

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

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

YEAR ENDED SEPTEMBER 30, 2014

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

YEAR ENDED SEPTEMBER 30, 2014

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**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2014

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**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

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

YEAR ENDED SEPTEMBER 30, 2014

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Chuuk (the State) as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as set forth in Section III of the foregoing table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Summary of Opinions

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

Basis for Qualified Opinions on Governmental Activities and General Fund

Documentary evidence available to us was limited because the State has been unable to identify the cause of significant unsubstantiated differences between the general ledger and bank reconciliation balances that form part of the governmental activities and the General Fund cash and cash equivalents balance stated at \$2,880,663 as of September 30, 2014. We were unable to obtain sufficient appropriate audit evidence to confirm that all bank transactions have been properly recorded.

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

Qualified Opinions

In our opinion, except for the matters described in the “Basis for Qualified Opinions on Governmental Activities and General Fund” paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the State of Chuuk as of September 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the aggregate discretely presented component units, the Grants Assistance Fund, the Compact Trust Fund, and the aggregate remaining fund information of the State of Chuuk as of September 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

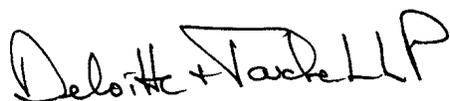
Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2015, on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance.



June 25, 2015

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2014

This analysis, prepared by the Department of Administrative Services, Division of Treasury, offers readers of the Chuuk State Government's (Chuuk State) financial statements a narrative overview of the activities of the government for the fiscal year ended September 30, 2014. We encourage readers to consider this information in conjunction with Chuuk State's financial statements, which follow. Fiscal year 2013 comparative information has been included, where appropriate. This analysis is required by the Governmental Accounting Standards Board, (GASB) which provides guidelines on what must be included and excluded from this analysis.

FINANCIAL HIGHLIGHTS

- For the fiscal year ended September 30, 2014, Chuuk State's total net position decreased by \$1.5 million (or 3.7%) from \$40.7 million in the prior year to \$39.2 million. This decrease was due primarily to an increase in expenses associated with claims and judgements.
- During fiscal year 2014, Chuuk State's revenues of \$35.018 million declined by \$1.747 million from \$36.765 million (or 4.75%) in fiscal year 2013. The decline in revenue was attributable to decreases in local revenues and operating grants. Expenses in fiscal year 2014 of \$36.514 million increased by \$1.341 million (or 3.8%) from \$35.173 million in fiscal year 2013. The increase is due to increases in expenses for education sector, health sector grants and general government.
- The General Fund deficit increased by \$0.440 million in fiscal year 2014, increasing from \$4.744 million in the prior year to \$5.184 million. The State's general transfer-out disbursements and debt service on its long term debts contributed to the deficit increase.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis, Continued
September 30, 2014

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

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

Fund Financial Statements

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

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

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

FINANCIAL ANALYSIS OF CHUUK STATE AS A WHOLE

Net position may serve over time as a useful indicator of a government's financial position. At the end of fiscal year 2014, Chuuk State's assets exceeded liabilities by \$39.2 million. However, all these net position are restricted as to the purposes they can be used for or are invested in capital assets. Chuuk State uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although Chuuk State's net investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The following summary of Chuuk State's net position as of September 30, 2014, with comparable balances for fiscal year 2013, discloses this relationship.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis, Continued
September 30, 2014

		Governmental Activities			
		<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>%</u>
Current and other assets	\$	22,324,011	\$ 21,237,158	\$ 1,086,853	5.12
Capital assets		<u>42,334,589</u>	<u>43,549,755</u>	<u>(1,215,166)</u>	(2.79)
Total Assets	\$	<u>64,658,600</u>	\$ <u>64,786,913</u>	\$ <u>(128,313)</u>	(0.20)
Current and other liabilities	\$	14,029,247	\$ 12,236,398	\$ 1,792,849	14.65
Long-term debt		<u>11,429,007</u>	<u>11,854,451</u>	<u>(425,444)</u>	(3.59)
Total Liabilities		<u>25,458,254</u>	<u>24,090,849</u>	<u>1,367,405</u>	5.68
Net Position:					
Net investment in capital assets		42,334,589	43,549,755	(1,215,166)	(2.79)
Restricted		18,840,264	21,263,340	(2,423,076)	(11.40)
Unrestricted		<u>(21,974,507)</u>	<u>(24,117,031)</u>	<u>2,142,524</u>	(8.88)
Total net position		<u>39,200,346</u>	<u>40,696,064</u>	<u>(1,495,718)</u>	(3.68)
Total Liabilities and Net Position	\$	<u>64,658,600</u>	\$ <u>64,786,913</u>	\$ <u>(128,313)</u>	

At the end of fiscal year 2014, Chuuk State's unrestricted net position showed a deficit of \$21.975 million, a decrease of \$2.142 million (8.88%) from the prior year deficit of \$24.117 million. This deficit is the result of having current and long-term commitments that are greater than currently available resources. Chuuk State did not include in past annual budgets the full amounts needed to finance its current liabilities to vendors and others or its long-term liabilities arising from Asian Development Bank (ADB) loans and unused employee leave balances. Chuuk State will include these amounts in future years' budgets as funding permits.

Net position decreased by \$1.496 million (or 3.68%) from the prior year. Key elements of the decrease and the differences from the prior year are shown in the following schedule:

		Governmental Activities			
		<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>%</u>
Revenues:					
Program Revenues:					
Charges for services		\$ 1,956,803	\$ 1,792,756	\$ 164,047	9.15
Operating grants and contributions		25,590,626	26,365,623	(774,997)	(2.94)
General Revenues:					
Taxes		5,157,205	5,692,357	(535,152)	(9.40)
Unrestricted investment income		601,617	462,875	138,742	29.97
Other		<u>811,790</u>	<u>267,327</u>	<u>544,463</u>	203.67
Total revenues		34,118,041	34,580,938	(462,897)	(1.34)
Special item		-	737,563	(737,563)	(100.00)
Contributions to permanent fund		<u>900,161</u>	<u>1,447,169</u>	<u>(547,008)</u>	(37.80)
Total revenues, special items and contributions		<u>35,018,202</u>	<u>36,765,670</u>	<u>(1,747,468)</u>	(4.75)

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis, Continued
September 30, 2014

	Governmental Activities			
	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>%</u>
Expenses:				
General government	7,538,733	5,846,360	1,692,373	28.95
Health services	9,882,924	9,327,619	555,305	5.95
Education	12,664,344	11,785,727	878,617	7.45
Economic development	2,060,698	2,905,698	(845,000)	(29.08)
Public safety	1,054,779	1,057,829	(3,050)	(0.29)
Public works and transportation	1,567,979	2,502,939	(934,960)	(37.35)
Community affairs	40,439	43,147	(2,708)	(6.28)
Boards and commissions	340,190	563,693	(223,503)	(39.65)
Judiciary	498,261	460,927	37,334	8.10
Payments to component units	55,854	58,879	(3,025)	(5.14)
Municipal affairs	438,935	429,005	9,930	2.31
Unallocated Interest on long-term debt	60,305	27,551	32,754	118.88
Other	<u>310,480</u>	<u>163,692</u>	<u>146,788</u>	89.67
Total expenses	<u>36,513,920</u>	<u>35,173,066</u>	<u>1,340,854</u>	3.81
Change in net position	(1,495,718)	1,592,604	(3,088,322)	(193.92)
Net position at the beginning of the year	<u>40,696,064</u>	<u>39,103,460</u>	<u>1,592,604</u>	4.07
Net position at the end of the year	<u>\$39,200,346</u>	<u>\$40,696,064</u>	<u>\$(1,495,718)</u>	(3.68)

The detail indicates decrease in revenues and increase in expenses in fiscal year 2014, resulting in an overall decrease of net position due primarily to an increase in expenses associated with claims and judgements.

Revenues and contributions of \$35.018 million decreased \$1.747 million (or 4.75%) from the prior year's \$36.765 million. The key elements of the decrease were a decrease in Compact revenues of \$2.090 million (or 8.16%) from \$25.609 million in fiscal year 2013 to \$23.519 million in fiscal year 2014, investment earnings declined by \$0.408 million, revenue share proceeds declined by \$0.289 million, and State tax and fees declined by \$0.082 million.

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

<u>SOURCE OF REVENUE</u>	<u>2014</u>	<u>2013</u>
Compact funding	67.2%	68.4%
Investments	4.3%	5.4%
Revenue sharing	7.9%	8.6%
Federal and other grants	5.9%	2.1%
Taxes and fees	12.4%	14.9%
Other	<u>2.3%</u>	<u>0.6%</u>
	<u>100.0%</u>	<u>100.0%</u>

Notwithstanding the decreases in both revenue shares passed through to the State and local sales tax collections that reduce the dependency on Compact funding, the predominance of sector funding as 67.2% of total revenue highlights the importance of maximizing sector grant utilization.

Total expenses increased by \$1.341 million (or 3.81%), from \$35.173 million in the prior fiscal year to \$36.514 million in fiscal year 2014. The most notable increases in fiscal year 2014 were education sector \$0.879 million, health sector \$0.555 million and general government \$1.692 million. The major decreases of expenses in Economic Development by \$0.845 million, Public Works and Transportation \$0.934 million and other government agencies offset the increase.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis, Continued
September 30, 2014

FINANCIAL ANALYSIS OF CHUUK STATE'S FUNDS

As noted earlier, Chuuk State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. As of the end of fiscal year 2014, Chuuk State's governmental funds reported a combined fund balance of \$11.228 million, which represents a \$0.120 million increase (up 1.08%) from the \$11.108 million fund balance recorded at the end of fiscal 2013. Of this total combined fund balance, \$13.156 million is non-spendable because it is legally restricted for other purposes and \$8.484 million is restricted to fund specific fund-related activities. These non-spendable and restricted fund balances are off-set by a combined unassigned fund deficit of \$10.412 million.

General Fund

Most of the basic current operational services are recorded, reported, and accounted for in the General Fund, except for Health, Education, Environment, and Capacity Building, which are reported and accounted for in the Grants Assistance Fund. As shown in the accompanying financial statements, at the end of fiscal year 2014, the General Fund recorded total revenues of \$8,364,368 with total expenditures of \$8,326,502. Although a minor surplus of \$37,866 was realized at the end of the year, an overall fund balance deficit of (\$5,184,646) was recorded. This is due to other financing uses during the year of \$478,229 (operating transfers) and cumulative deficit in the fund from prior years. The State needs to revisit its revenue base and immediately develop strategies to increase revenues and reduce expenditures in order to sustainably eliminate the fund balance deficit over the next few years. The Governor has recently established a financial taskforce to work towards this financial dilemma.

Grants Assistance Fund

The Grants Assistance Fund consists of funding provided through the amended Compact of Free Association Sector grants; US federal agencies, and other Non-US grants. As shown in the accompanying financial statements, at the end of fiscal year 2014, the Grants Assistance Fund had total revenues of \$25,590,626 and total expenditures of \$26,356,136. This brings a total deficiency of revenues under expenditures of \$765,510. However, at the same time, a total of \$425,349 in operating transfers in was recorded, which effectuated a reduction in this deficiency to \$340,161. This brings a total of overall fund balance of \$4,572,116. As shown in the above numbers, this is an indicative of overspending in the Grants Assistance Fund. Management is mindful of this indicator and will ensure that more stringent controls are in place to prevent similar future situations.

Compact Trust Fund

The Trust Fund was established to account for Chuuk State's share of the Compact Trust Fund. The Fund is managed by the FSM National Government and is a long term restricted Fund. At the end of fiscal year 2014, the fund recorded a net change in the fair value of its investments of \$900,161, which brings the fund balance at the end of the year to \$11,840,861.

Other Governmental Funds

This fund is established to account and report on fees collected for services at the hospital. At the end of fiscal year 2014, total revenue collected was \$163,047 at the same time total expenditures was \$215,927 resulting in an operating deficit for the year of \$52,880.

**STATE OF CHUUK
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Management's Discussion and Analysis, Continued
September 30, 2014

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

GENERAL FUND BUDGETARY HIGHLIGHTS

In fiscal year 2014, actual revenues of \$8.364 million exceeded budgeted revenues of \$7.533 million by \$0.831 million. Actual expenditures of \$8.783 million were greater than budgetary appropriations of \$8.134 million by \$0.649 million, resulting in an overall deficiency of revenues under expenditures of (\$0.419 million). When combined with the transfers out to other funds (\$0.478 million), the net change in unreserved fund deficit on a budgetary basis was a negative (\$0.897 million). In accordance with the principles of budgetary accounting, the deficit includes encumbrances for which goods or services had not been received (\$0.457 million), the net change in unreserved fund deficit on a budgetary basis was a positive of \$0.254 million.

Chuuk State retains a balanced operating budget; however, debt financing activities of the State that are not budgeted have negatively impacted overall State operations. In fiscal year 2014, principal and debt service charges on ADB loans of \$0.458 million contributed to the deficiency.

CAPITAL ASSET AND DEBT ADMINISTRATION

Chuuk State's net investment in capital assets for the primary government as of September 30, 2014, amounted to \$121.742 million, net of accumulated depreciation of \$79.407 million, leaving a net book value of \$42.335 million. This represents a net decrease of \$1.215 million (or 2.79%) from fiscal year 2013. Chuuk State recorded major additions of \$1.107 million in 2014 related to buildings of \$0.907 million and vehicles and other equipment of \$0.200 million, but current year depreciation charges of \$2.322 million resulted in the net decrease. The table below summarizes Chuuk State's net capital assets:

	Governmental Activities			
	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>%</u>
Land	\$17,954,462	\$17,954,462	\$ -	-
Airport Facilities	8,769,208	9,721,893	(952,685)	(9.80)
Buildings	7,659,698	7,010,303	649,395	9.26
Seaport Facilities	5,303,442	5,966,372	(662,930)	(11.11)
Vehicles / Equipment	<u>2,647,779</u>	<u>2,896,725</u>	<u>(248,946)</u>	<u>(8.59)</u>
	<u>\$42,334,589</u>	<u>\$43,549,755</u>	<u>\$(1,215,166)</u>	<u>(2.79)</u>

Capital asset additions during the year ended September 30, 2014, amounted to \$1.107 million offset by current year depreciation expense of \$2.322 million, which resulted in an overall decrease \$1.215 million. Major additions for the year included \$0.907 million for school buildings and \$0.200 million for vehicles.

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

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis, Continued
September 30, 2014

Long –Term Debt

The following schedule shows Chuuk State's summarized long-term debt for fiscal year 2014 and comparable amounts for fiscal year 2013.

	Governmental Activities			
	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>%</u>
ADB Water Supply Loan (1459)	\$ 3,868,102	\$ 3,960,138	\$ (92,036)	(2.32)
ADB Early Retirement Loan (1520)	5,280,806	5,398,252	(117,446)	(2.18)
ADB Private Sector Reform Program Loan (1873)	694,181	807,242	(113,061)	(14.01)
ADB Private Sector Reform Program Loan (1874)	511,689	556,247	(44,558)	(8.01)
ADB Basic Social Services Program Loan (1816)	<u>1,074,229</u>	<u>1,132,572</u>	<u>(58,343)</u>	(5.15)
	\$ <u>11,429,007</u>	\$ <u>11,854,451</u>	\$ <u>(425,444)</u>	(3.59)

Long-term debt decreased by \$0.425 million (or 3.59%) in fiscal year 2014 as the result of loan repayments resulting in gradual debt reduction.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Chuuk economy in fiscal year 2015 continues to perform at levels seen in fiscal 2014 with revenue collections trending that are expected to remain the same as in prior year. As a result, State policymakers have cautiously kept general fund budgets capped within actual revenue collections, both in fiscal years 2015 and for the 2016 annual appropriation act. Revenue collections in excess of these fiscal ceilings will be used for debt relief payments of Chuuk's old liabilities.

CONTACTING CHUUK STATE'S FINANCIAL MANAGEMENT

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

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Statement of Net Position
September 30, 2014

	Primary Government	Component Units
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 85,891	\$ 1,033,280
Time certificates of deposit	-	200,000
Equity interest in internal investment pool	109,328	319,489
Receivables, net of allowance for uncollectibles	2,208,857	1,618,851
Inventories	-	1,306,541
Due from primary government	-	1,219
Prepayments	515,287	-
Restricted assets:		
Cash and cash equivalents	2,794,772	-
Total current assets	5,714,135	4,479,380
Noncurrent assets:		
Restricted assets:		
Investments	15,809,876	-
Investments	800,000	-
Deposits	-	536,262
Capital assets:		
Nondepreciable capital assets	17,954,462	2,600,120
Capital assets, net of accumulated depreciation	24,380,127	6,324,676
Total noncurrent assets	58,944,465	9,461,058
Total assets	\$ 64,658,600	\$ 13,940,438
<u>LIABILITIES</u>		
Current liabilities:		
Current portion of long-term debt	\$ 349,945	\$ 137,690
Accounts payable	1,381,100	596,282
Land acquisition payable	8,564,795	-
Unearned revenues	1,102,814	-
Compensated absences payable	1,157,452	-
Other liabilities and accruals	45,752	1,197,291
Due to component units	1,219	-
Unearned revenues	-	46,137
Total current liabilities	12,603,077	2,081,444
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	11,079,062	4,809,523
Compensated absences payable, net of current portion	873,510	-
Claims and judgments payable	902,605	-
Total noncurrent liabilities	12,855,177	4,809,523
Total liabilities	25,458,254	6,890,967
<u>NET POSITION</u>		
Net investment in capital assets	42,334,589	3,855,406
Restricted for:		
Nonexpendable:		
Future operations	11,840,861	-
Expendable:		
Compact related	2,894,786	-
Debt service	3,969,015	-
Other purposes	135,602	652,423
Unrestricted	(21,974,507)	2,541,642
Total net position	39,200,346	7,049,471
Total liabilities and net position	\$ 64,658,600	\$ 13,940,438

See accompanying notes to financial statements.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Statement of Activities
Year Ended September 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
Primary government:						
Governmental activities:						
General government	\$ 7,538,733	\$ 1,040,646	\$ 3,385,253	\$ -	\$ (3,112,834)	\$ -
Health services	9,882,924	163,047	8,271,839	-	(1,448,038)	-
Education	12,664,344	-	12,693,506	-	29,162	-
Economic development	2,060,698	-	1,240,028	-	(820,670)	-
Public safety	1,054,779	43,538	-	-	(1,011,241)	-
Public works and transportation	1,567,979	696,302	-	-	(871,677)	-
Community affairs	40,439	-	-	-	(40,439)	-
Boards and commissions	340,190	-	-	-	(340,190)	-
Judiciary	498,261	13,270	-	-	(484,991)	-
Payments to component units	55,854	-	-	-	(55,854)	-
Municipal affairs	438,935	-	-	-	(438,935)	-
Unallocated interest on long-term debt	60,305	-	-	-	(60,305)	-
Other	310,480	-	-	-	(310,480)	-
Total primary government	<u>\$ 36,513,920</u>	<u>\$ 1,956,803</u>	<u>\$ 25,590,626</u>	<u>\$ -</u>	<u>(8,966,491)</u>	<u>-</u>
Component units:						
Chuuk State Health Care Plan	\$ 1,391,883	\$ 1,386,724	\$ -	\$ 10,964	-	5,805
Chuuk Public Utility Corporation	7,006,007	6,277,663	-	1,657,798	-	929,454
Chuuk State Housing Authority	110,532	190,230	-	-	-	79,698
Total component units	<u>\$ 8,508,422</u>	<u>\$ 7,854,617</u>	<u>\$ -</u>	<u>\$ 1,668,762</u>	<u>-</u>	<u>1,014,957</u>
General revenues:						
Taxes:						
FSM revenue sharing:						
Gross revenue taxes					704,913	-
Import taxes					993,397	-
Income taxes					1,007,119	-
Other taxes					54,559	-
State taxes:						
Sales tax					1,889,617	-
Other excise taxes					507,600	-
Unrestricted investment income					601,617	-
Other					811,790	844,789
Total general revenues					<u>6,570,612</u>	<u>844,789</u>
Contributions to permanent fund					<u>900,161</u>	<u>-</u>
Change in net position					(1,495,718)	1,859,746
Net position at the beginning of the year					<u>40,696,064</u>	<u>5,189,725</u>
Net position at the end of the year					<u>\$ 39,200,346</u>	<u>\$ 7,049,471</u>

See accompanying notes to financial statements.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Balance Sheet
Governmental Funds
September 30, 2014

	General	Special Revenue Grants Assistance	Permanent Compact Trust	Other Governmental Funds	Total
ASSETS					
Cash and cash equivalents	\$ 85,891	\$ -	\$ -	\$ -	\$ 85,891
Equity interest in internal investment pool	109,328	-	-	-	109,328
Investments	800,000	-	-	-	800,000
Receivables, net	802,283	1,340,901	-	65,673	2,208,857
Prepayments	424,897	90,390	-	-	515,287
Due from other funds	1,097,747	5,747,829	-	-	6,845,576
Restricted assets:					
Cash and cash equivalents	2,794,772	-	-	-	2,794,772
Investments	3,969,015	-	11,840,861	-	15,809,876
Total assets	<u>\$ 10,083,933</u>	<u>\$ 7,179,120</u>	<u>\$ 11,840,861</u>	<u>\$ 65,673</u>	<u>\$ 29,169,587</u>
LIABILITIES AND FUND BALANCES (DEFICIT)					
Liabilities:					
Accounts payable	\$ 914,026	\$ 466,152	\$ -	\$ 922	\$ 1,381,100
Accrued liabilities	40,710	4,996	-	46	45,752
Land acquisition payable	8,564,795	-	-	-	8,564,795
Due to component units	1,219	-	-	-	1,219
Unearned revenues	-	1,102,814	-	-	1,102,814
Due to other funds	5,747,829	1,033,042	-	64,705	6,845,576
Total liabilities	<u>15,268,579</u>	<u>2,607,004</u>	<u>-</u>	<u>65,673</u>	<u>17,941,256</u>
Fund balances (deficit):					
Nonspendable	1,224,897	90,390	11,840,861	-	13,156,148
Restricted	3,969,015	4,515,368	-	-	8,484,383
Unassigned:					
General fund	(10,378,558)	-	-	-	(10,378,558)
Special revenue funds	-	(33,642)	-	-	(33,642)
Total fund balances (deficit)	<u>(5,184,646)</u>	<u>4,572,116</u>	<u>11,840,861</u>	<u>-</u>	<u>11,228,331</u>
Total liabilities and fund balances	<u>\$ 10,083,933</u>	<u>\$ 7,179,120</u>	<u>\$ 11,840,861</u>	<u>\$ 65,673</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are reported in the funds 42,334,589

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

Long-term obligations	(11,429,007)
Compensated absences	(2,030,962)
Claims and judgements payable	<u>(902,605)</u>
	<u>(14,362,574)</u>

Net position of governmental activities \$ 39,200,346

See accompanying notes to financial statements.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)
Governmental Funds
Year Ended September 30, 2014

	General	Special Revenue Grants Assistance	Permanent Compact Trust	Other Governmental Funds	Total
Revenues:					
Compact funding	\$ -	\$ 23,519,320	\$ -	\$ -	\$ 23,519,320
Net change in the fair value of investments	601,617	-	900,161	-	1,501,778
Federal contributions and other grants	-	2,071,306	-	-	2,071,306
FSM revenue sharing	2,759,988	-	-	-	2,759,988
State taxes	2,397,217	-	-	-	2,397,217
Fees and charges	1,793,756	-	-	163,047	1,956,803
Other	811,790	-	-	-	811,790
Total revenues	8,364,368	25,590,626	900,161	163,047	35,018,202
Expenditures:					
Current:					
General government	4,073,228	1,466,137	-	-	5,539,365
Health services	64,600	9,440,326	-	215,927	9,720,853
Education	-	13,444,135	-	-	13,444,135
Economic development	69,138	1,992,528	-	-	2,061,666
Public safety	1,040,930	13,011	-	-	1,053,941
Public works and transportation	906,129	-	-	-	906,129
Community affairs	40,439	-	-	-	40,439
Boards and commissions	341,759	-	-	-	341,759
Judiciary	499,261	-	-	-	499,261
Payments to component units	55,854	-	-	-	55,854
Municipal affairs	438,935	-	-	-	438,935
Other	338,051	-	-	-	338,051
Debt service	458,178	-	-	-	458,178
Total expenditures	8,326,502	26,356,136	-	215,927	34,898,565
Excess (deficiency) of revenues over (under) expenditures	37,866	(765,510)	900,161	(52,880)	119,637
Other financing sources (uses):					
Operating transfers in	-	425,349	-	52,880	478,229
Operating transfers out	(478,229)	-	-	-	(478,229)
Total other financing sources (uses), net	(478,229)	425,349	-	52,880	-
Net change in fund balances (deficit)	(440,363)	(340,161)	900,161	-	119,637
Fund balances (deficit) at the beginning of the year	(4,744,283)	4,912,277	10,940,700	-	11,108,694
Fund balances (deficit) at the end of the year	<u>\$ (5,184,646)</u>	<u>\$ 4,572,116</u>	<u>\$ 11,840,861</u>	<u>\$ -</u>	<u>\$ 11,228,331</u>

See accompanying notes to financial statements.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended September 30, 2014

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		\$ 119,637
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period		(1,215,166)
The incurrence of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. For the current year, these amounts consist of:		
Repayment of ADB Loans		425,444
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. For the current year, these activities consist of:		
Change in compensated absences	76,972	
Change in claims and judgements	<u>(902,605)</u>	
		<u>(825,633)</u>
Change in net position of governmental activities		\$ <u><u>(1,495,718)</u></u>

See accompanying notes to financial statements.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

**DISCRETELY PRESENTED COMPONENT UNITS
Combining Statement of Net Position
September 30, 2014**

<u>ASSETS</u>	<u>Chuuk State Health Care Plan</u>	<u>Chuuk Public Utility Corporation</u>	<u>Chuuk State Housing Authority</u>	<u>Total</u>
Current assets:				
Cash and cash equivalents	\$ 392,052	\$ 542,834	\$ 98,394	\$ 1,033,280
Time certificates of deposit	200,000	-	-	200,000
Investments	319,489	-	-	319,489
Receivables, net	478,926	724,967	414,958	1,618,851
Inventories	-	1,306,541	-	1,306,541
Due from primary government	-	-	1,219	1,219
	<hr/>	<hr/>	<hr/>	<hr/>
Total current assets	1,390,467	2,574,342	514,571	4,479,380
Noncurrent assets:				
Deposits	-	536,262	-	536,262
Capital assets:				
Nondepreciable capital assets	-	2,600,120	-	2,600,120
Capital assets, net of accumulated depreciation	14,671	6,291,871	18,134	6,324,676
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	\$ 1,405,138	\$ 12,002,595	\$ 532,705	\$ 13,940,438
	<hr/>	<hr/>	<hr/>	<hr/>
<u>LIABILITIES AND NET POSITION</u>				
Current liabilities:				
Notes payable	\$ -	\$ 104,044	\$ -	\$ 104,044
Current portion of long-term debt	-	137,690	-	137,690
Accounts payable	69,006	519,595	7,681	596,282
Accrued liabilities	13,557	1,183,734	-	1,197,291
Unearned income	-	46,137	-	46,137
	<hr/>	<hr/>	<hr/>	<hr/>
Total current liabilities	82,563	1,991,200	7,681	2,081,444
Noncurrent liabilities:				
Noncurrent portion of long-term debt	-	4,809,523	-	4,809,523
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	82,563	6,800,723	7,681	6,890,967
Net position:				
Net investment in capital assets	14,671	3,840,735	-	3,855,406
Restricted	-	652,423	-	652,423
Unrestricted	1,307,904	708,714	525,024	2,541,642
	<hr/>	<hr/>	<hr/>	<hr/>
Total net position	1,322,575	5,201,872	525,024	7,049,471
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities and net position	\$ 1,405,138	\$ 12,002,595	\$ 532,705	\$ 13,940,438
	<hr/>	<hr/>	<hr/>	<hr/>

See accompanying notes to financial statements.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

DISCRETELY PRESENTED COMPONENT UNITS
Combining Statement of Revenues, Expenses, and Changes in Net Position
Year Ended September 30, 2014

	Chuuk State Health Care Plan	Chuuk Public Utility Corporation	Chuuk State Housing Authority	Total
Operating revenues:				
Charges for services, net	\$ 1,367,637	\$ 5,921,761	\$ 190,230	\$ 7,479,628
Other	19,087	355,902	-	374,989
Total operating revenues	<u>1,386,724</u>	<u>6,277,663</u>	<u>190,230</u>	<u>7,854,617</u>
Operating expenses:				
Cost of services	1,123,795	4,193,839	-	5,317,634
Depreciation	7,958	311,087	-	319,045
Administration and general	260,130	2,341,588	110,532	2,712,250
Total operating expenses	<u>1,391,883</u>	<u>6,846,514</u>	<u>110,532</u>	<u>8,348,929</u>
Operating (loss) income	<u>(5,159)</u>	<u>(568,851)</u>	<u>79,698</u>	<u>(494,312)</u>
Nonoperating revenues (expenses):				
Other income (loss)	18,687	826,102	-	844,789
Interest expense	-	(159,493)	-	(159,493)
Total nonoperating revenues, net	<u>18,687</u>	<u>666,609</u>	<u>-</u>	<u>685,296</u>
Net income before capital contributions	13,528	97,758	79,698	190,984
Capital contributions	<u>10,964</u>	<u>1,657,798</u>	<u>-</u>	<u>1,668,762</u>
Change in net position	24,492	1,755,556	79,698	1,859,746
Net position at the beginning of the year	<u>1,298,083</u>	<u>3,446,316</u>	<u>445,326</u>	<u>5,189,725</u>
Net position at the end of the year	<u>\$ 1,322,575</u>	<u>\$ 5,201,872</u>	<u>\$ 525,024</u>	<u>\$ 7,049,471</u>

See accompanying notes to financial statements.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2014

(1) Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

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

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

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

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

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

i. Discretely Presented Component Units

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

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

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

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

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

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

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

ii. Omitted Governmental Funds

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

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

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

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

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

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

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

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

ii. Omitted Governmental Funds, Continued

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

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

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

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

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

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

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

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

iii. Omitted Component Units

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

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

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

B. Government-Wide Financial Statements

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

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

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2014

(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 the following categories:

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

The government-wide Statement of Net Position reports \$18,840,264 of restricted net position, of which none is restricted by enabling legislation.

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

C. Fund Financial Statements

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

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

C. Fund Financial Statements, Continued

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

D. Measurement Focus and Basis of Accounting

Government-Wide Financial Statements:

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

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

Governmental Fund Financial Statements:

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

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

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

Component Unit Financial Statements:

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

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

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

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

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

E. Cash and Cash Equivalents and Time Certificates of Deposit

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

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

F. Investments

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

G. Receivables

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

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

H. Inventories

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

I. Prepaid Items

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

J. Interfund Receivables/Payables

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

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

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

K. Restricted Assets

Certain assets of the primary government are classified as restricted assets because their use is completely restricted through loan agreements or enabling legislation. Specifically, the State has collateralized Asian Development Bank loan proceeds and earnings for the Chuuk State Early Retirement Scheme with investments recorded in the General Fund of \$3,969,015. Furthermore, investments recorded in the Compact Trust Fund of \$11,840,861 are restricted in that they are not available to be used in current operations.

As of September 30, 2014, cash and cash equivalents of the primary government were restricted for the following uses:

Savings account established in accordance with Section 211(d)(2) of the Compact of Free Association, as amended, for the purpose of funding the State's infrastructure maintenance plan	\$ 707,762
Deposit accounts established for the purpose of receiving payments pursuant to the Compact of Free Association, as amended	<u>2,087,010</u>
	\$ <u>2,794,772</u>

L. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure (e.g. roads, bridges, ramps and other similar items), are reported in the governmental activity column of the government-wide financial statements.

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at fair market value at the date of donation.

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

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

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

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

M. Deferred Outflows of Resources

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

N. Compensated Absences

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

O. Deferred Inflows of Resources

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

P. Fund Balance

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

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

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

P. Fund Balance, Continued

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

A formal minimum fund balance policy has not been adopted.

Q. Interfund/Intrafund Transactions

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

R. Risk Financing

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

S. Estimates

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

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards

During fiscal year 2014, the State implemented the following pronouncements:

- GASB 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 implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB 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 implementation of this statement did not have a material effect on the accompanying financial statements.

In June 2012, GASB issued 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 68 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect 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 this statement on the financial statements of the State.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the State.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

U. Total Columns

Total columns are presented primarily to facilitate financial analysis. The Management's Discussion and Analysis includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with the State's financial statements for the year ended September 30, 2013 from which summarized information was derived.

(2) Deposits and Investments

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

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

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

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

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

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2014

(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 or foreign currency risk.

As of September 30, 2014, the carrying amount of the primary government's total cash and cash equivalents were \$2,880,663 and the corresponding bank balances were \$4,893,914, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2014, bank deposits in the amount of \$500,000 were FDIC insured. The State does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

As of September 30, 2014, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$1,233,280 and the corresponding bank balances were \$1,381,985, which were maintained in financial institutions subject to FDIC insurance. As of September 30, 2014, bank deposits in the amount of \$829,727 were FDIC insured. The component units do not require collateralization of their cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Therefore, these deposits are exposed to custodial credit risk.

B. Investments

Primary Government

As of September 30, 2014, the State's investments at fair value are as follows:

Fixed income securities:	
Domestic fixed income	\$ 1,212,137
Other investments:	
Domestic equities	<u>14,707,067</u>
	\$ <u>15,919,204</u>

As of September 30, 2014, the General Fund has an Automated Cash Management account with the Bank of Hawaii in the amount of \$109,328.

As of September 30, 2014, the General Fund holds 11% of the shares of the Bank of the Federated States of Micronesia in the amount of \$250,000, .03% of the shares of the Pacific Islands Development Bank in the amount of \$250,000, and 1% of the shares of the FSM Development Bank in the amount of \$300,000. As the fair market value of these investments is not readily available, such have been recorded at cost.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2014

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

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, 2014.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the State. As of September 30, 2014, the State did not hold an investment in any one issuer that represented more than 5% of the State's total investments.

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, 2014, the State's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

Investment Type	Rating Type	Maturity (in years)				Total
		Less than 1	1-5	6-10	Over	
U.S. Treasury Notes and Bonds	AAA	\$ 4,224	\$ 94,036	\$ 54,360	\$ 39,038	\$ 191,658
U.S. Government Agencies Obligations:						
Federal Home Loan Mortgage Corporation	AAA	-	134,578	26,975	31,322	192,875
Government National Mortgage Association	AAA	-	-	-	1,366	1,366
Federal National Mortgage Association	AAA	-	297,231	-	56,912	354,143
Tennessee Valley Authority	AAA	-	-	41,422	12,404	53,826
Housing Urban Development	No rating	-	-	6,795	-	6,795
AID-Tunisia	AAA/No rating	-	41,115	-	-	41,115
Municipal Obligations	Aa1	-	15,202	9,510	19,457	44,169
Municipal Obligations	Aa2	-	-	10,214	-	10,214
Corporate Bonds	A1	16,333	-	-	28,492	44,825
Corporate Bonds	A2	11,471	28,400	12,631	-	52,502
Corporate Bonds	A3	-	28,509	7,963	-	36,472
Corporate Bonds	Aa1	-	25,198	6,549	-	31,747
Corporate Bonds	Aa2	-	-	-	16,227	16,227
Corporate Bonds	Aa3	-	10,681	11,225	-	21,906
Corporate Bonds	Aaa	27,222	35,388	7,713	-	70,323
Corporate Bonds	Baa1	-	10,730	-	-	10,730
Corporate Bonds	Baa2	-	-	6,904	7,687	14,591
Corporate Bonds	No rating	-	2,694	-	13,959	16,653
		\$ 59,250	\$ 723,762	\$ 202,261	\$ 226,864	\$ 1,212,137

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2014

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units

As of September 30, 2014, investments at fair value comprise the following:

Chuuk State Health Care Plan (CSHCP):

Fixed income securities:	
Domestic fixed income	\$ 74,164
Other investments:	
Domestic equities	185,065
Mutual funds	46,566
Money market funds	<u>13,694</u>
	<u>\$ 319,489</u>

As of September 30, 2014, CSHCP's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

<u>Investment Type</u>	<u>Investment Maturities (In Years)</u>		
	<u>Fair Value</u>	<u>1-5</u>	<u>Credit Ratings</u>
U.S. Treasury Notes and Bonds	\$ 35,737	\$ 35,737	AAA
Federal National Mortgage Association	<u>38,427</u>	<u>38,427</u>	AAA
	<u>\$ 74,164</u>	<u>\$ 74,164</u>	

(3) Receivables

Primary Government

Receivables as of September 30, 2014, 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 receivables	\$ 452,398	\$ 77,710	\$ -	\$ 65,673	\$ 595,781
FSM National Government	<u>665,459</u>	<u>1,263,191</u>	-	-	<u>1,928,650</u>
	1,117,857	1,340,901	-	65,673	2,524,431
Less: allowance for uncollectible accounts	<u>(315,574)</u>	-	-	-	<u>(315,574)</u>
Net receivables	<u>\$ 802,283</u>	<u>\$ 1,340,901</u>	<u>\$ -</u>	<u>\$ 65,673</u>	<u>\$ 2,208,857</u>

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2014

(3) Receivables, Continued

Presented Component Units

Receivables as of September 30, 2014, for the discretely presented component units in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	Chuuk State Health <u>Care Plan</u>	Chuuk Public Utility <u>Corporation</u>	Chuuk State Housing <u>Authority</u>	<u>Total</u>
Receivables:				
General	\$ 466,334	\$ 634,244	\$ 2,312,014	\$ 3,412,592
Other	<u>55,464</u>	<u>420,768</u>	<u>-</u>	<u>476,232</u>
Allowance for uncollectable accounts	521,798 <u>(42,872)</u>	1,055,012 <u>(330,045)</u>	2,312,014 <u>(1,897,056)</u>	3,888,824 <u>(2,269,973)</u>
	<u>\$ 478,926</u>	<u>\$ 724,967</u>	<u>\$ 414,958</u>	<u>\$ 1,618,851</u>

(4) Interfund Receivables and Payables

Receivables and payables between funds reflected as due to/from other funds in the combined balance sheet at September 30, 2014, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Grants Assistance	General	\$ 5,747,829
General	Grants Assistance	1,033,042
Nonmajor governmental funds	General	<u>64,705</u>
		<u>\$ 6,845,576</u>

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2014

(5) Capital Assets

Capital asset activities for the year ended September 30, 2014, are as follows:

Primary Government

	Balance October 1, 2013	Additions	Retirements	Balance September 30, 2014
Governmental activities:				
Depreciable assets:				
Airport facilities	\$ 38,107,415	\$ -	\$ -	\$ 38,107,415
Buildings	13,565,725	907,157	-	14,472,882
Seaport facilities	26,517,208	-	-	26,517,208
Vehicles and other equipment	9,654,678	200,006	-	9,854,684
Infrastructure	<u>14,835,315</u>	<u>-</u>	<u>-</u>	<u>14,835,315</u>
	<u>102,680,341</u>	<u>1,107,163</u>	<u>-</u>	<u>103,787,504</u>
Less accumulated depreciation for:				
Airport facilities	(28,385,522)	(952,685)	-	(29,338,207)
Buildings	(6,555,422)	(257,762)	-	(6,813,184)
Seaport facilities	(20,550,836)	(662,930)	-	(21,213,766)
Vehicles and other equipment	(6,757,953)	(448,952)	-	(7,206,905)
Infrastructure	<u>(14,835,315)</u>	<u>-</u>	<u>-</u>	<u>(14,835,315)</u>
	<u>(77,085,048)</u>	<u>(2,322,329)</u>	<u>-</u>	<u>(79,407,377)</u>
	<u>25,595,293</u>	<u>(1,215,166)</u>	<u>-</u>	<u>24,380,127</u>
Nondepreciable assets:				
Land	<u>17,954,462</u>	<u>-</u>	<u>-</u>	<u>17,954,462</u>
	<u>\$ 43,549,755</u>	<u>\$(1,215,166)</u>	<u>\$ -</u>	<u>\$ 42,334,589</u>

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

General government	\$ 1,239,061
Health services	220,405
Education	190,049
Public safety	9,884
Public works and transportation	<u>662,930</u>
	<u>\$ 2,322,329</u>

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2014

(5) Capital Assets, Continued

Discretely Presented Component Units

	Balance October <u>1, 2013</u>	<u>Additions</u>	<u>Retirements</u>	Balance September <u>30, 2014</u>
Depreciable assets:				
Buildings	\$ 415,089	\$ -	\$ -	\$ 415,089
Utility plant	28,453,685	1,273,697	(207,782)	29,519,600
Machinery, equipment, others	<u>255,758</u>	<u>25,772</u>	<u>-</u>	<u>281,530</u>
	29,124,532	1,299,469	(207,782)	30,216,219
Less accumulated depreciation	<u>(23,709,101)</u>	<u>(390,224)</u>	<u>207,782</u>	<u>(23,891,543)</u>
	5,415,431	909,245	-	6,324,676
Nondepreciable assets:				
Construction work-in-progress	<u>1,969,664</u>	<u>1,885,266</u>	<u>(1,254,810)</u>	<u>2,600,120</u>
	<u>\$ 7,385,095</u>	<u>\$ 2,794,511</u>	<u>\$(1,254,810)</u>	<u>\$ 8,924,796</u>

(6) Short-Term Debt

Discretely Presented Component Units

Chuuk Public Utility Corporation (CPUC):

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

\$ 104,044

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

	Balance October 1, <u>2013</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2014</u>
Notes payable:				
CPUC	\$ <u>739,243</u>	\$ <u>22,394</u>	\$ <u>(657,593)</u>	\$ <u>104,044</u>

(7) Long-Term Obligations

Primary Government

The State implemented an Early Retirement Scheme (ERS) in which employees holding certain nonessential positions as identified by the State were retired early with a payout of the equivalent of two-years' wages. This ERS program is funded by a \$5,300,000 loan from the ADB (Loan Number 1520 (SF)) through the FSM National Government, non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. The activities of the ERS Program are recorded in the General Fund.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2014

(7) Long-Term Obligations, Continued

Primary Government, Continued

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, 2014. As of September 30, 2014, the amount outstanding against this loan was \$5,280,806. Of the required \$5,300,000 identified for future debt service payments, \$3,969,015 is deposited in an investment account held jointly with the FSM National Government. That investment account is restricted for the repayment of this debt and other ADB related debt set forth below.

The State also entered into an agreement with the FSM National Government to borrow a portion of the proceeds of the FSM National Government Program 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, 2014, the balance payable on this loan amounted to \$694,181.

The State also entered into an agreement with the FSM National Government to borrow a portion of the proceeds of the FSM National Government Program Loans with ADB (Loan Number 1873 (SF) and Loan Number 1874 FSM (SF)) for the purpose of promoting private sector development in Chuuk, with interest at 1% to 1.5% per annum. Principal payments shall be made in 32 equal semi-annual payments with the first payment due on May 15, 2011 and the last payment on November 15, 2025. As of September 30, 2014, the related principal balances were \$511,689 and \$1,074,229, respectively.

On December 21, 2010, the Chuuk Public Utilities Corporation (CPUC) and the State agreed through memorandum of understanding to offset certain claims and transferred certain debt between CPUC and the State. The transferred debt was the FSM National Government Program Loan with ADB (Loan Number 1459 (SF)), totaling \$3,868,102, for water wells and electric construction purposes, with interest at 1% to 1.5% per annum. Principal payments shall be made semiannually commencing August 1, 2007, with a maturity date of August 1, 2036. As of September 30, 2014, the balance payable on this loan amounted to \$3,868,102.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2014

(7) Long-Term Obligations, Continued

Primary Government, Continued

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

<u>Year Ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 349,945	\$ 124,773	\$ 474,718
2016	349,945	120,594	470,539
2017	442,035	116,415	558,450
2018	564,098	108,873	672,971
2019	564,098	104,994	669,092
2020-2024	2,820,488	430,160	3,250,648
2025-2029	2,675,361	275,100	2,950,461
2030-2034	2,527,015	132,764	2,659,779
2035-2037	<u>1,136,022</u>	<u>20,154</u>	<u>1,156,176</u>
	<u>\$ 11,429,007</u>	<u>\$ 1,433,827</u>	<u>\$ 12,862,834</u>

Discretely Presented Component Units

Chuuk Public Utility Corporation:

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

\$ 2,688,057

Loan payable to the State, facilitated by an ADB loan (Loan Number 2100-FSM) to the FSM National Government, original amount of \$2,800,000, due in semi-annual installments of varying amounts through January 15, 2019. Interest is payable at LIBOR plus 0.6% per annum (2.1% at September 30, 2014). Proceeds were used for the purchase of two generator sets and related costs.

2,259,156

\$ 4,947,213

**STATE OF CHUUK
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Notes to Financial Statements
September 30, 2014

(7) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

Chuuk Public Utility Corporation, Continued:

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

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 137,690	\$ 95,462	\$ 233,152
2016	178,628	84,117	262,745
2017	187,977	80,743	268,720
2018	198,357	77,294	275,651
2019	209,265	73,630	282,895
2020-2024	1,253,157	304,236	1,557,393
2025-2029	1,734,086	174,267	1,908,353
2030-2034	646,108	52,650	698,758
2035-2037	<u>401,945</u>	<u>11,505</u>	<u>413,450</u>
	<u>\$ 4,947,213</u>	<u>\$ 953,904</u>	<u>\$ 5,901,117</u>

(8) Changes in Long-Term Obligations

Primary Government

Long-term liabilities will be liquidated in the future from governmental funds. During the year ended September 30, 2014 the following changes occurred in liabilities reported as part of the primary government's long-term liabilities in the statement of net position:

	<u>Balance October 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2014</u>	<u>Due Within One Year</u>
Loans payable:					
ADB loans:					
Loan 1459	\$ 3,960,138	\$ -	\$ (92,036)	\$ 3,868,102	\$ 91,947
Loan 1520	5,398,252	-	(117,446)	5,280,806	122,063
Loan 1816	807,242	-	(113,061)	694,181	38,264
Loan 1873	556,247	-	(44,558)	511,689	43,788
Loan 1874	<u>1,132,572</u>	<u>-</u>	<u>(58,343)</u>	<u>1,074,229</u>	<u>53,883</u>
	11,854,451	-	(425,444)	11,429,007	349,945
Other:					
Claims and judgments	-	902,605	-	902,605	-
Compensated absences	<u>2,107,934</u>	<u>678,731</u>	<u>(755,703)</u>	<u>2,030,962</u>	<u>1,157,452</u>
	<u>\$13,962,385</u>	<u>\$ 1,581,336</u>	<u>\$ (1,181,147)</u>	<u>\$14,362,574</u>	<u>\$1,507,397</u>

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2014

(8) Changes in Long-Term Obligations, Continued

Discretely Presented Component Units

During the year ended September 30, 2014, the following changes occurred in long-term obligations of the discretely presented component units:

	Balance October 1, <u>2013</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2014</u>	Due Within <u>One Year</u>
Loans payable:					
CPUC	\$ <u>3,724,360</u>	\$ <u>1,507,928</u>	\$(<u>285,075</u>)	\$ <u>4,947,213</u>	\$ <u>137,690</u>

(9) Interfund/Intrafund Transactions

Operating transfers in/out for each major governmental fund and nonmajor governmental funds in the aggregate, for the year ended September 30, 2014, are as follows:

	<u>Transfers Out</u>	<u>Transfers In</u>
General Fund:		
Grants Assistance Fund	\$ 425,349	\$ -
Nonmajor governmental funds	<u>52,880</u>	<u>-</u>
	<u>478,229</u>	<u>-</u>
Grants Assistance Fund:		
General Fund	<u>-</u>	<u>425,349</u>
Nonmajor Governmental funds:		
General Fund	<u>-</u>	<u>52,880</u>
	<u>\$ 478,229</u>	<u>\$ 478,229</u>

Transfers are used to 1) move revenues from the fund that enabling legislation or budget requires to collect them to the fund that enabling legislation or budget requires to expend them, 2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and 3) record reductions in interfund loans for amounts that are not expected to be repaid. Specifically, the State transferred \$425,349 from the General Fund to the Grants Assistance Fund to primarily finance infrastructure maintenance programs and \$52,880 from the General Fund to the Other Government Funds to fund a deficit.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2014

(10) Fund Balance

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

	General Fund	Grants Assistance Fund	Compact Trust Fund	Nonmajor Funds	Total Governmental Funds
Non-spendable:					
General government	\$ 424,897	\$ 90,390	\$ -	\$ -	\$ 515,287
FSM Development Bank	300,000	-	-	-	300,000
Pacific Islands Development Bank	250,000	-	-	-	250,000
Bank of the FSM	250,000	-	-	-	250,000
Permanent fund principal	-	-	11,840,861	-	11,840,861
Restricted:					
Debt service	3,969,015	-	-	-	3,969,015
Capital projects	-	673,294	-	-	673,294
General government	-	1,628,823	-	-	1,628,823
Education	-	1,658,419	-	-	1,658,419
Health services	-	430,192	-	-	430,192
Other foreign assistance	-	124,640	-	-	124,640
Unassigned	<u>(10,378,558)</u>	<u>(33,642)</u>	<u>-</u>	<u>-</u>	<u>(10,412,200)</u>
	<u>\$ (5,184,646)</u>	<u>\$ 4,572,116</u>	<u>\$ 11,840,861</u>	<u>\$ -</u>	<u>\$ 11,228,331</u>

(11) Contingencies

Sick Leave

It is the policy of the State to record expenditures for sick leave when leave is actually taken. Sick leave is compensated time for absence during working hours arising from employee illness or injury. The estimated accumulated amount of unused sick leave as of September 30, 2014 is \$5,458,670.

Insurance Coverage

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

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2014

(11) Contingencies, Continued

Encumbrances

The State utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2014, the State has significant encumbrances summarized as follows:

<u>General</u>	<u>Grants Assistance</u>	<u>Compact Trust</u>	<u>Other Governmental Funds</u>	<u>Total</u>
\$ <u>236,766</u>	\$ <u>2,722,270</u>	\$ <u> -</u>	\$ <u>4,883</u>	\$ <u>2,963,919</u>

Federal Grants

The State participates in a number of federally assisted grant programs and other various U.S. Department of the Interior grants. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs have been set forth in the State's Single Audit Report for the year ended September 30, 2014. In addition, the State is considered to have responsibility for any questioned costs that may result from Single Audits of subgrantees who have not satisfied the audit requirements of OMB Circular A-133. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

Litigation

The State is a party to various legal proceedings in which the State's Attorney General indicates that pending land lease cases and other related claims against the State exist at September 30, 2014 in an amount that is material to the financial statements. Due to an inability to predict the ultimate outcome of these matters, no provision for these liabilities has been made in the accompanying financial statements.

Delinquent Taxes

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

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2014

(11) Contingencies, Continued

General Fund Financial Position

The State's General Fund has sustained recurring operating deficits and has an unassigned fund deficit of \$11,837,330 at September 30, 2014. In addition, at September 30, 2014, the primary government's current liabilities exceed current assets by \$6,888,942.

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

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

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

(12) Budgetary Compliance

For the year ended September 30, 2014, significant over-expenditures exceeding appropriations within the General Fund were as follows:

Department of Administrative Services	\$ 403,715
Department of Education	\$ 64,600
Historic Preservation Office	\$ 34,001
Division of Business and Trade	\$ 14,826
Division of Commerce and Industry	\$ 19,341
Department of Public Affairs	\$ 40,439
Debt service	\$ 458,178
Hospital Revolving Fund	\$ 52,880

**STATE OF CHUUK
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REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2014

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Revenues, Expenditures and Changes in Deficit
Budget and Actual - General Fund
Year Ended September 30, 2014

	<u>Budgeted Amounts</u>		Actual -	Variance with
	<u>Original</u>	<u>Final</u>	Budgetary Basis (see Note 1)	Final Budget - Positive (Negative)
Revenues:				
Local revenues	\$ 7,060,307	\$ 7,533,000	\$ 7,762,751	\$ 229,751
Net change in fair value of investments	-	-	601,617	601,617
Total revenues	<u>7,060,307</u>	<u>7,533,000</u>	<u>8,364,368</u>	<u>831,368</u>
Expenditures:				
Current:				
General government	3,264,708	4,090,715	4,405,316	(314,601)
Education	-	-	64,600	(64,600)
Economic development	970	970	69,138	(68,168)
Public safety	1,092,240	1,150,240	1,048,243	101,997
Public works and transportation	937,324	970,880	974,314	(3,434)
Community affairs	-	-	40,439	(40,439)
Boards and commissions	387,020	414,364	345,079	69,285
Judiciary	512,332	532,332	512,859	19,473
Payments to component units	55,883	55,883	56,014	(131)
Municipal affairs	446,417	446,417	453,116	(6,699)
Other	214,222	472,297	355,919	116,378
Debt service	-	-	458,178	(458,178)
Total expenditures	<u>6,911,116</u>	<u>8,134,098</u>	<u>8,783,215</u>	<u>(649,117)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>149,191</u>	<u>(601,098)</u>	<u>(418,847)</u>	<u>182,251</u>
Other financing uses:				
Operating transfers out	<u>(462,338)</u>	<u>(412,338)</u>	<u>(478,229)</u>	<u>(65,891)</u>
Net change in deficit	<u>(313,147)</u>	<u>(1,013,436)</u>	<u>(897,076)</u>	<u>116,360</u>
Other changes in fund deficit:				
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes but in the year the supplies are received for financial reporting purposes	318,147	318,147	456,713	138,566
Fund deficit at the beginning of the year	<u>(4,744,283)</u>	<u>(4,744,283)</u>	<u>(4,744,283)</u>	<u>-</u>
Fund deficit at the end of the year	<u>\$ (4,739,283)</u>	<u>\$ (5,439,572)</u>	<u>\$ (5,184,646)</u>	<u>\$ 254,926</u>

See accompanying notes to required supplementary information - budgetary reporting.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Required Supplementary Information – Budgetary Reporting
September 30, 2014

(1) Budgetary Information

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

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

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

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2014

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Combining Schedule of Expenditures by Account
Governmental Funds
Year Ended September 30, 2014

	General	Special Revenue Grants Assistance	Permanent Compact Trust	Other Governmental Funds	Total
Expenditures:					
Salaries and wages					
Regular	\$ 3,844,498	\$ 11,752,252	\$ -	\$ 12,515	\$ 15,609,265
Overtime	46,436	568,938	-	-	615,374
Fringe benefits	515,156	1,568,468	-	1,496	2,085,120
Travel and transportation	503,462	502,487	-	93,952	1,099,901
Books and library materials	-	7,731	-	-	7,731
Communications	69,494	129,244	-	1,802	200,540
Dues, membership, and subscriptions	11,217	1,315	-	840	13,372
Food stuffs	41,985	439,517	-	6,908	488,410
Port charges	5,992	20,203	-	425	26,620
Office supplies and materials	135,060	1,368,047	-	9,799	1,512,906
POL	183,389	618,293	-	1,332	803,014
Printing and reproduction	4,046	49,351	-	292	53,689
Rental services	15,939	82,129	-	3,329	101,397
Repairs and maintenance	18,128	492,795	-	3,052	513,975
Constructional materials	(1,547)	20,780	-	-	19,233
Utilities	316,856	1,139,007	-	3,084	1,458,947
Goods and services	161,179	(10,258)	-	28,123	179,044
Subsidies and contributions	15,300	213,093	-	-	228,393
Medical referrals	-	180,841	-	11,281	192,122
Medical supplies	-	1,288,781	-	6,404	1,295,185
Contractual services	384,020	3,344,688	-	16,175	3,744,883
Professional services	-	144,063	-	-	144,063
Housing allowance	71,810	-	-	1,500	73,310
Compensation non-payroll	-	12,035	-	-	12,035
Scholarships and allowances	-	501,876	-	-	501,876
Training	5,985	369,550	-	-	375,535
Official allowance	703,731	-	-	-	703,731
Meeting fees and allowance	4,200	23,350	-	-	27,550
Insurance	19,449	1,960	-	5,177	26,586
Leased housing, buildings and land	196,053	447,615	-	4,500	648,168
Equipment	102,179	455,493	-	3,941	561,613
Furniture and fixtures	3,937	434,757	-	-	438,694
Vehicles	69,654	187,737	-	-	257,391
Court judgement	314,985	-	-	-	314,985
Principal repayment	425,444	-	-	-	425,444
Interest payments	32,734	-	-	-	32,734
Miscellaneous	105,731	-	-	-	105,731
	<u>\$ 8,326,502</u>	<u>\$ 26,356,136</u>	<u>\$ -</u>	<u>\$ 215,927</u>	<u>\$ 34,898,565</u>

See Accompanying Independent Auditors' Report.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

GENERAL FUND

September 30, 2014

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

See Accompanying Independent Auditors' Report.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures by Function, and Changes in Deficit
General Fund
Year Ended September 30, 2014
(with comparative totals for the year ended September 30, 2013)

	2014	2013
Revenues:		
FSM revenue sharing:		
Gross revenue taxes	\$ 704,913	\$ 891,839
Import taxes	993,397	1,050,331
Income taxes	1,007,119	985,976
Other taxes	54,559	120,775
FSM revenue sharing	2,759,988	3,048,921
State taxes:		
Sales tax	1,889,617	2,416,289
Other excise taxes	507,600	227,147
	2,397,217	2,643,436
Fees and charges:		
Licenses and permits	954,758	890,877
Leases and other rentals	142,696	151,620
	1,097,454	1,042,497
Departmental charges:		
Transportation collections	696,302	631,882
Net change in the fair value of investments	601,617	462,875
Other revenues	811,790	267,327
Total revenues	8,364,368	8,096,938
Expenditures:		
Current:		
General government:		
Office of the Governor	512,288	482,370
State Legislature	2,355,876	2,262,170
Department of Administrative Services	1,205,064	508,228
	4,073,228	3,252,768
Health:		
Department of Health	64,600	138,041
Economic development:		
Department of Marine Resources	-	4,458
Historic Preservation Office	34,001	20,640
Division of Business & Trade	14,826	-
Division of Commerce & Industries	20,311	14,094
	69,138	39,192
Public safety:		
Office of the Attorney General	225,416	231,519
Department of Public Safety	815,514	907,639
	1,040,930	1,139,158
Public works and transportation:		
Department of Transportation	906,129	849,865
Community affairs:		
Broadcast	40,439	43,147

See Accompanying Independent Auditors' Report.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures by Function, and Changes in Deficit, Contingent Liabilities
General Fund
Year Ended September 30, 2014
(with comparative totals for the year ended September 30, 2013)

	2014	2013
Expenditures, continued:		
Current, continued:		
Boards and commissions:		
Land Commission	119,511	115,508
Public Service Commission	103,325	102,365
Election Commission	118,923	344,458
	341,759	562,331
Judiciary:		
State Court	499,261	459,277
Payments to component units:		
Chuuk State Housing Authority	55,854	58,879
Municipal affairs:		
Payments to municipalities	438,935	429,005
Other:		
Farmers Home Administration	25,817	25,837
Peace Corps	15,600	15,600
MLSC	5,000	-
Micro Games	66,589	16,396
Insurance Broker	15,000	-
Guandong Province	-	947
Land Management	52,496	-
Overseas Development Assistance	26,972	17,592
Political Status Commission	116,895	49,404
Labor and Manpower	13,682	12,798
	338,051	138,574
Debt service:		
Principal repayment	425,444	421,943
Interest	32,734	-
	458,178	421,943
Total expenditures	8,326,502	7,532,180
Excess of revenues over expenditures	37,866	564,758
Other financing uses:		
Operating transfers out	(478,229)	(660,812)
Special item:		
Chuuk loan recovery	-	737,563
Net change in deficit	(440,363)	641,509
Deficit at the beginning of the year	(4,744,283)	(5,385,792)
Deficit at the end of the year	\$ (5,184,646)	\$ (4,744,283)

See Accompanying Independent Auditors' Report.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

**Statement of Revenues, Expenditures and Changes in Deficit
Budget and Actual - General Fund
Year Ended September 30, 2014**

	Budgeted Amounts		Actual Budgetary Basis	Variance with
	Original	Final		Final Budget
				Positive/(Negative)
Revenues:				
Local revenues	\$ 7,060,307	\$ 7,533,000	\$ 7,762,751	\$ 229,751
Net change in fair value of investments	-	-	601,617	601,617
Total revenues	7,060,307	7,533,000	8,364,368	831,368
Expenditures:				
Current:				
General government:				
Office of the Governor	429,518	543,143	550,694	(7,551)
State Legislature	2,403,221	2,706,221	2,609,556	96,665
Department of Administrative Services	431,969	841,351	1,245,066	(403,715)
	<u>3,264,708</u>	<u>4,090,715</u>	<u>4,405,316</u>	<u>(314,601)</u>
Education:				
Department of Education	-	-	64,600	(64,600)
Economic development:				
Historic Preservation Office	-	-	34,001	(34,001)
Division of Business & Trade	-	-	14,826	(14,826)
Division of Commerce & Industry	970	970	20,311	(19,341)
	<u>970</u>	<u>970</u>	<u>69,138</u>	<u>(68,168)</u>
Public safety:				
Office of the Attorney General	270,565	278,565	229,191	49,374
Department of Public Safety	821,675	871,675	819,052	52,623
	<u>1,092,240</u>	<u>1,150,240</u>	<u>1,048,243</u>	<u>101,997</u>
Public works and transportation:				
Department of Transportation	937,324	970,880	974,314	(3,434)
Community affairs:				
Department of Public Affairs	-	-	40,439	(40,439)
Boards and commissions:				
Chuuk Recreation Board	18,228	20,728	-	20,728
Land Commission	129,997	122,341	121,486	855
Public Service Commission	137,923	137,923	103,325	34,598
Election Commission	100,872	133,372	120,268	13,104
	<u>387,020</u>	<u>414,364</u>	<u>345,079</u>	<u>69,285</u>
Judiciary:				
State Court	512,332	532,332	512,859	19,473
Payments to component units:				
Chuuk State Housing Authority	55,883	55,883	56,014	(131)
Municipal affairs:				
Payments to municipalities	446,417	446,417	453,116	(6,699)
Other:				
Farmers Home Administration	25,500	25,500	25,817	(317)
Peace Corps	15,600	15,600	15,600	-
MLSC	-	5,000	5,000	-
Micro Games	-	50,000	66,589	(16,589)
Guandong Provience	2,000	2,000	2,000	-
Insurance broker	-	15,000	15,000	-
Land Management	-	-	52,496	(52,496)
Overseas Development Assistance	40,578	28,653	28,051	602
Labor and Manpower	130	130	13,682	(13,552)
Political Status Commission	75,828	225,828	131,684	94,144
Chuuk House	54,586	104,586	-	104,586
	<u>214,222</u>	<u>472,297</u>	<u>355,919</u>	<u>116,378</u>

See Accompanying Independent Auditors' Report.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures and Changes in Deficit
Budget and Actual - General Fund, Continued
Year Ended September 30, 2014

	<u>Budgeted Amounts</u>		Actual Budgetary Basis	Variance with Final Budget Positive/(Negative)
	<u>Original</u>	<u>Final</u>		
Debt service:				
Principal repayment	-	-	425,444	(425,444)
Interest payments	-	-	32,734	(32,734)
Principal repayment	-	-	458,178	(458,178)
Total expenditures	<u>6,911,116</u>	<u>8,134,098</u>	<u>8,783,215</u>	<u>(649,117)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>149,191</u>	<u>(601,098)</u>	<u>(418,847)</u>	<u>182,251</u>
Other financing uses:				
Operating transfers out	<u>(462,338)</u>	<u>(412,338)</u>	<u>(478,229)</u>	<u>(65,891)</u>
Net change in deficit	(313,147)	(1,013,436)	(897,076)	116,360
Other changes in fund deficit:				
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes but in the year the supplies are received for financial reporting purposes	318,147	318,147	456,713	138,566
Fund deficit at the beginning of the year	<u>(4,744,283)</u>	<u>(4,744,283)</u>	<u>(4,744,283)</u>	<u>-</u>
Fund deficit at the end of the year	<u>\$ (4,739,283)</u>	<u>\$ (5,439,572)</u>	<u>\$ (5,184,646)</u>	<u>\$ 254,926</u>

See Accompanying Independent Auditors' Report.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2014

Special revenue funds are used to account for specific revenues that are legally restricted for particular purposes. A brief discussion of the State's Nonmajor Governmental Funds - Special Revenue Funds as of September 30, 2014, follows:

Hospital Revolving Fund

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

See Accompanying Independent Auditors' Report.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

GRANTS ASSISTANCE FUND

Combining Balance Sheet
September 30, 2014

	Education Sector	Health Sector	Environment Sector	Private Sector Development	Capacity Building Sector	Supplemental Education	Enhanced Reporting Accountability	Infrastructure Maintenance	Infrastructure	U.S. Federal Grants	Foreign Assistance	CFSM Grants	Total
ASSETS													
Receivables, net	\$ 715,768	\$ 657	\$ 34,775	\$ 15,799	\$ -	\$ -	\$ 78,979	\$ -	\$ -	\$ 369,311	\$ 47,902	\$ -	\$ 1,263,191
Advances	11,492	17,634	2,770	5,316	6,225	16,606	2,307	(1,056)	-	11,449	-	4,967	77,710
Prepayments	-	-	21,728	7,483	-	56,748	4,431	-	-	-	-	-	90,390
Due from other funds	-	995,189	-	74,545	1,809,547	2,117,460	-	674,350	-	-	76,738	-	5,747,829
	<u>\$ 727,260</u>	<u>\$ 1,013,480</u>	<u>\$ 59,273</u>	<u>\$ 103,143</u>	<u>\$ 1,815,772</u>	<u>\$ 2,190,814</u>	<u>\$ 85,717</u>	<u>\$ 673,294</u>	<u>\$ -</u>	<u>\$ 380,760</u>	<u>\$ 124,640</u>	<u>\$ 4,967</u>	<u>\$ 7,179,120</u>
LIABILITIES AND FUND BALANCES													
Liabilities:													
Accounts payable	\$ 179,931	\$ 233,479	\$ 22,728	\$ 15,533	\$ -	\$ 9,720	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,761	\$ 466,152
Accrued liabilities	3,647	-	-	-	-	-	-	-	-	1,349	-	-	4,996
Unearned revenues	-	349,809	-	87,610	199,468	465,927	-	-	-	-	-	-	1,102,814
Due to other funds	543,682	-	36,545	-	-	-	85,717	-	-	366,892	-	206	1,033,042
Total liabilities	<u>727,260</u>	<u>583,288</u>	<u>59,273</u>	<u>103,143</u>	<u>199,468</u>	<u>475,647</u>	<u>85,717</u>	<u>-</u>	<u>-</u>	<u>368,241</u>	<u>-</u>	<u>4,967</u>	<u>2,607,004</u>
Fund balances:													
Non-spendable	-	-	21,728	7,483	-	56,748	4,431	-	-	-	-	-	90,390
Restricted	-	430,192	-	-	1,616,304	1,658,419	-	673,294	-	12,519	124,640	-	4,515,368
Unassigned	-	-	(21,728)	(7,483)	-	-	(4,431)	-	-	-	-	-	(33,642)
Total fund balances	<u>-</u>	<u>430,192</u>	<u>-</u>	<u>-</u>	<u>1,616,304</u>	<u>1,715,167</u>	<u>-</u>	<u>673,294</u>	<u>-</u>	<u>12,519</u>	<u>124,640</u>	<u>-</u>	<u>4,572,116</u>
Total liabilities and fund balances	<u>\$ 727,260</u>	<u>\$ 1,013,480</u>	<u>\$ 59,273</u>	<u>\$ 103,143</u>	<u>\$ 1,815,772</u>	<u>\$ 2,190,814</u>	<u>\$ 85,717</u>	<u>\$ 673,294</u>	<u>\$ -</u>	<u>\$ 380,760</u>	<u>\$ 124,640</u>	<u>\$ 4,967</u>	<u>\$ 7,179,120</u>

See Accompanying Independent Auditors' Report.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

GRANTS ASSISTANCE FUND

Combining Statement of Revenues, Expenditures by Function,
and Changes in Fund Balances
Year Ended September 30, 2014

	Education Sector	Health Sector	Environment Sector	Private Sector Development	Capacity Building Sector	Supplemental Education	Enhanced Reporting Accountability	Infrastructure Maintenance	Infrastructure	U.S. Federal Grants	Foreign Assistance	CFSM Grants	Total
Revenues:													
Compact funding	\$ 8,933,233	\$ 8,271,839	\$ 639,528	\$ 600,500	\$ 761,947	\$ 3,760,273	\$ 552,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 23,519,320
Federal and other grants	-	-	-	-	-	-	-	-	-	1,919,117	152,189	-	2,071,306
Total revenues	<u>8,933,233</u>	<u>8,271,839</u>	<u>639,528</u>	<u>600,500</u>	<u>761,947</u>	<u>3,760,273</u>	<u>552,000</u>	<u>-</u>	<u>-</u>	<u>1,919,117</u>	<u>152,189</u>	<u>-</u>	<u>25,590,626</u>
Expenditures by function:													
Current:													
General government	-	-	-	-	761,947	-	552,000	-	-	-	152,189	-	1,466,137
Health services	-	8,271,839	-	-	-	-	-	-	-	1,168,487	-	-	9,440,326
Education	8,933,233	-	-	-	-	3,760,273	-	-	-	750,630	-	-	13,444,135
Economic development	-	-	639,528	600,500	-	-	-	752,499	-	-	-	-	1,992,528
Public safety	-	-	-	-	-	-	-	-	-	-	-	13,011	13,011
Total expenditures	<u>8,933,233</u>	<u>8,271,839</u>	<u>639,528</u>	<u>600,500</u>	<u>761,947</u>	<u>3,760,273</u>	<u>552,000</u>	<u>752,499</u>	<u>-</u>	<u>1,919,117</u>	<u>152,189</u>	<u>13,011</u>	<u>26,356,136</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(752,499)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(13,011)</u>	<u>(765,510)</u>
Other financing sources:													
Operating transfers in	-	-	-	-	-	-	-	412,338	-	-	-	13,011	425,349
Net change in fund balances	-	-	-	-	-	-	-	(340,161)	-	-	-	-	(340,161)
Fund balances at the beginning of the year	-	430,192	-	-	1,616,304	1,715,167	-	1,013,455	-	12,519	124,640	-	4,912,277
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ 430,192</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,616,304</u>	<u>\$ 1,715,167</u>	<u>\$ -</u>	<u>\$ 673,294</u>	<u>\$ -</u>	<u>\$ 12,519</u>	<u>\$ 124,640</u>	<u>\$ -</u>	<u>\$ 4,572,116</u>

See Accompanying Independent Auditors' Report.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

GRANTS ASSISTANCE FUND

Combining Statement of Revenues, Expenditures by Function,
and Changes in Fund Balances
Year Ended September 30, 2014

	Education Sector	Health Sector	Environment Sector	Private Sector Development	Capacity Building Sector	Supplemental Education	Enhanced Reporting Accountability	Infrastructure Maintenance	Infrastructure	U.S. Federal Grants	Foreign Assistance	CFSM Grants	Total
Revenues:													
Compact funding	\$ 8,933,233	\$ 8,271,839	\$ 639,528	\$ 600,500	\$ 761,947	\$ 3,760,273	\$ 552,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 23,519,320
Federal and other grants	-	-	-	-	-	-	-	-	-	1,919,117	152,189	-	2,071,306
Total revenues	8,933,233	8,271,839	639,528	600,500	761,947	3,760,273	552,000	-	-	1,919,117	152,189	-	25,590,626
Expenditures by account:													
Salaries and wages:													
Regular	5,670,282	3,043,662	345,724	319,345	-	814,121	438,665	-	-	1,105,601	14,851	-	11,752,252
Overtime	56,773	497,310	2,609	-	-	8,273	3,973	-	-	-	-	-	568,938
Fringe benefits	719,603	439,465	45,992	42,214	21,405	108,360	56,531	252	-	132,271	2,375	-	1,568,468
Travel and transportation	34,995	93,466	18,013	37,044	41,935	108,850	16,269	994	-	143,595	-	7,326	502,487
Books and library materials	-	-	-	-	-	7,731	-	-	-	-	-	-	7,731
Communications	4,505	22,980	9,403	16,641	8,023	53,360	4,237	1,824	-	8,246	-	25	129,244
Dues, memberships, and subscriptions	-	-	440	435	55	225	-	-	-	160	-	-	1,315
Food stuffs	171,488	246,033	-	1,412	-	19,237	-	-	-	1,347	-	-	439,517
Freight and port charges	-	1,350	214	(1,055)	-	19,667	-	-	-	27	-	-	20,203
Office supplies and materials	74,419	181,342	54,751	65,470	46,153	870,166	10,098	2,341	-	59,830	3,477	-	1,368,047
POL	63,326	226,721	60,714	29,753	28,799	129,636	9,217	144	-	66,325	220	3,438	618,293
Printing and reproduction	10,870	23,824	5,300	1,578	68	1,196	-	-	-	4,090	2,426	-	49,351
Rental services	22,619	11,541	2,243	2,141	467	18,241	-	-	-	24,848	-	30	82,129
Repairs and maintenance	289,912	112,612	14,962	3,646	2,964	53,579	483	1,417	-	12,893	-	328	492,795
Construction materials	11,332	4,323	177	1,299	-	3,648	-	-	-	-	-	-	20,780
Utilities	64,837	915,670	14,841	7,729	10,069	113,446	8,195	-	-	2,100	-	2,120	1,139,007
Goods and services	(16,479)	379	100	(8,116)	25,909	(3,206)	-	-	-	85	-	(8,930)	(10,258)
Subsidies and contributions	201,013	-	-	-	-	12,080	-	-	-	-	-	-	213,093
Medical referrals	-	180,841	-	-	-	-	-	-	-	-	-	-	180,841
Medical supplies	-	1,284,708	-	-	-	-	-	-	-	4,073	-	-	1,288,781
Contractual services	765,839	650,174	30,399	60,244	327,942	490,733	4,333	733,935	-	281,091	-	-	3,344,688
Professional services	-	-	-	-	144,063	-	-	-	-	-	-	-	144,063
Scholarships and allowances	501,876	-	-	-	-	-	-	-	-	-	-	-	501,876
Fees and meeting allowances	7,540	-	-	550	-	14,100	-	-	-	1,160	-	-	23,350
Training	36,251	21,850	-	1,780	-	307,369	-	-	-	2,300	-	-	369,550
Insurance	-	-	-	1,960	-	-	-	-	-	-	-	-	1,960
Leased housing, buildings and land	52,080	176,790	3,150	945	44,340	155,348	-	-	-	14,963	-	-	447,615
Compensation non-payroll	-	5,000	-	-	-	-	-	-	-	7,035	-	-	12,035
Equipment	111,483	104,883	23,437	6,009	40,311	126,263	-	10,326	-	27,151	4,255	1,374	455,493
Furniture and fixtures	59,885	26,914	7,060	2,586	9,195	327,850	-	1,267	-	-	-	-	434,757
Vehicles	18,783	-	-	6,890	10,250	-	-	-	-	19,928	124,585	7,300	187,737
Total expenditures	8,933,233	8,271,839	639,528	600,500	761,947	3,760,273	552,000	752,499	-	1,919,117	152,189	13,011	26,356,136
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-	-	-	-	(752,499)	-	-	-	(13,011)	(765,510)
Other financing sources:													
Operating transfers in	-	-	-	-	-	-	-	412,338	-	-	-	13,011	425,349
Net change in fund balances	-	-	-	-	-	-	-	(340,161)	-	-	-	-	(340,161)
Fund balances at the beginning of the year	-	430,192	-	-	1,616,304	1,715,167	-	1,013,455	-	12,519	124,640	-	4,912,277
Fund balances at the end of the year	\$ -	\$ 430,192	\$ -	\$ -	\$ 1,616,304	\$ 1,715,167	\$ -	\$ 673,294	\$ -	\$ 12,519	\$ 124,640	\$ -	\$ 4,572,116

See Accompanying Independent Auditors' Report.

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Chuuk as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the State of Chuuk's basic financial statements, and have issued our report thereon dated June 25, 2015. Our report was modified with respect to cash and cash equivalents and a liability for land leases and related claims payable in the governmental activities and the General Fund.

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

Internal Control Over Financial Reporting

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

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 significant deficiencies. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2014-004 and 2014-005, which we consider to be material weaknesses.

Compliance and Other Matters

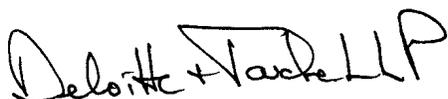
As part of obtaining reasonable assurance about whether the State of Chuuk's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material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

State of Chuuk's Response to Findings

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

Purpose of this Report

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

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

June 25, 2015

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

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

Report on Compliance for Each Major Federal Program

We have audited the State of Chuuk's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the State of Chuuk's major federal program for the year ended September 30, 2014. The State of Chuuk's major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

As discussed in Note 2B to the Schedule of Expenditures of Federal Awards, the State of Chuuk's basic financial statements include the operations of certain entities whose federal awards are not included in the accompanying Schedule of Expenditures of Federal Awards for the year ended September 30, 2014. Our audit, described below, did not include the operations of the entities identified in Note 2B as these entities conducted separate audits in accordance with OMB Circular A-133, if required.

Management's Responsibility

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

Auditors' Responsibility

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

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

Basis for Qualified Opinion on CFDA 15.875 Compact Sector Grants

As described in the accompanying Schedule of Findings and Questioned Costs, the State of Chuuk did not comply with requirements regarding CFDA 15.875 Economic, Social and Political Development of the Territories – Compact Sector Grants as described in item 2014-002 for Procurement and Suspension and Debarment. Compliance with such requirements is necessary, in our opinion, for the State of Chuuk to comply with the requirements applicable to that program.

Qualified Opinion on CFDA 15.875 Compact Sector Grants

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the State of Chuuk complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 15.875 Economic, Social and Political Development of the Territories – Compact Sector Grants for the year ended September 30, 2014.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2014-001 and 2014-003 regarding the following:

Finding #	CFDA #	Compliance Requirement
2014-001	15.875	Equipment and Real Property Management
2014-003	15.875	Period of Availability of Federal Funds

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

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

Report on Internal Control Over Compliance

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

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2014-002 to be a material weakness.

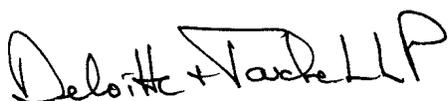
A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned costs as items 2014-001 and 2014-003 to be significant deficiencies.

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

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

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

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Chuuk as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the State of Chuuk's basic financial statements. We issued our report thereon dated June 25, 2015, which report was modified with respect to cash and cash equivalents and a liability for land leases and related claims payable in the governmental activities and the General Fund. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



June 25, 2015

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Summary Schedule of Expenditures of Federal Awards, by Grantor
Year Ended September 30, 2014

<u>Agency/Program</u>	<u>Expenditures</u>
U.S. Department of the Interior	\$ 24,271,819
U.S. Department of Education	750,630
U.S. Department of Health and Human Services	<u>1,168,487</u>
 GRAND TOTAL	 \$ <u><u>26,190,936</u></u>
 Reconciliation to the basic financial statements:	
Grants Assistance Fund expenditures	\$ 26,356,136
Less: CFSM Grants Fund expenditures	(13,011)
Foreign Assistance Fund expenditures	<u>(152,189)</u>
	 \$ <u><u>26,190,936</u></u>

See accompanying notes to schedule of expenditures of federal awards.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2014

Agency/Program	CFDA#	Expenditures
U.S. DEPARTMENT OF THE INTERIOR		
Pass-Through Federated States of Micronesia National Government:		
Economic, Social and Political Development of the Territories:	15.875	
Compact Sector Grants - Education Sector		\$ 8,933,233
Compact Sector Grants - Health Sector		8,271,839
Compact Sector Grants - Environment Sector		639,528
Compact Sector Grants - Private Sector Development		600,500
Compact Sector Grants - Capacity Building Sector		761,947
Supplemental Education Grant		3,760,273
Compact Sector Grants - ERA		552,000
Compact Sector Grants - Infrastructure Maintenance		<u>752,499</u>
Total Compact Sector Grants Fund		<u>24,271,819</u>
U.S. DEPARTMENT OF THE INTERIOR TOTAL		<u>\$ 24,271,819</u>
U.S. DEPARTMENT OF EDUCATION		
Pass-Through Federated States of Micronesia National Government:		
Special Education - Grants to States	84.027	<u>\$ 750,630</u>
U.S. DEPARTMENT OF EDUCATION TOTAL		<u>\$ 750,630</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Pass-Through Federated States of Micronesia National Government:		
Project Grants and Cooperative Agreements for Tuberculosis		
Control Programs	93.116	\$ 102,431
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	283,800
Maternal and Child Health Federal Consolidated Program	93.110	6,447
Personal Responsibility Education Program	93.062	36,520
Block Grant for Prevention and Treatment of Substance Abuse	93.959	178,457
Family Planning Services	93.217	62,932
Universal Newborn Hearing Screening	93.251	25,050
Immunization Cooperative Agreements	93.268	143,417
CDC and Prevention - Investigations and Technical Assistance	93.283	11,860
Chronic Disease Prevention and Health	93.544	21,129
HIV Prevention Activities - Health Department Based	93.940	29,877
HIV Care Formula Grants	93.917	13,503
Preventive Health Services - Sexually Transmitted Disease Control	93.977	7,138
Cooperative Agreements for State-Based Diabetic Control	93.988	17,070
Maternal and Child Health Services Block Grant to the States	93.994	105,918
CCPI Cancer Program	93.UNKNOWN	<u>122,938</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL		<u>\$ 1,168,487</u>
TOTAL FEDERAL AWARDS		<u>\$ 26,190,936</u>

See accompanying notes to schedule of expenditures of federal awards.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2014

1. Scope

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

• Programs Subject to Single Audit

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

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

2. Summary of Significant Accounting Policies

A. Basis of Accounting

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

B. Reporting Entity

For purposes of complying with The Single Audit Act of 1984, as amended in 1996, the State of Chuuk's reporting entity is defined in Note 1A to its September 30, 2014 basic financial statements; and all of the discretely presented component units are excluded. Accordingly, the accompanying Schedule of Expenditures of Federal Awards presents the federal award programs administered by the State of Chuuk, as defined above, for the year ended September 30, 2014.

C. Subgrantees

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

D. Indirect Cost Allocation

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

E. CFDA #15.875

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

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2014

(2) Summary of Significant Accounting Policies, Continued

F. Component Units

The State of Chuuk's component units are to separately satisfy the requirements of OMB Circular A-133. The following presents information concerning the State of Chuuk's component units, which are to separately satisfy OMB Circular A-133 reporting requirements, if applicable:

Chuuk Public Utility Corporation

The Chuuk Public Utility Corporation, (CPUC), a discretely presented component unit, is the recipient of various pass-through funds from the State of Chuuk and direct grants from the U.S. Department of the Interior. The CPUC is to separately satisfy its 2014 reporting responsibilities under the Single Audit Act. CPUC's total federal award expenditures for the year ended September 30, 2014 is \$2,282,883.

Chuuk State Housing Authority

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

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2014

Section I - Summary of Auditors' Results

Financial Statements

- | | |
|--|--------------------------|
| 1. Type of auditors' report issued: | Unmodified and Qualified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | Yes |
| 3. Significant deficiency(ies) identified? | None reported |
| 4. Noncompliance material to financial statements noted? | No |

Federal Awards

Internal control over major federal programs:

- | | |
|---|-----------|
| 5. Material weakness(es) identified? | Yes |
| 6. Significant deficiency(ies) identified? | Yes |
| 7. Type of auditors' report issued on compliance for major federal programs: | Qualified |
| 8. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | Yes |
| 9. Identification of major federal 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: | \$ 785,728 |
| 11. Auditee qualified as low-risk auditee? | No |

Section II – Financial Statements Findings

<u>Finding #</u>	<u>Finding</u>
2014-004	Timely and Accurate Reconciliations
2014-005	Land Leases

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Section III - Federal Award Findings and Questioned Cost

<u>Finding #</u>	<u>CFDA #</u>	<u>Finding</u>	<u>Questioned Costs</u>
2014-001	15.875	Equipment and Real Property Management	\$ -
2014-002	15.875	Procurement and Suspension and Debarment	82,298
2014-003	15.875	Period of Availability of Federal Funds	<u>32,620</u>
			\$ <u>114,918</u>

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-001
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories -
Compact of Free Association Compact Sector Grants
Requirement: Equipment and Real Property Management
Questioned Cost: \$0

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

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

Cause: The cause of the above condition appears to be a potential weakness in internal control requiring that fixed assets be periodically maintained.

Effect: The effect of the above condition is the expected life of fixed assets may be lessened. However, no questioned costs result from this finding as no specific instances came to our attention in fiscal year 2014 of unnecessary expenditures that occurred due to this condition.

Prior Year Status: Noncompliance with maintenance of fixed assets was reported as a finding in prior year single audits as items 2006-26, 2007-08, 2008-4, 2009-02, 2010-1, 2011-1, 2012-1 and 2013-001.

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

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. DAS in collaboration with the other departments, agencies and offices receiving fixed assets from sector funding are still working on its best as quickly as we can to resolve this audit finding.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-002
 Federal Agency: U.S. Department of the Interior
 CFDA Program: 15.875 Economic, Social and Political Development of the Territories -
 Compact of Free Association Compact Sector Grants
 Requirement: Procurement and Suspension and Debarment
 Questioned Costs: \$82,298

Criteria: In accordance with applicable federal procurement requirements, procurement shall provide full and open competition among vendors. Written bid evaluations or analysis of procurement specifications should be retained in file to support the basis of bid selection.

Condition: For 5 (or 29%) of 17 transactions tested for the Compact Sector Programs, there was either insufficient documentation such as written bid evaluation/analysis or none was provided to support compliance with competitive procurement requirements for the following transactions.

<u>DATE1</u>	<u>TR_NO</u>	<u>JNL</u>	<u>REF1</u>	<u>AMT</u>
2/19/2014	140808	APJ	100915	\$ 5,700
4/16/2014	145342	APJ	102014	21,000
4/10/2014	144894	APJ	100899	21,450
3/11/2014	142288	APJ	102081	<u>34,148</u>
				\$ <u>82,298</u>

Cause: The cause of the above condition appears to be due to a lack of adherence to federal procurement requirements.

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

Recommendation: We recommend that necessary documentation concerning evaluation or analysis of procurement specifications be retained in file.

Auditee Response and Corrective Action Plan: We agree partially with the above-stated audit findings and recommendations. Sufficiency in written documentation concerning specifications, evaluation or analysis in procurement will be conveyed to concerned departments staff doing procurement activities. And, hereby request to revisit the following findings as noted hereunder.

TR No. 140808: \$5,700 & TR No. 144894: \$21,450

Supporting documents to pay stated expenditures were provided to auditors. The issue on the purchase of computers awarded to with the highest priced quote was due to the fact that free installation of software was offered as part of the package. The requests for quotation were filled in standard format but lack the inclusion of software installation which however noted by the vendors in their offer. It is our understanding that such special offers, not only justifies the purchase but also add value to the procurement of the product. We believe therefore that stated transaction satisfied competitive procurement requirement on full and open competition among vendors. It is requested that this finding be resolved.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-003
 Federal Agency: U.S. Department of the Interior
 CFDA Program: 15.875 Economic, Social and Political Development of the Territories -
 Compact of Free Association Compact Sector Grants
 Requirement: Period of Availability of Federal Funds
 Questioned Costs: \$32,620

Criteria: In accordance with period of availability requirements, recipients may charge only costs that result from obligations incurred during the funding period.

Condition: For 1 (or 5%) of 17 transactions tested by the Compact Sector Programs, a payment relating to medical referral expenditure incurred in fiscal year 2013 was charged and recorded in fiscal year 2014.

Per Transaction Detail:							
No.	DATE	TRAN	JNL	Ref1	FUND	PROG	AMT
1	1/30/2014	139080	APJ	99854	11	11100	\$ 32,620

Cause: The cause of the above condition appears to be due to medical referral not being budgeted in the year the expenditure was incurred.

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

Recommendation: We recommend that Sector expenditures be recorded in the appropriate period.

Auditee Response and Corrective Action Plan: The stated audit finding is a payment for reimbursement of NIP medical services provided at the end of fiscal year 2013. The payment of expenditures was made in fiscal year 2014 after receipt of the vendor's payment request for reimbursement of NIP medical expenses paid as evidence by an Official Receipt dated in FY 14. In addition, supporting documents for payment request were carefully examined by CFCC prior payment and NIP medical referral is budgeted in FY13 and FY14.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-004
Area: Timely and Accurate Reconciliations

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

Condition: Bank reconciliations contain material variances that are not timely reconciled.

Cause: The cause of this condition is an absence of timely or accurate bank reconciliations.

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

Recommendation: The State should perform accurate monthly bank reconciliations.

Prior Year Status: This condition was reported as a finding in the prior year single audits as items 2012-5 and 2013-005.

Auditee Response and Correction Action Plan: We agree with the audit finding and recommendation. Supporting staff to strengthen and ensure timely monthly reconciliation activities has been hired and stated issue should be resolved soon.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-005
Area: Land Leases

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

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

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

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

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

Prior Year Status: This condition was reported as a finding in prior year single audits as items 2011-5, 2012-3 and 2013-007.

Auditee Response and Correction Action Plan: We agree with the audit finding and recommendation. Due to our dire efforts to resolve this issue from the past years, Request for Proposals (RFPs) had gone out for a project that is specifically funded to address this issue. The outcome is still yet to be evaluated but we are hopeful that resolution to this issue is moving forward.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Unresolved Prior Audit Findings and Questioned Costs
Year Ended September 30, 2014

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs and comments that were unresolved at September 30, 2014:

Questioned costs as previously reported:	
Fiscal year 2013 Single Audit	\$ 194,238
Questioned costs of fiscal year 2014 Single Audit	<u>114,918</u>
Unresolved questioned costs at September 30, 2014	\$ <u>309,156</u>

Summary Schedule of Prior Audit Findings and Questioned Costs

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Questioned Costs</u>	<u>Status</u>
2013-001	15.875	\$ -	Not corrected or resolved. See Finding 2014-001
2013-002	15.875	19,940	Not corrected or resolved.
2013-003	15.875	160,270	Not corrected or resolved. See Finding 2014-002
2013-004	15.875	<u>14,028</u>	Not corrected or resolved. See Finding 2014-003
		\$ <u>194,238</u>	