

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

---

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

---

**YEARS ENDED SEPTEMBER 30, 2021 AND 2020**

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

Table of Contents  
Years Ended September 30, 2021 and 2020

	<u>Page No.</u>
I. Independent Auditors' Report	1
II. Management's Discussion and Analysis	3
III. Financial Statements:	
Statements of Net Position	7
Statements of Revenues, Expenses, and Changes in Net Position	8
Statements of Cash Flows	9
Notes to Financial Statements	11
IV. Other Supplementary Information:	
Combining Statement of Net Position	24
Combining Statement of Revenues, Expenses and Changes in Net Position	25
V. Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based On an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>	27
Independent Auditors' Report on Compliance for the Sole Major Federal Program; Report on Internal Control Over Compliance and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	29
Schedule of Expenditures of Federal Awards	31
Schedule of Findings and Questioned Costs	33
Summary Schedule of Prior Year Audit Findings	35
Corrective Action Plan	36

## **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, 2021 and 2020, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

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

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

### **Auditors' Responsibility**

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

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

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

## Opinion

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

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 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.

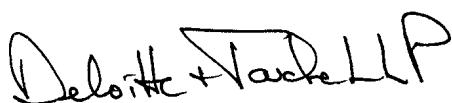
### *Other Supplementary Information*

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 March 23, 2023, 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.



March 23, 2023

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

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

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, 2021 and 2020. 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 is 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 2021 fluctuated between 6,300 kw to 7,950 kw with a peak demand of 6,438 kw recorded during the month of January 2021. PUC produced 38,460,680 kwh and 39,576,689 kwh and sold 31,584,684 kwh and 31,294,762 kwh to customers in 2020 and 2021, 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 (Kolonias), 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 Wells are the main water sources for Palikir, Lukop and Wapar Water Supply system. The surface water for the central water system transmitted from Nanpil dam to the Water treatment plant at approximately 3 miles. 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 the four water systems are being distributed to the general public for consumption. To ensure that the required quantity is met, the systems have several holding tanks for that purpose. In all four water systems, there are total of six holding tanks. Two (2) each 1 million gallon and four (4) each 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 1.34 to 1.36 trillion gallons from 2020 to 2021. PUC sold 580 million gallons and 622 million gallons to customers in 2020 and 2021, which resulted in total revenue of approximately \$1.89 million for FY 2020 and \$1.5 million for FY 2021, respectively. PUC services the total of 4,086 households, 2,896 on conventional postpaid meters and 1,1090 prepaid meters (cash water) which covers about 2/3 of Pohnpei in area or 61% of the population.

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

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

Operations of the PUC for years ended September 30, 2021, 2020, and 2019:

Assets:	<u>2021</u>	<u>2020</u>	<u>2019</u>
Utility plant, net	\$ 27,548,054	\$ 28,540,067	\$ 30,050,482
Current assets	6,129,364	4,380,064	3,540,930
Other noncurrent assets	<u>3,893,329</u>	<u>1,774,719</u>	<u>1,774,562</u>
	<u>\$ 37,570,747</u>	<u>\$ 34,694,850</u>	<u>\$ 35,365,974</u>
<b>Liabilities and Net Position:</b>			
Notes payable	\$ 301,536	\$ 316,094	\$ 324,613
Current portion of long-term debt	492,942	479,108	466,511
Other current liabilities	6,470,885	5,651,387	5,091,885
Long-term debt, net of current portion	<u>6,517,311</u>	<u>7,003,417</u>	<u>7,327,472</u>
Total liabilities	<u>13,782,674</u>	<u>13,450,006</u>	<u>13,210,481</u>
<b>Net Position:</b>			
Net investment in capital assets	20,537,801	21,057,542	22,256,499
Restricted	1,024,082	724,020	726,863
Unrestricted	<u>2,226,190</u>	<u>(536,718)</u>	<u>(824,869)</u>
Total net position	<u>23,788,073</u>	<u>21,244,844</u>	<u>22,155,493</u>
	<u>\$ 37,570,747</u>	<u>\$ 34,694,850</u>	<u>\$ 35,365,974</u>
<b>Revenues, Expenses and Changes in Net Position:</b>			
Operating revenues	\$ 13,922,679	\$ 14,738,168	\$ 14,720,101
Bad debts recovery (expense)	701,954	(562,568)	(308,112)
Operating and maintenance expenses	<u>(15,403,366)</u>	<u>(15,241,767)</u>	<u>(15,604,614)</u>
Operating loss	(778,733)	(1,066,167)	(1,192,625)
Non-operating (expenses) revenues, net	<u>208,572</u>	<u>(104,275)</u>	<u>(162,236)</u>
Loss before capital contributions	(570,161)	(1,170,442)	(1,354,861)
Capital contributions	<u>3,113,390</u>	<u>259,793</u>	<u>1,660,651</u>
Change in net position	2,543,229	(910,649)	305,790
Net position at beginning of year	<u>21,244,844</u>	<u>22,155,493</u>	<u>21,849,703</u>
Net position at end of year	<u>\$ 23,788,073</u>	<u>\$ 21,244,844</u>	<u>\$ 22,155,493</u>

Overall changes in the statements of net position components from September 2020 to 2021 include a decrease of utility plant of \$992,013, a net increase of current and other noncurrent assets of \$3,867,910, and an increase in total liabilities of \$332,668.

Decrease of utility plant is the result of depreciation of assets. 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, prepayments, inventories and accounts receivable.

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

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

Increase in current and long term liabilities is due to on-going Asian Development Bank loan payments that Pohnpei State Government makes on behalf of PUC. Please see notes 5 and 6 to the financial statement for additional information on PUC's borrowing arrangements.

Decrease in operating revenue before bad debts is mainly due to a decrease in electricity and water sales.

Slight increase in operating and maintenance expenses is mainly due to an increase in fuel cost and water and sewer operations.

PUC incurred a loss before capital contribution in 2021. Capital contributions for 2021 are for water and Renewable Energy projects. Total amount of capital contribution for FY 2021 is \$3,113,390 as compared to FY 2020 of \$259,793.

Management Discussion Analysis for the year ended September 30, 2020 is set forth in PUC's report on the audit of financial statement, which is dated January 13, 2022. That Discussion and Analysis explains the major factors impacting the 2020 financial statements and can be viewed at the Office of the Public Auditor's website at [www.fsmopa.fm](http://www.fsmopa.fm).

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

Economic Outlook

PUC is slowly recovering from the power crisis declared in 2011. This is a result of ongoing reforms and supports in the operations of PUC and capital investments from government and donors. Reliability of power, water and sewer have significantly improved as a result of better allocation of resources to support the O&M of the assets. Cash flow has improved from previous years.

A funding support was made available under SEDAP to improve the reliability of electric supply in Pohnpei. An auger truck and a bucket truck were purchased to provide support to line maintenance and the tree trimming program to reduce power outages resulting from line faults. The new power plant project has been awarded and contract negotiation is ongoing. An O&M fund has been created to defray the cost of assets donated under ESDP and SEDAP.

Several projects including a Waste Heat to Energy project, Iron removal plant, well drilling, 2MW PV plant and maintenance projects 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 FY year 2020 to 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 hours water service to an additional two wells to be drilled.

PUC has been actively seeking for 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).

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

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

There are two sewer treatment plants under PUC serving approximately 800 customers. PUC has the challenge to maintain the 11 miles of sewer mains, 9 lift stations and a treatment plant without an approved tariff or subsidy from the government. A draft bill to support the operations and maintenance of the sewer system recommended by two ADB consultants and PUC is pending with legislature.

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

This concludes the Management Discussion and Analysis of the financial statements for the year ended September 30, 2021.



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

Statements of Net Position  
September 30, 2021 and 2020

<u>ASSETS</u>	<u>2021</u>	<u>2020</u>
Current assets:		
Cash and cash equivalents	\$ 2,826,907	\$ 2,570,263
Time certificates of deposit	235,176	233,907
Accounts receivable, net	1,768,830	1,110,982
Prepayments	878,589	295,285
Materials and fuel inventory, net	419,862	169,627
Total current assets	<u>6,129,364</u>	<u>4,380,064</u>
Other noncurrent assets:		
Long-term deposits	3,075,460	1,256,912
Restricted - cash and cash equivalents	817,869	517,807
Total other noncurrent assets	<u>3,893,329</u>	<u>1,774,719</u>
Utility plant, at cost:		
Electric plant in service	39,388,885	39,237,165
Water and sewer plant in service	30,027,093	29,968,842
Total utility plant	<u>69,415,978</u>	<u>69,206,007</u>
Less accumulated depreciation	<u>(43,281,867)</u>	<u>(41,254,034)</u>
Depreciable assets, net	26,134,111	27,951,973
Construction work-in-process	1,413,943	588,094
Total utility plant	<u>27,548,054</u>	<u>28,540,067</u>
	<u>\$ 37,570,747</u>	<u>\$ 34,694,850</u>
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Notes payable	\$ 301,536	\$ 316,094
Current portion of long-term debt	492,942	479,108
Accounts payable:		
Operations	445,654	432,403
Fuel, lubricants and kwh purchased	875,649	522,770
Unearned revenue	586,849	519,084
Accrued taxes and other liabilities	568,671	558,196
Employees' annual leave	151,333	153,609
Advances from Pohnpei State Government (PSG)	3,842,729	3,465,325
Total current liabilities	<u>7,265,363</u>	<u>6,446,589</u>
Noncurrent liabilities:		
Long-term debt, net of current portion	<u>6,517,311</u>	<u>7,003,417</u>
Total liabilities	<u>13,782,674</u>	<u>13,450,006</u>
Commitments and contingencies		
Net position:		
Net investment in capital assets	20,537,801	21,057,542
Restricted	1,024,082	724,020
Unrestricted	2,226,190	(536,718)
Total net position	<u>23,788,073</u>	<u>21,244,844</u>
	<u>\$ 37,570,747</u>	<u>\$ 34,694,850</u>

See accompanying notes to financial statements.

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

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

	2021	2020
Operating revenues:		
Electricity sales	\$ 12,089,676	\$ 12,578,457
Water sales	1,515,409	1,888,547
Other sales	317,594	271,164
Total operating revenues	13,922,679	14,738,168
Bad debt recovery (expense)	701,954	(562,568)
Net operating revenues	14,624,633	14,175,600
Operating and maintenance expenses:		
Production fuel	6,152,484	5,496,617
Kwh purchased	2,148,207	2,584,617
Depreciation	2,027,833	2,098,139
Administrative and general	1,954,225	1,880,878
Generation	1,080,345	1,189,467
Distribution	997,141	1,047,108
Water and sewer	1,043,131	944,941
Total operating and maintenance expenses	15,403,366	15,241,767
Operating loss	(778,733)	(1,066,167)
Nonoperating revenues (expenses), net:		
Interest expense, net	(195,632)	(360,017)
Grants and subsidies	282,423	131,909
Other income	121,781	123,833
Total nonoperating expenses, net	208,572	(104,275)
Loss before capital contributions	(570,161)	(1,170,442)
Capital contributions:		
Capital contributions	3,113,390	259,793
Total capital contributions	3,113,390	259,793
Change in net position	2,543,229	(910,649)
Net position at beginning of year	21,244,844	22,155,493
Net position at end of year	\$ 23,788,073	\$ 21,244,844

See accompanying notes to financial statements.

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

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

	2021	2020
Cash flows from operating activities:		
Cash received from customers	\$ 14,156,330	\$ 14,349,245
Cash payments to suppliers for goods and services	(11,347,203)	(10,494,066)
Cash paid to employees	(2,487,539)	(2,754,611)
Net cash provided by operating activities	321,588	1,100,568
Cash flows from investing activities:		
Interest and dividends on investments and bank account	(1,269)	1,099
Net cash (used in) provided by investing activities	(1,269)	1,099
Cash flows from noncapital financing activities:		
Net decrease in note payable	(14,558)	(8,519)
Operating grants received	282,423	131,909
Net cash provided by noncapital financing activities	267,865	123,390
Cash flows from capital and related financing activities:		
Deposit on capital project	(1,818,548)	-
Interest paid	(61,085)	(95,510)
Principal repayment of long-term debt	(229,415)	(51,462)
Cash receipts from grantor for capital projects	3,113,391	350,875
Acquisition of utility plant	(1,035,821)	(587,724)
Net cash used in capital and related financing activities	(31,478)	(383,821)
Net change in cash and cash equivalents	556,706	841,236
Cash and cash equivalents at beginning of year	3,088,070	2,246,834
Cash and cash equivalents at end of year	\$ 3,644,776	\$ 3,088,070
<u>Reconciliation of operating loss to net cash provided by operating activities:</u>		
Operating loss	\$ (778,733)	\$ (1,066,167)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	2,027,833	2,098,139
Bad debts	-	562,568
Other income	121,781	123,833
(Increase) decrease in assets:		
Accounts receivable	(657,848)	(551,734)
Prepayments	(583,304)	(74,437)
Materials and fuel inventory	(250,235)	68,475
Increase (decrease) in liabilities:		
Accounts payable	366,130	(233,425)
Unearned revenue	67,765	38,978
Accrued taxes and other liabilities	10,475	117,410
Employees' annual leave	(2,276)	16,928
Net cash provided by operating activities	\$ 321,588	\$ 1,100,568

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

Statements of Cash Flows, Continued  
Years Ended September 30, 2021 and 2020

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

During the year ended September 30, 2021, ADB loan principal and interest payments of \$256,691 and \$134,547, respectively, were made by PSG, which were recorded as an increase in advances from PSG.

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 years ended September 30, 2021 and 2020, PUC was allocated increases of \$28,489 and \$157,618, respectively, 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.

See accompanying notes to financial statements.

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

Notes to Financial Statements  
September 30, 2021 and 2020

**(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, 2021 and 2020, 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.

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

Notes to Financial Statements  
September 30, 2021 and 2020

(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, 2021 and 2020, the carrying amount of cash and cash equivalents and time certificates of deposit was \$3,879,952 and \$3,321,977, respectively, and the corresponding bank balances were \$4,053,530 and \$4,058,526, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2021 and 2020, bank deposits of \$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, 2021 and 2020, 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, 2021 and 2020, PUC has no items that qualify for reporting in this category.

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

Notes to Financial Statements  
September 30, 2021 and 2020

(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, 2021 and 2020, 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, 2021 and 2020, the estimated unearned cash power revenue of approximately \$326,000 and \$246,000, 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  
(A COMPONENT UNIT OF THE STATE OF POHNPEI)**

Notes to Financial Statements  
September 30, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

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

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

- GASB Statement No. 84, Fiduciary Activities, which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.
- GASB Statement No. 90, Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units.
- GASB Statement No. 93, Replacement of Interbank Offered Rates, which establishes accounting and reporting requirements related to the replacement of Interbank Offered Rates such as the London Interbank Offered Rate (LIBOR) for hedging derivative instruments. The provision removing LIBOR as an appropriate benchmark interest rate for the evaluation of the effectiveness of derivative instruments is effective for the year ending September 30, 2022.

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

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

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



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

Notes to Financial Statements  
September 30, 2021 and 2020

(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. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance. In accordance with GASB Statement No. 95, the remaining requirements of GASB Statement No. 92 are effective for the fiscal year ending September 30, 2022.

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

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

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.

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

Notes to Financial Statements  
September 30, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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 would typically perform; (2) mitigate costs associated with the reporting of certain defined contribution other post employment (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

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, 2021 and 2020, are summarized as follows:

	<u>2021</u>	<u>2020</u>
Accounts receivable - electrical:		
Residential	\$ 1,832,063	\$ 1,847,913
Commercial	675,019	806,673
Government	<u>452,582</u>	<u>438,138</u>
	<u>2,959,664</u>	<u>3,092,724</u>
Accounts receivable - water and sewer:		
Residential	4,870,697	4,894,358
Commercial and government	901,326	788,613
Unbilled	<u>74,113</u>	<u>70,833</u>
	<u>5,846,136</u>	<u>5,753,804</u>
Installment receivables	70,115	70,815
Other	<u>171,824</u>	<u>174,502</u>
	9,047,739	9,091,845
Less allowance for doubtful accounts	<u>(7,278,909)</u>	<u>(7,980,863)</u>
	<u>\$ 1,768,830</u>	<u>\$ 1,110,982</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, 2021 and 2020, included in accounts receivable – electrical due from customers enrolled in the cash power meter system are \$1,233,539 and \$1,182,491, respectively.

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

Notes to Financial Statements  
September 30, 2021 and 2020

**(4) Utility Plant**

A summary of changes in capital assets for the years ended September 30, 2021 and 2020 is as follows:

	Beginning Balance <u>October 1, 2020</u>	Additions and <u>Transfers</u>	Deletions and <u>Transfers</u>	Ending Balance <u>September 30, 2021</u>
<u>Depreciable assets:</u>				
Production plant	\$ 23,381,550	\$ -	\$ -	\$ 23,381,550
Distribution plant	14,685,779	116,950	-	14,802,729
General plant	<u>1,169,836</u>	<u>34,770</u>	-	<u>1,204,606</u>
Electric plant in service	<u>39,237,165</u>	<u>151,720</u>	-	<u>39,388,885</u>
Water production plant	6,739,084	-	-	6,739,084
Sewage collection and treatment plant	13,607,861	6,472	-	13,614,333
Water distribution plant	8,835,385	43,779	-	8,879,164
General plant	<u>786,512</u>	<u>8,000</u>	-	<u>794,512</u>
Water and sewer plant in service	<u>29,968,842</u>	<u>58,251</u>	-	<u>30,027,093</u>
Total utility plant in service	69,206,007	209,971	-	69,415,978
Less accumulated depreciation	<u>(41,254,034)</u>	<u>(2,027,833)</u>	-	<u>(43,281,867)</u>
	<u>27,951,973</u>	<u>(1,817,862)</u>	-	<u>26,134,111</u>
<u>Non-depreciable assets:</u>				
Construction work-in-process:				
Electric plant	354,226	6,436	-	360,662
Water and sewer plant	<u>233,868</u>	<u>819,413</u>	-	<u>1,053,281</u>
	<u>588,094</u>	<u>825,849</u>	-	<u>1,413,943</u>
	<u>\$ 28,540,067</u>	<u>\$ (992,013)</u>	<u>\$ -</u>	<u>\$ 27,548,054</u>
	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	6,739,084	-	-	6,739,084
Sewage collection and treatment plant	13,607,861	-	-	13,607,861
Water distribution plant	8,835,385	-	-	8,835,385
General plant	<u>776,610</u>	<u>9,902</u>	-	<u>786,512</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>

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

Notes to Financial Statements  
September 30, 2021 and 2020

**(5) Notes Payable**

Notes payable of \$301,536 and \$316,094 at September 30, 2021 and 2020, 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 5.01% and 5.50% at September 30, 2021 and 2020, respectively) and currently expires in July 2023. The agreements restrict 100% of the LOC at September 30, 2021 and 2020, 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, 2021 and 2020.

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

	Outstanding October 1, <u>2020</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2021</u>
Notes payable to: BFSM	\$ <u>316,094</u>	\$ <u>      </u> -	\$ <u>(14,558)</u>	\$ <u>301,536</u>
	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>      </u> -	\$ <u>(8,519)</u>	\$ <u>316,094</u>

**(6) Long-Term Debt**

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

	<u>2021</u>	<u>2020</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%.	\$ 1,475,295	\$ 1,566,566
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.	3,402,757	3,606,888
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, 2021 and 2020). Proceeds are used for infrastructure projects to overhaul sewage pumps, extend sewage lines, and for treatment plants.	1,137,362	1,253,121

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

Notes to Financial Statements  
September 30, 2021 and 2020

(6) Long-Term Debt, Continued

	<u>2021</u>	<u>2020</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%.	449,438	461,236
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>545,401</u>	<u>594,714</u>
Total long-term debt	7,010,253	7,482,525
Less: current portion of long-term debt	<u>492,942</u>	<u>479,108</u>
Long-term portion of long-term debt	<u>\$ 6,517,311</u>	<u>\$ 7,003,417</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>
2022	\$ 492,942	\$ 140,371	\$ 633,313
2023	508,015	129,551	637,566
2024	524,590	118,227	642,817
2025	540,709	105,937	646,646
2026	562,196	93,012	655,208
2027-2031	2,442,303	260,693	2,702,996
2032-2036	1,669,700	99,298	1,768,998
2037-2041	129,217	30,024	159,241
2042-2044	<u>140,581</u>	<u>65,319</u>	<u>205,900</u>
	<u>\$ 7,010,253</u>	<u>\$ 1,042,432</u>	<u>\$ 8,052,685</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.

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

Notes to Financial Statements  
September 30, 2021 and 2020

**(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, 2021 and 2020, and no event of default has been declared by the lenders.

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

	Outstanding October 1, <u>2020</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2021</u>	<u>Current</u>
Loan payable to:					
ADB no. 1459	\$ 1,566,566	\$ 8,258	\$ (99,529)	\$ 1,475,295	\$ 97,069
ADB no. 2099	3,606,888	20,231	(224,362)	3,402,757	226,901
ADB no. 2100	1,253,121	-	(115,759)	1,137,362	103,664
BOG	594,714	-	(11,798)	449,438	12,025
RUS	<u>461,236</u>	<u>-</u>	<u>(49,313)</u>	<u>545,401</u>	<u>53,283</u>
	<u>\$ 7,482,525</u>	<u>\$ 28,489</u>	<u>\$ (500,761)</u>	<u>\$ 7,010,253</u>	<u>\$ 492,942</u>
	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>-</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 years ended September 30, 2021 and 2020, PUC was allocated an increase of \$28,489 and \$157,618 respectively, 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.

**(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.

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

Notes to Financial Statements  
September 30, 2021 and 2020

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

Grants, subsidies and capital contributions comprise the following for the years ended September 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Operating Grants:		
FSMNG Congress appropriations	\$ <u>282,423</u>	\$ <u>131,909</u>
Capital Contributions:		
U.S. Government – energy grant	\$ <u>3,113,390</u>	\$ <u>259,793</u>

At September 30, 2021 and 2020, unearned revenue includes \$98,784 and \$91,082 respectively, that 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, 2021 and 2020, balances of \$447,869 and \$147,807 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, 2021 and 2020, accounts receivable include amounts owed by the State of Pohnpei and its component units to PUC of \$984,976 and \$927,220, respectively.

At September 30, 2021 and 2020, PUC has a non-interest bearing advance from the PUC Social Club of \$6,450. Further, at September 30, 2021 and 2020, PUC has a non-interest bearing advance from the State of Pohnpei of \$3,842,729 and \$3,465,325, 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, 2021 and 2020

**(10) Related Party Transactions, Continued**

PUC purchased all of its production fuel during the years ended September 30, 2021 and 2020 from FSM Petroleum Corporation (FSMPC), a component unit of FSMNG. At September 30, 2021 and 2020, 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 negotiate for renewal or termination. At September 30, 2021 and 2020, payables to FSMPC were \$875,649 and \$522,770, 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, 2021 and 2020 were \$81,460 and \$85,579, respectively. Total Plan assets as of September 30, 2021 and 2020 were \$1,105,750 and \$1,005,677, 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, 2021 and 2020, net position is restricted for the following purposes:

	<u>2021</u>	<u>2020</u>
Self-insurance fund (note 9)	\$ 447,869	\$ 147,807
Fuel deposit from sub-grant (note 10)	<u>576,213</u>	<u>576,213</u>
	<u>\$ 1,024,082</u>	<u>\$ 724,020</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, 2021 and 2020, 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, 2021 and 2020

(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. 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.

(15) Power Plant Deposit

As of September 30, 2021, PUC paid a vendor \$1,818,548, which is recorded as a long-term deposit to purchase a generation unit for the Nahnponmal Power Plant. Installation is expected to be completed within the next two years and was funded through a direct grant from the United States Department of Agriculture Rural Utilities Service.

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

Combining Statement of Net Position  
September 30, 2021  
(With comparative totals as of September 30, 2020)

	Power and Utility	Water and Sewer	Totals	
<u>Assets</u>			2021	2020
<b>Current assets:</b>				
Cash and cash equivalents	\$ 2,826,907	\$ -	\$ 2,826,907	\$ 2,570,263
Time certificates of deposit	235,176	-	235,176	233,907
Accounts receivable, net	871,374	897,456	1,768,830	1,110,982
Divisional (payable) receivable	(1,684,382)	1,684,382	-	-
Prepayments	477,373	401,216	878,589	295,285
Materials and fuel inventory, net	328,274	91,588	419,862	169,627
Total current assets	3,054,722	3,074,642	6,129,364	4,380,064
<b>Other noncurrent assets:</b>				
Long-term deposits	3,075,460	-	3,075,460	1,256,912
Restricted - cash and cash equivalents	817,869	-	817,869	517,807
Total other noncurrent assets	3,893,329	-	3,893,329	1,774,719
<b>Utility plant, at cost:</b>				
Electric plant in service	39,388,885	-	39,388,885	39,237,165
Water and sewer plant in service	-	30,027,093	30,027,093	29,968,842
	39,388,885	30,027,093	69,415,978	69,206,007
Less accumulated depreciation	(27,809,522)	(15,472,345)	(43,281,867)	(41,254,034)
Depreciable assets	11,579,363	14,554,748	26,134,111	27,951,973
Construction work-in-process	360,662	1,053,281	1,413,943	588,094
Total utility plant	11,940,025	15,608,029	27,548,054	28,540,067
	\$ 18,888,076	\$ 18,682,671	\$ 37,570,747	\$ 34,694,850
<u>Liabilities and Net Position</u>				
<b>Current liabilities:</b>				
Notes payable	\$ 301,536	\$ -	\$ 301,536	\$ 316,094
Current portion of long-term debt	12,025	480,917	492,942	479,108
Accounts payable:				
Operations	445,654	-	445,654	432,403
Fuel, lubricants and kwh purchased	875,649	-	875,649	522,770
Unearned revenue	488,065	98,784	586,849	519,084
Accrued taxes and other liabilities	568,671	-	568,671	558,196
Employees' annual leave	151,333	-	151,333	153,609
Advances from Pohnpei State Government (PSG)	-	3,842,729	3,842,729	3,465,325
Total current liabilities	2,842,933	4,422,430	7,265,363	6,446,589
<b>Noncurrent liabilities:</b>				
Loan payable - RUS	-	437,413	437,413	449,739
Loan payable - BOG	492,118	-	492,118	545,072
Loans payable - ADB	-	5,587,780	5,587,780	6,008,606
Total liabilities	3,335,051	10,447,623	13,782,674	13,450,006
<b>Net position:</b>				
Net investment in capital assets	11,435,882	9,101,919	20,537,801	21,057,542
Restricted	1,024,082	-	1,024,082	724,020
Unrestricted	3,093,061	(866,871)	2,226,190	(536,718)
Total net position	15,553,025	8,235,048	23,788,073	21,244,844
	\$ 18,888,076	\$ 18,682,671	\$ 37,570,747	\$ 34,694,850

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, 2021  
(With comparative totals for the year ended September 30, 2020)

	Power and Utility	Water and Sewer	Totals	
			2021	2020
Operating revenues:				
Residential	\$ 58,769	\$ 1,037,513	\$ 1,096,282	\$ 1,182,658
Cash power	7,665,553	-	7,665,553	7,784,180
Cash water	-	63,151	63,151	72,040
Commercial	2,647,202	142,369	2,789,571	3,046,297
Government	1,718,152	272,376	1,990,528	2,381,829
Other sales	317,594	-	317,594	271,164
Total operating revenues	12,407,270	1,515,409	13,922,679	14,738,168
Bad debt recovery (expense)	-	701,954	701,954	(562,568)
Net operating revenues	12,407,270	2,217,363	14,624,633	14,175,600
Operating and maintenance expenses:				
Production fuel	6,152,484	-	6,152,484	5,496,617
Depreciation	1,280,533	747,300	2,027,833	2,098,139
Administrative and general:				
Salaries and wages	494,627	-	494,627	480,935
Employee benefits	517,804	-	517,804	473,031
Communications	107,230	-	107,230	99,127
Customer service and collection	109,514	-	109,514	95,388
Insurance	41,796	-	41,796	82,817
Vehicle, POL	87,011	-	87,011	82,340
Travel	-	-	-	78,740
Contractual services	38,071	-	38,071	76,353
Consumables and supplies	69,491	-	69,491	74,913
Repairs and maintenance	54,954	-	54,954	44,889
Other	433,727	-	433,727	292,345
	1,954,225	-	1,954,225	1,880,878
Kwh purchased	2,148,207	-	2,148,207	2,584,617
Generation:				
Salaries and wages	527,883	-	527,883	542,166
Repairs and maintenance	488,392	-	488,392	563,896
Other	64,070	-	64,070	83,405
	1,080,345	-	1,080,345	1,189,467
Distribution:				
Salaries and wages	707,016	-	707,016	755,905
Repairs and maintenance	205,455	-	205,455	218,452
Consumables and supplies	84,670	-	84,670	72,751
	997,141	-	997,141	1,047,108
Water and sewer:				
Salaries and wages	-	609,637	609,637	567,244
Repairs and maintenance	-	164,876	164,876	208,526
Consumables and supplies	-	120,447	120,447	78,329
Employee benefits	-	74,484	74,484	69,668
Other	-	73,687	73,687	21,174
	-	1,043,131	1,043,131	944,941
Total operating and maintenance expenses	13,612,935	1,790,431	15,403,366	15,241,767
Operating (loss) income	(1,205,665)	426,932	(778,733)	(1,066,167)

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, 2021  
(With comparative totals for the year ended September 30, 2020)

	Power and Utility	Water and Sewer	Totals	
			2021	2020
Nonoperating revenues (expenses), net:				
Interest expense, net	(46,092)	(149,540)	(195,632)	(360,017)
Grants and subsidies	282,423	-	282,423	131,909
Other income	121,781	-	121,781	123,833
Total nonoperating income (expenses), net	358,112	(149,540)	208,572	(104,275)
(Loss) income before capital contributions	(847,553)	277,392	(570,161)	(1,170,442)
Capital contributions:				
Capital contributions	3,113,390	-	3,113,390	259,793
Total capital contributions	3,113,390	-	3,113,390	259,793
Change in net position	2,265,837	277,392	2,543,229	(910,649)
Net position at beginning of year	13,287,188	7,957,656	21,244,844	22,155,493
Net position at end of year	\$ 15,553,025	\$ 8,235,048	\$ 23,788,073	\$ 21,244,844

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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Pohnpei Utilities Corporation (PUC), a component unit of the State of Pohnpei, which comprise the statement of net position as of September 30, 2021, and the related statements of revenues, expenses and changes in net position, and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 23, 2023.

### **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) as a basis for designing 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 PUC's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2021-001 that we consider to be a significant deficiency.

## Report on Compliance and Other Matters

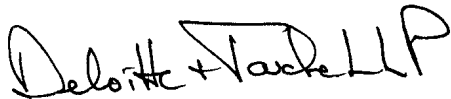
As part of obtaining reasonable assurance about whether PUC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2021-001.

## PUC's Response to Findings

PUC's response to the finding 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.

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

March 23, 2023

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR THE SOLE MAJOR FEDERAL PROGRAM;  
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES  
OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

The Board of Directors  
Pohnpei Utilities Corporation:

### **Report on Compliance for the Sole Major Federal Program**

We have audited the Pohnpei Utilities Corporation's (PUC) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on PUC's sole major federal program for the year ended September 30, 2021. PUC's sole major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

### ***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for PUC's sole major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about PUC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the sole major federal program. However, our audit does not provide a legal determination of PUC's compliance.

### ***Opinion on the Sole Major Federal Program***

In our opinion, PUC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its sole major federal program for the year ended September 30, 2021.

## Report on Internal Control Over Compliance

Management of PUC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered PUC's internal control over compliance with the types of requirements that could have a direct and material effect on the sole major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the sole major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of PUC's internal control over compliance.

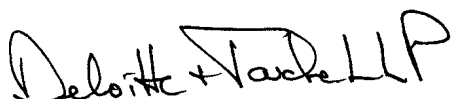
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

## Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of PUC as of and for the year ended September 30, 2021, and have issued our report thereon dated March 23, 2023, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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 Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.



March 23, 2023



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

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2021

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Other Identification	Federal AL Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF THE INTERIOR:				
Pass-Through FSM National Government:				
Economic, Social, and Political Development of the Territories:				
Compact of Free Association Sector Grant				
Public Infrastructure Sector Grant	N/A	15.875	D18AF00077-0010	\$ 89,417
Cash Water	N/A	15.875	D18AF00077-0020	401,216
Iron Plate Removal	N/A	15.875	D21AF00026	806,100
Total U.S. Department of the Interior				\$ <u>1,296,733</u>
Total Federal Awards Expended				\$ <u>1,296,733</u>

The above expenditures reconcile to the underlying basic financial statements as follows:

Included in Construction work-in-process of \$1,413,943

See notes to Schedule of Expenditures of Federal Awards.

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

Notes to Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2021

**1. Scope of Audit**

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. Only the activities of PUC are included in the scope of the Single Audit.

**2. Bases of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of PUC under programs of the federal government for the year ended September 30, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of PUC, it is not intended to and does not present the financial position or changes in financial position of PUC.

**3. Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting, consistent with the manner in which PUC maintains its accounting records. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. All expenses and capital outlays are reported as expenditures when incurred. Pass-through entity identifying numbers are presented where available. PUC does not elect to use the de minimis indirect cost rate allowed under the Uniform Guidance.

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

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2021

**Section I - Summary of Auditors' Results**

*Financial Statements*

1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

2. Material weakness(es) identified? No

3. Significant deficiency(ies) identified? Yes

4. Noncompliance material to financial statements noted? No

*Federal Awards*

Internal control over major federal programs:

5. Material weakness(es) identified? No

6. Significant deficiency(ies) identified? None reported

7. Type of auditors' report issued on compliance for major federal programs: Unmodified

8. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? No

9. Identification of major federal programs:

<u>AL Number</u>	<u>Name of Federal Program or Cluster</u>
15.875	Economic, Social, and Political Development of the Territories – Compact of Free Association Sector Grants

10. Dollar threshold used to distinguish between Type A and Type B Programs: \$750,000

11. Auditee qualified as low-risk auditee? No

**Section II – Financial Statement Findings**

<u>Reference Number</u>	<u>Finding</u>
2021-001	Account Reconciliation

**Section III – Federal Award Findings and Questioned Costs**

No matters were reported.

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

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2021

Finding No. 2021-001 – Account Reconciliation

Criteria: Monthly reconciliations of significant accounts and the Schedule of Expenditures of Federal Awards 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. This contributed to the Schedule of Expenditures of Federal Awards reporting Federal expenditures that had not been incurred and presented a potential material misstatement. Such was subsequently adjusted and corrected during the audit process.

Cause: PUC lacks sufficient accounting personnel and resources.

Effect: Inaccurate interim financial statements and material errors within the Schedule of Expenditures of Federal Awards 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 in Finding 2020-001.

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

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

### BOARD OF DIRECTORS

#### SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS Year Ended September 30, 2021

*Trevayne Esiel*  
*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
2020-001	Not corrected or Resolved. On-going. Refer to Note 1
2020-002	Resolved.

*John Adolph*  
*Vice-Chairman*

*Josphine Saimon*  
*Secretary*

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

*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, 2021**

*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
2021-01	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 2024	Daisy Nanpei, Comptroller