

Financial Statements and Additional Information

**State of Chuuk
Federated States of Micronesia**

*Year Ended September 30, 2022
with Report of Independent Auditors*



State of Chuuk
Federated States of Micronesia

Financial Statements, Required Supplementary Information,
and Other Supplementary Information

Year Ended September 30, 2022

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Report of Independent Auditors

Honorable Alexander R. Narruhn
Governor, State of Chuuk
Federated States of Micronesia:

Report on the Audit of the Financial Statements

Qualified and Unmodified Opinions

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Chuuk (the State), as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as listed in the table of contents (collectively referred to as the "financial statements").

Summary of Opinions

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

Qualified Opinions on Governmental Activities, General Fund and Grants Assistance Fund

In our opinion, except for the effects of the matters described in the Basis for Qualified and Unmodified Opinions section of our report, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the General Fund and the Grants Assistance Fund of the State of Chuuk as of September 30, 2022, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions on Aggregate Discretely Presented Component Units, Compact Trust Fund and Aggregate Remaining Fund Information

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the aggregate discretely presented component units, Compact Trust Fund and the aggregate remaining fund information of the State of Chuuk as of September 30, 2022, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified and Unmodified Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the State and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Matters Giving Rise to Qualified Opinions on Governmental Activities, General Fund and Grants Assistance Fund

As discussed in Note 11 to the financial statements, the State has not recorded right-to-use assets and lease liabilities, as required by generally accepted accounting principles, for land leases in the governmental activities and the General Fund. The amount by which this departure would affect the liabilities, net position and expenses of the governmental activities and the liabilities, fund balance, and expenditures of the General Fund is not reasonably determinable. In addition, we were unable to obtain sufficient audit evidence to support \$8,543,745 recorded as land acquisition payable in the State's General Fund as of September 30, 2021. Consequently, we were unable to determine whether any adjustments to these amounts were necessary in the governmental activities and General Fund.

The State's Grants Assistance Fund includes \$6,064,011 and \$8,419,609 recorded as receivables and unearned revenues, respectively, intended to account for federal awards received in advance of eligible expenditures. We were unable to obtain sufficient appropriate audit evidence about the \$6,064,011 and \$8,419,818 carrying amounts of the State's receivables and unearned revenues as of September 30, 2022. Consequently, we were unable to determine whether any adjustments to these amounts were necessary in the governmental activities and Grants Assistance Fund.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the State's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and

Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 State's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the State's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund, be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. Financial statements for the year ended September 30, 2021 were audited by other auditors whose report dated December 31, 2022 expressed qualified opinions on the governmental activities and general fund, and unmodified opinions on the aggregate discretely presented component units, grants assistance fund, and the compact trust fund (the related financial statements are not presented herein). The (a) combining schedule of expenditures by account-Governmental Funds, (b) statement of revenues, expenditures by function and changes in deficit - General Fund, (c) combining balance sheet – Grants Assistance Fund, (d) combining statement of revenues, expenditures by function, and changes in fund balances – Grants Assistance Fund, and (e) combining statement of revenues, expenditures by account, and changes in fund balance – Grants Assistance Fund are presented for purposes of additional analysis 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, except for that pertaining to year ended September 30, 2021 audited by predecessor auditors, 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 GAAS. In our opinion, the (a) combining schedule of expenditures by account-Governmental Funds, (b) statement of revenues, expenditures by function and changes in deficit - General Fund, (c) combining balance sheet – Grants Assistance Fund, (d) combining statement of revenues, expenditures by function, and changes in fund balances – Grants Assistance Fund, and (e) combining statement of revenues, expenditures by account, and changes in fund balance – Grants Assistance Fund are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Statement of Revenues, Expenditures by Function and Department and Changes in deficit-Budget and Actual, Budgetary Analysis - General Fund for the year ended September 30, 2022 but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 29, 2024, 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.

Ernst + Young LLP

July 29, 2024

State of Chuuk
Federated States of Micronesia

Management's Discussion and Analysis

September 30, 2022

This analysis, prepared by the Department of Administrative Services, Division of Treasury, offers readers of the Chuuk State Government's (Chuuk State) financial statements a narrative overview of the activities of the government for the fiscal year ended September 30, 2022. We encourage readers to consider this information in conjunction with Chuuk State's financial statements, which follow. Fiscal year 2020 comparative information has been included, where appropriate. This analysis is required by the Governmental Accounting Standards Board, (GASB) which provides guidelines on what must be included and excluded from this analysis.

FINANCIAL HIGHLIGHTS

- For the fiscal year ended September 30, 2022, Chuuk State's total net position decreased by \$0.033 million (or 00.05 %) from \$61.220 million in the prior year to \$61.187 million. The decrease is mainly attributed to the slight decrease in general revenues and increase in expenses.
- During fiscal year 2022, Chuuk State's revenues and contributions of \$41.392 million decreased by \$5.575 million (or 11.87 %) from \$46.967 million in fiscal year 2021. The decrease in revenue was primarily attributable to a net change in the fair value of investments as compared from fiscal year 2021. Chuuk State's expenses in fiscal year 2022 of \$40.975 million increased by \$1.494 million (or 3.78%) from \$39.481 million in fiscal year 2021. The increase is due to increase in expenses in health services, boards, commissions and other, judiciary, payments to component units and unallocated payments on long term debt.
- The General Fund has positive balance of \$1.282 million in fiscal year 2022, from \$0.062 million positive balance in fiscal year 2021. The increase in fund balance was due to the excess of revenues over expenditures by \$1.220 net of special item.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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Management's Discussion and Analysis, continued

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

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

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

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

Fund Financial Statements

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

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

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

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Management's Discussion and Analysis, continued

FINANCIAL ANALYSIS OF CHUUK STATE AS A WHOLE

Net position may serve over time as a useful indicator of a government's financial position. At the end of fiscal year 2022, Chuuk State's assets exceeded liabilities by \$61.187 million. However, all such net position is restricted as to the purposes they can be used for or are invested in capital assets. Chuuk State uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although Chuuk State's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The following summary of Chuuk State's net position as of September 30, 2022, with comparable balances for fiscal year 2022, discloses this relationship.

	Governmental Activities			
	<u>2022</u>	<u>2021</u>	<u>Change</u>	<u>%</u>
Current and other assets	\$44,541,506	\$41,733,228	\$2,808,278	6.73
Capital assets	<u>43,906,214</u>	<u>45,305,584</u>	<u>(1,399,370)</u>	(3.09)
Total Assets	<u>\$88,447,720</u>	<u>\$87,038,812</u>	<u>\$1,408,908</u>	1.62
Current and other liabilities	\$21,368,149	\$18,842,998	\$2,525,151	13.40
Long-term debt	<u>5,892,781</u>	<u>6,975,642</u>	<u>(1,082,861)</u>	15.52
Total Liabilities	<u>27,260,930</u>	<u>25,818,640</u>	<u>1,442,290</u>	5.59
Net Position:				
Net investment in capital assets	43,906,214	45,305,584	(1,399,370)	(3.09)
Restricted	25,171,164	27,639,118	(2,467,954)	(8.93)
Unrestricted	<u>(7,890,588)</u>	<u>(11,724,530)</u>	<u>3,833,942</u>	(32.70)
Total net position	<u>61,186,790</u>	<u>61,220,172</u>	<u>(33,382)</u>	(0.05)
Total Liabilities and Net Position	<u>\$88,447,720</u>	<u>\$87,038,812</u>	<u>\$1,408,908</u>	1.62

At the end of fiscal year 2022, Chuuk State's unrestricted net position showed a deficit of \$7.891 million, a decrease of \$3.834 million (32.70%) from the prior year \$11.725 million. This deficit is the result of having current and long-term commitments that are greater than currently available resources. Chuuk State did not include in past annual budgets the full amounts needed to finance its current liabilities to vendors and others or its long-term liabilities arising from Asian Development Bank (ADB) loans and unused employee leave balances. Chuuk State will include these amounts in future years' budgets as funding permits.

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Management's Discussion and Analysis, continued

Net position decreased by \$0.033 million (0.05%) from the prior year. Key elements of the increase and the differences from the prior year are shown in the following schedule:

	Governmental Activities			
	<u>2022</u>	<u>2021</u>	<u>Change</u>	<u>%</u>
Revenues:				
Program Revenues:				
Charges for services	\$ 2,147,508	\$ 2,078,930	\$ 68,578	3.30
Operating and capital grants and contributions	<u>30,855,203</u>	<u>28,630,387</u>	<u>2,224,816</u>	7.77
	<u>33,002,711</u>	<u>30,709,317</u>	<u>2,293,394</u>	7.47
General Revenues:				
Taxes	10,696,964	10,558,699	138,265	1.31
Unrestricted investment earnings (losses)	(669,238)	603,917	(1,273,155)	-210.82
Other	<u>1,007,221</u>	<u>1,142,182</u>	<u>(134,961)</u>	-11.82
	<u>11,034,947</u>	<u>12,304,798</u>	<u>(1,269,851)</u>	-10.32
Total revenues	<u>44,037,658</u>	<u>43,014,115</u>	<u>1,023,543</u>	2.38
Special item-SDR foreign exchange gain	604,885	(35,598)	640,483	-179.92
Special item- write off of receivable	(120,399)	---	(120,399)	-100.00
Contributions to permanent fund	<u>(2,645,502)</u>	<u>3,952,852</u>	<u>(6,598,354)</u>	-166.93
Total revenues and contributions	<u>41,876,642</u>	<u>46,931,369</u>	<u>(5,054,727)</u>	-10.77
Expenses:				
General government	6,330,302	7,187,186	(856,884)	(11.92)
Health services	12,837,968	11,390,370	1,447,598	12.71
Education	14,202,840	14,466,731	(263,891)	(1.82)
Economic development	574,041	661,106	(87,065)	(13.17)
Public safety	1,169,320	1,109,948	59,372	5.35
Public works and transportation	1,686,526	1,707,346	(20,820)	(1.22)
Community affairs	156,997	152,421	4,576	3.00
Boards and commissions	1,427,838	879,866	547,972	62.28
Judiciary	595,109	473,262	121,847	25.75
Payments to component units	275,798	74,250	201,548	271.45
Municipal affairs	408,858	418,800	(9,942)	(2.37)
Unallocated interest on long- term debt	1,243,657	546,300	697,357	127.65
Capital projects	<u>1,000,770</u>	<u>1,556,672</u>	<u>(555,902)</u>	(35.71)
Total expenses	<u>41,910,024</u>	<u>40,624,258</u>	<u>1,285,766</u>	3.17
Change in net position	(33,382)	6,307,111	(6,340,493)	(100.53)
Net position at the beginning of the year	<u>61,220,172</u>	<u>54,913,061</u>	<u>6,307,111</u>	11.49
Net position at the end of the year	<u>\$61,186,790</u>	<u>\$61,220,172</u>	<u>\$(_ 33,382)</u>	(0.05)

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Management's Discussion and Analysis, continued

The detail indicates the decrease in revenues but increase in expenses in fiscal year 2022, resulting to a negative balance in change in net position of \$0.033 million.

Revenues and contributions of \$41.876 million decreased by \$5.055 million (or 10.77%) from prior year's \$46.931 million. The key elements of the decrease were due to unrestricted investment loss, write off of receivable and permanent fund investment loss as compared from prior year.

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

<u>Sources of Revenue</u>	<u>2022</u>	<u>2021</u>
Compact funding	68.90%	56.25%
Federal and other grants	5.64%	4.71%
Investments	-8.01%	9.70%
Revenue sharing	15.90%	14.18%
Taxes and fees	15.14%	12.73%
Other	<u>2.43%</u>	<u>2.43%</u>
	<u>100.00%</u>	<u>100.00%</u>

Notwithstanding the increase in revenues on taxes and fees that reduces dependency on Compact funding, the predominance of sector funding as 68.90% of the total revenue highlights the importance of optimizing Compact sector grant utilization.

Total expenses increased by \$1.286 million (or 3.17%), from \$40.624 million in the prior fiscal year to \$41.910 million in fiscal year 2022. The most notable increases in fiscal year 2022 were in health sector of \$1.448 million, boards and commissions of \$0.548 million, judiciary of \$0.122, payments to component units of \$0.202 and unallocated interest on long-term debt of \$0.697 million. However, the major decreases in expenses occurred in general government of \$0.857 million, education sector of \$0.264 million and capital projects of \$0.556 million.

FINANCIAL ANALYSIS OF CHUUK STATE'S FUNDS

As noted earlier, Chuuk State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. As of the end of fiscal year 2022, Chuuk State's governmental funds reported a combined fund balance of \$23.971 million, which represents a \$0.297 million increase (1.25%) from the \$23.674 million fund balance recorded at the end of fiscal 2021. Of this total combined fund balance, \$19.814 million is non-spendable because it is legally restricted to other purposes and \$14.471 million is restricted to fund specific fund-related activities. These non-spendable and restricted fund balances are off-set by a combined unassigned fund deficit of \$10.314 million.

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Management's Discussion and Analysis, continued

General Fund

Most of the basic current operational services are recorded, reported, and accounted for in the General Fund, except for Health, Education, Environment, Private Sector Development, Capacity Building, ERA and IMF which are reported and accounted for in the Grant Assistance Fund. As shown in the accompanying financial statements, at the end of fiscal year 2022, the General Fund recorded total revenues of \$12.955 million with total expenditures of \$11.615 million, which resulted in net revenues of \$1.220 million after repayment of ADB loan principal and interest of \$1.683 million and write off of receivable of \$0.120 million. At the end of the year, General Fund unassigned fund balance increased to \$1.282 million. The State needs to continue to develop strategies to increase revenues and reduce expenditures in order to maintain and increase the fund balance to the next fiscal years.

Grants Assistance Fund

The Grants Assistance Fund consists of funding provided through the amended Compact of Free Association Sector Grants; US Federal Grants, and other Non-US grants. As shown in the accompanying financial statements, at the end of fiscal year 2022, the Grant Assistance Fund had total revenues of \$30.855 million and total expenditures of \$29.173 million. And without transfer from General Fund, the result is an excess of revenues over expenditures of \$1.682 million which resulted in a fund balance of \$3.870 million.

Compact Trust Fund

The Trust Fund was established to account for Chuuk State's share of the Compact Trust Fund. The Fund is managed by the FSM National Government and is a long-term restricted Fund. At the end of fiscal year 2022, the fund recorded a negative net change in the fair value of its investments of \$2.646 million, which decreased the fund balance at the end of the year to \$18.464 million.

Other Governmental Fund

This fund is established to account and report on fees collected for services at the Chuuk State Hospital. At the end of fiscal year 2022, total revenue collected were \$0.227 million and expenditures were \$0.186 million. This resulted in excess of revenues over expenditures of \$0.041 million.

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

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Management's Discussion and Analysis, continued

GENERAL FUND BUDGETARY HIGHLIGHTS

In fiscal year 2022, actual revenues of \$12.955 million exceeded the budgeted revenues of \$10.959 million by \$1.996 million. Actual budgetary expenditures of \$12.364 million were greater than budgetary appropriations of \$11.721 million by \$0.644 million, resulting in an excess of revenues over expenditures of \$0.591 million. The net change in unreserved fund deficit on a budgetary basis was a positive of \$.470 million, net of receivables write-off of \$0.120 million and without any fund transfer. In accordance with the principles of budgetary accounting, the deficit includes encumbrances for goods or services ordered but had not been received amounted to \$0.749 million, the net change in unreserved fund balance on a budgetary basis was a positive \$1.220 million, increasing prior year's fund balance and leaving \$1.282 million fund balance in fiscal year 2022.

Chuuk State retains a balanced operating budget but debt financing activities of the State that are not budgeted have negative impact on the overall State operations. In fiscal year 2022, payments of \$1.683 million on principal and interest on ADB loans and debt relief reduced the positive amount that increased the unreserved fund balance.

CAPITAL ASSET AND DEBT ADMINISTRATION

Chuuk State's investment in capital assets for the primary government as of September 30, 2022, amounted to \$136.549 million less accumulated depreciation of \$92.643 million, leaving a net book value of \$43.906 million. This represents a net decrease of \$1.399 million (or 3.09%) from fiscal year 2021. Chuuk State recorded additions of \$.733 million in vehicles/equipment without retirement in any of the assets. The table below summarizes Chuuk State's net capital assets:

	<u>Governmental Activities</u>			
	<u>2022</u>	<u>2021</u>	<u>Change</u>	<u>%</u>
Land	\$21,003,461	\$21,003,461	\$ ---	0.00
Airport Facilities	2,012,893	2,100,410	(87,517)	(4.17)
Buildings	17,333,175	17,905,754	(572,579)	(3.20)
Seaport Facilities	---	662,932	(662,932)	(100.00)
Vehicles / Equipment	<u>3,556,684</u>	<u>3,633,027</u>	<u>(76,343)</u>	(2.10)
	<u>\$43,906,213</u>	<u>\$45,305,584</u>	<u>\$(1,399,371)</u>	(3.09)

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

State of Chuuk
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Management's Discussion and Analysis, continued

Long –Term Debt

The following schedule shows Chuuk State's summarized long-term debt for fiscal year 2022 with comparative amounts for fiscal year 2021.

	Governmental Activities			
	<u>2022</u>	<u>2021</u>	<u>Change</u>	<u>%</u>
ADB Water Supply Loan (1459)	\$2,020,307	\$2,398,405	\$ (378,098)	(15.76)
ADB Early Retirement Loan (1520)	2,981,938	3,486,338	(504,400)	(14.47)
ADB Private Sector Reform Program Loan (1873)	122,712	174,791	(52,079)	(29.80)
ADB Private Sector Reform Program Loan (1874)	<u>471,226</u>	<u>580,429</u>	(109,203)	(18.81)
	<u>\$5,596,183</u>	<u>\$6,639,963</u>	<u>\$ (1,043,780)</u>	(15.72)

Long-term debt decreased by \$1.044 million (or 15.72%) in fiscal year 2022 as the result of loan repayments.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Chuuk State local revenue collections are showing growth in fiscal year 2023 with revenue collections trending expected to have marginal growth from prior year; however, this does not include any gains or losses from investment earnings. As a result, State policymakers have cautiously kept general fund budgets capped within actual revenue collections, both in fiscal years 2023 and for the 2024 annual appropriation act. Revenue collections in excess of these fiscal ceilings will be used for debt relief payments of Chuuk's old liabilities.

COVID-19 cases have been reported in the FSM. It caused the closure of Chuuk International Airport for several months for international travelers and negatively impacted the State; however, its impact on the States operations and financial position cannot be reasonably determined.

CONTACTING CHUUK STATE'S FINANCIAL MANAGEMENT

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

State of Chuuk
Federated States of Micronesia

Statement of Net Position

September 30, 2022

	<u>Primary Government</u>	<u>Component Units</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 6,757,356	\$ 4,585,071
Time certificates of deposit	-	100,000
Equity interest in internal investment pool	34,904	805,525
Receivables, net of allowance for uncollectibles	7,664,479	1,042,313
Inventories	-	946,652
Prepayments	25,000	172,671
Restricted assets:		
Cash and cash equivalents	<u>7,642,986</u>	<u>-</u>
Total current assets	<u>22,124,725</u>	<u>7,652,232</u>
Noncurrent assets:		
Restricted assets:		
Investments	21,066,131	-
Investments	700,650	-
Other assets	650,000	1,428,189
Capital assets:		
Nondepreciable capital assets	21,003,461	915,470
Capital assets, net of accumulated depreciation	<u>22,902,753</u>	<u>21,797,495</u>
Total noncurrent assets	<u>66,322,995</u>	<u>24,141,154</u>
Total assets	<u><u>\$ 88,447,720</u></u>	<u><u>\$ 31,793,386</u></u>
<u>LIABILITIES</u>		
Current liabilities:		
Current portion of long-term debt	\$ 419,173	\$ 283,815
Accounts payable	1,893,293	436,884
Land acquisition payable	8,543,745	-
Compensated absences payable	378,666	7,483
Other liabilities and accruals	1,637,690	448,007
Unearned revenues	<u>8,495,582</u>	<u>59,212</u>
Total current liabilities	<u>21,368,149</u>	<u>1,235,401</u>

See accompanying notes.

State of Chuuk
Federated States of Micronesia

Statement of Net Position, continued

	Primary Government	Component Units
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	5,177,010	2,985,344
Compensated absences payable, net of current portion	715,771	35,319
Total noncurrent liabilities	5,892,781	3,020,663
Total liabilities	27,260,930	4,256,064
<u>NET POSITION</u>		
Net investment in capital assets	43,906,214	19,431,356
Restricted for:		
Nonexpendable:		
Future operations	18,463,818	-
Expendable:		
Compact related	3,749,975	-
Debt service	2,602,313	-
Other purposes	355,058	4,479,085
Unrestricted	(7,890,588)	3,626,881
Total net position	61,186,790	27,537,322
Total liabilities and net position	\$ 88,447,720	\$ 31,793,386

State of Chuuk
Federated States of Micronesia
Statement of Activities
Year Ended September 30, 2022

		Program Revenues			Net (Expenses) Revenues and Changes in Net Position	
		Charges for	Operating	Capital	Primary	Component
	Expenses	Services	Contributions	Contributions	Government	Units
<u>Functions/Programs</u>						
Primary government:						
Governmental activities:						
General government	\$ 6,330,302	\$ 1,317,095	\$ 5,162,080	\$ -	\$ 148,873	\$ -
Health services	12,837,968	227,193	11,232,244	-	(1,378,531)	-
Education	14,202,840	-	13,438,249	-	(764,591)	-
Economic development	574,041	-	21,860	-	(552,181)	-
Public safety	1,169,320	143,182	-	-	(1,026,138)	-
Public works and transportation	1,686,526	460,038	-	-	(1,226,488)	-
Community affairs	156,997	-	-	-	(156,997)	-
Boards, commissions and other	1,427,838	-	-	-	(1,427,838)	-
Judiciary	595,109	-	-	-	(595,109)	-
Payments to component units	275,798	-	-	-	(275,798)	-
Municipal affairs	408,858	-	-	-	(408,858)	-
Unallocated interest on long-term debt	1,243,656	-	-	-	(1,243,656)	-
Capital projects	1,000,770	-	-	1,000,770	-	-
Total primary government	<u>\$ 41,910,023</u>	<u>\$ 2,147,508</u>	<u>\$ 29,854,433</u>	<u>1,000,770</u>	<u>(8,907,312)</u>	<u>-</u>
Component units:						
Chuuk State Health Care Plan	\$ 304,404	\$ 1,310,506	\$ -	\$ -	-	1,006,102
Chuuk Public Utility Corporation	9,098,387	8,397,884	-	737,256	-	36,753
Chuuk State Housing Authority	93,897	-	-	-	-	(93,897)
Total component units	<u>\$ 9,496,688</u>	<u>\$ 9,708,390</u>	<u>\$ -</u>	<u>\$ 737,256</u>	<u>-</u>	<u>948,958</u>
General revenues:						
Taxes:						
FSM revenue sharing:						
Gross revenue taxes					2,018,564	-
Import taxes					2,483,520	-
Income taxes					1,746,737	-
Other taxes					330,907	-
State taxes:						
Sales tax					3,234,614	-
Other excise taxes					882,622	-
Unrestricted investment income					(669,238)	(88,445)
Other					1,007,221	422,834
Total general revenues					11,034,947	334,389
Special item - gain on SDR foreign exchange					604,885	-
Special item - write-off of receivable					(120,399)	-
Contributions to permanent fund					(2,645,502)	-
Total general revenues, special items and contributions					8,873,931	334,389
Change in net position					(33,382)	1,283,347
Net position at the beginning of the year					61,220,172	26,253,975
Net position at the end of the year					<u>\$ 61,186,790</u>	<u>\$ 27,537,322</u>

See accompanying notes.

State of Chuuk
Federated States of Micronesia

Balance Sheet
Governmental Funds

September 30, 2022

		Special Revenue	Permanent		
	General Fund	Grant Assistance Fund	Compact Trust	Other Gov't Funds	Total
<u>ASSETS</u>					
Cash and cash equivalents	\$ 6,757,356	\$ -	\$ -	\$ -	\$ 6,757,356
Equity interest in internal investment pool	34,904	-	-	-	34,904
Investments	700,650	-	-	-	700,650
Receivables, net	1,597,597	6,064,011	-	2,871	7,664,479
Prepayments	-	25,000	-	-	25,000
Due from other funds	3,413,726	10,895,253	-	354,931	14,663,910
Other assets	650,000	-	-	-	650,000
Restricted assets:					
Cash and cash equivalents	7,642,986	-	-	-	7,642,986
Investments	2,602,313	-	18,463,818	-	21,066,131
Total assets	<u>\$ 23,399,532</u>	<u>\$ 16,984,264</u>	<u>\$ 18,463,818</u>	<u>\$ 357,802</u>	<u>\$ 59,205,416</u>
<u>LIABILITIES AND FUND BALANCES (DEFICIT)</u>					
Liabilities:					
Accounts payable	1,251,676	638,873	\$ -	2,744	\$ 1,893,293
Accrued liabilities	996,079	641,611	-	-	1,637,690
Land acquisition payable	8,543,745	-	-	-	8,543,745
Unearned revenues	75,973	8,419,609	-	-	8,495,582
Due to other funds	11,250,184	3,413,726	-	-	14,663,910
Total liabilities	<u>22,117,657</u>	<u>13,113,819</u>	<u>-</u>	<u>2,744</u>	<u>35,234,220</u>
Fund balances (deficit):					
Nonspendable	1,350,650	-	18,463,818	-	19,814,468
Restricted	10,245,299	3,870,445	-	355,058	14,470,802
Unassigned:					
General fund	(10,314,074)	-	-	-	(10,314,074)
Total fund balances	<u>1,281,875</u>	<u>3,870,445</u>	<u>18,463,818</u>	<u>355,058</u>	<u>23,971,196</u>
Total liabilities and fund balances	<u>\$ 23,399,532</u>	<u>\$ 16,984,264</u>	<u>\$ 18,463,818</u>	<u>\$ 357,802</u>	

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

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

43,906,214

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

Long-term obligations

(5,596,183)

Compensated absences

(1,094,437)

(6,690,620)

Net position of governmental activities

\$ 61,186,790

See accompanying notes.

**State of Chuuk
Federated States of Micronesia**

**Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)
Governmental Funds**

Year Ended September 30, 2022

		Special Revenue	Permanent		
	General Fund	Grant Assistance Fund	Compact Trust	Other Gov't Funds	Total
Revenues:					
Compact funding	\$ -	\$ 28,520,371	\$ -	\$ -	\$ 28,520,371
Net change in the fair value of investments	(669,238)	-	(2,645,503)	-	(3,314,741)
Federal contributions and other grants	-	2,334,832	-	-	2,334,832
FSM revenue sharing	6,579,728	-	-	-	6,579,728
State taxes	4,117,237	-	-	-	4,117,237
Fees and charges	1,920,315	-	-	227,193	2,147,508
Other	1,007,220	-	-	-	1,007,220
Total revenues	12,955,262	30,855,203	(2,645,503)	227,193	41,392,155
Expenditures:					
Current:					
General government	5,094,919	747,977	-	-	5,842,896
Health services	142,787	12,569,914	-	186,286	12,898,987
Education	-	13,891,450	-	-	13,891,450
Economic development	552,543	21,860	-	-	574,403
Public safety	1,183,716	-	-	-	1,183,716
Public works and transportation	960,055	54,538	-	-	1,014,593
Community affairs	156,997	-	-	-	156,997
Boards, commissions and other	760,254	687,634	-	-	1,447,888
Judiciary	595,943	-	-	-	595,943
Payments to component units	76,734	199,064	-	-	275,798
Municipal affairs	408,858	-	-	-	408,858
Capital projects	-	1,000,770	-	-	1,000,770
Debt service	1,682,551	-	-	-	1,682,551
Total expenditures	11,615,357	29,173,207	-	186,286	40,974,850
Excess (deficiency) of revenues over (under) expenditures	1,339,905	1,681,996	(2,645,503)	40,907	417,305
Special item - write-off of receivable	(120,399)	-	-	-	(120,399)
Net change in fund balances (deficit)	1,219,506	1,681,996	(2,645,503)	40,907	296,906
Fund balances at the beginning of the year	62,369	2,188,449	21,109,321	314,151	23,674,290
Fund balances at the end of the year	\$ 1,281,875	\$ 3,870,445	\$ 18,463,818	\$ 355,058	\$ 23,971,196

See accompanying notes.

State of Chuuk
Federated States of Micronesia

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund
Balances of Governmental Funds to the Statement of Activities**

Year Ended September 30, 2022

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	\$ 296,906
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$2,132,278) exceeded \$732,908 capital outlays, net of disposals in the current period.	(1,399,370)
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Special item – gain on ADB loans SPR foreign exchange	604,885
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The incurrence of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. For the current year, this amount consists of repayment of ADB loans	438,895
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. For the current year, these activities consist of:

Change in compensated absences payable	<u>25,302</u>
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Change in net position of governmental activities	\$(<u>33,382</u>)
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State of Chuuk
Federated States of Micronesia
Combining Statement of Net Position
Component Units
September 30, 2022

<u>ASSETS</u>	Chuuk State Health Care Plan	Chuuk Public Utility Corporation	Chuuk State Housing Authority	Total
Current assets:				
Cash and cash equivalents	\$ 2,605,762	1,863,389	\$ 115,920	\$ 4,585,071
Time certificates of deposit	100,000	-	-	100,000
Investments	805,525	-	-	805,525
Receivables, net	277,289	778,262	(13,238)	1,042,313
Prepaid expense	-	172,671	-	172,671
Inventories	-	946,652	-	946,652
Total current assets	3,788,576	3,760,974	102,682	7,652,232
Noncurrent assets:				
Deposits	-	499,423	-	499,423
Advance receivable	200,000	-	-	200,000
Prepaid land lease	-	718,266	-	718,266
Intangible assets, net	10,500	-	-	10,500
Capital assets:				
Nondepreciable capital assets	-	915,470	-	915,470
Capital assets, net of accumulated depreciation	39,299	21,745,746	12,450	21,797,495
Total assets	\$ 4,038,375	\$ 27,639,879	\$ 115,132	\$ 31,793,386
<u>LIABILITIES AND NET POSITION</u>				
Current liabilities:				
Current portion of long-term debt	\$ -	\$ 283,815	\$ -	\$ 283,815
Compensated absence payable	-	7,483	-	7,483
Accounts payable	-	328,285	108,599	436,884
Accrued liabilities	70,058	301,385	76,564	448,007
Unearned income	-	59,212	-	59,212
Total current liabilities	70,058	980,180	185,163	1,235,401
Noncurrent liabilities:				
Accrued annual leave, net of current portion	-	35,319	-	35,319
Noncurrent portion of long-term debt	-	2,985,344	-	2,985,344
Total liabilities	70,058	4,000,843	185,163	4,256,064
Net position:				
Net investment in capital assets	39,299	19,392,057	-	19,431,356
Restricted	3,929,018	550,067	-	4,479,085
Unrestricted	-	3,696,912	(70,031)	3,626,881
Total net position	3,968,317	23,639,036	(70,031)	27,537,322
Total liabilities and net position	\$ 4,038,375	\$ 27,639,879	\$ 115,132	\$ 31,793,386

See accompanying notes.

State of Chuuk
Federated States of Micronesia

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

Year Ended September 30, 2022

	Chuuk State Health Care Plan	Chuuk Public Utility Corporation	Chuuk State Housing Authority	Total
Operating revenues:				
Charges for services	\$ 1,285,350	\$ 8,330,056	\$ -	\$ 9,615,406
Other	25,156	67,828	-	92,984
Total operating revenues	1,310,506	8,397,884	-	9,708,390
Operating expenses:				
Cost of services	-	4,494,689	-	4,494,689
Depreciation	15,212	1,904,975	-	1,920,187
Administration and general	289,192	2,698,723	93,897	3,081,812
Total operating expenses	304,404	9,098,387	93,897	9,496,688
Operating (loss) income	1,006,102	(700,503)	(93,897)	211,702
Nonoperating revenues (expenses):				
Other income	(151,099)	62,654	-	(88,445)
ADB grant expense	-	(1,001,481)	-	(1,001,481)
Operating grants	-	1,347,581	76,734	1,424,315
Total nonoperating revenues, net	(151,099)	408,754	76,734	334,389
Net income before capital contributions	855,003	(291,749)	(17,163)	546,091
Capital contributions	-	737,256	-	737,256
Change in net position	855,003	445,507	(17,163)	1,283,347
Net position at the beginning of the year	3,113,314	\$ 23,193,529	\$ (52,868)	26,253,975
Net position at the end of the year	\$ 3,968,317	\$ 23,639,036	\$ (70,031)	\$ 27,537,322

See accompanying notes.

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements

September 30, 2022

1. Summary of Significant Accounting Policies

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

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

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 the Senate (10 members elected for a term of four years by qualified voters of their respective election districts with the President of the Senate as its highest officer) and the House of Representatives (28 members elected for a term of two years by qualified voters of their respective election districts with the Speaker as its highest officer); the Executive Branch, headed by the Governor and Lt. Governor who are primarily responsible for executing the laws and administering state government services; and the Judiciary Branch made up of the State Supreme Court, which consists of a Chief Justice and four Associate Justices, such inferior courts that may be created by law, and the municipal courts.

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

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

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Reporting Entity, continued

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.

Discretely Presented Component Units

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

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

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

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

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Reporting Entity, continued

Discretely Presented Component Units, continued

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

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

Omitted Governmental Funds

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

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

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

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

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

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Reporting Entity, continued

Omitted Governmental Funds, continued

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

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

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

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

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

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

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

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

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Reporting Entity, continued

Omitted Governmental Funds, continued

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

Omitted Component Units

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

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

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

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 Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

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 and deferred outflows of resources, and liabilities and deferred inflows of resources with the difference reported as net position. Net position is reported in the following categories:

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

The government-wide Statement of Net Position reports \$25,171,164 of restricted net position, of which none is restricted by enabling legislation.

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Government-Wide Financial Statements, continued

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

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.

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.

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Measurement Focus and Basis of Accounting, continued

Governmental Fund Financial Statements:

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

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

Component Unit Financial Statements:

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

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Measurement Focus and Basis of Accounting, continued

Fund Accounting:

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

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

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

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

Cash and Cash Equivalents and Time Certificates of Deposit

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

Prepaid Items

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

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Investments

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

The State also participates in two external investment pools. The external investment pools are (1) the Trust Fund for the People of the Federated States of Micronesia and (2) the Federated States of Micronesia Early Retirement Program. Investments in external investment pools are recorded at fair value. The State cannot directly access individual investments in external investment pools.

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.

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.

Inventories

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

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Interfund Receivables/Payables

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

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

Restricted Assets

Certain assets of the primary government are classified as restricted assets because their use is completely restricted through loan agreements or enabling legislation. Specifically, the State has collateralized Asian Development Bank loan proceeds and earnings for the Chuuk State Early Retirement Scheme with investments recorded in the General Fund of \$2,602,313. Furthermore, investments recorded in the Compact Trust Fund of \$18,463,818 are restricted in that they are not available to be used in current operations.

As of September 30, 2022, cash and cash equivalents of the primary government were restricted for the following uses:

Savings account established in accordance with Section 211(d)(2) of the Compact of Free Association, as amended, for the purpose of funding the State's infrastructure maintenance plan	\$3,794,841
Deposit account established for the purpose of federal grants program activities	1,052,212
Deposit accounts established for the purpose of receiving payments pursuant to the Compact of Free Association, as amended	<u>2,795,933</u>
	<u>\$7,642,986</u>

Deferred Outflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then.

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Other Assets

The State holds approximately 3.3% of the outstanding shares of Pacific Islands Development Bank with a carrying value of \$350,000 and 7% of the outstanding shares of the FSM Development Bank with a carrying value of \$300,000. These equity interests do not meet the definition of an investment as the assets are held primarily for economic development and are presented as other assets in the accompanying financial statements.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure (e.g. roads, bridges, ramps and other similar items), are reported in the governmental activity column of the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at fair market value at the date of donation.

Singular pieces of machinery and equipment, other than vehicles, that equal or exceed \$50,000 are capitalized. Buildings and infrastructure projects with a cost that equals or exceeds \$100,000 are capitalized. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized.

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

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

Right-to-use (RTU) assets are recognized at the lease commencement date and represent the State's right to use an underlying asset for the lease term. RTU assets are measured at the initial value of the lease liability plus any payments made to the lessor before commencement and initial direct costs. Options to renew or terminate the lease are recognized as part of RTU assets and lease liabilities when it is reasonably certain the options will be exercised.

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Compensated Absences

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

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.

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.

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.

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Fund Balance, continued

- 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.

Interfund/Intrafund Transactions

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

New Accounting Standards

In 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective dates of GASB Statement No. 89 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.

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

New Accounting Standards, continued

During the year ended September 30, 2022, Chuuk State Government implemented the following pronouncements:

- GASB Statement No. 87, *Leases*, which increases the usefulness of financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Limited exceptions to the single approach guidance are provided for short-term leases, financed purchases, leases of assets that are classified as investments, and certain regulated leases. The State is unable to determine the impact of GASB Statement No. 87 on its financial statements.
- GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 92, *Omnibus 2020*, which enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB 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*, which increases consistency and comparability related to the reporting of fiduciary component units; mitigates costs associated with the reporting of certain pension plans and other postemployment benefit (OPEB) plans as fiduciary component units; and enhances 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. The implementation of this statement did not have a material effect on the accompanying financial statements.

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

New Accounting Standards, continued

- GASB Statement No. 98, *The Annual Comprehensive Financial Report*, which establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 99, *Omnibus 2022*, which provides clarification guidance on several of its recent statements that addresses different accounting and financial reporting issues identified during implementation of the new standards and during the GASB's review of recent pronouncements. GASB Statement No. 99:
 - 1) Amends guidance in GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, requiring that the accounting and financial reporting of Supplemental Nutrition Assistance Program (SNAP) transactions should follow the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, as amended. These provisions were effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
 - 2) Requires disclosures related to nonmonetary transactions, in the notes to financial statements, of the measurement attribute(s) applied to the assets transferred rather than the basis of accounting for those assets. These provisions were effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
 - 3) Provides guidance on accounting for pledges of future revenues when resources are not received by the pledging government. The guidance addresses the process of blending a component unit created to issue debt on behalf of a primary government when that component unit is required to be presented as a blended component unit. This guidance was effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
 - 4) Provides clarification of provisions in GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended, related to the focus of the government-wide financial statements. This guidance was effective upon issuance and implementation did not have a material effect on the accompanying financial statements.

State of Chuuk
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Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

New Accounting Standards, continued

- 5) Provides terminology updates related to certain provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and terminology used in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. These updates were effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
- 6) GASB Statement No. 93, *Replacement of Interbank Offered Rates*, which amended GASB Statement No. 53 to address transition away from the London Interbank Offered Rate (LIBOR). GASB Statement No. 99 extends the period during which the LIBOR is considered an appropriate benchmark interest rate to when LIBOR ceases to be determined using methodology in place as of December 31, 2021. This guidance was effective upon issuance and implementation did not have a material effect on the accompanying financial statements.

Upcoming Accounting Standards

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 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.

State of Chuuk
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Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Upcoming Accounting Standards, continued

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 April 2022, GASB issued Statement No. 99, *Omnibus 2022*. This Statement contains guidance whose effective dates are in future periods. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 99:

- 1) Modifies guidance in GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, to bring all guarantees under the same financial reporting requirements and disclosures effective for fiscal year ending September 30, 2024.
- 2) Provides guidance on classification and reporting of derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for fiscal year ending September 30, 2024.
- 3) Provides clarification of provisions in GASB Statement No. 87 related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives effective for fiscal year ending September 30, 2023.
- 4) Provides clarification of provisions in GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset. Effective for fiscal year ending September 30, 2023.

State of Chuuk
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Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Upcoming Accounting Standards, continued

- 5) Provides clarification of provisions in GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability. Effective for fiscal year ending September 30, 2023.
- 6) Modifies accounting and reporting guidance in GASB Statement No. 53 related to termination of hedge. Guidance is effective for fiscal year ending September 30, 2023.

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections - An Amendment of GASB Statement No. 62*. This Statement enhances accounting and financial reporting requirements for accounting changes and error corrections and requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. Requirements applicable to changes in accounting principles apply to the implementation of a new pronouncement if there is no specific transition guidance in the new pronouncement. The Statement also requires that aggregate amounts of adjustments to, and restatements of, beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 100 will be effective for fiscal year ending September 30, 2024.

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The primary objective of the Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid, provided the services have occurred, the leave accumulates, and the leave is more likely than not to be used for time off or otherwise paid in cash or noncash means. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. Leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 101 will be effective for fiscal year ending September 30, 2025.

In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints.

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Upcoming Accounting Standards, continued

This Statement defines a *concentration* as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A *constraint* is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. Concentrations and constraints may limit a government's ability to acquire resources or control spending. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. If a government determines that those criteria for disclosure have been met for a concentration or constraint, it should disclose information in notes to financial statements in sufficient detail to enable users of financial statements to understand the nature of the circumstances disclosed and the government's vulnerability to the risk of a substantial impact.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. Earlier application is encouraged.

Risk Financing

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

Estimates

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

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

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, 2022 from which summarized information was derived.

2. Deposits and Investments

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

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

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

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

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

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

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

Deposits

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

As of September 30, 2022, the carrying amount of the primary government's total cash and cash equivalents were \$14,400,342 and the corresponding bank balances were \$15,496,457, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2022, bank deposits in the amount of \$500,000 were FDIC insured. The State does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

2. Deposits and Investments, continued

As of September 30, 2022, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$4,685,071 and the corresponding bank balances were \$4,799,851, which are maintained in financial institutions subject to FDIC insurance. As of September 30, 2022, bank deposits in the amount of \$874,495 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.

Investments

Primary Government

As of September 30, 2022, the State's investments are as follows:

General Fund:

Investment in an external investment pool	\$2,602,313
Domestic equities – Bank of Federated States of Micronesia	700,650
Cash management account	<u>34,904</u>
	<u>\$3,337,867</u>

The States's General Fund includes an investment in an external investment pool; Federated States of Micronesia-Early Retirement Program Trust Fund. The purpose of the Early Retirement Program Trust Fund is to have monies in an investment account whereby withdrawals can be made to repay amounts owed to the Asian Development Bank.

The credit quality rating for aforementioned external investment pool is unrated.

Compact Trust Fund:

Investment in an external investment pool	<u>\$18,463,818</u>
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The States's Compact Trust Fund includes an investment in an external investment pool; Trust Fund for the People of the Federated States of Micronesia. The purpose of the Fund is to contribute to the economic advancement and long-term self-reliance of the FSM by providing an annual source of revenue after fiscal year 2023.

The credit quality rating for aforementioned external investment pool is unrated.

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

2. Deposits and Investments, continued

Investments, continued

The fair value of the position in external investment pools are the same as the value of the pool shares as provided by the pool sponsors.

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

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the State will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The State's investments are held and administered by trustees. Based on negotiated trust and custody contracts, all of these investments were held in the State's name by the State's custodial financial institutions at September 30, 2022.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the State. As of September 30, 2022, the State did not have any investments in a single issuer that represented 5% or more of the investments of the State.

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

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

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

2. Deposits and Investments, continued⁷

Investments, continued

Primary Government, continued

The State has the following recurring fair value measurements as of September 30, 2022:

General Fund:

	Fair Value Measurements Using			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments in an external investment pool by fair value level	\$2,602,313	<u>\$1,720,757</u>	<u>\$881,556</u>	<u>\$ ---</u>
Investments measured at NAV:				
Equity investment in the Bank of the FSM (3% ownership)	700,650			
Investments measured at amortized cost:				
Cash management account	<u>34,904</u>			
	<u>\$3,337,867</u>			

Compact Trust Fund:

	Fair Value Measurements Using			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments in an external investment pool by fair value level	\$16,348,040	<u>\$14,548,197</u>	<u>\$ ---</u>	<u>\$1,799,843</u>
Investments in an external investment pool measured at NAV:	2,117,064			
Investments in an external investment pool at amortized cost:	<u>(1,286)</u>			
	<u>\$18,463,818</u>			

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

2. Deposits and Investments, continued

Investments, continued

Primary Government, continued

Discretely Presented Component Units

As of September 30, 2022, investments comprise the following:

Chuuk State Health Care Plan (CSHCP):

Common stock	\$ 455,815
Exchange Traded Funds	339,592
Real Estate and Intangibles	<u>10,118</u>
	<u>\$ 805,525</u>

As of September 30, 2022, the Plan's investments recorded at fair value were as follows:

	<u>Hierarchy</u>			Moody's Credit Rating
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Investments by fair value level:				
Exchange Traded Funds	\$ 339,592	\$ ---	\$ ---	
Common stock	455,815	---	---	Aaa
Real Estate and Intangibles	<u>10,118</u>	<u>---</u>	<u>---</u>	
Total investments	<u>\$ 805,525</u>	<u>\$ ---</u>	<u>\$ ---</u>	

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

3. Receivables

Primary Government

Receivables as of September 30, 2022, for the primary government's individual major funds and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Grants Assistance</u>	<u>Compact Trust</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Receivables:					
General receivable	\$1,578,611	\$ 29,573	\$ ---	\$7,046	\$1,615,230
FSM National Government	<u>1,300,291</u>	<u>6,451,353</u>	<u>---</u>	<u>---</u>	<u>7,751,644</u>
	2,878,902	6,480,926	---	7,046	9,366,874
Less allowance for uncollectible accounts	<u>(1,281,305)</u>	<u>(416,915)</u>	<u>---</u>	<u>(4,175)</u>	<u>(1,702,395)</u>
Net receivables	<u>\$1,597,597</u>	<u>\$6,064,011</u>	<u>\$---</u>	<u>\$2,871</u>	<u>\$7,664,479</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.

Discretely Presented Component Units

Receivables as of September 30, 2022, for the discretely presented component units in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	<u>Chuuk State Health Care Plan</u>	<u>Chuuk Public Utility Corporation</u>	<u>Chuuk State Housing Authority</u>	<u>Total</u>
Receivables:				
General	\$ 471,943	\$ 1,065,488	\$ (13,238)	\$ 1,524,193
Other	<u>---</u>	<u>212,878</u>	<u>---</u>	<u>212,878</u>
	471,943	1,278,366	(13,238)	1,737,071
Allowance for uncollectible accounts	<u>(194,654)</u>	<u>(500,104)</u>	<u>---</u>	<u>(694,758)</u>
	<u>\$ 277,289</u>	<u>\$ 778,262</u>	<u>\$ (13,238)</u>	<u>\$ 1,042,313</u>

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

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, 2022, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Grants Assistance	General	\$10,895,253
General	Grants Assistance	3,413,726
Nonmajor governmental funds	General	<u>354,931</u>
		<u>\$14,663,910</u>

5. Capital Assets

Capital asset activities for the year ended September 30, 2022, are as follows:

Primary Government

	<u>Balance October 1, 2021</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance September 30, 2022</u>
Governmental activities:				
Depreciable assets:				
Airport facilities	\$ 38,107,415	\$ ---	\$ ---	\$ 38,107,415
Buildings	27,489,276	---	---	27,489,276
Seaport facilities	26,517,208	---	---	26,517,208
Vehicles and other equipment	7,863,566	732,908	---	8,596,474
Infrastructure	<u>14,835,315</u>	<u>---</u>	<u>---</u>	<u>14,835,315</u>
	<u>114,812,780</u>	<u>732,908</u>	<u>---</u>	<u>115,545,688</u>
Less accumulated depreciation for:				
Airport facilities	(36,007,005)	(87,517)	---	(36,094,522)
Buildings	(9,583,522)	(572,579)	---	(10,156,101)
Seaport facilities	(25,854,276)	(662,931)	---	(26,517,207)
Vehicles and other equipment	(4,230,539)	(809,251)	---	(5,039,790)
Infrastructure	<u>(14,835,315)</u>	<u>---</u>	<u>---</u>	<u>(14,835,315)</u>
	<u>(90,510,657)</u>	<u>(2,132,278)</u>	<u>---</u>	<u>(92,642,935)</u>
	24,302,123	(1,399,370)	---	22,902,753
Nondepreciable assets:				
Land	<u>21,003,461</u>	<u>---</u>	<u>---</u>	<u>21,003,461</u>
	<u>\$ 45,305,584</u>	<u>\$ (1,399,370)</u>	<u>\$ ---</u>	<u>\$ 43,906,214</u>

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

5. Capital Assets, continued

Primary Government, continued

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

General government	\$ 724,111
Health services	360,402
Education	356,632
Public safety	10,764
Public works and transportation	<u>680,369</u>
	<u>\$ 2,132,278</u>

Discretely Presented Component Units

	Balance October 1, 2021	Additions	Retirements	Balance September 30, 2022
Depreciable assets:				
Buildings	\$ 439,432	\$ ---	\$ ---	\$ 439,432
Utility plant	38,801,710	2,257,876	---	41,059,586
Machinery, equipment, others	<u>338,936</u>	<u>9,360</u>	<u>---</u>	<u>348,296</u>
	39,580,078	2,267,236	---	41,847,314
Less accumulated depreciation	(18,135,883)	(1,913,936)	<u>---</u>	(20,049,819)
	21,444,195	353,300	---	21,797,495
Nondepreciable assets:				
Construction work-in-progress	<u>2,036,457</u>	<u>700,769</u>	(1,821,756)	<u>915,470</u>
	<u>\$ 23,480,652</u>	<u>\$ 1,054,069</u>	\$(1,821,756)	<u>\$ 22,712,965</u>

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

6. Long-Term Obligations

Primary Government

The State implemented an Early Retirement Scheme (ERS) in which employees holding certain nonessential positions as identified by the State were retired early with a payout of the equivalent of two-years' wages. This ERS program is funded by a \$5,300,000 loan from the Asian Development Bank (ADB) (Loan Number 1520 (SF)) through the FSM National Government, is 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, 2022. As of September 30, 2022, the amount outstanding against this loan was \$2,981,938. Of the required \$5,300,000 identified for future debt service payments, \$2,518,638 is deposited in an investment account held jointly with the FSM National Government. That investment account is restricted for the repayment of this debt and other ADB related debt set forth below.

The State also entered into an agreement with the FSM National Government to borrow a portion of the proceeds of the FSM National Government Program Loans with ADB (Loan Number 1873 (SF) and Loan Number 1874 FSM (SF)) for the purpose of promoting private sector development in Chuuk, with interest at 1% to 1.5% per annum. Principal payments shall be made in 32 equal semi-annual payments with the first payment due on May 15, 2010 and the last payment on November 15, 2025. As of September 30, 2022, the related principal balances were \$122,712 and \$471,226, respectively.

On December 21, 2010, the Chuuk Public Utilities Corporation (CPUC) and the State agreed through memorandum of understanding to offset certain claims and transferred certain debt between CPUC and the State. The transferred debt was the FSM National Government Program Loan with ADB (Loan Number 1459 (SF)), totaling \$3,868,102, for water wells and electric construction purposes, with interest at 1% to 1.5% per annum. Principal payments shall be made semiannually commencing August 1, 2007, with a maturity date of August 1, 2036. As of September 30, 2022, the balance payable on this loan amounted to \$2,020,307.

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

6. Long-Term Obligations, continued

Primary Government, continued

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 419,173	\$ 46,189	\$ 465,362
2024	419,173	42,606	461,779
2025	419,173	39,022	458,195
2026	401,640	35,439	437,079
2027	384,112	32,062	416,174
2028 - 2032	1,920,560	112,741	2,033,301
2033 - 2037	<u>1,632,352</u>	<u>35,632</u>	<u>1,667,984</u>
	<u>\$ 5,596,183</u>	<u>\$ 343,691</u>	<u>\$ 5,939,874</u>

Discretely Presented Component Units

Chuuk Public Utility Corporation:

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

\$ 1,423,569

Loan payable to the State, facilitated by an ADB loan (Loan Number 2100-FSM) to the FSM National Government, original amount of \$2,800,000, due in semi-annual installments of varying amounts through January 15, 2020. Interest is payable at LIBOR plus 0.6% per annum (2.3% at September 30, 2022). Proceeds were used for the purchase of two generator sets and related costs.

1,845,590

\$ 3,269,159

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

6. Long-Term Obligations, continued

Discretely Presented Component Units, continued

Chuuk Public Utility Corporation, continued:

ADB loans include particular covenants, (1) the borrower shall cause the states and CPUC to carry out the project with due diligence and efficiency and in conformity with sound administrative, financial, engineering, environmental and public utility practices; (2) The borrower shall take, or cause the respective states to take action necessary to enable CPUC perform its obligations under the relevant project implementation agreement, and shall not permit any action which would interfere with the performance of such obligations.

FSMDB loan contains a provision that in an event of default, the note and any other liabilities may, at the option of lender and without demand or notice of any kind, be declared immediately due and payable. Lenders may exercise from time to time any rights and remedies available to it as a secured party under the laws of the FSM or the State in which the mortgaged property, the borrowers or the lenders reside or may be found in at the time the action accrues. Management believes that CPUC is in compliance with all covenants as of and for the years ended September 30, 2022, and no event of default has been declared by the lenders.

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 283,815	\$ 81,633	\$ 365,448
2024	323,881	73,175	397,056
2025	346,564	63,700	410,264
2026	371,118	53,578	424,696
2027	398,771	42,578	441,349
2028 - 2032	1,360,796	87,608	1,448,404
2033 - 2036	<u>184,214</u>	<u>4,458</u>	<u>188,672</u>
	<u>\$ 3,269,159</u>	<u>\$ 406,730</u>	<u>\$ 3,675,889</u>

Change in long term debt for the year ended September 30, 2022 is as follows:

	Outstanding October 1, <u>2021</u>	<u>Addition</u>	<u>Reduction</u>	Outstanding September 30, 2022	Amount due Within <u>One Year</u>
Long-term debt	<u>\$3,645,833</u>	<u>\$ ---</u>	<u>\$(376,674)</u>	<u>\$3,269,159</u>	<u>\$283,815</u>

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

6. Long-Term Obligations, continued

Discretely Presented Component Units, continued

Chuuk Public Utility Corporation, continued:

Noncurrent Liabilities

Change in noncurrent liabilities for the year ended September 30, 2022 is as follows:

	Outstanding October 1, <u>2021</u>	<u>Addition</u>	<u>Reduction</u>	Outstanding September 30, 2022	Amount due Within <u>One Year</u>
Accrued annual leave	<u>\$56,491</u>	<u>\$24,166</u>	<u>\$(37,855)</u>	<u>\$42,802</u>	<u>\$7,483</u>

7. Changes in Long-Term Obligations

Primary Government

Long-term liabilities will be liquidated in the future from governmental funds. During the year ended September 30, 2022, 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, 2021</u>	<u>Additions</u>	<u>Reductions</u>	SDR <u>Adjustments</u>	Balance September <u>30, 2022</u>	Due Within <u>One Year</u>
Loans payable:						
ADB loans:						
Loan 1459	\$2,398,405	\$ ---	\$(153,610)	\$(224,488)	\$2,020,307	\$144,322
Loan 1520	3,486,338	---	(197,180)	(307,220)	2,981,938	198,814
Loan 1873	174,791	---	(37,874)	(14,205)	122,712	35,061
Loan 1874	<u>580,429</u>	<u>---</u>	<u>(50,231)</u>	<u>(58,972)</u>	<u>471,226</u>	<u>40,976</u>
	6,639,963	---	(438,895)	(604,885)	5,596,183	419,173
Other:						
Compensated absences	<u>1,119,739</u>	<u>365,075</u>	<u>(390,377)</u>	<u>---</u>	<u>1,094,437</u>	<u>378,666</u>
	<u>\$7,759,702</u>	<u>\$365,075</u>	<u>\$(829,272)</u>	<u>\$(604,885)</u>	<u>\$6,690,620</u>	<u>\$797,839</u>

When the ADB extends credit to a particular country, the loan is booked in Special Drawing Rights (SDRs) but the actual loan is delivered in the currency of the borrower, at the current exchange rate between the currency and the SDR. The value of the SDR is subject to periodic review by the International Monetary Fund, which may result in the recognition of a foreign exchange gain or loss. During the year ended September 30, 2022, the State recognized a foreign exchange gain of \$604,885 associated with valuation of the SDR, which is presented as a special items net, in the accompanying financial statements, and which results in a reduction in ADB loans payable.

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

7. Changes in Long-Term Obligations, continued

Discretely Presented Component Units

During the year ended September 30, 2022, the following changes occurred in long-term obligations of the discretely presented component units:

	Balance October <u>1, 2021</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2022</u>	Due Within <u>One Year</u>
Long-term debt	\$ 3,645,833	\$ ---	\$(376,674)	\$ 3,269,159	\$ 283,815
Accrued annual leave	<u>56,491</u>	<u>24,166</u>	<u>(37,855)</u>	<u>42,802</u>	<u>7,483</u>
	<u>\$ 3,702,324</u>	<u>\$ 24,166</u>	<u>\$(414,529)</u>	<u>\$ 3,311,961</u>	<u>\$ 291,298</u>

8. Fund Balance

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

	General <u>Fund</u>	Grants Assistance <u>Fund</u>	Compact Trust <u>Fund</u>	Nonmajor <u>Funds</u>	Total Governmental <u>Funds</u>
Non-spendable:					
FSM Development Bank	\$ 300,000	\$ ---	\$ ---	\$ ---	\$ 300,000
Pacific Islands Development Bank	350,000	---	---	---	350,000
Bank of the FSM	700,650	---	---	---	700,650
Permanent fund principal	---	---	18,463,818	---	18,463,818
Restricted:					
Debt service	2,602,313	---	---	---	2,602,313
Capital projects	3,794,841	3,749,975	---	---	7,544,816
General government	3,848,145	12,519	---	---	3,860,664
Health services	---	---	---	355,058	355,058
Other foreign assistance	---	107,951	---	---	107,951
Unassigned	<u>(10,314,074)</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>(10,314,074)</u>
	<u>\$ 1,281,875</u>	<u>\$ 3,870,445</u>	<u>\$ 18,463,818</u>	<u>\$355,058</u>	<u>\$23,971,196</u>

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

9. Contingencies

Sick Leave

It is the policy of the State to record expenditures for sick leave when leave is actually taken. Sick leave is compensated time for absence during working hours arising from employee illness or injury. The estimated accumulated amount of unused sick leave as of September 30, 2022 is \$3,763,453.

Insurance Coverage

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

Encumbrances

The State utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2022, the State has significant encumbrances summarized as follows:

<u>General</u>	<u>Grants Assistance</u>	<u>Compact Trust</u>	<u>Other Governmental Funds</u>	<u>Total</u>
\$ <u>749,060</u>	\$ <u>3,848,591</u>	\$ <u>---</u>	\$ <u>82,119</u>	\$ <u>4,679,770</u>

Federal Grants

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

Litigation

The State is a party to various legal proceedings in which the State's Attorney General indicates that pending land lease cases and other related claims against the State exist at September 30, 2022 in an amount that is material to the financial statements. Due to an inability to predict the ultimate outcome of these matters, no provision for these liabilities has been made in the accompanying financial statements.

Delinquent Taxes

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

State of Chuuk
Federated States of Micronesia

Notes to Financial Statements, continued

9. Contingencies, continued

General Fund Financial Position

The State's General Fund has sustained recurring operating deficits and has an unassigned fund deficit of \$10,134,074 at September 30, 2022. In addition, at September 30, 2022, the primary government's current liabilities exceed current assets.

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

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

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

10. Budgetary Compliance

For the year ended September 30, 2022, significant over-expenditures exceeding appropriations within the General Fund were as follows:

Debt service	\$1,112,357
Debt relief payments	\$ 570,414
Governor's Office	\$ 995,510

11. Land Lease and Related Claims

The State utilizes properties and facilities, owned by various third parties, to perform its government operations. As of September 30, 2022, the State has recorded \$8,543,745 land acquisition liability, carried over from prior years, to account for land leases and related claims payable resulting from use of the leased properties and facilities, but has not recorded an expenditure/expense for the current period change in that liability. These lease transactions however, are not supported by written contracts. Accordingly, the State could not determine the effects on its financial statements of adopting GASB Statement No. 87.

Required Supplementary Information -
Other Than Management's Discussion and Analysis

State of Chuuk
Federated States of Micronesia

Schedule of Revenues, Expenditures and Changes in Deficit
Budget and Actual - General Fund

Year Ended September 30, 2022

	Budgeted Amounts		Actual - Budgetary	Variance with Final Budget - Positive (Negative)
	Original	Final	Basis	
Revenues:				
Local revenues	\$ 9,358,957	\$ 10,959,293	\$ 13,624,501	\$ 2,665,208
Net change in fair value of investments	-	-	(669,238)	(669,238)
Total revenues	9,358,957	10,959,293	12,955,263	1,995,970
Expenditures:				
Current:				
General government	4,644,493	5,079,279	5,643,335	(564,056)
Health	163,750	166,627	142,787	23,840
Economic development	610,549	610,549	560,426	50,123
Public safety	1,224,942	1,304,974	1,212,449	92,525
Public works and transportation	1,066,787	1,142,987	1,041,694	101,293
Community affairs	167,815	167,815	161,928	5,887
Boards and commissions	1,173,531	2,156,974	785,065	1,371,909
Judiciary	563,927	586,927	635,911	(48,984)
Payments to component units	72,018	72,018	76,920	(4,902)
Municipal affairs	424,521	424,521	413,379	11,142
Other	7,754	7,754	7,754	0
Debt service	219	219	1,682,771	(1,682,552)
Total expenditures	10,120,306	11,720,644	12,364,418	(643,773)
Excess (deficiency) of revenues over (under) expenditures	(761,349)	(761,351)	590,845	1,352,197
Special items:				
Write-off of receivables	-	-	(120,399)	(120,399)
Net change in deficit	(761,349)	(761,351)	470,446	1,231,798
Other changes in fund deficit:				
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes but in the year the supplies are received for financial reporting purposes	-	-	749,060	749,060
Fund deficit at the beginning of the year	62,369	62,369	62,369	-
Fund deficit at the end of the year	\$ (698,980)	\$ (698,982)	\$ 1,281,875	\$ 1,980,858

State of Chuuk
Federated States of Micronesia

Notes to Required Supplementary Information - Budgetary Reporting

September 30, 2022

1. Budgetary Information

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

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

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

Supplementary Information

State of Chuuk
Federated States of Micronesia

Combining Schedule of Expenditures by Account
Governmental Funds

Year Ended September 30, 2022

	<u>General Fund</u>	<u>Grant Assistance Fund</u>	<u>Compact Trust</u>	<u>Other Gov't Funds</u>	<u>Total</u>
Expenditures:					
Salaries and wages					
Regular	\$ 5,250,773	\$ 11,514,780	\$ -	\$ 39,771	\$ 16,805,324
Overtime	118,686	755,506	-	-	874,192
Fringe benefits	686,126	1,627,054	-	-	2,313,180
Travel and transportation	247,955	232,343	-	12,222	492,520
Books and library materials	-	11,684	-	-	11,684
Communications	76,518	156,769	-	-	233,287
Dues, membership, and subscriptions	51,982	-	-	-	51,982
Food stuffs	378,316	609,897	-	2,811	991,024
Freight and Port charges	-	7,103	-	851	7,954
Office supplies and materials	324,971	2,611,661	-	7,379	2,944,011
POL	276,707	724,398	-	23,677	1,024,782
Printing and reproduction	656	124,855	-	-	125,511
Rental services	151,832	193,954	-	2,689	348,475
Repairs and maintenance	34,996	470,119	-	262	505,377
Constructional materials	4,000	642	-	-	4,642
Utilities	426,447	1,173,057	-	300	1,599,804
Goods and services	125,053	127,452	-	40,504	293,009
Subsidies and contributions	-	356,657	-	-	356,657
Medical referrals	-	310,325	-	-	310,325
Medical supplies	-	2,264,428	-	-	2,264,428
Contractual services	784,953	2,616,586	-	-	3,401,539
Professional services	-	407,839	-	-	407,839
Housing allowance	90,063	34,881	-	-	124,944
Compensation non-payroll	-	495,072	-	-	495,072
Scholarships and allowances	-	329,190	-	-	329,190
Training	-	833,994	-	-	833,994
Official allowance	642,471	-	-	-	642,471
Meeting fees and allowance	505	4,300	-	-	4,805
Insurance	-	-	-	-	-
Leased housing, buildings and land	13,983	295,290	-	18,270	327,543
Equipment	-	404,250	-	37,550	441,800
Furniture and fixtures	4,282	9,238	-	-	13,520
Vehicles	238,189	368,337	-	-	606,526
Vessels	-	101,546	-	-	101,546
Land	-	-	-	-	-
Principal repayment	438,895	-	-	-	438,895
Interest payments	673,462	-	-	-	673,462
Debt relief payments	569,195	-	-	-	569,195
Miscellaneous	4,342	-	-	-	4,342
	<u>\$ 11,615,358</u>	<u>\$ 29,173,207</u>	<u>\$ -</u>	<u>\$ 186,286</u>	<u>\$ 40,974,851</u>

State of Chuuk
Federated States of Micronesia

Statement of Revenues, Expenditures by Function, and Changes in Deficit
General Fund

Year Ended September 30, 2022
(with comparative totals for the year ended September 30, 2021)

	<u>2022</u>	<u>2021</u>
Revenues:		
FSM revenue sharing:		
Gross revenue taxes	\$ 2,018,564	\$ 1,794,579
Import taxes	2,483,520	2,814,907
Income taxes	1,746,737	1,639,569
Other taxes	<u>330,907</u>	<u>409,369</u>
FSM revenue sharing	<u>6,579,728</u>	<u>6,658,424</u>
State taxes:		
Sales tax	3,234,614	3,160,550
Other excise taxes	<u>882,622</u>	<u>739,725</u>
	<u>4,117,236</u>	<u>3,900,275</u>
Fees and charges:		
Licenses and permits	1,369,099	1,282,832
Leases and other rentals	<u>91,177</u>	<u>132,461</u>
	<u>1,460,276</u>	<u>1,415,293</u>
Departmental charges:		
Transportation collections	<u>460,038</u>	<u>379,984</u>
Net change in the fair value of investments	<u>(669,238)</u>	<u>603,917</u>
Other revenues	<u>1,007,223</u>	<u>1,142,182</u>
Total revenues	<u>12,955,263</u>	<u>14,100,075</u>
Expenditures:		
Current:		
General government:		
Office of the Governor	1,710,196	1,050,466
State Legislature	3,007,924	2,886,212
Department of Administrative Services	376,799	620,191
Office of Public Auditor	<u>-</u>	<u>43,549</u>
	<u>5,094,919</u>	<u>4,600,418</u>
Health:		
Department of Health	<u>142,787</u>	<u>128,825</u>

State of Chuuk
Federated States of Micronesia

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

	<u>2022</u>	<u>2021</u>
Expenditures, continued:		
Economic development:		
Department of Marine Resources	153,148	141,002
Department of Agriculture	177,125	167,178
Historic Preservation Office	32,577	36,041
Division of Business and Trade	15,238	17,790
Division of Labor and Manpower	19,973	25,545
Division of Land Management	74,502	71,093
Registrar of Corporation	69,801	52,867
Division of Commerce and Industries	10,179	10,012
	<u>552,543</u>	<u>521,528</u>
Public safety:		
Office of the Attorney General	215,299	175,643
Department of Public Safety	968,417	965,920
	<u>1,183,716</u>	<u>1,141,563</u>
Public works and transportation:		
Department of Transportation	960,055	1,026,957
Community affairs:		
Public Affairs	97,653	94,192
Youth Affairs	19,159	22,327
Broadcast	40,185	35,902
	<u>156,997</u>	<u>152,421</u>
Boards, commissions and other:		
Land Commission	144,408	150,135
Election Commission	119,968	114,456
Farmers Home Administration	13,994	19,360
Micronesian Legal Services Corporation	25,000	25,000
Micro Games in Palau	69,011	-
Overseas Development Assistance	42,268	48,508
Political Status Commission	-	5,493
Micronesia Conservation Trust	11,281	-
Solid and Hazardous Waste Management	144,077	172,167
SEPDIC	54,696	56,242
Chuuk Visitors Bureau	77,000	75,325
General election	1,321	332,327
Chuuk Small Business Development Center	57,230	57,020
	<u>760,254</u>	<u>1,056,033</u>

State of Chuuk
Federated States of Micronesia

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

	<u>2022</u>	<u>2021</u>
Expenditures, continued:		
Judiciary:		
State Court	<u>595,943</u>	<u>473,262</u>
Payments to component units:		
Chuuk State Housing Authority	<u>76,734</u>	<u>74,250</u>
Municipal affairs:		
Payments to municipalities	<u>408,858</u>	<u>418,800</u>
Debt service:		
Debt relief payment	570,195	465,135
Principal repayment	438,895	460,133
Interest	<u>673,462</u>	<u>81,164</u>
	<u>1,682,552</u>	<u>1,006,432</u>
Total expenditures	<u>11,615,358</u>	<u>10,600,489</u>
Excess of revenues over expenditures	1,339,905	3,499,586
Special items:		
Write-off of receivables	<u>(120,399)</u>	<u>-</u>
Net change in deficit	1,219,506	3,499,586
Deficit at the beginning of the year	<u>62,369</u>	<u>(3,437,217)</u>
Deficit at the end of the year	<u>\$ 1,281,875</u>	<u>\$ 62,369</u>

**State of Chuuk
Federated States of Micronesia**

Grants Assistance Fund
Combining Balance Sheet

September 30, 2022

	10	11	12	13	14	15	16	18	19
	Education Sector	Health Sector	Environment Sector	Private Sector Development	Capacity Building Sector	Supplemental Education	Enhanced Reporting Accountability	Infrastructure Maintenance	Infrastructure
<u>ASSETS</u>									
Receivables	\$ 1,224,685	\$ 2,002,873	\$ 64,601	\$ 130,390	\$ 121,853	\$ 113,564	\$ 39,575	\$ 94,857	\$ 815,844
Advances	5,432	45,715	-	-	705	34,256	-	-	7,973
Prepayments	25,000	-	-	-	-	-	-	-	-
Due from other funds	-	-	-	-	2,638,133	4,011,137	31,566	3,655,118	-
	<u>\$ 1,255,117</u>	<u>\$ 2,048,588</u>	<u>\$ 64,601</u>	<u>\$ 130,390</u>	<u>\$ 2,760,691</u>	<u>\$ 4,158,957</u>	<u>\$ 71,141</u>	<u>\$ 3,749,975</u>	<u>\$ 823,817</u>
<u>LIABILITIES AND FUND BALANCES</u>									
Liabilities:									
Accounts payable	\$ 139,915	\$ 124,543	\$ 3,840	\$ -	\$ 11,475	\$ 150,730	\$ 12,035	\$ -	\$ 77,039
Accrued liabilities	362,396	102,538	-	-	29,645	28,466	12,505	-	15,434
Unearned revenues	510,161	133,860	-	-	2,719,571	3,979,761	46,601	-	-
Due to other funds	<u>242,645</u>	<u>1,687,647</u>	<u>60,761</u>	<u>130,390</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>731,344</u>
Total liabilities	<u>1,255,117</u>	<u>2,048,588</u>	<u>64,601</u>	<u>130,390</u>	<u>2,760,691</u>	<u>4,158,957</u>	<u>71,141</u>	<u>-</u>	<u>823,817</u>
Fund balances:									
Restricted	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,749,975</u>	<u>-</u>
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,749,975</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 1,255,117</u>	<u>\$ 2,048,588</u>	<u>\$ 64,601</u>	<u>\$ 130,390</u>	<u>\$ 2,760,691</u>	<u>\$ 4,158,957</u>	<u>\$ 71,141</u>	<u>\$ 3,749,975</u>	<u>\$ 823,817</u>

See accompanying Report of Independent Auditors.

**State of Chuuk
Federated States of Micronesia**

Grants Assistance Fund
Combining Balance Sheet, continued

	20 U.S. Federal Grants	21 U.S. Federal Grants - Direct	23 Foreign Assistance	25 CFSM Grants	27 Carry-Over Education Sector	28 Carry-Over Health Sector	32 Carry-Over Capacity Building Sector	Total
<u>ASSETS</u>								
Receivables	\$ 290,601	\$ 22,159	\$ 29,573	\$ (6,872)	\$ 323,147	\$ 637,737	\$ 33,735	\$ 5,938,322
Advances	27,163	-	-	-	-	4,445	-	125,689
Prepayments	-	-	-	-	-	-	-	25,000
Due from other funds	-	-	100,692	6,872	-	451,735	-	10,895,253
	<u>\$ 317,764</u>	<u>\$ 22,159</u>	<u>\$ 130,265</u>	<u>\$ -</u>	<u>\$ 323,147</u>	<u>\$ 1,093,917</u>	<u>\$ 33,735</u>	<u>\$ 16,984,264</u>
<u>LIABILITIES AND FUND BALANCES</u>								
Liabilities:								
Accounts payable	\$ 69,393	\$ -	\$ 399	\$ -	\$ 376	\$ 49,128	\$ -	\$ 638,873
Accrued liabilities	53,578	-	-	-	-	37,049	-	641,611
Unearned revenues	-	-	21,915	-	-	1,007,740	-	8,419,609
Due to other funds	182,274	22,159	-	-	322,771	-	33,735	3,413,726
Total liabilities	<u>305,245</u>	<u>22,159</u>	<u>22,314</u>	<u>-</u>	<u>323,147</u>	<u>1,093,917</u>	<u>33,735</u>	<u>13,113,819</u>
Fund balances:								
Restricted	<u>12,519</u>	<u>-</u>	<u>107,951</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,870,445</u>
Total fund balances	<u>12,519</u>	<u>-</u>	<u>107,951</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,870,445</u>
Total liabilities and fund balances	<u>\$ 317,764</u>	<u>\$ 22,159</u>	<u>\$ 130,265</u>	<u>\$ -</u>	<u>\$ 323,147</u>	<u>\$ 1,093,917</u>	<u>\$ 33,735</u>	<u>\$ 16,984,264</u>

See accompanying Report of Independent Auditors.

Other Information

State of Chuuk
Federated States of Micronesia

Grants Assistance Fund
Combining Statement of Revenues, Expenditures by Function and Changes in Fund Balances

Year Ended September 30, 2022

	10	11	12	13	14	15	16	18	19
	Education	Health	Environment	Private	Capacity	Supplemental	Enhanced	Infrastructure	Infrastructure
	Sector	Sector	Sector	Sector	Building	Education	Reporting	Maintenance	Infrastructure
	Sector	Sector	Sector	Development	Sector		Accountability		
Revenues:									
Compact funding	\$ 9,724,685	\$ 10,443,294	\$ 21,860	\$ -	\$ 541,853	\$ 3,713,564	\$ 603,399	\$ 1,681,996	\$ 1,000,770
Federal contributions and other grants	-	-	-	-	-	-	-	-	-
Total revenues	<u>9,724,685</u>	<u>10,443,294</u>	<u>21,860</u>	<u>-</u>	<u>541,853</u>	<u>3,713,564</u>	<u>603,399</u>	<u>1,681,996</u>	<u>1,000,770</u>
Expenditures by function:									
Current:									
General government	-	-	-	-	144,578	-	603,399	-	-
Health services	-	10,443,294	-	-	-	-	-	-	-
Education	9,203,415	-	-	-	-	3,713,564	-	-	-
Economic development	-	-	21,860	-	-	-	-	-	-
Public works and transportation	-	-	-	-	54,538	-	-	-	-
Boards, commissions and other	344,897	-	-	-	342,737	-	-	-	-
Payments to component units	176,373	-	-	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-	-	-	1,000,770
Total expenditures	<u>9,724,685</u>	<u>10,443,294</u>	<u>21,860</u>	<u>-</u>	<u>541,853</u>	<u>3,713,564</u>	<u>603,399</u>	<u>-</u>	<u>1,000,770</u>
Net change in fund balances	-	-	-	-	-	-	-	1,681,996	-
Fund balances at the beginning of the year	-	-	-	-	-	-	-	2,067,979	-
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,749,975</u>	<u>\$ -</u>

See accompanying Report of Independent Auditors.

State of Chuuk
Federated States of Micronesia

Grants Assistance Fund
Combining Statement of Revenues, Expenditures by Function and Changes in Fund Balances, continued

	20 U.S. Federal Grants	21 U.S. Federal Grants-Direct	23 Foreign Assistance	25 CFSM Grants	27 Carry-Over Education	28 Carry-Over Health	32 Carry-Over Capacity Building	Total
Revenues:								
Compact funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 788,950	\$ -	\$ 28,520,371
Federal contributions and other grants	2,307,680	-	27,152	-	-	-	-	2,334,832
Total revenues	2,307,680	-	27,152	-	-	788,950	-	30,855,203
Expenditures by function:								
Current:								
General government	-	-	-	-	-	-	-	747,977
Health services	1,333,209	-	4,461	-	-	788,950	-	12,569,914
Education	974,471	-	-	-	-	-	-	13,891,450
Economic development	-	-	-	-	-	-	-	21,860
Public works and transportation	-	-	-	-	-	-	-	54,538
Boards, commissions and other	-	-	-	-	-	-	-	687,634
Payments to component units	-	-	22,691	-	-	-	-	199,064
Capital projects	-	-	-	-	-	-	-	1,000,770
Total expenditures	2,307,680	-	27,152	-	-	788,950	-	29,173,207
Net change in fund balances	-	-	-	-	-	-	-	1,681,996
Fund balances at the beginning of the year	12,519	-	107,951	-	-	-	-	2,188,449
Fund balances at the end of the year	\$ 12,519	\$ -	\$ 107,951	\$ -	\$ -	\$ -	\$ -	\$ 3,870,445

State of Chuuk
Federated States of Micronesia

Grants Assistance Fund
Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balances

Year Ended September 30, 2022

	10	11	12	13	14	15	16	18	19
	Education Sector	Health Sector	Environment Sector	Private Sector Development	Capacity Building Sector	Supplemental Education	Enhanced Reporting Accountability	Infrastructure Maintenance	Infrastructure
Revenues:									
Compact funding	\$ 9,724,685	\$ 10,443,294	\$ 21,860	\$ -	\$ 541,853	\$ 3,713,564	\$ 603,399	\$ 1,681,996	\$ 1,000,770
Federal contributions and other grants	-	-	-	-	-	-	-	-	-
Total revenues	9,724,685	10,443,294	21,860	-	541,853	3,713,564	603,399	1,681,996	1,000,770
Expenditures by account:									
Salaries and wages:									
Regular	6,097,117	3,363,704	-	-	77,657	262,832	331,163	-	72,894
Overtime	55,724	554,078	-	-	10,000	-	11,152	-	12,419
Fringe benefits	805,173	481,192	-	-	22,730	36,956	46,487	-	38,703
Travel and transportation	-	80,535	-	-	2,327	47,438	-	-	6,794
Books and library materials	11,526	-	-	-	-	-	-	-	158
Communications	16,946	28,327	-	-	4,060	39,470	12,448	-	1,660
Dues, memberships, and subscriptions	-	-	-	-	-	-	-	-	-
Food stuffs	29,639	265,901	-	-	-	218,707	-	-	-
Freight and port charges	4,474	1,915	-	-	-	-	-	-	714
Office supplies and materials	365,858	428,488	8,011	-	33,606	1,485,915	65,754	-	9,376
POL	102,041	281,643	5,880	-	4,787	175,165	5,012	-	5,275
Printing and reproduction	84,064	11,342	-	-	-	-	-	-	1,390
Rental services	59,014	11,482	-	-	6,101	6,112	80	-	-
Repairs and maintenance	117,012	211,797	-	-	2,273	111,652	3,531	-	986
Constructional materials	-	-	-	-	-	-	-	-	-
Utilities	221,926	732,820	-	-	9,873	125,826	48,754	-	13,391
Goods and services	756	56,486	-	-	6,922	1,190	-	-	6,606
Subsidies and contributions	184,034	-	-	-	-	172,623	-	-	-
Medical referrals	-	310,325	-	-	-	-	-	-	-
Medical supplies	-	2,171,823	-	-	-	-	-	-	-
Contractual services	492,012	979,337	-	-	142,843	345,001	57,140	-	435,163
Professional services	-	-	-	-	165,011	-	-	-	242,828
Housing allowance	-	-	-	-	10,019	-	9,750	-	12,750
Scholarships and allowances	329,190	-	-	-	-	-	-	-	-
Meeting fees and allowance	3,300	-	-	-	-	-	-	-	-
Training	606,906	18,851	-	-	-	160,845	-	-	-
Leased housing, buildings and land	-	250,875	-	-	25,200	-	12,128	-	7,088
Compensation non-payroll	-	-	-	-	-	431,138	-	-	-
Equipment	86,981	103,620	7,969	-	-	37,664	-	-	-
Furniture and fixtures	-	-	-	-	-	6,800	-	-	-
Vehicles	50,992	89,782	-	-	18,444	48,230	-	-	39,999
Vessels	-	8,971	-	-	-	-	-	-	92,576
Miscellaneous	-	-	-	-	-	-	-	-	-
Total expenditures	9,724,685	10,443,294	21,860	-	541,853	3,713,564	603,399	-	1,000,770
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-	-	-	-	1,681,996	-
Other financing sources (uses)									
Operating transfer in (out)	-	-	-	-	-	-	-	-	-
Net change in fund balances	-	-	-	-	-	-	-	1,681,996	-
Fund balances at the beginning of the year	-	-	-	-	-	-	-	2,067,979	-
Fund balances at the end of the year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,749,975	\$ -

See accompanying Report of Independent Auditors.

State of Chuuk
Federated States of Micronesia

Grants Assistance Fund
Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balances, continued

	20 U.S. Federal Grants	21 U.S. Federal Grants - Direct	23 Foreign Assistance	25 CFSM Grants	27 Carry-Over Education	28 Carry-Over Health	32 Carry-Over Capacity Building	Total
Revenues:								
Compact funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 788,950	\$ -	\$ 28,520,371
Federal contributions and other grants	2,307,680	-	27,152	-	-	-	-	2,334,832
Total revenues	2,307,680	-	27,152	-	-	788,950	-	30,855,203
Expenditures by account:								
Salaries and wages:								
Regular	1,285,356	-	23,347	-	-	710	-	11,514,780
Overtime	9,217	-	-	-	-	102,917	-	755,507
Fringe benefits	161,970	-	2,755	-	-	31,088	-	1,627,054
Travel and transportation	84,729	-	-	-	-	10,520	-	232,343
Books and library materials	-	-	-	-	-	-	-	11,684
Communications	43,356	-	-	-	-	10,500	-	156,767
Dues, memberships, and subscriptions	-	-	-	-	-	-	-	-
Food stuffs	-	-	-	-	-	95,650	-	609,897
Freight and port charges	-	-	-	-	-	-	-	7,103
Office supplies and materials	149,107	-	-	-	-	65,547	-	2,611,662
POL	120,990	-	-	-	-	23,605	-	724,398
Printing and reproduction	28,058	-	-	-	-	-	-	124,854
Rental services	104,533	-	-	-	-	6,632	-	193,954
Repairs and maintenance	12,249	-	-	-	-	10,618	-	470,118
Constructional materials	-	-	-	-	-	642	-	642
Utilities	19,419	-	1,050	-	-	-	-	1,173,059
Goods and services	53,983	-	-	-	-	1,507	-	127,450
Subsidies and contributions	-	-	-	-	-	-	-	356,657
Medical referrals	-	-	-	-	-	-	-	310,325
Medical supplies	12,825	-	-	-	-	79,780	-	2,264,428
Contractual services	50,711	-	-	-	-	114,378	-	2,616,585
Professional services	-	-	-	-	-	-	-	407,839
Housing allowance	2,363	-	-	-	-	-	-	34,882
Scholarships and allowances	-	-	-	-	-	-	-	329,190
Meeting fees and allowance	1,000	-	-	-	-	-	-	4,300
Training	47,392	-	-	-	-	-	-	833,994
Leased housing, buildings and land	-	-	-	-	-	-	-	295,291
Compensation non-payroll	63,934	-	-	-	-	-	-	495,072
Equipment	28,560	-	-	-	-	139,456	-	404,250
Furniture and fixtures	2,438	-	-	-	-	-	-	9,238
Vehicles	25,490	-	-	-	-	95,400	-	368,337
Vessels	-	-	-	-	-	-	-	101,547
Miscellaneous	-	-	-	-	-	-	-	-
Total expenditures	2,307,680	-	27,152	-	-	788,950	-	29,173,207
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-	-	-	-	1,681,996
Other financing sources (uses)								
Operating transfer in (out)	-	-	-	-	-	-	-	-
Net change in fund balances	-	-	-	-	-	-	-	1,681,996
Fund balances at the beginning of the year	12,519	-	107,951	-	-	-	-	2,188,449
Fund balances at the end of the year	\$ 12,519	\$ -	\$ 107,951	\$ -	\$ -	\$ -	\$ -	\$ 3,870,445

State of Chuuk
Federated States of Micronesia

Statement of Revenues, Expenditures By Function and Department and Changes in Deficit
Budget and Actual - General Fund

Year Ended September 30, 2022

	Budgeted Amounts		Actual	Variance with
	Original	Final	Budgetary Basis	Final Budget Positive/(Negative)
Revenues:				
Local revenues	\$ 9,358,957	\$ 10,959,293	\$ 13,624,501	\$ 2,665,208
Net change in fair value of investments	-	-	(669,238)	(669,238)
Total revenues	9,358,957	10,959,293	12,955,263	1,995,970
Expenditures:				
Current:				
General government:				
Office of the Governor	692,992	786,242	1,781,753	(995,510)
State Legislature	3,557,188	3,872,424	3,460,431	411,993
Department of Administrative Services	310,735	337,035	397,166	(60,131)
Office of Public Auditor	83,578	83,578	3,986	79,593
	4,644,493	5,079,279	5,643,335	(564,056)
Education:				
Department of Education	-	-	-	-
Health:				
Department of Health	163,750	166,627	142,787	23,840
Economic development:				
Division of Marine Resources	165,634	165,634	154,122	11,512
Division of Agriculture	196,804	196,804	177,686	19,118
Historic Preservation Office	36,706	36,706	32,577	4,129
Division of Business and Trade	15,364	15,364	15,266	98
Division of Manpower and Labor	22,836	22,836	20,159	2,677
Division of Land management	93,910	93,910	80,635	13,275
Registrar of Corporation	69,447	69,447	69,801	(354)
Division of Commerce and Industry	9,848	9,848	10,180	(332)
	610,549	610,549	560,426	50,123
Public safety:				
Office of the Attorney General	231,661	241,661	218,072	23,589
Department of Public Safety	993,281	1,063,313	994,377	68,936
	1,224,942	1,304,974	1,212,449	92,525
Public works and transportation:				
Department of Transportation	1,066,787	1,142,987	1,041,694	101,293
Community affairs:				
Department of Public Affairs	167,815	167,815	161,928	5,887
Boards, commissions and other:				
Chuuk Recreation Board	91,768	91,768	69,501	22,267
Land Commission	178,228	178,228	148,147	30,081
Public Service Commission	167,946	167,946	4,202	163,744
Election Commission	122,269	122,269	121,390	879
Farmers Home Administration	-	-	13,994	(13,994)
Chuuk Disaster Control Center	150	150	-	150
Micronesian Legal Services Corporation	25,000	25,000	25,000	-
Micronesia Conservation Trust	-	-	11,281	(11,281)
Rural Development	19,163	19,163	910	18,253
Chuuk Residents' Repatriation Expenses	-	535,943	-	535,943
King Tide Declaration	-	350,000	315	349,685
Chuuk EPA	150,140	152,140	0	152,140
Overseas Development Assistance	51,309	51,309	45,983	5,326
Chuuk Small Business Development Center	64,818	64,818	62,697	2,121

State of Chuuk
Federated States of Micronesia

Statement of Revenues, Expenditures By Function and Department and Changes in Deficit
Budget and Actual - General Fund, Continued

	Budgeted Amounts		Actual	Variance with
	Original	Final	Budgetary Basis	Final Budget Positive/(Negative)
Boards, commissions and other, continued:				
Chuuk Visitors Bureau	100,931	100,931	77,263	23,669
Political Status Commission	598	598	598	(0)
Economic Policy Development and Implementation	58,555	58,555	668	57,887
General Election	3,290	3,290	3,946	(656)
Chuuk State Disaster and Emergency Operation Center	139,366	139,366	395	138,971
State Funeral Expenses - CJ Samuel	-	45,500	-	45,500
Solid and Hazardous Waste Management	-	-	144,077	(144,077)
SEPDIC	-	-	54,696	(54,696)
Chuuk 2022 Goodwill Games	-	50,000	-	50,000
	<u>1,173,531</u>	<u>2,156,974</u>	<u>785,065</u>	<u>1,371,909</u>
Judiciary:				
State Court	<u>563,927</u>	<u>586,927</u>	<u>635,911</u>	<u>(48,984)</u>
Payments to component units:				
Chuuk State Housing Authority	<u>72,018</u>	<u>72,018</u>	<u>76,920</u>	<u>(4,902)</u>
Municipal affairs:				
Payments to municipalities	<u>424,521</u>	<u>424,521</u>	<u>413,379</u>	<u>11,142</u>
Other	<u>7,754</u>	<u>7,754</u>	<u>7,754</u>	<u>0</u>
Debt service:				
Debt relief payment	219	219	570,414	(570,195)
Principal repayment	-	-	438,895	(438,895)
Interest payments	-	-	673,462	(673,462)
	<u>219</u>	<u>219</u>	<u>1,682,771</u>	<u>(1,682,552)</u>
Total expenditures	<u>10,120,306</u>	<u>11,720,644</u>	<u>12,364,418</u>	<u>(643,773)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(761,349)</u>	<u>(761,351)</u>	<u>590,845</u>	<u>1,352,197</u>
Special items:				
Write-off of receivables	-	-	(120,399)	(120,399)
Net change in deficit	<u>(761,349)</u>	<u>(761,351)</u>	<u>470,446</u>	<u>1,231,798</u>
Other changes in fund deficit:				
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes but in the year the supplies are received for financial reporting purposes	-	-	749,060	749,060
Fund deficit at the beginning of the year	<u>62,369</u>	<u>62,369</u>	<u>62,369</u>	<u>-</u>
Fund deficit at the end of the year	<u>\$ (698,980)</u>	<u>\$ (698,982)</u>	<u>\$ 1,281,875</u>	<u>\$ 1,980,858</u>