

*Financial Statements and
Required Supplementary Information*

Chuuk Public Utility Corporation
(A Component Unit of the State of Chuuk)

*Year Ended September 30, 2022
with Report of Independent Auditors*



Chuuk Public Utility Corporation
(A Component Unit of the State of Chuuk)

Financial Statements and Required Supplementary Information,

Year Ended September 30, 2022

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Report of Independent Auditors

The Board of Directors
Chuuk Public Utility Corporation:

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities of Chuuk Public Utility Corporation (CPUC), as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise CPUC's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Chuuk Public Utility Corporation at September 30, 2022, and the changes in financial position, and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of CPUC, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about CPUC's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 CPUC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about CPUC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 8 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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 29, 2023, on our consideration of CPUC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of CPUC'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 CPUC's internal control over financial reporting and compliance.

Ernst + Young LLP

September 29, 2023

Chuuk Public Utility Corporation
(A Component Unit of the State of Chuuk)

Management's Discussion and Analysis

Years Ended September 30, 2022 and 2021

The following Management's Discussion and Analysis of the Chuuk Public Utility Corporation's (CPUC) activities and financial performance provides the reader with an introduction and overview to the financial statements as of and for the fiscal year ended September 30, 2022.

GASB 34 of the U.S. Government Accounting Standards Board requires that financial statements must contain a management's discussion and analysis. This section of the CPUC's annual report presents management's discussion of CPUC's performance for years ended September 30, 2022 and 2021. It should be read in conjunction with the financial statements that follow this section.

CPUC is a component unit of the Government of the State of Chuuk. Its primary objective is to provide electrical, water, and sewer services to the public. The following table summarizes the financial position and results of operations of CPUC for fiscal years 2022 and 2021.

FINANCIAL HIGHLIGHTS

	<u>2022</u>	<u>2021</u>
Assets:		
Utility plant in service, net	\$22,661,216	\$23,429,302
Current assets	3,760,974	3,251,439
Non-current assets	<u>1,217,689</u>	<u>730,788</u>
Total assets	<u>\$27,639,879</u>	<u>\$27,411,529</u>
Net Position and Liabilities:		
Net investment in capital assets	\$19,392,057	\$19,783,469
Restricted	550,067	363,204
Unrestricted	<u>3,696,912</u>	<u>3,046,856</u>
Total net position	<u>23,639,036</u>	<u>23,193,529</u>
Long-term liabilities	3,020,663	3,380,654
Current liabilities	<u>980,180</u>	<u>837,346</u>
Total liabilities	<u>4,000,843</u>	<u>4,218,000</u>
Total net position and liabilities	<u>\$27,639,879</u>	<u>\$27,411,529</u>
Revenues, Expenses, and Changes in Net Position:		
Total operating revenues	\$ 8,397,884	\$ 6,751,255
Operating expenses	<u>9,098,387</u>	<u>6,660,563</u>
Operating (loss) income	<u>(700,503)</u>	<u>90,692</u>
Grants, subsidies and other income	2,197,768	3,553,488
Asian Development Bank grant expense	(1,001,481)	(1,076,100)
Interest expense	<u>(50,277)</u>	<u>(53,624)</u>
Total nonoperating revenue, net and capital contributions	<u>1,146,010</u>	<u>2,423,764</u>
Change in net position	445,507	2,514,456
Net position at beginning of year	<u>23,193,529</u>	<u>20,679,073</u>
Net position at end of year	<u>\$23,639,036</u>	<u>\$23,193,529</u>

Chuuk Public Utility Corporation
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Management's Discussion and Analysis, continued

Assets:

CPUC continues to increase its asset-base to provide the essential utility services to the people of Chuuk State. The total value of the working assets at the end of FY2022 is \$27.6 million, compared with \$27.4 million at the end of FY2021.

Revenue:

An increase in revenue by \$1.65 million this year, from \$6.75 million in 2021 to \$8.40 million in 2022. The increase is mainly due to increase in tariff in 2022 as explained below.

Explanation of increase in revenue:

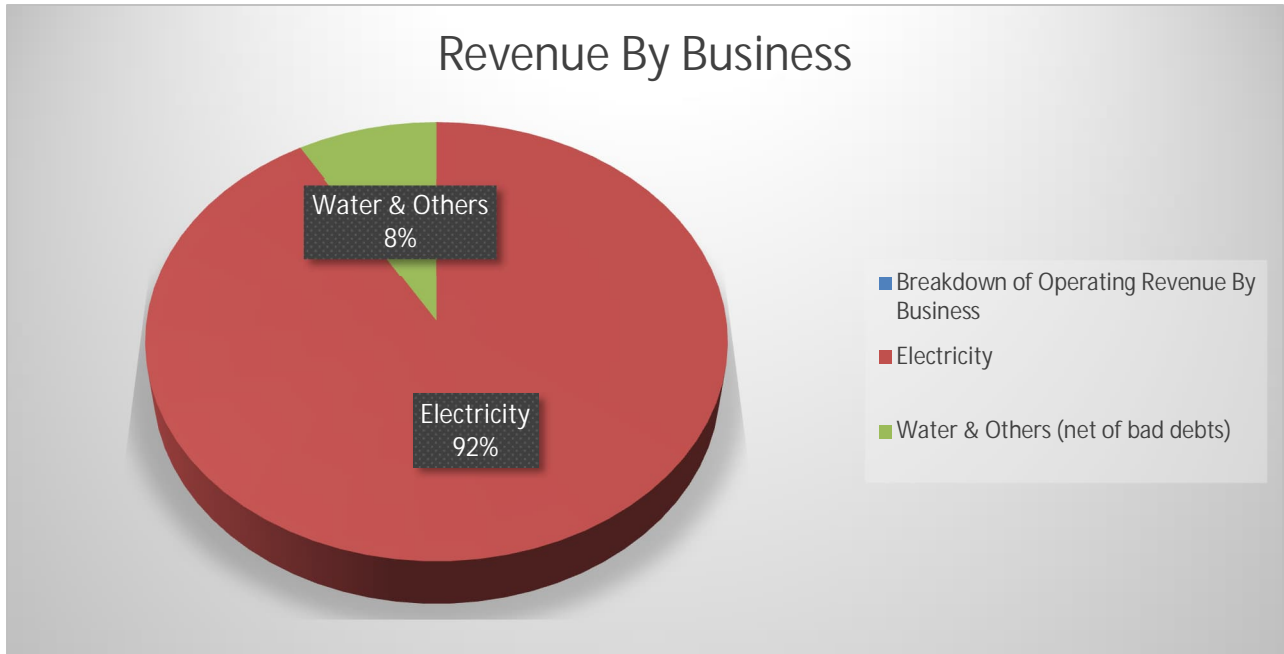
	2022	2021	Increase (decrease)
Revenue	\$8,397,884	\$6,751,255	\$ 1,646,629
Avg. Tariff	0.5694	0.4610	0.108
Revenue increase due to increase in electricity tariff			\$ 1,587,225
More kwh sold this year			\$ 48,096
Increase in aggregate other sales			\$ 11,308
Increases in revenue			\$ 1,646,629

Overall operating revenue for 2022 is \$8.40 million and is broken down by the two businesses below:

Business	Revenue	%
Electricity	\$ 7,748,685	92%
Water & Others	649,199	8%
Total Revenue	\$ 8,397,884	100%

Chuuk Public Utility Corporation
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Management’s Discussion and Analysis, continued



Expenses:

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

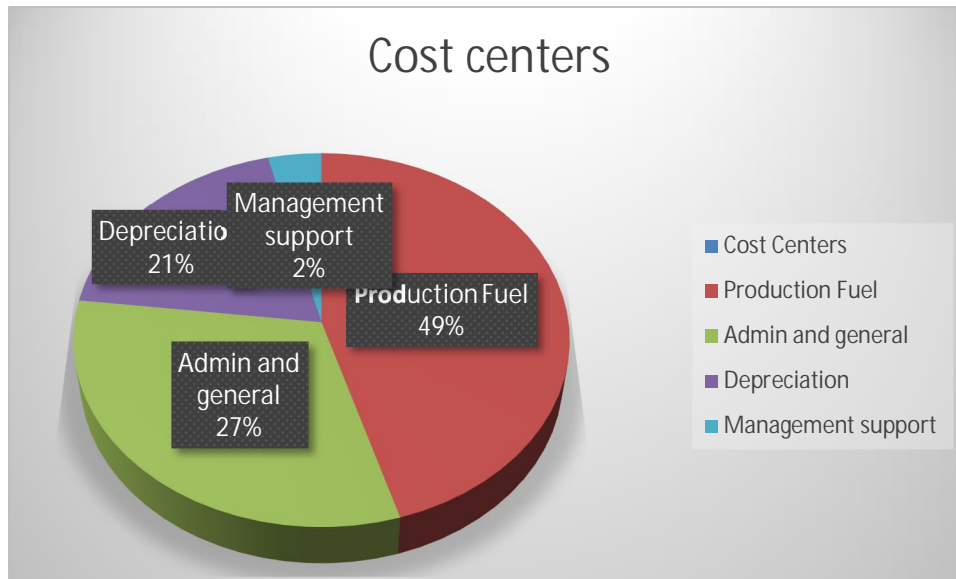
Cost Center	2022	2021	Increase (decrease)
Production fuel	\$ 4,494,689	\$ 2,974,611	\$ 1,520,078
Admin and general	2,492,958	2,178,375	314,583
Depreciation	1,904,975	1,339,549	565,426
Management support	205,765	168,028	37,737
Total	\$ 9,098,387	\$ 6,660,563	\$ 2,437,824

The main increase in expenses in 2022 is due to the increase in price of fuel.

The pie chart below shows the profile of the spending in 2022:

Chuuk Public Utility Corporation
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Management's Discussion and Analysis, continued



Change in Net position:

There is a positive change in net position of \$0.4 million indicating that CPUC financial position is improving.

Capital Assets and Debts

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

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

FISCAL YEAR (FY) 2023 OUTLOOK

CPUC anticipates continued improvement in operating position for FY2023 through improvements: of power generation due to use of more solar grids, power distribution losses, collections, as well as expansion and improvements in water and sewer services.

A power loss target of 10% has been set for FY2023.

World Bank grant funding is being provided to the FSM Energy Sector. A key component of the grant is the massive investment plan for a solar plant to be installed on Weno 2023 to 2024.

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

Additionally, CPUC is working in partnership with FSM Petroleum Corporation (FSMPC) in providing power supply to the residents in Tonoas with a total population of approximately 4,000.

Chuuk Public Utility Corporation
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Management's Discussion and Analysis, continued

With regards to water supply and sewerage services, CPUC's focus will remain on the installation of water metering across the whole of the supply system and water loss reduction and revisiting of the water sewer tariff. An ADB grant of \$32 million has been approved for CPUC to improve the water supply and sewer collection for the island of Weno. The project is ongoing.

CONTACTING CPUC'S FINANCIAL MANAGEMENT

Management's Discussion and Analysis for the year ended September 30, 2021, is set forth in the report on the audit of CPUC's financial statements, which is dated November 23, 2022, and that Discussion and Analysis explains the major factors impacting the 2021 financial statements and can be viewed at the Office of the Public Auditor's website at www.fsmopa.fm.

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

Chuuk Public Utility Corporation
(A Component Unit of the State of Chuuk)

Statement of Net Position

September 30, 2022

Assets

Utility plant, at cost:

Depreciable utility plant:

Electric plant in service	\$ 24,547,529
Water and sewer plant in service	16,039,736
General plant in service	<u>472,319</u>
	41,059,584
Less accumulated depreciation	(<u>19,313,838</u>)
	<u>21,745,746</u>

Non-depreciable utility plant:

Construction in progress	<u>915,470</u>
Total utility plant	<u>22,661,216</u>

Current assets:

Cash	1,863,389
Accounts receivable, net	565,384
Receivable from grantor	212,878
Inventory	946,652
Prepaid expenses	159,487
Prepaid land lease, current portion	<u>13,184</u>
Total current assets	<u>3,760,974</u>

Noncurrent assets:

Deposits	499,423
Prepaid land lease, net of current portion	<u>718,266</u>
Total noncurrent assets	<u>1,217,689</u>
	<u>\$ 27,639,879</u>

Liabilities and Net Position

Current liabilities:

Current portion of long-term debt	\$ 283,815
Accounts payable	279,333
Accrued taxes and other liabilities	301,385
Payable to grantor	48,952
Unearned revenue	59,212
Accrued annual leave, current portion	<u>7,483</u>
Total current liabilities	980,180

Accrued annual leave, net of current portion

35,319

Long-term debt, net of current portion

2,985,344

Total liabilities

4,000,843

Commitments and contingencies

Net position:

Net investment in capital assets	19,392,057
Restricted	550,067
Unrestricted	<u>3,696,912</u>
Total net position	<u>23,639,036</u>

\$ 27,639,879

See accompanying notes.

Chuuk Public Utility Corporation
(A Component Unit of the State of Chuuk)

Statements of Revenues, Expenses and Changes in Net Position

Year Ended September 30, 2022

Operating revenues:	
Electricity sales	\$ 3,484,982
Cash power	4,263,703
Water sales	581,371
Other sales	<u>67,828</u>
Total operating revenues	<u>8,397,884</u>
Operating and maintenance expenses:	
Production fuel	4,494,689
Administrative and general	2,492,958
Depreciation	1,904,975
Management support	<u>205,765</u>
Total operating and maintenance expenses	<u>9,098,387</u>
Operating loss	<u>(700,503)</u>
Nonoperating revenues (expenses), net:	
Other income, net	62,654
Operating grant-Chuuk State Government	44,092
Operating grant-Asian Development Bank	1,001,481
Operating grant-Japanese Fuel Subsidy	143,000
Operating grant-South Pacific Community	61,500
Foreign exchange gain	147,785
Interest expense	<u>(50,277)</u>
Asian Development Bank grant expense	<u>(1,001,481)</u>
Total nonoperating revenues, net	<u>408,754</u>
Loss before capital contributions	<u>(291,749)</u>
Capital contributions:	
Grants from Asian Development Bank	<u>737,256</u>
Change in net position	445,507
Net position at beginning of year	<u>23,193,529</u>
Net position at end of year	<u>\$ 23,639,036</u>

See accompanying notes.

Chuuk Public Utility Corporation
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Statement of Cash Flows

Year Ended September 30, 2022

Cash flows from operating activities:	
Cash received from customers	\$ 8,337,219
Cash payments to suppliers for goods and services	(6,044,632)
Cash payments to employees	(<u>1,246,207</u>)
Net cash provided by operating activities	<u>1,046,380</u>
Cash flows from noncapital financing activities:	
Cash receipts - ADB grant	1,001,481
Cash disbursements - ADB grant	(1,001,481)
Cash receipts from grantors	<u>248,592</u>
Net cash provided by noncapital financing activities	<u>248,592</u>
Cash flows from capital and related financing activities:	
Interest paid	(50,276)
Cash receipts from grantors for capital projects	878,621
Acquisition of utility plant	(1,136,889)
Payments of long-term debt	(<u>228,889</u>)
Net cash used in capital and related financing activities	(<u>537,433</u>)
Net change in cash	757,539
Cash at beginning of year	<u>1,105,851</u>
Cash at end of year	<u>\$ 1,863,390</u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$(700,503)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	1,904,975
Other income, net	62,654
(Increase) decrease in assets:	
Accounts receivable	(106,105)
Inventory	283,737
Prepaid expenses	(414,896)
Deposits	(142,999)
Deposit for asset acquisition	
(Decrease) increase in liabilities:	
Accounts payable	277,303
Accrued taxes and other liabilities	(86,930)
Accrued annual leave	(13,689)
Unearned revenue	(<u>17,167</u>)
Net cash provided by operating activities	<u>\$ 1,046,380</u>
Supplemental information on noncash financing activities:	
Effect of foreign currency translation on long-term debt	147,785

See accompanying notes.

Chuuk Public Utility Corporation
(A Component Unit of the State of Chuuk)

Notes to Financial Statements

Year Ended September 30, 2022

1. Organization

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

CPUC's financial statements are incorporated into the financial statements of the State of Chuuk as a component unit.

2. Summary of Significant Accounting Policies

GASB establishes 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, equity is presented in the following net position categories:

- Net investment in capital assets - capital assets, net of accumulated depreciation, plus construction or improvement of those assets, net of related debts.
- Restricted: Nonexpendable - net position subject to externally imposed stipulations that requires CPUC to maintain such permanently. At September 30, 2022, CPUC does not have nonexpendable net position. Expendable - net position whose use by CPUC is subject to externally imposed stipulations that can be fulfilled by actions of CPUC pursuant to those stipulations or that expire by the passage of time.
- Unrestricted - net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Chuuk Public Utility Corporation
(A Component Unit of the State of Chuuk)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

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.

Cash

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

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

As of September 30, 2022, the carrying amount of cash was \$1,863,389 and the corresponding bank balance was \$1,991,655 which is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2022, bank deposits of \$250,000 were FDIC insured. CPUC does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Receivables and Allowance for Uncollectable Accounts

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

Chuuk Public Utility Corporation
(A Component Unit of the State of Chuuk)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Inventories

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

Utility Plant and Depreciation

Utility plant is stated at cost with the exception of certain utility plant assets transferred to CPUC at the carrying value of the Department of Public Works as of September 30, 2001, which have a zero net book value as of September 30, 2022. CPUC's capitalization threshold is \$3,000, with an estimated useful life in excess of one year.

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

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, 2022, CPUC has no items that qualify for reporting in this category.

Deferred Inflows of Resources

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. As of September 30, 2022, CPUC has no items that qualify for reporting in this category.

Compensated Absences

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

Chuuk Public Utility Corporation
(A Component Unit of the State of Chuuk)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Operating and Nonoperating Revenues and Expenses

Operating revenues and expenses generally result directly from the operation and maintenance of systems to provide utility services to the state of Chuuk. Non-operating revenues and expenses result from capital; financing and investing activities, costs and related recoveries from natural disasters, operating grants, and certain other non-recurring income and costs.

Revenue Recognition

Sales of electricity are recorded as billed to customers. Customer accounts are read and billed weekly for large customers and on a bi-weekly basis for other customers. Billings are due and payable 15 days after billing. At the end of each month, unbilled revenues are accrued for each cycle based on the most recent cycle billing. Cash power revenue is recognized as revenue at point of sale with the estimated unearned portion at year-end recognized as unearned revenue if determined to be significant. At September 30, 2022, unearned revenue recognized on cash power revenue was \$59,212 which is presented as unearned revenue in the accompanying statement of net position.

Grants and Subsidies

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

Taxation

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

Recently Adopted Accounting Pronouncements

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. The adoption of GASB Statement No. 87 did not result in a material effect on the accompanying financial statements.

Chuuk Public Utility Corporation
(A Component Unit of the State of Chuuk)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, 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. The adoption of GASB Statement No. 89 did not result in a material effect on the accompanying financial statements.

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The requirements of this Statement will enhance comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. More comparable reporting will improve the usefulness of information for users of state and local government financial statements. This Statement addresses a variety of topics and includes specific provisions about leases; reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; applicability of Statement no. 73 and 84 for postemployment benefits, measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature and terminology used to refer to derivative instruments. The adoption of GASB Statement No. 92 did not have an effect on the accompanying financial statements.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate (IBOR) – most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates by either (a) changing the reference rate or (b) adding or changing fallback provisions related to the reference rate. The objective of this Statement is to address the accounting and financial reporting effects that result from the replacement of IBORs with other reference rates in order to preserve the reliability, consistency, and comparability of reported information. The adoption of GASB Statement No. 93 did not have an effect on the accompanying financial statements.

Chuuk Public Utility Corporation
(A Component Unit of the State of Chuuk)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code 457 Deferred Compensation Plans*. The primary objectives of this Statement are to (a) 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; (b) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution OPEB plans, and employee benefit plans other than pension plans or OPEB plans as fiduciary component units in fiduciary fund financial statements; and (c) 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. The adoption of GASB Statement No. 97 did not have an effect on the accompanying financial statements.

Upcoming Accounting Pronouncements

In May 2019, GASB issued Statement No. 91, *Conduit debt obligations*. The primary objectives of this statement are to provide a single method 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 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. GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.

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 (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

Chuuk Public Utility Corporation
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. The requirements of this Statement will enhance comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. Consistent authoritative literature enables governments and other stakeholders to locate and apply the correct accounting and financial reporting provisions, which improves the consistency with which such provisions are applied more easily. The comparability of financial statements also will improve as a result of this Statement. Better consistency and comparability improve the usefulness of information for users of local government financial statements. GASB Statement No. 99 will be effective for fiscal year ending September 30, 2023.

In June 2022, GASB issues Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent and comparable information for making decisions or assessing accountability. The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability. In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections. GASB Statement No. 100 will be effective for fiscal year ending September 30, 2024.

Chuuk Public Utility Corporation
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave. The model also will result in a more robust estimate of the amount of compensated absences that a government will pay or settle, which will enhance the relevance and reliability of information about the liability for compensated absences. GASB Statement No. 101 will be effective for fiscal years ending September 30, 2025.

CPUC is currently evaluating the effects the above upcoming accounting pronouncements might have on its financial statements.

3. Accounts Receivable

Accounts receivable at September 30, 2022 is summarized as follows:

Government	\$ 440,924
Residential	342,817
Commercial	164,178
Unbilled	67,284
Chuuk State Government service tax	28,183
Other	<u>22,102</u>
	1,065,488
Less allowance for uncollectable accounts	(<u>500,104</u>)
	<u>\$ 565,384</u>

Receivables as of September 30, 2022 include \$107,769 of balances in arrears from customers who converted to the cash power meter system. These account balances are reduced through an application of 30% of the delinquent customer's cash power purchase at the time of collection during the year ended September 30, 2022. In November 2013, a 5% Chuuk State service tax was applied to power tariffs. CPUC records service tax receivables in a separate account.

Chuuk Public Utility Corporation
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Notes to Financial Statements, continued

4. Utility Plant

Utility plant consists of the following detailed balances at September 30, 2022:

	Balance at October <u>1, 2021</u>	Additions and <u>Transfers</u>	Deletions and <u>Transfers</u>	Balance at September <u>30, 2022</u>
Depreciable assets:				
Electric plant in service	\$22,987,458	\$1,560,071	\$ ---	\$24,547,529
Water and sewer plant in service	15,360,013	679,723	---	16,039,736
General plant in service	<u>454,239</u>	<u>18,082</u>	---	<u>472,321</u>
	38,801,710	2,257,876	---	41,059,586
Less accumulated depreciation	<u>(17,408,865)</u>	<u>(1,904,975)</u>	---	<u>(19,313,840)</u>
	21,392,845	352,901	---	21,745,746
Non-depreciable assets:				
Construction in progress	<u>2,036,457</u>	<u>700,769</u>	<u>(1,821,756)</u>	<u>915,470</u>
	<u>\$23,429,302</u>	<u>\$1,053,670</u>	<u>\$(1,821,756)</u>	<u>\$22,661,216</u>

During the year ended September 30, 2022, construction in progress of \$915,470 represents water treatment plant project and electrification project in Tonoas. Of the total amount, \$17,867 was funded by grants from South Pacific Community, \$7,671 from World Bank through FSMNG, \$550,176 from the Asian Development Bank through FSMNG, and remaining amount of \$339,756 was funded internally.

5. Contributed Assets

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

Chuuk Public Utility Corporation
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Notes to Financial Statements, continued

6. Grants and Subsidies

During the year ended September 30, 2022 CPUC did not receive or expended federal grants from the U.S. either as a direct recipient or passed through by the FSMNG. At September 30, 2022, \$48,952 represent prior year advances from the grantor used for infrastructure projects. The advances are to be repaid at the end of the grant term and are presented as payable to grantor in the accompanying statement of net position.

On December 13, 2019, FSMNG entered into a grant agreement (Grant Number 6026-FSM (SF)) with the Asian Development Bank (ADB) in the amount of \$5,000,000 for Project Readiness Financing (PRF) phase of the Chuuk Water Supply and Sanitation Project (“CWSSP”), with a grant closing date of June 30, 2023, which was extended to June 30, 2025. The grant is for the preparation of the proposed CWSSP Project and for the facilitation of a smooth transition to project implementation. The PRF phase finances the services of consulting firms and individual consultants, as well as the equipment to achieve three outputs, (i) creating and enabling environment for the ensuing investment project; (ii) identifying the investment scope, preparing the project and procuring key project components; and (iii) enabling a smooth transition to implementation by strengthening the CPUC’s water supply network operations.

On December 4, 2020, FMSNG entered into another grant agreement (Grant Number 0727-FSM (SF)) with the ADB in the amount of \$12,760,000 for the CWSSP with a grant closing date of June 30, 2029. The primary objective of the project will improve the efficiency, climate change and disaster resiliency, and sustainability of safe water supply and sanitation in the Chuuk State. The project will have the following outputs: i) continuing and safe water supplies provided; (ii) effective, efficient, and safe sanitation provided; and (iii) CPUC made financially and technically sustainable.

During the year ended September 30, 2022, CPUC recorded grant revenue totaling \$1,738,737 related to CWSSP. At September 30, 2022, reimbursable grant expenditures of \$212,878 are included as receivable from grantor in the accompanying statement of net position.

Chuuk Public Utility Corporation
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Notes to Financial Statements, continued

7. Long-term Debt and Noncurrent Liabilities

Long-term Debt

Long-term debt consists of the following at September 30, 2022:

ADB loan no. 2099, administered by FSMNG, drawn against total Standard Drawing Rights (SDR), principal due in semi-annual installments of \$85,883 from January 15, 2013 to July 15, 2036. Interest is payable semi-annually at 1% per annum during the grace period and at 1.5% thereafter. Proceeds are to be used for infrastructure projects: power distribution upgrades, decommissioning and environmental remediation of the existing power station and institutional strengthening. \$1,423,569

ADB loan no. 2100, administered by FSMNG, drawn against total SDR, principal due in semi-annual installments of varying amounts as a percentage of total SDRs through January 15, 2029. Interest is payable semi-annually at LIBOR plus 0.6% (effective 2.3% and 2.1% at September 30, 2022 and 2021, respectively). Proceeds are used for the purchase of two generator sets and related costs. 1,845,590

Total long-term debt	3,269,159
Less current portion of long-term debt	<u>(283,815)</u>
Long-term debt, net of current portion	<u>\$2,985,344</u>

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

Chuuk Public Utility Corporation
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Notes to Financial Statements, continued

7. Long-term Debt and Noncurrent Liabilities, continued

Long-term Debt, continued

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

Year Ending September 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 283,815	\$ 81,633	\$ 365,448
2024	323,881	73,175	397,056
2025	346,564	63,700	410,264
2026	371,118	53,578	424,696
2027	398,771	42,578	441,349
2028-2032	1,360,796	87,608	1,448,404
2033-2036	<u>184,214</u>	<u>4,458</u>	<u>188,672</u>
	<u>\$3,269,159</u>	<u>\$406,730</u>	<u>\$3,675,889</u>

Change in long term debt for the year ended September 30, 2022 is as follows:

	Outstanding October 1, <u>2021</u>	<u>Addition</u>	<u>Reduction</u>	Outstanding September 30, 2022	Amount due Within <u>One Year</u>
Long-term debt	\$ <u>3,645,833</u>	\$ <u>---</u>	\$(<u>376,674</u>)	\$ <u>3,269,159</u>	\$ <u>283,815</u>

Noncurrent Liabilities

Change in noncurrent liabilities for the year ended September 30, 2022 is as follows:

	Outstanding October 1, <u>2021</u>	<u>Addition</u>	<u>Reduction</u>	Outstanding September 30, 2022	Amount due Within <u>One Year</u>
Accrued annual leave	\$ <u>56,491</u>	\$ <u>24,166</u>	\$(<u>37,855</u>)	\$ <u>42,802</u>	\$ <u>7,485</u>

Chuuk Public Utility Corporation
(A Component Unit of the State of Chuuk)

Notes to Financial Statements, continued

8. Related Party Transactions

Revenue received from CSG representing power, water and other sales for the years ended September 30, 2022 was \$1,727,965.

CPUC purchases virtually all of its fuel from FSMPC, a component unit of the FSMNG. Purchase prices are based on movements of the base price for fuel and lubricants plus add-on costs, fees and taxes. Purchases are payable up to a maximum of thirty days. At September 30, 2022, deposits in the amount of \$499,424, all of which were received through a sub-grant from the FSMNG, are held by FSMPC as collateral for a fuel and lubricant purchase line. At September 30, 2022, payable to FSMPC was \$269,221.

CPUC engages the service of a law firm where a member of management is a listed attorney. Total legal fees incurred for the year ended September 30, 2022 were \$ 145,643.

9. Commitments

Leases

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

In 2013, CPUC entered into three land leases effective from February 2013 to January 2033. The leases require advance payments totaling \$378,520.

In 2019, CPUC entered into a land lease agreement for the solar farm project effective from June 2019 to May 31, 2044. The agreement requires total payments of \$390,000 which was revised to \$330,000 in 2022. All required payments are paid in full as of September 30, 2022.

In 2022, CPUC entered into five additional land lease agreements for the water treatment plant in Tonoas, effective from October 2021 to October 2046. The leases require total payments of \$387,000 of which \$250,000 was paid during the year ended September 30, 2022. The remaining \$137,000 is due during year ending September 30, 2023.

As of September 30, 2022, unamortized prepaid lease of \$731,450 has been included in the accompanying statements of net position and is amortized on a straight-line basis over the lease term as follows:

Chuuk Public Utility Corporation
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Notes to Financial Statements, continued

9. Commitments, continued

Leases, continued

<u>Year Ending September 30,</u>	
2023	\$ 13,184
2024	47,575
2025	47,575
2026	47,575
2027	47,575
2028-2032	237,873
2033-2037	194,273
2038-2042	79,485
2043-2046	<u>16,335</u>
	<u>\$731,450</u>

10. Contingencies

Litigation

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

Risk Management

CPUC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. CPUC has elected to purchase general liability, fire, automobile, and workmen's compensation insurance from independent third parties for the risks of loss to which it is exposed while CPUC is substantially self-insured for all other risks. Management is of the opinion that no material losses have been sustained as a result of this practice during the last three years.

Federal Award Programs

CPUC has received federal grants for specific purposes that are subject to review and audit by the grantor agencies (see note 6). Audits of federal program funds may also be performed by various federal agencies. If the audits result in cost disallowances, CPUC may be liable. There are no reported questioned costs as of September 30, 2022.

Chuuk Public Utility Corporation
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Notes to Financial Statements, continued

11. Retirement Plan

Effective March 1, 2021, CPUC established a Retirement Savings Plan (the Plan). The Plan is a self-administered program established to pay retirement, disability and survivor income to employees and their survivors to supplement similar benefits that employees receive from the FSM Social Security System. CPUC matches a percentage of participants' contributions, generally at 50% of the employee contributions, not to exceed 6% of eligible compensation in each pay period. Matching contributions to the Plan during the year ended September 30, 2022 were \$14,302. Total Plan assets as of September 30, 2022 were \$49,075. Management is of the opinion that the Plan does not represent an asset or a liability of CPUC and as such no related assets or liabilities have been recorded in the accompanying statement of net position.

12. Restricted Net Position

At September 30, 2022, net position is restricted for the following purposes:

Capital improvements	\$ 50,644
Fuel deposit from fuel operating grant	<u>499,423</u>
	<u>\$550,067</u>

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
Chuuk Public Utility Corporation:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Chuuk Public Utility Corporation (the Corporation), which comprise the statement of net position as of September 30, 2022, 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 29, 2023.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings as item 2022-001, which we consider to be a significant deficiency.

Report on Compliance and Other Matters

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

CPUC's Responses to Findings

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

Purpose of this Report

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

Ernst + Young LLP

September 29, 2023

Chuuk Public Utility Corporation
(A Component Unit of the State of Chuuk)

Schedule of Findings

Year Ended September 30, 2022

Finding No. 2022-001

Fixed Asset Register

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

Condition: Several fixed assets do not have a detailed asset description, including fixed assets additions during the year ended September 30, 2022 totaling \$2.2 million. Additionally, CPUC records fixed asset purchases based on payments and not on individual assets.

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

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

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

Auditee Response and Corrective Action Plan: CPUC concurs with the finding and will implement the recommendation of the auditor by the end of September 30, 2023.

Chuuk Public Utility Corporation
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Unresolved Prior Year Findings

Year Ended September 30, 2022

Summary Schedule of Prior Audit Findings

<u>Finding Number</u>	<u>Finding Title</u>	<u>Status</u>
2021-001	Fixed Asset Register	Not Corrected or Resolved .