

*Financial Statements and Additional Information*

**State of Kosrae  
Federated States of Micronesia**

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



State of Kosrae  
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 Tulensa W. Palik  
Governor, State of Kosrae  
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 Kosrae (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*

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

#### *Qualified Opinions on Governmental Activities 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 and the Grants Assistance Fund of the State of Kosrae 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, General Fund, 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, General Fund, Compact Trust Fund and the aggregate remaining fund information of the State of Kosrae 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 and Grants Assistance Fund*

The State's Grants Assistance Fund includes \$1,295,459 and \$1,949,771 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 \$1,295,459 and \$1,949,771 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 as set forth in Section II of the foregoing table of contents, and the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund as set forth in Section IV of the foregoing table of contents, 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 financial statements. The information as set forth in Section V of the foregoing table of contents is 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 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, such information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 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*

May 3, 2024

State of Kosrae  
Federated States of Micronesia

Management's Discussion and Analysis

September 30, 2022

Management of the State of Kosrae (the State) offers readers this narrative overview and analysis of the financial activities of the State for the fiscal year ended September 30, 2022. We encourage readers to consider this information in conjunction with the State's financial statements, which follow. Fiscal year 2021 comparative information has been included, where appropriate.

**Financial Highlights**

*Government-Wide:*

- Net Position - Total assets of the State exceeded its total liabilities and deferred inflows of resources at the close of the fiscal year by \$36,425,836 (presented as net position), of which \$27,848,369 (or 76.4%) is reported as the net investment in capital assets, \$8,132,686 (or 22.3%) as the restricted net position (restricted to Compact trust, revolving funds and etc.), and the remaining \$444,781 (or 1.3%) as the unrestricted net position.
- Change in Net Position - The net position of the State decreased by \$1,347,779 during the fiscal year compared to the balance reported in the prior year.

*Fund Level:*

- Governmental Funds – Fund Balances – Total assets of governmental funds of the State exceeded total liabilities and deferred inflows of resources by \$10,307,688 (presented as fund balances). Of the total fund balances, \$8,576,993 (or 83%) is reported as non-spendable, \$510,247 (or 5%) as restricted, \$1,038,299 (or 10%) as committed, \$182,149 (or 2%) as unrestricted.
- General Fund – Total assets of the General Fund exceeded its total liabilities and deferred inflows of resources by \$2,182,964, of which \$1,905,943 (or 87.3%) is classified as non-spendable, \$7,962 (0.3%) as restricted, and \$269,059 (or 12.4%) as unassigned. The fund balance increased by \$281,898 during the fiscal year.
- General Fund - Unassigned fund balance of the General Fund increased by \$664,293 from \$(395,234) at September 30, 2021 to \$269,059 at September 30, 2022.
- Grant Assistance Fund – Total assets of the Grant Assistance Fund exceeded its total liabilities by \$61,986, of which \$100,000 is classified as non-spendable, \$ 48,896 as restricted, and \$(86,910) as unassigned. There was no change in fund balance during the fiscal year.
- Compact Trust Fund - \$6,478,050 is reported as restricted investments and non-spendable fund balance at September 30, 2022. The investments decreased by \$928,176 during the fiscal year.
- Other Governmental Funds – Total assets of the other governmental funds exceeded its liabilities by \$1,584,688, of which \$93,000 is presented as non-spendable, \$453,389 as restricted, and \$1,038,299 as committed at September 30, 2022. The combined fund balances decreased by \$148,739 during the fiscal year.

State of Kosrae  
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Management's Discussion and Analysis, continued

**Financial Highlights, continued**

*Capital Assets:*

- There was a net decrease in the State's capital assets of \$1,249,180. The net decrease consisted of depreciation expense of \$2,058,072 and capital outlays of \$808,892.

*Long-Term Obligations:*

- There was a net decrease in the State's long-term Obligations of \$296,419. The net decrease consisted of the decrease in ADB loans of \$593,919 and the net increase in loan from a private business of \$297,500.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the State's basic financial statements. The State's report consists of three major sections in accordance with required reporting standards: Management's Discussion and Analysis (MD&A), the basic financial statements, and required supplementary information. The basic financial statements comprise three components: (1) *Government-Wide Financial Statements*, (2) *Fund Financial Statements*, and (3) *Notes to the Financial Statements*.

(1) Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers a broad view of the State's operations in a manner similar to a private sector business. The State's government-wide financial statements include the Statement of Net Position and the Statement of Activities. These financial statements are prepared using the full accrual basis of accounting, which recognize all revenues when earned and expenditures when related liabilities are incurred.

- **Statement of Net Position** – The purpose of the Statement of Net Position is to report all of the assets held and liabilities owed by the State. The State reports all of its assets held and deferred outflows of resources when it acquires ownership over the assets and reports all of its liabilities and deferred inflows of resources when they are incurred. The difference between the State's total assets and deferred outflows of resources and total liabilities and deferred inflows of resources is presented as net position. Over time, increases or decreases in the State's net position may serve as a useful indicator in assessing whether the overall financial position of Kosrae State is improving.
- **Statement of activities** – The purpose of the Statement of Activities is to report all revenues and expenses earned or incurred during a year. This Statement presents information on how the State's net position changed during the fiscal year.



State of Kosrae  
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Management's Discussion and Analysis, continued

**Overview of the Financial Statements, continued**

Both the Statement of Net Position and the Statement of Activities of the State are divided into two categories:

- Governmental activities are primarily supported by taxes and federal grants. Most of the State's basic services are included here, such as education, health and human services, environment protection, commerce, law, justice and public safety, resource development and general government operation. Compact sector and other federal grants finance most of these activities.
- Discretely presented component units, although legally separate entities, are important because the State is financially accountable for these entities. Discretely presented component units include Kosrae Utilities Authority, Kosrae Port Authority and Kosrae Housing and Rural Development Authority.

(2) Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities and objectives. The State uses fund accounting to ensure and demonstrate compliance with financial-related legal requirements. All of the State's individual funds are categorized as governmental funds.

(3) Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential for a full understanding of financial data presented in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the combining financial statements of the component units.

Required Supplementary Information

Budgetary comparison schedule is presented in the required supplementary information section, which includes a reconciliation between the statutory expenditures for budgetary purposes and the actual expenditures for the General Fund.

Other Supplementary Information

Other supplementary information includes the following statements and are presented immediately following the required supplementary information:

- Combining schedule of expenditures by account for governmental funds
- Statement of revenues, expenditures by function and changes in fund balance of the General Fund

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Federated States of Micronesia

Management's Discussion and Analysis, continued

Other Supplementary Information, continued

- Statement of revenues, expenditures by function and changes in fund balance of the General Fund – Budget and Actual
- Combining financial statements for Nonmajor Governmental Funds
- Combining financial statements for Grant Assistance Fund

**Government-Wide Financial Analysis**

Table 1 below presents a summary of the Statement of Net Position (governmental activities only) of the Kosrae State as of September 30, 2022 and 2021:

**Table 1  
Net Position**

	Governmental Activities		
	<u>2022</u>	<u>2021</u>	<u>Change</u>
<b>ASSETS</b>			
Current and other assets	\$15,865,108	\$13,790,279	\$ 2,074,829
Capital assets	<u>28,958,731</u>	<u>30,207,911</u>	<u>(1,249,180)</u>
	<u>\$44,823,839</u>	<u>\$43,998,190</u>	<u>\$ 825,649</u>
<b>LIABILITIES</b>			
Current and other liabilities	\$ 3,016,752	\$ 3,137,573	\$( 120,821)
Long-term debt	<u>2,790,583</u>	<u>3,087,002</u>	<u>( 296,419)</u>
	<u>\$ 5,807,335</u>	<u>\$ 6,224,575</u>	<u>\$( 417,240)</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>\$ 2,590,668</u>	<u>\$ ---</u>	<u>\$ 2,590,668</u>
<b>NET POSITION</b>			
Net investment in capital assets	\$27,848,369	\$28,863,175	\$(1,014,806)
Restricted	8,132,686	9,342,336	(1,209,650)
Unrestricted	<u>444,781</u>	<u>( 431,896)</u>	<u>876,677</u>
	<u>\$36,425,836</u>	<u>\$37,773,615</u>	<u>\$(1,347,779)</u>
	<u>\$44,823,839</u>	<u>\$43,998,190</u>	<u>\$ 825,649</u>

The net position of the governmental activities decreased by \$1,347,779 from \$37,773,615 as of September 30, 2021 to \$36,425,836 as of September 30, 2022 primarily due to unrealized investment loss in the General Fund and the Compact Trust Fund.

State of Kosrae  
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Management's Discussion and Analysis, continued

**Government-Wide Financial Analysis, continued**

Net investments in capital assets were \$28,958,731 as of September 30, 2022. The State uses these capital assets to provide services to its citizen, and therefore these assets are not available for future spending. Resources needed to pay for the related debt will be provided from the national tax revenue sharing and the annual General Fund operating revenues.

Table 2 below presents a summary of the Statement of Activities (governmental activities only) of the Kosrae State for the fiscal year ended September 30, 2022:

**Table 2**  
**Change in Net Position**

	Governmental Activities		
	2022	2021	Change
<b>REVENUES</b>			
<b>Program revenues</b>			
Grants and contributions	\$ 9,111,878	\$10,033,029	\$( 921,151)
Charges for services	714,366	870,935	( 156,569)
<b>General revenues</b>			
FSM Revenue sharing	2,161,427	1,935,398	226,029
State taxes	479,146	483,081	( 3,935)
Unrestricted investment and interest earnings	( 158,411)	148,637	( 307,048)
Miscellaneous	417,839	88,815	329,024
Total revenues	12,726,245	13,559,895	( 833,650)
<b>EXPENSES</b>			
General government	2,364,801	2,228,720	136,081
Economic development	531,708	403,549	128,159
Education	3,833,422	4,114,803	( 281,381)
Health services	3,969,736	4,068,937	( 99,201)
Public order and safety	471,445	363,380	108,065
Public works	337,296	187,806	149,490
Environment protection and sanitation	---	40,000	( 40,000)
Boards, commissions and others	1,975,750	1,870,410	105,340
Unallocated interest on long-term debt	55,835	57,423	( 1,588)
Total program expenses	13,539,993	13,335,028	204,965

State of Kosrae  
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Management's Discussion and Analysis, continued

**Government-Wide Financial Analysis, continued**

	Governmental Activities		
	<u>2022</u>	<u>2021</u>	<u>Change</u>
<b>EXCESS (DEFICIENCY) BEFORE SPECIAL ITEMS AND CONTRIBUTIONS</b>	( 813,748)	224,867	(1,038,615)
Special item – gain (loss) on SDR foreign exchange	302,048	( 19,150)	321,198
Special item – write off of receivables	( 26,202)	( 1,004,421)	978,219
Recover of bad debt	118,300	---	118,300
Contribution to Compact Trust Fund	( 928,176)	1,416,790	(2,344,966)
Total special items and contribution	( 534,030)	393,219	( 927,249)
Change in net position	( 1,347,778)	618,086	(1,965,864)
Net position at the beginning of the year	<u>37,773,615</u>	<u>37,155,529</u>	<u>618,086</u>
Net position at the end of the year	<u>\$36,425,837</u>	<u>\$37,773,615</u>	<u>\$(1,347,778)</u>

Revenues to fund governmental activities totaled \$12,726,245 for the fiscal year. 72% (or \$9,111,878) of the governmental activities' revenue came from operating grants, primarily from the U.S. federal government and were earmarked for specific federal program uses such as education and health and human services programs. The second largest single revenue source was the tax revenue sharing with the FSM National Government, which comprised 17% (or \$2,161,427) of the governmental activities' revenue for the fiscal year. The third largest single revenue source was charges for services such as license and permit fees, which represented 6% (or \$714,366) of the total revenue of the governmental activities for the fiscal year. The last single revenue source was state taxes, which was 4% (or \$479,146) for the fiscal year.

Expenses related to governmental activities totaled \$13,539,992 during the fiscal year. Health and human services and education represent the governmental activities' largest spending categories, which were 29% and 28% respectively for the fiscal year.

**Financial Analysis of the State's Funds**

Governmental funds are categorized into three major funds (General Fund, Grant Assistance Fund, and Compact Trust Fund) and other non-major governmental funds as the aggregate remaining fund information:

(1) General Fund

The General Fund is the main operating fund of the Kosrae State. Total General Fund operating revenues of \$2,900,619 exceeded its operating expenses of \$2,710,819 by \$189,800. Main revenue sources were FSM national tax revenue sharing (60%), state taxes (16%), fees and charges (15%) and others (9%) for the fiscal year ended September 30, 2022.

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Management’s Discussion and Analysis, continued

**Financial Analysis of the State’s Funds, continued**

(2) Grant Assistance Fund

The Grant Assistance Fund is used primarily to account for various U.S. federal grants received directly or passed through the FSM National Government. The Grant Assistance Fund reported \$8,426,405 of federal grant expenditures for the fiscal year, which is \$988,628 less than the prior year expenditures of \$9,415,033.

(3) Compact Trust Fund

Compact Trust Fund reported unrecognized investment losses for the fiscal year due to unfavorable market conditions. As a result, the fund balance decreased by \$928,176 from \$7,406,226 as of September 30, 2021 to \$6,478,050 as of September 30, 2022.

Nonmajor Governmental Funds

Total fund balances of the nonmajor governmental funds decreased by \$148,739 for the fiscal year. More specifically, the Health Care Premium Fund incurred \$132,606 more expenditures than the prior year to support COVID-19 related expenditures.

**General Fund Budgetary Highlights**

Total revenues of the General Fund exceeded the final budgeted revenues by \$307,257. Total expenditures on the budgetary basis of \$2,754,414 exceeded the final budgeted expenditures of \$2,537,253 by \$217,161 primarily due to the repayments of various ADB loans not budgeted in the State’s appropriations.

**Table 3  
General Fund – Budget vs Actual**

	General Fund			
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
Revenues	\$2,593,363	\$2,593,363	\$2,900,620	\$307,257
Expenditures:				
Core government operations	(2,417,652)	(2,537,253)	(2,406,709)	130,544
Debt service	---	---	( 347,705)	(347,705)
	175,711	56,110	146,206	90,096
Special items	---	---	92,098	92,098
Net change in fund balance, budgetary basis	<u>\$ 175,711</u>	<u>\$ 56,110</u>	<u>\$ 238,304</u>	<u>\$182,194</u>

State of Kosrae  
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Management's Discussion and Analysis, continued

**CAPITAL ASSET AND DEBT ADMINISTRATION**

Capital Assets

As of September 30, 2022, Kosrae State had invested \$28,958,731 in governmental activities capital assets, net of accumulated depreciation, which reflects a decrease of 4% from the prior year. The decrease was due to depreciation expense of \$2,058,072 exceeding capital outlays of \$808,892 for the fiscal year.

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

**Table 4  
Capital Assets**

	Governmental Activities		
	<u>2022</u>	<u>2021</u>	<u>Change</u>
Capital assets:			
Buildings	\$ 9,129,528	\$ 9,667,920	\$( 538,392)
Infrastructure	17,081,644	18,044,762	( 963,118)
Machinery, equipment and others	<u>2,747,559</u>	<u>2,495,229</u>	<u>252,330</u>
	<u>\$28,958,731</u>	<u>\$30,207,911</u>	<u>\$(1,249,180)</u>

Debt Administration

The following table provides a schedule of the State's long-term debt obligations at September 30, 2022 and 2021.

**Table 5  
Long-Term Debt**

	Governmental Activities		
	<u>2022</u>	<u>2021</u>	<u>Change</u>
Asian Development Bank loans	\$2,398,809	\$2,992,728	\$(593,919)
Rural Utilities Service – USDA	94,274	94,274	---
Liancheng Fisheries	<u>297,500</u>	<u>---</u>	<u>297,500</u>
	<u>\$2,790,583</u>	<u>\$3,087,002</u>	<u>\$(296,419)</u>

The State's long-term debt decreased by \$296,419 primarily due to repayments of the loans. Additional information on the Kosrae State's long-term debt obligations can be found in note 6.

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Management's Discussion and Analysis, continued

## ECONOMIC OUTLOOK

The State's economy continued to be significantly impacted by the COVID-19 pandemic during the fiscal year. However, it appears that the State's economy is slowly recovering compared with the prior year. The State prepares an annual financial forecast, which focuses on financial viability for the State's General Fund. The annual financial forecast is based on these key assumptions:

**National tax revenue sharing** – FSM national tax revenue sharing with the State represents the largest single source of revenue to the State's General Fund. The revenue sharing was approximately 75% and 63% respectively of the State's total General Fund revenues for the fiscal years ended September 30, 2022 and 2021. The collection of revenue sharing is expected to increase in fiscal year 2023 due to the recovering economic condition.

**Sales Taxes** – The State's sales taxes are the second largest single source of revenue to the General Fund, which was approximately 16% of the Kosrae State's total General Fund revenues for the fiscal years ended September 30, 2022 and 2021. Current year projections for sales taxes are developed based on current economic conditions and historical collection data. The collection of sales taxes is expected to increase in fiscal year 2023 due to the recovering economic condition.

**Fees and Charges** – The State's fees and charges are the third largest single source of revenue to the General Fund, which was approximately 12% and 15% of the State's total General Fund revenues for 2022 and 2021. Current year projections for fees and charges are developed based on current economic conditions and historical collection data. The collection of fees and charges is expected to increase in fiscal year 2023 due to the recovering economic condition.

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

## CONTACTING KOSRAE STATE'S FINANCIAL MANAGEMENT

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

**State of Kosrae**  
**Federated States of Micronesia**

Statement of Net Position

September 30, 2022

	<u>Primary Government</u>	<u>Component Units</u>
<b><u>ASSETS</u></b>		
Current assets:		
Cash and cash equivalents	\$ 594,540	\$ 1,243,970
Time certificate of deposit	-	169,662
Investments	-	780,249
Receivables, net	2,316,483	868,094
Inventories	-	379,032
Prepayments	408,425	43,659
Advances	23,705	-
Other current assets	900,000	-
Restricted assets:		
Cash and cash equivalents	1,215,030	-
Time certificate of deposit	-	200,000
Total current assets	<u>5,458,183</u>	<u>3,684,666</u>
Noncurrent assets:		
Deposit for fuel contract	-	252,800
Capital assets:		
Nondepreciable capital assets	-	71,840
Capital assets, net of accumulated depreciation	28,958,731	14,977,343
Investments	1,192,596	-
Lease receivable	2,321,282	-
Restricted assets:		
Time certificates of deposit	407,035	-
Investments	6,486,012	-
Total noncurrent assets	<u>39,365,656</u>	<u>15,301,983</u>
Total assets	<u>\$ 44,823,839</u>	<u>\$ 18,986,649</u>
<b><u>LIABILITIES</u></b>		
Current liabilities:		
Short-term borrowings	\$ 102,075	\$ -
Current portion of long-term obligations	279,681	43,893
Accounts payable	414,045	240,037
Other liabilities and accruals	530,841	102,416
Due to primary government	-	12,680
Unearned revenues	1,969,791	81,341
Note payable	-	50,000
Total current liabilities	<u>3,296,433</u>	<u>530,367</u>

See accompanying notes.



**State of Kosrae**  
**Federated States of Micronesia**

Statement of Net Position, continued

	<u>Primary Government</u>	<u>Component Units</u>
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	<u>2,510,902</u>	<u>16,135</u>
Total noncurrent liabilities	<u>2,510,902</u>	<u>16,135</u>
Total liabilities	<u>5,807,335</u>	<u>546,502</u>
Deferred Inflows of Resources: Leases	<u>2,590,668</u>	<u>-</u>
Total liabilities and deferred inflows of resources	<u>8,398,003</u>	<u>546,502</u>
Commitments and contingencies		
<u>NET POSITION</u>		
Net investment in capital assets	27,848,369	15,049,183
Restricted for:		
Nonexpendable:		
Future operations	6,478,050	-
Expendable:		
Debt service	7,962	-
Compact related	48,896	622,796
Other purposes	1,597,778	-
Unrestricted	<u>444,781</u>	<u>2,768,168</u>
Total net position	<u>36,425,836</u>	<u>18,440,147</u>
Total liabilities and net position	<u>\$ 44,823,839</u>	<u>\$ 18,986,649</u>

**State of Kosrae**  
**Federated States of Micronesia**

Statement of Activities

Year Ended September 30, 2022

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
<b>Primary government:</b>						
Governmental activities:						
General government	\$ 2,364,801	\$ 714,366	\$ 1,210,578	\$ -	\$ (439,857)	\$ -
Economic development	531,708	-	100,145	-	(431,563)	-
Education	3,833,422	-	3,899,764	-	66,342	-
Health services	3,969,736	-	3,618,809	-	(350,927)	-
Public order and safety	471,445	-	-	-	(471,445)	-
Public works	337,296	-	-	-	(337,296)	-
Environment protection and sanitation	-	-	282,582	-	282,582	-
Boards, commissions and other	1,975,750	-	-	-	(1,975,750)	-
Unallocated interest on long-term debt	55,835	-	-	-	(55,835)	-
<b>Total primary government</b>	<b>\$ 13,539,993</b>	<b>\$ 714,366</b>	<b>\$ 9,111,878</b>	<b>\$ -</b>	<b>(3,713,749)</b>	<b>-</b>
<b>Component units:</b>						
Kosrae Port Authority	\$ 1,245,166	\$ 561,800	\$ -	\$ -	-	(683,366)
Kosrae Utilities Authority	3,339,924	3,248,137	-	-	-	(91,787)
Kosrae Housing Authority	226,433	107,963	-	-	-	(118,470)
<b>Total component units</b>	<b>\$ 4,811,523</b>	<b>\$ 3,917,900</b>	<b>\$ -</b>	<b>\$ -</b>	<b>-</b>	<b>(893,623)</b>
<b>General revenues:</b>						
Taxes:						
FSM revenue sharing:						
Gross revenue taxes					631,347	-
Import taxes					612,744	-
Income taxes					627,341	-
Other taxes					289,995	-
State taxes					479,146	-
Unrestricted investment earnings					(158,411)	(167,393)
Contribution from the FSM National Government					-	1,029,962
Other					417,839	19,636
<b>Total general revenues</b>					<b>2,900,001</b>	<b>882,205</b>
Special item - loss on SDR foreign exchange					302,048	-
Special item - write off of receivables					(26,202)	-
Recovery of bad debt					118,300	-
Contributions to permanent fund					(928,176)	-
<b>Total general revenues, special items and contributions</b>					<b>2,365,971</b>	<b>882,205</b>
<b>Change in net position</b>					<b>(1,347,778)</b>	<b>(11,418)</b>
<b>Net position at the beginning of the year</b>					<b>37,773,615</b>	<b>18,451,565</b>
<b>Net position at the end of the year</b>					<b>\$ 36,425,837</b>	<b>\$ 18,440,147</b>

See accompanying notes.

**State of Kosrae  
Federated States of Micronesia**

Balance Sheet  
Governmental Funds

September 30, 2022

	General Fund	Special Revenue Grants Assistance Fund	Permanent Compact Trust Fund	Other Gov't Fund	Total
<b>ASSETS</b>					
Cash and cash equivalents	\$ 594,540	\$ -	\$ -	\$ -	\$ 594,540
Investments	1,192,596	-	-	-	1,192,596
Receivables, net:					
General	16,413	-	-	-	16,413
Federal agencies	-	38,786	-	-	38,786
Due from FSM National Government	2,220	1,295,459	-	370,054	1,667,733
Taxes	390,754	-	-	-	390,754
Leases	2,524,079	-	-	-	2,524,079
Due from other funds	647,124	1,140,697	-	1,053,764	2,841,585
Prepaid items	-	408,425	-	-	408,425
Advances	6,347	17,358	-	-	23,705
Other assets	707,000	100,000	-	93,000	900,000
Restricted assets:					
Cash and cash equivalents - restricted	1,172,501	-	-	42,529	1,215,030
Time certificates of deposit	43,456	-	-	363,579	407,035
Investments - restricted	7,962	-	6,478,050	-	6,486,012
Total assets	\$ 7,304,992	\$ 3,000,725	\$ 6,478,050	\$ 1,922,926	\$ 18,706,693
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>					
Liabilities:					
Short-term borrowings	\$ 102,075	\$ -	\$ -	\$ -	102,075
Accounts payable	9,095	288,378	-	116,572	414,045
Other liabilities and accruals	275,729	254,242	-	870	530,841
Due to other funds	2,194,461	446,348	-	200,776	2,841,585
Unearned revenues	-	1,949,771	-	20,020	1,969,791
Total liabilities	2,581,360	2,938,739	-	338,238	5,858,337
Deferred Inflows of Resources: leases	2,540,668	-	-	-	2,540,668
Total liabilities and deferred inflows of resources	5,122,028	2,938,739	-	338,238	8,399,005
Fund balances:					
Non-spendable	1,905,943	100,000	6,478,050	93,000	8,576,993
Restricted	7,962	48,896	-	453,389	510,247
Committed	-	-	-	1,038,299	1,038,299
Unassigned:					
General fund	269,059	-	-	-	269,059
Special revenue funds	-	(86,910)	-	-	(86,910)
Total fund balances	2,182,964	61,986	6,478,050	1,584,688	10,307,688
Total liabilities and fund balances	\$ 7,304,992	\$ 3,000,725	\$ 6,478,050	\$ 1,922,926	

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

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

28,958,731

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

Long-term debt payable

(2,790,583)

Advance lease payment

(50,000)

(2,840,583)

Net position of governmental activities

\$ 36,425,836

**State of Kosrae  
Federated States of Micronesia**

Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds

Year Ended September 30, 2022

	General Fund	Special Revenue	Permanent	Other Gov't Fund	Total
		Grants Assistance Fund	Compact Trust Fund		
Revenues:					
Compact funding	\$ -	\$ 6,949,580	\$ -	\$ -	\$ 6,949,580
Net change in the fair value of investments	(201,996)	-	(928,176)	-	(1,130,172)
Federal contributions	-	1,476,825	-	-	1,476,825
FSM revenue sharing	2,161,427	-	-	-	2,161,427
State taxes	479,146	-	-	-	479,146
CFSM grants	-	-	-	685,473	685,473
Fees and charges	345,471	-	-	266,395	611,866
Interest income	41,680	-	-	1,905	43,585
Other	74,891	340,816	-	2,131	417,838
<b>Total revenues</b>	<b>2,900,619</b>	<b>8,767,221</b>	<b>(928,176)</b>	<b>955,904</b>	<b>11,695,568</b>
Expenditures:					
Current:					
General government	1,231,588	771,583	-	248,716	2,251,887
Economic development	340,049	100,145	-	85,103	525,297
Education	-	3,899,764	-	-	3,899,764
Health services	-	3,618,809	-	419,233	4,038,042
Public order and safety	341,473	12,240	-	129,070	482,783
Public works	221,340	82,098	-	33,858	337,296
Boards, commissions and other	228,664	282,582	-	188,663	699,909
Debt service	347,705	-	-	-	347,705
<b>Total expenditures</b>	<b>2,710,819</b>	<b>8,767,221</b>	<b>-</b>	<b>1,104,643</b>	<b>12,582,683</b>
Excess (deficiency) of revenues over (under) expenditures	189,800	-	(928,176)	(148,739)	(887,115)
Special items:					
Bad Debt Recovery	118,300	-	-	-	118,300
Write off of receivables	(26,202)	-	-	-	(26,202)
<b>Net change in fund balances</b>	<b>281,898</b>	<b>-</b>	<b>(928,176)</b>	<b>(148,739)</b>	<b>(795,017)</b>
Fund balances at the beginning of the year	1,901,066	61,986	7,406,226	1,733,427	11,102,705
Fund balances at the end of the year	<u>\$ 2,182,964</u>	<u>\$ 61,986</u>	<u>\$ 6,478,050</u>	<u>\$ 1,584,688</u>	<u>\$ 10,307,688</u>

See accompanying notes.

**State of Kosrae  
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	\$( 795,017)
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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 the sum of depreciation (\$2,058,072) exceeded capital outlays, net of \$808,892 in the current period.	(1,249,180)
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Governmental funds report advance lease payment as revenues. However, in the statement of net position, such is reported as deferred inflows of resources – leases	50,000
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Special item – gain on ADB loans SDR foreign exchange	302,048
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The incurrence of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. For the current year, these amounts consist of:

Repayment of ADB loans	291,871
Repayment of Liancheng loan	50,000
Other item	<u>2,499</u>

Change in net position of governmental activities	\$( <u>1,347,779</u> )
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**State of Kosrae**  
**Federated States of Micronesia**  
Combining Statement of Net Position  
Component Units  
September 30, 2022

<u>ASSETS</u>	Kosrae Port Authority	Kosrae Utilities Authority	Kosrae Housing and Rural Development Authority	Total
Current assets:				
Cash and cash equivalents	\$ 123,931	\$ 1,106,424	\$ 13,615	\$ 1,243,970
Time certificate of deposit	-	169,662	-	169,662
Investments	-	780,249	-	780,249
Time certificate of deposit - restricted	-	-	200,000	200,000
Receivables:				
General	95,643	300,079	-	395,722
Loan	-	-	472,372	472,372
Total receivables	<u>95,643</u>	<u>300,079</u>	<u>472,372</u>	<u>868,094</u>
Inventories	<u>29,000</u>	<u>350,032</u>	<u>-</u>	<u>379,032</u>
Prepayments	<u>-</u>	<u>43,659</u>	<u>-</u>	<u>43,659</u>
Total current assets	248,574	2,750,105	685,987	3,684,666
Noncurrent assets:				
Deposit for fuel purchase contract	-	252,800	-	252,800
Capital assets:				
Nondepreciable capital assets	-	71,840	-	71,840
Capital assets, net of accumulated depreciation	<u>13,439,761</u>	<u>1,492,344</u>	<u>45,238</u>	<u>14,977,343</u>
Total assets	<u>\$ 13,688,335</u>	<u>\$ 4,567,089</u>	<u>\$ 731,225</u>	<u>\$ 18,986,649</u>
<u>LIABILITIES AND NET POSITION</u>				
Current liabilities:				
Current portion of long-term debt	\$ -	\$ -	\$ 43,893	\$ 43,893
Accounts payable	4,338	224,030	11,669	240,037
Accrued liabilities	-	70,922	31,494	102,416
Due to primary government	12,680	-	-	12,680
Unearned revenues	47,002	34,339	-	81,341
Note payable	<u>-</u>	<u>-</u>	<u>50,000</u>	<u>50,000</u>
Total current liabilities	64,020	329,291	137,056	530,367
Long-term debt net of current portion	<u>-</u>	<u>-</u>	<u>16,135</u>	<u>16,135</u>
Total liabilities	<u>64,020</u>	<u>329,291</u>	<u>153,191</u>	<u>546,502</u>
Net position:				
Net investment in capital assets	13,439,761	1,564,184	45,238	15,049,183
Restricted	-	90,000	532,796	622,796
Unrestricted	<u>184,554</u>	<u>2,583,614</u>	<u>-</u>	<u>2,768,168</u>
Total net position	<u>13,624,315</u>	<u>4,237,798</u>	<u>578,034</u>	<u>18,440,147</u>
Total liabilities and net position	<u>\$ 13,688,335</u>	<u>\$ 4,567,089</u>	<u>\$ 731,225</u>	<u>\$ 18,986,649</u>

*See accompanying notes.*

**State of Kosrae**  
**Federated States of Micronesia**

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

Component Units

Year Ended September 30, 2022

	Kosrae Port Authority	Kosrae Utilities Authority	Kosrae Housing and Rural Development Authority	Total
Operating revenues:				
Charge for services	\$ 561,800	\$ 3,248,137	\$ 107,963	\$ 3,917,900
Operating expenses:				
Cost of services	466,084	2,840,797	-	3,306,881
Depreciation and amortization	779,082	325,193	16,767	1,121,042
Administration and general	-	173,934	209,666	383,600
Total operating expenses	<u>1,245,166</u>	<u>3,339,924</u>	<u>226,433</u>	<u>4,811,523</u>
Operating loss	<u>(683,366)</u>	<u>(91,787)</u>	<u>(118,470)</u>	<u>(893,623)</u>
Nonoperating revenues (expenses):				
Net change in fair value of investments	-	(167,393)	-	(167,393)
Operating grant from FSM National Government	876,143	21,903	131,916	1,029,962
Interest expense	-	1,420	18,216	19,636
Total nonoperating revenues (expenses), net	<u>876,143</u>	<u>(144,070)</u>	<u>150,132</u>	<u>882,205</u>
Change in net position	192,777	(235,857)	31,662	(11,418)
Net position at beginning of year	<u>13,431,538</u>	<u>4,473,655</u>	<u>546,372</u>	<u>18,451,565</u>
Net position at end of year	<u>\$ 13,624,315</u>	<u>\$ 4,237,798</u>	<u>\$ 578,034</u>	<u>\$ 18,440,147</u>

*See accompanying notes.*

State of Kosrae  
Federated States of Micronesia

Notes to Financial Statements

September 30, 2022

**1. Summary of Significant Accounting Policies**

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

The accompanying financial statements of the State have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The 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 14 members elected for a term of four years by qualified voters of their respective election districts; the Executive Branch, headed by the Governor and Lt. Governor who are primarily responsible for executing the laws and administering state government services; and the Judiciary Branch made up of the State Supreme Court, which consists of a Chief Justice and up to four Associate Justices, and other courts that may be created by law.

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

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



State of Kosrae  
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:

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

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

State of Kosrae  
Federated States of Micronesia

Notes to Financial Statements, continued

**1. Summary of Significant Accounting Policies, continued**

**Reporting Entity, continued**

***Discretely Presented Component Units, continued:***

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

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

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

**Government-Wide Financial Statements**

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

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

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

State of Kosrae  
Federated States of Micronesia

Notes to Financial Statements, continued

**1. Summary of Significant Accounting Policies, continued**

**Government-Wide Financial Statements, continued**

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

The government-wide Statement of Net Position reports \$8,132,686 of restricted net position, of which \$1,597,778 is restricted by enabling legislation.

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

**Fund Financial Statements**

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

State of Kosrae  
Federated States of Micronesia

Notes to Financial Statements, continued

**1. Summary of Significant Accounting Policies, continued**

**Fund Financial Statements, continued**

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

**Measurement Focus and Basis of Accounting**

***Government-wide Financial Statements:***

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

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

***Governmental Fund Financial Statements:***

Governmental fund financial statements account for the general governmental activities of the State and are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 90 days of the end of the current fiscal period.

State of Kosrae  
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, continued:***

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

***Component Unit Financial Statements:***

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

***Fund Accounting:***

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

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

State of Kosrae  
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, continued:***

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 a maturity date within three months of the date acquired by the State. Deposits maintained in time certificates of deposit with original maturity dates greater than ninety days are separately classified on the statement of net position/balance sheet.

**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.

**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 Kosrae  
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 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.

**Investments**

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

The State 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.

**Inventories**

Materials and fuel inventories are carried at the lower of cost (using the first-in first-out and the average cost method, respectively) or net realizable value.

State of Kosrae  
Federated States of Micronesia

Notes to Financial Statements, continued

**1. Summary of Significant Accounting Policies, continued**

**Restricted Assets**

Certain assets of the primary government are classified as restricted assets because their use is completely restricted through loan agreements or enabling legislation. Specifically, the State has collateralized investments in the amount of \$7,962 for the Early Retirement Scheme. Furthermore, investments recorded in the Compact Trust Fund of \$6,478,050 are restricted in that they are not available to be used in current operations.

As of September 30, 2022, cash and cash equivalents and time certificates of deposit were restricted for the following uses:

***Primary Government:***

Deposit account established for the purpose of receiving payments pursuant to the Compact of Free Association, as amended.	\$1,172,501
Deposit account established for the Gifford scholarship fund.	42,529
Time certificate of deposit (TCD) with a local bank restricted for scholarships for post-secondary students.	363,579
Other TCD	<u>43,456</u>
	<u>\$1,622,065</u>

***Discretely Presented Component Units:***

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

The State holds approximately 8.79% of the outstanding shares of Pacific Islands Development Bank with a carrying value of \$900,000. This equity interest does not meet the definition of an investment as the assets are held primarily for economic development and is presented as other assets in the accompanying financial statements.



State of Kosrae  
Federated States of Micronesia

Notes to Financial Statements, continued

**1. Summary of Significant Accounting Policies, continued**

**Capital Assets**

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

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

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

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

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.

**Deferred Outflows of Resources**

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

State of Kosrae  
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 200 hours per year. All unused annual leave is cancelled at the end of each fiscal year. Accordingly, no liability is recorded for compensated absences in the accompanying financial statements.

**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.

State of Kosrae  
Federated States of Micronesia

Notes to Financial Statements, continued

**1. Summary of Significant Accounting Policies, continued**

**Fund Balance, continued**

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

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

A formal minimum fund balance policy has not been adopted.

**Interfund/Intrafund Transactions**

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

**Estimates**

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

State of Kosrae  
Federated States of Micronesia

Notes to Financial Statements, continued

**1. Summary of Significant Accounting Policies, continued**

**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.

During the year ended September 30, 2022, Kosrae 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. As a result of adoption of GASB Statement No. 87, the State has recognized, as lessor, leases receivable and related deferred inflows of resources. Refer to Notes 3 and 13 for accompanying footnote disclosures.
- 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.

State of Kosrae  
Federated States of Micronesia

Notes to Financial Statements, continued

**1. Summary of Significant Accounting Policies, continued**

**New Accounting Standards, continued**

- 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.
- 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.

State of Kosrae  
Federated States of Micronesia

Notes to Financial Statements, continued

**1. Summary of Significant Accounting Policies, continued**

**New Accounting Standards, continued**

- 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.
- 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.

State of Kosrae  
Federated States of Micronesia

Notes to Financial Statements, continued

**1. Summary of Significant Accounting Policies, continued**

**Upcoming Accounting Standards, continued**

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

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

In 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 Kosrae  
Federated States of Micronesia

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.



State of Kosrae  
Federated States of Micronesia

Notes to Financial Statements, continued

**1. Summary of Significant Accounting Policies, continued**

**Upcoming Accounting Standards, continued**

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.

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. However, no material losses have been sustained from this practice in the last three years.

**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.

State of Kosrae  
Federated States of Micronesia

Notes to Financial Statements, continued

**2. Deposits and Investments**

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

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

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

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

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

State of Kosrae  
Federated States of Micronesia

Notes to Financial Statements, 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 Kosrae or abroad as determined by the financial institution paying the highest rate of interest on savings when the investment is made.

The investment policy for the Compact Trust Fund (the Trust Fund), which was adopted by the Trust Fund Committee on September 15, 2010 and amended through January 9, 2017 requires the Trust Fund to allocate its managed investment portfolios among domestic and foreign equity and fixed income securities. All or a portion of the Trust Fund may be invested in exchange traded funds (“ETFs”), mutual funds, real estate investment trusts (“REITs”), separate accounts and common trust funds (commingled vehicles), hedge funds, private equity funds, and other pooled investment vehicles (“pooled vehicles”). A common trust fund is similar to an open-ended investment company or mutual fund, but participation is limited to investors with trust accounts. Commingled and pooled vehicles that invest exclusively in marketable fixed income securities are considered to be fixed income securities for the purpose of compliance with the Trust Fund’s investment policy.

**Deposits**

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

As of September 30, 2022, the carrying amount of the primary government’s total cash and cash equivalents and time certificates of deposit was \$2,216,605 and the corresponding bank balance was \$2,408,081 which is maintained in financial institutions subject to FDIC insurance. As of September 30, 2022, bank deposits in the amount of \$337,906 were FDIC insured. The State does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Therefore, these deposits are exposed to custodial credit risk.

State of Kosrae  
Federated States of Micronesia

Notes to Financial Statements, continued

**2. Deposits and Investments, continued**

**Deposits, 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 \$1,613,632 and the corresponding bank balance was \$1,645,379, which were maintained in financial institutions subject to FDIC insurance. As of September 30, 2022, bank deposits in the amount of \$753,490 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:

Domestic equities – Bank of the Federated States of Micronesia	\$ 1,192,596
Investment in external investment pool	<u>7,962</u>
	\$ <u>1,200,558</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.

State of Kosrae  
Federated States of Micronesia

Notes to Financial Statements, continued

**2. Deposits and Investments, continued**

**Investments, continued**

*Primary Government, continued*

Compact Trust Fund:

Investment in an external investment pool \$ 6,478,050

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.

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.

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

*General Fund:*

	Fair Value Measurements Using			
	Total	Level 1	Level 2	Level 3
Investments in an external investment pool by fair value level:	\$ 7,795	\$ <u>6,411</u>	\$ <u>1,384</u>	\$ <u>---</u>
Investments in an external investment pool measured at amortized cost:	167			
Investments measured at NAV: Equity investment in the Bank of the FSM (5% ownership)	<u>1,192,596</u>			
	<u>\$1,200,558</u>			

*Compact Trust Fund:*

	Fair Value Measurements Using			
	Total	Level 1	Level 2	Level 3
Investments in an external investment pool by fair value level:				
Total investments at fair value	\$ 5,735,727	\$ <u>5,104,250</u>	\$ <u>---</u>	\$ <u>631,477</u>
Investments in an external invest pool measured at NAV	742,775			
Investments in an external investment pool measured at amortized cost:	( <u>452</u> )			
	<u>\$ 6,478,050</u>			

State of Kosrae  
Federated States of Micronesia

Notes to Financial Statements, continued

**2. Deposits and Investments, continued**

**Investments, continued**

*Primary Government, continued*

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

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

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 50,000 shares of the outstanding common stock of the Bank of the Federated States of Micronesia, which engages in commercial banking services in the FSM. An equity investment in the common stock of the Bank of the Federated States of Micronesia (investee) is stated at the net asset value (NAV). The NAV is used as a practical expedient to estimate fair value. The NAV is determined based on the total shareholders' equities reported by the investee.

***Discretely Presented Component Units***

Kosrae Utilities Authority (KUA):

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

Common equities	\$445,234
Fixed income	335,015
Time certificate of deposit	<u>169,662</u>
	<u>\$949,911</u>

State of Kosrae  
Federated States of Micronesia

Notes to Financial Statements, continued

**2. Deposits and Investments, continued**

**Investments, continued**

***Discretely Presented Component Units, continued***

As of September 30, 2022, the fixed income securities consist of the following:

Investment Type	Moody's Ratings	Fair Value	Investment Maturity (in Years)		
			Less Than 1 Year	1 to 5 Years	6 to 10 Years
U.S. Treasury obligations	Aaa	\$ 195,236	\$ ---	\$ 174,935	\$ 20,301
Corporate notes	A1	20,717	---	20,717	---
Corporate notes	A2	20,650	---	20,650	---
Corporate notes	A3	20,461	---	10,786	9,675
Corporate notes	Baa1	9,078	---	---	9,078
Corporate notes	Baa2	68,873	---	50,084	18,789
		<u>\$ 335,015</u>	<u>\$ ---</u>	<u>\$ 277,172</u>	<u>\$ 57,843</u>

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

	Fair Value Measurements Using			
	Total	Level 1	Level 2	Level 3
Investments by fair value level:				
Fixed income:				
U.S. Treasury obligations	\$195,236	\$ ---	\$ 195,236	\$ ---
Corporate notes	<u>139,779</u>	---	<u>139,779</u>	---
Total fixed income	<u>335,015</u>	---	<u>335,015</u>	---
Equity securities:				
U.S. equities	426,667	426,667	---	---
Non U.S. equities	8,882	8,882	---	---
Real estate and tangibles	<u>9,685</u>	<u>9,685</u>	---	---
Total investments by fair value level	<u>445,234</u>	<u>445,234</u>	---	---
	<u>\$780,249</u>	<u>\$445,234</u>	<u>\$ 335,015</u>	<u>\$ ---</u>

State of Kosrae  
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	\$ 16,413	\$ ---	\$ ---	\$ ---	\$ 16,413
Federal agencies	---	38,786	---	---	38,786
Due from FSM National Government	2,220	1,295,459	---	1,624,973	2,922,652
Taxes	390,754	---	---	---	390,754
Leases	<u>2,524,079</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>2,524,079</u>
	2,933,466	1,334,245	---	1,624,973	5,892,684
Less allowance for uncollectible accounts	<u>---</u>	<u>---</u>	<u>---</u>	<u>(1,254,919)</u>	<u>(1,254,919)</u>
Net receivables	<u>\$ 2,933,466</u>	<u>\$ 1,334,245</u>	<u>\$ ---</u>	<u>\$ 370,054</u>	<u>\$ 4,637,765</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.

**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	\$1,140,697
Nonmajor governmental funds	General	1,053,764
General	Grants Assistance	446,348
General	Nonmajor governmental funds	<u>200,776</u>
		<u>\$2,841,585</u>



State of Kosrae  
Federated States of Micronesia

Notes to Financial Statements, continued

**5. Capital Assets**

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

**Primary Government**

	Balance October <u>1, 2021</u>	<u>Increases</u>	<u>Decreases</u>	Balance September <u>30, 2022</u>
Depreciable assets:				
Buildings	\$27,433,910	\$ ---	\$ ---	\$27,433,910
Infrastructure	44,397,384	---	---	44,397,384
Machinery, equipment, others	<u>9,890,335</u>	<u>808,892</u>	<u>---</u>	<u>10,699,227</u>
	<u>81,721,629</u>	<u>808,892</u>	<u>---</u>	<u>82,530,521</u>
Less accumulated depreciation:				
Buildings	(17,765,990)	( 538,392)	---	(18,304,382)
Infrastructure	(26,352,622)	( 963,118)	---	(27,315,740)
Machinery, equipment, others	<u>( 7,395,106)</u>	<u>( 556,562)</u>	<u>---</u>	<u>( 7,951,668)</u>
	<u>(51,513,718)</u>	<u>(2,058,072)</u>	<u>---</u>	<u>(53,571,790)</u>
	<u>\$30,207,911</u>	<u>\$(1,249,180)</u>	<u>\$---</u>	<u>\$28,958,731</u>

During the year ended September 30, 2022, depreciation expense was charged as follows:

General government	\$ 112,914
Economic development	562,750
Education	93,995
Health services	11,410
Public safety	1,162
Boards, commissions and others	<u>1,275,841</u>
	<u>\$2,058,072</u>

The State has title to various parcels of land. However, land has not been recorded in the State's financial statements as its historical cost did not exceed the State's capitalization policy.

State of Kosrae  
Federated States of Micronesia

Notes to Financial Statements, continued

**5. Capital Assets, continued**

**Primary Government, continued**

**Discretely Presented Component Units**

	Balance October <u>1, 2021</u>	<u>Additions</u>	<u>Retirements</u>	Balance September <u>30, 2022</u>
Depreciable assets:				
Buildings	\$12,095,141	\$ ---	\$ ---	\$12,095,141
Utility plants	11,269,390	148,467	(33,283)	11,384,574
Infrastructure	37,972,012	---	---	37,972,012
Machinery, equipment, others	<u>1,094,170</u>	<u>894,627</u>	<u>---</u>	<u>1,988,797</u>
Total capital assets, being depreciated	62,430,713	1,043,094	(33,283)	63,440,524
Less accumulated depreciation	<u>(47,373,533)</u>	<u>(1,121,042)</u>	<u>31,394</u>	<u>(48,463,181)</u>
	15,057,180	( 77,948)	( 1,889)	14,977,343
Nondepreciable assets:				
Construction work-in-progress	<u>75,524</u>	<u>---</u>	<u>( 3,684)</u>	<u>71,840</u>
	<u>\$15,132,704</u>	<u>\$( 77,948)</u>	<u>\$( 5,573)</u>	<u>\$15,049,183</u>

**6. Long-Term Obligations**

**Primary Government**

*Malem Wastewater System Project (MWSP) Loan:*

The State borrowed \$145,000 from the U.S. Department of Agriculture Rural Utilities Services for the Malem Wastewater System Project, payable in annual installments of \$8,119 commencing September 28, 2001, interest at 4.5% per annum, due September 28, 2040. As of September 30, 2022, the balance payable on this loan amounted to \$94,274.

*Asian Development Bank (ADB) Loans:*

The State implemented an Early Retirement Scheme (ERS) in which employees holding certain nonessential positions as identified by the State were retired early with a payout of the equivalent of two-years' wages. This ERS program is funded by a \$2,000,000 loan from the ADB (Loan Number 1520 (SF)) through the FSM National Government, 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.

State of Kosrae  
Federated States of Micronesia

Notes to Financial Statements, continued

**6. Long-Term Obligations, continued**

**Primary Government, continued**

*Asian Development Bank (ADB) Loans, continued:*

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

Funds for the repayment of the ADB loan are expected to be derived from the annual appropriations for salaries and wages earmarked for the positions abolished under the Early Retirement Scheme. The Financing Agreement requires the State to continue to appropriate salaries for the abolished positions and deposit the appropriated funds into the ERS Trust Account. These funds had not been deposited to the Trust Account as of September 30, 2002. That investment account is restricted for the repayment of this debt. As of September 30, 2022, the balance payable on this loan amounted to \$1,095,941.

The State also entered into an agreement with the FSM National Government to borrow a portion of the proceeds of the FSM National Government Program Loans with ADB (Loan Number 1873 (SF) and Loan Number 1874 FSM (SF)) for the purpose of promoting private sector development in Kosrae, with interest at 1% to 1.5% per annum. Principal payments shall be made in 32 equal semi-annual payments with the first payment due on May 15, 2010 and the last payment on November 15, 2025. As of September 30, 2022, the balances payable on these loans amounted to \$124,869 and \$161,911, respectively.

The State also entered into an agreement with the FSM National Government to borrow a portion of the proceeds of the FSM National Government Program Loan with ADB (Loan Number 2099 FSM (SF)) for the purpose of funding the Omnibus Infrastructure Development Project, with interest at 1% to 1.5% per annum. Principal payments shall be made semiannually commencing 2013, with a maturity date of 2037. As of September 30, 2022, the balance payable on this loan amounted to \$1,016,088.

*Liancheng Overseas Company*

As of September 30, 2022, the State has a non-interest bearing loan payable to Liancheng Overseas Company totaling \$297,500. The loan requires semi-annual principal installments of \$8,750 and matures in 2036.

State of Kosrae  
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	\$ 279,681	\$ 28,149	\$ 307,830
2024	219,855	25,930	245,785
2025	220,037	23,703	243,740
2026	202,387	21,467	223,854
2027	184,750	19,433	204,183
2028 - 2032	927,062	69,465	996,527
2033 - 2037	743,109	23,541	766,650
3038	<u>13,702</u>	<u>617</u>	<u>14,319</u>
	<u>\$ 2,790,583</u>	<u>\$ 212,305</u>	<u>\$ 3,002,888</u>

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:

	<u>Balance October 1, 2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>SDR</u>	<u>Balance September 30, 2022</u>	<u>Due Within One Year</u>
Loans payable:						
ADB loans:						
Loan 1520	\$ 1,292,652	\$ ---	\$( 76,898)	\$( 119,813)	\$ 1,095,941	\$ 73,069
Loan 1873	191,555	---	( 48,497)	( 18,189)	124,869	35,678
Loan 1874	258,059	---	( 44,226)	( 51,922)	161,911	14,079
Loan 2099	<u>1,250,462</u>	<u>---</u>	<u>( 122,250)</u>	<u>( 112,124)</u>	<u>1,016,088</u>	<u>75,478</u>
	2,992,728	---	( 291,871)	( 302,048)	2,398,809	198,304
MWSP	94,274	---	---	---	94,274	3,877
Liancheng	<u>---</u>	<u>347,500</u>	<u>( 50,000)</u>	<u>---</u>	<u>297,500</u>	<u>77,500</u>
	<u>\$ 3,087,002</u>	<u>\$ 347,500</u>	<u>\$( 341,871)</u>	<u>\$( 302,048)</u>	<u>\$ 2,790,583</u>	<u>\$ 279,681</u>

When the ADB extends credit to a particular country, the loan is issued in Special Drawing Rights (SDRs) but the actual loan is delivered in the currency of the borrower, at the current exchange rate between the currency and the SDR. The value of the SDR is subject to periodic review by the International Monetary Fund, which may result in the recognition of a foreign exchange gain or loss. During the year ended September 30, 2022, the State recognized a foreign exchange gain of \$302,048 associated with valuation of the SDR, which is presented as a special item in the accompanying financial statements, and which results in a decrease in ADB loans payable.

State of Kosrae  
Federated States of Micronesia

Notes to Financial Statements, continued

**7. Short-Term Borrowing**

In the normal course of operations, the Kosrae State obtains short-term borrowings primarily for the purpose of protecting overdraft facility for the State's non-sector payroll checking account. As of September 30, 2022, the State has a bank credit line amounting to \$200,000 bearing interest at 10.0% per annum, with the amount overdrawn and accrued interests payable within 60 days after an overdraft occurs, which is collateralized by the State's funding allocation. The State has an outstanding balance of \$102,075 at September 30, 2022.

**8. Fund Balances**

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

	General Fund	Grants Assistance Fund	Compact Trust Fund	Nonmajor Funds	Total Governmental Funds
Non-spendable:					
General government	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---
Pacific Islands Development Bank	707,000	100,000	---	93,000	900,000
Bank of the FSM	1,192,596	---	---	---	1,192,596
Permanent fund principal	---	---	6,478,050	---	6,478,050
Advances	6,347	---	---	---	6,347
Restricted for:					
Debt service	7,962	---	---	---	7,962
Capital projects	---	48,896	---	47,281	96,177
Scholarships	---	---	---	406,108	406,108
Committed for:					
Health services	---	---	---	584,778	584,778
Economic development	---	---	---	17,610	17,610
Board, commissioners, others	---	---	---	435,911	435,911
Unassigned	<u>269,059</u>	<u>( 86,910)</u>	<u>---</u>	<u>---</u>	<u>182,149</u>
	<u>\$2,182,964</u>	<u>\$ 61,986</u>	<u>\$6,478,050</u>	<u>\$1,584,688</u>	<u>\$10,307,688</u>

**9. Commitments and Contingencies**

**Encumbrances**

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

	General	Grants Assistance	Other Governmental Funds	Total
Encumbrances	\$ <u>43,594</u>	\$ <u>4,109,023</u>	\$ <u>114,806</u>	\$ <u>4,267,423</u>

State of Kosrae  
Federated States of Micronesia

Notes to Financial Statements, continued

**9. Commitments and Contingencies, continued**

**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 \$731,852.

**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.

**Federal Grants**

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

**Litigation**

The State is party to numerous legal proceedings, many of which are normal recurrences in governmental operations. The State's Attorney General is of the opinion that the probable outcome of suits existing at September 30, 2022, is not predictable. No provision for any liability has been made in the accompanying financial statements because management believes that no unfavorable outcome is likely to occur.

**10. Budgetary Compliance**

For the year ended September 30, 2022, significant over-expenditures exceeded appropriations within the General Fund for the following:

Debt service	\$ 342,988
Bad debt expense	26,202

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

State of Kosrae  
Federated States of Micronesia

Notes to Financial Statements, continued

**11. CFSM Unreimbursed Receivable**

During FY2022, a net receivable of \$251,753 from FSM National Government pertaining to CFSM grants activities was reserved in its entirety. FSM National Government has disallowed such CFSM expenditures incurred by Kosrae State Government due to represented noncompliance with CFSM appropriation allowable usage. Management is of the opinion that it will continue to pursue collection of the FSM receivable.

**12. Deferred inflows of resources - leases**

During the year ended September 30, 2018, the State received \$200,000 advance lease payments as compensation for leasing certain assets.

Annual amortization of the lease prepayments received as of September 30, 2022, is as follows:

<u>Year ending September 30,</u>	
2023	\$ 10,000
2024	10,000
2025	10,000
2026	10,000
2027	<u>10,000</u>
	<u>\$ 50,000</u>

**13. Leases**

The State, as a lessor, has several lease agreements allowing lessees to use State assets.

Future minimum payments that are included in the measurement of the lease receivable as of September 30, 2022 are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 202,797	\$ 58,310	\$ 261,107
2024	198,846	55,213	254,059
2025	195,356	51,203	246,559
2026	178,599	45,460	224,059
2027	188,101	35,958	224,059
2028-2032	662,617	96,668	759,285
2033-2037	449,487	58,061	507,548
2038-2042	202,943	28,070	231,013
2043-2047	67,518	19,971	87,489
2048-2052	81,162	13,339	94,501
2053-2057	<u>96,653</u>	<u>5,399</u>	<u>102,052</u>
	<u>\$2,524,079</u>	<u>\$467,652</u>	<u>\$2,991,731</u>

State of Kosrae  
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Notes to Financial Statements, continued

**13. Leases, continued**

Leases with maximum terms of more than twelve months are recognized as lease receivables and deferred inflows of resources in the respective governmental activities and governmental fund financial statements. Lease receivables are recorded as the present value of the future lease payments expected to be received from the lessee during the lease term, net of any estimated uncollectible amounts.

As of September 30, 2022, the State recorded lease receivables totaling \$2,524,079.

For the year ended September 30, 2022, the State recognized inflow of resources as component of fees and charges in the accompanying statement of revenues, expenses and changes in fund balance general fund:

Lease revenue	\$ 195,933
Interest revenue	<u>39,933</u>
	<u>\$ 235,866</u>



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

**State of Kosrae  
Federated States of Micronesia**

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

Year Ended September 30, 2022

	<u>Budgeted Amounts</u>		Actual - Bugetary Basis	Variance with
	<u>Original</u>	<u>Final</u>	(see Note 1)	<u>Final Budget -</u>
Revenues:				
FSM revenue sharing	\$ 2,593,363	\$ 2,593,363	\$ 2,161,427	\$ (431,936)
State taxes	-	-	479,146	479,146
Licenses and fees	-	-	345,471	345,471
Net change in fair value of investments	-	-	(201,996)	(201,996)
Interest and dividends	-	-	41,680	41,680
Other	-	-	74,891	74,891
	<u>2,593,363</u>	<u>2,593,363</u>	<u>2,900,620</u>	<u>307,256</u>
Total revenues				
Expenditures:				
Current:				
General government	1,184,999	1,282,232	1,244,656	37,576
Public order and safety	350,393	342,325	343,204	(879)
Public works	229,569	234,167	227,111	7,056
Economic development	334,065	337,294	340,379	(3,085)
Boards, commissions and other	318,626	341,235	251,359	89,876
Debt service	-	-	347,705	(347,705)
	<u>2,417,652</u>	<u>2,537,253</u>	<u>2,754,414</u>	<u>(217,160)</u>
Total expenditures				
Excess of revenues over expenditures	175,711	56,110	146,206	90,096
Special items:				
Recovery of bad debt	-	-	118,300	118,300
Write off of receivables	-	-	(26,202)	(26,202)
	<u>175,711</u>	<u>56,110</u>	<u>238,304</u>	<u>182,194</u>
Net change in fund balance				
Encumbrances	-	-	43,594	43,594
Fund balance at the beginning of the year	<u>1,901,066</u>	<u>1,901,066</u>	<u>1,901,066</u>	<u>-</u>
Fund balance at the end of the year	<u>\$ 2,076,777</u>	<u>\$ 1,957,176</u>	<u>\$ 2,182,964</u>	<u>\$ 225,788</u>

State of Kosrae  
Federated States of Micronesia

Notes to Required Supplementary Information - Budgetary Reporting

Year Ended September 30, 2022

**1. Budgetary Information**

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

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

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

## Supplementary Information

**State of Kosrae  
Federated States of Micronesia**

Combining Schedule of Expenditures by Account  
Governmental Funds

Year Ended September 30, 2022

	General Fund	Special		Other Gov't Fund	Total
		Revenue Grants Assistance Fund	Permanent Compact Trust Fund		
Expenditures:					
Salaries and wages:					
Regular	\$ 1,822,212	\$ 3,388,485	\$ -	\$ 28,236	\$ 5,238,933
Overtime	51,390	411,109	-	138,866	601,365
Fringe benefits	238,216	449,317	-	7,306	694,839
Other personnel costs	-	-	-	18,400	18,400
Travel and transportation	17,440	79,426	-	3,420	100,286
Instructional materials	-	25,889	-	-	25,889
Communications	592	75,601	-	73,449	149,642
Dues, membership, and subscriptions	225	1,350	-	5,795	7,370
Food stuffs	-	66,312	-	146,902	213,214
Port charges	-	2,288	-	699	2,987
Expendable equipment	350	118,403	-	14,582	133,335
Office supplies and materials	8,885	830,436	-	203,576	1,042,897
POL	10,298	86,178	-	29,330	125,806
Printing and reproduction	-	2,048	-	2,000	4,048
Rental services	-	1,423	-	2,984	4,407
Repairs and maintenance	-	9,005	-	1,026	10,031
Utilities	25,151	371,389	-	122,671	519,211
Misc Goods & Services	-	57,807	-	5,014	62,821
Subsidies and contributions	25,000	-	-	-	25,000
Medical supplies	-	369,792	-	8,435	378,227
Contractual services	51,501	1,098,851	-	103,693	1,254,045
Scholarships and allowances	-	186,150	-	-	186,150
Meeting allowances	1,844	3,520	-	2,240	7,604
Representation allowances	65,832	-	-	2,370	68,202
Training	-	38,762	-	4,020	42,782
Leased housing, buildings and land	1,178	66,450	-	6,353	73,981
Bank charges	3,601	398	-	25	4,024
Nonpayroll compensation	4,262	-	-	-	4,262
Construction Management	-	137,119	-	-	137,119
Equipment	3,849	151,887	-	75,934	231,670
Furniture & Fixtures	5,750	211,444	-	-	217,194
Vehicles	-	526,382	-	88,912	615,294
Principal repayment	291,871	-	-	8,405	300,276
Interest payments	55,834	-	-	-	55,834
LOC Interest Charges	15,278	-	-	-	15,278
Miscellaneous	10,260	-	-	-	10,260
	<u>\$ 2,710,819</u>	<u>\$ 8,767,221</u>	<u>\$ -</u>	<u>\$ 1,104,643</u>	<u>\$ 12,582,683</u>

**State of Kosrae**  
**Federated States of Micronesia**

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

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

	2022	2021
Revenues:		
FSM revenue sharing:		
Gross revenue taxes	\$ 631,347	\$ 583,334
Import taxes	612,744	612,011
Income taxes	627,341	618,235
Other taxes	289,995	121,818
	2,161,427	1,935,398
State taxes		
Sales tax	479,146	483,081
Fees and charges:		
Licenses and fees	345,471	443,574
Net change in fair value of investments	(201,996)	145,753
Interest and dividend income	41,680	240
Other	74,891	47,062
Total revenues	2,900,619	3,055,108
Expenditures:		
Current:		
General government:		
Office of the Governor	197,823	144,973
Department of Administration and Finance	121,775	127,316
Judiciary Branch	244,066	212,882
Legislative Branch	590,160	490,977
Public Auditor	77,764	79,444
	1,231,588	1,055,592
Economic development:		
Resources and Economic Affairs	340,049	316,840

**State of Kosrae**  
**Federated States of Micronesia**

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

	2022	2021
Expenditures, continued:		
Public order and safety:		
Office of the Attorney General	341,473	355,601
	341,473	355,601
Public Works:		
Department of Transportation and Infrastructure	221,340	187,806
	221,340	187,806
Boards, Commissions and Other:		
Kosrae Island Resource Management Authority	138,785	168,195
Broadcast Authority	38,529	33,834
Sports Council	10,551	9,830
Scholarship board	15,665	14,735
Municipal governments	-	1,800
Kosrae Visitor's Bureau	25,134	25,988
	228,664	254,382
Debt service:		
Principal payments	291,871	309,598
Interest charges	55,834	57,423
	347,705	367,021
Total expenditures	2,710,819	2,537,242
Excess of revenues over expenditures	189,800	517,866
Special items:		
Recovery of bad debt	118,300	-
Write off of receivables	(26,202)	(1,004,421)
Other financing sources:		
Operating transfers in	-	267,075
Operating transfers (out)	-	(265,497)
	-	1,578
Net change in fund balance	281,898	(484,977)
Fund balance at the beginning of the year	1,901,066	2,386,043
Fund balance at the end of the year	\$ 2,182,964	\$ 1,901,066

**State of Kosrae  
Federated States of Micronesia**

**Statement of Revenues, Expenditures by Function and  
Changes in Fund Balance - Budget and Actual  
General Fund**

Year Ended September 30, 2022

	Budgeted Amounts		Actual Amounts -	Variance
	Original	Final	Budgetary Basis	
Revenues:				
FSM revenue sharing:	\$ 2,593,363	\$ 2,593,363	\$ 2,161,427	\$ (431,936)
State taxes:				
Sales tax	-	-	479,146	479,146
Fees and charges:				
Licences and fees	-	-	345,471	345,471
Net change in fair value of investments	-	-	(201,996)	(201,996)
Interest and dividend income	-	-	41,680	41,680
Other:				
Other	-	-	74,891	74,891
Total revenues	<u>2,593,363</u>	<u>2,593,363</u>	<u>2,900,619</u>	<u>307,256</u>
Expenditures:				
Current:				
General government:				
Office of the Governor	157,105	170,828	204,365	(33,537)
Department of Administration and Finance	133,764	134,683	122,056	12,627
Judiciary Branch	285,629	298,822	245,061	53,761
Legislative Branch	527,960	597,144	595,409	1,735
Public Auditor	80,541	80,755	77,764	2,991
	<u>1,184,999</u>	<u>1,282,232</u>	<u>1,244,655</u>	<u>37,577</u>
Public order and safety:				
Office of the Attorney General	350,393	342,325	343,204	(879)
	<u>350,393</u>	<u>342,325</u>	<u>343,204</u>	<u>(879)</u>
Economic development:				
Resources and Economic Affairs	334,065	337,294	340,379	(3,085)
Public Works:				
Department of Transportation and Infrastructure	229,569	234,167	227,111	7,056
Boards, commissions and other:				
Kosrae Island Resource Management Authority	173,587	174,614	138,785	35,829
Broadcast Authority	43,891	43,924	38,529	5,395
Sports Council	16,860	21,057	18,246	2,811
Small Business Development Center	40,931	41,246	-	41,246
Scholarship board	15,959	16,496	15,665	831
PIDB	-	-	15,000	(15,000)
Municipal governments	-	16,000	-	16,000
Kosrae Visitor's Bureau	27,398	27,898	25,134	2,764
Debt Service:				
Principal payments	-	-	291,871	(291,871)
Interest charges	-	-	55,834	(55,834)
	<u>318,626</u>	<u>341,235</u>	<u>599,064</u>	<u>(257,829)</u>
Total expenditures	<u>2,417,652</u>	<u>2,537,253</u>	<u>2,754,413</u>	<u>(217,160)</u>
Excess of revenues over expenditures	<u>175,711</u>	<u>56,110</u>	<u>146,206</u>	<u>90,096</u>
Special items:				
Recovery of bad debt	-	-	118,300	118,300
Write off of receivables	-	-	(26,202)	(26,202)
Net change in fund balance	175,711	56,110	238,304	182,194
Encumbrances	-	-	43,594	43,594
Fund balances at the beginning of the year	<u>1,901,066</u>	<u>1,901,066</u>	<u>1,901,066</u>	<u>-</u>
Fund balance at the end of the year	<u>\$ 2,076,777</u>	<u>\$ 1,957,176</u>	<u>\$ 2,182,964</u>	<u>\$ 225,788</u>

See accompanying Report of Independent Auditors.



**State of Kosrae  
Federated States of Micronesia**

**NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS**

**Combining Balance Sheet**

September 30, 2022

	38	37	36	33	34	35	32	25	88	40	
	Scholarship Revolving Loan	Production and Development Loan	Health Care	Sports Council	Transportation Infrastructure	Broadcasting Authority	Aluminum Recycling	CFSM Grants	Gifford Scholarship	Land Administration	Total
<b>ASSETS</b>											
Due from FSM National Government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 370,053	\$ -	\$ -	\$ 370,053
Due from other funds	19,192	17,975	593,328	733	-	17,047	379,616	-	-	25,873	1,053,764
Other assets	-	-	-	-	-	-	-	93,000	-	-	93,000
Restricted:	-	-	-	-	-	-	-	-	-	-	-
Cash and equivalents	-	-	-	-	-	-	-	-	42,529	-	42,529
Time certificates of deposit	-	-	-	-	-	-	-	-	363,579	-	363,579
Total assets	<u>\$ 19,192</u>	<u>\$ 17,975</u>	<u>\$ 593,328</u>	<u>\$ 733</u>	<u>\$ -</u>	<u>\$ 17,047</u>	<u>\$ 379,616</u>	<u>\$ 463,053</u>	<u>\$ 406,108</u>	<u>\$ 25,873</u>	<u>\$ 1,922,925</u>
<b>LIABILITIES AND FUND BALANCES</b>											
<b>Liabilities:</b>											
Accounts payable	\$ -	\$ -	\$ 8,735	\$ -	\$ -	\$ 395	\$ 6,000	\$ 101,442	\$ -	\$ -	\$ 116,572
Other liabilities and accruals	-	-	-	-	-	-	-	869	-	-	869
Due to other funds	-	-	-	-	335	-	-	200,441	-	-	200,776
Unearned revenues	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>8,735</u>	<u>-</u>	<u>335</u>	<u>395</u>	<u>6,000</u>	<u>302,752</u>	<u>-</u>	<u>-</u>	<u>318,217</u>
<b>Fund balances:</b>											
Non-spendable	-	-	-	-	-	-	-	93,000	-	-	93,000
Restricted	-	-	-	-	-	-	-	47,281	406,108	-	453,389
Committed	19,192	17,975	584,593	733	(335)	16,652	373,616	-	-	25,873	1,038,299
Total fund balances (deficit)	<u>19,192</u>	<u>17,975</u>	<u>584,593</u>	<u>733</u>	<u>(335)</u>	<u>16,652</u>	<u>373,616</u>	<u>140,281</u>	<u>406,108</u>	<u>25,873</u>	<u>1,584,688</u>
Total liabilities and fund balances	<u>\$ 19,192</u>	<u>\$ 17,975</u>	<u>\$ 593,328</u>	<u>\$ 733</u>	<u>\$ -</u>	<u>\$ 17,047</u>	<u>\$ 379,616</u>	<u>\$ 443,033</u>	<u>\$ 406,108</u>	<u>\$ 25,873</u>	<u>\$ 1,902,905</u>

**State of Kosrae  
Federated States of Micronesia**

**NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS**

Combining Statement of Revenues, Expenditures By Function and Changes in Fund Balances (Deficit)

Year Ended September 30, 2022

	38	37	36	33	34	35	32	25	88	40	
	Scholarship Revolving Loan	Production and Development Loan	Health Care	Sports Council	Transportation Infrastructure	Broadcasting Authority	Aluminum Recycling	CFSM Grants	Gifford Scholarship	Land Administration	Total
Revenues:											
Fees and charges	\$ -	\$ 7,857	\$ 149,186	\$ 50	\$ 4,653	\$ 3,477	\$ 101,172	\$ -	\$ -	\$ -	\$ 266,395
CFSM grants	-	-	-	-	-	-	-	685,473	-	-	685,473
Interest income	-	1	332	-	-	-	266	-	1,306	-	1,905
Other	2,131	-	-	-	-	-	-	-	-	-	2,131
Total revenues	2,131	7,858	149,518	50	4,653	3,477	101,438	685,473	1,306	-	955,904
Expenditures by function:											
Current:											
General Government	-	-	-	-	-	-	-	248,716	-	-	248,716
Economic development	-	2,209	-	-	-	-	-	82,894	-	-	85,103
Health services	-	-	342,821	-	-	-	-	76,412	-	-	419,233
Public order and safety	-	-	-	-	-	-	-	129,070	-	-	129,070
Public works	-	-	-	-	8,130	-	-	25,728	-	-	33,858
Boards, commissions and other	-	-	-	-	-	395	65,615	122,653	-	-	188,663
Total expenditures	-	2,209	342,821	-	8,130	395	65,615	685,473	-	-	1,104,643
Excess (deficiency) of revenues over (under) expenditures	2,131	5,649	(193,303)	50	(3,477)	3,082	35,823	-	1,306	-	(148,739)
Fund balances at the beginning of the year	17,061	12,326	777,896	683	3,142	13,570	337,793	140,281	404,802	25,873	1,733,427
Fund balances (deficit) at the end of the year	\$ 19,192	\$ 17,975	\$ 584,593	\$ 733	\$ (335)	\$ 16,652	\$ 373,616	\$ 140,281	\$ 406,108	\$ 25,873	\$ 1,584,688

**State of Kosrae  
Federated States of Micronesia**

**NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS**

**Combining Statement of Revenues, Expenditures By Account and Changes in Fund Balances (Deficit)**

Year Ended September 30, 2022

	38	37	36	33	34	35	32	25	88	40	Total
	Scholarship Revolving Loan	Production and Development Loan	Health Care	Sports Council	Transportation Infrastructure	Broadcasting Authority	Aluminum Recycling	CFSM Grants	Gifford Scholarship	Land Administration	Total
Revenues:											
Fees and charges	\$ -	\$ 7,857	\$ 149,186	\$ 50	\$ 4,653	\$ 3,477	\$ 101,172	\$ -	\$ -	\$ -	\$ 266,395
CFSM Grants	-	-	-	-	-	-	-	685,473	-	-	685,473
Interest income	-	1	332	-	-	-	266	-	1,306	-	1,905
Other	2,131	-	-	-	-	-	-	-	-	-	2,131
Total revenues	<u>2,131</u>	<u>7,858</u>	<u>149,518</u>	<u>50</u>	<u>4,653</u>	<u>3,477</u>	<u>101,438</u>	<u>685,473</u>	<u>1,306</u>	<u>-</u>	<u>955,904</u>
Expenditures by account:											
Salaries and wages:											
Regular	-	-	2,439	-	-	-	-	25,797	-	-	28,236
Overtime	-	-	108,866	-	-	-	-	30,000	-	-	138,866
Fringe benefits	-	-	6,236	-	-	-	-	1,070	-	-	7,306
Other personnel costs	-	-	-	-	-	-	-	18,400	-	-	18,400
Travel and transportation	-	-	500	-	-	-	-	2,920	-	-	3,420
Dues, membership, and subscriptions	-	-	-	-	-	-	-	5,795	-	-	5,795
Communications	-	-	1,254	-	-	-	-	72,195	-	-	73,449
Food stuffs	-	-	114,187	-	-	-	-	32,715	-	-	146,902
Port charges	-	-	-	-	-	-	-	699	-	-	699
Expendable equipment	-	-	780	-	-	395	-	13,407	-	-	14,582
Office supplies and materials	-	2,209	25,956	-	8,105	-	2,499	164,807	-	-	203,576
POL	-	-	-	-	-	-	456	28,874	-	-	29,330
Printing and reproduction	-	-	-	-	-	-	-	2,000	-	-	2,000
Rental services	-	-	-	-	-	-	315	2,669	-	-	2,984
Repairs and maintenance	-	-	-	-	-	-	80	946	-	-	1,026
Misc Goods & Services	-	-	1,400	-	-	-	-	3,614	-	-	5,014
Contractual services	-	-	20,333	-	-	-	62,100	21,260	-	-	103,693
Utilities	-	-	-	-	-	-	165	122,506	-	-	122,671
Medical supplies	-	-	8,435	-	-	-	-	-	-	-	8,435
Training	-	-	-	-	-	-	-	4,020	-	-	4,020
Meeting allowances	-	-	-	-	-	-	-	2,240	-	-	2,240
Representation allowances	-	-	-	-	-	-	-	2,370	-	-	2,370
Leased housing, buildings and land	-	-	-	-	-	-	-	6,353	-	-	6,353
Equipment	-	-	52,435	-	-	-	-	23,499	-	-	75,934
Vehicles	-	-	-	-	-	-	-	88,912	-	-	88,912
Bank charges	-	-	-	-	25	-	-	-	-	-	25
Principal repayment	-	-	-	-	-	-	-	8,405	-	-	8,405
Total expenditures	<u>-</u>	<u>2,209</u>	<u>342,821</u>	<u>-</u>	<u>8,130</u>	<u>395</u>	<u>65,615</u>	<u>685,473</u>	<u>-</u>	<u>-</u>	<u>1,104,643</u>
Excess (deficiency) of revenues over (under) expenditures	2,131	5,649	(193,303)	50	(3,477)	3,082	35,823	-	1,306	-	(148,739)
Fund balances at the beginning of the year	17,061	12,326	777,896	683	3,142	13,570	337,793	140,281	404,802	25,873	1,733,427
Fund balances (deficit) at the end of the year	<u>\$ 19,192</u>	<u>\$ 17,975</u>	<u>\$ 584,593</u>	<u>\$ 733</u>	<u>\$ (335)</u>	<u>\$ 16,652</u>	<u>\$ 373,616</u>	<u>\$ 140,281</u>	<u>\$ 406,108</u>	<u>\$ 25,873</u>	<u>\$ 1,584,688</u>

**State of Kosrae  
Federated States of Micronesia**

**GRANTS ASSISTANCE FUND**

Combining Balance Sheet

September 30, 2022

	<b>10</b>	<b>11</b>	<b>13</b>	<b>14</b>	<b>12</b>	<b>18</b>	<b>19</b>
	Section 211(a)(1) Education Sector	Section 211(a)(2) Health Sector	Section 211(a)(3) Private Sector Development	Section 211(a)(4) Capacity Building	Section 211(a)(5) Environment	Section 211(a)(6) Infrastructure Maintenance	Section 211(a)(6) Infrastructure
<b><u>ASSETS</u></b>							
Receivables:							
FSM National Government	\$ 229,892	\$ 2,403	\$ 89,250	\$ -	\$ -	\$ -	\$ 369,694
Federal agencies	-	-	-	-	-	-	-
Advances	-	5,996	-	2,860	-	-	-
Prepaid items	287,171	-	-	-	-	-	75,203
Due from other funds	25,174	272,330	-	106,998	17,919	92,732	40,342
Other assets	-	-	-	-	-	-	-
Total assets	<u>\$ 542,237</u>	<u>\$ 280,729</u>	<u>\$ 89,250</u>	<u>\$ 109,858</u>	<u>\$ 17,919</u>	<u>\$ 92,732</u>	<u>\$ 485,239</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>							
Liabilities:							
Accounts payable	\$ 11,951	\$ 2,868	\$ 1	\$ 18,779	\$ -	\$ -	\$ 630
Other liabilities and accruals	79,855	100,208	-	-	-	-	4,866
Due to other funds	-	-	67,519	-	-	-	-
Unearned revenues	-	1	-	-	-	1	-
Total liabilities	<u>91,806</u>	<u>103,077</u>	<u>67,520</u>	<u>18,779</u>	<u>-</u>	<u>1</u>	<u>5,496</u>
Fund balances:							
Non-spendable	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	48,896	-
Unassigned	-	-	-	-	-	-	-
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>48,896</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 91,806</u>	<u>\$ 103,077</u>	<u>\$ 67,520</u>	<u>\$ 18,779</u>	<u>\$ -</u>	<u>\$ 48,897</u>	<u>\$ 5,496</u>

**State of Kosrae  
Federated States of Micronesia**

**GRANTS ASSISTANCE FUND**

Combining Balance Sheet, Continued

	<b>15</b>	<b>16</b>	<b>20</b>	<b>21</b>	<b>23</b>	Total
	Section 211(a)(7) Supplemental Education	Enhanced Reporting Accountability	U.S. Federal Grants	U.S. Direct Federal Grants	Foreign Assistance	Total
<b><u>ASSETS</u></b>						
Receivables:						
FSM National Government	\$ -	\$ 4,838	\$ 589,431	\$ -	\$ 9,951	\$ 1,295,459
Federal agencies	-	-	-	38,786	-	38,786
Advances	-	-	8,502	-	-	17,358
Prepaid items	46,051	-	-	-	-	408,425
Due from other funds	521,537	29,831	-	33,834	-	1,140,697
Other assets	-	-	-	-	100,000	100,000
Total assets	<u>\$ 567,588</u>	<u>\$ 34,669</u>	<u>\$ 597,933</u>	<u>\$ 72,620</u>	<u>\$ 109,951</u>	<u>\$ 3,000,725</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>						
Liabilities:						
Accounts payable	\$ 16,537	\$ -	\$ 222,946	\$ -	\$ 14,666	\$ 288,378
Other liabilities and accruals	6,174	11,114	44,901	-	7,124	254,242
Due to other funds	-	-	325,766	-	53,063	446,348
Unearned revenue	-	-	(1)	-	-	1
Total liabilities	<u>22,711</u>	<u>11,114</u>	<u>593,612</u>	<u>-</u>	<u>74,853</u>	<u>988,969</u>
Fund balances:						
Non-spendable	-	-	-	-	100,000	100,000
Restricted	-	-	-	-	-	48,896
Unassigned	-	-	-	-	(86,910)	(86,910)
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,090</u>	<u>61,986</u>
Total liabilities and fund balances	<u>\$ 22,711</u>	<u>\$ 11,114</u>	<u>\$ 593,612</u>	<u>\$ -</u>	<u>\$ 87,943</u>	<u>\$ 1,050,955</u>

**State of Kosrae  
Federated States of Micronesia**

**GRANTS ASSISTANCE FUND**

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

Year Ended September 30, 2022

	<b>10</b>	<b>11</b>	<b>13</b>	<b>14</b>	<b>12</b>	<b>18</b>	<b>19</b>
	Section 211(a)(1) Education Sector	Section 211(a)(2) Health Sector	Section 211(a)(3) Private Sector Development	Section 211(a)(4) Capacity Building	Section 211(a)(5) Environment	Section 211(a)(6) Infrastructure Maintenance	Section 211(a)(6) Infrastructure
Revenues:							
Compact funding	\$ 2,806,874	\$ 2,582,694	\$ 86,867	\$ 138,514	\$ 20,000	\$ -	\$ 357,660
Federal contributions	-	-	-	-	-	-	-
Other grants	-	-	-	-	-	-	-
Total revenues	<u>2,806,874</u>	<u>2,582,694</u>	<u>86,867</u>	<u>138,514</u>	<u>20,000</u>	<u>-</u>	<u>357,660</u>
Expenditures by function:							
Current:							
General government	-	-	-	126,274	-	-	218,476
Economic development	-	-	78,080	-	20,000	-	2,065
Education	2,620,689	-	-	-	-	-	-
Health services	-	2,582,694	-	-	-	-	137,119
Public order and safety	-	-	-	12,240	-	-	-
Public works	-	-	-	-	-	-	-
Boards, commissions and other	186,185	-	8,787	-	-	-	-
Total expenditures	<u>2,806,874</u>	<u>2,582,694</u>	<u>86,867</u>	<u>138,514</u>	<u>20,000</u>	<u>-</u>	<u>357,660</u>
Fund balances at the beginning of the year	-	-	-	-	-	48,896	-
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,896</u>	<u>\$ -</u>

**State of Kosrae  
Federated States of Micronesia**

**GRANTS ASSISTANCE FUND**

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

	<b>15</b>	<b>16</b>	<b>20</b>	<b>21</b>	<b>23</b>	
	Section 211(a)(7) Supplemental Education	Enhanced Reporting Accountability	U.S. Federal Grants	U.S. Direct Federal Grants	Foreign Assistance	Total
Revenues:						
Compact funding	\$ 777,576	\$ 179,395	\$ -	\$ -	\$ -	\$ 6,949,580
Federal contributions	-	-	1,470,042	6,783	-	1,476,825
Other grants	-	-	-	-	340,816	340,816
Total revenues	<u>777,576</u>	<u>179,395</u>	<u>1,470,042</u>	<u>6,783</u>	<u>340,816</u>	<u>8,767,221</u>
Expenditures by function:						
Current:						
General government	-	179,395	-	5,170	242,268	771,583
Economic development	-	-	-	-	-	100,145
Education	777,576	-	501,499	-	-	3,899,764
Health services	-	-	898,212	784	-	3,618,809
Public order and safety	-	-	-	-	-	12,240
Public works	-	-	-	-	82,098	82,098
Boards, commissions and other	-	-	70,331	829	16,450	282,582
Total expenditures	<u>777,576</u>	<u>179,395</u>	<u>1,470,042</u>	<u>6,783</u>	<u>340,816</u>	<u>8,767,221</u>
Fund balances at the beginning of the year	-	-	-	-	13,090	61,986
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,090</u>	<u>\$ 61,986</u>

**State of Kosrae**  
**Federated States of Micronesia**  
**GRANTS ASSISTANCE FUND**

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

Year Ended September 30, 2022

	<b>10</b>	<b>11</b>	<b>13</b>	<b>14</b>	<b>12</b>	<b>18</b>	<b>19</b>
	Section 211(a)(1) Education Sector	Section 211(a)(2) Health Sector	Section 211(a)(3) Private Sector Development	Section 211(a)(4) Capacity Building	Section 211(a)(5) Environment	Section 211(a)(6) Infrastructure Maintenance	Section 211(a)(6) Infrastructure
Revenues:							
Compact funding	\$ 2,806,874	\$ 2,582,694	\$ 86,867	\$ 138,514	\$ 20,000	\$ -	\$ 357,660
Federal contributions	-	-	-	-	-	-	-
Other grants	-	-	-	-	-	-	-
Total revenues	<u>2,806,874</u>	<u>2,582,694</u>	<u>86,867</u>	<u>138,514</u>	<u>20,000</u>	<u>-</u>	<u>357,660</u>
Expenditures by account:							
Salaries and wages:							
Regular	1,290,589	1,070,222	-	12,760	-	-	82,872
Overtime	242	377,715	-	-	-	-	-
Fringe benefits	163,779	155,641	-	1,662	-	-	6,967
Travel and transportation	-	37,352	-	22,202	-	-	-
Instructional materials	11,192	-	-	-	-	-	-
Communications	6,705	6,811	-	1,500	-	-	690
Dues, membership, and subscriptions	-	1,000	-	350	-	-	-
Food stuffs	-	25,896	-	-	-	-	-
Port charges	522	1,618	-	-	-	-	-
Expendable equipment	34,845	8,458	-	-	-	-	-
Office supplies and materials	182,930	162,499	-	1,604	-	-	1,590
POL	47,906	11,395	-	-	-	-	1,596
Printing and reproduction	-	120	-	-	-	-	1,928
Rental services	-	75	-	-	-	-	-
Repairs and maintenance	740	-	-	-	-	-	-
Utilities	79,729	252,231	-	-	-	-	5,989
Misc Goods & Services	20,564	2,650	-	514	-	-	-
Medical supplies	-	307,173	-	-	-	-	-
Contractual services	168,044	92,966	86,867	88,750	20,000	-	107,520
Construction Management	-	-	-	-	-	-	137,119
Scholarships and allowances	186,150	-	-	-	-	-	-
Training	-	-	-	5,714	-	-	-
Meeting allowances	-	-	-	-	-	-	-
Leased housing, buildings and land	19,599	35,412	-	2,278	-	-	7,190
Bank charges	313	75	-	-	-	-	-
Equipment	2,998	33,350	-	1,180	-	-	4,199
Furniture & Fixtures	182,512	-	-	-	-	-	-
Vehicles	407,515	35	-	-	-	-	-
Total expenditures	<u>2,806,874</u>	<u>2,582,694</u>	<u>86,867</u>	<u>138,514</u>	<u>20,000</u>	<u>-</u>	<u>357,660</u>
Fund balances at the beginning of the year	-	-	-	-	-	48,896	-
Fund balances at the end of the year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 48,896	\$ -



**State of Kosrae**  
**Federated States of Micronesia**  
**GRANTS ASSISTANCE FUND**

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

	<b>15</b>	<b>16</b>	<b>20</b>	<b>21</b>	<b>23</b>	Total
	Section 211(a)(7) Supplemental Education	Enhanced Reporting Accountability	U.S. Federal Grants	U.S. Direct Federal Grants	Foreign Assistance	Total
Revenues:						
Compact funding	\$ 777,576	\$ 179,395	\$ -	\$ -	\$ -	\$ 6,949,580
Federal contributions	-	-	1,470,042	6,783	-	1,476,825
Other grants	-	-	-	-	340,816	340,816
Total revenues	<u>777,576</u>	<u>179,395</u>	<u>1,470,042</u>	<u>6,783</u>	<u>340,816</u>	<u>8,767,221</u>
Expenditures by account:						
Salaries and wages:						
Regular	105,544	156,060	655,270	-	15,168	3,388,485
Overtime	20	1,980	31,152	-	-	411,109
Fringe benefits	13,066	21,355	85,565	-	1,282	449,317
Travel and transportation	7,876	-	11,996	-	-	79,426
Instructional materials	14,697	-	-	-	-	25,889
Communications	48,256	-	6,613	5,026	-	75,601
Dues, membership, and subscriptions	-	-	-	-	-	1,350
Food stuffs	-	-	40,416	-	-	66,312
Port charges	-	-	148	-	-	2,288
Expendable equipment	35,903	-	39,197	-	-	118,403
Office supplies and materials	139,970	-	114,517	1,563	225,763	830,436
POL	10,006	-	13,888	194	1,193	86,178
Printing and reproduction	-	-	-	-	-	2,048
Rental services	320	-	1,028	-	-	1,423
Repairs and maintenance	7,000	-	1,265	-	-	9,005
Utilities	21,904	-	11,394	-	142	371,389
Misc Goods & Services	9,224	-	24,855	-	-	57,807
Medical supplies	-	-	62,619	-	-	369,792
Contractual services	257,511	-	179,925	-	97,268	1,098,851
Construction Management	-	-	-	-	-	137,119
Scholarships and allowances	-	-	-	-	-	186,150
Training	33,048	-	-	-	-	38,762
Meeting allowances	-	-	3,520	-	-	3,520
Leased housing, buildings and land	1,971	-	-	-	-	66,450
Bank charges	10	-	-	-	-	398
Equipment	34,227	-	75,933	-	-	151,887
Furniture & Fixtures	28,932	-	-	-	-	211,444
Vehicles	8,091	-	110,741	-	-	526,382
Total expenditures	<u>777,576</u>	<u>179,395</u>	<u>1,470,042</u>	<u>6,783</u>	<u>340,816</u>	<u>8,767,221</u>
Fund balances at the beginning of the year	-	-	-	-	13,090	61,986
Fund balances at the end of the year	\$ -	\$ -	\$ -	\$ -	\$ 13,090	\$ 61,986