

**CHUUK PUBLIC UTILITY CORPORATION**

**(A COMPONENT UNIT OF THE  
STATE OF CHUUK)**

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**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

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**YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

**CHUUK PUBLIC UTILITY CORPORATION  
(A COMPONENT UNIT OF THE STATE OF CHUUK)**

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## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors  
Chuuk Public Utility Corporation:

### **Report on Financial Statements**

We have audited the accompanying financial statements of Chuuk Public Utility Corporation (CPUC), a component unit of the State of Chuuk, 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 Chuuk Public Utility 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 through 5 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 30, 2020, on our consideration of CPUC'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 CPUC's internal control over financial reporting and compliance.

*Deloitte & Touche LLP*

June 30, 2020

**CHUUK PUBLIC UTILITY CORPORATION**  
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Management's Discussion and Analysis  
Years Ended September 30, 2019 and 2018

The following Management's Discussion and Analysis of the Chuuk Public Utility Corporation's (CPUC) activities and financial performance provides the reader with an introduction and overview to the financial statements as of and for the fiscal year (FY) ended September 30, 2019.

GASB 34 of the U.S. Government Accounting Standards Board requires that financial statements must contain a management's discussion and analysis. This section of the CPUC's annual report presents management's discussion of CPUC's performance for years ended September 30, 2019, 2018, and 2017. It should be read in conjunction with the financial statements that follow this section.

CPUC is a component unit of the Government of the State of Chuuk. Its primary objective is to provide electrical, water, and sewer services to the public. The following table summarizes the financial position and results of operations of CPUC for fiscal years 2019, 2018 and 2017.

**FINANCIAL HIGHLIGHTS**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>Assets:</b>			
Utility plant in service, net	\$ 21,244,494	\$ 21,360,514	\$ 21,189,020
Current assets	3,248,266	2,636,776	2,655,469
Non-current assets	<u>985,537</u>	<u>904,146</u>	<u>760,311</u>
Total assets	\$ <u>25,478,297</u>	\$ <u>24,901,436</u>	\$ <u>24,604,800</u>
<b>Net Position and Liabilities:</b>			
Net investment in capital assets	\$ 17,135,813	\$ 16,959,555	\$ 16,496,411
Restricted	657,939	642,194	517,506
Unrestricted	<u>2,199,069</u>	<u>2,403,358</u>	<u>2,485,205</u>
Total net position	<u>19,992,821</u>	<u>20,005,107</u>	<u>19,499,122</u>
Long-term liabilities	3,848,083	4,157,177	4,457,918
Current liabilities	<u>1,637,393</u>	<u>739,152</u>	<u>647,760</u>
Total liabilities	<u>5,485,476</u>	<u>4,896,329</u>	<u>5,105,678</u>
Total net position and liabilities	\$ <u>25,478,297</u>	\$ <u>24,901,436</u>	\$ <u>24,604,800</u>
<b>Revenues, Expenses, and Changes in Net Position:</b>			
Total net operating revenues	\$ 7,134,989	\$ 7,302,028	\$ 6,321,837
Operating expenses	<u>7,574,726</u>	<u>7,537,272</u>	<u>6,601,995</u>
Operating loss	<u>(439,737)</u>	<u>(235,244)</u>	<u>(280,158)</u>
Grants, subsidies and other income	486,891	780,549	2,811,110
Interest expense	<u>(59,440)</u>	<u>(39,320)</u>	<u>(54,744)</u>
Total nonoperating revenue, net and capital contributions	<u>427,451</u>	<u>741,229</u>	<u>2,756,366</u>
Change in net position	(12,286)	505,985	2,476,208
Net position at beginning of year	<u>20,005,107</u>	<u>19,499,122</u>	<u>17,022,914</u>
Net position at end of year	\$ <u>19,992,821</u>	\$ <u>20,005,107</u>	\$ <u>19,499,122</u>

**CHUUK PUBLIC UTILITY CORPORATION  
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Management's Discussion and Analysis  
Years Ended September 30, 2019 and 2018

CPUC continues to build up its asset-base to provide the essential utility services to the people of Chuuk State. Total assets at the end of FY2019 are \$25.5 million, compared with \$24.9 million at the end of FY2018.

There is a slight decrease in revenue sales but the Company sold more electricity; the decrease is due to the reduced tariff by 2% compared to 2018, see below.

Description	2019	2018	Difference	%
Total Electricity Sold kWh	14,901,789	14,723,346	178,443	1%
Avg. Tariff	\$0.4710	\$0.4790	\$(0.0080)	-2%

Operating expenses remain relatively the same compared to last year. The operating loss however is higher this year by \$204,493, this is due to CPUC's inability to collect the revenue from the street lights, and they become bad debt for the Company.

Capital Assets and Debts

For additional information concerning capital assets, please refer to notes 4 and 5 of the financial statements.

For additional information concerning debt, refer to note 7 of the financial statements.

**FISCAL YEAR (FY) 2020 OUTLOOK**

CPUC anticipates continued improvement in operating position during FY2020 through improvements, power generation due to use of more solar grids, power distribution losses, collection, as well as expansion and efficiency improvements in water and sewer services.

A power loss target of 12% has been set for FY 2020.

World Bank grant funding is being provided to the FSM Energy Sector. A key component of the grant is the massive investment plan for a solar plant to be installed in Chuuk from 2020 to 2023.

CPUC now has a total of 456 kWp of grid connected solar PV systems connected to the Weno power grid. These are installed at the Chuuk International Airport (65 kWp), Chuuk State High School (200 kWp) and recent additions of (100kWp) at airport parking space and (100 kWp) around CPUC power station and CPUC sewer treatment plant compound. Jointly they contribute on average over 5% to daily power generation.

CPUC will also be working in partnership with FSM Petroleum Corporation to reinstate the power supply in Tonoas (population 4,000) by the end of 2020; CPUC will complete the distribution construction by September and will enter into a power purchase agreement with FSM Petroleum Corporation whereby they sell power to CPUC.

With regards to water supply and sewerage services CPUC's focus will remain on the installation of water metering across the whole of the supply system and water loss reduction and revisiting of the water sewer tariff. An ADB grant of \$16 million has been approved for CPUC to improve the water supply and sewer collection for the island of Weno in 2020. CPUC anticipates to start the project in November of 2020.

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

**SUBSEQUENT EVENT**

Due to incorrect fuel price notification from Vital Inc. from July 2018 to November 2018, the fuel price tariff calculated was incorrect every month thereafter until November 2019 when it was detected. Total overcharged to customers as a result of this incorrect calculation is \$767,360. All of this has been refunded to the customers from beginning December 2019 and fully disbursed in May 2020.

**CONTACTING CPUC'S FINANCIAL MANAGEMENT**

Management's Discussion and Analysis for the year ended September 30, 2018, is set forth in the report on the audit of CPUC's financial statements, which is dated June 25, 2019, and that Discussion and Analysis explains the major factors impacting the 2019 financial statements and can be viewed at the Office of the Public Auditor's website at [www.fsmopa.fm](http://www.fsmopa.fm).

For additional information about this report, please contact Ms. Leialoha Shirai, Chief Financial officer, Chuuk Public Utility Corporation, A's Mart Building 2, 2<sup>nd</sup> Floor, Weno, Chuuk FM 96942.

**CHUUK PUBLIC UTILITY CORPORATION**  
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Statements of Net Position  
September 30, 2019 and 2018

<u>Assets</u>	2019	2018
Utility plant, at cost:		
Depreciable utility plant:		
Electric plant in service	\$ 20,581,425	\$ 19,855,624
Water and sewer plant in service	14,018,992	13,998,498
General plant in service	423,214	337,985
	35,023,631	34,192,107
Less accumulated depreciation	(14,734,386)	(13,545,894)
	20,289,245	20,646,213
Non-depreciable utility plant:		
Construction in progress	955,249	714,301
Total utility plant	21,244,494	21,360,514
Current assets:		
Cash	1,533,792	1,145,702
Accounts receivable, net	584,519	686,594
Inventory	1,057,377	763,479
Prepaid expenses	47,785	15,955
Prepaid land lease, current portion	24,793	25,046
Total current assets	3,248,266	2,636,776
Noncurrent assets:		
Deposits	649,881	634,300
Deposit for asset acquisition	90,570	-
Prepaid land lease, net of current portion	245,086	269,846
Total noncurrent assets	985,537	904,146
	\$ 25,478,297	\$ 24,901,436
<u>Liabilities and Net Position</u>		
Current liabilities:		
Current portion of long-term debt	\$ 296,974	\$ 278,943
Accounts payable	104,945	25,466
Accrued taxes and other liabilities	1,130,983	305,185
Payable to grantor	23,661	63,801
Unearned revenue	73,471	58,398
Accrued annual leave, current portion	7,359	7,359
Total current liabilities	1,637,393	739,152
Accrued annual leave, net of current portion	36,376	35,161
Long-term debt, net of current portion	3,811,707	4,122,016
Total liabilities	5,485,476	4,896,329
Commitments and contingencies		
Net position:		
Net investment in capital assets	17,135,813	16,959,555
Restricted	657,939	642,194
Unrestricted	2,199,069	2,403,358
Total net position	19,992,821	20,005,107
	\$ 25,478,297	\$ 24,901,436

See accompanying notes to financial statements.



**CHUUK PUBLIC UTILITY CORPORATION**  
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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	\$ 3,644,865	\$ 3,765,423
Cash power	3,103,282	3,080,509
Water sales	509,412	414,883
Other sales	41,237	41,213
	<u>7,298,796</u>	<u>7,302,028</u>
Provision for doubtful accounts	(163,807)	-
Total net operating revenues	<u>7,134,989</u>	<u>7,302,028</u>
Operating and maintenance expenses:		
Production fuel	3,809,790	3,705,086
Administrative and general	2,246,337	2,111,056
Depreciation	1,188,492	1,226,575
Management support	330,107	494,555
Total operating and maintenance expenses	<u>7,574,726</u>	<u>7,537,272</u>
Operating loss	<u>(439,737)</u>	<u>(235,244)</u>
Nonoperating revenues (expenses), net:		
Operating grant-management support	158,046	232,523
Other income, net	155,805	158,121
Interest expense	(59,440)	(39,320)
Interest income	191	819
Total nonoperating revenues (expenses), net	<u>254,602</u>	<u>352,143</u>
(Loss) income before capital contributions	(185,135)	116,899
Capital contributions:		
Contributions from World Bank	147,339	-
Grants from the United States Government	25,510	389,086
Change in net position	(12,286)	505,985
Net position at beginning of year	<u>20,005,107</u>	<u>19,499,122</u>
Net position at end of year	<u>\$ 19,992,821</u>	<u>\$ 20,005,107</u>

See accompanying notes to financial statements.

**CHUUK PUBLIC UTILITY CORPORATION**  
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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	\$ 8,175,302	\$ 7,302,992
Cash payments to suppliers for goods and services	(5,468,908)	(5,101,436)
Cash payments to employees	(1,101,758)	(1,260,612)
Net cash provided by operating activities	1,604,636	940,944
Cash flows from noncapital financing activities:		
Cash receipts from grantor	117,906	255,926
Net cash provided by noncapital financing activities	117,906	255,926
Cash flows from investing activities:		
Interest on bank deposits	191	819
Net cash provided by investing activities	191	819
Cash flows from capital and related financing activities:		
Interest paid	(59,440)	(39,320)
Cash receipts from grantor for capital projects	25,510	389,086
Acquisition of utility plant	(1,008,435)	(1,398,069)
Payments of long-term debt	(292,278)	(291,650)
Net cash used in capital and related financing activities	(1,334,643)	(1,339,953)
Net change in cash	388,090	(142,264)
Cash at beginning of year	1,145,702	1,287,966
Cash at end of year	\$ 1,533,792	\$ 1,145,702
<b><u>Reconciliation of operating loss to net cash provided by operating activities:</u></b>		
Operating loss	\$ (439,737)	\$ (235,244)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	1,188,492	1,226,575
Provision for doubtful accounts	163,807	-
Other income, net	155,805	158,121
(Increase) decrease in assets:		
Accounts receivable	(61,732)	(153,175)
Inventory	(210,596)	(1,404)
Prepaid expenses	(6,817)	32,433
Deposits	(15,581)	(145,260)
Deposit for asset acquisition	(90,570)	-
(Decrease) increase in liabilities:		
Accounts payable	79,479	16,902
Accrued taxes and other liabilities	825,798	39,169
Accrued annual leave	1,215	6,809
Unearned revenue	15,073	(3,982)
Net cash provided by operating activities	\$ 1,604,636	\$ 940,944

Supplemental information of noncash capital and related financing activities:

During the year ended September 30, 2019, CPUC recorded capital contributions from World Bank of \$147,339 for inventories and capital assets.

See accompanying notes to financial statements.

**CHUUK PUBLIC UTILITY CORPORATION  
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Notes to Financial Statements  
September 30, 2019 and 2018

(1) Organization

The Chuuk Public Utility Corporation (CPUC) is a component unit of the State of Chuuk. CPUC was created by Chuuk State Law 192-12. Its primary objective is to operate all public utilities within the State of Chuuk including providing, maintaining and improving the water, electric, and sewerage systems to the public. CPUC is governed by a five-member Board of Directors, which comprises one member from each of the five senatorial districts of the State appointed by the Governor with the advice and consent of the Chuuk State Legislature.

CPUC's financial statements are incorporated into the financial statements of the State of Chuuk 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 CPUC to maintain such permanently. At September 30, 2019 and 2018, CPUC does not have nonexpendable net position. Expendable - net position whose use by CPUC is subject to externally imposed stipulations that can be fulfilled by actions of CPUC 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

For purposes of the statements of net position and of cash flows, cash is defined as cash on hand and cash held in demand accounts.

Custodial credit risk is the risk that in the event of a bank failure, CPUC'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. CPUC does not have a deposit policy for custodial credit risk.

As of September 30, 2019 and 2018, the carrying amount of cash was \$1,533,792 and \$1,145,702, respectively, and the corresponding bank balances were \$1,427,335 and \$1,151,360, 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 \$250,000 were FDIC insured. CPUC 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.

Receivables and Allowance for Uncollectable Accounts

All receivables are due from government agencies, businesses and individuals located within the State of Chuuk and are interest free and uncollateralized. The allowance for uncollectable 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 uncollectable 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

Inventories of materials and fuel are determined by physical count and are valued at the lower of cost (first in, first out method), or market value.

Utility Plant and Depreciation

Utility plant is stated at cost with the exception of certain utility plant assets transferred to CPUC at the carrying value of the Department of Public Works as of September 30, 2001, which have a zero net book value as of September 30, 2019 and 2018. CPUC's capitalization threshold is \$3,000, with an estimated useful life in excess of one year.

Depreciation is calculated on the straight-line method based on the estimated useful lives of the assets, which range from 3 to 25 years.

**CHUUK PUBLIC UTILITY CORPORATION  
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Notes to Financial Statements  
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

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, CPUC has no items that qualify for reporting in this category.

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, CPUC 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 CPUC 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.

Operating and Nonoperating Revenues and Expenses

CPUC 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.

Revenue Recognition

Sales of electricity are recorded as billed to customers. Customer accounts are read and billed weekly for large customers and on a bi-weekly basis for the rest of the customers. Billings are due and payable 15 days after billing. At the end of each month, unbilled revenues are accrued for each cycle based on the most recent cycle billing. Cash power revenue is recognized as revenue at point of sale with the estimated unearned portion at year-end recognized as unearned revenue if determined to be significant. At September 30, 2019 and 2018, unearned revenue recognized on cash power revenue was \$73,471 and \$58,398, respectively, which is presented as unearned revenue in the accompanying statements of net position. During the year ended September 30, 2019, incorrect fuel tariff rates were utilized, resulting in the overcharge and overbilling of electricity revenue during the year. At September 30, 2019, a refund liability of \$767,360 was recorded as part of accrued taxes and other liabilities in the accompanying statement of net position. The refund processing started in December 2019 and was completed in May 2020.

Grants and Subsidies

CPUC receives grants from the United States Government and other foreign governments or organizations either as a direct recipient or as a sub-recipient from the Chuuk State Government (CSG) and FSM National Government (FSMNG).

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

Taxation

CPUC exists and operates solely for the benefit of the public and shall be exempted from any State or Municipal taxes or assessments on any of its property, operations or activities. CPUC shall be liable for employees' contributions to the National Social Security System or other employees' benefits of the State of Chuuk or FSMNG, if any, in such manner as provided by law.

New Accounting Standards

During fiscal year 2019, CPUC 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 did not have material effect on the accompanying financial statements, except for GASB No. 88 which resulted in additional disclosures (see note 7).

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.

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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 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.

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 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>
Residential	\$ 344,573	\$ 333,382
Commercial	203,938	239,660
Government	310,976	250,542
Unbilled	107,951	86,117
Other	24,820	19,652
Chuuk State Government service tax	<u>31,632</u>	<u>32,805</u>
	1,023,890	962,158
Less allowance for uncollectable accounts	<u>(439,371)</u>	<u>(275,564)</u>
	\$ <u>584,519</u>	\$ <u>686,594</u>

Receivables as of September 30, 2019 and 2018 include \$104,825 and \$106,678, respectively, of balances in arrears from customers who converted to the cash power meter system. These account balances are reduced through an application of 30% of the delinquent customer's cash power purchase at the time of collection during the years ended September 30, 2019 and 2018. In November 2013, a 5% Chuuk State service tax was applied to power tariffs. CPUC records service tax receivables in a separate account.

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Notes to Financial Statements  
September 30, 2019 and 2018

(4) Utility Plant

Utility plant consists of the following detailed balances at September 30, 2019 and 2018:

	Balance at October <u>1, 2018</u>	Additions and <u>Transfers</u>	Deletions and <u>Transfers</u>	Balance at September <u>30, 2019</u>
Depreciable assets:				
Electric plant in service	\$ 19,855,624	\$ 725,801	\$ -	\$ 20,581,425
Water and sewer plant in service	13,998,498	20,494	-	14,018,992
General plant in service	<u>337,985</u>	<u>85,229</u>	<u>-</u>	<u>423,214</u>
	34,192,107	831,524	-	35,023,631
Less accumulated depreciation	<u>(13,545,894)</u>	<u>(1,188,492)</u>	<u>-</u>	<u>(14,734,386)</u>
	20,646,213	(356,968)	-	20,289,245
Non-depreciable assets:				
Construction in progress	<u>714,301</u>	<u>240,948</u>	<u>-</u>	<u>955,249</u>
	<u>\$ 21,360,514</u>	<u>\$ (116,020)</u>	<u>\$ -</u>	<u>\$ 21,244,494</u>
	Balance at October <u>1, 2017</u>	Additions and <u>Transfers</u>	Deletions and <u>Transfers</u>	Balance at September <u>30, 2018</u>
Depreciable assets:				
Electric plant in service	\$ 19,217,464	\$ 638,160	\$ -	\$ 19,855,624
Water and sewer plant in service	13,974,305	24,193	-	13,998,498
General plant in service	<u>316,570</u>	<u>21,415</u>	<u>-</u>	<u>337,985</u>
	33,508,339	683,768	-	34,192,107
Less accumulated depreciation	<u>(12,319,319)</u>	<u>(1,226,575)</u>	<u>-</u>	<u>(13,545,894)</u>
	21,189,020	(542,807)	-	20,646,213
Non-depreciable assets:				
Construction in progress	<u>-</u>	<u>714,301</u>	<u>-</u>	<u>714,301</u>
	<u>\$ 21,189,020</u>	<u>\$ 171,494</u>	<u>\$ -</u>	<u>\$ 21,360,514</u>

During the year ended September 30, 2019, construction in progress of \$955,249 represents water treatment plant project and electrification project in Tonoas. Of the total amount, \$375,370 was funded by grants from the US DOI, \$64,037 from World Bank through FSMNG and remaining amount of \$515,842 was funded internally.

During the year ended September 30, 2018, construction in progress of \$714,301 represents water treatment plant project and electrification project in Tonoas. Of the total amount, \$344,540 was funded by grants from the US DOI and remaining amount of \$369,761 was funded internally.

(5) Contributed Assets

During the fiscal year ended September 30, 1999, CSG contributed various electric plant and water and sewer plant assets to CPUC. The contributions from the FSMNG result from compliance with Section 7.01 of the Financing Agreement between FSMNG, CSG and CPUC wherein the FSMNG is obligated to finance 10% (ceiling of \$186,900) of the actual costs of civil and mechanical work of the FSMNG Water Supply and Sanitation Project. The remaining 90% is financed through a loan from the Asian Development Bank which was passed through the FSMNG to CSG and then to CPUC. The loan was transferred to CSG in 2010.



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Notes to Financial Statements  
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(6) Grants and Subsidies

During the years ended September 30, 2019 and 2018, CPUC recorded federal grants from the U.S. DOI passed through by the FSMNG totaling \$183,556 and \$621,609, respectively. Of the total grant proceeds at September 30, 2019 and 2018, \$23,661 and \$63,801, respectively, represent advances from the grantor used for infrastructure projects. The advances are to be repaid at the end of the grant term and are presented as payable to grantor in the accompanying statements of net position. The rest of the grant proceeds were used for other infrastructure projects.

(7) Long-term Debt and Noncurrent Liabilities

Long-term Debt

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

	<u>2019</u>	<u>2018</u>
ADB loan no. 2099, administered by FSMNG, drawn against total Standard Drawing Rights (SDR), principal due in semi-annual installments of \$85,883 from January 15, 2013 to July 15, 2036. Interest is payable at 1% per annum during the grace period and at 1.5% thereafter. Proceeds are to be used for infrastructure projects: power distribution upgrades, decommissioning and environmental remediation of the existing power station and institutional strengthening.	\$ 1,803,429	\$ 1,944,797
ADB loan no. 2100, administered by FSMNG, drawn against total SDR, principal due in semi-annual installments of varying amounts as a percentage of total SDRs through January 15, 2029. Interest is payable at LIBOR plus 0.6% (effective 2.1% at September 30, 2019 and 2018). Proceeds are used for the purchase of two generator sets and related costs.	2,238,748	2,346,112
A \$207,000 loan with the FSM Development Bank (FSMDB), bearing interest fixed at 7% per annum, payable over 60 monthly installments of \$4,099, maturing in February 2021. The loan is collateralized by a security interest in fixed assets. Proceeds were used to pay off an existing outstanding payable.	<u>66,504</u>	<u>110,050</u>
Total long-term debt	4,108,681	4,400,959
Less current portion of long-term debt	<u>(296,974)</u>	<u>(278,943)</u>
Long-term debt, net of current portion	\$ <u>3,811,707</u>	\$ <u>4,122,016</u>

ADB loans include particular covenants, (1) the borrower shall cause the states and CPUC 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 CPUC perform its obligations under the relevant project implementation agreement, and shall not permit any action which would interfere with the performance of such obligations.

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Notes to Financial Statements  
September 30, 2019 and 2018

(7) Long-term Debt and Noncurrent Liabilities, Continued

Long-term Debt, Continued

FSMDB loan contains a provision that in an event of default, the note and any all other liabilities may, at the option of lender and without demand or notice of any kind, be declared immediately due and payable. Lenders may exercise from time to time any rights and remedies available to it as a secured party under the laws of the FSM or the State in which the mortgaged property, the borrowers or the lenders reside or may be found in at the time the action accrues.

Management believes that CPUC 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.

Principal payments for subsequent years ending September 30 and applicable interest due are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 296,974	\$ 76,897	\$ 373,871
2021	286,879	69,158	356,037
2022	283,815	63,679	347,494
2023	302,759	58,188	360,947
2024	323,881	52,368	376,249
2025-2029	2,014,078	166,099	2,180,177
2030-2036	<u>600,295</u>	<u>26,259</u>	<u>626,554</u>
	<u>\$ 4,108,681</u>	<u>\$ 512,648</u>	<u>\$ 4,621,329</u>

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

	<u>Outstanding October 1, 2018</u>	<u>Addition</u>	<u>Reduction</u>	<u>Outstanding September 30, 2019</u>	<u>Amount due Within One Year</u>
Long-term debt	\$ <u>4,400,959</u>	\$ <u>      -</u>	\$ <u>(292,278)</u>	\$ <u>4,108,681</u>	\$ <u>296,974</u>
					<u>Amount due Within One Year</u>
	<u>Outstanding October 1, 2017</u>	<u>Addition</u>	<u>Reduction</u>	<u>Outstanding September 30, 2018</u>	
Long-term debt	\$ <u>4,692,609</u>	\$ <u>      -</u>	\$ <u>(291,650)</u>	\$ <u>4,400,959</u>	\$ <u>278,943</u>

**CHUUK PUBLIC UTILITY CORPORATION  
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Notes to Financial Statements  
September 30, 2019 and 2018

(7) Long-term Debt and Noncurrent Liabilities, Continued

Noncurrent Liabilities

Changes in noncurrent liabilities for the years ended September 30, 2019 and 2018 are as follows:

	Outstanding October 1, <u>2018</u>	<u>Addition</u>	<u>Reduction</u>	Outstanding September <u>30, 2019</u>	Amount due Within <u>One Year</u>
Accrued annual leave	\$ <u>42,520</u>	\$ <u>1,215</u>	\$ <u>      -</u>	\$ <u>43,735</u>	\$ <u>7,359</u>
	Outstanding October 1, <u>2017</u>	<u>Addition</u>	<u>Reduction</u>	Outstanding September <u>30, 2018</u>	Amount due Within <u>One Year</u>
Accrued annual leave	\$ <u>35,711</u>	\$ <u>6,809</u>	\$ <u>      -</u>	\$ <u>42,520</u>	\$ <u>7,359</u>

(8) Related Party Transactions

Revenue received from CSG representing power, water and other sales for the years ended September 30, 2019 and 2018 was \$1,601,432 and \$1,486,575, respectively.

CPUC purchases virtually all of its fuel from FSMPC, a component unit of the FSMNG. Purchase prices are based on movements of the base price for fuel and lubricants plus add-on costs, fees and taxes. Purchases are payable up to a maximum of thirty days. At September 30, 2019 and 2018, deposits in the amount of \$649,881 and \$634,300, respectively, all of which were received through a sub-grant from the FSMNG, are held by FSMPC as collateral for a fuel and lubricant purchase line. At September 30, 2019 and 2018, payables to FSMPC were \$77,797 and \$25,466, respectively.

(9) Commitments

Leases

CPUC occupies office and warehouse spaces currently on a month-to-month basis.

In 2013, CPUC entered into 3 land leases which are effective from February 2013 to January 2033. The leases require advance payments totaling \$378,520. In 2018, CPUC entered into 2 land lease agreements for the for the water treatment plant in Tonoas which are effective from January 2018 to September 30, 2022. The leases require advance payments totaling \$27,712. As of September 30, 2019 and 2018, unamortized prepaid lease of \$269,879 and \$294,892, respectively, has been included in the accompanying statements of net position and is amortized on a straight-line basis over the lease term as follows:

**CHUUK PUBLIC UTILITY CORPORATION  
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Notes to Financial Statements  
September 30, 2019 and 2018

(9) Commitments, Continued

Leases, Continued

Year Ending September 30,

2020	\$ 24,760
2021	24,760
2022	24,760
2023	18,926
2024	18,926
2025-2029	94,630
2030-2033	<u>63,117</u>
	\$ <u>269,879</u>

(10) Contingencies

Litigation

CPUC is party to various outstanding court judgments. CPUC has provided for an amount that it believes it will actually be responsible for. The ultimate impact of any remaining judgments is not currently predictable. Therefore, no additional liability has been recorded in the accompanying financial statements due to management's inability to predict the ultimate outcome. Any changes in this estimate will be resolved prospectively.

Risk Management

CPUC 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. CPUC has elected to purchase general liability, fire, automobile, and workmen's compensation insurance from independent third parties for the risks of loss to which it is exposed while CPUC is substantially self-insured for all other risks. Management is of the opinion that no material losses have been sustained as a result of this practice during the last three years.

Federal Award Programs

CPUC has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Audits of federal program funds may also be performed by various federal agencies. If the audits result in cost disallowances, CPUC may be liable. There are no reported questioned costs as of September 30, 2019.

(11) Restricted Net Position

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

	<u>2019</u>	<u>2018</u>
Capital improvements	\$ 8,058	\$ 7,894
Fuel deposit from fuel operating grant	<u>649,881</u>	<u>634,300</u>
	\$ <u>657,939</u>	\$ <u>642,194</u>

**CHUUK PUBLIC UTILITY CORPORATION  
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Notes to Financial Statements  
September 30, 2019 and 2018

(12) 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 CPUC's business, results of operations and net position. CPUC is unable to reasonably estimate the ultimate financial impact at this time.

Management has considered subsequent events through June 30, 2020, the date upon which the financial statements were available to be issued.

Except as discussed above, 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  
Chuuk Public Utility 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 Chuuk Public Utility Corporation (the Corporation), 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 30, 2020.

### **Internal Control Over Financial Reporting**

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

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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings as item 2019-001, which we consider to be a significant deficiency.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Corporation'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*.

## **CPUC's Responses to Findings**

CPUC's responses to the findings identified in our audit are described in accompanying Corrective Action Plan. CPUC's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly; we express no opinion on them.

## **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*

June 30, 2020

**CHUUK PUBIC UTILITY CORPORATION**  
**(A Component Unit of the State of Chuuk)**

Schedule of Findings  
Year Ended September 30, 2019

Finding No. 2019-001

Fixed Asset Register

Criteria: Fixed asset register should be maintained with sufficient detail to identify individual assets and be periodically reviewed for accuracy and ongoing pertinence.

Condition: Several fixed assets purchased in prior years do not have a detailed asset description. Additionally, all of the fixed assets purchased during the year ended September 30, 2019, totaling \$464,932, do not have a detailed asset description. Additionally, CPUC records fixed asset purchases based on payments and not on individual assets. For instance, five vehicles acquired during 2019 were recorded as two entries in the fixed asset registers for the two payments made. Finally, CPUC recorded all fixed asset acquisitions as placed in-service on September 30, 2019.

Cause: The cause of the above condition is ineffective internal controls over monitoring and review of the fixed asset register, reconciliation and recording of fixed asset transactions.

Effect: The effect of the above condition is a potential misstatement of fixed assets, as CPUC would not be able to accurately verify physical existence of assets, identify related costs for asset disposals and misstate depreciation expense.

Recommendation: Management should perform a complete review of the current fixed asset register, verify against historical purchases information and make necessary corrections. Management should also develop policies and procedures for the appropriate identification of assets in the detailed registers. Asset description should be specific and include sufficient detail, such as an asset tag number. Cost incurred for a single asset or project should be capitalized and entered into the register as a single asset. Fixed asset acquisition date should be the actual date where an asset is placed in service.

Auditee Response and Corrective Action Plan:

CPUC concurs with the finding and will implement the recommendation of the auditor in fiscal year 2020.



**CHUUK PUBLIC UTILITY CORPORATION**  
(A Component Unit of the State of Chuuk)

Unresolved Prior Year Findings  
Year Ended September 30, 2019

There are no unresolved findings from prior year audits of the Corporation.