

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

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

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**YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

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

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Years Ended September 30, 2020 and 2019

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## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors  
Pohnpei Utilities Corporation:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Pohnpei Utilities Corporation (PUC), a component unit of the State of Pohnpei, which comprise the statements of net position as of September 30, 2020 and 2019, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

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

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

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

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pohnpei Utilities Corporation as of September 30, 2020 and 2019, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

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

### *Other Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental combining schedules on pages 24 to 26 are presented for purposes of additional analysis and are not a required part of the financial statements.

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

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2022, on our consideration of PUC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of PUC's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PUC's internal control over financial reporting and compliance.

*Deloitte & Touche LLP*

January 13, 2022

**POHNPEI UTILITIES CORPORATION  
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Management's Discussion and Analysis  
Years Ended September 30, 2020 and 2019

The following discussion and analysis of the financial performance and activities of the Pohnpei Utilities Corporation (PUC) is to provide an introduction and understanding of the basic financial statements of the PUC for the years ended September 30, 2020 and 2019. The discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

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

PUC is operating with three (3) 3516C Caterpillar engines, (2) 3516B Caterpillars engines, one (1) 3512 Caterpillar engine, and two (2) C18 Caterpillar engines. Of the eight (8) gensets, unit #4 3516B, and units #6 and #7 C18s are not in operation but are currently under repair. PUC has an installed diesel generation capacity of 11090 kW and has been de-rated to 9450 kW. A 2000 kW diesel generation capacity under a Power Purchase Agreement with the FSM Petroleum Corporation has been de-rated to 1400 kW. Renewables include 725 kW from Nanpil Hydro Plant, 180 kWp from Palikir Solar Plant, 200 kWp from Nett School Solar Plant, and 600 kWp from Pohnlangas Solar Plant. An additional 275 kwp was commissioned in April 2019 by the New Zealand Ministry of Foreign Affairs & Trade and a 2000 kWp solar plant was installed in July 2020 by Keproi Solar Electric Limited. The available capacity for fiscal year 2020 fluctuated between 5950 kw to 7800 kw with a peak demand of 6335 kw recorded during the month of February 2020. PUC produced 37,478,406 and 38,460,680 kwh and sold 27,663,0323 kwh and 31,584,684 kwh to customer in 2019 and 2020, respectively. The number of customers being serviced by the PUC is 7,333 (7,137 using cashpower meters and 196 using conventional meters) in 2020. The service coverage is 96% of the population.

Presently, PUC is managing four separate water systems. The systems include the Central (Kolonía), Palikir, Lukop and Wapar Water Supply systems. The sources of water supply for these systems are both surface and ground water. The Central Water Supply depends on surface water and supplements by ground water wells. Ground Water (Well) is the main water source for Palikir, Lukop and Wapar Water Supply system. The surface water for the central water system is transmitted from Nanpil dam to the Water treatment plant, approximately 3 miles. Since then and up to present, the surface water goes through a treatment process (rapid sand filter media's) and is injected with 65% calcium hypochlorite. The maximum output of chlorine plant demand ranges at 2.8 Parts per Million (PPM).

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

All four water systems are being distributed to the general public for consumption. To ensure that quantity is met, the systems have several holding tanks for that purpose. In the four water systems there are a total of six holding tanks; two (2) 1 million gallon and four (4) half (.5) million-gallon tanks. PUC has the ability to produce 5 million gallons per day. The daily water demand to existing customers varies from 1.8 to 2.8 million gallons per day. PUC produced 1.06 to 1.34 trillion gallons from 2019 to 2020. PUC sold 579 million gallons and 580 million gallons to customers in 2019 and 2020, respectively, which resulted in total revenue of \$1.8 million and \$1.9 million for FY 2019 and FY 2020, respectively. PUC services a total of 4,048 households, 3,636 on conventional postpaid meters and 412 prepaid meters (cash water) which covers about 2/3 of Pohnpei in area or 61% of the population.

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

The following table summarizes the financial condition and operations of the PUC for years ended September 30, 2020, 2019, and 2018:

Assets:	<u>2020</u>	<u>2019</u>	<u>2018</u>
Utility plant, net	\$ 28,540,067	\$ 30,050,482	\$ 30,406,316
Current assets	4,380,064	3,540,930	3,236,193
Other noncurrent assets	<u>1,774,719</u>	<u>1,774,562</u>	<u>1,774,385</u>
	<u>\$ 34,694,850</u>	<u>\$ 35,365,974</u>	<u>\$ 35,416,894</u>
<b>Liabilities and Net Position:</b>			
Notes payable	\$ 316,094	\$ 324,613	\$ 536,636
Current portion of long-term debt	479,108	466,511	475,070
Other current liabilities	5,651,387	5,091,885	4,627,941
Long-term debt, net of current portion	<u>7,003,417</u>	<u>7,327,472</u>	<u>7,927,544</u>
Total liabilities	<u>13,450,006</u>	<u>13,210,481</u>	<u>13,567,191</u>
<b>Net Position:</b>			
Net investment in capital assets	21,057,542	22,256,499	22,024,030
Restricted	724,020	723,863	723,686
Unrestricted	<u>(536,718)</u>	<u>(824,869)</u>	<u>(898,013)</u>
Total net position	<u>21,244,844</u>	<u>22,155,493</u>	<u>21,849,703</u>
	<u>\$ 34,694,850</u>	<u>\$ 35,365,974</u>	<u>\$ 35,416,894</u>
<b>Revenues, Expenses and Changes in Net Position:</b>			
Operating revenues	\$ 14,738,168	\$ 14,720,101	\$ 13,959,924
Bad debts	(562,568)	(308,112)	(506,464)
Operating and maintenance expenses	<u>(15,241,767)</u>	<u>(15,604,614)</u>	<u>(15,041,406)</u>
Operating loss	(1,066,167)	(1,192,625)	(1,587,946)
Non-operating expenses, net	<u>(104,275)</u>	<u>(162,236)</u>	<u>(387,683)</u>
Loss before capital contributions	(1,170,442)	(1,354,861)	(1,975,629)
Capital contributions	<u>259,793</u>	<u>1,660,651</u>	<u>600,337</u>
Change in net position	(910,649)	305,790	(1,375,292)
Net position at beginning of year	<u>22,155,493</u>	<u>21,849,703</u>	<u>23,224,995</u>
Net position at end of year	<u>\$ 21,244,844</u>	<u>\$ 22,155,493</u>	<u>\$ 21,849,703</u>

Overall changes in the statements of net position components from September 30, 2019 to 2020 includes a decrease of utility plant of \$1,510,415, net increase of current and other noncurrent assets of \$839,291, and a slight increase in total liabilities of \$239,525.

Decrease of utility plant is the result of depreciation of assets higher than new capital assets acquired during the year. Please see note 4 to the financial statements for additional information on PUC's utility plants.

Increase in current assets is attributable to a combination of an increase in cash and cash equivalents and increase in prepayments.

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

Increase in current liabilities is due to on-going Asian Development Bank Loan payments that Pohnpei State Government makes on behalf of PUC, which results in a decrease in noncurrent liabilities. Additionally, PUC recorded unearned grant revenue of \$91,000. Please see note 6 to the financial statement for additional information on PUC's borrowing arrangements.

Increase in operating revenue before bad debts is mainly due to the decrease in electricity revenue, increase in water revenue and increase in other revenues relating to new service hook ups for both water and electricity and other projects.

Decrease in operating and maintenance expenses is mainly due to the decrease in fuel expense.

PUC incurred a loss before capital contribution in 2020. Capital contribution for 2020 is mainly for generator maintenance. Total amount of capital contribution for FY 2020 is \$259,793 as compared to FY 2019 of \$1,660,651.

Economic Outlook

PUC is slowly recovering from the power crisis declared in 2011. This is a result of ongoing reform and support in the operations of PUC and capital investments from government and donors. Reliability of power, water and sewer has significantly improved as a result of better allocation of resources to support the O&M of the assets. An O&M fund has been created to defray the cost of assets donated under ESDP.

Funding support was made available under SEDAP to improve the reliability of electric supply in Pohnpei. ITP was contracted to provide the design, technical specifications, and bidding documents for the procurement of the 7.5 MW of medium speed gensets with higher fuel efficiency. RFP was closed and evaluation is in its final stages with the support of Entura.

Several projects including a Waste Heat to Energy project and maintenance project have been delayed due to the COVID19, border lock down and suppliers not meeting delivery time for the utility needs.

As a result of improvements started in fiscal year 2019 continuing through 2021, Pohnpei's eastern customers are expecting to see improvement in the quality of water supply due to the rehabilitation project on the existing Iron Removal plant, while west water customers are expecting 24 water hours due to an additional well to be drilled.

PUC has been actively seeking resources to rehabilitate the existing water system from the intake to treatment plan, tanks and distribution network to improve the quality of the water supply and to reduce the Non-Revenue Water(NRW).

There are two sewer treatment plants under PUC serving approximately 800 customers. PUC has the challenge to maintain the 11 miles of sewer mains, lift stations and a treatment plant without an approved tariff or subsidy from the government. An Emergency Petition to support the operations and maintenance of sewer services has been recommended by the ADB consultant and PUC is in the process of getting the tariff implemented.

A lot of improvements are ongoing and are promising for PUC to improve its current status and at the same time to meet international utility standards.

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

Management's Discussion and Analysis for the year ended September 30, 2019 is set forth in PUC's report on the audit of the financial statements, which is dated December 29, 2020. That Discussion and Analysis explains the major factors impacting our 2019 financial statements and can be viewed at the Office of the Public Auditor's website at [www.fsmopa.fm](http://www.fsmopa.fm).

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

This concludes the management discussion and analysis of the financial statements for the year ended September 30, 2020.

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Statements of Net Position  
September 30, 2020 and 2019

<u>ASSETS</u>	<u>2020</u>	<u>2019</u>
Current assets:		
Cash and cash equivalents	\$ 2,570,263	\$ 1,729,184
Time certificates of deposit	233,907	230,980
Accounts receivable, net	1,110,982	1,121,816
Prepayments	295,285	220,848
Materials and fuel inventory, net	<u>169,627</u>	<u>238,102</u>
Total current assets	<u>4,380,064</u>	<u>3,540,930</u>
Other noncurrent assets:		
Long-term deposits	1,256,912	1,256,912
Restricted - cash and cash equivalents	<u>517,807</u>	<u>517,650</u>
Total other noncurrent assets	<u>1,774,719</u>	<u>1,774,562</u>
Utility plant, at cost:		
Electric plant in service	39,237,165	38,185,141
Water and sewer plant in service	<u>29,968,842</u>	<u>29,958,940</u>
	69,206,007	68,144,081
Less accumulated depreciation	<u>(41,254,034)</u>	<u>(39,155,895)</u>
Depreciable assets, net	27,951,973	28,988,186
Construction work-in-process	<u>588,094</u>	<u>1,062,296</u>
Total utility plant	<u>28,540,067</u>	<u>30,050,482</u>
	<u>\$ 34,694,850</u>	<u>\$ 35,365,974</u>
 <u>LIABILITIES AND NET POSITION</u> 		
Current liabilities:		
Notes payable	\$ 316,094	\$ 324,613
Current portion of long-term debt	479,108	466,511
Accounts payable:		
Operations	432,403	281,476
Fuel, lubricants and kwh purchased	522,770	907,122
Unearned revenue	519,084	389,024
Accrued taxes and other liabilities	558,196	440,786
Employees' annual leave	153,609	136,681
Advances from Pohnpei State Government (PSG)	<u>3,465,325</u>	<u>2,936,796</u>
Total current liabilities	6,446,589	5,883,009
Noncurrent liabilities:		
Long-term debt, net of current portion	<u>7,003,417</u>	<u>7,327,472</u>
Total liabilities	<u>13,450,006</u>	<u>13,210,481</u>
Commitments and contingencies		
Net position:		
Net investment in capital assets	21,057,542	22,256,499
Restricted	724,020	723,863
Unrestricted	<u>(536,718)</u>	<u>(824,869)</u>
Total net position	<u>21,244,844</u>	<u>22,155,493</u>
	<u>\$ 34,694,850</u>	<u>\$ 35,365,974</u>

See accompanying notes to financial statements.

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

	2020	2019
Operating revenues:		
Electricity sales	\$ 12,578,457	\$ 12,884,092
Water sales	1,888,547	1,799,894
Other sales	271,164	36,115
Total operating revenues	14,738,168	14,720,101
Bad debts	(562,568)	(308,112)
Net operating revenues	14,175,600	14,411,989
Operating and maintenance expenses:		
Production fuel	5,496,617	6,334,703
Kwh purchased	2,584,617	2,729,953
Depreciation	2,098,139	2,097,956
Administrative and general	1,880,878	1,851,370
Generation	1,189,467	902,396
Distribution	1,047,108	915,290
Water and sewer	944,941	772,946
Total operating and maintenance expenses	15,241,767	15,604,614
Operating loss	(1,066,167)	(1,192,625)
Nonoperating revenues (expenses), net:		
Provision for litigation losses	-	(171,000)
Interest expense, net	(360,017)	(99,309)
Grants and subsidies	131,909	107,566
Other income	123,833	507
Total nonoperating expenses, net	(104,275)	(162,236)
Loss before capital contributions	(1,170,442)	(1,354,861)
Capital contributions:		
Capital contributions	259,793	1,660,651
Total capital contributions	259,793	1,660,651
Change in net position	(910,649)	305,790
Net position at beginning of year	22,155,493	21,849,703
Net position at end of year	\$ 21,244,844	\$ 22,155,493

See accompanying notes to financial statements.

**POHNPEI UTILITIES CORPORATION**  
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Statements of Cash Flows  
Years Ended September 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Cash received from customers	\$ 14,349,245	\$ 14,425,978
Cash payments to suppliers for goods and services	(10,494,066)	(11,086,206)
Cash paid to employees	(2,754,611)	(2,640,876)
Net cash provided by operating activities	1,100,568	698,896
Cash flows from investing activities:		
Interest and dividends on investments and bank account	1,099	1,754
Net cash provided by investing activities	1,099	1,754
Cash flows from noncapital financing activities:		
Net decrease in note payable	(8,519)	(212,023)
Operating grants received	131,909	107,566
Net cash provided by (used in) noncapital financing activities	123,390	(104,457)
Cash flows from capital and related financing activities:		
Interest paid	(95,510)	(93,120)
Principal repayment of long-term debt	(51,462)	(80,682)
Cash receipts from grantor for capital projects	350,875	827,239
Acquisition of utility plant	(587,724)	(908,710)
Net cash used in capital and related financing activities	(383,821)	(255,273)
Net change in cash and cash equivalents	841,236	340,920
Cash and cash equivalents at beginning of year	2,246,834	1,905,914
Cash and cash equivalents at end of year	\$ 3,088,070	\$ 2,246,834
<u>Reconciliation of operating loss to net cash provided by operating activities:</u>		
Operating loss	\$ (1,066,167)	\$ (1,192,625)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	2,098,139	2,097,956
Bad debts	562,568	308,112
Other income	123,833	507
(Increase) decrease in assets:		
Accounts receivable	(551,734)	(56,554)
Prepayments	(74,437)	(161,874)
Materials and fuel inventory	68,475	(51,486)
Increase (decrease) in liabilities:		
Accounts payable	(233,425)	44,063
Unearned revenue	38,978	(238,076)
Accrued taxes and other liabilities	117,410	(64,676)
Employees' annual leave	16,928	13,549
Net cash provided by operating activities	\$ 1,100,568	\$ 698,896

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

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

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

During the year ended September 30, 2020, ADB loan principal and interest payments of \$417,614 and \$110,915, respectively, were made by PSG, which were recorded as an increase in advances from PSG.

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

During the years ended September 30, 2020 and 2019, PUC was allocated an increase of \$157,618 and a decrease of \$120,629, respectively, of balance adjustments relating to currency re-evaluation changes associated with the ADB loans. As a result, PUC increased and decreased, respectively, its long-term debt and interest expense by the same amount.

See accompanying notes to financial statements.

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Notes to Financial Statements  
September 30, 2020 and 2019

**(1) Organization**

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

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

**(2) Summary of Significant Accounting Policies**

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

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

- Net investment in capital assets - capital assets, net of accumulated depreciation, plus construction or improvement of those assets, net of related debts.
- Restricted: Nonexpendable - net position subject to externally imposed stipulations that requires PUC to maintain such permanently. At September 30, 2020 and 2019, PUC does not have nonexpendable net position. Expendable - net position whose use by PUC is subject to externally imposed stipulations that can be fulfilled by actions of PUC pursuant to those stipulations or that expire by the passage of time.
- Unrestricted - net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

**Basis of Accounting**

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

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Notes to Financial Statements  
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents and Time Certificates of Deposit

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

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

As of September 30, 2020 and 2019, the carrying amount of cash and cash equivalents and time certificates of deposit was \$3,321,977 and \$2,477,814, respectively, and the corresponding bank balances were \$4,058,526 and \$2,971,177, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2020 and 2019, bank deposits of \$500,000 were FDIC insured. PUC does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Accounts Receivable and Allowance for Doubtful Accounts

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

Inventories

Materials and fuel inventory are substantially carried at the lower of cost (weighted average) or market, net of an allowance for obsolescence relating to parts that have been specifically identified as likely not usable. At September 30, 2020 and 2019, inventory is net of an allowance for obsolescence of \$1,034,114.

Deferred Outflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. As of September 30, 2020 and 2019, PUC has no items that qualify for reporting in this category.

**POHNPEI UTILITIES CORPORATION  
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Notes to Financial Statements  
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

Utility Plant

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

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

Deferred Inflows of Resources

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. As of September 30, 2020 and 2019, PUC has no items that qualify for reporting in this category.

Compensated Absences

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

Revenue Recognition

Sales of electricity and water are recorded as billed to customers on a semi-monthly or monthly billing cycle basis. Unbilled revenues are accrued based on the most recent billing cycles. Cash power and water revenue is recognized as revenue upon point of sale; the estimated unearned portion is determined at the end of each year. At September 30, 2020 and 2019, the estimated unearned cash power revenue of approximately \$246,000 and \$258,000, respectively, is included as part of unearned revenue in the accompanying statements of net position.

Operating and Nonoperating Revenues and Expenses

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

Grants and Subsidies

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

**POHNPEI UTILITIES CORPORATION**  
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Notes to Financial Statements  
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During the year ended September 30, 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement Nos. 84, 89, 90, 91, 92 and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

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

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

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

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

**POHNPEI UTILITIES CORPORATION**  
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Notes to Financial Statements  
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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

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

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

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.

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Notes to Financial Statements  
September 30, 2020 and 2019

(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. 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.

Estimates

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

(3) Accounts Receivable

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

	<u>2020</u>	<u>2019</u>
Accounts receivable - electrical:		
Residential	\$ 1,847,913	\$ 1,779,839
Commercial	806,673	760,667
Government	<u>438,138</u>	<u>549,130</u>
	<u>3,092,724</u>	<u>3,089,636</u>
Accounts receivable - water and sewer:		
Residential	4,894,358	4,352,051
Commercial and government	788,613	761,453
Unbilled	<u>70,833</u>	<u>68,435</u>
	<u>5,753,804</u>	<u>5,181,939</u>
Installment receivables	70,815	71,185
Other	<u>174,502</u>	<u>197,351</u>
	9,091,845	8,540,111
Less allowance for doubtful accounts	<u>(7,980,863)</u>	<u>(7,418,295)</u>
	<u>\$ 1,110,982</u>	<u>\$ 1,121,816</u>

PUC operates a prepaid cash power meter system in which a portion of customer payments are used to satisfy balances in arrears. 50% of collections are applied to arrears at the time of purchase. As of September 30, 2020 and 2019, included in accounts receivable – electrical due from customers enrolled in the cash power meter system are \$1,182,491 and \$1,203,702, respectively.

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Notes to Financial Statements  
September 30, 2020 and 2019

**(4) Utility Plant**

A summary of changes in capital assets for the years ended September 30, 2020 and 2019 is as follows:

	Beginning Balance <u>October 1, 2019</u>	Additions and <u>Transfers</u>	Deletions and <u>Transfers</u>	Ending Balance <u>September 30, 2020</u>
<u>Depreciable assets:</u>				
Production plant	\$ 22,512,139	\$ 869,411	\$ -	\$ 23,381,550
Distribution plant	14,592,376	93,403	-	14,685,779
General plant	<u>1,080,626</u>	<u>89,210</u>	-	<u>1,169,836</u>
Electric plant in service	<u>38,185,141</u>	<u>1,052,024</u>	-	<u>39,237,165</u>
Water production plant	6,739,083	-	-	6,739,083
Sewage collection and treatment plant	13,607,861	-	-	13,607,861
Water distribution plant	8,835,385	-	-	8,835,385
General plant	<u>776,611</u>	<u>9,902</u>	-	<u>786,513</u>
Water and sewer plant in service	<u>29,958,940</u>	<u>9,902</u>	-	<u>29,968,842</u>
Total utility plant in service	68,144,081	1,061,926	-	69,206,007
Less accumulated depreciation	<u>(39,155,895)</u>	<u>(2,098,139)</u>	-	<u>(41,254,034)</u>
	<u>28,988,186</u>	<u>(1,036,213)</u>	-	<u>27,951,973</u>
<u>Non-depreciable assets:</u>				
Construction work-in-process:				
Electric plant	828,428	259,792	(733,994)	354,226
Water and sewer plant	<u>233,868</u>	-	-	<u>233,868</u>
	<u>1,062,296</u>	<u>259,792</u>	<u>(733,994)</u>	<u>588,094</u>
	<u>\$ 30,050,482</u>	<u>\$ (776,421)</u>	<u>\$ (733,994)</u>	<u>\$ 28,540,067</u>
	Beginning Balance <u>October 1, 2018</u>	Additions and <u>Transfers</u>	Deletions and <u>Transfers</u>	Ending Balance <u>September 30, 2019</u>
<u>Depreciable assets:</u>				
Production plant	\$ 21,065,230	\$ 1,446,909	\$ -	\$ 22,512,139
Distribution plant	14,592,376	-	-	14,592,376
General plant	<u>1,023,260</u>	<u>57,366</u>	-	<u>1,080,626</u>
Electric plant in service	<u>36,680,866</u>	<u>1,504,275</u>	-	<u>38,185,141</u>
Water production plant	6,721,165	17,918	-	6,739,083
Sewage collection and treatment plant	13,607,861	-	-	13,607,861
Water distribution plant	8,835,385	-	-	8,835,385
General plant	<u>768,911</u>	<u>7,700</u>	-	<u>776,611</u>
Water and sewer plant in service	<u>29,933,322</u>	<u>25,618</u>	-	<u>29,958,940</u>
Total utility plant in service	66,614,188	1,529,893	-	68,144,081
Less accumulated depreciation	<u>(37,057,939)</u>	<u>(2,097,956)</u>	-	<u>(39,155,895)</u>
	<u>29,556,249</u>	<u>(568,063)</u>	-	<u>28,988,186</u>
<u>Non-depreciable assets:</u>				
Construction work-in-process:				
Electric plant	646,199	737,494	(555,265)	828,428
Water and sewer plant	<u>203,858</u>	<u>30,000</u>	-	<u>233,868</u>
	<u>850,067</u>	<u>767,494</u>	<u>(555,265)</u>	<u>1,062,296</u>
	<u>\$ 30,406,316</u>	<u>\$ 199,431</u>	<u>\$ (555,265)</u>	<u>\$ 30,050,482</u>

**POHNPEI UTILITIES CORPORATION  
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Notes to Financial Statements  
September 30, 2020 and 2019

**(5) Notes Payable**

Notes payable of \$316,094 and \$324,613 at September 30, 2020 and 2019, respectively, are borrowed against a line of credit (LOC) with the Bank of the Federated States of Micronesia (BFSM) of \$370,000. The LOC is collateralized by time certificates of deposit (TCD) with the bank, bearing variable interest at 5% over the TCD rate (effective rate of 5.5% and 5.25% at September 30, 2020 and 2019, respectively) and currently expires in May 2022. The agreements restrict 100% of the LOC at September 30, 2020 and 2019, respectively, and as such, the related TCD balances of \$370,000 are reflected as restricted cash and cash equivalents in the accompanying statements of net position as of September 30, 2020 and 2019.

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

	Outstanding October 1, <u>2019</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2020</u>
Notes payable to: BFSM	\$ <u>324,613</u>	\$ _____	\$ <u>(8,519)</u>	\$ <u>316,094</u>
	Outstanding October 1, <u>2018</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2019</u>
Notes payable to: BFSM	\$ 336,636	\$ -	\$ (12,023)	\$ 324,613
Pohnpei State Government	<u>200,000</u>	_____	<u>(200,000)</u>	_____
	\$ <u>536,636</u>	\$ _____	\$ <u>(212,023)</u>	\$ <u>324,613</u>

**(6) Long-Term Debt**

Long-term debt consists of the following at September 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Payable on ADB loan no. 1459, administered by FSMNG. Repayments as allocated by FSMNG indicate annual principal payments of \$95,315 through FY2017 and \$98,297 for FY2018 through FY2036, plus interest at 1.0%.	\$ 1,566,566	\$ 1,613,531
Payable on ADB loan no. 2099, administered by FSMNG. Repayments as allocated by FSMNG indicate annual principal payments of \$252,109 through FY2035, with interest payable at 1.0% per annum during the grace period and at 1.5% thereafter. Proceeds are used for infrastructure projects to overhaul sewage pumps, extend sewage lines, and for treatment plants.	3,606,888	3,714,675
Payable on ADB loan no. 2100, administered by FSMNG, principal due in semi-annual installments of varying amounts as a percentage of total drawings through 2029. Interest is payable at LIBOR plus 0.6% (effective rate of 0.88% at September 30, 2020 and 2019). Proceeds are used for infrastructure projects to overhaul sewage pumps, extend sewage lines, and for treatment plants.	1,253,121	1,358,366

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Notes to Financial Statements  
September 30, 2020 and 2019

(6) Long-Term Debt, Continued

	<u>2020</u>	<u>2019</u>
Loan payable to United States Department of Agriculture, Rural Utilities Service (RUS), original amount of \$578,000, due in monthly installments of \$2,654 from October 2006 to July 2044. The loan bears fixed interest of 4.5%.	461,236	468,441
Loan payable to Bank of Guam (BOG), original amount of \$830,000, interest at 7% and monthly installments of \$7,529 from December 15, 2014 to November 15, 2019, upon which the unpaid principal is due and payable. The loan has been renewed and extended until November 15, 2029 with the same terms. The loan is collateralized by a certain chattel mortgage on the three generators purchased in 2015.	<u>594,714</u>	<u>638,970</u>
Total long-term debt	7,482,525	7,793,983
Less: current portion of long-term debt	<u>479,108</u>	<u>466,511</u>
Long-term portion of long-term debt	<u>\$ 7,003,417</u>	<u>\$ 7,327,472</u>

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 479,108	\$ 150,597	\$ 626,705
2022	492,942	140,371	633,313
2023	508,015	129,551	637,566
2024	524,590	118,227	642,817
2025	542,709	105,937	648,646
2026-2030	2,681,952	321,816	3,003,768
2031-2035	1,718,525	119,480	1,838,005
2036-2040	437,416	38,101	475,517
2041-2044	<u>97,268</u>	<u>6,969</u>	<u>104,237</u>
	<u>\$ 7,482,525</u>	<u>\$ 1,131,049</u>	<u>\$ 8,613,574</u>

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

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

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Notes to Financial Statements  
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**(6) Long-Term Debt, Continued**

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

Management believes that PUC is in compliance with all covenants as of and for the years ended September 30, 2020 and 2019, and no event of default has been declared by the lenders.

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

	Outstanding October 1, <u>2019</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2020</u>	<u>Current</u>
Loan payable to:					
ADB no. 1459	\$ 1,613,531	\$ 49,023	\$ (95,988)	\$ 1,566,566	\$ 97,069
ADB no. 2099	3,714,675	108,595	(216,382)	3,606,888	226,901
ADB no. 2100	1,358,366	-	(105,245)	1,253,121	93,999
BOG	638,970	-	(44,256)	594,714	49,642
RUS	<u>468,441</u>	-	<u>(7,205)</u>	<u>461,236</u>	<u>11,497</u>
	<u>\$ 7,793,983</u>	<u>\$ 157,618</u>	<u>\$ (469,076)</u>	<u>\$ 7,482,525</u>	<u>\$ 479,108</u>

During the year ended September 30, 2020, PUC was allocated an increase of \$157,618 of balance adjustments relating to currency re-evaluation changes associated with the ADB loans. As a result, PUC increased its long term debt and interest expense by the same amount.

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

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

**(7) Contributions**

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

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Notes to Financial Statements  
September 30, 2020 and 2019

**(8) Grants, Subsidies and Capital Contributions**

Grants, subsidies and capital contributions comprise the following for the years ended September 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Operating Grants:		
FSMNG Congress appropriations	\$ <u>131,909</u>	\$ <u>107,566</u>
Capital Contributions:		
U.S. Government – energy grant	\$ 259,793	\$ -
Foreign government – solar farm	-	833,412
U.S. Government – engine overhaul	-	729,993
U.S. Government – generators	-	71,850
FSMNG – distribution	<u>-</u>	<u>25,396</u>
Total capital contributions	\$ <u>259,793</u>	\$ <u>1,660,651</u>

At September 30, 2020, unearned revenue includes \$91,082 relates to unexpended funds from a FSM Public Infrastructure Sector Grant.

**(9) Self Insurance Fund and Risk Management**

In accordance with section 2(5) of State Law 3L-41-93, an amendment to the PUC enabling legislation, a self-insurance fund was established to defray costs of any unforeseen accidents or disasters. At September 30, 2020 and 2019, balances of \$147,807 and \$147,650 respectively, are maintained in a bank deposit account that was held as collateral for a bank loan which was paid off during the year ended September 30, 2016. The deposit balances continued to be shown as restricted in the accompanying financial statements since restrictions have not been removed by the enabling body.

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

**(10) Related Party Transactions**

At September 30, 2020 and 2019, accounts receivable include amounts owed by the State of Pohnpei and its component units to PUC of \$927,220 and \$1,007,783, respectively.

At September 30, 2020 and 2019, PUC has a non-interest bearing advance from the PUC Social Club of \$6,450 and \$46,450, respectively. Further, at September 30, 2020 and 2019, PUC has a non-interest bearing advance from the State of Pohnpei of \$3,465,325 and \$2,936,796, respectively, resulting from the ADB loan repayments made by the State of Pohnpei for PUC. These advances have no set repayment terms, are classified as current due to the mutual consent of the parties.

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

Notes to Financial Statements  
September 30, 2020 and 2019

(10) Related Party Transactions, Continued

PUC purchased all of its production fuel during the years ended September 30, 2020 and 2019 from FSM Petroleum Corporation (FSMPC), a component unit of FSMNG. At September 30, 2020 and 2019, long-term deposits in the amount of \$1,256,912, for which \$576,213 was received through a sub-grant from the FSMNG, are held by FSMPC as collateral for a fuel and lubricant purchase line. PUC also purchases power generated by FSMPC under a Power Purchase Agreement (PPA). The PPA has an initial term of thirty-six months which expired in June 2017. Under the PPA, FSMPC is responsible to acquire, install and operate a 2.0 MW diesel generator, and PUC is committed to purchase available capacity up to the contract capacity, which means an average of 1,600 kW in any given month throughout the PPA term. The PPA is operating in the holdover status as the parties negotiated for renewal or termination. At September 30, 2020 and 2019, payables to FSMPC were \$522,770 and \$907,122, respectively.

(11) Retirement Plan

PUC's retirement plan (the Plan) is a self-administered program established to pay retirement, disability and survivor income to employees and their survivors to supplement similar benefits that employees receive from the FSM Social Security System. Starting August 2014, PUC matches a percentage of participants' contributions. Matching contributions to the Plan during the years ended September 30, 2020 and 2019 were \$80,735 and \$72,073, respectively. Total Plan assets as of September 30, 2020 and 2019 were \$1,005,677 and \$751,123, respectively. Management is of the opinion that the Plan does not represent an asset or a liability of PUC and as such no related assets or liabilities have been recorded in the accompanying statements of net position.

(12) Restricted Net Position

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

	<u>2020</u>	<u>2019</u>
Self-insurance fund (note 9)	\$ 147,807	\$ 147,650
Fuel deposit from sub-grant (note 10)	<u>576,213</u>	<u>576,213</u>
	\$ <u>724,020</u>	\$ <u>723,863</u>

(13) Concentration of Credit Risk

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

At September 30, 2020 and 2019, PUC has cash deposits in bank accounts that are not subject to or exceed federal depository insurance limits. PUC has not experienced any losses in such accounts.

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

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

Notes to Financial Statements  
September 30, 2020 and 2019

(14) Contingencies

PUC is involved in various legal actions in the normal course of business, including a variety of legal actions and claims that seek monetary or punitive damages, which may be in a different stage of the litigation proceedings. Based on current information, including legal consultation, PUC has provided a reserve for probable losses of \$171,000 in the accompanying 2019 financial statements, which is included as a component of accrued taxes and other liabilities in the accompanying 2020 and 2019 financial statements. Management believes any ultimate liability that may arise from these actions would not materially affect PUC's financial position, results of operations or cash flows.

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

Combining Statement of Net Position  
September 30, 2020  
(With comparative totals as of September 30, 2019)

<u>Assets</u>	Power and Utility	Water and Sewer	Totals	
	2020	2019	2020	2019
<b>Current assets:</b>				
Cash and cash equivalents	\$ 2,570,263	\$ -	\$ 2,570,263	\$ 1,729,184
Time certificates of deposit	233,907	-	233,907	230,980
Accounts receivable, net	1,005,134	105,848	1,110,982	1,121,816
Divisional (payable) receivable	(2,679,436)	2,679,436	-	-
Prepayments	245,133	50,152	295,285	220,848
Materials and fuel inventory, net	80,855	88,772	169,627	238,102
Total current assets	1,455,856	2,924,208	4,380,064	3,540,930
<b>Other noncurrent assets:</b>				
Long-term deposits	1,256,912	-	1,256,912	1,256,912
Restricted - cash and cash equivalents	517,807	-	517,807	517,650
Total other noncurrent assets	1,774,719	-	1,774,719	1,774,562
<b>Utility plant, at cost:</b>				
Electric plant in service	39,237,165	-	39,237,165	38,185,141
Water and sewer plant in service	-	29,968,842	29,968,842	29,958,940
	39,237,165	29,968,842	69,206,007	68,144,081
Less accumulated depreciation	(26,528,989)	(14,725,045)	(41,254,034)	(39,155,895)
Depreciable assets	12,708,176	15,243,797	27,951,973	28,988,186
Construction work-in-process	354,225	233,869	588,094	1,062,296
Total utility plant	13,062,401	15,477,666	28,540,067	30,050,482
	\$ 16,292,976	\$ 18,401,874	\$ 34,694,850	\$ 35,365,974
<u>Liabilities and Net Position</u>				
<b>Current liabilities:</b>				
Notes payable	\$ 316,094	\$ -	\$ 316,094	\$ 324,613
Current portion of long-term debt	49,642	429,466	479,108	466,511
Accounts payable:				
Operations	432,403	-	432,403	281,476
Fuel, lubricants and kwh purchased	522,770	-	522,770	907,122
Unearned revenue	428,002	91,082	519,084	389,024
Accrued taxes and other liabilities	558,196	-	558,196	440,786
Employees' annual leave	153,609	-	153,609	136,681
Advances from Pohnpei State Government (PSG)	-	3,465,325	3,465,325	2,936,796
Total current liabilities	2,460,716	3,985,873	6,446,589	5,883,009
<b>Noncurrent liabilities:</b>				
Loan payable - RUS	-	449,739	449,739	457,505
Loan payable - BOG	545,072	-	545,072	592,836
Loans payable - ADB	-	6,008,606	6,008,606	6,277,131
Total liabilities	3,005,788	10,444,218	13,450,006	13,210,481
<b>Net position:</b>				
Net investment in capital assets	12,467,687	8,589,855	21,057,542	22,256,499
Restricted	724,020	-	724,020	723,863
Unrestricted	95,481	(632,199)	(536,718)	(824,869)
Total net position	13,287,188	7,957,656	21,244,844	22,155,493
	\$ 16,292,976	\$ 18,401,874	\$ 34,694,850	\$ 35,365,974
	-	-	-	-

See accompanying Independent Auditors' Report.

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

Combining Statement of Revenues, Expenses and Changes in Net Position  
Year Ended September 30, 2020  
(With comparative totals for the year ended September 30, 2019)

	Power and Utility	Water and Sewer	Totals	
			2020	2019
Operating revenues:				
Residential	\$ 102,978	\$ 1,079,680	\$ 1,182,658	\$ 1,145,355
Cash power	7,784,180	-	7,784,180	7,888,475
Cash water	-	72,040	72,040	44,387
Commercial	2,850,851	195,446	3,046,297	3,109,341
Government	1,840,448	541,381	2,381,829	2,496,428
Other sales	271,164	-	271,164	36,115
Total operating revenues	12,849,621	1,888,547	14,738,168	14,720,101
Bad debts	-	(562,568)	(562,568)	(308,112)
Net operating revenues	12,849,621	1,325,979	14,175,600	14,411,989
Operating and maintenance expenses:				
Production fuel	5,496,617	-	5,496,617	6,334,703
Depreciation	1,351,825	746,314	2,098,139	2,097,956
Administrative and general:				
Salaries and wages	480,935	-	480,935	409,857
Employee benefits	473,031	-	473,031	432,457
Communications	99,127	-	99,127	84,335
Customer service and collection	95,388	-	95,388	111,004
Insurance	82,817	-	82,817	47,600
Vehicle, POL	82,340	-	82,340	78,550
Travel	78,740	-	78,740	219,961
Contractual services	76,353	-	76,353	77,748
Consumables and supplies	74,913	-	74,913	63,467
Repairs and maintenance	44,889	-	44,889	46,466
Other	292,345	-	292,345	279,925
	1,880,878	-	1,880,878	1,851,370
Kwh purchased	2,584,617	-	2,584,617	2,729,953
Generation:				
Repairs and maintenance	563,896	-	563,896	338,980
Salaries and wages	542,166	-	542,166	474,286
Other	83,405	-	83,405	89,130
	1,189,467	-	1,189,467	902,396
Distribution:				
Salaries and wages	755,905	-	755,905	708,392
Repairs and maintenance	218,452	-	218,452	177,140
Consumables and supplies	72,751	-	72,751	29,758
	1,047,108	-	1,047,108	915,290
Water and sewer:				
Salaries and wages	-	567,244	567,244	497,604
Repairs and maintenance	-	208,526	208,526	116,435
Employee benefits	-	69,668	69,668	67,153
Other	-	99,503	99,503	91,754
	-	944,941	944,941	772,946
Total operating and maintenance expenses	13,550,512	1,691,255	15,241,767	15,604,614
Operating loss	(700,891)	(365,276)	(1,066,167)	(1,192,625)

See accompanying Independent Auditors' Report.

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

Combining Statement of Revenues, Expenses and Changes in Net Position, Continued  
Year Ended September 30, 2020  
(With comparative totals for the year ended September 30, 2019)

	Power and Utility	Water and Sewer	Totals	
			2020	2019
Nonoperating revenues (expenses), net:				
Provision for losses	-	-	-	(171,000)
Interest expense, net	(43,179)	(316,838)	(360,017)	(99,309)
Grants and subsidies	131,909	-	131,909	107,566
Other income	123,833	-	123,833	507
Total nonoperating income (expenses), net	<u>212,563</u>	<u>(316,838)</u>	<u>(104,275)</u>	<u>(162,236)</u>
Loss before capital contributions	<u>(488,328)</u>	<u>(682,114)</u>	<u>(1,170,442)</u>	<u>(1,354,861)</u>
Capital contributions:				
Capital contributions	259,793	-	259,793	1,660,651
Total capital contributions	<u>259,793</u>	<u>-</u>	<u>259,793</u>	<u>1,660,651</u>
Change in net position	(228,535)	(682,114)	(910,649)	305,790
Net position at beginning of year	<u>13,515,723</u>	<u>8,639,770</u>	<u>22,155,493</u>	<u>21,849,703</u>
Net position at end of year	<u>\$ 13,287,188</u>	<u>\$ 7,957,656</u>	<u>\$ 21,244,844</u>	<u>\$ 22,155,493</u>

See accompanying Independent Auditors' Report.

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

Board of Directors  
Pohnpei Utilities Corporation:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Pohnpei Utilities Corporation (PUC), a component unit of the State of Pohnpei, which comprise the statement of net position as of September 30, 2020, and the related statements of revenues, expenses and changes in net position, and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 13, 2022.

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

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2020-001 and 2020-002 that we consider to be significant deficiencies.

## Compliance and Other Matters

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

## PUC's Response to Findings

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

## Purpose of this Report

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

*Deloitte & Touche LLP*

January 13, 2022

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

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2020

Finding No. 2020-001 – Account Reconciliation

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

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

Cause: PUC lacks sufficient accounting personnel and resources.

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

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

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

Views of Responsible Officials:

PUC describes corrective action in the Corrective Action Plan.

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

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2020

Finding No. 2020-002 – Materials and Supplies Inventories

Criteria: Materials and supplies inventories should be periodically reviewed for accuracy and ongoing performance.

Condition: PUC does not properly record material and supplies issuances and perform periodic reconciliation and review of the balance during the year. A year-end adjustment of \$533,904 was recorded to reconcile the balance with the result of physical inventory counts to reflect items directly transferred to the job sites without recording the related inventory receipts and issuances. Inventory issuances supported by signed issuances and issuance log were not timely recorded, reviewed and monitored. Due to the lack of control in place, shortage vs. actual usage cannot be identified.

Cause: The cause of the above condition is due to ineffective internal controls over monitoring, reconciliation and recording inventory transactions.

Effect: A significant number of year-end reconciling adjustments and a potential loss of materials and supplies result from this condition.

Recommendation: PUC should properly account for inventory transactions by recording all receipts and issuances and perform periodic reconciliations of inventory movements.

Views of Responsible Officials:

PUC describes corrective action in the Corrective Action Plan.

# POHNPEI UTILITIES CORPORATION

## “Dedicated to Improving the Quality of Life on Pohnpei”

### BOARD OF DIRECTORS

#### SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS Year Ended September 30, 2020

*Trevayne Esiel*  
*Chairman*

*John Adolph*  
*Vice-Chairman*

<u>Finding number</u>	<u>Status</u>
2017-002	Not corrected or Resolved. On-going. Refer to Note 1
2018-002	Not corrected or Resolved. On-going. Refer to Note 1
2019-001	Not corrected or Resolved. On-going. Refer to Note 1

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

*Josphine Saimon*  
*Secretary*

*Pete S.P. Leon*  
*Director*

*Ronald Etscheit*  
*Director*

*Cindy H. Ehmes*  
*Director*

*Antonio John*  
*Director*

*Nixon Anson*  
*General Manager/CEO*

# POHNPEI UTILITIES CORPORATION

“Dedicated to Improving the Quality of Life on Pohnpei”



**BOARD OF  
DIRECTORS**

**CORRECTIVE ACTION PLAN  
2 CFR § 200.511(c)  
Year Ended September 30, 2020**

*Trevayne Esiel  
Chairman*

*John Adolph  
Vice-Chairman*

*Josphine Saimon  
Secretary*

*Pete S.P. Leon  
Director*

*Ronald Etscheit  
Director*

*Cindy H. Ehmes  
Director*

*Antonio John  
Director*

*Nixon Anson  
General Manager/CEO*

Finding Number	Corrective Action Plan	Anticipated Completion Date	Responsible Person
2020-01	PUC concurs with the auditor's recommendation. PUC shall assess the resource needs of its Accounting and Finance function. PUC has hired additional personnel in the accounting division. Monthly reconciliation check list will be implemented and deadlines will be established for each significant area.	March 2022	Daisy Nanpei, Comptroller
2020-02	PUC concurs with the auditor's recommendation. PUC should properly account for inventory transactions by recording all receipts and issuances and perform periodic reconciliations of inventory movement. In addition, PUC should perform review and reconciliation of inventories with the general ledger.	March 2022	Daisy Nanpei, Comptroller