

**POHNPEI UTILITIES CORPORATION
(A COMPONENT UNIT OF THE STATE OF POHNPEI)**

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

YEARS ENDED SEPTEMBER 30, 2019 AND 2018

POHNPEI UTILITIES CORPORATION
(A COMPONENT UNIT OF THE STATE OF POHNPEI)

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Years Ended September 30, 2019 and 2018

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Pohnpei Utilities Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of the Pohnpei Utilities Corporation (PUC), a component unit of the State of Pohnpei, 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 the Pohnpei Utilities Corporation as of September 30, 2019 and 2018, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 6 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 Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental combining schedules on pages 22 to 24 are presented for purposes of additional analysis and are not a required part of the financial statements.

The supplemental combining schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental combining schedules are fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2020, on our consideration of PUC'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 PUC'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 PUC's internal control over financial reporting and compliance.

Deloitte & Touche LLP

December 29, 2020

**POHNPEI UTILITIES CORPORATION
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Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

The following discussion and analysis of the financial performance and activities of the Pohnpei Utilities Corporation (PUC) is to provide an introduction and understanding of the basic financial statements of the PUC for the years ended September 30, 2019 and 2018. The discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

PUC is a public corporation of the Pohnpei State Government and is primary provider of Power, Water and Sewer services for the island. It is under the governance of a seven-member Board of Directors that was appointed by the Governor and approved by the Legislature of Pohnpei State, which has oversight over operation of the Power, Water and Sewer utilities services. The General Manager who is hired by the Board of Directors oversees the daily operation of PUC.

PUC is operating with three (3) 3516C Caterpillar engines, two (2) 3516B Caterpillars engines, two (2) 3512 Caterpillar engines, and two (2) C18 Caterpillar engines. Of the nine (9) gensets, unit #1 3512 and unit #4 3516C are not in operation but currently under repair. PUC has installed diesel generation capacity of 12340 kW and has been de-rated to 9450 kW. A 2200kW diesel generation capacity under a Power Purchase Agreement with the FSM Petroleum Corporation has been de-rated to 1400 kW. Renewables include 725 kW from Nanpil Hydro Plant, 180kW from Palikir Solar Plant, 200kW from Nett School Solar Plant, and 600 kW from Pohnlangas Solar Plant. An additional 275 kW was commissioned in April 2019 by the New Zealand Ministry of Foreign Affairs & Trade. A total available diesel capacity of 5800 kW during the latter part of fiscal year 2018 was maintained through the first quarter of fiscal year 2019, with the available capacity fluctuating from 3750 kW to 7800 kw throughout the year, with the peak demand of 6154 kW recorded in July of 2019. PUC produced 36,882,381 kWhr and 37,478,406 kWhr, and sold 29,170,732 kWhr and 27,663,032 kWhr to customer in 2018 and 2019, respectively. The number of customers being serviced by the PUC is 7,352 (7,179 using cashpower meters and 173 using conventional meters) in 2019. The service coverage is 96% of the population.

Presently, PUC is managing four separate water systems. The systems include the Central (Kolonia), Palikir, Lukop and Wapar Water Supply systems. The sources of water supply for these systems are both surface and ground water. The Central Water Supply depends on surface water and supplements by ground water wells. Ground Water (Well) are the main water sources for Palikir, Lukop and Wapar Water Supply system. The surface water for the central water system transmitted from Nanpil dam to the Water treatment plant at approximately 3 miles. Since then and up to present, the surface water goes through a treatment process (rapid sand filter media's) and is injected with a plant demand of chlorine using calcium hypochlorite.

The Palikir, Lukop, and Wapar water systems are sourced from ground water wells at a maximum depth of 300 ft.

All the four water systems are being distributed to the general public for consumption. To ensure that quantity is met, the systems have several holding tanks for that purpose. In all the four water systems, there are total of six holding tanks. Two (2) each 1 million and four (4) each half (.5) million gallon tanks. PUC has the aptitude to produce 5 million gallons per day. The daily water demand to existing customers varies from 1.8 million to 2.8 million gallons per day. PUC produced 1.2 trillion to 1.06 trillion gallons from 2018 to 2019. PUC sold 582 million gallons and 579 million gallons to customers in 2018 and 2019, which resulted in total revenue of \$1.6 million and \$1.8 million, respectively. PUC services the total of 3,914 households, 3,605 on conventional postpaid meters and 309 prepaid meters (cash water) which covers about 2/3 of Pohnpei in area or 61% of the population.

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The following table summarizes the financial condition and operations of the PUC for years ended September 30, 2019, 2018, and 2017:

Assets:	<u>2019</u>	<u>2018</u>	<u>2017</u>
Utility plant, net	\$ 30,050,482	\$ 30,406,316	\$ 32,438,233
Current assets	3,540,930	3,236,193	2,945,336
Other noncurrent assets	<u>1,774,562</u>	<u>1,774,385</u>	<u>1,773,849</u>
	<u>\$ 35,365,974</u>	<u>\$ 35,416,894</u>	<u>\$ 37,157,418</u>
Liabilities and Net Position:			
Notes payable	\$ 324,613	\$ 536,636	\$ 549,131
Current portion of long-term debt	466,511	475,070	577,064
Other current liabilities	5,091,885	4,627,941	4,321,891
Long-term debt, net of current portion	<u>7,327,472</u>	<u>7,927,544</u>	<u>8,484,337</u>
Total liabilities	<u>13,210,481</u>	<u>13,567,191</u>	<u>13,932,423</u>
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Net Position:			
Net investment in capital assets	22,256,499	22,024,030	23,500,610
Restricted	723,863	723,686	723,150
Unrestricted	<u>(824,869)</u>	<u>(898,013)</u>	<u>(998,765)</u>
Total net position	<u>22,155,493</u>	<u>21,849,703</u>	<u>23,224,995</u>
	<u>\$ 35,365,974</u>	<u>\$ 35,416,894</u>	<u>\$ 37,157,418</u>
Revenues, Expenses and Changes in Net Position:			
Operating revenues	\$ 14,720,101	\$ 13,959,924	\$ 12,366,608
Bad debts	(308,112)	(506,464)	(775,031)
Operating and maintenance expenses	<u>(15,604,614)</u>	<u>(15,041,406)</u>	<u>(13,581,294)</u>
Operating loss	(1,192,625)	(1,587,946)	(1,989,717)
Non-operating expenses, net	<u>(162,236)</u>	<u>(387,683)</u>	<u>(75,294)</u>
Loss before capital contributions	(1,354,861)	(1,975,629)	(2,065,011)
Capital contributions	<u>1,660,651</u>	<u>600,337</u>	<u>107,485</u>
Change in net position	305,790	(1,375,292)	(1,957,526)
Net position at beginning of year	<u>21,849,703</u>	<u>23,224,995</u>	<u>25,182,521</u>
Net position at end of year	<u>\$ 22,155,493</u>	<u>\$ 21,849,703</u>	<u>\$ 23,224,995</u>

Overall changes in the statements of net position components from September 2018 to 2019 include a decrease of utility plant of \$355,834, an increase of current and other noncurrent assets of \$304,914 and a decrease in total liabilities of \$356,710.

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Decreases in utility plant are the result of depreciation and transfers. Please see note 4 to the financial statements for additional information on PUC's utility plant.

Increase in current assets is attributable to increase in cash and cash equivalents and prepayments.

Increase in current liabilities is due to on-going Asian Development Bank loan payments that Pohnpei State Government makes on behalf of PUC. Please see notes 5 and 6 to the financial statements for additional information on PUC's borrowing arrangements.

Increase in operating revenue before bad debts is mainly due to the increase in power sales and increase in water sales due to additional account hookups.

Increase in operating expenses is mainly due to the increase inventory purchases due to maintenance on generators.

PUC incurred a loss before capital contribution in 2019 and 2018. Capital contribution for 2019 is \$1,660,651 as compared to 2018 of \$600,337.

Economic Outlook

PUC completed the Fiscal Year 2019 with major undertakings in the strengthening of power generation, transmission and distribution. CAT No. 1 and 3 were replaced with brand new engine blocks while CAT No. 2 underwent a major overhaul and replacement of the alternator. Under the ESDP, PUC received funding for the major overhaul of Cat No. 4 and 5. This solidifies the baseload gensets that are supplemented by three (3) peak load gensets from PUC and 4 mini high speed gensets under a Power Purchase Agreement with Vital. PUC has signed a contract to convert waste heat from the genset exhaust heat to energy through installation of new ORC generators on our existing gensets. It is anticipated to generate 300 kW of renewable energy to feed into the grid.

PUC is working with World Bank under the SEDAP to improve the reliability of electric supply in Pohnpei. ITP was contracted to provide the design, technical specifications and bidding documents for the procurement of the 7.5 MW of medium speed genset with higher fuel efficiency.

PUC is aggressively addressing the line losses by trimming tree branches on its 82 miles of power lines, replacing 700 mercury vapor street lights with 700 LED's that use less energy to run, right sizing of the transformers to prevent additional line loss, and is in the planning stages to rehabilitate the distribution network with new automatic reclosures and networked SCADA, which will monitor the lines in real time to see our levels and more quickly detect when lines go down.

Total station and lines losses for PUC is 20%. This is very high and has attracted the attention of PUC management to prioritize the reduction of losses. With all of these improvements in 2019 going forward, we will be able to realize a gradual decrease in station and line losses by fiscal year 2023.

A total of 1980 kW of renewable energy is in operations inclusive of the 725 kW Hydro unit in Nanpil. Under 20 years IPP/PPA, a 2 MW PV and 2.5 MW of BESS construction was completed in July of 2019 and under commissioning at Pohnlanghas at our solar farm in Madolenihmw.

PUC's renewable energy penetration is 6%.

PUC is responsible for 4 water systems around the island with 3600 active water customers. 309 are currently on prepaid water meters. With the support of the Infrastructure Sector un-allocated grant, PUC anticipated receiving 1600 meters in 2019 and due to the lock down of factories around the world due to the COVID-19 pandemic, the supply of the meters was delayed. Water collection is a challenge and

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with internal reform on collection there is improvement in collection from 58% to 75% during the past few years.

Six miles of main water line has to be extended to Kitti, starting at the College of Micronesia-FSM and is heading towards Nanpei Memorial School. The design and bidding document for the extension from Kinakapw to Lehndiadi is in its final stages.

There are two sewer treatment plants under PUC serving approximately 800 customers. PUC has the challenge to maintain the 11 miles of sewer mains, lift stations and a treatment plant without an approved tariff or subsidy from the government. This has put pressure on the utility to maintain an extensive system of pumps and pipes without any reimbursement of our operations and maintenance to the system.

Management's Discussion and Analysis for the year ended September 30, 2018 is set forth in PUC's report on the audit of the financial statements, which is dated July 1, 2019. That Discussion and Analysis explains the major factors impacting our 2018 financial statements and can be viewed at the Office of the Public Auditor's website at www.fsmopa.fm.

For additional information about this report, please contact the General Manager at P.O. Box C, Kolonia, Pohnpei.

This concludes the management discussion and analysis of the financial statements for the year ended September 30, 2019.

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Statements of Net Position
September 30, 2019 and 2018

<u>ASSETS</u>	<u>2019</u>	<u>2018</u>
Current assets:		
Cash and cash equivalents	\$ 1,729,184	\$ 1,388,441
Time certificates of deposit	230,980	228,788
Accounts receivable, net	1,121,816	1,373,374
Prepayments	220,848	58,974
Materials and fuel inventory, net	<u>238,102</u>	<u>186,616</u>
Total current assets	<u>3,540,930</u>	<u>3,236,193</u>
Other noncurrent assets:		
Long-term deposits	1,256,912	1,256,912
Restricted - cash and cash equivalents	<u>517,650</u>	<u>517,473</u>
Total other noncurrent assets	<u>1,774,562</u>	<u>1,774,385</u>
Utility plant, at cost:		
Electric plant in service	38,185,141	36,680,866
Water and sewer plant in service	<u>29,958,940</u>	<u>29,933,322</u>
	68,144,081	66,614,188
Less accumulated depreciation	<u>(39,155,895)</u>	<u>(37,057,939)</u>
Depreciable assets, net	28,988,186	29,556,249
Construction work-in-process	<u>1,062,296</u>	<u>850,067</u>
Total utility plant	<u>30,050,482</u>	<u>30,406,316</u>
	<u>\$ 35,365,974</u>	<u>\$ 35,416,894</u>
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Notes payable	\$ 324,613	\$ 536,636
Current portion of long-term debt	466,511	475,070
Accounts payable:		
Operations	3,218,272	2,940,151
Fuel, lubricants and kwh purchased	907,122	603,096
Unearned revenue	389,024	627,100
Accrued taxes and other liabilities	440,786	334,462
Employees' annual leave	<u>136,681</u>	<u>123,132</u>
Total current liabilities	5,883,009	5,639,647
Noncurrent liabilities:		
Long-term debt, net of current portion	<u>7,327,472</u>	<u>7,927,544</u>
Total liabilities	<u>13,210,481</u>	<u>13,567,191</u>
Commitments and contingencies		
Net position:		
Net investment in capital assets	22,256,499	22,024,030
Restricted	723,863	723,686
Unrestricted	<u>(824,869)</u>	<u>(898,013)</u>
Total net position	<u>22,155,493</u>	<u>21,849,703</u>
	<u>\$ 35,365,974</u>	<u>\$ 35,416,894</u>

See accompanying notes to financial statements.

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

	2019	2018
Operating revenues:		
Electricity sales	\$ 12,884,092	\$ 12,191,748
Water sales	1,799,894	1,578,366
Other sales	36,115	189,810
Total operating revenues	14,720,101	13,959,924
Bad debts	(308,112)	(506,464)
Net operating revenues	14,411,989	13,453,460
Operating and maintenance expenses:		
Production fuel	6,334,703	6,390,446
Kwh purchased	2,729,953	2,106,591
Depreciation	2,097,956	2,109,349
Administrative and general	1,851,370	1,769,348
Distribution	915,290	688,505
Generation	902,396	1,013,720
Water and sewer	772,946	917,516
Provision for inventory obsolescence	-	45,931
Total operating and maintenance expenses	15,604,614	15,041,406
Operating loss	(1,192,625)	(1,587,946)
Nonoperating revenues (expenses), net:		
Provision for litigation losses	(171,000)	-
Interest expense, net	(99,309)	(199,977)
Grants and subsidies	107,566	100,000
Loss on disposal of utility assets	-	(420,031)
Other income	507	132,325
Total nonoperating expenses, net	(162,236)	(387,683)
Loss before capital contributions	(1,354,861)	(1,975,629)
Capital contributions:		
Capital contributions	1,660,651	600,337
Total capital contributions	1,660,651	600,337
Change in net position	305,790	(1,375,292)
Net position at beginning of year	21,849,703	23,224,995
Net position at end of year	\$ 22,155,493	\$ 21,849,703

See accompanying notes to financial statements.

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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	\$ 14,425,978	\$ 13,504,262
Cash payments to suppliers for goods and services	(11,086,206)	(10,635,691)
Cash paid to employees	(2,640,876)	(2,543,164)
Net cash provided by operating activities	698,896	325,407
Cash flows from investing activities:		
Interest and dividends on investments and bank account	1,754	1,501
Net cash provided by investing activities	1,754	1,501
Cash flows from noncapital financing activities:		
Net decrease in note payable	(212,023)	(12,495)
Operating grants received	107,566	100,000
Net cash (used in) provided by noncapital financing activities	(104,457)	87,505
Cash flows from capital and related financing activities:		
Interest paid	(93,120)	(202,742)
Principal repayment of long-term debt	(80,682)	(160,567)
Cash receipts from grantor for capital projects	827,239	913,475
Acquisition of utility plant	(908,710)	(587,448)
Net cash used in capital and related financing activities	(255,273)	(37,282)
Net change in cash and cash equivalents	340,920	377,131
Cash and cash equivalents at beginning of year	1,905,914	1,528,783
Cash and cash equivalents at end of year	\$ 2,246,834	\$ 1,905,914
<u>Reconciliation of operating loss to net cash provided by operating activities:</u>		
Operating loss	\$ (1,192,625)	\$ (1,587,946)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	2,097,956	2,109,349
Bad debts	308,112	506,464
Inventory obsolescence	-	45,931
Other income	507	132,325
(Increase) decrease in assets:		
Accounts receivable	(56,554)	(587,988)
Prepayments	(161,874)	215,873
Materials and fuel inventory	(51,486)	(93,278)
Increase (decrease) in liabilities:		
Accounts payable	44,063	(434,075)
Unearned revenue	(238,076)	(78,027)
Accrued taxes and other liabilities	(64,676)	101,073
Employees' annual leave	13,549	(4,294)
Net cash provided by operating activities	\$ 698,896	\$ 325,407

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Statements of Cash Flows, Continued
Years Ended September 30, 2019 and 2018

Supplemental information of noncash operating, capital and related financing activities :

During the year ended September 30, 2019, PUC received capital assets worth \$833,412 from a foreign government through FSMNG. As a result, PUC increased its capital assets and capital contribution by the same amount.

During the year ended September 30, 2019, ADB loans principal and interest payments of \$407,320 and \$131,586, respectively, were made by PSG, which were recorded as an increase in accounts payable to PSG.

During the year ended September 30, 2018, ADB loans principal payments of \$408,235 were made by PSG, which were recorded as an increase in accounts payable to PSG.

During the years ended September 30, 2019 and 2018, PUC was allocated a decrease of \$120,629 and \$89,985, respectively, of balance adjustments relating to currency re-evaluation changes associated with the ADB loans. As a result, PUC decreased its long-term debt and interest expense by the same amount.

See accompanying notes to financial statements.

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Notes to Financial Statements
September 30, 2019 and 2018

(1) Organization

Pohnpei Utilities Corporation (PUC) is a component unit of the Government of the State of Pohnpei. PUC commenced operations on October 1, 1991, with assets and liabilities of the Division of Public Utilities of the Pohnpei State Department of Public Works transferred as of that date. PUC has adopted the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). As of October 1, 1993, the assets, liabilities, and operations of the Division of Water and Sewer of the Pohnpei State Department of Public Works were also transferred to PUC as the result of Pohnpei State Law 3L-41-93.

PUC's financial statements are incorporated into the financial statements of the State of Pohnpei as a component unit.

(2) Summary of Significant Accounting Policies

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and modified by Statement No. 38, *Certain Financial Statement Note Disclosures*, establish financial reporting standards for governmental entities, which require that management's discussion and analysis of the financial activities be included with the basic financial statements and notes and modifies certain other financial statement disclosure requirements.

To conform to the requirements of GASB 34, equity is presented in the following net position categories:

- Net investment in capital assets - capital assets, net of accumulated depreciation, plus construction or improvement of those assets, net of related debts.
- Restricted: Nonexpendable - net position subject to externally imposed stipulations that requires PUC to maintain such permanently. At September 30, 2019 and 2018, PUC does not have nonexpendable net position. Expendable - net position whose use by PUC is subject to externally imposed stipulations that can be fulfilled by actions of PUC 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.

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources, and liabilities and deferred inflows of resources 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 method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

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Notes to Financial Statements
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents and Time Certificates of Deposit

For purposes of the statements of net position and of cash flows, cash and cash equivalents are defined as cash on hand and cash held in bank deposit accounts. Time certificates of deposit with original maturity dates greater than three months and those deposits that are restricted for use are separately classified in the statements of net position.

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

As of September 30, 2019 and 2018, the carrying amount of cash and cash equivalents and time certificates of deposit was \$2,477,814 and \$2,134,702, respectively, and the corresponding bank balances were \$2,971,177 and \$2,209,679, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2019 and 2018, bank deposits of \$500,000 were FDIC insured. PUC 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.

Accounts Receivable and Allowance for Doubtful Accounts

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

Inventories

Materials and fuel inventory are substantially carried at the lower of cost (weighted average) or market, net of an allowance for obsolescence relating to parts that have been specifically identified as likely not usable. At September 30, 2019 and 2018, inventory is net of an allowance for obsolescence of \$1,034,114.

Deferred Outflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. As of September 30, 2019 and 2018, PUC has no items that qualify for reporting in this category.

**POHNPEI UTILITIES CORPORATION
(A COMPONENT UNIT OF THE STATE OF POHNPEI)**

Notes to Financial Statements
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

Utility Plant

Initial utility plant assets were transferred to PUC at the carrying value of the Division of Public Utilities and Division of Water and Sewer of the Pohnpei State Department of Public Works as of October 1, 1991 and 1993, for the electric plant and water and sewer plants, respectively, except as to certain utility plant assets which are stated at estimated net book value in the absence of documents to support cost. The net book value of the electric plant assets transferred was \$17,191,311 as of October 1, 1991, and the net book value of the water and sewer plant assets transferred was \$6,708,112 as of October 1, 1993. PUC capitalizes subsequent plant acquisitions with original costs in excess of \$5,000, with an estimated useful life in excess of one year.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Estimated useful lives for utility plant assets are 5-40 years for production plant, 5-30 years for distribution plant and 3-20 years for general plant.

Deferred Inflows of Resources

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. As of September 30, 2019 and 2018, PUC has no items that qualify for reporting in this category.

Compensated Absences

Earned but unused annual leave is paid to employees upon termination of their employment. Accordingly, vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. It is the policy of PUC to record the cost of sick leave when leave is actually taken and an expense is actually incurred. Accordingly, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

Revenue Recognition

Sales of electricity and water are recorded as billed to customers on a semi-monthly or monthly billing cycle basis. Unbilled revenues are accrued based on the most recent billing cycles. Cash power and water revenue is recognized as revenue upon point of sale; the estimated unearned portion is determined at the end of each year. At September 30, 2019 and 2018, the estimated unearned cash power revenue of approximately \$258,000 and \$189,000, respectively, is included as part of unearned revenue in the accompanying statements of net position.

Operating and Nonoperating Revenues and Expenses

PUC considers utility revenues and costs that are directly related to utility operations to be operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as nonoperating.

Grants and Subsidies

PUC receives grants from the U.S Government and other foreign governments or entities either as a direct recipient or as a subrecipient from the Pohnpei State Government (PSG) or the FSM National Government (FSMNG) in addition to Pohnpei State Legislature appropriated subsidies and matching funds for federal programs as required.

POHNPEI UTILITIES CORPORATION
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Notes to Financial Statements
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During the year ended September 30, 2019, PUC 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. The implementation of this statement did not have a material effect on the accompanying financial statements.
- 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 this statement did not have a material effect on the accompanying financial statements but resulted in additional disclosures (see note 6).

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.

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.

POHNPEI UTILITIES CORPORATION
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Notes to Financial Statements
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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 determine whether implementation of these statements will be postponed as provided in GASB Statement No. 95.

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 disclosures 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.

(3) Accounts Receivable

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

	<u>2019</u>	<u>2018</u>
Accounts receivable - electrical:		
Residential	\$ 1,779,839	\$ 1,707,953
Commercial	760,667	770,516
Government	<u>549,130</u>	<u>616,749</u>
	<u>3,089,636</u>	<u>3,095,218</u>
Accounts receivable - water and sewer:		
Residential	4,352,051	4,467,706
Commercial and government	761,453	576,960
Unbilled	<u>68,435</u>	<u>63,867</u>
	<u>5,181,939</u>	<u>5,108,533</u>
Installment receivables	71,185	72,025
Other	<u>197,351</u>	<u>207,781</u>
	8,540,111	8,483,557
Less allowance for doubtful accounts	<u>(7,418,295)</u>	<u>(7,110,183)</u>
	<u>\$ 1,121,816</u>	<u>\$ 1,373,374</u>

PUC operates a prepaid cash power meter system in which a portion of customer payments are used to satisfy balances in arrears. 50% of collections are applied to arrears at the time of purchase. As of September 30, 2019 and 2018, included in accounts receivable – electrical due from customers enrolled in the cash power meter system are \$1,203,702 and \$1,033,402, respectively.

POHNPEI UTILITIES CORPORATION
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Notes to Financial Statements
September 30, 2019 and 2018

(4) Utility Plant

A summary of changes in capital assets for the years ended September 30, 2019 and 2018 is as follows:

	Beginning Balance <u>October 1, 2018</u>	Additions and <u>Transfers</u>	Deletions and <u>Transfers</u>	Ending Balance <u>September 30, 2019</u>
<u>Depreciable assets:</u>				
Production plant	\$ 21,065,230	\$ 1,446,909	\$ -	\$ 22,512,139
Distribution plant	14,592,376	-	-	14,592,376
General plant	<u>1,023,260</u>	<u>57,366</u>	-	<u>1,080,626</u>
Electric plant in service	<u>36,680,866</u>	<u>1,504,275</u>	-	<u>38,185,141</u>
Water production plant	6,721,165	17,918	-	6,739,083
Sewage collection and treatment plant	13,607,861	-	-	13,607,861
Water distribution plant	8,835,385	-	-	8,835,385
General plant	<u>768,911</u>	<u>7,700</u>	-	<u>776,611</u>
Water and sewer plant in service	<u>29,933,322</u>	<u>25,618</u>	-	<u>29,958,940</u>
Total utility plant in service	66,614,188	1,529,893	-	68,144,081
Less accumulated depreciation	<u>(37,057,939)</u>	<u>(2,097,956)</u>	-	<u>(39,155,895)</u>
	<u>29,556,249</u>	<u>(568,063)</u>	-	<u>28,988,186</u>
<u>Non-depreciable assets:</u>				
Construction work-in-process:				
Electric plant	646,199	737,494	(555,265)	828,428
Water and sewer plant	<u>203,858</u>	<u>30,000</u>	-	<u>233,868</u>
	<u>850,067</u>	<u>767,494</u>	<u>(555,265)</u>	<u>1,062,296</u>
	<u>\$ 30,406,316</u>	<u>\$ 199,431</u>	<u>\$ (555,265)</u>	<u>\$ 30,050,482</u>
	Beginning Balance <u>October 1, 2017</u>	Additions and <u>Transfers</u>	Deletions and <u>Transfers</u>	Ending Balance <u>September 30, 2018</u>
<u>Depreciable assets:</u>				
Production plant	\$ 25,862,299	\$ -	\$ (4,797,069)	\$ 21,065,230
Distribution plant	14,919,872	91,861	(419,357)	14,592,376
General plant	<u>1,600,638</u>	<u>126,507</u>	<u>(703,885)</u>	<u>1,023,260</u>
Electric plant in service	<u>42,382,809</u>	<u>218,368</u>	<u>(5,920,311)</u>	<u>36,680,866</u>
Water production plant	6,762,885	-	(41,720)	6,721,165
Sewage collection and treatment plant	14,375,906	-	(768,045)	13,607,861
Water distribution plant	8,827,482	7,903	-	8,835,385
General plant	<u>852,153</u>	<u>32,201</u>	<u>(115,443)</u>	<u>768,911</u>
Water and sewer plant in service	<u>30,818,426</u>	<u>40,104</u>	<u>(925,208)</u>	<u>29,933,322</u>
Total utility plant in service	73,201,235	258,472	(6,845,519)	66,614,188
Less accumulated depreciation	<u>(41,195,846)</u>	<u>(2,109,349)</u>	<u>6,247,256</u>	<u>(37,057,939)</u>
	<u>32,005,389</u>	<u>(1,850,877)</u>	<u>(598,263)</u>	<u>29,556,249</u>
<u>Non-depreciable assets:</u>				
Construction work-in-process:				
Electric plant	124,133	556,542	(34,476)	646,199
Water and sewer plant	<u>308,711</u>	<u>126,063</u>	<u>(230,906)</u>	<u>203,868</u>
	<u>432,844</u>	<u>682,605</u>	<u>(265,382)</u>	<u>850,067</u>
	<u>\$ 32,438,233</u>	<u>\$ (1,168,272)</u>	<u>\$ (863,645)</u>	<u>\$ 30,406,316</u>

POHNPEI UTILITIES CORPORATION
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Notes to Financial Statements
September 30, 2019 and 2018

(4) Utility Plant, Continued

During the year ended September 30, 2018, PUC performed a physical inspection of all capital assets and wrote off a total of \$6,667,286 of capital assets not in existence, which resulted in a loss of \$420,031.

(5) Notes Payable

Notes payable at September 30, 2018 include \$200,000, due to Pohnpei State Government (PSG) that is non-interest bearing, uncollateralized and has no set repayment date. The balance was transferred to accounts payable to PSG during the year ended September 30, 2019.

Additionally, notes payable at September 30, 2019 and 2018 include an outstanding balance of \$324,613 and \$336,636, respectively, against a line of credit (LOC) with the Bank of the Federated States of Micronesia (BFSM) of \$370,000. The LOC is collateralized by time certificates of deposit (TCD) with the bank, bearing variable interest at 5% over the TCD rate (effective rate of 5.25% at September 30, 2019 and 2018) and currently expires in March 2021. The agreements restrict 100% of the LOC at September 30, 2019 and 2018, respectively, and as such, the related TCD balances of \$370,000 are reflected as restricted cash and cash equivalents in the accompanying statements of net position as of September 30, 2019 and 2018.

(6) Long-Term Debt

Long-term debt consists of the following at September 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Payable on ADB loan no. 1459, administered by FSMNG. Repayments as allocated by FSMNG indicate annual principal payments of \$95,315 through FY2017 and \$98,297 for FY2018 through FY2036, plus interest at 1.0%.	\$ 1,613,531	\$ 1,747,110
Payable on ADB loan no. 2099, administered by FSMNG. Repayments as allocated by FSMNG indicate annual principal payments of \$252,109 through FY2035, with interest payable at 1.0% per annum during the grace period and at 1.5% thereafter. Proceeds are used for infrastructure projects to overhaul sewage pumps, extend sewage lines, and for treatment plants.	3,714,675	4,013,835
Payable on ADB loan no. 2100, administered by FSMNG, principal due in semi-annual installments of varying amounts as a percentage of total drawings through 2029. Interest is payable at LIBOR plus 0.6% (effective rate of 0.88% at September 30, 2019 and 2018). Proceeds are used for infrastructure projects to overhaul sewage pumps, extend sewage lines, and for treatment plants.	1,358,366	1,453,577
Loan payable to United States Department of Agriculture, Rural Utilities Service (RUS), original amount of \$578,000, due in monthly installments of \$2,654 from October 2006 to July 2044. The loan bears fixed interest of 4.5%.	468,441	482,442

POHNPEI UTILITIES CORPORATION
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Notes to Financial Statements
September 30, 2019 and 2018

(6) Long-Term Debt, Continued

	<u>2019</u>	<u>2018</u>
Loan payable to Bank of Guam (BOG), original amount of \$830,000, interest at 7% and monthly installments of \$7,529 from December 15, 2014 to November 15, 2019, upon which the unpaid principal is due and payable. The loan has been renewed and extended until November 15, 2029 with the same terms. The loan is collateralized by a certain chattel mortgage on the three generators purchased in 2015.	638,970	685,322
Loan payable to BFSM, original amount of \$773,122, 5-year term, interest at 9%, collateralized by a diesel power comprehensive generator plant, two Daihatsu model 12D532 engines, building and materials, and existing and future receivables. Matured in November 30, 2018.	<u>-</u>	<u>20,328</u>
Total long-term debt	7,793,983	8,402,614
Less: current portion of long-term debt	<u>466,511</u>	<u>475,070</u>
Long-term portion of long-term debt	\$ <u>7,327,472</u>	\$ <u>7,927,544</u>

Future minimum principal and interest payments on all long-term debt for subsequent years ending September 30, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 466,511	\$ 160,458	\$ 626,969
2021	479,108	150,597	629,705
2022	492,942	140,371	633,313
2023	508,015	129,551	637,566
2024	524,590	118,227	642,817
2025-2029	2,901,368	391,934	3,293,302
2030-2034	1,714,191	139,489	1,853,680
2035-2039	586,756	49,026	635,782
2040-2044	<u>120,502</u>	<u>11,852</u>	<u>132,354</u>
	\$ <u>7,793,983</u>	\$ <u>1,291,505</u>	\$ <u>9,085,488</u>

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

POHNPEI UTILITIES CORPORATION
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Notes to Financial Statements
September 30, 2019 and 2018

(6) Long-Term Debt, Continued

BOG loan contains a provision that upon happening of any of the following events, the holder may, at its option, forthwith accelerate maturity and the unpaid balance hereof shall thereupon immediately become due and payable without demand or notice, to wit: (a) the non-payment of any installment of interest or principal hereunder when due; (b) failure to observe or perform any term, covenant, condition, provision or agreement contained herein and/or in any instrument given to secure payment of this note; (c) failure in business, insolvency, dissolution or termination of the existence of the borrower.

RUS Loan contains a provision upon any default, the RUS at its option may declare all or any part of any such indebtedness immediately due and payable.

Management believes that PUC is in compliance with all covenants as of and for the years ended September 30, 2019 and 2018, and no event of default has been declared by the lenders.

Changes in long-term debt for the years ended September 30, 2019 and 2018, are as follows:

	Outstanding October 1, <u>2018</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2019</u>	<u>Current</u>
Loan payable to:					
ADB no. 1459	\$ 1,747,110	\$ -	\$ (133,579)	\$ 1,613,531	\$ 97,069
ADB no. 2099	4,013,835	-	(299,160)	3,714,675	226,901
ADB no. 2100	1,453,577	-	(95,211)	1,358,366	85,471
BOG	685,322	-	(46,352)	638,970	46,134
RUS	482,442	-	(14,001)	468,441	10,936
BFSM	<u>20,328</u>	-	<u>(20,328)</u>	<u>-</u>	<u>-</u>
	<u>\$ 8,402,614</u>	<u>\$ -</u>	<u>\$ (608,631)</u>	<u>\$ 7,793,983</u>	<u>\$ 466,511</u>

During the year ended September 30, 2019, PUC was allocated a decrease of \$120,629 of balance adjustments relating to currency re-evaluation changes associated with the ADB loans. As a result, PUC decreased its long term debt and interest expense by the same amount.

	Outstanding October 1, <u>2017</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2018</u>	<u>Current</u>
Loan payable to:					
ADB no. 1459	\$ 1,867,901	\$ -	\$ (120,791)	\$ 1,747,110	\$ 97,069
ADB no. 2099	4,285,843	-	(272,008)	4,013,835	226,901
ADB no. 2100	1,558,998	-	(105,421)	1,453,577	77,322
BOG	731,635	-	(46,313)	685,322	43,099
RUS	493,246	-	(10,804)	482,442	10,351
BFSM	<u>123,778</u>	-	<u>(103,450)</u>	<u>20,328</u>	<u>20,328</u>
	<u>\$ 9,061,401</u>	<u>\$ -</u>	<u>\$ (658,787)</u>	<u>\$ 8,402,614</u>	<u>\$ 475,070</u>

During the year ended September 30, 2018, PUC was allocated a decrease of \$89,985 of balance adjustments relating to currency re-evaluation changes associated with the ADB loans. As a result, PUC decreased its capital assets and its long-term debt by the same amount.

**POHNPEI UTILITIES CORPORATION
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Notes to Financial Statements
September 30, 2019 and 2018

(7) Grants, Subsidies and Capital Contributions

Grants, subsidies and capital contributions comprise the following for the years ended September 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Operating Grants:		
FSMNG Congress appropriations	\$ <u>107,566</u>	\$ <u>100,000</u>
Capital Contributions:		
Foreign government – solar farm	\$ 833,412	\$ -
U.S. Government – engine overhaul	729,993	-
U.S. Government – generators	71,850	470,798
FSMNG – distribution	<u>25,396</u>	<u>129,539</u>
Total capital contributions	\$ <u>1,660,651</u>	\$ <u>600,337</u>

(8) Contributions

During the year ended September 30, 1995, sole use rights for the Nanpohnmal Power Plant were contributed to PUC by the FSMNG through the State of Pohnpei. These assets were donated to the FSMNG through the Japanese Foreign Aid Program. Official title to the ownership of these assets rests with the FSMNG. However, substantial revenue is generated by PUC from the use of these assets and PUC bears responsibility for all costs associated with their operation.

(9) Self Insurance Fund and Risk Management

In accordance with section 2(5) of State Law 3L-41-93, an amendment to the PUC enabling legislation, a self-insurance fund was established to defray costs of any unforeseen accidents or disasters. At September 30, 2019 and 2018, balances of \$147,650 and \$147,473 respectively, are maintained in a bank deposit account that was held as collateral for a bank loan which was paid off during the year ended September 30, 2016. The deposit balances continued to be shown as restricted in the accompanying financial statements since restrictions have not been removed by the enabling body.

Additionally, PUC purchases commercial insurance to cover its potential risks of loss from fire on its building and the contents and full coverage on property damages, but is self-insured for all other losses such as errors and omissions; injuries to employees; and natural disasters. Management is of the opinion that no material losses have been sustained as a result of this practice during the past three years.

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Notes to Financial Statements
September 30, 2019 and 2018

(10) Related Party Transactions

At September 30, 2019 and 2018, accounts receivable include amounts owed by the State of Pohnpei and its component units to PUC of \$1,007,783 and \$933,366, respectively.

At September 30, 2019 and 2018, PUC has a non-interest bearing advance from the PUC Social Club of \$46,450 and \$123,206, respectively. Further, at September 30, 2019 and 2018, PUC has a non-interest bearing advance from the State of Pohnpei of \$2,936,796 and \$2,462,549, respectively, resulting from the ADB loan repayments made by the State of Pohnpei for PUC. These advances have no set repayment terms, are classified as current due to the mutual consent of the parties and are included as accounts payable – operations in the accompanying statements of net position.

At September 30, 2018, PUC had a non-interest bearing note payable to the State of Pohnpei of \$200,000.

PUC purchased all of its production fuel during the years ended September 30, 2019 and 2018 from FSM Petroleum Corporation (FSMPC), a component unit of FSMNG. At September 30, 2019 and 2018, long-term deposits in the amount of \$1,256,912, for which \$576,213 was received through a sub-grant from the FSMNG, are held by FSMPC as collateral for a fuel and lubricant purchase line. PUC also purchases power generated by FSMPC under a Power Purchase Agreement (PPA). The PPA has an initial term of thirty-six months which expired in June 2017. Under the PPA, FSMPC is responsible to acquire, install and operate a 2.0 MW diesel generator, and PUC is committed to purchase available capacity up to the contract capacity, which means an average of 1,600 kW in any given month throughout the PPA term. The PPA is operating in the holdover status as the parties negotiated for renewal or termination. At September 30, 2019 and 2018, payables to FSMPC were \$907,122 and \$603,096, respectively.

(11) Retirement Plan

PUC's retirement plan (the Plan) is a self-administered program established to pay retirement, disability and survivor income to employees and their survivors to supplement similar benefits that employees receive from the FSM Social Security System. Starting August 2014, PUC matches a percentage of participants' contributions. Matching contributions to the Plan during the years ended September 30, 2019 and 2018 were \$72,073 and \$69,760, respectively. Total Plan assets as of September 30, 2019 and 2018 were \$751,123 and \$626,378, respectively. Management is of the opinion that the Plan does not represent an asset or a liability of PUC and as such no related assets or liabilities have been recorded in the accompanying statements of net position.

(12) Restricted Net Position

At September 30, 2019 and 2018, net position is restricted for the following purposes:

	<u>2019</u>	<u>2018</u>
Self-insurance fund (note 8)	\$ 147,650	\$ 147,473
Fuel deposit from sub-grant (note 9)	<u>576,213</u>	<u>576,213</u>
	<u>\$ 723,863</u>	<u>\$ 723,686</u>

POHNPEI UTILITIES CORPORATION
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Notes to Financial Statements
September 30, 2019 and 2018

(13) Concentration of Credit Risk

Financial instruments which potentially subject PUC to concentrations of credit risk consist principally of cash and cash equivalents, investments and accounts receivable.

At September 30, 2019 and 2018, PUC has cash deposits in bank accounts that are not subject to or exceed federal depository insurance limits. PUC has not experienced any losses in such accounts.

Substantially all of PUC's customer accounts receivable are from individuals, companies and government agencies based in Pohnpei. Concentrations largely result from accounts receivable from Pohnpei State Government and various agencies. Management assesses the risk of loss and provides for an allowance for doubtful accounts to compensate for known credit risks.

(14) Contingencies

PUC is involved in various legal actions in the normal course of business, including a variety of legal actions and claims that seek monetary or punitive damages, which may be in a different stage of the litigation proceedings. Based on current information, including legal consultation, PUC has provided a reserve for probable losses of \$171,000 in the accompanying 2019 financial statements. Management believes any ultimate liability that may arise from these actions would not materially affect PUC's financial position, results of operations or cash flows.

(15) Subsequent Events

As a result of the spread of COVID-19 coronavirus, governments worldwide implemented actions to restrict travel and economic activities. Uncertainties have arisen which may have negative impact on PUC's business, results of operations and net position. PUC is unable to reasonably estimate the ultimate financial impact at this time.

Management has considered subsequent events through December 29, 2020, upon which the financial statements were available to be issued. No other material subsequent events that would require recognition or disclosure in the financial statements for the year ended September 30, 2019.

POHNPEI UTILITIES CORPORATION
(A COMPONENT UNIT OF THE STATE OF POHNPEI)

Combining Statement of Net Position
September 30, 2019
(With comparative totals as of September 30, 2018)

<u>Assets</u>	<u>Power and Utility</u>	<u>Water and Sewer</u>	<u>Totals</u>	
			<u>2019</u>	<u>2018</u>
Current assets:				
Cash and cash equivalents	\$ 1,729,184	\$ -	\$ 1,729,184	\$ 1,388,441
Time certificates of deposit	230,980	-	230,980	228,788
Accounts receivable, net	1,002,416	119,400	1,121,816	1,373,374
Divisional (payable) receivable	(2,207,558)	2,207,558	-	-
Prepayments	170,696	50,152	220,848	58,974
Materials and fuel inventory, net	97,711	140,391	238,102	186,616
Total current assets	1,023,429	2,517,501	3,540,930	3,236,193
Other noncurrent assets:				
Long-term deposits	1,256,912	-	1,256,912	1,256,912
Restricted - cash and cash equivalents	517,650	-	517,650	517,473
Total other noncurrent assets	1,774,562	-	1,774,562	1,774,385
Utility plant, at cost:				
Electric plant in service	38,185,141	-	38,185,141	36,680,866
Water and sewer plant in service	-	29,958,940	29,958,940	29,933,322
	38,185,141	29,958,940	68,144,081	66,614,188
Less accumulated depreciation	(25,177,164)	(13,978,731)	(39,155,895)	(37,057,939)
Depreciable assets	13,007,977	15,980,209	28,988,186	29,556,249
Construction work-in-process	828,427	233,869	1,062,296	850,067
Total utility plant	13,836,404	16,214,078	30,050,482	30,406,316
	\$ 16,634,395	\$ 18,731,579	\$ 35,365,974	\$ 35,416,894
<u>Liabilities and Net Position</u>				
Current liabilities:				
Notes payable	\$ 324,613	\$ -	\$ 324,613	\$ 536,636
Current portion of long-term debt	46,134	420,377	466,511	475,070
Accounts payable:				
Operations	281,476	2,936,796	3,218,272	2,940,151
Fuel, lubricants and kwh purchased	907,122	-	907,122	603,096
Unearned revenue	389,024	-	389,024	627,100
Accrued taxes and other liabilities	440,786	-	440,786	334,462
Employees' annual leave	136,681	-	136,681	123,132
Total current liabilities	2,525,836	3,357,173	5,883,009	5,639,647
Noncurrent liabilities:				
Loan payable - RUS	-	457,505	457,505	472,091
Loan payable - BOG	592,836	-	592,836	642,223
Loan payable - BFSM	-	-	0	-
Loans payable - ADB	-	6,277,131	6,277,131	6,813,230
Total liabilities	3,118,672	10,091,809	13,210,481	13,567,191
Net position:				
Net investment in capital assets	13,197,434.00	9,059,065	22,256,499	22,024,030
Restricted	723,863	-	723,863	723,686
Unrestricted	(405,574.00)	(419,295.00)	(824,869)	(898,013)
Total net position	13,515,723	8,639,770	22,155,493	21,849,703
	\$ 16,634,395	\$ 18,731,579	\$ 35,365,974	\$ 35,416,894

See accompanying Independent Auditors' Report.

POHNPEI UTILITIES CORPORATION
(A COMPONENT UNIT OF THE STATE OF POHNPEI)

Combining Statement of Revenues, Expenses and Changes in Net Position
Year Ended September 30, 2019
(With comparative totals for the year ended September 30, 2018)

	Power and Utility	Water and Sewer	Totals	
			2019	2018
Operating revenues:				
Residential	\$ 144,669	\$ 1,000,686	\$ 1,145,355	\$ 1,193,075
Cash power	7,888,475	-	7,888,475	7,457,504
Cash water	-	44,387	44,387	12,315
Commercial	2,981,462	127,879	3,109,341	2,994,863
Government	1,869,486	626,942	2,496,428	2,112,357
Other sales	36,115	-	36,115	189,810
Total operating revenues	12,920,207	1,799,894	14,720,101	13,959,924
Bad debts	(296,873)	(11,239)	(308,112)	(506,464)
Net operating revenues	12,623,334	1,788,655	14,411,989	13,453,460
Operating and maintenance expenses:				
Production fuel	6,334,703	-	6,334,703	6,390,446
Depreciation	1,351,247	746,709	2,097,956	2,109,349
Administrative and general:				
Salaries and wages	409,857	-	409,857	416,747
Employee benefits	432,457	-	432,457	444,603
Travel	219,961	-	219,961	153,961
Vehicle, POL	78,550	-	78,550	87,026
Insurance	47,600	-	47,600	61,263
Communications	84,335	-	84,335	60,032
Contractual services	77,748	-	77,748	50,140
Consumables and supplies	63,467	-	63,467	26,876
Customer service and collection	111,004	-	111,004	81,851
Repairs and maintenance	46,466	-	46,466	56,124
Other	279,925	-	279,925	330,725
	1,851,370	-	1,851,370	1,769,348
Kwh purchased	2,729,953	-	2,729,953	2,106,591
Generation:				
Salaries and wages	474,286	-	474,286	440,191
Repairs and maintenance	338,980	-	338,980	508,480
Other	89,130	-	89,130	65,049
	902,396	-	902,396	1,013,720
Distribution:				
Salaries and wages	708,392	-	708,392	644,739
Repairs and maintenance	177,140	-	177,140	5,974
Consumables and supplies	29,758	-	29,758	37,792
	915,290	-	915,290	688,505
Water and sewer:				
Salaries and wages	-	497,604	497,604	499,846
Employee benefits	-	67,153	67,153	61,922
Repairs and maintenance	-	116,435	116,435	261,856
Other	-	91,754	91,754	93,892
	-	772,946	772,946	917,516
Provision for inventory obsolescence	-	-	-	45,931
Total operating and maintenance expenses	14,084,959	1,519,655	15,604,614	15,041,406
Operating (loss) income	(1,461,625)	269,000	(1,192,625)	(1,587,946)

See accompanying Independent Auditors' Report.

POHNPEI UTILITIES CORPORATION
(A COMPONENT UNIT OF THE STATE OF POHNPEI)

Combining Statement of Revenues, Expenses and Changes in Net Position, Continued
Year Ended September 30, 2019
(With comparative totals for the year ended September 30, 2018)

	Power and Utility	Water and Sewer	Totals	
			2019	2018
Nonoperating revenues (expenses), net:				
Provision for losses	(171,000)		(171,000)	-
Interest expense, net	(46,350)	(52,959)	(99,309)	(199,977)
Grants and subsidies	107,566	-	107,566	100,000
Loss on disposal of utility assets			-	(420,031)
Other income	507	-	507	132,325
Total nonoperating expenses, net	<u>(109,277)</u>	<u>(52,959)</u>	<u>(162,236)</u>	<u>(387,683)</u>
(Loss) income before capital contributions	<u>(1,570,902)</u>	<u>216,041</u>	<u>(1,354,861)</u>	<u>(1,975,629)</u>
Capital contributions:				
Capital contributions	<u>1,660,651</u>	<u>-</u>	<u>1,660,651</u>	<u>600,337</u>
Total capital contributions	<u>1,660,651</u>	<u>-</u>	<u>1,660,651</u>	<u>600,337</u>
Change in net position	89,749	216,041	305,790	(1,375,292)
Net position at beginning of year	<u>13,425,974</u>	<u>8,423,729</u>	<u>21,849,703</u>	<u>23,224,995</u>
Net position at end of year	<u>\$ 13,515,723</u>	<u>\$ 8,639,770</u>	<u>\$ 22,155,493</u>	<u>\$ 21,849,703</u>

See accompanying Independent Auditors' Report.

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

Board of Directors
Pohnpei Utilities Corporation:

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 Pohnpei Utilities Corporation (PUC), a component unit of the State of Pohnpei, which comprise the statement of net position as of 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 December 29, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered PUC'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 PUC's internal control. Accordingly, we do not express an opinion on the effectiveness of PUC'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2019-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PUC'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*.

PUC's Response to Findings

PUC's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. PUC's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Deloitte & Touche LLP

December 29, 2020

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

Board of Directors
Pohnpei Utilities Corporation:

Report on Compliance for Sole Major Federal Program

We have audited Pohnpei Utilities Corporation's (PUC's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on PUC's sole major federal program for the year ended September 30, 2019. PUC's sole major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

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 PUC's sole major federal program 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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (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 PUC'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 the sole major federal program. However, our audit does not provide a legal determination of PUC's compliance.

Opinion on Sole Major Federal Program

In our opinion, PUC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its sole major federal program for the year ended September 30, 2019.

Report on Internal Control Over Compliance

Management of PUC 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 PUC's internal control over compliance with the types of requirements that could have a direct and material effect on the sole major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the sole 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 PUC's internal control over compliance.

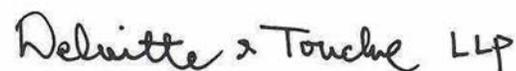
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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.

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.

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

We have audited the financial statements of PUC as of and for the year ended September 30, 2019, and have issued our report thereon dated December 29, 2020, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 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 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 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 financial statements as a whole.



December 29, 2020

POHNPEI UTILITIES CORPORATION

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2019

<u>Federal Grantor/Program or Cluster Title</u>	<u>Pass Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of the Interior Pass Through Program From:</u>		
<u>Federated States of Micronesia National Government</u>	A3	
<u>CFDA #15.875</u>		
Economic, Social, and Political Development of the Territories		
Compact of Free Association Sector Grant		
Public Infrastructure Grant		\$ 729,994
 <u>U.S. Department of Agriculture Direct Program:</u>		
<u>CFDA #10.859</u>		
Assistance to High Energy Cost Rural Communities		71,850
		<hr/>
Total Expenditures of Federal Awards		<u>\$ 801,844</u>

The above expenditures reconcile to the underlying basic financial statements as follows:

Included in Construction work-in-process of \$1,062,296.

See notes to the Schedule of Expenditures of Federal Awards.

**POHNPEI UTILITIES CORPORATION
(A COMPONENT UNIT OF THE STATE OF POHNPEI)**

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2019

1. Scope of Audit

Pohnpei Utilities Corporation (PUC) is a component unit of the Government of the State of Pohnpei. PUC commenced operations on October 1, 1991, with assets and liabilities of the Division of Public Utilities of the Pohnpei State Department of Public Works transferred as of that date. Only the activities of PUC are included in the scope of the Single Audit.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of PUC under programs of the federal government for the year ended September 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of PUC, it is not intended to and does not present the financial position or changes in financial position of PUC.

3. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting, consistent with the manner in which PUC maintains its accounting records. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. All expenses and capital outlays are reported as expenditures when incurred. Pass-through entity identifying numbers are presented where available. PUC does not elect to use the de minimis indirect cost rate allowed under the Uniform Guidance.

**POHNPEI UTILITIES CORPORATION
(A COMPONENT UNIT OF THE STATE OF POHNPEI)**

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

Section I - Summary of Auditors' Results

Financial Statements

- | | |
|---|------------|
| 1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: | Unmodified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | No |
| 3. Significant deficiency(ies) identified? | Yes |
| 4. Noncompliance material to financial statements noted? | No |

Federal Awards

Internal control over major federal programs:

- | | |
|---|---------------|
| 5. Material weakness(es) identified? | No |
| 6. Significant deficiency(ies) identified? | None reported |
| 7. Type of auditors' report issued on compliance for major federal programs: | Unmodified |
| 8. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | No |
| 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 Sector Grant

- | | |
|--|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$750,000 |
| 11. Auditee qualified as low-risk auditee? | No |

Section II – Financial Statements Findings

<u>Reference Numbers</u>	<u>Findings</u>
2019-001	Account reconciliation

Section III - Federal Award Findings and Questioned Costs

No matters were reported.

**POHNPEI UTILITIES CORPORATION
(A COMPONENT UNIT OF THE STATE OF POHNPEI)**

Schedule of Findings and Questioned Costs, Continued

Finding No. 2019-001 – Account reconciliation

Criteria: Monthly reconciliations of significant accounts should be performed and financial statements adjusted during the year to facilitate a timely year-end closing, as well as provide accurate interim financial statements for management and Board of Director reviews during the year.

Condition: Delays in performing monthly reconciliations resulted in a high number of post-closing adjustments that impacted all areas of PUC's internal financial statements. Additionally, this resulted in a delayed audit process.

Cause: PUC lacks sufficient accounting personnel and resources.

Effect: Inaccurate internal financial statements during the year and delay in the audit process resulted.

Prior Year Status: This condition is reiterative of conditions identified in our prior year audit of PUC.

Recommendation: PUC should assess the resource needs of its accounting and finance function. A monthly reconciliation and closing checklist should be developed, with a target deadline established for each significant area.

Views of Responsible Officials:

PUC describes corrective action in the Corrective Action Plan.

POHNPEI UTILITIES CORPORATION

“Dedicated to Improving the Quality of Life on Pohnpei”

BOARD OF DIRECTORS

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS Year Ended September 30, 2019

Trevayne Esiel
Chairman

<u>Finding number</u>	<u>Status</u>
2017-002	Not corrected or Resolved. On-going. Refer to Note 1
2018-002	Not corrected or Resolved. On-going. Refer to Note 1

John Adolph
Vice-Chairman

Note 1: PUC describes the corrective action and indicated anticipated completion date in the Corrective Action Plan.

Josphine Saimon
Secretary

Pete S.P. Leon
Director

Ronald Etscheit
Director

Cindy H. Ehmes
Director

Antonio John
Director

Nixon Anson
General Manager/CEO

POHNPEI UTILITIES CORPORATION

“Dedicated to Improving the Quality of Life on Pohnpei”



**BOARD OF
DIRECTORS**

**CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)
Year Ended September 30, 2019**

Trevayne Esiel
Chairman

John Adolph
Vice-Chairman

Josphine Saimon
Secretary

Pete S.P. Leon
Director

Ronald Etscheit
Director

Cindy H. Ehmes
Director

Antonio John
Director

Nixon Anson
General Manager/CEO

Finding Number	Corrective Action Plan	Anticipated Completion Date	Responsible Person
2019-01	PUC concurs with the auditor's recommendation. PUC shall assess the resource needs of its Accounting and Finance function. PUC has hired additional personnel in the accounting division. Monthly reconciliation check list will be implemented and deadlines will be established for each significant area.	March 2021	Daisy Nanpei, Comptroller