

Financial Statements and Additional Information

**State of Kosrae
Federated States of Micronesia**

*Year Ended September 30, 2023
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, 2023

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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

Opinions

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Kosrae (the State), as of and for the year ended September 30, 2023, 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").

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Kosrae as of September 30, 2023, 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 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.

Emphasis of Matter-Restatement of 2022 Financial Statements

As discussed in note 13 to the financial statements, the 2022 financial statements have been restated to correct a misstatement. Our opinions are not modified with respect to this matter.

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 August 6, 2025, 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

August 6, 2025

State of Kosrae
Federated States of Micronesia

Management's Discussion and Analysis

September 30, 2023

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, 2023. We encourage readers to consider this information in conjunction with the State's financial statements and notes thereto, which follow. Fiscal year 2022 comparative information has been included, where appropriate.

Financial Highlights

Government-Wide Level:

- Net Position - Total assets of the State exceeded its total liabilities and deferred inflows of resources at the close of the fiscal year by \$38,603,534 (presented as net position), of which \$27,066,748 is reported as the net investment in capital assets, \$8,746,651 as the restricted net position (restricted to Compact trust, revolving funds and etc.), and the remaining \$2,790,135 as the unrestricted net position.
- Change in Net Position - The net position of the State increased by \$340,883 during the fiscal year compared to the balance reported in the prior year.
- Capital Assets - There was a net decrease in the State's capital assets of \$957,003. The net decrease consisted of depreciation expense of \$2,002,141, capital outlays of \$927,764 and a net adjustment of \$117,374.
- Long-Term Obligations - There was a net decrease in the State's long-term obligations of \$363,299. The net decrease consisted of the decrease in ADB loans of \$468,352 and the increase of \$105,053 due to foreign exchange loss.

Fund Level:

- Governmental Funds – Fund Balances – Total assets of governmental funds of the State exceeded total liabilities and deferred inflows of resources by \$13,069,090 (presented as fund balances). Of the total fund balances, \$9,356,903 is reported as non-spendable, \$457,961 as restricted, \$1,099,185 as committed, \$2,155,041 as unrestricted.
- General Fund – Total assets of the General Fund exceeded its total liabilities and deferred inflows of resources by \$4,330,060, of which \$2,070,777 is classified as non-spendable, \$4,242 as restricted, and \$2,255,041 as unassigned. The fund balance increased by \$2,117,268 during the fiscal year.
- Compact Trust Fund - \$7,093,126 is reported as restricted investments as of September 30, 2023. The investments increased by \$615,076 during the fiscal year.

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Management's Discussion and Analysis, continued

Financial Highlights, continued

Fund Level, continued:

- Other Governmental Funds – Total assets of the other governmental funds exceeded its liabilities by \$1,645,904, of which \$93,000 is presented as non-spendable, \$453,719 as restricted, and \$1,099,185 as committed at September 30, 2023. The combined fund balances increased by \$61,216 during the fiscal year.

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

Financial Highlights, continued

(1) Government-Wide 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.

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Management's Discussion and Analysis, continued

Financial Highlights, continued

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
- Statement of revenues, expenditures by function and changes in fund balance of the General Fund – Budget and Actual
- Combining financial statements for Other 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, 2023 and 2022:

Table 1
Net Position

	Governmental Activities		
	<u>2023</u>	<u>2022</u>	<u>Change</u>
ASSETS			
Current and other assets	16,862,482	15,989,623	872,859
Capital assets	28,001,728	28,958,731	(957,003)
	<u>44,864,210</u>	<u>44,948,354</u>	<u>(84,144)</u>
LIABILITIES			
Current and other liabilities	1,441,362	3,016,752	(1,575,390)
Long-term debt	2,427,284	2,790,583	(363,299)
	<u>3,868,646</u>	<u>5,807,335</u>	<u>(1,938,689)</u>
DEFERRED INFLOWS OF RESOURCES	2,392,030	2,685,354	(293,324)
NET POSITION			
Net investment in capital assets	27,066,748	27,848,369	(781,621)
Restricted	8,746,651	8,132,686	613,965
Unrestricted	2,790,135	474,610	2,315,525
	<u>38,603,534</u>	<u>36,455,665</u>	<u>2,147,869</u>
	<u>44,864,210</u>	<u>44,948,354</u>	<u>(84,144)</u>

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Management's Discussion and Analysis, continued

Government-Wide Financial Analysis, continued

The net position of the governmental activities increased by \$340,883. The net position also increased by \$1,836,815 due to prior period adjustment.

Net investments in capital assets were \$27,066,748 as of September 30, 2023. 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
Change in Net Position

	Governmental Activities		
	<u>2023</u>	<u>2022</u>	<u>Change</u>
REVENUES:			
Program revenues			
Grants and contributions	\$9,166,679	\$9,111,878	\$ 54,801
Charges for services	839,835	714,366	125,469
General revenues			
FSM revenue sharing	3,153,349	2,161,427	991,922
State taxes	299,640	479,146	(179,506)
Investment and interest earnings	196,764	(158,411)	355,175
Miscellaneous	488,401	536,139	(47,738)
Total revenues	<u>14,144,668</u>	<u>12,844,545</u>	<u>1,300,123</u>
EXPENSES:			
General Government	3,157,250	2,391,003	766,247
Public work	334,622	531,708	(197,086)
Economic development	501,223	3,833,422	(3,332,199)
Education	4,529,181	3,969,736	559,445
Health services	3,643,644	471,445	3,172,199
Public order and safety	471,432	337,296	134,136
Boards, commissions and other	1,629,500	1,975,750	(346,250)
Interest on long-term debt and other	<u>152,009</u>	<u>(246,213)</u>	<u>398,222</u>
	<u>14,418,861</u>	<u>13,264,147</u>	<u>1,154,714</u>

State of Kosrae
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Management's Discussion and Analysis, continued

Government-Wide Financial Analysis, continued

	<u>Governmental Activities</u>		
	<u>2023</u>	<u>2022</u>	<u>Change</u>
EXCESS (DEFICIENCY) BEFORE SPECIAL ITEMS AND CONTRIBUTIONS	<u>(274,193)</u>	<u>(419,602)</u>	<u>145,409</u>
Contribution to permanent fund	615,076	(928,176)	1,543,252
Change in net position	340,883	(1,347,778)	1,688,661
Net position at beginning of the year as previously reported	36,425,836	37,773,615	(1,347,779)
Prior period adjustment	<u>1,836,815</u>	<u>-</u>	<u>1,836,815</u>
Net position at beginning of the year, as restated	<u>38,262,651</u>	<u>37,773,615</u>	<u>489,036</u>
Net position at end of the year	<u>\$38,603,534</u>	<u>\$36,425,837</u>	<u>\$2,177,697</u>

Revenues to fund governmental activities totaled \$14,144,668 for the fiscal year. 65% 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 22% of the governmental activities' revenue for the fiscal year.

Expenses related to governmental activities totaled \$14,418,861 during the fiscal year. Education and Health and Human Services represent the governmental activities' largest spending categories, which were 31% and 25% 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 operating expenses of \$4,598,805 exceeded total operating revenues of \$4,591,711 by \$7,094. Main revenue sources were FSM national tax revenue sharing (69%) and fees and charges (10%) for the year ended September 30, 2023.

State of Kosrae
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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 \$8,821,682 of federal grant expenditures for the fiscal year, which is \$54,461 more than the prior year expenditures of \$8,767,221.

(3) Compact Trust Fund

Compact Trust Fund reported unrecognized investment gain of \$615,076 for the fiscal year due to favorable market conditions. As a result, the fund balance increased to \$7,093,126 as of September 30, 2023.

Other Governmental Fund

Total fund balances of the other governmental funds increased by \$61,216 for the fiscal year.

General Fund Budgetary Highlights

Total revenues of the General Fund exceeded the final estimated revenues by \$1,791,711. Total expenditures of \$4,637,858 exceeded the final budgeted expenditures of \$3,213,159 by \$1,424,699 primarily due to miscellaneous expenses of \$1,424,699 that resulted from the reconciliation associated with Compact sector grant closeout and the repayment of various long-term debt not budgeted in the State's appropriations.

Table 3
General Fund – Budget vs Actual

	General Fund			
	Original	Final	Actual	Variance
Revenues	\$2,800,000	\$2,800,000	\$4,591,711	\$1,791,711
Expenditures				
Core government operations	3,096,619	3,213,159	4,122,549	909,390
Debt service	-	-	515,309	515,309
	3,096,619	3,213,159	4,637,858	1,424,699
Other financing sources	-	-	2,124,362	2,124,362
Net change in fund balance, Encumbrances	\$ (296,619)	\$ (413,159)	\$2,078,215	\$2,491,374
			39,053	
Fund balance at the beginning of the year, as previously reported			2,182,964	
Prior period adjustment			29,828	
Fund balance at the beginning of the year, as restated			2,212,792	
Fund balance at the end of the year			\$4,330,060	

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Management's Discussion and Analysis, continued

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of September 30, 2023, Kosrae State had invested \$28,001,728 in governmental activities capital assets, net of accumulated depreciation, which reflects a decrease of 3% from the prior year. The decrease was due to depreciation expense of \$2,002,141, capital outlays of \$927,764 and adjustment of \$117,374 for the fiscal year.

Table 4 below summarizes the State's capital assets, net:

Table 4
Capital Assets

	Governmental Activities		
	<u>2023</u>	<u>2022</u>	<u>Change</u>
Capital assets, net:			
Buildings	8,636,096	9,129,528	(493,432)
Infrastructure	16,269,830	17,081,644	(811,814)
Machinery, equipment and other	3,095,802	2,747,559	348,243
	<u>28,001,728</u>	<u>28,958,731</u>	<u>(957,003)</u>

Debt Administration

Table 5 below provides a schedule of the State's long-term debt obligations at September 30, 2023 and 2022.

Table 5
Long-Term Debt

	Governmental Activities		
	<u>2023</u>	<u>2022</u>	<u>Change</u>
Long-term Debt			
Asian Development Bank loans	2,123,136	2,398,809	(275,673)
Rural Utilities Service - USDA	84,148	94,274	(10,126)
Liancheng Fisheries	220,000	297,500	(77,500)
	<u>2,427,284</u>	<u>2,790,583</u>	<u>(363,299)</u>

The State's long-term debt decreased by \$363,299 primarily due to repayments of the loans. Additional information on the Kosrae State's long-term debt obligations can be found in note 6.

State of Kosrae
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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 has been slowly recovering compared with the prior years. 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 72% and 75% respectively of the State's total General Fund revenues for the fiscal years ended September 30, 2023 and 2022. The collection of revenue sharing is expected to increase in fiscal year 2024 due to the recovering economic condition and additional FSM revenue sharing for fishing fees.

Sales Taxes – The State's sales taxes are the second largest single source of revenue to the General Fund, which was approximately 7% and 16% of the Kosrae State's total General Fund revenues for the fiscal years ended September 30, 2023 and 2022. 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 2024 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 11% and 12% of the State's total General Fund revenues for 2023 and 2022. 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 2024 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, 2023

	Primary Government	Component Units
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 1,208,192	\$ 1,399,718
Time certificate of deposit	-	169,679
Investments	-	846,401
Receivables, net	1,689,365	858,065
Inventories	-	367,488
Prepayments	66,040	28,505
Advances	29,969	-
Other current assets	915,000	-
Restricted assets:		
Cash and cash equivalents	1,954,973	-
Time certificate of deposit	-	200,000
Total current assets	<u>5,863,539</u>	<u>3,869,856</u>
Noncurrent assets:		
Deposit for fuel contract	-	252,800
Capital assets:		
Nondepreciable capital assets	-	117,603
Capital assets, net of accumulated depreciation	28,001,728	13,983,828
Investments	1,328,360	-
Lease receivable	2,162,560	-
Restricted assets:		
Time certificates of deposit	407,276	-
Investments	7,100,747	-
Total noncurrent assets	<u>39,000,671</u>	<u>14,354,231</u>
Total assets	<u><u>\$ 44,864,210</u></u>	<u><u>\$ 18,224,087</u></u>
<u>LIABILITIES</u>		
Current liabilities:		
Short-term borrowings	\$ 66,853	\$ 50,000
Current portion of long-term obligations	208,770	28,224
Accounts payable	263,508	318,233
Other liabilities and accruals	539,850	111,314
Due to FSM National Government	110,044	-
Unearned revenues	-	47,692
Due to grantor agency	461,107	-
Total current liabilities	<u>1,650,132</u>	<u>555,463</u>

See accompanying notes.

State of Kosrae
Federated States of Micronesia

Statement of Net Position, continued

	Primary Government	Component Units
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	2,218,514	97,328
Total noncurrent liabilities	2,218,514	97,328
Total liabilities	3,868,646	652,791
<u>DEFERRED INFLOWS OF RESOURCES:</u> Leases	2,392,030	24,902
Total liabilities and deferred inflows of resources	6,260,676	677,693
<u>NET POSITION</u>		
Net investment in capital assets	27,066,748	14,101,431
Restricted for:		
Nonexpendable:		
Future operations	7,096,505	-
Expendable:		
Debt service	4,242	-
Compact related	-	526,770
Other purposes	1,645,904	-
Unrestricted	2,790,135	2,918,193
Total net position	38,603,534	17,546,394
Total liabilities and net position	<u>\$ 44,864,210</u>	<u>\$ 18,224,087</u>

State of Kosrae
Federated States of Micronesia

Statement of Activities

Year Ended September 30, 2023

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
Primary government:						
Governmental activities:						
General government	\$ 3,157,250	\$ 839,835	\$ 788,527	\$ -	\$ (1,528,888)	\$ -
Economic development	501,223	-	91,404	-	(409,819)	-
Education	4,529,181	-	4,666,676	-	137,495	-
Health services	3,643,644	-	3,491,638	-	(152,006)	-
Public order and safety	471,432	-	-	-	(471,432)	-
Public works	334,622	-	-	-	(334,622)	-
Environment protection and sanitation	-	-	128,434	-	128,434	-
Boards, commissions and other	1,629,500	-	-	-	(1,629,500)	-
Unallocated interest on long-term debt	152,009	-	-	-	(152,009)	-
Total primary government	<u>\$ 14,418,861</u>	<u>\$ 839,835</u>	<u>\$ 9,166,679</u>	<u>\$ -</u>	<u>(4,412,347)</u>	<u>-</u>
Component units:						
Kosrae Port Authority	\$ 1,469,210	\$ 604,678	\$ -	\$ -	-	(864,532)
Kosrae Utilities Authority	3,414,682	3,403,673	-	-	-	(11,009)
Kosrae Housing Authority	288,875	93,921	-	-	-	(194,954)
Total component units	<u>\$ 5,172,767</u>	<u>\$ 4,102,272</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>(1,070,495)</u>
General revenues:						
Taxes:						
FSM revenue sharing:						
Gross revenue taxes					548,734	-
Import taxes					707,108	-
Income taxes					640,513	-
National fishing rights fees					1,041,880	-
Other taxes					215,114	-
State taxes					299,640	-
Unrestricted investment earnings					196,764	79,801
Contribution from the FSM National Government					-	101,035
Other					488,401	(4,094)
Total general revenues					4,138,154	176,742
Contributions to permanent fund					615,076	-
Total general revenues and contributions					4,753,230	176,742
Change in net position					340,883	(893,753)
Net position at the beginning of the year, as previously reported					36,425,836	18,440,147
Prior period adjustment					1,836,815	-
Net position at the beginning of the year, as restated					38,262,651	-
Net position at the end of the year					<u>\$ 38,603,534</u>	<u>\$ 17,546,394</u>

See accompanying notes.

**State of Kosrae
Federated States of Micronesia**

**Balance Sheet
Governmental Funds**

September 30, 2023

	General Fund	Special Revenue Grants Assistance Fund	Permanent Compact Trust Fund	Other Gov't Fund	Total
ASSETS					
Cash and cash equivalents	\$ 1,208,192	\$ -	\$ -	\$ -	\$ 1,208,192
Investments	1,328,360	-	-	-	1,328,360
Receivables, net:	-	-	-	-	-
General	-	-	-	-	-
Federal agencies	-	19,330	-	-	19,330
Due from FSM National Government	-	27,642	-	-	27,642
Taxes	1,419,475	-	-	-	1,419,475
Leases	2,385,478	-	-	-	2,385,478
Due from other funds	38,434	376,854	-	1,429,075	1,844,363
Prepaid items	-	66,040	-	-	66,040
Advances	20,417	9,552	-	-	29,969
Other assets	722,000	100,000	-	93,000	915,000
Restricted assets:	-	-	-	-	-
Cash and cash equivalents - restricted	1,912,115	-	-	42,858	1,954,973
Time certificates of deposit	43,664	-	-	363,612	407,276
Investments - restricted	4,242	-	7,096,505	-	7,100,747
Total assets	<u>\$ 9,082,377</u>	<u>\$ 599,418</u>	<u>\$ 7,096,505</u>	<u>\$ 1,928,545</u>	<u>\$ 18,706,845</u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES

Liabilities:					
Short-term borrowings	\$ 66,853	\$ -	\$ -	\$ -	66,853
Accounts payable	42,152	176,524	3,379	41,453	263,508
Other liabilities and accruals	265,402	274,448	-	-	539,850
Due to other funds	1,805,929	38,402	-	32	1,844,363
Due to FSM National Government	219,951	-	-	241,156	461,107
Due to grantor agency	-	110,044	-	-	110,044
Total liabilities	<u>2,400,287</u>	<u>599,418</u>	<u>3,379</u>	<u>282,641</u>	<u>3,285,725</u>
Deferred Inflows of Resources: leases	<u>2,352,030</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,352,030</u>
Total liabilities and deferred inflows of resources	<u>4,752,317</u>	<u>599,418</u>	<u>3,379</u>	<u>282,641</u>	<u>5,637,755</u>
Fund balances:					
Non-spendable	2,070,777	100,000	7,093,126	93,000	9,356,903
Restricted	4,242	-	-	453,719	457,961
Committed	-	-	-	1,099,185	1,099,185
Unassigned:					
General fund	<u>2,255,041</u>	<u>(100,000)</u>	<u>-</u>	<u>-</u>	<u>2,155,041</u>
Total fund balances	<u>4,330,060</u>	<u>-</u>	<u>7,093,126</u>	<u>1,645,904</u>	<u>13,069,090</u>
Total liabilities and fund balances	<u>\$ 9,082,377</u>	<u>\$ 599,418</u>	<u>\$ 7,096,505</u>	<u>\$ 1,928,545</u>	

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

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

28,001,728

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 (2,427,284)
Advance lease payment (40,000)

(2,467,284)

Net position of governmental activities

\$ 38,603,534

See accompanying notes.

State of Kosrae
Federated States of Micronesia

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

Year Ended September 30, 2023

	General Fund	Special Revenue Grants Assistance Fund	Permanent Compact Trust Fund	Other Gov't Fund	Total
Revenues:					
Compact funding	\$ -	\$ 7,911,874	\$ -	\$ -	\$ 7,911,874
Net change in the fair value of investments	196,764	-	615,076	-	811,840
Federal contributions	-	1,114,149	-	-	1,114,149
FSM revenue sharing	3,153,349	-	-	-	3,153,349
State taxes	299,640	-	-	-	299,640
CFSM grants	-	-	-	140,658	140,658
Fees and charges	474,120	-	-	318,049	792,169
Interest income	35,545	-	-	2,121	37,666
Recovery of bad debt	141,158	-	-	-	141,158
Other	291,135	51,048	-	5,059	347,242
Total revenues	<u>4,591,711</u>	<u>9,077,071</u>	<u>615,076</u>	<u>465,887</u>	<u>14,749,745</u>
Expenditures:					
Current:					
General government	2,639,788	434,133	-	13,711	3,087,632
Economic development	393,185	91,404	-	37,728	522,317
Education	12,500	4,666,676	-	-	4,679,176
Health services	-	3,491,638	-	73,090	3,564,728
Public order and safety	461,752	-	-	7,466	469,218
Public works	258,355	9,396	-	66,871	334,622
Boards, commissions and other	317,916	128,435	-	205,805	652,156
Debt service	515,309	-	-	-	515,309
Total expenditures	<u>4,598,805</u>	<u>8,821,682</u>	<u>-</u>	<u>404,671</u>	<u>13,825,158</u>
Excess (deficiency) of revenues over (under) expenditures	(7,094)	255,389	615,076	61,216	924,587
Other operating sources (uses):					
Operating transfers in	2,124,362	-	-	-	2,124,362
Operating transfers out	-	(2,124,362)	-	-	(2,124,362)
Net change in fund balances	<u>2,117,268</u>	<u>(1,868,973)</u>	<u>615,076</u>	<u>61,216</u>	<u>924,587</u>
Fund balances at the beginning of the year, as previously reported	2,182,964	61,986	6,478,050	1,584,688	10,307,688
Prior year adjustment	29,828	1,806,987	-	-	1,836,815
Fund balances at the beginning of the year, as restated	<u>2,212,792</u>	<u>1,868,973</u>			<u>12,144,503</u>
Fund balances at the end of the year	<u>\$ 4,330,060</u>	<u>\$ -</u>	<u>\$ 7,093,126</u>	<u>\$ 1,645,904</u>	<u>\$ 13,069,090</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, 2023

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	\$ 924,587
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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 (\$2,002,141) exceeded capital outlays, net of \$1,045,138 in the current period.	(957,003)
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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	10,000
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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:

Loss on ADB loans SDR foreign exchange	(105,053)
Repayment of ADB loans	380,726
Repayment of Liancheng loan	77,500
Repayment of MWSP loan	<u>10,126</u>

Change in net position of governmental activities	\$ <u>340,883</u>
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State of Kosrae
Federated States of Micronesia
Combining Statement of Net Position
Component Units
September 30, 2023

	<u>ASSETS</u>	Kosrae Port Authority	Kosrae Utilities Authority	Kosrae Housing and Rural Development Authority	Total
Current assets:					
Cash and cash equivalents		\$ 66,069	\$ 1,333,649	\$ -	\$ 1,399,718
Time certificate of deposit		-	169,679	-	169,679
Investments		-	846,401	-	846,401
Receivables:					
General		80,958	241,702	496,473	819,133
Due from primary government, net		15,000	-	-	15,000
Lease receivable		23,932	-	-	23,932
Total receivables		119,890	241,702	496,473	858,065
Inventories		29,000	338,488	-	367,488
Prepayments		-	28,505	-	28,505
Total current assets		214,959	2,958,424	496,473	3,669,856
Noncurrent assets:					
Time certificate of deposit - restricted		-	-	200,000	200,000
Deposit for fuel purchase contract		-	252,800	-	252,800
Capital assets:					
Nondepreciable capital assets		-	117,603	-	117,603
Capital assets, net of accumulated depreciation		12,572,765	1,372,808	38,255	13,983,828
Total assets		<u>\$ 12,787,724</u>	<u>\$ 4,701,635</u>	<u>\$ 734,728</u>	<u>\$ 18,224,087</u>
<u>LIABILITIES AND NET POSITION</u>					
Current liabilities:					
Note payable		\$ -	\$ -	\$ 50,000	\$ 50,000
Current portion of long-term debt		-	-	28,224	28,224
Accounts payable		3,039	272,997	42,197	318,233
Accrued liabilities		-	30,449	41,954	72,403
Accrued Taxes		-	38,911	-	38,911
Unearned revenues		-	47,692	-	47,692
Total current liabilities		3,039	390,049	162,375	555,463
Deferred inflow of resources					
Lease revenue		24,902	-	-	24,902
Long-term debt net of current portion		-	-	97,328	97,328
Total liabilities		<u>27,941</u>	<u>390,049</u>	<u>259,703</u>	<u>677,693</u>
Net position:					
Net investment in capital assets		12,572,765	1,490,411	38,255	14,101,431
Restricted		-	90,000	436,770	526,770
Unrestricted		187,018	2,731,175	-	2,918,193
Total net position		<u>12,759,783</u>	<u>4,311,586</u>	<u>475,025</u>	<u>17,546,394</u>
Total liabilities and net position		<u>\$ 12,787,724</u>	<u>\$ 4,701,635</u>	<u>\$ 734,728</u>	<u>\$ 18,224,087</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, 2023

	Kosrae Port Authority	Kosrae Utilities Authority	Kosrae Housing and Rural Development Authority	Total
Operating revenues:				
Charge for services	\$ 603,944	\$ 3,404,654	\$ 93,921	\$ 4,102,519
Bad debt expense	-	(981)	-	(981)
Interest income - lease	734	-	-	734
Total operating revenues	<u>604,678</u>	<u>3,403,673</u>	<u>93,921</u>	<u>4,102,272</u>
Operating expenses:				
Cost of services	1,469,210	2,744,298	-	4,213,508
Depreciation and amortization	-	318,708	10,545	329,253
Administration and general	-	351,676	278,330	630,006
Total operating expenses	<u>1,469,210</u>	<u>3,414,682</u>	<u>288,875</u>	<u>5,172,767</u>
Operating loss	<u>(864,532)</u>	<u>(11,009)</u>	<u>(194,954)</u>	<u>(1,070,495)</u>
Nonoperating revenues (expenses):				
Net change in fair value of investments	-	79,801	-	79,801
Operating grant from FSM National Government	-	-	101,035	101,035
Gain (loss) on disposal of capital assets	-	100	-	100
Interest income (expense)	-	4,896	(9,090)	(4,194)
Total nonoperating revenues (expenses), net	<u>-</u>	<u>84,797</u>	<u>91,945</u>	<u>176,742</u>
Change in net position	<u>(864,532)</u>	<u>73,788</u>	<u>(103,009)</u>	<u>(893,753)</u>
Net position at beginning of year	<u>13,624,315</u>	<u>4,237,798</u>	<u>578,034</u>	<u>18,440,147</u>
Net position at end of year	<u>\$ 12,759,783</u>	<u>\$ 4,311,586</u>	<u>\$ 475,025</u>	<u>\$ 17,546,394</u>

See accompanying notes.

State of Kosrae
Federated States of Micronesia

Notes to Financial Statements

Year ended September 30, 2023

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 \$8,746,651 of restricted net position, of which \$1,645,904 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 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 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 \$4,242 for the Early Retirement Scheme. Furthermore, investments recorded in the Compact Trust Fund of \$7,096,505 are restricted in that they are not available to be used in current operations.

As of September 30, 2023, 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.	\$1,912,115
Deposit account established for the Gifford scholarship fund.	42,858
Time certificate of deposit (TCD) with a local bank restricted for scholarships for post-secondary students.	363,612
Other TCD	<u>43,664</u>
	<u>\$2,362,249</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 \$915,000. 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.

Deferred Inflows of Resources

In addition to liabilities, the statement 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.

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/Due to Grantor

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 which have not been earned or do not meet the "available" criterion for revenue recognition under the modified accrual basis of accounting.

The amounts recorded as due to grantor in the government-wide financial statements and the governmental fund financial statements has primarily resulted as federal funds are received in advance of eligible expenditures.

Fund Balance

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

- Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

State of Kosrae
Federated States of Micronesia

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Fund Balance, continued

- Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed.
- Unassigned - includes negative fund balances in other governmental funds.

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

A formal minimum fund balance policy has not been adopted.

Interfund/Intrafund Transactions

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

Recently Adopted Accounting Pronouncements

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. The adoption of GASB Statement No. 91 during the year ended September 30, 2023 did not have an effect on the accompanying financial statements.

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. The adoption of GASB Statement No. 94 during the year ended September 30, 2023 did not have an effect on the accompanying financial statements.

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. The adoption of GASB Statement No. 96 during the year ended September 30, 2023 did not have an effect on the accompanying financial statements.

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. This statement 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:

- 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. This 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

Recently Adopted Accounting Pronouncements, continued

- Provides clarification of provisions in GASB Statement No. 94 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. This implementation did not have a material effect on the accompanying financial statements.
- Provides clarification of provisions in GASB Statement No. 96 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. This implementation did not have a material effect on the accompanying financial statements.
- Modifies accounting and reporting guidance in GASB Statement No. 53 related to termination of hedge. This implementation did not have a material effect on the accompanying financial statements.

Upcoming Accounting Standards

In April 2022, GASB issued Statement No. 99. 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:

- 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.
- 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.

In June 2022, GASB issues Statement No. 100, *Accounting Changes and Error Corrections* An Amendment of GASB Statement No. 62. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent and comparable information for making decisions or assessing accountability. The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability. In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections. GASB Statement No. 100 will be effective for fiscal year ending September 30, 2024.

State of Kosrae
Federated States of Micronesia

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Upcoming Accounting Standards, continued

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave. The model also will result in a more robust estimate of the amount of compensated absences that a government will pay or settle, which will enhance the relevance and reliability of information about the liability for compensated absences. GASB Statement No. 101 will be effective for fiscal year ending September 30, 2025.

In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. The primary objective of this Statement is to provide users of the government financial statements with essential or constraints. 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. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 102 will be effective for fiscal year ending September 30, 2025.

In April 2024, GASB issued Statement No. 103, *Financial Reporting Model Improvements*. The primary objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues identified through agenda research conducted by the GASB. This Statement establishes new accounting and financial reporting requirements - or modifies existing requirements - related to the following: a) management's discussion and analysis (MD&A); b) unusual or infrequent items; c) presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position; d) information about major component units in basic financial statements; e) budgetary comparison information; and f) financial trends information in the statistical section. GASB Statement No. 103 will be effective for fiscal year ending September 30, 2026.

State of Kosrae
Federated States of Micronesia

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Upcoming Accounting Standards, continued

In September 2024, GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34. Lease assets recognized in accordance with Statement No. 87, *Leases*, and intangible right-to-use assets recognized in accordance with Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96, *Subscription-Based Information Technology Arrangements*, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class. This Statement also requires additional disclosures for capital assets held for sale. GASB Statement No. 104 will be effective for fiscal years ending September 30, 2026.

The State is currently evaluating the effects the above upcoming accounting pronouncements might have on its financial statements.

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, 2023 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, 2023, the carrying amount of the primary government’s total deposits was \$3,570,441 and the corresponding bank balance was \$3,778,524 which is maintained in financial institutions subject to FDIC insurance. As of September 30, 2023, bank deposits in the amount of \$500,000 were FDIC insured. The State does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Therefore, these deposits are exposed to custodial credit risk.

State of Kosrae
Federated States of Micronesia

Notes to Financial Statements, continued

2. Deposits and Investments, continued

Deposits, continued

As of September 30, 2023, the carrying amount of the discretely presented component units' deposits was \$1,769,397 and the corresponding bank balance was \$1,835,562, which were maintained in financial institutions subject to FDIC insurance. As of September 30, 2023 bank deposits in the amount of \$649,108 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, 2023, the State's investments are as follows:

General Fund:

Domestic equities – Bank of the Federated States of Micronesia	\$ 1,328,360
Investment in external investment pool	<u>4,242</u>
	<u>\$ 1,332,602</u>

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

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

Compact Trust Fund:

Investment in an external investment pool	\$ <u>7,096,505</u>
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The States's Compact Trust Fund includes an investment in an external investment pool; Trust Fund for the People of the Federated States of Micronesia. The purpose of the Fund is to contribute to the economic advancement and long-term self-reliance of the FSM by providing an annual source of revenue after fiscal year 2023.

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

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.

State of Kosrae
Federated States of Micronesia

Notes to Financial Statements, continued

2. Deposits and Investments, continued

Investments, continued

Primary Government, continued

The State has the following recurring fair value measurements as of September 30, 2023:

General Fund:

	Fair Value Measurements Using			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments in an external investment pool by fair value level	\$ 4,242	\$ <u>4,242</u>	\$ <u>----</u>	\$ <u>---</u>
Investments measured at NAV:				
Investment in the Bank of the FSM (5% ownership)	<u>1,328,360</u>			
	<u>\$1,332,602</u>			

Compact Trust Fund:

	Fair Value Measurements Using			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments in an external investment pool by fair value level	\$6,379,092	\$ <u>5,771,678</u>	\$ <u>---</u>	\$ <u>\$607,414</u>
Investments in an external invest pool measured at NAV	714,470			
Investments in an external investment pool measured at amortized cost:	<u>2,943</u>			
	<u>\$7,096,505</u>			

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

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the State will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The State's investments are held and administered by trustees. Based on negotiated trust and custody contracts, all of these investments were held in the State's name by the State's custodial financial institutions at September 30, 2023.

State of Kosrae
Federated States of Micronesia

Notes to Financial Statements, continued

2. Deposits and Investments, continued

Investments, continued

Primary Government, continued

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. 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, 2023, investments comprise the following:

Common equities	\$510,494
Fixed income	<u>335,907</u>
	<u>\$846,401</u>

As of September 30, 2023, the fixed income securities consist of the following:

		<u>Fair</u> <u>Value</u>	<u>Maturity</u> <u>1 to 5</u> <u>Years</u>	<u>Maturity</u> <u>6 to 10</u> <u>Years</u>
U.S. Treasury obligations	Aaa	\$204,371	\$166,701	\$37,670
Corporate notes	A1	30,900	20,632	10,268
Corporate notes	A2	10,683	10,683	---
Corporate notes	A3	10,326	10,326	---
Corporate notes	Baa1	29,427	---	29,427
Corporate notes	Baa2	<u>50,200</u>	<u>40,694</u>	<u>9,506</u>
		<u>\$335,907</u>	<u>\$249,036</u>	<u>\$86,871</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

KUA has the following recurring fair value measurement as of September 30, 2023:

		<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level:				
Fixed income:				
U.S. Treasury obligations	\$204,371	\$ ---	\$204,371	\$ ---
Corporate notes	<u>131,536</u>	<u>---</u>	<u>131,536</u>	<u>---</u>
	<u>335,907</u>	<u>---</u>	<u>335,907</u>	<u>---</u>
Equity securities:				
U.S. equities	489,289	489,289	---	---
Non U.S. equities	<u>21,205</u>	<u>21,205</u>	<u>---</u>	<u>---</u>
	<u>510,494</u>	<u>510,494</u>	<u>---</u>	<u>---</u>
Total investments at fair value	<u>\$846,401</u>	<u>\$ 510,494</u>	<u>\$335,907</u>	<u>\$ ---</u>

3. Receivables

Primary Government

Receivables as of September 30, 2023, 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	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---
Federal agencies	---	19,330	---	---	19,330
Due from FSM National Government	---	27,642	---	1,368,203	1,395,845
Taxes	1,419,475	---	---	---	1,419,475
Leases	<u>2,385,478</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>2,385,478</u>
	3,804,953	46,972	---	1,368,203	5,220,128
Less allowance for uncollectible accounts	<u>---</u>	<u>---</u>	<u>---</u>	<u>(1,368,203)</u>	<u>(1,368,203)</u>
Net receivables	<u>\$ 3,804,953</u>	<u>\$ 46,972</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$3,851,925</u>

State of Kosrae
Federated States of Micronesia

Notes to Financial Statements, continued

3. Receivables, continued

Primary Government, continued

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, 2023, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Grants Assistance	General	\$376,854
Nonmajor governmental funds	General	\$1,429,075
General	Grants Assistance	\$38,402
General	Nonmajor governmental funds	<u>32</u>
		<u>\$1,844,363</u>

5. Capital Assets

Capital asset activities for the year ended September 30, 2023, are as follows:

Primary Government

	Balance October <u>1, 2022</u>	<u>Increases</u>	<u>Decreases</u>	Balance September <u>30, 2023</u>
Depreciable assets:				
Buildings	\$27,433,910	\$ ---	\$ ---	\$27,433,910
Infrastructure	44,397,384	---	---	44,397,384
Machinery, equipment, others	<u>10,699,227</u>	<u>927,764</u>	<u>---</u>	<u>11,626,991</u>
	<u>82,530,521</u>	<u>927,764</u>	<u>---</u>	<u>83,458,285</u>
Less accumulated depreciation:				
Buildings	(18,304,382)	(493,432)	---	(18,797,814)
Infrastructure	(27,315,740)	(902,417)	90,603	(28,127,554)
Machinery, equipment, others	<u>(7,951,668)</u>	<u>(606,292)</u>	<u>26,771</u>	<u>(8,531,189)</u>
	<u>(53,571,790)</u>	<u>(2,002,141)</u>	<u>117,374</u>	<u>(55,456,557)</u>
	<u>\$28,958,731</u>	<u>\$ (1,074,377)</u>	<u>\$ 117,374</u>	<u>\$28,001,728</u>

State of Kosrae
Federated States of Micronesia

Notes to Financial Statements, continued

5. Capital Assets, continued

Primary Government, continued

During the year ended September 30, 2023, depreciation expense was charged as follows:

General government	\$ 100,417
Economic development	16,254
Education	652,287
Health services	90,866
Public safety	2,214
Boards, commissions and others	<u>1,140,103</u>
	<u>\$2,002,141</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.

Discretely Presented Component Units

	Balance October <u>1, 2022</u>	<u>Additions</u>	<u>Retirements</u>	Balance September <u>30, 2023</u>
Depreciable assets:				
Buildings	\$12,095,141	\$ ---	\$ ---	\$12,095,141
Utility plants	11,384,574	199,172	(370,115)	11,213,631
Infrastructure	37,972,012	---	---	37,972,012
Machinery, equipment, others	<u>1,988,797</u>	<u>18,323</u>	<u>---</u>	<u>2,007,120</u>
Total capital assets, being depreciated	63,440,524	217,495	(370,115)	63,287,904
Less accumulated depreciation	<u>(48,463,181)</u>	<u>(1,211,010)</u>	<u>370,115</u>	<u>(49,304,076)</u>
	14,977,343	(993,515)	---	13,983,828
Nondepreciable assets:				
Construction work-in-progress	<u>71,840</u>	<u>50,532</u>	<u>(4,769)</u>	<u>117,603</u>
	<u>\$15,049,183</u>	<u>\$(_ 942,983)</u>	<u>\$(_ 4,769)</u>	<u>\$14,101,431</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, 2023, the balance payable on this loan amounted to \$84,148.

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:

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. The loan is non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. The activities of the ERS Program are recorded in the General Fund.

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

Funds for the repayment of the ADB loan are expected to be derived from the annual appropriations for salaries and wages earmarked for the positions abolished under the Early Retirement Scheme. The Financing Agreement requires the State to continue to appropriate salaries for the abolished positions and deposit the appropriated funds into the ERS Trust Account. These funds had not been deposited to the Trust Account as of September 30, 2002. That investment account is restricted for the repayment of this debt. As of September 30, 2023, the balance payable on this loan amounted to \$1,054,739.

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, 2023, the balances payable on these loans amounted to \$83,417 and \$134,147, 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, 2023, the balance payable on this loan amounted to \$850,833.

State of Kosrae
Federated States of Micronesia

Notes to Financial Statements, continued

6. Long-Term Obligations, continued

Primary Government, continued

Liancheng Overseas Company

As of September 30, 2023, the State has a non-interest bearing loan payable to Liancheng Overseas Company totaling \$220,000. The loan requires semi-annual principal installments of \$8,750 and matures in 2036.

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, 2023, the State recognized a foreign exchange loss of \$105,053 associated with valuation of the SDR which results in a decrease in ADB loans payable.

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>
2024	\$ 208,770	\$ 23,995	\$ 232,765
2025	208,966	21,954	230,920
2026	192,483	19,904	212,387
2027	176,014	18,036	194,050
2028	176,237	25,726	201,963
2029 - 2033	884,888	50,371	935,259
2034 - 3038	<u>579,926</u>	<u>10,375</u>	<u>590,301</u>
	<u>\$ 2,427,284</u>	<u>\$ 170,361</u>	<u>\$ 2,597,645</u>

Long-term liabilities will be liquidated in the future from governmental funds. During the year ended September 30, 2023, 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, 2022</u>	<u>Additions</u>	<u>Reductions</u>	<u>SDR</u>	<u>Balance September 30, 2023</u>	<u>Due Within One Year</u>
Loans payable:						
ADB loans:						
Loan 1520	\$ 1,095,941	\$ ---	\$ (76,065)	\$ 34,863	\$ 1,054,739	\$ 75,346
Loan 1873	124,869	---	(46,884)	5,432	83,417	33,368
Loan 1874	161,911	---	(42,755)	14,991	134,147	12,776
Loan 2099	<u>1,016,088</u>	<u>---</u>	<u>(215,022)</u>	<u>49,767</u>	<u>850,833</u>	<u>65,448</u>
	2,398,809	---	(380,726)	105,053	2,123,136	186,938
MWSP	94,274	---	(10,126)	---	84,148	4,332
Liancheng	<u>297,500</u>	<u>---</u>	<u>(77,500)</u>	<u>---</u>	<u>220,000</u>	<u>17,500</u>
	<u>\$ 2,790,583</u>	<u>\$ ---</u>	<u>\$ (468,352)</u>	<u>\$ 105,053</u>	<u>\$ 2,427,284</u>	<u>\$ 208,770</u>

State of Kosrae
Federated States of Micronesia

Notes to Financial Statements, continued

6. Long-Term Obligations, continued

Discretely Presented Component Units

Kosrae Housing and Rural Development Authority

KHRDA maintains a \$50,000 bank Line of Credit for working capital, which may be subject to annual renewal. The line is secured by a \$200,000 time certificate of deposit (TCD) maintained with the same Bank. Borrowing against the line bears interest floating at 3.5% plus the TCD interest rate (effective rate of 3.51% at September 30, 2023), payable monthly. As of September 30, 2023, the balance outstanding of \$50,000 is due upon maturity date of February 1, 2023.

Changes in short-term debt during the year ended September 30, 2022 are as follows:

	Balance October <u>1, 2021</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2022</u>	Due Within <u>One Year</u>
Short-term debt	<u>\$50,000</u>	<u>\$50,000</u>	<u>\$(50,000)</u>	<u>\$50,000</u>	<u>\$50,000</u>

In March 2019, KHRDA obtained a \$200,000 bank term-loan to fund operations. The line is secured by the \$200,000 time certificate of deposit (TCD). The loan bears an interest floating at 5.0% plus the TCD interest rate (effective rate of 5.01% at September 30, 2023).

Changes in long-term debt during the year ended September 30, 2023 are as follows:

	Balance October <u>1, 2021</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2022</u>	Due Within <u>One Year</u>
Long-term debt	<u>\$60,028</u>	<u>\$150,000</u>	<u>\$(84,476)</u>	<u>\$125,552</u>	<u>\$ 28,224</u>

As of September 30, 2023, the scheduled payments of the above long-term debt are as follows.

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 28,224	\$ 5,753	\$ 33,977
2025	29,679	4,298	33,977
2026	31,197	2,780	33,977
2027	32,797	1,180	33,977
2028	<u>3,655</u>	<u>34</u>	<u>3,689</u>
	<u>\$125,552</u>	<u>\$14,045</u>	<u>\$139,597</u>

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, 2023, 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. The line of credit is collateralized by the State's funding allocation. The State has an outstanding balance of \$66,853 at September 30, 2023.

8. Fund Balances

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

	General <u>Fund</u>	Grants Assistance <u>Fund</u>	Compact Trust <u>Fund</u>	Nonmajor <u>Funds</u>	Total Governmental <u>Funds</u>
Non-spendable:					
General government	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---
Pacific Islands Development Bank	722,000	100,000	---	93,000	915,000
Bank of the FSM	1,328,360	---	---	---	1,328,360
Permanent fund principal	---	---	7,093,126	---	7,093,126
Advances	20,417	---	---	---	20,417
Restricted for:					
Debt service	4,242	---	---	---	4,242
Capital projects	---	---	---	47,281	47,281
Scholarships	---	---	---	406,439	406,439
Committed for:					
Health services	---	---	---	701,855	701,855
Economic development	---	---	---	323,180	323,180
Board, commissioners, others	---	---	---	74,149	74,149
Unassigned	<u>2,255,041</u>	<u>(100,000)</u>	<u>---</u>	<u>---</u>	<u>2,155,041</u>
	<u>\$4,330,060</u>	<u>\$ -</u>	<u>\$7,093,126</u>	<u>\$1,645,904</u>	<u>\$13,069,090</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, 2023, the State has significant encumbrances summarized as follows:

	General	Grants Assistance	Other Governmental Funds	Total
Encumbrances	<u>\$ 36,866</u>	<u>\$ 4,232,670</u>	<u>\$ 38,304</u>	<u>\$ 4,307,840</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, 2023 is \$1,061,339.

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, 2023, is not predictable. No provision for any liability has been made in the accompanying financial statements because management believes that an unfavorable outcome is not likely to occur.

10. Budgetary Compliance

For the year ended September 30, 2023, significant over-expenditures exceeded appropriations within the General Fund for the following:

General Government	\$ 1,038,209
Debt service	515,309

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. 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, 2023, is as follows:

<u>Year ending September 30,</u>	
2024	\$ 10,000
2025	10,000
2026	10,000
2027	10,000
	<u>40,000</u>
	<u>\$ 40,000</u>

12. 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, 2023 are as follows:

<u>Year ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 222,918	\$ 32,234	\$ 255,152
2025	215,462	29,690	245,152
2026	197,921	27,231	225,152
2027	200,370	24,782	225,152
2028	191,914	23,738	215,652
2029-2033	509,699	91,741	601,440
2034-2038	441,903	55,653	497,556
2039-2043	135,267	28,841	164,108
2044-2048	74,314	21,928	96,242
2049-2053	89,334	14,625	103,959
2054-2057	<u>106,376</u>	<u>5,880</u>	<u>112,256</u>
	<u>\$2,385,478</u>	<u>\$356,343</u>	<u>\$2,741,821</u>

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.

State of Kosrae
Federated States of Micronesia

Notes to Financial Statements, continued

12. Leases, continued

As of September 30, 2023, the State recorded lease receivables totaling \$2,385,478.

For the year ended September 30, 2023, 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	\$ 276,823
Interest revenue	<u>34,976</u>
	<u>\$ 311,799</u>

13. Prior Period Adjustment

After the issuance of the 2022 financial statements, management of the State determined that:

- Lease receivable and deferred inflows of resources from leases were understated by \$124,514 and \$94,686, respectively, in the general fund
- Due to grantor agency was overstated by \$1,806,987 in the grants assistance fund

Accordingly, beginning net position of governmental activities and beginning fund balance of the general fund and the grants assistance fund have been restated as follows:

Reporting Units Affected by Adjustments to and Restatements of Beginning Balances

	Government Wide Governmental Activities	Funds General Fund	Grants Assistance Fund
Net position/fund balance, at beginning of year as originally reported	\$36,425,836	\$2,182,964	\$ 61,986
Understatement of lease receivables	124,514	124,514	---
Understatement of deferred inflows of resources	(94,686)	(94,686)	---
Overstatement due to grantor agency	1,806,987	---	1,806,987
Prior period adjustment	<u>1,836,815</u>	<u>29,828</u>	<u>1,806,987</u>
Net position/fund balance, at beginning of year as restated	<u>\$38,262,651</u>	<u>\$2,212,792</u>	<u>\$1,868,973</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, 2023

	Budgeted Amounts		Actual - Budgetary Basis	Variance with
	Original	Final	(see Note 1)	Final Budget -
Revenues:				
FSM revenue sharing	\$ 1,926,130	\$ 1,926,130	\$ 3,153,349	\$ 1,227,219
State taxes	526,943	526,943	299,640	(227,303)
Licenses and fees	292,241	292,241	474,120	181,879
Net change in fair value of investments	-	-	196,764	196,764
Interest and dividends	-	-	35,545	35,545
Recovery of bad debt	-	-	141,158	141,158
Other	54,686	54,686	291,135	236,449
Total revenues	2,800,000	2,800,000	4,591,711	1,791,711
Expenditures:				
Current:				
General government	1,541,089	1,628,420	2,666,629	(1,038,209)
Education	-	-	12,500	(12,500)
Public order and safety	425,841	432,748	462,890	(30,142)
Public works	303,543	309,465	262,128	47,337
Economic development	390,564	399,840	398,822	1,018
Boards, commissions and other	435,582	442,686	319,580	123,106
Debt service	-	-	515,309	(515,309)
Total expenditures	3,096,619	3,213,159	4,637,858	(1,424,699)
Excess of revenues over expenditures	(296,619)	(413,159)	(46,147)	367,012
Other financing sources:				
Operating transfers in			2,124,362	(2,124,362)
Operating transfers (out)	-	-	-	-
Net change in fund balance	(296,619)	(413,159)	2,078,215	(1,757,350)
Encumbrances	-	-	39,053	39,053
Fund balances at the beginning of the year, as previously reported	2,182,964	2,182,964	2,182,964	-
Prior year adjustment			29,828	29,828
Fund balances at the beginning of the year, as restated			2,212,792	
Fund balance at the end of the year	\$ 1,886,345	\$ 1,769,805	\$ 4,330,060	\$ (1,688,469)

State of Kosrae
Federated States of Micronesia

Notes to Required Supplementary Information - Budgetary Reporting

Year Ended September 30, 2023

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, 2023

		Special Revenue	Permanent		
		Grants Assistance	Compact		
	General Fund	Fund	Trust Fund	Other Gov't Fund	Total
Expenditures:					
Salaries and wages:					
Regular	\$ 1,878,728	\$ 3,516,333	\$ -	\$ 13,499	\$ 5,408,560
Overtime	98,667	360,707	-	5,831	465,205
Fringe benefits	235,004	437,471	-	1,329	673,804
Other personnel costs	-	-	-	-	-
Travel and transportation	133,053	144,946	-	2,187	280,186
Instructional materials	-	47,291	-	-	47,291
Communications	64,728	74,699	-	2,557	141,984
Dues, membership, and subscriptions	925	8,110	-	-	9,035
Food stuffs	46,382	22,200	-	1,009	69,591
Port charges	88	1,867	-	625	2,580
Expendable equipment	13,297	223,928	-	5,930	243,155
Office supplies and materials	145,129	908,617	-	54,357	1,108,103
POL	21,356	92,629	-	6,058	120,043
Printing and reproduction	540	100	-	-	640
Rental services	825	2,470	-	230	3,525
Repairs and maintenance	-	6,193	-	185	6,378
Utilities	115,571	419,394	-	1,306	536,271
Misc Goods & Services	-	10,729	-	115,000	125,729
Subsidies and contributions	37,000	-	-	-	37,000
Medical referral	-	-	-	28,921	28,921
Medical supplies	-	359,651	-	-	359,651
Contractual services	54,108	832,391	-	102,089	988,588
Scholarships and allowances	-	173,511	-	-	173,511
Meeting allowances	13,365	1,720	-	-	15,085
Representation allowances	70,135	-	-	-	70,135
Training	-	77,451	-	-	77,451
Leased housing, buildings and land	600	50,690	-	-	51,290
Bank charges	4,484	25	-	65	4,574
Nonpayroll compensation	-	-	-	-	-
Construction Management	-	82,972	-	-	82,972
Equipment	33,078	619,294	-	63,446	715,818
Furniture & Fixtures	3,070	34,607	-	-	37,677
Vehicles	-	297,752	-	-	297,752
Principal repayment	368,260	-	-	-	368,260
Interest payments	49,231	-	-	-	49,231
Loss on foreign exchange fluctuation	105,053	-	-	-	105,053
LOC Interest Charges	-	-	-	-	-
Bad debt expense	153,974	-	-	-	153,974
Miscellaneous	952,154	13,934	-	47	966,135
	<u>\$ 4,598,805</u>	<u>\$ 8,821,682</u>	<u>\$ -</u>	<u>\$ 404,671</u>	<u>\$ 13,825,158</u>

See accompanying Report of Independent Auditors.

State of Kosrae
Federated States of Micronesia

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

Year Ended September 30, 2023
(with comparative totals for the year ended September 30, 2022)

	<u>2023</u>	<u>2022</u>
Revenues:		
FSM revenue sharing:		
Gross revenue taxes	\$ 548,734	\$ 631,347
Import taxes	707,108	612,744
Income taxes	640,513	627,341
National fishing fees	1,041,880	
Other taxes	<u>215,114</u>	<u>289,995</u>
	<u>3,153,349</u>	<u>2,161,427</u>
State taxes		
Sales tax	<u>299,640</u>	<u>479,146</u>
Fees and charges:		
Licenses and fees	<u>474,120</u>	<u>345,471</u>
Net change in fair value of investments	<u>196,764</u>	<u>(201,996)</u>
Interest and dividend income	<u>35,545</u>	<u>41,680</u>
Bad debt recovery	141,158	118,300
Other	<u>291,135</u>	<u>74,891</u>
Total revenues	<u>4,591,711</u>	<u>3,018,919</u>
Expenditures:		
Current:		
General government:		
Office of the Governor	315,911	197,823
Department of Administration and Finance	163,492	121,775
Department of Administration and Finance - bad debt	153,974	26,202
Department of Administration and Finance - misc. expense	934,396	-
Judiciary Branch	221,108	244,066
Legislative Branch	755,204	590,160
Public Auditor	<u>95,703</u>	<u>77,764</u>
	<u>2,639,788</u>	<u>1,257,790</u>
Economic development:		
Resources and Economic Affairs	<u>393,185</u>	<u>340,049</u>
Education:		
Department of Education	<u>12,500</u>	<u>-</u>

State of Kosrae
Federated States of Micronesia

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

	2023	2022
Expenditures, continued:		
Public order and safety:		
Office of the Attorney General	461,752	341,473
	<u>461,752</u>	<u>341,473</u>
Public Works:		
Department of Transportation and Infrastructure	258,355	221,340
	<u>258,355</u>	<u>221,340</u>
Boards, Commissions and Other:		
Kosrae Island Resource Management Authority	171,790	138,785
Broadcast Authority	61,191	38,529
Sports Council	14,743	10,551
Scholarship board	16,668	15,665
Contribution to PIDB	15,000	-
Kosrae Visitor's Bureau	38,524	25,134
	<u>317,916</u>	<u>228,664</u>
Debt service:		
Principal payments	368,260	291,871
Interest charges	41,996	55,834
Loss on foreign exchanges fluctutations	105,053	-
	<u>515,309</u>	<u>347,705</u>
Total expenditures	<u>4,598,805</u>	<u>2,737,021</u>
Excess of revenues over expenditures	<u>(7,094)</u>	<u>281,898</u>
Other financing sources:		
Operating transfers in	2,124,362	-
Operating transfers (out)	-	-
	<u>2,124,362</u>	<u>-</u>
Net change in fund balance	2,117,268	281,898
Fund balance at the beginning of the year, as previously reported	<u>2,182,964</u>	<u>1,901,066</u>
Prior period adjustment	<u>29,828</u>	<u>-</u>
Fund balance at the beginning of the year, as restated	2,212,792	
Fund balance at the end of the year	<u>\$ 4,330,060</u>	<u>\$ 2,182,964</u>

**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, 2023

	Budgeted Amounts		Actual Amounts - Budgetary Basis	Variance
	Original	Final		
Revenues:				
FSM revenue sharing:	\$ 1,926,130	\$ 1,926,130	\$ 3,153,349	\$ 1,227,219
State taxes:				
Sales tax	526,943	526,943	299,640	(227,303)
Fees and charges:				
Licences and fees	292,241	292,241	474,120	181,879
Net change in fair value of investments	-	-	196,764	196,764
Interest and dividend income	-	-	35,545	35,545
Recovery of bad debt	-	-	141,158	141,158
Other:				
Other	54,686	54,686	291,135	236,449
Total revenues	2,800,000	2,800,000	4,591,711	1,791,711
Expenditures:				
Current:				
General government:				
Office of the Governor	234,380	279,494	317,968	(38,474)
Department of Administration and Finance	180,800	182,326	164,586	17,740
Department of Administration and Finance - bad debt	-	-	156,162	(156,162)
Department of Administration and Finance - misc. expense	-	-	934,396	(934,396)
Judiciary Branch	300,099	300,099	228,320	71,779
Legislative Branch	728,019	751,019	764,629	(13,610)
Public Auditor	97,791	115,482	100,568	14,914
	1,541,089	1,628,420	2,666,629	(1,038,209)
Education:				
Department of Education	-	-	12,500	(12,500)
Public order and safety:				
Office of the Attorney General	425,841	432,748	462,890	(30,142)
	425,841	432,748	462,890	(30,142)
Economic development:				
Resources and Economic Affairs	390,564	399,840	398,822	1,018
Public Works:				
Department of Transportation and Infrastructure	303,543	309,465	262,128	47,337
Boards, commissions and other:				
Kosrae Island Resource Management Authority	212,675	214,668	172,706	41,962
Broadcast Authority	70,267	70,267	61,220	9,047
Sports Council	30,955	31,846	14,972	16,874
Small Business Development Center	47,728	48,881	-	48,881
Scholarship board	17,359	18,859	17,158	1,701
Contribution to PIDB	15,000	15,000	15,000	-
Municipal governments	-	-	-	-
Kosrae Visitor's Bureau	39,048	40,615	38,524	2,091
Price Control Commission	2,550	2,550	-	2,550
Debt Service:				
Principal payments	-	-	368,260	(368,260)
Interest charges	-	-	41,996	(41,996)
Loss on foreign exchange fluctuation	-	-	105,053	(105,053)
	435,582	442,686	834,889	(392,203)
Total expenditures	3,096,619	3,213,159	4,637,858	(1,424,699)
Excess of revenues over expenditures	(296,619)	(413,159)	(46,147)	367,012
Other financing sources:				
Operating transfers in	-	-	2,124,362	(2,124,362)
Operating transfers (out)	-	-	-	-
Net change in fund balance	(296,619)	(413,159)	2,078,215	(1,757,350)
Encumbrances	-	-	39,053	39,053
Fund balances at the beginning of the year, as previously reported	2,182,964	2,182,964	2,182,964	-
Prior period adjustment	-	-	29,828	29,828
Fund balances at the beginning of the year, as restated	-	-	2,212,792	-
Fund balance at the end of the year	\$ 1,886,345	\$ 1,769,805	\$ 4,330,060	\$ (1,688,469)

See accompanying Report of Independent Auditors.

**State of Kosrae
Federated States of Micronesia**

**NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS**

Combining Balance Sheet

September 30, 2023

Fund No.	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
ASSETS											
FSM National Government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-	\$ -	\$ -	\$ -
Due from other funds	24,251	22,023	731,581	883	5,350	17,792	311,987	289,335	-	25,873	1,429,075
Other assets	-	-	-	-	-	-	-	93,000	-	-	93,000
Restricted:	-	-	-	-	-	-	-	-	-	-	-
Cash and equivalents	-	-	-	-	-	-	-	-	42,858	-	42,858
Time certificates of deposit	-	-	-	-	-	-	-	-	363,612	-	363,612
Total assets	<u>\$ 24,251</u>	<u>\$ 22,023</u>	<u>\$ 731,581</u>	<u>\$ 883</u>	<u>\$ 5,350</u>	<u>\$ 17,792</u>	<u>\$ 311,987</u>	<u>\$ 382,335</u>	<u>\$ 406,470</u>	<u>\$ 25,873</u>	<u>\$ 1,928,545</u>
LIABILITIES AND FUND BALANCES											
Liabilities:											
Accounts payable	\$ -	\$ -	\$ 29,726	\$ -	\$ -	\$ -	\$ 10,829	\$ 898	\$ -	\$ -	\$ 41,453
Other liabilities and accruals	-	-	-	-	-	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-	-	-	32	-	32
Due to FSM National Government	-	-	-	-	-	-	-	241,156	-	-	241,156
Total liabilities	<u>-</u>	<u>-</u>	<u>29,726</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,829</u>	<u>242,054</u>	<u>32</u>	<u>-</u>	<u>282,641</u>
Fund balances:											
Non-spendable	-	-	-	-	-	-	-	93,000	-	-	93,000
Restricted	-	-	-	-	-	-	-	47,281	406,438	-	453,719
Committed	24,251	22,023	701,855	883	5,350	17,792	301,158	-	-	25,873	1,099,185
Total fund balances (deficit)	<u>24,251</u>	<u>22,023</u>	<u>701,855</u>	<u>883</u>	<u>5,350</u>	<u>17,792</u>	<u>301,158</u>	<u>140,281</u>	<u>406,438</u>	<u>25,873</u>	<u>1,645,904</u>
Total liabilities and fund balances	<u>\$ 24,251</u>	<u>\$ 22,023</u>	<u>\$ 731,581</u>	<u>\$ 883</u>	<u>\$ 5,350</u>	<u>\$ 17,792</u>	<u>\$ 311,987</u>	<u>\$ 382,335</u>	<u>\$ 406,470</u>	<u>\$ 25,873</u>	<u>\$ 1,928,545</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, 2023

Fund No.	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	\$ -	\$ 7,642	\$ 189,322	\$ 150	\$ 6,378	\$ 2,231	\$ 112,326	\$ -	\$ -	\$ -	\$ 318,049
CFSM grants	-	-	-	-	-	-	-	140,658	-	-	140,658
Interest income	-	20	1,030	-	-	-	741	-	330	-	2,121
Other	5,059	-	-	-	-	-	-	-	-	-	5,059
Total revenues	5,059	7,662	190,352	150	6,378	2,231	113,067	140,658	330	-	465,887
Expenditures by function:											
Current:											
General Government	-	-	-	-	-	-	-	13,711	-	-	13,711
Economic development	-	3,614	-	-	-	-	-	34,114	-	-	37,728
Health services	-	-	73,090	-	-	-	-	-	-	-	73,090
Public order and safety	-	-	-	-	-	-	-	7,466	-	-	7,466
Public works	-	-	-	-	693	-	-	66,178	-	-	66,871
Boards, commissions and other	-	-	-	-	-	1,091	185,525	19,189	-	-	205,805
Total expenditures	-	3,614	73,090	-	693	1,091	185,525	140,658	-	-	404,671
Excess (deficiency) of revenues over (under) expenditures	5,059	4,048	117,262	150	5,685	1,140	(72,458)	-	330	-	61,216
Fund balances at the beginning of the year	19,192	17,975	584,593	733	(335)	16,652	373,616	140,281	406,108	25,873	1,584,688
Fund balances (deficit) at the end of the year	\$ 24,251	\$ 22,023	\$ 701,855	\$ 883	\$ 5,350	\$ 17,792	\$ 301,158	\$ 140,281	\$ 406,438	\$ 25,873	\$ 1,645,904

**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, 2023

Fund No.	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	\$ -	\$ 7,642	\$ 189,322	\$ 150	\$ 6,378	\$ 2,231	\$ 112,326	\$ -	\$ -	\$ -	\$ 318,049
CFSM Grants	-	-	-	-	-	-	-	140,658	-	-	140,658
Interest income	-	20	1,030	-	-	-	741	-	330	-	2,121
Other	5,059	-	-	-	-	-	-	-	-	-	5,059
Total revenues	5,059	7,662	190,352	150	6,378	2,231	113,067	140,658	330	-	465,887
Expenditures by account:											
Salaries and wages:											
Regular	-	-	5,870	-	-	-	-	7,629	-	-	13,499
Overtime	-	-	5,831	-	-	-	-	-	-	-	5,831
Fringe benefits	-	-	1,329	-	-	-	-	-	-	-	1,329
Travel and transportation	-	-	2,187	-	-	-	-	-	-	-	2,187
Communications	-	-	-	-	-	-	-	2,557	-	-	2,557
Food stuffs	-	-	500	-	-	-	-	509	-	-	1,009
Port charges	-	-	-	-	-	-	-	625	-	-	625
Expendable equipment	-	-	-	-	-	-	-	5,930	-	-	5,930
Office supplies and materials	-	3,549	2,000	-	693	1,091	1,564	45,460	-	-	54,357
POL	-	-	-	-	-	-	12	6,046	-	-	6,058
Rental services	-	-	-	-	-	-	230	-	-	-	230
Repairs and maintenance	-	-	-	-	-	-	185	-	-	-	185
Misc Goods & Services	-	-	-	-	-	-	115,000	-	-	-	115,000
Contractual services	-	-	26,452	-	-	-	68,304	7,333	-	-	102,089
Utilities	-	-	-	-	-	-	183	1,123	-	-	1,306
Medical supplies	-	-	-	-	-	-	-	-	-	-	-
Medical referral cost	-	-	28,921	-	-	-	-	-	-	-	28,921
Training	-	-	-	-	-	-	-	-	-	-	-
Meeting allowances	-	-	-	-	-	-	-	-	-	-	-
Representation allowances	-	-	-	-	-	-	-	-	-	-	-
Leased housing, buildings and land	-	-	-	-	-	-	-	-	-	-	-
Equipment	-	-	-	-	-	-	-	63,446	-	-	63,446
Vehicles	-	-	-	-	-	-	-	-	-	-	-
Bank charges	-	65	-	-	-	-	-	-	-	-	65
Principal repayment	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	47	-	-	-	47
Total expenditures	-	3,614	73,090	-	693	1,091	185,525	140,658	-	-	404,671
Excess (deficiency) of revenues over (under) expenditures	5,059	4,048	117,262	150	5,685	1,140	(72,458)	-	330	-	61,216
Fund balances at the beginning of the year	19,192	17,975	584,593	733	(335)	16,652	373,616	140,281	406,108	25,873	1,584,688
Fund balances (deficit) at the end of the year	\$ 24,251	\$ 22,023	\$ 701,855	\$ 883	\$ 5,350	\$ 17,792	\$ 301,158	\$ 140,281	\$ 406,438	\$ 25,873	\$ 1,645,904

**State of Kosrae
Federated States of Micronesia**

GRANTS ASSISTANCE FUND

Combining Balance Sheet

Year Ended September 30, 2023

Fund No.	10	11	13	14	12	18	19
	Section 211(a)(1) Education Sector	Section 211(a)(2) Health Sector	Section 211(a)(3) Private Sector Development	Section 211(a)(4) Capacity Building	Section 211(a)(5) Environment	Section 211(a)(6) Infrastructure Maintenance	Section 211(a)(6) Infrastructure
<u>ASSETS</u>							
Receivables:							
FSM National Government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal agencies	-	-	-	-	-	-	-
Advances	-	-	-	743	-	-	575
Prepaid items	-	-	-	-	-	-	66,040
Due from other funds	100,635	167,973	-	-	-	-	-
Other assets	-	-	-	-	-	-	-
Total assets	<u>\$ 100,635</u>	<u>\$ 167,973</u>	<u>\$ -</u>	<u>\$ 743</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 66,615</u>
<u>LIABILITIES AND FUND BALANCES</u>							
Liabilities:							
Accounts payable	\$ 17,193	\$ 39,869	\$ -	\$ -	\$ -	\$ -	\$ 32,822
Other liabilities and accruals	83,442	128,104	-	-	-	-	4,562
Due to other funds	-	-	-	743	-	-	29,231
Due to grantor	-	-	-	-	-	-	-
Unearned revenues	-	-	-	-	-	-	-
Total liabilities	<u>100,635</u>	<u>167,973</u>	<u>-</u>	<u>743</u>	<u>-</u>	<u>-</u>	<u>66,615</u>
Fund balances:							
Non-spendable	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-	-
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 100,635</u>	<u>\$ 167,973</u>	<u>\$ -</u>	<u>\$ 743</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 66,615</u>

**State of Kosrae
Federated States of Micronesia**

GRANTS ASSISTANCE FUND

Combining Balance Sheet, continued

Fund No.	15	16	20	21	23	
	Section 211(a)(7) Supplemental Education	Enhanced Reporting Accountability	U.S. Federal Grants	U.S. Direct Federal Grants	Foreign Assistance	Total
<u>ASSETS</u>						
Receivables:						
FSM National Government	\$ -	\$ -	\$ 27,642	\$ -	\$ -	\$ 27,642
Federal agencies	-	-	-	19,330	-	19,330
Advances	2,040	-	6,194	-	-	9,552
Prepaid items	-	-	-	-	-	66,040
Due from other funds	65,061	10,240	15,330	-	17,615	376,854
Other assets	-	-	-	-	100,000	100,000
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>100,000</u>	<u>100,000</u>
Total assets	<u>\$ 67,101</u>	<u>\$ 10,240</u>	<u>\$ 49,166</u>	<u>\$ 19,330</u>	<u>\$ 117,615</u>	<u>\$ 599,418</u>
<u>LIABILITIES AND FUND BALANCES</u>						
Liabilities:						
Accounts payable	\$ 62,823	\$ -	\$ 6,473	\$ 10,902	\$ 6,442	\$ 176,524
Other liabilities and accruals	4,278	10,240	42,693	-	1,129	274,448
Due to other funds	-	-	-	8,428	-	38,402
Due to grantor	-	-	-	-	110,044	110,044
Unearned revenue	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>67,101</u>	<u>10,240</u>	<u>49,166</u>	<u>19,330</u>	<u>117,615</u>	<u>599,418</u>
Fund balances:						
Non-spendable	-	-	-	-	100,000	100,000
Restricted	-	-	-	-	-	-
Unassigned	-	-	-	-	(100,000)	(100,000)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(100,000)</u>	<u>(100,000)</u>
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 67,101</u>	<u>\$ 10,240</u>	<u>\$ 49,166</u>	<u>\$ 19,330</u>	<u>\$ 117,615</u>	<u>\$ 599,418</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, 2023

Fund No.	10	11	13	14	12	18	19
	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	\$ 3,057,338	\$ 3,145,218	\$ 16,319	\$ 261,826	\$ 58,320	\$ -	\$ 339,268
Federal contributions	-	-	-	-	-	-	-
Other grants	-	-	-	-	-	-	-
Total revenues	<u>3,057,338</u>	<u>3,145,218</u>	<u>16,319</u>	<u>261,826</u>	<u>58,320</u>	<u>-</u>	<u>339,268</u>
Expenditures by function:							
Current:							
General government	-	-	-	99,539	-	-	140,337
Economic development	-	-	13,769	-	59,320	-	18,315
Education	2,986,512	-	-	-	-	-	-
Health services	-	2,822,126	-	-	-	-	227,353
Public order and safety	-	-	-	-	-	-	-
Public works	-	-	-	-	-	-	-
Boards, commissions and other	1,000	-	-	-	-	-	-
Total expenditures	<u>2,987,512</u>	<u>2,822,126</u>	<u>13,769</u>	<u>99,539</u>	<u>59,320</u>	<u>-</u>	<u>386,005</u>
Deficiency of revenues under expenditures	69,826	323,092	2,550	162,287	(1,000)	-	(46,737)
Other financing sources (uses):							
Operating transfer in (out)	<u>(520,257)</u>	<u>(500,744)</u>	<u>(24,280)</u>	<u>(253,366)</u>	<u>(16,919)</u>	<u>(48,896)</u>	<u>(433,005)</u>
Net change in fund balances	(450,431)	(177,652)	(21,730)	(91,079)	(17,919)	(48,896)	(479,742)
Fund balances at the beginning of the year, previously reported	-	-	-	-	-	48,896	-
Prior Period Adjustment	<u>450,431</u>	<u>177,652</u>	<u>21,730</u>	<u>91,079</u>	<u>17,919</u>	<u>-</u>	<u>479,742</u>
Fund balances at the beginning of the year, as restated	<u>450,431</u>	<u>177,652</u>	<u>21,730</u>	<u>91,079</u>	<u>17,919</u>	<u>48,896</u>	<u>479,742</u>
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying Report of Independent Auditors.

**State of Kosrae
Federated States of Micronesia**

GRANTS ASSISTANCE FUND

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

Fund No.	15	16	20	21	23	
	Section 211(a)(7) Supplemental Education	Enhanced Reporting Accountability	U.S. Federal Grants	U.S. Direct Federal Grants	Foreign Assistance	Total
Revenues:						
Compact funding	\$ 843,156	\$ 190,429	\$ -	\$ -	\$ -	\$ 7,911,874
Federal contributions	-	-	1,094,818	19,331	-	1,114,149
Other grants	-	-	-	-	51,047	51,047
Total revenues	<u>843,156</u>	<u>190,429</u>	<u>1,094,818</u>	<u>19,331</u>	<u>51,047</u>	<u>9,077,070</u>
Expenditures by function:						
Current:						
General government	-	181,457	-	-	12,800	434,133
Economic development	-	-	-	-	-	91,404
Education	1,106,758	-	573,406	-	-	4,666,676
Health services	-	-	423,061	19,098	-	3,491,638
Public order and safety	-	-	-	-	-	-
Public works	-	-	-	-	9,396	9,396
Boards, commissions and other	-	-	98,351	233	28,851	128,435
Total expenditures	<u>1,106,758</u>	<u>181,457</u>	<u>1,094,818</u>	<u>19,331</u>	<u>51,047</u>	<u>8,821,682</u>
Deficiency of revenues under expenditures	(263,602)	8,972	-	-	-	255,388
Other financing sources (uses):						
Operating transfer in (out)	<u>(281,276)</u>	<u>(32,528)</u>	<u>-</u>	<u>-</u>	<u>(13,090)</u>	<u>(2,124,361)</u>
Net change in fund balances	(544,878)	(23,556)	-	-	(13,090)	(1,868,973)
Fund balances at the beginning of the year, previously reported	-	-	-	-	13,090	61,986
Prior Period Adjustment	<u>544,878</u>	<u>23,556</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,806,987</u>
Fund balances at the beginning of the year, as restated	<u>544,878</u>	<u>23,556</u>	<u>-</u>	<u>-</u>	<u>13,090</u>	<u>1,868,973</u>
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying Report of Independent Auditors.

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, 2023

Fund No.	10 Section 211(a)(1) Education Sector	11 Section 211(a)(2) Health Sector	13 Section 211(a)(3) Private Sector Development	14 Section 211(a)(4) Capacity Building	12 Section 211(a)(5) Environment	18 Section 211(a)(6) Infrastructure Maintenance	19 Section 211(a)(6) Infrastructure
Revenues:							
Compact funding	\$ 3,057,338	\$ 3,145,218	\$ 16,319	\$ 261,826	\$ 58,320	\$ -	\$ 339,268
Federal contributions	-	-	-	-	-	-	-
Other grants	-	-	-	-	-	-	-
Total revenues	<u>3,057,338</u>	<u>3,145,218</u>	<u>16,319</u>	<u>261,826</u>	<u>58,320</u>	<u>-</u>	<u>339,268</u>
Expenditures by account:							
Salaries and wages:							
Regular	1,316,024	1,255,959	-	-	-	-	63,396
Overtime	20	338,894	-	-	-	-	-
Fringe benefits	157,744	158,577	-	-	-	-	5,673
Travel and transportation	-	27,089	-	5,074	-	-	9,206
Instructional materials	33,951	-	-	-	-	-	-
Communications	7,815	15,010	-	-	-	-	369
Dues, membership, and subscriptions	-	1,000	-	7,000	-	-	-
Food stuffs	-	22,068	-	-	-	-	-
Port charges	-	1,867	-	-	-	-	-
Expendable equipment	71,499	23,919	-	5,694	-	-	-
Office supplies and materials	249,498	127,230	-	3,182	-	-	147,849
POL	60,298	13,323	-	-	-	-	511
Printing and reproduction	-	-	-	-	-	-	100
Rental services	-	215	-	-	-	-	-
Repairs and maintenance	3,560	-	-	-	-	-	320
Utilities	69,089	300,809	-	-	-	-	3,400
Misc Goods & Services	-	420	-	-	-	-	-
Medical supplies	-	359,651	-	-	-	-	-
Contractual services	200,133	59,925	13,769	60,007	59,320	-	67,009
Construction Management	-	-	-	-	-	-	82,972
Scholarships and allowances	173,511	-	-	-	-	-	-
Training	-	17,736	-	15,733	-	-	-
Meeting allowances	-	-	-	-	-	-	-
Leased housing, buildings and land	11,834	38,832	-	-	-	-	-
Bank charges	25	-	-	-	-	-	-
Equipment	332,409	47,409	-	2,849	-	-	5,200
Furniture & Fixtures	1,299	10,616	-	-	-	-	-
Vehicles	297,752	-	-	-	-	-	-
Miscellaneous	1,051	1,577	-	-	-	-	-
Total expenditures	<u>2,987,512</u>	<u>2,822,126</u>	<u>13,769</u>	<u>99,539</u>	<u>59,320</u>	<u>-</u>	<u>386,005</u>
Deficiency of revenues under expenditures	69,826	323,092	2,550	162,287	(1,000)	-	(46,737)
Other financing sources (uses):							
Operating transfer in (out)	<u>(520,257)</u>	<u>(500,744)</u>	<u>(24,280)</u>	<u>(253,366)</u>	<u>(16,919)</u>	<u>(48,896)</u>	<u>(433,005)</u>
Net change in fund balances	(450,431)	(177,652)	(21,730)	(91,079)	(17,919)	(48,896)	(479,742)
Fund balances at the beginning of the year, previously reported	-	-	-	-	-	48,896	-
Prior Period Adjustment	<u>450,431</u>	<u>177,652</u>	<u>21,730</u>	<u>91,079</u>	<u>17,919</u>	<u>-</u>	<u>479,742</u>
Fund balances at the beginning of the year, as restated	450,431	177,652	21,730	91,079	17,919	48,896	479,742
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

State of Kosrae
Federated States of Micronesia
GRANTS ASSISTANCE FUND

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

Fund No.	15 Section 211(a)(7) Supplemental Education	16 Enhanced Reporting Accountability	20 U.S. Federal Grants	21 U.S. Direct Federal Grants	23 Foreign Assistance	Total
Revenues:						
Compact funding	\$ 843,156	\$ 190,429	\$ -	\$ -	\$ -	\$ 7,911,874
Federal contributions	-	-	1,094,818	19,331	-	1,114,149
Other grants	-	-	-	-	51,047	51,047
Total revenues	<u>843,156</u>	<u>190,429</u>	<u>1,094,818</u>	<u>19,331</u>	<u>51,047</u>	<u>9,077,070</u>
Expenditures by account:						
Salaries and wages:						
Regular	101,836	160,831	600,518	-	17,769	3,516,333
Overtime	-	72	21,721	-	-	360,707
Fringe benefits	12,261	20,554	81,159	-	1,503	437,471
Travel and transportation	9,144	-	89,654	4,779	-	144,946
Instructional materials	13,340	-	-	-	-	47,291
Communications	44,293	-	6,594	618	-	74,699
Dues, membership, and subscriptions	110	-	-	-	-	8,110
Food stuffs	-	-	-	132	-	22,200
Port charges	-	-	-	-	-	1,867
Expendable equipment	74,660	-	46,727	500	929	223,928
Office supplies and materials	248,580	-	106,218	3,410	22,650	908,617
POL	6,057	-	12,063	377	-	92,629
Printing and reproduction	-	-	-	-	-	100
Rental services	735	-	1,520	-	-	2,470
Repairs and maintenance	-	-	2,313	-	-	6,193
Utilities	30,196	-	14,715	-	1,185	419,394
Misc Goods & Services	-	-	10,309	-	-	10,729
Medical supplies	-	-	-	-	-	359,651
Contractual services	312,267	-	54,745	-	5,216	832,391
Construction Management	-	-	-	-	-	82,972
Scholarships and allowances	-	-	-	-	-	173,511
Training	43,982	-	-	-	-	77,451
Meeting allowances	-	-	1,720	-	-	1,720
Leased housing, buildings and land	24	-	-	-	-	50,690
Bank charges	-	-	-	-	-	25
Equipment	186,581	-	43,051	-	1,795	619,294
Furniture & Fixtures	22,692	-	-	-	-	34,607
Vehicles	-	-	-	-	-	297,752
Miscellaneous	-	-	1,791	9,515	-	13,934
Total expenditures	<u>1,106,758</u>	<u>181,457</u>	<u>1,094,818</u>	<u>19,331</u>	<u>51,047</u>	<u>8,821,682</u>
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Prior Period Adjustment	<u>544,878</u>	<u>23,556</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,806,987</u>
Fund balances at the beginning of the year, as restated	544,878	23,556	-	-	13,090	1,868,973
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>