

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

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

YEAR ENDED SEPTEMBER 30, 2020

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**
YEAR ENDED SEPTEMBER 30, 2020

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FEDERATED STATES OF MICRONESIA**

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**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

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

YEAR ENDED SEPTEMBER 30, 2020

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, 2020, 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, 2020, 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

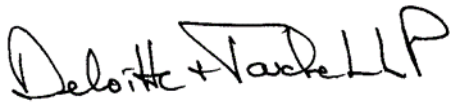
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 10 as well as the Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund and notes thereto, on pages 46 and 47, 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 31, 2021 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 + Stack LLP". The signature is written in a cursive, flowing style.

December 31, 2021

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2020

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, 2020. We encourage readers to consider this information in conjunction with Kosrae State's financial statements, which follow. Fiscal year 2019 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 decreased by \$1,021,547 (or 2%) from \$38,177,076 as of September 30, 2019 to \$37,155,529 as of September 30, 2020.
- Kosrae State's total fund balance of all governmental funds increased by \$510,099 (or 7%) from \$9,472,382 as of September 30, 2019 to \$9,892,481 as of September 30, 2020.
- Kosrae State's General Fund unassigned fund deficit improved by \$624,333 (or 60%) from \$(621,010) as of September 30, 2019 to \$3,323 as of September 30, 2020.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are 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, 2020

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 fund 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 2020 exceeded liabilities by \$37,155,529. The bulk of the amount is from net investment in capital assets, although \$7,954,349 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, 2020

The following summary of Kosrae State's net position as of September 30, 2020, with comparable balances for the fiscal year 2019, discloses this relationship:

	Governmental Activities			
	2020	2019	Change	%
ASSETS				
Current and other assets	\$ 12,208,058	\$ 10,687,598	\$ 1,520,460	14%
Capital assets	<u>31,050,498</u>	<u>32,826,969</u>	<u>(1,776,471)</u>	<u>-5%</u>
Total assets	<u>\$ 43,258,556</u>	<u>\$ 43,514,567</u>	<u>\$ (256,011)</u>	<u>-6%</u>
LIABILITIES				
Current and other liabilities	\$ 2,725,577	\$ 1,765,216	\$ (960,631)	68%
Long-term debts	<u>3,377,450</u>	<u>3,572,275</u>	<u>194,825</u>	<u>-12%</u>
Total liabilities	<u>6,103,027</u>	<u>5,337,491</u>	<u>765,536</u>	<u>14%</u>
NET POSITION				
Net investment in capital assets	29,580,403	31,294,161	(1,713,758)	-5%
Restricted	7,954,349	8,053,640	(99,291)	-1%
Unrestricted	<u>(379,223)</u>	<u>(1,170,725)</u>	<u>791,507</u>	<u>68%</u>
Total Net Position	<u>\$ 37,155,529</u>	<u>\$ 38,177,076</u>	<u>\$ (1,021,547)</u>	<u>-3%</u>

At the end of fiscal year 2020, Kosrae State's unrestricted net position showed a deficit of \$(629,222), an increase of \$541,503 as compared with the prior year deficit of \$(1,170,725). The decrease in overall net position of \$(871,546) was mainly due to depreciation expense.

The key elements of the differences from the prior year are shown in the following schedule:

	Governmental Activities			
	2020	2019	Change	%
Revenues:				
Operating grants and contributions	\$ 9,332,680	\$ 10,313,974	\$ (981,294)	-10%
Charges for services	692,068	575,499	116,569	20%
Revenue sharing	1,386,643	1,225,986	160,657	13%
Unrestricted investment earnings	143,585	237,491	(93,906)	-40%
Taxes	457,246	455,873	1,373	0%
Others	<u>105,531</u>	<u>89,233</u>	<u>16,298</u>	<u>-18%</u>
Total revenues	<u>12,117,753</u>	<u>12,898,056</u>	<u>(780,303)</u>	<u>-6%</u>

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2020

	Governmental Activities			
	2020	2019	Change	%
Expenses:				
General government	3,355,632	2,732,106	623,526	23%
Public work	40,813	-	40,813	
Education	4,318,935	4,534,556	(215,621)	-5%
Health services	3,510,365	3,281,510	228,855	7%
Economic development	403,163	548,074	(144,911)	-26%
Boards, commissions and other	1,500,259	1,753,889	(253,633)	-14%
Environment protection	19,933	246,868	(226,935)	-92%
Public order and safety	92,553	276,216	(183,663)	-66%
Unallocated interest	<u>70,343</u>	<u>70,452</u>	<u>(109)</u>	<u>0%</u>
Total expenses	<u>13,311,996</u>	<u>13,443,671</u>	<u>(131,675)</u>	<u>-1%</u>
Deficiency of revenues under expenses	(1,194,243)	(545,615)	(648,628)	
Special item - SDR exchange gain (loss)	(133,684)	108,202	(241,886)	
Contribution to permanent fund	456,380	199,800	256,580	
Special item – write off of receivables	<u>(150,000)</u>	<u>-</u>	<u>(150,000)</u>	
Change in net position	<u>(1,021,547)</u>	<u>(237,613)</u>	<u>(783,934)</u>	
Net position at the beginning of the year	<u>38,177,076</u>	<u>38,414,689</u>	<u>(237,613)</u>	
Net position at the end of the year	\$ <u>37,155,529</u>	\$ <u>38,177,076</u>	\$ <u>(1,021,547)</u>	<u>-3%</u>

Total current year revenues of \$12,117,753 decreased by \$780,303 (or 6%) from the prior year's \$12,898,056. The decrease was mainly due to the decrease in operating grants in the amount of \$981,294.

Total expenses of \$13,311,996 reflected a 1% decrease from the prior year expenses of \$13,443,671.

FINANCIAL ANALYSIS OF KOSRAE STATE'S GOVERNMENTAL FUNDS

General Fund

The General Fund is the main operating fund of the State. Total revenues increased by \$188,663 (or 9%) from \$2,216,095 in FY2019 to \$2,404,758 in FY2020, and total expenditures increased by \$43,864 (or 2%) from \$2,197,658 in FY2019 to \$2,241,522 in FY2020. Consequently, the total fund balance for the General Fund increased by \$413,236 from \$1,972,807 as of September 30, 2019 to \$2,386,043 as of September 30, 2020.

Grant Assistance Fund

Total revenues decreased by \$926,226 (or 10%) from \$9,247,338 in FY2019 to \$8,321,112 in FY2020, and total expenditures decreased by \$961,462 (or 10%) from \$9,332,448 in FY2019 to \$8,370,986 in FY2020, which resulted in a decrease in the fund balance of the non-U.S. grant fund.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2020

Compact Trust Fund

Compact Trust Fund balance increased by \$456,330 from \$5,333,057 as of September 30, 2019 to \$5,989,437 as of September 30, 2020 due to unrealized investment gain.

Nonmajor Governmental Funds

Total revenues decreased by \$42,740 (or 3%) from \$1,384,623 in FY2019 to \$1,341,883 in FY2020 mainly due to decrease in CFSM grants and decrease in collections of fees and charges, and total expenditures increased by \$76,541 from \$1,174,985 in FY2019 to \$1,251,526 in FY2020 mainly for the same reason. Overall, total fund balance increased by \$90,357 from \$1,349,603 as of September 30, 2019 to \$1,439,960 as of September 30, 2020, mainly due to positive operating results of \$64,107 in the Recycling Fund

GENERAL FUND BUDGETARY HIGHLIGHTS

During the course of the fiscal year, the Kosrae State Legislature made several revisions to the General Fund budget. For the year ended September 30, 2020, General Fund operating revenues of \$2,404,758 exceeded operating expenditures of \$2,287,343 by \$117,415 on a budgetary basis.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of September 30, 2020, Kosrae State had invested \$31,050,498 in governmental activities capital assets, net of accumulated depreciation; a decrease of 5% from the prior year. A summary of Kosrae State's governmental activities capital assets, net of accumulated depreciation, at September 30, 2019 and 2020 is presented below. Additional information on capital assets can be found in Note 5.

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

	Governmental Activities			
	2020	2019	Change	%
Capital Assets:				
Buildings	\$ 10,155,771	\$ 10,777,385	\$ (621,614)	-6%
Infrastructure	19,008,130	19,809,862	(801,732)	-4%
Machinery, equipment and others	<u>1,886,597</u>	<u>2,239,722</u>	<u>(353,125)</u>	<u>-16%</u>
	<u>\$ 31,050,498</u>	<u>\$ 32,826,969</u>	<u>\$ (1,776,471)</u>	<u>-5%</u>

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2020

Debt Administration

The following table provides a schedule of the Kosrae State's long-term debt obligations at September 30, 2019 and 2020.

	Governmental Activities			
	2020	2019	Change	%
Long-term Debt:				
ADB loans	\$ 3,280,653	\$ 3,475,478	\$ (194,825)	-6%
Malem water	<u>96,797</u>	<u>96,797</u>	<u>-</u>	0%
	<u>\$ 3,377,450</u>	<u>\$ 3,572,275</u>	<u>\$ (194,825)</u>	<u>-5%</u>

The State's long-term debt net decreased by \$194,825 (or 6%) due to repayments of ADB loans. Additional information on the Kosrae State's long-term debt obligations can be found in notes 6 and 7.

ECONOMIC OUTLOOK

Kosrae State prepares an annual financial forecast, which focuses on financial viability for the Kosrae State's General Fund. The annual financial forecast is based on these key assumptions:

National tax revenue sharing – National tax revenue sharing with the National Government is the largest source of revenue to the General Fund. The revenue sharing is approximately 55% of the Kosrae State's total General Fund revenues for 2019 and 2020. The collection of revenue sharing is expected to decrease due to the unfavorable economic conditions caused by the COVID-19 pandemic.

Sales Tax – Kosrae State's sales taxes are the second largest source of revenue to the General Fund, which is approximately 20% of the Kosrae State's total General Fund revenues for 2019 and 2020. Current year projections for sales taxes are developed based on current economic conditions and historical collection data. The collection of sales taxes is expected to decrease due to the unfavorable economic conditions caused by the COVID-19 pandemic.

Fees and Charges – Kosrae State's fees and charges are the third largest source of revenue to the General Fund, which is approximately 10–15% of the Kosrae State's total General Fund revenues for 2019 and 2020. Current year projections for fees and charges are developed based on current economic conditions and historical collection data. The collection of fees and charges is expected to decrease due to the unfavorable economic conditions caused by the COVID-19 pandemic.

Personnel Costs – These are based on current staffing levels. The forecast does not include new positions or potential changes to the Kosrae State's employee service system.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2020

Management's Discussion and Analysis for the year ended September 30, 2019, is set forth in the report on the audit of financial statements, which is dated December 22, 2020. That Discussion and Analysis explains the major factors impacting the 2019 financial statements and can be viewed at the FSM Office of the National Public Auditors' website at www.fsmopa.fm.

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, 2020

	Primary Government	Component Units
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 250,599	\$ 894,967
Time certificate of deposit	-	168,800
Investments	-	841,312
Receivables, net	1,578,963	529,152
Inventories	-	277,216
Prepayments	467,391	7,927
Advances	147,829	-
Other current assets	820,000	-
Restricted assets:		
Cash and cash equivalents	831,770	-
Time certificate of deposit	-	200,000
Total current assets	<u>4,096,552</u>	<u>2,919,374</u>
Noncurrent assets:		
Capital assets:		
Deposit for fuel contract	-	252,800
Nondepreciable capital assets	-	279,891
Capital assets, net of accumulated depreciation	31,050,498	15,869,093
Investments	1,360,851	-
Restricted assets:		
Time certificates of deposit	403,308	-
Investments	<u>6,347,347</u>	<u>-</u>
Total noncurrent assets	<u>39,162,004</u>	<u>16,401,784</u>
Total assets	<u>\$ 43,258,556</u>	<u>\$ 19,321,158</u>
<u>LIABILITIES</u>		
Current liabilities:		
Current portion of long-term obligations	\$ 237,609	\$ 79,940
Accounts payable	291,296	187,285
Other liabilities and accruals	423,493	72,758
Due to primary government	-	95,954
Unearned revenues	<u>1,510,788</u>	<u>20,881</u>
Total current liabilities	<u>2,463,186</u>	<u>456,818</u>
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	3,139,841	101,974
Unearned revenues	<u>500,000</u>	<u>-</u>
Total noncurrent liabilities	<u>3,639,841</u>	<u>101,974</u>
Total liabilities	<u>6,103,027</u>	<u>558,792</u>
Commitments and contingencies		
<u>NET POSITION</u>		
Net investment in capital assets	29,580,403	16,148,984
Restricted for:		
Nonexpendable:		
Future operations	5,989,437	-
Expendable:		
Debt service	357,910	-
Compact related	48,980	-
Other purposes	1,558,022	525,132
Unrestricted	<u>(379,223)</u>	<u>2,088,250</u>
Total net position	<u>37,155,529</u>	<u>18,762,366</u>
Total liabilities and net position	<u>\$ 43,258,556</u>	<u>\$ 19,321,158</u>

See accompanying notes to financial statements.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA

Statement of Activities
Year Ended September 30, 2020

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	\$ 3,355,632	\$ 401,564	\$ 2,004,199	\$ -	\$ (949,869)	\$ -
Economic development	403,163	118,740	298,119	-	13,696	-
Education	4,318,935	-	3,749,633	-	(569,302)	-
Health services	3,510,365	169,143	3,260,796	-	(80,426)	-
Public order and safety	92,553	-	-	-	(92,553)	-
Public works	40,813	-	-	-	(40,813)	-
Environment protection and sanitation	19,933	-	19,933	-	-	-
Boards, commissions and other	1,500,259	2,621	-	-	(1,497,638)	-
Unallocated interest on long-term debt	70,343	-	-	-	(70,343)	-
Total primary government	\$ 13,311,996	\$ 692,068	\$ 9,332,680	\$ -	(3,287,248)	-
Component units:						
Kosrae Port Authority	\$ 1,093,603	\$ 411,038	\$ -	\$ -	-	(682,565)
Kosrae Utilities Authority	2,642,102	2,681,779	-	-	-	39,677
Kosrae Housing Authority	185,179	84,659	-	-	-	(100,520)
Total component units	\$ 3,920,884	\$ 3,177,476	\$ -	\$ -	-	(743,408)
General revenues:						
Taxes:						
FSM revenue sharing:						
Gross revenue taxes					389,147	-
Import taxes					419,747	-
Income taxes					466,057	-
Other taxes					111,692	-
State taxes					457,246	-
Unrestricted investment earnings					143,585	94,452
Contribution from the FSM National Government					-	95,554
Other					105,531	62,905
Total general revenues					2,093,005	252,911
Special item - gain on SDR foreign exchange					(133,684)	-
Special item - write off of receivables					(150,000)	-
Contributions to permanent fund					456,380	-
Total general revenues, special item and contributions					2,265,701	252,911
Change in net position					(1,021,547)	(490,497)
Net position at the beginning of the year					38,177,076	19,252,863
Net position at the end of the year					\$ 37,155,529	\$ 18,762,366

See accompanying notes to financial statements.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Balance Sheet

Governmental Funds
September 30, 2020

		Special Revenue	Permanent	Other Governmental Funds	Total
	General	Grants Assistance	Compact Trust		
ASSETS					
Cash and cash equivalents	\$ 250,599	\$ -	\$ -	\$ -	\$ 250,599
Investments	1,360,851	-	-	-	1,360,851
Receivables, net:					
General	36,011	-	-	714,600	750,611
Federal agencies	-	33,300	-	-	33,300
Due from FSM National Government	105,507	516,143	-	-	621,650
Taxes	173,402	-	-	-	173,402
Due from other funds	791,470	1,391,888	-	923,482	3,106,840
Prepaid items	412,492	42,450	-	12,449	467,391
Advances	33,245	114,584	-	-	147,829
Other assets	627,000	100,000	-	93,000	820,000
Restricted assets:					
Cash and cash equivalents	789,459	-	-	42,311	831,770
Time certificates of deposit	43,358	-	-	359,950	403,308
Investments	357,910	-	5,989,437	-	6,347,347
Total assets	<u>\$ 4,981,304</u>	<u>\$ 2,198,365</u>	<u>\$ 5,989,437</u>	<u>\$ 2,145,792</u>	<u>\$ 15,314,898</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 67,073	\$ 152,478	\$ -	\$ 71,745	\$ 291,296
Other liabilities and accruals	212,818	206,850	-	3,825	423,493
Due to other funds	2,315,370	161,241	-	630,229	3,106,840
Unearned revenues	-	1,510,755	-	33	1,510,788
Total liabilities	<u>2,595,261</u>	<u>2,031,324</u>	<u>-</u>	<u>705,832</u>	<u>5,332,417</u>
Fund balances:					
Non-spendable	2,024,810	100,000	5,989,437	93,000	8,207,247
Restricted	357,910	67,041	-	451,100	876,051
Committed	-	-	-	895,860	895,860
Unassigned:					
General fund	3,323	-	-	-	3,323
Total fund balances	<u>2,386,043</u>	<u>167,041</u>	<u>5,989,437</u>	<u>1,439,960</u>	<u>9,982,481</u>
Total liabilities and fund balances	<u>\$ 4,981,304</u>	<u>\$ 2,198,365</u>	<u>\$ 5,989,437</u>	<u>\$ 2,145,792</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

31,050,498

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 (3,377,450)
Advance lease payment (500,000)

(3,877,450)

Net position of governmental activities

\$ 37,155,529

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, 2020

	General	Special Revenue Grants Assistance	Permanent Compact Trust	Other Governmental Funds	Total
Revenues:					
Compact funding	\$ -	\$ 7,181,861	\$ -	\$ -	\$ 7,181,861
Net change in the fair value of investments	140,676	-	456,380	-	597,056
Federal contributions	-	1,104,956	-	-	1,104,956
FSM revenue sharing	1,386,643	-	-	-	1,386,643
State taxes	457,246	-	-	-	457,246
CFSM grants	-	-	-	1,045,863	1,045,863
Fees and charges	401,564	-	-	290,504	692,068
Interest income	477	-	-	2,432	2,909
Other	18,152	34,295	-	3,084	55,531
Total revenues	<u>2,404,758</u>	<u>8,321,112</u>	<u>456,380</u>	<u>1,341,883</u>	<u>12,524,133</u>
Expenditures:					
Current:					
General government	1,288,191	1,042,505	-	1,045,863	3,376,559
Economic development	98,642	298,119	-	196	396,957
Education	21,278	3,749,633	-	-	3,770,911
Health services	-	3,260,796	-	158,534	3,419,330
Public order and safety	84,774	-	-	-	84,774
Public works	40,813	-	-	-	40,813
Environment protection and sanitation	-	19,933	-	-	19,933
Boards, commissions and other	308,972	-	-	46,933	355,905
Debt service	398,852	-	-	-	398,852
Total expenditures	<u>2,241,522</u>	<u>8,370,986</u>	<u>-</u>	<u>1,251,526</u>	<u>11,864,034</u>
Excess of revenues over expenditures	<u>163,236</u>	<u>(49,874)</u>	<u>456,380</u>	<u>90,357</u>	<u>660,099</u>
Special items					
Write off of receivables	(150,000)	-	-	-	(150,000)
Other operating sources (uses):					
Operating transfers in (out)	400,000	(400,000)	-	-	-
Net change in fund balances	<u>413,236</u>	<u>(449,874)</u>	<u>456,380</u>	<u>90,357</u>	<u>510,099</u>
Fund balances at the beginning 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>
Fund balances at the end of the year	<u>\$ 2,386,043</u>	<u>\$ 167,041</u>	<u>\$ 5,989,437</u>	<u>\$ 1,439,960</u>	<u>\$ 9,982,481</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, 2020

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		\$ 510,099
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 (\$1,904,314) exceeded capital outlays (\$127,843) in the current period.		(1,776,471)
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.		(133,684)
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	328,509	<u>328,509</u>
Change in net position of governmental activities		\$ <u>(1,021,547)</u>

See accompanying notes to financial statements.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Combining Statement of Net Position

Component Units
September 30, 2020

<u>ASSETS</u>	Kosrae Port Authority	Kosrae Utilities Authority	Kosrae Housing Authority	Total
Current assets:				
Cash and cash equivalents	\$ 33,049	\$ 861,918	\$ -	\$ 894,967
Time certificate of deposit	-	168,800	-	168,800
Investments	-	841,312	-	841,312
Time certificate of deposit - restricted	-	-	200,000	200,000
Receivables:				
General	32,492	269,925	19,319	321,736
Loan	-	-	305,529	305,529
	<u>32,492</u>	<u>269,925</u>	<u>324,848</u>	<u>627,265</u>
Allowance for doubtful debts	<u>(15,773)</u>	<u>(82,340)</u>	<u>-</u>	<u>(98,113)</u>
Net receivables	<u>16,719</u>	<u>187,585</u>	<u>324,848</u>	<u>529,152</u>
Inventories	-	277,216	-	277,216
Prepayments	-	7,927	-	7,927
Total current assets	<u>49,768</u>	<u>2,344,758</u>	<u>524,848</u>	<u>2,919,374</u>
Noncurrent assets:				
Deposit for fuel purchase contract	-	252,800	-	252,800
Capital assets:				
Nondepreciable capital assets	-	279,891	-	279,891
Capital assets, net of accumulated depreciation	<u>14,027,043</u>	<u>1,768,405</u>	<u>73,645</u>	<u>15,869,093</u>
Total assets	<u>\$ 14,076,811</u>	<u>\$ 4,645,854</u>	<u>\$ 598,493</u>	<u>\$ 19,321,158</u>
<u>LIABILITIES AND NET POSITION</u>				
Current liabilities:				
Current portion of long-term debt	\$ -	\$ 40,000	\$ 39,940	\$ 79,940
Accounts payable	11,819	151,522	23,944	187,285
Accrued liabilities	15,705	53,295	3,758	72,758
Due to primary government	72,174	-	23,780	95,954
Unearned revenues	-	20,881	-	20,881
Total current liabilities	<u>99,698</u>	<u>265,698</u>	<u>91,422</u>	<u>456,818</u>
Long-term debt net of current portion	<u>-</u>	<u>-</u>	<u>101,974</u>	<u>101,974</u>
Total liabilities	<u>99,698</u>	<u>265,698</u>	<u>193,396</u>	<u>558,792</u>
Net position:				
Net investment in capital assets	14,027,043	2,048,296	73,645	16,148,984
Restricted	-	90,000	435,132	525,132
Unrestricted	<u>(49,930)</u>	<u>2,241,860</u>	<u>(103,680)</u>	<u>2,088,250</u>
Total net position	<u>13,977,113</u>	<u>4,380,156</u>	<u>405,097</u>	<u>18,762,366</u>
Total liabilities and net position	<u>\$ 14,076,811</u>	<u>\$ 4,645,854</u>	<u>\$ 598,493</u>	<u>\$ 19,321,158</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, 2020

	Kosrae Port Authority	Kosrae Utilities Authority	Kosrae Housing Authority	Total
Operating revenues:				
Charge for services	\$ 411,038	\$ 2,681,779	\$ 84,659	\$ 3,177,476
Operating expenses:				
Cost of services	-	1,505,666	-	1,505,666
Depreciation and amortization	698,793	408,132	13,649	1,120,574
Administration and general	394,810	728,304	171,530	1,294,644
Total operating expenses	1,093,603	2,642,102	185,179	3,920,884
Operating income (loss)	(682,565)	39,677	(100,520)	(743,408)
Nonoperating revenues (expenses):				
Interest income	-	-	-	-
Net change in fair value of investments	-	94,452	-	94,452
Operating grant from FSM National Government	-	90,000	5,554	95,554
Interest expense	-	(1,153)	(8,714)	(9,867)
Total nonoperating revenues (expenses), net	-	183,299	(3,160)	180,139
Capital contributions from foreign government	72,772	-	-	72,772
Change in net position	(609,793)	222,976	(103,680)	(490,497)
Net position at beginning of year	14,586,906	\$ 4,157,180	\$ 508,777	19,252,863
Net position at end of year	\$ 13,977,113	\$ 4,380,156	\$ 405,097	\$ 18,762,366

See accompanying notes to financial statements.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(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, 2020

(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, 2020

(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 \$7,954,349 of restricted net position, of which \$1,558,022 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, 2020

(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, 2020

(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, 2020

(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, 2020

(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 \$357,910 for the Early Retirement Scheme. Furthermore, investments recorded in the Compact Trust Fund of \$5,989,437 are restricted in that they are not available to be used in current operations.

As of September 30, 2020, 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.	\$ 832,817
Deposit account established for the Gifford scholarship fund.	42,311
Time certificate of deposit with a local bank restricted for scholarships for post-secondary students.	<u>359,950</u>
	<u>\$ 1,235,078</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>
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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, 2020

(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, 2020

(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, 2020

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards

During the year ended September 30, 2020, the State implemented the following pronouncements:

During the year ended September 30, 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, 91, 92 and 93 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. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 84 will be effective for fiscal year ending September 30, 2021.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. Management believes that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 will be effective for the fiscal year ending September 30, 2022.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 89 will be effective for fiscal year ending September 30, 2022.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards, Continued

In March 2018, GASB issued Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 90 will be effective for fiscal year September 30, 2021.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying 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. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.

In January 2020, GASB issued statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefits. The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance. The remaining requirements of GASB Statement No. 92 is effective for the fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The primary objective of this statement is to address those and other accounting and financial reporting implications of the replacement of an IBOR. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 93 will be effective for fiscal year ending September 30, 2022.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards, Continued

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This statement also provides guidance for accounting and financial reporting for availability payment arrangements. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

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.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(1) Summary of Significant Accounting Policies, Continued

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.

W. Total Columns

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

(2) Deposits and Investments

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

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, 2020

(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.

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

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(2) Deposits and Investments, Continued

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

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

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

A. Deposits

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

As of September 30, 2020, the carrying amount of the primary government's total cash and cash equivalents and time certificates of deposit was \$1,485,677 and the corresponding bank balance was \$1,841,399 which is maintained in financial institutions subject to FDIC insurance. As of September 30, 2020, bank deposits in the amount of \$500,000 were FDIC insured. The State does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Therefore, these deposits are exposed to custodial credit risk.

As of September 30, 2020, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$1,063,767 and the corresponding bank balance was \$1,103,557, which were maintained in financial institutions subject to FDIC insurance. As of September 30, 2020, bank deposits in the amount of \$562,188 were FDIC insured. The component units do not require collateralization of their cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Therefore, these deposits are exposed to custodial credit risk.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(2) Deposits and Investments, Continued

B. Investments

Primary Government

As of September 30, 2020, the State's investments are as follows:

General Fund:	
Fixed income	\$ 100,854
Domestic equities	1,360,851
Common equities	198,385
Cash management account	<u>58,671</u>
	<u>1,718,761</u>
Compact Trust Fund:	
Common trust funds:	
Domestic Equity	1,687,961
International Equity	1,058,655
Global Equity	1,004,097
Private Equity	970,002
Fixed Income	500,599
Hedge Fund	259,102
Real Estate	501,035
Money market funds	<u>7,986</u>
	<u>5,989,437</u>
	<u>\$ 7,708,198</u>

As of September 30, 2020, the State's fixed income securities, including their Moody's investors service credit ratings, had the following maturities:

<u>Investment Type</u>	<u>Moody's Rating</u>	<u>Market Value</u>	<u>Investment Maturity (in Years)</u>			
			<u>Current</u>	<u>1-5</u>	<u>6-10</u>	<u>Over 10</u>
U.S. Treasury Notes and Bonds	Aaa	\$ 25,206	\$ -	\$15,528	\$ 396	\$ 9,282
U.S. Government Agencies Obligations:						
Federal Farm Credit Bank	Aaa	10,995	6,000	661	4,334	-
Federal Home Loan Bank	Aaa	4,436	-	697	3,739	-
Federal Home Loan Mortgage Corporation	Aaa	651	1	-	-	650
Government National Mortgage Association	Aaa	55	-	-	-	55
Federal National Mortgage Association	Aaa	1,684	-	-	-	1,684
Overseas Private Investment Corporation	Aaa	4,035	-	4,035	-	-
Tennessee Valley Authority	Aaa	6,927	-	1,497	-	5,430
Municipal Obligations	Aa1	2,499	990	690	268	551
Municipal Obligations	Aa2	4,433	2,525	-	877	1,031
Municipal Obligations	Aa3	429	-	429	-	-
Corporate Bonds	Aaa	8,187	-	5,798	1,054	1,335
Corporate Bonds	Aa1	417	-	417	-	-
Corporate Bonds	Aa2	3,565	925	1,481	-	1,159
Corporate Bonds	Aa3	979	-	-	979	-
Corporate Bonds	A1	6,731	654	1,744	2,173	2,160
Corporate Bonds	A2	5,466	528	1,788	2,851	299
Corporate Bonds	A3	4,020	-	1,797	450	1,773
Corporate Bonds	Baa1	5,601	-	1,426	2,355	1,820
Corporate Bonds	Baa2	1,122	-	818	304	-
Corporate Bonds	Baa3	1,279	-	1,279	-	-
No rating		2,137	-	288	1,352	497
		<u>\$100,854</u>	<u>\$11,623</u>	<u>\$40,373</u>	<u>\$21,132</u>	<u>\$27,726</u>

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

The State has the following recurring fair value measurements as of September 30, 2020:

General Fund:

Investments by fair value level:

Fixed income:				
U.S Treasury obligation	\$ 25,206	\$ -	\$ 25,206	\$ -
U.S Government agencies	28,784	-	28,784	-
Municipal obligation	7,361	-	7,361	-
Corporate notes	<u>39,503</u>	<u>-</u>	<u>39,503</u>	<u>-</u>
	100,854	-	100,854	-
Equity securities:				
U.S equities	<u>198,385</u>	<u>198,385</u>	<u>-</u>	<u>-</u>
Total investment at fair value	299,239	<u>\$198,385</u>	<u>\$100,854</u>	<u>\$-</u>

Investments measured at NAV:

Equity investment in Bank of the FSM	1,360,851
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Investment measured amortized cost:

Cash management account	<u>58,671</u>
	<u>\$1,718,761</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	\$1,687,961	\$ 1,687,961	\$ -		\$ -
International Equity	1,058,655	1,058,655	-		-
Global Equity	1,004,097	1,004,097	-		-
Private Equity	970,002	-	-		970,002
Fixed Income	<u>500,599</u>	<u>500,599</u>	<u>-</u>		<u>-</u>
Total investment at fair value	5,221,314	<u>\$4,251,312</u>	<u>\$ -</u>		<u>\$970,002</u>
Investments measured at NAV:					
Hedge Fund	259,102				
Real Estate	501,035				
Investment measured amortized cost:					
Money market funds	<u>7,986</u>				
	<u>\$5,989,437</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, 2020

(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, 2020.

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 "Ba1" as rated by Moody's as of September 30, 2020. High yield debt receiving a credit rating below "A" comprises approximately 65.5 of the MIM CFI fixed income portfolio as rated by Moody's at September 30, 2020. At September 30, 2020, the weighted average maturity of the bonds comprising MIM CFI is 7.7 years.

The bonds held by MIM OFI vary in credit quality with an average overall rating of "Aa3" as rated by Moody's as of September 30, 2020. High yield debt receiving a credit rating below "A" comprises approximately 29.9% of the MIM OFI fixed income portfolio as rated by Moody's at September 30, 2020. At September 30, 2020, the weighted average maturity of the bonds comprising MIM OFI is 10.23 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, 2020

(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, 2020, the Trust Fund held approximately \$221,315,000 in securities of foreign issuers held in common trust funds. Of this amount, approximately \$46,371,000 was held in securities whose functional currency is the Euro, \$18,758,000 whose functional currency is the British pound, \$40,904,000 whose functional currency is the Japanese yen, and \$115,282,000 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 4.3% of invested assets at September 30, 2020.

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, 2020, investments comprise the following:

Money market funds	\$ 35,021
Common equities	534,973
Fixed income	<u>271,318</u>
	<u>\$ 841,312</u>

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

Kosrae Utilities Authority (KUA), Continued:

As of September 30, 2020, 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	\$ 143,227	\$ -	\$ 125,960	\$ 17,267
U.S. Government agencies	Aaa	18,668	-	18,668	-
Corporate notes	A2	26,721	-	9,049	17,672
Corporate notes	A3	23,704	-	15,627	8,077
Corporate notes	Baa1	9,113	-	9,113	-
Corporate notes	Baa2	41,258	-	24,303	16,955
Corporate notes	Baa3	<u>8,627</u>	<u>-</u>	<u>-</u>	<u>8,627</u>
		\$ <u>271,318</u>	\$ <u>-</u>	\$ <u>202,720</u>	\$ <u>68,598</u>

KUA has the following recurring fair value measurements as of September 30, 2020:

	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level:				
Fixed income:				
U.S. Treasury obligations	\$ 143,227	\$ -	\$ 143,227	\$ -
U.S. Government agencies	18,668	-	18,668	-
Corporate notes	<u>109,423</u>	<u>-</u>	<u>109,423</u>	<u>-</u>
Total fixed income	<u>271,318</u>	<u>-</u>	<u>271,318</u>	<u>-</u>
Equity securities:				
U.S. equities	510,032	510,032	-	-
Non U.S. equities	<u>24,941</u>	<u>24,941</u>	<u>-</u>	<u>-</u>
	<u>534,943</u>	<u>534,973</u>	<u>-</u>	<u>-</u>
Total investments at fair value	\$ <u>806,291</u>	\$ <u>534,973</u>	\$ <u>271,318</u>	\$ <u>-</u>
Investments measured at amortized cost:				
Money market funds	<u>35,021</u>			
	\$ <u>841,312</u>			

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(3) Receivables

Primary Government

Receivables as of September 30, 2020, 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>Governmental Funds</u>	<u>Total</u>
Receivables:					
General	\$136,965	\$ -	\$ -	\$1,681,594	\$1,818,559
Federal agencies	-	33,300	-	-	33,300
Due from FSM National Government	105,507	516,143	-	-	621,650
Taxes	173,401	-	-	-	173,401
Loans	<u>397,500</u>	<u>395,130</u>	<u>-</u>	<u>24,704</u>	<u>817,334</u>
	813,373	944,573	-	1,706,298	3,464,244
Less: Allowance for uncollectible accounts	<u>(498,453)</u>	<u>(395,130)</u>	<u>-</u>	<u>(991,698)</u>	<u>(1,885,281)</u>
Net receivables	<u>\$314,920</u>	<u>\$549,443</u>	<u>\$ -</u>	<u>\$ 714,600</u>	<u>\$1,578,963</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, 2020 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, 2020

(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.

\$ 24,704

(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, 2020, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Grants Assistance	General	\$ 1,391,888
Nonmajor governmental funds	General	923,482
General	Grants Assistance	161,241
General	Nonmajor governmental funds	<u>630,229</u>
		\$ <u>3,106,840</u>

(5) Capital Assets

Capital asset activities for the year ended September 30, 2020, are as follows:

Primary Government

	Balance October <u>1, 2019</u>	<u>Additions</u>	<u>Retirements</u>	Balance September <u>30, 2020</u>
Governmental activities:				
Capital assets being depreciated:				
Buildings	\$27,433,910	\$ -	\$ -	\$27,433,910
Infrastructure	44,397,384	-	-	44,397,384
Machinery, equipment, others	<u>8,647,420</u>	<u>127,843</u>	<u>-</u>	<u>8,775,263</u>
	80,478,714	127,843	-	80,606,557
Less accumulated depreciation for:				
Buildings	(16,656,525)	(621,614)	-	(17,278,139)
Infrastructure	(24,587,522)	(801,732)	-	(25,389,254)
Machinery, equipment, others	<u>(6,407,698)</u>	<u>(480,968)</u>	<u>-</u>	<u>(6,888,666)</u>
	<u>(47,651,745)</u>	<u>(1,904,314)</u>	<u>-</u>	<u>(49,556,059)</u>
Governmental activities capital assets, net	<u>\$32,826,969</u>	<u>\$ (1,776,471)</u>	<u>\$ -</u>	<u>\$31,050,498</u>

During the year ended September 30, 2020, depreciation expense was charged as follows:

General Government	\$ 77,811
Education	548,024
Health	115,340
Economic Development	11,006
Public Safety	7,779
Boards and Commissions	<u>1,144,354</u>
	<u>\$1,904,314</u>

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(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 fiscal year ended September 30, 2019 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, 2020, is as follows:

<u>Year ending September 30</u>	
2021	\$ 50,000
2022	50,000
2023	50,000
2024	50,000
2025	50,000
2026 – 2030	<u>250,000</u>
	\$ <u>500,000</u>

Discretely Presented Component Units

	Balance October 1, 2019	Additions	Retirement	Balance September 30, 2020
Depreciable assets:				
Buildings	\$12,022,369	\$ 72,772	\$ -	\$12,095,141
Utility plants	11,064,535	139,805	(132,325)	11,072,015
Infrastructure	37,972,012			37,972,012
Machinery, equipment, and others	<u>1,087,063</u>	<u>4,747</u>	<u>-</u>	<u>1,091,810</u>
Total capital assets, being depreciated	62,145,979	217,324	(132,325)	62,230,978
Less accumulated depreciation	<u>(45,373,638)</u>	<u>(1,120,572)</u>	<u>132,325</u>	<u>(46,348,238)</u>
	16,772,341	(903,248)	-	15,869,093
Non-depreciable assets:				
Construction work-in-progress	<u>133,249</u>	<u>146,642</u>	<u>-</u>	<u>279,891</u>
	<u>\$16,905,590</u>	<u>\$ (756,606)</u>	<u>\$ -</u>	<u>\$16,148,984</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, 2020, the balance payable on this loan amounted to \$96,797.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(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, \$357,910 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, 2020, the balance payable on this loan amounted to \$1,366,575.

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, 2020, the balance payable on this loan amounted to \$0.

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, 2020, the balances payable on these loans amounted to \$240,078 and \$300,702, 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, 2020, the balance payable on this loan amounted to \$1,373,298.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(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:

Year Ending September 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 237,609	\$ 37,429	\$ 275,039
2022	237,779	34,996	272,775
2023	237,956	32,555	270,511
2024	238,141	30,106	268,247
2025	238,335	27,648	265,983
2026-2030	998,456	103,193	1,101,649
2031-2035	949,538	51,185	1,000,723
2036-2037	<u>239,636</u>	<u>7,022</u>	<u>246,657</u>
	<u>\$3,377,450</u>	<u>\$324,134</u>	<u>\$3,701,584</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, 2020, the following changes occurred in liabilities reported as part of the primary government's long-term liabilities in the statement of net position:

	Balance October <u>1, 2019</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2020</u>	Due Within <u>One Year</u>
Loans payable:					
ADB loans:					
Loan 1520	\$1,402,363	\$ 43,059	\$ (78,847)	\$1,366,575	\$ 80,393
Loan 1816	31,517	-	(31,517)	-	-
Loan 1873	279,751	8,576	(48,249)	240,078	43,651
Loan 1874	325,836	18,866	(44,000)	300,702	22,274
Loan 2099	<u>1,436,011</u>	<u>63,183</u>	<u>(125,896)</u>	<u>1,373,298</u>	<u>87,528</u>
	3,475,478	133,684	(328,509)	3,280,653	233,846
MWSP	<u>96,797</u>	<u>-</u>	<u>-</u>	<u>96,797</u>	<u>3,763</u>
	<u>\$3,572,275</u>	<u>\$133,684</u>	<u>\$(328,509)</u>	<u>\$3,377,450</u>	<u>\$237,609</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, 2020, the State recognized a foreign exchange gain of \$133,684 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, 2020

(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 Fund	Grants Assistance Fund	Compact Trust Fund	Nonmajor Funds	Total Governmental Funds
Non-spendable:					
General government	\$ 36,959	\$ -	\$ -	\$ -	\$ 36,959
Pacific Islands Development Bank	627,000	100,000	-	93,000	820,000
Bank of the FSM	1,360,851	-	-	-	1,360,851
Permanent fund principal	-	-	5,989,437	-	5,989,437
Restricted for:					
General government	-	18,062	-	-	18,062
Debt service	357,910	-	-	-	357,910
Capital projects	-	48,979	-	1,558	50,537
Scholarships	-	-	-	451,100	451,100
Committed for:					
Health services	-	-	-	567,681	567,681
Economic development	-	-	-	45,619	45,619
Board, commissioners, others	-	-	-	281,002	281,002
Unassigned	<u>3,323</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,323</u>
	<u>\$2,386,043</u>	<u>\$167,041</u>	<u>\$5,989,437</u>	<u>\$1,439,960</u>	<u>\$9,982,481</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, 2020, 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>45,821</u>	\$ <u>2,703,098</u>	\$ <u>123,548</u>	\$ <u>2,872,467</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, 2020 is \$685,767.

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, 2020

(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, 2020, 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.

(10) Budgetary Compliance

For the year ended September 30, 2020, significant over-expenditures exceeded appropriations within the General Fund for the following:

Debt service	<u>\$398,852</u>
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These over-expenditures of the General Fund have not been funded by legislative authorization.

(11) Covid-19

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 31, 2021, 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, 2020

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, 2020

	Budgeted Amounts		Actual - Budgetary Basis	Variance with
	Original	Final	(see Note 1)	Final Budget -
Revenues:				
FSM revenue sharing	\$ 1,134,658	\$ 1,134,658	\$ 1,386,643	\$ 251,985
State taxes	351,854	351,854	457,246	105,392
Licenses and fees	57,107	57,107	401,564	344,457
Net change in fair value of investments	167,520	167,520	140,676	(26,844)
Interest and dividends	57,002	57,002	477	(56,525)
Other	231,859	231,859	18,152	(213,707)
Total revenues	2,000,000	2,000,000	2,404,758	404,758
Expenditures:				
Current:				
General government	1,454,876	1,351,802	1,308,424	43,378
Education	28,280	28,280	21,815	6,465
Public order and safety	396,146	126,236	95,926	30,310
Public works	261,171	55,844	45,411	10,433
Economic development	399,865	57,850	101,871	(44,021)
Boards, commissions and other	427,063	430,063	713,896	(283,833)
Total expenditures	2,967,401	2,050,075	2,287,343	(237,268)
Deficiency of revenues under expenditures	(967,401)	(50,075)	117,415	167,490
Special items:				
Write off of receivables	-	-	(150,000)	(150,000)
Other financing sources:				
Operating transfers in (out)	-	-	400,000	400,000
Net change in fund balance	(967,401)	(50,075)	367,415	417,490
Encumbrances	-	-	45,821	45,821
Fund balance at the beginning of the year	1,972,807	1,972,807	1,972,807	-
Fund balance at the end of the year	\$ 1,005,406	\$ 1,922,732	\$ 2,386,043	\$ 463,311

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, 2020

(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, 2020

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Combining Schedule of Expenditures by Account
Governmental Funds
Year Ended September 30, 2020

		Special Revenue	Permanent	Other Governmental Funds	Total
	General	Grants Assistance	Compact Trust		
Expenditures:					
Salaries and wages:					
Regular	\$ 945,140	\$ 3,526,734	\$ -	\$ 795,101	\$ 5,266,975
Overtime	31,976	434,006	-	20,249	486,231
Fringe benefits	118,071	262,297	-	101,746	482,114
Other personnel costs	5,832	-	-	18,035	23,867
Travel and transportation	110,606	71,812	-	19,370	201,788
Communications	68,568	53,461	-	759	122,788
Dues, membership, and subscriptions	11,200	1,000	-	-	12,200
Food stuffs	21,565	20,481	-	3,669	45,715
Port charges	115	549	-	-	664
Office supplies and materials	154,537	860,377	-	131,134	1,146,048
POL	24,167	88,374	-	9,537	122,078
Printing and reproduction	2,217	15,701	-	-	17,918
Rental services	1,801	11,293	-	1,809	14,903
Repairs and maintenance	1,129	3,879	-	-	5,008
Utilities	110,675	262,927	-	29,317	402,919
Subsidies and contributions	10,000	-	-	-	10,000
Medical referral	-	-	-	2,122	2,122
Medical supplies	-	558,937	-	41,746	600,683
Contractual services	51,262	1,462,945	-	46,149	1,560,356
Professional services	-	6,928	-	-	6,928
Scholarships and allowances	59,458	166,963	-	-	226,421
Training	-	141,977	-	-	141,977
Leased housing, buildings and land	21,270	81,889	-	-	103,159
Nonpayroll compensation	2,220	17,057	-	-	19,277
Equipment	66,342	274,471	-	30,392	371,205
Principal repayment	328,510	-	-	-	328,510
Interest payments	70,342	-	-	-	70,342
Miscellaneous	24,519	46,928	-	391	71,838
	<u>\$ 2,241,522</u>	<u>\$ 8,370,986</u>	<u>\$ -</u>	<u>\$ 1,251,526</u>	<u>\$ 11,864,034</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, 2020
(with comparative totals for the year ended September 30, 2019)

	2020	2019
Revenues:		
FSM revenue sharing:		
Gross revenue taxes	\$ 389,147	\$ 350,612
Import taxes	419,747	398,905
Income taxes	466,057	386,313
Other taxes	111,692	90,156
	<u>1,386,643</u>	<u>1,225,986</u>
State taxes:		
Sales tax	457,246	455,873
Fees and charges:		
Licenses and fees	401,564	264,046
Net change in fair value of investments	140,676	166,255
Interest and dividend income	477	69,150
Other	18,152	34,785
Total revenues	<u>2,404,758</u>	<u>2,216,095</u>
Expenditures:		
Current:		
General government:		
Office of the Governor	97,152	110,054
Department of Administration and Finance	104,068	88,972
Judiciary Branch	324,116	109,520
Legislative Branch	655,230	439,456
Public Auditor	107,625	67,111
Election	-	28,121
	<u>1,288,191</u>	<u>843,234</u>
Economic development:		
Resources and Economic Affairs	98,642	226,267
Education:		
Scholarship board	21,278	12,505
Public order and safety:		
Office of the Attorney General	83,974	268,137
Parole board	800	300
	<u>84,774</u>	<u>268,437</u>
Public Works:		
Department of Transportation and Infrastructure	40,813	148,584
	<u>40,813</u>	<u>148,584</u>
Boards, Commissions and Other:		
Department of Transportation and Infrastructure	-	148,584
Kosrae Island Resource Management Authority	188,013	98,242
Broadcast Authority	37,745	34,699
Sports Council	17,617	11,759
RM Small Business Development Center	8,210	30,557
Land Court	-	69,948
Municipal governments	10,836	21,000
Price Control Commission	-	-
Kosrae Visitor's Bureau	46,551	29,735
Other	-	11,870
	<u>308,972</u>	<u>456,394</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, 2020
(with comparative totals for the year ended September 30, 2019)

	<u>2020</u>	<u>2019</u>
Expenditures, continued:		
Debt service:		
Principal payments	328,510	320,369
Interest charges	<u>70,342</u>	<u>70,452</u>
	398,852	390,821
Total expenditures	<u>2,241,522</u>	<u>2,197,658</u>
Excess (deficiency) of revenues over (under) expenditures	<u>163,236</u>	<u>18,437</u>
Special items:		
Write off of receivables	<u>(150,000)</u>	<u>-</u>
Other financing sources:		
Operating transfers in (out)	<u>400,000</u>	<u>-</u>
	400,000	-
Net change in fund balance	413,236	18,437
Fund balance at the beginning of the year	<u>1,972,807</u>	<u>1,954,370</u>
Fund balance at the end of the year	<u>\$ 2,386,043</u>	<u>\$ 1,972,807</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, 2020**

	Budgeted Amounts		Actual Amounts - Budgetary Basis	Variance
	Original	Final		
Revenues:				
FSM revenue sharing:	\$ 1,134,658	\$ 1,134,658	\$ 1,386,643	\$ 251,985
State taxes:				
Sales tax	351,854	351,854	457,246	105,392
Fees and charges:				
Licences and fees	57,107	57,107	401,564	344,457
Net change in fair value of investments	167,520	167,520	140,676	(26,844)
Interest and dividend income	57,002	57,002	477	(56,525)
Other:				
Other	231,859	231,859	18,152	(213,707)
Total revenues	2,000,000	2,000,000	2,404,758	404,758
Expenditures:				
Current:				
General government:				
Office of the Governor	182,264	79,190	102,875	(23,685)
Department of Administration and Finance	133,824	133,824	104,987	28,837
Judiciary Branch	376,261	376,261	333,309	42,952
Legislative Branch	659,213	659,213	659,414	(201)
Public Auditor	103,314	103,314	107,839	(4,525)
Election	-	-	-	-
	1,454,876	1,351,802	1,308,424	43,378
Education:				
Scholarship board	28,280	28,280	21,815	6,465
Public order and safety:				
Office of the Attorney General	395,146	125,236	95,126	30,110
Parole board	1,000	1,000	800	200
	396,146	126,236	95,926	30,310
Economic development:				
Resources and Economic Affairs	399,865	57,850	101,871	(44,021)
	399,865	57,850	101,871	(44,021)
Public Works:				
Department of Transportation and Infrastructure	261,171	55,844	45,411	10,433
	261,171	55,844	45,411	10,433
Boards, commissions and other:				
Kosrae Island Resource Management Authority	213,403	218,903	189,040	29,863
Broadcast Authority	47,268	47,268	37,778	9,490
Sports Council	48,787	48,787	21,814	26,973
Small Business Development Center	49,515	49,515	8,525	40,990
Land Court	-	-	-	-
Municipal governments	-	-	10,836	(10,836)
Price Control Commission	2,500	-	-	-
Kosrae Visitor's Bureau	65,590	65,590	47,051	18,539
Other	-	-	-	-
Debt Service:				
Principal payments	-	-	328,510	(328,510)
Interest charges	-	-	70,342	(70,342)
	427,063	430,063	713,896	(283,833)
Total expenditures	2,967,401	2,050,075	2,287,343	(237,268)
Deficiency of revenues under expenditures	(967,401)	(50,075)	117,415	167,490
Special items				
Write off of receivables	-	-	(150,000)	(150,000)
Other financing sources:				
Operating transfers in (out)	-	-	400,000	400,000
Net change in fund balance	(967,401)	(50,075)	367,415	417,490
Encumbrances	-	-	45,821	45,821
Fund balances at the beginning of the year	1,972,807	1,972,807	1,972,807	-
Fund balance at the end of the year	\$ 1,005,406	\$ 1,922,732	\$ 2,386,043	\$ 463,311

See Accompanying Independent Auditors' Report.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA

NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

Combining Balance Sheet
September 30, 2020

	Scholarship Revolving Loan	Production and Development Loan	Health Care	Sports Council	Transportation Infrastructure	Broadcasting Authority	Aluminum Recycling	CFSM Grants	Gifford Scholarship	Land Administration	Total
ASSETS											
Receivables:											
General	\$ -	\$ -	\$ 275	\$ -		\$ -	\$ -	\$ 714,325	\$ -	\$ -	\$ 714,600
Due from other funds	13,008	9,107	604,384	683	1,558	11,344	257,525	-	-	25,873	923,482
Prepaid items	-	10,691	1,758	-		-	-	-	-	-	12,449
Other assets	-	-	-	-	-	-	-	93,000		-	93,000
Restricted:											
Cash and equivalents	-	-	-	-	-	-	-	-	42,311	-	42,311
Time certificates of deposit	-	-	-	-	-	-	-	-	359,950	-	359,950
											-
Total assets	<u>\$ 13,008</u>	<u>\$ 19,798</u>	<u>\$ 606,417</u>	<u>\$ 683</u>	<u>\$ 1,558</u>	<u>\$ 11,344</u>	<u>\$ 257,525</u>	<u>\$ 807,325</u>	<u>\$ 402,261</u>	<u>\$ 25,873</u>	<u>\$ 2,145,792</u>
LIABILITIES AND FUND											
BALANCES											
Liabilities:											
Accounts payable	\$ -	\$ 52	\$ 38,736	\$ -		\$ -	\$ -	\$ 32,957	\$ -	\$ -	\$ 71,745
Other liabilities and accruals	-	-	-	-		-	-	3,825	-	-	3,825
Due to other funds	-	-	-	-		-	-	630,229	-	-	630,229
Unearned revenue	-	-	-	-	-	-	-	33	-	-	33
Total liabilities	<u>-</u>	<u>52</u>	<u>38,736</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>667,044</u>	<u>-</u>	<u>-</u>	<u>705,832</u>
Fund balances:											
Non-spendable	-	-	-	-	-	-	-	93,000	-	-	93,000
Restricted	-	-	-	-	1,558	-	-	47,281	402,261	-	451,100
Committed	13,008	19,746	567,681	683	-	11,344	257,525	-	-	25,873	895,860
Total fund balances	<u>13,008</u>	<u>19,746</u>	<u>567,681</u>	<u>683</u>	<u>1,558</u>	<u>11,344</u>	<u>257,525</u>	<u>140,281</u>	<u>402,261</u>	<u>25,873</u>	<u>1,439,960</u>
Total liabilities and fund balances	<u>\$ 13,008</u>	<u>\$ 19,798</u>	<u>\$ 606,417</u>	<u>\$ 683</u>	<u>\$ 1,558</u>	<u>\$ 11,344</u>	<u>\$ 257,525</u>	<u>\$ 807,325</u>	<u>\$ 402,261</u>	<u>\$ 25,873</u>	<u>\$ 2,145,792</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, 2020

	Scholarship Revolving Loan	Production and Development Loan	Health Care	Sports Council	Transportation Infrastructure	Broadcasting Authority	Aluminum Recycling	CFSM Grants	Gifford Scholarship	Land Administration	Total
Revenues:											
Fees and charges	\$ -	\$ 7,768	\$ 169,143	\$ 50	\$ 1,558	\$ 1,013	\$ 110,972	\$ -	\$ -	\$ -	\$ 290,504
CFSM grants	-	-	-	-	-	-	-	1,045,863	-	-	1,045,863
Interest income	-	8	55	-	-	-	68	-	2,301	-	2,432
Other revenues	3,084	-	-	-	-	-	-	-	-	-	3,084
Total revenues	3,084	7,776	169,198	50	1,558	1,013	111,040	1,045,863	2,301	-	1,341,883
Expenditures by function:											
Current:											
General Government	-	-	-	-	-	-	-	1,045,863	-	-	1,045,863
Economic development	-	196	-	-	-	-	-	-	-	-	196
Health services	-	-	158,534	-	-	-	-	-	-	-	158,534
Boards, commissions and other	-	-	-	-	-	-	46,933	-	-	-	46,933
Total expenditures	-	196	158,534	-	-	-	46,933	1,045,863	-	-	1,251,526
Excess of revenues over expenditures	3,084	7,580	10,664	50	1,558	1,013	64,107	-	2,301	-	90,357
Fund balances at the beginning of the year	9,924	12,166	557,017	633	-	10,331	193,418	140,281	399,960	25,873	1,349,603
Fund balances at the end of the year	\$ 13,008	\$ 19,746	\$ 567,681	\$ 683	\$ 1,558	\$ 11,344	\$ 257,525	\$ 140,281	\$ 402,261	\$ 25,873	\$ 1,439,960

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, 2020

	Scholarship Revolving Loan	Production and Development Loan	Health Care	Sports Council	Transportation Infrastructure	Broadcasting Authority	Aluminum Recycling	CFSM Grants	Gifford Scholarship	Land Administration	Total
Revenues:											
Fees and charges	\$ -	\$ 7,768	\$ 169,143	\$ 50	\$ 1,558	\$ 1,013	\$ 110,972	\$ -	\$ -	\$ -	\$ 290,504
CFSM Grants	-	-	-	-	-	-	-	1,045,863	-	-	1,045,863
Interest income	-	8	55	-	-	-	68	-	2,301	-	2,432
Other revenues	3,084	-	-	-	-	-	-	-	-	-	3,084
Total revenues	3,084	7,776	169,198	50	1,558	1,013	111,040	1,045,863	2,301	-	1,341,883
Expenditures by account:											
Salaries and wages:											
Regular	-	-	12,666	-	-	-	-	782,435	-	-	795,101
Overtime	-	-	-	-	-	-	-	20,249	-	-	20,249
Fringe benefits	-	-	2,721	-	-	-	-	99,025	-	-	101,746
Other personnel cost	-	-	18,035	-	-	-	-	-	-	-	18,035
Travel and transportation	-	-	15,906	-	-	-	-	3,464	-	-	19,370
Communications	-	-	-	-	-	-	-	759	-	-	759
Food stuffs	-	-	3,599	-	-	-	-	70	-	-	3,669
Office supplies and materials	-	196	30,802	-	-	-	46,933	53,203	-	-	131,134
POL	-	-	-	-	-	-	-	9,537	-	-	9,537
Contractual services	-	-	-	-	-	-	-	46,149	-	-	46,149
Utilities	-	-	26,703	-	-	-	-	2,614	-	-	29,317
Medical supplies	-	-	2,122	-	-	-	-	-	-	-	2,122
Medical referral cost	-	-	41,746	-	-	-	-	-	-	-	41,746
Rental	-	-	1,809	-	-	-	-	-	-	-	1,809
Equipment	-	-	2,169	-	-	-	-	28,223	-	-	30,392
Payment to component unit	-	-	-	-	-	-	-	-	-	-	-
Subsidies and contributions	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous	-	-	256	-	-	-	-	135	-	-	391
Total expenditures	-	196	158,534	-	-	-	46,933	1,045,863	-	-	1,251,526
Excess of revenues over expenditures	3,084	7,580	10,664	50	1,558	1,013	64,107	-	2,301	-	90,357
Fund balances at the beginning of the year	9,924	12,166	557,017	633	-	10,331	193,418	140,281	399,960	25,873	1,349,603
Fund balances at the end of the year	\$ 13,008	\$ 19,746	\$ 567,681	\$ 683	\$ 1,558	\$ 11,344	\$ 257,525	\$ 140,281	\$ 402,261	\$ 25,873	\$ 1,439,960

See Accompanying Independent Auditors' Report.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

GRANTS ASSISTANCE FUND

Combining Balance Sheet
September 30, 2020

	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 Maintenance	Section 211(a)(6) Infrastructure
<u>ASSETS</u>							
Receivables:							
FSM National Government	\$ 174,183	\$ 2,403	\$ 46,039	\$ -	\$ -	\$ -	\$ 149,034
Federal agencies	-	-	-	-	-	-	-
Advances	107,290	629	1,271	1,282	-	-	-
Prepayments	-	225	41,771	-	-	-	-
Due from other funds	483,482	311,568	-	66,622	17,919	92,732	-
Other assets	-	-	-	-	-	-	-
Total assets	<u>\$ 764,955</u>	<u>\$ 314,825</u>	<u>\$ 89,081</u>	<u>\$ 67,904</u>	<u>\$ 17,919</u>	<u>\$ 92,732</u>	<u>\$ 149,034</u>
<u>LIABILITIES AND FUND BALANCES</u>							
Liabilities:							
Accounts payable	\$ 12,722	\$ 26,459	\$ 26,363	\$ 403	\$ -	\$ -	\$ 32,852
Other liabilities and accruals	77,530	68,645	-	1,551	-	-	4,218
Due to other funds	-	-	40,988	-	-	-	53,695
Unearned revenues	<u>674,703</u>	<u>219,721</u>	<u>21,730</u>	<u>65,950</u>	<u>17,919</u>	<u>43,836</u>	<u>58,186</u>
Total liabilities	<u>764,955</u>	<u>314,825</u>	<u>89,081</u>	<u>67,904</u>	<u>17,919</u>	<u>43,836</u>	<u>148,951</u>
Fund balances:							
Non-spendable	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	48,896	83
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>48,896</u>	<u>83</u>
Total liabilities and fund balances	<u>\$ 764,955</u>	<u>\$ 314,825</u>	<u>\$ 89,081</u>	<u>\$ 67,904</u>	<u>\$ 17,919</u>	<u>\$ 92,732</u>	<u>\$ 149,034</u>

See Accompanying Independent Auditors' Report.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

GRANTS ASSISTANCE FUND

Combining Balance Sheet, Continued
September 30, 2020

	Section 211(a)(7) Supplemental Education	Enhanced Reporting Accountability	U.S. Federal Grants	Foreign Assistance	Total
<u>ASSETS</u>					
Receivables:					
FSM National Government	\$ -	\$ 18,381	\$ 126,103	\$ -	\$ 516,143
Federal agencies	-	-	33,300	-	33,300
Advances	2,154	-	1,958	-	114,584
Prepayments	454	-	-	-	42,450
Due from other funds	283,481	-	25,101	110,983	1,391,888
Other assets	-	-	-	100,000	100,000
	<u>-</u>	<u>-</u>	<u>-</u>	<u>100,000</u>	<u>100,000</u>
 Total assets	 \$ 286,089	 \$ 18,381	 \$ 186,462	 \$ 210,983	 \$ 2,198,365
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Accounts payable	\$ 12,413	\$ -	\$ 41,122	\$ 144	\$ 152,478
Other liabilities and accruals	8,199	8,056	37,731	920	206,850
Due to other funds	-	17,228	49,330	-	161,241
Unearned revenues	265,477	(6,903)	58,279	91,857	1,510,755
	<u>265,477</u>	<u>(6,903)</u>	<u>58,279</u>	<u>91,857</u>	<u>1,510,755</u>
 Total liabilities	 286,089	 18,381	 186,462	 92,921	 2,031,324
 Fund balances:					
Non-spendable	-	-	-	100,000	100,000
Restricted	-	-	-	18,062	67,041
	<u>-</u>	<u>-</u>	<u>-</u>	<u>118,062</u>	<u>167,041</u>
 Total fund balances	 -	 -	 -	 118,062	 167,041
 Total liabilities and fund balances	 \$ 286,089	 \$ 18,381	 \$ 186,462	 \$ 210,983	 \$ 2,198,365

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, 2020**

	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 Maintenance	Section 211(a)(6) Infrastructure
Revenues:							
Compact funding	\$ 2,339,252	\$ 2,767,200	\$ 120,006	\$ 136,914	\$ 19,933	\$ 11,162	\$ 668,437
Federal contributions	-	-	-	-	-	-	-
Other grants	-	-	-	-	-	-	-
Total revenues	<u>2,339,252</u>	<u>2,767,200</u>	<u>120,006</u>	<u>136,914</u>	<u>19,933</u>	<u>11,162</u>	<u>668,437</u>
Expenditures by function:							
Current:							
General government	-	-	-	136,914	-	11,162	668,437
Economic development	-	-	120,006	-	-	-	-
Education	2,339,252	-	-	-	-	-	-
Health services	-	2,767,200	-	-	-	-	-
Environment protection and sanitation	-	-	-	-	19,933	-	-
Total expenditures	<u>2,339,252</u>	<u>2,767,200</u>	<u>120,006</u>	<u>136,914</u>	<u>19,933</u>	<u>11,162</u>	<u>668,437</u>
Excess of revenues over expenditures	-	-	-	-	-	-	-
Other financing sources (uses):							
Operating transfer in (out)	-	-	-	-	-	-	-
Net change in fund balances	-	-	-	-	-	-	-
Fund balances at the beginning of the year	-	-	-	-	-	48,896	83
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,896</u>	<u>\$ 83</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, 2020

	Section 211(a)(7) Supplemental Education	Enhanced Reporting Accountability	U.S. Federal Grants	Foreign Assistance	Total
Revenues:					
Compact funding	\$ 932,501	\$ 186,456	\$ -	\$ -	\$ 7,181,861
Federal contributions	-	-	1,104,956	-	1,104,956
Other grants	-	-	-	34,295	34,295
Total revenues	<u>932,501</u>	<u>186,456</u>	<u>1,104,956</u>	<u>34,295</u>	<u>8,321,112</u>
Expenditures by function:					
Current:					
General government	-	186,456	-	39,536	1,042,505
Economic development	-	-	143,818	34,295	298,119
Education	932,501	-	467,542	10,338	3,749,633
Health services	-	-	493,596	-	3,260,796
Environment protection and sanitation	-	-	-	-	19,933
Total expenditures	<u>932,501</u>	<u>186,456</u>	<u>1,104,956</u>	<u>84,169</u>	<u>8,370,986</u>
Excess of revenues over expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>(49,874)</u>	<u>(49,874)</u>
Other financing sources (uses):					
Operating transfer in (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(400,000)</u>	<u>(400,000)</u>
Net change in fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>(449,874)</u>	<u>(449,874)</u>
Fund balances at the beginning of the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>567,936</u>	<u>616,915</u>
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 118,062</u>	<u>\$ 167,041</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, 2020

	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 Maintenance	Section 211(a)(6) Infrastructure
Revenues:							
Compact funding	\$ 2,339,252	\$ 2,767,200	\$ 120,006	\$ 136,914	\$ 19,933	\$ 11,162	\$ 668,437
Federal contributions	-	-	-	-	-	-	-
Other grants	-	-	-	-	-	-	-
Total revenues	<u>2,339,252</u>	<u>2,767,200</u>	<u>120,006</u>	<u>136,914</u>	<u>19,933</u>	<u>11,162</u>	<u>668,437</u>
Expenditures by account:							
Salaries and wages:							
Regular	1,414,261	1,067,177	-	9,130	-	-	82,951
Overtime	185,669	247,886	-	-	-	-	-
Fringe benefits	-	135,390	-	1,096	-	-	6,393
Other personnel costs	-	-	-	-	-	-	-
Travel and transportation	-	2,609	-	6,507	-	-	3,331
Communications	10,873	6,497	-	1,562	-	-	2,483
Dues, membership, and subscriptions	-	1,000	-	-	-	-	-
Food stuffs	1,610	16,391	-	-	-	-	-
Port charges	45	369	-	-	-	-	-
Office supplies and materials	294,025	168,451	-	1,953	-	-	5,366
POL	34,427	33,440	-	-	-	-	659
Printing and reproduction	-	-	-	-	-	-	750
Rental services	775	220	-	-	-	-	-
Repairs and maintenance	1,394	-	-	-	-	-	-
Utilities	44,392	153,357	-	1,000	-	-	3,600
Medical referral	-	-	-	-	-	-	-
Medical supplies	-	556,887	-	-	-	-	-
Contractual services	116,164	166,171	120,006	105,332	19,933	5,862	554,349
Professional services	-	6,928	-	-	-	-	-
Scholarships and allowances	166,963	-	-	-	-	-	-
Training	-	7,213	-	-	-	-	-
Leased housing, buildings and land	15,984	44,018	-	5,985	-	-	6,930
Nonpayroll compensation	-	15,557	-	-	-	-	-
Equipment	46,300	137,498	-	-	-	5,300	1,625
Miscellaneous	6,370	141	-	4,349	-	-	-
Total expenditures	<u>2,339,252</u>	<u>2,767,200</u>	<u>120,006</u>	<u>136,914</u>	<u>19,933</u>	<u>11,162</u>	<u>668,437</u>
Excess of revenues over expenditures	-	-	-	-	-	-	-
Other financing sources (uses):							
Operating transfer in (out)	-	-	-	-	-	-	-
Net change in fund balances	-	-	-	-	-	-	-
Fund balances at the beginning of the year	-	-	-	-	-	48,896	83
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,896</u>	<u>\$ 83</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, 2020

	Section 211(a)(7) Supplemental Education	Enhanced Reporting Accountability	U.S. Federal Grants	Foreign Assistance	Total
Revenues:					
Compact funding	\$ 932,501	\$ 186,456	\$ -	\$ -	\$ 7,181,861
Federal contributions	-	-	1,104,956	-	1,104,956
Other grants	-	-	-	34,295	34,295
Total revenues	<u>932,501</u>	<u>186,456</u>	<u>1,104,956</u>	<u>34,295</u>	<u>8,321,112</u>
Expenditures by account:					
Salaries and wages:					
Regular	150,357	149,165	642,372	11,321	3,526,734
Overtime	-	309	142	-	434,006
Fringe benefits	16,634	16,900	85,001	883	262,297
Other personnel costs	-	-	-	-	-
Travel and transportation	2,982	-	56,383	-	71,812
Communications	21,695	-	10,351	-	53,461
Dues, membership, and subscriptions	-	-	-	-	1,000
Food stuffs	2,480	-	-	-	20,481
Port charges	135	-	-	-	549
Office supplies and materials	255,903	5,982	126,605	2,092	860,377
POL	11,313	-	8,535	-	88,374
Printing and reproduction	-	-	14,951	-	15,701
Rental services	176	-	10,122	-	11,293
Repairs and maintenance	282	-	2,203	-	3,879
Utilities	42,334	-	18,244	-	262,927
Medical referral	-	-	-	-	-
Medical supplies	-	-	2,050	-	558,937
Contractual services	237,519	-	67,736	69,873	1,462,945
Professional services	-	-	-	-	6,928
Scholarships and allowances	-	-	-	-	166,963
Training	134,764	-	-	-	141,977
Leased housing, buildings and land	2,494	-	6,478	-	81,889
Nonpayroll compensation	-	-	1,500	-	17,057
Equipment	49,019	14,100	20,629	-	274,471
Miscellaneous	4,414	-	31,654	-	46,928
Total expenditures	<u>932,501</u>	<u>186,456</u>	<u>1,104,956</u>	<u>84,169</u>	<u>8,370,986</u>
Excess of revenues over expenditures	-	-	-	(49,874)	(49,874)
Other financing sources (uses):					
Operating transfer in (out)	-	-	-	(400,000)	(400,000)
Net change in fund balances	-	-	-	(449,874)	(449,874)
Fund balances at the beginning of the year	-	-	-	567,936	616,915
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 118,062</u>	<u>\$ 167,041</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, 2020, 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 31, 2021. Our report includes explanatory paragraphs concerning collectability of receivables and the impact of COVID-19.

For purposes of this report, our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants, and other matters did not include the 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) as a basis for designing 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2020-001 that we consider to be a material weakness.

Compliance and Other Matters

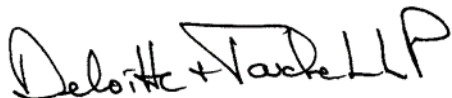
As part of obtaining reasonable assurance about whether the State's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect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

The State's Response to Findings

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

Purpose of this Report

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

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

December 31, 2021

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, 2020. 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, 2020. 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 program for the year ended September 30, 2020.

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.

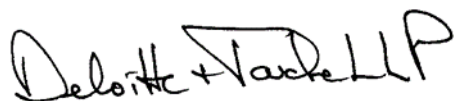
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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, 2020, and the related notes to the financial statements, which collectively comprise the State's basic financial statements. We issued our report thereon dated December 31, 2021, which contained unmodified opinions on those financial statements and included explanatory paragraphs concerning collectability of receivables and the impact of COVID-19. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

December 31, 2021

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA

Summary Schedule of Expenditures of Federal Awards, by Grantor
Year Ended September 30, 2020

Agency	Expenditures
U.S. Department of Agriculture	\$ 29,400
U.S. Department of the Interior	7,307,527
U.S. Department of Education	467,542
U.S. Department of Health and Human Services	<u>482,348</u>
GRAND TOTAL	<u>\$ 8,286,817</u>

Reconciliation to the basic financial statements:	
Grants Assistance Fund expenditures	\$ 8,370,986
Less:	
Foreign Assistance Fund expenditures	<u>(84,169)</u>
	<u>\$ 8,286,817</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, 2020

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:			
Forest Legacy Program	10.664		\$ 13,356
	10.675		42,819
Pass-Through From the FSM National Government:	10.676	A3	
Cooperative Forestry Assistance	10.678		\$ (26,775)
Total U.S. Department of Agriculture			<u>\$ 29,400</u>
U.S. DEPARTMENT OF THE INTERIOR:			
Direct Programs:			
Historic Preservation Fund Grants-In Aid	15.904		\$ 125,666
Pass-Through From the FSM National Government:		A3	
Compact Special Development			
Compact Energy Block Grant			
Compact Health & Medical			
Compact II Health Sector			2,767,200
Compact II Private Sector Development			120,006
Compact II Capacity Building			136,914
Compact II Environment			19,933
Compact II Infrastructure Sector			679,599
Supplemental Education Grant			932,501
Compact II Enhanced Reporting Accountability			<u>186,456</u>
Total U.S. Department of the Interior			<u>\$ 7,307,527</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		\$ 467,542
Total Special Education Cluster (IDEA) and Total U.S. Department of Education			<u>\$ 467,542</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Direct Programs:			
Health Center Program Cluster:			
Health Center Program (Community Health Centers, MHC, HCH and PHPC)	93.224		\$ -
Subtotal Health Center Program Cluster			-
Cancer Prevention and Control Programs for State, Territorial and Tribal Org	93.898		36,273
Pass-Through From the FSM National Government:		A3	
Public Health Emergency Preparedness	93.069		\$ 15,727
Preparedness (PHEP) Aligned Cooperative Agreements	93.889		1,926
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092		38,643
Maternal and Child Health Federal Consolidated Programs	93.110		12,058
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116		30,928
Family Planning - Services	93.217		18,280
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		22,837
Universal Newborn Hearing Screening	93.251		-
Immunization Cooperative Agreements	93.268		57,079
Centers for Disease Control and Prevention_Investigations and Technical Assistance	93.283		-
EHID-IS Surveillance Program	93.314		-
Prevention and Control of Chronic Disease and Associated Risk Factors in the U.S. Affiliated Pacific Islands, U.S. Virgin Islands and P.R.	93.377		42,457
CDC Undergraduate Public Health Scholars Program (CUPS): A Public Health Experience to Expose Undergraduates Interested in Minority Health to Public Health and the Public Health Professions	93.456		-
Block Grants for OPIOD Responses	93.788		71,188
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.994		42,158
Assistance Programs for Chronic Disease Prevention & Control	93.945		(1,513)
Block Grants for Community Mental Health Service	93.958		14,579
Block Grants for Prevention and Treatment of Substance Abuse	93.959		62,376
Preventive Health and Health Services Block Grant	93.991		4,066
Maternal and Child Health Services Block Grant to the States	93.354		<u>13,286</u>
Total U.S. Department of Health and Human Services			<u>\$ 482,348</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 8,286,817</u>

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2020

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, 2020. 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, 2020 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, 2020. Accordingly, the accompanying Schedule presents the federal award programs administered by the State, as defined above, for the year ended September 30, 2020.

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, 2020

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? | Yes |
| 3. Significant deficiency(ies) identified? | None reported |
| 4. Noncompliance material to financial statements noted? | No |

Federal Awards

Internal control over major federal programs:

- | | |
|---|------------|
| 5. Material weakness(es) identified? | 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>
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15.875	Economic, Social and Political Development of the Territories – Compact of Free Association Compact Sector Grants
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- | | |
|--|-----------|
| 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

<u>Finding #</u>	<u>Finding</u>
2020-001	Bank Reconciliation

Section III - Federal Award Findings and Questioned Costs

No matters were reported.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2020

Finding No. 2020-001 – Bank Reconciliation

Criteria: Bank reconciliations should be performed and financial statements adjusted during the year to facilitate a timely year-end closing, as well as provide accurate internal financial statements for management and Board of Director reviews during the year.

Condition: The September 30, 2020 bank reconciliation (for one bank account) included unrecorded transactions totaling a net amount of \$443,000, that was provided in mid-December 2021, almost 15 months after fiscal year and this resulted in a material proposed audit adjustment. Additionally, at approximately the same time, some \$400,000 of direct grant revenues received in prior years were transferred to the general fund to offset prior usage of those funds.

Cause: The cause of the above condition is the untimely reviews of bank reconciliations and non-timely reconciliations of the financial statements.

Effect: Inaccurate internal financial statements during the year and a delay in the audit process resulted.

Recommendation: Management should perform timely reviews of bank reconciliations and of material funds and make necessary timely adjustments.

Views of Responsible Officials: We agree with the finding. Management has already started taking corrective measures to ensure that bank reconciliation and adjustments are done on a monthly basis. Management has also started training of additional staff (2) who will have responsibilities in the area to ensure monthly reconciliations.

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

**Summary Schedule of Prior Audit Findings and Questioned Costs
Year Ended September 30, 2020**

There are no unresolved prior audit findings and questioned costs.