

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

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

YEAR ENDED SEPTEMBER 30, 2019

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

YEAR ENDED SEPTEMBER 30, 2019

INDEX

	<u>Page No.</u>
INDEPENDENT AUDITORS' REPORT, BASIC FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION	1 - 61
INDEPENDENT AUDITORS' REPORTS ON INTERNAL CONTROL AND ON COMPLIANCE	62 - 71

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Table of Contents
Year Ended September 30, 2019

	<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	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	45
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	46
Note to Required Supplementary Information - Budgetary Reporting	47
V. Other Supplementary Information	48
Combining Schedule of Expenditures by Account - Governmental Funds	49
General Fund:	
Statement of Revenues, Expenditures by Function, and Changes in Fund Balance	50
Statement of Revenues, Expenditures by Function, and Changes in Fund Balance – Budget and Actual	52
Nonmajor Governmental Funds - Special Revenue Funds:	
Combining Balance Sheet	53
Combining Statement of Revenues, Expenditures by Function, and Changes in Fund Balances	54
Combining Statement of Revenues, Expenditures by Account, and Changes in Fund Balances	55

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Table of Contents, Continued
Year Ended September 30, 2019

	<u>Page No.</u>
V. Other Supplementary Information, Continued	
Major Governmental Funds – Grant Assistance Funds:	
Combining Balance Sheet	56
Combining Statement of Revenues, Expenditures by Function, and Changes in Fund Balances	58
Combining Statement of Revenues, Expenditures by Account, and Changes in Fund Balances	60
VI. Independent Auditors' Reports 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>	62
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	64
Summary Schedule of Expenditures of 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	70
Summary Schedule of Prior Audit Findings and Questioned Costs	71

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

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

YEAR ENDED SEPTEMBER 30, 2019

INDEPENDENT AUDITORS' REPORT

Honorable Carson K. Sigrah
Governor, State of Kosrae
Federated States of Micronesia:

Report on the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Kosrae, as of September 30, 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 discussion with the FSM National Government to determine the ultimate collectability of certain receivables due from the FSM National Government in consultation with the grantor agency arising from Compact sector grant transactions.

COVID-19

As discussed in the Note 11 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

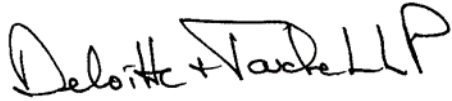
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 10 as well as the Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund and notes thereto, on pages 47 and 48, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (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 22, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance.

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

December 22, 2020

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2019

This analysis, prepared by the Department of Administration and Finance, offers readers of the Kosrae State Government's ("Kosrae State") financial statements a narrative overview of the activities of the government for the fiscal year ended September 30, 2019. We encourage readers to consider this information in conjunction with Kosrae 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

- Kosrae State's total net position for fiscal year ended September 30, 2019 decreased by \$237,613 (or 0.62%) from \$38,414,689 in the prior year to \$38,177,076 in the current year. The decrease is mainly due to depreciation expense exceeding capital acquisition additions.
- For the fiscal year ended September 30, 2019, the State's General Fund unassigned fund deficit has decreased to \$(621,010) from \$(706,933) in the prior year or a decrease of \$85,923. GASB defines unassigned fund balance as a residual fund balance that is not restricted, committed and assigned.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to Kosrae State's basic financial statements. Kosrae State's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

This report also contains additional required supplementary information in the form of budgetary schedules, which are prepared on the budgetary basis of accounting, and other optional supplementary information, in addition to the basic financial statements themselves, which includes combining statements for governmental funds.

Government-Wide Financial Statements

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

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

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

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2019

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

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

Fund Financial Statements

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

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

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

FINANCIAL ANALYSIS OF KOSRAE STATE AS A WHOLE

Kosrae State's assets at the end of fiscal year 2019 exceeded liabilities by \$38,177,076. The bulk of the amount is from net investment in capital assets, although \$8,053,640 is restricted. Kosrae State uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although Kosrae State's net investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2019

The following summary of Kosrae State's net position as of September 30, 2019, with comparable balances for the fiscal year 2018, discloses this relationship:

	Governmental Activities			
	2019	2018	Change	%
ASSETS				
Current and other assets	\$ 2,881,007	\$ 10,875,436	\$ (7,994,429)	-73.5%
Capital assets	<u>40,633,560</u>	<u>33,885,918</u>	<u>6,747,642</u>	<u>19.9%</u>
Total assets	<u>\$ 43,514,567</u>	<u>\$ 44,761,354</u>	<u>\$ (1,246,787)</u>	<u>-2.8%</u>
LIABILITIES				
Current and other liabilities	\$ 1,506,139	\$ 2,043,747	\$ (537,608)	-26.3%
Long-term debts	<u>3,831,352</u>	<u>4,302,918</u>	<u>(471,566)</u>	<u>-11.0%</u>
Total liabilities	<u>5,337,491</u>	<u>6,346,665</u>	<u>(1,009,174)</u>	<u>-15.9%</u>
NET POSITION				
Net investment in capital assets	31,294,161	32,175,511	(881,350)	-2.7%
Restricted	8,053,640	7,896,037	157,603	2.0%
Unrestricted	<u>(1,170,725)</u>	<u>(1,656,859)</u>	<u>486,134</u>	<u>-29.3%</u>
Total Net Position	<u>\$ 38,177,076</u>	<u>\$ 38,414,689</u>	<u>\$ (237,613)</u>	<u>-0.6%</u>

At the end of fiscal year 2019, Kosrae State's unrestricted net position showed a deficit of \$(1,170,725), a decrease of \$486,134 as compared with the prior year. The decrease in overall net position of \$(237,613) was due primarily to a decrease in net investment in capital assets of \$(881,350) offset by an increase in restricted assets of \$157,603 and an increase in unrestricted assets of \$486,134. The unrestricted deficit, however, is the result of having current and long-term commitments that are greater than currently available resources. Specifically, Kosrae State did not include in past annual budgets the full amounts needed to finance its current liabilities to vendors and others or its long-term liabilities arising from Asian Development Bank (ADB) loans and unused employee leave balances. Kosrae State will consider including these amounts in future year's budgets as funding permits.

The net position decreased by \$237,613 compared with prior year, and the key elements of the differences from the prior year are shown in the following schedule.

	Governmental Activities			
	2019	2018	Change	%
Revenues:				
Operating grants and contributions	\$ 10,313,974	\$ 11,135,197	\$ (821,223)	-7.4%
Capital grants and contributions	-	17,372	(17,372)	-100.0%
Charges for services	575,499	668,957	(93,458)	-14.0%
Revenue sharing	1,225,986	1,196,299	29,687	2.5%
Unrestricted investment earnings	237,491	200,058	37,433	18.7%
Taxes	455,873	420,843	35,030	8.3%
Contribution from the FSM National Government	-	503,905	(503,905)	-100.0%
Others	<u>89,233</u>	<u>65,245</u>	<u>23,988</u>	<u>-36.8%</u>
Total revenues	<u>12,898,056</u>	<u>14,207,876</u>	<u>(1,309,820)</u>	<u>-9.2%</u>

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2019

	Governmental Activities			
	2019	2018	Change	%
Expenses:				
General government	2,732,106	3,742,387	(1,010,281)	-27.0%
Education	495,092	4,652,099	(4,157,007)	-89.3%
Health services	4,534,556	3,506,173	1,028,383	29.3%
Economic development	3,281,510	546,840	2,734,670	500.1%
Boards, commissions and other	276,216	1,763,367	(1,487,151)	-84.3%
Environment protection	246,868	295,365	(48,497)	-16.4%
Public order and safety	1,806,871	349,569	1,457,302	416.9%
Others	<u>70,452</u>	<u>83,210</u>	<u>(12,758)</u>	<u>15.3%</u>
Total expenses	<u>13,443,671</u>	<u>14,939,010</u>	<u>(1,495,339)</u>	<u>-10.0%</u>
Deficiency of revenues under expenses	(545,615)	(731,134)	185,519	-25.4%
Special item - SDR foreign exchange	108,202	64,586	43,616	67.5%
Special item - Write-off of receivables	-	(38,041)	38,041	-100.0%
Contribution to permanent fund	<u>199,800</u>	<u>356,516</u>	<u>(156,716)</u>	<u>-44.0%</u>
Change in net position	(237,613)	(348,073)	110,460	-31.7%
Net position at the beginning of the year	<u>38,414,689</u>	<u>38,762,762</u>	<u>(348,073)</u>	<u>-1.0%</u>
Net position at the end of the year	\$ <u>38,177,076</u>	\$ <u>38,414,689</u>	\$ <u>(237,613)</u>	<u>-0.6%</u>

Total revenues in fiscal year 2019 of \$12,898,056 decreased by \$1,309,820 (or 9%) from the prior year's \$14,207,876. The decrease was primarily due to a \$821,223 decrease in operating grants and contributions and a one year \$503,905 contribution from the FSM National Government in the prior year. In fiscal year 2019, Grants Assistance Fund revenues of \$9,247,338 comprised 70% of total revenues of \$13,047,856 of the governmental funds whereas the General Fund revenues of \$2,216,095 comprised 17%.

Total expenses of \$13,443,671 reflected a 10% decrease from the prior year expenses of \$14,939,010.

FINANCIAL ANALYSIS OF KOSRAE STATE'S GOVERNMENTAL FUNDS

As noted earlier, Kosrae State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. As of the end of fiscal year 2019, Kosrae State governmental funds reported a combined fund balance of \$9,472,382, which represents a \$342,765 increase from the \$9,129,617 recorded at the end of fiscal 2018. The increase was attributable mainly to the following: a positive change in fund balances for the General Fund of \$18,437, for Compact Trust of \$199,800 and for Other Governmental funds of \$209,638. Of the total combined fund balance of \$9,472,382, \$7,765,809 is designated as non-spendable fund balance; \$1,518,221 is restricted fund balance; \$809,362 is for committed fund balance and \$(621,010) for unassigned fund deficit. Encumbrances identified in Note 10 are classified as restricted and committed fund balances depending on the revenue constraints of the particular programs.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2019

The General Fund is the main operating fund of the State. At the end of the current fiscal year, the unassigned fund deficit was \$(621,010), which increased by \$85,923 from \$(706,933) of the prior year. Consequently, the total fund balance for the General Fund increased by \$18,437 from \$1,954,370 in fiscal year 2018 to \$1,972,807 in the current year.

The Grants Assistance Fund has a total fund balance of \$616,915. The net decrease in fund balance during the current year was \$(85,110) or (12%), was due to the deficit in the Non-U.S. grant fund.

Compact Trust Fund has a total fund balance of \$5,533,057, all of which is restricted for the funding of future operations of the primary government commencing in fiscal year 2023. The increase in fund balance during the current year was \$199,800 or 3.7% which corresponds to the net increase in the fair value of investments for the year.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the course of the fiscal year, management and elected officials of Kosrae State Government made several revisions to the General Fund budget. For the year ended September 30, 2019, General Fund operating expenditures of \$2,251,764 exceeded operating revenues of \$2,216,095, which resulted in a deficit of \$(35,669).

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Kosrae State's capital assets of \$80,478,714 for the primary government as of September 30, 2019, net of accumulated depreciation of \$47,651,745, resulted in a net book value of \$32,826,969. The decrease in capital assets of \$(1,058,949) was mainly due to depreciation expense of \$1,894,249, which exceeded capital acquisition of \$835,300.

The table below summarizes Kosrae State's capital assets, net:

	Governmental Activities			
	2019	2018	Change	%
Capital Assets:				
Buildings	\$ 10,777,385	\$ 11,404,456	\$ (627,071)	-5.5%
Infrastructure	19,809,862	20,611,594	(801,732)	-3.9%
Machinery, equipment and others	<u>2,239,722</u>	<u>1,869,868</u>	<u>369,854</u>	<u>19.8%</u>
	\$ <u>32,826,969</u>	\$ <u>33,885,918</u>	\$ <u>(1,058,949)</u>	<u>-3.1%</u>

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

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2019

Long-Term Debt

The following schedule shows Kosrae State's long-term obligations for fiscal year 2019 with comparative balances from fiscal year 2018.

	Governmental Activities			
	2019	2018	Change	%
Long-term Debt:				
ADB loans	\$ 3,475,478	\$ 3,900,508	\$ (425,030)	-10.9%
Malem water	<u>96,797</u>	<u>100,338</u>	<u>(3,541)</u>	<u>-3.5%</u>
	<u>\$ 3,572,275</u>	<u>\$ 4,000,846</u>	<u>\$ (428,571)</u>	<u>-10.7%</u>

The State's long-term debt decreased by \$428,571 or 10.7% due primarily to repayments of ADB loans. Kosrae State's long-term debt obligations can be found in notes 6 and 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

General Fund

Revenues for the six months ending March 31, 2020 are \$731,473, a slight decrease of \$16,556 or 2% as compared to \$748,029 revenues for the same period ending March 2019. Expenditures, however, for the six months ending March 31, 2020 are \$1,389,183, an increase of \$278,203 or 25% as compared to \$1,110,980 of expenditures for the same period ending March 2019. This could result in a deficiency of revenues under expenditures at the end of fiscal year 2020.

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

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

Grant Assistance Funds

Grants Assistance Funds (specifically compact funding) will continue to be the major funding source for Kosrae State in fiscal year 2020 with total approved funding of \$8,698,823 as follows:

Education Sector	\$2,932,865
Health Sector	\$2,647,805
Health Sector – Covid-19	\$1,205,922
Environment Sector	\$ 215,160
Private Sector	\$ 162,000
Capacity Building Sector	\$ 187,912
SEG	\$1,151,635
ERA	\$ 195,524

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2019

COVID-19

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

CONTACTING KOSRAE STATE'S FINANCIAL MANAGEMENT

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

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Statement of Net Position
September 30, 2019

	Primary Government	Component Units
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 932,329	\$ 547,245
Time certificate of deposit	-	167,539
Investments	-	746,860
Receivables, net	900,141	697,607
Inventories	-	290,243
Prepayments	45,488	15,658
Advances	76,142	-
Other current assets	820,000	252,800
Restricted assets:		
Cash and cash equivalents	106,907	-
Time certificate of deposit	-	200,000
Total current assets	<u>2,881,007</u>	<u>2,917,952</u>
Noncurrent assets:		
Capital assets:		
Nondepreciable capital assets	-	133,249
Capital assets, net of accumulated depreciation	32,826,969	16,772,341
Investments	1,361,522	-
Restricted assets:		
Time certificates of deposit	357,947	-
Investments	<u>6,087,122</u>	<u>-</u>
Total noncurrent assets	<u>40,633,560</u>	<u>16,905,590</u>
Total assets	<u>\$ 43,514,567</u>	<u>\$ 19,823,542</u>
<u>LIABILITIES</u>		
Current liabilities:		
Current portion of long-term obligations	\$ 240,923	\$ 37,165
Accounts payable	310,020	192,386
Other liabilities and accruals	354,651	78,481
Due to primary government	-	95,954
Unearned revenues	<u>600,545</u>	<u>24,537</u>
Total current liabilities	<u>1,506,139</u>	<u>428,523</u>
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	3,331,352	142,156
Unearned revenues	<u>500,000</u>	<u>-</u>
Total noncurrent liabilities	<u>3,831,352</u>	<u>142,156</u>
Total liabilities	<u>5,337,491</u>	<u>570,679</u>
Commitments and contingencies		
<u>NET POSITION</u>		
Net investment in capital assets	31,294,161	16,905,590
Restricted for:		
Nonexpendable:		
Future operations	5,533,057	-
Expendable:		
Debt service	554,065	-
Compact related	48,979	-
Other purposes	1,917,539	511,485
Unrestricted	<u>(1,170,725)</u>	<u>1,835,788</u>
Total net position	<u>38,177,076</u>	<u>19,252,863</u>
Total liabilities and net position	<u>\$ 43,514,567</u>	<u>\$ 19,823,542</u>

See accompanying notes to financial statements.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Statement of Activities
Year Ended September 30, 2019

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
Primary government:						
Governmental activities:						
General government	\$ 2,732,106	\$ 264,046	\$ 1,934,851	\$ -	\$ (533,209)	\$ -
Economic development	548,074	107,649	238,956	-	(201,469)	-
Education	4,534,556	-	4,471,835	-	(62,721)	-
Health services	3,281,510	202,951	3,421,464	-	342,905	-
Public order and safety	276,216	-	-	-	(276,216)	-
Environment protection and sanitation	246,868	-	246,868	-	-	-
Boards, commissions and other	1,753,889	853	-	-	(1,753,036)	-
Unallocated interest on long-term debt	70,452	-	-	-	(70,452)	-
Total primary government	<u>\$ 13,443,671</u>	<u>\$ 575,499</u>	<u>\$ 10,313,974</u>	<u>\$ -</u>	<u>(2,554,198)</u>	<u>-</u>
Component units:						
Kosrae Port Authority	\$ 1,226,978	\$ 468,652	\$ -	\$ -	-	(758,326)
Kosrae Utilities Authority	2,994,857	2,771,353	-	-	-	(223,504)
Kosrae Housing Authority	202,309	90,244	-	-	-	(112,065)
Total component units	<u>\$ 4,424,144</u>	<u>\$ 3,330,249</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>(1,093,895)</u>
General revenues:						
Taxes:						
FSM revenue sharing:						
Gross revenue taxes					350,612	-
Import taxes					398,905	-
Income taxes					386,313	-
Other taxes					90,156	-
State taxes					455,873	-
Unrestricted investment earnings					237,491	(2,541)
Contribution from the FSM National Government					-	181,391
Other					89,233	352,690
Total general revenues					<u>2,008,583</u>	<u>531,540</u>
Special item - gain on SDR foreign exchange					108,202	-
Contributions to permanent fund					<u>199,800</u>	<u>-</u>
Total general revenues, special item and contributions					<u>2,316,585</u>	<u>531,540</u>
Change in net position					<u>(237,613)</u>	<u>(562,355)</u>
Net position at the beginning of the year					<u>38,414,689</u>	<u>19,815,218</u>
Net position at the end of the year					<u>\$ 38,177,076</u>	<u>\$ 19,252,863</u>

See accompanying notes to financial statements.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Balance Sheet

Governmental Funds
September 30, 2019

		Special Revenue	Permanent	Other Governmental Funds	Total
	General	Grants Assistance	Compact Trust		
ASSETS					
Cash and cash equivalents	\$ 932,329	\$ -	\$ -	\$ -	\$ 932,329
Investments	1,361,522	-	-	-	1,361,522
Receivables, net:					
General	36,011	-	-	241,223	277,234
Federal agencies	-	29,459	-	-	29,459
Due from FSM National Government	13,799	353,705	-	-	367,504
Taxes	225,944	-	-	-	225,944
Due from other funds	252,124	1,103,126	-	818,711	2,173,961
Prepaid items	4,200	39,499	-	1,789	45,488
Advances	47,030	29,112	-	-	76,142
Other assets	627,000	100,000	-	93,000	820,000
Restricted assets:					
Cash and cash equivalents	64,894	-	-	42,013	106,907
Time certificates of deposit	-	-	-	357,947	357,947
Investments	554,065	-	5,533,057	-	6,087,122
Total assets	<u>\$ 4,118,918</u>	<u>\$ 1,654,901</u>	<u>\$ 5,533,057</u>	<u>\$ 1,554,683</u>	<u>\$ 12,861,559</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 32,639	\$ 258,411	\$ -	\$ 18,970	\$ 310,020
Other liabilities and accruals	186,387	167,485	-	779	354,651
Due to other funds	1,921,837	66,826	-	185,298	2,173,961
Unearned revenues	5,248	545,264	-	33	550,545
Total liabilities	<u>2,146,111</u>	<u>1,037,986</u>	<u>-</u>	<u>205,080</u>	<u>3,389,177</u>
Fund balances:					
Non-spendable	2,039,752	100,000	5,533,057	93,000	7,765,809
Restricted	554,065	516,915	-	447,241	1,518,221
Committed	-	-	-	809,362	809,362
Unassigned:					
General fund	(621,010)	-	-	-	(621,010)
Total fund balances	<u>1,972,807</u>	<u>616,915</u>	<u>5,533,057</u>	<u>1,349,603</u>	<u>9,472,382</u>
Total liabilities and fund balances	<u>\$ 4,118,918</u>	<u>\$ 1,654,901</u>	<u>\$ 5,533,057</u>	<u>\$ 1,554,683</u>	

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

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

32,826,969

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

Long-term debt payable (3,572,275)
Advance lease payment (550,000)

(4,122,275)

Net position of governmental activities

\$ 38,177,076

See accompanying notes to financial statements.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2019

		Special Revenue	Permanent	Other Governmental Funds	Total
	General	Grants Assistance	Compact Trust		
Revenues:					
Compact funding	\$ -	\$ 7,522,460	\$ -	\$ -	\$ 7,522,460
Net change in the fair value of investments	166,255	-	199,800	-	366,055
Federal contributions	-	1,724,878	-	-	1,724,878
FSM revenue sharing	1,225,986	-	-	-	1,225,986
State taxes	455,873	-	-	-	455,873
CFSM grants	-	-	-	1,066,636	1,066,636
Fees and charges	264,046	-	-	311,453	575,499
Interest income	69,150	-	-	2,086	71,236
Other	34,785	-	-	4,448	39,233
Total revenues	<u>2,216,095</u>	<u>9,247,338</u>	<u>199,800</u>	<u>1,384,623</u>	<u>13,047,856</u>
Expenditures:					
Current:					
General government	843,234	953,325	-	861,498	2,658,057
Economic development	226,267	238,956	-	110,284	575,507
Education	12,505	4,471,835	-	-	4,484,340
Health services	-	3,421,464	-	55,381	3,476,845
Public order and safety	268,437	-	-	-	268,437
Environment protection and sanitation	-	246,868	-	-	246,868
Boards, commissions and other	456,394	-	-	147,822	604,216
Debt service	390,821	-	-	-	390,821
Total expenditures	<u>2,197,658</u>	<u>9,332,448</u>	<u>-</u>	<u>1,174,985</u>	<u>12,705,091</u>
Excess of revenues over expenditures	<u>18,437</u>	<u>(85,110)</u>	<u>199,800</u>	<u>209,638</u>	<u>342,765</u>
Net change in fund balances	<u>18,437</u>	<u>(85,110)</u>	<u>199,800</u>	<u>209,638</u>	<u>342,765</u>
Fund balances at the beginning of the year	<u>1,954,370</u>	<u>702,025</u>	<u>5,333,257</u>	<u>1,139,965</u>	<u>9,129,617</u>
Fund balances at the end of the year	<u>\$ 1,972,807</u>	<u>\$ 616,915</u>	<u>\$ 5,533,057</u>	<u>\$ 1,349,603</u>	<u>\$ 9,472,382</u>

See accompanying notes to financial statements.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Reconciliation of the Statement of Revenues, Expenditure, and Changes in Fund
Balances of Governmental Funds to the Statement of Activities
Year Ended September 30, 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		\$ 342,765
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 the sum of depreciation (\$1,894,249) exceeded capital outlays (\$835,300) in the current period.		(1,058,949)
Governmental funds report advance lease payment as revenues. However, in the statement of net position, such is reported as unearned revenues.		50,000
Special item associated with gain on SDR foreign exchange adjustment.		108,202
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	316,828	
Repayment of RUS loan	<u>3,541</u>	<u>320,369</u>
Change in net position of governmental activities		\$ <u>(237,613)</u>

See accompanying notes to financial statements.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Combining Statement of Net Position

Component Units
September 30, 2019

<u>ASSETS</u>	Kosrae Port Authority	Kosrae Utilities Authority	Kosrae Housing Authority	Total
Current assets:				
Cash and cash equivalents	\$ 4,592	\$ 525,845	\$ 16,808	\$ 547,245
Time certificate of deposit	-	167,539	-	167,539
Investments	-	746,860	-	746,860
Time certificate of deposit - restricted	-	-	200,000	200,000
Receivables:				
General	58,576	296,702	23,039	378,317
Loan	-	-	1,844,630	1,844,630
	<u>58,576</u>	<u>296,702</u>	<u>1,867,669</u>	<u>2,222,947</u>
Allowance for doubtful debts	<u>(15,773)</u>	<u>(76,507)</u>	<u>(1,433,060)</u>	<u>(1,525,340)</u>
Net receivables	<u>42,803</u>	<u>220,195</u>	<u>434,609</u>	<u>697,607</u>
Inventories	-	290,243	-	290,243
Prepayments	-	15,658	-	15,658
Total current assets	<u>47,395</u>	<u>1,966,340</u>	<u>651,417</u>	<u>2,665,152</u>
Noncurrent assets:				
Deposit for fuel purchase contract	-	252,800	-	252,800
Capital assets:				
Nondepreciable capital assets	-	133,249	-	133,249
Capital assets, net of accumulated depreciation	<u>14,648,317</u>	<u>2,036,732</u>	<u>87,292</u>	<u>16,772,341</u>
Total assets	\$ <u>14,695,712</u>	\$ <u>4,389,121</u>	\$ <u>738,709</u>	\$ <u>19,823,542</u>
<u>LIABILITIES AND NET POSITION</u>				
Current liabilities:				
Current portion of long-term debt	\$ -	\$ -	\$ 37,165	\$ 37,165
Accounts payable	24,797	148,302	19,287	192,386
Accrued liabilities	11,835	59,102	7,544	78,481
Due to primary government	72,174	-	23,780	95,954
Unearned revenues	-	24,537	-	24,537
Total current liabilities	<u>108,806</u>	<u>231,941</u>	<u>87,776</u>	<u>428,523</u>
Long-term debt net of current portion	-	-	142,156	142,156
Total liabilities	<u>108,806</u>	<u>231,941</u>	<u>229,932</u>	<u>570,679</u>
Net position:				
Net investment in capital assets	14,648,317	2,169,981	87,292	16,905,590
Restricted	-	90,000	421,485	511,485
Unrestricted	<u>(61,411)</u>	<u>1,897,199</u>	<u>-</u>	<u>1,835,788</u>
Total net position	<u>14,586,906</u>	<u>4,157,180</u>	<u>508,777</u>	<u>19,252,863</u>
Total liabilities and net position	\$ <u>14,695,712</u>	\$ <u>4,389,121</u>	\$ <u>738,709</u>	\$ <u>19,823,542</u>

See accompanying notes to financial statements.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

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

Component Units
Year Ended September 30, 2019

	Kosrae Port Authority	Kosrae Utilities Authority	Kosrae Housing Authority	Total
Operating revenues:				
Charge for services	\$ 468,652	\$ 2,771,353	\$ 90,244	\$ 3,330,249
Operating expenses:				
Cost of services	-	1,686,613	-	1,686,613
Depreciation and amortization	698,524	438,127	13,649	1,150,300
Administration and general	528,454	870,117	188,660	1,587,231
Total operating expenses	1,226,978	2,994,857	202,309	4,424,144
Operating income (loss)	(758,326)	(223,504)	(112,065)	(1,093,895)
Nonoperating revenues (expenses):				
Interest income	-	1,551	-	1,551
Net change in fair value of investments	-	(4,092)	-	(4,092)
Operating grant from FSM National Government	54,947	93,079	33,365	181,391
Interest expense	-	-	(10,082)	(10,082)
Total nonoperating revenues (expenses), net	54,947	90,538	23,283	168,768
Capital contributions from foreign government	-	362,772	-	362,772
Change in net position	(703,379)	229,806	(88,782)	(562,355)
Net position at beginning of year	15,290,285	3,927,374	597,559	19,815,218
Net position at end of year	\$ 14,586,906	\$ 4,157,180	\$ 508,777	\$ 19,252,863

See accompanying notes to financial statements.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(1) Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

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

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

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

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

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

Discretely Presented Component Units:

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

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

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

Kosrae Housing Authority (KHA): KHA was created by KSL No. 10-113 and is responsible for managing and investing funds of Kosrae Home Improvement Program and other funds of the Kosrae Housing Authority and lending money to qualified Kosraeans who wish to build and maintain residential homes in Kosrae. KHA is governed by a five-member Board of Directors, of which four members are appointed by the Governor subject to the advice and consent of the Legislature. The State has the ability to impose its will on KHA.

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

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

B. Government-Wide Financial Statements

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

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide Financial Statements, Continued

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

The Statement of Net Position presents all of the reporting entity's non-fiduciary assets, deferred outflows of resources, 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 three preceding categories. Unrestricted net position often is designated, (for example, internally restricted), to indicate that management does not consider such to be available for general operations.

The government-wide Statement of Net Position reports \$8,053,640 of restricted net position, of which \$1,917,539 is restricted by enabling legislation.

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

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(1) Summary of Significant Accounting Policies, Continued

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 this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

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

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

Component Unit Financial Statements:

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

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

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

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

Section 215 Compact Trust 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.

E. Cash and Cash Equivalents and Time Certificates of Deposit

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

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(1) Summary of Significant Accounting Policies, Continued

F. Investments

Investments and related investment earnings of the primary government and the discretely presented component units are recorded at fair value using quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability (i.e., 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. Prepaid Items

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

I. Interfund Receivables/Payables

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

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

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(1) Summary of Significant Accounting Policies, Continued

J. Inventories

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

K. Restricted Assets

Certain assets of the primary government are classified as restricted assets because their use is completely restricted through loan agreements or enabling legislation. Specifically, the State has collateralized investments in the amount of \$554,065 for the Early Retirement Scheme. Furthermore, investments recorded in the Compact Trust Fund of \$5,533,057 are restricted in that they are not available to be used in current operations.

As of September 30, 2019, cash and cash equivalents and time certificates of deposit were restricted for the following uses:

Primary Government:

Deposit account established for the purpose of receiving payments pursuant to the Compact of Free Association, as amended.	\$ 64,894
Deposit account established for the Gifford scholarship fund.	42,013
Time certificate of deposit with a local bank restricted for scholarships for post-secondary students.	<u>357,947</u>
	<u>\$ 464,854</u>

Discretely Presented Component Units:

Time certificate of deposit for the Loan Guarantee Escrow Account established for the sole purpose of loan collateralization made through the USDA Rural Development. The escrow account may be drawn down in the event of a borrower's default on the obligation under the terms of the promissory note and the deed of trust security instrument supporting such note and for which such note is guaranteed by the State, the trustee of the Loan Guarantee Escrow Account.	\$ <u>200,000</u>
---	-------------------

L. Other Assets

The State holds approximately 8.79% of the outstanding shares of Pacific Islands Development Bank with a carrying value of \$820,000. This equity interest does not meet the definition of an investment as the assets are held primarily for economic development and is presented as other assets in the accompanying financial statements.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(1) Summary of Significant Accounting Policies, Continued

M. Capital Assets

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

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

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

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

N. Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. 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 200 hours per year. All unused annual leave is cancelled at the end of each fiscal year. Accordingly, no liability is recorded for compensated absences in the accompanying financial statements.

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.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(1) Summary of Significant Accounting Policies, Continued

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.

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 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.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards

During the year ended September 30, 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.
- 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 State's 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 KOSRAE
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. However, no material losses have been sustained from this practice in the last three 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(1) Summary of Significant Accounting Policies, Continued

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, 2018 from which summarized information was derived.

(2) Deposits and Investments

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

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

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

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

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

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(2) Deposits and Investments, Continued

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

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 January 9, 2017 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.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(2) Deposits and Investments, Continued

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.

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.

As of September 30, 2019, the carrying amount of the primary government's total cash and cash equivalents and time certificates of deposit was \$1,397,183 and the corresponding bank balance was \$1,696,502 which is maintained in financial institutions subject to 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. Therefore, these deposits are exposed to custodial credit risk.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(2) Deposits and Investments, Continued

A. Deposits, Continued

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 \$914,784 and the corresponding bank balance was \$970,110, which were maintained in financial institutions subject to FDIC insurance. As of September 30, 2019, bank deposits in the amount of \$537,736 were FDIC insured. The component units do not require collateralization of their cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Therefore, these deposits are exposed to custodial credit risk.

B. Investments

Primary Government

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

General Fund:	
Fixed income	\$ 176,943
Domestic equities	1,361,522
Common equities	333,201
Cash management account	<u>43,921</u>
	<u>1,915,587</u>
Compact Trust Fund:	
Common trust funds:	
Domestic Equity	1,412,465
International Equity	1,305,582
Fixed Income	963,353
Private Equity	36,257
Hedge Fund	257,356
Real Estate	517,560
Global Equity	625,425
Private Equity - diversified	414,286
Money market funds	<u>773</u>
	<u>5,533,057</u>
	\$ <u>7,448,644</u>

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

As of September 30, 2019, the State's fixed income securities, including their Moody's investors service credit ratings, had the following maturities:

Investment Type	Fair Value	Investment Maturities (In Years)				Credit Ratings
		Current	1-5	6-10	Over 10	
U.S. Treasury Notes and Bonds	\$ 51,603	\$ 5,327	\$ 22,089	\$ 5,178	\$ 19,009	Aaa
U.S. Government Agencies Obligations:						
Federal Farm Credit Union	10,135	-	4,421	5,714	-	Aaa
Federal Home Loan Bank	6,980	-	1,148	5,832	-	Aaa
Federal Home Loan Mortgage Corporation	1,351	-	13	-	1,338	Aaa
Federal National Mortgage Association	3,441	-	-	-	3,441	Aaa
Freddie Home Loan Mortgage Corporation	1,987	-	1,987	-	-	Aaa
Government National Mortgage Association	93	-	-	-	93	Aaa
Overseas Private Investment Corporation	8,085	-	-	8,085	-	Aaa
Tennessee Valley Authority	10,628	-	2,437	-	8,191	Aaa
Municipal Obligation	12,526	3,540	4,115	2,888	1,983	Aa1
Corporate Bonds	5,844	-	1,173	1,834	2,837	A1
Corporate Bonds	11,723	444	6,593	4,686	-	A2
Corporate Bonds	4,910	-	2,680	-	2,230	A3
Corporate Bonds	2,887	1,103	673	1,111	-	Aa1
Corporate Bonds	3,548	882	2,666	-	-	Aa2
Corporate Bonds	3,870	1,323	2,547	-	-	Aa3
Corporate Bonds	19,461	3,305	11,288	1,548	3,320	Aaa
Corporate Bonds	1,791	-	-	1,791	-	Ba1
Corporate Bonds	8,399	-	683	3,782	3,934	Baa1
Corporate Bonds	1,092	-	-	-	1,092	Baa2
Corporate Bonds	2,119	-	-	-	2,119	Baa3
Corporate Bonds	555	-	-	555	-	Not Listed
Corporate Bonds	<u>3,915</u>	<u>-</u>	<u>-</u>	<u>3,915</u>	<u>-</u>	No Rating
	<u>\$ 176,943</u>	<u>\$ 15,924</u>	<u>\$ 64,513</u>	<u>\$ 46,919</u>	<u>\$ 49,587</u>	

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, 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	\$ 51,568	\$ -	\$ 51,568	\$ -
U.S. Government Agencies	42,671	-	42,671	-
Municipal obligations	12,518	-	12,518	-
Corporate notes	<u>70,186</u>	<u>-</u>	<u>70,186</u>	<u>-</u>
	176,943	-	176,943	-
Equity securities:				
U.S. equities	<u>333,201</u>	<u>333,201</u>	<u>-</u>	<u>-</u>
Total investments at fair value	510,144	\$ <u>333,201</u>	\$ <u>176,943</u>	\$ <u>-</u>
Investments measured at NAV:				
Equity investment in Bank of the FSM	1,361,522			
Investments measured at amortized cost:				
Cash management account	<u>43,921</u>			
	<u>\$ 1,915,587</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	\$ 1,412,465	\$ 1,412,465	\$ -	\$ -
International Equity	1,305,582	1,305,582	-	-
Fixed Income	963,353	963,353	-	-
Private Equity	<u>36,257</u>	<u>-</u>	<u>-</u>	<u>36,257</u>
Total investments at fair value	3,717,657	\$ <u>3,681,400</u>	\$ <u>-</u>	\$ <u>36,257</u>
Investments measured at NAV:				
Hedge Fund	257,356			
Real Estate	517,560			
Global Equity	625,425			
Private Equity - diversified	414,286			
Investments measured at amortized cost:				
Money market funds	<u>773</u>			
	<u>\$ 5,533,057</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.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

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.

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.

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 "Baa1" 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.

**STATE OF KOSRAE
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 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.

The State owns 50,000 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.

Discretely Presented Component Units

Kosrae Utilities Authority (KUA):

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

Money market funds	\$ 17,487
Common equities	468,882
Fixed income	<u>260,491</u>
	\$ <u>746,860</u>

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

Kosrae Utilities Authority (KUA), Continued:

As of September 30, 2019, the fixed income securities consist of the following:

			Investment maturities		
			(In Years)		
		Fair Value	Less Than 1 Year	1 to 5 Years	6 to 10 Years
U.S. Treasury obligations	Aaa	\$ 136,241	\$ -	\$ 102,647	\$ 33,594
U.S. Government agencies	Aaa	36,046	-	36,046	-
Corporate notes	A2	25,322	-	25,322	-
Corporate notes	A3	23,885	-	-	23,885
Corporate notes	Baa1	7,189	-	7,189	-
Corporate notes	Baa2	23,808	-	6,855	16,953
Corporate notes	Baa3	<u>8,000</u>	<u>-</u>	<u>-</u>	<u>8,000</u>
		\$ 260,491	\$ -	\$ 178,059	\$ 82,432

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

	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level:				
Fixed income:				
U.S. Treasury obligations	\$ 136,241	\$ -	\$ 136,241	\$ -
U.S. Government agencies	36,046	-	36,046	-
Corporate notes	<u>88,204</u>	<u>-</u>	<u>88,204</u>	<u>-</u>
Total fixed income	<u>260,491</u>	<u>-</u>	<u>260,491</u>	<u>-</u>
Equity securities:				
U.S. equities	468,882	468,882	-	-
Non U.S. equities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>468,882</u>	<u>468,882</u>	<u>-</u>	<u>-</u>
Total investments at fair value	\$ <u>729,373</u>	\$ <u>468,882</u>	\$ <u>260,491</u>	\$ <u>-</u>
Investments measured at amortized cost:				
Money market funds	<u>17,487</u>			
	\$ <u>746,860</u>			

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(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:

	<u>General</u>	<u>Grants Assistance</u>	<u>Compact Trust</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Receivables:					
General	\$ 150,763	\$ -	\$ -	\$ 1,196,174	\$ 1,346,937
Federal agencies	-	29,459	-	-	29,459
Due from FSM National Government	3,873	353,705	-	-	357,578
Taxes	222,071	-	-	-	222,071
Loans	<u>397,500</u>	<u>395,130</u>	<u>-</u>	<u>27,834</u>	<u>820,464</u>
	774,207	778,294	-	1,224,008	2,776,509
Less: Allowance for uncollectible accounts	<u>(498,453)</u>	<u>(395,130)</u>	<u>-</u>	<u>(982,785)</u>	<u>(1,876,368)</u>
Net receivables	\$ <u>275,754</u>	\$ <u>383,164</u>	\$ <u>-</u>	\$ <u>241,223</u>	\$ <u>900,141</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.

Loans receivable of the primary government as of September 30, 2019 are as follows:

General Fund

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

Loan receivable due from Tropical Waters, Inc., uncollateralized and interest free. This loan has been fully provided for in the allowance for uncollectible accounts. \$ 30,000

\$ 397,500

Grants Assistance Fund

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

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(3) Receivables, Continued

Nonmajor Governmental Funds

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

\$ 27,834

(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>	<u>Amount</u>
Grants Assistance	General	\$ 1,103,126
Nonmajor governmental funds	General	818,711
General	Grants Assistance	66,826
General	Nonmajor governmental funds	<u>185,298</u>
		\$ <u>2,173,961</u>

(5) Capital Assets

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

Primary Government

	Balance October <u>1, 2018</u>	<u>Increases</u>	<u>Decreases</u>	Balance September <u>30, 2019</u>
Depreciable assets:				
Buildings	\$ 27,433,910	\$ -	\$ -	\$ 27,433,910
Infrastructure	44,397,384	-	-	44,397,384
Machinery, equipment, others	<u>7,812,120</u>	<u>835,300</u>	<u>-</u>	<u>8,647,420</u>
	<u>79,643,414</u>	<u>835,300</u>	<u>-</u>	<u>80,478,714</u>
Less accumulated depreciation:				
Buildings	(16,029,454)	(627,071)	-	(16,656,525)
Infrastructure	(23,785,790)	(801,732)	-	(24,587,522)
Machinery, equipment, others	<u>(5,942,252)</u>	<u>(465,446)</u>	<u>-</u>	<u>(6,407,698)</u>
	<u>(45,757,496)</u>	<u>(1,894,249)</u>	<u>-</u>	<u>(47,651,745)</u>
	\$ <u>33,885,918</u>	\$ <u>(1,058,949)</u>	\$ <u>-</u>	\$ <u>32,826,969</u>

During the year ended September 30, 2019, depreciation expense was charged as follows:

General government	\$ 74,049
Economic development	10,291
Education	544,538
Health services	107,919
Public safety	7,779
Boards, commissions and others	<u>1,149,673</u>
	\$ <u>1,894,249</u>

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(5) Capital Assets, Continued

Primary Government, Continued

During the year ended September 30, 2018, the State received a \$450,000 advance lease payment from a party that operates a Kosrae shipyard. The advance payment was used to purchase \$650,000 of capital assets from Kosrae Industrial Corporation (KIDCO), which is a related party joint venture company and recorded a related party payable of \$200,000 to the joint venture. The State received an additional \$200,000 prepayment during the current year for the same purpose from the same company and paid the remaining balance for the capital asset purchase and then liquidated the joint venture company.

Annual amortization of the lease prepayments received as of September 30, 2019, is as follows:

<u>Year ending September 30</u>	
2020	\$ 50,000
2021	50,000
2022	50,000
2023	50,000
2024	50,000
2025 – 2029	250,000
2030	<u>50,000</u>
	<u>\$ 550,000</u>

Discretely Presented Component Units

	Balance October 1, 2018	Increases	Decreases	Balance September 30, 2019
Depreciable assets:				
Buildings	\$ 12,020,369	\$ 2,000	\$ -	\$ 12,022,369
Utility plant	10,858,738	393,493	(187,696)	11,064,535
Infrastructure	37,972,012	-	-	37,992,012
Machinery, equipment, others	<u>1,078,743</u>	<u>8,320</u>	<u>-</u>	<u>1,087,063</u>
	61,929,862	403,813	(187,696)	62,145,979
Less accumulated depreciation	<u>(44,411,034)</u>	<u>(1,150,300)</u>	<u>187,696</u>	<u>(45,373,638)</u>
	17,518,828	(746,487)	-	16,772,341
Nondepreciable assets:				
Construction work-in-progress	<u>62,560</u>	<u>224,537</u>	<u>(153,848)</u>	<u>133,249</u>
	<u>\$ 17,581,388</u>	<u>\$ (521,950)</u>	<u>\$ (153,848)</u>	<u>\$ 16,905,590</u>

(6) Long-Term Obligations

Primary Government

Malem Wastewater System Project (MWSP) Loan:

The State borrowed \$145,000 from the U.S. Department of Agriculture Rural Utilities Services for the Malem Wastewater System Project, payable in annual installments of \$8,119 commencing September 28, 2001, interest at 4.5% per annum, due September 28, 2040. As of September 30, 2019, the balance payable on this loan amounted to \$96,797.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(6) Long-Term Obligations, Continued

Primary Government, Continued

Asian Development Bank (ADB) Loans:

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

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

Funds for the repayment of the ADB loan are expected to be derived from the annual appropriations for salaries and wages earmarked for the positions abolished under the Early Retirement Scheme. The Financing Agreement requires the State to continue to appropriate salaries for the abolished positions and deposit the appropriated funds into the ERS Trust Account. These funds had not been deposited to the Trust Account as of September 30, 2002. Of the required \$2,000,000 identified for future debt service payments, \$554,065 is deposited in an investment account held jointly with the FSM National Government. That investment account is restricted for the repayment of this debt. As of September 30, 2019, the balance payable on this loan amounted to \$1,402,363.

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 \$31,517.

The State also entered into an agreement with the FSM National Government to borrow a portion of the proceeds of the FSM National Government Program Loans with ADB (Loan Number 1873 (SF) and Loan Number 1874 FSM (SF)) for the purpose of promoting private sector development in Kosrae, with interest at 1% to 1.5% per annum. Principal payments shall be made in 32 equal semi-annual payments with the first payment due on May 15, 2010 and the last payment on November 15, 2025. As of September 30, 2019, the balances payable on these loans amounted to \$279,751 and \$325,836, respectively.

The State also entered into an agreement with the FSM National Government to borrow a portion of the proceeds of the FSM National Government Program Loan with ADB (Loan Number 2099 FSM (SF)) for the purpose of funding the Omnibus Infrastructure Development Project, with interest at 1% to 1.5% per annum. Principal payments shall be made semiannually commencing 2013, with a maturity date of 2037. As of September 30, 2019, the balance payable on this loan amounted to \$1,436,011.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(6) Long-Term Obligations, Continued

Primary Government, Continued

Asian Development Bank (ADB) Loans, Continued:

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	\$ 240,923	\$ 37,429	\$ 278,352
2021	241,092	34,996	276,088
2022	241,269	32,555	273,824
2023	241,454	30,106	271,560
2024	241,648	27,648	269,296
2025 – 2029	1,051,037	103,193	1,154,230
2030 – 2034	973,117	51,185	1,024,302
2035 – 2038	<u>341,735</u>	<u>7,188</u>	<u>348,923</u>
	\$ <u>3,572,275</u>	\$ <u>324,300</u>	\$ <u>3,896,575</u>

(7) Change in Long-Term Obligations

Primary Government

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

	<u>Balance October 1, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2019</u>	<u>Due Within One Year</u>
Loans payable:					
ADB loans:					
Loan 1520	\$ 1,512,826	\$ -	\$ (110,463)	\$ 1,402,363	\$ 79,685
Loan 1816	56,656	-	(25,139)	31,517	2480
Loan 1873	335,932	-	(56,181)	279,751	44,017
Loan 1874	385,025	-	(59,189)	325,836	22,982
Loan 2099	<u>1,610,069</u>	<u>-</u>	<u>(174,058)</u>	<u>1,436,011</u>	<u>87,996</u>
	3,900,508	-	(425,030)	3,475,478	237,160
MWSP loan	<u>100,338</u>	<u>-</u>	<u>(3,541)</u>	<u>96,797</u>	<u>3,763</u>
	<u>4,000,846</u>	<u>-</u>	<u>(428,571)</u>	<u>3,572,275</u>	<u>240,923</u>
	\$ <u>4,000,846</u>	\$ <u>-</u>	\$ <u>(428,571)</u>	\$ <u>3,572,275</u>	\$ <u>240,923</u>

When the ADB extends credit to a particular country, the loan is issued 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 \$108,202 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.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(8) Fund Balances

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

	General <u>Fund</u>	Grants Assistance <u>Fund</u>	Compact Trust <u>Fund</u>	Nonmajor <u>Funds</u>	Total Governmental <u>Funds</u>
Non-spendable:					
General government	\$ 51,230	\$ -	\$ -	\$ -	\$ 51,230
Pacific Islands Development Bank	627,000	100,000	-	93,000	820,000
Bank of the FSM	1,361,522	-	-	-	1,361,522
Permanent fund principal	-	-	5,533,057	-	5,533,057
Restricted for:					
General government	-	467,936	-	-	467,936
Debt service	554,065	-	-	-	554,065
Capital projects	-	48,979	-	47,281	96,260
Scholarships	-	-	-	399,960	399,960
Committed for:					
Health services	-	-	-	557,017	557,017
Economic development	-	-	-	38,039	38,039
Board, commissioners, others	-	-	-	214,306	214,306
Unassigned	<u>(621,010)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(621,010)</u>
	<u>\$ 1,972,807</u>	<u>\$ 616,915</u>	<u>\$ 5,533,057</u>	<u>\$ 1,349,603</u>	<u>\$ 9,472,382</u>

(9) Commitments and Contingencies

Encumbrances

The State utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2019, the State has significant encumbrances summarized as follows:

	<u>General</u>	<u>Grants Assistance</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Encumbrances	\$ <u>133,653</u>	\$ <u>4,201,689</u>	\$ <u>148,368</u>	\$ <u>4,483,710</u>

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 \$634,968.

Insurance Coverage

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

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(9) Commitments and Contingencies, Continued

Federal Grants

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

Litigation

The State is party to numerous legal proceedings, many of which are normal recurrences in governmental operations. The State's Attorney General is of the opinion that the probable outcome of suits existing at September 30, 2019, is not predictable. No provision for any liability has been made in the accompanying financial statements because management believes that no unfavorable outcome is likely to occur.

Other

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

(10) Budgetary Compliance

For the year ended September 30, 2019, significant over-expenditures exceeded appropriations within the General Fund for the following:

Debt service	\$ 390,821
--------------	------------

These over-expenditures of the General Fund have not been funded by legislative authorization.

(11) 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 22, 2020, there have been no confirmed cases of COVID-19 in the FSM. 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 KOSRAE
FEDERATED STATES OF MICRONESIA**

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

YEAR ENDED SEPTEMBER 30, 2019

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA

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

	<u>Budgeted Amounts</u>		Actual - Bugetary Basis	Variance with
	<u>Original</u>	<u>Final</u>	<u>(see Note 1)</u>	<u>Final Budget -</u>
Revenues:				
FSM revenue sharing	\$ 1,134,658	\$ 1,134,658	\$ 1,225,986	\$ 91,328
State taxes	408,961	408,961	455,873	46,912
Licenses and fees	167,520	167,520	264,046	96,526
Net change in fair value of investments	-	-	166,255	166,255
Interest and dividends	-	-	69,150	69,150
Other	<u>288,861</u>	<u>288,861</u>	<u>34,785</u>	<u>(254,076)</u>
Total revenues	<u>2,000,000</u>	<u>2,000,000</u>	<u>2,216,095</u>	<u>216,095</u>
Expenditures:				
Current:				
General government	626,516	932,609	864,575	68,034
Education	13,161	14,691	14,480	211
Public order and safety	175,529	300,190	282,571	17,619
Economic development	163,547	229,033	226,597	2,436
Boards, commissions and other	<u>290,820</u>	<u>451,301</u>	<u>863,541</u>	<u>(412,240)</u>
Total expenditures	<u>1,269,573</u>	<u>1,927,824</u>	<u>2,251,764</u>	<u>(323,940)</u>
Deficiency of revenues under expenditures	<u>730,427</u>	<u>72,176</u>	<u>(35,669)</u>	<u>(107,845)</u>
Net change in fund balance	730,427	72,176	(35,669)	(107,845)
Encumbrances	68,978	68,978	54,106	(14,872)
Fund balance at the beginning of the year	<u>1,954,370</u>	<u>1,954,370</u>	<u>1,954,370</u>	<u>-</u>
Fund balance at the end of the year	<u>\$ 2,753,775</u>	<u>\$ 2,095,524</u>	<u>\$ 1,972,807</u>	<u>\$ (122,717)</u>

See Accompanying Independent Auditors' Report and Notes to Required Supplementary Information - Budgetary Reporting.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

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

(1) Budgetary Information

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

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

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

See Accompanying Independent Auditors' Report.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2019

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

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

		Special Revenue	Permanent		
	General	Grants Assistance	Compact Trust	Other Governmental Funds	Total
Expenditures:					
Salaries and wages:					
Regular	\$ 1,053,104	\$ 3,586,679	\$ -	\$ 543,526	\$ 5,183,309
Overtime	32,827	192,826	-	-	225,653
Fringe benefits	129,609	457,716	-	77,141	664,466
Other personnel costs	-	2,273	-	-	2,273
Travel and transportation	99,248	366,898	-	62,789	528,935
Communications	56,721	72,161	-	-	128,882
Dues, membership, and subscriptions	13,225	8,431	-	-	21,656
Food stuffs	16,336	20,242	-	-	36,578
Port charges	-	683	-	-	683
Office supplies and materials	89,613	810,561	-	72,330	972,504
POL	30,023	90,733	-	8,982	129,738
Printing and reproduction	3,038	12,704	-	-	15,742
Rental services	2,105	12,611	-	-	14,716
Repairs and maintenance	1,557	12,398	-	-	13,955
Utilities	107,279	345,644	-	399	453,322
Subsidies and contributions	28,000	-	-	45,000	73,000
Medical supplies	-	319,852	-	956	320,808
Contractual services	60,695	1,421,689	-	332,013	1,814,397
Professional services	-	67,237	-	-	67,237
Scholarships and allowances	860	204,113	-	-	204,973
Training	20,741	167,240	-	-	187,981
Leased housing, buildings and land	11,590	151,279	-	-	162,869
Nonpayroll compensation	2,410	-	-	-	2,410
Equipment	5,464	953,057	-	30,305	988,826
Principal repayment	320,369	-	-	-	320,369
Interest payments	70,452	-	-	-	70,452
Miscellaneous	42,392	55,421	-	1,544	99,357
	<u>\$ 2,197,658</u>	<u>\$ 9,332,448</u>	<u>\$ -</u>	<u>\$ 1,174,985</u>	<u>\$ 12,705,091</u>

See Accompanying Independent Auditors' Report.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures by Function,
and Changes in Fund Balance
General Fund
Year Ended September 30, 2019
(with comparative totals for the year ended September 30, 2018)

	2019	2018
Revenues:		
FSM revenue sharing:		
Gross revenue taxes	\$ 350,612	\$ 342,350
Import taxes	398,905	375,255
Income taxes	386,313	380,665
Other taxes	90,156	98,029
	<u>1,225,986</u>	<u>1,196,299</u>
State taxes:		
Sales tax	<u>455,873</u>	<u>420,843</u>
Fees and charges:		
Licenses and fees	<u>264,046</u>	<u>464,504</u>
Net change in fair value of investments	<u>166,255</u>	<u>141,068</u>
Interest and dividend income	<u>69,150</u>	<u>57,002</u>
Contribution from the FSM National Government	<u>-</u>	<u>503,905</u>
Other	<u>34,785</u>	<u>61,374</u>
Total revenues	<u>2,216,095</u>	<u>2,844,995</u>
Expenditures:		
Current:		
General government:		
Office of the Governor	110,054	158,254
Department of Administration and Finance	88,972	95,598
Judiciary Branch	109,520	169,762
Legislative Branch	439,456	614,894
Public Auditor	67,111	-
Election	<u>28,121</u>	<u>12,833</u>
	<u>843,234</u>	<u>1,051,341</u>
Economic development:		
Resources and Economic Affairs	<u>226,267</u>	<u>46,555</u>
Education:		
Scholarship board	<u>12,505</u>	<u>25,115</u>
Public order and safety:		
Office of the Attorney General	268,137	335,004
Parole board	<u>300</u>	<u>340</u>
	<u>268,437</u>	<u>335,344</u>
Boards, Commissions and Other:		
Department of Transportation and Infrastructure	148,584	245,745
Kosrae Island Resource Management Authority	98,242	-
Broadcast Authority	34,699	51,476
Sports Council	11,759	18,420
RM Small Business Development Center	30,557	5,811
Land Court	69,948	133,604
Municipal governments	21,000	19,949
Micro Games	-	56,347
Kosrae Visitor's Bureau	29,735	-
Other	<u>11,870</u>	<u>21,808</u>
	<u>456,394</u>	<u>553,160</u>

See Accompanying Independent Auditors' Report.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures by Function,
and Changes in Fund Balance, Continued
General Fund
Year Ended September 30, 2019
(with comparative totals for the year ended September 30, 2018)

	<u>2019</u>	<u>2018</u>
Expenditures, continued:		
Debt service:		
Principal payments	320,369	328,515
Interest charges	<u>70,452</u>	<u>83,210</u>
	<u>390,821</u>	<u>411,725</u>
Total expenditures	<u>2,197,658</u>	<u>2,423,240</u>
Excess (deficiency) of revenues over (under) expenditures	<u>18,437</u>	<u>421,755</u>
Special items		
Write off of receivables	<u>-</u>	<u>(38,041)</u>
Other financing sources:		
Operating transfers out	<u>-</u>	<u>(2,977)</u>
	<u>-</u>	<u>(2,977)</u>
Net change in fund balance	18,437	380,737
Fund balance at the beginning of the year	<u>1,954,370</u>	<u>1,573,633</u>
Fund balance at the end of the year	<u>\$ 1,972,807</u>	<u>\$ 1,954,370</u>

See Accompanying Independent Auditors' Report.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures by Function,
and Changes in Fund Balance - Budget and Actual
General Fund
Year Ended September 30, 2019

	Budgeted Amounts		Actual Amounts - Budgetary Basis	Variance
	Original	Final		
Revenues:				
FSM revenue sharing:	\$ 1,134,658	\$ 1,134,658	\$ 1,225,986	\$ 91,328
State taxes:				
Sales tax	408,961	408,961	455,873	46,912
Fees and charges:				
Licences and fees	167,520	167,520	264,046	96,526
Net change in fair value of investments	-	-	166,255	166,255
Interest and dividend income	-	-	69,150	69,150
Other:				
Other	288,861	288,861	34,785	(254,076)
Total revenues	2,000,000	2,000,000	2,216,095	216,095
Expenditures:				
Current:				
General government:				
Office of the Governor	74,754	107,199	111,910	(4,711)
Department of Administration and Finance	57,369	82,914	89,333	(6,419)
Judiciary Branch	166,463	233,414	123,105	110,309
Legislative Branch	291,061	440,459	443,695	(3,236)
Public Auditor	36,869	68,623	68,411	212
Election	-	-	28,121	(28,121)
	626,516	932,609	864,575	68,034
Education:				
Scholarship board	13,161	14,691	14,480	211
Public order and safety:				
Office of the Attorney General	175,154	299,815	282,271	17,544
Parole board	375	375	300	75
	175,529	300,190	282,571	17,619
Economic development:				
Resources and Economic Affairs	163,547	229,033	226,597	2,436
	163,547	229,033	226,597	2,436
Boards, commissions and other:				
Department of Transportation and Infrastructure	134,310	168,675	149,635	19,040
Kosrae Island Resource Management Authority	82,291	165,079	101,554	63,525
Broadcast Authority	27,433	35,283	34,699	584
Sports Council	13,200	17,833	13,232	4,601
Small Business Development Center	20,248	31,232	30,731	501
Land Court	-	14,161	69,948	(55,787)
Municipal governments	-	-	21,000	(21,000)
Micro Games	-	5,700	-	5,700
Kosrae Visitor's Bureau	13,338	13,338	40,051	(26,713)
Other	-	-	11,870	(11,870)
Debt Service:				
Principal payments	-	-	320,369	(320,369)
Interest charges	-	-	70,452	(70,452)
	290,820	451,301	863,541	(412,240)
Total expenditures	1,269,573	1,927,824	2,251,764	(323,940)
Deficiency of revenues under expenditures	730,427	72,176	(35,669)	(107,845)
Net change in fund balance	730,427	72,176	(35,669)	(107,845)
Encumbrances	68,978	68,978	54,106	(14,872)
Fund balances at the beginning of the year	1,954,370	1,954,370	1,954,370	-
Fund balance at the end of the year	\$ 2,753,775	\$ 2,095,524	\$ 1,972,807	\$ (122,717)

See Accompanying Independent Auditors' Report.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA

NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

Combining Balance Sheet
September 30, 2019

	Scholarship Revolving Loan	Production and Development Loan	Health Care	Sports Council	Broadcasting Authority	Aluminum Recycling	CFSM Grants	Gifford Scholarship	Land Administration	Total
<u>ASSETS</u>										
Receivables:										
General	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 241,223	\$ -	\$ -	\$ 241,223
Due from other funds	9,924	12,213	566,319	633	10,331	193,418	-	-	25,873	818,711
Prepaid items	-	5	1,758	-	-	-	26	-	-	1,789
Other assets	-	-	-	-	-	-	93,000	-	-	93,000
Restricted:										
Cash and equivalents	-	-	-	-	-	-	-	42,013	-	42,013
Time certificates of deposit	-	-	-	-	-	-	-	357,947	-	357,947
Total assets	<u>\$ 9,924</u>	<u>\$ 12,218</u>	<u>\$ 568,077</u>	<u>\$ 633</u>	<u>\$ 10,331</u>	<u>\$ 193,418</u>	<u>\$ 334,249</u>	<u>\$ 399,960</u>	<u>\$ 25,873</u>	<u>\$ 1,554,683</u>
<u>LIABILITIES AND FUND</u>										
<u>BALANCES</u>										
Liabilities:										
Accounts payable	\$ -	\$ 52	\$ 11,060	\$ -	\$ -	\$ -	\$ 7,858	\$ -	\$ -	\$ 18,970
Other liabilities and accruals	-	-	-	-	-	-	779	-	-	779
Due to other funds	-	-	-	-	-	-	185,298	-	-	185,298
Unearned revenue	-	-	-	-	-	-	33	-	-	33
Total liabilities	<u>-</u>	<u>52</u>	<u>11,060</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>193,968</u>	<u>-</u>	<u>-</u>	<u>205,080</u>
Fund balances:										
Non-spendable	-	-	-	-	-	-	93,000	-	-	93,000
Restricted	-	-	-	-	-	-	47,281	399,960	-	447,241
Committed	9,924	12,166	557,017	633	10,331	193,418	-	-	25,873	809,362
Total fund balances	<u>9,924</u>	<u>12,166</u>	<u>557,017</u>	<u>633</u>	<u>10,331</u>	<u>193,418</u>	<u>140,281</u>	<u>399,960</u>	<u>25,873</u>	<u>1,349,603</u>
Total liabilities and fund balances	<u>\$ 9,924</u>	<u>\$ 12,218</u>	<u>\$ 568,077</u>	<u>\$ 633</u>	<u>\$ 10,331</u>	<u>\$ 193,418</u>	<u>\$ 334,249</u>	<u>\$ 399,960</u>	<u>\$ 25,873</u>	<u>\$ 1,554,683</u>

See Accompanying Independent Auditors' Report.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

**NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS**

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

	Scholarship Revolving Loan	Production and Development Loan	Health Care	Sports Council	Broadcasting Authority	Aluminum Recycling	CFSM Grants	Gifford Scholarship	Land Administration	Total
Revenues:										
Fees and charges	\$ -	\$ 9,448	\$ 202,951	\$ 99	\$ 754	\$ 98,201	\$ -	\$ -	\$ -	\$ 311,453
CFSM grants	-	-	-	-	-	-	1,066,636	-	-	1,066,636
Interest income	-	6	76	-	-	52	-	1,952	-	2,086
Other revenues	4,448	-	-	-	-	-	-	-	-	4,448
Total revenues	4,448	9,454	203,027	99	754	98,253	1,066,636	1,952	-	1,384,623
Expenditures by function:										
Current:										
General Government	-	-	-	-	-	-	861,498	-	-	861,498
Economic development	-	12,375	-	-	-	-	97,909	-	-	110,284
Health services	-	-	55,381	-	-	-	-	-	-	55,381
Boards, commissions and other	-	-	-	-	-	40,593	107,229	-	-	147,822
Total expenditures	-	12,375	55,381	-	-	40,593	1,066,636	-	-	1,174,985
Excess of revenues over expenditures	4,448	(2,921)	147,646	99	754	57,660	-	1,952	-	209,638
Fund balances at the beginning of the year	5,476	15,087	409,371	534	9,577	135,758	140,281	398,008	25,873	1,139,965
Fund balances at the end of the year	\$ 9,924	\$ 12,166	\$ 557,017	\$ 633	\$ 10,331	\$ 193,418	\$ 140,281	\$ 399,960	\$ 25,873	\$ 1,349,603

See Accompanying Independent Auditors' Report.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA

NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

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

	Scholarship Revolving Loan	Production and Development Loan	Health Care	Sports Council	Broadcasting Authority	Aluminum Recycling	CFSM Grants	Gifford Scholarship	Land Administration	Total
Revenues:										
Fees and charges	\$ -	\$ 9,448	\$ 202,951	\$ 99	\$ 754	\$ 98,201	\$ -	\$ -	\$ -	\$ 311,453
CFSM Grants	-	-	-	-	-	-	1,066,636	-	-	1,066,636
Interest income	-	6	76	-	-	52	-	1,952	-	2,086
Other revenues	<u>4,448</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,448</u>
Total revenues	<u>4,448</u>	<u>9,454</u>	<u>203,027</u>	<u>99</u>	<u>754</u>	<u>98,253</u>	<u>1,066,636</u>	<u>1,952</u>	<u>-</u>	<u>1,384,623</u>
Expenditures by account:										
Salaries and wages:										
Regular	-	-	-	-	-	-	543,526	-	-	543,526
Fringe benefits	-	-	-	-	-	-	77,141	-	-	77,141
Travel and transportation	-	-	43,151	-	-	-	19,638	-	-	62,789
Food stuffs	-	-	-	-	-	-	-	-	-	-
Office supplies and materials	-	3,978	4,585	-	-	40,012	23,755	-	-	72,330
POL	-	-	-	-	-	-	8,982	-	-	8,982
Contractual services	-	7,494	6,689	-	-	-	317,830	-	-	332,013
Utilities	-	-	-	-	-	-	399	-	-	399
Medical supplies	-	-	956	-	-	-	-	-	-	956
Equipment	-	-	-	-	-	-	30,305	-	-	30,305
Payment to component unit	-	-	-	-	-	-	-	-	-	-
Subsidies and contributions	-	-	-	-	-	-	45,000	-	-	45,000
Miscellaneous	<u>-</u>	<u>903</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>581</u>	<u>60</u>	<u>-</u>	<u>-</u>	<u>1,544</u>
Total expenditures	<u>-</u>	<u>12,375</u>	<u>55,381</u>	<u>-</u>	<u>-</u>	<u>40,593</u>	<u>1,066,636</u>	<u>-</u>	<u>-</u>	<u>1,174,985</u>
Excess of revenues over expenditures	4,448	(2,921)	147,646	99	754	57,660	-	1,952	-	209,638
Fund balances at the beginning of the year	<u>5,476</u>	<u>15,087</u>	<u>409,371</u>	<u>534</u>	<u>9,577</u>	<u>135,758</u>	<u>140,281</u>	<u>398,008</u>	<u>25,873</u>	<u>1,139,965</u>
Fund balances at the end of the year	<u>\$ 9,924</u>	<u>\$ 12,166</u>	<u>\$ 557,017</u>	<u>\$ 633</u>	<u>\$ 10,331</u>	<u>\$ 193,418</u>	<u>\$ 140,281</u>	<u>\$ 399,960</u>	<u>\$ 25,873</u>	<u>\$ 1,349,603</u>

See Accompanying Independent Auditors' Report.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

GRANTS ASSISTANCE FUND

Combining Balance Sheet
September 30, 2019

	Section 211(a)(1) Education Sector	Section 211(a)(2) Health Sector	Section 211(a)(3) Private Sector Development	Section 211(a)(4) Capacity Building	Section 211(a)(5) Environment	Section 211(a)(6) Infrastructure
<u>ASSETS</u>						
Receivables:						
FSM National Government	\$ 174,183	\$ 2,403	\$ -	\$ -	\$ 38,841	\$ 43,871
Federal agencies	-	-	-	-	-	-
Advances	-	6,949	1,271	3,804	-	2,840
Prepayments	30	8,650	20,936	-	-	-
Due from other funds	223,385	-	38,823	35,688	91,692	119,123
Other assets	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 397,598</u>	<u>\$ 18,002</u>	<u>\$ 61,030</u>	<u>\$ 39,492</u>	<u>\$ 130,533</u>	<u>\$ 165,834</u>
<u>LIABILITIES AND FUND BALANCES</u>						
Liabilities:						
Accounts payable	\$ 29,047	\$ 17,121	\$ 817	\$ 324	\$ 113,841	\$ 1
Other liabilities and accruals	64,556	54,862	-	1,304	-	3,671
Due to other funds	-	12,098	-	-	-	-
Unearned revenues	<u>303,995</u>	<u>(66,079)</u>	<u>60,213</u>	<u>37,864</u>	<u>16,692</u>	<u>113,183</u>
Total liabilities	<u>397,598</u>	<u>18,002</u>	<u>61,030</u>	<u>39,492</u>	<u>130,533</u>	<u>116,855</u>
Fund balances:						
Non-spendable	-	-	-	-	-	-
Restricted	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>48,979</u>
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>48,979</u>
Total liabilities and fund balances	<u>\$ 397,598</u>	<u>\$ 18,002</u>	<u>\$ 61,030</u>	<u>\$ 39,492</u>	<u>\$ 130,533</u>	<u>\$ 165,834</u>

See Accompanying Independent Auditors' Report.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

GRANTS ASSISTANCE FUND

Combining Balance Sheet, Continued
September 30, 2019

	Section 211(a)(7) Supplemental Education	Enhanced Reporting Accountability	U.S. Federal Grants	Foreign Assistance	Total
<u>ASSETS</u>					
Receivables:					
FSM National Government	\$ -	\$ 1,968	\$ 92,439	\$ -	\$ 353,705
Federal agencies	-	-	29,459	-	29,459
Advances	3,039	-	11,209	-	29,112
Prepayments	454	-	9,429	-	39,499
Due from other funds	96,272	4,251	25,956	467,936	1,103,126
Other assets	-	-	-	100,000	100,000
	<u>-</u>	<u>-</u>	<u>-</u>	<u>100,000</u>	<u>100,000</u>
Total assets	<u>\$ 99,765</u>	<u>\$ 6,219</u>	<u>\$ 168,492</u>	<u>\$ 567,936</u>	<u>\$ 1,654,901</u>
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Accounts payable	\$ 69,544	\$ -	\$ 27,716	\$ -	\$ 258,411
Other liabilities and accruals	7,243	8,079	27,770	-	167,485
Due to other funds	-	-	54,728	-	66,826
Unearned revenues	<u>22,978</u>	<u>(1,860)</u>	<u>58,278</u>	<u>-</u>	<u>545,264</u>
Total liabilities	<u>99,765</u>	<u>6,219</u>	<u>168,492</u>	<u>-</u>	<u>1,037,986</u>
Fund balances:					
Non-spendable	-	-	-	100,000	100,000
Restricted	<u>-</u>	<u>-</u>	<u>-</u>	<u>467,936</u>	<u>516,915</u>
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>567,936</u>	<u>616,915</u>
Total liabilities and fund balances	<u>\$ 99,765</u>	<u>\$ 6,219</u>	<u>\$ 168,492</u>	<u>\$ 567,936</u>	<u>\$ 1,654,901</u>

See Accompanying Independent Auditors' Report.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

GRANTS ASSISTANCE FUND

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

	Section 211(a)(1) Education Sector	Section 211(a)(2) Health Sector	Section 211(a)(3) Private Sector Development	Section 211(a)(4) Capacity Building	Section 211(a)(5) Environment	Section 211(a)(6) Infrastructure
Revenues:						
Compact funding	\$ 2,889,134	\$ 2,416,542	\$ 238,956	\$ 118,174	\$ 246,868	\$ 349,795
Federal contributions	-	-	-	-	-	-
Other grants	-	-	-	-	-	-
Total revenues	<u>2,889,134</u>	<u>2,416,542</u>	<u>238,956</u>	<u>118,174</u>	<u>246,868</u>	<u>349,795</u>
Expenditures by function:						
Current:						
General government	-	-	-	118,174	-	349,795
Economic development	-	-	238,956	-	-	-
Education	2,889,134	-	-	-	-	-
Health services	-	2,416,542	-	-	-	-
Environment protection and sanitation	-	-	-	-	246,868	-
Total expenditures	<u>2,889,134</u>	<u>2,416,542</u>	<u>238,956</u>	<u>118,174</u>	<u>246,868</u>	<u>349,795</u>
Excess of revenues over expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	-	-	-	-	-	-
Fund balances at the beginning of the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>48,979</u>
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,979</u>

See Accompanying Independent Auditors' Report.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

GRANTS ASSISTANCE FUND

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

	Section 211(a)(7) Supplemental Education	Enhanced Reporting Accountability	U.S. Federal Grants	Foreign Assistance	Total
Revenues:					
Compact funding	\$ 1,073,803	\$ 189,188	\$ -	\$ -	\$ 7,522,460
Federal contributions	-	-	1,724,878	-	1,724,878
Other grants	-	-	-	-	-
Total revenues	<u>1,073,803</u>	<u>189,188</u>	<u>1,724,878</u>	<u>-</u>	<u>9,247,338</u>
Expenditures by function:					
Current:					
General government	-	189,188	211,058	85,110	953,325
Economic development	-	-	-	-	238,956
Education	1,073,803	-	508,898	-	4,471,835
Health services	-	-	1,004,922	-	3,421,464
Environment protection and sanitation	-	-	-	-	246,868
Total expenditures	<u>1,073,803</u>	<u>189,188</u>	<u>1,724,878</u>	<u>85,110</u>	<u>9,332,448</u>
Excess of revenues over expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>(85,110)</u>	<u>(85,110)</u>
Net change in fund balances	-	-	-	(85,110)	(85,110)
Fund balances at the beginning of the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>653,046</u>	<u>702,025</u>
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 567,936</u>	<u>\$ 616,915</u>

See Accompanying Independent Auditors' Report.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

GRANTS ASSISTANCE FUND

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

	Section 211(a)(1) Education Sector	Section 211(a)(2) Health Sector	Section 211(a)(3) Private Sector Development	Section 211(a)(4) Capacity Building	Section 211(a)(5) Environment	Section 211(a)(6) Infrastructure
Revenues:						
Compact funding	\$ 2,889,134	\$ 2,416,542	\$ 238,956	\$ 118,174	\$ 246,868	\$ 349,795
Federal contributions	-	-	-	-	-	-
Other grants	-	-	-	-	-	-
Total revenues	<u>2,889,134</u>	<u>2,416,542</u>	<u>238,956</u>	<u>118,174</u>	<u>246,868</u>	<u>349,795</u>
Expenditures by account:						
Salaries and wages:						
Regular	1,409,234	937,344	(1,805)	110	-	49,585
Overtime	-	190,540	-	-	-	-
Fringe benefits	184,670	115,051	-	14	-	4,427
Other personnel costs	-	-	-	-	-	-
Travel and transportation	-	44,758	2,107	7,271	1,002	9,040
Communications	20,488	6,508	26	190	1,174	349
Dues, membership, and subscriptions	-	1,130	-	-	-	-
Food stuffs	1,974	18,268	-	-	-	-
Port charges	-	630	-	-	-	-
Office supplies and materials	291,244	56,107	17,344	690	56,539	2,339
POL	36,119	9,894	1,852	-	2,961	368
Printing and reproduction	60	-	-	-	-	3,414
Rental services	224	1,629	-	-	474	1,024
Repairs and maintenance	2,521	500	-	-	337	-
Utilities	82,819	203,007	233	-	-	2,400
Medical referral	-	-	-	-	-	-
Medical supplies	-	288,190	-	-	-	-
Contractual services	134,890	111,337	219,199	6,139	184,381	276,252
Professional services	-	6,811	-	60,426	-	-
Scholarships and allowances	201,853	100	-	-	-	-
Training	-	30,616	-	27,797	-	-
Leased housing, buildings and land	14,516	38,500	-	12,338	-	597
Equipment	493,976	352,950	-	3,199	-	-
Miscellaneous	14,546	2,672	-	-	-	-
Total expenditures	<u>2,889,134</u>	<u>2,416,542</u>	<u>238,956</u>	<u>118,174</u>	<u>246,868</u>	<u>349,795</u>
Excess of revenues over expenditures	-	-	-	-	-	-
Net change in fund balances	-	-	-	-	-	-
Fund balances at the beginning of the year	-	-	-	-	-	48,979
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,979</u>

See Accompanying Independent Auditors' Report.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

GRANTS ASSISTANCE FUND

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

	Section 211(a)(7) Supplemental Education	Enhanced Reporting Accountability	U.S. Federal Grants	Foreign Assistance	Total
Compact funding	\$ 1,073,803	\$ 189,188	\$ -	\$ -	\$ 7,522,460
Federal contributions	-	-	1,724,878	-	1,724,878
Other grants	-	-	-	-	-
Total revenues	<u>1,073,803</u>	<u>189,188</u>	<u>1,724,878</u>	<u>-</u>	<u>9,247,338</u>
Expenditures by account:					
Salaries and wages:					
Regular	154,841	166,495	870,875	-	3,586,679
Overtime	-	2,286	-	-	192,826
Fringe benefits	19,139	20,407	114,008	-	457,716
Other personnel costs	-	-	2,273	-	2,273
Travel and transportation	45,990	-	256,730	-	366,898
Communications	17,632	-	25,794	-	72,161
Dues, membership, and subscriptions	-	-	7,301	-	8,431
Food stuffs	-	-	-	-	20,242
Port charges	53	-	-	-	683
Office supplies and materials	291,683	-	94,615	-	810,561
POL	19,218	-	20,321	-	90,733
Printing and reproduction	-	-	9,230	-	12,704
Rental services	2,691	-	6,569	-	12,611
Repairs and maintenance	191	-	8,849	-	12,398
Utilities	34,985	-	22,200	-	345,644
Medical referral	-	-	-	-	-
Medical supplies	-	-	31,662	-	319,852
Contractual services	298,840	-	105,541	85,110	1,421,689
Professional services	-	-	-	-	67,237
Scholarships and allowances	-	-	2,160	-	204,113
Training	106,020	-	2,807	-	167,240
Leased housing, buildings and land	15,665	-	69,663	-	151,279
Equipment	62,155	-	40,777	-	953,057
Miscellaneous	4,700	-	33,503	-	55,421
Total expenditures	<u>1,073,803</u>	<u>189,188</u>	<u>1,724,878</u>	<u>85,110</u>	<u>9,332,448</u>
Excess of revenues over expenditures	-	-	-	(85,110)	(85,110)
Net change in fund balances	-	-	-	(85,110)	(85,110)
Fund balances at the beginning of the year	-	-	-	653,046	702,025
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 567,936</u>	<u>\$ 616,915</u>

See Accompanying Independent Auditors' Report.

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

Honorable Carson K. Sigrah
Governor, State of Kosrae
Federated States of Micronesia:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Kosrae (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 22, 2020.

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 Kosrae Port Authority, the Kosrae Utilities Authority, and the Kosrae Housing Authority, 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.

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

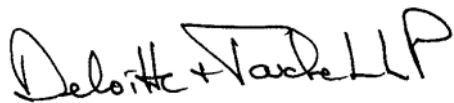
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

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 + Tatch LLP". The signature is stylized, with the "D" being large and the "LLP" being written in a cursive-like font.

December 22, 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 Carson K. Sigrah
Governor, State of Kosrae
Federated States of Micronesia:

Report on Compliance for the Sole Major Federal Program

We have audited the State of Kosrae'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 the State's sole major federal program for the year ended September 30, 2019. The State's sole major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

As discussed in note 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 the State's sole major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 opinion on compliance for the sole major federal program. However, our audit does not provide a legal determination of the State's compliance.

Opinion on the Sole 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 sole major federal programs for the year ended September 30, 2019.

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 the sole major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the sole 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.

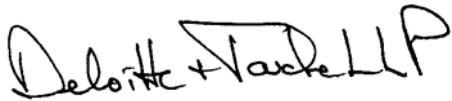
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of 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, each major fund, and the aggregate remaining fund information 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 22, 2020, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by 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 + Tatchell LLP". The signature is stylized, with the "D" and "T" being particularly large and prominent.

December 22, 2020

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA

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

<u>Agency</u>	<u>Expenditures</u>
U.S. Department of Agriculture	\$ 69,243
U.S. Department of the Interior	7,697,817
U.S. Department of Education	508,898
U.S. Department of Health and Human Services	<u>997,866</u>
GRAND TOTAL	\$ <u><u>9,273,824</u></u>
Reconciliation to the basic financial statements:	
Grants Assistance Fund expenditures	\$ 9,332,448
Less:	
Foreign Assistance Fund expenditures	<u>(58,624)</u>
	\$ <u><u>9,273,824</u></u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE:			
Direct Programs:			
Cooperative Forestry Assistance	10.664		22,527
Urban and Community Forestry Program	10.675		5,695
Forest Legacy Program	10.676		3,335
Forest Stewardship Program	10.678		<u>37,686</u>
Total U.S. Department of Agriculture			<u>\$ 69,243</u>
U.S. DEPARTMENT OF THE INTERIOR:			
Pass-Through From the FSM National Government:		A3	
Economic, Social and Political Development of the Territories:			
Compact of Free Association Sector Grants:	15.875		
Compact II Education Sector			\$ 2,889,528
Compact II Health Sector			2,416,542
Compact II Private Sector Development			238,956
Compact II Capacity Building			118,174
Compact II Environment			246,868
Compact II Infrastructure Sector			349,795
Supplemental Education Grant			1,073,803
Compact II Enhanced Reporting Accountability			189,188
Public Auditor Grant Fund			26,127
Historic Preservation Fund Grants-In Aid	15.904		<u>148,836</u>
Total U.S. Department of the Interior			<u>\$ 7,697,817</u>
U.S. DEPARTMENT OF EDUCATION:			
Pass-Through From the FSM National Government:		A3	
Special Education Cluster (IDEA):			
Special Education - Grants to States	84.027A		<u>\$ 508,898</u>
Total Special Education Cluster (IDEA) and			
Total U.S. Department of Education			<u>\$ 508,898</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-Through From the FSM National Government:		A3	
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092		\$ 29,126
Maternal and Child Health Federal Consolidated Programs	93.110		10,532
Project Grants and Cooperative Agreements for Tuberculosis			
Control Programs	93.116		19,154
Family Planning - Services	93.217		41,767
Health Center Program Cluster:			
Health Center Program (Community Health Centers, MHC, HCH and PHPC)	93.224		<u>586,831</u>
Subtotal Health Center Program Cluster			586,831
Grants to States to Support Oral health Workforce Activities	93.236		-
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243		91,509
Universal Newborn Hearing Screening	93.251		-
Immunization Cooperative Agreements	93.268		51,039
Centers for Disease Control and Prevention_Investigations and Technical Assistance	93.283		-
EHID-IS Surveillance Program	93.314		-
PPHF: Racial and Ethnic Approaches to Community Health Program Financed Solely By Public Prevention And Health Funds	93.738		364
Preventive Health & Health Services Block Grant funded solely with PPHF	93.758		10,270
Cancer Prevention and Control Programs for State, Territorial and Tribal Org	93.898		12,061
Assistance Programs for Chronic Disease Prevention & Control	93.945		38,966
Block Grants for Community Mental Health Service	93.958		6,764
Block Grants for Prevention and Treatment of Substance Abuse	93.959		42,017
Block Grants for OPIOD Responses	93.788		17,459
Maternal and Child Health Services Block Grant to the States	93.994		40,007
Total U.S. Department of Health and Human Services			<u>\$ 997,866</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 9,273,824</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

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

1. Scope

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the State 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 the State, it is not intended to and does not present the financial positions or changes in financial positions of the State.

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 the State 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, the State'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 and did not expend federal awards during the year ended September 30, 2019. Accordingly, the accompanying Schedule presents the federal award programs administered by the State, 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

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

E. CFDA #15.875

CFDA #15.875 represents the Office of Insular Affairs (OIA), U.S. Department of the Interior. Funding from this source is subject to varying rules and regulations since OIA administers the Compact of Free Association (the Compact), 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.

**STATE OF KOSRAE
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 |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | No |
| 3. Significant deficiency(ies) identified? | None reported |
| 4. Noncompliance material to financial statements noted? | No |

Federal Awards

Internal control over major federal programs:

- | | |
|---|------------|
| 5. Material weakness(es) identified? | No |
| 6. Significant deficiency(ies) identified? | None noted |
| 7. Type of auditors' report issued on compliance for major federal programs: | Unmodified |
| 8. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | No |
| 9. Identification of major federal programs: | |

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

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

- | | |
|--|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$750,000 |
| 11. Auditee qualified as low-risk auditee? | Yes |

Section II – Financial Statements Findings

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

No matters were reported.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

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

There are no unresolved prior audit findings and questioned costs.