

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

FINANCIAL STATEMENTS AND
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2021 AND 2020

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

Years Ended September 30, 2021 and 2020
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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Kosrae Utilities Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Kosrae Utilities Authority (the "Authority" or "KUA"), a component unit of the State of Kosrae, which comprise the statements of net position as of September 30, 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.

Auditors' Responsibility

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

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

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

Opinion

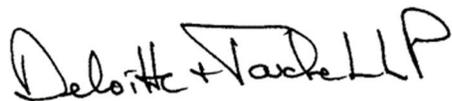
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kosrae Utilities Authority as of September 30, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 to 6 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 20, 2022, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Authority's internal control over financial reporting and compliance.



September 20, 2022

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

This section of the Kosrae Utilities Authority's (the Authority) annual financial report presents the analysis of the Authority's financial performance during the fiscal year ended September 30, 2021. Please read it in conjunction with the financial statements, which follow this section.

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

The FY2021 operation has continued to keep the lights on during the fiscal year with challenges concerning impacts caused by Covid19 in slowing the progress of implementing funded projects by World Bank and ADB and other outside donors due to ongoing border restrictions and travel requirements for incoming travelers. Preparation of project pre-requirements of seeking Requests for Proposal (RFP), consultation on project technical specifications and project scheduling and timeframe have been done through virtual conferences which take more zoom discussion to clarify RFQ terms, most especially project specifications and site surveys and assessments. Management hopes that border restrictions will be lifted possibly during the 4th Qrt, FY2022 to allow contractors to travel to survey project sites and to prepare design and planned schedules for project implementation.

Other operating challenges facing KUA are mainly implementation and completion of approved energy projects to improve the power system, increasing fuel prices, a need to train employees for Capacity Building Upgrades and capital project funding support to meet targeted goals of the State Energy Master Plan. KUA will continue to seek outside funding to support the development of renewable energy to reduce fossil fuels to meet the Kosrae Energy Plan. Management anticipates that the pending energy projects funded by the ADB, World Bank and JICA will take off after easing of travel restrictions.

The following table summarizes the financial position and results of operations of Kosrae Utilities Authority for 2021 through 2019:

<u>Assets</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Current assets	\$ 2,748,385	\$ 2,344,758	\$ 1,966,340
Utility plant, net	1,746,483	2,048,296	2,169,981
Other non-current assets	<u>252,800</u>	<u>252,800</u>	<u>252,800</u>
	<u>\$ 4,747,668</u>	<u>\$ 4,645,854</u>	<u>\$ 4,389,121</u>
 <u>Liabilities and Net Position</u>	 <u>2021</u>	 <u>2020</u>	 <u>2019</u>
Current liabilities	\$ <u>274,013</u>	\$ <u>265,698</u>	\$ <u>231,941</u>
Net position:			
Invested in capital assets	1,746,483	2,048,296	2,169,981
Restricted	90,000	90,000	90,000
Unrestricted	<u>2,637,172</u>	<u>2,241,860</u>	<u>1,897,199</u>
Total net position	<u>4,473,655</u>	<u>4,380,156</u>	<u>4,157,180</u>
	<u>\$ 4,747,668</u>	<u>\$ 4,645,854</u>	<u>\$ 4,389,121</u>

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Years Ended September 30, 2021 and 2020

<u>Revenue, Expenses and Changes in Net Position</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Operating revenues	\$ 2,583,489	\$ 2,681,779	\$ 2,771,353
Operating expenses	<u>2,658,592</u>	<u>2,642,102</u>	<u>2,994,857</u>
Net operating (loss) income	<u>(75,103)</u>	<u>39,677</u>	<u>(223,504)</u>
Non-operating revenue (expenses):			
Subsidies from FSM Nat'l. Govt.	28,097	90,000	93,079
Gain on disposal of capital assets	148	67	-
Net change in fair value of investments	143,275	94,452	(4,092)
Interest (expense) income, net	<u>(2,918)</u>	<u>(1,220)</u>	<u>1,551</u>
Total Non-operating revenue	168,602	183,299	90,538
World Bank project grants	<u>-</u>	<u>-</u>	<u>362,772</u>
Change in net position	<u>\$ 93,499</u>	<u>\$ 222,976</u>	<u>\$ 229,806</u>

FINANCIAL HIGHLIGHTS

Operating Revenues comprise sales derived from electricity and water services. The Authority started water operations in the second half of the fiscal year with a 1% contribution of total sales. Energy sales and other services for the period are approximately the same decrease of 3% compared to the last two years. Residential and Commercial accounts declined including FAC revenue. Revenues came from postpaid and prepaid sales which represent 48% and 52%, respectively, of total sales for the periods. A total of 5,605,760 kwhr was sold for FY 2021 and 5,690,232 kwhr for FY 2020, a decrease of approximately 1% from last year's operation and 441,420 gallons of water sales in FY2021.

Fuel Adjustment Revenues are fuel adjustments charged customers to cover fluctuations in fuel prices calculated in relation to engine and system efficiency per gallon deducted from the cost of fuel per kwhr already in the base rate. The average FAC rate for FY 2021 is approximately (\$.2300/kwhr) and (\$.0109/kwhr) for FY 2020, a decrease of (\$.2191/kwhr) resulting in negative FAC revenue of \$114K for the year.

Operating Expenses increased by less than 1% in 2021. It is the result of the net increase in personnel services and maintenance and decreases in fuel, depreciation and administrative expenses. Production fuel represents 56% of the total operating expenses while personnel cost, maintenance, depreciation and administrative expenses share the remaining 44% which is at 20%, 4%, 15% and 5% respectively.

Production Fuel is fuel consumed by engines. For FY 2021, a total of 490,490 gallons was used by engines which is roughly the same level of consumption as last year. Average fuel usage cost per gallon for FY 2021 is \$3.0029 and \$2.9797 in FY 2020, approximately at the same level for the two periods. Fuel prices continue to increase and as of May 2022, the average usage cost per gallon is computed at \$3.9143, a \$.91/gal and 30% more than the average usage cost at the close of FY 2021. It is expected that this trend will continue until the succeeding fiscal year.

Non-operating Revenues are primarily subsidies received from the FSM National Government for estimated power consumption of the World Bank donated streetlights installed on public places and an increase in the fair value of investments, which is 51% more than the value last year.

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

Current Assets is composed of cash and cash equivalents (36%), time certificate of deposit (6%), investments (36%), accounts receivable (6%), inventories (14%) and prepayments (2%). This represents 57% of KUA's total assets. A net increase of 17% is noted when compared with current assets last year. The net addition is substantially the result of increases in cash and cash equivalents and investments, which represent 34% and 35%, respectively, of the total net change.

Utility Plant is electric plant in service composed of KUA's buildings, vehicles, equipment, system software and fixtures net of accumulated depreciation including work in progress projects. Total fixed asset acquisitions for the period are \$93,425. Write-offs of fully depreciated vehicles, equipment and fixtures that are not in use amounted to \$98,935 and assets disposed of during the period are \$1,481. Accumulated depreciation increased due to depreciation provided for the year net of fixed asset disposals. The net book value of fixed assets decreased by 15% compared with last fiscal year. Please see note 5 for additional detail of KUA's capital asset activity.

Non-Current Assets are the deposit amount for a fuel purchase contract with FSMPC and an Investment in Ocean Energy Kosrae (OEK), net of a valuation reserve. The amount remains unchanged for the past few years.

Current Liabilities are short term obligations payable to employees and suppliers. Of the total amount, accounts payable to FSMPC for fuel represents 58% of the outstanding obligation and 42% is for amounts owed to employees, customers and taxes. A net increase of 3% is noted for this year, which is the net effect of increases in payables to FSMPC, deferred revenue and accrued payroll and taxes and decreases in accounts payable others and payment for line of credit for short-term notes payable.

The line of credit with the Bank of the FSM of \$200,000 was renewed for another year maturing in May 2022 with a fixed interest rate of 7% per annum collateralized by KUA's time certificate deposited in the bank. An unpaid amount of \$40K was paid in October and December 2020. As of May 2022, management decided to not renew the credit facility.

Net Position is the accumulated result of KUA's operations and contributed capital. The net change of 2% more than the value last year represents net income from current year operations.

Plan of Action for 2022

1. Collaborate with FSM Project Management Unit and IT Power to evaluate and award contractual services to construct and complete the Battery Storage Facility (BESS) and install the Energy Information Management System (Scada) for the power system. This will increase renewable energy into the power system and integrate and establish information management system to monitor both diesel and solar energy penetration into the gridlines and regulate the Power Plant and Distribution lines.
2. Coordinate with ADB, Nat'l Gov't Energy Division and the State Gov't for the construction of the 1.2 Mwp Solar PV grid-connected system beside the sport complex site and Walung mini-grid power system. Collaborate with the remaining Walung landowners for easement permission for the construction of this project. After completion, this will achieve 100% power access to the Kosrae population.
3. Continue participating on the Hybrid Power Generation Training Programs for Diesel Generation and Renewable Energy Training and technical assistance provided to employees by Enetech, Okinawa and Toshiba Co., Japan to upgrade skill levels to properly operate and provide required maintenance for the new Power Plant and the Solar PV energy system.

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

4. Collaborate with JICA and NBK for annual on-line inspection of the new Power Plant due to Covid-19 travel restrictions to report building problems that require service maintenance and repairs with the current condition of the plant facility, the foundation of the engine generator units and other auxiliary plant components.
5. Coordinate with NBK with planning of the required major overhaul of the new Daithsu Engine units at the new Power Plant during the next fiscal year and invite other FSM Utilities to participate in a technical training program for FSM Electric Utility employees.
6. Continue to coordinate with State Gov't to ensure the Utwe Water System is fully operational before transferring to KUA to manage the operation. Prepare the Water Division with a required budget to run the division and prepare, with Board approval, required water tariff and service regulations to manage water operations.
7. Collaborate with State Leaders for funding to continue street light services to provide safety and security to the public and continue installing yard lights for customers. Since this lighting has a high demand from customers and the public, KUA will continue to seek funding to procure more lights to meet the needs with durable lighting to withstand the salty environment as one of the present issues to improve.
8. Construct Training/Meeting Rooms at the Distribution Warehouse to accommodate training and meetings for the Production and Distribution Division Employees. Perform renovation work to replace roofing at the Administrative Office Building.
9. Conduct employee training to improve knowledge and skills in areas of renewable energy and diesel generation, audit and financial, renewable energy project management, billing and accounting software and related areas that are essential to improve operations.
10. Improve data collection and technical reports from generation including existing solar PV and other required operational reports.
11. Continue to seek new suppliers for street/yard lights that are durable and have a reasonable price to procure and for purchasing prepayment meters and other essential spare parts for the Power Plant.

The Management Discussion and Analysis report is intended to provide information concerning known facts and conditions affecting the Authority's operations. This financial report is designed to provide a general overview of the Authority's finances and to demonstrate KUA's accountability for the funds it receives and expends. Please also refer to the Management's Discussion and Analysis for the Authority's 2020 audit, which report was dated March 29, 2021.

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

**KOSRAE UTILITIES AUTHORITY
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Statements of Net Position
September 30, 2021 and 2020

<u>ASSETS</u>	<u>2021</u>	<u>2020</u>
Utility plant:		
Depreciable:		
Electric plant in service	\$ 11,269,390	\$ 11,072,015
Less accumulated depreciation	<u>(9,598,431)</u>	<u>(9,303,610)</u>
	1,670,959	1,768,405
Non-depreciable:		
Construction work-in-progress	<u>75,524</u>	<u>279,891</u>
Net utility plant	<u>1,746,483</u>	<u>2,048,296</u>
Other noncurrent assets:		
Deposit for fuel purchase contract	<u>252,800</u>	<u>252,800</u>
Total noncurrent assets	<u>252,800</u>	<u>252,800</u>
Current assets:		
Cash and cash equivalents	997,870	861,918
Investments	984,587	841,312
Time certificate of deposit	169,645	168,800
Accounts receivable, net	164,130	187,585
Prepayments	58,887	7,927
Inventories (net of an allowance for obsolescence of \$282,774 and \$278,179 in 2021 and 2020, respectively)	<u>373,266</u>	<u>277,216</u>
Total current assets	<u>2,748,385</u>	<u>2,344,758</u>
Total assets	<u>\$ 4,747,668</u>	<u>\$ 4,645,854</u>
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Short-term borrowings	\$ -	\$ 40,000
Accounts payable - fuel	159,153	118,827
Accounts payable - other	20,243	32,695
Accrued annual leave	22,900	22,080
Unearned revenue	33,985	20,881
Accrued taxes and other	<u>37,732</u>	<u>31,215</u>
Total liabilities	<u>274,013</u>	<u>265,698</u>
Commitments and contingency		
Net position:		
Net investment in capital assets	1,746,483	2,048,296
Restricted	90,000	90,000
Unrestricted	<u>2,637,172</u>	<u>2,241,860</u>
Total net position	<u>4,473,655</u>	<u>4,380,156</u>
	<u>\$ 4,747,668</u>	<u>\$ 4,645,854</u>

See accompanying notes to financial statements.

**KOSRAE UTILITIES AUTHORITY
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Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating revenues:		
Electricity sales	\$ 2,578,864	\$ 2,687,612
Water sales	18,767	-
Bad debt expense	<u>(14,142)</u>	<u>(5,833)</u>
Net operating revenues	<u>2,583,489</u>	<u>2,681,779</u>
Operating expenses:		
Production fuel	1,498,739	1,505,666
Salaries and wages	540,630	509,728
Depreciation and amortization	395,238	408,132
Administrative and general	108,935	160,932
Repairs and maintenance	110,454	63,197
Provision for (recovery of) inventory obsolescence	<u>4,596</u>	<u>(5,553)</u>
Total operating expenses	<u>2,658,592</u>	<u>2,642,102</u>
(Loss) earnings from operations	<u>(75,103)</u>	<u>39,677</u>
Nonoperating revenues (expenses):		
Subsidies from FSM National Government	28,097	90,000
Interest (expense) income, net	(2,918)	(1,220)
Net change in fair value of investments	143,275	94,452
Gain on disposal of capital assets	<u>148</u>	<u>67</u>
Total nonoperating revenues, net	<u>168,602</u>	<u>183,299</u>
Change in net position	93,499	222,976
Net position at beginning of year	<u>4,380,156</u>	<u>4,157,180</u>
Net position at end of year	\$ <u><u>4,473,655</u></u>	\$ <u><u>4,380,156</u></u>

See accompanying notes to financial statements.

KOSRAE UTILITIES AUTHORITY
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Statements of Cash Flows
Years Ended September 30, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Cash received from customers	\$ 2,620,048	\$ 2,710,733
Cash paid to suppliers for goods and services	(1,726,408)	(1,551,180)
Cash paid to employees for services	(648,745)	(664,619)
Net cash provided by operating activities	244,895	494,934
Cash flows from investing activities:		
Interest and dividends received on investments and others	645	976
Cash provided by investing activities	645	976
Cash flows from noncapital financing activities:		
Interest paid	(4,408)	(3,457)
Payment of short-term borrowings	(40,000)	-
Proceeds from short-term borrowings	-	40,000
Subsidies from FSM National Government	28,097	90,000
Net cash (used in) provided by noncapital financing activities	(16,311)	126,543
Cash flows from capital and related financing activities:		
Proceeds from disposal of capital assets	148	67
Capital expenditures for utility plant	(93,425)	(286,447)
Net cash used in capital and related financing activities	(93,277)	(286,380)
Net change in cash and cash equivalents	135,952	336,073
Cash and cash equivalents at beginning of year	861,918	525,845
Cash and cash equivalents at end of year	\$ 997,870	\$ 861,918
Reconciliation of earnings (loss) from operations to net cash provided by operating activities:		
Earnings (loss) from operations	\$ (75,103)	\$ 39,677
Adjustments to reconcile earnings (loss) from operations to net cash provided by operating activities:		
Depreciation and amortization	395,238	408,132
Bad debt expense	14,142	5,833
Inventory provision (recovery)	4,596	(5,553)
(Increase) decrease in assets:		
Accounts receivable	9,313	26,777
Prepayments	(50,960)	7,731
Inventories	(100,646)	18,580
Increase (decrease) in liabilities:		
Accounts payable - fuel	40,326	(4,828)
Accounts payable - other	(12,452)	8,048
Accrued annual leave	820	6,041
Unearned revenue	13,104	(3,656)
Accrued taxes and other	6,517	(11,848)
Net cash provided by operating activities	\$ 244,895	\$ 494,934

Supplemental information of noncash capital and related financing activities:

During the years ended September 30, 2021 and 2020, KUA transferred construction in progress of \$208,048 and \$55,429 respectively, to electric plant in service for completed projects.

During the years ended September 30, 2021 and 2020, KUA wrote off \$100,417 and \$132,325, respectively, of fully depreciated capital assets.

See accompanying notes to financial statements.

KOSRAE UTILITIES AUTHORITY
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Notes to Financial Statements
September 30, 2021 and 2020

(1) Organization

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

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

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

(2) Summary of Significant Accounting Policies

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

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

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

As of September 30, 2021 and 2020, KUA recorded restricted expendable net position of \$90,000 representing appropriations received from the FSM National Government for the power extension project to Walung, which has yet to commence.

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Notes to Financial Statements
September 30, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

Estimates

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

Basis of Accounting

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

Utility Plant

Utility plant assets were transferred from KSG's Public Works Department at estimated net book value in the absence of documents to support costs. As of September 30, 2021 and 2020, such plant assets are fully depreciated. KUA capitalizes individual items that have an estimated useful life of more than one year regardless of costs. Depreciation is calculated on the straight-line method over the estimated useful lives of the respective assets.

Investment in OEK, Inc.

Investment in OEK, Inc. represents 50% interest in the joint-venture, Ocean Energy Kosrae, Inc. (OEK) with the remaining 50% held by Ocean Energy Industries, Inc. (OEI). The purpose of OEK is to be an Independent Power Producer based on OEI's WaveSurfer power generating facilities in the waters around Kosrae in order to significantly reduce energy generation cost. The joint-venture was recognized in the accompanying financial statements using the cost method due to the uncertainty of obtaining future funds for the project. During the year ended September 30, 2015, the Authority recognized an impairment loss of \$50,000 associated with this investment and the investment is carried at nil value at September 30, 2021 and 2020.

Cash and Cash Equivalents and Time Certificates of Deposit

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

Investments

Investments and related investment earnings are reported at fair value using quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability (i.e. the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.

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Notes to Financial Statements
September 30, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

Receivables

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

Inventory

Materials and fuel inventory are substantially carried at the lower of cost or market. First-in first-out costing method is used for materials and the average method for fuel, which approximate 88% and 12% of the net inventory value, respectively, as of September 30, 2021, and 80% and 20%, respectively, as of September 30, 2020.

Compensated Absences

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

Taxes

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

Revenues

Sales of electricity are recorded as billed to customers on a monthly billing cycle basis. At the end of each month, unbilled revenues are accrued based on the most recent cycle billing. Unbilled receivables at September 30, 2021 and 2020 are \$113,474 and \$97,112, respectively. Cash power revenue is recognized as revenue upon point of sale; the estimated unearned portion is determined at year end and recorded as unearned revenue in the accompanying statements of net position.

Operating and Non-Operating Revenues and Expenses

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

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

Notes to Financial Statements
September 30, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

Reclassifications

Certain reclassifications have been made to the 2020 financial statements to conform to the 2021 presentation. These reclassifications had no impact on operating earnings, net position or cash flows as previously reported.

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 elected to postpone implementation of these statements.

During the year ended September 30, 2021, KUA 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.

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

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. In accordance with GASB Statement No. 95, 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.

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.

KOSRAE UTILITIES AUTHORITY
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Notes to Financial Statements
September 30, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

(3) Deposits and Investments

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

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

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

A. Deposits

As of September 30, 2021 and 2020, cash and cash equivalents and time certificates of deposit were \$1,167,515 and \$1,030,718, respectively, and the corresponding bank balances were \$1,187,479 and \$1,049,703, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2021 and 2020, bank deposits in the amount of \$362,127 and \$312,188, respectively, are insured. KUA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

KOSRAE UTILITIES AUTHORITY
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Notes to Financial Statements
September 30, 2021 and 2020

(3) Deposits and Investments, Continued

B. Investments

As of September 30, 2021 and 2020, investments at fair value comprise the following:

	<u>2021</u>	<u>2020</u>
Fixed income securities:		
U.S. Treasury obligations	\$ 219,139	\$ 143,227
U.S. Government agencies	-	18,668
Corporate notes	<u>166,483</u>	<u>109,423</u>
	<u>385,622</u>	<u>271,318</u>
Other Investments:		
Common equities	565,295	534,973
Money market funds (at amortized cost)	<u>33,670</u>	<u>35,021</u>
	<u>598,965</u>	<u>569,994</u>
	<u>\$ 984,587</u>	<u>\$ 841,312</u>

As of September 30, 2021, the Authority's fixed income securities consist of the following:

		<u>Fair</u> <u>Value</u>	<u>1 to 5</u> <u>Years</u>	<u>6 to 10</u> <u>Years</u>
U.S. Treasury obligations	Aaa	\$ 219,139	\$ 207,341	\$ 11,798
Corporate notes	A1	11,797	11,797	-
Corporate notes	A2	36,003	24,040	11,963
Corporate notes	A3	24,190	12,083	12,107
Corporate notes	Baa1	23,583	12,098	11,485
Corporate notes	Baa2	<u>70,910</u>	<u>35,805</u>	<u>35,105</u>
		<u>\$ 385,622</u>	<u>\$ 303,164</u>	<u>\$ 82,458</u>

KOSRAE UTILITIES AUTHORITY
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Notes to Financial Statements
September 30, 2021 and 2020

(3) Deposits and Investments, Continued

B. Investments, Continued

As of September 30, 2020, the Authority's fixed income securities consist of the following:

		Fair Value	1 to 5 Years	6 to 10 Years
U.S. Treasury obligations	Aaa	\$ 143,227	\$ 125,960	\$ 17,267
U.S. Government agencies	Aaa	18,668	18,668	-
Corporate notes	A2	26,721	9,049	17,672
Corporate notes	A3	23,704	15,627	8,077
Corporate notes	Baa1	9,113	9,113	-
Corporate notes	Baa2	41,258	24,303	16,955
Corporate notes	Baa3	<u>8,627</u>	<u>-</u>	<u>8,627</u>
		<u>\$ 271,318</u>	<u>\$ 202,720</u>	<u>\$ 68,598</u>

KUA categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No. 72. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

KUA has the following recurring fair value measurements as of September 30, 2021 and 2020:

	September 30, 2021	Fair Value Measurements Using		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level:				
Fixed income:				
U.S. Treasury obligations	\$ 219,139	\$ -	\$ 219,139	\$ -
Corporate notes	<u>166,483</u>	<u>-</u>	<u>166,483</u>	<u>-</u>
	<u>385,622</u>	<u>-</u>	<u>385,622</u>	<u>-</u>
Equity securities:				
U.S. equities	543,448	543,448	-	-
Non U.S. equities	<u>21,847</u>	<u>21,847</u>	<u>-</u>	<u>-</u>
Total investments at fair value	<u>950,917</u>	<u>\$ 565,295</u>	<u>\$ 385,622</u>	<u>\$ -</u>
Investments measured at amortized cost:				
Money market funds	<u>33,670</u>			
	<u>\$ 984,587</u>			

KOSRAE UTILITIES AUTHORITY
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Notes to Financial Statements
September 30, 2021 and 2020

(3) Deposits and Investments, Continued

B. Investments, Continued

	September 30, <u>2020</u>	Fair Value Measurements Using		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level:				
Fixed income:				
U.S. Treasury obligations	\$ 143,227	\$ -	\$ 143,227	\$ -
U.S. Government agencies	18,668	-	18,668	-
Corporate notes	<u>109,423</u>	<u>-</u>	<u>109,423</u>	<u>-</u>
	<u>271,318</u>	<u>-</u>	<u>271,318</u>	<u>-</u>
Equity securities:				
U.S. equities	510,032	510,032	-	-
Non U.S. equities	<u>24,941</u>	<u>24,941</u>	<u>-</u>	<u>-</u>
Total investments at fair value	<u>806,291</u>	<u>\$ 534,973</u>	<u>\$ 271,318</u>	<u>\$ -</u>
Investments measured at amortized cost:				
Money market funds	<u>35,021</u>			
	<u>\$ 841,312</u>			

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

KUA's investments are held and administered by trustees. Accordingly, these investments are exposed to custodial credit risk. Based on negotiated trust and custody contracts, all of these investments were held in KUA's name by KUA's custodial financial institutions at September 30, 2021 and 2020.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for KUA. As of September 30, 2021 and 2020, there was no concentration of credit risk for KUA's investments.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. KUA does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

KOSRAE UTILITIES AUTHORITY
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Notes to Financial Statements
September 30, 2021 and 2020

(4) Accounts Receivable

Accounts receivable at September 30, 2021 and 2020, are summarized as follows:

	<u>2021</u>	<u>2020</u>
Utility:		
Residential	\$ 61,710	\$ 47,000
Commercial	86,815	84,617
Government	46,774	74,465
Fuel adjustment charge	<u>4,524</u>	<u>-</u>
	199,823	206,082
Travel advances	594	540
Other	<u>60,195</u>	<u>63,303</u>
	260,612	269,925
Less allowance for doubtful accounts	<u>(96,482)</u>	<u>(82,340)</u>
	<u>\$ 164,130</u>	<u>\$ 187,585</u>

(5) Utility Plant

Capital asset activity for the years ended September 30, 2021 and 2020, is as follows:

	Estimated Useful Lives	Balance at October <u>1, 2020</u>	Transfers and Additions	Transfers and Deletions	Balance at September <u>30, 2021</u>
<u>Depreciable assets:</u>					
Production plant	5 to 40 years	\$ 3,884,590	\$ -	\$ (10,417)	\$ 3,874,173
Distribution plant	5 to 30 years	6,551,495	272,359	(88,128)	6,735,726
General plant	3 to 20 years	<u>635,930</u>	<u>25,433</u>	<u>(1,872)</u>	<u>659,491</u>
Total electric plant in service		11,072,015	297,792	(100,417)	11,269,390
Less accumulated depreciation		<u>(9,303,610)</u>	<u>(395,238)</u>	<u>100,417</u>	<u>(9,598,431)</u>
		1,768,405	(97,446)	-	1,670,959
<u>Non-depreciable assets:</u>					
Construction work-in-progress		<u>279,891</u>	<u>7,013</u>	<u>(211,380)</u>	<u>75,524</u>
Electric plant in service, net		<u>\$ 2,048,296</u>	<u>\$ (90,433)</u>	<u>\$ (211,380)</u>	<u>\$ 1,746,483</u>
	Estimated Useful Lives	Balance at October <u>1, 2019</u>	Transfers and Additions	Transfers and Deletions	Balance at September <u>30, 2020</u>
<u>Depreciable assets:</u>					
Production plant	5 to 40 years	\$ 3,876,428	\$ 8,162	\$ -	\$ 3,884,590
Distribution plant	5 to 30 years	6,570,055	73,124	(91,684)	6,551,495
General plant	3 to 20 years	<u>618,052</u>	<u>58,519</u>	<u>(40,641)</u>	<u>635,930</u>
Total electric plant in service		11,064,535	139,805	(132,325)	11,072,015
Less accumulated depreciation		<u>(9,027,803)</u>	<u>(408,132)</u>	<u>132,325</u>	<u>(9,303,610)</u>
		2,036,732	(268,327)	-	1,768,405
<u>Non-depreciable assets:</u>					
Construction work-in-progress		<u>133,249</u>	<u>203,247</u>	<u>(56,605)</u>	<u>279,891</u>
Electric plant in service, net		<u>\$ 2,169,981</u>	<u>\$ (65,080)</u>	<u>\$ (56,605)</u>	<u>\$ 2,048,296</u>

KOSRAE UTILITIES AUTHORITY
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Notes to Financial Statements
September 30, 2021 and 2020

(6) Short-Term Borrowings

In the normal course of operations, KUA obtains short-term borrowings primarily for the purpose of funding the purchase of fuel. As of September 30, 2021 and 2020, KUA has a bank credit line amounting to \$200,000 bearing interest at 7.0% per annum, with interest payable monthly and principal balance due upon maturity, which is collateralized by certain eligible investment securities and existing and future business accounts receivable. As of September 30, 2020, KUA has drawn down \$40,000, with principal balance due within one year. The outstanding balance has been fully paid as of September 30, 2021.

Changes in short-term borrowings for the year ended September 30, 2021 are as follows:

	Outstanding October 1, <u>2020</u>	<u>Addition</u>	<u>Reduction</u>	Outstanding September <u>30, 2021</u>
Short-term borrowing	\$ 40,000	\$ -	\$ (40,000)	\$ -

Changes in short-term borrowings for the year ended September 30, 2020 are as follows:

	Outstanding October 1, <u>2019</u>	<u>Addition</u>	<u>Reduction</u>	Outstanding September <u>30, 2020</u>
Short-term borrowing	\$ -	\$40,000	\$ -	\$ 40,000

(7) Significant Suppliers

KUA purchased virtually all fuel from one supplier during the years ended September 30, 2021 and 2020.

(8) Commitments

Net position at September 30, 2021 and 2020 has been appropriated in the amounts of \$2,616,919 and \$2,516,919, respectively, for repair and maintenance and capital improvement projects. This process will continue in fiscal year 2021 with a total of \$25,000 being further appropriated on a quarterly basis from net position for this purpose.

(9) Risk Management

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

KOSRAE UTILITIES AUTHORITY
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Notes to Financial Statements
September 30, 2021 and 2020

(10) Retirement Plan

KUA administers a defined contribution retirement plan (the Plan) covering all employees with at least one year of service. Vesting occurs upon plan entry. Employee contributions can be made from 1% to 15% of earnings with a 50% match by KUA up to 5% of employee compensation. KUA's controller is the designated Plan administrator. Contributions to the Plan during the years ended September 30, 2021, 2020 and 2019 were \$3,879, \$3,393, and \$3,184, respectively, which were equal to the employer contributions required by the Plan. Management is of the opinion that the Plan does not represent an asset or liability of KUA. For the years ended September 30, 2021 and 2020, Plan assets were \$132,126 and \$119,726, respectively, with corresponding cash balances of \$129,033 and \$115,399, respectively.

(11) Related Parties

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

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

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Directors
Kosrae Utilities Authority:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Authority, which comprise the statement of net position as September 30, 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 September 20, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

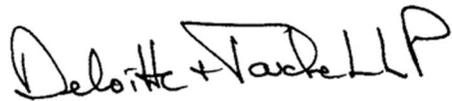
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Deloitte + Tuck LLP". The signature is written in a cursive, slightly stylized font.

September 20, 2022

KOSRAE UTILITIES AUTHORITY
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Summary Schedule of Prior Year Findings and Questioned Costs
Year Ended September 30, 2021

There are no prior year findings or unresolved questioned costs of Kosrae Utilities Authority as of September 30, 2021.