

CHUUK PUBLIC UTILITY CORPORATION

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

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

YEARS ENDED SEPTEMBER 30, 2020 AND 2019

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

Table of Contents
Years Ended September 30, 2020 and 2019

	<u>Page No.</u>
I. FINANCIAL STATEMENTS	
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Statements of Net Position	7
Statements of Revenues, Expenses, and Changes in Net Position	8
Statements of Cash Flows	9
Notes to Financial Statements	10
II. INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS	
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 <i>Government Auditing Standards</i>	22
Schedule of Findings and Questioned Costs	23
Unresolved Prior Year Findings	24

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, 2020 and 2019, 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, 2020 and 2019, 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 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 7, 2021, 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

July 7, 2021

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

Management's Discussion and Analysis
Years Ended September 30, 2020 and 2019

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 ended September 30, 2020.

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, 2020, 2019, and 2018. 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 2020, 2019 and 2018.

FINANCIAL HIGHLIGHTS

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Assets:			
Utility plant in service, net	\$ 21,109,333	\$ 21,244,494	\$ 21,360,514
Current assets	3,339,225	3,248,266	2,636,776
Non-current assets	<u>939,804</u>	<u>985,537</u>	<u>904,146</u>
Total assets	<u>\$ 25,388,362</u>	<u>\$ 25,478,297</u>	<u>\$ 24,901,436</u>
Net Position and Liabilities:			
Net investment in capital assets	\$ 17,217,464	\$ 17,135,813	\$ 16,959,555
Restricted	589,758	657,939	642,194
Unrestricted	<u>2,871,851</u>	<u>2,199,069</u>	<u>2,403,358</u>
Total net position	<u>20,679,073</u>	<u>19,992,821</u>	<u>20,005,107</u>
Long-term liabilities	3,672,181	3,848,083	4,157,177
Current liabilities	<u>1,037,108</u>	<u>1,637,393</u>	<u>739,152</u>
Total liabilities	<u>4,709,289</u>	<u>5,485,476</u>	<u>4,896,329</u>
Total net position and liabilities	<u>\$ 25,388,362</u>	<u>\$ 25,478,297</u>	<u>\$ 24,901,436</u>
Revenues, Expenses, and Changes in Net Position:			
Total operating revenues	\$ 6,815,185	\$ 7,134,989	\$ 7,302,028
Operating expenses	<u>6,985,686</u>	<u>7,574,726</u>	<u>7,537,272</u>
Operating loss	<u>(170,501)</u>	<u>(439,737)</u>	<u>(235,244)</u>
Grants, subsidies and other income	984,913	486,891	780,549
Interest expense	<u>(128,160)</u>	<u>(59,440)</u>	<u>(39,320)</u>
Total nonoperating revenue, net and capital contributions	<u>856,753</u>	<u>427,451</u>	<u>741,229</u>
Change in net position	686,252	(12,289)	505,985
Net position at beginning of year	<u>19,992,821</u>	<u>20,005,107</u>	<u>19,499,122</u>
Net position at end of year	<u>\$ 20,679,073</u>	<u>\$ 19,992,821</u>	<u>\$ 20,005,107</u>

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

Management's Discussion and Analysis
Years Ended September 30, 2020 and 2019

Assets:

CPUC continues to maintain its asset-base to provide the essential utility services to the people of Chuuk State. Total value of the working assets at the end of FY2020 is \$25.4 million, compared with \$25.5 million at the end of FY2019.

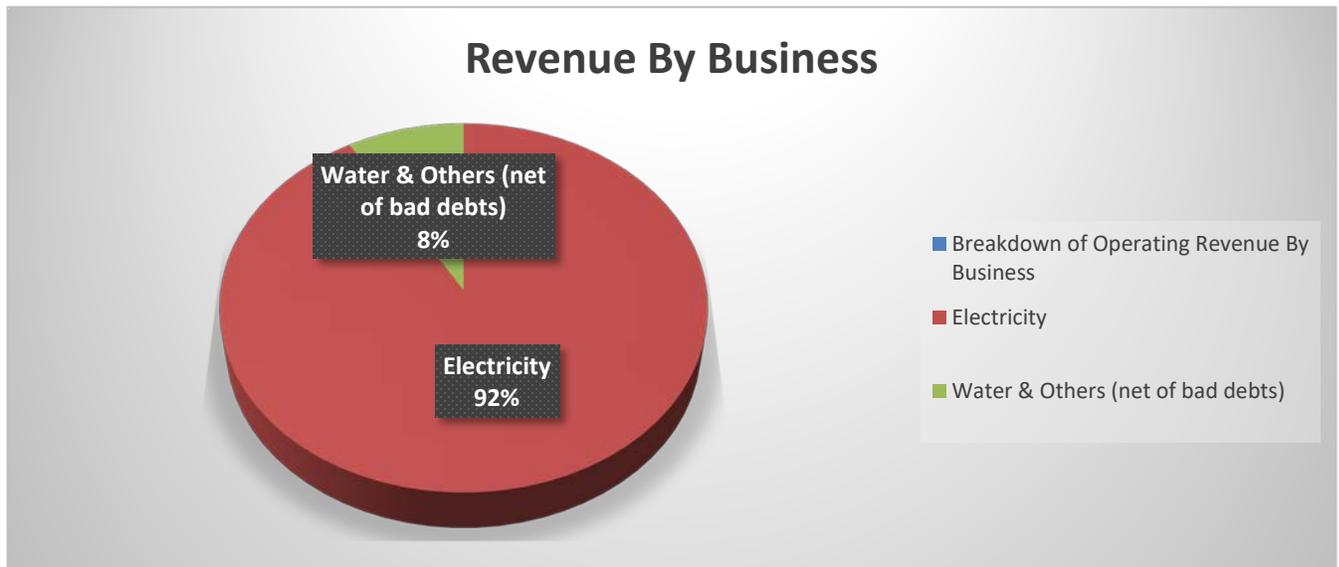
Revenue:

Revenue decreases from \$7.1 million in 2019 to \$6.8 million in 2020. The decrease is due to reduction in electricity tariff. The analysis below explains the reduction:

	2020	2019	Increase (Decrease)
KWH Sold	14,985,766	14,901,789	83,877
Revenue	\$ 6,815,185	\$ 7,134,989	\$ (319,804)
Average Tariff	\$ 0.4548	\$ 0.4788	\$ (0.024)
Revenue decrease due to reduction in tariff			\$ (357,995)
Plus: revenue from more units sold this year			\$ 40,208
Plus: revenue from increase in water sales (net of bad debts)			\$ (2,017)
Decrease in revenue			\$ (319,804)

Overall operating revenue for 2020 is \$6.8 million and is broken down by the two business as follows:

Business	Revenue	%
Electricity	\$ 6,236,465	92%
Water and others (net of bad debts)	578,720	8%
Total revenue	\$ 6,815,185	100%



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

Management’s Discussion and Analysis
Years Ended September 30, 2020 and 2019

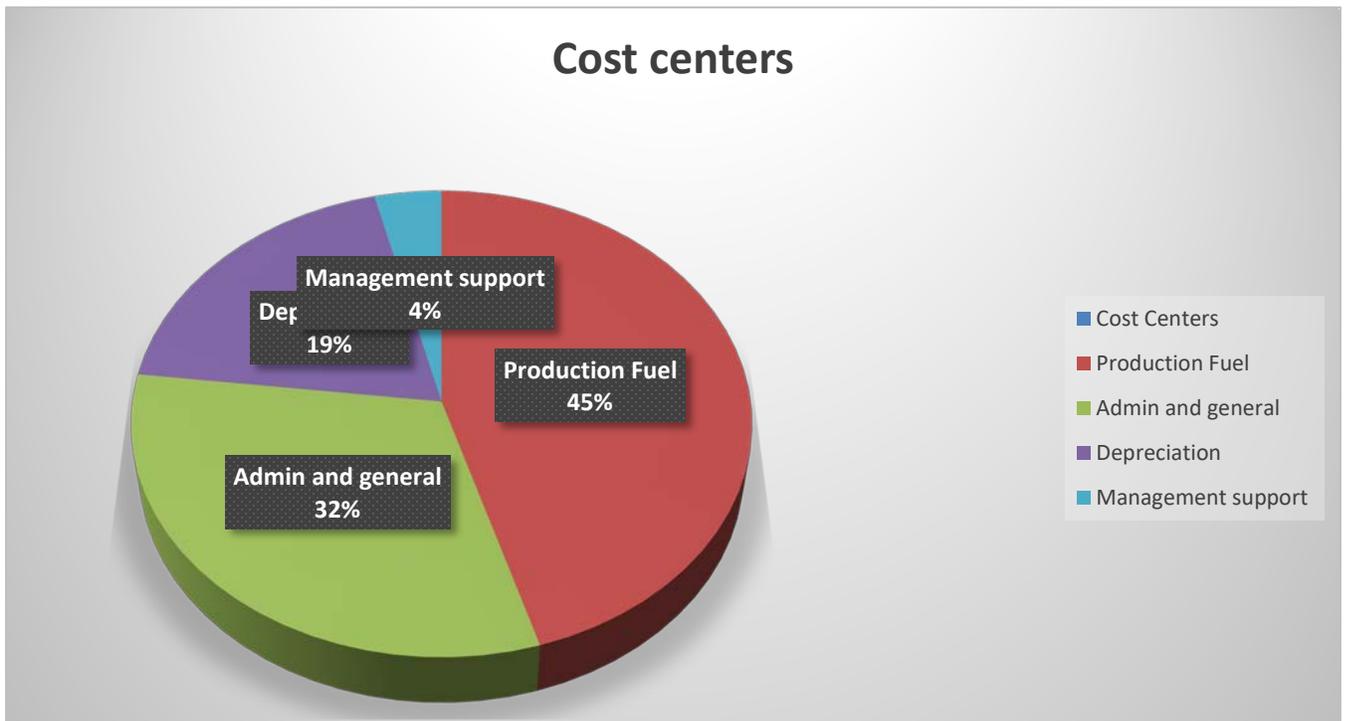
Expenses:

Table below highlights the expenses by cost center for both years and the related changes:

Cost Center	2020	2019	Increase (decrease)
Production fuel	\$ 3,166,451	\$ 3,809,790	\$ (643,339)
Admin and general	2,205,762	2,246,337	(40,575)
Depreciation	1,346,952	1,188,492	158,460
Management Support	266,521	330,107	(63,586)
Total	\$ 6,985,686	\$ 7,574,726	\$ (589,040)

There is a decrease in expense compared to last year by more than half a million (\$0.5 million). The decrease is due to reduction of fuel cost, admin and general, and management support to the utility. The offsetting increase in depreciation expense is from new assets added in FY 2019 but started depreciation in FY 2020. These assets were the capitalized generator major repairs, equipment and vehicles, and cash power meters.

The pie chart below shows the profile of the spending in 2020:



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

Management's Discussion and Analysis
Years Ended September 30, 2020 and 2019

Change in Net position:

There is a positive change in net position \$0.7 million indicating that CPUC financial position is improving.

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) 2021 OUTLOOK

CPUC anticipates continued improvement in operating position during FY2021 through improvements: power generation due to use of more solar grids, power distribution losses, collections, as well as expansion and efficiency improvements in water and sewer services.

A power loss target of 10% has been set for FY 2021.

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 on Weno 2021 to 2023.

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

CPUC will also be working in partnership with FSM Petroleum Corporation (FSMPC) to reinstate the power supply in Tonoas (population 4,000) by the end of 2021; CPUC completed the power distribution system and will enter into a power purchase agreement with FSMPC whereby FSMPC will 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, 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 2021. CPUC started the project in November of 2020.

SUBSEQUENT EVENT

CPUC anticipates that Covid-19 restrictions on international travels will continue to affect the hotel businesses on Weno and in turn affect the utility business.

However, the Covid-19 assistance from the United States and FSM government will help mediate the losses anticipated from the hotel business.

CONTACTING CPUC'S FINANCIAL MANAGEMENT

Management's Discussion and Analysis for the year ended September 30, 2019, is set forth in the report on the audit of CPUC's financial statements, which is dated June 30, 2020, 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.

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

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

Statements of Net Position
September 30, 2020 and 2019

<u>Assets</u>	<u>2020</u>	<u>2019</u>
Utility plant, at cost:		
Depreciable utility plant:		
Electric plant in service	\$ 20,780,390	\$ 20,581,425
Water and sewer plant in service	14,017,182	14,018,992
General plant in service	453,264	423,214
	<u>35,250,836</u>	<u>35,023,631</u>
Less accumulated depreciation	<u>(16,069,316)</u>	<u>(14,734,386)</u>
	<u>19,181,520</u>	<u>20,289,245</u>
Non-depreciable utility plant:		
Construction in progress	<u>1,927,813</u>	<u>955,249</u>
Total utility plant	<u>21,109,333</u>	<u>21,244,494</u>
Current assets:		
Cash	1,508,565	1,533,792
Accounts receivable, net	430,710	584,519
Receivable from grantor	168,861	-
Inventory	1,157,025	1,057,377
Prepaid expenses	34,207	47,785
Prepaid land lease, current portion	39,857	24,793
Total current assets	<u>3,339,225</u>	<u>3,248,266</u>
Noncurrent assets:		
Deposits	356,424	649,881
Deposit for asset acquisition	253,416	90,570
Prepaid land lease, net of current portion	329,964	245,086
Total noncurrent assets	<u>939,804</u>	<u>985,537</u>
	<u>\$ 25,388,362</u>	<u>\$ 25,478,297</u>
<u>Liabilities and Net Position</u>		
Current liabilities:		
Current portion of long-term debt	\$ 285,738	\$ 296,974
Accounts payable	252,130	104,945
Accrued taxes and other liabilities	348,539	1,130,983
Payable to grantor	52,152	23,661
Unearned revenue	91,190	73,471
Accrued annual leave, current portion	7,359	7,359
Total current liabilities	<u>1,037,108</u>	<u>1,637,393</u>
Accrued annual leave, net of current portion	66,050	36,376
Long-term debt, net of current portion	<u>3,606,131</u>	<u>3,811,707</u>
Total liabilities	<u>4,709,289</u>	<u>5,485,476</u>
Commitments and contingencies		
Net position:		
Net investment in capital assets	17,217,464	17,135,813
Restricted	589,758	657,939
Unrestricted	<u>2,871,851</u>	<u>2,199,069</u>
Total net position	<u>20,679,073</u>	<u>19,992,821</u>
	<u>\$ 25,388,362</u>	<u>\$ 25,478,297</u>

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2020 and 2019

	2020	2019
Operating revenues:		
Electricity sales	\$ 3,061,589	\$ 3,644,865
Cash power	3,174,876	3,103,282
Water sales	555,450	509,412
Other sales	84,003	41,237
	6,875,918	7,298,796
Provision for doubtful accounts	(60,733)	(163,807)
Total net operating revenues	6,815,185	7,134,989
Operating and maintenance expenses:		
Production fuel	3,166,451	3,809,790
Administrative and general	2,205,762	2,246,337
Depreciation	1,346,952	1,188,492
Management support	266,521	330,107
Total operating and maintenance expenses	6,985,686	7,574,726
Operating loss	(170,501)	(439,737)
Nonoperating revenues (expenses), net:		
Other income, net	130,000	155,805
Operating grant-United States Government	80,129	158,046
Operating grant-Chuuk State Government	26,998	-
Loss on disposal of assets	(627)	-
Interest expense	(128,160)	(59,440)
Interest income	-	191
Total nonoperating revenues (expenses), net	108,340	254,602
Loss before capital contributions	(62,161)	(185,135)
Capital contributions:		
Grants from the United Nations Development Program	573,040	-
Grants from Asian Development Bank	168,861	-
Grants from the United States Government	6,512	25,510
Contributions from World Bank	-	147,339
Change in net position	686,252	(12,286)
Net position at beginning of year	19,992,821	20,005,107
Net position at end of year	\$ 20,679,073	\$ 19,992,821

See accompanying notes to financial statements.

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

Statements of Cash Flows
Years Ended September 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Cash received from customers	\$ 6,349,400	\$ 8,175,302
Cash payments to suppliers for goods and services	(4,522,694)	(5,468,908)
Cash payments to employees	(1,009,713)	(1,101,758)
Net cash provided by operating activities	816,993	1,604,636
Cash flows from noncapital financing activities:		
Cash receipts from grantors	135,618	117,906
Net cash provided by noncapital financing activities	135,618	117,906
Cash flows from investing activities:		
Interest on bank deposits	-	191
Net cash provided by investing activities	-	191
Cash flows from capital and related financing activities:		
Interest paid	(128,160)	(59,440)
Cash receipts from grantors for capital projects	579,552	25,510
Acquisition of utility plant	(1,212,418)	(1,008,435)
Payments of long-term debt	(216,812)	(292,278)
Net cash used in capital and related financing activities	(977,838)	(1,334,643)
Net change in cash	(25,227)	388,090
Cash at beginning of year	1,533,792	1,145,702
Cash at end of year	\$ 1,508,565	\$ 1,533,792
<u>Reconciliation of operating loss to net cash provided by operating activities:</u>		
Operating loss	\$ (170,501)	\$ (439,737)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	1,346,952	1,188,492
Provision for doubtful accounts	60,733	163,807
Other income, net	130,000	155,805
(Increase) decrease in assets:		
Accounts receivable	93,076	(61,732)
Inventory	(99,648)	(210,596)
Prepaid expenses	(86,364)	(6,817)
Deposits	293,457	(15,581)
Deposit for asset acquisition	(162,846)	(90,570)
(Decrease) increase in liabilities:		
Accounts payable	147,185	79,479
Accrued taxes and other liabilities	(782,444)	825,798
Accrued annual leave	29,674	1,215
Unearned revenue	17,719	15,073
Net cash provided by operating activities	\$ 816,993	\$ 1,604,636

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 capital assets and inventories.

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2020 and 2019

(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, 2020 and 2019, 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.

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

Notes to Financial Statements
September 30, 2020 and 2019

(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, 2020 and 2019, the carrying amount of cash was \$1,508,565 and \$1,533,792, respectively, and the corresponding bank balances were \$1,511,628 and \$1,427,335, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2020 and 2019, 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, 2020 and 2019. 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
(A COMPONENT UNIT OF THE STATE OF CHUUK)**

Notes to Financial Statements
September 30, 2020 and 2019

(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, 2020 and 2019, 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, 2020 and 2019, 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 other 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, 2020 and 2019, unearned revenue recognized on cash power revenue was \$91,190 and \$73,471, 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).

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

Notes to Financial Statements
September 30, 2020 and 2019

(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 the year ended September 30, 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement Nos. 84, 89, 90, 91, 92 and 93 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. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 84 will be effective for fiscal year ending September 30, 2021.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. Management believes that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 will be effective for fiscal year ending September 30, 2022.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 89 will be effective for fiscal year ended September 30, 2022.

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

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In March 2018, GASB issued Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statement Nos. 14 and 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 90 will be effective for fiscal year ending September 30, 2021.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefits. The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance. The remaining requirements of GASB Statement No. 92 are effective for the fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The primary objective of this Statement is to address those and other accounting and financial reporting implications of the replacement of an IBOR. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 93 will be effective for fiscal year ending September 30, 2022.

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

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

(3) Accounts Receivable

Accounts receivable at September 30, 2020 and 2019, are summarized as follows:

	<u>2020</u>	<u>2019</u>
Residential	\$ 338,395	\$ 344,573
Commercial	145,460	203,938
Government	335,760	310,976
Unbilled	50,394	107,951
Other	31,551	24,820
Chuuk State Government service tax	<u>29,254</u>	<u>31,632</u>
	930,814	1,023,890
Less allowance for uncollectable accounts	<u>(500,104)</u>	<u>(439,371)</u>
	<u>\$ 430,710</u>	<u>\$ 584,519</u>

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

Notes to Financial Statements
September 30, 2020 and 2019

(3) Accounts Receivable, Continued

Receivables as of September 30, 2020 and 2019 include \$106,678 and \$104,825, 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, 2020 and 2019. In November 2013, a 5% Chuuk State service tax was applied to power tariffs. CPUC records service tax receivables in a separate account.

(4) Utility Plant

Utility plant consists of the following detailed balances at September 30, 2020 and 2019:

	Balance at October 1, 2019	Additions and Transfers	Deletions and Transfers	Balance at September 30, 2020
Depreciable assets:				
Electric plant in service	\$ 20,581,425	\$ 206,246	\$ (7,281)	\$ 20,780,390
Water and sewer plant in service	14,018,992	3,558	(5,368)	14,017,182
General plant in service	<u>423,214</u>	<u>30,050</u>	<u>-</u>	<u>453,264</u>
	35,023,631	239,854	(12,649)	35,250,836
Less accumulated depreciation	<u>(14,734,386)</u>	<u>(1,346,952)</u>	<u>12,022</u>	<u>(16,069,316)</u>
	20,289,245	(1,107,098)	(627)	19,181,520
Non-depreciable assets:				
Construction in progress	<u>955,249</u>	<u>972,564</u>	<u>-</u>	<u>1,927,813</u>
	<u>\$ 21,244,494</u>	<u>\$ (134,534)</u>	<u>\$ (627)</u>	<u>\$ 21,109,333</u>
	Balance at October 1, 2018	Additions and Transfers	Deletions and Transfers	Balance at September 30, 2019
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>

During the year ended September 30, 2020, construction in progress of \$1,927,813 represents major overhaul of generators, water treatment plant and electrification project in Tonoas and a grant under Asian Development Bank (ADB) for project readiness financing in preparation for the Chuuk Water Supply and Sanitation Project (CWSSP). Of the total amount, \$380,536 was funded by grants from the U.S. DOI, \$310,685 from United Nations Development Program, \$191,432 from ADB, \$78,492 from World Bank through FSMNG and remaining amount of \$966,668 was funded internally.

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.

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

Notes to Financial Statements
September 30, 2020 and 2019

(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.

(6) Grants and Subsidies

During the years ended September 30, 2020 and 2019, CPUC recorded federal grants from the U.S. DOI passed through by the FSMNG totaling \$86,641 and \$183,556, respectively. Of the total grant proceeds at September 30, 2020 and 2019, \$52,512 and \$23,661, 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, 2020 and 2019:

	<u>2020</u>	<u>2019</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 semi-annually 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.	\$ 1,752,495	\$ 1,803,429
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 semi-annually at LIBOR plus 0.6% (effective 2.3% and 2.1% at September 30, 2020 and 2019, respectively). Proceeds are used for the purchase of two generator sets and related costs.	2,120,068	2,238,748
A \$207,000 loan with the FSM Development Bank (FSMDB), bearing interest fixed at 7% per annum, payable over 60 monthly principal and interest 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>19,306</u>	<u>66,504</u>
Total long-term debt	3,891,869	4,108,681
Less current portion of long-term debt	<u>(285,738)</u>	<u>(296,974)</u>
Long-term debt, net of current portion	<u>\$ 3,606,131</u>	<u>\$ 3,811,707</u>

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

Notes to Financial Statements
September 30, 2020 and 2019

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

Long-term Debt, Continued

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.

FSMDB loan contains a provision that in an event of default, the note and any 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, 2020 and 2019, 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>
2021	\$ 285,738	\$ 69,158	\$ 354,896
2022	283,815	63,679	347,494
2023	302,759	58,188	360,947
2024	323,881	52,368	376,249
2025	346,564	45,923	392,487
2026-2030	1,817,865	129,423	1,947,288
2031-2036	<u>531,247</u>	<u>17,011</u>	<u>548,258</u>
	<u>\$ 3,891,869</u>	<u>\$ 435,750</u>	<u>\$ 4,327,619</u>

Changes in long term debt for the years ended September 30, 2020 and 2019 are as follows:

	Outstanding October 1, <u>2019</u>	<u>Addition</u>	<u>Reduction</u>	Outstanding September <u>30, 2020</u>	Amount due Within <u>One Year</u>
Long-term debt	\$ <u>4,108,681</u>	\$ <u>-</u>	\$ <u>(216,812)</u>	\$ <u>3,891,869</u>	\$ <u>285,738</u>
	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>
Long-term debt	\$ <u>4,400,959</u>	\$ <u>-</u>	\$ <u>(292,278)</u>	\$ <u>4,108,681</u>	\$ <u>296,974</u>

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

Notes to Financial Statements
September 30, 2020 and 2019

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

Noncurrent Liabilities

Changes in noncurrent liabilities for the years ended September 30, 2020 and 2019 are as follows:

	Outstanding October 1, <u>2019</u>	<u>Addition</u>	<u>Reduction</u>	Outstanding September 30, 2020	Amount due Within <u>One Year</u>
Accrued annual leave	\$ <u>43,735</u>	\$ <u>29,674</u>	\$ <u> -</u>	\$ <u>73,409</u>	\$ <u>7,359</u>
	Outstanding October 1, <u>2018</u>	<u>Addition</u>	<u>Reduction</u>	Outstanding September 30, 2019	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>

(8) Related Party Transactions

Revenue received from CSG representing power, water and other sales for the years ended September 30, 2020 and 2019 was \$1,392,943 and \$1,601,432, 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, 2020 and 2019, deposits in the amount of \$356,424 and \$649,881, 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, 2020 and 2019, payables to FSMPC were \$229,796 and \$77,797, respectively.

CPUC engages the service of a law firm where a member of management is a listed attorney. Total legal fees incurred for the years ended September 30, 2020 and 2019 were \$146,543 and \$146,683, 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 water treatment plant in Tonoas which are effective from January 2018 to September 30, 2022. The leases require advance payments totaling \$27,712. In 2019, CPUC entered into land lease agreement for the solar farm project effective from June 2019 to May 31, 2044; the agreement requires total payments of \$390,000, of which \$140,000 were paid during the year ended September 30, 2020. The remaining \$250,000 is due during the year ending September 30, 2021.

As of September 30, 2020 and 2019, unamortized prepaid lease of \$369,821 and \$269,879, 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
(A COMPONENT UNIT OF THE STATE OF CHUUK)**

Notes to Financial Statements
September 30, 2020 and 2019

(9) Commitments, Continued

Leases, Continued

Year Ending September 30,

2021	\$ 39,857
2022	40,360
2023	34,526
2024	34,526
2025	34,526
2026-2030	140,830
2031-2033	<u>44,656</u>
	<u>\$ 369,281</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 (see note 6). 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, 2020.

(11) Restricted Net Position

At September 30, 2020 and 2019, net position is restricted for the following purposes:

	<u>2020</u>	<u>2019</u>
Capital improvements	\$ 233,334	\$ 8,058
Fuel deposit from fuel operating grant	<u>356,424</u>	<u>649,881</u>
	<u>\$ 589,758</u>	<u>\$ 657,939</u>

**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, 2020, 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 July 7, 2021.

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. *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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings as item 2020-001, 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

July 7, 2021

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

Schedule of Findings
Year Ended September 30, 2020

Finding No. 2020-001

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. Fixed assets purchased during the year ended September 30, 2020, totaling \$221,746, do not have a detailed asset description. Additionally, CPUC records fixed asset purchases based on payments and not on individual assets. For instance, three vehicles acquired during 2020 were recorded as one entry in the fixed asset registers for one payment made. Finally, CPUC recorded all fixed asset acquisitions as placed in-service on September 30, 2020.

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 2021.

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

Unresolved Prior Year Findings
Year Ended September 30, 2020

Summary Schedule of Prior Audit Findings

<u>Finding Number</u>	<u>Finding Title</u>	<u>Status</u>
2019-001	Fixed Asset Register	Not Corrected or Resolved .