**Section III - Federal Award Findings and Questioned Cost**

<u>Finding #</u>	<u>CFDA #</u>	<u>Finding</u>	<u>Questioned Costs</u>
2013-001	15.875	Equipment and Real Property Management	\$ -
2013-002	15.875	Allowable Costs/Cost Principles	19,940
2013-003	15.875	Procurement and Suspension and Debarment	160,270
2013-004	15.875	Period of Availability of Federal Funds	<u>14,028</u>
			\$ <u>194,238</u>

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-001  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories  
Grant Number: Compact of Free Association Compact Sector Grants  
Requirement: Equipment and Real Property Management  
Questioned Cost: \$0

Criteria: Management should periodically review asset maintenance activities to facilitate compliance with program objectives and requirements.

Condition: No documented procedures are currently in place requiring that fixed assets undergo required maintenance.

Cause: This appears to be a potential weakness in internal control requiring that fixed assets be periodically maintained.

Effect: The expected life of fixed assets may be lessened. However, no questioned costs result from this finding as no specific instances came to our attention in fiscal year 2013 of unnecessary expenditures that occurred due to this condition.

Prior Year Status: Noncompliance with maintenance of fixed assets was reported as a finding in prior single audits as items 2006-26, 2007-08, 2008-4, 2009-02, 2010-1, 2011-1, and 2012-1.

Recommendation: We recommend that the State strengthen internal control requiring that periodic reviews be performed and that asset maintenance activities be documented and monitored.

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. Chuuk State DAS director has issued memo to departments, agencies and offices receiving fixed assets sector funding. They were advised and instructed to have documented procedures for regular review and maintenance of their fixed assets. DAS procurement and Supply staff is working together with the corresponding department's staff to ensure full compliance with federal equipment requirements to resolve and put an end to this audit finding.

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-002  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Compact of Free Association, Compact Sector Grants  
Requirement: Allowable Costs/Cost Principles  
Questioned Costs: \$19,940

Criteria: In accordance with applicable allowable costs/cost principles requirements, expenditures should be necessary and reasonable for program needs and should be in accordance with program requirements. Furthermore, financial and programmatic records should be maintained on file for at least three years.

Condition:

For 1 (or 2%) of 54 transactions tested, there was either partial or no financial and/or programmatic records (i.e., contracts, receiving reports, invoices, boarding passes, trip reports etc.) on file to substantiate the following transaction:

<u>PROG</u>	<u>YR</u>	<u>DATE1</u>	<u>AMOUNT</u>
11100	13	07/03/2013	\$ <u>19,940</u>

Cause: The cause of the condition appears to be due to the process of maintaining documentation in many disparate locales and lack of documentation supporting resolution of these matters with the affected federal agency.

Effect: The effect of this condition is questioned costs and potential noncompliance with the criteria.

Recommendation: We recommend that necessary communications and documentation in support of the above be retained in file.

Auditee Response and Corrective Action Plan: Documents to substantiate payments and necessary documents to support competitive procurement requirements are retained on file and available for inspection to clear this audit finding and questioned cost.

Auditor Response: Based on procurement documents provided, we were not able to determine whether the State complied with procurement requirements as stated per the criteria above.

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-003  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Compact of Free Association, Compact Sector Grants  
Requirement: Procurement and Suspension and Debarment  
Questioned Costs: \$160,270

Criteria: In accordance with applicable procurement requirements, procurements shall provide full and open competition among vendors, and allowable exceptions should be approved and documented in procurement files.

Condition:

For 3 (or 6%) of 54 transactions tested for the Compact Sector Programs, there was either insufficient documentation or none was provided to support competitive procurement requirements for the following transactions:

<u>PROG</u>	<u>YR</u>	<u>AMT</u>	<u>DATE1</u>	<u>AMOUNT</u>
11100	13	67,618	06/07/2013	\$ 67,618
10234	13	27,182	06/18/2013	27,182
10234	13	65,470	05/23/2013	65,470
				<u>\$ 160,270</u>

Cause: The cause of the condition appears to be due to the process of maintaining documentation in many disparate locales and lack of documentation supporting resolution of these matters with the affected federal agency

Effect: The effect of this condition is questioned costs and potential noncompliance with the criteria.

Recommendation: We recommend that necessary communications and documentation in support of the above be retained in file.

Auditee Response and Corrective Action Plan: Documents to substantiate payments and necessary documents to support competitive procurement requirements are retained on file and available for inspection to clear this audit finding and questioned cost.

Auditor Response: Based on procurement documents provided, we were not able to determine whether the State complied with procurement requirements as stated per the criteria above.

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No: 2013-004  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories  
Requirement: Period of Availability of Federal Funds  
Questioned Costs: \$14,028

Criteria: The State of Chuuk shall liquidate all obligations incurred under a grant not later than ninety days after the end of the funding period or as otherwise mutually agreed.

Condition: Expenditures were recorded in FY2013 for the funding period 2009, 2010, 2011, 2012 Compact Sector Grants which is after the period of availability:

<u>Program Account</u>	<u>Amount outside POA</u>
Various Compact Sector Funds	\$14,028

Expenditures were liquidated after the period of availability specified in the related grant award.

Cause: There appears to be a lack of monitoring over compliance with period of availability requirements.

Effect: Questioned costs result from this potential noncompliance.

Recommendation: Chuuk State Government should timely monitor compliance with period of availability requirements.

Auditee Response and Corrective Action Plan: We agree with the recommendation to timely monitor compliance with period of availability requirements. The above-stated expenditures excluding with negative amounts are FY 2013 compact sector grant funding, liquidated and recorded expenditures within the funding period provided. But at some point at Purchase Order (PO) stage input process, the FY field at the dropdown was overlooked and not corrected to FY'13, likewise the payroll expenditures of the program 14-14302. These are AG's consultant's payroll FY 2013 funding expenditures that at payroll timesheet input system, the FY field changed to FY '09. These problems were already corrected in FY 2014, printed PO is carefully check vis a vis duly approved Purchase Requisition, and manually correcting FY field at payroll. The negative amounts are prior year expenditures i.e. scholarships checks returned and voided in FY13 or unpaid obligations cancelled in FY 2013.

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-005  
Area: Timely and Accurate Reconciliations

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

Condition: We determined that the bank accounts contain material variances that are not timely reconciled.

1. Chuuk State has not reconciled its general ledger cash accounts to the adjusted bank balances as of September 30, 2013. This condition resulted in a material misstatement of the financial statements.

Petty Cash Fund – DAS	\$ 2,909
CIB-C/A Sector Payroll BFSM	2,694
CIB-Debt Relief Fund	(1,393)
CIB-C/A Local Payroll BFSM	185,772
CIB-C/A Local Payroll BFSM	3,854
CIB-C/A Sector Payroll BOG	2,464
CIB-C/A General Non Sector BFSM	3,950
CIB-C/A Hospital BFSM – New	74,261
CIB-Savings State CIP BOG	90,854
CIB-Savings Depository BFSM	32,104
Deposit Clearing	199
CIB- C/A General Non Sector BFSM-New	6,397
CIB- C/A General Sector	<u>(62,815)</u>
Total uncorrected difference	\$ <u>341,254</u>

Cause: Reconciliations of the above accounts were not timely or accurately performed.

Effect: The effect of this condition is a potential misstatement of the financial statements resulting in a modification of the auditors' report.

Recommendation: The State should perform monthly accurate bank reconciliations.

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-005, Continued  
Area: Timely and Accurate Reconciliations

Prior Year Status: This condition was reported as a finding in prior year single audit as item 2012-5.

Auditee Response and Correction Action Plan: We agree with the audit finding and recommendation on condition #1. DAS has standard procedure for the timely preparation of bank reconciliations and is now current on its bank reconciliations, but however failed to timely post the reconciling items to the general ledger cash account. Recommendation to maintain subsidiary ledgers to support general ledger balances will be considered and to timely reconcile general ledger cash accounts to the adjusted bank balances shall be performed.

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No: 2013-006  
Area: Filing System

Criteria: Expenditures should be necessary and reasonable for program needs and should be in accordance with program requirements. Furthermore, financial and programmatic records should be maintained on file.

Condition: For 1 (or 1%) of 53 payroll samples tested, a Personnel Action Form was not provided.

Cause: There appears to be a lack of controls over maintenance of financial records.

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

Recommendation: The State should retain sufficient documentation on file to support expenditure recorded.

Auditee Response and Corrective Action Plan: We agree with this finding. The Chief Accountant will develop a filing procedure at Payroll Section.



**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-007  
Area: Land Leases

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

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

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

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

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

Prior Year Status: This condition was reported as a finding in prior year single audits as items 2011-5 and 2012-3.

Auditee Response and Correction Action Plan: We agree with the recommendation that technical assistance need to be obtained and timetable should be set to sort out the liability. Chuuk DAS has temporary staff available that is continuously working for the completion of this difficult task due to some complicating factors in determining the State's land leases payable. There are municipal transactions that have not been recorded, lack of contract documents, the delinquent status of most leases, and unknown number of existing leases and settlement agreement. However in FY 2013, in addition to lease agreements that been previously gathered there were some related debt relief payments for land leases payables and from court claims judgments that have been supported and validly established liabilities for payments.

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-008  
Area: Stale Dated Checks

Criteria: The Chuuk State Government should review the outstanding check list on a monthly basis and investigate stale dated checks before restoring these balances to cash.

Condition: We found no evidence of review of the outstanding check list for all checking accounts maintained by the Chuuk State Division of Finance.

Cause: The cause of this condition is lack of monitoring of the outstanding checklists for stale dated checks.

Effect: A misstatement of the financial statements may result from the condition.

Recommendation: The State should develop policies addressing stale dated checks.

Auditee Response and Correction Action Plan: Chuuk DAS has a standard procedure for the timely preparation of bank reconciliation and incorporated therein procedures for reviewing outstanding checks for accuracy and cancellation of old checks. DAS Chief of Finance or authorized designee will perform a monthly review of the outstanding check list and further examination before restoring balances to cash.

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-009  
Area: Housing Loans/Fixed Assets

Criteria: A functioning system of internal control requires that subsidiary ledgers be maintained and be supported by underlying supporting documentation, such as housing loan ledgers, fixed asset register, etc.

Condition: We were not able to obtain housing loan ledgers and a fixed asset register for the Chuuk State Housing Authority (CSHA) and to determine if changes should be recorded in the financial statements and if all disclosures have been included in the notes thereto.

Cause: Reconciliations of CSHA's accounts were not accurately performed.

Effect: The effect of this condition is a potential misstatement of the financial statements and the notes thereto; however, such was not considered material to the component unit column of the State's financial statements.

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

Prior Year Status: This condition was reported as a finding in prior year single audit as item 2012-4.

Auditee Response and Correction Action Plan: CSHA housing loan ledgers and fixed asset register were provided to the auditor during fieldwork. However, we agree with the recommendation to obtain technical assistance to strengthen functioning system of internal control and reconciliation of general ledger and subsidiary ledgers and other associated accounts.

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Summary Schedule of Prior Audit Findings and Questioned Costs  
Year Ended September 30, 2013

The following is a summary of unresolved federal questioned costs for Chuuk State Government:

September 30, 2013

Questioned Costs FY 2013                      \$ 194,238

The status of unresolved prior year audit findings is disclosed within the Schedule of Findings and Questioned Cost section of this report (pages 67 through 78).