

**STATE OF KOSRAE  
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 KOSRAE  
FEDERATED STATES OF MICRONESIA**

YEAR ENDED SEPTEMBER 30, 2013

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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 Lyndon Jackson  
Governor, State of Kosrae  
Federated States of Micronesia:

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

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Kosrae (the State) as of and for the year ended September 30, 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 audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Kosrae as of September 30, 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 10 as well as the Schedule of Revenues, Expenditures, and changes in Fund Balance - Budget and Actual - General Fund and notes thereto, on pages 43 and 44, 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.

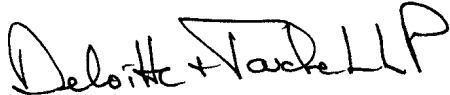
#### ***Other Information***

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 25, 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.

A handwritten signature in black ink that reads "Deloitte + Tuck LLP". The signature is stylized, with the "D" and "T" being particularly prominent.

June 25, 2014

**STATE OF KOSRAE  
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis  
September 30, 2013

This analysis, prepared by the Department of Administration and Finance, offers readers of the Kosrae State Government's ("Kosrae 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 Kosrae 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**

- Kosrae State's total net position for fiscal year ended September 30, 2013 increased by \$2.29 million (or 11.5%) from \$19.94 million in the prior year to \$22.23 million in the current year. The increase is due mainly to the forgiveness of \$1.3 million in debt by the FSM National Government and \$1.3 million in non-cash capital contributions.
- For fiscal year ended September 30, 2013, the State's General Fund unassigned fund deficit has increased to \$0.28 million from \$0.15 million in the prior year. GASB defines unassigned fund balance as a residual fund balance that is not restricted, committed and assigned.
- For the year ended September 30, 2013, the General Fund total fund balance was reduced by \$0.21 million from \$1.91 million in fiscal year 2012 to \$1.70 million in fiscal year 2013. The decrease was due to the reduction of the total revenues for the year of 18% as compared to the prior year.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to Kosrae State's basic financial statements. Kosrae State's basic financial statements comprise three components: 1) government-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.

Government-Wide Financial Statements

The government-wide financial statements report information about Kosrae 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 the 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 the State's net position serve as indicator to measure the State's financial position.

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

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

- Governmental activities- Most of Kosrae 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.

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Management's Discussion and Analysis  
September 30, 2013

- Component Units-Kosrae State includes the operating results of the Kosrae Utilities Authority and Kosrae Port Authority in its report. Although separate, these "component units" are important because Kosrae State is financially accountable for them.

**Fund Financial Statements**

The fund financial statements provide more detailed information about Kosrae State's significant funds. Funds are accounting devices that Kosrae 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 Kosrae State's basic services are included in governmental funds, which focus on (1) how cash and other financial assets, which 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 financial 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 Kosrae 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.

The 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 Compact Trust Fund.

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

Kosrae State's assets at the end of fiscal year 2013 exceeded liabilities by \$22.23 million. The bulk of the amount is from investment in capital assets, although \$9.04 million are restricted. Kosrae State uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although Kosrae 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 Kosrae State's net position as of September 30, 2013, with comparable balances for the fiscal year 2012, discloses this relationship:

	Governmental Activities			
	<u>2013</u>	<u>2012</u>	<u>Change</u>	<u>%</u>
<b>ASSETS</b>				
Current and other assets	\$ 10,367,506	\$ 9,406,856	\$ 960,650	10.21%
Capital assets	<u>17,222,950</u>	<u>16,992,248</u>	<u>230,702</u>	1.4%
Total assets	\$ <u>27,590,456</u>	\$ <u>26,399,104</u>	\$ <u>1,191,352</u>	4.5%
<b>LIABILITIES</b>				
Long-term debt	\$ 4,172,725	\$ 5,605,119	\$ (1,432,394)	-25.6%
Other liabilities	<u>1,190,582</u>	<u>853,713</u>	<u>336,869</u>	39.5%
Total liabilities	<u>5,363,307</u>	<u>6,458,832</u>	<u>(1,095,525)</u>	-17.0%

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**FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis  
September 30, 2013

	Governmental Activities			
	<u>2013</u>	<u>2012</u>	<u>Change</u>	<u>%</u>
<b>NET POSITION</b>				
Net investment in capital assets	17,222,950	16,992,248	230,702	1.4%
Restricted	9,035,752	6,757,643	2,278,109	33.7%
Unrestricted	<u>(4,031,553)</u>	<u>(3,809,619)</u>	<u>(221,934)</u>	-5.8%
Total net position	\$ <u>22,227,149</u>	\$ <u>19,940,272</u>	\$ <u>2,286,877</u>	11.5%

At the end of fiscal year 2013, Kosrae State's unrestricted net position showed a deficit of \$4.03 million, an increase of \$0.22 million (or 5.8%) as compared with the prior year. The increase in overall net position of \$2.29 million was due primarily to forgiveness of \$1.3 million in debt by the FSM National Government and \$1.3 million in non-cash capital contributions. The unrestricted deficit, however, is the result of having current and long-term commitments that are greater than currently available resources. Specifically, Kosrae 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. Kosrae State will include these amounts in future year's budgets as funding permits.

The net position increase of \$2.29 million (or 11.5%) compared with prior year and the key elements of 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>
<b>Revenues:</b>				
Operating grants and contributions	\$ 8,602,535	\$8,313,506	\$ 289,029	3.5%
Capital grants and contributions	1,343,214	-	1,343,214	0.0%
Charges for services	435,028	441,897	(6,869)	-1.6%
Revenue sharing	1,153,658	1,461,391	(307,733)	-21.1%
Unrestricted investment earnings	280,700	391,604	(110,904)	-28.3%
Taxes	358,268	418,091	(59,823)	-14.3%
Other	<u>110,494</u>	<u>74,348</u>	<u>36,146</u>	48.6%
Total revenues	<u>12,283,897</u>	<u>11,100,837</u>	<u>1,183,060</u>	10.7%
<b>Expenses:</b>				
General government	1,936,038	1,891,579	44,459	2.4%
Education	4,070,405	3,845,157	225,248	5.9%
Health services	2,621,188	2,361,942	259,246	11.0%
Economic development	893,005	923,540	(30,535)	-3.3%
Boards, commissions and other	1,317,905	1,017,129	300,776	29.6%
Environment protection and sanitation	441,358	558,049	(116,691)	-20.9%
Public order and safety	388,521	361,384	27,137	7.5%
Unallotted interest on long-term debt	<u>146,340</u>	<u>110,218</u>	<u>36,122</u>	32.8%
Total expenses	<u>11,814,760</u>	<u>11,068,998</u>	<u>745,762</u>	6.7%
Forgiveness of debt	1,310,000	-	1,310,000	0.0%
Contributions to permanent fund	<u>507,740</u>	<u>527,763</u>	<u>(20,023)</u>	-3.8%
Change in net position	2,286,877	559,602	1,727,275	308.7%
Net position at the beginning of the year	<u>19,940,272</u>	<u>19,380,670</u>	<u>559,602</u>	2.9%
Net position at the end of the year	\$ <u>22,227,149</u>	\$ <u>19,940,272</u>	\$ <u>2,286,877</u>	11.5%

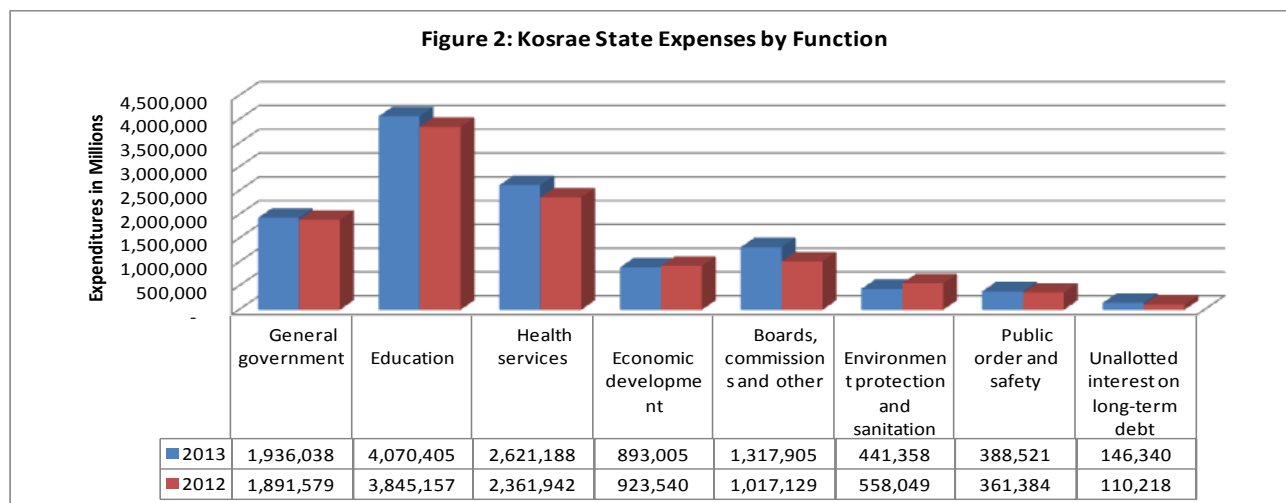
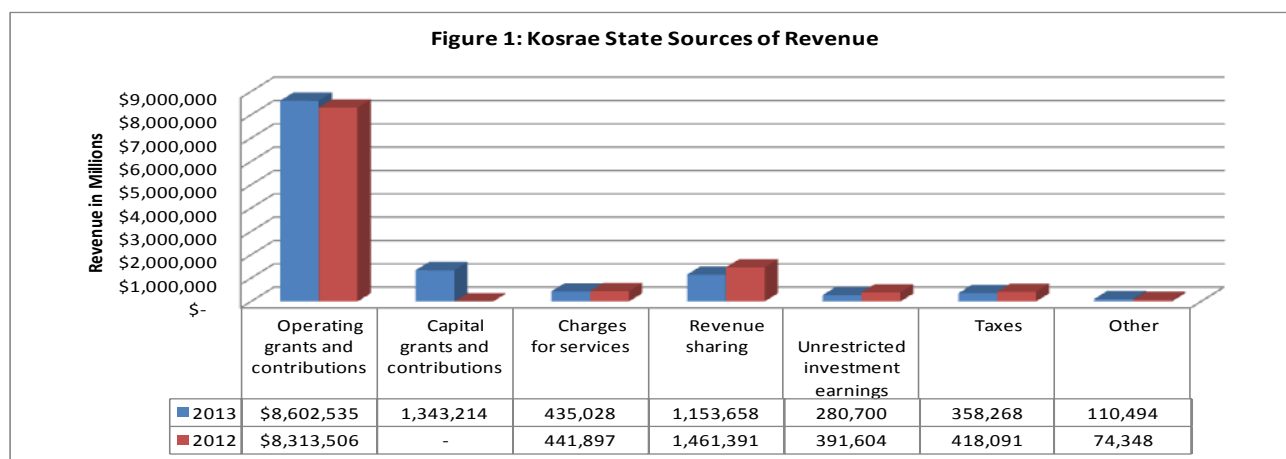
# STATE OF KOSRAE FEDERATED STATES OF MICRONESIA

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

Figure 1 below showed that the total revenues in fiscal year 2013 of \$12.28 million increased by \$1.18 million (or 10.7%) from the prior year's \$11.10 million. The increase was primarily due to the increase in capital grants and contributions of \$1.34 million. In fiscal year 2013, Grants Assistance Fund revenues comprised 77% of all Kosrae State funding sources whereas the General Fund revenues comprised only 18%.

Figure 2 presents that total expenses of \$11.81 million reflected a 6.7% increase from the prior year expenses of \$11.07 million.

The following graphs show the major components of revenues and expenses for the year ended September 30, 2013.



**STATE OF KOSRAE  
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis  
September 30, 2013

**FINANCIAL ANALYSIS OF KOSRAE STATE'S GOVERNMENTAL FUNDS**

As noted earlier, Kosrae State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. As of the end of fiscal year 2013, Kosrae State governmental funds reported a combined fund balance of \$9.34 million, which represents \$0.75 million increase (or 8.8%) from the \$8.59 million recorded at the end of fiscal 2012. These increases are attributable mainly to the increase in the Federal contributions of \$0.31 million and Other Grants funding of \$0.40 million, and the same level of expenditures from prior year. Of the total combined fund balance of \$9.34 million, \$5.87 million is designated as non-spendable fund balance; \$3.36 million is restricted fund balance; \$0.61 million is for committed fund balance and (\$0.50 million) for unassigned fund deficit. Encumbrances identified in Note 10 are classified as restricted and committed fund balances depending on the revenue constraints of the particular programs.

The General Fund is the main operating fund of the State. At the end of the current fiscal year, the unassigned fund deficit was \$0.28 million, which increased by \$0.13 million from \$0.15 million from prior year. Consequently, the total fund balance for the General Fund decreased by \$0.21 million from \$1.91 million in fiscal year 2012 to \$1.70 million in current year. The deficiency of revenues under expenditures for the year was negative \$0.31 million, which was partially supplemented by \$0.1 million in ADB loan proceeds.

The Grants Assistance Fund has a total fund balance of \$2.15 million, which primarily represents Compact Sector grant revenues received not yet expended at year end. The net increase in fund balance during the current year in the Grants Assistance Fund was \$0.27 million or (14%), which primarily was the result of the increase in total revenues in fiscal year 2013 by \$0.24 million.

The Compact Trust Fund has a total fund balance of \$3.84 million, all of which is restricted for the funding of future operations of the primary government commencing in fiscal year 2023. The increase in fund balance during the current year in the Compact Trust Fund was \$0.51 million (or 15.24%). The increase in the fair value of investments for the year however is \$0.02 million lower from the prior year of \$0.53 million.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

During the course of the fiscal year, management and elected officials of Kosrae State Government were not required to make any revisions to the General Fund budget. For the year ended September 30, 2013, General Fund revenues of \$2.01 million, excluding other financing sources, were deficient against expenditures of \$2.33 million by \$0.32 million. The decrease in the total revenue collections for the year of \$0.2 million (or 9%) contributed to the decrease in the total fund balance for the year of \$1.70 million from \$1.91 million from prior year.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

Capital Assets

Kosrae State's investment in capital assets for the primary government as of September 30, 2013, amounted to \$58.93 million, net of accumulated depreciation of \$41.71 million, resulting to a net book value of \$17.22 million. The increase in capital assets of \$1.35 million was due to the donations received from foreign donors of heavy equipment and vehicles. The total depreciation for the year is \$1.12 million.

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FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis  
September 30, 2013

The table below summarizes Kosrae State's capital assets:

	Governmental Activities			
	<u>2013</u>	<u>2012</u>	<u>Change</u>	<u>%</u>
Buildings	\$ 6,668,952	\$ 7,096,749	\$ (427,797)	-6.0%
Infrastructures	8,421,740	8,857,981	(436,241)	-4.9%
Machinery, equipment and others	<u>2,132,258</u>	<u>1,037,518</u>	<u>1,094,740</u>	105.5%
	<u>\$ 17,222,950</u>	<u>\$ 16,992,248</u>	<u>\$ 230,702</u>	1.36%

Additional information on Kosrae State's capital assets can be found in note 5 to the financial statements.

**Long-Term Debt**

The following schedule shows Kosrae State's long-term obligations for fiscal year 2013 with comparative balances from fiscal year 2012.

	Governmental Activities			
	<u>2013</u>	<u>2012</u>	<u>Change</u>	<u>%</u>
FSM National Government Loan	\$ -	\$ 1,310,000	\$ (1,310,000)	-100.0%
ADB Loans	4,052,374	4,138,474	(86,100)	-2.1%
FSM DB Loan	-	33,707	(33,707)	-100.0%
Malem Water	<u>120,351</u>	<u>122,938</u>	<u>(2,587)</u>	-2.1%
	<u>\$ 4,172,725</u>	<u>\$ 5,605,119</u>	<u>\$ (1,432,394)</u>	-25.6%

The State's long-term debt decreased by \$1.43 million (or 25.6%) due primarily to the forgiveness of debt by the FSM National Government of \$1.31 million together with principal repayments made during the year of \$0.22 million. Additional information on Kosrae State's long-term debt obligations can be found in notes 7 and 8 to the financial statements.

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

**General Fund**

Revenues for the six months ending March 31, 2014 showed a decrease of \$135,057 or 18% as compared to the same period in fiscal year 2013.

The leaders of Kosrae State are aware of the current financial situation of the government and have taken steps for the implementation of the Long-term fiscal framework (LTFF) through a task force created in the 2012 Kosrae Leadership Conference. The LTFF identified steps for reforms to remedy the financial burden of the State in the ensuing years. The LTFF has been implemented in FY 2014.

Other measures are also being considered to increase general fund revenues.

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FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis  
September 30, 2013

Grant Assistance Funds

Grants Assistance Funds (specifically compact funding) will continue to be the major funding source for Kosrae State in fiscal year 2013 with total approved funding of \$7,086,397 as follows:

Education Sector	\$2,372,049
Health Sector	\$2,064,161
Environment Sector	\$ 236,501
Private Sector	\$ 611,635
Capacity Building Sector	\$ 412,974
SEG	\$1,212,253
ERA	\$ 176,824

**CONTACTING KOSRAE STATE'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors, a general overview of Kosrae State's finances to demonstrate its accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Director of Administration and Finance; P.O. Box 878, Kosrae, FM, 96944.

**STATE OF KOSRAE  
FEDERATED STATES OF MICRONESIA**

Statement of Net Position  
September 30, 2013

	Primary Government	Component Units
<b><u>ASSETS</u></b>		
Current assets:		
Cash and cash equivalents	\$ 1,811,473	\$ 182,506
Investments	-	333,444
Receivables, net	1,045,224	223,265
Inventories	-	256,820
Prepayments	105,694	7,483
Advances	164,989	-
Restricted assets:		
Time certificates of deposit	-	164,937
Total current assets	<u>3,127,380</u>	<u>1,168,455</u>
Noncurrent assets:		
Capital assets:		
Nondepreciable capital assets	-	228,375
Capital assets, net of accumulated depreciation	17,222,950	22,273,069
Investments	1,285,000	-
Other noncurrent assets	-	252,800
Restricted assets:		
Cash and cash equivalents	256,477	-
Time certificates of deposit	558,455	-
Investments	5,140,194	-
Total noncurrent assets	<u>24,463,076</u>	<u>22,754,244</u>
Total assets	<u>\$ 27,590,456</u>	<u>\$ 23,922,699</u>
<b><u>LIABILITIES</u></b>		
Current liabilities:		
Short-term debt	\$ -	\$ 50,000
Current portion of long-term obligations	167,367	-
Accounts payable	213,608	341,057
Federal grants payable	-	175,000
Other liabilities and accruals	460,086	118,004
Unearned revenues	350,088	14,148
Total current liabilities	<u>1,191,149</u>	<u>698,209</u>
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	4,005,358	-
Other noncurrent liabilities	166,800	-
Total noncurrent liabilities	<u>4,172,158</u>	<u>-</u>
Total liabilities	<u>5,363,307</u>	<u>698,209</u>
Commitments and contingencies		
<b><u>NET POSITION</u></b>		
Net investment in capital assets	17,222,950	22,501,444
Restricted for:		
Nonexpendable:		
Future operations	3,838,556	-
Expendable:		
Debt service	1,301,638	-
Compact related	1,494,020	-
Other purposes	2,401,538	90,000
Unrestricted	<u>(4,031,553)</u>	<u>633,046</u>
Total net position	<u>22,227,149</u>	<u>23,224,490</u>
Total liabilities and net position	<u>\$ 27,590,456</u>	<u>\$ 23,922,699</u>

See accompanying notes to financial statements.

**STATE OF KOSRAE**  
**FEDERATED STATES OF MICRONESIA**

Statement of Activities  
Year Ended September 30, 2013

		Program Revenues			Net (Expenses) Revenues and Changes in Net Position	
		Charges for	Operating	Capital	Primary	Component
	Expenses	Services	Grants and	Grants and	Government	Units
			Contributions	Contributions		
<u>Functions/Programs</u>						
Primary government:						
Governmental activities:						
General government	\$ 1,936,038	\$ 66,103	\$ 1,174,869	\$ -	\$ (695,066)	\$ -
Economic development	893,005	132,232	888,326	-	127,553	-
Education	4,070,405	280	3,811,615	-	(258,510)	-
Health services	2,621,188	146,845	2,358,804	-	(115,539)	-
Public order and safety	388,521	17,422	-	-	(371,099)	-
Environment protection and sanitation	441,358	69,772	368,921	-	(2,665)	-
Boards, commissions and other	1,317,905	2,374	-	1,343,214	27,683	-
Unallocated interest on long-term debt	146,340	-	-	-	(146,340)	-
Total primary government	<u>\$ 11,814,760</u>	<u>\$ 435,028</u>	<u>\$ 8,602,535</u>	<u>\$ 1,343,214</u>	<u>(1,433,983)</u>	<u>-</u>
Component units:						
Kosrae Port Authority	\$ 1,239,808	\$ 154,416	\$ -	\$ 3,322,632	-	2,237,240
Kosrae Utilities Authority	3,053,764	2,607,025	-	133,712	-	(313,027)
Total component units	<u>\$ 4,293,572</u>	<u>\$ 2,761,441</u>	<u>\$ -</u>	<u>\$ 3,456,344</u>	<u>-</u>	<u>1,924,213</u>
General revenues:						
Taxes:						
FSM revenue sharing:						
Gross revenue taxes					407,282	-
Import taxes					346,608	-
Income taxes					339,763	-
Other taxes					60,005	-
State taxes					358,268	-
Unrestricted investment earnings					280,700	31,095
Other					110,494	199,074
Total general revenues					<u>1,903,120</u>	<u>230,169</u>
Special item:						
Foregiveness of debt					1,310,000	-
Contributions to permanent fund					<u>507,740</u>	<u>-</u>
Total general revenues, special items and contributions					<u>3,720,860</u>	<u>230,169</u>
Change in net position					<u>2,286,877</u>	<u>2,154,382</u>
Net position at the beginning of the year					<u>19,940,272</u>	<u>21,070,108</u>
Net position at the end of the year					<u>\$ 22,227,149</u>	<u>\$ 23,224,490</u>

See accompanying notes to financial statements.

**STATE OF KOSRAE  
FEDERATED STATES OF MICRONESIA**

**Balance Sheet**

**Governmental Funds  
September 30, 2013**

		Special Revenue	Permanent	Other Governmental Funds	Total
	General	Grants Assistance	Compact Trust		
<b>ASSETS</b>					
Cash and cash equivalents	\$ 1,811,473	\$ -	\$ -	\$ -	\$ 1,811,473
Investments	292,000	900,000	-	93,000	1,285,000
Receivables, net:					
General	182,644	-	-	300	182,944
Loans	30,000	-	-	456,192	486,192
Federal agencies	-	376,088	-	-	376,088
Due from other funds	95,333	1,555,987	-	716,065	2,367,385
Prepaid items	6,505	88,454	-	10,735	105,694
Advances	53,165	111,824	-	-	164,989
Restricted assets:					
Cash and cash equivalents	230,087	-	-	26,390	256,477
Time certificates of deposit	200,000	-	-	358,455	558,455
Investments	1,301,638	-	3,838,556	-	5,140,194
Total assets	<u>\$ 4,202,845</u>	<u>\$ 3,032,353</u>	<u>\$ 3,838,556</u>	<u>\$ 1,661,137</u>	<u>\$ 12,734,891</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 48,791	\$ 164,000	\$ -	\$ 817	\$ 213,608
Other liabilities and accruals	183,017	274,197	-	2,872	460,086
Due to other funds	2,272,052	92,356	-	2,977	2,367,385
Unearned revenues	-	350,055	-	33	350,088
Total liabilities	<u>2,503,860</u>	<u>880,608</u>	<u>-</u>	<u>6,699</u>	<u>3,391,167</u>
Fund balances:					
Non-spendable	381,670	1,100,280	3,838,556	549,192	5,869,698
Restricted	1,591,236	1,270,445	-	493,560	3,355,241
Committed	5,774	-	-	611,686	617,460
Unassigned:					
General fund	(279,695)	-	-	-	(279,695)
Special revenue funds	-	(218,980)	-	-	(218,980)
Total fund balances	<u>1,698,985</u>	<u>2,151,745</u>	<u>3,838,556</u>	<u>1,654,438</u>	<u>9,343,724</u>
Total liabilities and fund balances	<u>\$ 4,202,845</u>	<u>\$ 3,032,353</u>	<u>\$ 3,838,556</u>	<u>\$ 1,661,137</u>	

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

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

17,222,950

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

Long-term debt payable (4,172,725)  
Claims payable (166,800)

(4,339,525)

Net position of governmental activities

\$ 22,227,149

See accompanying notes to financial statements.

**STATE OF KOSRAE  
FEDERATED STATES OF MICRONESIA**

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

		Special Revenue	Permanent	Other Governmental Funds	Total
	General	Grants Assistance	Compact Trust		
Revenues:					
Compact funding	\$ -	\$ 7,405,143	\$ -	\$ -	\$ 7,405,143
Net change in the fair value of investments	158,179	-	507,740	-	665,919
Federal contributions	-	424,440	-	-	424,440
FSM revenue sharing	1,153,658	-	-	-	1,153,658
State taxes	358,268	-	-	-	358,268
CFSM grants	-	-	-	79,418	79,418
Fees and charges	185,013	-	-	250,015	435,028
Other grants	-	693,534	-	-	693,534
Interest income	44,985	-	-	77,536	122,521
Other	110,494	-	-	-	110,494
Total revenues	2,010,597	8,523,117	507,740	406,969	11,448,423
Expenditures:					
Current:					
General government	1,056,815	822,800	-	-	1,879,615
Economic development	-	888,326	-	-	888,326
Education	-	3,811,615	-	703	3,812,318
Health services	-	2,358,804	-	23,162	2,381,966
Public order and safety	353,312	-	-	24,720	378,032
Environment protection and sanitation	-	368,921	-	72,437	441,358
Boards, commissions and other	545,923	-	-	96,570	642,493
Debt service	365,987	-	-	-	365,987
Total expenditures	2,322,037	8,250,466	-	217,592	10,790,095
Excess (deficiency) of revenues over (under) expenditures	(311,440)	272,651	507,740	189,377	658,328
Other financing sources:					
Proceeds from issuance of long-term debt	97,253	-	-	-	97,253
Net change in fund balances	(214,187)	272,651	507,740	189,377	755,581
Fund balances at the beginning of the year	1,913,172	1,879,094	3,330,816	1,465,061	8,588,143
Fund balances at the end of the year	\$ 1,698,985	\$ 2,151,745	\$ 3,838,556	\$ 1,654,438	\$ 9,343,724

See accompanying notes to financial statements.

**STATE OF KOSRAE**  
**FEDERATED STATES OF MICRONESIA**

Reconciliation of the Statement of Revenues, Expenditure, and Changes in Fund  
Balances of Governmental Funds to the Statement of Activities  
Year Ended September 30, 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	\$ 755,581
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

This is the amount by which capital outlays exceeded depreciation in the current period	230,702
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The incurrence of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. For the current year, these amounts consist of:

Long-term debt proceeds	\$ (97,253)
Repayment of ADB Loans	183,353
Repayment of FSMDB Loan	33,707
Repayment of RUS Loan	2,587
Claims payable	(131,800)

(9,406)

Forgiveness of debt	<u>1,310,000</u>
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Change in net position of governmental activities	\$ <u>2,286,877</u>
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See accompanying notes to financial statements.

**STATE OF KOSRAE  
FEDERATED STATES OF MICRONESIA**

Combining Statement of Net Position

Component Units  
September 30, 2013

<u>ASSETS</u>	Kosrae Port Authority	Kosrae Utilities Authority	Total
Current assets:			
Cash and cash equivalents	\$ 3,549	\$ 178,957	\$ 182,506
Investments	-	333,444	333,444
Time certificate of deposit - restricted	-	164,937	164,937
Receivables:			
General	80,869	411,421	492,290
Allowance for doubtful debts	(50,803)	(218,222)	(269,025)
Net receivables	30,066	193,199	223,265
Inventories	-	256,820	256,820
Prepayments	3,150	4,333	7,483
Total current assets	36,765	1,131,690	1,168,455
Noncurrent assets:			
Deposit for fuel purchase contract	-	252,800	252,800
Capital assets:			
Nondepreciable capital assets	-	228,375	228,375
Capital assets, net of accumulated depreciation	19,242,589	3,030,480	22,273,069
Total assets	\$ 19,279,354	\$ 4,643,345	\$ 23,922,699
<u>LIABILITIES AND NET POSITION</u>			
Current liabilities:			
Short-term debt	\$ -	\$ 50,000	\$ 50,000
Accounts payable	19,600	321,457	341,057
Federal grants payable	-	175,000	175,000
Accrued liabilities	91,244	26,760	118,004
Unearned revenues	-	14,148	14,148
Total liabilities	110,844	587,365	698,209
Net position:			
Net investment in capital assets	19,242,589	3,258,855	22,501,444
Restricted	-	90,000	90,000
Unrestricted	(74,079)	707,125	633,046
Total net position	19,168,510	4,055,980	23,224,490
Total liabilities and net position	\$ 19,279,354	\$ 4,643,345	\$ 23,922,699

See accompanying notes to financial statements.

**STATE OF KOSRAE  
FEDERATED STATES OF MICRONESIA**

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

Component Units  
Year Ended September 30, 2013

	Kosrae Port Authority	Kosrae Utilities Authority	Total
Operating revenues:			
Charge for services	\$ 154,416	\$ 2,607,025	\$ 2,761,441
Operating expenses:			
Cost of services	-	2,122,395	2,122,395
Depreciation and amortization	1,024,495	393,913	1,418,408
Administration and general	215,313	527,979	743,292
Total operating expenses	1,239,808	3,044,287	4,284,095
Operating loss	(1,085,392)	(437,262)	(1,522,654)
Nonoperating revenues (expenses):			
Interest income	-	1,161	1,161
Net change in fair value of investments	-	29,934	29,934
Interest expense	-	(9,477)	(9,477)
Gain on disposal of capital assets	-	332	332
Other	55,373	143,369	198,742
Total nonoperating revenues (expenses), net	55,373	165,319	220,692
Net loss before capital contributions	(1,030,019)	(271,943)	(1,301,962)
Capital contributions	3,322,632	133,712	3,456,344
Change in net position	2,292,613	(138,231)	2,154,382
Net position at beginning of year	16,875,897	4,194,211	21,070,108
Net position at end of year	\$ 19,168,510	\$ 4,055,980	\$ 23,224,490

See accompanying notes to financial statements.

**STATE OF KOSRAE  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2013

**(1) Summary of Significant Accounting Policies**

The State of Kosrae (the State) was constituted on January 11, 1984, under the provisions of the Kosrae State Constitution (the Constitution) as approved by the people of Kosrae. The Constitution provides for the separation of powers of the executive, legislative, and judicial branches of the government.

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

**A. Reporting Entity**

The State is one of the four states that make up the Federated States of Micronesia (FSM), along with the states of Chuuk, Pohnpei and Yap. The State is a constitutional government comprised of three branches: the Legislative Branch, consisting of 14 members elected for a term of four years by qualified voters of their respective election districts; the Executive Branch, headed by the Governor and Lt. Governor who are primarily responsible for executing the laws and administering state government services; and the Judiciary Branch made up of the State Supreme Court, which consists of a Chief Justice and up to four Associate Justices, and other courts that may be created by law.

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

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

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

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

**STATE OF KOSRAE  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

Discretely Presented Component Units:

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

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

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

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

P.O. Box 727  
Tofol, Kosrae, FSM 96944

B. Government-Wide Financial Statements

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

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 KOSRAE  
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 three preceding categories. Unrestricted net position often is designated, (for example, internally restricted), to indicate that management does not consider such to be available for general operations.

The government-wide Statement of Net Position reports \$9,035,752 of restricted net position, of which \$1,654,438 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 KOSRAE  
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. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

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

**STATE OF KOSRAE  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 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.

**STATE OF KOSRAE  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

E. Cash and Cash Equivalents and Time Certificates of Deposit

Cash and cash equivalents of the primary government and the discretely presented component units include cash held in demand accounts as well as short-term investments with 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.

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. Investments in the equity of companies are carried at cost if less than twenty percent of the companies' total equity, on the equity method if greater than twenty percent and less than fifty percent and on a consolidated basis if greater than fifty percent.

G. Receivables

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

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

H. Prepaid Items

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

I. Interfund Receivables/Payables

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

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

**STATE OF KOSRAE  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

J. Inventories

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

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

K. Restricted Assets

Certain assets of the primary government are classified as restricted assets because their use is completely restricted through loan agreements or enabling legislation. Specifically, the State has collateralized investments in the amount of \$1,301,638 for the Early Retirement Scheme. Furthermore, investments recorded in the Compact Trust Fund of \$3,838,556 are restricted in that they are not available to be used in current operations.

As of September 30, 2013, cash and cash equivalents and time certificates of deposit were restricted for the following uses:

Primary Government:

Deposit account established for the purpose of receiving payments pursuant to the Compact of Free Association, as amended.	\$ 140,489
Deposit account established for the Housing Renovation program.	89,598
Deposit account established for the Gifford scholarship fund.	26,390
Time certificate of deposit with a local bank restricted for scholarships for post-secondary students.	358,455
Time certificate of deposit for the Loan Guarantee Escrow Account established for the sole purpose of loan collateralization made through the USDA Rural Development. The escrow account may be drawn down in the event of a borrower's default on the obligation under the terms of the promissory note and the deed of trust security instrument supporting such note and for which such note is guaranteed by the State, the trustee of the Loan Guarantee Escrow Account.	<u>200,000</u>
	\$ <u>814,932</u>

Discretely Presented Component Units:

Time certificate of deposit with a local bank pledged supporting Kosrae Utility Authority short-term debt.	\$ <u>164,937</u>
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**STATE OF KOSRAE**  
**FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

L. Capital Assets

Capital assets, including property, plant, equipment and infrastructure (e.g. roads, bridges, ramps and other similar items), are reported in the governmental activity column of the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at fair market value at the date of donation. Singular pieces of machinery and equipment, other than vehicles, that equal or exceed \$50,000 are capitalized. Buildings and infrastructure projects with a cost that equals or exceeds \$100,000 are capitalized. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized.

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

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

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

M. Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, 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 200 hours per year. All unused annual leave is cancelled at the end of each fiscal year. Accordingly, no liability is recorded for compensated absences in the accompanying financial statements.

**STATE OF KOSRAE**  
**FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

O. Unearned Revenues

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

P. 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.

Q. Fund Balance

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

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

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

A formal minimum fund balance policy has not been adopted.

**STATE OF KOSRAE  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

R. Interfund/Intrafund Transactions

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

S. New Accounting Standards

During the year ended September 30, 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. The implementation of this statement did not have a material effect on the accompanying financial statements.
- 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. The implementation of this statement did not have a material effect on the accompanying financial statements.
- 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*. The implementation of this statement did not have a material effect on the accompanying financial statements.

**STATE OF KOSRAE  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

S. New Accounting Standards, Continued

- 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.

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.

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.

**STATE OF KOSRAE**  
**FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

S. New Accounting Standards, Continued

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.

T. Risk Financing

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

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

V. 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.

**STATE OF KOSRAE**  
**FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2013

**(2) Deposits and Investments**

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

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

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

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

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

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

**STATE OF KOSRAE**  
**FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2013

(2) Deposits and Investments, Continued

A. Deposits

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

As of September 30, 2013, the carrying amount of the primary government's total cash and cash equivalents and time certificates of deposit was \$2,626,405 and the corresponding bank balance was \$2,830,322, which is maintained in financial institutions subject to FDIC insurance. As of September 30, 2013, bank deposits in the amount of \$500,000 were FDIC insured. The State does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Therefore, these deposits are exposed to custodial credit risk.

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 \$347,443, and the corresponding bank balance was \$178,098, which were maintained in financial institutions subject to FDIC insurance. As of September 30, 2013, these bank deposits were fully FDIC insured.

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	\$ 311,208
Other investments:	
Money market funds	4,819,480
Cash management account	<u>9,506</u>
	\$ <u>5,140,194</u>

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

**STATE OF KOSRAE  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2013

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

Investment Type	Investment Maturities (In Years)					Credit Ratings
	Fair Value	Current	1-5	6-10	Over 10	
U.S. Treasury Notes and Bonds	\$ 28,251	\$18,013	\$ 1,449	\$ 4,375	\$ 4,414	AAA
U.S. Government Agencies Obligations:						
Federal Home Loan Mortgage Corporation	37,225	18,101	3,051	585	15,488	AAA
Government National Mortgage Association	586	-	-	-	586	AAA
Federal National Mortgage Association	68,382	-	45,628	-	22,754	AAA
Tennessee Valley Authority	8,229	-	-	4,462	3,767	AAA
Housing Urban Development	3,193	3,193	-	-	-	No rating
AID-Tunisia	13,416	-	13,416	-	-	AAA/No rating
Municipal Obligations	2,823	-	-	2,823	-	A2
Municipal Obligations	24,929	9,902	-	8,147	6,880	Aa1
Municipal Obligations	3,290	-	-	-	3,290	Aa2
Municipal Obligations	8,528	8,528	-	-	-	No rating
Municipal Obligations	2,368	-	2,368	-	-	WR
Corporate Bonds	28,994	11,177	12,137	-	5,680	A1
Corporate Bonds	16,867	-	12,664	4,203	-	A2
Corporate Bonds	16,799	1,379	9,443	5,977	-	A3
Corporate Bonds	9,282	-	7,212	2,070	-	Aa1
Corporate Bonds	3,995	-	-	2,319	1,676	Aa2
Corporate Bonds	12,461	-	10,347	2,114	-	Aa3
Corporate Bonds	4,487	-	-	2,444	2,043	Aaa
Corporate Bonds	4,454	-	4,454	-	-	Baa1
Corporate Bonds	4,779	2,353	-	-	2,426	Baa2
Corporate Bonds	7,870	-	-	3,283	4,587	No rating
	<u>\$311,208</u>	<u>\$72,646</u>	<u>\$122,169</u>	<u>\$42,802</u>	<u>\$ 73,591</u>	

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

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

**STATE OF KOSRAE**  
**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 General Fund holds 3.9% of the shares of the Pacific Islands Development Bank in the amount of \$292,000. As the fair market value of this investment is not readily available, such has been recorded at cost.

As of September 30, 2013, the Grants Assistance Fund holds 5.0% of the shares of the Bank of the Federated States of Micronesia in the amount of \$500,000 and 5.3% of the shares of the Pacific Islands Development Bank in the amount of \$400,000. As the fair market value of these investments is not readily available, such have been recorded at cost.

As of September 30, 2013, the Grants Assistance Fund holds 100% of the shares of Pacific Tuna Ventures, Inc. and 50% of the shares in a joint venture with the National Fisheries Corporation of Kosrae Sea Ventures, Inc. These investments are accounted for using the equity method and, accordingly, the carrying values have been reduced to \$0.

As of September 30, 2013, the other governmental funds holds 1.2% of the shares of the Pacific Islands Development Bank in the amount of \$93,000. As the fair market value of this investment is not readily available, such has been recorded at cost.

Discretely Presented Component Units

Kosrae Utilities Authority:

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

Money market funds	\$ 10,850
Common stock	166,641
Fixed income securities	<u>105,953</u>
	283,444
Investment in Ocean Energy Kosrae	<u>50,000</u>
	\$ <u><u>333,444</u></u>

**STATE OF KOSRAE  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2013

**(3) Receivables**

**Primary Government, Continued**

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:

	<u>General</u>	<u>Grants Assistance</u>	<u>Compact Trust</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Receivables:					
General	\$ 604,798	\$ -	\$ -	\$ -	\$ 604,798
Federal agencies	-	1,645,896	-	300	1,646,196
Taxes	307,674	-	-	-	307,674
Loans	<u>30,000</u>	<u>762,630</u>	<u>-</u>	<u>1,854,468</u>	<u>2,647,098</u>
	942,472	2,408,526	-	1,854,768	5,205,766
Less: Allowance for uncollectible accounts	<u>(729,828)</u>	<u>(2,032,438)</u>	<u>-</u>	<u>(1,398,276)</u>	<u>(4,160,542)</u>
Net receivables	\$ <u>212,644</u>	\$ <u>376,088</u>	\$ <u>-</u>	\$ <u>456,492</u>	\$ <u>1,045,224</u>

Loans receivable of the primary government as of September 30, 2013 are as follows:

**General Fund**

Loan receivable due from Tropical Waters, Inc., uncollateralized and interest free. \$ 30,000

**Grants Assistance Fund**

Note receivable due from Pacific Tuna Ventures, Inc., payable in monthly installments of \$11,875, uncollateralized, due May 1996, interest at 3% per annum. This note has been fully provided for in the allowance for uncollectible accounts. \$ 367,500

Loans receivable from post-secondary students issued under a student financial assistance program to qualified Kosraean students, uncollateralized with interest at up to 6% per annum. These loans have been fully provided for in the allowance for uncollectible accounts. 395,130

\$ 762,630

**Nonmajor Governmental Funds**

Low-income housing loans, details and terms of those loans have not been compiled and such have been provided for in the allowance for uncollectible accounts in the amount of \$1,364,503. \$ 1,820,695

Loans receivable from post-secondary students issued under a student financial assistance program to qualified Kosraean students, uncollateralized with interest at up to 6% per annum. These loans have been fully provided for in the allowance for uncollectible accounts. 33,773

\$ 1,854,468

**STATE OF KOSRAE  
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:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Grants Assistance	General	\$ 1,555,987
Nonmajor governmental funds	General	716,065
General	Nonmajor governmental funds	2,977
General	Grants Assistance	<u>92,356</u>
		<u>\$ 2,367,385</u>

**(5) Capital Assets**

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

**Primary Government**

	Balance October <u>1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	Balance September <u>30, 2013</u>
Governmental activities:				
Buildings	\$ 19,591,103	\$ -	\$ -	\$ 19,591,103
Infrastructure	32,925,368	-	-	32,925,368
Machinery, equipment, others	<u>5,068,681</u>	<u>1,349,781</u>	<u>-</u>	<u>6,418,462</u>
	<u>57,585,152</u>	<u>1,349,781</u>	<u>-</u>	<u>58,934,933</u>
Less accumulated depreciation:				
Buildings	(12,494,354)	(427,797)	-	(12,922,151)
Infrastructure	(24,067,387)	(436,241)	-	(24,503,628)
Machinery, equipment, others	<u>(4,031,163)</u>	<u>(255,041)</u>	<u>-</u>	<u>(4,286,204)</u>
	<u>(40,592,904)</u>	<u>(1,119,079)</u>	<u>-</u>	<u>(41,711,983)</u>
	<u>\$ 16,992,248</u>	<u>\$ 230,702</u>	<u>\$ -</u>	<u>\$ 17,222,950</u>

During the year ended September 30, 2013, depreciation expense was charged as follows:

General government	\$ 56,423
Economic development	4,679
Education	241,287
Health services	124,222
Public safety	17,056
Boards, commissions and others	<u>675,412</u>
	<u>\$ 1,119,079</u>

**STATE OF KOSRAE  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2013

**(5) Capital Assets, Continued**

**Discretely Presented Component Units**

	Balance October <u>1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	Balance September <u>30, 2013</u>
Depreciable assets:				
Buildings	\$ 8,618,737	\$ 3,322,632	\$ -	\$ 11,941,369
Utility plant	11,857,750	61,430	(443)	11,918,737
Infrastructure	37,972,012	-	-	37,972,012
Machinery, equipment, others	<u>924,968</u>	<u>-</u>	<u>-</u>	<u>924,968</u>
	59,373,467	3,384,062	(443)	62,757,086
Less accumulated depreciation	<u>(39,065,941)</u>	<u>(1,418,408)</u>	<u>332</u>	<u>(40,484,017)</u>
	20,307,526	1,965,654	(111)	22,273,069
Nondepreciable assets:				
Construction work-in-progress	<u>73,750</u>	<u>200,194</u>	<u>(45,569)</u>	<u>228,375</u>
	\$ <u>20,381,276</u>	\$ <u>2,165,848</u>	\$ <u>(45,680)</u>	\$ <u>22,501,444</u>

**(6) Short-Term Debt**

**Discretely Presented Component Units**

Kosrae Utilities Authority (KUA):

KUA has a short-term \$200,000 line of credit facility from a bank with interest at 7% per annum, due July 26, 2014, collateralized by a time certificate of deposit. Changes in this short-term borrowing were as follows:

	Balance October <u>1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2013</u>
	\$ <u>216,611</u>	\$ <u>-</u>	\$ <u>(166,611)</u>	\$ <u>50,000</u>

**(7) Long-Term Obligations**

**Primary Government**

Malem Wastewater System Project (MWSP) Loan:

The State borrowed \$145,000 from the U.S. Department of Agriculture Rural Utilities Services for the Malem Wastewater System Project, payable in annual installments of \$8,119 commencing September 28, 2001, interest at 4.5% per annum, due September 28, 2040. As of September 30, 2013, the balance payable on this mortgage loan amounted to \$120,351.

**STATE OF KOSRAE**  
**FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2013

(7) Long-Term Obligations, Continued

Primary Government, Continued

Asian Development Bank (ADB) Loans:

The State implemented an Early Retirement Scheme (ERS) in which employees holding certain nonessential positions as identified by the State were retired early with a payout of the equivalent of two-years' wages. This ERS program is funded by a \$2,000,000 loan from the ADB (Loan Number 1520 (SF)) through the FSM National Government, non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. The activities of the ERS Program are recorded in the General Fund.

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

Funds for the repayment of the ADB loan are expected to be derived from the annual appropriations for salaries and wages earmarked for the positions abolished under the Early Retirement Scheme. The Financing Agreement requires the State to continue to appropriate salaries for the abolished positions and deposit the appropriated funds into the ERS Trust Account. These funds had not been deposited to the Trust Account as of September 30, 2002. Of the required \$2,000,000 identified for future debt service payments, \$1,301,638 is deposited in an investment account held jointly with the FSM National Government. That investment account is restricted for the repayment of this debt. As of September 30, 2013, the balance payable on this loan amounted to \$2,036,794.

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 \$213,501.

The State also entered into an agreement with the FSM National Government to borrow a portion of the proceeds of the FSM National Government Program Loans with ADB (Loan Number 1873 (SF) and Loan Number 1874 FSM (SF)) for the purpose of promoting private sector development in Kosrae, with interest at 1% to 1.5% per annum. Principal payments shall be made in 32 equal semi-annual payments with the first payment due on May 15, 2010 and the last payment on November 15, 2025. As of September 30, 2013, the balances payable on these loans amounted to \$679,978 and \$744,209, respectively.

**STATE OF KOSRAE  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2013

(7) Long-Term Obligations, Continued

Primary Government, Continued

Asian Development Bank (ADB) Loans, 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 2099 FSM (SF)) for the purpose of funding the Omnibus Infrastructure Development Project, with interest at 1% to 1.5% per annum. Principal payments shall be made semiannually commencing 2013, with a maturity date of 2037. As of September 30, 2013, the balance payable on this loan amounted to \$377,892.

The State also entered into an agreement with the FSM National Government to borrow \$1,500,000 for the purpose of repayment of Compact Sector Grant advances and to partially pay a \$500,000 bank borrowing. Principal payments shall be made in equal quarterly installments of \$37,500, non-interest bearing, commencing on October 1, 2009 and ending on July 1, 2019. As of September 30, 2013, the balance payable on this loan amounted to \$0 as the \$1,310,000 was forgiven by the FSM National Government.

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 167,367	\$ 56,018	\$ 223,385
2015	167,490	53,658	221,148
2016	167,617	51,293	218,910
2017	167,750	48,921	216,671
2018	228,595	63,682	292,277
2019 – 2023	1,076,774	186,339	1,263,113
2024 – 2028	946,187	115,025	1,061,212
2029 – 2033	805,694	57,474	863,168
2034 – 2038	<u>445,251</u>	<u>11,349</u>	<u>456,600</u>
	\$ <u>4,172,725</u>	\$ <u>643,759</u>	\$ <u>4,816,484</u>

**STATE OF KOSRAE  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2013

**(8) Change 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, 2012	Additions	Reductions	Balance September 30, 2013	Due Within One Year
Loans payable:					
ADB loans:					
Loan 1520	\$ 2,079,814	\$ -	(43,020)	\$ 2,036,794	\$ 46,294
Loan 1816	236,434	-	(22,933)	213,501	11,237
Loan 1873	736,947	-	(56,969)	679,978	54,399
Loan 1874	795,585	-	(51,376)	744,209	36,302
Loan 2099	289,694	97,253	(9,055)	377,892	16,432
FSMDB loan	33,707	-	(33,707)	-	-
MWSP loan	122,938	-	(2,587)	120,351	2,703
FSMNG loan	<u>1,310,000</u>	<u>-</u>	<u>(1,310,000)</u>	<u>-</u>	<u>-</u>
	5,605,119	97,253	(1,529,647)	4,172,725	167,367
Other:					
Claims	<u>35,000</u>	<u>131,800</u>	<u>-</u>	<u>166,800</u>	<u>-</u>
	<u>\$ 5,640,119</u>	<u>\$ 229,053</u>	<u>\$ (1,529,647)</u>	<u>\$ 4,339,525</u>	<u>\$ 167,367</u>

**STATE OF KOSRAE  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2013

**(9) Fund Balances**

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

	General Fund	Grants Assistance Fund	Compact Trust Fund	Nonmajor Funds	Total Governmental Funds
Non-spendable:					
General government	\$ 59,670	\$ 101,006	\$ -	\$ -	\$ 160,676
Economic development	30,000	13,249	-	-	43,249
Education	-	61,527	-	-	61,527
Health services	-	24,498	-	-	24,498
Home improvement program	-	-	-	456,192	456,192
Pacific Islands Development Bank	292,000	400,000	-	93,000	785,000
Bank of the FSM	-	500,000	-	-	500,000
Permanent fund principal	-	-	3,838,556	-	3,838,556
Restricted for:					
General government	-	741,455	-	-	741,455
Education	-	198,654	-	-	198,654
Health services	-	143,729	-	-	143,729
Economic development	-	81,170	-	-	81,170
Debt service	1,301,638	-	-	-	1,301,638
Housing renovation program	89,598	-	-	-	89,598
USDA development loans	200,000	-	-	-	200,000
Capital projects	-	105,437	-	41,066	146,503
Housing improvement program	-	-	-	70,626	70,626
Scholarships	-	-	-	381,868	381,868
Committed for:					
Education	-	-	-	8,084	8,084
Health services	-	-	-	497,765	497,765
Environment protection	-	-	-	84,533	84,533
Board, commissioners, others	5,774	-	-	21,304	27,078
Unassigned	<u>(279,695)</u>	<u>(218,980)</u>	<u>-</u>	<u>-</u>	<u>(498,675)</u>
	<u>\$ 1,698,985</u>	<u>\$ 2,151,745</u>	<u>\$ 3,838,556</u>	<u>\$ 1,654,438</u>	<u>\$ 9,343,724</u>

**(10) Commitments and Contingencies**

**Encumbrances**

The State utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2013, the State has significant encumbrances summarized as follows:

	General	Grants Assistance	Other Governmental Funds	Total
Encumbrances	\$ <u>77,874</u>	\$ <u>781,478</u>	\$ <u>204,558</u>	\$ <u>1,063,910</u>

**STATE OF KOSRAE**  
**FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2013

**(10) Commitments and Contingencies, Continued**

**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 \$534,375.

**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.

**Federal Grants**

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

**Loan Guarantee Escrow**

As set forth in note 1K, the State has pledged an escrow account in support of certain housing loans. In the event of default, the State could be exposed to an amount in excess of the escrow account balance, an amount that is presently indeterminable.

**Litigation**

The State is party to numerous legal proceedings, many of which are normal recurrences in governmental operations. The State's Attorney General is of the opinion that the probable outcome of suits existing at September 30, 2013, is not predictable but could have a material impact on the accompanying financial statements. Such impact has currently been estimated to approximate \$166,800, which has been recorded as a liability in the accompanying statement of net position.

**Other**

The State issued certain reduction-in-force checks to State employees without withholdings. This matter is being discussed between the State and the FSM National Government and State management believes that no adverse impact on the accompanying financial statements will result.

**(11) Budgetary Compliance**

For the year ended September 30, 2013, significant over-expenditures exceeded appropriations within the General Fund for the following:

Debt service - interest	\$ 146,340
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**STATE OF KOSRAE  
FEDERATED STATES OF MICRONESIA**

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

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**YEAR ENDED SEPTEMBER 30, 2013**

**STATE OF KOSRAE  
FEDERATED STATES OF MICRONESIA**

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

	<u>Budgeted Amounts</u>		<u>Actual - Budgetary Basis (see Note 1)</u>	<u>Variance with Final Budget -</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
FSM revenue sharing	\$ 1,067,346	\$ 1,067,346	\$ 1,153,658	\$ 86,312
State taxes	365,491	365,491	358,268	(7,223)
Licenses and fees	65,630	65,630	185,013	119,383
Interest and dividends	223,382	223,382	44,985	(178,397)
Other	487,633	487,633	268,673	(218,960)
Total revenues	<u>2,209,482</u>	<u>2,209,482</u>	<u>2,010,597</u>	<u>(198,885)</u>
Expenditures:				
Current:				
General government	1,098,909	1,102,629	1,060,733	41,896
Public order and safety	334,942	336,940	343,268	(6,328)
Boards, commissions and other	848,303	846,088	924,274	(78,186)
Total expenditures	<u>2,282,154</u>	<u>2,285,657</u>	<u>2,328,275</u>	<u>(42,618)</u>
Deficiency of revenues under expenditures	(72,672)	(76,175)	(317,678)	(241,503)
Other financing sources:				
Proceeds from issuance of long-term debt	<u>-</u>	<u>-</u>	<u>97,253</u>	<u>97,253</u>
Net change in fund balance	(72,672)	(76,175)	(220,425)	(144,250)
Encumbrance	72,672	72,672	6,238	(66,434)
Fund balance at the beginning of the year	<u>1,913,172</u>	<u>1,913,172</u>	<u>1,913,172</u>	<u>-</u>
Fund balance at the end of the year	<u>\$ 1,913,172</u>	<u>\$ 1,909,669</u>	<u>\$ 1,698,985</u>	<u>\$ (210,684)</u>

See accompanying notes to required supplementary information - budgetary reporting.

**STATE OF KOSRAE  
FEDERATED STATES OF MICRONESIA**

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

(1) Budgetary Information

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

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

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

**STATE OF KOSRAE  
FEDERATED STATES OF MICRONESIA**

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**OTHER SUPPLEMENTARY INFORMATION**

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**YEAR ENDED SEPTEMBER 30, 2013**

**STATE OF KOSRAE  
FEDERATED STATES OF MICRONESIA**

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

		Special Revenue	Permanent	Other Governmental Funds	Total
	General	Grants Assistance	Compact Trust		
Expenditures:					
Salaries and wages:					
Regular	\$ 1,122,257	\$ 3,524,817	\$ -	\$ 52,052	\$ 4,699,126
Overtime	43,166	127,287	-	130	170,583
Fringe benefits	145,301	472,456	-	4,330	622,087
Other personnel costs	2,823	4,597	-	-	7,420
Travel and transportation	107,398	229,916	-	7,738	345,052
Communications	42,372	72,336	-	3,582	118,290
Dues, membership, and subscriptions	13,500	4,570	-	-	18,070
Food stuffs	24,830	27,635	-	1,488	53,953
Port charges	169	3,319	-	1,981	5,469
Office supplies and materials	123,509	613,592	-	110,941	848,042
POL	42,496	113,460	-	3,469	159,425
Printing and reproduction	1,960	13,808	-	308	16,076
Rental services	4,630	9,252	-	63	13,945
Repairs and maintenance	2,516	14,843	-	264	17,623
Utilities	126,785	347,957	-	5,831	480,573
Subsidies and contributions	20,099	25,000	-	-	45,099
Medical referral	-	106,406	-	869	107,275
Medical supplies	-	505,977	-	22,004	527,981
Contractual services	32,333	748,464	-	3,113	783,910
Professional services	-	27,835	-	-	27,835
Non-payroll compensation	6,357	860	-	-	7,217
Scholarships and allowances	-	323,154	-	703	323,857
Training	21,242	409,572	-	-	430,814
Leased housing, buildings and land	36,989	107,367	-	-	144,356
Equipment	13,565	387,273	-	262	401,100
Principal repayment	219,647	-	-	-	219,647
Interest payments	146,340	-	-	-	146,340
Miscellaneous	21,753	28,713	-	(1,536)	48,930
	<u>\$ 2,322,037</u>	<u>\$ 8,250,466</u>	<u>\$ -</u>	<u>\$ 217,592</u>	<u>\$ 10,790,095</u>

See Accompanying Independent Auditors' Report.

**STATE OF KOSRAE  
FEDERATED STATES OF MICRONESIA**

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

	2013	2012
Revenues:		
FSM revenue sharing:		
Gross revenue taxes	407,282	672,674
Import taxes	346,608	378,193
Income taxes	339,763	356,894
Other taxes	60,005	53,630
	<u>1,153,658</u>	<u>1,461,391</u>
State taxes:		
Sales tax	358,268	418,091
Fees and charges:		
Licenses and fees	185,013	181,566
Net change in fair value of investments	158,179	274,325
Interest and dividend income	44,985	43,626
Other:		
Other	110,494	74,348
Total revenues	<u>2,010,597</u>	<u>2,453,347</u>
Expenditures:		
Current:		
General government:		
Office of the Governor	183,367	187,828
Department of Administration and Finance	90,835	116,406
Judiciary Branch	208,462	227,495
Legislative Branch	567,624	609,238
Election	6,527	1,850
	<u>1,056,815</u>	<u>1,142,817</u>
Public Order and Safety:		
Office of the Attorney General	352,932	330,507
Parole board	380	700
	<u>353,312</u>	<u>331,207</u>
Boards, Commissions and Other:		
Department of Transportation and Infrastructure	286,545	287,050
Broadcast Authority	47,140	43,548
Sports Council	14,703	16,838
Retirement Pension Program	2,467	7,958
RM Small Business Development Center	4,079	12,871
Land Court	113,666	115,733
USDA Rural Development	8,470	25,958
KPA Fire truck	34,159	-
Micronesia Petroleum Corporation debt service	-	60,856
Micronesia Legal Services	15,000	15,000
Municipal governments	10,351	10,000
Other	9,343	17,353
	<u>545,923</u>	<u>613,165</u>

See Accompanying Independent Auditors' Report.

**STATE OF KOSRAE  
FEDERATED STATES OF MICRONESIA**

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

	2013	2012
Expenditures, continued:		
Debt Service:		
Principal payments	219,647	261,919
Interest charges	146,340	53,178
	365,987	315,097
Total expenditures	2,322,037	2,402,286
Excess (deficiency) of revenues over (under) expenditures	(311,440)	51,061
Other financing sources:		
Proceeds from issuance of long-term debt	97,253	79,970
Net change in fund balance	(214,187)	131,031
Fund balance at the beginning of the year	1,913,172	1,782,141
Fund balance at the end of the year	\$ 1,698,985	\$ 1,913,172

See Accompanying Independent Auditors' Report.

**STATE OF KOSRAE  
FEDERATED STATES OF MICRONESIA**

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

	Budgeted Amounts		Actual Amounts	
	Original	Final	Budgetary Basis	Variance
Revenues:				
FSM revenue sharing:	\$ 1,067,346	\$ 1,067,346	\$ 1,153,658	\$ 86,312
State taxes:				
Sales tax	365,491	365,491	358,268	(7,223)
Fees and charges:				
Licences and fees	65,630	65,630	185,013	119,383
Interest and dividend income	223,382	223,382	44,985	(178,397)
Other:				
Other	487,633	487,633	268,673	(218,960)
Total revenues	2,209,482	2,209,482	2,010,597	(198,885)
Expenditures:				
Current:				
General government:				
Office of the Governor	180,670	180,670	181,126	(456)
Department of Administration and Finance	74,863	84,813	89,153	(4,340)
Judiciary Branch	220,644	220,644	212,374	8,270
Legislative Branch	615,722	609,492	571,253	38,239
Election	7,010	7,010	6,827	183
	1,098,909	1,102,629	1,060,733	41,896
Public order and safety:				
Office of the Attorney General	334,192	336,190	342,888	(6,698)
Parole board	750	750	380	370
	334,942	336,940	343,268	(6,328)
Boards, commissions and other:				
Department of Transportation and Infrastructure	305,713	303,498	292,785	10,713
USDA Rural Development	4,500	4,500	8,470	(3,970)
Broadcast Authority	51,956	51,956	48,138	3,818
Sports Council	17,763	17,763	15,497	2,266
Retirement Pension Program	12,122	12,122	2,467	9,655
Small Business Development Center	-	-	6,430	(6,430)
Land Court	118,947	118,947	114,956	3,991
KPA Fire Truck	35,000	35,000	34,999	1
Micronesia Petroleum Corporation Debt Service	37,300	37,300	-	37,300
Micronesia Legal Services	15,000	15,000	15,000	-
Municipal governments	14,860	14,860	10,351	4,509
Other	11,760	11,760	9,194	2,566
Debt Service:				
Principal payments	223,382	223,382	219,647	3,735
Interest charges	-	-	146,340	(146,340)
	848,303	846,088	924,274	(78,186)
Total expenditures	2,282,154	2,285,657	2,328,275	(42,618)
Deficiency of revenues under expenditures	(72,672)	(76,175)	(317,678)	(241,503)
Other financing sources:				
Proceeds from issuance of long-term debt	-	-	97,253	97,253
Net change in fund balance	(72,672)	(76,175)	(220,425)	(144,250)
Encumbrances	72,672	72,672	6,238	(66,434)
Fund balance at the beginning of the year	1,913,172	1,913,172	1,913,172	-
Fund balance at the end of the year	\$ 1,913,172	\$ 1,909,669	\$ 1,698,985	\$ (210,684)

See Accompanying Independent Auditors' Report.

**STATE OF KOSRAE  
FEDERATED STATES OF MICRONESIA**

**NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS**

**Combining Balance Sheet  
September 30, 2013**

	Scholarship Revolving Loan	Production and Development Loan	Health Care	Sports Council	Broadcasting Authority	Transportation Infrastructure Revolving	Home Improvement Program Revolving	Aluminum Recycling	CFSM Grants	Gifford Scholarship	Total
<b><u>ASSETS</u></b>											
Investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 93,000	\$ -	\$ 93,000
Receivables:											
General	-	-	-	-	-	-	-	-	300	-	300
Loans	-	-	-	-	-	-	456,192	-	-	-	456,192
Due from other funds	8,084	10,735	487,080	1,190	6,664	2,715	73,965	84,533	41,099	-	716,065
Prepayments	-	-	10,735	-	-	-	-	-	-	-	10,735
Restricted:											
Cash and equivalents	-	-	-	-	-	-	-	-	-	26,390	26,390
Time certificates of deposit	-	-	-	-	-	-	-	-	-	358,455	358,455
Total assets	<u>\$ 8,084</u>	<u>\$ 10,735</u>	<u>\$ 497,815</u>	<u>\$ 1,190</u>	<u>\$ 6,664</u>	<u>\$ 2,715</u>	<u>\$ 530,157</u>	<u>\$ 84,533</u>	<u>\$ 134,399</u>	<u>\$ 384,845</u>	<u>\$ 1,661,137</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>											
Liabilities:											
Accounts payable	\$ -	\$ -	\$ 50	\$ -	\$ -	\$ -	\$ 3,339	\$ -	\$ 300	\$ -	\$ 3,689
Due to other funds	-	-	-	-	-	-	-	-	-	2,977	2,977
Unearned revenue	-	-	-	-	-	-	-	-	33	-	33
Total liabilities	<u>-</u>	<u>-</u>	<u>50</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,339</u>	<u>-</u>	<u>333</u>	<u>2,977</u>	<u>6,699</u>
Fund balances:											
Non-spendable	-	-	-	-	-	-	456,192	-	93,000	-	549,192
Restricted	-	-	-	-	-	-	70,626	-	41,066	381,868	493,560
Committed	<u>8,084</u>	<u>10,735</u>	<u>497,765</u>	<u>1,190</u>	<u>6,664</u>	<u>2,715</u>	<u>-</u>	<u>84,533</u>	<u>-</u>	<u>-</u>	<u>611,686</u>
Total fund balances	<u>8,084</u>	<u>10,735</u>	<u>497,765</u>	<u>1,190</u>	<u>6,664</u>	<u>2,715</u>	<u>526,818</u>	<u>84,533</u>	<u>134,066</u>	<u>381,868</u>	<u>1,654,438</u>
Total liabilities and fund balances	<u>\$ 8,084</u>	<u>\$ 10,735</u>	<u>\$ 497,815</u>	<u>\$ 1,190</u>	<u>\$ 6,664</u>	<u>\$ 2,715</u>	<u>\$ 530,157</u>	<u>\$ 84,533</u>	<u>\$ 134,399</u>	<u>\$ 384,845</u>	<u>\$ 1,661,137</u>

See Accompanying Independent Auditors' Report.

**STATE OF KOSRAE  
FEDERATED STATES OF MICRONESIA**

**NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS**

**Combining Statement of Revenues, Expenditures By Function,  
and Changes in Fund Balances  
Year Ended September 30, 2013**

	Scholarship Revolving Loan	Production and Development Loan	Health Care	Sports Council	Broadcasting Authority	Transportation Infrastructure Revolving	Home Improvement Program Revolving	Aluminum Recycling	CFSM Grants	Gifford Scholarship	Total
Revenues:											
Fees and charges	\$ 280	\$ 30,818	\$ 146,771	\$ 50	\$ 2,324	\$ -	\$ -	\$ 69,772	\$ -	\$ -	\$ 250,015
CFSM grants	-	-	-	-	-	-	-	-	79,418	-	79,418
Interest income	-	117	707	-	-	-	71,333	212	-	5,167	77,536
Total revenues	280	30,935	147,478	50	2,324	-	71,333	69,984	79,418	5,167	406,969
Expenditures by function:											
Current:											
Education	703	-	-	-	-	-	-	-	-	-	703
Health services	-	-	23,162	-	-	-	-	-	-	-	23,162
Public order and safety	-	-	-	-	-	-	-	-	24,720	-	24,720
Environment, protection and sanitation	-	-	-	-	-	-	-	72,437	-	-	72,437
Boards, commissions and other	-	39,218	-	-	-	-	57,352	-	-	-	96,570
Total expenditures	703	39,218	23,162	-	-	-	57,352	72,437	24,720	-	217,592
Net change in fund balances	(423)	(8,283)	124,316	50	2,324	-	13,981	(2,453)	54,698	5,167	189,377
Fund balances at the beginning of the year	8,507	19,018	373,449	1,140	4,340	2,715	512,837	86,986	79,368	376,701	1,465,061
Fund balances at the end of the year	\$ 8,084	\$ 10,735	\$ 497,765	\$ 1,190	\$ 6,664	\$ 2,715	\$ 526,818	\$ 84,533	\$ 134,066	\$ 381,868	\$ 1,654,438

See Accompanying Independent Auditors' Report.

**STATE OF KOSRAE  
FEDERATED STATES OF MICRONESIA**

**NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS**

**Combining Statement of Revenues, Expenditures By Account,  
and Changes in Fund Balances  
Year Ended September 30, 2013**

	Scholarship Revolving Loan	Production and Development Loan	Health Care	Sports Council	Broadcasting Authority	Transportation Infrastructure Revolving	Home Improvement Program Revolving	Aluminum Recycling	CFSM Grants	Gifford Scholarship	Total
Revenues:											
Fees and charges	\$ 280	\$ 30,818	\$ 146,771	\$ 50	\$ 2,324	\$ -	\$ -	\$ 69,772	\$ -	\$ -	\$ 250,015
CFSM Grants	-	-	-	-	-	-	-	-	79,418	-	79,418
Interest income	-	117	707	-	-	-	71,333	212	-	5,167	77,536
Total revenues	280	30,935	147,478	50	2,324	-	71,333	69,984	79,418	5,167	406,969
Expenditures by account:											
Salaries and wages:											
Regular	-	-	-	-	-	-	44,511	-	12,000	-	56,511
Travel and transportation	-	-	-	-	-	-	7,738	-	-	-	7,738
Communications	-	-	-	-	-	-	1,936	-	1,646	-	3,582
Food stuffs	-	1,488	-	-	-	-	-	-	-	-	1,488
Port charges	-	1,955	27	-	-	-	-	-	-	-	1,982
Office supplies and materials	-	34,562	-	-	-	-	1,627	72,409	2,343	-	110,941
POL	-	-	-	-	-	-	469	-	3,000	-	3,469
Contractual services	-	613	-	-	-	-	2,500	-	-	-	3,113
Utilities	-	-	-	-	-	-	100	-	5,731	-	5,831
Medical supplies	-	-	22,004	-	-	-	-	-	-	-	22,004
Rental	-	-	-	-	-	-	63	-	-	-	63
Equipment	-	-	262	-	-	-	-	-	-	-	262
Repairs and maintenance	-	-	-	-	-	-	264	-	-	-	264
Printing and reproduction	-	-	-	-	-	-	308	-	-	-	308
Miscellaneous	703	600	869	-	-	-	(2,164)	28	-	-	36
Total expenditures	703	39,218	23,162	-	-	-	57,352	72,437	24,720	-	217,592
Net change in fund balances	(423)	(8,283)	124,316	50	2,324	-	13,981	(2,453)	54,698	5,167	189,377
Fund balances at the beginning of the year	8,507	19,018	373,449	1,140	4,340	2,715	512,837	86,986	79,368	376,701	1,465,061
Fund balances at the end of the year	<u>\$ 8,084</u>	<u>\$ 10,735</u>	<u>\$ 497,765</u>	<u>\$ 1,190</u>	<u>\$ 6,664</u>	<u>\$ 2,715</u>	<u>\$ 526,818</u>	<u>\$ 84,533</u>	<u>\$ 134,066</u>	<u>\$ 381,868</u>	<u>\$ 1,654,438</u>

See Accompanying Independent Auditors' Report.

**STATE OF KOSRAE  
FEDERATED STATES OF MICRONESIA**

**GRANTS ASSISTANCE FUND**

Combining Balance Sheet  
September 30, 2013

	Section 211(a)(1) Education Sector	Section 211(a)(2) Health Sector	Section 211(a)(3) Private Sector Development	Section 211(a)(4) Capacity Building	Section 211(a)(5) Environment
<b><u>ASSETS</u></b>					
Investments	\$ -	\$ -	\$ -	\$ -	\$ -
Receivables:					
Federal agencies	-	29,597	151,683	65,633	-
Advances	9,670	14,781	13,249	54,836	4,484
Prepayments	2,555	9,717	-	600	-
Due from other funds	<u>180,333</u>	<u>-</u>	<u>-</u>	<u>26,563</u>	<u>11,441</u>
	<u>\$ 192,558</u>	<u>\$ 54,095</u>	<u>\$ 164,932</u>	<u>\$ 147,632</u>	<u>\$ 15,925</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>					
Liabilities:					
Accounts payable	\$ 7,335	\$ 34,993	\$ 2,948	\$ 3,393	\$ 1,122
Other liabilities and accruals	104,006	61,698	26,187	10,958	6,904
Due to other funds	-	9,385	17,223	-	-
Unearned revenues	<u>94,942</u>	<u>21,357</u>	<u>24,155</u>	<u>-</u>	<u>10,211</u>
Total liabilities	<u>206,283</u>	<u>127,433</u>	<u>70,513</u>	<u>14,351</u>	<u>18,237</u>
Fund balances (deficit):					
Non-spendable	12,225	24,498	13,249	55,437	4,484
Restricted	-	-	81,170	77,844	-
Unassigned	<u>(25,950)</u>	<u>(97,836)</u>	<u>-</u>	<u>-</u>	<u>(6,796)</u>
Total fund balances (deficit)	<u>(13,725)</u>	<u>(73,338)</u>	<u>94,419</u>	<u>133,281</u>	<u>(2,312)</u>
Total liabilities and fund balances	<u>\$ 192,558</u>	<u>\$ 54,095</u>	<u>\$ 164,932</u>	<u>\$ 147,632</u>	<u>\$ 15,925</u>

See Accompanying Independent Auditors' Report.

**STATE OF KOSRAE  
FEDERATED STATES OF MICRONESIA**

**GRANTS ASSISTANCE FUND**

Combining Balance Sheet, Continued  
September 30, 2013

	Section 211(a)(6) Infrastructure	Section 211(a)(7) Supplemental Education	Enhanced Reporting Accountability	U.S. Federal Grants	Compact Capital Projects	Foreign Assistance
<b><u>ASSETS</u></b>						
Investments	\$ -	\$ -	\$ -	\$ -	\$ 800,000	\$ 100,000
Receivables:						
Federal agencies	-	33,970	4,615	90,590	-	-
Advances	-	9,435	-	5,340	-	29
Prepayments	-	39,866	-	23,356	-	12,360
Due from other funds	<u>105,437</u>	<u>358,291</u>	<u>7,434</u>	<u>-</u>	<u>-</u>	<u>693,859</u>
	<u>\$ 105,437</u>	<u>\$ 441,562</u>	<u>\$ 12,049</u>	<u>\$ 119,286</u>	<u>\$ 800,000</u>	<u>\$ 806,248</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>						
Liabilities:						
Accounts payable	\$ -	\$ 94,092	\$ -	\$ 16,276	\$ -	\$ 3,841
Other liabilities and accruals	-	11,255	12,049	38,685	-	2,455
Due to other funds	-	-	-	6,046	59,702	-
Unearned revenues	<u>-</u>	<u>88,259</u>	<u>-</u>	<u>58,279</u>	<u>-</u>	<u>52,852</u>
Total liabilities	<u>-</u>	<u>193,606</u>	<u>12,049</u>	<u>119,286</u>	<u>59,702</u>	<u>59,148</u>
Fund balances (deficit):						
Non-spendable	-	49,302	-	28,696	800,000	112,389
Restricted	105,437	198,654	-	-	-	634,711
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>(28,696)</u>	<u>(59,702)</u>	<u>-</u>
Total fund balances (deficit)	<u>105,437</u>	<u>247,956</u>	<u>-</u>	<u>-</u>	<u>740,298</u>	<u>747,100</u>
Total liabilities and fund balances	<u>\$ 105,437</u>	<u>\$ 441,562</u>	<u>\$ 12,049</u>	<u>\$ 119,286</u>	<u>\$ 800,000</u>	<u>\$ 806,248</u>

See Accompanying Independent Auditors' Report.

**STATE OF KOSRAE  
FEDERATED STATES OF MICRONESIA**

**GRANTS ASSISTANCE FUND**

Combining Balance Sheet, Continued  
September 30, 2013

	Compact Special Block 211(b)	Compact Special Development 212(b)	Compact Energy Block Grant 214	Compact Health & Medical 216(a)(2)	Compact Scholarship 216(a)(3)	Total
<b><u>ASSETS</u></b>						
Investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 900,000
Receivables:						
Federal agencies	-	-	-	-	-	376,088
Advances	-	-	-	-	-	111,824
Prepayments	-	-	-	-	-	88,454
Due from other funds	<u>19,867</u>	<u>8,880</u>	<u>153</u>	<u>143,729</u>	<u>-</u>	<u>1,555,987</u>
	<u>\$ 19,867</u>	<u>\$ 8,880</u>	<u>\$ 153</u>	<u>\$ 143,729</u>	<u>\$ -</u>	<u>\$ 3,032,353</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>						
Liabilities:						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 164,000
Other liabilities and accruals	-	-	-	-	-	274,197
Due to other funds	-	-	-	-	-	92,356
Unearned revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>350,055</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>880,608</u>
Fund balances (deficit):						
Non-spendable	-	-	-	-	-	1,100,280
Restricted	19,867	8,880	153	143,729	-	1,270,445
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(218,980)</u>
Total fund balances (deficit)	<u>19,867</u>	<u>8,880</u>	<u>153</u>	<u>143,729</u>	<u>-</u>	<u>2,151,745</u>
Total liabilities and fund balances	<u>\$ 19,867</u>	<u>\$ 8,880</u>	<u>\$ 153</u>	<u>\$ 143,729</u>	<u>\$ -</u>	<u>\$ 3,032,353</u>

See Accompanying Independent Auditors' Report.

**STATE OF KOSRAE  
FEDERATED STATES OF MICRONESIA**

**GRANTS ASSISTANCE FUND**

Combining Statement of Revenues, Expenditures by Account,  
and Changes in Fund Balances (Deficit)  
Year Ended September 30, 2013

	Section 211(a)(1) Education Sector	Section 211(a)(2) Health Sector	Section 211(a)(3) Private Sector Development	Section 211(a)(4) Capacity Building	Section 211(a)(5) Environment
Revenues:					
Compact funding	\$ 2,234,813	\$ 2,017,705	\$ 807,634	\$ 494,458	\$ 187,616
Federal contributions	-	-	-	-	-
Other grants	-	-	-	-	-
	<u>2,234,813</u>	<u>2,017,705</u>	<u>807,634</u>	<u>494,458</u>	<u>187,616</u>
Expenditures by function:					
Current:					
General government	-	-	-	393,483	-
Economic development	-	-	784,326	-	-
Education	2,346,495	-	-	-	-
Health services	-	2,202,869	-	-	-
Environment protection and sanitation	-	-	-	-	232,185
	<u>2,346,495</u>	<u>2,202,869</u>	<u>784,326</u>	<u>393,483</u>	<u>232,185</u>
Total expenditures	<u>2,346,495</u>	<u>2,202,869</u>	<u>784,326</u>	<u>393,483</u>	<u>232,185</u>
Net change in fund balances	(111,682)	(185,164)	23,308	100,975	(44,569)
Fund balances at the beginning of the year	<u>97,957</u>	<u>111,826</u>	<u>71,111</u>	<u>32,306</u>	<u>42,257</u>
Fund balances (deficit) at the end of the year	<u>\$ (13,725)</u>	<u>\$ (73,338)</u>	<u>\$ 94,419</u>	<u>\$ 133,281</u>	<u>\$ (2,312)</u>

See Accompanying Independent Auditors' Report.

**STATE OF KOSRAE  
FEDERATED STATES OF MICRONESIA**

**GRANTS ASSISTANCE FUND**

Combining Statement of Revenues, Expenditures by Account,  
and Changes in Fund Balances (Deficit), Continued  
Year Ended September 30, 2013

	Section 211(a)(6) Infrastructure	Section 211(a)(7) Supplemental Education	Enhanced Reporting Accountability	U.S. Federal Grants	Compact Capital Projects	Foreign Assistance
Revenues:						
Compact funding	\$ 260,000	\$ 1,225,335	\$ 177,582	\$ -	\$ -	\$ -
Federal contributions	-	-	-	424,440	-	-
Other grants	-	-	-	-	-	693,534
	<u>260,000</u>	<u>1,225,335</u>	<u>177,582</u>	<u>424,440</u>	<u>-</u>	<u>693,534</u>
Expenditures by function:						
Current:						
General government	252,010	-	177,582	-	-	(275)
Economic development	-	-	-	(27,280)	-	131,280
Education	-	1,193,288	-	268,017	-	3,815
Health services	-	-	-	152,756	-	3,179
Environment protection and sanitation	-	-	-	30,947	-	105,789
	<u>252,010</u>	<u>1,193,288</u>	<u>177,582</u>	<u>424,440</u>	<u>-</u>	<u>243,788</u>
Total expenditures	<u>252,010</u>	<u>1,193,288</u>	<u>177,582</u>	<u>424,440</u>	<u>-</u>	<u>243,788</u>
Net change in fund balances	7,990	32,047	-	-	-	449,746
Fund balances at the beginning of the year	<u>97,447</u>	<u>215,909</u>	<u>-</u>	<u>-</u>	<u>740,298</u>	<u>297,354</u>
Fund balances (deficit) at the end of the year	<u>\$ 105,437</u>	<u>\$ 247,956</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 740,298</u>	<u>\$ 747,100</u>

See Accompanying Independent Auditors' Report.

**STATE OF KOSRAE  
FEDERATED STATES OF MICRONESIA**

**GRANTS ASSISTANCE FUND**

Combining Statement of Revenues, Expenditures by Account,  
and Changes in Fund Balances (Deficit), Continued  
Year Ended September 30, 2013

	Compact Special Block 211(b)	Compact Special Development 212(b)	Compact Energy Block Grant 214	Compact Health & Medical 216(a)(2)	Compact Scholarship 216(a)(3)	Total
Revenues:						
Compact funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,405,143
Federal contributions	-	-	-	-	-	424,440
Other grants	-	-	-	-	-	693,534
	-	-	-	-	-	8,523,117
Expenditures by function:						
Current:						
General government	-	-	-	-	-	822,800
Economic development	-	-	-	-	-	888,326
Education	-	-	-	-	-	3,811,615
Health services	-	-	-	-	-	2,358,804
Environment protection and sanitation	-	-	-	-	-	368,921
Total expenditures	-	-	-	-	-	8,250,466
Net change in fund balances	-	-	-	-	-	272,651
Fund balances at the beginning of the year	19,867	8,880	153	143,729	-	1,879,094
Fund balances (deficit) at the end of the year	\$ 19,867	\$ 8,880	\$ 153	\$ 143,729	\$ -	\$ 2,151,745

See Accompanying Independent Auditors' Report.

**STATE OF KOSRAE  
FEDERATED STATES OF MICRONESIA**

**GRANTS ASSISTANCE FUND**

Combining Statement of Revenues, Expenditures by Account,  
and Changes in Fund Balances (Deficit)  
Year Ended September 30, 2013

	Section 211(a)(1) Education Sector	Section 211(a)(2) Health Sector	Section 211(a)(3) Private Sector Development	Section 211(a)(4) Capacity Building	Section 211(a)(5) Environment
Revenues:					
Compact funding	\$ 2,234,813	\$ 2,017,705	\$ 807,634	\$ 494,458	\$ 187,616
Federal contributions	-	-	-	-	-
Other grants	-	-	-	-	-
	<u>2,234,813</u>	<u>2,017,705</u>	<u>807,634</u>	<u>494,458</u>	<u>187,616</u>
Expenditures by account:					
Salaries and wages:					
Regular	1,470,049	823,505	359,527	153,885	100,095
Overtime	-	106,283	15,840	-	542
Fringe benefits	202,142	109,224	53,112	15,082	14,610
Other personnel costs	-	4,872	-	-	-
Travel and transportation	557	35,590	36,108	53,823	7,701
Communications	28,207	1,951	16,261	11,050	3,383
Dues, membership, and subscriptions	-	-	-	570	-
Food stuffs	550	26,128	-	-	-
Port charges	1,491	544	329	-	475
Office supplies and materials	159,878	74,419	69,021	15,841	41,006
POL	44,573	16,382	14,851	5,929	7,179
Printing and reproduction	1,160	6,062	-	-	633
Rental services	955	200	650	850	610
Repairs and maintenance	7,723	-	970	300	3,155
Utilities	70,309	216,816	17,711	3,342	4,315
Subsidies and contributions	-	-	25,000	-	-
Medical referral	-	106,406	-	-	-
Medical supplies	-	505,977	-	-	-
Contractual services	77,549	52,782	56,191	14,200	29,724
Professional services	-	3,370	-	24,465	-
Scholarships and allowances	191,459	-	-	-	-
Training	29,770	41,909	26,751	63,560	-
Leased housing, buildings and land	27,771	18,220	7,448	24,982	5,657
Nonpayroll compensation	-	-	-	-	-
Equipment	20,759	51,599	77,288	5,604	11,480
Miscellaneous	11,593	630	7,268	-	1,620
Total expenditures	<u>2,346,495</u>	<u>2,202,869</u>	<u>784,326</u>	<u>393,483</u>	<u>232,185</u>
Net change in fund balances	(111,682)	(185,164)	23,308	100,975	(44,569)
Fund balances at the beginning of the year	<u>97,957</u>	<u>111,826</u>	<u>71,111</u>	<u>32,306</u>	<u>42,257</u>
Fund balances (deficit) at the end of the year	<u>\$ (13,725)</u>	<u>\$ (73,338)</u>	<u>\$ 94,419</u>	<u>\$ 133,281</u>	<u>\$ (2,312)</u>

See Accompanying Independent Auditors' Report.

**STATE OF KOSRAE  
FEDERATED STATES OF MICRONESIA**

**GRANTS ASSISTANCE FUND**

Combining Statement of Revenues, Expenditures by Account,  
and Changes in Fund Balances (Deficit), Continued  
Year Ended September 30, 2013

	Section 211(a)(6)	Section 211(a)(7) Supplemental	Enhanced Reporting Accountability	U.S. Federal	Compact Capital	Foreign
Compact funding	\$ 260,000	\$ 1,225,335	\$ 177,582	\$ -	\$ -	\$ -
Federal contributions	-	-	-	424,440	-	-
Other grants	-	-	-	-	-	693,534
	<u>260,000</u>	<u>1,225,335</u>	<u>177,582</u>	<u>424,440</u>	<u>-</u>	<u>693,534</u>
Expenditures by account:						
Salaries and wages:						
Regular	-	143,621	153,347	284,546	-	36,242
Overtime	-	-	4,622	-	-	-
Fringe benefits	-	16,555	19,613	38,447	-	3,671
Other personnel costs	-	-	-	-	-	(275)
Travel and transportation	-	36,389	-	35,794	-	23,954
Communications	-	8,230	-	2,091	-	1,163
Dues, membership, and subscriptions	-	4,000	-	-	-	-
Food stuffs	-	-	-	-	-	957
Port charges	-	416	-	64	-	-
Office supplies and materials	9,027	212,654	-	14,903	-	16,843
POL	4,743	9,579	-	1,987	-	8,237
Printing and reproduction	-	4,456	-	1,016	-	481
Rental services	-	80	-	5,075	-	832
Repairs and maintenance	-	375	-	495	-	1,825
Utilities	-	32,368	-	1,988	-	1,108
Subsidies and contributions	-	-	-	-	-	-
Medical referral	-	-	-	-	-	-
Medical supplies	-	-	-	-	-	-
Contractual services	238,239	235,630	-	29,805	-	14,344
Professional services	-	-	-	-	-	-
Scholarships and allowances	-	131,695	-	-	-	-
Training	-	242,982	-	1,000	-	3,600
Leased housing, buildings and land	-	23,289	-	-	-	-
Nonpayroll compensation	-	-	-	860	-	-
Equipment	-	90,969	-	1,998	-	127,576
Miscellaneous	1	-	-	4,371	-	3,230
Total expenditures	<u>252,010</u>	<u>1,193,288</u>	<u>177,582</u>	<u>424,440</u>	<u>-</u>	<u>243,788</u>
Net change in fund balances	7,990	32,047	-	-	-	449,746
Fund balances at the beginning of the year	<u>97,447</u>	<u>215,909</u>	<u>-</u>	<u>-</u>	<u>740,298</u>	<u>297,354</u>
Fund balances (deficit) at the end of the year	<u>\$ 105,437</u>	<u>\$ 247,956</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 740,298</u>	<u>\$ 747,100</u>

See Accompanying Independent Auditors' Report.

**STATE OF KOSRAE  
FEDERATED STATES OF MICRONESIA**

**GRANTS ASSISTANCE FUND**

Combining Statement of Revenues, Expenditures by Account,  
and Changes in Fund Balances (Deficit), Continued  
Year Ended September 30, 2013

	Compact Special Block 211(b)	Compact Special Development 212(b)	Compact Energy Block Grant 214	Compact Health & Medical 216(a)(2)	Compact Scholarship 216(a)(3)	Total
Revenues:						
Compact funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,405,143
Federal contributions	-	-	-	-	-	424,440
Other grants	-	-	-	-	-	693,534
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,523,117</u>
Expenditures by account:						
Salaries and wages:						
Regular	-	-	-	-	-	3,524,817
Overtime	-	-	-	-	-	127,287
Fringe benefits	-	-	-	-	-	472,456
Other personnel costs	-	-	-	-	-	4,597
Travel and transportation	-	-	-	-	-	229,916
Communications	-	-	-	-	-	72,336
Dues, membership, and subscriptions	-	-	-	-	-	4,570
Food stuffs	-	-	-	-	-	27,635
Port charges	-	-	-	-	-	3,319
Office supplies and materials	-	-	-	-	-	613,592
POL	-	-	-	-	-	113,460
Printing and reproduction	-	-	-	-	-	13,808
Rental services	-	-	-	-	-	9,252
Repairs and maintenance	-	-	-	-	-	14,843
Utilities	-	-	-	-	-	347,957
Subsidies and contributions	-	-	-	-	-	25,000
Medical referral	-	-	-	-	-	106,406
Medical supplies	-	-	-	-	-	505,977
Contractual services	-	-	-	-	-	748,464
Professional services	-	-	-	-	-	27,835
Scholarships and allowances	-	-	-	-	-	323,154
Training	-	-	-	-	-	409,572
Leased housing, buildings and land	-	-	-	-	-	107,367
Nonpayroll compensation	-	-	-	-	-	860
Equipment	-	-	-	-	-	387,273
Miscellaneous	-	-	-	-	-	28,713
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,250,466</u>
Net change in fund balances	-	-	-	-	-	272,651
Fund balances at the beginning of the year	<u>19,867</u>	<u>8,880</u>	<u>153</u>	<u>143,729</u>	<u>-</u>	<u>1,879,094</u>
Fund balances (deficit) at the end of the year	<u>\$ 19,867</u>	<u>\$ 8,880</u>	<u>\$ 153</u>	<u>\$ 143,729</u>	<u>\$ -</u>	<u>\$ 2,151,745</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 Lyndon Jackson  
Governor, State of Kosrae  
Federated States of Micronesia:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Kosrae as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the State of Kosrae's basic financial statements, and have issued our report thereon dated June 25, 2014.

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

In planning and performing our audit of the financial statements, we considered the State of Kosrae'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 Kosrae's internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Kosrae's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2013-001, which we consider to be significant deficiencies.

## **Compliance and Other Matters**

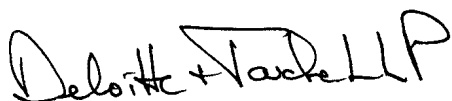
As part of obtaining reasonable assurance about whether the State of Kosrae's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and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

The State of Kosrae's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The State of Kosrae'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.

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is stylized, with the "D" being large and the "LLP" being written in a cursive-like font.

June 25, 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 Lyndon Jackson  
Governor, State of Kosrae  
Federated States of Micronesia:

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

We have audited the State of Kosrae'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 Kosrae's major federal program for the year ended September 30, 2013. The State of Kosrae'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 Kosrae'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 Kosrae'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 Kosrae's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

### ***Opinion on Each Major Federal Program***

In our opinion, the State of Kosrae complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2013.

### **Report on Internal Control Over Compliance**

Management of the State of Kosrae 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 Kosrae'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 Kosrae's internal control over compliance.

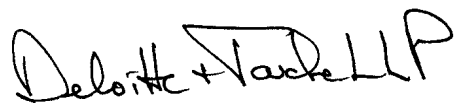
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 Kosrae as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the State of Kosrae's basic financial statements. We issued our report thereon dated June 25, 2014, which contained unmodified opinions on those financial statements. 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.

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is stylized, with the "D" and "T" being particularly prominent.

June 25, 2014

**STATE OF KOSRAE**  
**FEDERATED STATES OF MICRONESIA**

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

Agency/Program	Expenditures
U.S. Department of Agriculture	\$ (211)
U.S. Department of the Interior	7,582,238
U.S. Department of Education	268,017
U.S. Department of Health and Human Services	<u>156,634</u>
GRAND TOTAL	<u>\$ 8,006,678</u>

Note: All awards are received in a subgrantee capacity through the FSM National Government, except for the following, which was received directly from the grantor agency:

U.S. Department of Agriculture:		
Rural Self-Help Housing Technical Assistance	10.420	<u>\$ (27,280)</u>
Reconciliation to the basic financial statements:		
Grants Assistance Fund expenditures		\$ 8,250,466
Less:		
Foreign Assistance Fund expenditures		<u>(243,788)</u>
		<u>\$ 8,006,678</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF KOSRAE**  
**FEDERATED STATES OF MICRONESIA**

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

Agency/Program	CFDA#	Expenditures
U.S. DEPARTMENT OF AGRICULTURE		
Rural Self-Help Housing Technical Assistance	10.420	\$ (27,280)
Cooperative Forestry Assistance	10.664	51
Forest Legacy Program	10.676	21,687
Community Facilities Loans and Grants	10.766	<u>5,331</u>
Total U.S. Department of Agriculture		<u>\$ (211)</u>
U.S. DEPARTMENT OF THE INTERIOR		
Economic, Social and Political Development of the Territories:		
Compact of Free Association Sector Grants:	15.875	
Compact II Education Sector		\$ 2,346,495
Compact II Health Sector		2,202,869
Compact II Private Sector Development		784,326
Compact II Capacity Building		393,483
Compact II Environment		232,185
Compact II Infrastructure Sector		252,010
Supplemental Education Grant		1,193,288
Compact II Enhanced Reporting Accountability		<u>177,582</u>
Total U.S. Department of the Interior		<u>\$ 7,582,238</u>
U.S. DEPARTMENT OF EDUCATION		
Special Education - Grants to States	84.027A	<u>\$ 268,017</u>
Total U.S. Department of Education		<u>\$ 268,017</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	\$ 10,554
Family Planning - Services	93.217	13,537
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	8,574
Universal Newborn Hearing Screening	93.251	3,666
Immunization Cooperative Agreements	93.268	32,019
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	37,475
Block Grants for Prevention and Treatment of Substance Abuse	93.959	38,764
Maternal and Child Health Services Block Grant to the States	93.994	8,167
Cancer Prevention and Control Program (See Note)	93.U55/CCU923887.02	<u>3,878</u>
Total U.S. Department of Health and Human Services		<u>\$ 156,634</u>
TOTAL FEDERAL AWARDS		<u>\$ 8,006,678</u>

Note: The grant is received through the University of Hawaii and the grant number is U55/CCU923887.02.

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF KOSRAE**  
**FEDERATED STATES OF MICRONESIA**

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

1. Scope

The State of Kosrae is one of the four States of the Federated States of Micronesia. All significant operations of the State of Kosrae 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 Kosrae'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 Agriculture
- 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 Kosrae'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 Kosrae, as defined above, for the year ended September 30, 2013.

C. Subgrantees

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

D. Indirect Cost Allocation

The State of Kosrae 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 KOSRAE  
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 |
| Internal control over financial reporting:               |            |
| 2. Material weakness(es) identified?                     | No         |
| 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?  | No         |
| 6. Significant deficiency(ies) identified?  | None noted |
| 7. Type of auditors' report issued on compliance for major programs:  | Unmodified |
| 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: | \$300,000 |
| 11. Auditee qualified as low-risk auditee?                                   | Yes       |

**Section II – Financial Statements Findings**

<u>Finding #</u>	<u>Finding</u>
2013-001	Equity Investment

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

No matters are reportable.

**STATE OF KOSRAE  
FEDERATED STATES OF MICRONESIA**

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

Finding No.: 2013-001  
Area: Equity Investments

Criteria:

If an equity investment has been written to a nil value, and if it appears that the investor has ceased all operations, the State should engage in a legal review to establish that the corporation has been wound-up and there are no further matters open that would prevent the State from removing any form of investment in the investee from its books.

Condition:

No such documentation has been provided for investments in Kosrae Sea Venture Inc. or for SEMO. While management has represented that these entities have ceased all operations, no legal support has been provided to document this representation.

Cause:

The cause of this condition is the lack of a legal review to document the State's representation.

Effect:

Since the equity investments have been written down to a nil value, there is no impact of this matter on the financial statements.

Prior Year Status:

This matter was reported in the prior Single Audit as item 2012-2.

Recommendation:

A legal review should be obtained to support management's representation.

Auditee Response and Corrective Action Plan: The Department of Administration and Finance is waiting for a legal advice from the Office of the Attorney General for further action.

**STATE OF KOSRAE  
FEDERATED STATES OF MICRONESIA**

Schedule of Prior Audit Findings  
Year Ended September 30, 2013

The status of unresolved prior audit findings is disclosed within the Schedule of Findings and Questioned Costs section of this report (pages 70 and 71).