




How to Read Government Financial Statements

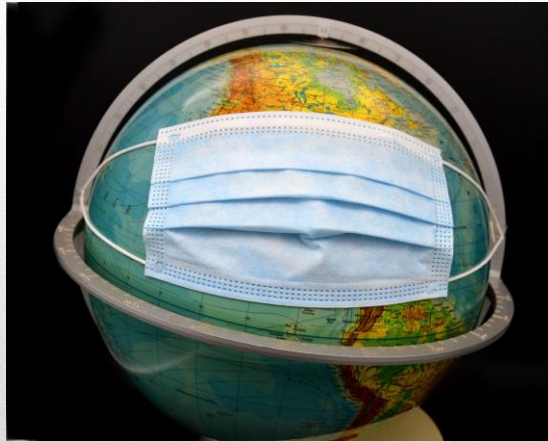
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- 
- Presentation slides
 - Exercises
 - State of Kosrae Financial Statements FY18
 - Optional - Your own government's financial statements FY18
 - Optional – Your own government's Performer FY18
 - <https://pitiviti.org/>
 - Look under Initiatives - Performers

Class materials

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APIPA 2020



COVID-19 and Governments 3

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- ***The Guam Daily Post* 3/11/20:** Global outbreaks may lead to GovGuam budget cuts
 - Possible cuts to FY2020 and FY2021 budgets
 - Estimated loss of \$31.7mm
 - Impact on General Fund, Tourist Attraction Fund, Customs, Agriculture and Quarantine Inspection Services Fund, Guam Museum Fund, Limited Gaming Fund, Guam Highway Fund

Impact on Guam finances 4

APIPA 2020

- **Marianas Variety** 3/31/20: Fiscal 2020 budget down to \$77.1M
 - FY2020 budget \$148.8 mm
 - February – reduced to \$106 mm
 - March – reduced to \$77.1 mm
 - Reductions
 - Business gross revenue - \$26,563,219
 - Wage and salary tax - \$12,083,960
 - Corporate income tax - \$9,419,227
 - Excise tax - \$15,723,582
 - Hotel occupancy tax - \$9,684,156
 - License, fees and miscellaneous revenue - \$5,035,432
 - Other taxes - \$4,249,763



Impact on CNMI finances

5

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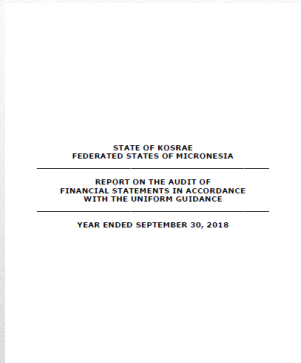
- **U.S. News & World Report** 4/15/20: 'As Long as Necessary': Coronavirus Holdout Palau Opts for Self-Isolation
 - Tourism losses could cost the government 60% of tax revenue



Impact on Palau finances

6

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BUDGET

REVENUES

Expenditures

**Good time to be able to read
and understand government FS!** 7

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- Walk through a set of government financial statements
- Read and understand the financial statements
- Read and understand the compliance audit report

Objectives

8

APIPA 2020

- Financial statements
- Compliance

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
YEAR ENDED SEPTEMBER 30, 2018

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Walk-through

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STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
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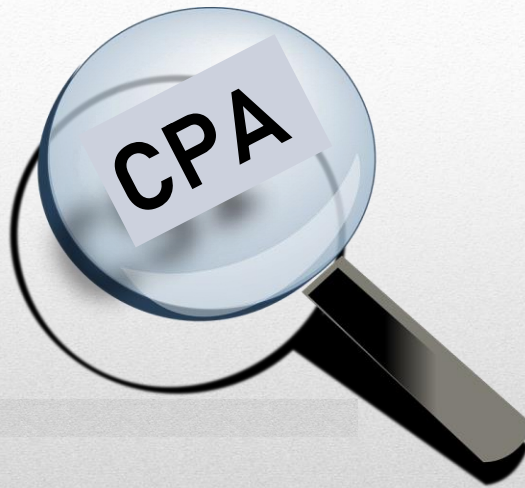
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Audit opinions

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- Annual audit of FS required
- Audit conducted in accordance with
 - GAAS (generally accepted auditing standards)
 - GAGAS (generally accepted governmental auditing standards) – Yellow Book
- Produces opinion on FS + reporting of IC problems

Audit of Financial Statements

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- Primary government
- Component units (legally separate entity for which government is financial responsible)
 - Utility company
 - Transportation authority
 - University or community college
 - Telecommunications company

Included in Government Financial Statements

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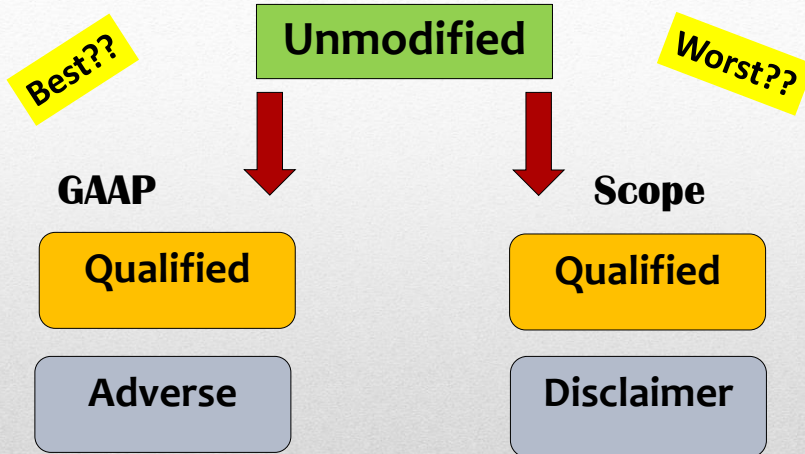
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- Purpose of audit: To render opinion on FS presentation in accordance with GAAP AND to provide reasonable assurance that no material misstatements exist in FS
- Material misstatement = one that can affect decision made by user of FS
- Not to find all fraud!!
- Not to find all errors!!

Audit Requirements

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Types of Audit Reports on FS

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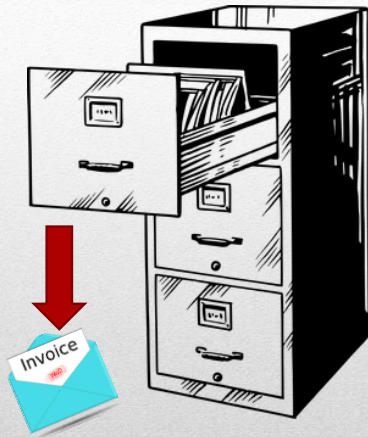
- Failure to include component unit
- Failure to include fund
- Failure to record liability



GAAP Departures

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- Failure to maintain required documentation
- Failure to audit component unit

Scope Limitations

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Opinion on

- Governmental activities
- Business-type activities
- Aggregate discretely presented component units
- Each major governmental and enterprise fund
- Aggregate remaining fund information

**Multiple opinions!!
That may differ!**

Audit Report on Government FS

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- When a “clean” opinion cannot be rendered, the reason will be provided in a Basis for Opinion paragraph

**CLEAN =
UNMODIFIED**

**MODIFIED
OPINION
+ REASON WHY**

Modified opinions

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pp. 1-3

Management’s
responsibilities

What was
audited

Deloitte.

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Tamuning, GU 96913
USA

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Kosrae (the State), as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as set forth in Section III of the foregoing table of contents.

Management's Responsibility for the Financial Statements

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

State of Kosrae Audit Opinion

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Auditor's responsibilities

Auditors' Responsibility

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

GAAS
GAGAS

Audit procedures

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

**Conclusion
about
evidence**

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

State of Kosrae Audit Opinion

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Opinions!!!

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Kosrae, as of September 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

By the way, you should know that ...

Receivables from the FSM National Government

As discussed in Note 3 to the financial statements, the State is in discussion with the FSM National Government to determine the ultimate collectability of certain receivables due from the FSM National Government in consultation with the grantor agency arising from Compact sector grant transactions.

State of Kosrae Audit Opinion

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MD&A + Budget required to be included
Limited auditing
No opinion

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 10 as well as the Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund and notes thereto, on pages 47 and 48, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

State of Kosrae Audit Opinion

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Combining and fund FS in Section V audited also
Opinion

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The combining and individual fund financial statements, as set forth in Section V of the foregoing table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

State of Kosrae Audit Opinion

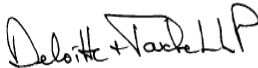
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Reference to reports on IC and on compliance No opinions

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2019 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.



June 11, 2019

State of Kosrae Audit Opinion

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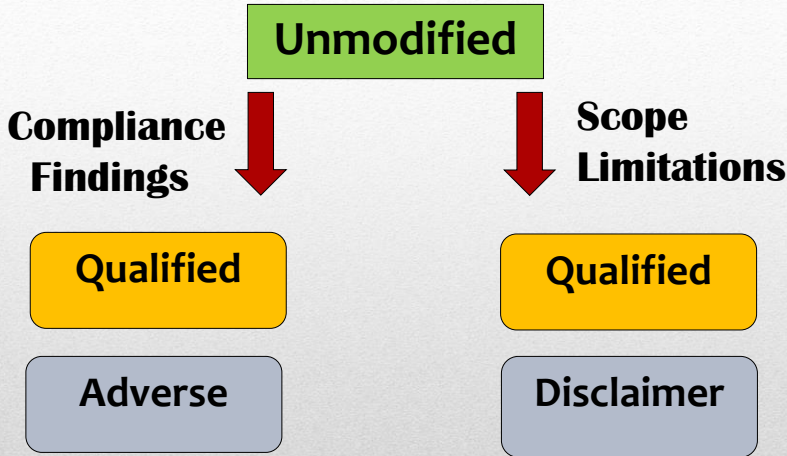
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- If grant expenditures >\$750,000, combined audit of FS and grant compliance (Single Audit)
 - Required audit of grant compliance
- Compliance rules – Uniform Guidance
- Opinions on FS +
 - Compliance by selected programs
 - Schedule of Expenditures of Federal Awards (SEFA)
- Reporting of compliance IC problems

Compliance Audit

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APIPA 2020



Types of Audit Reports on Compliance 38

APIPA 2020

Deloitte.

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pp. 65-67

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

Honorable Carson K. Sigrav
 Governor, the State
 Federated States of Micronesia:

Report on Compliance for Each Major Federal Program

We have audited the State of Kosrae's (the State) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the State's major federal programs for the year ended September 30, 2018. The State's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

As discussed in note 3B to the Schedule of Expenditures of Federal Awards, the State's basic financial statements include the operations of certain entities whose federal awards are not included in the accompanying Schedule of Expenditures of Federal Awards for the year ended September 30, 2018. Our audit, described below, did not include the operations of the entities identified in note 3B as these entities conducted separate audits in accordance with Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), if required.

Major federal programs

Some grants not audited

Kosrae Audit Report on Compliance 39

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Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the State's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of the Uniform Guidance. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the State's compliance.

GAGAS

**Uniform
Guidance**

Kosrae Audit Report on Compliance 40

APIPA 2020



Opinion on Each Major Federal Program

In our opinion, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2018.

Kosrae Audit Report on Compliance 41

APIPA 2020

Report on Internal Control Over Compliance

Management of the State is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the State's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over compliance.

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

**Management
responsibility
for IC**

**Definitions:
Deficiency
SD
MW (missing
here)**

Kosrae Audit Report on Compliance 42

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

**Purpose not
to find all MWs
or SDs**

No MWs found!!

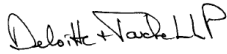
Kosrae Audit Report on Compliance 43

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Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the State's basic financial statements. We issued our report thereon dated June 11, 2019, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

**Opinion
on SEFA**



June 11, 2019

Kosrae Audit Report on Compliance 44

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**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Summary Schedule of Expenditures of Federal Awards, by Grantor
Year Ended September 30, 2018

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Agency	Expenditures
U.S. Department of Agriculture	\$ 58,259
U.S. Department of the Interior	7,954,930
U.S. Department of Education	516,523
U.S. Department of Health and Human Services	1,135,582
GRAND TOTAL	\$ 9,665,294

\$9,665,294

Kosrae SEFA

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p. 72

9. Identification of major federal programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
15.875	Economic, Social and Political Development of the Territories – Compact of Free Association Compact Sector Grants

10. Dollar threshold used to distinguish between Type A and Type B Programs: \$750,000

11. Auditee qualified as low-risk auditee? Yes 

Kosrae Audit Report on Compliance 46

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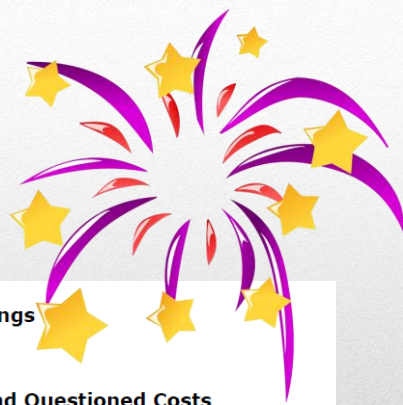
U.S. DEPARTMENT OF THE INTERIOR:

Direct Program:			
Economic, Social and Political Development of the Territories:	15.875		
Compact of Free Association Sector Grants:			
Public Auditor Grant Fund			46,351
Subtotal U.S. Department of the Interior Direct Program			46,351
Pass-Through From the FSM National Government: A3			
Economic, Social and Political Development of the Territories:			
Compact of Free Association Sector Grants:	15.875		
Compact II Education Sector		\$	2,445,324
Compact II Health Sector			2,148,695
Compact II Private Sector Development			447,202
Compact II Capacity Building			283,473
Compact II Environment			295,365
Compact II Infrastructure Sector			846,392
Supplemental Education Grant			1,173,325
Compact II Enhanced Reporting Accountability			198,871
Historic Preservation Fund Grants-In Aid	15.904		69,932
Subtotal U.S. Department of the Interior Pass-Through Programs			7,908,579
Total U.S. Department of the Interior		\$	7,954,930

CFDA 15.875 Total: \$7,884,998 – 82% of grant exp.

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Section II – Financial Statements Findings

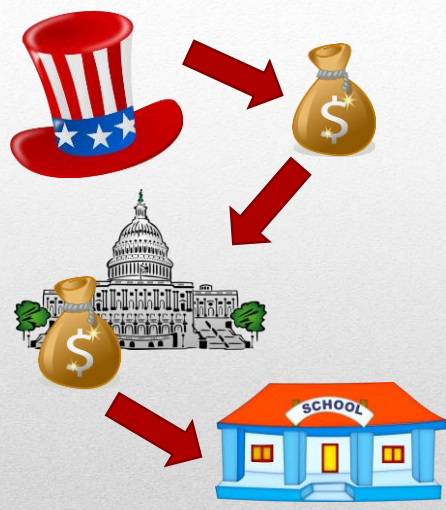
→ No matters were reported.

Section III - Federal Award Findings and Questioned Costs

→ No matters were reported.

Kosrae Audit Report on Compliance 48

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- Cash management
- Equipment & real property management
- Procurement
- Subrecipient monitoring

Common Compliance Findings 49

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- Costs that have to be “fixed” or repaid
- Required tracking until resolved



New Addition - Questioned Costs 50

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- Criteria: Federal regulations require procedures that minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by the grantee.
- Condition: We found drawdowns that were not disbursed timely or documentation was missing that enabled tracking of the payments.
- Questioned Costs: Interest on federal fund drawdowns
- Cause: Lack of controls or failure to enforce controls over cash management
- Effect: Noncompliance with regulations
- Recommendation: Strengthen/enforce controls to ensure compliance with regulations
- Corrective Action Plan: How controls will be strengthened/ enforced as of this date

Cash Management

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AIPA 2020

- Criteria: Federal regulations require that capital assets be properly managed. This includes recordkeeping, safeguards, maintenance, physical inventory, and disposal.
- Condition: We found inadequacies in the equipment and real property management.
- Questioned Costs: 0 (usually unable to determine)
- Cause: Lack of controls or failure to enforce controls
- Effect: Noncompliance with regulations
- Recommendation: Strengthen/enforce controls to ensure compliance with regulations
- Corrective Action Plan: How controls will be strengthened/enforced as of this date

Equipment & Real Property Management

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- Criteria: Federal regulations require entities to follow minimum requirements for procurement processes
- Condition: We found transactions that did not comply with requirements
- Questioned Costs: ALL \$\$ in these transactions
- Cause: Lack of controls or failure to enforce controls
- Effect: Noncompliance with regulations
- Recommendation: Strengthen/enforce controls to ensure compliance with regulations
- Corrective Action Plan: How controls will be strengthened/ enforced as of this date

Procurement

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APIPA 2020

- Criteria: Federal regulations require entities to monitor the activities of subrecipients of their federal awards to ensure compliance with requirements of the awards.
- Condition: We found lack of monitoring of subrecipients.
- Questioned Costs: ALL \$\$ paid to unmonitored subrecipients
- Cause: Lack of controls or failure to enforce controls
- Effect: Noncompliance with regulations
- Recommendation: Strengthen/enforce controls to ensure compliance with regulations
- Corrective Action Plan: How controls will be strengthened/ enforced as of this date

Subrecipient Monitoring

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- Internal control deficiencies
 - May be found in
 - Audit of financial statements
 - Internal control over financial reporting
 - Audit of grant compliance
 - Internal control over grant compliance

Internal Control Findings

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AIPA 2020

- Auditor required to report
 - Material weaknesses
 - Likely to result in MM of FS or noncompliance
 - Significant deficiencies
 - Increase likelihood of causing MM of FS or noncompliance (but not as much as MW)

IC Deficiency Reporting

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

pp. 63-64

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Kosrae (the State), as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the State's basic financial statements, and have issued our report thereon dated June 11, 2019.

For purposes of this report, our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants, and other matters did not include the Kosrae Port Authority, the Kosrae Utilities Authority, and the Kosrae Housing Authority, which were all audited by us. We have issued separate reports on our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for these entities. The findings, if any, included in those reports are not included herein.

Kosrae Reports on IC and on Compliance

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AIPA 2020

No
opinion
on IC

Definitions

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

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

Kosrae Reports on IC and on Compliance

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APIPA 2020

No MWs

No
compliance
problems

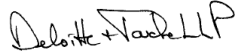
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

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

Purpose of this Report

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



June 11, 2019

Kosrae Reports on IC and on Compliance

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APIPA 2020

- Appear as Findings
- Not every finding is MW or SD but many are
- Auditor judgment – MW or SD
- For example:
 - 5 FS Findings – 1 MW, 2 SDs
 - 5 Compliance Findings – 1 MW, 2 SDs

MWs and SDs

60

APIPA 2020

- Reconciliations
- Procurement



Common ICFR Findings

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APIPA 2020

- Criteria: General ledger accounts should be reconciled in a timely manner
- Condition: We found accounts that were not reconciled (or not reconciled timely).
- Cause: Failure to adhere to policies (requiring timely reconciliations)
- Effect: Misstatements in GL and FS
- Recommendation: Complete reconciliations on timely basis as required
- Corrective Action Plan: How reconciliations will be performed timely as of this date
 - Training; new staff; management review and sign-off

Reconciliations

62

APIPA 2020

What types of accounts have to be reconciled?

- Cash accounts
- Receivables
- Any account with a subsidiary ledger, e.g., fixed assets
- Federal grant income
- Payable to federal agencies
- Electronic Benefits Transfers (EBT)

Reconciliations

63

APIPA 2020

- Criteria: Procurement regulations specify how procurement transactions should be performed.
- Condition: We found transactions that were not in accordance with applicable regulations.
- Cause: Lack of controls or failure to enforce controls over procurement
- Effect: Noncompliance with regulations
- Recommendation: Strengthen/enforce controls to ensure compliance with regulations
- Corrective Action Plan: How controls will be strengthened/enforced as of this date
 - Training; new controls; management review and sign-off

Procurement

64

APIPA 2020

What types of problems are discovered?

- Missing documentation, e.g., lack of quotes, lost documents
- Failure to follow federal procurement requirements for local funds purchases when required by local regulations
- Failure to use competitive sealed bidding
- Failure to adequately document bidding award decision
- Failure to adequately document sole source justification

Procurement

65

APIPA 2020

**WEAK
CONTROLS**

- Failure to have or enforce controls

No Controls

Common IC Over Compliance Findings

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APIPA 2020

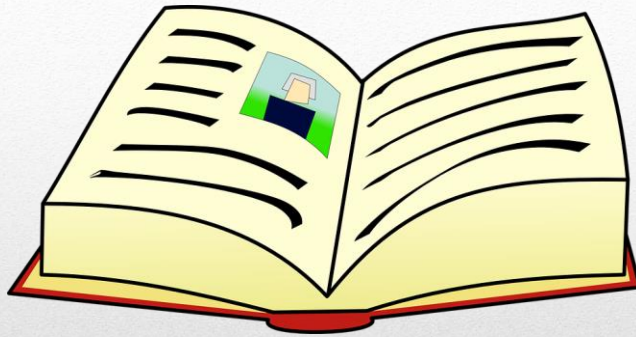
- Management discussion and analysis
- Multipage narrative required by GASB
- Provides
 - Summary information on government finances
 - Analysis of and reasons for significant changes from prior year

**Good
starting
point!**

MD&A

82

APIPA 2020



Tells a story
Highlights most significant financial issues
How is the government doing?

MD&A

83

APIPA 2020

- Financial highlights
- Financial analysis of government as a whole (government-wide FS)
- Financial analysis of governmental funds (fund FS)
- Budgetary highlights
- Capital asset and long-term debt activity
- Economic factors going forward

MD&A

84

APIPA 2020

FINANCIAL HIGHLIGHTS

- Kosrae State's total net position for fiscal year ended September 30, 2018 decreased by \$348,073 (or 0.9%) from \$38,762,762 in the prior year to \$38,414,689 in the current year. The decrease is mainly due to depreciation expense exceeding capital acquisition costs.
- For the fiscal year ended September 30, 2018, the State's General Fund unassigned fund deficit has decreased to \$(706,933) from \$(1,248,199) in the prior year or a decrease of \$541,266. GASB defines unassigned fund balance as a residual fund balance that is not restricted, committed and assigned.
- For the year ended September 30, 2018, the General Fund total fund balance increased by \$380,737 from \$1,573,633 in fiscal year 2017 to \$1,954,370 in fiscal year 2018. The increase was mainly due to a \$503,905 contribution from the FSM National Government.



Kosrae MD&A

85

AIPA 2020

	Governmental Activities			
	2018	2017	Change	%
ASSETS				
Current and other assets	\$ 10,875,436	\$ 10,625,034	\$ 250,402	2.36%
Capital assets	<u>33,885,918</u>	<u>35,613,650</u>	<u>(1,727,732)</u>	<u>-4.85%</u>
Total assets	<u>\$ 44,761,354</u>	<u>\$ 46,238,684</u>	<u>\$ (1,477,330)</u>	<u>-3.20%</u>
LIABILITIES				
Current and other liabilities	\$ 2,043,747	\$ 2,815,080	\$ (469,261)	-16.67%
Long-term debts	<u>4,302,918</u>	<u>4,660,842</u>	<u>(659,996)</u>	<u>-14.16%</u>
Total liabilities	<u>6,346,665</u>	<u>7,475,922</u>	<u>(1,129,257)</u>	<u>-15.11%</u>
NET POSITION				
Net investment in capital assets	32,175,511	33,741,566	(1,566,056)	-4.64%
Restricted	7,896,037	7,427,614	468,423	6.31%
Unrestricted	<u>(1,656,859)</u>	<u>(2,406,418)</u>	<u>749,560</u>	<u>-31.15%</u>
Total Net Position	<u>\$ 38,414,689</u>	<u>\$ 38,762,762</u>	<u>\$ (348,073)</u>	<u>-0.90%</u>

**Unrestricted
Net Position
Deficit due to
overspending
and
borrowing**



How is Kosrae doing?

86

AIPA 2020

Account	2018	2017	Change	%
Revenues	14,207,876	12,493,553	1,714,323	13.72%
Expenses	14,939,010	13,493,747	1,445,263	10.71%
Deficiency of revenues over expenses	(731,134)	(1,000,194)	269,060	(26.90%)
Special items & other	383,061	48,321	334,740	(36.53%)
Change in net position	(348,073)	(951,873)	603,800	(63.43%)

Has the overspending stopped? 87

AIPA 2020

	Governmental Activities			
	2018	2017	Change	%
Capital Assets:				
Buildings	\$ 11,404,456	\$ 11,752,972	\$ (348,516)	-2.97%
Infrastructure	20,611,594	21,413,326	(801,732)	-3.74%
Machinery, equipment and others	<u>1,869,868</u>	<u>2,447,352</u>	<u>(577,484)</u>	<u>-23.60%</u>
	<u>\$ 33,885,918</u>	<u>\$ 35,613,650</u>	<u>\$ (1,727,732)</u>	<u>-4.85%</u>

Buildings getting older
 Infrastructure getting older
 Will need to replace
 Where is the \$\$?
 Ideally – new additions = depreciation

Capital Assets

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AIPA 2020

	Governmental Activities			
	2018	2017	Change	%
Long-term Debt:				
ADB loans	\$ 3,900,508	\$ 4,290,193	\$ (389,685)	-9.08
Malem water	100,338	103,754	(3,416)	-3.29
Claims	-	110,000	(110,000)	-100.00
	<u>\$ 4,000,846</u>	<u>\$ 4,503,947</u>	<u>\$ (503,101)</u>	<u>-11.17</u>

The State's long-term debt decreased by \$503,101 or 9% due primarily to repayments of ADB loans. Kosrae State's long-term debt obligations can be found in notes 6 and 7 to the financial statements.

Debt decreasing
 Payment of \$411,725 in 2018
 Future payments need to be included in budget

Long-Term Debt

89

AIPA 2020

- General Fund - Revenues with slight increase; expenses with bigger increase; expected deficiency for year
- Grants Fund – grants – major funding source

Next Year FY2019

90

AIPA 2020

- Financial Statements
 - Statement of Net Position
 - Statement of Activities
- Longer-term focus
- Identifies annual cost of providing government services
- Enables determination of whether taxpayers have (or have not) funded these costs

Government-wide Financial Statements

91

APIPA 2020

- Statement of Net Position
 - Government activities
 - Business-type activities
 - Total for Primary Government
 - Component units

Territory of American Samoa (Component Unit Not Included) Statement of Net Position September 30, 2018

	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents	\$ 16,674,088	\$ 1,670,726	\$ 18,344,814	\$ 13,133,420
Restricted cash	13,915,928	-	13,915,928	-
Investments	1,092,892	-	1,092,892	6,561,314
Income taxes receivable, net	14,514,070	-	14,514,070	-

Government-wide Financial Statements

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APIPA 2020

- Business-type activities
 - Activities for which fees are charged to external parties for goods or services
 - Activities reported in enterprise funds and internal service funds
- American Samoa
 - Airport

Business-type Activities

93

APIPA 2020

- Assets
 - Current
 - Noncurrent
- Liabilities
 - Current
 - Noncurrent
- Net position
 - Net investment in capital assets
 - Restricted
 - Unrestricted

**ASSETS =
LIABILITIES +
NET POSITION**

**Accounting
Equation**

Statement of Net Position

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APIPA 2020

- All resources that belong to an entity
 - Cash, land, buildings, equipment, taxes receivable, prepaid expenses, inventory, investments
- Current or long-term
 - Converted to cash within one year, liquid

Assets

95

APIPA 2020

- Amounts that the entity owes to others
 - Employees, vendors, banks, governments
 - Accounts payable, contracts payable, loans payable, withholding taxes payable
- Current or long-term
 - Due to be paid in cash within 12 months
 - Both – current and long-term portions, e.g., loan payable

Liabilities

96

APIPA 2020

- Difference between Total Assets (+ Deferred Outflows) and Total Liabilities (+Deferred Inflows)
- Consists of:
 - Net investment in capital asset
 - Restricted net position
 - Unrestricted net position

Net Position

97

APIPA 2020

- Net investment in capital asset
 - Total capital assets (including restricted capital assets)
 - Less: Accumulated depreciation
 - Less: Outstanding related debt

Net Investment in Capital Asset

98

APIPA 2020

- Restricted net position
 - Net assets that are restricted by creditors, grantors, contributors, laws, and regulations.

Restricted Net Position

99

APIPA 2020

- Unrestricted net position
 - What's left – ideally would be positive number
 - If positive, shows that taxpayers have funded the costs of government services provided

Unrestricted Net Position

100

APIPA 2020

p. 11

Statement of Net Position
September 30, 2018

	Primary Government	Component Units
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 463,335	\$ 362,301
Time certificate of deposit	-	167,119
Investments	-	750,952
Receivables, net	676,348	706,262
Inventories	-	229,009
Prepayments	493,470	9,461
Advances	66,486	-
Due from component units	23,780	-
Other current assets	820,000	280,821
Restricted assets:		
Cash and cash equivalents	668,813	-
Time certificate of deposit	-	200,000
Total current assets	<u>3,212,232</u>	<u>2,705,925</u>
Noncurrent assets:		
Capital assets:		
Nondepreciable capital assets	-	62,560
Capital assets, net of accumulated depreciation	33,885,918	17,518,828
Investments	1,210,438	-
Restricted assets:		
Time certificates of deposit	356,359	-
Investments	6,096,407	-
Total noncurrent assets	<u>41,549,122</u>	<u>17,581,388</u>
Total assets	<u>\$ 44,761,354</u>	<u>\$ 20,287,313</u>

Capital assets
= 76% of PG assets

PG Total assets = \$44,761,354

Kosrae Statement of Net Position 101

APIPA 2020

p. 11

LIABILITIES

Current liabilities:		
Current portion of long-term obligations	\$ 247,928	\$ -
Accounts payable	387,988	131,104
Contracts payable	-	-
Other liabilities and accruals	359,829	77,664
Due to primary government	-	95,954
Loans payable	-	149,912
Unearned revenues	<u>1,048,002</u>	<u>17,461</u>
Total current liabilities	<u>2,043,747</u>	<u>472,095</u>
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	3,752,918	-
Unearned revenues	550,000	-
Other noncurrent liabilities	-	-
Total noncurrent liabilities	<u>4,302,918</u>	<u>-</u>
Total liabilities	<u>6,346,665</u>	<u>472,095</u>
Commitments and contingencies		

LTD =
68% of liabilities

What are commitments
and contingencies?

Kosrae Statement of Net Position 102

APIPA 2020

p. 11

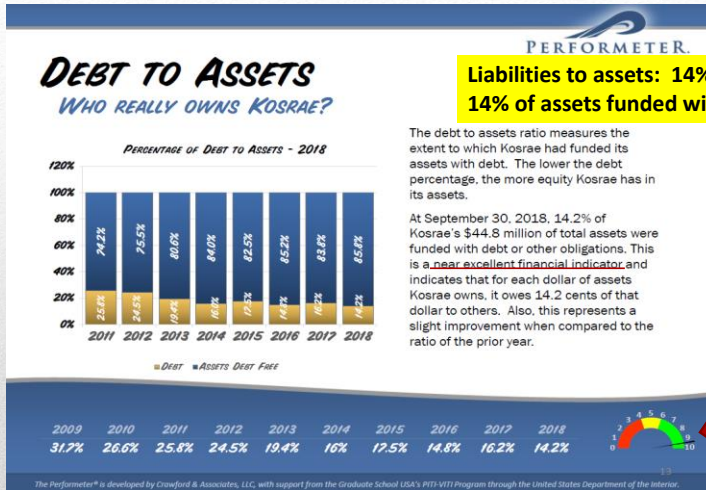
NET POSITION		
Net investment in capital assets	32,175,511	17,581,388
Restricted for:		
Nonexpendable:		
Future operations	5,333,257	-
Expendable:		
Debt service	763,150	-
Compact related	48,979	-
Other purposes	1,750,651	587,718
Unrestricted	(1,656,859)	1,646,112
Total net position	38,414,689	19,815,218
Total liabilities and net position	\$ 44,761,354	\$ 20,287,313



Is unrestricted net position a positive number?
Yes = taxpayers have paid the cost of services

Kosrae Statement of Net Position 103

APIPA 2020



Liabilities to assets: 14%
14% of assets funded with debt

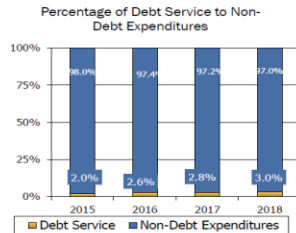
Debt to assets ratio

104

APIPA 2020

DEBT SERVICE LOAD

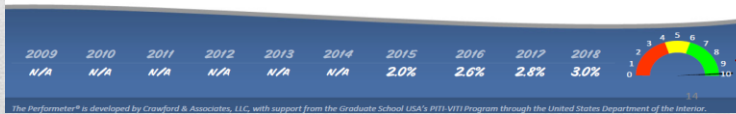
HOW MUCH OF OUR ANNUAL NON-CAPITAL BUDGET IS LOADED WITH DISBURSEMENTS TO PAY OFF LONG-TERM DEBT



The debt service load ratio measures the extent to which Palau's non-capital expenditures were comprised of debt service payments on long-term debt.

For the year ended September 30, 2018, Kosrae's total non-capital expenditures amounted to \$13.5 million, of which \$411,725 (or 3.0%), were payments for principal and interest on long-term debt. In our model, this is considered an excellent ratio and indicates that for every dollar Kosrae spent on non-capital items, 3.0 cents of that dollar was used for debt service. Restatements for FY 2015 through FY 2017 have been made to this score and the overall score due to the impact of this ratio.

For each \$1 of non-capital spending, 3 cents for debt



Debt service load

105

APIPA 2020

- Required presentation format:
 - Net (expense) revenues for government operations
 - Revenues – general or program
- Separate presentation after total net expenses of entity functions
 - General revenues
 - Contributions to term and permanent endowments
 - Contributions to permanent fund principal
 - Special and extraordinary items
 - Transfers
- Change in net position

Statement of Activities

106

APIPA 2020

- This format required because
 - It shows the relative financial burden of each of the government's functions or programs on its taxpayers; and
 - It identifies the extent to which each function or program draws from the general revenues of the organization or is self-supporting through fees and intergovernmental aid.

Statement of Activities

107

APIPA 2020

- Funds generated from operations
- Government – raised in accordance with law
 - Income taxes, import duties, excise taxes, property taxes
 - User fees (e.g., sales of electricity)
 - Grant revenues

Revenues

108

APIPA 2020

- Amounts spent in order to operate and provide services
 - Salaries and wages expense
 - Utilities expense
 - Materials and supplies expense
 - Travel and transportation expense

Expenditures (expenses)

109

APIPA 2020

Which functions are self-supporting?

Which CUs are self-supporting?

Statement of Activities
Year Ended September 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position	
		Charges for Services	Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
Primary government:						
Governmental activities:						
General government	\$ 3,742,387	\$ 314,505	\$ 2,973,181	\$ 17,372	\$ (437,329)	\$ -
Economic development	546,840	26,447	447,202	-	(73,191)	-
Education	4,652,099	-	4,135,172	-	(516,927)	-
Health services	3,506,173	235,470	3,284,277	-	13,574	-
Public order and safety	349,509	-	-	-	(349,569)	-
Environment protection and sanitation	295,365	-	295,365	-	-	-
Boards, commissions and other	1,763,367	92,535	-	-	(1,670,832)	-
Unallocated interest on long-term debt	83,210	-	-	-	(83,210)	-
Total primary government	\$ 14,939,010	\$ 668,957	\$ 11,135,197	\$ 17,372	(3,117,484)	
Component units:						
Kosrae Port Authority	\$ 1,162,024	\$ 523,099	\$ -	\$ -	-	(638,925)
Kosrae Utilities Authority	2,905,089	2,690,903	-	-	-	(214,186)
Kosrae Housing Authority	206,903	71,993	-	-	-	(134,910)
Total component units	\$ 4,274,016	\$ 3,285,995	\$ -	\$ -	-	(988,021)

Kosrae Statement of Activities

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APIPA 2020

Did revenues cover the cost of services?

	Primary Government	Component Units
General revenues:		
Taxes:		
FSM revenue sharing:		
Gross revenue taxes	342,350	-
Import taxes	375,255	-
Income taxes	380,665	-
Other taxes	98,029	-
State taxes	420,843	-
Unrestricted investment earnings	200,058	80,176
Contribution from the FSM National Government	503,905	-
Other	65,245	312,439
Total general revenues	<u>2,386,350</u>	<u>392,615</u>
Special item - gain on SDR foreign exchange	64,586	-
Special item - write off of receivables	(38,041)	-
Contributions to permanent fund	356,516	-
Total general revenues, special item and contributions	<u>2,769,411</u>	<u>392,615</u>
Change in net position	<u>(348,073)</u>	<u>(595,406)</u>
Net position at the beginning of the year	<u>38,762,762</u>	<u>20,410,624</u>
Net position at the end of the year	<u>\$ 38,414,689</u>	<u>\$ 19,815,218</u>

Kosrae Statement of Activities 111

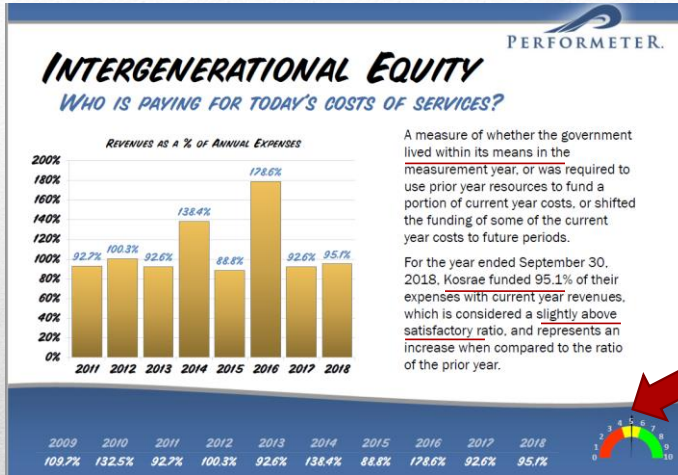
APIPA 2020

Net PG (expenses) revenues	(\$3,117,484)
Total general revenues	<u>2,386,350</u>
Shortfall	(\$ 731,134)

Did revenues cover the cost of services?

112

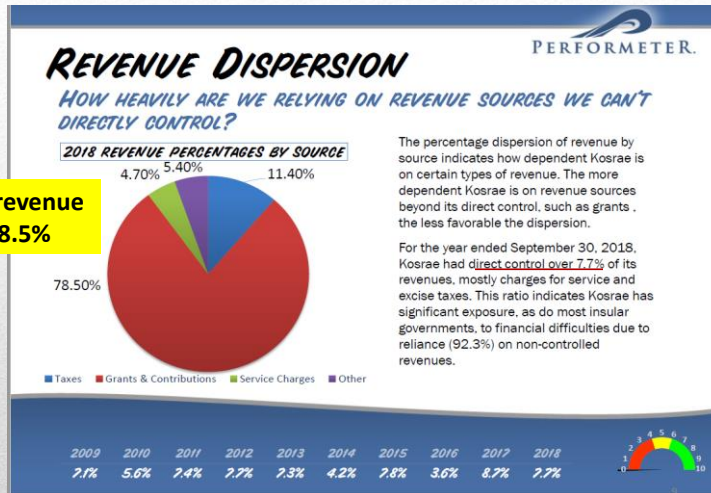
APIPA 2020



Intergenerational Equity

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AIPA 2020



Revenue Dispersion

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AIPA 2020

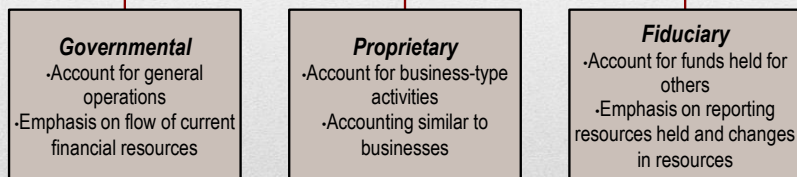
Fund: fiscal and accounting entity with a self-balancing set of accounts, recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated to carry on specific activities or attain certain objectives in accordance with special regulations, restrictions, or limitations (GASB)

- Not separate legal entity, an **accounting entity**

Fund – An Accounting Creation 123

AIPA 2020

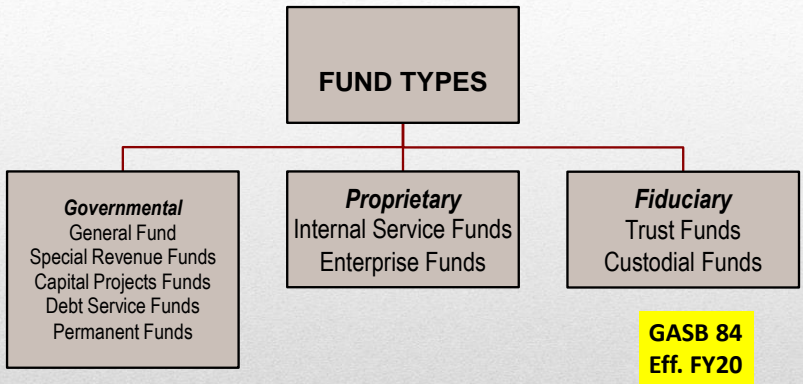
FUND TYPES



Fund Types

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AIPA 2020



Fund Types

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AIPA 2020

General Fund

- Primary operating fund
- Accounts for all financial resources, except those required to be accounted for in another fund

Only ONE General Fund!!

Special Revenue Fund

- Account for specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects

Governmental Funds

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AIPA 2020

Capital Projects Funds

- Account for the receipt and disbursement of resources that are restricted, committed, or assigned to expenditure for capital outlays

Debt Service Fund

- Accounts for resources that are restricted, committed, or assigned to pay interest and principal on long-term debt

Governmental Funds

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APIPA 2020

Permanent Fund

- Accounts for restricted resources that only allow earnings to be used for specific public purposes

Governmental Funds

128

APIPA 2020

- Balance Sheet
- Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Fund Financial Statements

129

APIPA 2020

Enterprise Fund

- Accounts for operations financed and operated in a manner similar to a private business
- Can be used to account for any activity financed with revenue debt
 - When laws or regulations require that an activity's costs be recovered with fees and charges, OR
 - When pricing policies dictate that fees and charges be established to cover the activity's costs

Proprietary Funds

130

APIPA 2020




Internal Service Fund

- Accounts for business-type activities in which the customers are other government departments or agencies

Proprietary Funds

131

AIPA 2020

- 
- Statement of Net Position
 - Statement of Revenues, Expenses or Changes in Fund Net Position
 - Statement of Cash Flows

Proprietary Fund Financial Statements

132

AIPA 2020

Pension (and Other Employee Benefit) Trust Funds

- Report fiduciary activities for
 - Pension plans and OPEB plans administered through trusts
 - Other employee benefit plans for which resources are held in a trust and contributions to the trust and earnings on those contributions are irrevocable

Fiduciary Funds

133

APIPA 2020

Investment Trust Funds

- Report fiduciary activities from
 - External portion of investment pools held in a trust
 - Individual investment accounts held in a trust

Private-purpose trust funds

- Report all fiduciary activities
 - Not required to be reported in pension (and other employee benefit) trust funds or investment trust funds and
 - Held in a trust

Fiduciary Funds

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APIPA 2020

Custodial funds

- Report fiduciary activities
 - Not required to be reported in pension (and other employee benefit) trust funds, investment trust funds, or private-purpose trust funds
 - Includes external portion of investment pools not held in a trust

Fiduciary Funds

135

APIPA 2020

- Statement of Fiduciary Net Position
- Statement of Changes in Fiduciary Net Position

Fiduciary Fund Financial Statements

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APIPA 2020

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA

Balance Sheet
Governmental Funds
September 30, 2018

General Fund
Special Revenue Fund
Permanent Fund
Other

p. 13

	General	Special Revenue	Permanent	Other Governmental Funds	Total
		Grants Assistance	Compact Trust		
ASSETS					
Cash and cash equivalents	\$ 463,335	\$ -	\$ -	\$ -	\$ 463,335
Investments	1,210,438	-	-	-	1,210,438
Receivables, net:					
General	12,231	-	-	42,661	54,892
Federal agencies	-	33,352	-	-	33,352
Due from FSM National Government	10,000	348,506	-	-	358,506
Taxes	229,598	-	-	-	229,598
Loans	-	-	-	-	-
Due from component units	23,780	-	-	-	23,780
Due from other funds	381,906	1,532,270	-	661,675	2,575,851
Prepaid items	-	491,709	-	1,761	493,470
Advances	36,935	29,551	-	-	66,486
Other assets	627,000	100,000	-	93,000	820,000
Restricted assets:					
Cash and cash equivalents	627,164	-	-	41,649	668,813
Time certificates of deposit	-	-	-	356,359	356,359
Investments	763,150	-	5,333,257	-	6,096,407
Total assets	\$ 4,385,537	\$ 2,535,388	\$ 5,333,257	\$ 1,197,105	\$ 13,451,287

Kosrae Governmental Funds

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APIPA 2020

LIABILITIES AND FUND BALANCES

	General	Special Revenue	Permanent	Other Governmental Funds	Total
		Grants Assistance	Compact Trust		
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 52,001	\$ 280,872	\$ -	\$ 55,115	\$ 387,988
Contracts payable	-	-	-	-	-
Other liabilities and accruals	155,935	201,902	-	1,992	359,829
Due to other funds	2,193,945	381,906	-	-	2,575,851
Unearned revenues	29,286	968,683	-	33	998,002
Total liabilities	2,431,167	1,833,363	-	57,140	4,321,670
Fund balances:					
Non-spendable	1,898,153	100,000	5,333,257	93,000	7,424,410
Restricted	763,150	602,025	-	445,289	1,810,464
Committed	-	-	-	601,676	601,676
Unassigned:					
General fund	(706,933)	-	-	-	(706,933)
Total fund balances	1,954,370	702,025	5,333,257	1,139,965	9,129,617
Total liabilities and fund balances	\$ 4,385,537	\$ 2,535,388	\$ 5,333,257	\$ 1,197,105	

Kosrae Governmental Funds

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APIPA 2020

- General Fund: Primary operating fund
- Grants Assistance Fund: Special revenue fund that accounts for funds received under sectors grants, federal subgrants, and other direct federal grants and foreign assistance grants
- Section 215 Compact Trust Fund: Permanent fund that is intended to provide revenue when Compact funding ends

Kosrae Governmental Funds 139

APIPA 2020

R. Fund Balance

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

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

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

A formal minimum fund balance policy has not been adopted.

Fund Balance - Types 140

APIPA 2020

**STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2018

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	General	Special	Permanent	Other Governmental Funds	Total
		Revenue	Grants Assistance		
Revenues:					
Compact funding	\$ -	\$ 7,838,647	\$ -	\$ -	\$ 7,838,647
Net change in the fair value of investments	141,068	-	356,516	-	497,584
Federal contributions	-	1,826,647	-	-	1,826,647
FSM revenue sharing	1,196,299	-	-	-	1,196,299
State taxes	420,843	-	-	-	420,843
CFSM grants	-	-	-	1,269,933	1,269,933
Fees and charges	464,504	-	-	354,452	818,956
Other grants	-	199,970	-	-	199,970
Interest income	57,002	-	-	1,988	58,990
Contribution from the FSM National Government	503,905	-	-	-	503,905
Other	61,374	-	-	3,871	65,245
Total revenues	2,844,995	9,865,264	356,516	1,630,244	14,697,019

Kosrae Governmental Funds 141

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	General	Special	Permanent	Other Governmental Funds	Total
		Revenue	Grants Assistance		
Expenditures:					
Current:					
General government	1,051,341	1,517,961	-	1,240,431	3,809,733
Economic development	46,555	447,202	-	46,250	540,007
Education	25,115	4,135,172	-	-	4,160,287
Health services	-	3,284,277	-	184,091	3,468,368
Public order and safety	335,344	-	-	-	335,344
Environment protection and sanitation	-	295,365	-	-	295,365
Boards, commissions and other	553,160	-	-	58,431	611,591
Debt service	411,725	-	-	-	411,725
Total expenditures	2,423,240	9,679,977	-	1,529,203	13,632,420
Excess of revenues over expenditures	421,755	185,287	356,516	101,041	1,064,599
Special item:					
Write off of receivables	(38,041)	-	-	-	(38,041)
Other financing sources (uses):					
Operating transfers in	-	-	-	2,977	2,977
Operating transfers out	(2,977)	-	-	-	(2,977)
Total other financing sources (uses), net	(2,977)	-	-	2,977	-
Net change in fund balances	380,737	185,287	356,516	104,018	1,026,558
Fund balances at the beginning of the year	1,573,633	516,738	4,976,741	1,035,947	8,103,059
Fund balances at the end of the year	\$ 1,954,370	\$ 702,025	\$ 5,333,257	\$ 1,139,965	\$ 9,129,617

Kosrae Governmental Funds 142

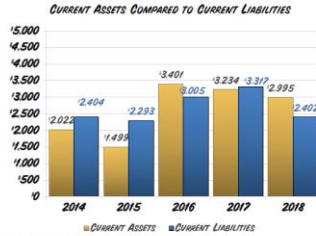
APIPA 2020

CURRENT RATIO

WILL OUR VENDORS AND EMPLOYEES BE PLEASED WITH OUR ABILITY TO PAY THEM ON TIME?

The current ratio is one measure of Kosrae's ability to pay its short-term obligations. The current ratio compares total current assets and liabilities. A current ratio of 2.00 to 1 indicates good current liquidity and an ability to meet the short-term obligations. The ratio only includes the General Fund, the primary operating fund.

At September 30, 2018, Kosrae had a General Fund ratio of current assets to current liabilities of 1.25 to 1. This indicates that Kosrae has, for each dollar of current liabilities, 1.25 dollar of current assets to fund them. This is an unfavorable financial ratio, and could be indicative of potential cash flow problems. However, this represents an increase when compared with the ratio of the prior year.



Bad, but improving

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Ratio	0.97	0.96	0.88	1.04	0.99	0.84	0.65	1.13	0.98	1.25



Current Ratio

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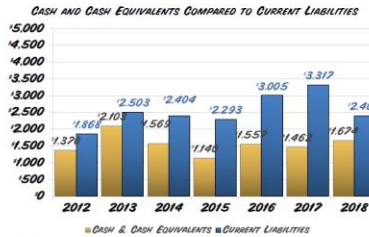
APIPA 2020

QUICK RATIO

HOW IS OUR SHORT-TERM CASH POSITION?

The quick ratio is another, more conservative, measure of Kosrae's ability to pay its short-term obligations. The quick ratio compares total cash and short-term investments to current liabilities. A quick ratio of 1.00 to 1 indicates adequate current liquidity and an ability to meet the short-term obligations with cash. The ratio only includes the General Fund, the primary operating fund.

At September 30, 2018, Kosrae had a General Fund ratio of cash and cash equivalents to current liabilities of 0.70 to 1. This indicates that Kosrae has, for every one dollar of current liabilities, 70 cents of cash and cash equivalents to fund them. This is an unfavorable financial indicator, and could be indicative of cash flow needs in the near future. However, this represents an improvement from the ratio reported in the prior period.



Bad, but improving

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Ratio	0.26	0.55	0.63	0.61	0.73	0.84	0.65	0.50	0.52	0.44	0.70



Quick Ratio

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- No proprietary funds
- No fiduciary funds

Kosrae State Government

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APIPA 2020

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Net Position
Proprietary Fund
September 30, 2018

	Public Transportation System
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 48,177
Receivables, net of allowance for uncollectibles	16,211
Inventories	214,839
Other current assets	32,562
Total current assets	311,789
Noncurrent assets:	
Capital assets, net of accumulated depreciation	431,901
Total assets	\$ 743,690
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 4,489
Other liabilities and accruals	18,494
Total liabilities	22,983
NET POSITION	
Net investment in capital assets	431,901
Unrestricted	288,806
Total net position	\$ 720,707
	\$ 743,690

Proprietary Fund – Statement of Net Position

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APIPA 2020

Is the System covering its costs?

STATE OF YAP FEDERATED STATES OF MICRONESIA	
Statement of Revenues, Expenses, and Changes in Net Position Proprietary Fund Year Ended September 30, 2018	
	Public Transportation System
Operating revenues:	
Charges for services	\$ 184,064
Sales	243,895
Other	7,065
Total operating revenues	<u>435,024</u>
Operating expenses:	
Cost of services	103,452
Administration costs	385,522
Depreciation and amortization	127,499
Total operating expenses	<u>616,473</u>
Loss from operations	(181,449)
Nonoperating revenues:	
Operating subsidy from primary government	<u>92,068</u>
Total nonoperating revenues	<u>92,068</u>
Change in net position	(89,381)
Net position at the beginning of the year	<u>810,088</u>
Net position at the end of the year	<u>\$ 720,707</u>

Proprietary Fund – Statement of Revenues, Expenses, and Changes in Net Position

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APIPA 2020

Is the System generating enough cash to operate?

STATE OF YAP FEDERATED STATES OF MICRONESIA	
Statement of Cash Flows Proprietary Fund Year Ended September 30, 2018	
	Public Transportation System
flows from operating activities:	
Cash received from customers	\$ 447,223
Cash payments to employees	(329,558)
Cash payments to suppliers	(197,011)
Net cash used in operating activities	<u>(79,346)</u>
Cash flows from noncapital financing activities:	
Contributions from the primary government	<u>92,068</u>
Cash flows from capital and related financing activities:	
Others	(56)
Purchase of capital assets	(22,168)
Net cash used in capital and related financing activities	<u>(22,224)</u>
Net change in cash and cash equivalents	(9,502)
Cash and cash equivalents at the beginning of the year	57,679
Cash and cash equivalents at the end of the year	<u>\$ 48,177</u>
Reconciliation of loss from operations to net cash used in operating activities:	
Loss from operations	\$ (181,449)
Adjustments to reconcile loss from operations to net cash used in operating activities:	
Depreciation expense	127,499
Changes in assets and liabilities:	
Other	26,138
Receivables	(1,460)
Inventories	(36,345)
Accounts payable	(2,623)
Other liabilities and accruals	(11,056)
Net cash used in operating activities	<u>\$ (79,346)</u>

Proprietary Fund – Statement of Cash Flows

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APIPA 2020

REPUBLIC OF THE MARSHALL ISLANDS

Statement of Fiduciary Net Position
Fiduciary Funds
September 30, 2018

Pre-GASB 84

ASSETS	Private	
	Purpose Trust	Agency
Cash and cash equivalents	\$ 3,615,309	\$ -
Receivables, net:		
Contributions	2,918,010	-
Other	935,697	-
Investments	73,798,112	-
Due from other funds	709,898	164,484
Capital assets, net of accumulated depreciation	120,059	-
Total assets	82,097,085	\$ 164,484
LIABILITIES		
Accounts payable	131,645	\$ -
Other liabilities and accruals	76,618	164,484
Due to other funds	1,913,480	-
Total liabilities	2,121,743	\$ 164,484
NET POSITION		
Held in trust for:		
Social security benefits	79,265,444	-
Land use distributions	709,898	-
Total net position	\$ 79,975,342	

Fiduciary Fund – Statement of Fiduciary Net Position

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APIPA 2020

REPUBLIC OF THE MARSHALL ISLANDS

Statement of Changes In Fiduciary Net Position
Fiduciary Funds
Year Ended September 30, 2018

	Private
	Purpose Trust
Additions:	
Contributions:	
Private employees	\$ 12,788,369
Government employees	6,542,417
Penalties and interest	1,088,728
Total contributions	20,419,514
Investment income:	
Net change in the fair value of investments	3,100,446
Interest and dividends	1,766,062
Total investment income	4,866,508
Less investment expense	136,555
Net investment income	4,729,953
Other:	
Compact funding	21,670,200
Transfers in from the General Fund	2,976,000
Other	236,925
Total additions	50,022,642
Deductions:	
Land use distributions	21,791,868
Benefits	20,734,016
Administrative expenses	1,067,563
Total deductions	43,593,447
Change in net position held in trust for:	
Social security benefits	6,550,863
Land use distributions	(121,668)
Net position at the beginning of the year	73,546,147
Net position at the end of the year	\$ 79,975,342

Fiduciary Fund – Statement of Changes in Fiduciary Net Position

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- Note 1: Summary of Significant Accounting Policies
 - Which accounting rules were followed?
 - What are the blended and discretely presented component units?
 - What are the major governmental funds?
- Remaining Notes
 - Details about accounts

Notes to Financial Statements 163

APIPA 2020

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STATE OF KOSRAE FEDERATED STATES OF MICRONESIA

Balance Sheet
Governmental Funds
September 30, 2018

General Fund
Special Revenue Fund
Permanent Fund
Other

	Special Revenue		Permanent		Other Governmental Funds	Total
	General	Grants Assistance	Compact Trust			
ASSETS						
Cash and cash equivalents	\$ 463,335	\$ -	\$ -	\$ -	\$ -	\$ 463,335
Investments	1,210,438	-	-	-	-	1,210,438
Receivables, net:						
General	12,231	-	-	42,661	-	54,892
Federal agencies	-	33,352	-	-	-	33,352
Due from FSM National Government	10,000	348,506	-	-	-	358,506
Taxes	229,598	-	-	-	-	229,598
Loans	-	-	-	-	-	-
Due from component units	23,780	-	-	-	-	23,780
Due from other funds	381,906	1,532,270	-	661,675	-	2,575,851
Prepaid items	-	491,709	-	1,761	-	493,470
Advances	36,935	29,551	-	-	-	66,486
Other assets	627,000	100,000	-	93,000	-	820,000
Restricted assets:						
Cash and cash equivalents	627,164	-	-	41,649	-	668,813
Time certificates of deposit	-	-	-	356,359	-	356,359
Investments	763,150	-	5,333,257	-	-	6,096,407
Total assets	\$ 4,385,537	\$ 2,535,388	\$ 5,333,257	\$ 1,197,105	\$ -	\$ 13,451,287

Kosrae Governmental Funds 164


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K. Restricted Assets

Certain assets of the primary government are classified as restricted assets because their use is completely restricted through loan agreements or enabling legislation. Specifically, the State has collateralized investments in the amount of \$763,150 for the Early Retirement Scheme. Furthermore, investments recorded in the Compact Trust Fund of \$5,333,257 are restricted in that they are not available to be used in current operations.

As of September 30, 2018, 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.	\$ 627,164
Deposit account established for the Gifford scholarship fund.	41,649
Time certificate of deposit with a local bank restricted for scholarships for post-secondary students.	<u>356,359</u>
	<u>\$ 1,025,172</u>

General Fund – Restricted Assets 165

APIPA 2020

- Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund
- Notes to Required Supplementary Information - Budgetary Reporting

Required Supplementary Information

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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, 2018

How good was the revenue estimate?

	Budgeted Amounts		Actual -	Variance with
	Original	Final	Budgetary Basis (see Note 1)	
Revenues:				
FSM revenue sharing	\$ 1,158,533	\$ 1,158,533	\$ 1,196,299	\$ 37,766
State taxes	437,807	437,807	420,843	(16,964)
Licenses and fees	90,838	90,838	464,504	373,666
Net change in fair value of investments	-	-	141,068	141,068
Interest and dividends	-	-	57,002	57,002
Contribution from the FSM National Government	-	-	503,905	503,905
Other	236,558	236,558	61,374	(175,184)
Total revenues	1,923,736	1,923,736	2,844,995	921,259

General Fund – Budget to Actual

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APIPA 2020

Did Kosrae stay within budget?

	Budgeted Amounts		Actual -	Variance with
	Original	Final	Budgetary Basis (see Note 1)	
Expenditures:				
Current:				
General government	1,137,954	1,122,903	1,079,576	43,327
Education	26,781	26,781	26,103	678
Public order and safety	345,300	345,300	340,655	4,645
Economic development	53,339	53,339	49,319	4,020
Boards, commissions and other	566,072	544,452	981,105	(436,653)
Total expenditures	2,129,446	2,092,775	2,476,758	(383,983)
Deficiency of revenues under expenditures	(205,710)	(169,039)	368,237	537,276
Special item:				
Write off of receivables	-	-	(38,041)	(38,041)
Other financing sources:				
Operating transfers in	-	-	(2,977)	(2,977)
Net change in fund balance	(205,710)	(169,039)	327,219	496,258
Encumbrances	68,978	68,978	53,518	(15,460)
Fund balance at the beginning of the year	1,573,633	1,573,633	1,573,633	-
Fund balance at the end of the year	\$ 1,436,901	\$ 1,473,572	\$ 1,954,370	\$ 480,798

General Fund – Budget to Actual

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(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.

Req. for balanced budget?

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.

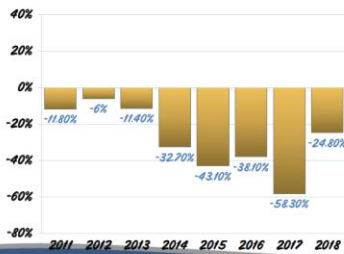
How was deficit “financed”?

Fund balances:	
Non-spendable	1,896,153
Restricted	763,150
Committed	-
Unassigned:	
General fund	(706,933)
Total fund balances	1,954,370
Total liabilities and fund balances	\$ 4,385,537

PERFORMETER.
LEVEL OF UNASSIGNED FUND BALANCE

HOW DOES OUR CARRYOVER LOOK?

UNASSIGNED FUND BALANCE (DEFICIT) AS A PERCENTAGE OF ANNUAL REVENUES



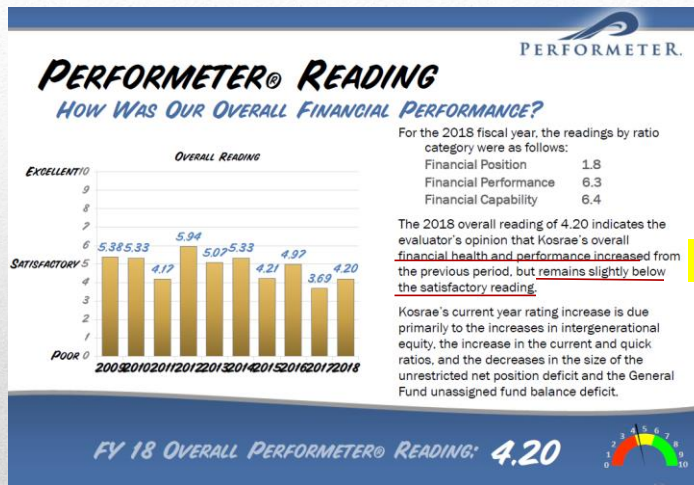
The level of budgetary unassigned fund balance is an indication of the amount of unexpended, unencumbered and available resources Kosrae has at a point in time to carryover into the next fiscal year to fund budgetary emergencies, shortfalls or other unexpected needs.

For the year ended September 30, 2018, Kosrae's unassigned fund balance (deficit) of the General Fund was a deficit of \$706,933, or the equivalent of 24.8% of annual General Fund revenues. This is considered an unfavorable ratio but is a significant improvement when compared to the ratio of the previous year.

Bad but getting better!

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Percentage	-14.5%	-18.1%	-11.3%	-6%	-11.4%	-32.7%	-43.1%	-38.1%	-58.3%	-24.8%

General Fund – Unassigned Fund Balance 170



Kosrae - Overall Financial Performance 171

APIPA 2020

- Read MD&A for overview & highlights
- For short-term financial health
 - General fund unrestricted fund balance as % of annual expenditures
 - Do any funds have deficits?
 - Budgetary comparison schedules
 - Expenditures < Budget
 - Revenues = Budget (or very close)

Where to look in the FS 172

APIPA 2020

- For long-term financial health
 - Is total net position for governmental activities positive?
 - Does the government have too much debt?
 - Future funding concerns
 - Have capital outlays kept up with depreciation over last 5 years?
 - Are pension and OPEB liabilities well-funded? If not, is funding level increasing?

Where to look in the FS

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