

CHUUK PUBLIC UTILITY CORPORATION

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

**FINANCIAL STATEMENTS AND
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITOR'S REPORT**

YEARS ENDED SEPTEMBER 30, 2021 AND 2020

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

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Years Ended September 30, 2021 and 2020

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INDEPENDENT AUDITOR'S 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, 2021 and 2020, 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.

Auditor's 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, 2021 and 2020, 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 November 23, 2022, 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

November 23, 2022

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

Management's Discussion and Analysis
Years Ended September 30, 2021 and 2020

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, 2021.

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, 2021, 2020, and 2019. 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 2021, 2020 and 2019.

FINANCIAL HIGHLIGHTS

| | <u>2021</u> | <u>2020</u> | <u>2019</u> |
|--|-----------------------------|-----------------------------|-----------------------------|
| Assets: | | | |
| Utility plant in service, net | \$ 23,429,302 | \$ 21,109,333 | \$ 21,244,494 |
| Current assets | 3,251,439 | 3,339,225 | 3,248,266 |
| Non-current assets | <u>730,788</u> | <u>939,804</u> | <u>985,537</u> |
| Total assets | \$ <u><u>27,411,529</u></u> | \$ <u><u>25,388,362</u></u> | \$ <u><u>25,478,297</u></u> |
| Net Position and Liabilities: | | | |
| Net investment in capital assets | \$ 19,783,469 | \$ 17,217,464 | \$ 17,135,813 |
| Restricted | 363,204 | 589,758 | 657,939 |
| Unrestricted | <u>3,046,856</u> | <u>2,871,851</u> | <u>2,199,069</u> |
| Total net position | <u><u>23,193,529</u></u> | <u><u>20,679,073</u></u> | <u><u>19,992,821</u></u> |
| Long-term liabilities | 3,380,654 | 3,672,181 | 3,848,083 |
| Current liabilities | <u>837,346</u> | <u>1,037,108</u> | <u>1,637,393</u> |
| Total liabilities | <u><u>4,218,000</u></u> | <u><u>4,709,289</u></u> | <u><u>5,485,476</u></u> |
| Total net position and liabilities | \$ <u><u>27,411,529</u></u> | \$ <u><u>25,388,362</u></u> | \$ <u><u>25,478,297</u></u> |
| Revenues, Expenses, and Changes in Net Position: | | | |
| Total operating revenues | \$ 6,751,255 | \$ 6,815,185 | \$ 7,134,989 |
| Operating expenses | <u>6,660,563</u> | <u>6,985,686</u> | <u>7,574,726</u> |
| Operating (loss) income | <u>90,692</u> | <u>(170,501)</u> | <u>(439,737)</u> |
| Grants, subsidies and other income | 2,477,388 | 984,913 | 486,891 |
| Interest expense | <u>(53,624)</u> | <u>(128,160)</u> | <u>(59,440)</u> |
| Total nonoperating revenue, net and capital contributions | <u>2,423,764</u> | <u>856,753</u> | <u>427,451</u> |
| Change in net position | 2,514,456 | 686,252 | (12,286) |
| Net position at beginning of year | <u>20,679,073</u> | <u>19,992,821</u> | <u>20,005,107</u> |
| Net position at end of year | \$ <u><u>23,193,529</u></u> | \$ <u><u>20,679,073</u></u> | \$ <u><u>19,992,821</u></u> |

Assets:

CPUC continues to maintain its asset-base to provide the essential utility services to the people of Chuuk State. The total value of the working assets at the end of FY2021 is \$27.4 million, compared with \$25.4 million at the end of FY2020.

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

Management's Discussion and Analysis
Years Ended September 30, 2021 and 2020

Revenue:

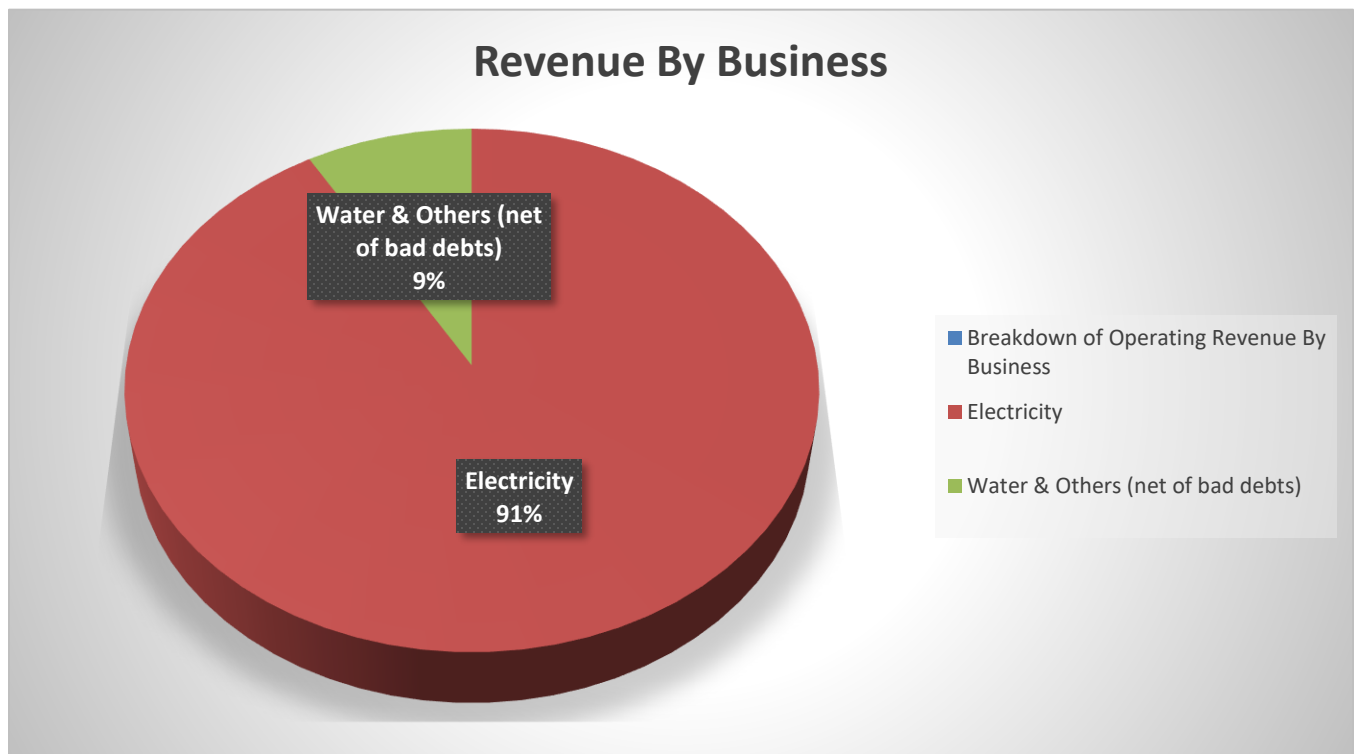
Electricity and water revenue decreases from \$6.81 million in 2020 to \$6.75 million in 2021, total reduction in sales by \$64,000. The decrease is due to reduction in units of power sold this year as the analysis shows below.

Explanation of Decreases in Revenue

| | <u>2021</u> | <u>2020</u> | Increase (decrease) |
|--|--------------|--------------|------------------------|
| Revenue | \$ 6,751,255 | \$ 6,815,185 | \$ (63,930) |
| Avg. Tariff | 0.4610 | 0.4548 | 0.006 |
| Revenue increase due to increase in electricity tariff | | | \$ 93,977 |
| Less: revenue from less kWh units sold this year | | | \$ (155,759) |
| Less: revenue from decreases in aggregate other sales (net of bad debts) | | | \$ (2,148) |
| Decreases in revenue | | | \$ (63,930) |

Overall operating revenue for 2021 is \$6.75 million and is broken down by the two businesses as follows:

| <u>Business</u> | <u>Revenue</u> | <u>%</u> |
|-----------------------------------|---------------------|-------------|
| Electricity | \$ 6,123,010 | 91% |
| Water & others (net of bad debts) | <u>628,245</u> | <u>9%</u> |
| Total revenue | \$ <u>6,751,255</u> | <u>100%</u> |



**CHUUK PUBLIC UTILITY CORPORATION
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Management's Discussion and Analysis
Years Ended September 30, 2021 and 2020

Expenses:

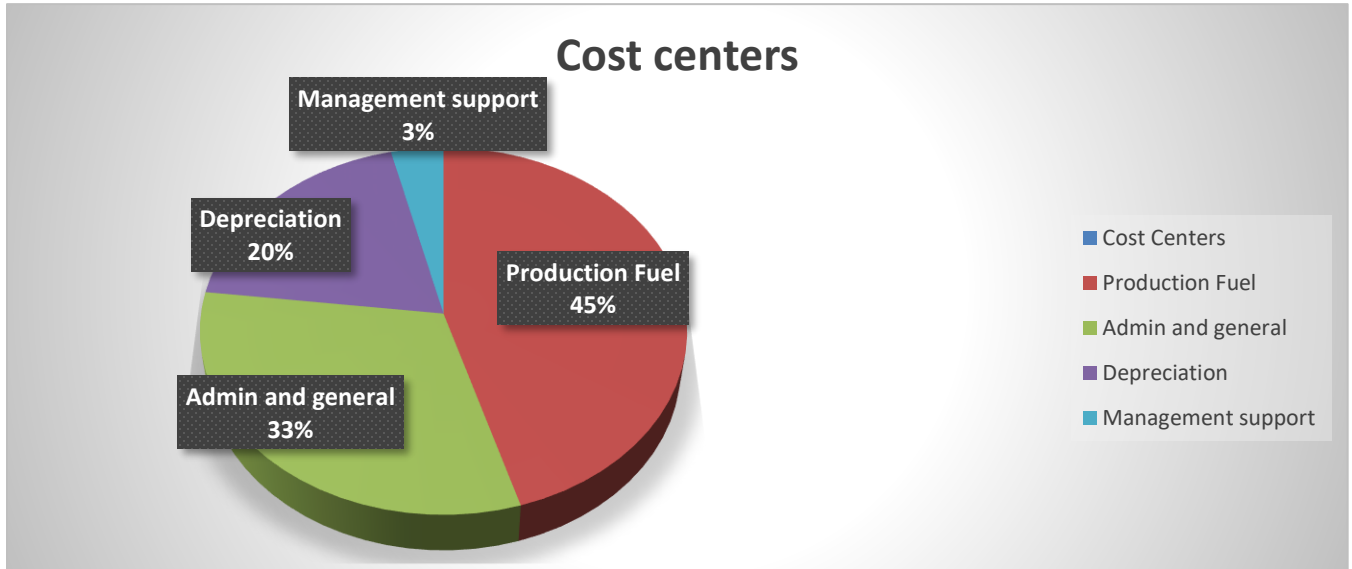


Table below highlights the expenses by cost center for both years and the related changes:

| <u>Cost Center</u> | <u>2021</u> | <u>2020</u> | <u>Increase (decrease)</u> |
|--------------------|---------------------|---------------------|--------------------------------|
| Production fuel | \$ 2,974,611 | \$ 3,166,451 | \$ (191,840) |
| Admin and general | 2,178,375 | 2,205,762 | (27,387) |
| Depreciation | 1,339,549 | 1,346,952 | (7,403) |
| Management support | <u>168,028</u> | <u>266,521</u> | <u>(98,493)</u> |
| Total | \$ <u>6,660,563</u> | \$ <u>6,985,686</u> | \$ <u>(325,123)</u> |

Overall, there is a decrease in expenses by \$0.33 million.

The pie chart above shows the profile of the spending in 2021:

Change in Net position:

There is a positive change in net position of \$2.5 million indicating that CPUC's 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.

**CHUUK PUBLIC UTILITY CORPORATION
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Management's Discussion and Analysis
Years Ended September 30, 2021 and 2020

FISCAL YEAR (FY) 2022 OUTLOOK

CPUC anticipates continued improvement in operating position during FY2022 through improvements: of power generation due to use of more solar grids, power distribution losses, collections, as well as expansion and improvements in water and sewer services.

A power loss target of 10% has been set for FY 2022.

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 during 2022 to 2024.

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 first quarter of 2022; CPUC has completed the powerline system by that time and will enter into a power purchase agreement with FSMPC.

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. CPUC will start the project in November of 2022.

SUBSEQUENT EVENT

The Chuuk State border which has been closed for more than 2 years is now open for international travelers. The ADB and the Work Bank projects which are delayed due to the border closure will resume in 1st quarter of FY 2023.

CONTACTING CPUC'S FINANCIAL MANAGEMENT

Management's Discussion and Analysis for the year ended September 30, 2020, is set forth in the report on the audit of CPUC's financial statements, which is dated July 7, 2021 and that Discussion and Analysis explains the major factors impacting the 2020 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, 2021 and 2020

| <u>Assets</u> | <u>2021</u> | <u>2020</u> |
|--|----------------------|----------------------|
| Utility plant, at cost: | | |
| Depreciable utility plant: | | |
| Electric plant in service | \$ 22,987,458 | \$ 20,780,390 |
| Water and sewer plant in service | 15,360,013 | 14,017,182 |
| General plant in service | 454,239 | 453,264 |
| | <u>38,801,710</u> | <u>35,250,836</u> |
| Less accumulated depreciation | (17,408,865) | (16,069,316) |
| | <u>21,392,845</u> | <u>19,181,520</u> |
| Non-depreciable utility plant: | | |
| Construction in progress | 2,036,457 | 1,927,813 |
| Total utility plant | <u>23,429,302</u> | <u>21,109,333</u> |
| Current assets: | | |
| Cash | 1,105,851 | 1,508,565 |
| Accounts receivable, net | 459,279 | 430,710 |
| Receivable from grantor | 354,243 | 168,861 |
| Inventory | 1,230,389 | 1,157,025 |
| Prepaid expenses | 67,151 | 34,207 |
| Prepaid land lease, current portion | 34,526 | 39,857 |
| Total current assets | <u>3,251,439</u> | <u>3,339,225</u> |
| Noncurrent assets: | | |
| Deposits | 356,424 | 356,424 |
| Deposit for asset acquisition | - | 253,416 |
| Prepaid land lease, net of current portion | 374,364 | 329,964 |
| Total noncurrent assets | <u>730,788</u> | <u>939,804</u> |
| | <u>\$ 27,411,529</u> | <u>\$ 25,388,362</u> |
| <u>Liabilities and Net Position</u> | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ 283,815 | \$ 285,738 |
| Accounts payable | 2,030 | 252,130 |
| Accrued taxes and other liabilities | 388,315 | 348,539 |
| Payable to grantor | 48,952 | 52,152 |
| Unearned revenue | 76,379 | 91,190 |
| Accrued annual leave, current portion | 37,855 | 7,359 |
| Total current liabilities | <u>837,346</u> | <u>1,037,108</u> |
| Accrued annual leave, net of current portion | 18,636 | 66,050 |
| Long-term debt, net of current portion | 3,362,018 | 3,606,131 |
| Total liabilities | <u>4,218,000</u> | <u>4,709,289</u> |
| Commitments and contingencies | | |
| Net position: | | |
| Net investment in capital assets | 19,783,469 | 17,217,464 |
| Restricted | 363,204 | 589,758 |
| Unrestricted | 3,046,856 | 2,871,851 |
| Total net position | <u>23,193,529</u> | <u>20,679,073</u> |
| | <u>\$ 27,411,529</u> | <u>\$ 25,388,362</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, 2021 and 2020

| | 2021 | 2020 |
|--|---------------|---------------|
| Operating revenues: | | |
| Electricity sales | \$ 2,710,004 | \$ 3,061,589 |
| Cash power | 3,413,006 | 3,174,876 |
| Water sales | 591,355 | 555,450 |
| Other sales | 36,890 | 84,003 |
| | 6,751,255 | 6,875,918 |
| Provision for doubtful accounts | - | (60,733) |
| Total net operating revenues | 6,751,255 | 6,815,185 |
| Operating and maintenance expenses: | | |
| Production fuel | 2,974,611 | 3,166,451 |
| Administrative and general | 2,178,375 | 2,205,762 |
| Depreciation | 1,339,549 | 1,346,952 |
| Management support | 168,028 | 266,521 |
| | 6,660,563 | 6,985,686 |
| Operating income (loss) | 90,692 | (170,501) |
| Nonoperating revenues (expenses), net: | | |
| Other (expenses) income, net | (42,290) | 130,000 |
| Operating grant-United States Government | 164,808 | 80,129 |
| Operating grant-Chuuk State Government | 33,722 | 26,998 |
| Operating grant-Asian Development Bank | 1,076,110 | - |
| Loss on disposal of assets | - | (627) |
| Interest expense | (53,624) | (128,160) |
| Asian Development Bank grant expense | (1,076,110) | - |
| | 102,616 | 108,340 |
| Income (loss) before capital contributions | 193,308 | (62,161) |
| Capital contributions: | | |
| Grants from the United Nations Development Program | 461,260 | 573,040 |
| Grants from Asian Development Bank | 284,764 | 168,861 |
| Grants from the United States Government | 3,200 | 6,512 |
| Contributions from World Bank | 1,571,924 | - |
| | 2,514,456 | 686,252 |
| Change in net position | 2,514,456 | 686,252 |
| Net position at beginning of year | 20,679,073 | 19,992,821 |
| Net position at end of year | \$ 23,193,529 | \$ 20,679,073 |

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, 2021 and 2020

| | 2021 | 2020 |
|--|--------------|--------------|
| Cash flows from operating activities: | | |
| Cash received from customers | \$ 6,665,585 | \$ 6,349,400 |
| Cash payments to suppliers for goods and services | (4,251,084) | (4,522,694) |
| Cash payments to employees | (1,189,133) | (1,009,713) |
| Net cash provided by operating activities | 1,225,368 | 816,993 |
| Cash flows from noncapital financing activities: | | |
| Cash receipts - ADB grant | 1,076,110 | - |
| Cash disbursements - ADB grant | (1,076,110) | - |
| Cash receipts from grantors | 195,330 | 135,618 |
| Net cash provided by noncapital financing activities | 195,330 | 135,618 |
| Cash flows from capital and related financing activities: | | |
| Interest paid | (53,624) | (128,160) |
| Cash receipts from grantors for capital projects | 245,842 | 579,552 |
| Acquisition of utility plant | (1,769,594) | (1,212,418) |
| Payments of long-term debt | (246,036) | (216,812) |
| Net cash used in capital and related financing activities | (1,823,412) | (977,838) |
| Net change in cash | (402,714) | (25,227) |
| Cash at beginning of year | 1,508,565 | 1,533,792 |
| Cash at end of year | \$ 1,105,851 | \$ 1,508,565 |
| <u>Reconciliation of operating income (loss) to net cash provided by operating activities:</u> | | |
| Operating income (loss) | \$ 90,692 | \$ (170,501) |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | |
| Depreciation | 1,339,549 | 1,346,952 |
| Provision for doubtful accounts | - | 60,733 |
| Other (expense) income, net | (42,290) | 130,000 |
| (Increase) decrease in assets: | | |
| Accounts receivable | (28,569) | 93,076 |
| Inventory | (73,364) | (99,648) |
| Prepaid expenses | (72,013) | (86,364) |
| Deposits | - | 293,457 |
| Deposit for asset acquisition | 253,416 | (162,846) |
| (Decrease) increase in liabilities: | | |
| Accounts payable | (250,100) | 147,185 |
| Accrued taxes and other liabilities | 39,776 | (782,444) |
| Accrued annual leave | (16,918) | 29,674 |
| Unearned revenue | (14,811) | 17,719 |
| Net cash provided by operating activities | \$ 1,225,368 | \$ 816,993 |

Supplemental information of noncash capital and related financing activities:

During the year ended September 30, 2021, CPUC recorded capital assets transferred from the FSM National Government which were contributed by World Bank and UNDP grants of \$1,571,924 and \$318,000, respectively.

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2021 and 2020

(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, 2021 and 2020, 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
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Notes to Financial Statements
September 30, 2021 and 2020

(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, 2021 and 2020, the carrying amount of cash was \$ 1,105,851 and \$1,508,565, respectively, and the corresponding bank balances were \$ 1,388,415 and \$1,511,628, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2021 and 2020, 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, 2021 and 2020. 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, 2021 and 2020

(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, 2021 and 2020, 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, 2021 and 2020, 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, 2021 and 2020, unearned revenue recognized on cash power revenue was \$76,379 and \$91,190, respectively, which is presented as unearned revenue in the accompanying statements of net position.

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, 2021 and 2020

(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

In 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective dates of GASB Statement No. 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.

During the year ended September 30, 2021, CPUC implemented the following pronouncements:

- GASB Statement No. 84, *Fiduciary Activities*, which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.
- GASB Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*, which improves 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.
- GASB Statement No. 93, *Replacement of Interbank Offered Rates*, which establishes accounting and reporting requirements related to the replacement of Interbank Offered Rates such as the London Interbank Offered Rate (LIBOR) for hedging derivative instruments. The provision removing LIBOR as an appropriate benchmark interest rate for the evaluation of the effectiveness of derivative instruments is effective for the year ending September 30, 2022.

The implementation of these statements did not have a material effect on the accompanying financial statements.

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.

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

Notes to Financial Statements
September 30, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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 ending September 30, 2022.

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. Management does not believe that this Statement, upon implementation, will have a material effect on the financial statements. 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. 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.

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

Notes to Financial Statements
September 30, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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, 2021 and 2020, are summarized as follows:

| | <u>2021</u> | <u>2020</u> |
|---|-------------------|-------------------|
| Residential | \$ 345,107 | \$ 338,395 |
| Commercial | 136,976 | 145,460 |
| Government | 361,043 | 335,760 |
| Unbilled | 65,074 | 50,394 |
| Other | 22,161 | 31,551 |
| Chuuk State Government service tax | <u>29,022</u> | <u>29,254</u> |
| | 959,383 | 930,814 |
| Less allowance for uncollectable accounts | <u>(500,104)</u> | <u>(500,104)</u> |
| | <u>\$ 459,279</u> | <u>\$ 430,710</u> |

Receivables as of September 30, 2021 and 2020 include \$97,740 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, 2021 and 2020. In November 2013, a 5% Chuuk State service tax was applied to power tariffs. CPUC records service tax receivables in a separate account.

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

Notes to Financial Statements
September 30, 2021 and 2020

(4) Utility Plant

Utility plant consists of the following detailed balances at September 30, 2021 and 2020:

| | Balance at October <u>1, 2020</u> | Additions and <u>Transfers</u> | Deletions and <u>Transfers</u> | Balance at September <u>30, 2021</u> |
|----------------------------------|---|--------------------------------------|--------------------------------------|--|
| Depreciable assets: | | | | |
| Electric plant in service | \$ 20,780,390 | \$ 2,207,068 | \$ - | \$ 22,987,458 |
| Water and sewer plant in service | 14,017,182 | 1,342,831 | - | 15,360,013 |
| General plant in service | <u>453,264</u> | <u>975</u> | <u>-</u> | <u>454,239</u> |
| | 35,250,836 | 3,550,874 | - | 38,801,710 |
| Less accumulated depreciation | <u>(16,069,316)</u> | <u>(1,339,549)</u> | <u>-</u> | <u>(17,408,865)</u> |
| | 19,181,520 | 2,211,325 | - | 21,392,845 |
| Non-depreciable assets: | | | | |
| Construction in progress | <u>1,927,813</u> | <u>2,578,378</u> | <u>(2,469,734)</u> | <u>2,036,457</u> |
| | <u>\$ 21,109,333</u> | <u>\$ 4,789,703</u> | <u>\$ (2,469,734)</u> | <u>\$ 23,429,302</u> |
| | | | | |
| | Balance at October <u>1, 2019</u> | Additions and <u>Transfers</u> | Deletions and <u>Transfers</u> | Balance at September <u>30, 2020</u> |
| 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> |

During the year ended September 30, 2021, construction in progress of \$2,036,457 represents water treatment plant project and electrification project in Tonoas. Of the total amount, \$383,736 was funded by grants from the US DOI, \$5,747 from World Bank through FSMNG, \$162,179 from the Asian Development Bank through FSMNG, and remaining amount of \$1,484,795 was funded internally.

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.

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

Notes to Financial Statements
September 30, 2021 and 2020

(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.

During the year ended September 30, 2021, FSMNG transferred solar power system and other accessories to CPUC with total value of \$1,571,924. These assets were purchased by FSMNG under the World Bank funded Energy Development Project. Additionally, during the year ended September 30, 2021, FSMNG transferred a potable water tanker to CPUC with total value of \$318,000 which was funded by United Nations Development Program grant.

(6) Grants and Subsidies

During the years ended September 30, 2021 and 2020, CPUC recorded federal grants from the U.S. DOI passed through by the FSMNG totaling \$ 168,008 and \$86,641, respectively. Of the total grant proceeds at September 30, 2021 and 2020, \$48,952 and \$52,152, 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.

On December 13, 2019, FSMNG entered into a grant agreement (Grant Number 6026-FSM (SF)) with the Asian Development Bank (ADB) in the amount of \$5,000,000 for Project Readiness Financing (PRF) phase of the Chuuk Water Supply and Sanitation Project (“CWSSP”). The grant is for the preparation of the proposed CWSSP Project and for the facilitation of a smooth transition to project implementation. The PRF phase finances the services of consulting firms and individual consultants, as well as the equipment to achieve three outputs, (i) creating and enabling environment for the ensuing investment project; (ii) identifying the investment scope, preparing the project and procuring key project components; and (iii) enabling a smooth transition to implementation by strengthening the CPUC’s water supply network operations.

During the years ended September 30, 2021 and 2020, CPUC recorded grant revenue totaling \$1,360,876 and \$168,861, respectively. At September 30, 2021, reimbursable grant expenditures of \$260,867 are included as receivable from grantor in the accompanying statements of net position. The grant closing date is June 30, 2023.

(7) Long-term Debt and Noncurrent Liabilities

Long-term Debt

Long-term debt consists of the following at September 30, 2021 and 2020:

| | <u>2021</u> | <u>2020</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. | \$ 1,656,302 | \$ 1,752,495 |

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

Notes to Financial Statements
September 30, 2021 and 2020

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

Long-term Debt, Continued

| | <u>2021</u> | <u>2020</u> |
|--|---------------------|---------------------|
| 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, 2021 and 2020, respectively). Proceeds are used for the purchase of two generator sets and related costs. | 1,989,531 | 2,120,068 |
| 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, matured and paid off 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> |
| Total long-term debt | 3,645,833 | 3,891,869 |
| Less current portion of long-term debt | <u>(283,815)</u> | <u>(285,738)</u> |
| Long-term debt, net of current portion | \$ <u>3,362,018</u> | \$ <u>3,606,131</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.

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> |
|--------------------------------------|---------------------|-------------------|---------------------|
| 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 | 371,118 | 39,075 | 410,193 |
| 2027-2031 | 1,601,029 | 97,626 | 1,698,655 |
| 2032-2036 | <u>416,667</u> | <u>9,734</u> | <u>426,401</u> |
| | \$ <u>3,645,833</u> | \$ <u>366,593</u> | \$ <u>4,012,426</u> |

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

Notes to Financial Statements
September 30, 2021 and 2020

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

Long-term Debt, Continued

Changes in long term debt for the years ended September 30, 2021 and 2020 are as follows:

| | Outstanding October 1, 2020 | Addition | Reduction | Outstanding September 30, 2021 | Amount due Within One Year |
|----------------|-----------------------------------|----------|---------------------|--------------------------------------|-------------------------------------|
| Long-term debt | \$ <u>3,891,869</u> | \$ _____ | \$ <u>(246,036)</u> | \$ <u>3,645,833</u> | \$ <u>283,815</u> |

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

Noncurrent Liabilities

Changes in noncurrent liabilities for the years ended September 30, 2021 and 2020 are as follows:

| | Outstanding October 1, 2020 | Addition | Reduction | Outstanding September 30, 2021 | Amount due Within One Year |
|----------------------|-----------------------------------|------------------|--------------------|--------------------------------------|-------------------------------------|
| Accrued annual leave | \$ <u>73,409</u> | \$ <u>36,346</u> | \$ <u>(53,264)</u> | \$ <u>56,491</u> | \$ <u>37,855</u> |

| | Outstanding October 1, 2019 | Addition | Reduction | Outstanding September 30, 2020 | Amount due Within One Year |
|----------------------|-----------------------------------|------------------|-----------|--------------------------------------|-------------------------------------|
| Accrued annual leave | \$ <u>43,735</u> | \$ <u>29,674</u> | \$ _____ | \$ <u>73,409</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, 2021 and 2020 was \$1,409,045 and \$1,392,943, 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, 2021 and 2020, deposits in the amount of \$356,424, 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, 2021 and 2020, payables to FSMPC were \$0 and \$229,796, 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, 2021 and 2020 were \$92,738 and \$146,543, respectively.

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

Notes to Financial Statements
September 30, 2021 and 2020

(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 a 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 and \$60,000 were paid during the year ended September 30, 2021 and 2020, respectively. The remaining \$190,000 is due during the year ending September 30, 2022.

As of September 30, 2021 and 2020, unamortized prepaid lease of \$408,890 and \$369,821, 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:

| <u>Year Ending September 30,</u> | |
|----------------------------------|-------------------|
| 2022 | \$ 53,453 |
| 2023 | 34,526 |
| 2024 | 34,526 |
| 2025 | 34,526 |
| 2026 | 34,526 |
| 2027-2031 | 172,630 |
| 2032-2033 | <u>44,703</u> |
| | \$ <u>408,890</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, 2021.

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

Notes to Financial Statements
September 30, 2021 and 2020

(11) Retirement Plan

Effective March 1, 2021, CPUC established a Retirement Savings Plan (the Plan). The Plan is a self-administered program established to pay retirement, disability and survivor income to employees and their survivors to supplement similar benefits that employees receive from the FSM Social Security System. CPUC matches a percentage of participants' contributions, generally at 50% of the employee contributions, not to exceed 6% of eligible compensation in each pay period. . Matching contributions to the Plan during the year ended September 30, 2021 were \$4,675. Total Plan assets as of September 30, 2021 were \$15,813. Management is of the opinion that the Plan does not represent an asset or a liability of CPUC and as such no related assets or liabilities have been recorded in the accompanying statements of net position.

(12) Restricted Net Position

At September 30, 2021 and 2020, net position is restricted for the following purposes:

| | <u>2021</u> | <u>2020</u> |
|--|-------------------|-------------------|
| Capital improvements | \$ 6,780 | \$ 233,334 |
| Fuel deposit from fuel operating grant | <u>356,424</u> | <u>356,424</u> |
| | <u>\$ 363,204</u> | <u>\$ 589,758</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 of September 30, 2021, 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 November 23, 2022.

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 2021-001, 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

November 23, 2022

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

Schedule of Findings
Year Ended September 30, 2021

Finding No. 2021-001

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 do not have a detailed asset description, including fixed assets purchased during the year ended September 30, 2021 totaling \$1.7 million. Additionally, CPUC records fixed asset purchases based on payments and not on individual assets.

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 may 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 when 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 by the end of September 30, 2022.

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

Unresolved Prior Year Findings
Year Ended September 30, 2021

Summary Schedule of Prior Audit Findings

| <u>Finding Number</u> | <u>Finding Title</u> | <u>Status</u> |
|-----------------------|----------------------|-----------------------------|
| 2020-001 | Fixed Asset Register | Not Corrected or Resolved . |