

KOSRAE UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE STATE OF KOSRAE)

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

YEARS ENDED SEPTEMBER 30, 2019 AND 2018

**KOSRAE UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE STATE OF KOSRAE)**

Years Ended September 30, 2019 and 2018
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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Kosrae Utilities Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Kosrae Utilities Authority (the "Authority" or "KUA"), a component unit of the State of Kosrae, which comprise the statements of net position as of September 30, 2019 and 2018, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kosrae Utilities Authority as of September 30, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

COVID-19

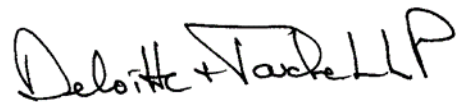
As discussed in Note 12 to the financial statements, KUA determined that the COVID-19 may negatively impact its business, results of operations and net position. KUA is unable to reasonably estimate the ultimate financial impact. Our opinion is not modified with respect to this matter.

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 3 to 7 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 2, 2020, on our consideration of the Authority'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 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 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 Authority's internal control over financial reporting and compliance.



June 2, 2020

KOSRAE UTILITIES AUTHORITY
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Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

This section of the Kosrae Utilities Authority's (the Authority) annual financial report presents the analysis of the Authority's financial performance during the fiscal year ended September 30, 2019. Please read it in conjunction with the financial statements, which follow this section.

Kosrae Utilities Authority (KUA) was mandated by law in October 1993 as a semi-agency of the Kosrae State Government (KSG) to assume the operation and responsibility of providing electric power services to the Island of Kosrae. KUA is governed by five (5) board members appointed by the Governor with the advice and consent of the State Legislature for a staggered term of 2 to 4 years.

The FY2019 operation was financially stable with targeting activities to improve services and system efficiency. The staff and KUA Board had continued to collaborate with outside donors and to FSM National Gov't and KSG to implement energy improvement projects for Kosrae. These improvement projects will ensure security of power services to the island and minimize power service interruption caused by old and aging engine units and distribution line fault. Some of these grant projects were successfully completed and some are extended to the new fiscal year 2020. These Energy Improvement Projects will significantly contribute to the energy improvement targets outlined in the Energy Master Plan and the State Strategic Development Plan under Energy Sector.

The State Energy Master Plan has set the immediate and long-term energy activities road map to be implemented in order to achieve at least 50% system efficiency improvements and a 30% renewable energy share into the power system. The existing tariff will generate revenues that are sufficient to cover operating costs but are insufficient to fund projects that will drive toward meeting the energy targets for the State. Due to the limited operating revenues to fund these projects, the staff has continued to depend on outside funding assistance to support projects outlined in the State Energy Plan and the State Strategic Development Plan.

The following table summarizes the financial position and results of operations of Kosrae Utilities Authority for 2019 through 2017:

<u>Assets</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Current assets	\$ 1,966,340	\$ 1,680,804	\$ 1,731,424
Utility plant, net	2,169,981	2,143,926	2,241,506
Other non-current assets	<u>252,800</u>	<u>280,821</u>	<u>252,800</u>
	\$ <u>4,389,121</u>	\$ <u>4,105,551</u>	\$ <u>4,225,730</u>

Liabilities and Net Position

Current liabilities	\$ <u>231,941</u>	\$ <u>178,177</u>	\$ <u>254,020</u>
Net Position:			
Net investment in capital assets	2,169,981	2,143,926	2,241,506
Restricted	90,000	90,000	90,000
Unrestricted	<u>1,897,199</u>	<u>1,693,448</u>	<u>1,640,204</u>
Total net position	<u>4,157,180</u>	<u>3,927,374</u>	<u>3,971,710</u>
	\$ <u>4,389,121</u>	\$ <u>4,105,551</u>	\$ <u>4,225,730</u>

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<u>Revenue, Expenses and Changes</u> <u>in Net Position</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating revenues	\$ 2,771,353	\$ 2,690,903	\$ 2,551,484
Operating expenses	<u>2,994,857</u>	<u>2,905,089</u>	<u>2,622,437</u>
Net operating loss	<u>(223,504)</u>	<u>(214,186)</u>	<u>(70,953)</u>
Non-operating revenue (expenses):			
Loss on asset impairment	93,079	-	-
Gain on disposal of capital assets	-	-	71
Investment income (loss)	(4,092)	79,129	52,537
Interest income (expense)	<u>1,551</u>	<u>1,047</u>	<u>1,336</u>
Total non operating income (loss), net	<u>90,538</u>	<u>80,176</u>	<u>53,944</u>
World Bank project grant	<u>362,772</u>	<u>89,674</u>	<u>-</u>
Change in net position	\$ <u>229,806</u>	\$ <u>(44,336)</u>	\$ <u>(17,009)</u>

FINANCIAL HIGHLIGHTS

Operating Revenues: Revenue derived from electricity sales and services increased by 2% against last year. Kilowatt sold totals 5,380,399 for FY 2019 as against 5,398,858 in FY 2018. The net increase in revenue is the effect of decreases in sales on power accounts but with corresponding increases in fuel adjustment revenue, service charges from work orders and miscellaneous revenue. A slight change occurred in the energy sales percentage received from customers for FY 2019. Billing and postpaid customers comprise 48% of total sales while 52% is from prepaid cash power customers while 47% and 53% respectively is noted for FY 2018. Electricity sales comprised of 99% of operating revenue and 1% comes from service orders, maintenance fees and miscellaneous revenues. The same ratio comprises prior year operating revenues.

Fuel Adjustment Revenue: FAC rate is computed monthly based on existing fuel prices. FAC revenue is charged to customers for every kilowatt consumed. For FY 2019, the average FAC rate is around \$.0312/kwhr and \$.0181/kwhr for FY 2018, thus, an increase of approximately \$.0131 per kwhr sold. This brought about an increase of 70% against last year's FAC revenue.

Operating Expenses: Operational expenses are from production fuel, personnel costs, repairs and maintenance, depreciation and administrative expenses. Fuel costs represent 56% and 44% is from the other remaining cost components. Operating expenses increased by 3% this year generally brought about by the net effect of increases in fuel expenses, personnel services and depreciation and decreases in maintenance and administrative expenses.

Production Fuel: Fuel consumption in FY 2019 is 468,045 gallons and was reduced by around 5% against last year's fuel usage. Fuel prices started at \$3.661 per gallon, and continued to increase until the first week of December 2019 to \$3.8697 per gallon and began to decline by the end of the month until it reached \$3.3326 per gallon at the close of the fiscal year. Average fuel usage cost per gallon was \$3.4143 in FY 2018 and \$3.4844 for FY 2019 with an increase of \$.07 per gallon, hence a rise in fuel expense by around 6%.

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Non-operating Revenue: In FY 2019, KUA received subsidies from FSM National Government for power consumption of the World Bank donated streetlights installed on public places. It also includes the net change in fair value of investments and interest income. Received project grants from World Bank amounting to \$362,772 are from acquisition of LED streetlights, cash power prepayment meters, transformers and aerial bucket truck.

Current Assets: This increased by approximately 17%. Cash and cash equivalents attributed much of the increase as a result of cash provided from operations, likewise a higher net realizable value of accounts receivable and an increase in inventory level for additional acquisition of stock. Investments and prepaid expenses slightly reduced during the year.

Utility Plant: Electric plant in service is composed of KUA's buildings, vehicles, equipment and fixtures net of accumulated depreciation; it further includes work in progress for unfinished projects. Acquisition of fixed assets during the year amounted to \$464,182 including procurement through World Bank funded projects. Some fully depreciated vehicles, equipment and fixtures were retired and written off in the books totaling \$187,696. Net change in accumulated depreciation of \$250,431 is the difference between depreciation provided in FY 2019 less accumulated depreciation on retired assets. The net effect on the above movement of the utility plant account is an increase of \$26,055 representing approximately 1% larger than the book value last year. For additional information concerning capital assets, please refer to note 5 to the financial statements.

Non-Current Assets: These are the deposit amounts for a fuel purchase contract with FSMPC and an investment in Ocean Energy Kosrae (OEK) net of a valuation reserve which is unchanged since last year. FY 2018 includes prepaid purchase orders amounting to \$28,021.

Current Liabilities: These are short term obligations payable to suppliers within a year. The liabilities comprise 53% payable to FSMPC, 10% for accrued SS and taxes payable, 17% to employees for accrued wages and unused annual leave credits, 11% for unearned revenue and 9% of other liabilities. Comparing the amount against last year, all liability components increased during the period which is 30% higher than the amount last year.

The line of credit in Bank of the FSM of \$200,000 was renewed in April 2019 for another year. No funds were drawdown until end of the fiscal year. In FY 2020, KUA decided to withdraw \$100,000 to cover KUA's Distribution building and truck shelter renovation. For additional information concerning debt, please refer to note 6 to the financial statements.

Net Position: The change in net position of \$229,806 is the result of FY 2019 operations. These are the effects of a net operating loss, non-operating revenue and the receipt of World Bank funded projects. The net change is 6% more than the value last year.

Plan of Action for 2020

1. Collaborate with JICA to approve extension of warranty period to Consultant, Yachiyo Engineering, and NBK, Project Contractor, for another term to provide periodic inspection to the new Power Plant and correct any concerned findings that may be detected and need to be improved. The new Power Plant has continued to provide power services to the island with improved efficiency performed from each unit since commissioning of the new facility.
2. Secure World Bank IDA grants to fund and implement the Energy Management System (Scada) and a Battery Storage Facility to support and improve efficiency of the Power System. Collaborate and coordinate with WB, FSM Energy Project Team for the preparation of the Project documents for the bidding and awarding of the projects. These projects are intended to increase renewable energy into the grid lines and improve integration and monitoring of mixed energies into the gridlines and maintenance of distribution lines.

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3. Increase additional Power capacity of 1.8 Mwp from the three recently installed engine units to supply sufficient power load required from the two Fishing companies, Luen Thai and Dayang Fishing Co. that are presently in operation at the Okat Dock and other big electric consumers. Two new engines donated by Japan Gov't/JICA and one from WB have significantly contributed to increased power capacity to supply services to the island. The Power System has sufficient firm capacity to supply increased load for the next several years.
4. Complete the procurement of equipment and materials from the WB IDA 16 grants and these are one unit Bucket Truck, 500 kwp capacity Transformer to feed fishing operation and other big power users at the Okat Dock, 555 street/yard LED and Solar lights, 100 Prepayment meters and 31 overhead Transformers with various power capacity to improve power line losses. These fixed assets were purchased by the WB IDA 16 grants to support the operation.
5. Collaborate with ADB and Nat'l Gov't Energy Division to secure grants for the implementation and installation of additional 1.05 Mwp Solar PV System for the main power grid and Hybrid Power System for Walung Community. Work with the State Government to identify and approve public land site for the installation of this additional PV System and private Land Owners to allow easement for the Walung Mini-hybrid system. These will increase energy access to Walung Community and achieve renewable energy of at least 30% into the power system.
6. Complete the Water System Project at Utwe Municipality and work with State Gov't for the transfer of the water operation and management to KUA. Prepare water regulations, tariff, water billings, customers services policies and administrative manual for the water operation. Officially establish the Water Division under KUA to be responsible for the Utwe Water System and seek funding to upgrade the water systems at the other three municipalities
7. Collaborate with JICA, ADB and WB for ongoing technical support for various programs/projects to improve the operation as outlined below:
 - a. The soft components of the JICA Projects regarding the comprehensive training programs to KUA employees to properly manage and operate the new Daithsu Engine units and keeping accurate data performances and the Hybrid Power Generation Programs for Diesel Generation and Renewable Energy.
 - b. ADB support for the Utwe Water System operation with the approved funding to support the Water Specialist to operate and manage the Utwe Water Operation during the transition period.
 - c. The technical support by WB to recruit Owner Engineer to work with KUA technical staff on the proposed Energy Management System (EMS) and the Battery Storage Facility on the Design, Specifications and Bids evaluation and implementation for these projects.
8. Upgrade and improve the Accounting System utilizing the Sage Accounting Software to replace the old MAS90 software that has been used since the inception of KUA. The old system has been acting up with more accounting errors which must be replaced by a more reliable and updated accounting system. This will improve accounting records and financial information including inventories and work orders requested from customers.

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Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

9. Continue to seek federal grants to fund the Heat Recovery Project to harness exhaust heat and re-generate kwh energy to service the customers. Applications will be re-submitted to RUS/USDA Office for grants consideration. This is intended to contribute to the increased renewable energies utilized in the Power System and to reduce fuel cost to KUA operation.
10. Install more street lights to provide safety and security to the public and Yard lights to customers. Approximately 75% of the Street/Yard lights that were purchased under the WB grants were installed and remaining will be installed with more lights to be purchased to meet the customers' request for yard lights.
11. Improve and renovate the old Distribution Warehouse and heavy Equipment Shelter. These buildings are in bad shape and will be replaced with Pre-fab Building materials. Install Security Fencing around the KUA compound and implement road entrance improvements. Provide repair and maintenance services to the old CAT engine unit, 1.6 Mwp capacity to stand ready for any power load increase from big power users.
12. Conduct Training to improve knowledge and skills to employees in areas of Renewable Energy and Diesel Generation, Audit and Financial, Renewable Energy Project Management, Billing and Accounting Software and other areas that are essential to improve the operation.

The Management Discussion and Analysis report is intended to provide information concerning known facts and conditions affecting the Authority's operations. This financial report is designed to provide a general overview of the Authority's finances and to demonstrate KUA's accountability for the funds it receives and expends. Please also refer to the Management's Discussion and Analysis for the Authority's 2018 audit, which report was dated April 18, 2019.

This financial report is designed to provide our customers, creditors, Board of Directors and other interested parties with the general overview of KUA's financial activities. Questions or additional financial information can be obtained from Finance Division with the permission of the General Manager at P.O. Box KUA, Kosrae, FM 96944.

KOSRAE UTILITIES AUTHORITY
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Statements of Net Position
September 30, 2019 and 2018

<u>ASSETS</u>	<u>2019</u>	<u>2018</u>
Utility plant:		
Electric plant in service	\$ 11,064,535	\$ 10,858,738
Less accumulated depreciation	<u>(9,027,803)</u>	<u>(8,777,372)</u>
	2,036,732	2,081,366
Construction work-in-progress	<u>133,249</u>	<u>62,560</u>
Net utility plant	<u>2,169,981</u>	<u>2,143,926</u>
Other noncurrent assets:		
Prepayments	-	28,021
Deposit for fuel purchase contract	<u>252,800</u>	<u>252,800</u>
Total noncurrent assets	<u>252,800</u>	<u>280,821</u>
Current assets:		
Cash and cash equivalents	525,845	345,641
Investments	746,860	750,952
Time certificate of deposit	167,539	167,119
Accounts receivable, net	220,195	182,903
Prepayments	15,658	5,180
Inventories (net of an allowance for obsolescence of \$283,956 and \$276,431 in 2019 and 2018, respectively)	<u>290,243</u>	<u>229,009</u>
Total current assets	<u>1,966,340</u>	<u>1,680,804</u>
Total assets	<u>\$ 4,389,121</u>	<u>\$ 4,105,551</u>
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Accounts payable - fuel	\$ 123,655	\$ 91,257
Accounts payable - other	24,647	17,030
Accrued annual leave	16,039	15,127
Unearned revenue	24,537	17,461
Accrued taxes and other	<u>43,063</u>	<u>37,302</u>
Total liabilities	<u>231,941</u>	<u>178,177</u>
Commitments and contingency		
Net position:		
Net investment in capital assets	2,169,981	2,143,926
Restricted	90,000	90,000
Unrestricted	<u>1,897,199</u>	<u>1,693,448</u>
Total net position	<u>4,157,180</u>	<u>3,927,374</u>
	<u>\$ 4,389,121</u>	<u>\$ 4,105,551</u>

See accompanying notes to financial statements.

KOSRAE UTILITIES AUTHORITY
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Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating revenues:		
Electricity sales	\$ 2,781,875	\$ 2,717,241
Bad debt expense	<u>(10,522)</u>	<u>(26,338)</u>
Net operating revenues	<u>2,771,353</u>	<u>2,690,903</u>
Operating expenses:		
Production fuel	1,686,613	1,589,009
Salaries and wages	535,052	504,574
Depreciation and amortization	438,127	381,904
Administrative and general	245,691	239,059
Repairs and maintenance	80,121	134,325
Provision for inventory obsolescence	<u>9,253</u>	<u>56,218</u>
Total operating expenses	<u>2,994,857</u>	<u>2,905,089</u>
Loss from operations	<u>(223,504)</u>	<u>(214,186)</u>
Nonoperating revenues (expenses):		
Subsidies from FSM National Government	93,079	-
Interest income	1,551	1,047
Net change in fair value of investments	<u>(4,092)</u>	<u>79,129</u>
Total nonoperating revenues, net	<u>90,538</u>	<u>80,176</u>
Capital contribution:		
WorldBank project grant	<u>362,772</u>	<u>89,674</u>
Change in net position	229,806	(44,336)
Net position at beginning of year	<u>3,927,374</u>	<u>3,971,710</u>
Net position at end of year	\$ <u><u>4,157,180</u></u>	\$ <u><u>3,927,374</u></u>

See accompanying notes to financial statements.

KOSRAE UTILITIES AUTHORITY
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Statements of Cash Flows
Years Ended September 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Cash received from customers	\$ 2,741,137	\$ 2,653,837
Cash paid to suppliers for goods and services	(1,773,902)	(2,133,392)
Cash paid to employees for services	(779,831)	(497,714)
Net cash provided by operating activities	<u>187,404</u>	<u>22,731</u>
Cash flows from investing activities:		
Interest and dividends received on investments and others	<u>1,131</u>	<u>630</u>
Cash provided by investing activities	<u>1,131</u>	<u>630</u>
Cash flows from noncapital financing activities:		
Subsidies from FSM National Government	<u>93,079</u>	<u>-</u>
Cash provided by noncapital financing activities	<u>93,079</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Capital expenditures for utility plant	<u>(101,410)</u>	<u>(152,480)</u>
Cash used in capital and related financing activities	<u>(101,410)</u>	<u>(152,480)</u>
Net change in cash and cash equivalents	180,204	(129,119)
Cash and cash equivalents at beginning of year	<u>345,641</u>	<u>474,760</u>
Cash and cash equivalents at end of year	<u>\$ 525,845</u>	<u>\$ 345,641</u>
Reconciliation of loss from operations to net cash provided by operating activities:		
Loss from operations	\$ (223,504)	\$ (214,186)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Depreciation and amortization	438,127	381,904
Bad debt expense	10,522	26,338
Inventory obsolescence	9,253	56,218
(Increase) decrease in assets:		
Accounts receivable	(47,814)	(20,789)
Prepayments	17,543	(35,147)
Inventories	(70,487)	(95,765)
Increase (decrease) in liabilities:		
Accounts payable - fuel	32,398	(59,062)
Accounts payable - other	7,617	(9,848)
Accrued annual leave	912	4,208
Unearned revenue	7,076	(12,283)
Accrued taxes and other	<u>5,761</u>	<u>1,143</u>
Net cash provided by operating activities	<u>\$ 187,404</u>	<u>\$ 22,731</u>

Supplemental information of noncash capital and related financing activities:

During the years ended September 30, 2019 and 2018, KUA recorded capital contributions from World Bank of \$362,772 and \$89,674, respectively, for street lights and other capital assets.

During the years ended September 30, 2019 and 2018, KUA transferred construction in progress of \$151,160 and \$86,600, respectively, to electric plant in service for completed projects.

During the years ended September 30, 2019 and 2018, KUA wrote off \$187,696 and \$270,838, respectively, of fully depreciated capital assets.

See accompanying notes to financial statements.

**KOSRAE UTILITIES AUTHORITY
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Notes to Financial Statements
September 30, 2019 and 2018

(1) Organization

The Kosrae Utilities Authority (the "Authority" or "KUA"), a component unit of the State of Kosrae (KSG), was created under KSG State Law 5-38 for the purpose of generating and transmitting electricity. Effective October 1, 1993, all assets and liabilities were transferred from KSG's Public Works Department to KUA. The principal market for the generation and transmission of electricity are government agencies, businesses and residential customers located in the State of Kosrae. KUA has adopted the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC).

KUA is governed by a five-member Board of Directors appointed by the Governor of KSG with the consent of the KSG Legislature.

KUA's financial statements are incorporated into the financial statements of KSG as a discretely presented component unit.

(2) Summary of Significant Accounting Policies

The accounting policies of KUA conform to accounting principles generally accepted in the United States of America as applicable to governmental entities, specifically proprietary funds.

KUA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – Management's Discussion and Analysis for State and Local Governments*. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into four net position categories:

- *Net Investment in Capital Assets* – include capital assets, restricted and unrestricted, net of accumulated depreciation, reduced by outstanding debt, net of debt service reserves.
- *Restricted Nonexpendable* – net position subject to externally imposed stipulations that require the Authority to maintain such permanently.
- *Restricted Expendable* – net position whose use by the Authority is subject to externally imposed stipulations that can be fulfilled by actions of the Authority pursuant to those stipulations or that expire by the passage of time.
- *Unrestricted* – net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

As of September 30, 2019 and 2018, KUA recorded restricted expendable net position of \$90,000 representing appropriations received from the FSM National Government for the power extension project to Walung, which has yet to commence.

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Notes to Financial Statements
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(2) Summary of Significant Accounting Policies, Continued

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the fund are included in the statements of net position. Proprietary fund operating statements present increases and decreases in net position. The accrual basis of accounting is utilized by proprietary funds. Under this basis, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Utility Plant

Utility plant assets were transferred from KSG's Public Works Department at estimated net book value in the absence of documents to support costs. As of September 30, 2019 and 2018, such plant assets are fully depreciated. KUA capitalizes individual items that have an estimated useful life of more than one year regardless of costs. Depreciation is calculated on the straight-line method over the estimated useful lives of the respective assets.

Investment in OEK, Inc.

Investment in OEK, Inc. represents 50% interest in the joint-venture, Ocean Energy Kosrae, Inc. (OEK) with the remaining 50% held by Ocean Energy Industries, Inc. (OEI). The purpose of OEK is to be an Independent Power Producer based on OEI's WaveSurfer power generating facilities in the waters around Kosrae in order to significantly reduce energy generation cost. The joint-venture was recognized in the accompanying financial statements using the cost method due to the uncertainty of obtaining future funds for the project. During the year ended September 30, 2015, the Authority recognized an impairment loss of \$50,000 associated with this investment.

Cash and Cash Equivalents and Time Certificates of Deposit

Cash and cash equivalents include cash on hand and cash held in demand deposit accounts. Deposits maintained in time certificates of deposit accounts with original maturity dates greater than three months are separately classified.

Investments

Investments and related investment earnings are reported 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.

**KOSRAE UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE STATE OF KOSRAE)**

Notes to Financial Statements
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

Receivables

All receivables are due from government agencies, businesses and individuals located within the State of Kosrae and are interest free and uncollateralized. The allowance for uncollectible accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectibility of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense. Bad debts are written off against the allowance on the specific identification method.

Inventory

Materials and fuel inventory are substantially carried at the lower of cost or market. First-in first-out costing method is used for materials and the average method for fuel, which approximate 74% and 26% of the net inventory value, respectively, as of September 30, 2019, and 81% and 19%, respectively, as of September 30, 2018.

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. Unused annual leave is paid to employees upon termination of their employment. No liability is recorded for nonvesting accumulating rights to receive sick leave benefits.

Taxes

Corporate profits are not subject to income tax in the Federated States of Micronesia (FSM). The FSM National Government imposes a gross receipts tax of 3% on revenues. KUA is specifically exempt from this tax. In addition, KUA is exempt from any taxes or assessments on any of its property, operations or activities imposed by KSG or local governments.

Revenues

Sales of electricity are recorded as billed to customers on a monthly billing cycle basis. At the end of each month, unbilled revenues are accrued based on the most recent cycle billing. Unbilled receivables at September 30, 2019 and 2018 are \$120,606 and \$97,787, respectively. Cash power revenue is recognized as revenue upon point of sale; the estimated unearned portion is determined at year end and recorded as unearned revenue in the accompanying statements of net position.

Operating and Non-Operating Revenues and Expenses

Operating revenues and expenses generally result directly from the operation and maintenance of the Authority. Non-operating revenues and expenses result from capital and financing activities, costs and related recoveries from natural disasters, and certain other non-recurring income and costs.

**KOSRAE UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE STATE OF KOSRAE)**

Notes to Financial Statements
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

Reclassifications

Certain reclassifications have been made to the 2018 financial statements to conform to the 2019 presentation. These reclassifications had no impact on operating loss, net position or cash flows as previously reported.

New Accounting Standards

During the year ended September 30, 2019, KUA implemented the following pronouncements:

- GASB Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset.
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements.

The implementation of these statements did not have a material effect on KUA's financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019.

Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests - an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

KOSRAE UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE STATE OF KOSRAE)

Notes to Financial Statements
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*, which clarifies 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. The provisions in Statement No. 91 are effective for fiscal years beginning after December 15, 2020. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No. 84, 89, 90 and 91 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. Management has yet to ascertain whether implementation of these statements will be postponed as provided in GASB Statement No. 95.

(3) Deposits and Investments

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, disclosure is required of investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 40 also requires disclosure of formal policies related to deposit and investment risks.

The deposit and investment policies of KUA are governed by the Board of Directors. As such, the Board of Directors is authorized to delegate certain responsibilities to third parties. Investment managers have discretion to purchase, sell, or hold the specific securities to meet the objectives set forth in the investment policy.

Generally, KUA can invest in bonds and other indebtedness of the U.S. and in preferred or common stock of any corporation created or existing under the laws of the U.S. or any U.S. state, territory, or commonwealth. Additionally, a maximum of 25% of the total portfolio may be invested in non-U.S. equities per the revised investment policy adopted in February 2010.

A. Deposits

As of September 30, 2019 and 2018, cash and cash equivalents and time certificates of deposit were \$693,384 and \$512,760, respectively, and the corresponding bank balances were \$741,323 and \$562,266, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2019 and 2018, bank deposits in the amount of \$308,949 and \$325,221, respectively, are insured. KUA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

KOSRAE UTILITIES AUTHORITY
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Notes to Financial Statements
September 30, 2019 and 2018

(3) Deposits and Investments, Continued

B. Investments

As of September 30, 2019 and 2018, investments at fair value comprise the following:

	<u>2019</u>	<u>2018</u>
Fixed income securities:		
U.S. Treasury obligations	\$ 136,241	\$ 115,317
U.S. Government agencies	36,046	41,691
Corporate notes	<u>88,204</u>	<u>86,486</u>
	<u>260,491</u>	<u>243,494</u>
Other Investments:		
Common equities	468,882	493,067
Money market funds (at amortized cost)	<u>17,487</u>	<u>14,391</u>
	<u>486,369</u>	<u>507,458</u>
	<u>\$ 746,860</u>	<u>\$ 750,952</u>

As of September 30, 2019, the Authority's fixed income securities consist of the following:

		<u>Fair</u> <u>Value</u>	<u>1 to 5</u> <u>Years</u>	<u>6 to 10</u> <u>Years</u>
U.S. Treasury obligations	Aaa	\$ 136,241	\$ 102,647	\$ 33,594
U.S. Government agencies	Aaa	36,046	36,046	-
Corporate notes	A2	25,322	25,322	-
Corporate notes	A3	23,885	-	23,885
Corporate notes	Baa1	7,189	7,189	-
Corporate notes	Baa2	23,808	6,855	16,953
Corporate notes	Baa3	<u>8,000</u>	<u>-</u>	<u>8,000</u>
		<u>\$ 260,491</u>	<u>\$ 178,059</u>	<u>\$ 82,432</u>

As of September 30, 2018, the Authority's fixed income securities consist of the following:

		<u>Fair</u> <u>Value</u>	<u>1 to 5</u> <u>Years</u>	<u>6 to 10</u> <u>Years</u>
U.S. Treasury obligations	Aaa	\$ 115,317	\$ 82,983	\$ 32,334
U.S. Government agencies	Aaa	41,691	41,691	-
Corporate notes	A2	14,091	7,199	6,892
Corporate notes	A3	37,434	21,702	15,732
Corporate notes	Baa1	12,939	7,958	4,981
Corporate notes	Baa2	<u>22,022</u>	<u>7,835</u>	<u>14,187</u>
		<u>\$ 243,494</u>	<u>\$ 169,368</u>	<u>\$ 74,126</u>

KOSRAE UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE STATE OF KOSRAE)

Notes to Financial Statements
September 30, 2019 and 2018

(3) Deposits and Investments, Continued

B. Investments, Continued

KUA categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No.72. 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.

KUA has the following recurring fair value measurements as of September 30, 2019 and 2018:

	September 30, <u>2019</u>	Fair Value Measurements Using		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level:				
Fixed income:				
U.S. Treasury obligations	\$ 136,241	\$ -	\$ 136,241	\$ -
U.S. Government Agencies	36,046	-	36,046	-
Corporate notes	<u>88,204</u>	<u>-</u>	<u>88,204</u>	<u>-</u>
	\$ <u>260,491</u>	\$ <u>-</u>	\$ <u>260,491</u>	\$ <u>-</u>
Equity securities:				
U.S. equities	\$ 468,882	\$ 468,882	-	-
Non U.S. equities	<u>-</u>	<u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Total investments at fair value	729,373	\$ <u>468,882</u>	\$ <u>260,491</u>	\$ <u>-</u>
Investments measured at amortized cost:				
Money market funds	<u>17,487</u>			
	\$ <u>746,860</u>			

	September 30, <u>2018</u>	Fair Value Measurements Using		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level:				
Fixed income:				
U.S. Treasury obligations	\$ 115,317	\$ -	\$ 115,317	\$ -
U.S. Government Agencies	41,691	-	41,691	-
Corporate notes	<u>86,486</u>	<u>-</u>	<u>86,486</u>	<u>-</u>
	\$ <u>243,494</u>	\$ <u>-</u>	\$ <u>243,494</u>	\$ <u>-</u>
Equity securities:				
U.S. equities	\$ 481,263	\$ 481,263	-	-
Non U.S. equities	<u>11,804</u>	<u>11,804</u>	\$ <u>-</u>	\$ <u>-</u>
Total investments at fair value	736,561	\$ <u>493,067</u>	\$ <u>243,494</u>	\$ <u>-</u>
Investments measured at amortized cost:				
Money market funds	<u>14,391</u>			
	\$ <u>750,952</u>			

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, KUA will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

KOSRAE UTILITIES AUTHORITY
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Notes to Financial Statements
September 30, 2019 and 2018

(3) Deposits and Investments, Continued

B. Investments, Continued

KUA's investments are held and administered by trustees. Accordingly, these investments are exposed to custodial credit risk. Based on negotiated trust and custody contracts, all of these investments were held in KUA's name by KUA's custodial financial institutions at September 30, 2019 and 2018.

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 KUA. As of September 30, 2019 and 2018, there was no concentration of credit risk for KUA's investments.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. KUA 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.

(4) Accounts Receivable

Accounts receivable at September 30, 2019 and 2018, are summarized as follows:

	<u>2019</u>	<u>2018</u>
Utility:		
Residential	\$ 34,892	\$ 35,987
Commercial	83,954	55,774
Government	67,452	85,492
Fuel adjustment charge	<u>5,290</u>	<u>10,015</u>
	191,588	187,268
Travel advances	16,102	4,281
Other	<u>89,012</u>	<u>57,339</u>
	296,702	248,888
Less allowance for doubtful accounts	<u>(76,507)</u>	<u>(65,985)</u>
	\$ <u>220,195</u>	\$ <u>182,903</u>

KOSRAE UTILITIES AUTHORITY
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Notes to Financial Statements
September 30, 2019 and 2018

(5) Utility Plant

Capital asset activity for the years ended September 30, 2019 and 2018, is as follows:

	<u>Estimated Useful Lives</u>	<u>Balance at October 1, 2018</u>	<u>Transfers and Additions</u>	<u>Transfers and Deletions</u>	<u>Balance at September 30, 2019</u>
<u>Depreciable assets:</u>					
Production plant	5 to 40 years	\$ 3,865,622	\$ 75,400	\$ (64,594)	\$ 3,876,428
Distribution plant	5 to 30 years	6,379,466	305,045	(114,456)	6,570,055
General plant	3 to 20 years	<u>613,650</u>	<u>13,048</u>	<u>(8,646)</u>	<u>618,052</u>
Total electric plant in service		10,858,738	393,493	(187,696)	11,064,535
Less accumulated depreciation		<u>(8,777,372)</u>	<u>(438,127)</u>	<u>187,696</u>	<u>(9,027,803)</u>
		2,081,366	(44,634)	-	2,036,732
<u>Non-depreciable assets:</u>					
Construction work-in-progress		<u>62,560</u>	<u>224,537</u>	<u>(153,848)</u>	<u>133,249</u>
Electric plant in service, net		\$ <u>2,143,926</u>	\$ <u>179,903</u>	\$ <u>(153,848)</u>	\$ <u>2,169,981</u>
	<u>Estimated Useful Lives</u>	<u>Balance at October 1, 2017</u>	<u>Transfers and Additions</u>	<u>Transfers and Deletions</u>	<u>Balance at September 30, 2018</u>
<u>Depreciable assets:</u>					
Production plant	5 to 40 years	\$ 3,873,532	\$ 1,936	\$ (9,846)	\$ 3,865,622
Distribution plant	5 to 30 years	6,442,078	126,631	(189,243)	6,379,466
General plant	3 to 20 years	<u>562,921</u>	<u>122,478</u>	<u>(71,749)</u>	<u>613,650</u>
Total electric plant in service		10,878,531	251,045	(270,838)	10,858,738
Less accumulated depreciation		<u>(8,666,306)</u>	<u>(381,904)</u>	<u>270,838</u>	<u>(8,777,372)</u>
		2,212,225	(130,859)	-	2,081,366
<u>Non-depreciable assets:</u>					
Construction work-in-progress		<u>29,281</u>	<u>119,879</u>	<u>(86,600)</u>	<u>62,560</u>
Electric plant in service, net		\$ <u>2,241,506</u>	\$ <u>(10,980)</u>	\$ <u>(86,600)</u>	\$ <u>2,143,926</u>

(6) Short-Term Borrowings

In the normal course of operations, KUA obtains short-term borrowings primarily for the purpose of funding the purchase of fuel. As of September 30, 2019 and 2018, KUA has a bank credit line amounting to \$200,000 bearing interest at 7.0% per annum, with interest payable monthly and principal balance due upon maturity, which is collateralized by certain eligible investment securities and existing and future business accounts receivable. No drawn downs and repayments occurred during the years ended September 30, 2019 and 2018. Subsequent to September 30, 2019, KUA drew down \$100,000 against the credit line.

(7) Significant Suppliers

KUA purchased virtually all fuel from one supplier during the years ended September 30, 2019 and 2018.

KOSRAE UTILITIES AUTHORITY
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Notes to Financial Statements
September 30, 2019 and 2018

(8) Commitments

Net position at September 30, 2019 and 2018 has been appropriated in the amounts of \$2,416,919 and \$2,316,919, respectively, for repair and maintenance and capital improvement projects. This process will continue in fiscal year 2020 with a total of \$25,000 being further appropriated on a quarterly basis from net position for this purpose.

(9) Risk Management

KUA 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. KUA has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed to from fire on its building and the contents and full coverage on property damage. KUA also pays for workers' compensation to cover for wage replacement and medical benefits to employees injured in the course of employment. KUA is substantially self-insured for all other risks. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

(10) Retirement Plan

KUA administers a defined contribution retirement plan (the Plan) covering all employees with at least one year of service. Vesting occurs upon plan entry. Employee contributions can be made from 1% to 15% of earnings with a 50% match by KUA up to 5% of employee compensation. KUA's controller is the designated Plan administrator. Contributions to the Plan during the years ended September 30, 2019, 2018 and 2017 were \$3,184, \$2,557, and \$2,442, respectively, which were equal to the employer contributions required by the plan. Management is of the opinion that the Plan does not represent an asset or liability of KUA. For the years ended September 30, 2019 and 2018, Plan assets were \$102,654 and \$89,514, respectively, with corresponding cash balances of \$95,457 and \$84,042, respectively.

(11) Related Parties

KUA is a component unit of KSG and is therefore affiliated with all KSG-owned and affiliated entities. All KUA services to KSG and its component units are provided on the same basis as provided to unrelated parties. All production fuel is purchased from FSM Petroleum Corporation (FSMPC), a component unit of the FSM National Government (FSMNG).

A long-term deposit in the amount of \$252,800, through a sub-grant from the FSMNG, is held by FSMPC as collateral for fuel and lubricant purchases.

(12) Subsequent Events

As a result of the spread of the COVID-19 coronavirus, governments worldwide implemented actions to restrict travel and economic activities. Uncertainties have arisen which may have negative impact on KUA's financial and operational results. Such potential impacts are unknown at this time.

Management has considered subsequent events through June 2, 2020, upon which the financial statements were available to be issued. Except as disclosed in Note 6 to the financial statements, there are no other material subsequent events that would require recognition or disclosure in the financial statements for the year ended September 30, 2019.

**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**

The Board of Directors
Kosrae Utilities Authority:

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 Authority, which comprise the statement of net position as September 30, 2019, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated June 2, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

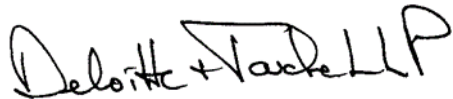
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

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

June 2, 2020

**KOSRAE UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE STATE OF KOSRAE)**

Summary Schedule of Prior Year Findings and Questioned Costs
Year Ended September 30, 2019

There are no prior year findings or unresolved questioned costs of Kosrae Utilities Authority as of September 30, 2019.