

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

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

YEAR ENDED SEPTEMBER 30, 2019

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

YEAR ENDED SEPTEMBER 30, 2019

INDEX

	<u>Page No.</u>
INDEPENDENT AUDITORS' REPORT, BASIC FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION	1 - 60
INDEPENDENT AUDITORS' REPORTS ON INTERNAL CONTROL AND ON COMPLIANCE	61 - 81

STATE OF CHUUK
FEDERATED STATES OF MICRONESIA

FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2019

TABLE OF CONTENTS

	<u>Page No.</u>
I. Independent Auditors' Report	1
II. Management's Discussion and Analysis	4
III. Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	11
Statement of Activities	12
Governmental Fund Financial Statements:	
Balance Sheet	13
Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)	14
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Discretely Presented Component Unit Financial Statements:	
Combining Statement of Net Position	16
Combining Statement of Revenues, Expenses, and Changes in Net Position	17
Notes to the Basic Financial Statements	18
IV. Required Supplementary Information - Other than Management's Discussion and Analysis	47
Schedule of Revenues, Expenditures and Changes in Deficit - Budget and Actual - General Fund	48
Note to Required Supplementary Information - Budgetary Reporting	49
V. Other Supplementary Information	50
Combining Schedule of Expenditures by Account – Governmental Funds	51
General Fund:	52
Statement of Revenues, Expenditures by Function, and Changes in Deficit	53
Statement of Revenues, Expenditures, and Changes in Deficit - Budget and Actual	55
Nonmajor Governmental Funds - Special Revenue Funds	57

STATE OF CHUUK
FEDERATED STATES OF MICRONESIA

FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2019

TABLE OF CONTENTS, CONTINUED

	<u>Page No.</u>
V. Other Supplementary Information, Continued	
Major Governmental Funds – Grants Assistance Fund:	
Combining Balance Sheet	58
Combining Statement of Revenues, Expenditures by Function, and Changes in Fund Balances	59
Combining Statement of Revenues, Expenditures by Account, and Changes in Fund Balances	60
VI. Independent Auditor’s Report on Internal Control and on Compliance	
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 <i>Government Auditing Standards</i>	61
Independent Auditors’ Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	63
Summary Schedule of Expenditures by Federal Awards, By Grantor	67
Schedule of Expenditures of Federal Awards	68
Notes to Schedule of Expenditures of Federal Awards	69
Schedule of Findings and Questioned Costs	71
Summary Schedule of Prior Audit Findings	79
Corrective Action Plan	80

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

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

YEAR ENDED SEPTEMBER 30, 2019

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, and each major fund of the State of Chuuk (the State), as of and for the year ended September 30, 2019, 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.

Auditor's 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

Basis for Qualified Opinions on Governmental Activities and General Fund

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, 2019, 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 and the Compact Trust Fund of the State of Chuuk as of September 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matters***Receivables from the FSM National Government***

As discussed in Note 3 to the financial statements, the State is in discussions with the FSM National Government to determine the ultimate collectability of certain receivables due from the FSM National Government in consultation with federal grantor agencies arising from Compact sector grant transactions.

COVID-19

As discussed in the Note 12 to the financial statements, the State has determined that the COVID-19 pandemic may negatively impact its result of operations and net position. The State is unable to reasonably estimate its ultimate financial impact.

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

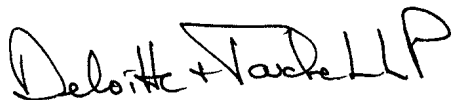
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 10 as well as the Schedule of Revenues, Expenditures and Changes in Deficit – Budget and Actual – General Fund and notes thereto, on pages 48 and 49, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The combining and individual fund financial statements as set forth in Section V of the foregoing table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2020 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 solely describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance.

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

December 26, 2020

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2019

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, 2019. We encourage readers to consider this information in conjunction with Chuuk State's financial statements, which follow. Fiscal year 2018 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, 2019, Chuuk State's total net position decreased by \$1.491 million (or 3.58 %) from \$41.619 million in the prior year to \$40.128 million.
- During fiscal year 2019, Chuuk State's revenues and contributions of \$37.408 million decreased by \$4.027 million (or 9.72 %) from \$41.436 million in fiscal year 2018. The decrease in revenue was primarily attributable to a decrease in operating grants and contributions, unrestricted investment earnings and other general revenues. Chuuk State's expenses in fiscal year 2019 of \$38.899 million decreased by \$3.829 million (or 8.96%) from \$42.728 million in fiscal year 2018. The decrease is due to decreases in expenses, health services, education, economic development, public safety, judiciary, and unallocated interest on long term debt.
- The General Fund deficit increased by \$1.212 million in fiscal year 2019, from \$2.881 million in the prior year to \$4.093 million. The major increase in expenses in the general government, public works and transportation, boards and commissions and capital projects and the decrease in other revenue and unrestricted investment earnings 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 assets 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 assets 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, 2019

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 2019, Chuuk State's assets exceeded liabilities by \$40.128 million. However, all such net position is restricted as to the purposes they can be used for or are invested in capital assets. Chuuk State uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although Chuuk State's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The following summary of Chuuk State's net position as of September 30, 2019, with comparable balances for fiscal year 2018, discloses this relationship.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis, Continued
September 30, 2019

	Governmental Activities			
	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>%</u>
Current and other assets	\$ 31,192,195	\$ 34,233,878	\$ (3,041,683)	(8.89)
Capital assets	<u>34,780,773</u>	<u>36,307,495</u>	<u>(1,526,722)</u>	(4.20)
Total Assets	<u>65,972,968</u>	<u>70,541,373</u>	<u>(4,568,405)</u>	(6.48)
Current and other liabilities	18,654,040	20,993,894	(2,339,854)	(11.15)
Long-term debt	<u>7,191,195</u>	<u>7,928,797</u>	<u>(737,602)</u>	(9.30)
Total Liabilities	<u>25,845,235</u>	<u>28,922,691</u>	<u>(3,077,456)</u>	(10.64)
Net Position:				
Net investment in capital assets	34,780,773	36,307,495	(1,526,722)	(4.20)
Restricted	21,451,685	21,858,441	(406,756)	(1.86)
Unrestricted	<u>(16,104,725)</u>	<u>(16,547,254)</u>	<u>442,529</u>	(2.67)
Total net position	<u>40,127,733</u>	<u>41,618,682</u>	<u>(1,490,949)</u>	(3.58)
Total Liabilities and Net Position	\$ <u>65,972,968</u>	\$ <u>70,541,373</u>	\$ <u>(4,568,405)</u>	(6.48)

At the end of fiscal year 2019, Chuuk State's unrestricted net position showed a deficit of \$16.105 million, a decrease of \$0.443 million (2.67%) from the prior year \$16.547 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 \$1.491 million (or 3.58%) 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>2019</u>	<u>2018</u>	<u>Change</u>	<u>%</u>
Revenues:				
Program Revenues:				
Charges for services	\$ 3,112,327	\$ 2,863,240	\$ 249,087	8.70
Operating and capital grants and contributions	<u>26,520,495</u>	<u>28,916,619</u>	<u>(2,396,124)</u>	(8.29)
	<u>29,632,822</u>	<u>31,779,859</u>	<u>(2,147,037)</u>	(6.76)
General Revenues:				
Taxes	6,781,768	6,642,019	139,749	2.10
Unrestricted investment earnings (losses)	(353,507)	246,228	(599,735)	(243.57)
Other	<u>644,320</u>	<u>1,637,494</u>	<u>(993,174)</u>	(60.65)
	<u>7,072,581</u>	<u>8,525,741</u>	<u>(1,453,160)</u>	(17.04)
Total revenues	<u>36,705,403</u>	<u>40,305,600</u>	<u>(3,600,197)</u>	(8.93)
Special item-SDR foreign exchange gain	195,668	113,977	81,691	71.67
Contributions to permanent fund	<u>507,336</u>	<u>1,016,143</u>	<u>(508,807)</u>	(50.07)
Total revenues and contributions	<u>37,408,407</u>	<u>41,435,720</u>	<u>(4,027,313)</u>	(9.72)

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis, Continued
September 30, 2019

	Governmental Activities			
	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>%</u>
Expenses:				
General government	7,919,381	6,809,820	\$ 1,109,561	16.29
Health services	11,114,632	13,215,569	(2,100,937)	(15.90)
Education	12,938,666	15,709,636	(2,770,970)	(17.64)
Economic development	833,069	1,343,646	(510,577)	(38.00)
Public safety	1,081,649	1,142,480	(60,831)	(5.32)
Public works and transportation	1,627,819	1,500,937	126,882	8.45
Community affairs	152,093	152,260	(167)	(0.11)
Boards and commissions	1,262,730	1,057,254	205,476	19.43
Judiciary	543,091	552,332	(9,241)	(1.67)
Payments to component units	65,559	62,484	3,075	4.92
Municipal affairs	418,359	419,008	(649)	(0.15)
Unallocated Interest on long-term debt	100,476	117,659	(17,183)	(14.60)
Capital projects	835,701	645,087	190,614	29.55
Other	<u>6,131</u>	<u>-</u>	<u>6,131</u>	<u>100.00</u>
Total expenses	<u>38,899,356</u>	<u>42,728,172</u>	<u>(3,828,816)</u>	<u>(8.96)</u>
Change in net position	(1,490,949)	(1,292,452)	(198,497)	15.36
Net position at the beginning of the year	<u>41,618,682</u>	<u>42,911,134</u>	<u>(1,292,452)</u>	<u>(3.01)</u>
Net position at the end of the year	\$ <u>40,127,733</u>	\$ <u>41,618,682</u>	\$ <u>(1,490,949)</u>	<u>(3.58)</u>

The detail indicates the decreases in both revenues and expenses in fiscal year 2019, and the decrease in overall net position of \$1.491 million.

Revenues and contributions of \$37.408 million decreased by \$4.027 million (or 9.72%) from the prior year's \$41.436 million. The key elements of the decrease were due to less grant drawdowns, less investment earnings and decline on other revenues compared with prior year.

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

<u>SOURCES OF REVENUE</u>	<u>2019</u>	<u>2018</u>
Compact funding	65.3%	69.1%
Federal and other grants	5.9%	10.0%
Investments	0.4%	0.6%
Revenue sharing	9.9%	8.9%
Taxes and fees	16.7%	7.4%
Other	<u>1.8%</u>	<u>4.0%</u>
	<u>100.0%</u>	<u>100.0%</u>

Notwithstanding the increases in revenues on State taxes, fees and departmental charges that reduce dependency on Compact funding, the predominance of sector funding as 65.3% of the total revenue highlights the importance of optimizing Compact sector grant utilization.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis, Continued
September 30, 2019

Total expenses decreased by \$3.829 million (or 8.96%), from \$42.728 million in the prior fiscal year to \$38.899 million in fiscal year 2019. The most notable decreases in fiscal year 2019 were in health sector \$2.101 million, education sector \$2.771 million, economic development \$0.511 million, public safety \$0.061 million, and unallocated interest on long-term debt \$0.017 million. However, the major increases in expenses occurred in the general government of \$1.110 million, public works and transportation \$0.127 million, boards and commissions \$0.205 million and capital projects \$0.191 million that offset the above decreases.

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 2019, Chuuk State's governmental funds reported a combined fund balance of \$13.593 million, which represents a \$0.996 million decrease (6.83%) from the \$14.589 million fund balance recorded at the end of fiscal 2018. Of this total combined fund balance, \$17.111 million is non-spendable because it is legally restricted to other purposes and \$5.066 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 \$8.584 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, Private Sector Development, Capacity Building, ERA and IMF which are reported and accounted for in the Grant Assistance Fund. As shown in the accompanying financial statements, at the end of fiscal year 2019, the General Fund recorded total revenues of \$10.040 million with total expenditures of \$11.252 million, which resulted in a deficit of \$1.212 million after repayment of ADB loan principal and interest of \$0.642 million. At the end of the year, General Fund deficit increased by \$1.212 million increasing from \$2.881 million in the prior year to \$4.093 million which resulted in a total accumulated unassigned fund deficit of \$8.584 million. The State needs to continue to develop strategies to increase revenues and reduce expenditures in order to sustainably eliminate the fund balance deficit over the next few years.

Grants Assistance Fund

The Grants Assistance Fund consists of funding provided through the amended Compact of Free Association Sector Grants; US Federal Grants, and other Non-US grants. As shown in the accompanying financial statements, at the end of fiscal year 2019, the Grant Assistance Fund had total revenues of \$26.520 million and total expenditures of \$26.758 million. This resulted in a deficiency of revenues under expenditures of \$(0.238 million) which resulted in a net fund balance deficit of \$1.851 million.

Compact Trust Fund

The Trust Fund was established to account for Chuuk State's share of the Compact Trust Fund. The Fund is managed by the FSM National Government and is a long term restricted Fund. At the end of fiscal year 2019, the fund recorded a net change in the fair value of its investments of \$0.507 million, which increased the fund balance at the end of the year to \$15.770 million.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis, Continued
September 30, 2019

Other Governmental Fund

This fund is established to account and report on fees collected for services at the Chuuk State Hospital. At the end of fiscal year 2019, total revenue collected were \$0.145 million and expenditures were \$0.198 million. This resulted in revenues under expenditures of (\$0.053) million.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

In fiscal year 2019, actual revenues of \$10.040 million exceeded the budgeted revenues of \$9.516 million by \$0.525 million. Actual budgetary expenditures of \$11.639 million were greater than budgetary appropriations of \$10.266 million by \$1.373 million, resulting in an overall deficit of revenues under expenditures of \$1.599 million. The net change in unreserved fund deficit on a budgetary basis was a negative of (\$1.599 million). In accordance with the principles of budgetary accounting, the deficit includes encumbrances for which goods or services had not been received of \$0.386 million, the net change in unreserved fund deficit on a budgetary basis was a negative \$1.212 million.

Chuuk State retains a balanced operating budget but debt financing activities of the State that are not budgeted have negative impact on the overall State operations. In fiscal year 2019, principal and debt service charges on ADB loans of \$0.642 million contributed to the deficiency.

CAPITAL ASSET AND DEBT ADMINISTRATION

Chuuk State's investment in capital assets for the primary government as of September 30, 2019, amounted to \$125.917 million, net of accumulated depreciation of \$91.937 million, leaving a net book value of \$34.781 million. This represents a net decrease of \$1.526 million (or 4.20%) from fiscal year 2018. Chuuk State recorded major additions of \$0.876 million in 2019, land \$0.064 million, buildings \$0.569 million and for vehicles and equipment's of \$0.243 million but current year depreciation charges of \$2.402 million resulted in the net decrease. The table below summarizes Chuuk State's net capital assets:

Governmental Activities					
	<u>2019</u>		<u>2018</u>	<u>Change</u>	<u>%</u>
Land	\$ 18,437,566	\$	18,373,682	\$ 63,884	0.35
Airport Facilities	4,005,780		4,958,465	(952,685)	(19.21)
Buildings	7,901,685		7,634,356	267,328	3.50
Seaport Facilities	1,988,792		2,651,722	(662,930)	(25.00)
Vehicles / Equipment	<u>2,446,950</u>		<u>2,689,269</u>	<u>(242,319)</u>	(9.01)
	\$ <u>34,780,773</u>	\$	<u>36,307,493</u>	\$ <u>(1,526,722)</u>	<u>(4.20)</u>

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, 2019

Long -Term Debt

The following schedule shows Chuuk State's summarized long-term debt for fiscal year 2019 and comparable amounts for fiscal year 2018.

	Governmental Activities			
	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>%</u>
ADB Water Supply Loan (1459)	\$ 2,623,550	\$ 2,841,111	\$ (217,561)	(7.66)
ADB Early Retirement Loan (1520)	3,767,658	4,050,903	(283,245)	(6.99)
ADB Basic Social Services Program Loan (1816)	(101,090)	24,605	(125,695)	(510.85)
ADB Private Sector Reform Program Loan (1873)	243,668	287,543	(43,875)	(15.26)
ADB Private Sector Reform Program Loan (1874)	<u>657,409</u>	<u>724,635</u>	<u>(67,226)</u>	(9.28)
	\$ <u>7,191,195</u>	\$ <u>7,928,797</u>	\$ <u>(737,602)</u>	(9.30)

Long-term debt decreased by \$0.738 million (or 9.30%) in fiscal year 2019 as the result of loan repayments.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Chuuk State local revenue collections are showing growth in fiscal year 2020 with revenue collections trending expected to have marginal growth from prior year; however, this does not include any gains or losses from investment earnings. As a result, State policymakers have cautiously kept general fund budgets capped within actual revenue collections, both in fiscal years 2020 and for the 2021 annual appropriation act. Revenue collections in excess of these fiscal ceilings will be used for debt relief payments of Chuuk's old liabilities.

No COVID-19 cases have been reported in the FSM. Should it reach the FSM, it may negatively impact the State; however, its impact on the States operations and financial position cannot be reasonably determined.

CONTACTING CHUUK STATE'S FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, taxpayers, customers, and investments and creditors, a general overview of Chuuk State's finances to demonstrate its accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Director, Office of Administrative Services, P.O. Box 849, Weno, Chuuk FM 96941

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Statement of Net Position
September 30, 2019

	<u>Primary Government</u>	<u>Component Units</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 2,451,183	\$ 2,042,304
Time certificates of deposit	-	100,000
Equity interest in internal investment pool	34,574	624,892
Receivables, net of allowance for uncollectibles	4,181,785	1,247,119
Inventories	-	1,129,955
Prepayments	956,639	-
Restricted assets:		
Cash and cash equivalents	3,309,002	-
Total current assets	<u>10,933,183</u>	<u>5,144,270</u>
Noncurrent assets:		
Restricted assets:		
Investments	18,920,542	-
Investments	763,470	-
Other assets	575,000	1,014,787
Capital assets:		
Nondepreciable capital assets	18,437,566	955,249
Capital assets, net of accumulated depreciation	<u>16,343,207</u>	<u>20,335,485</u>
Total noncurrent assets	<u>55,039,785</u>	<u>22,305,521</u>
Total assets	<u>\$ 65,972,968</u>	<u>\$ 27,449,791</u>
<u>LIABILITIES</u>		
Current liabilities:		
Current portion of long-term debt	\$ 448,688	\$ 423,865
Accounts payable	1,559,343	113,266
Land acquisition payable	8,543,745	-
Compensated absences payable	352,141	7,359
Other liabilities and accruals	1,255,650	1,229,329
Unearned revenues	<u>6,240,250</u>	<u>73,471</u>
Total current liabilities	<u>18,399,817</u>	<u>1,847,290</u>
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	6,742,507	3,811,707
Compensated absences payable, net of current portion	<u>702,911</u>	<u>36,376</u>
Total noncurrent liabilities	<u>7,445,418</u>	<u>3,848,083</u>
Total liabilities	<u>25,845,235</u>	<u>5,695,373</u>
<u>NET POSITION</u>		
Net investment in capital assets	34,780,773	17,182,053
Restricted for:		
Nonexpendable:		
Future operations	15,770,385	-
Expendable:		
Compact related	2,466,429	-
Debt service	3,150,157	-
Other purposes	64,714	657,939
Unrestricted	<u>(16,104,725)</u>	<u>3,914,426</u>
Total net position	<u>40,127,733</u>	<u>21,754,418</u>
Total liabilities and net position	<u>\$ 65,972,968</u>	<u>\$ 27,449,791</u>

See accompanying notes to financial statements.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Statement of Activities
Year Ended September 30, 2019

	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
Functions/Programs						
Primary government:						
Governmental activities:						
General government	\$ 7,919,381	\$ 1,756,009	\$ 3,559,723	\$ -	\$ (2,603,649)	\$ -
Health services	11,114,632	144,746	9,888,287	-	(1,081,599)	-
Education	12,938,666	-	12,168,220	-	(770,446)	-
Economic development	833,069	-	68,564	-	(764,505)	-
Public safety	1,081,649	115,458	-	-	(966,191)	-
Public works and transportation	1,627,819	1,096,114	-	-	(531,705)	-
Community affairs	152,093	-	-	-	(152,093)	-
Boards, commissions and other	1,262,730	-	-	-	(1,262,730)	-
Judiciary	543,091	-	-	-	(543,091)	-
Payments to component units	65,559	-	-	-	(65,559)	-
Municipal affairs	418,359	-	-	-	(418,359)	-
Unallocated interest on long-term debt	100,476	-	-	-	(100,476)	-
Capital projects	835,701	-	-	835,701	-	-
Other	6,131	-	-	-	(6,131)	-
Total primary government	38,899,356	3,112,327	25,684,794	835,701	(9,266,534)	-
Component units:						
Chuuk State Health Care Plan	1,710,175	1,455,208	-	-	-	(254,967)
Chuuk Public Utility Corporation	7,574,726	7,134,989	-	172,849	-	(266,888)
Chuuk State Housing Authority	236,474	59,588	-	-	-	(176,886)
Total component units	\$ 9,521,375	\$ 8,649,785	\$ -	\$ 172,849	-	(698,741)
General revenues:						
Taxes:						
FSM revenue sharing:						
Gross revenue taxes					1,118,136	-
Import taxes					1,452,335	-
Income taxes					908,143	-
Other taxes					200,289	-
State taxes:						
Sales tax					2,540,461	-
Other excise taxes					562,404	-
Unrestricted investment income					(353,507)	84,791
Other					644,320	258,046
Total general revenues					7,072,581	342,837
Special item - gain on SDR foreign exchange					195,668	-
Contributions to permanent fund					507,336	-
Total general revenues, special item and contributions					7,775,585	342,837
Change in net position					(1,490,949)	(355,904)
 Net position at the beginning of the year					<u>41,618,682</u>	<u>22,110,322</u>
Net position at the end of the year					<u>\$ 40,127,733</u>	<u>\$ 21,754,418</u>

See accompanying notes to financial statements.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Balance Sheet
Governmental Funds
September 30, 2019

	General	Special Revenue Grants Assistance	Permanent Compact Trust	Other Governmental Funds	Total
ASSETS					
Cash and cash equivalents	\$ 2,451,183	\$ -	\$ -	\$ -	\$ 2,451,183
Equity interest in internal investment pool	34,574	-	-	-	34,574
Investments	763,470	-	-	-	763,470
Receivables, net	668,483	3,505,839	-	7,463	4,181,785
Prepayments	2,019	954,620	-	-	956,639
Due from other funds	2,195,146	7,584,856	-	59,403	9,839,405
Other assets	575,000	-	-	-	575,000
Restricted assets:					
Cash and cash equivalents	3,309,002	-	-	-	3,309,002
Investments	3,150,157	-	15,770,385	-	18,920,542
Total assets	<u>\$ 13,149,034</u>	<u>\$ 12,045,315</u>	<u>\$ 15,770,385</u>	<u>\$ 66,866</u>	<u>\$ 41,031,600</u>
LIABILITIES AND FUND BALANCES (DEFICIT)					
Liabilities:					
Accounts payable	\$ 998,517	\$ 559,230	\$ -	\$ 1,596	\$ 1,559,343
Accrued liabilities	55,643	1,199,451	-	556	1,255,650
Land acquisition payable	8,543,745	-	-	-	8,543,745
Unearned revenues	-	6,240,250	-	-	6,240,250
Due to other funds	7,644,259	2,195,146	-	-	9,839,405
Total liabilities	<u>17,242,164</u>	<u>10,194,077</u>	<u>-</u>	<u>2,152</u>	<u>27,438,393</u>
Fund balances (deficit):					
Nonspendable	1,340,489	-	15,770,385	-	17,110,874
Restricted	3,150,157	1,851,238	-	64,714	5,066,109
Unassigned:					
General fund	<u>(8,583,776)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8,583,776)</u>
Total fund balances (deficit)	<u>(4,093,130)</u>	<u>1,851,238</u>	<u>15,770,385</u>	<u>64,714</u>	<u>13,593,207</u>
Total liabilities and fund balances	<u>\$ 13,149,034</u>	<u>\$ 12,045,315</u>	<u>\$ 15,770,385</u>	<u>\$ 66,866</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					34,780,773
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				(7,191,195)	
Compensated absences				<u>(1,055,052)</u>	
					<u>(8,246,247)</u>
Net position of governmental activities					<u>\$ 40,127,733</u>

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, 2019

		Special Revenue	Permanent	Other Governmental	
	General	Grants Assistance	Compact Trust	Funds	Total
Revenues:					
Compact funding	\$ -	\$ 24,315,162	\$ -	\$ -	\$ 24,315,162
Net change in the fair value of investments	(353,507)	-	507,336	-	153,829
Federal contributions and other grants	-	2,205,333	-	-	2,205,333
FSM revenue sharing	3,678,903	-	-	-	3,678,903
State taxes	3,102,865	-	-	-	3,102,865
Fees and charges	2,967,581	-	-	144,746	3,112,327
Other	644,320	-	-	-	644,320
Total revenues	10,040,162	26,520,495	507,336	144,746	37,212,739
Expenditures:					
Current:					
General government	5,423,776	1,344,171	-	-	6,767,947
Health services	140,200	11,100,874	-	197,994	11,439,068
Education	-	13,137,719	-	-	13,137,719
Economic development	498,323	339,757	-	-	838,080
Public safety	1,095,303	-	-	-	1,095,303
Public works and transportation	984,161	-	-	-	984,161
Community affairs	152,093	-	-	-	152,093
Boards, commissions and other	1,274,555	-	-	-	1,274,555
Judiciary	551,597	-	-	-	551,597
Payments to component units	65,559	-	-	-	65,559
Municipal affairs	418,359	-	-	-	418,359
Other	6,131	-	-	-	6,131
Capital projects	-	835,701	-	-	835,701
Debt service	642,410	-	-	-	642,410
Total expenditures	11,252,467	26,758,222	-	197,994	38,208,683
Excess (deficiency) of revenues over (under) expenditures	(1,212,305)	(237,727)	507,336	(53,248)	(995,944)
Net change in fund balances (deficit)	(1,212,305)	(237,727)	507,336	(53,248)	(995,944)
Fund balances (deficit) at the beginning of the year	(2,880,825)	2,088,965	15,263,049	117,962	14,589,151
Fund balances (deficit) at the end of the year	\$ (4,093,130)	\$ 1,851,238	\$ 15,770,385	\$ 64,714	\$ 13,593,207

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, 2019

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	\$ (995,944)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$2,402,367) exceeded capital outlays \$875,645 in the current period.	(1,526,722)
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The incurrence of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. For the current year, these amounts consist of:

Repayment of ADB loans net of a gain on SPR foreign exchange adjustment	737,602
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. For the current year, these activities consist of:

Change in compensated absences payable	<u>294,115</u>
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Change in net position of governmental activities	\$ (<u>1,490,949</u>)
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See accompanying notes to financial statements.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

DISCRETELY PRESENTED COMPONENT UNITS
Combining Statement of Net Position
September 30, 2019

<u>ASSETS</u>	Chuuk State Health Care Plan	Chuuk Public Utility Corporation	Chuuk State Housing Authority	Total
Current assets:				
Cash and cash equivalents	\$ 294,442	\$ 1,533,792	\$ 214,070	\$ 2,042,304
Time certificates of deposit	100,000	-	-	100,000
Investments	624,892	-	-	624,892
Receivables, net	491,348	584,519	171,252	1,247,119
Inventories	-	1,129,955	-	1,129,955
Total current assets	<u>1,510,682</u>	<u>3,248,266</u>	<u>385,322</u>	<u>5,144,270</u>
Noncurrent assets:				
Deposits	29,250	985,537	-	1,014,787
Capital assets:				
Nondepreciable capital assets	-	955,249	-	955,249
Capital assets, net of accumulated depreciation	<u>32,864</u>	<u>20,289,245</u>	<u>13,376</u>	<u>20,335,485</u>
Total assets	<u>\$ 1,572,796</u>	<u>\$ 25,478,297</u>	<u>\$ 398,698</u>	<u>\$ 27,449,791</u>
<u>LIABILITIES AND NET POSITION</u>				
Current liabilities:				
Current portion of long-term debt	\$ 126,891	\$ 296,974	\$ -	\$ 423,865
Compensated absence payable	-	7,359	-	7,359
Accounts payable	-	104,945	8,321	113,266
Accrued liabilities	-	1,154,644	74,685	1,229,329
Unearned income	<u>-</u>	<u>73,471</u>	<u>-</u>	<u>73,471</u>
Total current liabilities	126,891	1,637,393	83,006	1,847,290
Noncurrent liabilities:				
Accrued annual leave, net of current portion	-	36,376	-	36,376
Noncurrent portion of long-term debt	<u>-</u>	<u>3,811,707</u>	<u>-</u>	<u>3,811,707</u>
Total liabilities	<u>126,891</u>	<u>5,485,476</u>	<u>83,006</u>	<u>5,695,373</u>
Net position:				
Net investment in capital assets	32,864	17,135,813	13,376	17,182,053
Restricted	-	657,939	-	657,939
Unrestricted	<u>1,413,041</u>	<u>2,199,069</u>	<u>302,316</u>	<u>3,914,426</u>
Total net position	<u>1,445,905</u>	<u>19,992,821</u>	<u>315,692</u>	<u>21,754,418</u>
Total liabilities and net position	<u>\$ 1,572,796</u>	<u>\$ 25,478,297</u>	<u>\$ 398,698</u>	<u>\$ 27,449,791</u>

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, 2019

	Chuuk State Health Care Plan	Chuuk Public Utility Corporation	Chuuk State Housing Authority	Total
Operating revenues:				
Charges for services	\$ 1,445,347	\$ 7,093,752	\$ 59,588	\$ 8,598,687
Other	9,861	41,237	-	51,098
Total operating revenues	<u>1,455,208</u>	<u>7,134,989</u>	<u>59,588</u>	<u>8,649,785</u>
Operating expenses:				
Cost of services	1,416,343	3,809,790	-	5,226,133
Depreciation	18,616	1,188,492	3,596	1,210,704
Administration and general	275,216	2,576,444	232,878	3,084,538
Total operating expenses	<u>1,710,175</u>	<u>7,574,726</u>	<u>236,474</u>	<u>9,521,375</u>
Operating (loss) income	<u>(254,967)</u>	<u>(439,737)</u>	<u>(176,886)</u>	<u>(871,590)</u>
Nonoperating revenues (expenses):				
Other income	(11,765)	96,556	-	84,791
Operating grants	100,000	158,046	-	258,046
Total nonoperating revenues, net	<u>88,235</u>	<u>254,602</u>	<u>-</u>	<u>342,837</u>
Net income before capital contributions	<u>(166,732)</u>	<u>(185,135)</u>	<u>(176,886)</u>	<u>(528,753)</u>
Capital contributions	<u>-</u>	<u>172,849</u>	<u>-</u>	<u>172,849</u>
Change in net position	<u>(166,732)</u>	<u>(12,286)</u>	<u>(176,886)</u>	<u>(355,904)</u>
Net position at the beginning of the year	<u>1,612,637</u>	<u>20,005,107</u>	<u>492,578</u>	<u>22,110,322</u>
Net position at the end of the year	<u>\$ 1,445,905</u>	<u>\$ 19,992,821</u>	<u>\$ 315,692</u>	<u>\$ 21,754,418</u>

See accompanying notes to financial statements.

STATE OF CHUUK
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2019

(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, 2019

(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, 2019

(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.

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.

STATE OF CHUUK
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2019

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

ii. Omitted Governmental Funds, Continued

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.

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.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(1) Summary of Significant Accounting Policies, Continued

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.

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

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

The government-wide Statement of Net Position reports \$21,451,685 of restricted net position, of which none is restricted by enabling legislation.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide Financial Statements, Continued

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

C. Fund Financial Statements

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

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

D. Measurement Focus and Basis of Accounting

Government-Wide Financial Statements:

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

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

Governmental Fund Financial Statements:

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

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

Governmental Fund Financial Statements, Continued:

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

Component Unit Financial Statements:

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

Fund Accounting:

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

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

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

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

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(1) Summary of Significant Accounting Policies, Continued

E. Cash and Cash Equivalents and Time Certificates of Deposit

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

F. Investments

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

The State categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In certain instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy is based on the lowest level of input that is significant to the fair measurement. Investments not categorized under the fair value hierarchy are shown at either Net Asset Value (NAV) or amortized cost.

G. Receivables

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

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

H. 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.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(1) Summary of Significant Accounting Policies, Continued

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.

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 \$3,150,157. Furthermore, investments recorded in the Compact Trust Fund of \$15,770,385 are restricted in that they are not available to be used in current operations.

As of September 30, 2019, 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	\$ 1,507,966
Deposit account established for the purpose of federal grants program activities	294
Deposit accounts established for the purpose of receiving payments pursuant to the Compact of Free Association, as amended	<u>1,800,742</u>
	\$ <u>3,309,002</u>

L. Other Assets

The State holds approximately 3.3% of the outstanding shares of Pacific Islands Development Bank with a carrying value of \$275,000 and 7% of the outstanding shares of the FSM Development Bank with a carrying value of \$300,000. These equity interests do not meet the definition of an investment as the assets are held primarily for economic development and are presented as other assets in the accompanying financial statements.

M. 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.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(1) Summary of Significant Accounting Policies, Continued

M. Capital Assets, Continued

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

N. 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 represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. The State has no items that qualify for reporting in this category.

O. Compensated Absences

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

P. Unearned Revenues

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

Q. Deferred Inflows of Resources

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

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(1) Summary of Significant Accounting Policies, Continued

R. Fund Balance

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

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

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

A formal minimum fund balance policy has not been adopted.

S. Interfund/Intrafund Transactions

As a general rule, the effect of interfund activity has been eliminated in the government-wide 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.

T. New Accounting Standards

During fiscal year 2019, the State implemented the following pronouncements:

- GASB Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards, Continued

- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements.

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

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*, which clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The provisions in Statement No. 91 are effective for fiscal years beginning after December 15, 2020. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards, Continued

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No. 84, 89, 90 and 91 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. Management has yet to ascertain whether implementation of these statements will be postponed as provided in GASB Statement No. 95.

U. Risk Financing

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

V. Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and deferred outflows of resources, liabilities and deferred inflows of resources, and 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.

W. Total Columns

Total columns are presented primarily to facilitate financial analysis. The Management's Discussion and Analysis includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with the State's financial statements for the year ended September 30, 2019 from which summarized information was derived.

(2) Deposits and Investments

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

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(2) Deposits and Investments, Continued

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

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

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

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

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

STATE OF CHUUK
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2019

(2) Deposits and Investments, Continued

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

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

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

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

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(2) Deposits and Investments, Continued

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

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

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

A. Deposits

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

As of September 30, 2019, the carrying amount of the primary government's total cash and cash equivalents were \$5,760,185 and the corresponding bank balances were \$7,855,345, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2019, 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, 2019, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$2,142,304 in financial institutions subject to FDIC insurance. As of September 30, 2019, bank deposits in the amount of \$1,000,000 were FDIC insured. The component units do not require collateralization of their cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Therefore, these deposits are exposed to custodial credit risk.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(2) Deposits and Investments, Continued

B. Investments

Primary Government

As of September 30, 2019, the State's investments are as follows:

General Fund:

Fixed income	\$ 1,069,817
Domestic equities	763,470
Common equities	2,080,340
Cash management account	<u>34,574</u>
	<u>3,948,201</u>

Compact Trust Fund:

Common trust funds:	
Domestic Equity	4,025,826
International Equity	3,721,184
Fixed Income	2,745,760
Private Equity	103,341
Hedge Fund	733,519
Real Estate	1,475,157
Global Equity	1,782,595
Private Equity - diversified	1,180,802
Money market funds	<u>2,201</u>
	<u>15,770,385</u>
	\$ <u>19,718,586</u>

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

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the State will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The State's investments are held and administered by trustees. Based on negotiated trust and custody contracts, all of these investments were held in the State's name by the State's custodial financial institutions at September 30, 2019.

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, 2019, the State did not have any investments in a single issuer that represented 5% or more of the investments of the State.

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

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

The Trust Fund's fixed income allocation consists of a Mercer Investment Management Opportunistic Fixed Income mutual fund ("MIM OFI") and a Mercer Investment Management Core Fixed Income Fund ("MIM CFI"); the performance of these funds is expected to closely replicate the performance of 50% of the JP Morgan Government Bond Index Emerging Market Global Diversified Index and 50% Bank of America/Merrill Lynch Global High Yield and the Barclays Capital U.S. Aggregate Bond Index, respectively. The bonds held by MIM CFI vary in credit quality with an average overall rating of "Aa3" as rated by Moody's as of September 30, 2019. High yield debt receiving a credit rating below "A" comprises approximately 26.8% of the MIM CFI fixed income portfolio as rated by Moody's at September 30, 2019. At September 30, 2019, the weighted average maturity of the bonds comprising MIM CFI is 9.92 years.

The bonds held by MIM OFI vary in credit quality with an average overall rating of "BB" as rated by Moody's as of September 30, 2019. High yield debt receiving a credit rating below "A" comprises approximately 52.1% of the MIM OFI fixed income portfolio as rated by Moody's at September 30, 2019. At September 30, 2019, the weighted average maturity of the bonds comprising MIM OFI is 7.69 years.

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

The Trust Fund's exposure to foreign currency risk is derived from its investment in common trust funds, ETFs and REITs that hold investments in securities of foreign issuers and sovereigns. Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair values of an investment or deposit. At September 30, 2019, the Trust Fund held approximately \$209,299,000 in securities of foreign issuers held in common trust funds. Of this amount, approximately \$42,676,000 was held in securities whose functional currency is the Euro, \$20,125,000 whose functional currency is the British pound, \$34,385,000 whose functional currency is the Japanese yen, and \$112,113,000 in functional currencies of 36 other countries. Foreign currency exposure data is not available for the Trust Fund's investment in the Hedge Funds and its investments in Global Private Equity Funds, which comprise 12.8% of invested assets at September 30, 2019.

The Trust Fund's investment in hedge funds includes ownership of the Mercer Hedge Fund Series A ("Mercer Hedge Fund") and the Blackstone Partners Offshore Fund Ltd. Mercer Hedge Funds Investors SPC, who incorporated the Mercer Hedge Fund, and the Blackstone Partners Offshore Fund Ltd. are registered under the Mutual Funds Law of the Cayman Islands. The fair value of the Trust Fund's position in the hedge fund pools are equivalent to the value of the pool shares.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

The State owns 25,000 shares of the outstanding common stock of the Bank of the Federated States of Micronesia, which engages in commercial banking services in the FSM. An equity investment in the common stock of the Bank of the Federated States of Micronesia (investee) is stated at the net asset value (NAV). The NAV is used as a practical expedient to estimate fair value. The NAV is determined based on the total shareholders' equities reported by the investee.

As of September 30, 2019, the State'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>Credit Ratings</u>
	<u>Fair Value</u>	<u>Current</u>	<u>1-5</u>	<u>6-10</u>	<u>Over 10</u>	
U.S. Treasury Notes and Bonds	\$ 311,841	\$32,190	\$133,487	\$ 31,293	\$114,871	Aaa
U.S. Government Agencies Obligations:						
Federal Farm Credit Bank	61,245	-	26,718	34,527	-	Aaa
Federal Home Loan Bank Disc	42,181	-	6,940	35,241	-	Aaa
Federal Home Loan Mortgage Corp	8,164	-	77	-	8,087	Aaa
Federal National Mortgage Association	20,793	-	-	-	20,793	Aaa
Freddie Home Loan Mortg. Association	12,005	-	12,005	-	-	Aaa
Government National Mortgage Corp	562	-	-	-	562	Aaa
Overseas Private Inv Corp	48,858	-	-	48,858	-	Aaa
Tennessee Valley Authority	64,229	-	14,732	-	49,497	Aaa
Municipal obligations	75,698	21,394	24,864	17,454	11,986	Aa1
Corporate Bonds	35,313	-	7,081	11,086	17,146	A1
Corporate Bonds	70,843	2,682	39,842	28,319	-	A2
Corporate Bonds	29,670	-	16,197	-	13,473	A3
Corporate Bonds	17,444	6,666	4,063	6,715	-	Aa1
Corporate Bonds	21,440	5,330	16,110	-	-	Aa2
Corporate Bonds	23,387	7,993	15,394	-	-	Aa3
Corporate Bonds	117,603	19,971	68,214	9,354	20,064	Aaa
Corporate Bonds	10,825	-	-	10,825	-	Ba1
Corporate Bonds	50,756	-	4,127	22,856	23,773	Baa1
Corporate Bonds	6,602	-	-	-	6,602	Baa2
Corporate Bonds	12,807	-	-	-	12,807	Baa3
Corporate Bonds	3,353	-	-	3,353	-	Not List
Corporate Bonds	24,198	-	-	24,198	-	Unrated
	<u>\$1,069,817</u>	<u>\$96,226</u>	<u>\$389,851</u>	<u>\$284,079</u>	<u>\$299,661</u>	

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(2) Deposits and Investments, Continued

B. Investments, Continued

The State has the following recurring fair value measurements as of September 30, 2019:

General Fund:

	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level:				
Fixed income:				
U.S. Treasury obligations	\$ 311,788	\$ -	\$ 311,788	\$ -
U.S. Government Agencies	257,992	-	257,992	-
Municipal obligations	75,685	-	75,685	-
Corporate notes	<u>424,352</u>	<u>-</u>	<u>424,352</u>	<u>-</u>
Total fixed income	<u>1,069,817</u>	<u>-</u>	<u>1,069,817</u>	<u>-</u>
Equity securities:				
U.S. equities	<u>2,080,340</u>	<u>2,080,340</u>	<u>-</u>	<u>-</u>
Total investments at fair value	3,150,157	\$ <u>2,080,340</u>	\$ <u>1,069,817</u>	\$ <u>-</u>
Investments measured at NAV:				
Equity investment in the Bank of the FSM	763,470			
Investments measured at amortized cost:				
Cash management account	<u>34,574</u>			
	\$ <u>3,948,201</u>			

Compact Trust Fund:

	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level:				
Common trust funds:				
Domestic Equity	\$ 4,025,826	\$ 4,025,826	\$ -	\$ -
International Equity	3,721,184	3,721,184	-	-
Fixed Income	2,745,760	2,745,760	-	-
Private Equity	<u>103,341</u>	<u>-</u>	<u>-</u>	<u>103,341</u>
Total investments at fair value	10,596,111	\$ <u>10,492,770</u>	\$ <u>-</u>	\$ <u>103,341</u>
Investments measured at NAV:				
Hedge Fund	733,519			
Real Estate	1,475,157			
Global Equity	1,782,595			
Private Equity - diversified	1,180,802			
Investments measured at amortized cost:				
Money market funds	<u>2,201</u>			
	\$ <u>15,770,385</u>			

Discretely Presented Component Units

As of September 30, 2019, investments comprise the following:

Chuuk State Health Care Plan (CSHCP):

Fixed income securities:	
Fixed income	\$ 399,024
Other investments:	
Common equities	213,503
Money market funds	<u>12,365</u>
	\$ <u>624,892</u>

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

Chuuk State Health Care Plan (CSHCP), Continued

As of September 30, 2019, the Plan's investments recorded at fair value were as follows:

	Hierarchy As of September 30, 2019			Moody's Credit Rating		Maturity At September 30, 2019			
	Level 1	Level 2	Level 3			Less than 1 year	1 - 5 years	6 - 10 years	More than 10 years
Investments by fair value level:									
Fixed income securities	\$ 213,503	\$ -	\$ -	Aaa	\$166,503	\$ -	\$ -	\$ -	\$47,000
Common stock	<u>399,024</u>	<u>-</u>	<u>-</u>		<u>399,024</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	612,527	-	-		565,527	-	-	-	47,000
Investments measured at amortized cost:									
Money market funds	<u>12,365</u>	<u>-</u>	<u>-</u>		<u>-</u>	<u>12,365</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$624,892</u>	<u>\$ -</u>	<u>\$ -</u>		<u>\$565,527</u>	<u>\$12,365</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$47,000</u>

(3) Receivables

Primary Government

Receivables as of September 30, 2019, for the primary government's individual major funds and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	General	Grants Assistance	Compact Trust	Other Governmental Funds	Total
Receivables:					
General receivables	\$ 1,191,719	\$ 161,971	\$ -	\$ 7,463	\$ 1,361,153
FSM National Government	<u>925,870</u>	<u>3,907,551</u>	<u>-</u>	<u>-</u>	<u>4,833,421</u>
	2,117,589	4,069,522	-	7,463	6,194,574
Less: allowance for uncollectible accounts	<u>(1,449,106)</u>	<u>(563,683)</u>	<u>-</u>	<u>-</u>	<u>(2,012,789)</u>
Net receivables	<u>\$ 668,483</u>	<u>\$ 3,505,839</u>	<u>\$ -</u>	<u>\$ 7,463</u>	<u>\$ 4,181,785</u>

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

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(3) Receivables, Continued

Presented Component Units

Receivables as of September 30, 2019, for the discretely presented component units in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	Chuuk State Health Care Plan	Chuuk Public Utility Corporation	Chuuk State Housing Authority	Total
Receivables:				
General	\$ 665,180	\$ 999,070	\$ 1,665,933	\$ 3,330,183
Other	<u>1,500</u>	<u>24,820</u>	<u>-</u>	<u>26,320</u>
	666,680	1,023,890	1,665,933	3,356,503
Allowance for uncollectable accounts	<u>(175,332)</u>	<u>(439,371)</u>	<u>(1,494,681)</u>	<u>(2,109,384)</u>
	<u>\$ 491,348</u>	<u>\$ 584,519</u>	<u>\$ 171,252</u>	<u>\$ 1,247,119</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, 2019, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	Amount
Grants Assistance	General	\$ 7,584,856
General	Grants Assistance	2,195,146
Nonmajor governmental funds	General	<u>59,403</u>
		<u>\$ 9,839,405</u>

(5) Capital Assets

Capital asset activities for the year ended September 30, 2019, are as follows:

Primary Government

	Balance October 1, 2018	Additions	Retirements	Balance September 30, 2019
Governmental activities:				
Depreciable assets:				
Airport facilities	\$ 38,107,415	\$ -	\$ -	\$ 38,107,415
Buildings	15,529,235	568,642	-	16,097,877
Seaport facilities	26,517,208	-	-	26,517,208
Vehicles and other equipment	11,678,782	243,119	-	11,921,901
Infrastructure	<u>14,835,315</u>	<u>-</u>	<u>-</u>	<u>14,835,315</u>
	<u>106,667,955</u>	<u>811,761</u>	<u>-</u>	<u>107,479,716</u>
Less accumulated depreciation for:				
Airport facilities	(33,148,949)	(952,686)	-	(34,101,635)
Buildings	(7,894,878)	(301,314)	-	(8,196,192)
Seaport facilities	(23,865,486)	(662,930)	-	(24,528,416)
Vehicles and other equipment	(8,989,514)	(485,437)	-	(9,474,951)
Infrastructure	<u>(14,835,315)</u>	<u>-</u>	<u>-</u>	<u>(14,835,315)</u>
	<u>(88,734,142)</u>	<u>(2,402,367)</u>	<u>-</u>	<u>(91,136,509)</u>
	17,933,813	(1,590,606)	-	16,343,207
Nondepreciable assets:				
Land	<u>18,373,682</u>	<u>63,884</u>	<u>-</u>	<u>18,437,566</u>
	<u>\$ 36,307,495</u>	<u>\$ (1,526,722)</u>	<u>\$ -</u>	<u>\$ 34,780,773</u>

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(5) Capital Assets, Continued

Primary Government, Continued

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

General government	\$ 1,251,479
Health services	246,370
Education	233,149
Public safety	7,039
Public works and transportation	<u>664,330</u>
	<u>\$ 2,402,367</u>

Discretely Presented Component Units

	Balance October 1, 2018	Addition	Retirements	Balance September 30, 2019
Depreciable assets:				
Buildings	\$ 418,131	\$ 24,202	\$ (2,901)	\$ 439,432
Utility plant	34,192,107	831,524	-	35,023,631
Machinery, equipment, others	<u>319,599</u>	<u>-</u>	<u>(4,100)</u>	<u>315,499</u>
	34,929,837	855,726	(7,001)	35,778,562
Less accumulated depreciation	<u>(14,251,425)</u>	<u>(1,201,554)</u>	<u>9,902</u>	<u>(15,443,077)</u>
	20,678,412	(345,828)	2,901	20,335,485
Nondepreciable assets:				
Construction work-in-progress	<u>714,301</u>	<u>240,948</u>	<u>-</u>	<u>955,249</u>
	<u>\$ 21,392,713</u>	<u>\$ (104,880)</u>	<u>\$ 2,901</u>	<u>\$ 21,290,734</u>

(6) Long-Term Obligations

Primary Government

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

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

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(6) Long-Term Obligations, Continued

Primary Government, Continued

Funds for the repayment of the ADB loan are expected to be derived from the annual appropriations for salaries and wages earmarked for the positions abolished under the Early Retirement Scheme. The Financing Agreement requires the State to continue to appropriate salaries for the abolished positions and deposit the appropriated funds into the ERS Trust Account. These funds had not been deposited to the Trust Account as of September 30, 2019. As of September 30, 2019, the amount outstanding against this loan was \$3,767,658. Of the required \$5,300,000 identified for future debt service payments, \$3,150,157 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, 2019, the balance payable on this loan amounted to \$(101,090). The \$101,090 negative balance for ADB Loan 1816 is a temporary condition resulting from a SDR translation adjustment and the resulting overpayment will be applied to the next principal payment due in fiscal year 2020.

The State also entered into an agreement with the FSM National Government to borrow a portion of the proceeds of the FSM National Government Program Loans with ADB (Loan Number 1873 (SF) and Loan Number 1874 FSM (SF)) for the purpose of promoting private sector development in Chuuk, with interest at 1% to 1.5% per annum. Principal payments shall be made in 32 equal semi-annual payments with the first payment due on May 15, 2010 and the last payment on November 15, 2025. As of September 30, 2019, the related principal balances were \$243,668 and \$657,409, 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, 2019, the balance payable on this loan amounted to \$2,623,550.

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

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 448,688	\$ 55,644	\$ 504,332
2021	448,688	52,153	500,841
2022	448,688	48,662	497,350
2023	448,688	45,171	493,859
2024	448,688	41,680	490,368
2025-2029	2,103,711	157,892	2,261,603
2030-2034	2,031,822	80,015	2,111,837
2035-2037	<u>812,222</u>	<u>12,591</u>	<u>824,813</u>
	\$ <u>7,191,195</u>	\$ <u>493,808</u>	\$ <u>7,685,003</u>

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(6) Long-Term Obligations, Continued

Discretely Presented Component Units

Chuuk Public Utility Corporation:

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

\$ 1,803,429

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, 2019). Proceeds were used for the purchase of two generator sets and related costs.

2,238,748

A \$207,000 loan with the FSM Development Bank, bearing interest fixed at 7% per annum, payable over 60 monthly installments of \$4,099, maturing in February 2021. The loan is collateralized by a security interest in the fixed assets. Proceed was used to pay off an existing outstanding payable.

66,504

\$ 4,108,681

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>
2020	\$ 296,974	\$ 76,897	\$ 373,871
2021	286,879	69,158	356,037
2022	283,815	63,679	347,494
2023	302,759	58,188	360,947
2024	323,881	58,188	382,069
2025-2029	2,014,078	166,099	2,180,177
2030-2036	<u>600,295</u>	<u>26,259</u>	<u>626,554</u>
	\$ <u>4,108,681</u>	\$ <u>518,468</u>	\$ <u>4,627,149</u>

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(7) Changes in Long-Term Obligations

Primary Government

Long-term liabilities will be liquidated in the future from governmental funds. During the year ended September 30, 2019, the following changes occurred in liabilities reported as part of the primary government's long-term liabilities in the statement of net position:

	Balance October 1, <u>2018</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2019</u>	Due Within <u>One Year</u>
Loans payable:					
ADB loans:					
Loan 1459	\$ 2,841,111	\$ -	\$ (217,561)	\$2,623,550	\$ 157,846
Loan 1520	4,050,903	-	(283,245)	3,767,658	214,087
Loan 1816	24,605	-	(125,695)	(101,090)	(7,953)
Loan 1873	287,543	-	(43,875)	243,668	38,340
Loan 1874	<u>724,635</u>	<u>-</u>	<u>(67,226)</u>	<u>657,409</u>	<u>46,368</u>
	7,928,797	-	(737,602)	7,191,195	448,688
Other:					
Compensated absences	<u>1,349,167</u>	<u>80,493</u>	<u>(374,608)</u>	<u>1,055,052</u>	<u>352,141</u>
	<u>\$ 9,277,964</u>	<u>\$ 80,493</u>	<u>\$ (1,112,210)</u>	<u>\$ 8,246,247</u>	<u>\$ 800,829</u>

When the ADB extends credit to a particular country, the loan is booked in Special Drawing Rights (SDRs) but the actual loan is delivered in the currency of the borrower, at the current exchange rate between the currency and the SDR. The value of the SDR is subject to periodic review by the International Monetary Fund, which may result in the recognition of a foreign exchange gain or loss. During the year ended September 30, 2019, the State recognized a foreign exchange gain of \$195,668 associated with valuation of the SDR, which is presented as a special item in the accompanying financial statements, and which results in a reduction in ADB loans payable.

The \$101,090 negative balance for ADB Loan 1816 is a temporary condition resulting from a SDR translation adjustment and the resulting overpayment will be applied to the next principal payment due in fiscal year 2020.

Discretely Presented Component Units

During the year ended September 30, 2019, the following changes occurred in long-term obligations of the discretely presented component units:

	Balance October 1, <u>2018</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2019</u>	Due Within <u>One Year</u>
Long-term debt	\$ 4,400,959	\$ -	\$ (165,387)	\$ 4,235,572	\$ 423,865
Accrued annual leave	<u>42,520</u>	<u>1,215</u>	<u>-</u>	<u>43,735</u>	<u>7,359</u>
	<u>\$ 4,443,479</u>	<u>\$ 1,215</u>	<u>\$ (165,387)</u>	<u>\$ 4,279,307</u>	<u>\$ 431,224</u>

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(8) Fund Balance

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

	General Fund	Grants Assistance Fund	Compact Trust Fund	Nonmajor Funds	Total Governmental Funds
Non-spendable:					
General government	\$ 2,019	\$ -	\$ -	\$ -	\$ 2,019
FSM Development Bank	300,000	-	-	-	300,000
Pacific Islands Development Bank	275,000	-	-	-	275,000
Bank of the FSM	763,470	-	-	-	763,470
Permanent fund principal	-	-	15,770,385	-	15,770,385
Restricted:					
Debt service	3,150,157	-	-	-	3,150,157
Capital projects	-	1,738,031	-	-	1,738,031
General government	-	12,519	-	-	12,519
Health services	-	-	-	64,714	64,714
Other foreign assistance	-	100,688	-	-	100,688
Unassigned	<u>(8,583,776)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8,583,776)</u>
	<u>\$ (4,093,130)</u>	<u>\$ 1,851,238</u>	<u>\$ 15,770,385</u>	<u>\$ 64,714</u>	<u>\$ 13,593,207</u>

(9) Contingencies

Sick Leave

It is the policy of the State to record expenditures for sick leave when leave is actually taken. Sick leave is compensated time for absence during working hours arising from employee illness or injury. The estimated accumulated amount of unused sick leave as of September 30, 2019 is \$4,195,632.

Insurance Coverage

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

Encumbrances

The State utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2019, 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>386,222</u>	\$ <u>4,497,812</u>	\$ <u>-----</u>	\$ <u>79,763</u>	\$ <u>4,963,797</u>

STATE OF CHUUK
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2019

(9) Contingencies, Continued

Federal Grants

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

Litigation

The State is a party to various legal proceedings in which the State's Attorney General indicates that pending land lease cases and other related claims against the State exist at September 30, 2019 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.

General Fund Financial Position

The State's General Fund has sustained recurring operating deficits and has an unassigned fund deficit of \$8,583,776 at September 30, 2019. In addition, at September 30, 2019, the primary government's current liabilities exceed current assets.

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.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(10) Budgetary Compliance

For the year ended September 30, 2019, significant over-expenditures exceeding appropriations within the General Fund were as follows:

Debt service	\$ 642,410
Governor's office	\$ 87,311
Department of Administrative Services	\$ 930,744
Department of Transportation	\$ 38,028
Chuuk Housing Authority	\$ 6,118

(11) Land Lease and Related Claims

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.

(12) Subsequent Event

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. As of December 26, 2020, there have been no confirmed cases of COVID-19 in the Federated States of Micronesia. The State has determined that should the pandemic reach the FSM, it may negatively impact the State's results of operations and financial position and the State may become dependent upon the financial support of the FSM National Government. However, the effect of the pandemic on FSM National Government is also uncertain and future available funding may be limited. Therefore, while the State expects this matter to potentially have a negative impact on its operations and financial position, the related financial impact cannot be reasonably estimated at this time.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2019

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Revenues, Expenditures and Changes in Deficit
Budget and Actual - General Fund
Year Ended September 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual - Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Local revenues	\$ 5,449,519	\$ 9,515,558	\$ 10,393,669	\$ 878,111
Net change in fair value of investments	-	-	(353,507)	(353,507)
Total revenues	<u>5,449,519</u>	<u>9,515,558</u>	<u>10,040,162</u>	<u>524,604</u>
Expenditures:				
Current:				
General government	2,556,739	4,732,570	5,678,720	(946,150)
Education	42,341	170,682	142,600	28,082
Economic development	208,296	505,597	497,904	7,693
Public safety	629,129	1,205,636	1,113,465	92,171
Public works and transportation	524,561	998,297	1,036,325	(38,028)
Community affairs	3,774	150,479	155,867	(5,388)
Boards and commissions	868,023	1,446,435	1,286,238	160,197
Judiciary	291,745	570,509	588,245	(17,736)
Payments to component units	29,974	59,787	65,905	(6,118)
Municipal affairs	426,021	426,021	424,880	1,141
Other	-	-	6,131	(6,131)
Debt service	-	-	642,410	(642,410)
Total expenditures	<u>5,580,603</u>	<u>10,266,013</u>	<u>11,638,690</u>	<u>(1,372,677)</u>
Excess (deficiency) of revenues over (under) expenditures	(131,084)	(750,455)	(1,598,528)	(848,073)
Other financing uses:				
Operating transfers out	<u>(253,692)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in deficit	(384,776)	(750,455)	(1,598,528)	(848,073)
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	-	-	386,223	386,223
Fund deficit at the beginning of the year	<u>(2,880,825)</u>	<u>(2,880,825)</u>	<u>(2,880,825)</u>	<u>-</u>
Fund deficit at the end of the year	<u>\$ (3,265,601)</u>	<u>\$ (3,631,280)</u>	<u>\$ (4,093,130)</u>	<u>\$ (461,850)</u>

See Accompanying Independent Auditors' Report and accompanying notes to required supplementary information - budgetary reporting.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Notes to Required Supplementary Information – Budgetary Reporting
September 30, 2019

(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.

See Accompanying Independent Auditors' Report.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2019

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Combining Schedule of Expenditures by Account
Governmental Funds
Year Ended September 30, 2019

		Special Revenue			
	General	Grants Assistance	Compact Trust	Other Governmental Funds	Total
Expenditures:					
Salaries and wages					
Regular	\$ 5,102,580	\$ 10,854,384	\$ -	\$ -	\$ 15,956,964
Overtime	123,670	486,864	-	-	610,534
Fringe benefits	672,921	1,813,169	-	-	2,486,090
Travel and transportation	437,760	586,700	-	46,881	1,071,341
Books and library materials	-	137,414	-	-	137,414
Communications	67,998	151,499	-	-	219,497
Dues, membership, and subscription	10,535	7,045	-	-	17,580
Food stuffs	110,898	479,982	-	39,691	630,571
Port charges	10,000	11,150	-	-	21,150
Office supplies and materials	271,297	1,764,600	-	2,099	2,037,996
POL	176,406	567,910	-	-	744,316
Printing and reproduction	9,466	67,811	-	-	77,277
Rental services	8,606	162,591	-	6,462	177,659
Repairs and maintenance	28,788	177,087	-	656	206,531
Constructional materials	-	2,108	-	-	2,108
Utilities	417,805	1,004,377	-	16,768	1,438,950
Goods and services	601,885	136,294	-	5,330	743,509
Subsidies and contributions	-	294,111	-	10,000	304,111
Medical referrals	-	322,574	-	-	322,574
Medical supplies	25,000	1,881,063	-	12,377	1,918,440
Contractual services	604,019	2,328,971	-	4,298	2,937,288
Professional services	19,461	470,283	-	-	489,744
Housing allowance	76,950	26,100	-	-	103,050
Compensation non-payroll	2,259	830	-	-	3,089
Scholarships and allowances	5,235	335,463	-	-	340,698
Training	6,510	1,212,415	-	-	1,218,925
Official allowance	658,123	-	-	-	658,123
Meeting fees and allowance	-	127,168	-	-	127,168
Insurance	2,024	-	-	-	2,024
Leased housing, buildings and land	83,267	362,725	-	-	445,992
Equipment	114,533	785,170	-	-	899,703
Furniture and fixtures	-	24,302	-	-	24,302
Vehicles	109,648	176,062	-	-	285,710
Land	63,884	-	-	-	63,884
Principal repayment	541,934	-	-	-	541,934
Interest payments	100,475	-	-	-	100,475
Miscellaneous	788,530	-	-	53,432	841,962
	<u>\$ 11,252,467</u>	<u>\$ 26,758,222</u>	<u>\$ -</u>	<u>\$ 197,994</u>	<u>\$ 38,208,683</u>

See Accompanying Independent Auditors' Report.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

GENERAL FUND

September 30, 2019

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.

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, 2019
(with comparative totals for the year ended September 30, 2018)

	<u>2019</u>	<u>2018</u>
Revenues:		
FSM revenue sharing:		
Gross revenue taxes	\$ 1,118,136	\$ 1,207,838
Import taxes	1,452,335	1,188,494
Income taxes	908,143	1,043,205
Other taxes	<u>200,289</u>	<u>181,853</u>
FSM revenue sharing	<u>3,678,903</u>	<u>3,621,390</u>
State taxes:		
Sales tax	2,540,461	2,473,013
Other excise taxes	<u>562,404</u>	<u>547,616</u>
	<u>3,102,865</u>	<u>3,020,629</u>
Fees and charges:		
Licenses and permits	1,721,626	1,627,844
Leases and other rentals	<u>149,841</u>	<u>164,759</u>
	<u>1,871,467</u>	<u>1,792,603</u>
Departmental charges:		
Transportation collections	<u>1,096,114</u>	<u>950,506</u>
Net change in the fair value of investments	<u>(353,507)</u>	<u>246,228</u>
Other revenues	<u>644,320</u>	<u>734,889</u>
Total revenues	<u>10,040,162</u>	<u>10,366,245</u>
Expenditures:		
Current:		
General government:		
Office of the Governor	893,830	615,370
State Legislature	2,890,988	2,759,980
Department of Administrative Services	1,561,732	618,855
Office of Public Auditor	<u>77,226</u>	<u>33,506</u>
	<u>5,423,776</u>	<u>4,027,711</u>
Health:		
Department of Health	<u>140,200</u>	<u>76,705</u>
Economic development:		
Department of Marine Resources	168,085	24,033
Department of Agriculture	119,518	2,408
Historic Preservation Office	30,814	28,533
Division of Business and Trade	15,823	8,228
Division of Labor and Manpower	27,000	25,730
Division of Land Management	78,019	72,902
Registrar of Corporation	48,805	3,414
Division of Commerce and Industries	<u>10,259</u>	<u>10,013</u>
	<u>498,323</u>	<u>175,261</u>
Public safety:		
Office of the Attorney General	183,523	231,761
Department of Public Safety	<u>911,780</u>	<u>885,217</u>
	<u>1,095,303</u>	<u>1,116,978</u>
Public works and transportation:		
Department of Transportation	<u>984,161</u>	<u>837,536</u>
Community affairs:		
Public Affairs	90,727	89,439
Youth Affairs	19,938	21,546
Broadcast	<u>41,428</u>	<u>41,275</u>
	<u>152,093</u>	<u>152,260</u>

See Accompanying Independent Auditors' Report.

STATE OF CHUUK
FEDERATED STATES OF MICRONESIA

Statement of Revenues, Expenditures by Function, and Changes in Deficit, Continued

General Fund

Year Ended September 30, 2019

(with comparative totals for the year ended September 30, 2018)

	<u>2019</u>	<u>2018</u>
Expenditures, continued:		
Current, continued:		
Boards, commissions and other:		
Land Commission	149,636	151,291
Public Service Commission	154,974	153,539
Election Commission	314,914	222,877
Farmers Home Administration	18,627	18,800
Peace Corps	-	3,100
Micronesian Legal Services Corporation	-	15,000
Micro Games	73,115	157,931
Youth Constitution Day	-	-
Goodwill Games	-	-
Overseas Development Assistance	50,981	55,749
Political Status Commission	69,281	181,192
Chuuk Women	-	-
Solid and Hazardous Waste Management	163,565	-
SEPDIC	55,673	75,480
Chuuk Visitors Bureau	81,546	-
Delegation visit	30,000	-
Saipan Typhoon Yutu	50,000	-
Chuuk Small Business Development Center	62,243	20,534
	<u>1,274,555</u>	<u>1,055,493</u>
Judiciary:		
State Court	<u>551,597</u>	<u>553,042</u>
Payments to component units:		
Chuuk State Housing Authority	<u>65,559</u>	<u>62,484</u>
Municipal affairs:		
Payments to municipalities	<u>418,359</u>	<u>419,008</u>
Other	<u>6,131</u>	<u>-</u>
Debt service:		
Principal repayment	541,934	558,137
Interest	<u>100,476</u>	<u>117,659</u>
	<u>642,410</u>	<u>675,796</u>
Total expenditures	<u>11,252,467</u>	<u>9,152,274</u>
Excess of revenues over expenditures	<u>(1,212,305)</u>	<u>1,213,971</u>
Other financing uses:		
Operating transfers out	<u>-</u>	<u>(506,253)</u>
Net change in deficit	(1,212,305)	707,718
Deficit at the beginning of the year	<u>(2,880,825)</u>	<u>(3,588,543)</u>
Deficit at the end of the year	<u>\$ (4,093,130)</u>	<u>\$ (2,880,825)</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
Year Ended September 30, 2019**

	Budgeted Amounts		Actual Budgetary Basis	Variance with Final Budget
	Original	Final		Positive/(Negative)
Revenues:				
Local revenues	\$ 5,449,519	\$ 9,515,558	\$ 10,393,669	\$ 878,111
Net change in fair value of investments	-	-	(353,507)	(353,507)
Total revenues	5,449,519	9,515,558	10,040,162	524,604
Expenditures:				
Current:				
General government:				
Office of the Governor	345,606	839,239	926,550	(87,311)
State Legislature	1,831,340	3,145,057	3,081,080	63,977
Department of Administrative Services	351,181	663,120	1,593,864	(930,744)
Office of Public Auditor	28,612	85,154	77,226	7,928
	2,556,739	4,732,570	5,678,720	(946,150)
Education:				
Department of Education	42,341	170,682	142,600	28,082
Economic development:				
Division of Marine Resources	93,370	162,933	166,772	(3,839)
Division of Agriculture	98,213	119,639	119,518	121
Historic Preservation Office	-	35,943	30,814	5,129
Division of Business and Trade	28	18,492	15,851	2,641
Division of Manpower and Labor	186	27,021	27,186	(165)
Division of Land management	2,115	78,449	78,699	(250)
Registrar of Corporation	14,383	52,880	48,805	4,075
Division of Commerce and Industry	1	10,240	10,259	(19)
	208,296	505,597	497,904	7,693
Public safety:				
Office of the Attorney General	108,904	219,958	196,987	22,971
Department of Public Safety	520,225	985,678	916,478	69,200
	629,129	1,205,636	1,113,465	92,171
Public works and transportation:				
Department of Transportation	524,561	998,297	1,036,325	(38,028)
Community affairs:				
Department of Public Affairs	3,774	150,479	155,867	(5,388)
Boards, commissions and other:				
Chuuk Recreation Board	47,759	-	-	-
Land Commission	88,495	190,982	153,153	37,829
Public Service Commission	87,134	162,902	154,974	7,928
Election Commission	213,335	318,774	315,337	3,437
Farmers Home Administration	9,662	19,163	18,789	374
Peace Corps	7,800	-	-	-
Micronesian Legal Services Corporation	20,000	20,000	-	20,000
Micro Games	-	77,518	73,115	4,403
Goodwill Games	-	-	-	-
Delegation Visit	-	30,000	30,000	-
Guandong Province	2,000	2,000	-	2,000
Chuuk EPA	99,313	171,201	165,565	5,636
Overseas Development Assistance	28,884	52,789	51,659	1,130
Chuuk Small Business Development Center	59,796	106,082	62,268	43,814
Chuuk Visitors Bureau	45,470	78,940	81,809	(2,869)
Political Status Commission	129,278	110,141	72,546	37,595
Economic Policy Development and Implementation	29,097	55,943	55,673	270
Typhoon Yutu	-	50,000	51,350	(1,350)
	868,023	1,446,435	1,286,238	160,197

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, 2019

	Budgeted Amounts		Actual Budgetary Basis	Variance with Final Budget Positive/(Negative)
	Original	Final		
Judiciary:				
State Court	291,745	570,509	588,245	(17,736)
Payments to component units:				
Chuuk State Housing Authority	29,974	59,787	65,905	(6,118)
Municipal affairs:				
Payments to municipalities	426,021	426,021	424,880	1,141
Other	-	-	6,131	(6,131)
Debt service:				
Principal repayment	-	-	541,934	(541,934)
Interest payments	-	-	100,476	(100,476)
	-	-	642,410	(642,410)
Total expenditures	5,580,603	10,266,013	11,638,690	(1,372,677)
Excess (deficiency) of revenues over (under) expenditures	(131,084)	(750,455)	(1,598,528)	(848,073)
Other financing uses:				
Operating transfers out	(253,692)	-	-	-
Net change in deficit	(384,776)	(750,455)	(1,598,528)	(848,073)
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	-	-	386,223	386,223
Fund deficit at the beginning of the year	(2,880,825)	(2,880,825)	(2,880,825)	-
Fund deficit at the end of the year	<u>\$ (3,265,601)</u>	<u>\$ (3,631,280)</u>	<u>\$ (4,093,130)</u>	<u>\$ (461,850)</u>

See Accompanying Independent Auditors' Report.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2019

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, 2019, 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, 2019

	10	11	12	13	14	15	16	18	19	20&21	23	25	
	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:	\$ 523,720	\$ 1,483,387	\$ -	\$ -	\$ -	\$ -	\$ 117,356	\$ 94,926	\$ 459,702	\$ 635,205	\$ 29,573	\$ -	\$ 3,343,869
Advances	60,337	25,496	10,116	-	1,578	40,110	-	-	4,869	19,464	-	-	161,970
Prepayments	506,779	98,389	-	85	-	349,367	-	-	-	-	-	-	954,620
Due from other funds	-	-	25,468	39,613	2,539,002	3,247,240	-	1,643,174	-	-	83,487	6,872	7,584,856
	<u>\$ 1,090,836</u>	<u>\$ 1,607,272</u>	<u>\$ 35,584</u>	<u>\$ 39,698</u>	<u>\$ 2,540,580</u>	<u>\$ 3,636,717</u>	<u>\$ 117,356</u>	<u>\$ 1,738,100</u>	<u>\$ 464,571</u>	<u>\$ 654,669</u>	<u>\$ 113,060</u>	<u>\$ 6,872</u>	<u>\$ 12,045,315</u>
LIABILITIES AND FUND BALANCES													
Liabilities:													
Accounts payable	\$ 228,241	\$ 209,344	\$ -	\$ 413	\$ -	\$ 82,801	\$ -	\$ -	\$ 30,874	\$ -	\$ 685	\$ 6,872	\$ 559,230
Accrued liabilities	580,045	364,727	13,831	18,811	15,231	58,114	28,227	69	-	108,709	11,687	-	1,199,451
Unearned revenues	-	176,872	21,753	20,474	2,525,349	3,495,802	-	-	-	-	-	-	6,240,250
Due to other funds	282,550	856,329	-	-	-	-	89,129	-	433,697	533,441	-	-	2,195,146
Total liabilities	<u>1,090,836</u>	<u>1,607,272</u>	<u>35,584</u>	<u>39,698</u>	<u>2,540,580</u>	<u>3,636,717</u>	<u>117,356</u>	<u>69</u>	<u>464,571</u>	<u>642,150</u>	<u>12,372</u>	<u>6,872</u>	<u>10,194,077</u>
Fund balances:													
Restricted	-	-	-	-	-	-	-	1,738,031	-	12,519	100,688	-	1,851,238
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,738,031</u>	<u>-</u>	<u>12,519</u>	<u>100,688</u>	<u>-</u>	<u>1,851,238</u>
Total liabilities and fund balances	<u>\$ 1,090,836</u>	<u>\$ 1,607,272</u>	<u>\$ 35,584</u>	<u>\$ 39,698</u>	<u>\$ 2,540,580</u>	<u>\$ 3,636,717</u>	<u>\$ 117,356</u>	<u>\$ 1,738,100</u>	<u>\$ 464,571</u>	<u>\$ 654,669</u>	<u>\$ 113,060</u>	<u>\$ 6,872</u>	<u>\$ 12,045,315</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, 2019

	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	\$ 9,283,148	\$ 9,888,287	\$ 29,080	\$ 39,484	\$ 583,103	\$ 2,885,072	\$ 676,361	\$ 94,926	\$ 835,701	\$ -	\$ -	\$ -	\$ 24,315,162
Federal and other grants	-	-	-	-	-	-	-	-	-	2,182,086	23,247	-	2,205,333
Total revenues	<u>9,283,148</u>	<u>9,888,287</u>	<u>29,080</u>	<u>39,484</u>	<u>583,103</u>	<u>2,885,072</u>	<u>676,361</u>	<u>94,926</u>	<u>835,701</u>	<u>2,182,086</u>	<u>23,247</u>	<u>-</u>	<u>26,520,495</u>
Expenditures by function:													
Current:													
General government	-	-	-	-	583,103	-	676,361	-	-	-	84,707	-	1,344,171
Health services	-	9,888,287	-	-	-	-	-	-	-	1,212,587	-	-	11,100,874
Education	9,283,148	-	-	-	-	2,885,072	-	-	-	969,499	-	-	13,137,719
Economic development	-	-	29,080	39,484	-	-	-	271,193	-	-	-	-	339,757
Public safety	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-	-	-	835,701	-	-	-	835,701
Total expenditures	<u>9,283,148</u>	<u>9,888,287</u>	<u>29,080</u>	<u>39,484</u>	<u>583,103</u>	<u>2,885,072</u>	<u>676,361</u>	<u>271,193</u>	<u>835,701</u>	<u>2,182,086</u>	<u>84,707</u>	<u>-</u>	<u>26,758,222</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(176,267)</u>	<u>-</u>	<u>-</u>	<u>(61,460)</u>	<u>-</u>	<u>(237,727)</u>
Net change in fund balances	-	-	-	-	-	-	-	(176,267)	-	-	(61,460)	-	(237,727)
Fund balances at the beginning of the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,914,298</u>	<u>-</u>	<u>12,519</u>	<u>162,148</u>	<u>-</u>	<u>2,088,965</u>
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,738,031</u>	<u>\$ -</u>	<u>\$ 12,519</u>	<u>\$ 100,688</u>	<u>\$ -</u>	<u>\$ 1,851,238</u>

See Accompanying Independent Auditors' Report.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

GRANTS ASSISTANCE FUND

Combining Statement of Revenues, Expenditures by Account,
and Changes in Fund Balances
Year Ended September 30, 2019

	10	11	12	13	14	15	16	18	19	20 & 21	23	25	
	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	\$ 9,283,148	\$ 9,888,287	\$ 29,080	\$ 39,484	\$ 583,103	\$ 2,885,072	\$ 676,361	\$ 94,926	\$ 835,701	\$ -	\$ -	\$ -	\$ 24,315,162
Federal and other grants	-	-	-	-	-	-	-	-	-	2,182,086	23,247	-	2,205,333
Total revenues	9,283,148	9,888,287	29,080	39,484	583,103	2,885,072	676,361	94,926	835,701	2,182,086	23,247	-	26,520,495
Expenditures by account:													
Salaries and wages:													
Regular	5,402,869	3,418,522	-	-	95,940	300,575	354,340	-	95,779	1,164,816	21,543	-	10,854,384
Overtime	52,752	406,721	-	-	5,665	-	20,447	-	1,279	-	-	-	486,864
Fringe benefits	724,178	476,652	-	-	25,006	370,864	47,932	-	14,493	150,346	3,698	-	1,813,169
Travel and transportation	23,740	184,524	6,734	-	23,548	141,519	13,505	-	51,762	141,368	-	-	586,700
Books and library materials	105,537	-	-	-	-	31,877	-	-	-	-	-	-	137,414
Communications	6,863	35,044	-	-	11,159	55,468	26,120	-	-	16,845	-	-	151,499
Dues, memberships, and subscriptions	940	1,400	-	-	1,350	155	-	-	3,200	-	-	-	7,045
Food stuffs	156,253	322,762	-	-	-	967	-	-	-	-	-	-	479,982
Freight and port charges	342	2,377	-	-	-	7,210	-	-	1,221	-	-	-	11,150
Office supplies and materials	268,537	338,279	10,845	4,690	85,010	875,715	63,514	-	7,921	110,089	-	-	1,764,600
POL	62,884	214,911	8,549	370	6,450	190,608	6,068	-	9,664	68,406	-	-	567,910
Printing and reproduction	4,198	40,091	-	-	279	10,589	-	-	-	12,654	-	-	67,811
Rental services	94,137	20,615	-	343	1,633	-	-	-	410	45,453	-	-	162,591
Repairs and maintenance	58,580	94,589	2,217	1,166	2,163	5,016	2,437	-	5,232	5,687	-	-	177,087
Construction materials	-	2,108	-	-	-	-	-	-	-	-	-	-	2,108
Utilities	167,795	700,084	-	-	8,045	74,022	36,651	-	4,169	13,611	-	-	1,004,377
Goods and services	1,856	22,475	-	-	22,568	-	-	-	7,887	81,508	-	-	136,294
Subsidies and contributions	220,296	-	-	-	-	73,815	-	-	-	-	-	-	294,111
Medical referrals	-	322,574	-	-	-	-	-	-	-	-	-	-	322,574
Medical supplies	-	1,844,501	-	-	-	-	-	-	-	36,562	-	-	1,881,063
Contractual services	580,245	705,102	-	32,915	84,859	212,275	73,865	271,193	300,490	68,027	-	-	2,328,971
Professional services	-	-	-	-	169,394	6,495	-	-	294,394	-	-	-	470,283
Housing allowances	3,000	-	-	-	7,200	1,500	14,400	-	-	-	-	-	26,100
Scholarships	333,363	-	-	-	-	2,100	-	-	-	-	-	-	335,463
Fees and meeting allowances	5,635	-	-	-	-	-	-	-	-	121,533	-	-	127,168
Training	742,271	22,235	-	-	-	392,735	-	-	-	55,174	-	-	1,212,415
Leased housing, buildings and land	74,130	204,235	735	-	30,075	1,575	9,450	-	37,800	4,725	-	-	362,725
Compensation non-payroll	-	-	-	-	-	-	-	-	-	830	-	-	830
Equipment	181,294	420,642	-	-	2,759	61,314	-	-	-	59,695	59,466	-	785,170
Furniture and fixtures	11,453	7,696	-	-	-	3,058	-	-	-	2,095	-	-	24,302
Vehicles	-	80,148	-	-	-	65,620	7,632	-	-	22,662	-	-	176,062
Total expenditures	9,283,148	9,888,287	29,080	39,484	583,103	2,885,072	676,361	271,193	835,701	2,182,086	84,707	-	26,758,222
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-	-	-	-	(176,267)	-	-	(61,460)	-	(237,727)
Net change in fund balances	-	-	-	-	-	-	-	(176,267)	-	-	(61,460)	-	(237,727)
Fund balances at the beginning of the year	-	-	-	-	-	-	-	1,914,298	-	12,519	162,148	-	2,088,965
Fund balances at the end of the year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,738,031	\$ -	\$ 12,519	\$ 100,688	\$ -	\$ 1,851,238

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, and each major fund of the State of Chuuk (the State) as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the State's basic financial statements, and have issued our report thereon dated December 26, 2020. Our report was qualified with respect to governmental activities expenses and General Fund expenditures and a liability for land leases and related claims payable in the governmental activities and the General Fund, and includes explanatory paragraphs concerning collectability of receivables and the impact of COVID-19.

For purposes of this report, our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants, and other matters did not include the 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'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's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2019-005 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2019-004 and 2019-006 to be significant deficiencies.

Compliance and Other Matters

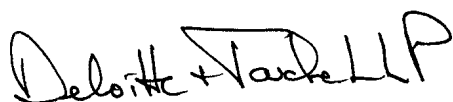
As part of obtaining reasonable assurance about whether the State's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect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

The State's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 + State LLP". The signature is stylized, with the "D" and "S" being particularly large and prominent.

December 26, 2020

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

Honorable 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 (the State's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the State's major federal programs for the year ended September 30, 2019. The State's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

As discussed in Note 3B to the Schedule of Expenditures of Federal Awards, the State's basic financial statements include the operations of certain entities whose federal awards are not included in the accompanying Schedule of Expenditures of Federal Awards for the year ended September 30, 2019. Our audit, described below, did not include the operations of the entities identified in Note 3B as these entities conducted separate audits in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), if required.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

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

We believe that our audit provides a reasonable basis for our qualified and unmodified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of the State's compliance.

Basis for Qualified Opinion on Special Education Cluster (IDEA)

As described in Findings 2019-002 and 2019-003 in the accompanying Schedule of Findings and Questioned Costs, the State did not comply with requirements regarding the following:

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
2019-002	84.027	Special Education Cluster (IDEA)	Allowable Costs/Cost Principles
2019-003	84.027	Special Education Cluster (IDEA)	Procurement and Suspension and Debarment

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

Qualified Opinion on Special Education Cluster (IDEA)

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Special Education Cluster (IDEA) for the year ended September 30, 2019.

Unmodified Opinion on the Other Major Federal Program

In our opinion, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its other major federal program identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs for the year ended September 30, 2019.

Other Matters

The results of our auditing procedures disclosed one other instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2019-001. Our opinion on the other major federal program is not modified with respect to this matter.

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

The State is responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. The State's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

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

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is 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 items 2019-002 and 2019-003 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2019-001 to be a significant deficiency.

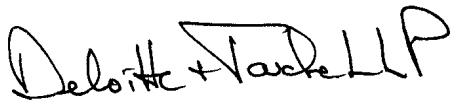
The State's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The State's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no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

The State is responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. The State's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, and each major fund of the State as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the State's basic financial statements. We issued our report thereon dated December 26, 2020, which contained qualified opinions on those financial statements with respect to governmental activities expenses and General Fund expenditures and a liability for land leases and related claims payable in the governmental activities and the General Fund, and included explanatory paragraphs concerning collectability of receivables and the impact of COVID-19. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads "Deloitte + Tuck LLP". The signature is written in a cursive, flowing style.

December 26, 2020

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Summary Schedule of Expenditures of Federal Awards, by Grantor
Year Ended September 30, 2019

Agency/Program	Expenditures
U.S. Department of the Interior	\$ 24,491,429
U.S. Department of Education	969,499
U.S. Department of Health and Human Services	<u>1,212,587</u>
GRAND TOTAL	<u>\$ 26,673,515</u>
Reconciliation to the basic financial statements:	
Grants Assistance Fund expenditures	\$ 26,758,222
Less: CFSM Grants Fund expenditures	
Foreign Assistance Fund expenditures	<u>(84,707)</u>
	<u>\$ 26,673,515</u>

See accompanying notes to schedule of expenditures of federal awards.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA#	Pass-Through Entity Identifying #	Expenditures
U.S. DEPARTMENT OF THE INTERIOR			
Pass-Through Federated States of Micronesia National Government:		A2	
Economic, Social and Political Development of the Territories:	15.875		
Compact Sector Grants - Education Sector	15.875		\$ 9,283,148
Compact Sector Grants - Health Sector	15.875		9,888,287
Compact Sector Grants - Environment Sector	15.875		29,080
Compact Sector Grants - Private Sector Development	15.875		39,484
Compact Sector Grants - Capacity Building Sector	15.875		583,103
Supplemental Education Grant	15.875		2,885,072
Compact Sector Grants - ERA	15.875		676,361
Compact Sector Grants - Infrastructure	15.875		271,193
Compact Sector Grants - Infrastructure Maintenance	15.875		835,701
Total Compact Sector Grants Fund			24,491,429
TOTAL U.S. DEPARTMENT OF THE INTERIOR TOTAL			\$ 24,491,429
U.S. DEPARTMENT OF EDUCATION			
Pass-Through Federated States of Micronesia National Government:		A2	
Special Education Cluster (IDEA):			
Special Education - Grants to States (IDEA, Part B)	84.027		\$ 969,499
Special Education Cluster (IDEA) Subtotal			969,499
TOTAL U.S. DEPARTMENT OF EDUCATION TOTAL			\$ 969,499
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Pass-Through Federated States of Micronesia National Government:		A2	
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092		\$ 24,919
Maternal and Child Health Federal Consolidated Program	93.110		11,458
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116		156,966
Family Planning Services	93.217		56,436
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243		345,334
Immunization Cooperative Agreements	93.268		215,806
Preventive Health and Health Services Block Grant	93.758		2,667
OPIOID STR	93.788		33,576
Cancer Prevention and Control Programs for State, Territorial and Tribal Org	93.898		51,860
Assistance Programs for Chronic Disease Prevention and Control	93.945		19,919
Block Grants for Community Mental Health Services	93.958		27,873
Block Grants for Prevention and Treatment of Substance Abuse	93.959		172,826
Maternal and Child Health Services Block Grant to the States	93.994		92,947
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL			\$ 1,212,587
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 26,673,515

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, 2019

1. Scope

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of State of Chuuk under programs of the federal government for the year ended September 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of State of Chuuk, it is not intended to and does not present the financial position or changes in financial position of State of Chuuk.

3. Summary of Significant Accounting Policies

A. Basis of Accounting

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, consistent with the manner in which State of Chuuk maintains its accounting records. All expenditures and capital outlays that represent the federal share are reported as expenditures. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented, where available.

B. Reporting Entity

For purposes of complying with the Single Audit Act of 1984, as amended in 1996, State of Chuuk's reporting entity is defined in Note 1A to its September 30, 2019 basic financial statements; and all of the discretely presented component units are excluded. Accordingly, the accompanying Schedule presents the federal award programs administered by State of Chuuk, as defined above, for the year ended September 30, 2019.

C. Matching Costs

Matching costs, i.e., the non-federal share of certain program costs, are not included in the accompanying Schedule.

D. Indirect Cost Allocation

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

STATE OF CHUUK
FEDERATED STATES OF MICRONESIA

Notes to Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2019

3. Summary of Significant Accounting Policies, Continued

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 for purposes of major program determinations.

F. Component Units

State of Chuuk's component units are to separately satisfy the requirements of the Uniform Guidance, if applicable. The following presents information concerning State of Chuuk's component units:

Chuuk Public Utility Corporation

The Chuuk Public Utility Corporation (CPUC), a discretely presented component unit, is the recipient of various pass-through funds. The CPUC is to separately satisfy its 2019 reporting responsibilities under the Single Audit Act. CPUC's total federal award expenditures for the year ended September 30, 2019 is \$183,556.

Chuuk State Housing Authority

The Chuuk State Housing Authority (CSHA), a discretely presented component unit, is the recipient of various pass-through funds from State of Chuuk in a prior year and certain direct grants. CSHA's total federal award expenditures for the year ended September 30, 2019 is undetermined.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2019

Section I - Summary of Auditors' Results

Financial Statements

- | | |
|---|--------------------------|
| 1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: | Unmodified and Qualified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | Yes |
| 3. Significant deficiency(ies) identified? | Yes |
| 4. Noncompliance material to financial statements noted? | No |

Federal Awards

Internal control over major 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: | |
| 15.875 | Unmodified |
| 84.027 | Qualified |
| 8. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | Yes |
| 9. Identification of major federal programs: | |

<u>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, As Amended, Compact Sector Grants
--------	--

84.027	Special Education Cluster (IDEA): Special Education – Grants to States (IDEA, Part B)
--------	--

- | | |
|--|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$800,205 |
| 11. Auditee qualified as low-risk auditee? | No |

Section II – Financial Statements Findings

<u>Finding #</u>	<u>Finding</u>
2019-004	Timely and Accurate Reconciliations
2019-005	Land Leases
2019-006	Chuuk State Housing Authority

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Section III - Federal Award Findings and Questioned Costs

<u>Finding #</u>	<u>CFDA #</u>	<u>Finding</u>	<u>Questioned Costs</u>
2019-001	15.875	Equipment and Real Property Management	\$ -
2019-002	84.027	Allowable Costs/Cost Principles	11,569
2019-003	84.027	Procurement and Suspension and Debarment	<u>20,963</u>
		Total Federal Questioned Costs	\$ <u>32,532</u>

STATE OF CHUUK
FEDERATED STATES OF MICRONESIA

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Finding No.: 2019-001
Pass-Through Entity: Federated States of Micronesia National Government
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories -
Federal Award No.: Compact of Free Association, As Amended, Compact Sector Grants
Requirement: Equipment and Real Property Management
Questioned Costs: \$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 capital assets undergo required maintenance.

Cause: The Government has a potential weakness in internal controls over the periodic maintenance of capital assets.

Effect: Capital assets funded by the program were noted to have deteriorated and the related useful life lessened. No questioned cost is presented as we are unable to quantify the overall extent of the deficiency. However, summarized below are the total capital outlays of the program over the past two years that are material to the program.

<u>Program</u> <u>CFDA #</u>	<u>2019</u> <u>Purchases</u>	<u>2018</u> <u>Purchases</u>	<u>Total</u>
15.875	\$750,182	\$633,488	\$1,383,670

Identification as a Repeat Finding: Finding No. 2018-001.

Recommendation: The Government should implement procedures wherein property personnel would inspect capital assets on a periodic basis (e.g., quarterly) and assess for damage and impairment and perform maintenance, as necessary.

Views of Responsible Officials: The Government agrees with the finding and describes corrective actions in its corrective action plan.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Finding No.: 2019-002
 Pass-Through Entity: Federated States of Micronesia National Government
 Federal Agency: U.S. Department of Education
 CFDA Program: 84.027 Special Education-Grants to States (IDEA, Part B)/Special Education Cluster (IDEA)
 Requirement: Allowable Costs/Cost Principles
 Questioned Costs: \$10,418

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

Condition:

- For 2 (or 8%) of 25 transactions tested, there was either partial or no financial, programmatic records (e.g., vendor invoices, contracts, receiving reports etc.) and/or grantor approved budget on file to substantiate certain transactions.

date1	tr_no	jnl	ref1	ref2	fund	dep-div-prog	yr	gl_acct	gl_acct_name	Transaction Amount
12/29/2018	315945	APJ	207375	transfer	20	60-66-20010	17	8232	Rental Services	\$ 6,646
08/09/2019	336417	APJ	223746	transfer	20	60-66-20010	18	8329	Training	598
										<u>\$ 7,244</u>

- For 4 (or 15%) of 26 employees tested, there was either partial or no payroll records to substantiate certain transactions.

date1	data_item	emp	hr	level	fund	dep	div	prog	yr	acct	acct_name	amt
10/17/2018	AL	607449	474	A	20	60	66	20010	17	8010	Personnel	\$ 1,869
03/20/2019	AL	607491	258	A	20	60	66	20010	18	8010	Personnel	824
08/21/2019	REG	612052	80	A	20	60	66	20010	18	8010	Personnel	180
03/20/2019	FL	626466	0	A	20	60	66	20010	18	8010	Personnel	301
												<u>\$ 3,174</u>

Cause: The Government lacks recordkeeping controls over compliance with the criteria.

Effect: The Government appears to be in noncompliance with the criteria. Projected questioned costs exceed \$25,000, and the total known questioned cost is \$10,418.

Recommendation: The Government should comply with grant requirements and should retain sufficient documentation on file to support compliance with those requirements.

Views of Responsible Officials: The Government believes it complied with the requirement and possesses supporting documentation. Details are provided in the Government's corrective action plan.

Auditor Response: It is possible that the Government may have documentation on file that may resolve a portion of the matters set forth in the above condition. However, such documentation was not timely provided despite numerous requests.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Finding No.: 2019-003
 Pass-Through Entity: Federated States of Micronesia National Government
 Federal Agency: U.S. Department of Education
 CFDA Program: 84.027 Special Education-Grants to States (IDEA, Part B)/Special Education Cluster (IDEA)
 Requirement: Procurement and Suspension and Debarment
 Questioned Costs: \$20,963

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

Condition: For 2 (or 8%) of 25 transactions tested, no price quotation or bid documents were provided to substantiate compliance with competitive procurement requirements.

date1	tr_no	jnl	ref1	ref2	Field_1	fund	dep-div-prog	yr	gl_acct	gl_acct_name	Transaction Amount
12/20/2018	315287	APJ	207148	transfer	-	20	60-66-20010	17	8310	CONTRACTUAL SERVICES	\$ 8,013
09/28/2019	343413	APJ	226674	transfer	-	20	60-66-20010	18	8610	EQUIPMENT	<u>12,950</u>
											\$ 20,963

Cause: The Government lacks recordkeeping controls over compliance with the criteria.

Effect: The Government is in noncompliance with the criteria. Projected questioned costs exceed \$25,000, and the total known questioned cost is \$20,963.

Recommendation: The Government should comply with grant requirements and should retain sufficient documentation on file to support compliance with those requirements.

Views of Responsible Officials: The Government believes it complied with the requirement and possesses supporting documentation. Details and corrective actions are provided in the Government's corrective action plan.

Auditor Response: It is possible that the Government may have documentation on file that may resolve a portion of the matters set forth in the above condition. However, this information was not timely provided despite numerous requests.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Finding No.: 2019-004
Area: Timely and Accurate Reconciliations

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

Condition: We determined subsidiary records, particularly cash and equivalents, contained variances that are not timely reconciled.

Cause: The Government has yet to implement procedures where bank reconciliations and subsidiary ledger reconciliations of significant accounts are submitted to senior accountants for review on a regular basis.

Effect: There is a potential misstatement of the financial statements, particularly balances of cash and equivalents.

Recommendation: The Government should implement procedures where reconciliations of cash accounts and material subsidiary ledgers are performed and reviewed on a monthly basis

Identification as a Repeat Finding: Finding No. 2018-002.

Views of Responsible Officials: The Government agrees with the finding and describes corrective actions in its corrective action plan.

STATE OF CHUUK
FEDERATED STATES OF MICRONESIA

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Finding No.: 2019-005
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 Government 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 whether an associated liability should be recorded in the financial statements and whether all requisite lease disclosures have been included in notes thereto.

Cause: Management is still researching and reconstructing the underlying lease data.

Effect: There is a potential misstatement of the financial statements and the notes thereto, resulting in a report modification.

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

Identification as a Repeat Finding: Finding No. 2018-003.

Views of Responsible Officials: The Government agrees with the finding and describes corrective actions in its corrective action plan.

STATE OF CHUUK
FEDERATED STATES OF MICRONESIA

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Finding No.: 2019-006
Area: Chuuk State Housing Authority

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

Condition: We determined subsidiary records, particularly the loan ledger, contained variances that are not timely reconciled.

Cause: The Government has yet to implement procedures where loan reconciliations and subsidiary ledger reconciliations of significant accounts are submitted to senior accountants for review on a regular basis.

Effect: There is a potential misstatement of the financial statements, particularly balances of loans.

Recommendation: The Government should implement procedures where reconciliations of all loan accounts and subsidiary ledgers are performed and reviewed on a monthly basis.

Identification as a Repeat Finding: Finding No. 2018-004.

Views of Responsible Officials: The Government agrees with the finding and describes corrective actions in its corrective action plan.



**DEPARTMENT OF ADMINISTRATIVE
SERVICES
STATE OF CHUUK
Federated States of Micronesia**

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TESIME KOFOT
Director

**Summary Schedule of Prior Audit Findings and Questioned Costs
Year Ended September 30, 2019**

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Questioned Cost</u>	<u>Status</u>
2017-001	15.875	\$	- Not Corrected or Resolved. See corrective action plan - Finding no. 2019-001
2017-002			- Not Corrected or Resolved. See corrective action plan - Finding no. 2019-004
2017-003			- Not Corrected or Resolved. See corrective action plan - Finding no. 2019-005
2018-001	15.875		- Not Corrected or Resolved. See corrective action plan - Finding no. 2019-001
2018-002			- Not Corrected or Resolved. See corrective action plan - Finding no. 2019-004
2018-003			- Not Corrected or Resolved. See corrective action plan - Finding no. 2019-005
2018-004			- Not Corrected or Resolved. See corrective action plan - Finding no. 2019-006
		<u>\$</u>	-



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TESIME KOFOT
Director

**CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)
Year Ended September 30, 2019**

Finding Number	Corrective Action Plan	Anticipated Completion Date	Responsible Person (Contact details)
2019-001	<p>We agree with the audit finding and recommendation. Please note however that implementation of the required documented procedures for maintenance activities, periodic review and monitoring by departments receiving fixed assets thru sector or federal funding was completed at the end of the fiscal year.</p> <p>To ensure compliance with the federal equipment requirements, DAS Supply and Procurement supervisor will continue working together with the department's staff responsible for fixed asset.</p>	September 30, 2020	<p>Roxalyn Kaminanga – Chief of Finance roxalynkaminanga@gmail.com</p> <p>Oturu Ray- Supervisor Procurement & Supply meldicksonray@gmail.com</p>
2019-002	<p>Condition 1 and 2 We believed that DAS finance exercise control and compliance with grant requirements and only authorized expenditures were charged to the grant.</p> <p>Required supporting documents to substantiate payments to the vendors are retained on file and available for inspection to clear out this finding and questioned cost.</p> <p>Control procedures over payroll processing are always applied at the payroll section. Required supporting documents to substantiate payments for termination pay of 3 employees and the regular 80hrs pay of an employee are available for inspection to clear this finding.</p>	September 30, 2020	<p>Roxalyn Kaminanga – Chief of Finance roxalynkaminanga@gmail.com</p> <p>Dayna Bokuku- Supervisor Fund Section daynabokuku@gmail.com</p>

2019-003	<p>We believed that DAS finance exercise control and compliance with grant requirements and procurement requirements.</p> <p>Required documents to support competitive procurement requirements are carefully reviewed before a requisition is certified and obligated in order to ensure compliance to substantiate payment.</p> <p>Nevertheless, the scanned and uploaded documents for the 2 transactions questioned will be revisited. To strengthen control over recordkeeping, the filing system should be improved, every document being taken out has to be properly accounted for to ensure supporting documents are complete and available during audit.</p>	September 30, 2020	<p>Roxalyn Kaminanga – Chief of Finance roxalynkaminanga@gmail.com</p> <p>Dayna Bokuku- Supervisor Fund Section daynabokuku@gmail.com</p>
2019-004	<p>We agree with the audit finding and recommendation. DAS has hired a CPA and an additional staff that bring up to date and perform accurate monthly bank reconciliations, review outstanding checks and do the required adjustments of all bank accounts to the General Ledger. Reconciliation of all Chuuk State bank accounts and subsidiary ledger reconciliations are now updated.</p>	June 30, 2020	<p>Roxalyn Kaminanga – Chief of Finance roxalynkaminanga@gmail.com</p> <p>Elsicher Conrad - Reconciliation Specialist elsicher.conrad@yahoo.com</p>
2019-005	<p>We agree with the audit finding and recommendation. Chuuk State DAS will try to look for funding for this project in order to obtain the necessary legal or technical assistance for the resolution of this matter.</p>	September 30, 2020	<p>Tiser Reynold – Financial Advisor treynold.kos@gamil.com</p>
2019-006	<p>We agree with the audit finding and recommendation. To resolve this audit finding, it was agreed that CSHA who maintains subsidiary ledger or loan ledger to submit monthly reports of daily activities to DAS. On the contrary, the current CSHA general ledger account in DAS FMIS will be changed to the appropriate general ledger account, Loans Receivable to facilitate general loan ledger and subsidiary ledgers reconciliations.</p>	September 30, 2020	<p>Kathy Lukas - Executive Director Chuuk Housing Authority kathylukas@yahoo.com</p>